

## CHAPTER 2

# AGRICULTURAL TRADE, DEVELOPMENT PROBLEMS AND POVERTY IN THE LEAST DEVELOPED COUNTRIES

*An overview*

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### INTRODUCTION

The present paper attempts to give a broad overview of the situation of LDCs concerning the role of agricultural exports in economic growth and poverty reduction<sup>1</sup>. 'Trade policies' in this context are taken to include not only approaches to trade negotiations in the WTO or other fora, but also policies that target competitiveness and the capacity to export.

### LDCs AND COMMODITY DEPENDENCE

The majority of LDCs (31 of the 49 countries so classified) depends mainly on commodities, particularly agricultural products (20 of the 31), for export earnings, and this dependence shows little sign of diminishing. Agriculture is the dominant economic activity in terms of employment in almost all LDCs, with on average 69% of the labour force engaged in agriculture in 2002, as compared to 54% in all developing countries (UNCTAD 2004b, Annex table 3).

Real commodity prices quoted for international markets generally exhibit a long-term downward trend in real terms. As can be seen from Table 1, this is true for all agricultural products over the last four decades. The tropical beverages group, which includes coffee, cocoa and tea, fares the worst. These products are also grown by small and poor farmers in many developing countries. The vegetable oilseeds and oils group, which faced a critical price situation comparable to tropical beverages 10

years ago, has recovered some of its losses in prices.

**Table 1. Commodity prices 1964-2004**

Product group	Annual indices of monthly averages (1985=100)							
	Current \$			Current SDRs		Real prices*		
	1964	1994	2004**	1994	2004**	1964	1994	2004**
Tropical beverages	33	91	54	63	37	89	58	36
Other food	66	152	131	106	90	178	96	87
Vegetable oilseeds and oils	46	107	111	75	77	124	67	74
Agricultural raw materials	46	140	126	98	87	124	89	83
<i>Minerals, ores and metals</i>	<i>49</i>	<i>124</i>	<i>151</i>	<i>86</i>	<i>104</i>	<i>132</i>	<i>79</i>	<i>100</i>

Source: UNCTAD, *Commodity Price Bulletin* various issues

\* Current prices in dollars deflated by Manufactures Export Unit Value Index for developed countries

\*\* August 2003-September 2004 average

As a result of the decline in real prices, commodity-dependent LDCs have generally experienced falling terms of trade. World Bank estimates for non-oil-exporting countries in sub-Saharan Africa, most of which are LDCs, suggest that their cumulative terms of trade losses over the period from 1970 to 1997 amounted to 119% of regional GDP in 1997 (Dehn 2000).

In general, commodity prices are inherently more volatile than prices of manufactured products<sup>2</sup>. Apart from lags in (the often imperfect) supply response to price signals and the impact of weather conditions, speculative activity also generates price fluctuations. Price fluctuations have continued to be a characteristic common to almost all commodity markets, and if anything, their amplitude appears to have increased (UNCTAD 2003, p. 3). This can be seen in Table 2, which gives percentage variations of the average monthly price around the exponential trend for selected price indices over two three-year periods.

The effects of commodity price instability are particularly significant in the LDCs since the scale of price shocks in relation to domestic resources available to finance investment, or savings, is extremely large. In a sample of 18 non-fuel-commodity-exporting LDCs for which data were available, the maximum two-year terms of trade shock over the period 1970-1999 led to income losses of over 100% of the domestic resources available to finance investment in any given year in eight of them, and income losses of over 25% of domestic resources available to finance investment in a further eight (UNCTAD 2000, pp. 38-39). Negative price shocks have a negative effect on economic growth, particularly through their impact on the utilization of productive capacity, and there is not a similar offsetting positive effect

**Table 2.** *Instability indices for prices: commodity groups and selected products*

	1989-92	2000-03
Tropical beverages	8.2	9.1
<i>Coffee</i>	<i>12.9</i>	<i>11.2</i>
<i>Cocoa</i>	<i>9.1</i>	<i>14.1</i>
Other food	3.6	4.0
<i>Wheat</i>	<i>12.1</i>	<i>7.0</i>
<i>Sugar</i>	<i>12.1</i>	<i>15.0</i>
<i>Bananas</i>	<i>17.7</i>	<i>20.3</i>
Vegetable oilseeds and oils	6.7	9.3
<i>Soya bean oil</i>	<i>3.5</i>	<i>9.1</i>
<i>Palm oil</i>	<i>10.2</i>	<i>11.3</i>
Agricultural raw materials	3.6	6.0
<i>Cotton</i>	<i>10.5</i>	<i>15.3</i>
<i>Rubber</i>	<i>5.7</i>	<i>13.2</i>

Source: UNCTAD secretariat calculations

from positive commodity price shocks. Among the macroeconomic mechanisms that have been found to be important causes of reduced growth due to negative price shocks are increasing real exchange rate instability, which leads in particular to poor resource allocation and lower factor productivity, and increasing fiscal instability, which contributes to the build-up of indebtedness and reduces the level of, and return on, investment.

The growth rate of LDC commodity exports has generally been disappointing and the share of these countries in world non-fuel-commodity exports has fallen dramatically over the last few decades, from 5.6% in 1966-1970 to 1.1% in 2000 (UNCTAD 2004a). Part of the explanation for this development is that the relative importance of different product groups in international agricultural trade is changing, and suppliers that have been able to position themselves in the trade of dynamic items are doing much better than others, including, in particular, LDCs, who are trapped in traditional items with stagnant trade and low value-added. For example, cereals, which had a share of around 12% in world agricultural trade thirty years ago, now have a share of barely 7%. Looking at developing countries as a whole, coffee, sugar and cotton, which were the top agricultural exports thirty years ago, have now been replaced by fish and vegetable oils. The bulk of the increase in dynamic exports has originated from the more advanced and already diversified countries of South-East Asia and Latin America. These countries have not only entered markets of non-traditional products, but have also added value to their exports, for example by supplying ready-made flower bouquets and vegetables that have been packaged and bar-coded and are ready to be put on the retailers' shelves. Even among LDCs, there are significant differences between commodity economies and manufactures and/or service exporters. The share of dynamic agricultural products (those with an annual percentage growth of world imports above the average nominal growth rate of total world imports from 1994 to 1998) in agricultural exports of the latter group of countries increased from 37% in 1981-83 to 48% in 1997-99, while for non-oil commodity exporters it only rose from 13 to

14% (UNCTAD 2002b, p. 147).

Another important change is the significantly faster increase in world exports of processed agricultural products than those of semi-processed and unprocessed agricultural products. Between 1990-91 and 2001-02, the share of processed products rose from 42% to 48% of global agricultural trade (WTO 2004, p. 17). However, the share of processed commodities in total LDC exports fell from 21 to 8% between 1981-83 and 1997-99 (UNCTAD 2002b, p. 147). Thus, in terms of domestic processing, instead of moving up the value chain, the LDCs are sliding down it.

### COMMODITY DEPENDENCE AND POVERTY

The combination of falling real prices and slow export volume growth has led to stagnant or falling incomes in the agricultural sector of LDCs dependent on agricultural exports, and to foreign exchange shortages. Import volumes are low, and low levels of technology imports and lack of complementary imports result in a reduced level of investment, reduced efficiency of resource use and outdated production processes. With little surplus available for investment, either in the sector itself or in the public sector (which is responsible for providing necessary services such as infrastructure), productivity growth has remained low and these LDCs have fallen into a poverty trap. As described in UNCTAD (2002b, pp. 148 and 150) five main interrelationships constitute the domestic aspects of the poverty trap. All of them inhibit diversification into more dynamic products. First, domestic resources available to finance physical and human capital investment and productivity growth are low owing to generalized poverty. Second, state capacities are weak as all activities, including administration and law and order, are underfunded. Third, corporate capacities are weak, even though there may be a thriving informal sector. Fourth, generalized poverty engenders rapid population growth and environmental degradation. Fifth, in a situation of generalized poverty, the probability of political instability and conflict is greater.

The importance of commodity dependence as a determining factor for poverty is demonstrated by the difference in the incidence of extreme poverty (percentage of population living on less than 1\$/day) between the different categories of LDCs. In manufactures exporters, this incidence was 25% in 1997-99 and in service exporters it was 43%. In agricultural exporters, it was 63% (and in mineral exporters it was 82%) (UNCTAD 2004b, chart 19, p. 132). In agricultural LDCs, which generally are not very urbanized, extreme poverty is mainly a rural phenomenon that affects those engaged in agriculture.

### LDCs AND TRADE LIBERALIZATION

As is clear from the preceding argument, export dependence on a few commodities with slowly growing markets and declining real price trends has been a major constraint on diversification and growth in agricultural LDCs. Trade liberalization

has done little to alleviate the problem. It should first be noted that the LDC economies are generally open. In 2002, of 46 LDCs for which data were available,

- the average tariff rate of 42 was less than 25%,
- the average tariff rate of 36 was less than 20%,
- the average tariff rate of 23 was less than 15%,
- in 29 LDCs, non-tariff barriers (NTBs) were absent or insignificant (less than 1% of production and trade was subject to NTBs), and
- in 28 LDCs, there were no or insignificant NTBs, and average tariff rates were below 25% (UNCTAD 2004b, p. 179).

Trade as a share of GDP in LDCs was 50.7% in 1999-2001, only slightly lower than in other developing countries and higher than in high-income OECD countries (UNCTAD 2004b, chart 13, p. 107). The IMF trade-restrictiveness index<sup>3</sup> is lower for LDCs than for other developing countries (UNCTAD 2004b, chart 32, p. 180). Trade liberalization is deeper in African LDCs than in Asian ones and also in commodity-exporting LDCs than in manufactures and service exporters (UNCTAD 2004b, p. 180-181).

The deep trade liberalization undertaken by agricultural exporters among the LDCs could have been expected to lead to higher growth, particularly taking into account the market access preferences that are extended to LDCs by other countries. However, as already noted, export growth has been modest and LDCs have lost market shares for agricultural commodities. Developed country agricultural protectionism and export support have obviously played a large role in hindering export growth in agricultural LDCs. Subsidized exports from developed countries affect both domestic and international markets and exert a negative influence on the diversification of production and exports from commodity-dependent countries. Loss of competitiveness relative to subsidized agriculture discourages investments in agriculture and local processing in non-subsidizing countries. Although urban consumers may enjoy access to cheaper food products, there are abundant examples of developing countries' products being displaced on domestic markets by imported ones from developed countries providing generous subsidies, and export markets being lost to suppliers from the same countries.

Although developing countries have been accorded preferences under a multitude of agreements<sup>4</sup>, exceptions to these preferences often relate to agricultural products. For example, the European Union's initiative on 'Everything but Arms' (EBA) offers free market access to LDC products, with less than 5% of pre-EBA exports left facing a tariff barrier. According to simulations however, the impact of this initiative will be a relatively small increase in exports from the LDCs, as 70% of the potential positive trade effects would have come from free access for sugar, rice and beef, which has been deferred until 2006 (UNCTAD and Commonwealth Secretariat 2001). Moreover, utilization ratios for the preferences have generally been low. In 2001, only 68.5% of total imports from LDCs eligible to enter Quad markets at a preferential duty rate actually did so. The rest paid MFN duties. The low utilization ratios are mainly the result of the insignificant magnitude of potential commercial benefits; the lack of technical knowledge, human resources and institutional capacity to take advantage of preferential arrangements; and the

conditions attached to the preferences. The effective benefits are significantly limited by their unpredictability and by rules of origin and product standards (UNCTAD 2004b, p. 250). Finally, it is also important to note that the conditions of access to WTO for recent entrants, such as Cambodia, Nepal and Vanuatu, have, if anything, been less favourable than the special and differential treatment accorded to developing countries, including LDCs, that are already WTO members (UNCTAD 2004b, p. 60-61).

#### TRADE LIBERALIZATION AND POVERTY

While positive effects in terms of export growth could of course be expected from multilateral trade liberalization, more interesting from the point of view of the present paper is their impact on poverty. According to calculations carried out by the UNCTAD secretariat, multilateral trade liberalization would slow down the rate of increase in the number of extremely poor people in the LDCs. Instead of increasing from 334 million in 2000 to 471 million in 2015 in the case of no liberalization, the number of poor would increase to 'only' 463 million (UNCTAD 2004b, p. 222). Part of the reason for this somewhat disappointing result is that most of the poor in the agricultural LDCs live in rural areas and are engaged in subsistence farming of traditional food crops. Improved export conditions can have an impact on the living conditions of this group if they shift their production mix. But such a production shift is not always possible, due to risk aversion and uncertainty. This group also will not benefit much from a reduction in import prices of consumer goods as the import content of their expenditures is very low. Moreover, if liberalization leads to a substitution of traditional food by imported products, the traditional producers may face declining demand and prices for their produce.

#### EFFECTS OF DOMESTIC LIBERALIZATION ON COMMODITY PRODUCTION AND EXPORTS

It appears that the direct benefits of multilateral trade liberalization would not be sufficient to make a significant impact on poverty in agricultural LDCs. The expected growth in exports would not be large enough to make a real dent in poverty. Moreover, the positive relationship between export growth and output growth appears to be weaker in LDCs than in other developing countries and export growth is not necessarily inclusive. Neither does domestic liberalization in agricultural LDCs, usually undertaken as part of structural adjustment programs, appear to have had unambiguously positive effects on commodity production and exports. Hopes that the action of market forces would lead to greater efficiency have not been fulfilled, partly because of the absence of functioning markets, partly because of unrealistic expectations of what markets can achieve under the best of circumstances.

The impact on the farming sector of one significant element of structural adjustment programs, namely abolishing marketing boards<sup>5</sup> and other governmental support structures for agriculture, including the liberalization of agricultural credit

systems, has been generally negative. Although in many cases marketing boards were the instruments of an implicit taxation of the farming sector and suffered from inefficiencies and sometimes corruption, they also provided useful services. In many countries, the private sector has been unable to fill the gap and supply these services satisfactorily, basically as a result of its underdevelopment, and of unfavourable institutional, legal and regulatory frameworks. These services include the provision of information, finance and inputs as well as quality control. For example, in the cocoa market, cocoa from Ghana, which, unlike many other developing countries, has retained its marketing board, enjoys a quality premium, because of the market's confidence in quality assurance by the government.

Managing exposure to world-market price risks and holding products in storage to avoid losses and benefit from seasonal price variations are among the many new challenges for small farmers in dealing with a liberalized market where government support has been discontinued. The demise of governmental finance has also exacerbated the lack of working capital and poor access to credit for small-scale producers (in part as a result of smallholders not having viable collateral and the widespread inability of local banks to secure agricultural loans against, for example, future sales or commodity inventories).

In the first years of liberalization of domestic agricultural markets, some of the activities of the former government marketing boards were taken over by a range of local traders. Relatively quickly, however, international trading companies or their agents, and foreign traders with easy access to finance replaced these traders. Foreign firms, in particular large ones, were able to reach deep into the production, trading and processing levels in these countries. Anecdotal evidence on the impact of these changes on small farmers can be contradictory (UNCTAD 1999a). In some cases farmers were paid promptly and in cash, and enjoyed a slight increase in their share of (in most cases, a declining) world price. On the negative side, however, input use declined and the quality of the product fell. Nevertheless, especially in cases where intermediaries without an established presence in commodity markets act between small producers and large traders, the market does not seem to function and prices received by the farmer fluctuate almost randomly, thus losing their economic meaning.

One would expect that without the protective mechanism against price instability at the producer level that existed with marketing boards, producers would be directly subject to the fluctuations in international markets. It is not uncommon, however, for producers to face price instability much larger than that in the international price and even totally unrelated to it. In October 2004, a small cocoa farmer in Cameroon explained to an UNCTAD team that for one kilo of cocoa, he was paid 100 CFA in 2002, 800 CFA in 2003 and 400 CFA in 2004. The average international prices during the cocoa purchasing period in Cameroon in the corresponding years were 1224 CFA, 1182 CFA and 1254 CFA, respectively. Not only is the variation in the local price much larger than that in the international price, even the direction of change is contradictory. Better functioning and transparent markets could reduce the haphazard movements in domestic prices. Price risk management instruments are powerful tools for coping with price instability. But any attempt to use them is fraught with special difficulties under these circumstances. A well functioning

domestic market with transparent links with international markets is a necessity in this respect.

#### SUPPLY-SIDE OBSTACLES AND MARKET ENTRY PROBLEMS

The strategic problem facing agricultural LDCs is how to exploit the market access accorded, whether or not on preferential terms, and convert it into export growth, diversification and, eventually, broad-based development and poverty reduction. LDC producers have lacked the competitiveness and supply capacities necessary to exploit both their comparative advantages and the potential advantage accorded by preferences. Thus, while market access has been assured, at least to some extent, market entry has not been so.

There are both supply-side and demand-side reasons for the lack of export success. Common supply-side obstacles include deficiencies in infrastructure and extension services, and lack of access to credit, technology and market information. Low productivity is rampant in the agriculture of many developing countries, especially in Africa. For example, maize yields are 1.6 tonnes per hectare in Africa compared to 3.8 tonnes per hectare in Asia (Sachs and Sanchez 2004), and the gap is not narrowing. Over the period 1980-1997, crop yields for seven agricultural exports were on average lower in LDCs than in other developing countries in all cases but cocoa (UNCTAD 1999b, table 23).

On the demand side, requirements of importers have become increasingly stringent, partly because of consumer preferences (health concerns, traceability) and partly as a result of restructuring, which has led to an increasing dominance of importing markets by large distribution networks. LDC producers, particularly the smaller ones, find it very difficult to meet these requirements, since they lack funds to undertake the necessary investments. In addition, importers' transaction costs when dealing with many small producers are high.

One important shift in multilateral trade negotiations that started with the Uruguay Round is the advent of positive rule making. Areas that, although linked to trade, have traditionally been the domain of domestic policies, are now part of international trade rules. Sanitary and phytosanitary measures (e.g. traceability), intellectual property rights (e.g. what seeds can be used – exports of roses from India to France were returned because of uncertified plant use), and operation of state trading organizations all have to conform to the outcome of the 'liberalization' process.

The General Agreement on Trade in Services of WTO aims to liberalize the retail sector. Although it cannot be said to be a result of this agreement, as service sectors have been opened up in line with liberalization, global supermarket chains have increased their dominance of the retail sector in many countries. The requirements for supplying supermarkets are different from those of selling in traditional markets. Here again, while the playing field is becoming more level, rules are becoming more complicated, and only those that can play according to these rules can take part in the game. Small producers everywhere are finding it more difficult to meet the requirements but those in LDCs are further disadvantaged not

only because they are poorer, but also because the requisite institutional structure and governmental support are lacking.

The increasing presence of international distribution firms and supermarket chains in food trade and the retail sector has generated significant impacts on small-scale farmers not only in developing countries but also in developed ones. Their growth and dominance are reflected in the marked surge of foreign direct investment flows into the retailing sector (Reardon and Berdegué 2002, p. 376). With the advent of the 'global supermarket', the distinction between world and local markets is fast disappearing. Quality concerns and modern business practices reminiscent of the international markets are being transferred and diffused into domestic markets. This becomes even more so as markets are opened up and competition with imports becomes inevitable. This is true not only in developed and relatively richer developing countries, but also in Africa (Weatherspoon et al. 2003). Those who can meet the requirements of supermarkets in international markets, and only those, are likely to succeed in the higher segments of domestic markets. Efficiency gains imposed by meeting the standards may also lead to higher earnings for the successful farmer.

Small and LDCs producers are at a disadvantage under these new trading practices since not only *what* is produced, but also *how* and *by whom* it is produced emerge as important concerns. Firstly, the simple understanding of the exigencies is a complicated matter. Secondly, meeting these exigencies requires investments that small producers are usually unable to undertake individually. Investments for meeting health, safety and quality requirements can range from upgrading management skills to purchasing new equipment and establishment of quality control and coordination systems. Therefore the importance of cooperative action among small producers is evident. The large size of the importers, coupled with the necessity to ensure quality, traceability and continuity in supplies bestows an advantage for large farms over smaller ones, stemming from lower transaction costs. This is another reason for small farmers to organize themselves and act cooperatively.

While market access barriers and international trade measures implemented by governments comprise the first hurdle to selling in international markets, clearing this hurdle does not guarantee that a product will appear on retailers' shelves. For instance, SPS requirements define the conditions necessary but not those sufficient for being able to export. Many, and in most cases much more stringent, quality and labelling requirements, as well as conditions regarding production and processing practices are imposed by importing firms either individually or collectively as is the case with Eurepgap (<http://www.eurepgap.org/>). Particularly in the case of food items, meeting the requirements of importing firms and distribution and retailing channels is the principal prerequisite for success, and the burden for doing so ultimately falls upon the farmer. These requirements are usually more stringent than the government regulations reflected in measures undertaken in accordance with the requirements of the SPS Agreement. Moreover, when requirements are imposed by private enterprises, there is no way to contest them legally, except in situations where rules on competition are violated (UNCTAD 2002a, p. 11).

Accordingly, while improvements in market access and a dramatic reduction in

agricultural protectionism are necessary conditions for improving the export performance of LDCs, they are not sufficient conditions. More needs to be done to raise the competitiveness of LDC producers, and this will require massive investment in the upgrading of capacities in both the public and the private sector.

#### A 'WINDOW OF OPPORTUNITY'

One of the more promising developments in recent years is the emergence of a new dynamic element in international commodity trade: rapidly increasing Asian demand. Together with improved export opportunities that could result from changes in the international trading system, increased demand for commodities in these countries could considerably boost world demand for commodities. A 'window of opportunity' could thus open up over the next several years, allowing substantially improved export earnings for developing countries.

Commodities have accounted for a constant (in the case of China) or increasing (in the case of India and the rest of Asia) portion of total imports, which are rising rapidly. Moreover, the share of Asian commodity imports coming from other developing countries has increased steadily. In China, agricultural imports from developing countries outside Asia increased by a total of 30% from 1995 to 2002. Since this was a period when commodity prices decreased dramatically, the growth in volume terms was higher. China's share of world consumption of food products is increasing fast. Its major agricultural commodity imports are cereals (mostly wheat and barley); vegetable oils and oilseeds (particularly soybean, soybean oil and palm oil); fish and seafood, and animal feed. Other growth sectors include horticultural products such as cut flowers and fruits and vegetables, as would be expected at the present level of income.

What are the implications of continued rapid growth in China and India for world commodity demand? In order to answer this question, two important facts need to be kept in mind. First, China and India have a combined population of 2.3 billion people, about 37% of the world's population. Thus, a US\$100 increase in the per-capita income of these two countries (10% for China and 20% for India) represents US\$ 230 billion in additional demand. Second, both countries are at a stage of industrialization (with China somewhat ahead of India) where per capita commodity consumption tends to increase rapidly and they are likely to remain at this stage for the next few years. Lifestyle changes, including in dietary patterns, brought on by rising income and urbanization, will change the composition of demand for food products. As just mentioned, this is already reflected in the composition of China's agricultural imports, and also in India's, although to a smaller extent. Since both countries have made great progress in reducing poverty, this last factor is of major importance since, other things being equal, rising incomes for the poorer segments of the population tend to have a large impact on food consumption. Imports of non-traditional products such as coffee and cocoa are also increasing, and this development is important for other developing countries.

Some of the increased demand for commodities will be met from domestic production. With respect to agricultural goods, productivity improvements in both

countries would be expected to lead to increasing agricultural production. However, in both China and India, shortages of arable land may prove to be a constraint on production increases. The amount of land devoted to rice production in China has declined over the last six years, and the rice harvest is expected to fall to a twelve-year low of 126 million tonnes in the current crop year. Within a decade, China may have to import up to 50 million tonnes of grain per year.

Accordingly, China and India can be expected to need increasing commodity imports for several years to come. For reasons of geographical proximity, Asian countries could be expected to be major beneficiaries, and Chinese demand has already led to improved markets for its neighbours. However, other developing regions are also beginning to see major increases in their commodity exports to China. African countries experienced a 10% annual increase in agricultural exports to China from 1995 to 2002, and Latin American countries saw exports increase at an annual rate of over 4%, albeit in both cases from relatively low initial levels.

In conclusion, Chinese and Indian demand growth will provide a major dynamic stimulus to international commodity markets over the next few years, and since commodity markets are global, the additional demand arising from Asian growth will benefit a wide range of countries and not only affect their immediate neighbourhood. Although problems of oversupply of individual commodities will continue to affect export earnings and producers' incomes, the general trend should be positive.

## CONCLUSIONS

LDCs depending on agricultural exports have experienced low growth and shrinking market shares for the last few decades. With little surplus available for investment, productivity growth has remained low and these LDCs have fallen into a poverty trap. Domestic liberalization has had little significant positive effect on export growth and poverty. Multilateral trade liberalization would only yield very limited results in terms of poverty reduction. Sufficient growth in exports to have a tangible effect on poverty would require the removal of supply-side obstacles as well as measures to facilitate the meeting of market exigencies. A 'window of opportunity' for LDCs to increase their earnings from agricultural commodity exports may be opening as a result of increases in commodity demand in Asia, particularly China and India. This assumes, however, that developed countries do not use the expected demand increase as an excuse for taking a complacent view of the need for reductions in agricultural tariffs or support to domestic producers; or worse, that they exploit the market growth for their own exclusive benefit by continuing export subsidies and high levels of domestic support. On the other hand, a prolonged period of growing demand and improved price stability could make it easier for developed countries to overcome domestic resistance to reduced support, thereby facilitating the transition to a more level playing field in world agricultural trade.

## NOTES

<sup>1</sup> Although the incidence of poverty is higher in the mineral economies among the LDCs, the

relationship between commodity dependence and poverty differs from that in agricultural economies. As a very sweeping generalization, it may be said that while poverty in agricultural LDCs affects those engaged in commodity production, in mineral LDCs it is a problem for those excluded from the production of commodities.

- <sup>2</sup> Prices of some manufactured products, for instance, computer chips, are subject to considerable fluctuations. Significantly, the process whereby such products become sufficiently standardized and widely traded for this to happen is usually termed 'commoditization'.
- <sup>3</sup> The index is based on a classification of tariffs and non-tariff barriers.
- <sup>4</sup> The 'unbound' nature of these preferences is a major shortcoming from the point of view of providing long-term security for investors.
- <sup>5</sup> It should be noted that this kind of liberalization is not fully reflected in some developed countries. For example, Canadian and Australian Wheat Boards (the Australian board has been privatized into Australian Wheat Board Ltd.) account for about one third of world wheat exports. The New Zealand Dairy Board handles about 30 % of world dairy exports. (Murphy 1999, pp. 6-7).

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