FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

TRENDS AND CHALLENGES IN AGRICULTURE, FORESTRY AND FISHERIES IN LATIN AMERICA AND THE CARIBBEAN

FAO REGIONAL OFFICE FOR LATIN AMERICA AND THE CARIBBEAN
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PREFACE

The countries of Latin America and the Caribbean face major challenges in their progress toward food security and agricultural and rural development. In recent years, these challenges have extended far beyond the relative scarcity of natural resources or vagaries of climate, the problems facing small-scale producers or the technical problems of primary agricultural production.

Food insecurity in the region is explained not only by levels of food production, but also by problems of access to food that is available, stemming from poverty and exclusion – from both of which rural areas suffer more than proportionately. In any analysis of the region's food security, fundamental issues include the pace and characteristics of economic growth, income distribution (both family and regional) and the need to revalue the rural domain.

The growing interdependence of national economic processes, as revealed in business cycles of global compass, and the effects of fluctuations in international capital flows on the profitability of productive activities, growth and the possibilities for financing development in Latin American and Caribbean countries, also condition progress in the rural domain, and affect the potential for making progress toward poverty reduction and improved food security in the region.

The FAO Regional Office for Latin America and the Caribbean has prepared this document to support the deliberations of the FAO Regional Conference for Latin America and the Caribbean, in its search for responses to these challenges.

The document contains detailed statistical and analytical material on four thematic areas:

1. *International context:* Especially the external constraints on Latin American economic growth, including the protection and support provided to the agriculture sector in industrialized countries.
2. *Macroeconomic framework:* Particularly GDP trends, the incidence of international capital flows, balance of payments, inflation, urban and rural income distribution, urban and rural poverty, and food security.
3. *Agriculture sector development:* Especially the trend of agricultural GDP and its importance within economic development as a whole; crop, livestock, fishery and forestry production trends; highlighting factors that explain variations in the pace of progress in each subsector.
4. *International trade in agricultural products:* Especially export and import trends, and the balance of international trade in crop, livestock, fishery and forestry products.

We hope this document will contribute to collective reflection on the policy orientations needed to foster agricultural and rural development in Latin American and Caribbean countries, and promote food security among their populations. In the ongoing process of enhancing analyses and policy debates, your comments are highly welcome.

Gustavo Gordillo de Anda

FAO Assistant Director General and
Regional Representative for Latin America and the Caribbean

CONTENTS

I. INTERNATIONAL CONTEXT

A. THE NEW CONDITIONS OF THE WORLD ECONOMY

The major world changes that occurred at the end of the last century have significantly increased the influence that international conditions exert on individual nations' economic and social development. During the first few years of the new millennium, the countries of Latin America and the Caribbean are striving to construct a style of development in keeping with the new conditions prevailing in the world economic dynamic, to take advantage of new opportunities and mitigate negative impacts.

The tremendous progress made in information technology, new modes and possibilities in telecommunications, technical developments in transport, greater domination over natural resource constraints achieved through biotechnology and genetic engineering, and other significant technical advances, have paved the way for a spectacular reduction in the cost of international exchange, and have encouraged greater standardization in products and processes.

This extraordinary technical progress has also spawned far-reaching institutional reforms to keep up with the pace of technical change. A new institutional framework has been developed for world trade and international economic relations, aimed at more effectively exploiting today's technological possibilities and facilitating the international movement of information, ideas, capital, goods, services and people. Every year during the last decade, many countries amended their standards or legislation with a view to encouraging foreign direct investment (FDI). In 2001 alone, 71 countries introduced 208 legal amendments on foreign investment, of which 194 were intended to promote or facilitate it. Moreover, by 2001, no less than 2,099 bilateral investment treaties had been agreed.[1]

A process of renewal is unfolding among economic agents and their relationship mechanisms. Transboundary mergers between large firms have proliferated, especially in the financial and telecommunication sectors, and these constitute the apex of a world system that exerts powerful feedback forces on globalization in production and trade in all productive sectors. The international sociopolitical framework is also tending toward greater standardization, under a single pole of political and military hegemony and growing interdependence among the main economic powers.

Productive processes increasingly ignore the constraints of national borders, as economic globalization becomes ever deeper. The proliferation of international financial and technical links strengthens the transnationalization of production-processing-consumption chains; and intrafirm trade is particularly dynamic. International capital flows have displayed exceptional growth in physical investment and financial exchange; and transnational corporations (TNCs) account for a rapidly growing share of world production and trade, both directly and through outsourcing.

[1] UNCTAD, *World Investment Report, 2002* "*Transnational Corporations and Export Competitiveness, General Overview*", p. 23,

According to recent estimates quoted by UNCTAD,[2] there are 65,000 TNCs in the world today; these have roughly 850,000 foreign subsidiaries and employ 54 million workers. The expansion of the TNC economy has been explosive. Over the last two decades (between 1982 and 2001) sales by foreign subsidiaries grew from US$ 2,541 billion to US$ 18,517 billion, and estimated output expanded from US$ 594 billion to US$ 3,495 billion, i.e. roughly one tenth of world GDP. In 2001, TNC exports reached a level of US$ 2,6 billion, representing one third of the world total. If one includes the activities of transnational enterprises that are not linked by ownership but operate through licensing or subcontracting, then total TNC participation in the world economy would be greater still (see table 1).

Table 1

The economics of transnational enterprises

Indicators of subsidiaries abroad	1982	1990	2001
	(Billions of dollars)		
Sales of subsidiaries abroad	2,541	5,479	18,517
Gross product of subsidiaries abroad	594	1,423	3,495
Total assets of subsidiaries abroad	1,959	5,759	24,952
Exports of subsidiaries abroad	670	1,169	2,600
World GDP (at current prices)	10,805	21,672	31,900
World exports	2,081	4,375	7,430

Source: UNCTAD, FDI/TNC database and estimates.

Transnational enterprises themselves are highly concentrated economic systems. Over half of all sales achieved in 2000, and more than 50% the workers employed during that year, were concentrated in the 100 largest non-financial TNCs alone.

The worldwide cumulative stock of foreign direct investment (FDI) has multiplied tenfold since 1980 and currently stands at US$ 6,846 billion. Annual FDI flows, which at the start of the 1980s totalled US$ 55 billion, had grown to over US$ 200 billion by 1990 and had reached US$ 1,492 billion by 2000. The total amount of foreign direct investment in that year alone doubled the cumulative total of FDI up to 1982 (US$ 739 billion) (see table 2).

[2] UNCTAD, *World Investment Report, 2002* "*Transnational Corporations and Export Competitiveness, General Overview*", p. 12. http://r0.unctad.org/wir/pdfs/wir02ove_A5.sp.pdf

Table 2

STOCK AND FLOWS OF FOREIGN DIRECT INVESTMENT

(Millions of dollars)

Country or region	Indicator	1970	1980	1982	1990	1998	1999	2000	2001	2002[1]
World	Domestic FDI stock	n.a.	635,534	738,877	1,871,594	4,262,298	5,110,655	6,258,263	6,845,723	n.a.
	FDI inflow	12,586	54,945	59,270	202,782	694,457	1,088,263	1,491,934	735,146	534,000
Developed countries	Domestic FDI stock	n.a.	389,715	443,487	1,382,978	2,800,598	3,216,854	4,124,261	4,504,122	n.a.
	FDI inflow	9,477	46,530	32,031	164,575	484,239	837,761	1,227,476	503,144	349,000
Developing countries	Domestic FDI stock	n.a.	245,819	295,390	484,954	1,367,867	1,783,969	2,002,173	2,181,249	n.a.
	FDI inflow	3,109	8,380	27,225	37,567	187,611	225,140	237,894	204,801	158,000
Latin America and the Caribbea	Domestic FDI stock	n.a.	50,297	64,138	117,001	419,862	519,071	613,094	692,978	n.a.
	FDI inflow	1,438	7,485	8,295	10,282	82,203	109,311	95,405	85,373	57,000

Source: UNCTAD.

n.a . Not available.

1/ Projections for 2002 taken from ECLAC, "Foreign Investment Report", 2002.

Although the growth of international investment flows implies a rapid expansion of the transnationalized economy, the true dimension and scope of TNC economic systems are not just a matter of greater investment. Alongside the rapid growth of capital flows, there has been an extraordinary development of supplier networks and various non-equity linkages, such as the outsourcing or subcontracting of production, which involves large numbers of agents in a wide variety of activities, including low-technology production, all incorporated into transnationalized systems.

Economic globalization, the establishment of large economic groupings worldwide, subregional integration processes, rapid capital flows and the pace of technological development, have combined to profoundly alter the structure and functioning of the international trading system. They have also significantly increased their influence and effect on economic and social development. The world trading system is now much more than an exchange of goods between entirely separate buyers and sellers. There is growing coordination between production and processing activities and those of international trade, as well closer ties between financial and product markets. The cycles of financial capital and productive processes unfold across national borders; and much of the international division of labour occurs within the transnational enterprise.

Competition on world markets nowadays takes place between entire production systems, rather than between individual factories or firms. What is important is the competitiveness of the system. Management strategy is much more than the administration of production or marketing in the conventional sense, but embraces a series of inter-enterprise partnerships and relations between suppliers, producers and sellers that are formally independent but linked to the system through franchises, licences, common technical standards, subcontracting, marketing contracts, and business relations based on mutual knowledge and trust.

These are the systems that generate the world value chain, which ranges from technological development through to final distribution, operating through intermediate stages and relations that transcend national borders. In many of these systems, TNCs tend to concentrate on the least tangible and most knowledge-intensive functions, such as definition of products and brands, innovation, research and development activities, or marketing, while the productive process itself is contracted out to numerous manufacturers. Moreover, partnerships for the purpose of developing innovations are increasingly being forged with universities and research laboratories, and even with competitors. Ownership relations are thus enriched by cooperation networks and structures of coordination or control within the logic of the transnational system.

Productive capital itself is becoming less tangible, since it increasingly rests on technological knowledge. Unlike industrial technology, where capital is embodied in a machine, nowadays it tends to be easily transferable; its ownership and control essentially require accumulated knowledge and intellectual and human capital. while Although still important, erstwhile comparative advantages based on cheap labour or abundant availability of natural resources are giving way to the development of knowledge and intellectual capacities. This poses a huge challenge for developing countries, which are forced to expand their human capital rapidly to avoid being left behind by the onward march of world technological progress.

Human capital development and an emphasis on education, basic labour skills and technical training, are likely to constitute a key pillar of the development strategy in the next few years.

B. CURRENT ECONOMIC SITUATION AND PROSPECTS FOR THE NEXT FEW YEARS

The evolution toward a globalized economy has been anything but a linear process. Within the investment and business cycles that characterize contemporary economic growth, both productive progress and global integration have displayed sharp fluctuations. Successive crises in major economic hubs, compounded by political or military conflicts and insecurity in the face of violence, generate uncertainty and major turbulence in the evolution of the world's economies. The fact that capital flows have tended to behave procyclically has aggravated local problems, deepening crises and spreading their effects.

As a manifestation of the cumulative process, the very factors that drive growth in the contemporary economy are closely implicated in the recent falls. The key factors explaining the slowdown in world output and trade over the last three years include the stockmarket collapse that followed the bursting of the financial bubble in the information and communications technology (ICT) sector; erosion of confidence and credibility caused by the accounting frauds detected in several large corporations; a retrenchment of investment by many firms in developed countries – especially in the ICT sector, which had driven growth of trade in manufactured goods since the second half of the 1990s and the boom in high-technology investments; the repercussions of the anti-terrorist campaign, particularly on businesses involved in transport, tourism, insurance and finance; uncertainty surrounding the international economy, stemming from the military conflict in Iraq and confusions with regard to the postwar period; and, temporarily for a number of Asian countries, the impact of the Asian pneumonia (SARS).

The factors listed above, and their interaction with the cumulative conditions acting on macroeconomic equilibria in the world's leading economies, produced an activity slowdown in developed countries, retrenchment in fixed capital investment in the real sector of the economy, curtailment of investments in technology, and a fall in the prices of manufactured goods, especially those corresponding to the ICT subsector. The latter had enjoyed a spectacular boom during the closing years of the last century, involving major technological innovations in fibre-optic connections, computer software, Internet access and development of the mobile phone. Alongside a new regulatory framework,

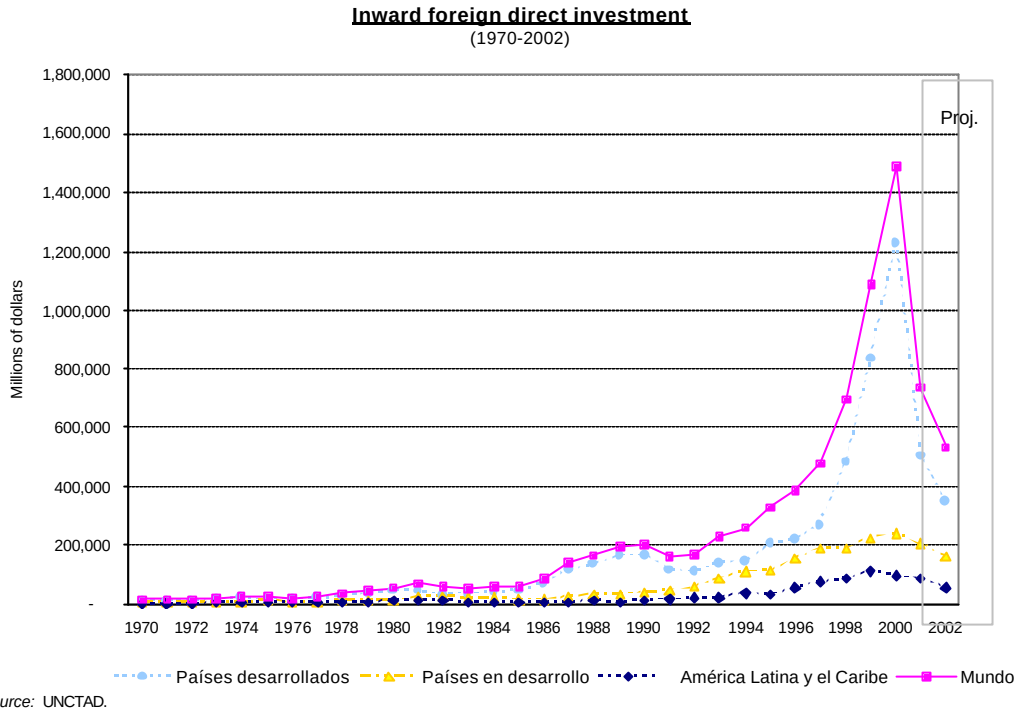
there was extraordinary growth in the demand for new services, which attracted rapidly growing investment and fuelled a wave of mergers and acquisitions at prices that were subsequently shown to be excessive, especially in Europe. The backlash saw a curtailment of investment flows and large projects with high levels of fixed assets that were proving unprofitable, thereby triggering major financial imbalances. At the turn of the century, the ICT boom gave way to a crisis that reversed the process of burgeoning asset prices and speculation, causing a stockmarket collapse of enormous proportions. Between its peak in early 2000 and the trough in late 2002, the stockmarket index for this subsector in the United States lost 78% of its value.

In the medium term, however, the demand for telecommunications and information technology services seems set to continue growing rapidly, so once excess in-store capacity has been reabsorbed and financial balances recovered, investment growth is likely to resume. In addition, technological innovation has remained extremely dynamic. Both the demand for ICT services and technological developments in these products represent medium- and long-term forces, so these markets are bound to recover.

Although the crisis in this sector was very deep, its impact on the global economy was relatively limited, given its small weight in the economy as a whole, accounting for between 2% and 4% of output. Nonetheless, backward linkages and coordination with other agents, especially equipment suppliers and high-technology enterprises, are very significant.

One of the clearest expressions of the 2001-2002 crisis was the drying-up of international capital flows, following their exponential growth of the late 1990s. During the 1970s and first half of the 1980s, the size of annual FDI inflows grew slowly, but thereafter expanded vigorously every year. In the 1990s there was a major acceleration that culminated in the extraordinary growth of FDI flows in 1999 and 2000, when annual FDI inflows more than doubled from just under US$ 700 billion in 1998 to US$ 1,492 billion in 2000. In 2001, with the world's leading economies in recession and a 50% decline in transboundary merger and acquisition activity, FDI flows retreated to their earlier levels of US$ 735 billion; and the forecast for 2002 is roughly US$ 534 billion (see figure 1).

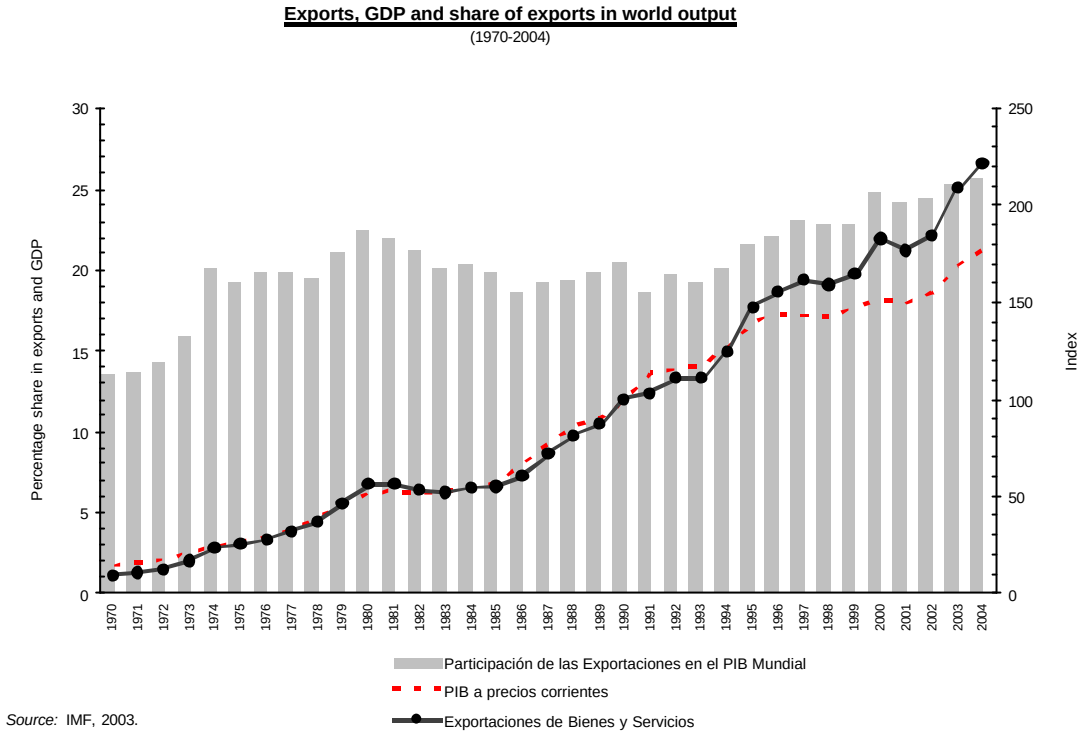
Figure 1



Source: UNCTAD.

The crisis also caused a major slowdown in international trade. Over the last few decades, world trade had grown more rapidly than output, increasing its relative size significantly. World exports had been growing roughly twice as fast as GDP, and in the 1990s expanded nearly three times as fast. In the 1970s, international trade represented just 14% of world output; in the 1980s it grew to one fifth of the total, and today international trade in goods and services accounts for one quarter of global economic output (see figure 2).

Figure 2



Source: IMF, 2003.

World trade, which, prior to the problems mentioned above, had been expanding even faster than output (except in 1998), posting average annual growth of over 7% since 1993, in 2001 shrank by 0.5% in volume and by nearly 4% in value terms. The rebound in 2002 only made up for that fall, allowing a return to the levels of the two previous years. Although prospects for 2003 are uncertain, a modest recovery is generally forecast. Nonetheless, this will largely depend on the trend of the United States economy, which had been the engine of world growth during the 1990s but is now subject to uncertainty stemming from postwar developments in Iraq, and is also hampered by large budget and current-account deficits compounded by high levels of household debt. Trade is no longer growing three times as fast as output as it did in the 1990s, but only at double that rate, as happened before the deepening of globalization[3] (see table 3).

[3] ECLAC, *Latin America and the Caribbean in the World Economy, 2001-2002*.

Table 3

World output and exports

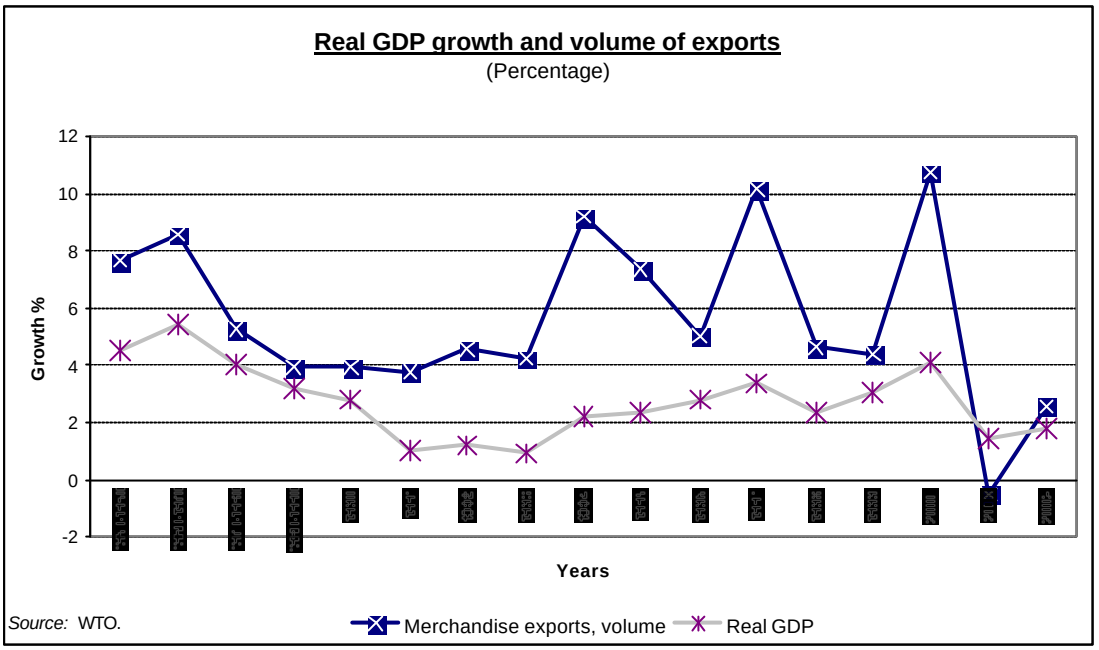
(Annual growth rate)

	Output		Merchandise exports	
	GDP	Production	Value	Volume
1950-1960	4.50	5.12	7.78	7.68
1960-1970	5.42	5.97	9.23	8.56
1970-1980	4.04	3.79	20.35	5.24
1980-1990	3.19	2.47	5.43	3.95
1990	2.82	1.27	13.02	3.95
1991	1.00	-0.41	1.50	3.76
1992	1.20	0.20	6.40	4.56
1993	0.89	0.41	-0.18	4.21
1994	2.21	2.70	13.61	9.22
1995	2.32	4.05	19.38	7.37
1996	2.81	3.29	4.40	5.02
1997	3.39	4.69	3.40	10.15
1998	2.32	2.04	-1.35	4.66
1999	3.03	2.78	3.92	4.43
2000	4.09	4.75	12.62	10.72
2001	1.45	-0.41	-3.93	-0.50
2002	1.80	0.96	3.91	2.59

Source: WTO.

The set of factors discussed above caused a slowdown in the pace of economic progress. In 2001, world GDP grew by just 1.5%, thereby bringing to an end the latest cycle of high growth rates (of between 2.2% and 4.1%) that had been achieved during the second half of the 1990s. This cycle was shorter and growth was weaker than in the previous case (1983-1990), when annual growth rates ranged between 2.8% and 4.6%; and rates of growth were also well below the figures of around 5% per year, achieved throughout the 1960s (see figure 3).

Figure 3



As mentioned above, in 2001 the combination of negative geopolitical factors acting on the business climate and pressures stemming from cumulative financial imbalances, caused a sharp slowdown in world economic activity. GDP in the United States, which had been growing at rates close to or above 4%, expanded by just 0.3% in 2001, and recovery since then has been slow; a 2.9% expansion is forecast for 2003. Growth in the European economy slowed from annual rates of around 3% to just 1.5% in 2001, and estimates for the following years have been even lower – just 0.5% in 2003. In Japan, where the economy has been stuck in the doldrums for over a decade, economic growth picked up somewhat, from 0.2% in 2002 to 2.7% in 2003.

Developing countries also felt the effects of weak demand and dwindling capital flows, which slowed their economic growth to a rate barely above 2%. When demographic variables are taken into account, this means almost zero economic progress per capita and negative in many countries. The most notable exception to this general negative panorama is the Chinese economy, which has continued to expand by more than 6% annually, albeit slightly slower than in previous years. The transition economies also recorded relatively less unfavourable results.

The negative impact of the 2001-2002 crises affected developing countries more than industrialized ones. According to the United Nations World Economic and Social Survey 2003,[4] of 24 developed countries considered, output per person declined in just four cases (17%) in 2002; whereas in the developing world output per capita shrank in 33 countries out of 95 (35%). Latin America was the worst hit region: of 24 countries considered, output per capita fell in 14 cases (58%). The reasons for the region's greater vulnerability to external shocks will be analysed in chapter II.

[4] United Nations, *World Economic and Social Survey 2003*. Chapter I, p. 8. http://www.un.org/esa/analysis/wess/wess2003chap1.pdf

Ongoing political uncertainty and the need for adjustments to overcome cumulative imbalances point to world economic growth of around 2% per year in 2002 and 2003. A new relatively high-growth cycle is expected to start in 2004, although it may still be modest and uncertain, above all because the recovery of the North American economy is proving more fragile and slower than expected.

Although the ICT sector has made a sharp adjustment, there are signs that other sectors also need to correct surplus installed capacity, which could mean a slowdown in private investment over the next few years. Moreover, the countercyclical public policies that have helped cushion recessionary shocks have also left less room for manoeuvre to increase government investment in the leading economies of the world, which are currently constrained by fiscal deficits. Germany and France have recently had to seek authorization to incur a fiscal deficit greater than that agreed to in the eurozone growth and stability pact.

Within the volatility of money markets worldwide, the decline of the dollar – which, at least partly, is a reflection of external imbalance in the United States economy – may reduce its capacity to galvanize other economies and pull them along in its wake. The recovery of the United States economy is unlikely to be transmitted as vigorously to its external demand or world economic growth; and under the new prevailing conditions it may be unable to provide sufficient stimulus for the rest of the world's economies.

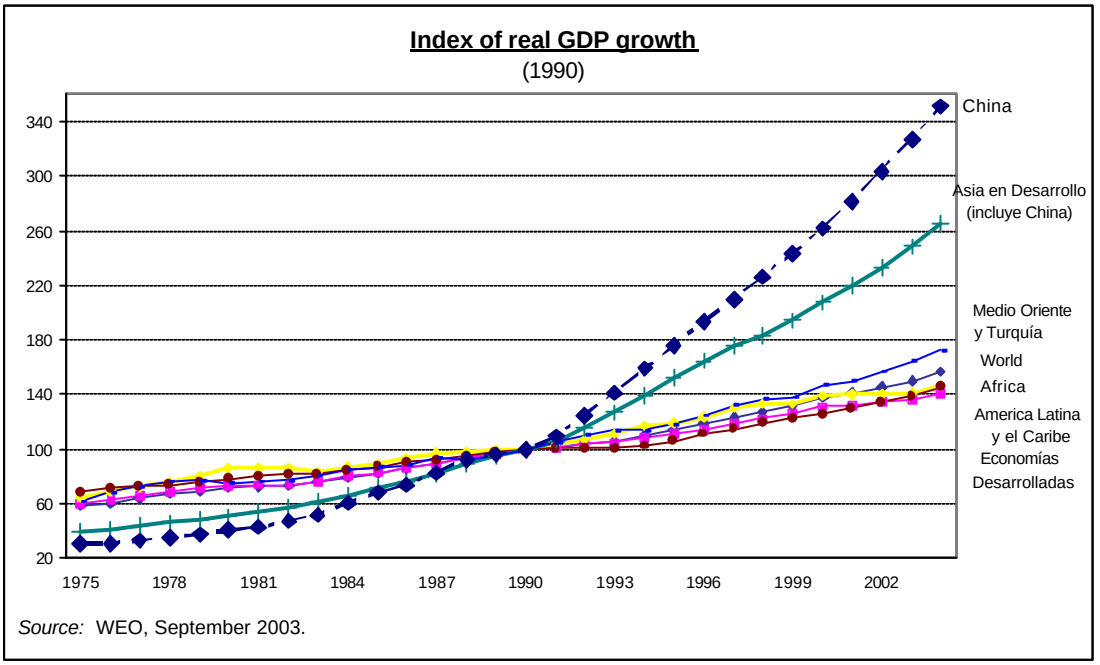
Despite the difficulties foreseen in regaining the pace of economic progress, the most likely scenario in 2004 and beyond is one of stronger growth, with an annual rate close to 3% forecast for developed economies, and over 5% for developing countries.

C. PARTICIPATION IN THE PRODUCTION AND TRADE

Despite increasing homogeneity in the market economy system and the globalization of economic processes, the gaps between individual economies are not narrowing. Although national borders are increasingly permeable to economic forces, the differences in productive capacities between individual countries have generally not been decreasing.

The only region of the developing world to grow significantly faster than the industrialized economies is Asia, thanks largely to the extraordinary sustained growth achieved by China. The Middle Eastern economies display lower growth rates but still above those of developed countries. In the economies of Africa and Latin America, GDP is generally growing no faster than developed economies, which means that the output gap persists (see figure 4).

Figure 4



Source: WEO, September 2003.

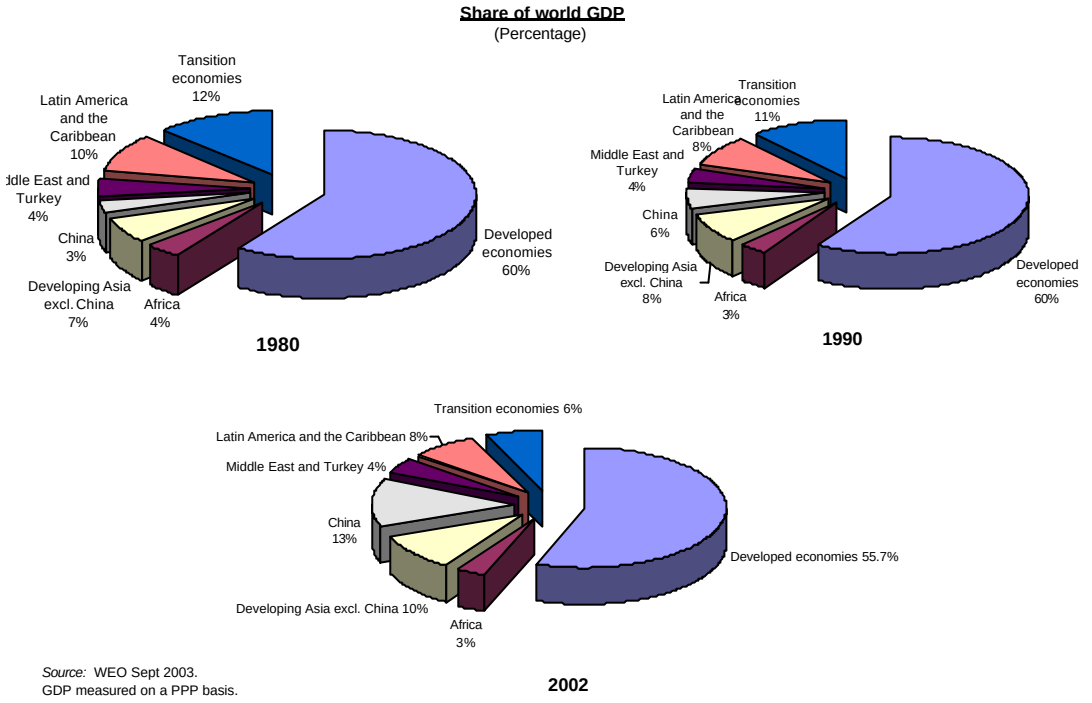
To make the share of individual countries in world economic output more comparable, the International Monetary Fund (IMF)[5] publishes information on gross domestic product weighted by purchasing power. In its estimation of world growth shares, using purchasing power parity (PPP) instead of the market exchange rate, differences between rich and poor countries are narrowed somewhat because the general level of prices tends to be lower in poorer countries.

World output shares based on purchasing-power-parity GDP reveals a number of significant changes that have occurred over the last two decades. In particular, the share of the Chinese economy has more than tripled, from under 4% in 1980 to over 13% in 2002. The other countries of developing Asia also increased their share in world GDP,

[5] IMF, *World Economic Outlook* "*Growth and Institutions*", April 2003.

albeit at a much more modest rate, rising from 6.5% to nearly 10%. The countries of the Middle East are broadly maintaining their share of around 4%; while the economies of Africa and Latin America have seen their shares decline, in the first case from 3.8% to 3.2%, and in the case of Latin America, from 9.8% to 7.9%. There has also been a sharp reduction in the share of transition economies. Developed economies accounted for 59% of world GDP in 1980, and over two decades later, in 2002, they still contributed 56% (see figure 5).

Figure 5

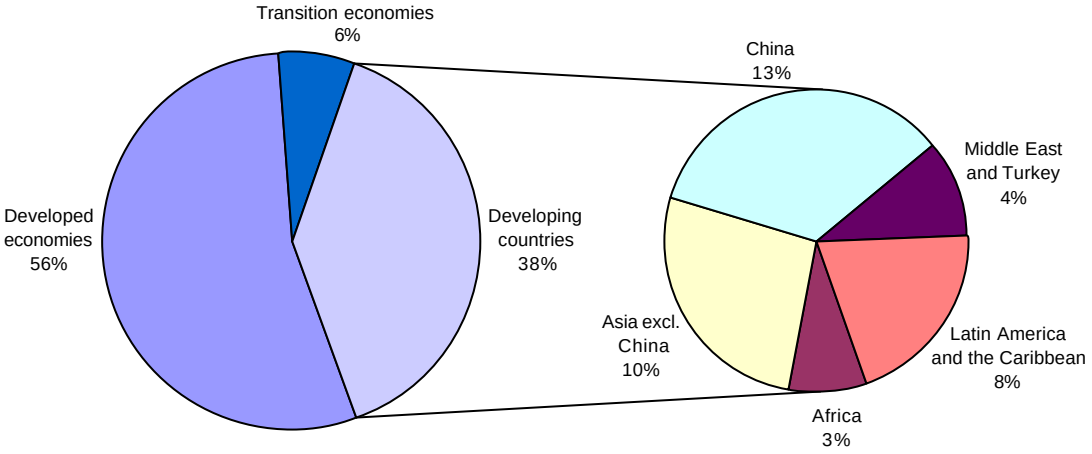


Source: WEO Sept 2003.
GDP measured on a PPP basis.

Within the trends discussed above, there has also been a notable change in the shares of GDP produced by the developing world. Two decades ago, Asia's share of world GDP, estimated in PPP terms, was similar to that of Latin America; Africa and the Middle East between them accounted for roughly another third of the developing world's share in global GDP. In contrast, by 2002 the share of the Asian economies comfortably surpassed that of all other developing economies together, almost tripling the Latin American share. The combined share of the Latin American economies in world output is equivalent to just 60% of the share of the Chinese economy (see figure 6).

Figure 6

Composition of world output 2002
(Percentage)

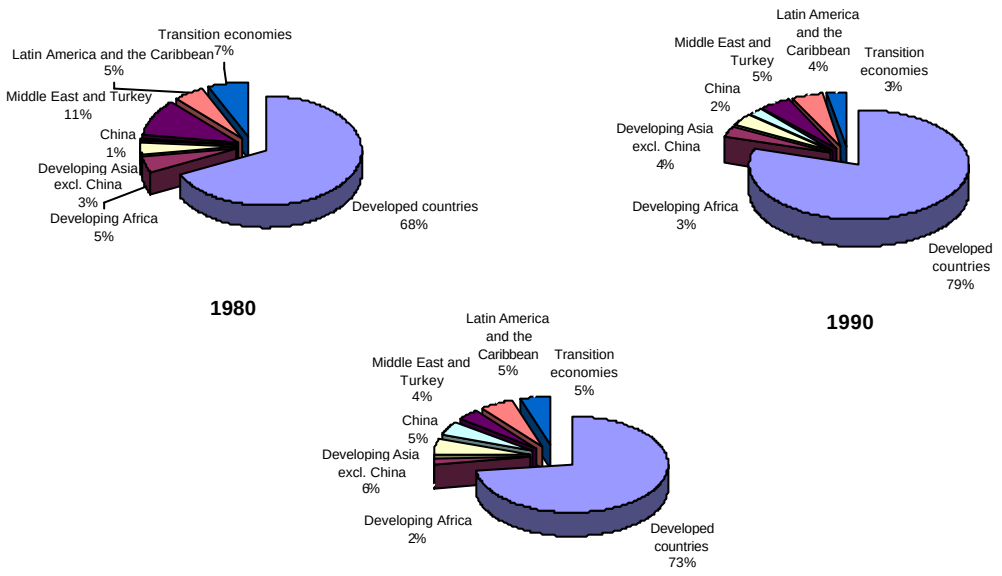


Source: WEO Sept. 2003.
GDP measured on a PPP basis.

World trade is even more concentrated than GDP. Exports from developed countries account for over two thirds of the world total (in 1990, the figure was nearly three quarters), and there is no visible trend suggesting greater participation by the developing world, except in the case of Asia. Following a slump in exports from the Middle East and the transition economies at different times during the 1980s, only Asia (mainly China), has increased its share of world trade during the 1990s, while exports from Africa are becoming increasingly marginal, and those from other regions are barely holding their level, which represents a situation of relative stagnation considering their small share (see figure 7).

Figure 7

Share of world exports
(Percentage)



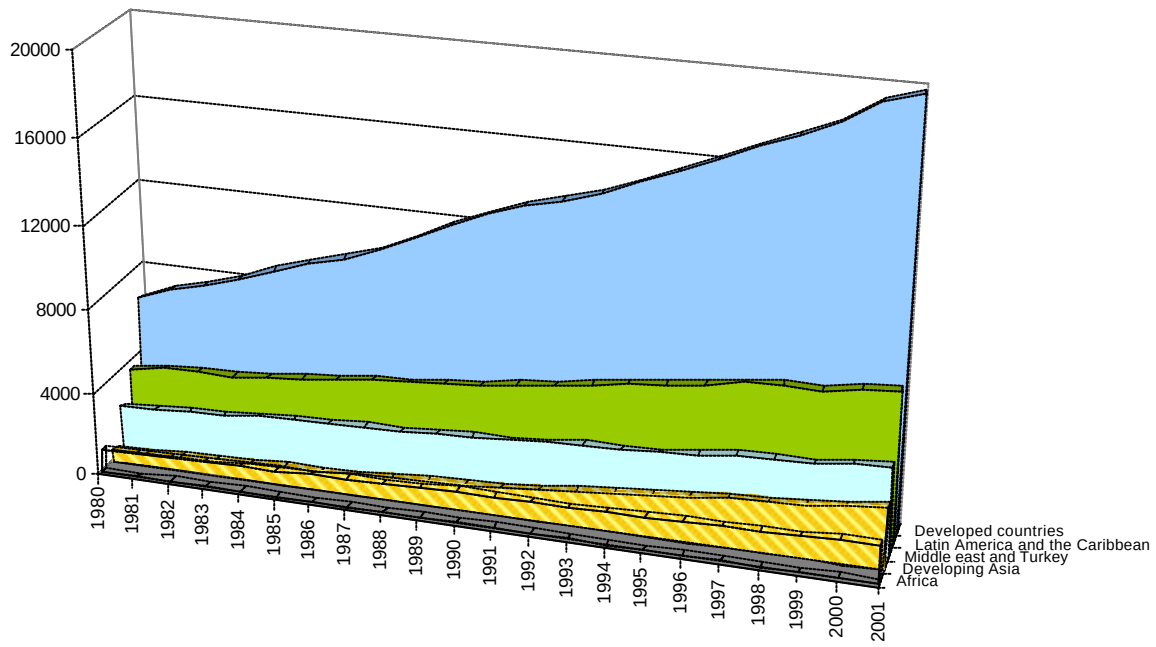
Source : WTO.

D. THE DEVELOPMENT GAP

The trends discussed above do not engender optimism regarding the progress made by developing countries in obtaining a more equitable share of world output that would enable them to bring living standards into line with the possibilities afforded by present-day modernity. Nonetheless, when demographic and absolute levels of GDP per capita are considered, the comparison reveals a dramatic process of polarization between the progress enjoyed by the inhabitants of developed countries and that achieved by the rest of the world's population. Figures 8, 9 and 10 illustrate the rapid widening of the GDP-per-capita gap between the developed countries and developing regions as a whole (even when measured in PPP terms). In this case, even the progress resulting from the vigorous growth of the Chinese economy seems totally inadequate to close the gap on industrialized countries. The high percentage growth rates in Asia are achieved on an extremely low initial base in per-capita terms, whereas the smaller percentage increases achieved in developed countries mean very much larger increases in absolute terms (see figures 8 through 10).

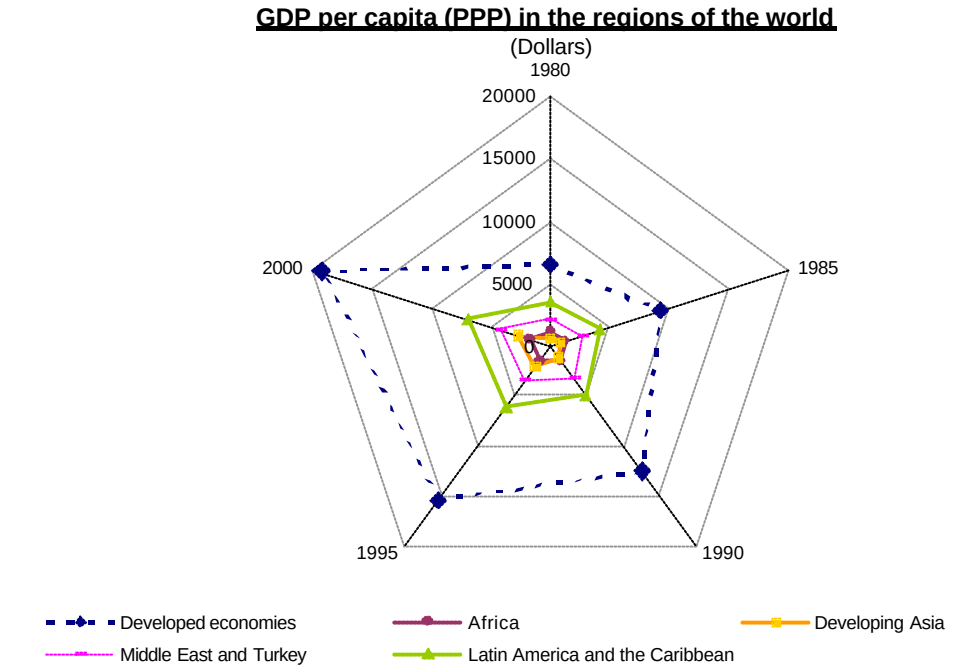
Figure 8

Growth of GDP *per capita (PPP)*
(Dollars)



Source: WEO 2003.

Figure 9



Source: WEO Sept. 2003.

Figure 10, which shows the trend of GDP per capita measured in PPP terms, eloquently describes the widening of GDP-per-capita differences between developed countries and the rest of the world. As mentioned above, only in Asia is GDP per capita (weighted by purchasing power) growing in relation to the average of industrial countries, the ratio between them having risen from 8.2% in 1980 to 14.8% in 2001. In the other developing regions, however, the ratio is falling dramatically. In 1980, Africa had a GDP per capita that was already very low in comparison to industrialized countries (equivalent to just 16%); nonetheless, by 2001, far from having risen, it was now just 9.2% of the developed country average. In 1980, GDP per capita in the Middle East was equivalent to one third (33.0%) of the average for developed countries, but by 2001 it was barely over one fifth (21.3%). GDP per capita in Latin America was slightly over one half (53.3%) of the developed-country average in 1980; but by 2001, it had declined to just over one third (36.4%). Considering that this comparison is based on purchasing power parity, the acute economic polarization that has been accompanying the globalization process is glaringly obvious (see table 4 and figure 10).

Table 4

Gross domestic product per capita

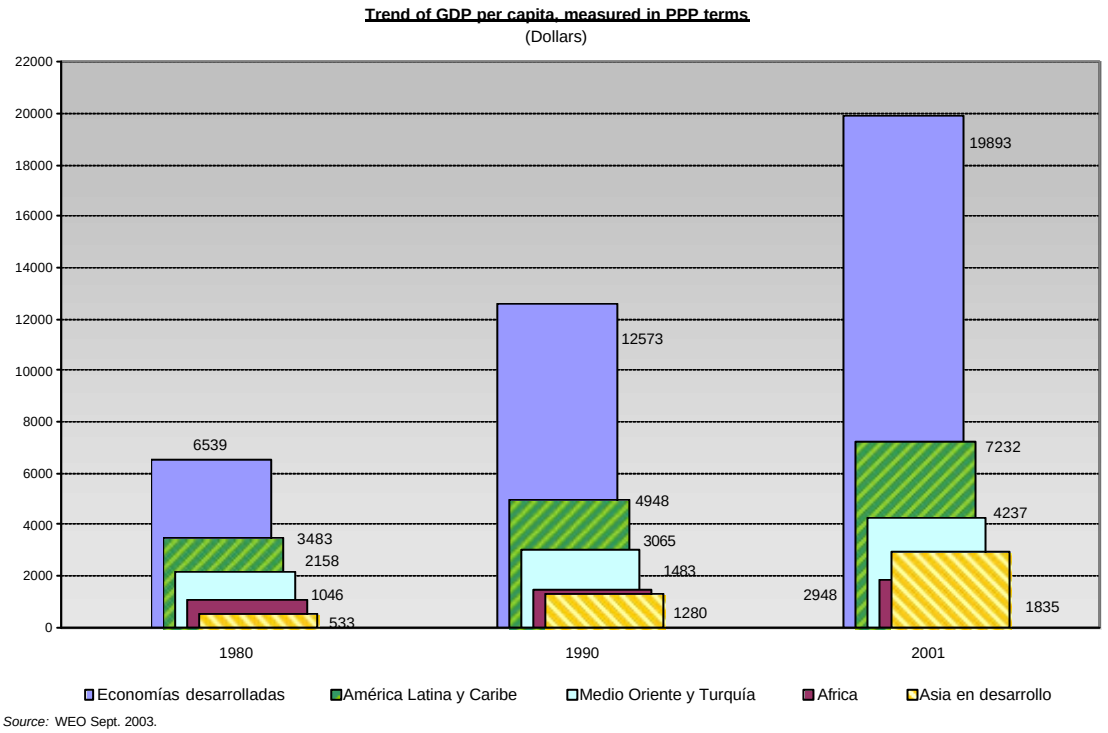
Dollars (PPP)

Country	1980	1985	1990	1995	2000	2001
World	2,909	3,964	5,103	6,003	7,361	7,599
Developed economies	6,539	9,274	12,573	15,406	19,333	19,893
Developing countries	1,110	1,524	1,987	2,715	3,475	3,635
Africa	1,046	1,290	1,483	1,551	1,775	1,835
Developing Asia	533	860	1,280	2,022	2,766	2,948
Middle East and Turkey	2,158	2,687	3,065	3,458	4,172	4,237
Latin America and the Caribbean	**3,483**	**4,195**	**4,948**	**6,113**	**7,128**	**7,232**
Transition economies	4,212	5,980	7,478	5,423	6,529	7,032

Source: GDP - IMF, *World Economic Outlook Database, Sept 2003*; Population - FAOSTAT

Measured on a PPP basis using WEO data.

Figure 10



Source: WEO Sept. 2003.

At the same time, there is also acute economic polarization within developing countries, where a large proportion of income is concentrated in the hands of the few. The combined result of concentration among countries and among population groups within developing countries generates a vast gap separating the population of the developed world and a small minority of inhabitants in developing countries, who enjoy income and living standards that are far higher and radically different from the daily grind of poverty faced by the vast majority of the world's population.

Simultaneously, the globalization process itself and the development of telecommunications are causing lifestyles to become more similar, thereby making the contrasts in capacities for consumption and progress increasingly evident.

Given the near universal acceptance of the market economy as the only viable economic system, and the enormous effect that international, productive, commercial and financial inter-relationships have on national economies, developing countries need to find solutions to reverse the growing trend of polarization. The lack of alternatives makes clear that is not a matter of more or less integration into the international economy; but of specific forms of relationship in the inevitable deepening of their involvement. Faster progress is essential in developing the capacities needed take advantage of opportunities and reduce the negative effects of globalization, and to promote structural changes aimed at fostering greater national integration, less exclusion and greater equity.

E. OBSTACLES TO DEVELOPMENT AND TRADE PARTICIPATION

The process of international relations is heavily dominated by conditions prevailing in the developed economies, both because of their importance in driving world demand and because of their share in international capital flows. Currently there are major distortions in both aspects that obstruct mechanisms of coordination with the world economy and the potential for harnessing this to achieve greater economic and social development.

On the one hand, financial flows to developed countries have reversed direction in the last few years. In other words capital outflows related to earlier inflows are now outweighing the inflow of new capital to developing countries. This means that developing countries have to generate trade surpluses to finance the capital outflow; so, notwithstanding their small share in world economic output, domestic absorption in these countries needs to be below the income generated by their GDP.

The year 2002 saw the completion of six consecutive years of net resource transfer from developing to developed countries, with the outflow reaching a record level of US$ 192.5 billion in that year. Apart from reversing the efficient flow that would direct capital to countries where it is lacking, to exploit their natural resources and abundant labour supply, this situation implies a financial transfer that has exacerbated the difficulties caused to developing countries by the problematic international context. To make matters worse, total development assistance flows shrank from US$ 53 billion in 1990 to US$ 51.3 billion in 2000, declining from 0.33% to 0.22% of developed-country GDP (see table 5).

Table 5

Net transfer of financial resources.

(1993-2002)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	(Billions of dollars)									
NRT to developing countries	66.3	33.9	36.0	24.2	-1.3	-33.7	-120.9	-179.3	-155.1	-192.5

Source: United Nations, World Economic and Social Survey, 2002 and 2003.

In addition, over the last few years, developing countries have had to set aside between a quarter and a fifth of their total export earnings simply to meet interest and amortization payments on their external debt. Nonetheless, both the amounts destined for debt service and the debt itself continue to rise. As will be seen in the following chapter, this issue is particularly important in Latin America (see table 6).

Table 6

Developing countries: External debt, debt service and indicators

(Average 1999-2003)

Region	External debt	Debt service	Interest	Debt /GDP	Debt/Exports	Service/Exports	Interest/ Exports	Service/ GDP
	(Billions of dollars)			(Percentage)				
Developing countries	2,203.6	334.3	102.5	40.8	145.5	22.1	6.8	6.2

Source: World Economic Outlook Data Base, Sept 2003.

Developing countries face major difficulties in participating on international markets. Generally speaking, the structural conditions that represent the starting point for exploiting opportunities opened up by trade liberalization – and for meeting the concomitant competitive challenges – are heavily biased against developing countries. There are major differences in productive capacities as well as in sanitary conditions and quality standards. In addition, developing countries suffer from serious shortcomings in transport and communications infrastructure, which raise production costs in large areas of the world; in contrast, these deficiencies have relatively less effect on imports reaching the main cities and consumption centres. Developing countries also often face higher financial costs, both as a result of their borrowing levels and difficult access to external credit, and because of inflationary pressures and major rigidity in public expenditure requirements, stemming from accumulated social deficits. This results in interest rates that are substantially higher than those prevailing in developed countries. Less developed institutions, public administration, and services, domestic trade channels and regional markets also mean lower levels of efficiency and competitiveness. Their reduced capacity to invest in research and development is another key factor aggravating the competitive asymmetry.

These differences in themselves pose a major challenge for developing countries to overcome their structural disadvantages and compete on international markets. Yet they are compounded by asymmetries that have been a prominent feature of multilateral trade liberalization in recent decades. The differential treatment received by sectors such as agriculture or textiles has seriously damaged developing countries. Another relevant issue concerns current arrangements on intellectual property rights.

In addition, protectionist measures (tariff or non-tariff barriers) imposed by developed countries, and policies that provoke the accumulation of surpluses and distort international markets, further aggravate the problems facing developing countries in

terms of participation. Despite progress made on trade liberalization following several multilateral negotiating rounds, the effects of industrial-country policies continue to obstruct developing countries' access to international markets.

F. PROTECTION AND SUPPORT FOR AGRICULTURE IN DEVELOPED COUNTRIES

The average bound tariff for non-agricultural products entering the European Union and the United States is very low and would not represent a significant entry barrier to those markets. Nonetheless, the tariff structures maintained by those countries are extremely heterogeneous, including specific duties per physical unit and mixed tariffs, supported by seasonal quotas and special regimes for several products. The maintenance of significant tariff peaks and a high degree of escalation as a product's processing level increases, undermines the effectiveness of efforts made by developing countries to diversify their exports. Requirements and formalities for importing products into developed countries are also complex, involving compliance with demanding regulations on health protection, safety and the environment, in addition to regulations on certification, labelling, misleading publicity and consumer protection.[6]

Nonetheless, it is among agricultural products that the policies pursued by developed countries cause major distortions that seriously hinder access possibilities for developing countries. Progress in reducing protection in developed countries, and greater orientation toward ensuring international markets function efficiently have been insufficient. Support provided to farmers is currently less than in the 1980s, particularly when measured as a percentage of GDP. There has also been a reorientation of subsidy mechanisms toward the use of less distorting policies. Nonetheless, overall assistance levels to agriculture continue unabated, averaging US$ 315 billion per year in 2000-2002 (US$ 302 billion in 1986-1988). Producer support continues in the range of US$ 230 billion to US$ 240 billion per year, of which the majority (76%) continues to be linked to production levels, price support, payments per product or input subsidies (see table 7).

[6] ECLAC, *Latin America and the Caribbean in the World Economy, 2001-2002*.

Table 7

Agricultural support in OECD countries

	1986-1988	2000-2002
Total agricultural support (TSE) (millions of dollars)	**302 251**	**315 045**
Producer support (PSE) a/	240 859	234 686
General services (GSSE)	39 828	53 929
Fiscal transfers to consumers	21 563	26 431
PSE (percentage)	38	31
Producer NPC(index w.r.t. 1)	1.57	1.32
PSE per farmer (thousands of dollars)	10	11
PSE per hectare (dollars)	183	182

Source: OECD, Agricultural Policies in OECD Countries, 2003

a/ Includes, among other things, subsidies granted on the basis of production level, planted area, number of animals, levels of inputs used, incomes and landownership titles.

Note: PSE: Producer Support Estimate; GSSE: General Services Support Estimate.

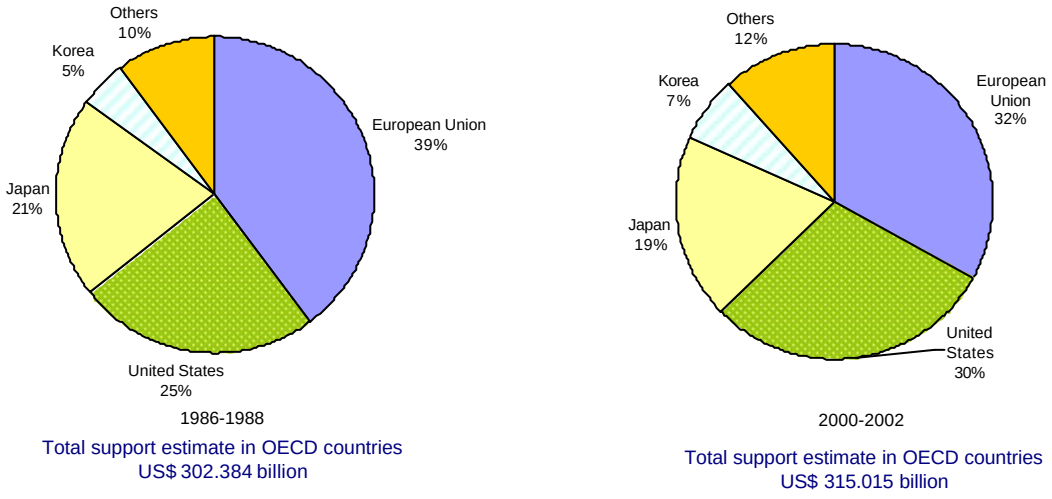
NPC: Nominal Protection Coefficient.

In 2000-2002 producer support accounted for 31% of farmers' incomes in OECD countries (38% in 1986-1988), with farmers in those countries receiving prices that were 32% above border prices (57% in 1986-1988). There are also major differences both between countries and between products.

The European Union and Japan broadly maintain their 1980s share of agricultural subsidies, in terms of both total assistance and producer support. Australia, New Zealand and Canada, among others, now account for a smaller share, whereas the shares of the United States and Korea have increased (see figure 11).

Figure 11

Agricultural support in OECD countries



Source: OECD, PSE/CSE database.

The proportion of farmers' incomes provided by support varies from under 5% in Australia and New Zealand to more than 60% in Iceland, Japan, Korea, Norway and Switzerland. The price supplement[7] received by farmers, over and above border prices also varies widely. In Australia and New Zealand, producers only receive border prices; in most OECD countries the prices received by farmers are between 10% and 20% above border prices; in the European Union they reach as high as 33% above; in Iceland and Japan, the prices received by farmers are more than double the level of border prices; and in Norway and Switzerland almost triple.

The average support provided to each farmer varies from about US$ 1,000 per year (Australia, New Zealand, Mexico and Poland) to over US$ 30,000 per year (Switzerland and Norway). Per hectare of agricultural land, the level of support varies from under US$ 5 per in Australia and New Zealand to more than US$ 2,000 per hectare in Switzerland and Norway, and about US$ 10,000 in Japan and Korea (see table 8).

Table 8

Agricultural support, by country

(2000-2002)

	Total support estimate *Millions of dollars*	Producer support *Millions of dollars*	PSE per farmer /a *Thousands of dollars*	PSE per hectare /b *Dollars*	PSE /c %	Producer NPC /d %
OECD	***315,045***	***234,686***	***11***	***182***	***31***	***1.32***
Australia	1,387	919	2	2	4	1.00
Canada	5,604	4,255	10	57	19	1.12
Czech Republic	940	840	5	196	23	1.17
European Union	103,849	92,296	15	670	35	1.33
Hungary	1,443	1,201	5	205	24	1.15
Iceland	143	125	27	65	63	2.33
Japan	60,168	47,824	23	9,828	59	2.37
Korea	20,887	18,088	23	9,307	66	2.78
Mexico	8,673	7,652	1	71	22	1.21
New Zealand	161	66	1	5	1	1.01
Norway	2,570	2,346	38	2,254	68	2.70
Poland (1)	2,343	2,088	1	114	15	1.17
Slovak Republic	352	309	3	127	21	1.12
Switzerland	5,144	4,673	30	2,958	73	2.91
Turkey	7,878	5,032	c.	125	18	1.19
United States	93,504	46,972	19	112	21	1.13

Source: OECD, *Agricultural Policies in OECD Countries, 2003*

a/ PSE per full-time worker

b/ PSE per hectare of agricultural land

c/ PSE: Producer Support Estimate

d/ GSSE: General Services Support Estimate

[7] Measured as the producer's nominal protection coefficient (NPC) calculated by the OECD.

Over half of all subsidies continue to be channelled towards the producers of the main cereal crops (rice, wheat and maize) along with milk and bovine meat producers (in the latter case the subsidies have actually increased in recent years). Nonetheless, also significant and growing, are the subsidies paid to producers of pig meat and chicken (see table 9).

Table 9

Agricultural support, by product

OECD countries

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002p
Rice	82.0	81.7	78.5	76.8	78.3	77.5	80.5	82.9	79.2	81.5	75.6	72.6	74.2	79.0	82.1	80.9	79.5
Refined sugar	57.5	57.0	46.7	37.5	41.1	51.8	56.0	50.5	48.6	37.2	41.4	43.0	49.8	64.6	49.9	44.8	47.7
Milk	65.6	59.6	51.0	49.6	61.0	58.0	57.1	56.8	55.2	49.6	48.6	48.8	57.2	53.1	44.9	46.1	48.3
Other grains	56.9	59.1	38.5	32.6	45.3	47.6	46.1	53.2	54.5	41.9	33.8	37.9	53.4	52.4	42.6	40.3	41.5
Wheat	49.8	52.4	39.8	25.0	37.3	49.6	38.8	42.5	40.7	28.6	24.5	29.7	40.4	45.7	39.9	35.9	36.3
Sheep meat	50.4	55.4	58.9	57.5	57.6	57.5	55.2	45.5	49.4	55.4	44.4	37.8	45.4	46.4	39.9	34.9	26.8
Bovine meat	35.9	30.7	28.0	27.8	29.7	33.2	31.1	27.9	28.3	32.0	33.6	35.9	35.1	34.1	29.8	31.2	37.5
Maiz	43.0	44.5	31.8	24.9	28.0	27.4	30.3	28.8	23.3	15.4	14.0	18.3	28.9	34.5	34.9	27.4	19.8
Others	31.5	30.4	28.1	26.4	27.4	29.9	29.0	30.4	29.1	26.7	24.5	23.0	26.2	27.5	26.3	25.3	25.4
Oilseeds	28.0	26.4	25.1	27.9	29.7	29.7	21.4	21.0	16.2	16.8	15.7	13.7	20.2	25.3	29.4	27.6	18.1
Pig meat	18.8	11.6	25.0	16.4	10.5	15.1	7.7	18.2	21.4	18.2	16.9	15.2	19.3	29.5	20.2	17.9	24.1
Poultry	15.6	23.8	19.6	18.1	21.0	20.3	23.1	21.5	22.2	22.5	20.1	16.8	15.0	16.4	17.1	15.1	17.7
Eggs	16.9	15.0	18.5	18.9	12.1	12.3	17.0	15.4	13.4	16.8	11.7	10.6	13.4	13.7	10.3	9.6	9.9
Wool	9.1	7.3	4.2	4.7	19.3	18.0	18.1	17.6	9.7	10.8	8.5	7.7	7.4	7.3	6.2	5.3	6.3

Source: OECD, *Agricultural Policies in OECD Countries, 2003* .

On average farmers in OECD countries obtain a large proportion of their income from support. In some products, the proportion is relatively small – up to 20% of total income (wool, eggs, chicken, pig meat); in other cases it amounts to about 25% (maize and oilseeds); in the cases of wheat, and bovine and sheep meat, support accounts for about one third of the producer's income; in the case of sugar it represents one half, and for rice producers over 80% of their income (see table 10 and figure 12).

Table 10

Producer support estimate (PSE)

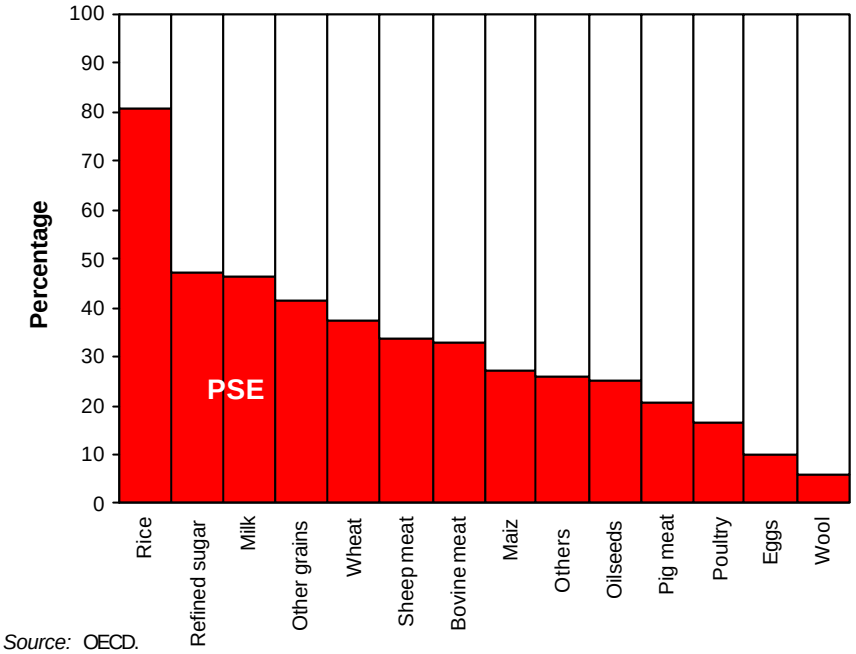
	1986-88	2000-2002
	(Millions of dollars)	
Total	240,859	234,686
Wheat	18,670	15,310
Maiz	12,694	10,640
Other grains	11,201	7,973
Rice	26,933	25,002
Oilseeds	5,386	6,462
Sugar	5,760	5,226
Milk	48,171	40,137
Bovine meat	22,175	26,264
Sheep meat	4,680	3,145
Wool	294	117
Pig meat	8,764	10,383
Poultry	4,895	6,144
Eggs	2,638	1,713
Others	68,600	76,169

Source: OECD, *Agricultural Policies in OECD Countries, 2003* .

Figure 12

OECD countries: agricultural support by product

(Average 2000-2002)



Source: OECD.

The difference between the average price received by farmers in OECD countries and the corresponding border price also varies greatly from product to product. Wool producers receive the border price only; in the cases of wheat, maize, eggs and sheep meat, income received is about 10% above the border price; for producers of pig meat, chicken and oilseeds, it is 20%. The largest differences are in milk (80%), sugar (90%) and rice (400%) (see table 11 and figure 13).

Table 11

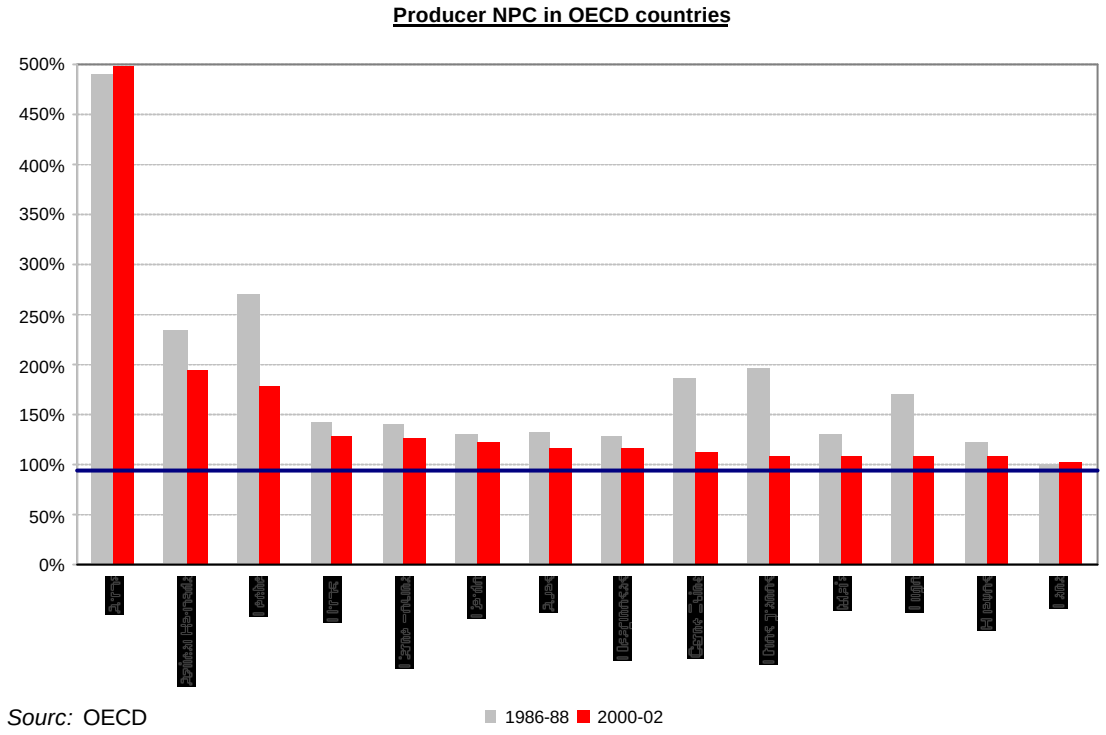
Producer NPC

(OECD countries)

Product	1986-88	2000-02
Rice	491%	498%
Refined sugar	233%	195%
Milk	270%	178%
Others	142%	127%
Bovine meat	141%	127%
Pig meat	130%	123%
Poultry	133%	116%
Oilseeds	127%	116%
Sheep meat	187%	111%
Other grains	197%	109%
Maiz	130%	109%
Wheat	169%	108%
Eggs	122%	108%
Wool	101%	102%

Source: OECD, *Agricultural Policies in OECD Countries, 2003*.

Figure 13



Sourc: OECD

As in the case of external debt, the negative impact of the asymmetries inherent in trade negotiations on agricultural products affect Latin American countries in particular (see chapter II).

G. THE COSTS OF UNDERDEVELOPMENT

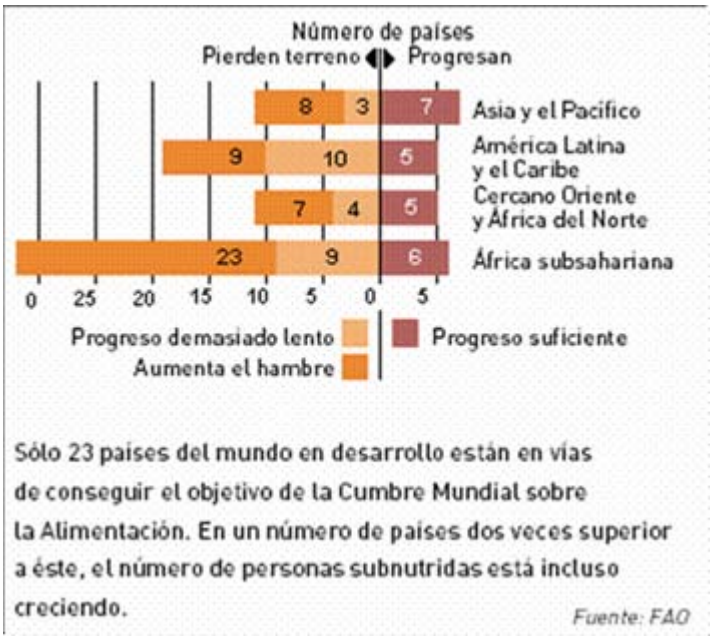
The difficulties facing developing countries in achieving a level of participation in the international economy that would allow sustained economic growth, serve to perpetuate living conditions that are totally at odds with the possibilities generated by technological progress and the living standards generally attained in developed countries. Much of the world's population continues to suffer from the effects of poverty, hunger, disease, illiteracy, environmental degradation and multiple forms of discrimination on a daily basis.

According to the conclusions of United Nations Millennium Summit, 1.15 billion people are currently living on less than a dollar day; and almost 2.8 billion live on less than two dollars a day. Up to 29% of the population of low- and middle-income countries live in poverty. The **Millennium Goals** proposed cutting this proportion in half (14.5%) by 2015. A recent World Bank study claims that for this to be possible, developing countries need to grow at an average rate of 3.6% per year. Yet, as noted above, annual growth has been below 2.0% in the 1990s.

There are 840 million undernourished people in the world, of whom 95% live in developing countries. The numbers of undernourished persons and underfed children in middle- and low-income countries have both diminished during the past decade; but these countries still contain 800 million undernourished people, including 150 million children.

Furthermore, the pace of progress has been slowing down. At current rates, it will be impossible to achieve the target of halving the number of undernourished people by 2015 (see figure 14).

Figure 14
Progress towards the target of the World Food Summit



One out of every six adults living in developing countries is illiterate. There are also 115 million children who are not being educated. At current rates of progress, only Latin America and the Caribbean within the developing world will achieve the goal of universal primary education by 2015.

Two thirds of illiterate persons are women, and three fifths of children without education are girls. The Millennium Goals also propose closing the gender gap in education by 2015.

Roughly 100 children out of every thousand live births in developing countries die before their fifth birthday; and more than 10 million children die each year from preventable diseases. At the current rate of progress, only Latin America and the Caribbean in the developing world look likely to achieve the target of reducing the infant mortality rate by two thirds.

Over 500,000 women die during pregnancy or in childbirth every year; as much as 99% of maternal mortality occurs in developing countries, and the vast majority of such deaths are the result of infections, haemorrhaging or badly attended abortions. The target of reducing maternal mortality by three quarters by 2015 is seen as feasible for Latin America and the Caribbean, but other regions of the world are a long way from achieving the rate of progress needed to fulfill this.

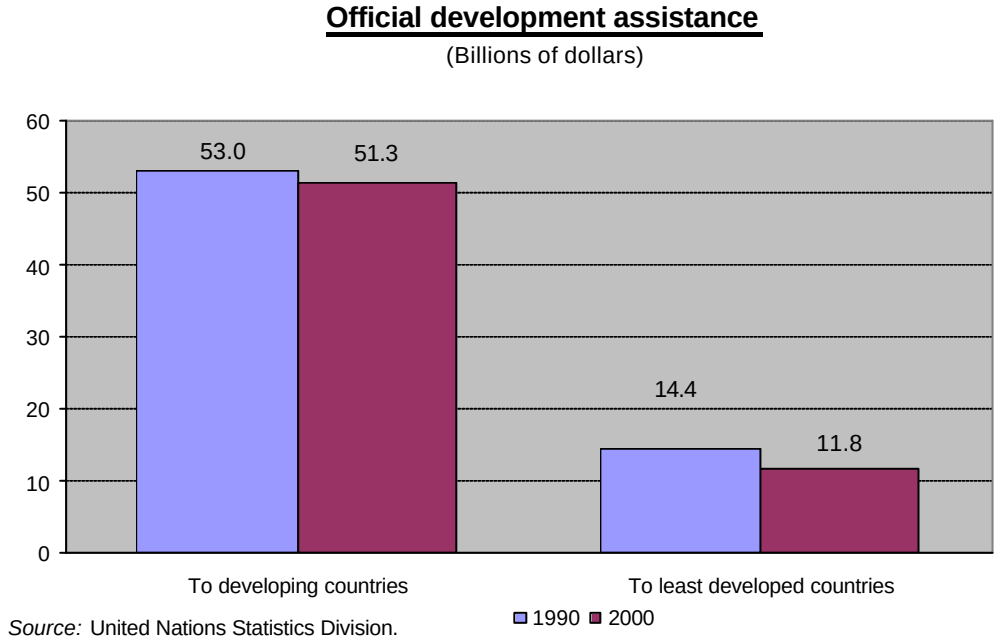
There are currently 42 million people in the world suffering from AIDS, of whom 39 million live in developing countries (nearly 29 million in Africa). This pandemic has already caused 60 million deaths (13 million in Africa); 3.1 million people died from this

cause in 2002 (2.4 million in Africa). The success achieved by Brazil and other countries, such as Senegal, Thailand and Uganda, shows that it is possible to detain the spread of HIV and bring the epidemic under control. Tuberculosis causes over 2 million deaths per year, mostly in Asia; malaria is an endemic disease in over 100 countries, and infects 300 million people per year, causing 1 million deaths annually. The Millennium Goals propose to halt and start reducing propagation of the main infectious diseases by 2015.

Over one billion people in developing countries lack access to potable water, and 2.4 billion do not have adequate sanitation services. The target of halving the percentage of people lacking drinking water seems achievable for the world at large, except for Sub-Saharan Africa. In contrast, on current trends, the goal of adequate sanitation for 100 million people is unlikely to be achieved until after 2015 in most regions of the developing world.

Eradication of hunger and poverty, together with sustained progress in terms of the quality of life for most of the world's population represents an enormous challenge both for the economic-growth strategies of developing countries and for the world institutional framework. The Millennium Development Goals include an eighth objective: to create a global partnership for development, with targets relating to assistance, trade, and debt relief (see figure 15).

Figure 15



Source: United Nations Statistics Division.

In a world order that is increasingly globalized and interdependent, it is essential to achieve coordinated international action on global-scope priorities. This has been clearly acknowledged in several domains, and has recently been forcefully verified in the fight against terrorism. Yet compared to terrorism, poverty causes far more deaths and harm to health, generates greater difficulties for economic and social progress, and provokes a form of violence which, albeit less spectacular, is no less serious in terms of human costs. Reducing the number of poor people in the world requires worldwide coordinated action in the fight against poverty. Fulfillment of Goal 8 to create a global partnership for

development, should be an essential priority for the international community, in order make progress in terms of social justice, and lay more solid foundations for consolidating peace, in an ever more closely knit and interacting form of coexistence (see table 12).

Table 12

Millennium Goal N° 8. Develop a global partnership for development

Goals
Target 12: Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally.
Target 13: Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.
Target 14: Address the special needs of landlocked and small island developing States (through the Programme of Action for the Sustainable Development of Small Developing Island States and the results of the Twenty-Second Special Session of the United Nations General Assembly).
Target 15: Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
Target 16: In cooperation with the developing countries, develop decent and productive work for youth.
Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
Target 18: In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies.