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World Economic Situation and Prospects 2001

UNITED NATIONS

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The following symbols have been used in the tables throughout the report

.. **Two dots** indicate that data are not available or are not separately reported.

– **A dash** indicates that the amount is nil or negligible.

- **A hyphen (-)** indicates that the item is not applicable.

- **A minus sign (-)** indicates deficit or decrease, except as indicated.

. **A full stop (.)** is used to indicate decimals.

/ **A slash (/)** between years indicates a crop year or financial year, for example, 1990/91.

- **Use of a hyphen (-)** between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

Reference to "dollars" ($) United States dollars, unless otherwise stated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

In most cases, the growth rate forecasts for 2001 are rounded to the nearest quarter of a percentage point.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

ACP	African, Caribbean and Pacific (Group of) States
ADB	Asian Development Bank
ADF	Asian Development Fund
BIS	Bank for International Settlements (Basel)
bpd	barrels per day
bps	basis points
CIS	Commonwealth of Independent States
CPA	Cotonou Partnership Agreement
CPI	consumer price index
DAC	Development Assistance Committee (of OECD)
ECB	European Central Bank
EMU	European Economic and Monetary Union
EU	European Union
FDI	foreign direct investment
f.o.b.	free on board
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
GWP	gross world product
HICP	Harmonized Index of Consumer Prices
HIPC	heavily indebted poor countries
IBRD	International Bank for Reconstruction and Development
ICT	information and communications technology
IDA	International Development Association
IFC	International Finance Corporation (World Bank)
IMF	International Monetary Fund
IT	information technology
M&As	mergers and acquisitions
MFN	most-favoured nation
NAFTA	North American Free Trade Agreement
NPL	non-performing loan
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
pb	per barrel
Project LINK	international collaborative research group for econometric modelling, coordinated jointly by the Development Policy Analysis Division of the United Nations Secretariat, and the University of Toronto
PRSP	Poverty Reduction Strategy Paper (IMF and World Bank)
SDRs	special drawing rights (IMF)
SOE	State-owned enterprise
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UN/DESA	Department of Economic and Social Affairs of the United Nations Secretariat
WTO	World Trade Organization

CHAPTER I: GLOBAL OUTLOOK

The world economic recovery that started in 1999 reached its peak before the close of 2000 but is expected to continue at least until the end of 2001, albeit at a slightly slower pace. The outlook is for global economic growth to moderate from 4 per cent in 2000 to 3.5 per cent in 2001, with the slowdown expected to be limited in extent and geographic scope (see table I.1).

Among the developed countries, the outlook for economic growth in the United States of America is less sanguine than in 2000, the expansion in Europe is slowing and expectations for Japan, although improved, continue to be modest. The overall result will be an easing of the high rate of growth achieved by the developed countries in 2000. On the other hand, the developing countries as a group are expected to sustain the momentum that they reacquired in 2000 and which is on a par with that of the mid-1990s. Within the group, it is expected that growth in East Asia will decline in 2001 as the high rate achieved by a number of countries in the region in 2000 returns to more sustainable levels. In other developing regions, growth is expected to be similar to, or better than, the improved level attained in 2000. It is therefore anticipated that, barring unforeseen shocks, the developing countries will play an important role in underpinning global growth in 2001. The forecast also points to some consolidation in the rapid growth that the economies in transition as a group achieved in 2000, but their collective performance is nevertheless expected to remain strong and to contribute to the resilience of the world economy (see chapter III).

There are a number of potential threats to this favourable outlook, including fragile current-account imbalances, higher oil prices, instabilities in financial and foreign exchange markets and excessively tight monetary policies. Any of these could lead to a more abrupt decline in economic activity, particularly in the major countries. At the same time, as reflected by the experiences of Argentina and Turkey at year-end, developing countries continue to be subject to the vagaries of the international financial system and these two cases could portend more widespread problems for developing countries and transition economies in the year ahead, particularly if any of the other threats materialize.

Economic growth in 2000 was unexpectedly and unusually high and widespread. The increase in gross world product (GWP) exceeded the earlier forecast of 3.5 per cent[1] and was the strongest in more than a decade. This outcome was the result of improvements in all major regions of the world and was associated with double-digit growth in the volume of international trade. There were only four countries (Côte d'Ivoire, the Democratic Republic of the Congo, the Republic of Moldova and Zimbabwe) that experienced a fall in gross domestic product (GDP) in 2000, by far the lowest number for more than a decade. Compared to 104 in 1999, 121 countries increased per capita GDP in 2000 (see table I.2). Of these, 73 were developing countries, compared to 60 the previous year.

THE STATE OF THE WORLD ECONOMY AT THE BEGINNING OF 2001

Following the sharp declines in output and trade resulting from the financial crises of 1997-1998, there was concern that the recovery might take a considerable time. However, the downturn was surprisingly short-lived as continuing vitality in North America and, to a lesser extent, Western Europe underpinned world demand. Once under way, the recovery in the crisis-affected countries unfolded quickly, although unevenly, in 1998 and 1999.

As the world entered 2000, the quickening revival in activity and trade continued. The improvements in growth during 2000 were widespread, but particularly marked in a number of developing countries and economies in transition. This vigorous performance was associated with a marked acceleration in the growth of international trade, but was also accompanied by a further widening in the external imbalances among the major economies. In contrast with the expansion in trade, capital flows to developing countries declined in 2000. Oil prices, which had more than doubled over the course of 1999, continued to climb in 2000. Some non-oil commodity prices, which had suffered precipitous declines in 1998 and 1999, also began to rise.

The continued buoyancy of the economies of North America and the unexpectedly strong recovery in many

1 See *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), p. 3.

Table I.1.
GROWTH OF WORLD OUTPUT AND TRADE, 1981-2001

Annual percentage change

	1981-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	2001[b]
World output[c]	2.9	1.0	1.8	1.4	3.0	2.7	3.5	3.4	2.0	2.8	4.0	3½
of which:												
Developed economies	2.9	1.1	1.8	0.9	2.8	2.3	3.1	3.0	2.2	2.6	3.5	3
Economies in transition	1.8	-8.0	-11.8	-6.7	-7.2	-0.6	-0.1	2.2	-0.7	2.1	5.3	4
Developing economies	2.3	2.9	4.8	5.2	5.5	5.0	5.6	5.4	1.6	3.4	5.6	5½
World trade[d]	4.5	4.3	5.7	4.6	10.5	8.6	5.5	9.2	3.3	5.8	10.7	8½
Memo items:												
World:												
Number of countries with rising per capita output	..	74	74	67	100	111	122	122	104	104	121	135
Number of countries in sample	..	129	140	145	145	145	145	145	145	145	145	145
Developing economies:												
Number of countries with rising per capita output	..	58	57	54	65	73	81	77	62	60	73	86
Number of countries in sample	..	95	95	95	95	95	95	95	95	95	95	95
World output growth with PPP-based weights[e]	3.0	1.0	1.9	1.8	3.8	3.5	4.1	4.1	2.5	3.4	4.8	4½

Sources: UN/DESA.

a Estimates.
b Forecast, based in part on Project LINK.
c Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are annual GDP valued at 1995 prices and exchange rates.
d Average of the growth rates of the volume of exports and imports for historical data.Only volume of exports data are used for estimate and forecast.
e Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars.

other developed market economies were important sources of the good performance in 2000. Most developed economies experienced an acceleration in economic growth in 2000. Robust consumption spending, growth in investment in information and communications technology (ICT) and related processes, and a rebound in exports bolstered economic performance in many of these economies. Unemployment rates fell, generally to the lowest level in many years, although they nevertheless remained above 10 per cent in France and Germany. Because of higher energy prices and, in certain cases, the build-up of pressure in labour markets and industrial capacity, consumer price indices rose in most developed market economies, but only to an average of 2 per cent (see table A.1).

The economic performance of the developing countries improved significantly in 2000, even though many of these countries experienced difficulties with their balances of payments as a result of higher oil prices. Aggregate output rose at a sharply higher pace than in 1999 in all main developing country regions except Africa, where the improvement was modest and the growth rate achieved was low, particularly in sub-Saharan Africa. This weak performance was attributable to, among other factors, adverse weather conditions, further declines in the prices of some agricultural commodities, and less progress in reducing conflict and political strife than anticipated. The overall upswing in the developing countries owed much to the recovery of several economies in Latin America from low or negative growth in 2000. The economies of West Asia, fuel-importing as well as fuel-exporting, also rebounded strongly while the East Asian countries that had been affected most by the financial crises in 1997-1998 reinforced their strong recovery. Demand for ICT-related exports from several of these countries by developed market economies, as well

Table I.2.
DEVELOPING COUNTRIES: GROWTH OF PER CAPITA GDP BY REGION, 1998-2001

	Number of countries monitored	Decline in GDP per capita				Growth of GDP per capita exceeding 3 per cent			
		1998	1999	2000[a]	2001[b]	1998	1999	2000[a]	2001[b]
	Frequency of high and low growth of per capita output (number of countries)								
Developing countries	95	33	35	22	9	28	23	26	39
of which:									
Latin America	24	8	12	6	1	7	5	5	4
Africa	38	11	13	9	3	11	6	8	16
Eastern and Southern Asia	18	9	2	1	1	7	10	11	15
Western Asia	15	5	8	6	4	3	2	2	4
Memo items:									
Least developed countries	40	14	15	10	8	10	5	6	10
Sub-Saharan Africa	31	8	11	8	3	8	4	6	11
	Percentage of population								
Developing countries	95	23.1	20.5	6.3	2.4	63.1	59.8	62.0	71.8
of which:									
Latin America	24	55.5	69.0	13.6	1.1	24.3	5.9	26.4	7.0
Africa	38	44.9	37.7	23.5	8.6	27.0	14.8	14.6	37.9
Eastern and Southern Asia	18	13.5	6.6	0.0	0.0	81.0	82.6	82.7	92.6
Western Asia	15	14.5	50.0	21.9	17.9	16.6	9.9	10.0	38.9
Memo items:									
Least developed countries	40	29.7	30.5	16.7	13.0	42.4	32.3	38.4	51.3
Sub-Saharan Africa	31	39.4	44.4	30.0	11.7	20.9	7.2	15.9	31.0

Source: UN/DESA, including population estimates and projections from *World Population Prospects: The 1998 Revision* (United Nations publication, Sales No. E.99.XIII.9).

[a] Preliminary estimates.
[b] Forecast, based in part on Project LINK.

as the mutual reinforcement of growth via trade linkages among these countries, played a major role. China returned to a growth rate of over 8 per cent whereas growth in India declined somewhat. Nevertheless, it remained sufficient to provide the Indian population with another annual increase in output per capita of over 3 per cent (see table A.5).

Despite the overall progress in the developing world in 2000, recovery from the setbacks in 1997-1999 remains incomplete: employment and real wages are recovering but have returned to pre-crisis levels in relatively few cases. It will also take some time before the broader negative social consequences of the crisis are fully corrected.

Growth in the economies in transition increased sharply in 2000. The strong recovery in the Russian Federation exerted beneficial effects on many of the neighbouring countries that continue to depend on the Russian economy for a substantial proportion of their trade. Similarly, the economic acceleration in Western Europe contributed to the improvement in growth in many European economies in transition, especially the ten that have been negotiating for accession to the European Union. The high rates of inflation in a number of CIS countries were reduced in 2000 but average price increases accelerated somewhat in Eastern Europe and the Baltic States. Discouragingly, the improvement in the growth of output was not accompanied by any significant inroads into the high levels of unemployment that characterize most of these countries (see table A.3).

Two supply-side factors played an important role in moulding global economic performance in 2000. The first was the negative supply shock stemming from the increase in oil prices to levels not observed for a decade. This had significant negative effects for net fuel-importing countries.

Oil prices were particularly volatile in the second half of 2000 and reached about $38 per barrel (pb) in September 2000. On average for the year, prices increased by about 60 per cent from 1999 to 2000. As a result, the total bill for oil imports in the net fuel-importing developing countries[2] increased from some $100 billion in 1999 to almost $160 billion in 2000. This increase is equivalent to about 1.3 per cent of the GDP for this group. With net capital flows to all developing countries decreasing in 2000 (see chapter II), the majority of fuel-importing developing countries had to meet this increased cost either by using foreign exchange reserves or by reducing other imports. The resulting crowding-out of consumption and investment represents the welfare loss to these countries of the increase in the oil price.

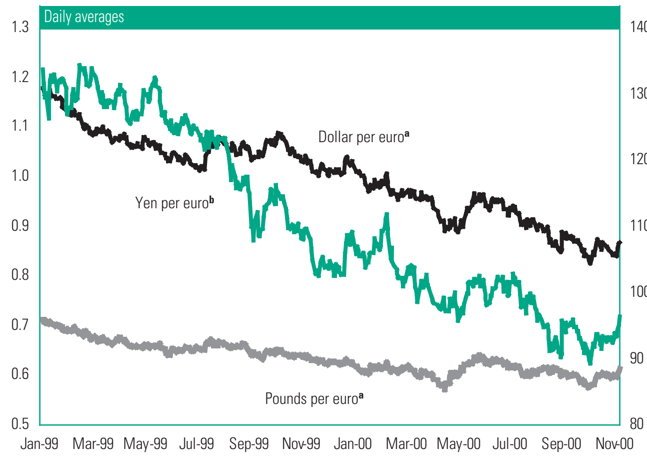
As discussed in detail below, the second supply-side factor that played a role in 2000 was the continuing impetus of investment and expenditure on ICT innovations and products, particularly in the United States but also in a number of other developed and developing countries. One result, especially for the developed countries, was to raise the potential rate of sustainable growth by increasing productivity growth. For the developing countries, notably the more advanced countries of South and East Asia, the primary benefit was the export opportunity that this created. This served as a beneficial post-crisis boost to demand, although it had lost its momentum by the end of 2000.

A further major characteristic of 2000 was the instability in foreign exchange markets for major currencies, with the erosion of the value of the euro being the most notable development. At the beginning of 2000, the United States dollar, which had been appreciating with respect to most other currencies since the Asian financial crises, was expected to soften as a result of the large current-account deficit of the United States and the expectation of a "soft landing" of the United States economy. However, the dollar continued to appreciate vis-à-vis other major currencies, with the exception of the yen, during 2000.

The appreciation of the dollar intensified in the third quarter. The threats posed by increasing oil prices and doubts about the ability to control inflation in Europe without jeopardizing growth caused a mini currency crisis in September. When the euro slumped to around $0.85 in mid-September, several major central banks, including notably the Federal Reserve of the United States, undertook a joint intervention in currency markets on the initiative of the European Central Bank (ECB). For a short while, the euro improved against the United States dollar. Subsequently, however, it slumped again (see figure I.1). This renewed weakness did not elicit another coordinated intervention, although the ECB intervened in foreign exchange markets on its own three times in early November 2000. There was also an appreciable erosion in 2000 in the value vis-à-vis the dollar of a number of other currencies, notably those of Australia, New Zealand and a few other Asian countries.

2 Excluding China (which has recently changed from being a net fuel-exporting country to a net importing country).

Figure I.1.
SELECTED BILATERAL EURO EXCHANGE RATES, JANUARY 1999-NOVEMBER 2000



Source: Eurostat.

a Left axis.
b Right axis.

Although earlier forecasts for a recovery of the euro against the United States dollar have proven wrong, a rebound of the euro continues to be deemed likely for several reasons. First, the gaps between the United States and the euro area in both growth rates and expected yields are forecast to narrow, causing capital outflows from Europe to the United States to decline. Second, corporate restructuring has gathered pace in Western Europe and various reforms and deregulations, including in labour markets and pension arrangements, have been ongoing. In time, these measures should improve Europe's competitive position and benefit the euro. Finally, inflation differentials between the United States and the euro area are expected to be in favour of the euro.

Higher energy prices contributed to a build-up in inflationary pressures in some countries, as manifested in a pick-up in "headline inflation rates". In order to avoid a resurgence of underlying (or "core") inflation rates, monetary authorities in North America and Europe continued tightening of monetary policy by increasing short-term interest rates further during 2000. The year ended with few signs of major acceleration in the underlying pace of inflation.

In spite of the global economic expansion and the substantial economic recovery in emerging market economies, private international financial flows have not revived. Investors continue to be hesitant, as reflected in the fact that risk premia on developing country borrowing remain higher than prior to 1998 (see chapter II). In addition, although global foreign investment flows continued to increase rapidly, those to developing countries stagnated in 2000. As the year progressed, there were signs of financial instability in some emerging market economies and greater risk averseness on the part of international investors. Notably, despite financial restructuring and reform, there continued to be weaknesses in the financial sector and in the balance sheets of corporations in some East Asian countries. At the same time, concerns also arose about corporate-sector debt in some developed countries, particularly the United States, and the risk premium in corporate financing in those countries also increased.

As 2000 progressed, the anti-inflationary policy actions, higher oil prices and unsettled financial markets slowed the momentum of the expansion. By the end of 2000, there were signs that the growth of production and spending in the developed countries was levelling off: industrial production slackened somewhat and corporate earnings, especially in the "new economy" sectors of high technology, proved to be disappointing. The climate for investment became less favourable as interest rates rose, equity prices reversed their extraordinary rise, and corporate and household balance sheets began to reflect the more restrictive monetary policy introduced previously.

At the start of 2001, there are signs that the acceleration phase of the upswing is coming to an end. In the event that there is an unduly rapid reversal, conditions allow for an easing of fiscal and monetary policy stances in most developed economies: core inflation rates and inflationary expectations are low, labour market conditions are becoming less tight in North America and remain so in Europe, there is continued strong underlying productivity growth in many countries, and less strain on capacity. In 2001, there would be little risk in loosening tax and public spending measures and monetary and credit conditions if necessary to maintain a high level of output. Despite the scope for relaxing policies, only minor changes in the policy stances in major countries and regions of the world economy were assumed in making the forecast for 2001 (see box I.1).

UNCERTAINTIES AND RISKS IN THE OUTLOOK

Within the optimistic outlook, financial markets and oil prices present the greatest downside risks. There are also upside risks that revolve around the intensification and spreading of the productivity gains from ICT. If, however, the productivity impetus attributed to ICT has been largely pro-cyclical and due to rapid capital deepening, a slowdown in economic activity, together with a downturn in investment, might be aggravated by a reversal in the ICT sector.

The danger of a hard landing for the United States

The increasingly large trade and current-account imbalances among major countries are not sustainable and, at some stage, will be unwound. It would be preferable if this were achieved in an orderly, rather than precipitous manner, thus leading to a "soft landing". However, in 2000, the deficit of the United States widened further. In addition to being a risk to global economic stability, this deficit is financed by global savings, reducing the access of other countries to international finance.

A loss of confidence in the United States economy or a similar source of turmoil in financial markets could reduce or even reverse the capital flows that are financing the country's trade deficit. Such a "hard landing" for the United States would affect the global economy through various channels. By cutting United States' import demand, it would reduce export opportunities and thus curtail effective demand in other countries. Secondly, the United States dollar would depreciate and, since a large proportion of international financial assets are dollar-denominated, this would have a disruptive effect on international financial markets. Any turmoil on global financial markets would adversely affect almost all economies, either directly or indirectly. Within the United States, a decline in capital inflows, particularly if combined with higher market interest rates, could produce a credit crunch. Finally, private sector savings in the United States, especially by households, has reached a very low level while household and corporate sector indebtedness has become high. If a loss of confidence caused economic actors in the United States to rebuild their savings, domestic demand would be further curtailed, with ripple effects for other countries.

Related to the "hard landing" scenario, previous forecasts have referred to the possibility of a major correction in world equity markets, particularly in the United States, as an important downside risk.[3] There was a correction in 2000, albeit not of the magnitude that was visualized in the earlier analysis. A continuation of this downward trend in 2001 remains a possibility, but its magnitude and consequences seem likely to be less than earlier feared. The correction during 2000 has shaken many excesses out of equity prices while at the same time the economy has recorded another year of high growth, providing a firmer foundation for the lower prices. Nevertheless, a further deterioration in perceptions regarding prospects would aggravate the downturn in equity markets and would accelerate the slowdown in global growth. While growth in developing countries would be adversely affected, the improvements in their economies and in their financial sectors would make most developing countries somewhat less vulnerable—although not impervious—to such a shock than they would have been one or two years ago.

Oil prices

One uncertainty at the global level for the outlook for 2001 is the price of oil. A major downside risk is that oil

3 See *World Economic and Social Survey, 1999* (United Nations publication, Sales No. E.99.II.C.1), pp. 12-13.

prices will be higher than anticipated in the outlook which, taking into account OPEC's declared price target range of $22 to $28 pb, assumes that there will be a decline in average oil prices in 2001 compared to 2000, followed by stability (see box I.1).

Nevertheless, it has to be recalled that all three previous major oil shocks (1973-1974, 1979-1980 and 1990) led to a marked slowdown in global economic growth; some even induced recessions in some developed economies. If there is a sustained increase in the price of oil, many of the mechanisms that produced these outcomes can be expected to operate in a similar fashion today, but there would be differences in the magnitudes and distribution of the effects.

In the first instance, there will be a difference in the impact of an oil price shock on various country groups. The direct welfare loss from the income effects of increased oil prices for net fuel-importing countries, as described above, differs from country to country and depends on the share of oil in total consumption. Energy-saving measures undertaken in many developed economies in the wake of earlier oil shocks and changes in the structure of production, towards service sectors in particular, have made output in these countries less energy-intensive and will correspondingly reduce the adverse direct impact of any oil shock. In contrast, the industrial expansion in many developing countries during the past decade has been energy-intensive. As a result, for any given oil-price shock, these countries will experience a larger adverse effect than during earlier episodes.[4]

As a result of these developments, the geographical distribution of oil consumption has undergone major changes. Oil consumption in developing countries and in economies in transition has grown significantly, whereas the level of oil consumption in developed economies has remained at a relatively stable level (although it continues to account for a major share of the total). The United States is still the largest per capita consumer of oil and, in absolute terms, will be the most affected by increased energy prices. However, per capita consumption in Asian developing economies has increased significantly, making them more vulnerable than previously to increases in prices and, in several cases, more affected than other countries in relative terms.

A review of the past three large oil shocks suggests that the negative indirect consequences are likely to be larger than the direct effects. The indirect effects stem from a sharp collapse of consumer and business confidence brought about by the higher prices. In both 1973 and 1979, the index of consumer confidence in the United States dropped by more than 50 per cent when oil prices stayed at their peak levels for about 6 to 12 months. In both instances, this loss of confidence resulted in a recession in the United States, to the detriment of growth in the world economy as a whole.[5] For some net fuel-importing developing countries, higher oil prices might also trigger financial instability, for example a currency crisis, severely damaging short-term prospects.

If oil prices average above $30 pb in 2001, such indirect mechanisms would reduce world economic growth below the forecast. However, in the light of their behaviour in the final weeks of 2000, oil prices seem unlikely to increase to such an extent or for such a long period of time in the near future. The prospect of lower oil prices is boosted by the slowing world economy, particularly since it is centred in the United States, the major oil-consuming country; slower growth will moderate demand for oil, including speculative purchases in anticipation of further price rises. In addition, governments in developed countries have shown a willingness to release oil supplies from strategic reserves in order to contain an excessive run-up in prices.

Managing fiscal imbalances

Fiscal deficits and public debts accumulated by Japan and several developing countries and economies in transition to expedite their recovery from the consequences of the financial crises need to be corrected, preferably when increases in domestic demand, business investment and consumer spending, rather than policy measures and export growth, underlie economic activity. Such a transition is important in order to avoid aborting the recovery in these countries, but also to sustain global growth.

However, it is a challenge for economic policy makers who have taken measures to stimulate their countries' economic recovery to determine the timing for changing these policies to a neutral, or even restrictive, stance, in order to address the large fiscal imbalances. Withdrawing the stimulus policies too soon may impede recovery in employment and private consumption, which usually lag the recovery part of the cycle. On the other hand, maintaining such policies for too long can lead to economic overheating and growing budget deficits, creating inflationary pressures. Such developments in turn would need to be countered through monetary tightening and/or fiscal consolidation, exacerbating any downturn.

An ICT cyclical correction

Another risk is the possibility of a cyclical downturn in ICT-related investment. All types of fixed investment

4 See also *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), box II.2, p. 48.

5 A DESA simulation suggests that, if there were the same decline in consumer sentiment today, growth in the United States would decline by more than 2.5 percentage points from the baseline, verging on a recession. The ripple effects throughout the world economy would reduce global GDP growth by two percentage points.

BOX I.1: ASSUMPTIONS OF THE FORECAST

The preliminary results for 2000 and forecasts for 2001 are based on country monitoring by the Secretariat, as well as the consistent set of data emerging from the Project LINK forecasting exercise. The latter's outcome depends on assumptions regarding key policy measures; these in turn are based on the broader monitoring by the Secretariat. The detailed country-specific assumptions made to generate the LINK forecasts are available from the web site (www.un.org/esa/analysis/link), but the most important are as follows:

1. Monetary policy

- Monetary policy in most developed countries will be kept at the stance prevailing at the end of 2000. The Federal Reserve of the United States will hold interest rates steady throughout the forecast period;
- The European Central Bank (ECB) is assumed to raise its policy rates by 25 basis points (bps) in the first quarter of 2001 and thereafter hold rates steady.
- The Bank of Japan is anticipated to raise its rates by 25 bps in the first half of 2001.
- Monetary policy in developing countries and economies in transition that still had high interest rates in 2000 and only a tentative economic recovery will be further eased. For countries of this group with strong economic growth in 2000, especially those that target inflation or peg their exchange rate, interest rates are expected to be increased.

2. Fiscal policy

- Japan: the baseline assumes that Japan will not introduce another policy stimulus package.
- Other developed countries: because of increased budget surplus, fiscal policy in most developed countries is expected to be mildly expansionary as various tax cuts and some incremental spending plans have been proposed or already approved in several countries.
- Developing countries and economies in transition: assumptions vary from country to country, depending upon recent fiscal performance and growth outlook, but mild restraining or less stimulus should be the general trends, given that the majority of these economies are facing budget deficits, which need to be reduced through fiscal consolidation.

3. Exchange rates

- United States dollar vs. euro: given expected growth and interest rate differentials, the euro is expected to start to appreciate at the beginning of 2001 to reach $1.14 by the end of 2002.
- United States dollar vs. the yen: the rate is assumed to remain steady on average at 107 yen to the dollar throughout the forecast period.
- Developing countries and economies in transition: those with a fixed exchange rate regime are assumed to preserve nominal rates while those with a flexible exchange rate regime are assumed to maintain real exchange rates throughout the forecast period, with some variations depending on individual country situations.

4. Oil and non-oil commodity prices

- Oil prices: will stay at $30 pb until the spring of 2001 and thereafter decrease gradually to $27-$28 pb by the end of 2001.
- Metals and industrial raw materials: prices will remain flat at levels observed in late 2000.
- Foodstuffs and agricultural products: prices remain at the average levels observed for 2000.

5. Capital flows to Emerging Market Economies

- The baseline forecast assumes that such capital flows will increase modestly in 2001. External financing conditions for emerging market economies will remain as constrained as recently observed. However, the foreign debt situation of these economies is expected to improve further. Net foreign direct investment inflows will remain the dominant financing instrument.

tend to be pro-cyclical and ICT-related investment is unlikely to be an exception. It must therefore be expected to fluctuate over the full business cycle and, given its widespread and growing role, this could result in short-term cyclical turns for the global economy.

While the ICT revolution holds substantial potential for longer-term growth, expectations in the recent past have been over-optimistic, resulting in ICT-related "bubbles". The large correction in the value of many ICT stocks in world equity markets since the spring of 2000 has already dampened the earlier optimism about the potential of ICT and ICT-related investment is likely to slow accordingly. Nevertheless, such investment has been running at very high levels for the past few years and the general economic slowdown is likely to reduce this to more moderate—but not low—levels. In an increasingly competitive environment—which is likely to become more competitive in a slowing world economy, ICT-related investment plays a crucial role in raising productivity and must therefore be expected to continue. At the same time, even a slowdown in the rate of growth of such investment could result in short-run overcapacity in the sector, as indicated, for example, by the large fluctuations in the prices of semiconductor products. If these prices were to drop even further because of excess capacity created during the recent ICT "bubble period" or because of a fall in demand with the economic downturn, the impact on economies that depend heavily on exports of such products, notably those in East Asia, would be considerable.

The potential of ICT

Investment spending on computer equipment and software, the Internet, and telecommunications is expected to continue and to provide a stimulus to the global economy over the next few years, although not on the scale of the recent past. So far the bulk of total ICT-related investment has been concentrated in developed economies, where it has been growing at a double-digit rate, but more and more developing economies and economies in transition have also been speeding up their investments in these activities.

Whether the recent changes in computers, software and the internet amount to a true "industrial revolution" with a "new economy" is a hotly debated topic, including among economic specialists.[6] Nevertheless, the most recent measurements provide additional evidence of the continued rise in productivity growth in the United States, with a growing, if still small, component attributed to the ICT "productivity revolution." The rise in the trend of productivity growth implies that, with appropriate policies, the United States economy can now be sustained along a growth trajectory that is more than one percentage point above that observed during the preceding two decades without igniting any significant inflation.[7]

A similar acceleration in productivity growth has not yet been measured in official aggregate statistics for other developed economies, largely because both the development and application of ICT have been lagging that of the United States by several years. However, some recent studies indicate that, if the latest revision in statistical methodology of the United States is applied to major Western European economies, such as Germany, a rise in productivity growth due to ICT is evident.[8] There are also tentative signs of similar gains for Australia and New Zealand and perhaps Japan. Generally, the difference in productivity growth between Western European economies and the United States is probably narrower than the official data suggest.

With appropriate policies, these gains should in time also spread to developing economies, in the first instance those most advanced in their level of technological sophistication. The East Asian economies have already been benefiting from ICT exports in their economic recovery, but productivity gains beyond the ICT-producing sectors have not yet been documented.

In the optimistic scenario of the "new economy," the further diffusion of the ICT revolution will improve the way in which economic resources can be utilized. Extending the productivity boost from the ICT revolution to a broader range of countries would increase the potential non-inflationary growth of the world economy for some time to come. Further productivity and trade gains from ICT for a growing number of countries are an element in the optimistic outlook for the near term. Nevertheless, various factors have to coalesce for other countries, including other developed countries, to emulate the recent improvement of productivity growth in the United States. The spread of ICT-led technological innovation to more countries depends on sustained capital deepening through increased investment. Technological innovation and assimilation are also contingent on steady improvements in the quality of labour through education and training. At the global level, the efficiency gains from further global economic integration need to be captured by a larger set of countries.

Despite its potential, ICT is not a panacea and will have to be complemented with sound policies and continued economic reform. Sustaining structural reforms in some of the emerging market economies that were most affected by the financial crises of 1997-1998 has been difficult, but persistence with these efforts, as well as structural reforms in a wide swathe of other countries at various levels of economic development, continues to be needed. A large number of countries, especially in sub-Saharan Africa, continue to lag in their economic modernization and structural change. How to pull them into the mainstream of sustainable growth so that they can contribute to and benefit from global economic expansion, including the ICT-revolution, remains a challenge to and obligation for the international community. Nevertheless, with adequate international cooperation, continued economic reforms and higher productivity growth spreading through the world economy, the improved rate of growth envisaged for 2000-2001 might be feasible for some time to come. If realized, global economic performance in the new decade would be some 0.50 to 0.75 percentage points above the average growth observed in the 1980s and 1990s, albeit still below the averages of the 1950s and 1960s.

6 For different views in the debate, see, for example, Robert J. Gordon, "Does the 'new economy' measure up to the great inventions of the past?" (Cambridge, Massachusetts: National Bureau of Economic Research, Working Paper 7833, August 2000); Stephen D. Oliner and Daniel E. Sichel, "The resurgence of growth in the late 1990s: is information technology the story?" *Journal of Economic Perspectives*, Vol. 14, No. 4 (2000), pp. 3-22.

7 See *World Economic and Social Survey 2000*, op. cit., p.26.

8 Two recent studies have reported the "arrival of the new economy in Germany." See Deutsche Bank, *Economics Weekly*, 8 September 2000, pp. 8-13, which reports on an investigation by Deutsche Bank; and Ibid., 25 August 2000, p. 5, which summarizes a study undertaken by the Bundesbank. Also the European Commission recently reported the impact of ICT on productivity growth, albeit with great variations among the 15 member States (*European Economy, No. 71, 2000* (Luxembourg: Office for Official Publications of the EC, 29 November 2000).

CHAPTER II: INTERNATIONAL TRADE AND FINANCE

As the tempo of world production accelerated in 2000, exports and imports of all groups of countries increased at significantly faster rates and the pattern of world trade became more balanced among countries. Developing countries' trade rose significantly faster than that of the developed economies and the economies in transition and helped support the current global expansion. In this regard, developing countries served both as a strong market for rising exports and as a prime source for imports of primary products and final manufactures. The worldwide rise in production and trade strengthened primary commodity markets, with increases in the value and volume of exports of non-fuel primary products; prices for petroleum, which had increased substantially in 1999, continued to climb in 2000 but retreated towards the end of the year. Net financial flows to developing and transition economies fell in 2000, but official flows increased moderately and there were higher, if small, net inflows of portfolio investment. Progress on debt relief was limited. Foreign direct investment flows reached a new record in 2000, but the increase was fully accounted for by flows to developing countries, with the surge in mergers and acquisitions serving as the driving force.

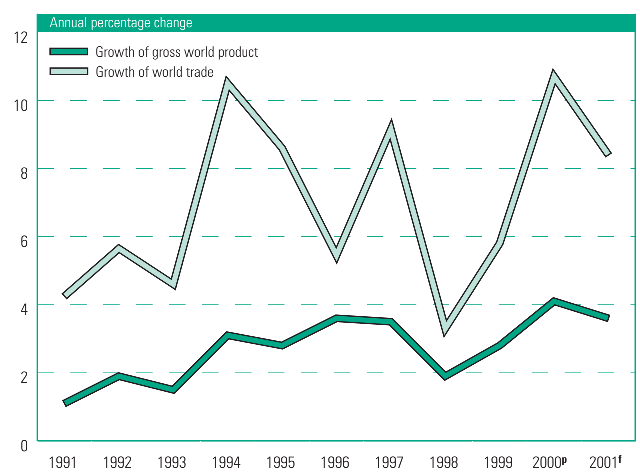
The more rapid and even expansion of trade improved the prospects for continued world economic growth in 2001. However, continuing large payments imbalances among major trading countries and the difficulties experienced by some developing countries in obtaining finance on world markets despite their improved economic fundamentals highlight the need for further action to ensure that international financial markets support the long-term development of the world economy. Similarly, the decline in exports and the slow growth in imports of the least developed countries (LDCs) in 2000 point to the importance of improved access to markets and enhanced assistance to address the special trade problems of these countries, as well as further policy measures in the countries themselves.

A STRENGTHENING AND BROADENING EXPANSION IN INTERNATIONAL TRADE

Main features of the current recovery in international trade

The growth of international trade accelerated and broadened in 2000 from the uneven recovery that had taken place in 1999. The volume of world merchandise imports surged almost 11 per cent in 2000, the highest rate recorded in the past decade (see figure II.1). Import demand remained exceptionally robust in North America, strengthened among the developed economies and increased rapidly across the developing countries and the economies in transition. The rise was particularly strong in Latin America and the Caribbean and in the Russian Federation, where imports had declined significantly in 1999, and in South and East Asia, where economic activity and international trade continued to recover from the effects of the financial crisis of 1997.

Figure II.1.
GROWTH OF WORLD OUTPUT AND TRADE, 1991-2001



Source: UN/DESA.

In terms of exports, the main beneficiaries of the strengthened revival in world trade were South and East Asia and China, where the volume of merchandise exports increased by 13½ and 21½ per cent respectively, and North America, Western Europe and Central and Eastern Europe, all regions where exports rose more than 10 per cent in 2000. Exports from North Africa and the Russian Federation recovered from the declines in 1999, while Latin America maintained the previous pace of export expansion. Export growth in Africa, however, remained slow, especially in sub-Saharan Africa, where the increase in exports was only 2 per cent in 2000, less than in 1999 (see table A.7).

The expansion of the volume of world trade encompassed primary commodities as well as manufactures, with exports of agricultural commodities rising over 10 per cent in 2000 and the volume of metals, minerals, and other kinds of crude materials increasing 8 per cent (see table II.1). Countries in which manufactures provided a major share of exports benefited most from the more buoyant international economy as trade in those products surged over 11½ per cent in 2000. Prices in the petroleum sector continued to climb sharply as the volume of oil traded on international markets grew only slowly.

Table II.1.
GROWTH OF WORLD MERCHANDISE TRADE BY BROAD COMMODITY GROUP, 1999-2001

Annual percentage change	1999	2000[p]	2001[f]
Value of trade			
Food, beverages and tobacco	-1.4	9.2	7.6
Raw materials	1.6	11.1	7.3
Mineral fuels	31.3	58.1	-3.5
Manufactures	2.7	8.4	12.5
World merchandise trade	3.8	12.1	11.5
Volume of trade			
Food, beverages and tobacco	16.2	10.5	3.0
Raw materials	7.6	8.0	4.9
Mineral fuels	-6.2	1.5	1.5
Manufactures	5.8	11.6	8.6
World merchandise trade	5.8	10.7	8.4
Unit value of trade			
Food, beverages and tobacco	-14.8	-1.1	4.5
Raw materials	-5.6	2.7	2.3
Mineral fuels	40.0	56.5	-5.0
Manufactures	-3.0	-2.9	3.6
World merchandise trade	-1.9	1.3	2.9

Source: UN/DESA

p Preliminary.
f Forecast.

The general level of prices of all traded goods on world markets in 2000 rose less than 1½ per cent. This was mainly attributable to a continued softening of average prices when denominated in United States dollars of non-fuel internationally traded goods. Among non-fuel primary commodities, however, the index of average dollar prices for broad categories of non-fuel primary commodities masked marked differences in trends in the price of individual basic commodities (see table A.8). Dollar prices for such metals as nickel, aluminium and copper, for example, continued to strengthen in 2000; similarly, those for some foods and raw materials (such as sugar, soya bean meal and groundnuts, and cotton, rubber and wood), which had fallen in 1999, responded to the upswing in world economic activity with large increases. Prices of other non-fuel primary commodities, such as coffee, rice and various animal and vegetable oils, continued to fall on world markets in 2000, in some cases by 10 per cent or more. Reflecting continued decline in the costs of producing computer, telecommunications and other kinds of equipment, the average dollar price of manufactured goods exported by developed countries fell 3 per cent in 2000, the same as in 1999. These varied changes in the prices of different categories of traded goods led to significant changes in the terms of trade of different groups of countries classified by export orientation and geographic area.

As a result of the more even distribution of world export growth over countries and regions and improvements in the terms of trade of some developing countries, the purchasing power of exports and the pattern of world import absorption became more balanced in 2000 between the developed and the developing countries. Measured in current prices and exchange rates, the share of the value of world imports accounted for by developing countries rose 1 percentage point in 2000 to about 29 per cent. Much of the increase occurred in South and East Asia and in China, where continuing strong thrusts of export expansion more than compensated for small declines in the terms of trade. These countries raised their shares of both world exports and world imports to about 15 per cent. In the petroleum- and mineral-exporting countries of Latin America, Africa and West Asia, significant increases in the purchasing power of exports were the result of more modest increases in export quanta but large increases in the average unit values for their exports. In these regions, however, import demand lagged behind the rise in purchasing power, and larger trade surpluses or smaller trade deficits emerged in these countries in 2000.

The trade surpluses of the fuel-exporting countries, including the Russian Federation and Norway, widened in 2000 as a result of further increases in oil prices. Similarly, the strengthening in prices for some food and other agricultural products reduced trade deficits or enlarged trade surpluses in a number of developing countries. In contrast, the continuing decline in the unit value of manufactures traded on world markets has reduced both the terms of trade of many countries in South and East Asia that export these goods as well as their trade surpluses.

On balance, the growth and change in the commodity composition and pricing of merchandise trade in 2000 raised the global trade surplus of developing countries and economies in transition from less than 1 per cent of world exports in 1999 to almost 2½ per cent in 2000. The United States market absorbed much of the increase in net exports as the appreciation of the dollar and a rapid rise in its economic activity led to an extraordinary increase in its imports, with its trade deficit widening to account for over 7 per cent of the value of world exports.

The depreciation of the euro dampened import growth and reduced the dollar value of the trade of countries whose currency fell in value with respect to the United States dollar. For this reason, when measured in dollars, the nominal increases in exports and imports of the European Union were less than their volume increases, and the overall trade balance of these countries remained in surplus as the volume of their exports was boosted by the depreciation of their currency.

Factors affecting trade in main world regions

Contrasting rates of domestic economic growth, changes in exchange rates and changes in the relative prices of internationally-traded goods led to contrasting rates of export and import growth among the main regions of the world (see table A.7). Moreover, the large trade imbalances among major groups of countries continued to widen in 2000.

The growth in the volume of merchandise imports of the developed market economies increased to almost 9 per cent in 2000. The increase in volume of real exports of these countries accelerated even more rapidly, almost doubling the 5.3 per cent increase recorded for 1999. Measured in current United States dollars, the share of this group of countries in total world imports fell one percentage point to 68 per cent. Sales to the United States provided the most dynamic export opportunities, with a strong dollar and robust domestic demand driving up the volume of imports substantially in 2000. By comparison, the growth in import demand in Europe was moderate, largely because the weak euro dampened demand for products from outside the euro area. With full economic recovery proving elusive, imports into Japan increased less rapidly than in any other major economic area.

Import demand and export deliveries in the economies in transition in 2000 recovered sharply from the declines in trade in 1999 following the Russian financial crisis. A notable feature of the trade of Central and Eastern European countries was the increase in their exports as a result of the acceleration in growth in the European Union in 2000. The Czech Republic, Hungary, Poland and Slovakia, in particular, have benefited from increased demand from Austria, France and Germany, while countries in southeastern Europe benefited from expanding trade with Greece and Italy. Foreign-owned companies in the economies in transition have played an important role in promoting exports to their home countries, resulting in substantial gains in intra-industry trade. In the case of the Russian Federation and several other CIS countries, export receipts swelled in 2000 owing to higher prices for petroleum. The improvement in the export earnings of the economies in transition, especially of those countries for whom petroleum is a major export, bolstered their purchasing power on world markets and their import demand increased by more than the world average.

Import demand in many developing countries remained stagnant or declined until late 1999 in the wake of the earlier financial crises. The early recovery in aggregate output in developing countries relied overwhelmingly on exports to developed countries and on domestic policy measures designed to stimulate the economy, and was usually accompanied by pressures to reduce any current-account imbalances and to replenish foreign exchange reserves. Since early 2000, when the recovery firmed and spread to domestic demand, import demand has begun to recover in response to the acceleration in domestic investment and private consumption. Strong export volume growth and an improvement in the terms of trade allowed many of these countries both to increase imports and to continue to replenish foreign reserves in 2000.

Within the developing world, countries in Asia and Latin America and the Caribbean provided the strongest export drive and import absorption. Imports into South and East Asia and into China in 2000 surged at rates in excess of 15 per cent and 25 per cent, respectively, as the recovery phase of these economies matured and their export expansion accelerated in response to the improving international economic environment. In West Asia, export values and volumes of both fuel-exporting and fuel-importing countries rose strongly in response, respectively, to the improvements in their terms of trade and to rising levels of economic activity in their main markets. Similarly, imports into Latin America turned from a decline of over 3 per cent in 1999 to an expansion of over 9 per cent in 2000, while strong increases in exports remained a main engine of growth in the region, especially in Mexico.

In contrast, the growth of exports and imports in Africa was moderate, reflecting generally slower rates of economic growth and more limited access to external financing. Measured in real terms, the rate of increase in both exports and imports was less than the corresponding increases in world trade. In sub-Saharan Africa, exports rose only 2¼ per cent in 2000, following a rise of less than 3½ per cent in 1999. The value of exports from the region, in contrast, rose 30 per cent in 2000, owing to the relatively high proportion of petroleum and the upswing in oil prices; an upturn in some non-fuel commodity markets, notably those for metals and minerals, also contributed to the increase in export value. On average, real imports into Africa are estimated to have increased over 7 per cent in 2000, compared to about 4 per cent in 1999. However, imports into sub-Saharan Africa rose only 2 per cent in 2000 in real terms, after falling 1½ per cent in 1999.

In spite of the recovery in world trade, large trade imbalances remain and, in the case of some major trading countries, increased in 2000. The trade deficit of the United States, in particular, continued to swell during 2000, reaching an estimated $440 billion—some 4½ per cent of the country's GDP—compared to $340 billion in 1999. On the other hand, the large trade surpluses of Japan and Western Europe declined somewhat. In the case of developing countries, surpluses in net fuel-exporting countries widened by about $100 billion in 2000, but the trade account of other developing countries, which had registered a surplus in 1999, went into deficit. A similar development occurred in the group of economies in transition, where a growing trade surplus of the Russian Federation was partially offset by a deficit in Central and East Europe.

The changing pattern of trade balances in 2000 stems in part from conditions that have shaped the international economy in recent years and developments during the course of the year. Factors that have widened the trade imbalance of the United States during the past few years include the differential in the pace of economic growth between the United States and other developed economies; a strong United States dollar owing in part to interest-rate differentials in favour of the United States; and buoyant capital inflows, including into equity markets, in the United States. Especially important in 2000 was the surge in prices for fuels, compared to magnitudes prevailing during the past two to three years. It is estimated that some $60 billion, or two-thirds, of the rise in the United States import bill is accounted for by the increase in the cost of imported oil.

Higher oil prices in 2000 also led to changes in the net trade balance of other countries. As indicated in chapter I, they resulted in a transfer of purchasing power from fuel-importing economies to fuel-exporting economies, reducing the availability of resources that could otherwise have been mobilized for investment or higher consumption in the former group of countries; correspondingly, the gain from the change in the terms of trade in the latter countries provided expanded opportunities for growth and increased consumption. In the case of the net fuel-exporting developing countries, the net trade balance is estimated to have increased by $90 billion in 2000. Similarly, the Russian Federation and several other CIS countries (such as Azerbaijan and Turkmenistan) also benefited from higher oil prices: the doubling of the trade surplus of the Russian Federation in the first half of 2000 stemmed largely from the rise in oil prices and its trade surplus for all of 2000 is estimated at almost $60 billion. The accrued purchasing power of these economies on world markets is expected to bolster international trade in the next several years.

The prospects for world trade in 2001

The upswing in world merchandise trade over the past two years is expected to moderate in 2001 along with the anticipated deceleration in world economic growth. The more subdued pace of economic growth in North America and Europe and in those developing countries that have served as an engine of import demand during the current expansion is the proximate reason for the slowdown in world trade. Leading indicators of industrial production point to weaker growth ahead in Europe and emerging economies in Asia and Latin America. Export orders received by United States manufacturers and merchandise export volumes from Japan both weakened towards the end of 2000. World manufacturing production appears to be losing momentum. Given the importance of manufactures for world trade, any sustained slowdown in industrial production in general and manufacturing in particular points to slower world trade growth in the year ahead. The large trade imbalances and the instabilities in the exchange rates among the major currencies are also likely to have a dampening effect on international trade.

The expected slowdown in some rapidly growing economies to a more sustainable pace is likely to be accompanied by a parallel reduction in the rates of increase in imports. The extraordinary growth in the import demand of the United States since 1997 is forecast to decelerate to 4½ per cent in 2001 as the growth of the United States economy moderates. Notwithstanding the slowdown in import absorption, the United States trade deficit is forecast to stay around 4 per cent of GDP, posing the risk of an abrupt adjustment in world trade if its foreign capital inflows decline unexpectedly.

Australia and New Zealand also have large current-account deficits, reaching 5 and 8 per cent of GDP, respectively. These are unlikely to be sustainable and their previous pace of import growth is also expected to decrease in response to slower overall growth but also to the currency depreciations that have already taken place. The forecast declines in import volume growth are expected to be offset to some degree by a pickup in real import demand in Europe. On the other hand, foreign demand is not expected to increase in Japan, despite a forecast pickup in growth, as exports are being dampened by an appreciation of the yen and a slowdown in the country's major markets in North America and South and East Asia.

Among the factors leading to a restrained increase in imports into almost all developing country regions are a higher oil import bill, limited foreign exchange reserves and falling revenues from exports of electronic components by countries in South and East Asia. In response to the changed situation, the increase in the nominal import demand of the developing countries that took place in 2000, estimated at almost $260 billion in current prices and exchange rates, is seen as tapering off by $20 billion in 2001. This anticipated falloff is associated mainly with a slowdown in the value and volume of imports into South and East Asia and China, where it at once reflects and contributes to the outlook for more moderate rates of increase in production in the year ahead. The Latin American and Caribbean region is also forecast to experience a slower rate of nominal and real import growth in 2001. In contrast, nominal imports are expected to rise in 2001 in the case of Africa and West Asia, but a forecast decline in the terms of trade in these regions is expected to lead to a reduction in the rate of growth of import volume.

Import demand in Central and Eastern Europe and the Commonwealth of Independent States is expected to increase rapidly in both nominal and real terms in 2001. In the case of the CIS, the large changes that took place in its terms of trade in 2000 are expected to bolster its nominal demand for imports in 2001, despite a forecast of slower economic growth.

While slower, the expansion in world imports forecast for 2001 is expected to provide a generally buoyant external environment for developing countries, with the decline in export growth being concentrated in the developed economies. Although the forecast slowdown in export growth is most marked in the case of Western Europe, the region's exports are still expected to increase by 6¾ per cent in 2001. For the developing countries, forecast growth for the volume of exports remains above 10 per cent, with exports from countries in South and East Asia and from China expected to increase at rates well above this average. On the other hand, exports from Africa are not expected to rise significantly faster in 2001 than they did in 2000. The expansion of exports of the countries of East Europe is expected to continue at the rapid pace of recent years.

DEVELOPMENTS IN COMMODITY MARKETS

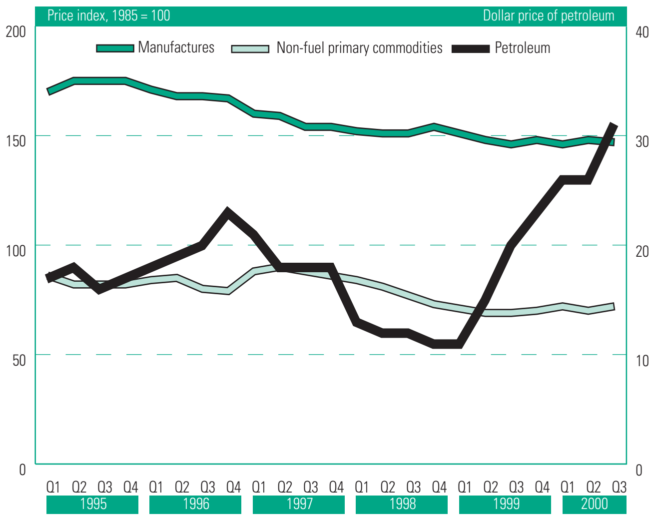
Although, over the longer term, world trade has provided stronger opportunities for countries that export manufactures, the aggregate value of commodity exports has grown faster than that of manufactures in recent years as the world recovery has given a stimulus to commodity demand. Only a few primary commodities have benefited from this upturn, however, and there were sharp divergences in the movements of prices of various groups of primary commodities in 2000. Prices for tropical beverages and vegetable products weakened further, those for food and agricultural raw materials firmed and those for minerals and metals and crude petroleum continued to surge. On average, the combined index of non-fuel commodity prices rose 4½ per cent when measured in United States dollars and by almost 9 per cent when measured in Special Drawing Rights (SDRs) by the end of the third quarter of 2000 when compared with the same quarter of the previous year. In terms of real prices (that is, the composite dollar price index for non-fuel commodities deflated by an index of prices of manufactures exported by developed countries), non-fuel commodities increased in purchasing power in 2000 through the third quarter.

This upturn in the composite indices for non-fuel commodities is the first since the mid-1990s, when a cyclical upswing in prices was cut short in 1997 by the downturn in world economic activity brought about by the Asian financial crisis. The current strengthening in a broad array of non-fuel commodity prices was preceded by the reactivation of the world economy in 1999 and accompanied by much larger increases in the price of petroleum (see figure II.2). However, the revival of commodity prices has not been as strong or as broad-based as the mid-decade upswing, and, despite the upturn, the outlook is for the share of primary commodities to continue its decline relative to trade in manufactures and non-commercial services in 2001.

In the *petroleum* sector, the price of a barrel of oil climbed steadily from a trough in February 1999 of $10 per barrel to a peak of $38 per barrel in September 2000, the highest level in nominal terms in 10 years. The rise in oil prices stemmed from strong demand (driven by a faster pace of world economic growth), a slow supply response and low inventories that enhanced supplying countries' ability to control marginal supply in the short term.

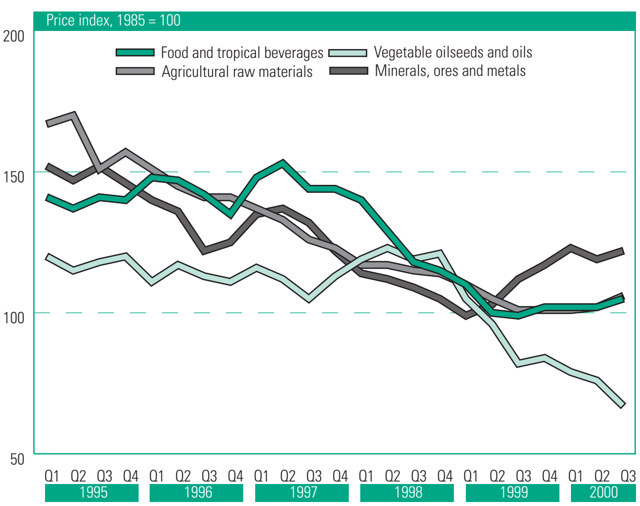
Responding to concerns over the effect of increased oil prices on the world economy, in March 2000 OPEC adopted an informal target range of between $22 and $28 per bar-

Figure II.2.
PRICES OF PRIMARY COMMODITIES AND MANUFACTURES, 1995-2000



Sources: UNCTAD, *Monthly Commodity Price Bulletin*, United Nations *Monthly Bulletin of Statistics* and OPEC Bulletin.

Figure II.3.
PRICES OF NON-FUEL PRIMARY COMMODITIES, 1995-2000



Source: UNCTAD.

rel for its basket price of oil. OPEC subsequently increased production quotas four times with the aim of bringing prices back into the target zone. In addition, the United States decided to sell 30 million barrels of crude oil from its Strategic Petroleum Reserve to help reduce imbalances in world oil markets. By the end of 2000, crude oil prices had weakened to within the range targeted by OPEC.

Oil prices in 2001 are expected to remain somewhat below the average of the past year. Nevertheless, the potential for higher prices exists. First, present assessments imply suppliers will have to operate near capacity. A colder winter than expected or faster than anticipated growth in the world economy could push prices up because the capacity to satisfy stronger than expected demand is limited in the short- to medium-term. Second, oil prices will continue to be affected by political developments in key producing regions, and there is a possibility of interruptions in supply. In this regard, Iraq remains an important source of uncertainty. Alternatively, a stronger slowdown than forecast in the United States and Europe could contribute to a more significant drop in prices than is foreseen. Moreover, recent increases in spending on capacity expansion should increase supply.

The rise in oil prices since early 1999 has had a profound effect on the world economy. Large changes in oil prices imply a substantial transfer of resources from oil consumers to oil producers. For fuel-exporting countries, the windfall revenues have alleviated—at least in the short term—financial constraints and allowed increases in consumption and investment. For fuel-importing countries, on the other hand, the increase in oil prices has reduced the domestic supply of goods and services, heightened inflationary pressures, and widened the trade deficit. Petroleum-importing developing countries are particularly vulnerable to a sustained high level of oil prices since their economies rely heavily on oil, and economic growth is concentrated in more energy-intensive sectors than is the case for fuel-importing developed economies. In addition, they are exposed to indirect effects if an oil price hike results in higher interest rates in world financial markets because this increases debt-service burdens, necessitating further cuts in imports (see chapter III).

In the case of some soft commodities such as *basic foods and agricultural raw materials*, prices have risen during the past year and are expected to remain firm or show positive growth in 2001. After falling for over three years, for example, the price index for food commodities began to gain ground during the second quarter of 2000, and on a quarter-to-quarter basis rose some 10 per cent in the third quarter of 2000. This was largely attributable to higher prices for sugar, which rose sharply in response to heavy buying by the Russian Federation, the world's biggest importer of sugar, and to a drought in Brazil, a major supplier whose production and exports are expected to fall significantly in 2000/2001. In addition, global demand for sugar has been rising at a rate of 2 per cent in recent years. Given these developments and lower stocks, world sugar prices are likely to be higher in 2001 than in 2000. In markets for grains, surpluses in recent years have led to sharp declines in prices for wheat, maize, rice and barley. However, forecasts by the Food and Agriculture Organization of world cereal output indicate that, while production in developed economies will rise almost 4 per cent in 2000, output in developing countries will fall. Prices began to firm in 2000, and increased consumption of wheat, rice and barley and a fall in production of maize and rice are expected to lead to further increases in grain prices in 2001. Prices for bananas, a product of particular importance to some developing countries, rose by over 4 per cent in 2000, and are forecast to increase by another 6 per cent in 2001.

Prices of *tropical beverages* have been declining steadily since early 1998 and there was another drop in 2000. The demand for coffee and cocoa has grown slowly, despite the drop in prices, but supply increased by almost 8 per cent in 1999/2000, after a slight decline in 1998/1999. A frost in Brazil in July 2000 and plans by producers to hold back coffee exports in 2000/2001 should, however, stabilize coffee prices in the short term. The oversupply that has characterized the market for cocoa brought its price to a 27-year low in February 2000. Prices recovered somewhat in mid-year but then softened again in the latter half. Some producers plan to hold back supplies of low-quality cocoa in 2001, and this could lead to higher prices. The cost and difficulties of implementing this plan, however, are significant, and there could be little change in market conditions in 2001. In contrast to other beverage crops, prices for tea held up in 1999 and 2000, although at a lower average level than previously. However, the possibility of large increments in supply, given normal weather conditions, due to crop development in the main growing areas, may act as a drag on prices for 2001. For tropical beverages as a whole, prices are expected to fall further in 2001.

Prices of *vegetable oilseeds and oils* fell more than 23 per cent in 1999 and, with the exception of a short-term spike in palm oil prices, the downward trend persisted, if at a slower rate, in 2000. This decline is expected to level off in 2001 but prices in general remain weak. Similarly, prices for lauric oils such as copra, palm kernel oil and coconut oil fell in 2000, after having firmed in 1999. In the case of soybeans, consumption and import demand grew almost 5 per cent in 1999/2000, and have remained high in recent months. In response, prices rose during the first half of 2000 but slackened thereafter. The outlook is for a further weakening in 2001, but the impact of a drought in the United States on the market is unknown at this time. Strong increases in oilmeal consumption in 2000, especially in China where rising incomes and a growing consumer preference for meat help stimulate demand, led to a sharp increase in soybean meal prices during the first half of the year and expectations of continued strong demand point to firm prices for this commodity. Overall, a tighter market in terms of the demand and supply for oilseeds and a somewhat lower balance in the case of edible oils should support prices of vegetable oilseeds and oils in 2001.

After falling at about 10 per cent a year since 1996, prices of *agricultural raw materials* generally firmed in 2000, and rose on average during the last few months of the year. Cotton prices, for example, had been falling for five years, dropping almost 20 per cent in 1999 to reach a low of 44 cents a pound in December. The decline in the price helped strengthen consumption, and prices in 2000 are estimated to have recovered 8 per cent during the year, with further increases expected in 2001 as forecast world consumption continues to increase while world production is seen as remaining flat. Because stocks in the cotton market remain high outside China, however, the upturn in prices is likely to be limited. In the case of wool, stocks fell markedly in 2000 as China, the world's largest buyer of wool, made large purchases. Prices are expected to rise 10 per cent in 2000 and those for apparel and carpet wools are seen as rising further in 2001. Prices for natural rubber also improved in 2000 as demand increased in North America, China and India. While sales from stocks should limit prices for this product, the high cost of crude oil has raised prices for synthetic rubber and higher demand from automotive tyre makers in 2001 is expected to contribute to a continued revival in prices for natural rubber.

Of all commodities, *minerals, ores and metals* as a group experienced the largest price increases during the recent recovery in non-fuel commodity prices as markets for a broad array industrial raw materials began to strengthen, notably in the third quarter of 1999. The main factor supporting this upturn in prices is the revival of world economic growth, especially the rise in world manufacturing production that began to accelerate towards the end of 1999. In the face of strong demand, stocks of aluminium, copper, nickel and zinc were drawn down in 2000 and, in the tighter market, prices rose significantly. Price increases for iron ore and tin lagged behind the general recovery in prices; in the case of lead, prices only began to firm in the third quarter of 2000 after warehouse stocks dropped. In contrast, gold registered its lowest price for over a year towards the end of 2000. In 2001, in view of the generally low stocks, prices of industrial raw materials are expected to continue to recover, but at a slower pace than in 2000.

DEVELOPMENTS IN THE MULTILATERAL TRADING SYSTEM

In addition to the commencement of the mandated negotiations on services, agriculture and the Agreement on Trade Related Intellectual Property,[1] three issues have been prominent in trade policy during the past year and have implications for the development of the

[1] The year was spent with WTO members submitting proposals for negotiations, which will commence in 2001.

multilateral trading system in 2001 and beyond. These are the governance of the multilateral trading system and its relationship to the process of development; the growing membership the World Trade Organization (WTO) and the need to account for the special circumstances of the developing countries; and the role of regional integration and trade preferences in the multilateral trade system.

The trading system and development

The principal policy development in the trading system during 2000 was the response to the outcome of the Third Ministerial Conference of the World Trade Organization held in Seattle from 30 November to 3 December 1999. The meeting had held promise for both developed and developing countries that progress could be made on issues that would encourage the trend towards a more efficient and equitable multilateral trading system. The contestations around and at that Conference, however, raised the question of whether globalization and an emphasis on economic growth alone could form an acceptable basis for the international trading system. At the meeting, the developing countries expressed their concerns about further trade liberalization, labour standards, human rights, and environment precepts on the existing framework governing international trade, and argued that such issues as obtaining wider market access for the products in which developing countries have a comparative advantage, including foodstuffs, clothing and textiles, and footwear, should be given priority.

The failure to agree on a new round of multilateral trade discussions represented a loss of momentum towards the continued opening of markets and the general reduction of trade barriers that underlay past efforts to liberalize world trade in goods and services. The effect of this on the long-term development of the trading system is unknown, but discussions of trade policy during 2000 focused on fundamental issues relating to the laws and regulations governing the system, rather than operational problems of the extension and application of existing rules and processes to all countries.

For development policy, the failure in Seattle and the previous financial crises in East Asian and Latin American countries have significant implications for the arrangements that govern the multilateral trading system. Some of the countries engulfed by the financial crises were viewed in many quarters as models for development, reflecting the benefits that could be derived from outward orientation and macroeconomic policies that focused on economic fundamentals in the domestic economy. The unexpected and sharp downturn that these countries experienced in 1997 and 1998 revived the debate not only on the appropriate design and implementation of trade policy to achieve development objectives but also on the laws and regulations that govern the exchange of goods, services and capital among countries. These questions are made even more important by the lagging development performance of many LDCs, and the problems of integrating these countries into the world economy. During 2000, the problems of addressing the specific needs and concerns of developing countries, particularly the least developed among them, in the context of the institutional structures of the WTO became a topic of increasing concern to the world community.

The Plan of Action adopted by the Tenth United Nations Conference on Trade and Development[2] held in Bangkok in February 2000 called for new multilateral negotiations to give special attention to the provision of assistance to developing countries so that they could benefit from the opportunities offered by a multilateral trading system. More specifically, it called for market access conditions for agriculture and industrial products of export interest to LDCs to be improved and for consideration to be given by developed economies to granting duty-free and quota-free access for essentially all exports originating from LDCs.

Institutional development of the trading system

One of the principal concerns of developing countries during the preparatory process for the Seattle Ministerial Conference was the difficulty that many of them were having in implementing the Uruguay Round Agreement. Some developing countries took the position that proceeding with further trade negotiations would not be prudent before the start of a new round of negotiations. The WTO General Council decided on 3 May 2000 to examine implementation issues and initiate a number of special sessions. These discussions culminated in a decision by the Council on Implementation Issues and Related Concerns.[3] The decision covered seven areas: the Agreement on Agriculture; Agreement on the Application of Sanitary and Phytosanitary Measures; Agreement on Technical Barriers to Trade; Agreement on the Implementation of Article VII of the GATT 94; Agreement on Rules of Origin; Agreement on Subsidies; and Countervail Measures and further work.

The number of countries encompassed by the existing set of internationally-agreed rules and regulations governing the multilateral trading system of the World Trade Organization rose to 140 in November 2000. Members of the WTO now account for almost 90 per cent of world merchandise trade. Another 28 countries, including

2 United Nations Conference on Trade and Development, "Plan of Action", TD/386, 18 February 2000.

3 WT/L/384, 15 December 2000.

China,[4] are engaged in accession negotiations. China's bilateral agreement with the United States in 2000, followed by that with the European Union, set the stage for its accession to the WTO after 14 years of negotiations.

In the discussions taking place during the year about the multilateral trading system, a key question was the process of accession to the WTO by developing countries and economies in transition. These countries, especially the LDCs, face difficulties when joining and participating fully in the WTO. Major concerns are that acceding countries are called on to accept higher levels of obligations than existing WTO members and that developing countries are called upon to forgo benefits from the special and differential treatment incorporated in WTO multilateral trade agreements.

During 2000, there were also a number of efforts aimed at enhancing both the internal and external transparency of WTO. Transparency in the WTO was identified as one of the priorities after the Seattle meeting where internal transparency and the effective participation of members was emphasized as an important aspect of the legitimacy of the institution. Some progress on enhancing internal transparency was made in 2000,[5] including a number of meetings aimed at confidence-building and transparency. The general conclusion of these meetings was that there was no need for a radical reform of the Organization, but that there was a need to enhance the process of consultation, especially in the areas of inclusiveness and transparency.

Regional integration agreements and trade preferences

Interest in and proposals for regional trading arrangements both increased in 2000. Although there is evidence that regional integration agreements can contribute to the economic development of some countries and increase trade flows among participating countries, the question remains as to whether these agreements are a "building block" or a "stumbling block" for the greater long-term benefits that can be derived from multilateralism. If the multilateral trade agenda stalls for a sufficient period of time, the growing propensity for regionalism and bilateralism could increase further and lead to greater discrimination towards countries outside regional blocs.

There is already some evidence that this is the case, especially in the Asia region, where such countries as Australia, Japan and New Zealand, formerly staunch defenders of the most favoured nation principle, are now negotiating free trade agreements. One estimate is that, since 1 January 2000, discussions on approximately 20 new preferential trade agreements have commenced to add to the existing total of 214 agreements.[6] There are now only five WTO members that are not members of a regional integration agreement: China; Hong Kong SAR of China; Japan; Macao, China; Mongolia and Republic of Korea.

Regionalism offers some development advantages. It enables developing countries to phase in their integration into global markets. Market access for goods is at the core of the trade programmes contained in most regional integration efforts, and there is evidence that these programmes tend to be effective in stimulating trade and industrial change if they enable smaller and less economically advanced economies to have a strong link to a major economy or wider market. In this regard, efforts by developing countries to create South-South agreements continued in 2000. For example, nine African countries agreed to establish a free trade area, as did the 14 island nations of the South Pacific Forum.

In the area of trade preferences, in May 2000 the United States enacted the Trade and Development Act of 2000, which contains the African Growth and Opportunity Act and the United States/Caribbean Basin Trade Partnership Act. This legislation reduces tariffs on a list of products, including textiles and apparel, for 48 sub-Saharan African and 25 Caribbean countries. In addition, the Cotonou Partnership Agreement (CPA) between the African, Caribbean and Pacific (ACP) States and the European Union was signed in June 2000.[7] This agreement provides for a preparatory period of eight years within which the EU will continue to provide preferential treatment equivalent to the Lomé Convention for products originating in ACP countries. Following this period, new WTO-compatible trading arrangements will be instituted. In preparation for this transition from basically non-reciprocal trade preferences to reciprocal trade relations, the CPA requires the ACP States and the EU to begin to examine and negotiate as of September 2002 the various options available. More than half of the ACP countries are classified as least developed. A number of countries, including Japan and Canada, have also pledged specific market access commitments for least developed countries.

4 China is the world's fifth largest trading country. If intra-EU trade is included, it is the ninth largest exporter and eleventh largest importer in terms of merchandise trade.

5 See World Trade Organization (2000), "Internal transparency and the effective participation of Members", 22 November 2000, available on the Internet at www.wto.org.

6 Some of the more notable developments include the United States' agreement with Jordan that includes provisions on internationally-recognized worker rights and environmental standards (see www.ustr.gov, 31 October 2000).

7 See also *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), box II.1, "The post-Lomé Convention Partnership Agreement between the African, Caribbean and Pacific States and the European Community and its member States", pp. 38-40.

FINANCIAL FLOWS TO DEVELOPING AND TRANSITION ECONOMIES AND MAIN POLICY DEVELOPMENTS

Net financial flows to developing and transition economies in 2000 fell to their lowest levels in more than a decade, mainly owing to strong net outflows in the banking sector (see figure II.4). There were increased, but still small, net inflows of portfolio investment and almost stagnant, but still large, inflows of foreign direct investment (FDI). Official flows increased moderately, but were well below the levels of the immediate post-crisis years. Net capital flows are expected to increase in 2001, mainly owing to the beginning of a recovery in net private capital flows.

Private financial flows

International investor sentiment towards emerging market economies was volatile in 2000, improving significantly in early 2000 but deteriorating rapidly late in the year. Towards the end of the year, foreign investors lost confidence in Argentina, which raised concern about financial contagion in other emerging market economies.

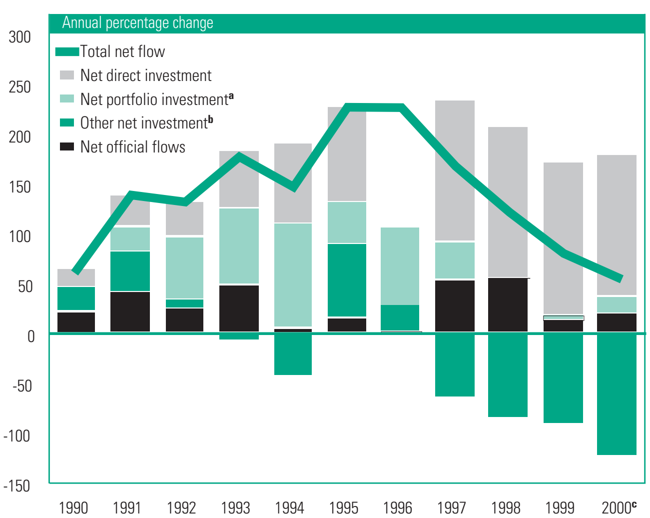
In the earlier part of 2000, the upgrading of risk ratings on sovereign debt of a number of countries improved the terms of their external financing. The perceived increase in creditworthiness reflected the strengthening macroeconomic performance in many developing and transition economies. This was the case for some of the large economies of Latin America (Brazil, Chile and Mexico) and particularly pronounced for the Russian Federation, where economic growth, as well as fiscal and current-account balances, benefited from higher oil prices and the successful restructuring of external debt. In addition, the concerted restructuring of international bond payments of Ecuador, Pakistan and the Russian Federation in 1999 and early 2000 were completed smoothly, which contributed to the reduced risk perception of emerging market debt.

However, financial developments in developed countries in 2000—the tightening of monetary policy and the large gyrations in the equity markets after March—raised the cost of funds globally. This tended to offset the gains from improved economic conditions in developing and transition economies. International investors sought to rebalance their overall risk exposure by requiring a higher expected return as a premium for investment in high-risk instruments, including emerging market bonds. As a result, there was a widening in "spreads"—the difference between the yield on bonds of developing and transition economies and that on the standard risk-free benchmark instrument, United States Treasury bonds (see figure II.5). International investors in emerging market stocks also retreated, resulting in a substantial decline in those stock prices in the year.[8]

There was also increasing differentiation in the yield spreads of emerging market bonds in the second half of

[8] The International Finance Corporation composite index (IFCI Investable) of emerging stock market prices declined 28.5 per cent for the year by end-October 2000 (see http://www.spglobal.com/ssindexmainifci.html).

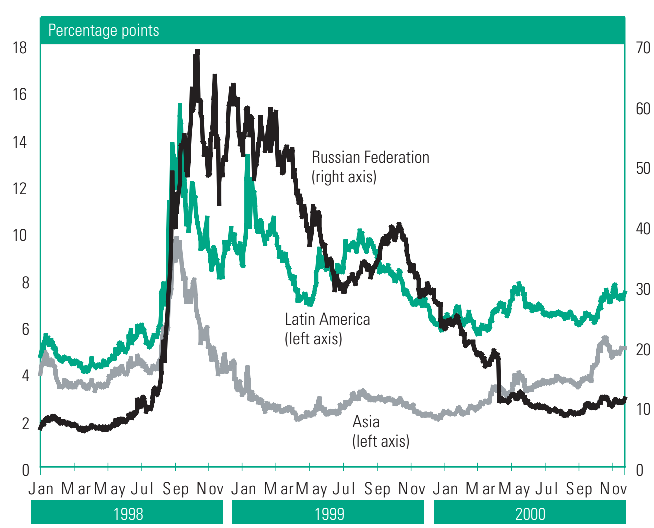
Figure II.4.
NET FINANCIAL FLOWS TO DEVELOPING AND TRANSITION ECONOMIES, 1999-2000



Source: International Monetary Fund, World Economic Outlook Database (on-line), September 2000.

[a] Including portfolio debt and equity flows.
[b] Including primarily short- and long-term bank lending. It may include some official flows owing to data limitations.
[c] Projected.

Figure II.5.
YIELD SPREADS ON EMERGING MARKET BONDS, 2 JANUARY 1998 TO 28 NOVEMBER 2000



Source: Data of J.P. Morgan Co., New York.

2000, both among regions and among countries within regions. On the one hand, the yield spreads on international bonds of the Russian Federation narrowed significantly in 2000. Spreads were in the neighbourhood of 10 percentage points in the second half of the year, still considerably above Asian and Latin American averages. On the other hand, yield spreads on bonds of Latin American and Asian countries followed a general widening trend in the second half of the year, with deteriorating economic prospects and political uncertainty in individual countries, such as Argentina, Indonesia and the Philippines, having a significant effect.

Poor economic performance in Argentina was compounded by growing uncertainty about the direction of economic policies late in 2000. These developments caused investor concern about the country's capacity to finance its growing debt to grow, heightening investors' perception of risk of lending to the country (see box II.1). As a result, yield spreads on the country's international bonds surged in October as investors lost interest in taking up new issues that were needed to cover the external financing gap. Foreign currency borrowing in Argentina also became difficult. One-year Treasury bills auctioned in early November carried an interest rate of 16 per cent, almost double the rate on similar bills auctioned in July.

The Argentine difficulties were quickly reflected in the yield spreads on Brazilian bonds, which widened sharply. Moreover, because the outstanding stock of Argentinian bonds accounts for almost a quarter of outstanding bonds from emerging markets, a crisis in that country would have far-ranging financial ramifications, with particularly damaging effects on access to financing by developing and transition economies. Thus, the restoration of confidence induced by the IMF-led financial support programme had positive effects that extended beyond one country.

BOX II.1. ARGENTINA: OVERCOMING THE PAYMENTS CRISIS

In the second half of 2000, there were growing concerns that the Government of Argentina might find it difficult to make payments on its foreign debt in 2001. Argentina would have to raise around $20 billion at a time when the country's ability to secure affordable financing in the international capital markets could not be assured. The negative mood of the markets could be attributed to a general deterioration of investor attitude towards high-risk lending, including that to emerging markets, as well as the country's poor growth record, weakening fiscal position and unstable political environment. This had led to a sharp increase in the risk premium on Argentine debt (both domestic and foreign) and an unwillingness among creditors to maintain exposure to the country.

Negative sentiment in financial markets forced Argentina to seek a new lifeline in the form of an emergency financing package, that reached almost $40 billion, with the IMF and other multilateral and bilateral official creditors. The local banks and pension funds agreed to provide the balance of the necessary financing. For its part, on 10 November 2000, the government announced a new economic plan featuring a government spending freeze and lower taxes.

The new financial package could be seen as a cooperative crisis-prevention arrangement involving both official and private sectors. The major goal of such an arrangement was to ease fears about the government's ability to meet its borrowing requirements and to secure bridge financing until the economy and government finances showed signs of improvement and the country regained access to international financial markets. The government did not seek funding from international financial markets in the short term, as it did not expect that their sentiment would turn around quickly.

The adjustment programme and financing were needed to ease concerns about Argentina's fiscal solvency, which had been undermined by the 1998-1999 recession, itself triggered by adverse exchange-rate movements, low commodity prices and unfavourable developments in international capital markets. The austerity measures implemented early in 2000 to cut the fiscal deficit had led to the spiral of falling business and investor confidence, declining investment and higher interest rates, further slowing economic growth and postponing recovery. The new programme appears more realistic and politically feasible. While the medium-term objective of fiscal balance is reaffirmed (although the target date has been extended from 2003 to 2005), the announced measures highlight the shift in short-term priorities. The new programme is focused on economic recovery and aims at "growing out" of the deficit, supported by less restrictive fiscal policy. In the short term, the fiscal deficit is expected to be larger with a decline in tax revenues due to lower than previously projected economic growth in 2000 and 2001. This cyclical widening of the deficit will not be offset by an increase in tax rates.

This support package for Argentina marked a departure from traditional adjustment programmes in two respects. It placed more emphasis on growth as the major precondition for the successful resolution of financial problems. In the past, internationally-supported adjustment programmes were often criticized for setting contractionary macroeconomic targets for crisis economies. Secondly, the programme appeared to be pre-emptive, as its initiation had not been preceded by massive outflow of funds.

Private credit

The net outflow of bank credit from developing and transition economies in 2000 (see figure II.4) resulted mainly from large repayments from some of the Asian crisis countries. Robust growth of exports in Eastern and Southern Asian countries generally enabled imports to grow without requiring increased financing by trade credits. Although net bank lending to countries outside Asia increased somewhat, it remained far below levels prior to the Asian financial crisis. These developments reflect, on the one hand, the continuing efforts by international banks to reduce loan exposure to developing and transition economies and, on the other hand, the low level of financing demand from some of these countries owing to their improving external account balances or large surpluses and their increased use of alternative sources of funds, such as international and domestic bond markets.

Net capital flows from the issuance of bonds by developing and transition economies remained limited in 2000. Although gross bond issuance rose from 1999 levels, there was an increase in repayments, owing mainly to the early retirement of Brady Bonds by Latin American countries. Latin American countries, primarily Argentina, Brazil and Mexico, continued to account for the majority of bond issuance. In contrast, bond issuance by Asian countries remained low, as the persistence of substantial external surpluses limited their external borrowing needs.

Equity investment

Net portfolio equity investment flows to developing and transition economies rebounded substantially in 2000 as a whole but suffered from increasing volatility in stock prices during the year. There was a surge in international investment in stock issuance by companies in the ICT sector in some Asian and Latin American countries and from the privatization of communications and natural resource enterprises in some countries, such as China, Brazil and Turkey, earlier in the year (see below). Increased foreign purchases of stocks in the secondary markets of some countries, such as the Republic of Korea, as macroeconomic performance improved, was also a factor. However, these positive developments were followed by declines in flows later in the year as international investor sentiment deteriorated, particularly towards investment in the ICT sector. Growing uncertainty about the sustainability of the economic recovery in a number of developing countries also contributed.

In contrast, the net flow of FDI to developing and transition economies changed only marginally in 2000 and remained the largest and most stable source of net private capital flow (see next section).

Official financial flows

Net official flows to the developing and transition economies increased in 2000 from 1999 levels but remained sharply lower than the highs in the aftermath of the financial crises. While there continued to be substantial repayments on emergency loans by countries affected by the financial crisis, there was a larger rise in disbursements on new loans and grants.

Net lending by the World Bank rose sharply while net flows from the regional development banks are estimated to have increased moderately for the year. Concessional lending expected from the Asian Development Bank for 2001 received a boost from the successful completion of negotiations in September 2000 to replenish the Asian Development Fund (ADF). Pledges to ADF VIII, which is to provide financing for the period 2001-2004, totaled \$5.6 billion, and compare favourably with the estimated \$5.1 billion in loans made under ADF VII.

There was a net return of funds to the International Monetary Fund (\$11.2 billion) in the first eight months of 2000, as loans extended to the crisis-affected countries continued to be repaid. The Fund also received net flows of \$3.3 billion from the transition economies. Total Fund commitments to the developing economies for the first three quarters of 2000 reached \$14.3 billion compared to \$6.1 billion for the same period in 1999, as large stand-by loans were extended to several countries, including Argentina, Indonesia and Nigeria. Commitments to the transition economies dropped from \$5.0 billion to only \$122 million in 2000 as only two stand-by loans were approved.

Net official development assistance (ODA) flows increased in 1998 and 1999, but their continued growth in 2000-2001 remains uncertain because of the end of the surge in emergency assistance to crisis-impacted countries and the different prospects for a sustained rise in ODA levels by individual donor countries. Some countries (Canada, Denmark, Italy, the Netherlands, Norway, and Sweden) are set to raise their ODA flows, while other countries (Finland, New Zealand, Spain) seem likely to maintain current levels; other countries (France, United States) may reduce their ODA expenditures in 2000. Moreover, prospects for contributions from Japan are uncertain since a review of ODA spending is to be undertaken with a view to reducing it as part of efforts to consolidate public expenditures in the 2001 fiscal year.

Debt relief and debt sustainability of poor countries

The revised target for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative as of October 2000 was to have 20 countries (down from the original 24) reach the "decision point" by the end of the year.[9] As of the middle of November, only 12 countries[10] had done so, receiving total debt relief commitments of $19.1 billion. Twelve other countries were under preparation[11] and were expected to result eventually in a further $14.7 billion of debt relief. Consideration of nine other countries had not advanced, as they were affected by conflict, civil unrest or governance problems.[12]

There have been two main constraints on the pace of the process: the availability of funding and the conditions required of recipients. Prospects for the former improved with the approval by the United States Congress at the end of October 2000 of a $435 million contribution to the HIPC Trust Fund, as well as of IMF's gold revaluation to finance its share of debt relief.[13] Nevertheless, as of early November, only $854 million of the $2,188 million pledged by donor countries had been disbursed to the Trust Fund.

Conditions for recipients to receive relief became more cumbersome with the introduction by IMF and the World Bank of the poverty reduction strategy papers (PRSPs) in late 1999. PRSPs entail significant analysis and public consultation by recipient Governments, in particular on poverty reduction strategies. However, owing in part to the introduction of the use of interim PRSPs, a simpler document that sets out governments' commitment to and plans for developing a PRSP, progress in moving countries through the HIPC process should not be further delayed. Also, the launch of "floating" completion points in the Enhanced Initiative provides some flexibility in assessing countries' policy track records, allowing debt relief to be activated by evidence of good performance rather than being bound by a strict time requirement. In addition, the large amount of documentation and data required by the Initiative is complex and burdensome and stretches the capacity of debtor country administrations. The establishment in April 2000 of the Joint Implementation Committee, to enhance the partnership between IMF and the World Bank in this area, was intended to mitigate additional delays resulting from these difficulties.

Despite the several enhancements of the Initiative since its inception, two broad concerns remain. First, the group of countries who may qualify (currently 33 out of the original 41) might not include all countries in need of relief, owing, among other factors, to the nature of the sustainability analysis on which the determination of relief is calculated. To allow additional countries to participate, particularly those emerging from conflict, the "sunset clause"—that is, the deadline for HIPC candidates to meet the entry requirements—was extended for two years, until end-2002. Meanwhile, the Gambia was added to the list of HIPCs in 2000.

Second, it is unclear whether countries will achieve debt sustainability when the Programme has been completed. The debt service reduction is only modest in some cases and the sustainability analysis is based on several assumptions, including on export and import prices, growth rates of trade and overall economic growth, that might not materialize. As the swings in commodity prices in 2000 suggest, there is a risk that HIPC relief might not be sufficient and that additional measures might be necessary, even beyond those covered by the clause in the Initiative that allows for additional measures in the event of extraordinary external shocks at the "completion point".

FLOWS OF FOREIGN DIRECT INVESTMENT (FDI) IN 2000

FDI flows reached a record level in 2000, estimated at $1.1 trillion, 14 per cent higher than in 1999 (see table A.9). FDI flows were in the order of only $200 billion one decade ago and have doubled in the past three years alone. The recent increase has been primarily attributable to the growth of cross-border mergers and acquisitions (M&As). Behind this growth were both government-related and firm-related factors, such as the liberalization of FDI regimes and strategies adopted by firms in order to benefit more from a globalizing world economy (see box II.2). The value of completed cross-border M&As during January-November 2000 was $1,076 billion,[14] some 25 per cent higher than for the whole of the previous record year. This growth is generally reflected in FDI flows, although each region has shown a different pattern.

FDI can be undertaken in the form of either a "greenfield" investment or a merger or acquisition. Greenfield FDI is new or additional investment associated with setting up or expanding a foreign affiliate, whereas M&As involve the purchase of an existing company in a country other than that of the acquirer (which becomes a new foreign affiliate in the case of acquisitions or a new legal entity in the case of mergers).[15] Both forms of investment lead to domestic assets in the 'host' country coming under

9 For a definition of the terms and background on the HIPC initiative, see "Debt Initiative for the Heavily Indebted Poor Countries", International Monetary Fund, September 2000, available at: http://www.imf.org/external/np/hipc/hipc.htm.

10 Benin, Bolivia, Burkina Faso, Cameroon, Guyana, Honduras, Mauritania, Mali, Mozambique, Senegal, Tanzania and Uganda.

11 Chad, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Nicaragua, Niger, Rwanda, Sao Tome and Principe and Zambia.

12 Burundi, Central African Republic, Democratic Republic of the Congo, Liberia, Myanmar, Republic of the Congo, Sierra Leone, Somalia and Sudan.

13 Release of the final share of the investment income on the profits from the revaluation of the gold required the approval of the United States.

14 M&As data reported in this section do not exclude portfolio investment.

15 For details on the definition and concept of cross-border M&As, see *World Investment Report 2000*, op.cit., chapter IV.

BOX II.2. THE DRIVING FORCES FOR CROSS-BORDER MERGERS AND ACQUISITIONS

The current wave of cross-border M&As reflects an interaction between corporate factors that motivate firms to undertake M&As and changes in the global economic environment. The corporate factors include: increased market power and market dominance; access to strategic proprietary assets; efficiency gains through synergies; expansion of the size of the firm; diversification and spreading of risks; financial motivations; and managers' personal motivations. In addition, speed is a crucial factor: M&As provide firms with the fastest way of acquiring assets in different countries.

These factors motivating firms are interacting with changes in the global economic environment which encourage or provide opportunities to undertake M&As. Such changes are related to technology (the rising costs and risks in research and development (R&D), new information technologies etc.); the policy and regulatory environment (the liberalization of trade and FDI, regional integration, deregulation and privatization programmes); and the improvement and expansion of capital markets.

the governance of a TNC based elsewhere and both result in international production, but they differ in the mode of entry and economic impact and their effects can be different. From a statistical point of view, a comparison of the magnitude of these two types of investment is fraught with methodological problems (see box II.3).

Developed economies

More than four-fifths of FDI inflows in 2000 took place among developed economies (see table A.9). Such flows increased by one-sixth in 2000, with the increase resulting mostly from M&As. Western Europe continued to be the largest host region for FDI in 2000, receiving about $600 billion. FDI inflows to Germany in 2000 were a record high, reaching almost a quarter of a trillion dollars and rivaling those of the United States.[16]

Western European firms were the most active in cross-border M&A activity, totalling $593 billion of sales during the first 11 months of 2000. Germany and the United Kingdom were by far the largest target countries. In particular, M&A sales in Germany more than quadrupled in 2000, to over $230 billion, with the $180 billion purchase of Mannesmann (Germany) by Vodafone AirTouch (United Kingdom) accounting for the bulk of the increase. Sales of German firms are likely to increase further in the light of the abolition of taxes on the sales of cross-holdings among firms, starting from 2001. The United States continued to be the single largest target country in cross-border M&As.

The decline in FDI inflows in some developed countries largely reflected the fact that they were not party to

16 The record FDI inflows of $187 billion in the first eight months of 2000 in Germany was due almost solely to the takeover of Mannesmann by Vodafone AirTouch, which was settled by exchanging shares of the former for those of the latter. This was accompanied by an equivalent volume of capital exports in the portfolio account in the balance of payments.

BOX II.3. PROBLEMS OF CROSS-BORDER MERGERS AND ACQUISITION DATA

Although M&A data are compiled and reported by a number of database companies, investment banks and consulting firms, there is no common definition of M&As and the nature and type of data collected are different. There are differences in the timing of the recording of the transaction (e.g., at the announcement of a deal or at the final agreement between the two parties), in the forms of M&As that are included (e.g., management buy-outs, acquisition of property, acquisition of convertible stocks that do not have voting control) and in the treatment of additional acquisitions (e.g., further increases in stock holdings by investors who own already more than 50 per cent, increases in stakes in joint ventures in which one party already owns a certain share).

Data on cross-border M&As include portfolio investment, making it necessary to extract transactions that correspond to the criteria for FDI (i.e., that involve 10 per cent or more foreign control) from the reported data on M&As.[a] Furthermore, purchases financed from domestic and international capital markets which are not categorized as FDI also have to be excluded.

FDI flows are a balance-of-payments concept, i.e. are reported on a net basis, with new inflows being netted out by disinvestment. On the other hand, M&A data capture the total value of a particular transaction, that is, without subtracting the debits received from the sale of foreign affiliates. Transaction amounts recorded in M&A statistics are those at the time of the announcement or closure of the deal and are therefore not necessarily those undertaken in a single year.

a Data on M&As published in UNCTAD's *World Investment Report 2000* exclude such portfolio M&As and therefore conform to the FDI definition as far as the equity share criterion is concerned. In 1999, about 13 per cent of cross-border M&As involved the acquisition of an equity share of less than 10 per cent.

any large M&As activity in 2000. Thus, in Belgium, inflows in 2000 amounted to only about 40 per cent of the previous year's record figure of $102 billion.[17] Inflows to Sweden in 2000 were only about half the amount for 1999, when several large M&A deals took place. Cross-border M&A sales in Japan also declined somewhat, but remained high. FDI in Japan has reflected a shift from the earlier longstanding preference for greenfield investment to cross-border M&As, starting in 1997. The value of acquisitions of Japanese firms by foreign firms has been higher than that of foreign firms by Japanese firms.[18]

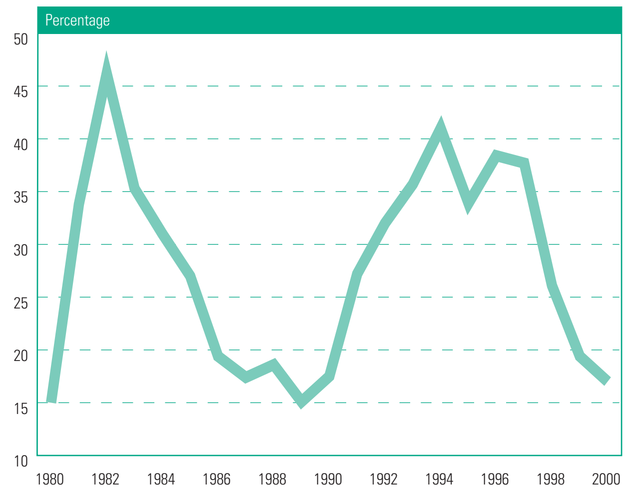
The United Kingdom continued to be the largest source of outward FDI flows in 2000. Large investments by United Kingdom firms included the acquisition of Mannesmann by Vodafone AirTouch referred to above and that of Atlantic Richfield Company (United States) by BP Amoco for $28 billion. In general, investments by European firms in the United States increased further, as a result of such M&As as the $54.8 billion acquisition of VoiceStream Wireless by Deutsche Telekom, the UBS' $16.5 billion bid for PaineWebber Group and the $13.5 billion bid for Donaldson, Lufkin & Jenrette by Credit Suisse First Boston. Japanese FDI outflows would record a significant increase in 2000 if the acquisition of a 16 per cent share of AT&T Wireless (United States) by NTT DoCoMo with an estimated value of $9.8 billion—the largest investment by a Japanese firm—were completed by the end of the year.

Developing countries

FDI inflows to developing countries in 2000 remained the same as in the previous year ($190 billion), but their share in the world total continued to decline, falling to 17 per cent (see table A.9 and figure II.6). Although partly explained by the low level of M&As (including privatization transactions), the stagnation of FDI inflows and the decline in the share of developing countries also revealed the difficulties they faced in attracting FDI flows. Greenfield FDI (estimated as the difference between FDI inflows and cross-border M&As) in 2000 remained at the same level (see table A.9).

While FDI flows to the developing world generally stagnated, there were higher flows to many individual economies, such as Egypt and Tunisia in Africa, Mexico and Venezuela in Latin America, and Malaysia and Taiwan Province of China in Asia. Flows into China and Brazil—the largest recipients of FDI among developing countries—were almost at the same level or declined

Figure II.6.
SHARE OF DEVELOPING COUNTRIES IN WORLD FDI INFLOWS, 1980-2000



Source: UNCTAD FDI/TNC database.

slightly. However, partly in expectation of its entry into the WTO, FDI flows to China are projected to rebound to the 1997-1998 level (about $44 billion) in 2001.[19] The largest decline in FDI flows in 2000 (about $15 billion) was observed in Argentina, as large-scale privatization (transactions such as the $15 billion acquisition of YPF by Repsol) had contributed to a surge in FDI inflows in 1999. FDI flows to the Islamic Republic of Iran and Jordan increased in 2000 and West Asia is likely to regain its position as a sizeable recipient of FDI inflows. FDI to Africa increased more than 10 per cent over the amount in the previous year, but remained small.

Cross-border M&A sales in developing countries also remained at almost the same level as in 1999. Such activity has been on the rise in Asia, in particular after the financial crisis, reflecting further liberalization in the legal framework for M&As and sales of firms affected by the crisis. This effect, however, tapered off in 2000. M&As in South and East Asia declined in 2000. Acquisitions of firms based in the Republic of Korea by foreign firms exceeded $11 billion (including portfolio M&As) in 1999, but declined to $6.7 billion in 2000 (January-November), still the largest amount of M&As in developing Asia.

Firms in Latin America and the Caribbean have been the leading targets for cross-border M&A activities in developing countries. In 1998, Brazilian firms were the most sought-after in terms of M&A sales, while in 1999 firms from Argentina assumed this position. In 2000,

17 There was a major transaction in the telecommunications sector in 1999 that was included in the country's FDI statistics in 2000.

18 FDI into Japan has never been higher than that country's outward investment. This reflects the fact that greenfield FDI is still dominant in outward FDI, even though FDI through M&As has been on the rise.

19 James Kynge, "The lean years come to an end", *Financial Times Survey: World Economy*, 22 September 2000, p. XI.

Brazilian firms again accounted for the largest amount of M&As with a value of $26 billion, followed by Mexico ($7 billion). In the former two countries, privatization was the main source of such sales.[20] Spanish firms were active in acquiring interests in Mexico (e.g. Telefonica in telecommunications and Fenosa and Iberdrola in electricity generation). In 2000, Peru ranked among the lead countries in M&A activity with the relaunching of its privatization programme, which is expected to raise $3 billion in revenues in the next three to four years.[21]

In Africa and West Asia, the recent level of M&As has reflected the small size of privatization programmes, with the exceptions of Egypt, the Republic of South Africa and Turkey. Relatively large M&A activity was recorded in the United Republic of Tanzania in 2000.

Central and Eastern Europe

FDI inflows to Central and Eastern Europe increased to $30 billion in 2000, supported by increasing political stability and lower country risks, as well as relatively high labour skills. FDI flows to the Czech Republic, Hungary, Poland and the Russian Federation are on the rise. Investments by European firms are growing as this region is increasingly recognized as a production site for European markets, partly in expectation of membership of the European Union for several Eastern European countries. Privatization, together with generous tax incentives in some countries, have contributed to the increases in FDI inflows recently. FDI flows to Hungary appear to have reached a plateau, but those to the Czech Republic in 2000 remained as high as in the previous year.

The cost of firms in Central and Eastern Europe bought by foreign buyers almost doubled in 1999 and increased by one third in 2000 (see table A.9). These increases, however, were essentially limited to Poland, where they doubled to $10 billion following the sale of Telekomunikacja Polska to France Telecom for $4.2 billion. The Czech Republic and Hungary were also major target countries for M&As by foreign firms. M&A sales in the Russian Federation were below $1 billion in 2000.

RECENT FEATURES OF CROSS-BORDER MERGERS AND ACQUISITIONS

The share of cross-border M&As in all M&As was almost constant at about one quarter in terms of both value and number of deals until 1998. In 1999 and 2000, both shares exceeded 30 per cent, the highest since 1990. The value of worldwide cross-border M&As as a share of GWP increased from 0.5 per cent to 2-3 per cent during the past decade.[22] The recent wave of cross-border M&As is characterized by large-scale deals that have significantly increased the volume and changed the direction of FDI flows. The number of mega deals (those with a transaction value of more than $1 billion) increased to 109 in 1999 and represented some 70 per cent of the total value of cross-border M&As.[23]

Industries that have displayed high levels of cross-border M&A activity include automobiles, pharmaceuticals, chemicals, food, drink and tobacco in the manufacturing sector, and telecommunications, energy and financial services in the services sector. All these sectors have long attracted large-scale cross-border M&As, partly for strategic reasons and partly because of liberalization and deregulation in these industries. As is reflected in this industry pattern, compared with cross-border M&As during the boom in the late 1980s, most cross-border M&As in the current period have strategic and operational, rather than financial, objectives.[24] At the more detailed industry level, M&A activity was by far most prevalent in radiotelephone communications in recent years, followed by life insurance (under the finance sector), telephone communications (except radiotelephone) and electric services.

In some of these industries, in particular such infrastructure areas as telecommunications and utilities that require large investments, privatization has played an important role. The privatization process involves firms—domestic, foreign, or both—acquiring all or a part of the equity in formerly privatized firms. Most of the cross-border mega deals involving developing countries are privatization-related M&As. In Latin America and Central and Eastern Europe, privatization has been an important means to attract foreign capital and the share of privatization-related investment in total FDI has been significant in a number of these countries. In Brazil, all mega deals, except one case involving the acquisition of a bank,[25] were related to the privatization of the telecom-

20 The privatizations of Telebras in Brazil (1998) and YPF in Argentina (1999) were typical examples.

21 Marco Aquino, "Peru to boost privatization programme", *Reuters*, 5 September 2000.

22 Even though it is growing dramatically, recent M&A activity is not large by historical standards when compared with the size of economies. Even the largest M&A deal, the takeover of Mannesmann by Vodafone AirTouch in 2000, had a value of only 5 per cent of the combined GDP of the two countries concerned. In comparison, the creation of US Steel in the final years of 1890s involved the equivalent of 7 per cent of United States GDP, and would have a value of around $600 billion in today's prices.

23 These mega deals are facilitated by the options provided by stock exchanges. Deals that do not require cash have increased over the years. In 1999, stock-swap deals accounted for more than one third of the total value of cross-border M&As (see UNCTAD, op.cit., p.239).

24 This also may explain why the overwhelming number of cross-border M&As are friendly. There were only 10 hostile cross-border takeovers out of some 6,000 deals in 1999, compared with 15 out of some 1,500, all of which were concluded in developed countries (UNCTAD, op.cit., p.233).

25 See *World Investment Report 1999* (United Nations publication, Sales No. E.99.II.D.3).

munications industry, notably the $19 billion sale of Telebras. More than half the privatization of Telebras (about $11 billion) involved cross-border acquisitions. Privatization is also emerging in developing Asia.

IMPACT OF CROSS-BORDER MERGERS AND ACQUISITIONS AND POLICY OPTIONS

Bearing in mind the *caveats* mentioned above concerning the statistical comparison between M&As and FDI, in 2000 the ratio of total cross-border M&As (at face value) to worldwide FDI flows was about four-fifths.[26] This ratio is higher in developed countries, but M&As are also becoming more important in developing countries. The accelerating pace of M&As has raised concerns about their impact on host country economies. At the heart of these concerns is that, in contrast with greenfield FDI, cross-border M&As transfer the ownership and control of existing assets from domestic to foreign hands. In normal circumstances, greenfield investment not only brings a package of resources and assets but simultaneously creates additional productive capacity and employment; cross-border M&As may bring the same financial resources but do not create immediate additional capacity. Furthermore, certain types of cross-border M&As involve a number of risks at the time of entry, from reduced employment to asset-stripping to the slower upgrading of domestic technological capacity. When M&As involve competing firms, there are also possible negative impacts on market concentration and competition, which are likely to persist beyond the entry phase.

However, these differences in impact between cross-border M&As and greenfield FDI, except for the impact on market concentration and competition, tend to disappear in the longer run. Furthermore, under exceptional circumstances arising from the risk of bankcruptcy during financial crisis or the need for rapid restructuring under conditions of intense competitive pressures, cross-border M&As may be an appropriate means of achieving the necessary objective within a short time frame.

National policy and measures with respect to cross-border M&As need to compensate for any negative effects, e.g., as regards employment and resource utilization.[27] For example, incentives, taxation or other proactive measures (such as assistance to local partners in negotiating the best price, providing social safety nets and training programmes) may be used to encourage sequential investment and to create additional productive capacity following a M&A, to promote local diffusion of technology, to mitigate adverse effects on employment and to relocate workers. In addition, FDI policies in general can be used to maximize the benefits and minimize the costs of cross-border M&As, through sectoral reservations, ownership regulations, size criteria, screening and incentives. Specific cross-border M&A policies can also be used for some of the same purposes, e.g. the screening of cross-border M&As to ensure that they meet certain criteria.

One important policy instrument is competition policy. As FDI restrictions are liberalized worldwide, it becomes all the more important that regulatory barriers to FDI are not replaced by anticompetitive practices by firms. In the context of cross-border M&As, this requires the adoption of competition laws and their effective implementation, paying full attention not only to domestic but also to cross-border M&As, both at the entry stage and subsequently. M&A reviews are a principal interface between FDI and competition policy. Increasingly, however, competition authorities need to put in place cooperation mechanisms among themselves at the bilateral, regional and multilateral levels because, by their very nature, cross-border M&As involve more than one nation. International action is particularly important when dealing with cross-border M&As at the global level, especially for smaller countries that lack the resources to mount and implement such policies on their own.

26 This means that, if all M&As were financed by FDI, four-fifths of world FDI flows took the form of M&As. For details, see box II.3.

27 For a detailed description of these sectoral policies, see *World Investment Report 2000*, op.cit., Chapter VI, pp. 159-209.

CHAPTER III: REGIONAL DEVELOPMENTS AND OUTLOOK

Performance in all the major regions of the world economy improved in 2000, but unevenly. Within the various regions, some countries did very well while others lagged and a few deteriorated further. The rates of growth that are anticipated to prevail in the near-term are more evenly distributed among the various major regions, but significant differences among country performances will remain.

DEVELOPED ECONOMIES

In the recent global economic expansion, the developed economies, particularly the economy of the United States, continued to function as the engine of global growth. Growth in gross domestic product (GDP) for this group as a whole was 3.5 per cent for 2000, up substantially from the 2.6 per cent recorded in 1999. In the outlook, growth is forecast to stabilize at around 3 per cent for 2001 (see table A.1). As mentioned in chapter I, the common feature of strong ICT-related investment, along with the ongoing economic restructuring in many of these economies, is likely to sustain a fairly robust pace of further economic expansion.

Once again, the economy of the **United States of America** surpassed by a wide margin most forecasts made in early 2000. Robust business investment and solid consumer spending, plus a rebound in the demand from the rest of the world, supported this stronger pace of expansion. Also labour productivity gains of about 5 per cent in 2000 exceeded significantly the pace of previous years. To many observers, this continuation of strong productivity growth provides additional evidence in support of the view that there has been a shift in the trend of productivity growth and that this is largely related to the broader application of cumulative ICT innovation. However, others question whether there has been a longer-term shift on account of ICT, beyond the gains that can be imputed to capital deepening and the pro-cyclicality of productivity trends. To the extent that there has been such a positive shift, the pace of expansion at which demand and supply match without exacerbating the pace of inflation has been lifted to about 3.5-4 per cent, or at least one percentage point over the trend observed during the last two decades.

However, a moderation in both consumer spending and business investment became evident from mid-2000 on. This slowdown resulted from the effects of tightening monetary policy (see below), the surge in energy prices, and the poor performance of equity markets. The last may have reduced some of the positive effects on consumption that, in the past several years, accrued from the large appreciation of wealth portfolios, notably wealth held in equity. In the outlook, growth of GDP is forecast to be around 3½ per cent for 2001. Such a "soft landing" would be highly desirable to secure buoyancy and stability in the global economy. However, as indicated in chapter I, there are several downside risks to this outlook for the United States.

Economic performance for many other developed economies was also more robust than anticipated. GDP growth for the economies belonging to the **European Union** was about 3.4 per cent in 2000. This is expected to moderate to around 3 per cent in 2001 (see table A.1). Comparable but slightly higher magnitudes apply to the 11 members of the euro area, where both investment and consumer spending have been growing solidly, supported by high levels of business sentiment and consumer confidence. A large increase in exports, partly resulting from the weak euro and strong external demand, also contributed to the economic acceleration in 2000. Despite the expected recovery of the euro in terms of the United States dollar (see chapter I) and the slowdown of external demand in 2001, exports will continue to provide an important support to growth in the region. However, the tightening of monetary policy to curb inflationary pressures, as discussed below, and the negative effects of the higher oil prices will moderate growth in 2001 for the euro area.

Among the large economies in the euro area, Germany experienced a strong growth impulse from the external sector in 2000 while domestic demand, which had been constraining economic buoyancy, recovered, in part due to lower taxes and social insurance contributions from the beginning of 2000. Whereas economic growth of above 3 per cent is expected to continue for France and Spain, growth in Italy is expected to remain sluggish, because of the continuing effects of its fiscal consolidation in the run-up to the inception of European Economic and Monetary Union in 1999. The volume and range of pent-up structural reforms that await implementation have also been holding down economic expansion in Italy.

Some of the smaller euro members continued to perform well in 2000. For example, Ireland bettered the near 9 per cent average growth it has recorded in the last few years and Finland grew by almost 5 per cent in 2000. In both countries, considerable impetus to this performance was imparted by ICT production, in Finland telecommunications technology and in Ireland software, for which they have carved out strong niches in world markets. The economic momentum in these smaller countries is likely to continue for the next few years, provided buoyant global demand for ICT-related products can be maintained.

Economic growth for European developed economies outside the euro area is expected to continue in 2001. In the United Kingdom of Great Britain and Northern Ireland, consumption demand, supported by the appreciation of real estate and the strength in labour markets, was the main driving force of GDP growth. In Norway, higher oil prices benefited economic growth: its GDP increased 2.7 per cent in 2000, up from 0.9 per cent in 1999, while the budget surplus rose substantially. Greece's GDP in 2000 expanded by 3.8 per cent. This pace is likely to accelerate in 2001 on the strength of expanding investments as the economy is well on the way to euro convergence; it is slated to join the euro zone in 2001.

Japan remains the laggard among the developed economies. However, a cyclical recovery has been in progress. After the recovery in 1999 faltered, growth for 2000 was some 1.4 per cent. This ongoing recovery continued to be driven by public investment resulting from the implementation of the stimulus package approved towards the end of 1999. Business investment, especially spending on ICT, was also pronounced in 2000. Private consumption finally started to show some recovery and exports remained on an upward trend during the year. A further impetus from the public sector might be provided if the new stimulus package agreed upon in late 2000 is substantially implemented, mainly in 2001. Business sentiment has been improving, and so are corporate profits, along with the rise in industrial production. Nevertheless, growth is expected to remain tepid. The slow pace of the corporate restructuring needed to restore the soundness of the financial system and reduce structural excess capacity will continue to impede stronger growth in incomes, hence in private consumption demand, over the near-term. Also the fiscal consolidation expected in the years ahead to reduce the mounting public debt will dampen growth. GDP growth is forecast to increase in 2001, but only to 2 per cent.

Elsewhere among the developed economies, economic performance in Australia, Canada and New Zealand was robust in 2000. Some moderation is expected for all of them in 2001. In Canada, ICT-related investment spending was booming and exports, mainly to the United States, were strong. As in the United States, growth in labour productivity was substantial. With less tight capacity utilization than in the United States, the growth outlook for Canada remains optimistic. There will, however, be a slowdown—to around 3 per cent—mostly because of the expected deceleration in the United States. Sustaining this pace depends critically on engineering a soft landing in the United States, because the latter is Canada's major trading partner by a wide margin. There are more uncertainties in the outlook for Australia and New Zealand, however: both economies are facing weakening currencies, increasing concern about rising inflation, large external deficits, and tightening monetary policy, with New Zealand the more vulnerable because of its deteriorating terms of trade.

Labour markets

Labour markets have been strong, particularly in the United Kingdom and the United States (see table A.1). The latter's rate of unemployment has been hovering around the record low of 4 per cent for more than a year, whereas the claimant unemployment rate for the United Kingdom has been even lower, though standardized labour force surveys suggest an unemployment rate above 5 per cent. In the other developed countries of Europe, a significant improvement in labour markets has occurred in 2000. For example, the average unemployment rate in the euro area dropped below 9 per cent from the two-digit level observed since the early 1990s. Further improvement is expected in conjunction with the continued growth in the outlook. However, persistence with labour-market reforms in countries with high rates of unemployment will be more important in resolving the structural problems at the root of their unemployment situation than the upturn in the cycle.

In Japan, a mild improvement in employment has finally begun to appear, as illustrated by the rising ratio of job offers to applicants and the stabilization of the unemployment rate. However, ongoing corporate restructuring and the moderate rate of economic growth foreseen in the outlook suggest that Japan will not experience any marked improvement in its employment situation in the near future.

Inflation: rising but basically under control

The headline inflation rates in many developed economies rose in 2000 by about one percentage point over levels registered in 1999 (see table A.1), mainly on account of higher fuel prices. Pressure on the pace of inflation built up gradually in the course of 2000 in most developed economies (see table A.2). In many countries, inflation rates rose from around 2 to about 3 per cent, which is near or above the inflation target set by the central banks in many of these economies. Japan has been an exception to the general inflation trend in developed economies, with the economy still encountering consumer price deflation at the end of 2000. None the less, producer prices have started to record a slight rebound.

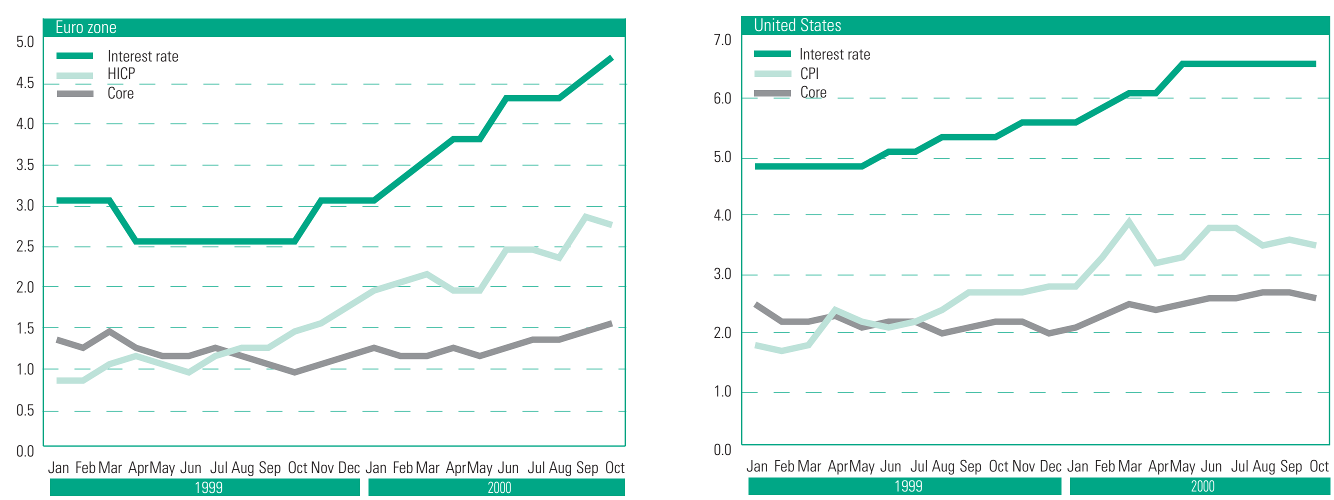
While higher oil prices were the main cause for the price upswing, strong economic growth and weakening currencies in many developed economies exacerbated the situation. This was particularly significant for countries in the euro area and for Australia and New Zealand, whose currencies depreciated considerably against the United States dollar in 2000. Nevertheless, when the direct impact of the volatile prices of energy and foodstuffs is eliminated and other factors such as changes in taxes on goods and services are taken into account, the rise in the core inflation rates was much milder than that in the headline inflation rates (see figure III.1). This implies that there was no significant pass-through of the higher energy prices to other sectors of the economy. If oil prices moderate in 2001, so should headline inflation rates.

Several other positive factors are likely to keep inflation in these economies from escalating. First, the upward movement in inflation rates in developed economies occurred after a decade-long effort at disinflation which had reduced inflation rates to record lows. Therefore, the inflation expectations of economic agents in these economies should remain low. Second, the rise in productivity in the United States and the possibility that more countries will be benefiting from similar gains in productivity in the near future is likely to limit any increase in unit labour costs to amounts that can be accommodated by the gains in labour productivity; rising unit labour costs are usually the key driving force behind the acceleration of inflation. Third, central banks in most developed economies have been tightening monetary policy vigilantly and fiscal positions in most of these economies, except notably in Japan, have been improving (see below). This augurs well for a benign macroeconomic environment in configuring the inflation outlook. Finally, increasing international competition continues to put pressure on the pricing power for firms. This limits their ability to pass through increased costs, forcing them to continue to rationalize production, distribution and marketing, or risk narrower profit margins with repercussions for their equity values.

Macroeconomic policy stances

Central banks in many developed economies started tightening their monetary policy in mid-1999 (see figure III.1). The United States led the shift in policy orientation due to concerns about overheating of the economy and its negative implications for inflation. Other central banks soon followed the Federal Reserve's action. Developed countries continued with their monetary tightening in 2000, some (such as Australia and New Zealand) rather aggressively. Central banks' actions in many countries went beyond reversing previous loosening: by year-end, interest rates were higher than in the fall of 1998 when the move towards the easing of monetary policy began. The Bank of Japan abandoned its zero-interest rate policy and raised interest rate by 0.25 per cent in August 2000—the first monetary tightening in ten years. As signs of moderation in the pace of global economic growth began to surface in mid-2000, the pace of tightening was lowered and some central banks held their policy interest rates steady. The tightening cycle

Figure III.1.
INTEREST RATES AND ANNUAL RATE OF CHANGE IN CONSUMER PRICE INDEX IN THE EURO ZONE AND IN THE UNITED STATES, JANUARY 1999-OCTOBER 2000



Sources: Organisation for Economic Cooperation and Development (OECD), Eurostat, and United States Department of Labor.

appears to have come to an end for many developed economies, as the moderation in the pace of global economic growth to a more sustainable level begins to manifest itself. Policy interest rates are thereafter expected to remain at long-term neutral levels in these economies.

Fine-tuning monetary policy has always been a very complex task. Policy makers are constantly faced with the possibility that their actions may provoke negative outcomes: higher inflation if monetary policy turns out to be too loose or an unwarranted economic recession if it is too tight. Thus, it can be argued that the pause in the monetary tightening by the United States Federal Reserve is not only on account of the observed moderation in private consumption growth but also because of broader concerns about the robustness of the economy, beyond the problem of the widening current-account deficit. Some signs of increasing financial constraints for business investment in the United States have materialized towards the end of 2000: credit conditions for businesses tightened, with corporate bond spreads rising; technology equity prices had experienced a large correction that was impeding corporate financing; and the expected pace of expansion for corporate profit levels had been revised downwards. Further increases in interest rates could intensify these trends. This could provoke a substantial adverse impact on the highly indebted corporate sector with ripple effects throughout the economy. For these reasons, it was assumed when the outlook was prepared that the United States Federal Reserve would hold interest rates steady (see box I.1).

In the euro area, the European Central Bank (ECB) has been confronted with a difficult situation. Inflation, as measured by the harmonized index of consumer prices (HICP), has moved up significantly since 1999. Most of this acceleration stems from higher oil prices, whose effect on inflation has been exacerbated by the erosion of the euro against the United States dollar. Core inflation remains low, though it has also been increasing as some of the inflationary impulses from oil prices and the exchange rate pass through the economic system (see figure III.1). The question is how much of the current price impulse will in time feed through into consumer prices and, more importantly, how much will become embodied in inflationary expectations. There are also uncertainties about whether these price impulses are temporary or more permanent in nature. The ECB has expressed its concerns about the possibility of second-round effects, that is, the extent to which higher oil prices and higher core inflation will eventually be passed on, especially into wage agreements. The ECB's concerns are further aggravated by the maturing economic expansion in Western Europe and the consequent narrowing of the output gap. While these factors might argue for additional monetary tightening, an overly aggressive move would risk eroding the economic buoyancy and dampen growth. In the outlook, a limited further tightening was assumed in 2001 for the euro zone (see box I.1).

Fiscal positions in most developed economies continued to strengthen in 2000 for a variety of reasons other than the shared cyclical improvement due to buoyant growth. Except for the larger fiscal deficit in Japan, most developed economies registered an improvement in their fiscal positions in 2000. In the outlook, fiscal policy in most of these countries is expected to be mildly expansionary as various tax cuts and some incremental spending plans have been proposed or already approved in several countries.

In Western Europe, substantial progress in reducing budget deficits over the recent past, together with stronger revenues from the improved growth profile and lower outlays as unemployment declines, have taken the pressure off fiscal retrenchment. The ratio of public debt to GDP, however, remains high in many countries. Major tax reform programmes have either been passed, as in Germany, or are being proposed, as in France and Italy. These encompass to varying degrees reduced taxes, both personal income and corporate taxes. In Germany, the elimination of the corporate capital-gains tax should give impetus to economic restructuring, as cross-holdings unwind. However, the supply side benefits from lower taxes and from the elimination of various distortions to the region's economy must be balanced with short-term cyclical considerations. Many of the proposed budgets have become pro-cyclical in nature, which can be destabilizing. In addition, budgets would need to yield positive results over the expansion phase of the economic cycle to ensure that countries do not exceed the Stability and Growth Pact guidelines during cyclical downturns. The Pact expects countries to adhere to a medium-term objective of budgets close to balance or in slight surplus.

In Japan, public spending has played a major role in sustaining economic growth, but has not yet succeeded in inducing a sustainable recovery. The sequence of fiscal stimulus packages, however, has left Japan facing increased fiscal deficits and a very large public debt, which prompted international credit-rating agencies to downgrade Japan's public-debt instruments. Since the economy was still on a tentative recovery, as the implementation of the 1999-2000 stimulus package approached its end, policy makers opted for yet another such package in fiscal 2001. However, fiscal policy in Japan is expected to be, on balance, less of a stimulus in the outlook: the present large fiscal imbalance implies a major fiscal consolidation in the future.

Strong economic growth has led to a government surplus in the Unites States estimated at over $250 billion in 2000. Budget guidelines now anticipate a modest increase in federal spending through 2001, with some small tax cuts likely. In the medium to long run, the fiscal policy stance will depend on the outcome of negotiations between the new Administration and Congress. The newly elected President had proposed a large tax reduction and a small increase in spending. These proposals are estimated to cost about $2 trillion over ten years, which will exhaust most of the budget surpluses that had earlier been projected.

ECONOMIES IN TRANSITION

Economic growth in almost all economies in transition was generally better than had been anticipated and also well above 1999 levels. The outlook for the group as a whole for 2001 is for continued strong performance, albeit at a lower level than in 2000 (see table A.3). These economies have been benefiting to varying degrees from such favourable external factors as high oil prices, buoyant growth in Western Europe, continued foreign investment, as well as the strong pace of the economic recovery in the Russian Federation itself. Many of these circumstances, however, are likely to be less positive in the near future

GDP growth in the **Commonwealth of Independent States** (CIS) accelerated to above 6 per cent in 2000, more than double the rate achieved in 1999. This was the best performance of the region since transition began. This economic recovery was led by a surge in export revenues due to soaring oil prices and gains from the import-substitution brought about by the devaluations in 1998-1999. The broad economic recovery of the CIS region should continue in 2001, although the high growth observed in 2000 cannot be sustained as the environment for export-led expansion is expected to weaken while the impetus from domestic demand remains subdued and skewed.

The Russian Federation's 7 per cent growth estimated for 2000 owes much to oil and gas, which account for half of exports. Russian oil export revenues doubled, despite the comparatively smaller increase in volume exported, and had strong ripple effects throughout the economy: improved government revenues, rising corporate sector profits and business investment, and recovery in consumption. The real depreciation of the rouble provided powerful incentives for import substitution, which led to strong industrial performance and helped to support domestic demand as unemployment started to decline. This in turn created favourable production conditions for such sectors as light manufactures and foodstuffs, and increasingly, because of the revival in investment, for machinery, chemicals and armaments. Similar developments in the wake of the hryvnia's devaluation led to the recovery of the Ukrainian economy, the second largest in the region. The country recorded its first positive growth since independence. None the less, due to its narrow export base, weak energy sector, and limited economic restructuring to date, the Ukrainian recovery continues to be more fragile than the Russian Federation's (see table A.4)[1].

Increased oil prices and progress in implementing the large-scale oil and gas pipeline networks in the Caspian region bolstered growth for Azerbaijan, Georgia, Kazakhstan and Turkmenistan. The smaller CIS non-oil economies fared moderately, except for the agriculture-dominated Republic of Moldova, which was adversely affected by severe drought. At the same time, signs of faltering growth could be observed in Belarus and Uzbekistan. These two countries have sheltered their economies by supporting existing, unprofitable economic structures and resisting or delaying economic reforms. While such policies can stave off a marked economic contraction in the short run, they have negative consequences in the medium to long term, if only because resources continue to be allocated to existing structures rather than to more competitive new activities. The signs of a slowdown, which also stem from adverse agricultural performances, may signal the limits of the strategy chosen.

Although the Russian Federation launched a reform programme and some of the slowly reforming countries of the CIS have been adopting market-friendly policies, faster growth in 2000 brought some complacency in sustaining the impetus of reform in some countries. The prospect of sustained growth for the CIS countries remains predicated on the extent to which countries with slower structural and market reforms accelerate those reforms, taking advantage of the present favourable macroeconomic environment. Due to large market distortions, relatively modest changes in the right direction can improve economic performance. A comfortable balance-of-payments situation and the substantial accumulation of foreign reserves in such key economies as Kazakhstan and the Russian Federation offer an opportunity to accelerate structural reforms that should pay off in the medium to long term.

Although a favourable external environment and a reversal of the setbacks in agriculture should benefit future economic buoyancy, a moderation in the growth of GDP to 4 per cent is expected for the region in 2001. Weak private consumption, the multiple challenges of economic and broader societal restructuring, and financing constraints in many economies of the region will dampen the feasible rate of growth in the near-term.

In all three **Baltic countries**, the recovery from the steep recession induced by the Russian Federation's currency crisis of 1998 gained further momentum in 2000 (see table A.3). In addition to the external sector, domes-

1 Quarterly rates of GDP growth are not always seasonally adjusted. This complicates not only comparisons across countries, but also the tracking of economic turning points.

tic consumption and investment, aided by low and stable interest rates, picked up in Estonia and Latvia. Also employment and inflows of foreign direct investment (FDI) recovered in 2000. Among the three economies, Lithuania's economic recovery has been the most fragile due to sluggish domestic demand, which is being further constrained by the need for sharper fiscal adjustments. Furthermore, the continued weakness of the euro has been exerting a dampening effect on Lithuanian exports to markets in the European Union as the lita is pegged to the United States dollar.

The prospect of accession to the European Union and the commitment to currency board or quasi-currency board arrangements assured a stable economic environment in 2000 and will support continued improvements in economic performance in all three countries in the near-term. Economic growth in the Baltic region is expected to accelerate in 2001. Demand from the European Union, continued reorientation of trade towards western markets, further recovery in the Russian Federation's transit trade, and the expected strengthening of domestic demand, including investments financed by FDI, are the underlying factors. However, the short-term challenge of reversing the fiscal slippage of 1999 is being met with varying degrees of success and represents one of the major challenges confronting these countries.

Following the acceleration in economic recovery in the European Union, almost all economies of **Central and Eastern Europe** experienced faster growth in 2000, although the pace of economic expansion remained sluggish in some countries (see table A.3). Sharply increased export demand provided a favourable impetus to industrial production and continuing inflows of FDI promoted further economic modernization. Domestic demand, however, remained subdued in most countries. Agriculture in many countries was affected by adverse weather conditions, with negative repercussions for their current accounts. All countries of the region registered positive economic growth in 2000, on average exceeding 4 per cent.

Growth will slow in 2001 as external demand is expected to decelerate. Furthermore, several countries, particularly Hungary and Poland, face the risk of overheating and are expected to tighten further their macroeconomic policies and to continue to combat inflation (see table A.4). Especially Romania and Slovakia will achieve only modest growth as strong recovery continues to hinge on enterprise restructuring in particular.

As in the previous year, the economic performance of the region remained diverse in 2000. In Central Europe, economic growth gained momentum in Hungary due to increased exports to the European Union, while strong FDI inflows and investment-led domestic demand pulled the Czech Republic out of its three-year-long recession. The Polish economy grew rapidly during the first two quarters of the year, but decelerated sharply thereafter due to tight monetary policy (see below). Domestic demand fell but the current-account deficit remained substantial. GDP growth in Slovakia decelerated further as the economy operated under the constraints emanating from austerity measures and economic restructuring, with fragile corporate and financial sectors.

Economic performance in the countries of South-eastern Europe continues to depend on structural changes in a number of sectors and areas of economic activity. This region benefited from the increased demand for their exports, which bolstered economic growth in Bulgaria and ended the economic recession in Romania. Most of the successor States of the former Yugoslavia also benefited from the increase in external demand. Because of the trade embargo, which continued through mid-October, Yugoslavia was a major exception. Although the country was able to grow in 2000, this was from a very low base due to the adversities of the past decade, including the heavy toll the Kosovo conflict imposed on the economy.

The restoration of regional trade and the revival of tourism in South-eastern Europe continue to depend highly on international assistance. Disbursement of such assistance has lagged the expectations engendered by the Stability Pact signed in mid-1999. None the less, the normalization of Yugoslavia's external relations will play a favourable role for the region as a whole: it should change foreign investors' perceptions; facilitate privatisation; and stimulate financial inflows, including from the private sector. First, however, public funds may be required to encourage economic recovery and restore public infrastructure.

Unemployment and inflation trends

Unemployment rates in most economies in transition continue to be very high. In some countries, they rose further in 2000 on account of corporate restructuring. However, there was a marked decline, for the first time in many years, in the Russian Federation's unemployment rate to about 10 per cent in 2000. Ukraine also reported a significant reduction in registered unemployment, but there was no sign of any appreciable improvement in most other CIS economies: in many, there continues to be large excess employment in partially restructured enterprises. While unemployment was also falling in Estonia and Latvia from the highs reached in 1999, it remained above the level observed prior to the Russian Federation's financial crisis. The employment situation in most countries of Central and Eastern Europe is not promising for the near-term. Hungary has recently reported a slight improvement in its unemployment rate (see table A.3). Elsewhere, increasing employment remains a daunting policy challenge: unemployment levels of 12 to 40 per cent persist in Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Poland, Slovakia, Slovenia and Yugoslavia. There are presently no signs of a rapid abatement.

Inflation in the economies in transition fell in 2000, largely reflecting developments in CIS countries since the pace picked up elsewhere. Having accelerated sharply in the CIS in 1999 due to the substantial devaluation of the rouble and currency adjustments elsewhere, inflation was successfully contained: in 2000, it fell substantially (see table A.3), although, in Belarus, it was still at the three-digit level. Nevertheless, the disinflation trend slowed in the second half of 2000 due to higher energy and other import prices. Inflation remained low in the Baltic countries, but is expected to edge up to around 4 per cent in 2001 due to the pass-through of higher producer prices.

Inflation accelerated somewhat in most Central and Eastern European countries. While supply shocks partially explain this outcome, domestic policies also had an impact. Inflation remained high in Romania due to lax fiscal policies and the depreciation of the currency to maintain export competitiveness. It accelerated in Yugoslavia due to expansionary monetary policy. Additionally, the depreciation of the euro, to which several economies of the region peg their currencies, exacerbated inflationary pressures in the region. Inflation is expected to slow down in 2001, but much depends on the behaviour of international commodity prices and monetary and fiscal policies in the region.

Macroeconomic policy stances

While some countries, particularly the Czech Republic and Slovenia, moved towards a more neutral monetary policy in late 1999 and early 2000, most of the economies in transition kept a relatively tight stance during the year. Belarus, Kazakhstan and Turkmenistan were exceptions among the CIS countries, while Yugoslavia's expansionary monetary policy was the exception in Central and Eastern Europe. In the Baltic economies, monetary conditions are largely the result of changes in the level of international reserves since these countries all adhere either *de jure* or de facto to currency board monetary arrangements. Loosened monetary and credit conditions in the region therefore reflect the resumption of capital inflows.

In the Central and Eastern European economies in transition, however, further interest rate cuts are unlikely due to growing inflationary pressures, as well as central banks' concerns about the possibility of increased fiscal spending on the eve of elections. Monetary tightening by the ECB is also a factor for those countries whose currencies are pegged to the euro under various arrangements. Central banks are likely to follow the ECB's lead in order to maintain the parity of their currency vis-à-vis the euro. Furthermore, many of these countries aim to maintain an interest rate differential with the euro zone that is conducive to attracting the capital inflows required to finance their external positions. Accordingly, Poland increased interest rates sharply at the end of 1999 and twice during 2000 in an effort to slow down the rapid expansion of domestic consumption and contain the resulting large current-account deficit.

Fiscal balances improved in most CIS economies in 2000 due to the recovery of economic activity, the positive impact of higher oil prices in energy-exporters, and fiscal consolidation efforts. The Russian Federation and Ukraine, which previously suffered severe financial crises triggered by fiscal problems, shifted from deficit to surplus. In the Baltic countries, where the 1999 economic recession entailed a sharp deterioration of their fiscal positions, policies were set in motion in 2000 to reduce the public deficit. The problem is particularly acute in Latvia and Lithuania where the absence of political consensus over the pace of fiscal consolidation has delayed implementation. Such delays, however, are likely to affect investor confidence and may compromise the financing of the current-account deficits (about 8-9 per cent of GDP) of these countries. Fiscal consolidation proceeded faster in Estonia, supported by its earlier and stronger economic recovery. Conversely, faster economic growth did not lead to improvements in the fiscal position of most Central and Eastern European countries.

Most of these Governments have attempted to use the current economic upturn, as well as the proceeds from privatization, to improve their fiscal balances in order to meet established targets, but neglected the implementation of structural reforms, particularly of social security arrangements. However, in some instances fiscal consolidation was not as strong as expected due to unanticipated developments. For example, unplanned expenditures associated with the recapitalization of the banking sector in the Czech Republic, increased social security payments due to the social costs of transition, attempts to close the wage gap between the private and public sectors in the Czech Republic and Hungary, as well as tax arrears in some countries, rendered it impossible to deliver on budget forecasts.

Fiscal consolidation efforts are likely to continue among the economies in transition in 2001. Further fiscal improvement is still a priority in most CIS countries as the revenue gains from commodity exports are likely to be temporary. For the economies in transition that are candidates to join the European Union and eventually the European Economic and Monetary Union (EMU), efforts to make fiscal positions compatible with directives of the European Union will continue. None the less, in countries with upcoming elections, it will be difficult to enact any significant fiscal tightening and some slippage may take place.

DEVELOPING COUNTRIES

Economic growth for the developing economies as a group continued to accelerate in 2000 to an estimated 5.6 per cent—much better than the 3.5 per cent attained the previous year (see table A.5). This is roughly the pace of growth that these countries had reached prior to the 1997-1998 Asian financial crises. But the economic performance across nations in the group was far from homogenous, with the poorest continuing to trail behind. Among the 40 of the 48 Least Developed Countries monitored by UN/DESA, only six (half of them oil exporters) recorded per capita GDP growth above 3 per cent in 2000, which is widely held to be the minimum rate to be sustained over time in order to make a dent in poverty (see table I.2).

The sharp rise in oil prices in 2000, on average by 60 per cent relative to 1999 levels, had significantly divergent impacts on net fuel exporters and fuel importers. For the former, the run-up in price provided an unexpected boom in export and fiscal revenues. For net fuel importers, however, the increased prices gave rise to a sharp adverse shift in the terms of trade and a rapid escalation in the import bill. As indicated in chapter I, this amounted to some $56 billion for this group without China, which is equivalent to some 1.3 per cent of these countries' GDP. Inasmuch as there was no net increase in financial inflows from abroad, these countries had to dip into their reserves or compress other imports. The amount of consumption of other goods and services thus crowded out is the welfare loss caused by the increase in oil prices. There are limits to the length of time during which the higher oil import bill can be financed and the economic buoyancy of fuel-importing countries sustained. Moreover, as international interest rates have increased since mid-1999, the cost of financing external debt contracted at variable interest rates has increased, thereby imposing an additional burden on the developing economies.[2]

Although growth in 2000 was an improvement on that reported for the previous year, the economic expansion for **Africa** as a whole in 2000 was only 3.2 per cent. This was the slowest pace among the major developing regions. Africa was also the only region where performance in 2000 failed to meet earlier expectations. There were wide divergences in growth across countries, however. Some benefited from the recovery of oil prices as well as prices for some non-fuel commodities that are among Africa's main exports. On the negative side, many countries were adversely affected by domestic and external shocks.

Higher oil prices had a significant impact on all African countries in 2000. Oil exporters improved their macroeconomic balances during the year. In the large gas and oil exporters—Algeria, Angola, Libyan Arab Jamahiriya and Nigeria—GDP growth accelerated because of increased production and investment in the hydrocarbon sector, higher public spending, and increased private consumption. Conversely, the majority of oil importers sustained a deterioration of their external balances, energy shortages, higher inflation, and constrained output growth.

Higher oil prices, however, were not the only factor behind the weak performance of fuel-importing countries in Africa. Adverse weather conditions reduced agricultural output in several countries, particularly in the first half of 2000. Heavy rains and floods caused severe damage in Madagascar, Mozambique, South Africa and other countries in southern Africa. Drought affected agricultural output in Morocco and Tunisia in northern Africa and persisted throughout the year in several countries in eastern Africa. Low international prices for coffee, cocoa and other agricultural commodities depressed export earnings and slowed growth in most countries in western Africa.

Armed conflicts and civil and political disturbances contributed to poor economic performances in the region. The Eritrean-Ethiopian border war severely damaged the Eritrean economy, with all formal productive economic activity coming to a halt during the most intensive phase of the conflict in May-June 2000. Long-running disputes and conflicts in Sierra Leone, the Sudan, Uganda and several other countries and religious violence in Nigeria also affected economic performance in those countries. The slow progress in the implementation of internationally-sponsored peace agreements in Angola and the Democratic Republic of the Congo further delayed and set back post-conflict reconstruction of those war-torn economies. In Côte d'Ivoire, economic difficulties were exacerbated by the military coup in December 1999, which led to the suspension of most external assistance.

The Zimbabwean economy slipped into recession—with a 6 per cent contraction—as a result of large budget deficits and a land reform policy that led to civil and political disturbances and cut off the country's access to international finance. These difficulties also precipitated large outflows of portfolio capital and currency deprecia-

2 For every increase of 25 basis points in international interest rates, developing countries have to disburse an additional $2.5 billion in interest payments on their long-term external debt. These estimates are based on the 1998 stock of long-term external debt contracted at floating interest rates and do not include short-term debt. They also exclude the additional costs of interest payments on external loans contracted after 1998.

tion in the Republic of South Africa, although FDI inflows remained positive and reserves were further bolstered by large gains in export growth.

Average unemployment rates in North Africa contracted modestly, a development that is expected to gather strength in 2001. However, unemployment remains high, mostly due to structural weaknesses in many sectors and rapid labour force growth. Elsewhere in Africa, the urban unemployment rate in Zimbabwe rose to over 50 per cent due to the economic contraction. In the Republic of South Africa, urban unemployment increased in the first half of 2000 because of continuing job losses in the non-agricultural formal sector, as well as in the public sector.

Economic growth in Africa in 2001 will be supported by a rebound of agriculture in drought-hit countries, while the momentum of increased aggregate demand in fuel-exporting countries, through public and private consumption, as well as increased foreign and domestic investment, is expected to continue. Exports will also contribute to growth as the price of several commodities is expected to stabilize (see chapter II). Africa's economic performance, however, continues to be vulnerable to the destabilizing effects of wars, civil strife and natural disasters. Overall, the outlook is for GDP growth in Africa to accelerate to around 4 per cent in 2001.

East Asia's economic recovery, which began in early 1999, continued into 2000. Economic growth, however, slowed in several countries in the second quarter with erratic quarterly movements since (see table A.6).[3] For the year as a whole, the region's aggregate real GDP growth (excluding China) is estimated at about 7 per cent—much faster than was anticipated at the beginning of the year. Despite the economic recovery, real GDP per capita in Indonesia and Thailand are still below their pre-crisis levels. The outlook for 2001 continues to be favourable (see table A.5), though growth is expected to decelerate in line with the slowdown of external demand and the delays and difficulties in the implementation of structural reforms.

Strong exports (particularly of ICT-related products) and buoyant private consumption led the recovery in the region. Exports were supported by rising regional demand,[4] sustained import demand from the United States, and the world boom in electronics. Export growth, however, began to be outpaced by surging imports. As a result, the contribution of net exports to growth waned towards the end of the year. Private consumption recovered in several countries, but softened in the second half of 2000 due to the fall in equity values, in part in consequence of price declines observed in the United States stock markets, and/or political uncertainty in some countries. Private fixed investment remained weak, but it showed some sign of recovery in some countries, particularly in Hong Kong SAR. On the supply side, performance in all sectors, except construction, was favourable, with manufacturing making a major contribution to the acceleration in economic growth.

Unemployment continued to fall as the economic recovery intensified and spread. The Philippines and Singapore are exceptions to this trend due to weak economic growth in the former and the contraction of labour-intensive activities in the latter. In crisis-hit countries, labour market conditions have improved, but unemployment rates remain significantly above the pre-crisis levels. Moreover, the pace at which unemployment has been lowered has recently stagnated or temporarily been reversed in some countries, reflecting the ongoing restructuring and the phasing-out of public works programmes.

In crisis-hit Asian countries, the strong economic recovery has led to some complacency in the pursuit of necessary further structural reforms.[5] The financial sector is still burdened by sizeable low-quality loans and the corporate sector remains heavily indebted. Local financial markets and the corporate sector are still fragile. These countries therefore remain vulnerable to capital movements and other exogenous shocks. These tend to discourage foreign investment. Domestic bank lending is also still far from normal, thus constraining domestic demand. Additionally, in Taiwan Province of China the banking sector started to face difficulties in part due to the collapse of the stock markets during the year. Some loans are collateralised by shares and the quality of banks' portfolios has therefore deteriorated. The fact that the authorities decided to raise the banks' stock investment ceiling will amplify vulnerability to market volatility and may lead to an increase in non-performing loans.

The expected slowdown in the region's growth in 2001 stems from several factors. Externally, high oil prices, a deceleration in growth of international trade, and a slowdown in the demand for semiconductors will exert some pressure on the balance of payments and restrain domestic demand. Domestically, the reduced maneuverability of fiscal policy (see below), cautious bank lending, negative developments in local stock markets, and political uncertainties will adversely affect both private consumption and investment activity. Additionally, increased exchange rate volatility, erratic capital inflows, and weak corporate and financial sectors could prevent many countries from achieving higher rates of growth.

Economic growth in **China** of 8.2 per cent in 2000 was

3 See footnote 1.

4 Intraregional trade is about 40-50 per cent of their trade.

5 See *World Economic and Social Survey, 2000* (United Nations publication, Sales No. E.00.II.C.1), pp. 98-101.

supported by strong exports. Domestic demand, which had been weak since the Asian financial crises, started to recover. This was especially the case for fixed investment in housing and equipment. Growth of private consumption demand, however, continued to be less robust, as the large number of layoffs from state-owned enterprises (SOEs) lowered the income-propensity to consume. Additionally, excess capacities remain in many sub-sectors of manufacturing, although the high levels of inventory built up in recent years have been declining. Meanwhile, economic efficiency has improved noticeably in many sectors, including in many SOEs, as indicated by the doubling of profits for the industrial sector as a whole in the first half of 2000.

GDP growth for the Chinese economy is expected to be above 8 per cent in 2001. However, macroeconomic policies need to remain accommodative if domestic demand is to be further strengthened. Furthermore, the reform agenda continues to pose daunting challenges. The balance between the short-run goal of stimulating domestic demand and the long-run goal of reforming the economy's structure poses delicate tradeoffs for Chinese policy makers. Reforms inevitably have some adverse effects for short-run growth. Over time, however, they will enable macroeconomic policies to become more effective and efficient in minimizing cyclical fluctuations. Additional reforms are expected in the next few years as a result of increased international competition for the Chinese economy once the country enters the World Trade Organization (WTO), possibly in early 2001.

GDP growth in **South Asia** reached 6 per cent in 2000 and, as in the other regions discussed above, was supported by strong exports. Weather conditions in the majority of countries were normal, which favoured agriculture. However, increased political uncertainties, bottlenecks in infrastructure, and large fiscal deficits constrained economic activity in some countries (see table III.1). In India, the largest economy of the sub-region, economic growth moderated in 2000 due to a slowdown in industrial output and the impact of adverse weather conditions on agriculture. The service sector performed well, supported by the ICT boom and favourable government policies.

The near-term prospects for South Asia remain positive. Barring bad weather, worsening oil prices, a deterioration of political uncertainties, and, in the case of Pakistan, the re-emergence of balance-of-payments difficulties, growth in GDP is expected to accelerate modestly for most countries and to be more broad-based. Robust exports, normal agricultural output in the countries that suffered from adverse weather conditions in 2000, and the recovery in industrial output will underpin growth.

Higher oil prices and increased output, in line with the successive agreements among members of the Organization of Petroleum Exporting Countries (OPEC) in 2000 (see chapter II), boosted economic activity in many fuel-exporting countries in **Western Asia** and contributed to the acceleration of economic growth in the

Table III.1.
CENTRAL GOVERNMENT FISCAL BALANCES OF SELECTED DEVELOPING COUNTRIES, 1996-2000

Percentage of GDP

	1996	1997	1998	1999	2000[a]
Argentina[b]	-3.6	-2.0	-2.1	-4.1	-2.8
Brazil[c]	-0.1	-0.9	0.0	3.1	3.4[d]
Hong Kong, SAR	2.2	6.6	-1.8	-0.1	-0.5
India[e]	-1.2	-4.8	-5.0	-5.6	-5.1
Indonesia	0.2	0.0	-3.7	-2.3	-5.0
Korea, Republic of	0.3	-1.5	-4.2	-2.9	-2.8
Malaysia	0.7	2.5	-1.9	-4.9	-2.0
Mexico	1.3	-1.2	-1.3	-1.0	-1.1
Pakistan[e]	-7.0	-6.3	-5.6	-3.7	-3.7
Philippines	0.3	0.1	-1.8	-3.6	-1.8
Singapore	8.6	9.6	1.6	2.5	3.0
Sri Lanka	-9.4	-7.9	-9.2	-8.0	-7.6
Thailand	2.4	-0.9	-3.4	-3.0	-3.0
Venezuela	0.6	1.9	-4.1	-2.6	-1.0

Sources: UN/DESA, based on Asian Development Bank (ADB), International Monetary Fund (IMF) and national sources.

a Projections or preliminary estimates.
b Consolidated public sector.
c Consolidated public sector primary balance; it excludes interest payments on the public debt.
d 12 months to September 2000.
e Fiscal year.

region as a whole (see table A.5). Additionally, agriculture recovered in most countries (except notably the Islamic Republic of Iran) from the drought of 1999. In many countries, industrial production increased owing to fiscal relaxation (see below), while the recovery of export markets in South and East Asia benefited some countries in the region. Similarly, growth accelerated among the major fuel-importing economies of the region. The economic recovery in Israel was mostly export-led, particularly on account of high-tech industry, although strong domestic consumption and investment demand contributed to the economic expansion as well. The Turkish economy recovered sharply in 2000. Growth was driven by post-earthquake reconstruction and increased investment demand accommodated by lower real interest rates. However, by year-end Turkey was facing a severe banking crisis. Interest rates skyrocketed, the stock market plunged, capital left the country, and a serious liquidity crisis emerged. A rescue package amounting to $7.5 billion was negotiated with the IMF, in addition to the $2.9 billion outstanding under the previous stand-by agreement.

The prospects for further expansion in the region remain strong. High oil-export revenues are expected to boost government spending on infrastructure, education and health care, thus benefiting overall growth. Fuel-importing countries will sustain their economic recovery, with the possible exception of Turkey. GDP growth in the region as a whole is expected to be over 5 per cent in 2001 but unemployment is projected to remain high in some countries and decline only marginally in others. The persistence of hostilities in the region represents a major downside risk to the outlook for the region.

Economic growth in **Latin America and the Caribbean** improved on average in 2000, supported by strong external demand and a recovery of domestic absorption in some of the large economies that faced recession or severe slowdown in 1999. The GDP growth rate for the region is estimated to have reached 3.9 per cent in 2000, but with considerable variations. It will remain around that level in 2001. Prudent fiscal and monetary policies followed in the region (see below) will not be conducive to faster growth in domestic absorption, while external demand may slow down. Growth, however, will be more evenly distributed across the region, as countries coming out of recession solidify their recovery while those experiencing fast economic growth will guide the pace of growth of their economy onto a more sustainable path.

Brazil's economic performance in 2000 was strong and broad-based. Faster growth of exports and improved credit conditions supported domestic demand. Chile benefited from much firmer copper prices in 2000, improved external demand, and increased investment by the public sector, particularly in mining and infrastructure. Economic recovery in the other Andean economies was uneven and the outlook, though fairly positive, remains uncertain for some of the economies of the subregion due to political considerations. In addition, the possibility of negative economic consequences emanating from the anti-drug effort in Colombia weighs on the outlook. In Peru, political uncertainties have been compromising growth prospects since the latter part of 2000; this has been in marked contrast to the strong growth reported in the first half of the year. Bolivia recorded modest growth in 2000 with domestic demand remaining depressed. Ecuador and Venezuela emerged from their severe recessions of 1999 thanks to higher oil prices.

Mexico, the second largest economy of the group, has continued to benefit from the strong import demand by the United States economy. Domestic demand also strengthened, giving an additional impetus to GDP growth in 2000. Strong economic growth in Central America and the Caribbean continued, led by the Dominican Republic, on account of loose credit conditions and an expansionary fiscal stance, and, to a lesser extent, Honduras, whose economy is only now recovering from the aftermath of hurricane Mitch in late 1998. Jamaica, however, continued to face stagnation under a heavy public-debt burden and high interest rates. The latter also constrained economic activity in Haiti, where economic growth was modest in 2000.

Despite positive signs at the end of 1999, economic recovery in Argentina is still tentative. Lower commodity prices and the strong United States dollar, to which the peso is pegged, had negative effects for the buoyancy of the economy. Tight fiscal measures at the beginning of 2000, including wage cuts in the public sector, and increased unemployment reduced domestic demand. By year-end, Argentina was facing a severe confidence crisis due to growing expectations of sluggish growth in the near-term and difficulties around enacting fiscal consolidation. Despite renewed commitment by the Government to the currency board arrangement, these factors have intensified concerns about the sustainability of the current approach to economic policy-making. Economic agents became more apprehensive about the Government's ability to service the country's external debt and signs of a liquidity crisis started to emerge in early November, which prompted the Government to negotiate a rescue package with the international financial institutions and the private sector (see box II.1).

Labour market conditions were mixed in Latin America in 2000, but are expected to improve somewhat in 2001. Open urban unemployment rates continued to fall and reached very low levels in Mexico (around 2 per cent), thus indicating a possible overheating of the economy. Although still high, unemployment rates receded in

Brazil, Ecuador, Peru and Venezuela, but labour incomes have not yet recovered. Unemployment rates in Argentina, Chile, Colombia and Uruguay, among others, have been increasing, even though they are already high, thus depressing consumer confidence, private consumption and investment.

Because of its substantial dependence on foreign finance, the major risk to the region's growth outlook in 2001 is the external environment. Trade surpluses usually disappear with fast growth in the region. Any deterioration in investor sentiment towards these countries and/or a severe slowdown of external demand could derail the recovery the region experienced in 2000. Much of the recent inflows of capital into the region have been in the form of FDI, owing to continuing privatization in the major economies in the region, as well as the consolidation of operations by large transnational companies through mergers and acquisitions (see chapter II). This process will eventually end. It is not yet clear whether the region will be able to attract other forms of external finance to support imports, external debt service, and profit repatriation.

Inflation trends

Despite higher oil prices and other supply shocks, as well as improved demand conditions in several countries, prudent macroeconomic policies kept inflation under control in most developing countries in 2000 (see below). Some countries even lowered inflation in 2000. None the less, the disinflation process that had been taking place seemed to come to a halt in some countries by year-end. Accordingly, some regions ended up with higher average inflation in 2000 than in 1999 (see table A.5). In Africa, for instance, the higher cost of oil imports, significant currency depreciation in some economies, and food shortages in countries hit by adverse weather conditions contributed to higher inflation in 2000. Inflation bursts were observed elsewhere as well, such as in Ecuador due to the sharp depreciation of its currency on the eve of the adoption of the dollarization programme. In Western Asia, average inflation fell further during the year, largely because of lower inflation in Turkey, in Israel and, to a lesser extent, in the Islamic Republic of Iran. Inflationary pressures re-emerged in Western Asia in 2000 due to increased aggregate demand and a gradual removal of subsidies in most fuel-exporting countries.

Inflationary pressures will abate in 2001 as oil prices are expected to recede somewhat, readjustments of administered prices will most likely slow down, and excess capacities in labour markets and in the productive sectors remain in several countries. The outlook for inflation in 2001 is therefore positive, with annual average inflation rates remaining under control in most regions. In East Asia, however, inflation will accelerate in 2001 due to the lagged impact of higher oil prices.

Macroeconomic policy stances

Developing countries followed diverse paths with their monetary policy in 2000. It remained tight in most countries during the year. In China and South and East Asia, it was largely accommodative. However, it was less tight in Latin America than in 1999 and particularly in the first half of 2000.

In Latin America, the change of exchange rate policy in many countries was an additional factor behind lower interest rates. Because of their adoption of floating exchange rates, many countries have been able to free their monetary policy from defending the currency. However, this strategy has not been fully tested in the region and Latin American countries may decide to increase interest rates in order to maintain their currencies within some desirable range. Asian countries with floating exchange rates, for instance India and the Philippines, increased interest rates to defend their currencies when they started to depreciate in the second half of the year.

As the developed market economies eased up on tightening their monetary policy towards the end of 2000, the earlier trend that had brought down interest rates in developing countries seemed to have come to a halt. Several countries in East and South Asia began to raise their interest rates either to match the United States interest rate hikes, to discourage speculation on their currencies, to counter accelerating inflation, and/or to avoid overheating of the economy. In Latin America, Brazil's policy interest rates were progressively cut from 19 per cent at the beginning of the year to 16.5 per cent in July. Concerns about oil prices and their negative impact on the consumer price index prevented the monetary authorities from cutting interest rates further, while fears of overheating led the Mexican Central Bank to tighten monetary conditions in the third quarter of 2000. Naturally, there have been exceptions to this tightening trend: Chile and Israel lowered interest rates in the second half of the year because of weak growth and low inflation, respectively. The developing countries' prudence in monetary policy is expected to continue in 2001.

Fiscal policies in 2000 were influenced by the run-up in oil prices and the needs of specific economies. This allowed oil exporters to increase expenditures without compromising their fiscal positions; some even recorded a surplus for the first time in many years. But it proved to be an additional burden for oil importers.

In general, most fuel exporters had framed their 2000 budget on the assumption of oil prices of around $12 to $18 per barrel. The unexpected rise in oil revenues led to a shift in policy stance: many countries moved away in early 2000 from a restrictive to an expansionary fiscal policy. In Western Asia, government spending increased as many large-scale investment projects—mainly downstream activities such as refining, gas liquefaction, and petrochemicals—that had earlier been frozen, were reactivated in 2000. Most Latin American and some of the African oil exporters allocated part of this windfall gain to stabilization funds or accounts to be drawn upon when oil prices recede to more normal levels. For 2001, with oil prices expected to decline somewhat, a more restrained stance is expected from fuel exporters.

Fiscal positions were also influenced by domestic factors. One group of countries continued the expansionary policy stance of 1998-1999 to revive domestic demand and support economic activity. China and East Asia are cases in point. Most countries in the region maintained their expansionary fiscal policy to support recovery. As a result, their fiscal positions deteriorated and public debt increased, signalling the limits of this strategy and its unsustainability in the near future (see table III.1). Some of these countries, such the Republic of Korea, the Philippines and Singapore, have begun to shift their fiscal policy to a more neutral stance. In Malaysia and Thailand, however, fiscal policies remain supportive of growth. Similarly, in China, no change in its expansionary policy stance is expected in the near-term.

Another group of countries adopted austerity in view of the need to correct unsustainable fiscal deficits. This applied to many countries in Africa and Latin America as well as the oil importers of Western Asia. Some progress towards lower deficits was achieved during the year. Among the large developing economies, Argentina, Brazil and Turkey implemented austere and ambitious fiscal consolidation programmes, albeit with different degrees of success. While the Brazilian and Turkish efforts have so far been successful due to lower domestic interest rates and the economic recovery, in Argentina fiscal austerity proved to be too severe and choked the nascent economic recovery, thus compromising the very fiscal consolidation the authorities had targeted. Whereas Brazil relaxed its fiscal stance during the second half of the year, Argentina had to assemble another fiscal adjustment programme. Fiscal consolidation efforts are expected to continue in these countries in 2001.

Finally, some countries did not address their fiscal imbalances or did not implement sufficiently austere policies. For example, several of the countries of South Asia continued to face unsustainable fiscal deficits and large public debts. In the case of South Asian countries, several factors were responsible for the limited progress towards fiscal consolidation in 2000. These include increases in domestic fuel subsidies due to higher oil prices, costs related to reconstruction and rehabilitation from heavy flood damage, increased military expenditures and additional spending for electoral purposes.

ANNEX TABLES*

* More extensive time series of the data in this annex, together with definitions of the country groupings and explanatory notes, are contained in ***World Economic and Social Survey 2000*** (United Nations publication, Sales No. E.00.II.C.1).

LIST OF TABLES

Table A.1.
DEVELOPED MARKET ECONOMIES: RATES OF GROWTH OF REAL GDP AND RATES OF INFLATION AND UNEMPLOYMENT, 1999-2001

Annual percentage change

	Growth[a]			Inflation[b]			Unemployment[c,d,e]		
	1999	2000[f]	2001[g]	1999	2000[f]	2001[g]	1999	2000[f]	2001[g]
All developed economies	2.6	3.5	3	1.2	2.0	1¾	6.6	6.1	6
United States	4.2	5.0	3½	2.2	3.4	2¾	4.2	4.1	4¼
Canada	4.5	4.6	3	1.7	2.8	2½	7.6	6.8	6¾
Japan	0.2	1.4	2	-0.3	-0.7	0	4.7	4.5	4
Australia	4.4	3.8	2¼	1.5	4.6	4	7.2	6.7	7
New Zealand	2.5	4.3	3½	1.4	1.7	2½	6.8	6.3	6
EU-15	2.4	3.4	3	1.2	2.2	2	9.2	8.4	8
EU-11	2.4	3.5	3¼	1.1	2.1	2	10.0	9.2	8½
Austria	2.3	3.4	3	0.6	1.8	1¾	3.8	3.2	3
Belgium	2.6	4.1	2½	1.1	2.4	2	9.1	8.6	8½
Finland	3.5	4.9	4	1.2	2.9	2	10.2	10.1	9
France	2.9	3.4	3¼	0.5	1.5	1¼	11.3	10.0	9¼
Germany	1.5	3.0	3	0.6	1.9	1¾	8.8	8.4	8
Ireland	9.8	10.2	7½	1.6	4.3	3½	5.7	4.7	4
Italy	1.4	2.8	2¾	1.7	2.3	2	11.3	10.9	10½
Luxembourg	4.2	4.5	4	1.0	3.0	2½	2.3	2.2	2
Netherlands	3.9	4.5	4	2.2	2.5	3½	3.3	2.8	2¼
Portugal	2.9	3.3	3	2.3	2.5	2½	4.5	4.0	4
Spain	4.0	4.1	3¼	2.3	3.2	2¾	15.9	13.4	11¾
Other EU	2.4	3.2	2¾	1.6	2.7	2	6.6	6.1	6
Denmark	1.6	2.0	1¾	2.5	3.0	2	5.2	4.9	5
Greece[h]	3.5	3.8	4½	2.6	2.8	2¾	10.2	10.0	9½
Sweden	3.8	4.4	3½	0.5	1.0	2	7.2	6.2	5½
United Kingdom	2.2	3.1	2¾	1.6	3.0	2	6.1	5.6	5½
Other Europe				1.3	2.1	2	3.2	2.7	2¾
Iceland	4.4	4.0	2½	3.2	5.4	4¼	3.3	2.7	3
Malta	4.1	1.8	2	2.1	3.4	3	5.3	4.5	4½
Norway	0.9	2.7	1½	2.3	3.0	2¼	3.2	3.3	3¼
Switzerland	1.5	2.5	1¾	0.7	1.6	2	3.1	2.3	2¼
Memo item:									
Major industrialized countries	2.5	3.5	3	1.1	1.8	1½	6.2	5.8	6

Source: UN/DESA, based on IMF, *International Financial Statistics* and OECD.

a Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.
b Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.
c Unemployment data are standardized by OECD for comparability among countries and over time in conformity with the definitions of the International Labour Office (see OECD, Standardized Unemployment Rates: Sources and Methods (Paris, 1985)).
d Data for country groups are weighted averages, where labour force is used for weights.
e Greece and Malta are not standardized.
f Partly estimated.
g Forecast, partly based on Project LINK.
h Though Greece will enter the euro area on 1 January 2001, for the sake of comparability, it is not included in EU-11 estimates for 2001.

Table A.2.
MAJOR INDUSTRIALIZED COUNTRIES: QUARTERLY INDICATORS, 1998-2000

Annual percentage change

	1998 quarters				1999 quarters				2000 quarters	
	I	II	III	IV	I	II	III	IV	I	II
	Growth of gross domestic product[a] (percentage change in seasonally adjusted data from preceding quarter)									
Canada	3.1	1.4	1.7	4.8	4.8	3.3	6.5	5.1	5.1	4.7
France	3.8	3.5	1.8	2.7	1.8	3.2	4.1	4.1	2.4	3.2
Germany	4.1	0.0	1.2	-0.8	3.6	-0.4	3.6	3.2	3.6	4.5
Italy	-1.6	2.5	2.0	-1.2	1.2	2.6	2.9	2.2	4.3	1.1
Japan	-4.6	-0.8	-4.8	-2.0	6.3	3.9	-3.9	-6.4	10.3	4.2
United Kingdom	3.0	2.6	2.2	0.4	1.5	3.3	4.0	2.9	1.8	3.9
United States	6.5	2.9	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6
Memo item:										
Major industrialized countries (G-7)	2.4	1.6	0.7	1.9	3.9	2.6	2.7	2.9	5.6	4.6
Euro zone (11)[b]	3.6	1.2	2.0	1.2	3.2	2.0	3.6	3.6	3.6	3.6
	Unemployment rate[c] (percentage of total labour force)									
Canada	8.6	8.3	8.2	8.1	7.9	7.8	7.8	7.0	6.8	6.7
France	11.9	11.8	11.8	11.8	11.7	11.5	11.5	10.8	10.3	9.8
Germany	9.8	9.6	9.2	8.9	8.8	8.7	8.7	8.7	8.5	8.4
Italy	11.9	11.9	11.9	11.8	11.6	11.4	11.2	11.1	11.0	10.6
Japan	3.7	4.1	4.2	4.4	4.6	4.7	4.7	4.6	4.8	4.7
United Kingdom	6.4	6.3	6.3	6.3	6.4	6.1	6.1	5.9	5.8	5.5
United States	4.7	4.4	4.5	4.4	4.3	4.3	4.3	4.1	4.1	4.0
Memo item:										
Major industrialized countries (G-7)	6.5	6.4	6.4	6.3	6.3	6.2	6.2	6.0	6.0	5.8
Euro zone (11)[b]	11.2	11.0	10.8	10.6	10.3	10.0	10.0	9.7	9.5	9.1
	Growth of consumer prices[d] (percentage change from preceding quarter)									
Canada	4.2	1.2	0.3	0.7	0.8	4.4	2.9	1.3	2.2	3.5
France	3.1	1.9	-0.9	-0.1	0.1	2.4	-0.3	1.7	2.3	2.3
Germany	5.4	1.3	1.0	-1.4	0.1	2.2	1.7	-0.1	3.5	1.5
Italy	8.3	1.8	1.3	1.0	1.4	2.3	1.8	2.7	2.5	2.9
Japan	8.1	2.0	-2.2	4.0	-3.9	1.3	-1.2	0.0	-2.7	1.1
United Kingdom	14.3	7.6	1.3	1.8	-1.7	4.3	0.3	3.0	1.6	7.7
United States	6.0	2.2	1.6	1.4	1.6	3.9	2.5	2.5	4.0	4.3
Memo item:										
Major industrialized countries (G-7)	6.8	2.3	0.3	1.6	-0.3	2.9	1.1	1.5	1.8	3.1
Euro zone (11)[b]	0.8	2.4	0.4	-0.4	1.2	2.7	1.2	1.2	3.1	2.7

Sources: UN/DESA, based on data of International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD) and national authorities.

a Expressed at annual rate (total is weighted average with weights being annual GDP valued at 1995 prices and exchange rates in United States dollars).
b Though Greece will enter the euro area on 1 January 2001, for the sake of comparability, it is not included in EU-11 estimates for 2001.
c Seasonally adjusted data as standardized by OECD.
d Expressed at annual rate.

Table A.3.

ECONOMIES IN TRANSITION: RATES OF GROWTH OF REAL GDP AND RATES OF INFLATION AND UNEMPLOYMENT, 1999-2001

Annual percentage change

	Growth[a]			Inflation[b]			Unemployment[c,d]		
	1999	2000[e]	2001[f]	1999	2000[e]	2001[f]	1999	2000[e]	2001[f]
Economies in transition	2.1	5.3	4	50.7	19.6	16	..	..	..
Central and Eastern Europe and Baltic States	1.3	4.2	3¾	11.6	12.2	9	..	..	..
Central and Eastern Europe	1.5	4.2	3¾	12.0	12.6	9½	..	..	..
Albania	7.3	7.0	7	0.4	0.8	4	18.2	17.1	16
Bulgaria	2.4	4.0	4	0.4	9.7	6¾	16.0	18.2	16¾
Croatia	-0.3	4.0	4	4.2[g]	6.2[g]	5¾[g]	20.8	20.5	20
Czech Republic	-0.2	2.7	3	2.1	4.3	5	9.4	9.0	8¾
Hungary	4.5	5.5	4½	10.0	9.5	8	9.6	8.6	8
Poland	4.1	5.0	4	7.3	10.2	7¼	13.0	13.3	13
Romania	-3.2	1.5	2¾	45.8	45.0	30	11.5	11.0	10¾
Slovakia	1.9	1.6	2½	10.6	12.3	8½	19.2	18.8	17¾
Slovenia	4.9	4.6	4	6.2	8.7	6½	13.0	12.0	11½
The former Yugoslav Republic of Macedonia	2.7	6.0	5	-1.0[g]	10.0[g]	5[g]	47.0	40.0	35
Federal Republic of Yugoslavia	-19.3	5.0	5	45.0	60.0	25	27.4	26.5	26¾
Baltic States	-2.1	3.8	4¼	2.2	2.9	4¼	..	..	..
Estonia	-1.1	5.0	5½	3.3	3.8	4¾	10.3	10.0	9¾
Latvia	0.1	4.0	4½	3.2	3.5	4	9.1	8.4	7½
Lithuania	-4.2	3.0	3½	0.8	2.0	4	10.0	11.5	10½
Commonwealth of Independent States	2.9	6.4	4	79.2	24.8	20¾	..	..	..
Armenia	3.3	3.0	6½	0.7	2.5	5	..	..	..
Azerbaijan	7.4	8.0	8½	-8.5	3.0	4½	..	..	..
Belarus	3.4	2.5	2	293.8	150.0	150	..	..	..
Georgia	2.9	4.0	7	19.1	6.0	5	..	..	..
Kazakhstan	1.7	7.0	7½	8.4	15.0	6	..	..	..
Kyrgyzstan	3.6	3.2	5¾	39.8	15.0	14	..	..	..
Republic of Moldova	-4.4	-1.5	3	39.3	35.0	20	..	..	..
Russian Federation	3.2	7.0	4	85.9	22.0	18	..	..	..
Tajikistan	3.7	4.0	5	27.6	15.0	17	..	..	..
Turkmenistan	16.0	18.0	12	23.5	7.0	14	..	..	..
Ukraine	-0.4	3.0	2	22.7	20.0	15	..	..	..
Uzbekistan	4.4	3.2	1	29.1	36.0	35	..	..	..

Source: UN/DESA and ECE.

a Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.
b Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.
c Unemployment data are standardized by OECD for comparability among countries and over time in conformity with the definitions of the International Labour Office (see OECD, Standardized Unemployment Rates: Sources and Methods (Paris, 1985)).
d Because of comparability problems, data for the Commonwealth of Independent States are not given.
e Partly estimated.
f Forecast, partly based on Project LINK.
g For Croatia and the former Yugoslav Republic of Macedonia: retail prices.

Table A.4.
ECONOMIES IN TRANSITION: QUARTERLY INDICATORS, 1998-2000

Annual percentage change

	1998 quarters				1999 quarters				2000 quarters	
	I	II	III	IV	I	II	III	IV	I	II
	Rates of growth of gross domestic product[a]									
Belarus	12.6	12.2	5.6	4.7	1.4	3.4	2.4	6.4	6.4	1.8
Czech Republic	-1.1	-1.8	-2.5	-3.3	-3.3	0.1	1.0	1.0	4.4	1.9
Hungary	4.4	4.9	5.4	4.7	3.5	3.9	4.5	5.9	6.6	5.8
Kazakhstan	1.9	1.4	-7.8	-3.5	-3.6	-3.4	7.0	5.8	9.1	0.0
Poland	6.5	5.3	4.9	3.0	1.6	3.1	5.0	6.2	6.0	5.2
Romania	-6.4	-3.8	-3.4	-5.4	-4.5	-4.2	-3.0	-3.2	0.9	3.5
Russian Federation	-1.3	-1.0	-8.1	-8.2	-2.7	1.2	6.7	7.3	8.4	6.7
Ukraine	-0.3	0.6	-0.4	-5.7	-4.7	-1.6	0.2	3.1	5.5	0.0
	Growth of consumer prices[a]									
Belarus	46.7	42.7	51.5	137.7	248.4	311.7	344.9	275.4	227.4	195.8
Czech Republic	13.3	12.7	9.5	7.5	2.9	2.4	1.2	1.9	3.7	3.8
Hungary	17.0	15.3	13.3	11.2	9.5	9.1	10.6	10.8	9.8	9.2
Kazakhstan	10.3	9.1	6.4	3.0	-0.2	5.5	12.0	16.2	20.1	13.4
Poland	13.8	13.0	11.1	9.2	6.2	6.3	7.4	9.3	10.3	10.1
Romania	97.4	57.0	52.8	43.7	35.4	43.3	49.5	53.1	53.7	44.4
Russian Federation	9.4	7.3	22.4	70.1	102.6	116.7	98.2	47.4	25.4	19.8
Ukraine	8.5	7.4	6.3	17.7	21.2	25.4	26.0	18.7	25.1	27.4

Sources: IMF, *International Financial Statistics* and ECE.

[a] Percentage change from the corresponding period of the preceding year.

Table A.5.
DEVELOPING COUNTRIES: RATES OF GROWTH OF REAL GDP AND RATES OF INFLATION, 1999-2001

Annual percentage change

	Growth[a]			Inflation[b,c]		
	1999	2000[d]	2001[e]	1999	2000[d]	2001[e]
Developing countries[f]	3.5	5.6	5½	6.5	6.1	6¼
of which:						
Latin America and the Caribbean	0.3	3.9	3¾	7.5	7.6	6¼
Net fuel exporter	0.4	5.3	4	..	..	..
Net fuel importer	0.2	3.3	3½	..	..	..
Africa	2.8	3.2	4½	5.5	6.7	6½
Net fuel exporter	4.4	4.6	5	..	..	..
Net fuel importer	1.8	2.3	4¼	..	..	..
Western Asia	0.9	4.9	5½	22.6	21.1	18½
Net fuel exporter	2.9	5.3	5¾	..	..	..
Net fuel importer	-2.1	4.4	4¾	..	..	..
Eastern and Southern Asia	6.2	7.2	6¾	2.4	1.8	3¾
Region excluding China	5.9	6.8	6	..	..	..
of which:						
East Asia	5.9	7.2	5¾	3.4	1.4	3¾
South Asia	5.9	5.7	6¼	4.7	4.3	7
Memo items:						
Sub-Saharan Africa (excluding Nigeria and South Africa)	2.6	2.7	4	9.8	10.6	9½
Least developed countries	3.0	4.4	4¾	11.0	7.9	10¾
Major developing economies						
Argentina	-3.0	0.7	2	-1.2	-1.0	-¾
Brazil	1.0	4.0	4	4.9	7.3	5¾
Chile	-1.1	5.6	5¾	3.3	3.6	3¾
China	7.1	8.2	8½	-1.4	0.8	1½
Colombia	-4.5	3.0	3	11.2	9.3	9½
Egypt	6.0	3.9	5	3.1	3.0	5
Hong Kong SAR[g]	3.0	8.2	5¾	-4.0	-4.3	1½
India	6.4	6.0	6½	4.7	4.5	7
Indonesia	0.3	4.4	5½	20.5	2.1	5¼
Iran (Islamic Republic of)	2.5	4.0	3¾	20.1	15.2	32
Israel	2.2	4.5	4¼	5.2	1.5	3½
Korea, Republic of	10.7	9.0	5¾	0.8	2.1	3¼
Malaysia	5.6	8.7	7¼	2.7	1.5	3
Mexico	3.7	6.5	4½	16.6	9.7	8
Nigeria	2.5	3.8	4	6.6	5.5	7½
Pakistan	3.9	4.7	4¾	4.1	4.0	6¼
Peru	1.4	4.0	2	3.5	3.7	3½
Philippines	3.3	3.6	3½	6.6	3.7	7¾
Saudi Arabia	0.5	2.8	3	-1.4	-0.7	2½
Singapore	5.4	9.8	6¾	0.0	1.1	2
South Africa	1.3	2.4	3	5.2	7.5	6
Taiwan Province of China	5.4	6.5	6¼	0.2	2.0	2½
Thailand	4.2	5.5	5½	0.3	1.5	5
Venezuela	-7.2	3.5	4	23.6	16.9	21

Source: UN/DESA, based on IMF, *International Financial Statistics.*

[a] Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.
[b] Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.
[c] For Africa and sub-Saharan Africa, the Democratic Republic of the Congo is excluded.
[d] Partly estimated.
[e] Forecast, partly based on Project LINK.
[f] Covering countries that account for 98 per cent of the population of all developing countries.
[g] Special Administrative Region of China.

Table A.6.
MAJOR DEVELOPING COUNTRIES: QUARTERLY INDICATORS, 1998-2000

Annual percentage change

	1998 quarters				1999 quarters				2000 quarters	
	I	II	III	IV	I	II	III	IV	I	II
	Rates of growth of gross domestic product[a]									
Argentina	6.4	6.7	3.3	-0.6	-2.7	-5.2	-5.1	-0.5	0.5	0.8
Brazil	1.4	1.4	0.0	-1.4	0.0	0.0	0.5	3.4	3.7	3.4
Chile	8.8	6.3	3.4	-2.5	-2.8	-3.7	-1.8	4.0	5.4	6.1
China	7.2	7.0	7.2	7.8	8.3	7.6	7.4	7.1	8.1	8.3
Colombia	4.9	1.8	-0.6	-3.9	-5.6	-6.8	-3.6	-1.0	2.2	3.5
Ecuador	1.6	0.2	0.1	-0.1	-5.4	-7.3	-8.0	-8.3	-1.7	2.6
Hong Kong SAR[b]	-2.8	-5.3	-7.0	-5.7	-2.9	1.1	4.4	9.2	14.2	10.9
India	2.0	5.8	8.3	6.1	7.2	6.9	5.7	5.8	7.2	..
Indonesia	-6.4	-15.8	-14.5	-18.7	-4.8	3.8	1.1	5.2	3.2	4.1
Israel	4.0	3.2	3.7	4.6	0.9	2.0	2.3	3.1	5.6	5.6
Korea, Republic of	-3.6	-7.2	-7.1	-5.3	5.4	10.8	12.8	13.0	12.8	9.6
Malaysia	-2.8	-6.8	-8.6	-10.3	-10.3	5.0	8.2	10.8	11.9	8.8
Mexico	7.5	4.2	5.2	2.6	1.8	3.1	4.3	5.2	7.9	7.6
Philippines	1.2	-1.0	-0.1	-2.0	1.2	3.6	3.4	4.6	3.8	4.7
Singapore	4.7	0.4	-1.9	-1.2	0.8	6.6	6.9	7.1	10.1	9.0
South Africa	1.4	1.0	0.1	0.0	0.1	0.5	1.8	2.5	2.4	2.3
Taiwan Province of China	5.7	5.2	4.2	3.4	4.2	6.4	4.7	6.4	7.9	5.4
Thailand	-7.5	-13.7	-12.8	-6.8	0.2	2.5	7.8	6.5	5.3	6.6
Turkey	9.2	3.3	2.7	-1.2	-0.1	-1.7	-6.0	-3.4	5.5	6.0
Venezuela	9.4	1.7	-5.3	-4.9	-9.3	-8.9	-5.8	-4.5	0.3	2.6
	Growth of consumer prices[a]									
Argentina	0.6	1.2	1.1	0.8	0.0	-1.1	-1.8	-1.8	-1.3	-1.0
Brazil	4.7	3.7	2.6	1.8	2.3	3.3	5.5	8.4	7.9	6.6
Chile	5.6	5.4	5.1	4.4	3.8	3.9	3.2	2.5	3.2	3.6
China	0.3	-0.9	-1.4	-1.1	-1.4	-2.2	-1.2	-0.8	0.1	0.1
Colombia	19.5	23.5	20.8	17.8	16.7	9.9	9.1	9.6	9.0	10.6
Ecuador	29.1	34.5	35.4	44.1	45.6	54.6	54.0	53.8	83.2	96.5
Hong Kong SAR[b]	5.0	4.4	2.8	-0.8	-1.8	-4.0	-5.9	-4.1	-5.1	-4.4
India	9.0	10.4	15.4	17.9	9.0	7.1	2.8	0.5	3.7	5.3
Indonesia	27.2	49.5	74.5	77.5	55.9	30.9	6.6	1.7	-0.6	1.1
Israel	5.6	4.7	3.6	7.8	7.3	5.9	6.0	1.9	1.5	2.0
Korea, Republic of	8.9	8.2	7.0	6.0	0.7	0.6	0.7	1.3	1.5	1.4
Malaysia	4.3	5.7	5.7	5.4	4.0	2.7	2.3	2.1	1.5	1.4
Mexico	15.3	15.1	15.6	17.6	18.6	17.9	16.5	13.7	10.5	9.5
Philippines	7.9	9.9	10.4	10.5	10.0	6.8	5.5	4.5	3.0	3.9
Singapore	1.2	0.1	-0.9	-1.5	-0.7	0.0	0.3	0.5	1.1	0.8
South Africa	5.5	5.1	7.8	9.1	8.5	7.3	3.3	2.0	2.8	5.2
Taiwan Province of China	1.6	1.7	0.6	2.9	0.7	-0.1	0.3	0.0	0.9	1.4
Thailand	9.0	10.3	8.1	5.0	2.7	-0.4	-1.0	0.1	0.8	1.6
Turkey	99.3	91.8	82.3	72.9	64.4	63.7	64.9	66.1	68.8	61.7
Venezuela	37.3	39.4	36.2	31.2	29.1	23.9	22.2	20.1	18.2	17.1

Source: IMF, *International Financial Statistics* and national authorities.

a Percentage change from the corresponding quarter of the previous year.
b Special Administrative Region of China.

Table A.7.
WORLD TRADE: RATES OF GROWTH OF VOLUMES, 1999-2001

Annual percentage change

	Volume of exports[a]			Volume of imports[a]		
	1999	2000[b]	2001[c]	1999	2000[b]	2001[c]
World	5.8	10.6	8	5.8	10.8	8¾
Developed economies	5.3	10.2	7	6.4	8.8	7¾
of which:						
North America	6.4	10.6	9	10.9	13.1	7
Western Europe	5.2	10.8	6¾	4.1	6.8	8½
Japan	2.8	8.6	4¾	5.9	6.4	6½
Economies in transition	0.1	8.3	6½	-3.6	11.8	8¼
Central and Eastern Europe	7.0	10.5	10	0.2	12.1	7¾
Commonwealth of Independent States	-8.1	5.3	1¼	-19.2	10.2	11¼
Developing countries	7.8	11.9	10½	5.3	15.7	11½
Latin America and the Caribbean	6.7	6.4	7¼	-3.3	9.2	8½
Africa	-1.7	4.7	3¾	4.1	7.1	5¼
Western Asia	-1.3	8.8	9½	4.2	7.4	3½
East and South Asia	11.7	13.5	11½	7.9	15.1	14
China	7.5	21.6	15¾	15.7	45.3	16
Memo items:						
Fuel exporters	6.9	12.9	11	8.3	23.4	11¾
Non-fuel exporters	8.3	11.3	10	3.7	11.5	11¼

Sources: United Nations and IMF.

a Growth for country groups are weighted average, where weights for each year are the previous year's trade valued at 1995 prices and exchange rates in United States dollars.

b Partly estimated.

c Forecast, partly based on Project LINK.

Table A.8.
COMMODITY PRICES, 1998-2000

Annual percentage change

	1998	1999 quarters				2000 quarters		
		I	II	III	IV	I	II	III
Combined index, non-fuel								
Dollar	-13.0	-16.8	-17.4	-12.4	-7.7	-1.9	2.6	5.3
SDR	-11.8	-19.6	-17.9	-13.4	-6.5	-0.4	3.9	8.8
Food and tropical beverages	-14.3	-21.9	-22.7	-16.6	-10.8	-7.3	2.3	6.8
Tropical beverages	-17.3	-29.9	-20.2	-21.8	-6.6	-9.2	-11.7	-7.7
Cocoa	3.7	-16.9	-34.9	-36.4	-40.4	-35.1	-19.0	-16.5
Coffee	-28.5	-37.0	-22.4	-23.3	-3.3	-2.6	-14.1	-11.3
Food	-13.8	-19.4	-23.3	-15.8	-12.0	-6.9	6.1	10.1
Bananas	-3.1	13.5	-21.7	-10.8	-16.1	1.3	-2.1	-11.7
Maize	-13.4	-13.7	-6.1	1.6	-2.2	1.5	3.2	-9.9
Rice	1.3	-5.4	-23.5	-23.6	-20.6	-14.2	-16.5	-24.9
Sugar	-21.2	-35.6	-36.3	-26.9	-18.3	-23.5	23.8	69.1
Wheat	-19.9	-14.2	-11.3	-1.4	-16.2	-7.2	0.6	2.9
Vegetable oilseeds and oils	7.1	-12.0	-22.4	-30.8	-30.7	-24.2	-20.6	-19.0
Palm oil	22.9	-13.4	-32.1	-47.9	-45.8	-39.1	-26.5	-14.6
Soybeans	-17.6	-22.2	-19.2	-12.5	-12.7	1.9	11.5	2.5
Agricultural raw materials	-10.8	-6.5	-10.2	-12.2	-11.7	-7.6	-3.5	5.0
Cotton	-17.6	-19.2	-10.8	-23.9	-20.6	-5.8	1.3	16.9
Rubber	-29.8	-10.7	-18.5	-18.2	-3.0	6.3	14.7	17.7
Tropical logs	-1.2	0.8	-6.4	-8.7	-14.0	-12.1	-9.8	4.1
Minerals, ores and metals	-16.0	-12.9	-8.0	3.1	11.8	24.6	15.5	9.2
Aluminum	-15.1	-18.3	-4.2	9.2	17.0	37.4	13.1	8.4
Copper	-27.3	-17.3	-15.3	2.4	12.6	27.6	18.6	11.5
Iron ore	2.8	-9.2	-9.2	-9.2	-9.2	2.6	2.6	2.6
Lead	-15.3	-5.9	-5.3	-6.1	-2.3	-9.8	-19.5	-6.3
Nickel	-33.2	-14.6	5.4	53.3	96.6	103.1	80.1	29.4
Phosphate rock	2.4	6.5	7.3	2.3	2.3	0.8	0.0	0.0
Tin	-1.9	-1.2	-7.1	-6.2	5.1	8.2	-0.1	2.1
Zinc	-22.2	-6.5	-3.4	10.6	21.4	13.8	11.2	3.9
Memo item:								
Manufactured export prices of developed economies	-2.0	-1.0	-2.1	-3.2	-4.1	-3.2	0.0	0.5
Real prices, non-fuel	-11.2	-16.0	-15.6	-9.6	-3.7	1.3	2.6	4.1
Crude oil	-31.8	-16.4	22.6	58.9	100.3	125.7	63.8	44.4

Source: UNCTAD, *Monthly Commodity Price Bulletin.*

Table A.9.
FOREIGN DIRECT INVESTMENT INFLOWS AND CROSS-BORDER MERGERS AND ACQUISITIONS[a], BY REGION, 1999 AND 2000

Billions of dollars

	1999		2000	
	Foreign direct investment inflows[b]	Cross-border mergers and acquisitions[a]	Foreign direct investment inflows[c]	Cross-border mergers and acquisitions[a,d]
Developed countries	770.0	753.6	898.5	973.5
of which:				
Western Europe	449.0	417.6	597.3	593.1
European Union	432.1	403.4	588.2	567.9
United States	275.5	266.5	259.0	304.1
Japan	12.3	17.5	5.7	15.6
Developing countries	190.3	92.6	189.9	86.7
Africa[e]	8.1	1.2	9.3	2.0
Latin America and the Caribbean	86.0	53.9	71.4	57.9
Asia	93.5	35.8	107.1	26.7
South, East and South-East Asia	90.8	35.4	100.3	25.8
West Asia	-	0.3	3.3	0.8
Central Asia	2.7	0.1	3.5	0.1
The Pacific	0.3	0.2	0.3	-
Central and Eastern Europe[f]	21.2	11.2	30.0	15.5
World	981.5	859.4	1118.3	1075.7

Source: UNCTAD, FDI/TNC database and cross-border mergers and acquisitions database.

a By sales. Includes portfolio cross-border mergers and acquisitions (i.e., the acquisition of less than 10 per cent equity share).
b Revised.
c Preliminary estimates.
d January-November only.
e Excludes South Africa (which is included under developed countries).
f Includes the countries of the former Yugoslavia.