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DEPARTMENT OF ECONOMIC AND SOCIAL INFORMATION
AND POLICY ANALYSIS

World Economic Survey 1993

Current Trends and Policies in the World Economy

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Note

Symbols of United Nations documents are composed of capital letters combined with figures.

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PREFACE

The *World Economic Survey, 1993* is the forty-sixth annual report of the United Nations Secretariat on the major developments and issues in the world economy.

Persistent weakness in the developed market economies and a further steep fall in output and living standards in the economies in transition were dominant features of the world economy in 1992. Despite strong growth in a number of developing countries, accounting for half of the world's population, overall there was negligible growth in the world economy. In 1993, for the third year in a row, the growth of world output will fall below the growth of world population.

Chapter I of the *Survey* provides an overview of the world economy in 1992 and in recent months and presents a forecast of short-term prospects. It reviews economic policies in the major developed market economies and the difficult task of transition still facing the economies of eastern Europe and the former Soviet Union. It points to reasons for cautious optimism about the prospects for developing countries after years of adjustment and reform, but emphasizes the daunting challenges that still face many of them. The conclusion highlights the major policy issues confronting the world economy.

Major trends in output and the policies pursued in the various groups of countries in 1992 are examined in some detail in chapter II. It analyses the nature of the weaknesses in the developed market economies; the continuing decline in output being experienced by most economies in transition; and the great diversity of economic progress in the developing countries—with South and East Asia and China and a number of countries in Latin America continuing to grow vigorously but many other countries still stagnating.

Chapter III examines major developments in international trade. After an overview of trade, which has been growing fast relative to growth of world output, the chapter discusses developments in the major regions, trends in commodity prices, the progress of negotiations in the Uruguay Round, the slide towards managed trade, and the current wave of regionalism.

Recent trends in the international flow of financial resources are examined in chapter IV, especially in response to General Assembly resolution 47/178, by which the Assembly called for an analysis of the issue. In the past two years there has been a significant reversal of the flow of net financial resources in favour of the developing countries. The chapter analyses the nature, magnitude and distribution of financial resource transfers. It also examines the important changes that have taken place in transfers among developed market economies, the recent evolution of the debt problem of the developing countries and the flow of resources to the economies in transition.

Prices of energy are among the critical international prices. Chapter V analyses recent developments and emerging trends in the oil market with special attention to the production and supply policies of the Organization of the Petroleum Exporting Coun-

tries (OPEC) and the state of the oil industry in the former Soviet Union. Some of the economic and environmental aspects of energy and carbon taxes are briefly examined.

In a world that is able to produce enough food to satisfy the nutritional needs of everybody, and one that is becoming increasingly integrated, it is a patent anachronism that tens of millions still go hungry and hundreds of thousands still die of starvation. Chapter VI discusses undernourishment and famine in the developing countries. Partly in response to General Assembly resolution 42/178, the chapter also focuses on the key role of women in the nutrition picture.

Chapter VII examines the growth of the non-state sector in China in the context of the country's economic reform. The General Assembly, in resolution 47/171, requested that the Secretariat report in the *World Economic Survey* pertinent findings on privatization in the context of economic restructuring, economic growth and sustainable development. The Chinese experience shows the rapid and enthusiastic response of individual and local initiative to the process of economic reform.

The *Survey* contains a statistical annex of world economic and financial data used in the analysis. It provides data on main economic trends at the regional and global levels.

The *Survey* was prepared in the Macroeconomic and Social Policy Analysis Division of the Department of Economic and Social Information and Policy Analysis and is based on information available as of late April 1993. As in the past, the *Survey* is based in part on information and analysis provided by agencies and organs of the United Nations system, in particular, the United Nations Conference on Trade and Development (UNCTAD), the regional commissions, the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT). The Organisation for Economic Co-operation and Development (OECD), other international agencies and national institutions were also important sources of information.

We hope that the *World Economic Survey, 1993* will be useful to the Economic and Social Council and the General Assembly in their deliberations on the current issues in the world economy and to Governments, academic institutions and the public at large.

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for Economic and Social Information
and Policy Analysis

EXPLANATORY NOTES

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 a 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, 1989/90.

- Use of a hyphen (-)
between years, for example, 1986-1990, signifies the full period involved, including the beginning and end years.

Reference to "tons"
indicates metric tons and 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 1992 and 1993 are rounded to the nearest half of a percentage point.

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

The following abbreviations have been used:

ACC/SCN
Administrative Committee on Coordination Subcommittee on Nutrition

ACM
Arab Common Market

ADR
American Depository Receipt

AFTA
ASEAN Free Trade Area

ALADI
Asociación Latinoamericana de Integración

ANCERTA
Australia–New Zealand Closer Economic Relations Trade Agreement

APEC
Asia-Pacific Economic Cooperation Conference

ASEAN
Association of South-East Asian Nations

BaU
Business-as-Usual (scenario)

BMR
basal metabolic rate

boe
barrel of oil equivalent

BTU
British thermal unit

CACM
Central American Common Market

CAP
Common Agricultural Policy
(of the European Community)

CARICOM
Caribbean Community

CBN
Central Bank of Nigeria

CFA
Communauté financière africaine

CGIAR
Consultative Group in International
Agricultural Research

CIS
Commonwealth of Independent States

CMEA
Council for Mutual Economic Assistance

COMTRADE
External Trade Statistics Database

CPI
consumer price index

DAC
Development Assistance Committee
of OECD

DES
dietary energy supplies

DOM
Départements d'outre-mer (France)

DME
Developed market economy

EAEG
East Asian Economic Grouping

EAP
Enhanced Access Policy (of IMF)

EC
European Community

ECE
Economic Commission for Europe

ECOWAS
Economic Community of West African States

ECU
European currency unit

EEA
European Economic Area

EFF
Extended Fund Facility
(of IMF)

EFTA
European Free Trade Association

EOR
enhanced oil recovery

ERM
Exchange Rate Mechanism

ESAF
Enhanced Structural Adjustment Facility
(of IMF)

FAO
Food and Agriculture Organization of the
United Nations

FDI
foreign direct investment

f.o.b.
free on board

g/dl
gram per decilitre

GATT
General Agreement on Tariffs and Trade

GDP
gross domestic product

GNP
gross national product

GREEN
General Equilibrium Environmental model

GSP
Generalized System of Preferences

ICRC
International Committee of the Red Cross

IDA
International Development Association

IDS
Institute of Development Studies

IEA
International Energy Agency

IFAD
International Fund for Agricultural Development

IFC
International Finance Corporation

IFPRI
International Food Policy Research Institute

IMF
International Monetary Fund

INRO
International Natural Rubber Organization

INSEE
Institut national de la statistique et des études économiques

LAFTA
Latin American Free Trade Association

LIBOR
London interbank offered rate

mbd
million barrels per day

MERCOSUR
Southern Cone Common Market

MICE
Moscow Inter-bank Currency Exchange

MITI
Ministry of International Trade and Industry of the Government of Japan

MFN
most favoured nation

MFA
Multifibre Arrangement

NAFTA
North American Free Trade Agreement

NIE
Newly industrialized economy

NMP
net material product

ODA
official development assistance

OECD
Organisation for Economic Co-operation and Development

OPEC
Organization of the Petroleum Exporting Countries

PECC
Pacific Economic Cooperation Conference

Project LINK
International Research Group of Econometric Model Builders, with Headquarters at the Department of Economic and Social Information and Policy Analysis of the United Nations Secretariat

RCC
rural credit cooperatives

SACU
Southern African Customs Union

SADC
Southern African Development Community

SDR
special drawing rights

SEPHA
Special Emergency Programme for the Horn of Africa

SFF
Supplementary Financing Facility (of IMF)

SII
Structural Impediments Initiative

SIPRI
Stockholm International Peace Research Institute

SITC
Standard International Trade Classification

SSTC
State Science and Technology Commission (of China)

TNC
Trade Negotiations Committee

TRIMs
trade-related investment measures

TRIPs
trade-related intellectual property rights

UN/DESIPA
Department of Economic and Social Information and Policy Analysis of the United Nations Secretariat

UNCTAD
United Nations Conference on Trade and Development

UNDP
United Nations Development Programme

UNHCR
Office of the United Nations High Commissioner for Refugees

UNICEF
United Nations Children's Fund

UNITAF
Unified Task Force

UNOSOM
United Nations Operation in Somalia

USTR
United States Trade Representative

WFC
World Food Council

WFP
World Food Programme

WHO
World Health Organization

WIDER
World Institute for Development Economics Research of the United Nations University

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The term "country" as used in the text of this report also refers, as appropriate, to territories or areas.

For analytical purposes, the following country classification has been used:

Developed market economies:
North America, southern and western Europe (excluding Cyprus, Malta and former Yugoslavia), Australia, Japan, New Zealand, South Africa.

Economies in transition:
Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and the former USSR, comprising the Baltic republics, the Commonwealth of Independent States (CIS) and Georgia.

Developing countries:
Latin America and the Caribbean, Africa (other than South Africa), Asia and the Pacific (excluding Australia, Japan and New Zealand), Cyprus, Malta, former Yugoslavia. For some analyses, China has been shown separately.

South and East Asia:
Unless otherwise stated, South Asia, South-East Asia and East Asia, excluding China.

Mediterranean:
Cyprus, Malta, Turkey, former Yugoslavia.

West Asia:
Bahrain, Iran (Islamic Republic of), Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen.

Major developed market economies (or the Group of Seven):
Canada, France, Germany, Italy, Japan, United Kingdom of Great Britain and Northern Ireland, United States of America.

For particular analyses, developing countries have been subdivided into the following groups:

Capital-surplus countries (or surplus energy exporters):
Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, United Arab Emirates.

Deficit countries (or capital-importing countries) subdivided into the following two subgroups:

Other net energy exporters (or deficit energy exporters):
Algeria, Angola, Bahrain, Bolivia, Cameroon, Congo, Ecuador, Egypt, Gabon, Indonesia, Malaysia, Mexico, Nigeria, Oman, Peru, Syrian Arab Republic, Trinidad and Tobago, Tunisia, Venezuela.

Net energy importers:
All other developing countries.

Recent surplus economies:
Hong Kong, Republic of Korea, Singapore, Taiwan Province of China.

Miscellaneous groupings:

Fifteen heavily indebted countries:
Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, former Yugoslavia.

Least developed countries:
(47 countries)
Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen, Zaire, Zambia

Sub-Saharan Africa:
African continent and nearby islands, excluding Nigeria, northern Africa (Algeria, Egypt, Libyan Arab Jamahiriya, Morocco and Tunisia), South Africa.

The designations of country groups in the text and the tables are intended s olely for statistical or analytical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process.

I

The state of the world economy

The world economy remains listless. World output has been growing well below potential since 1990. For the third year in succession, in 1993 the rate of growth of world output will be below that of world population. Stagnation characterizes the developed market economies and decline continues to be a feature of the economies in transition. On the other hand, the developing countries as a group are growing at a pace not seen since the 1970s. Developing economies in Asia, including the most populous countries, and in the Southern cone of Latin America are expanding rapidly.

The reversal since the late 1980s of both the rapid increases in military budgets and the rise in consumer expenditures associated with the swift increases in stock prices and real estate has contributed to the weakening of growth impulses in developed countries in the 1990s. In the aftermath of the decline in asset values, consumers and investors in some of the largest developed economies are unusually cautious and hesitant, despite a considerable drop in interest rates. Financial consolidation in the banking sector has proceeded apace, but loans to the private sector are still stagnant. Restructuring and shedding of labour have bolstered corporate profits in many sectors, but confidence that markets will expand remains frail, and consequently higher profits have not led to a spurt in investments.

In many developed countries, large budget deficits constrained their ability to provide a fiscal boost to aggregate demand. The few actions Governments took appeared to be more a hesitant response to accumulated evidence that conditions were deteriorating than a conscious effort to anticipate events. Deregulation and globalization of the financial markets have been eroding the ability of policy makers to control key parameters, as the turmoil in exchange rate markets in the second half of 1992 showed.

In the international political sphere, some progress has been made towards resolving conflicts in southern Africa, Central America and the Middle East. But localized conflicts have assumed major international importance, absorbed the attention of Governments and diverted resources from development needs. As a consequence, much of the optimism about the new opportunities for growth and investment coming from the end of the cold war has dissipated.

Nevertheless, there are encouraging features in the current state of affairs. Price pressures are abating and inflation has decelerated considerably, giving Governments increased room for action to respond to economic stagnation. Labour productivity is growing again in several developed countries. There would seem to be few, if any, supply-side constraints on accelerating growth. Since December 1992, large industrial economies—individually and collectively—have taken action to stimulate their economies, and forecasts for the latter half of 1993 indicate a modest recovery with a more significant growth in 1994. Yet uncertainties surrounding the forecasts are unusually large, especially as consumer and investor behaviour appears to be very different from that exhibited during previous cycles.

DEVELOPMENTS IN 1992 AND EARLY 1993

World output increased by only about one half of one per cent after a year of practically no growth (see table I.1). The slow-down began in 1989 when output increased by 3.2 per cent, and growth is not expected to reach that rate till 1994, making the present recovery much slower than previous upturns. At the beginning of 1993, there was no major growth pole for the world economy.

The developed market economies, accounting for about three quarters of world output, grew by only about 1.5 per cent in 1992, after a 0.7 per cent growth in 1991. The United States economy began to recover from recession but Japan and the European Community (EC) were sliding into one. Unemployment in the developed economies as a whole increased by 5.5 million, raising

Table I.1.
Growth of the world economy, 1988-1994
Annual percentage change

	1988	1989	1990	1991	1992	1993	1994
World output	4.4	3.2	1.6	0.2	0.6	1 ½	3
Developed market economies	4.4	3.3	2.3	0.7	1.5	1 ½	3
Economies in transition	4.5	2.1	-6.3	-9.0	-16.8	-10	0
Developing countries	4.4	3.5	3.4	3.4	4.9	5	5
World trade	8.1	7.8	5.1	3.6	4.5	5.8	6.4
Memo item:							
Growth of world per capita income	2.7	1.5	0	-1.5	-1.1	-0.2	1.3

Source: UN/DESIPA. Figures for 1993 and 1994 are forecasts based on Project LINK.

the rate of unemployment to 7.4 per cent of the labour force, the highest since 1986. That rate is expected to rise in 1993. New peaks of unemployment have been reached in several countries.

The dramatic political changes that began in 1989 in eastern Europe and soon after in the Soviet Union ultimately swung these economies in the direction of the market economy. But the transition process has proved very difficult and has been accompanied by sharp declines in output and standard of living. After a decline of 9 per cent in 1991, output in the group fell by a further 17 per cent in 1992. Much of the deterioration in 1992 was due to a sharp worsening of economic conditions in the Russian Federation. In eastern Europe, the decline in output appeared to be ending in the Czech Republic, Hungary and Poland, with the prospect of an upturn in 1993 brightening in the latter two countries. Yet unemployment continued to increase in almost all countries, in most of them sharply, and as economic conditions deteriorated and some of the old social values crumbled, social problems greatly increased. The demise of the old political order also unleashed ethnic and regional conflicts, resulting in great human suffering and waste of scarce resources.

The output trend in the developing countries as a whole contrasts with the stagnation in the industrial economies and the continuing decline in output in the economies in transition. In 1992 total output in these countries increased by about 5 per cent, compared with 3.4 per cent in 1991, which was close to the average rate of growth in the 1980s. Much of the improvement was due to an acceleration of growth in China to almost 13 per cent and the recovery in West Asia from the effects of the Gulf war. But a number of other countries, in particular in South and East Asia, also continued to grow fast. Growth was thus widely dispersed, helping to raise the living standards of a large majority of the population of the developing countries and about 60 per cent of the world population. In 1992, the population of countries where per capita output increased accounted for 80 per cent of the total population of the developing countries. At the same time, in a large number of countries, particularly in Africa, accounting for as much as a fifth of the population of the developing countries, per capita output continued to decline. While world output barely increased, world trade grew surprisingly fast. The volume of world exports increased by about 4.5 per cent in 1992, after a 3.6 per cent growth in 1991.

The statistics of the world economy fail to convey the appalling increase in human suffering for which there is no single measure. Drought struck a number of countries, especially in Africa, sharply reducing food production and threatening famine, but the suffering of the people was greatly compounded by civil strife. In many other countries, ethnic and military conflict brought immense misery to millions. Refugees from extreme deprivation and military and ethnic conflicts numbered in the millions and millions more were displaced in their own countries. The list of areas where human suffering intensified or remained large is long: Afghanistan, Angola, Haiti, Liberia, Mozambique, Somalia, the Sudan, parts of the former Soviet Union and the former Yugoslavia. The suffering from droughts and famine is rooted in poverty: only the poor are incapable of protecting themselves from such disasters. Elsewhere, economic deprivation and insecurity are the product of political turmoil which is also setting back prospects of long-term economic development.

POLICIES IN DEVELOPED MARKET ECONOMIES—FROM NEGLECT TO TENTATIVE ACTIVISM

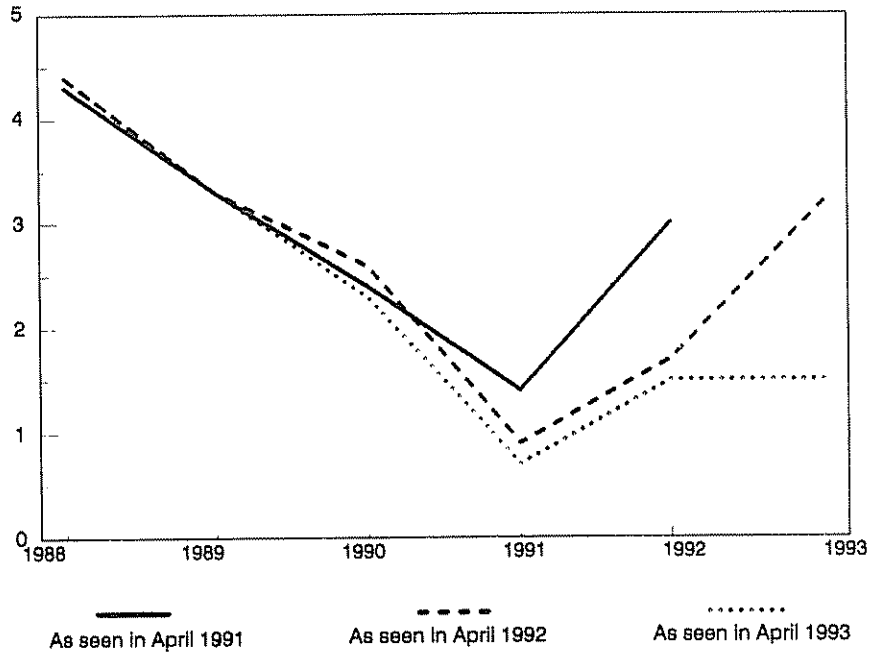
Most developed market economies began to slow down in 1989, the major exceptions being Germany and Japan which continued to grow vigorously through 1991. The belief among policy makers in most countries appeared to be that growth would soon recover as the business cycle ran its normal course. Indeed most of the projections in 1990 suggested that the slow-down would be mild and the recovery would be quick. Governments in most industrialized countries opted to wait for the recovery.

But the assumption of a mild and short slow-down proved wrong and the expected arrival of the recovery continued to recede into the future (see figure I.1). Most projections of both national Governments and international organizations, including multilateral financial institutions, turned out to be too optimistic.

Governments and central banks were, of course, not unaware of the need for policy initiatives. Most developed countries have been relaxing monetary policy in various degrees since late 1990 and early 1991. Interest rates have fallen over the past two years, in some countries to record lows. This, however, did not provide the expected stimulus to the economy. Moreover, in Europe, interest rates remained high, especially in countries in the Exchange Rate Mechanism (ERM), though they have started to decline in recent months. In fact, high German interest rates can be said to have hobbled European economic growth and these have begun to come down only recently.

Most Governments remain hamstrung by large budget deficits. Fiscal consolidation has been an important objective of policy in most countries and success was beginning to be achieved by the mid-1980s. The renewed growth of fiscal deficit in some countries over the past few years was therefore considered disturbing even though it had a large cyclical component, reflecting the

Figure I.1.
Recovery postponed: estimates of GDP growth of developed market economies, 1988-1993
Percentage



Source: UN/DESIPA.

Note: All numbers are projections and estimates of the United Nations Secretariat reflected in the *World Economic Survey*. Projections by other international organizations would give similar time profiles.

economic slow-down. Most Governments also remained committed to non-intervention in the economy, except to keep prices and exchange rates reasonably stable. In the short run, macroeconomic stability was seen as more important than low unemployment. However, particularly in EC, labour market policies to increase employment in the long term are being emphasized.

The length of the economic downturn and the weakness of the recovery, where it is taking place, have recently induced a modest shift of policy towards greater government involvement to stimulate growth. Macroeconomic policy in Japan now includes a package of fiscal stimulus, the new United States administration has proposed a modest fiscal programme for stimulating the economy and the recent United Kingdom budget eases the restraint on the growth of the deficit and provides fiscal incentives to business. Of these, the Japanese package announced in the fall of 1992, and supplemented by a larger package in April 1993, is by far the largest. As of April 1993, however, political opposition in the United States Congress resulted in a sharp whittling down of the fiscal package proposed by the new administration.

The task of macroeconomic policy in the developed market economies has also been made unusually difficult by a serious erosion of consumer and business confidence. Rising unemployment and the threat of it—heightened by a string of announcements from large business enterprises of very large layoffs—partly explain the caution of consumers in their spending plans. But spending has remained depressed also because of high debt levels of both households and enterprises and a sharp deflation of asset prices. Both appear more interested in reducing their past debt than in increasing current spending. While credit is cheap, there are relatively few takers, and, in fact, low interest rates were seen by many as an opportunity to retire old debt rather than contract new loans. This situation is only beginning to change in some countries.

Policy coordination among the developed market economies remains still limited to exchange rate stability. Coordination is possible, however, only if there is a convergence of national aims and these have diverged widely. This was made starkly evident in the turmoil in the ERM in September 1992. The overriding German aim of keeping inflation in control by maintaining a high rate of interest conflicted with the aims of other countries wanting to lower interest rates and stimulate growth. In the end, some members broke away from the ERM, which was conceived as the centre-piece of the European scheme for the convergence of national policies.

In recent months, however, there has been a degree of convergence of views on the need for action to help economic recovery. This is reflected in the Group of Seven (G-7) meetings and declarations. The coordination lay largely in *ex post facto* recognition of national action already taken, but there has also been a degree of consensus on the need to reduce German interest rates, and a reaffirmation of the continuing need for fiscal consolidation for non-inflationary growth. There has been a gradual recognition that anticipatory action was necessary.

ECONOMIES IN TRANSITION: THE URGENCY OF SUCCESS

The standard of living in the economies in transition has plunged since 1989. Per capita output has fallen by almost a third in the States of the former Soviet Union and by over a quarter in eastern Europe. It is expected to fall again in 1993, sharply in the former Soviet Union. Such decline is rare in history. Open unemployment, virtually unknown in these countries for decades, has been rising fast in almost all of them, including those which have achieved a measure of success in stopping the economic slide. In Poland, almost 14 per cent of the labour force was unemployed at the end of 1992, in Slovakia some 10 per cent and in Hungary about 12 per cent. Only in the Czech Republic did unemployment fall. In the Russian Federation, unemployment is officially estimated at under 1 per cent of the labour force, but hides considerable underemployment. Unemployment is almost certain to rise sharply in that country in the coming months.

Reform efforts have proved politically more difficult than expected. Specific government programmes of reform were delayed by popularly elected parliaments, as in Poland, over the question of privatization. A reformist administration was stymied by a conservative or gradualist legislature, as in Russia. Disagreements on the pace of change and discord on the sharing of its costs and benefits split nations, as in Czechoslovakia. None of this has stopped, far less reversed, the forces of reform. But the tasks of the transition have become far more complex than expected.

On the other hand, it would be too easy to blame failures of policy on political opposition to reform. Much of the economic turmoil in eastern Europe and the former Soviet Union is due to the inherent difficulty of replacing an old system with one that was almost totally

new. At the same time, political leadership found itself in a new role and often on unfamiliar ground. Western advice has, on the other hand, been on many occasions poorly conceived and haphazard.

The process of change is therefore likely to be slow and it is essential both for these nations and for the international community to take a long-term view of the transition. In eastern Europe significant headway has been made. In particular, Hungary and Poland appear poised for a turn-about. Nevertheless, there still remains the political task of building popular support for reform everywhere. Political obstacles to transition appear even higher in the Russian Federation and several other States of the former Soviet Union, and consensus-building a more formidable task, than in some countries of eastern Europe.

Yet the difficulty of building and sustaining political support for reform itself increases with the depth of economic decline and human suffering. While no large and quick benefits of transition should be expected, it is essential to achieve early success in critical areas, if political consensus is not to erode further.

External support for transition remains essential but has so far been inadequate, uneven and non-transparent, even though commitments have been large. There was probably a net outflow of financial resources from most eastern European countries in 1992. Capital flights from Russia and other States also make it more difficult to inject financial resources into some of these economies. A new package of assistance for Russia put together by G-7 in April 1993, partly induced by the recognition of the need to support political forces of reform, is expected to provide a more substantial inflow of financial resources.

Much of the external resource needs of these economies have to be met from increased export earnings. In recent times, exports from eastern Europe to Western Europe have indeed been growing fast, but only from a small base, and have been the only source of growth of their exports since the collapse of the Council for Mutual Economic Assistance (CMEA). Nevertheless, and in spite of the conclusion of association agreements between EC and Bulgaria, the former Czechoslovakia, Hungary, Poland and Romania, Community support for an open-door policy has been far less enthusiastic than it should be. Recession in Western Europe has also made a fast growth of imports from the East harder to achieve. An improvement in the external environment, especially a recovery in Western Europe, can considerably ease the difficulties of transition in the East.

DEVELOPING COUNTRIES:CAUTIOUS OPTIMISM

Developing countries as a group have been growing at an almost constant rate of 3.5 per cent since 1989, when the world economy began to slow down. In 1992 their growth accelerated to 5 per cent, the highest rate since 1979. Per capita output increased by about 3 per cent in 1992, after a mere 1.5 per cent annual increase over several years. This growth has been shared by countries accounting for 80 per cent of the population of the developing countries. Furthermore, high growth was not limited to a few countries. In a sample of close to 100 countries, some 30 per cent grew at an annual rate of 5 per cent or more in 1992, with 1 in 10 growing at 7.5 per cent or more. Much of the growth occurred in Asia, especially South and East Asia and China, and there has been a renewal of growth in parts of Latin America.

Long-term dynamism in South and East Asia has its roots in various combinations of export-oriented policies, pragmatic interrelation between the State and the private sector in support of growth, active diversification towards manufactures, human resources development, and high levels of national savings. Meanwhile, in Latin America, which had lost ground in the 1980s, economic policy reform has taken hold in a few countries, but the passage to a new more outward-looking model of economic development is mostly at an early stage, educational and health systems, which deteriorated in the 1980s, still suffer from neglect, and social inequities seem to be worse than in any other region. The new Latin American take-off is still frail.

On the other hand, output continues to stagnate in many countries, especially in Africa, where per capita output declined once again in 1992. The efforts needed in many developing countries to improve growth are daunting, especially considering the time it takes for a poor country to raise its level of income even modestly (see box).

The relatively high rate of growth of the developing countries as a whole is heavily influenced by the large countries, particularly China, which are less dependent on external trade, and this partly explains the apparent lack of relationship between growth in developing countries and that in developed market economies. However, developing countries in general appear to have grown irrespective of the decline in the developed economies during the past few years.

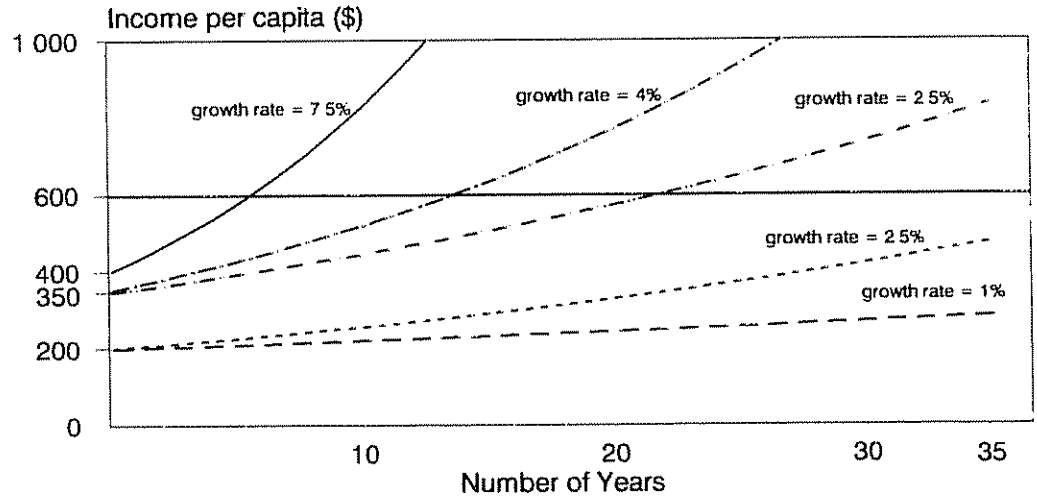
Some of the most export-oriented developing countries continued to grow fast despite the weakness in the industrial economies. This does not suggest that in an increasingly integrated world, developing countries

BOX 1.1

Why growth is crucial. Some orders of magnitude: the case of low-income countries

THE RECENT GROWTH of the developing countries and their rising living standards have to be seen in the perspective of the present level of income in the vast majority of these countries, the time it takes for a poor country to attain even a modest level of income and the continuing stagnation or decline of per capita output in many areas. It is a sobering thought that, for a country with a per capita income of $350, which is of the order of income of some populous countries like India and Pakistan in 1990, it would take about 22 years to reach $600—the International Development Association (IDA) cut-off level for eligibility—if its per capita income grows at a rate of 2.5 per cent (see figure). That rate is the average rate of growth of the developing countries as a whole in 1992 and examples of countries with a per capita income of about $600 are Bolivia, Egypt and Indonesia. It would take the country over 40 years to reach an income of $1,000. A 4 per cent annual growth of per capita output would cut the time to 14 years and 27 years, respectively, but only a handful of countries have achieved that rate in the past decade and maintained it over a significant length of time. Examples of such growth among the low-income countries are even rarer.

The arithmetic of growth of income



In 1990 some 30 developing countries, including some of the most populous, had a per capita income of $400 or less, with a median value of about $200, or one hundredth of the per capita income of the most developed countries. A country with the latter level of income would take about 45 years to reach a level of $600 if it grows at an unfaltering rate of 2.5 per cent a year.

Seen in the context of this arithmetic of growth, efforts needed are daunting for many countries. Output in countries outside China and South and East Asia, accounting for one third of the population of developing countries, increased at an annual rate of 1.3 per cent over the period 1982-1992, or at half the rate of growth of population. In other words, per capita output declined over the period.

Achieving a modest 2.5 per cent growth of per capita output would need great efforts in many of these countries. In 1992, output per capita remained unchanged or declined in 40 per cent of the developing countries.

In the past decade, only one country, China, among the low-income countries has grown at a rate that would sharply reduce the transition time, although a number of newly industrialized economies (NIEs) were low-income not much earlier. The rate of growth achieved in China would allow a country with a per capita output of about $400 to reach $600 in six years and $1,000 in 13 years.

would continue to grow independently of the pace of growth in the rest of the world economy. In fact, some of the highly export-oriented countries of Asia—the Republic of Korea, Singapore and Thailand—slowed down in 1992, though either marginally or for domestic reasons as well. Nevertheless, continuing and vigorous growth in a large number of developing countries in recent years has undoubtedly been a bright spot in the international economy. It also partly explains the dynamism of world import demand at a time of sluggish growth of world output.

One of the remarkable changes in the world economy in recent years is the wind of reform that has swept the developing countries. A large number of these countries have undertaken programmes of stabilization, adjustment and liberalization (see chap. II). In many, the changes have indeed been far-reaching. These have begun to produce results in a number of countries. In some, the reforms may be laying the foundation of long-term development. Private flows of capital in the form of foreign direct investment and portfolio investment have gathered pace. There has been a net transfer of financial resources to a number of countries of Latin America, after years of net outflow.

SHORT-TERM OUTLOOK FOR THE WORLD ECONOMY

FORECAST FOR 1993 AND 1994[1]

The growth of world output is expected to recover to only 1.5 per cent in 1993 and to 3 per cent in 1994. The developed market economies as a whole are expected to grow at practically the same rate in 1993 as in 1992. Output in the economies in transition as a whole is expected to decline further in 1993 and may stop falling only in 1994. Developing countries are expected to maintain their 1992 rate of 5 per cent in the next two years (see table I.1).

Growth in the United States economy is expected to recover from 2 per cent in 1992 to just over 3 per cent in 1993 and maintain that rate in 1994. By way of comparison, the average rate of growth in the 1983-1984 recovery was about 5 per cent. Nevertheless, growth in the United States economy, with its gross output accounting for one third of the total for the developed market economies, will be the dominant factor in the growth in these economies in 1993. Any slackening of growth there will seriously undermine growth prospects elsewhere. Recovery is expected to be fuelled by growth in fixed investment, construction and consumer durables. However, virtual stagnation in the rest of the industrial economies precludes any positive external impulse to United States growth. In Canada, the rate of growth should accelerate to 3.6 per cent in 1993 and almost 5 per cent in 1994.

In Japan, where a substantial package of fiscal stimulus is in place, the sharp slide in output in the latter half of 1992 is expected to turn into a weak growth of about 1.5 per cent in 1993 and over 2.5 per cent in 1994. The fiscal package itself is expected to add about 0.3 per cent to the growth of domestic demand in 1993. With an already large trade surplus and a high yen the recovery is expected to be based entirely on the strength of domestic demand.

After an average rate of growth of only 1 per cent during 1991-1992, EC is headed for a year of virtual stagnation but growth could rise to about 2.5 per cent in 1994.

An exceptionally tight monetary policy and increasing fiscal restraint contributed to a sharp slowdown in western Germany in 1992 and is expected to lead to a 1.5 per cent decline in output in 1993. In the eastern part of the country output is expected to grow by about 8 per cent in 1993, fuelled by government consumption and investment expenditure. For the country as a whole, output is expected to fall by nearly 1 per cent in 1993, but to increase by 3 per cent in 1994. The trend in the German economy will continue to set the pace of

growth in other EC countries, especially those remaining in the ERM. In France, growth is projected to be almost nil in 1993, improving to 2 per cent in 1994.

The United Kingdom, which entered recession earlier than other European countries, was beginning to show signs of recovery in early 1993 and should achieve a rate of growth of about 1.5 per cent for the year as a whole. Factors behind the growth are a substantial reduction of interest rates following the exit of the country from the ERM in September 1992, and a strong growth of exports after the depreciation of sterling. In Italy, which also left the ERM, the growth prospects are quite different. Faced with the necessity to reduce its huge fiscal deficit, the fiscal impulse in the country is expected to be strongly contractionary. Output is expected to increase by a bare 0.5 per cent in 1993 and 2 per cent in 1994.

With stagnation in Europe and modest recovery in North America and Japan, inflation should remain low in most developed market economies. For these economies as a whole, the increase in consumer prices in 1993 is expected to be about 3.2 per cent, with only a slightly higher rate expected for 1994.

The high social cost of economic stagnation is already reflected in high unemployment, which is expected to reach a new peak of 30 million in the developed market economies as a whole in 1993. In EC the rate of unemployment is expected to increase a full one percentage point in 1993 to 10.5 per cent and to remain at that level in 1994. In some of the other Western European countries the problem of unemployment is already more serious and is expected to get worse in 1993 and 1994. In the United States, however, the unemployment rate is expected to decline gradually to under 7 per cent in 1994 from 7.2 per cent in 1992.

For the economies in transition, the very nature of their transformation makes predictions of their short-term output trend much more difficult than for other groups of countries. In some of the six countries of eastern Europe, where reforms began earlier than in the former Soviet Union, a certain degree of macroeconomic stability has been established, some progress has been made towards privatization, and trade with Western Europe has grown. For the six countries as a whole, the decline in output in 1993 is expected to be about 1 per cent. Output is indeed expected to show an increase of about 2 per cent in Poland and to stop falling in Hungary. In the Czech Republic and Slovakia, an expected contraction of trade between them is likely to weaken growth prospects for both, especially the latter. A continued and large fall in output is expected in Bulgaria and Romania. In 1994 growth is expected to turn positive for the group, with further contracton taking place only in Bulgaria and Slovakia. In most of these countries the unemployment situation is, however, expected to worsen in the short term.

In many of the successor States of the former Soviet Union, reform efforts have much further to go than in some of the eastern European countries and face larger political uncertainties. In view of a sharp decline in investment in the past two years, which still continues, and the collapse of trade among them, there will be a further decline in these economies in 1993. Output is expected to fall by as much as 13 per cent in 1993, following a 20 per cent contraction in 1992. Western assistance is only lately beginning to take a more coherent shape. Its impact is still difficult to assess. The decline in output is expected well into 1994 but may bottom out sometime during the year, under the critical assumption of success in macroeconomic stabilization and renewal of investment in some key sectors, such as energy.

In Latin America, GDP growth in Brazil, the largest country in the region, is expected to be about 2 per cent in 1993 after a contraction of 1 per cent in 1992. Although growth in a number of other large and medium-sized countries is expected to slow from the very high rates exhibited in 1992, notably in Argentina, Chile, Uruguay and Venezuela, the turn-about in Brazil is expected to result in GDP growth for the region as a whole of about 3 per cent in 1993 and about 3.5 per cent in 1994. In most of the large and medium-sized countries, real private investment is expected to exhibit growth rates considerably greater than for total GDP in 1993, 1994 or both. The rise in investment in Mexico is related to anticipation of a successful conclusion of the North American Free Trade Agreement. Substantial net capital inflows into the region are expected to continue either in the form of direct investment or mediated through the emerging financial markets in several countries where real short-term interest rates are considerably higher than in the United States.

Aggregate GDP growth in Africa is expected to increase from about 1.4 per cent in 1992 to about 3 per cent in 1993. Sub-Saharan Africa is expected to grow by somewhat less than this average, while in North Africa GDP growth is expected to be about 3.5 per cent. The acceleration in GDP growth is expected to result primarily from the end of the drought and a reduced level of civil strife in several countries. Low commodity prices for some tropical beverages, metals and oils are expected to be a dampening factor on export earnings in 1993 but these are expected to show some slight improvement in 1994.

In West Asia, growth is expected to be only slightly lower in 1993 than the 6.6 per cent growth in 1992, as reconstruction in the wake of the Gulf war proceeds in Iraq and as oil production and refining capacity increases. Growth is expected to be broadly similar in 1994 on the assumption that oil production would increase in Iraq following a political settlement with the international community.

In South and East Asia, GDP growth in 1993 is expected to increase slightly to about 5.5 per cent in 1993 and 6 per cent in 1994. Tight fiscal policy is expected to ease somewhat in India, permitting an increase in the rate of growth of domestic demand, and a GDP growth of about 4 per cent in 1993. Rapid GDP growth is expected to continue among the newly industrialized economies. Growth of exports is expected to remain strong in 1993, and in a number of areas, notably Hong Kong and Taiwan Province of China, large public sector infrastructure projects are expected to boost domestic demand.

In China, GDP growth in 1993 is expected to be about 11 per cent owing to the continuation of less restrictive monetary policies and a more liberal import policy facilitating the importation of machinery and equipment needed to maintain investment at a high level. The inflationary pressures building up after two years of double-digit GDP growth are expected to lead to a gradual tightening of monetary policy in the second half of 1993 and a slow-down in the rate of growth of central government expenditures. These policy measures are expected to lead to a reduction in GDP growth in 1994 to below 10 per cent.

DOWNWARD RISKS REMAIN LARGE

While the growth of world output is expected to increase, from 0.6 per cent in 1992 to 1.5 per cent in 1993, the recovery is delicately poised, as projected growth is balanced by considerable risks and uncertainties.

Though the United States economy is set for a continuation of the upturn that began in 1992, indications are that the recovery will be weak. The modest fiscal package of the new administration became unravelled in Congress in April, while economic indicators were sending mixed signals on the strength of the recovery. The fall in output in Germany in 1993 might turn out to be larger than projected, further weakening the growth prospects of other countries, especially in EC. The easing of monetary policy in the country may have been too late and is considered inadequate. In France, recent evidence suggests that the economy might be heading for an actual decline in output. In Japan, while the latest fiscal package brightens growth prospects, any over-zealous attempt to reduce its trade surplus could slow the recovery in that country.

Though consumer confidence has improved in a number of developed economies in recent months, it is still far from robust. In the recent past, corporations and consumers have shown bursts of confidence that have, after a while, fizzled out. Continuation of a high level of unemployment may weaken the build-up of confidence. Any new external shock could set it further back. Financial consolidation after the asset deflation may take longer than projected.

Great uncertainties surround the prospects of many of the economies in transition. Recession in Western Europe could dim the prospects of eastern Europe. Unsettled political questions in the Russian Federation and a large degree of uncertainty about the impact of Western assistance make any prediction of economic trends in that country extremely precarious.

Growth of the export-oriented developing countries which have hitherto expanded exports through market penetration, might be adversely affected if the industrialized countries continue to stagnate. A clear sign of overheating was evident in China by April 1993, which does not augur well for the continuation of the very high rate of growth of the country in the recent past. Economic prospects of Brazil, one of the largest developing economies, remain uncertain. Policy oscillations make forecast for the economy subject to a wide margin of error.

One of the major areas of uncertainty in the world economy is the negotiation at the Uruguay Round which remains stalemated. Major investment decisions, especially capital formation in trade-related activities, hinge on effective action to strengthen the multilateral trading system. The prolongation of the stalemate is bound to have an adverse effect on such decision-making.

CONCLUSION

The resumption of growth remains the overriding issue in the world economy in 1993. The urgent social concerns in the developed countries will remain unaddressed in the absence of growth, and major issues of development in other areas of the world cannot be resolved so long as the world economy continues to stagnate.

Only a strong recovery can provide employment opportunities, compensate for the negative short-term effects of cuts in military expenditure, lead to expansion of trade, help revive commodity prices, and ease the transition process in eastern Europe and the former Soviet Union.

In a number of countries, the scope for further loosening of monetary policy to stimulate the economy is almost exhausted. But, till recently, interest rates remained high in Europe. Interest rates in Germany are coming down and should decline further, allowing other countries, especially ERM members, to initiate similar reductionss of their own, and thus stimulate their economies. It will also enable countries that suspended their membership in ERM to rejoin the Mechanism and pursue policy coordination at a higher plane of economic activity.

Consolidation of the fiscal situation in the medium term to long term in several industrialized countries remains essential. Without it, the level of savings required to maintain the dynamics of the world economy will not be generated and disequilibria might accumulate, thwarting—in the end—growth efforts everywhere. The key issue is, thus, nurturing consumer and business confidence in the short term while making progress towards reducing the deficit in the medium term and eventually eliminating it in the long run.

Except for Japan, policy-induced fiscal stimulus in developed market economies is modest or non-existent. Indeed, recent developments have shown the enormous difficulty of using fiscal instruments for short-term stimulus when the perception of financial markets is that budget deficits are already too high. Under such conditions, a fiscal stimulus can only be effective if it is part of a credible package of medium-term to long-term fiscal consolidation.

A trade-off between meeting the urgent need for growth and the long-term necessity for fiscal consolidation is certainly involved. Therefore, it is critical for policy makers to decide the speed of the consolidation process and monitor it in the light of the evolution of aggregate demand.

Considerable attention has been given, especially in the United States, to the Japanese trade surplus, although the increase in the surplus with the United States in 1992 was quite small. Economic growth in Japan is itself expected to reduce the surplus. It is important to let growth reduce the surplus rather than the alternative sometimes being advocated, mainly in the United States, of targeting specific Japanese markets for foreign penetration, which undermines the rule-based multilateral trading system and will ultimately harm the world economy.

In recent months there has been a greater show of determination in G-7 to strengthen the IMF role in multilateral surveillance of national macroeconomic and exchange rate policies, to warn against the emergence of large trade and payments imbalances among countries and prevent currency crises such as the turmoil in the ERM in 1992. This role of the Fund is not new and was given to it in its Charter, but has received scant support of the major developed countries. The renewed support from these countries, if continued in practice, should strengthen the role of the Fund. Multilateral surveillance could thus lead to better policy mix in the major industrialized countries and to low interest rates in the international capital markets. The latter is particularly important for avoiding a sudden reversal of the positive net financial flows to developing countries in the past two years.

In the economies in transition, a significant improvement in living standards is a considerable way away. Some of the most difficult tasks still lie ahead in most of these economies, including privatization and restructuring of the larger state enterprises. The transition is essentially for the countries themselves to undertake. The world economy stands to lose in the long run, however, if external assistance is not better coordinated and targeted than it has been so far, and unless there is greater readiness in the developed countries to open their markets to exports from these economies. The decision to set up an IMF Systemic Transformation Facility and the $28 billion assistance package for Russia worked out by G-7 in Tokyo in April 1993 are important steps in this regard. A sizeable special drawing rights (SDR) allocation along the lines recommended by the Managing Director of IMF would also facilitate the conduct of economic policy in these countries as well as in other countries facing constraints owing to the low levels of international reserves.

The recent improvement in growth performance in the developing countries provides some justification for optimism, especially as it has begun to improve the living standards of the large majority of the population of these countries. But there is little reason for complacency. The size of the population in the developing countries where per capita output declined in 1992 equals that of the developed market economies and is twice the size of the population in eastern Europe and the former Soviet Union. With living standards at a small fraction of

those in the developed countries and substantially lower than in most economies in transition, the challenge of development in the vast majority of the developing countries has not diminished.

The net flow of financial resources to developing countries has dramatically changed direction after almost a decade. It became significantly positive in 1991 and rose further in 1992. Much of this has been private capital flows to Latin America, partly reflecting renewed confidence of investors and international financial markets in these economies, and partly recession and lower interest rates elsewhere. The inflow, however, consists largely of short-term funds and its impact on the much-needed increase in investment is still small. On the other hand, the flow of official resources, on which many low-income countries, many of them African, are almost entirely dependent, has not been increasing fast enough, and prospects of any significant increase are slim. The political constituency for foreign economic assistance is on the decline in many developed countries and appears unlikely to strengthen again at least till economic growth has resumed in these countries and their fiscal worries have lessened. Yet, the international community has an unshakeable responsibility to support sustainable development in developing countries, as committed under Agenda 21, and assist in efforts at poverty alleviation.

The debt crisis of the developing countries has largely receded as large restructuring of commercial debt of a number of heavily indebted countries has been achieved, interest payments on debt have diminished, and modest progress has been made in forgiveness and rescheduling of official debt of the poorer countries. Yet many countries are still hobbled by debt and there are as yet few signs of growth in the heavily indebted countries. For some of the poorer countries, especially those in Africa, the debt burden has worsened, largely because of a continuing fall of prices of primary commodities. While more debt relief is needed, the critical issue is an adequate level of external financial support to adjustment and reform, leading to increased investment and growth.

The failure to complete the Uruguay Round of multilateral trade negotiations was a major disappointment of 1992. The Round remains stalemated on the question of farm trade and only the political will of the major negotiators can bring about its successful conclusion. Meanwhile, efforts to manage trade through bilateral deals and unilateral action continued and, in some cases, strengthened. In recent months trade war has been narrowly averted and its threat continues in a number of areas. The trading system has also been losing its multilateral character through the strengthening of trade blocs. These developments call for more effective commitments for a rule-based system of multilateral trade.

Economic stagnation in much of the world, especially in the developed market economies, and decline in eastern Europe and the former Soviet Union, have made it more difficult to reap the peace dividend that the end of the cold war promised. While arms expenditure has been declining in the major military powers, concerns about its employment implications in a situation of growing unemployment have tended to restrict efforts at winding up military establishments. Conversions and retraining face budget constraints. There have also been efforts to increase exports of military hardware to preserve jobs and, in some cases, earn scarce foreign exchange which has the potential consequence of fuelling tension in the importing regions through competitive efforts to build military strength.

The difficulties of reaping the peace dividend in a stagnant world economy illustrate the critical interrelationship between economic, social and political issues. Sustainable development, a smooth reallocation of capital and human resources from military to civilian uses, a substantial increase in employment opportunities and economic recovery in industrialized countries are closely linked. The importance of this interrelationship and the challenge it poses for international cooperation in the 1990s are now being increasingly recognized.[2]

NOTES

[1] This assessment by the United Nations Secretariat is largely based on Project LINK, a global econometric model incorporating over 70 national models. The forecasts are based on the following major assumptions:

Monetary conditions are expected to ease further in a number of developed market economies. The model forecasts that average short-term interest rates in 1993 will be 200 basis points lower than in 1992 in Germany and the United Kingdom, 50 to 100 basis points lower in Canada, Japan and the United States and 20 to 30 basis points lower in France and Italy. The trend to lower interest rates is expected to continue through 1993. However, in 1994, United States short-term interest rates are expected to rise as the economy strengthens, and in the United Kingdom interest rates are also expected to rise on the assumption that sterling will re-enter the ERM. None the less, average short-term interest rates in the de-

veloped countries are expected to be lower in 1994 than in 1993.

The fiscal stance of most developed market economies is expected to remain moderately restrictive or neutral in 1993, as was the case in 1992. The growth rate of real public consumption is expected to fall in the cases of France, Germany and Italy, but little change is expected in Canada, the United Kingdom and the United States. In Japan, it is expected to increase substantially in 1993 and 1994.

It is assumed that the average dollar price of oil in 1993 will be approximately the same as in 1992. Beyond 1993, oil prices are assumed to move in line with the price of manufactured exports of the developed market economies.

[2]In January 1992, the Summit of the Security Council requested the Secretary-General to prepare an agenda for peace, which he submitted in June of that year (A/47/277-S/24111) and which is under consideration by the Council and the General Assembly. In December 1992, the General Assembly requested the Secretary-General to prepare an agenda for development (resolution 47/181).

II

Current developments and policies

World output increased by under 1 per cent in 1992 after stagnating in 1991 (see table II.1). For the third consecutive year, the growth of world output lagged behind the growth of world population. That trend is likely to persist in 1993.

Developed market economies, accounting for over 70 per cent of world output, continued to be in serious economic difficulties, with output growing at a bare 1.5 per cent in 1992 and unemployment continuing to rise. There were signs of a turn-about in certain eastern European economies, but output plummeted in others and in the Russian Federation and the other successor States of the former Soviet Union. Output in the economies in transition as a whole is estimated to have declined 17 per cent in 1992, after a 9 per cent fall in 1991. In the developing countries, output increased by some 5 per cent, a significant improvement on 1991, but there was a great diversity of growth among countries.

Table II.1.
Growth of gross domestic product (GDP) by region, 1981-1993

	Growth of GDP (annual percentage change)						Memo items: comparative indicators		
	1981-1988	1989	1990	1991	1992[a]	1993[b]	Growth of population, 1991-1995 (average annual percentage change)	Population in 1992 (millions)	GDP in 1992 (percentage of world)
World	2.9	3.2	1.6	0.2	0.6	1 1/2	1.7	5479	100
Developed market economies	2.8	3.3	2.3	♦ 0.7	1.5	1/2	0.7	847	74
of which:									
United States	2.8	2.5	0.8	-1.2	2.1	3	1.0	255	25
European Community	2.1	3.4	2.7	♦ 0.9	1.2	1/2	0.3	346	25
Japan	4.0	4.7	4.8	4.0	1.3	1 1/2	0.4	124	16
Economies in transition[c]	3.1	2.1	-6.3	♦-9.0	-16.8	-10	0.4	393	8
Developing countries	3.1	3.5	3.4	3.4	4.9	5	2.0	4 238	18
Latin America and the Caribbean	1.4	1.1	0.1	2.9	2.2	3	1.8	458	4
Africa	1.8	3.0	2.9	2.0	1.4	3	2.9	642	2
West Asia	-1.7	3.2	1.9	-0.1	6.6	6	2.7	142	2
South and East Asia	5.9	6.1	6.4	5.3	4.9	5 1/2	1.9	1 726	6
China	9.9	3.6	5.2	7.7	12.8	11	1.4	1 188	3
Mediterranean	2.5	0.3	1.1	-7.9	-5.2	3	1.5	83	1

Source: UN/DESIPA. Data on population are those published by the Department in *World Population Prospects. 1992* (to be issued as a United Nations publication)

a Preliminary

b Forecast, based on project LINK. Estimates are rounded to the nearest half percentage point.

c The former Soviet Union and eastern Europe.

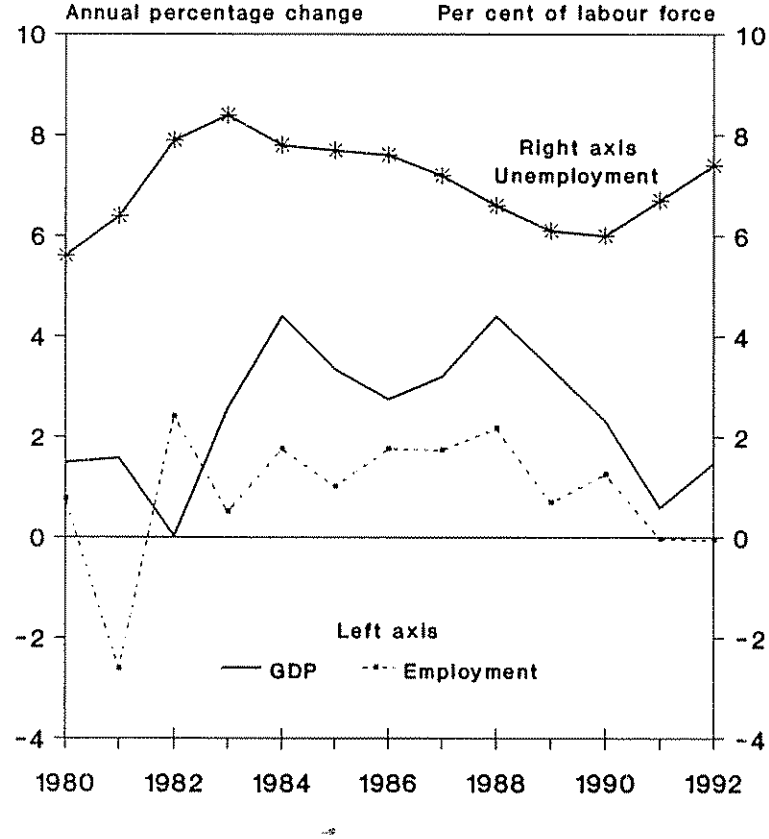
♦ After 1990, the former German Democratic Republic is included in Germany.

SERIOUS WEAKNESSES IN DEVELOPED MARKET ECONOMIES

The number of unemployed in the developed market economies rose by 5.6 million from 1990 to 1992, reaching 28 million.[1] The prospect is that almost 30 million people will be unemployed in 1993, despite a second year of economic "recovery". This means that almost 8 per cent of the active labour force is still without work in these economies (see table A.6), many of them for long spells. In Australia, Canada, Denmark, Finland, France, Ireland, Italy, New Zealand, Spain and the United Kingdom of Great Britain and Northern Ireland, at least one in 10 workers was unemployed in 1992 and about the same or a higher proportion is expected in 1993. In Japan, where the unemployment rate has remained under 2.5 per cent, largely because corporate strategies have generally eschewed layoffs in slow periods, several large firms announced layoffs and plant closings early in 1993. Even in the United States of America, where economic growth picked up in the second half of 1992, unemployment remained about 7 per cent and has swollen the number of people collecting food stamps to 26.6 million, more than 10 per cent of the population.[2]

The industrialized countries are thus passing through a period of unusual economic difficulties. It has been made more trying, however, because it comes at the end of a long period when the employment situation improved only very slowly, after the sharp deterioration of the early 1980s (see figure II.1). Despite the resumption of output growth following the recession of 1982, job growth was held down by structural adjustment in industry and the controlled pace of demand expansion, as several developed market economies sought to wring out inflation and inflationary expectations. And again, al-

Figure II.1
Economic growth, employment and unemployment in the developed market economies, 1980-1992



Source: UN/DESIPA, based in part on data of OECD

though GDP rose in 1992, the number employed did not.

Moreover, with weak labour-market conditions, real compensation per employee in the member countries of the Organisation for Economic Co-operation and Development (OECD) grew only 0.8 per cent a year on average in the 1980s. It had averaged 2.1 per cent a year during the period 1974-1979.[3]

The difficult situation of workers in the 1980s was not as salient politically as it might otherwise have been because real consumption levels grew more rapidly than compensation. To some degree this was made possible by growing official transfers, including social security payments to the elderly and unemployment benefits that have been relatively generous in some countries. It was also the result of a major and irreversible social change, the entry of large numbers of women into the labour force and the increasing number of households with more than one wage-earner. But it was the result as well of increases in household borrowing, collateralized largely by rising housing values. Now that housing and other asset prices have fallen and future income growth is more uncertain, that borrowing seems to have been excessive. Indeed, one main reason the current economic situation in the industrialized countries has improved so slowly is that the growth of indebtedness has had to be reduced to a more sustainable level.

This anaemic situation and the uncertainty, highlighted by the possibility of years of continued high unemployment, have weakened the prospect that the recovery will strengthen. Households seem to share the assessment, as indicated by consumer confidence surveys (see figure II.2). The fall in consumer sentiment in Germany and Japan in 1992 as their economies weakened was quite natural, but the bouts of pessimism in 1992 in the economies that went into recession in 1991, in particular in Canada, the United Kingdom and the United States, were more than simple volatility. They reflected a continuation of a generally cautious attitude.[4] This is significant, as consumer spending, after all, makes up over 60 per cent of total expenditure in the developed market economies.

The overall weakness of the developed market economies is also a reflection of the international character of the current business cycle. It is, for example, about as widespread as the previous cycle, but the troughs are far less deep. In the 1982 recession, the economies of five of the seven largest and 10 of the 17 smaller industrialized countries grew by less than 1.5 per cent or declined; in the 1991 episode, again five of the largest but only seven of the smaller economies were in that situation. But because the slow-downs were generally sharper in 1982, the pace of activity in the developed market economies as a whole fell to nil in 1982, while it grew 0.7 per cent in 1991. By the same token, the growth of output has been far weaker in 1992 than during the 1983 upswing (1.5 per cent versus 2.6 per cent). There were growth impulses from fewer countries in 1992—and the domestic impulses in those countries were themselves quite weak—and thus there was little mutual reinforcement of growth through trade and financial flows.

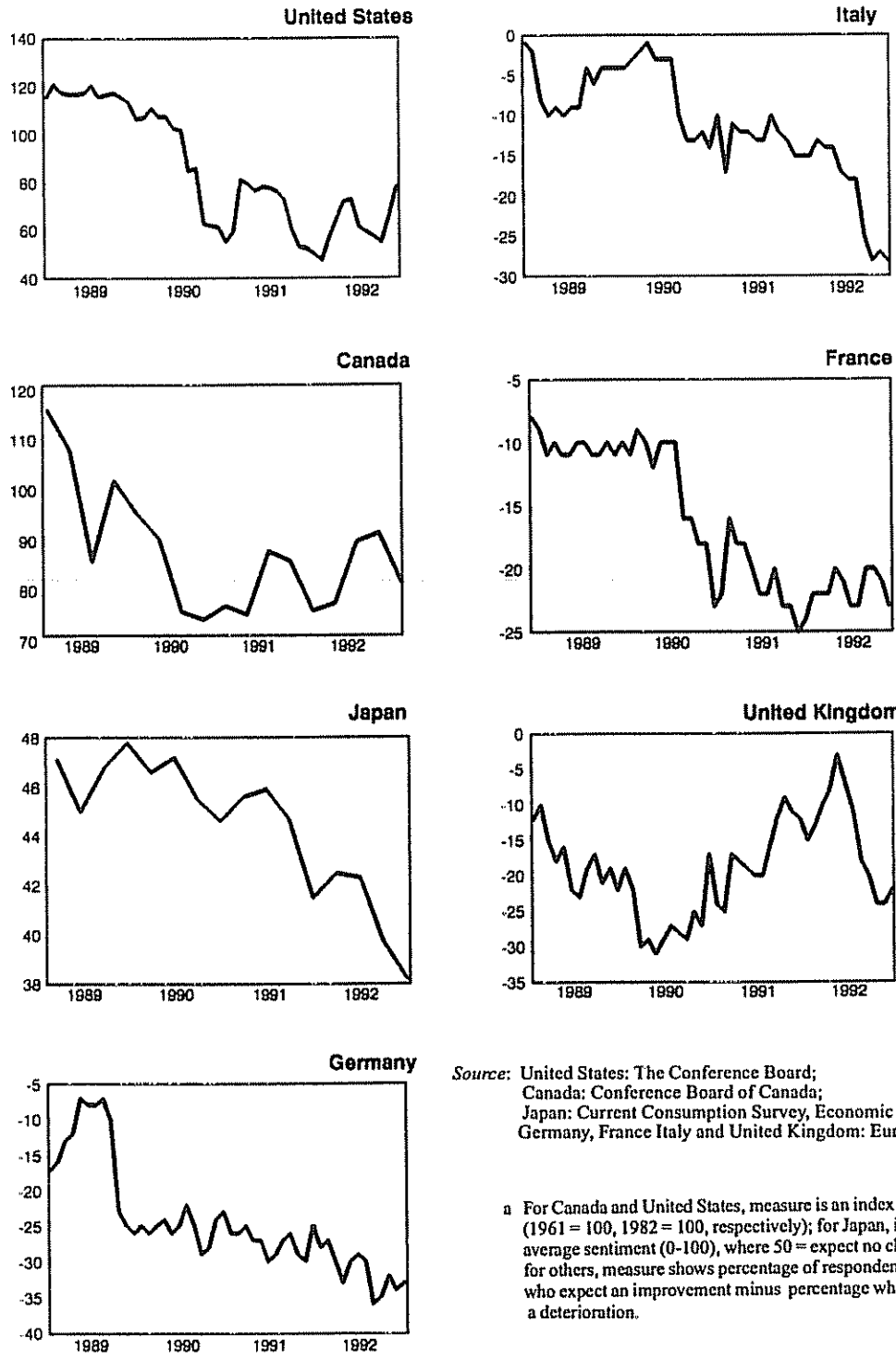
As 1992 wore on, government leaders in the major countries increasingly began to look at fiscal and monetary means to stimulate their economies. Inflation fell through the year to relatively low rates in several countries and monetary restraints were eased. There also seemed to be room for a non-inflationary fiscal stimulus in some countries. Fiscal actions were thus taken or announced in 1992 in Japan, the United Kingdom and the United States and at the European Community Summit, but each stimulus was a modest one. However, after the finance ministers of the seven major economies met on 27 February 1993, the possibility began to be discussed of jointly arranging credible steps in a new spirit of co-operation to strengthen economic growth.

DEVELOPMENTS IN THE LARGEST ECONOMIES

The recession in the United States, the world's largest economy, ended in March 1991, according to the committee of the National Bureau of Economic Research that formally dates United States business cycles. Since then and until the end of 1992 the economy grew at a 2 per cent annual rate, the weakest recovery on record. In contrast, the average annual rate of growth during the first seven quarters of the past five economic recoveries was 4.5 per cent. Moreover, for the first time since the Second World War, the United States has been experiencing a recovery without significant job growth. Indeed, unemployment rose in 1992 in spite of the growth in output.

The pace of recovery seems related to a number of developments. First, the recovery of consumer spending was relatively weak, although residential construction was spurred by sharply lower interest rates. Secondly, government expenditure restrained recovery in 1992, as the Federal Government implemented cut-backs in military spending and as States and localities were forced to reduce their expenditures in the face of recession-induced revenue declines.[5] Thirdly, following the depre-

Figure II.2.
Consumer confidence in seven major economies,[a] 1989-1992



Source: United States: The Conference Board;
Canada: Conference Board of Canada;
Japan: Current Consumption Survey, Economic Planning Agency;
Germany, France Italy and United Kingdom: European Community

a For Canada and United States, measure is an index (1961 = 100, 1982 = 100, respectively); for Japan, index measures average sentiment (0-100), where 50 = expect no change; for others, measure shows percentage of respondents to a survey who expect an improvement minus percentage who expect a deterioration.

ciation of the dollar and a resumption of import growth in Latin America, surging United States exports helped dampen the recession in 1991 and continued to prop up United States GDP growth in 1992. Prospects, however, are for this impulse to diminish as the European and Japanese economies have slowed. Finally, although investment has in general been weak, equipment purchases—especially computers, office technology and communication equipment—have been strong, as there has been a broad push to raise productivity in the business sector.

More generally, many large United States enterprises have been rethinking corporate strategies and restructuring operations to regain a competitive edge. In the effort to reduce costs, payrolls in some large firms have been cut permanently and older factories closed. In the services sector as well as in manufacturing, productivity-consciousness has been on the rise. Indeed, labour productivity grew more rapidly in services in 1992 than in manufacturing, while hiring in services virtually stalled.[6]

If such productivity gains are sustained, there may be an increase in the potential long-term United States growth rate and, consequently, a more rapid improvement in the standard of living in the future. In addition, small increases in unit labour costs associated with accelerated productivity growth could result in a long-term reduction in inflation. The difficulty at the moment is that with slow income growth, demand for the more efficiently produced goods and services does not grow adequately. Thus the new United States Administration has proposed a short-term fiscal stimulus along with its programme to bring about the necessary medium-term reduction in the federal budget deficit. The appropriate size and timing of the impulse, however, is still to be legislated.

In Japan, the world's second largest economy, rapid expansion had been so common that annual growth of less than 3 per cent came to be considered with concern. However, in 1992 GDP fell for three quarters, leaving Japan in a state of outright recession (see table II.2). Thus, although the Japanese economy grew 1.3 per cent for the year as a whole, it marked the end of one of the longest expansions in the post-war era (see table A.2). As of early 1993, there were too few signs of renewed activity to suggest that recovery had begun. But when it does commence, it is expected to be a slow rebuilding of growth, as in the United States.

The main source of the slow-down in Japan has been domestic private demand. Private consumption actually fell for two quarters of 1992. Consumer sentiment, which has been declining since 1990 (see figure II.2), hit a 10-year low, reflecting consumers' concern about future income and employment prospects. It also reflected the fall in household wealth owing to the fall in real estate and stock-market prices and the high level of debt households were carrying, as discussed below. Employment is being adjusted through such measures as reduction in overtime work, cuts in part-timers and scaling down of new recruits, thus largely evading outright layoffs. Since Japan is facing a long-run labour shortage, while it is also reducing the length of the work week, layoffs will be avoided as much as possible. But as the need for restructuring became acute, some signs of breaking with the tradition of lifetime contracts in large enterprises began to appear. Since these measures do reduce wage incomes and raise concern about the future—concern that clearly appears in the consumer sentiment index—consumers are indeed restraining their spending.

In addition, investment in equipment, once a major contributor to growth, declined in the fourth quarter of 1992 for the fifth consecutive quarter on a seasonally adjusted basis and overall investment plans for the first half of 1993 dropped 6 per cent below the level in the second half of 1992.[7] Under current expectations for the growth of demand, the private sector now has considerable excess capacity.

With the expansion of private consumption and investment thus expected to be tempered for some time, Japan's recovery depends on growth in three sectors: public expenditure, already supported by a fiscal stimulus in 1992; private residential investment, also partly supported by official stimulus; and the external sector. The prospective impulse from the last factor, however, is not large, as world demand is weak and a ballooning Japanese trade surplus has already caused uneasiness among some policy makers both in Japan and abroad. The appreciation of the yen in early 1993, moreover, will reduce the international competitiveness of Japanese exports.

Much hinges, in other words, on government policy, which in 1992 was applied with great caution. Monetary policy was eased in several steps, albeit modest ones that seemed to follow the downturn in the economy rather than counter it; but the sources of weakness in private demand do not seem very closely tied to credit conditions. The Government also sought to stem the decline in stock prices through increased purchases by official entities. The concern here was not only the dampening

Table II.2.
Output, unemployment and inflation in seven major industrialized economies, 1991-1992

	Quarter								Year	
	1991				1992					
	I	II	III	IV	I	II	III	IV[a]	1991	1992[a]
Growth of gross domestic product[b]										
Canada	-5.9	5.5	0.4	0.0	0.4	0.4	1.2	3.5	-1.7	0.9
France	0.0	2.8	3.8	0.7	3.1	1.3	1.2	-2.0	1.2	1.6
Germany[c]	10.1	-2.4	-1.9	-1.4	7.9	-0.5	-2.0	-3.9	3.7	1.5
Italy	1.7	2.1	0.7	2.4	2.3	0.9	-2.4	-3.5	1.6	0.9
Japan	6.7	4.0	1.7	2.1	4.1	-0.9	-2.2	-0.3	4.0	1.3
United Kingdom	-2.1	-3.1	1.1	-0.3	-2.8	-0.7	0.4	0.4	-2.3	-0.5
United States	-2.8	1.8	1.1	0.7	2.9	1.4	3.4	4.7	-1.2	2.1
Total	1.4	1.8	1.1	0.9	3.2	0.4	0.6	1.1	1.0	1.5
Unemployment[d]										
Canada	10.1	10.3	10.3	10.3	10.7	11.2	11.5	11.5	10.2	11.2
France	9.0	9.2	9.7	9.9	10.1	10.3	10.3	10.4	9.5	10.3
Germany[c]	4.3	4.3	4.4	4.3	4.5	4.7	4.8	5.1	4.4	4.8
Italy	9.9	10.0	9.6	9.9	9.9	9.9	9.9	10.4	9.9	10.1
Japan	2.0	2.1	2.1	2.1	2.0	2.1	2.2	2.3	2.1	2.2
United Kingdom	8.2	8.7	9.1	9.3	9.5	9.7	10.1	10.5	8.7	10.0
United States	6.4	6.7	6.7	6.9	7.2	7.4	7.4	7.2	6.6	7.2
Total	6.1	6.3	6.4	6.5	6.6	6.8	6.9	7.0	6.3	6.8
Consumer price increases[e]										
Canada	6.4	6.2	5.7	4.1	1.7	1.4	1.3	1.7	5.6	1.5
France	3.5	3.2	3.0	2.9	3.0	3.1	2.7	2.1	3.1	2.8
Germany[c]	2.7	3.1	4.2	4.0	4.3	4.5	3.4	3.7	3.5	4.1
Italy	6.4	6.7	6.4	6.1	5.8	5.5	5.2	4.8	6.4	5.4
Japan	3.7	3.4	3.2	2.8	1.9	2.2	1.8	0.9	3.3	1.7
United Kingdom	8.6	6.0	4.8	4.1	4.1	4.2	3.6	3.0	5.9	3.7
United States	5.3	4.8	3.8	3.0	2.9	3.1	3.1	3.0	4.3	3.0
Total	5.0	4.6	4.0	3.4	3.1	3.2	2.9	2.6	4.2	3.0

Source: UN/DESIPA, based on data of IMF, OECD and national authorities

a Partly estimated.
b Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average with weights being 1991 GDP, valued at 1988 prices and exchange rates).
c Germany is western Germany only in this table.
d Percentage of total labour force; seasonally adjusted data as standardized by OECD.
e Percentage change in average consumer price index in quarter relative to same quarter of preceding year (total is weighted average, with weights being annual consumption valued in 1988 prices and exchange rates).

effect on business and household spending, but also the security of the banking system that was using as reserves a portion of the capital gains earned on their own stock portfolios. A fiscal stimulus had been incorporated into the budget of 1992/93, mainly by "front-loading" expenditure on public investment projects; but this served mainly to slow the deceleration in total demand. A supplementary fiscal package totalling over 2 per cent of GDP was announced in August 1992; yet it was not fully adopted until the end of the year. As the economy still looked weak in early 1993 and taking into consideration requests from other members of the Group of Seven, the Government announced its preparedness to embark on an even larger stimulus package than the one in August.

If macroeconomic policy in Japan and the United States has been focused recently on designing a short-term fiscal stimulus, the main concern in Germany has been to bring down the government deficit that had been swollen by the cost of integrating the new *Länder* into the Federal Republic and pulling down the relatively rapid rate of inflation that the integration strategy had set in motion (see tables A.7 and A.8). Indeed, unlike in Japan and the United States, the cyclically adjusted fiscal balance in Germany tightened in 1992.[8] The main weapon

thus far brought to bear against Germany's inflation, however, has been monetary tightening. The Deutsche Bundesbank raised its interest rates from February 1991 into the summer of 1992, when they reached the highest levels of the post-war era. Inflation has been slow to abate, but real output was negatively affected (see table II.2).[9]

Output in western Germany stopped growing and then declined increasingly rapidly during 1992, pulled down by the high cost of borrowing owing to stringent monetary policy. A major indirect circuit by which monetary tightness cut back output involved a decline in exports—particularly capital equipment—to weakened European economies that had to keep their own interest rates high to match the German rate moves. In addition, business confidence in partner countries was shaken by a currency crisis that spread across Europe in September.

The currency crisis arose out of the commitments of several European Governments—both fellow members of the European Community (EC) and its Exchange Rate Mechanism and other neighbouring countries—to maintain virtually fixed parities of their currencies against the mark (see box II.1). Most European countries had entered 1992 with slowly growing or declining economies, high unemployment and slowing rates of inflation. Indeed, by the end of the year, inflation in France fell to 2 per cent, a 36-year low. With commitments for fiscal consolidation in many countries, monetary easing was the policy of choice to try to raise the level of economic activity. Nevertheless, in order to preserve exchange rate parities against the mark, these countries had to maintain short-term interest rates above those in Germany. The latter had come to set the floor under the interest rates of partner countries as financial markets became convinced that the mark would never be devalued against any of the others.

For a time, the financial markets ignored the conflict between growth and employment priorities on the one hand and fixed exchange rates on the other. But by August, it seemed that the persistent recession in the United Kingdom would require a British policy response and the pound began to fall against the mark. Speculators had begun to bet on a forthcoming devaluation. Italian budgetary difficulties and fears that inflation would ultimately force a lira devaluation also attracted the attention of speculators. By September, there had been several bouts of official intervention to defend the established parities of these currencies as well as statements and international meetings to bolster confidence. On 8 September, Finland floated the markka and speculators began to attack other currencies, in particular the Swedish krona. Sweden's central bank raised its marginal lending rate to 25 per cent, then 75 per cent and later to 500 per cent in a battle that ultimately could not be won.

By the end of September, the pound and the lira were cut free of their link to the mark. Italy was on its way to major budgetary reform and the United Kingdom would develop a fiscal stimulus package as well as reduce interest rates. By the end of January 1993, the Spanish peseta was devalued twice, the Portuguese escudo and Irish punt once, and Norway and Sweden abandoned their policies of pegging their currencies to the European currency unit, the composite European currency. None of these countries had been able to persuade the markets that high and rising interest rates would be sustained under recession, especially as these countries had to cope with high levels of private debt that had accumulated in the 1980s, as will be discussed below.

Along with speculative fever, a general business uncertainty seemed to pervade Western Europe. It even unsettled the franc-deutsche mark rate, which most in the market believed had not been fundamentally misaligned. Although that parity was maintained, the Banque de France spent FF 80 billion in one week in September in its defence and interest rates had to be raised despite a weak economy. In the fourth quarter of 1992, slow economic growth in France turned into shrinking output (see table II.2).

The year ended with a summit meeting of the European Community that, *inter alia*, adopted a growth initiative containing a modest EC expenditure package and a reaffirmation of the importance of economic growth. The Bundesbank raised its target growth of the German money supply for 1993 and indeed German interest rates have eased, if slightly and slowly, in the early months of the new year. However, the scope for further German interest rate reductions—and international pressures to enact them—clearly still existed.

A FINANCIAL CONSTRAINT ON RECOVERY

Everywhere in the developed market economies the prospect for recovery is weak. The watchword for consumers and enterprises is caution amid uncertainty, a reaction to the past as well as an assessment of the future.

In many countries, it reflects back on a time in the 1980s when there was much less caution, and when deregulation and financial innovations and the expectations of even higher values of shares and real estate led

BOX II.1

Policy-making, fixed rules and confidence: European lessons

FOR SEVERAL YEARS exchange rates among the currencies of the member countries of the European Community (EC) were essentially fixed, as were the parities against EC currencies of five European trading partners. Then in September 1992 Western Europe went through a foreign exchange convulsion, the aftershocks of which continued into early 1993. Italy and the United Kingdom no longer even seek to maintain the almost fixed grid of intra-European parities that became the hallmark of European monetary relations, and non-members Finland, Norway and Sweden no longer peg their exchange rates to the European currency unit.

The major interest in stabilizing European exchange rates and moving to a single currency under the Community's Maastricht Treaty was to foster regional trade and financial flows. But the operations of the Exchange Rate Mechanism (ERM) of EC and the informal pegging arrangements of the non-EC currencies also served as a strategy for monetary policy. For most participants, fixing their exchange rates meant that their monetary policy had to return their exchange rates towards their central parities whenever they began to depart. By an informal understanding, Germany's monetary strategy was different. It was expected to actively steer the German economy, the largest in Western Europe, to a low-inflation growth path.[a]

The premise on which the countries had tied their exchange rates together and formulated much of their macroeconomic policy was that Germany would indeed provide a stable anti-inflationary anchor for the other countries. Thus, the jump in inflation in Germany in 1991 challenged that premise. It also added a new chapter to a decades-old debate on the efficacy of rules versus discretion in the formulation of monetary policy.

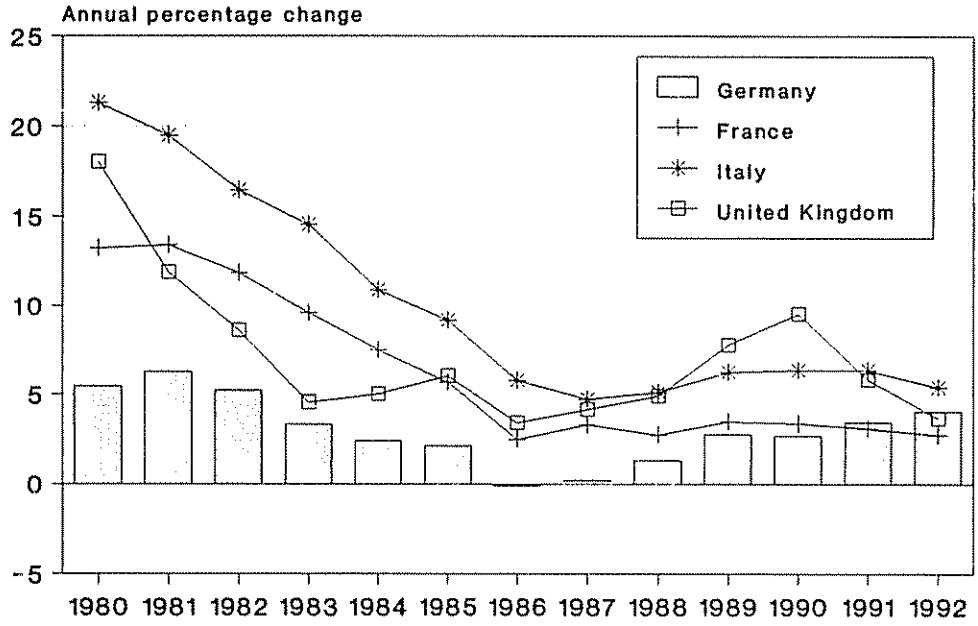
The essence of the debate was whether a nation's monetary authority could more effectively achieve a sustainable low-inflation growth path (a) by seeking to steer the growth of the money supply and alter interest rates and other financial market conditions as the economic situation evolved, or (b) by tying itself to fixed rules for setting policy variables. The key question was whether the central bank had sufficient information to anticipate the economy's changing monetary needs or whether it would add to instability by inappropriate reactions. Advocates of rules suggested that regularly increasing the money supply at a rate fixed with reference to a measure of long-run need would be preferable to discretionary policy, although it turned out that keeping the growth of money—let alone credit—within targeted ranges was not easily accomplished.

In more recent applications of rules for policy-making, the national currency's exchange rate is anchored to a stable foreign currency or basket of currencies. If a country's exchange rate was falling, the monetary authorities would rein in the growth of money and raise local interest rates, which would encourage a movement of foreign funds into the country, strengthening demand for the currency and pushing up its exchange rate. If the currency's initial weakness had been the result of relatively high inflation, the fixed-rule policy would be consistent with one that sought to steer the growth of money and the level of interest rates towards targets that would be consistent with lower inflation. Indeed, policies that might have been politically difficult to follow had they been discretionary could then be viewed as a consequence of a larger, binding commitment to exchange rate stability, as in the ERM.

Past experience with "pegged" exchange rates, however, has shown that they do not always work smoothly. Even when there were restrictions on international capital flows, private finance found ways to move funds from currency to currency when the prospects of substantial profits arose from devaluations that monetary authorities were trying to prevent. Indeed, all major currency exchange rates have floated since the early 1970s, although groups of Western European countries repeatedly sought to recreate relatively stable rates among themselves. To complicate matters further, financial markets have been developing rapidly and becoming increasingly integrated internationally, assisted by a progressive liberalization of

policy regulations and the advance of communications technology. In Europe, the last restrictions on intra-EC capital movements were removed in July 1992 in eight of the 12 member countries. In effect, the only way that the exchange-rate anchor could work as a fixed rule for monetary policy was if the financial markets believed that the exchange rate target was a reasonable one, i.e., that it was consistent with what discretionary policy-making would choose. This was thus the broad theme of European monetary policy in the 1980s. Germany had the lowest rate of inflation and to maintain fixed parities with the deutsche mark, partner countries needed to bring their inflation rates down to the German level. As the figure shows for the four largest EC countries, this was largely happening. The difficulty began when Germany no longer had the lowest inflation rate in EC. Absorbing the eastern *Länder* into Germany was a major economic event that required a large economic adjustment by Gerny. By 1992, German inflation was the highest it had been in a decade and was not even among the lowest in EC. The German authorities thus raised domestic interest rates to fight inflation, which also attracted funds from around the world. The deutsche mark rose sharply against every currency that was not tied to it.

European inflation rates, 1980-1992



Source: IMF, *International Financial Statistics*.

Had the partners followed discretionary policies, they would have steered a low-interest course and benefited from the trade stimulus coming from a fall in their exchange rates against the deutsche mark. In addition, in some countries, as discussed in the text, the financial system had been weakened by an excessive spate of borrowing by enterprises and households and low interest rates would have helped to spur the financial adjustment process that had begun.

As it was, Germany's partners were following a fixed-rule policy that had become untenable. In some of these currencies, the accumulation of years of domestic prices rising more rapidly than German prices had made their fixed exchange rates overvalued, requiring either a devaluation or a long

period of slower inflation and thus weaker growth than in Germany to restore "equilibrium". Yet, devaluation was ruled out. Moreover, to maintain fixed parities with the mark after German interest rates rose required higher rates in partner countries. Meanwhile, the higher exchange rate of the mark against the dollar and other currencies also raised the exchange rate of the pound, the lira and all the others that were tied to the mark. Their degree of overvaluation was thus accentuated.

The financial markets began to take notice of the potential difficulties, especially after the Danish and French votes on the Maastricht Treaty suggested less popular enthusiasm for the policy directions embodied in the Treaty than had been supposed. The atmosphere became such that even if a country had devalued, market sentiment would have been damaged anyway and domestic interest rates would have had to be high to stem a market overreaction. Indeed, Spain raised rates to defend the peseta before it was devalued and then lowered interest rates, but not by the full amount by which they had been raised.

One lesson of this episode seems to be that rules cannot substitute for discretion in policy-making. The confidence of the financial market grows out of the credibility of the policy choices made, not in the rules being followed. A central bank that decides to follow a rule is still a policy-making organ and no one rule gives the right policy for every situation. If a central bank convinces the financial market that its policy is to follow a particular rule, then there will be a period of uncertainty and speculation first when the rule becomes untenable and then after the rule is dropped or altered. The persistence of relatively high interest rates in some European countries after the 1992 devaluations is a case in point.

Exchange rates can be fixed, but the commitment to fix rates must be irrevocable and national monetary policy must be fully devoted to the commitment. Active monetary policy, for example, counter-cyclical policy, would require joint decisions by the grouping of countries. The pressures that would push member countries to enact any other national monetary policy must be eased through other means, such as automatic — and perhaps discretionary — fiscal transfers to depressed regions. Indeed, one value of a strong central authority in a federal state is that automatic fiscal stabilizers can make the short-run costs of belonging to the union acceptable so the long-run benefits may be garnered. European attachment to fixed exchange rates was far from such a commitment.

[a] Germany also had to help maintain parities when they came under attack, e.g., buying partner currencies that were falling against the deutsche mark. As a side effect of the latter was to increase the supply of marks in circulation, German monetary management became complicated whenever there was a European speculative episode.

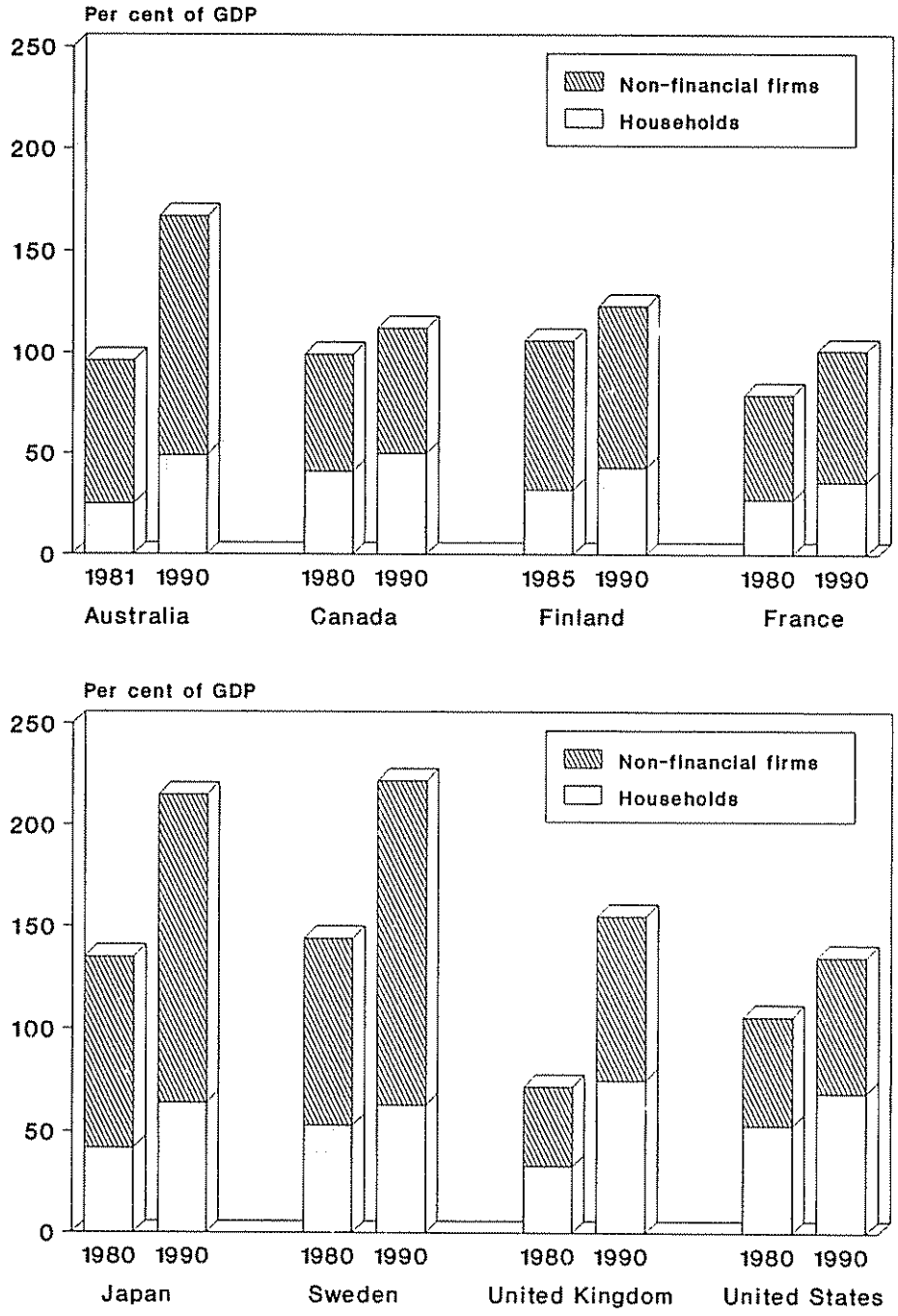
firms and households to spend beyond their means. Indeed, in several countries the recession was itself a part of the adjustment to a more sustainable financial situation in the private sector.[10]

During the 1980s, private debt levels jumped in Australia, Canada, France, the Nordic countries, Japan, the United Kingdom and the United States (see figure II.3). Debt climbed to record levels in relation to output, after having been broadly stable in the 1970s. For example, from 1950 to 1982, the relationship in the United States between private sector debt and output was quite stable, with growth in debt slightly outpacing that of nominal GDP. This close relationship broke in the 1980s and by 1990 the ratio of private debt to GDP reached 1.35, up from 1.03 in 1982. In the United Kingdom, debt of the private non-financial sector doubled as a percentage of GDP between 1980 and 1992; it rose by over 80 per cent in Australia, 75 per cent in Sweden and over 40 per cent in Finland and Norway.

The United Kingdom was the most extreme case of the growth of household debt. It would require a 32 per cent fall in debt or a 46 per cent rise in personal income to return the British debt-to-income ratio to the 1980s average. In Japan, it would require a 26 per cent fall in debt or a 35 per cent rise in income; in the United States, a 19 per cent fall in debt or a 23 per cent rise in income would be needed.[11]

If the details and scale of the debt problems varied from country to country, the main causes and the end results were similar. Expectations of long-run increases

Figure II.3.
Private debt in selected developed market economies, 1980 and 1990[a]



Source: UN/DESIPA. based on OECD and national data

a For Canada, France and the United States, total credit market debt; for others, total financial liabilities, excluding trade credit (also excluding ordinary and preferred shares in the United Kingdom).

in asset prices associated with rising demand had fuelled a surge in financial activities that was released by financial liberalization policies. Rapid credit growth drove up house and property prices, as well as the values of financial assets, thereby adding to personal and corporate wealth. The prospect of further gains provided yet additional incentives for new borrowing and lending and the higher-valued assets provided increased collateral. For some time the debt build-up thus fed on itself.

By the end of the 1980s, inflation began to rise and monetary authorities in several countries tightened policy. The process of new debt creation stalled and the mismatch between debt-service costs, on the one hand, and profits and incomes, on the other, became unsustainable. Personal income growth lagged far behind mounting debt-servicing payments, while corporations lost some of the ability to pass on cost increases — in this case stemming from high interest costs — to final buyers who had become more cautious spenders. Strains on profitability came to the surface, and in the absence of new credit injections, asset values tumbled. The rise in the share of income devoted to interest payments began to restrain private sector spending. The recessionary forces gained momentum.

In some cases, the subsequent expenditure constraint was quite marked. In Australia, for example, where the comparative level of corporate debt had been unusually low, borrowing doubled the debt-to-GDP ratio in the 1980s and raised the debt burden even more as real interest rates rose. As a consequence, even with the subsequent easing of interest rates in the Australian recession, gross fixed capital formation fell more than one fifth from its 1989 peak to 1992 when output recovery began, albeit without a pick-up in investment.

One of the problems in Australia had been an overbuilding of business structures and, indeed, real estate seems to have been one sector that was widely affected by the debt surge. It formed part of the problem in Japan and the United States, as will be discussed below. In Europe, the debt build-up has been mostly, if not solely, associated with real estate, both residential and commercial. And just as the debt build-up raised property prices, the collapse in private credit growth caused a rapid fall in property values, with commercial properties falling more sharply than houses. In the United Kingdom, for example, prices of commercial property plunged 45 per cent from their peak in 1989 to 1992, while housing prices fell 25 per cent. Commercial property prices have plummeted in many of the major cities in Australia, Canada and Europe. For instance, capital values fell by 50 per cent in Stockholm and 40 per cent in Paris from their peaks in 1990 to 1992, and about 30 per cent in Barcelona and Madrid and 20 per cent in Milan from 1991 to 1992.

Another consequence of the 1980s eruption of debt has been to weaken the financial sector itself in many developed market economies. The intent of the wave of financial deregulation in the 1980s had been to promote greater competition and efficiency in the financial sector and the surge of innovations in financial products and new uses of debt were testimony to its effectiveness. But the combination of high debt burdens and falling asset prices also badly damaged the credit standing of financial institutions themselves.

The Nordic countries have had particular difficulties. Many of the big banks in the region have gone bankrupt or have been sustaining large losses in the midst of collapsed property markets and record loan defaults. The Governments of Finland, Norway and Sweden have spent over $16 billion supporting their banks in the past three years. After expansion in the 1980s, total write-offs of Norwegian banks' property holdings alone exceeded $9 billion by mid-February 1993, and as part of its financial rescue, the Government has taken over full or controlling ownership of all of the country's biggest commercial banks. Losses by all Finnish banks were estimated at about $4.5 billion in 1992 and about the same order of magnitude of losses is expected in 1993. With equity capital in the Finnish banking system at the end of 1991 of $11.4 billion, the two years' losses would virtually wipe out the sector's equity capital.[12]

Even in less extreme cases, the financial sector has been jolted. In France, for example, banks and insurance companies that were hit quite strongly when the property market turned downward have been shoring up the market through cross acquisitions and support for property developers. Banks themselves showed large declines in profits in 1992 or outright losses—most for the first time in their history—owing to debt write-offs or taking provisions against bad loans.

Thus the financial sector, as well as non-financial institutions, have had to modify their borrowing and lending strategies and repair their balance sheets as a result of the debt explosion. Restraints on the ability to expand private credit seem likely to subside only gradually, limiting the potential pace of economic recovery for the next few years in several countries. On the other hand, the situation of financial institutions in the United States advanced more rapidly in 1992 than might have

been expected, although even there, several difficulties remain.

The case of the United States

Private debt had exploded in both the business and the household sectors in the United States. Most new household debt was in the form of residential mortgages, which accounted for 75 per cent of the growth in the total between 1982 and 1992. The combination of the baby-boom generation moving into the family-formation stage of life, an easier access to credit sources and a steady rise in housing prices more than offset the disincentive to mortgage borrowing from high real interest rates in the 1980s. All in all, total household debt increased from 75 per cent of disposable personal income in 1980 to 94 per cent in 1990 and interest payments rose from about 15 per cent of income to 18 per cent.

In the corporate sector, heavy debt growth had been driven by excessive investment in commercial structures and by a wave of mergers and buy-outs facilitated by ready availability of finance. Between 1984 and 1990, United States corporations retired $640 billion of equity while borrowing about $400 billion from banks and other depository institutions and another $650 billion in the securities markets. As a result, the ratio of corporate debt to operating income climbed from 2.0 in 1982 to 3.2 by 1991.

Only a portion of the corporate debt build-up was used for capital accumulation. Indeed, the ratio of domestic investment to GDP suffered a substantial decline during the period when debt growth was most rapid. The vast bulk of the debt was associated with increased spending on real estate and company reorganizations.

It seems likely that the limit to private debt capacity was reached as the 1980s ended. The gap between debt and the capacity to service it suddenly seemed to widen dangerously, as the prospects for incomes and asset values changed in the slow growth environment that the 1990s were turning out to be. Amid growing financial strains, businesses and households therefore began a balance-sheet restructuring to reduce their debt risks and the cost of debt service. At the same time, the banking industry that extended many of those credits has been struggling to improve its financial health in the wake of expanding loan losses.

Households have tempered their expenditures and begun to reduce their debt. In both 1991 and 1992 consumer instalment debt fell—the first such decline on record—while the growth of mortgage indebtedness flattened. In addition, as long-term interest rates have declined, households refinanced mortgages and other loans. As a result, by the end of 1992 the ratio of household interest payments to income fell back to approximately 16.5 per cent, thereby cutting the 1980s' growth in the interest ratio in half.

United States corporations have also taken advantage of lower long-term interest rates by refunding their outstanding high-rate debt. In addition, since 1991, after eight years of net equity retirement, equity financing resumed. Moreover, to restore profitability, companies have aggressively cut non-interest costs through plant, office or outlet closure, permanent staff reductions and equipment investment, as noted previously. Together, all these efforts have significantly reduced financial stress in the corporate sector so that by the end of 1992, its ratio of net interest payments to operating income was about 19 per cent, down nearly 5 percentage points from the mid-1989 peak and returning to levels of the mid-1980s.

In the financial sector itself, job cuts and unusually heavy purchases of long-term government securities, instead of making loans, have increased earnings. Indeed, in 1992, for the first time ever, the share of government securities surpassed commercial and industrial loans in the portfolios of United States commercial banks. Besides, reduced dividends and record equity issues have helped to strengthen the capitalization of commercial banks. Thus, in 1992 the number of bank failures and the amount of assets involved were well below the 1991 totals.

At the macroeconomic level, this balance-sheet adjustment seems to have curtailed aggregate spending in 1992. Not only have borrowers been reluctant to increase their debt at this time, the need to improve capital positions may also have forced banks to restrict lending, not merely for commercial real estate and highly leveraged acquisitions, but, in some cases, also for normal short-term financing. All in all, the broad money supply (M_2) grew only 2.2 per cent, the smallest increase in over 30 years and less than the growth in prices. The real money supply thus decreased in 1992, the fourth successive year of contraction (see table A.8). Nevertheless, the sluggish behaviour of spending and, consequently, weak demand for loans seem to have accounted for much of the sluggishness in bank lending.

Although considerable progress has been made in the adjustment process in the United States, financial strains are likely to continue to dampen growth in 1993. Despite the developments noted above, debt-to-income

ratios have declined only modestly. Moreover, it appears likely that the restoration of debt-to-income ratios to the levels of the 1980s will not lead to the resumption of the borrowing habits of the 1980s. On the contrary, desired debt levels may have been moving downward. There may have been a fundamental reassessment of the underlying assumptions and expectations that boosted the debt build-up in the first place. But for debt ratios to fall below the level of 1980, it would require the growth in private debt to remain below that of GDP for an extended period. That has not occurred since the 1930s.

The case of Japan

If Japan also succumbed to financial excesses in the 1980s, it led there to an excessive amount of investment. In the late 1980s, private non-residential investment rose to 22 per cent of GNP compared to 14 to 15 per cent in the first half of the 1980s.

During the mid- to late 1980s, bank lending grew at an unprecedented rate, as borrowers were drawn by low interest rates and lenders were spurred by financial deregulation. As a result, land and property prices as well as equity prices skyrocketed. Indeed, the land value of the Tokyo area alone tripled in three years, 1986-1988, before beginning to recede in 1989. The capitalization of the Tokyo Stock Exchange tripled over four years, 1986-1989, before it, too, began to contract. These were clearly speculative "bubbles".

The boom in the stock market made it cheaper for corporations to raise capital. Between 1987 and 1989, corporations raised about $350 billion of new capital by issuing stocks and equity-linked bonds, i.e., bonds that paid unusually low interest rates because they also carried warrants for conversion into equity. The effective cost of equity finance was less than 2.5 per cent.[13] These rates were possible only because of the belief that the Japanese equity market would only move in one direction—upward.

With cheap, equity-linked funding available, the big manufacturing companies reduced their borrowing from the banking sector. The banks then shifted their lending to smaller companies, especially real estate and construction firms. The stock of bank loans extended to the real estate and construction sectors thus grew from ¥34 trillion in 1985 to ¥73 trillion in 1991. Real estate companies, in turn, invested the borrowed money in land, mostly for speculative motives. At the same time, other financial institutions also substantially increased their lending to these sectors.

By 1989, the Bank of Japan became concerned about the "asset inflation" and signs that pressures for price inflation were building. Monetary policy was thus tightened and interest rates began to rise. The Nikkei stock index responded by descending from the peak reached at the end of 1989 and fell 40 per cent in one year. Following a relatively calm 1991, it fell another 38 per cent by mid-August 1992, which was one factor that prompted the Government's economic package announced at that time. Land prices started to fall in the latter half of 1990 and fell through 1992. After a substantial fall in 1991, prices of land in residential areas in the Tokyo region still fell by 14.6 per cent and in the Osaka region by 17.1 per cent during 1992, according to a survey by the National Land Agency. It was only the second time since the end of the Second World War that land prices fell.

The decline in stock prices and property value left the banks with large amounts of bad loans: in the six months to September 1992, non-performing loans—loans on which interest was not paid for at least six months—of the largest 21 banks rose by more than 50 per cent to ¥12 trillion (about 2.6 per cent of total assets), according to data released by the Ministry of Finance.

Given the accelerated decline in land prices, the banks' bad debts were likely to continue to grow. At the same time, the banks' loan-loss reserves have not risen. In addition, the plunge in the stock market reduced the banks' unrealized gains on holdings of securities, part of which is officially considered loan reserves, from a peak of ¥61 trillion in September 1989 to less than ¥15 trillion in September 1992. This still covered the potential losses from non-performing loans, but if the banks had to sell their shareholdings to cover losses, it would disrupt the market, lower prices and reduce the revenues realized.

In the meantime, although some portion of new investment made in the late 1980s went for productivity enhancement, most companies came to carry huge excess capacity, amid falling demand and a sharp profit squeeze. To enhance profits, corporations are thus making deep reductions in costs, including prospective wage and job cuts and sharp cut-backs in investment. Moreover, the enormous decline in equity prices raised the cost of capital, both for firms that might be interested in floating new equity issues and for firms that had used the equity-linked bond financing. Where the equity warrants were not exercised, the firms have to refinance the maturing bonds at higher cost.

If, in the United States, the adjustment has concentrated on reducing the private sector's debt-to-income ratio, the adjustment in Japan centres around absorbing excess capacity and learning to live with less paper wealth. Both point to less buoyant demand conditions in the years ahead. But whereas the adjustment in the United States has already served to strengthen bank balance sheets, the health of the banking system remains a major concern in Japan. To address the problem, the Government has supported the stock market, purchasing shares using government-controlled funds to buoy prices, as noted above. In addition, 162 private financial institutions set up a company in late January 1993 with an investment of over ¥7.9 billion, which is to buy up about ¥500 billion worth of non-performing debt in the fiscal year ending in March 1993. The company bought up ¥682 billion of non-performing loans by the end of March 1993, 36 per cent over the initial expectation. The peak of the operation, however, is expected to be the 1993/94 fiscal year. The banks are thus hoping to resolve the problem of the bad loans themselves. Unless they do so, they would not be able to expand lending adequately, which might severely undermine the growth of economic activity and a banking rescue by the Government might be needed. This could only dampen the pace of economic recovery.

DIFFICULT TRANSITIONS TO MARKET ECONOMIES

The transformation from centrally planned to market economies and from closed to open political systems in eastern Europe and the successor States of the Soviet Union has been under way for several years, at least in some of these countries. All of them have undergone severe economic depressions and most have seen very high inflation and substantial unemployment without an adequate social safety net to cushion the loss of earnings.[14] In 1992, at last, it seems that the corner might have been turned in three relatively fast-reforming countries in eastern Europe: the former Czechoslovakia, Hungary and Poland. For the others, additional economic decline seems to still lie ahead.

POSSIBLE TURNING POINTS IN EASTERN EUROPE

Although output declined about as rapidly in 1992 as in 1991 in Bulgaria and Romania, the decline in output slowed (and on a month-to-month basis ended) in the three faster-reforming economies, giving a sense that their transition processes might soon start an expansionary phase. Indeed, the economies of Hungary and Poland are expected to grow in 1993 (see table A.3).[15]

Industrial production in eastern Europe followed a similar, if more accentuated, course to that of total output, while severe drought, policy uncertainties and an inadequate agricultural credit system combined to produce a very poor harvest and the lowest level of agricultural production in a decade across the region (see table A.10). In the faster-reforming countries, construction activity showed signs that the end of the recession might be close. After a long and severe decline associated with falling investment activity, construction grew in Czechoslovakia and Poland in 1992 and in Hungary the decline in construction activity slowed.

The relatively more successful countries also shared certain features in the structure of demand for their output in 1992. Thus, while domestic demand continued to drop, export volumes grew (see table A.19). Although Czechoslovakia's trade had earlier been more oriented to eastern European and Soviet trade partners, by 1992 its trade structure approached that of Hungary and Poland, which had earlier built up exports to the developed market economies. In each case, roughly two thirds of shipments are now made to those economies, about half to the European Community (see chap. III).

Investment still remains depressed, however, throughout the region (see table A.10). In Poland, though investment stopped declining in 1992, gross capital formation was still at four fifths of its previous peak in 1988. In Hungary, the decline in investment had been much steeper; its gross capital formation in 1992 was about three quarters of the level in 1989. Czechoslovakia's recession began only in 1991, but investment experienced an even faster decline, with the level in 1992 at about 70 per cent of the 1990 level. The investment situation was far worse, however, in Romania: after three years of severe contraction, investment dropped an additional 20 per cent in 1992, bringing it to only one third of the published level for 1988.

The degree of social upheaval brought on by the transition is not adequately captured in economic statistics, but they do give an indication of the changes that are under way. Thus, in a region in which unemployment was

Table II.3.
Unemployment and inflation in eastern Europe, 1990-1992

	Unemployment[a]			Consumer price increases[b]		
	1990	1991	1992	1990	1991	1992
Albania	..	..	..	..	104.1[c]	249.1[c]
Bulgaria	1.6	11.5	15.9	19.3	338.5	79.3
Czechoslovakia	1.0	6.6	5.1	9.9	57.9	10.8
Hungary	1.7	7.4	12.3	28.9	35.0	23.0
Poland	6.3	11.8	13.6	584.7	70.3	43.0
Romania	1.3	3.0	8.4	5.7	165.5	210.4

Source: UN/ECE and UN/DESIPA.

a Registered unemployed as a percentage of labour force, end-of-period.
b Percentage change in average consumer price index in year relative to the preceding year.
c Within-year (December to December of preceding year).

once quite unusual, millions are unemployed and three Governments are now reporting double-digit unemployment rates (see table II.3). One country that is not is the former Czechoslovakia, where unemployment fell from 6.6 per cent of the labour force in 1991 to 5.1 per cent in 1992, although the low unemployment was restricted to the Czech Republic, which ended the year with a 2.5 per cent rate. In Slovakia, the unemployment rate was 10.2 per cent at that time. Bulgaria had the highest unemployment rate in eastern Europe in 1992, overtaking Poland, which had the highest rate in 1991. Unemployment in Poland reached 13.6 per cent in September 1992, which was also the rate at the end of the year, although it is expected to rise again in 1993. In Hungary, 12 per cent of the labour force was unemployed at the end of 1992 and the rate was expected to rise further this year, albeit at a slower rate.

When most of these economies were centrally planned, demand-supply imbalances at the consumer level resulted in various forms of rationing. High inflation was an unusual phenomenon; but it soared everywhere in the region once the transition process began (see table II.3).[16] In all the eastern European countries except Albania and Romania, however, inflation declined in 1992. In the former Czechoslovakia, after a large price adjustment in early 1991, inflation slowed under tight monetary policy. Thus, although consumer prices rose 58 per cent on average in 1991, there was only an 11 per cent rise in 1992. Nevertheless, inflation began to rise again in the early months of 1993 in both successor States, in part as a result of the introduction of a value-added tax and possibly its abuse by companies and traders who raised prices by more than the amount of the tax.

EASTERN EUROPEAN EXPERIENCES IN THE PROCESS OF TRANSITION

The fundamental business of economic transition is introducing and spreading all the necessary institutions of a market economy. The centrepiece is the enterprise—whether farm, factory or service provider—that makes decisions about what to produce, how to produce it and where to sell it, and that negotiates with workers over wages, with financial institutions over credit, with suppliers over inputs and buyers over outputs. The enterprise is responsible for all these decisions and more and it is normally rewarded with profits if it makes good decisions and with losses—and ultimately bankruptcy—if it makes poor ones. The enterprise needs an appropriate ownership structure, a system of corporate governance and a process for transferring ownership.[17] The market economy also needs an adequate legal system to define and enforce contracts that are the formalization of all the decisions, as well as defining and enforcing property rights themselves. It needs a financial system that can allocate credit appropriately, as well as provide a proper range of credit instruments. It needs a Government that can oversee market activities, define acceptable standards of market behaviour, prevent some abuses and correct others, foster competition and provide public goods. It also needs some intangible factors, such as a presumption of self-reliance and personal initiative and a shared perception that the inequities of the society will be limited. Almost all of these institutional requirements of a market economy had to be created anew in eastern Europe.

As if creating the institutions of market economies was not difficult enough, the transitions began (or earlier reform efforts ended) with policies that led to the emer-

gence of rapid inflation and turbulent conditions in government budgets. Institution building had to be done at the same time as economic stabilization.

In several cases of very high inflation in market economies, an approach to macroeconomic stabilization known as "shock therapy" was applied, wherein mushrooming budget deficits were sharply cut back, domestic prices and imports liberalized, the exchange rate devalued and interest rates stepped up while the growth of the money supply was quickly reduced. The purpose of the shock was to squeeze inflationary expectations out of the economy, while reducing the economic—as opposed to administrative—ability to raise prices. As far as reducing inflation was concerned, especially very high rates of inflation, the treatment worked. However, it could not by itself address the important social and economic pressures and structural inadequacies that led the Governments to create the high inflation situations in the first place.[18] Such a shock therapy was vigorously applied in Poland where near hyper-inflationary price increases were stopped by 1991; however, inflation was still 43 per cent in 1992, with no growth in output.

The notion of shock therapy was also extended into a strategy of transition itself, although it focused mainly on changing the ownership structure of property. Perhaps the idea here was to push privatization quickly and keep potential opponents off balance. But it is clearer today that all policies for the main institutional components of transition, let alone stabilization, need to be considered simultaneously and that the requisite policy package might not entail a generalized "shock" approach. Indeed, some forms of privatization usually cannot be done quickly. In particular, if a high level of foreign debt essentially restricts foreign capital inflows to aid or direct investment or if access is sought to advanced technology and management, a Government may seek to sell some state enterprises to foreign investors. Even when market economies sell state enterprises, the process is generally a lengthy one.

The transition countries began their transformation process with different degrees of market orientation within their basically planned systems and different stocks of management skills and entrepreneurial spirit, both at home or in émigré communities that might consider local investment. Hungary, in particular, was in a unique situation on the eve of transition. As a result of earlier market-oriented reforms, Hungary could opt for a gradualist approach and try to avoid—albeit unsuccessfully—the steep decline in economic activity that was experienced by, say, Poland, which sought to follow a shock-therapy strategy.

Despite all the controversy about shock therapy or a gradualist approach to transition, the pace of the reforms in the three faster-reforming economies has been quite similar. The share of the private sector, for example, is increasing relatively fast in all three countries. Besides the various privatization programmes, large numbers of small businesses are continuously being established.[19]

Poland is the most advanced on this score. Its private sector produced about 45 per cent of GDP in 1992, owing in part to the weight of agriculture, which has traditionally been private, but also as a result of the successful "small privatization" programme under which the Government sold or licensed small-scale retail trade and a large part of consumer services.[20] Small, foreign-owned companies have also been burgeoning in the country.

In Hungary, the proportion of private-sector output was smaller than in Poland, although Hungary advanced much further in privatizing medium and large companies. The transformation of agriculture has not been completed and the extent of privatization in retail trade has been slowed by the local government councils that own the land on which state-owned properties to be privatized are situated.

In the former Czechoslovakia, the programme to foster small-scale private enterprise was successfully completed, although the firms generally operate in properties leased from the State, while ownership reform in agriculture was stalled. The 1992 wave of privatizing almost 1,500 companies is slated to be completed this year; i.e., equity shares were priced in 1992 and are to be distributed and be available for trading in 1993.[21] Subsequent waves would be arranged separately in the Czech Republic and Slovakia.

It seems from the experience thus far, in other words, that macroeconomic stabilization and institutional transformation are closely linked and that some measures in one area are prerequisites or must be taken simultaneously for policy to be effective in another. For example, by now all transition economies have learned that tight monetary control will not work as expected to bring down inflation if firms can evade the control by in effect creating their own credit in the form of arrears. Hungary was the first transition economy to experience widespread non-payment among state enterprises after tightening its monetary policy. Non-performing assets may be a general feature of market economies, espe-

cially in recessionary periods, but not on the scale of the transition economies.[22] In Hungary, the bankruptcy law that began to be enforced in 1992 brought the first signs that the practice could be curbed, as the stock of unpaid obligations began to decline.[23]

The economic function of bankruptcy law is to close or reorganize insolvent firms. But a potentially profitable and productive enterprise can become bankrupt as a result of a cash squeeze. Thus, firms should have appropriate access to credit. This requires that financial institutions be able to distinguish solvency problems from liquidity problems in enterprises; e.g., loan officers in banks need to understand the enterprises well and the industries in which they operate. The financial institutions also need to be able to mobilize sufficient credit to prevent unnecessary bankruptcies. To act as a financial intermediary, the banks must themselves earn the confidence of potential depositors and lenders, which in turn requires that the bad debt that they inherited when they were formed out of the state financial system and which they hold as assets on their own books must be cleaned up. In short, for a bankruptcy law to operate efficiently, a country also needs an effective financial system.[24]

It is also important to recognize explicitly the highly political nature of the transition. What is at stake is not a mere technical exercise to be left to "experts", but a reallocation of the productive wealth and liabilities of the nation and the power to use it. Indeed, in eastern Europe, where centrally planned economies were introduced only after the Second World War, one question that held up reform in some countries was the potential and actual claims of property owners whose land and other assets had been nationalized after the War. Principles had to be established by which those claims would be accepted or rejected, and if the former, whether the property would be returned. Countries chose different solutions for the various types of properties, but in most countries, these questions are no longer expected to deter privatization.[25]

Aside from claims of former owners, ownership and distribution of land has been another politically sensitive question that none of the countries have fully resolved yet. Even in Poland, where agriculture always remained largely in private hands, the process for privatizing state farms has not been decided.

Another—perhaps the most crucial—political dimension of the transformation has been the severe drop in living standards it has imposed across a broad spectrum of the population. Although people all over the region voted for transition, they are facing unwelcome changes in life as a result. In the inflations that ensued, some fortunes were made, while personal assets, such as pensions, lost most of their value. The privately held wealth of countries was thus radically redistributed. People have been most threatened by the loss of economic security, of stable jobs and incomes. Even though all the countries have had social security systems, none were able to adjust to the abrupt increases in inflation. The unemployed and the pensioners were thus in the weakest position to cope with transition. Unskilled workers, for whom demand is lowest, have been the hardest hit by unemployment. They have also been the most militant in seeking to protect their jobs, even in slowing, or at least questioning, the transition itself.

Increased criminal activities have come in the wake of all these changes. The fastest increases in crime rates have been for economic crimes, i.e., burglary, fraud and tax evasion. But greater freedom to travel abroad as well as for foreigners to enter these countries seems to have also fostered the growth of drug trafficking and drug-related crimes. The police, who in some cases had been discredited by their role in suppressing non-violent opposition, have not in general been able to catch up with the pace of the surge in crime.

For the transition to succeed, pro-reform forces must maintain the confidence of the people. For this, after several years of decline, people must begin to see real improvements in their living situation. The old system was largely discredited. The new system, still in formation, cannot wait too long before producing tangible results. In this regard, the beginning of the growth of output in some eastern European countries is most important and must be followed there by broad-based improvement in real incomes. Progress in those countries would indicate what can be done, as well as what is yet to be achieved, in the economies where conditions are still deteriorating.

SUCCESSOR STATES OF THE SOVIET UNION AFTER ONE YEAR

The USSR had been a highly centralized economy and polity, with most important and even many secondary decisions made in Moscow. By 1 January 1992, 15 independent successor republics had become fully responsible for their own governance and for designing and implementing their own economic programmes. Some of them—the Russian Federation and the three Baltic States—took substantial, if not always sustained, steps towards a new economic model, while others adopted

more gradualist and, in some cases, hesitant approaches. The scope, tempo and sequence of reforms in each country in the more rapidly reforming group were different, as were the degrees of circumspection, reluctance and, in some cases, even retreat in the others.

All the successor States nevertheless shared two important features in 1992: their economies contracted sharply and inflation exploded. Although quantitative data for some of the republics are extremely patchy and open to interpretation and challenge (see box II.2), it does seem that aggregate output fell in 1992 by as much as 20 per cent or more in a large majority of cases (see table II.4). The declines were very steep in the Baltics and the Russian Federation. Declines were the smallest in Belarus, Kazakhstan, Turkmenistan and Uzbekistan, where the Governments retained state control over the economy. It is unclear at this stage whether they have merely postponed sharper declines, or whether they may learn from the more rapid reformers and avoid some of their pitfalls. It is clear, however, that the armed regional or ethnic conflicts in Armenia, Azerbaijan, Georgia, Moldova and Tajikistan have been economically costly as well as a tragedy in terms of human life lost

The 1992 decline in output was quite severe in the Russian Federation, which remains a focus of international attention because of its economic size and strategic importance for global security. The rate of decline was very uneven during the year. Compared to the previous quarter, industrial production fell 5.3 per cent in the first quarter of 1992, and almost 20 per cent in the third quarter, but was almost stable during the second and fourth quarters. Inflation was extraordinarily high: retail prices of consumer goods and services in December 1992 were 26 times those a year before. In January 1993, the monthly inflation rate was close to 30 per cent.

The output decline was spread widely among regions of the country and productive sectors in the economy. Output fell by 20 per cent or more in non-ferrous metals, electronics, light industry, chemicals, petrochemicals and petroleum extraction.[26] Output fell 9 per cent in agriculture, with meat and dairy shortfalls holding down output in the food industry as well, and 37 per cent in construction. Capital investment declined by nearly 50 per cent. Not surprisingly, in the state of confusion and uncertainty about economic output and policy trends that came to characterize 1992, enterprises were mostly unwilling to commit whatever resources they had to new investments.

Table II.4.
Economic performance in 1992 in the successor States of the Soviet Union
1991 = 100

	NMP	Industrial production	Wholesale price index in industry	Retail price index[a]
Commonwealth of Independent States				
Azerbaijan	71.8	76.0	1 300	2 180
Armenia	57.4	47.5	1 047	1 230
Belarus	89.0	90.4	2 465	1 950
Kazakhstan	85.8	85.2	2 469	1 440
Kyrgyzstan	74.0	73.2	1 764	1 660
Moldova	78.7	78.3	1 311	1 360
Russian Federation	80.0	81.2	2 049	1 650
Tajikistan	69.0	75.7	1 423	1 350
Turkmenistan	..	83.3	1 094	880
Uzbekistan	87.1	93.8	1 396	740
Ukraine	85.0	91.0	2 400	2 080
Other countries				
Georgia	55.0	53.7	..	..
Estonia	73.7[b]	59.4	..	1 520
Latvia	56.1[b]	61.0	..	1 059
Lithuania	67.0[b]	54.2	..	436[c]

Source: Ekonomika Sodruzhestva Nezavisimykh Gosudarstv v 1992 godu (Moscow, *Goskomstat*, 29 January 1993) for the CIS countries; data of ECE and IMF for the Baltic States

a December 1992 relative to December 1991; consumer goods only (no services)
b GDP.
c January-July 1992

BOX II.2

Economic data in the new States of the former Soviet Union

Everywhere, applied economic analysis is based on data that may look more precise to the general reader than they are. Statisticians report the data as compiled, as specific numbers that have been counted or estimated, although it is understood that the data are subject to a certain degree—in some cases, a large degree—of error. In some countries, statistical data have regularly been distorted or withheld from public release for political reasons. All this should be kept in mind by the critical reader of any economic report.

The data situation in recent years in the Soviet Union and the successor States, however, has been especially confusing, which is highlighted, for example, by the degree of revision in the estimated decline of GDP in the Soviet Union in 1991. As may be seen in table A.3, GDP is now estimated to have declined 8 per cent in the USSR in 1991. One year ago, the comparable table of the *Survey* reported the decline in GDP as 17 per cent, as did the main economic reports of the Economic Commission for Europe, IMF and OECD.[a] At that time, all were reporting the same estimate, based on published national data and several international missions to the USSR and its successor States. The authors of the *Survey*—and the authors of the other reports as well—were concerned about seeming inconsistencies in components of the data, but were hard pressed to produce counter-estimates. The 1992 *Survey*, however, included a general *caveat*, "Quantitative data from the economies in transition must be interpreted with great caution as national statistical systems and data collection are in flux" (chap. II, footnote 19). That *caveat* remains valid.

In addition to the many puzzles of methodology, including consistency, scope and comparability with terms used in statistics compiled in market economies, there is now a new predicament concerning data from the Russian Federation: multiplicity of voices. Whereas the USSR *Goskomstat* (the State Committee on Statistics) had been the unique source of all official data, now virtually every major government economic agency (including several expert groups) has its own set of statistics, and an animated public debate as to which of these many sets is more comprehensive and methodologically sound exists. For example, the Ministry of Foreign Economic Relations and *Goskomstat*, now the Russian statistical committee, published significantly different figures on the country's foreign trade performance in 1992; the Ministry of Finance and the Central Bank of Russia announced very different estimates of the 1992 budget deficit; and *Goskomstat* and the Ministry of Economy use different methods to calculate the country's GDP.

Moreover, full information on many economic and social indicators is not readily available. Too often the analyst from outside the relevant government ministry, agency or ad hoc group has to rely on a descriptive report showing rates of change or other analytical measures, but not the underlying data. While it is appropriate and useful for the statisticians to highlight the most significant developments and, of course, identify corrections of previously reported data in an introductory article, only the actual data—if deemed a good estimate of the actual variables—provide an adequate basis for analysis.

It is extremely important in an open society that comprehensive, transparent and reliable data be readily available. They are the key to adequate economic and social policy formulation and evaluation of results. Indeed, data have market value and national statistical services could offset part of the cost of preparing them by selling their statistical publications. Published statistics may not have been important for decision-making in a self-contained, central planning mechanism. Today, the successor States of the Soviet Union aim to operate differently, but the lack of comprehensive socio-economic data contributes significantly to the many difficulties of the introduction and strengthening of the market mechanism in these countries. Also, the international community needs reliable statistics in order to target its assistance for economic transition more effectively, as do prospective investors.

The international community is already providing assistance in improving the statistical systems in these countries. In many cases, completely new methods need to be introduced for collecting data in a decentralized, market economy. New categories of data are also needed. Reorienting statistical systems towards the requirements of emerging market economies should indeed have high priority, both for the national Governments and the international community.

a See, respectively, *Economic Survey of Europe in 1991-1992* (United Nations publication, Sales No. E.92.II.E.1), table 4.1.1; *World Economic Outlook* (Washington, D.C., IMF, May 1992), table A.5; and *OECD Economic Outlook*, No. 51 (Paris, OECD, June 1992), table 17.

The output collapse and inflation surge was reflected in average real wages which fell more than 50 per cent in the 12 months to December 1992, according to official measurements. Real incomes did not fall as much, however, since surveys find that nearly half of the working population of the country now hold more than one job, often in the growing non-state and informal sectors which are not reported in official data.[27] The fact that people found it imperative to take those extra jobs, however, suggests the high degree of economic dislocation in 1992.

The pressure on wage-earners was reflected in consumer spending patterns: on average almost 50 per cent of household expenditure was for food in 1992, compared to less than 40 per cent a year earlier. To mitigate such hardships, many employers provided additional income to their personnel in the form of payments in kind, partial reimbursements of the cost of food, transportation, recreation and medicine. This form of support grew substantially since the beginning of 1992 and amounted to almost 7 per cent of the average wage in October. Nevertheless, during 1992 consumption of meat, fish, milk, sugar and fruit fell 13 to 19 per cent.

As of November, over 28 per cent of the Russian population lived in households with per capita incomes lower than the subsistence level that the Ministry of Labour has begun to report.[28] This may be expected to increase in 1993 since unemployment, which remained below 1 per cent of the labour force in 1992, is certain to grow as new bankruptcy legislation comes into force. It was, in effect, a social policy of the Soviet Union for enterprises to carry excessive staff, including in the skilled and professional categories of work. This is no longer sustainable. Even now over 11 per cent of industrial workers in Russia are on part-time schedules. Since autumn the number of job openings was for the first time fewer than the total number of unemployed. Almost 90 per cent of the vacancies were in low-paid menial jobs, while more than half of the unemployed have college or vocational school degrees and over 70 per cent are women.

Another dramatic indicator of the impact of the difficult situation in the Russian Federation was that for the first time since the end of the Second World War, the size of the population fell. The 1.4 per cent decline was due to an 11 per cent drop in the number of births, as many families postponed child-bearing, and a 5 per cent rise in mortality. Most revealing of the social trauma are the fast-growing causes of death: for the first 10 months of 1992, the number of murders rose 15 per cent over the comparable period in 1991; those from alcohol abuse rose 38 per cent, and from suicide 41 per cent, according to *Goskomstat*. The crime rate increased 27 per cent in 1992, with almost 60 per cent of all registered crimes being theft of property.

TRANSITION BEGINS IN THE RUSSIAN FEDERATION

The first year of post-Soviet Russia was so tumultuous in part because it marked the real beginning of the transition to a market economy. After several years of debate and hesitant half-measures, the Russian Federation entered the year with its command-economy structures almost completely non-operational, but not yet replaced by a new mechanism.[29] Production decisions were being made at the enterprise level, although formal mechanisms of ownership and control of enterprises were in flux.

The government of young reformers set in motion a set of institutional changes that will, *inter alia*, privatize many state enterprises in 1993. They also liberalized prices and thus released powerful inflationary forces, which they then sought to contain through monetary and fiscal policy. The strategy was based on the classic argument that decentralized decision-making in a market economy requires economically meaningful prices and a currency in which economic agents have confidence.[30] This emphasis on market-based reforms coupled with

fiscal and monetary discipline was bitterly opposed by an influential "industrial lobby" which feared the chaos the policy seemed to be bringing and sought to make the main goal of economic policy the reversal of the severe drop in industrial production.

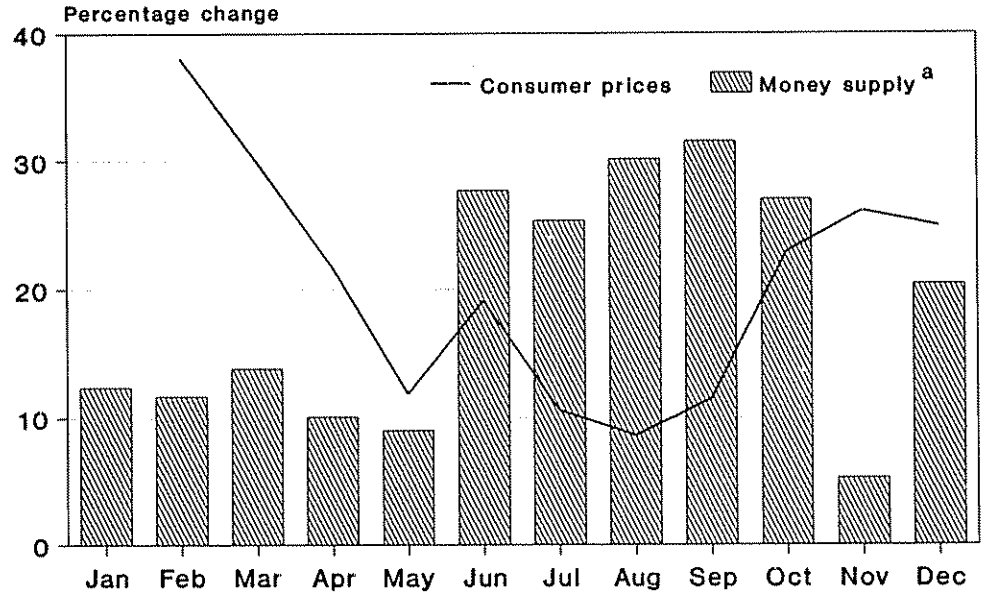
Price liberalization was probably a misnomer for the policy the reformers introduced because it was not a standard relaxation of price controls in a market economy. Rather, it sought to destroy the maze of administratively fixed prices and allow prices to rise for goods in high demand. Producers of the goods were expected to increase the supply of those goods in order to raise their profits, and firms that used the goods as inputs would seek to economize on them.

After prices were liberalized in January 1992, the consumer price index more than tripled and wholesale prices rose almost five times, all in one month. Monthly price increases then slowed, as the "monetary overhang" of unspent cash from earlier monetary expansion was absorbed in the higher priced transactions and goods that had previously been hoarded began reappearing in shops. In addition, after rapid growth in 1991, the growth of the money supply was held down in 1992, at least until June[31] (see figure II.4).

There had been two major sources of the rapid growth of money in 1991. First, as is common in high-inflation economies, a large government budget deficit was financed by central bank money creation. Secondly, in 1991 the Central Bank of Russia—contrary to the monetary policy of *Gosbank*, the central bank of the USSR—had extended large amounts of new funds to Russian commercial banks which, bolstered by the new bank reserves, then increased loans to the enterprise sector. The policy of the reformers in 1992 was thus to cut the fiscal deficit through reduction of expenditures—mainly affecting the military sector, investment and some subsidies—and through introduction of new and higher taxes. Furthermore, under the new policy, Russia's central bank was to make smaller (and more expensive) infusions of reserves to the banks, which would mean less growth of money and credit for enterprises.

The financial stabilization package began to work. Whereas by the end of 1991, enterprises were extensively using barter for inter-firm transactions, by March 1992 they were seeking sales for roubles and credit from banks. Prices were beginning to play their role as an allocation instrument.

Figure II.4.
Monthly growth of the money supply and prices in the Russian Federation in 1992



Source: UN/DESIPA, based on national sources
a Cash in circulation plus demand and time deposits.

Nevertheless, the level of output continued the fall that had begun in 1990. Part of the reason was the macroeconomic strategy itself. Besides the reduced subsidies and increased taxes that firms were expected to pay, credit became very tight.[32] At the same time, inflation was rapidly depreciating the value of the financial assets of enterprises. This was further exacerbated by the exceedingly slow process of payments settlement.[33] Enterprises thus found themselves in a severe liquidity squeeze. Even those enterprises that were in a position and willing to do business in a new way were left without the wherewithal to try it. There were even delays in paying wages and salaries.

Firms responded by, in effect, creating their own credit: they stopped making payments to other firms and accumulated inter-enterprise arrears. This was a recipe for accelerated output decline: although arrears gave enterprises a certain temporary breathing space, enterprises that looked to sales revenues for their own cash flow would quickly cease making sales to customers in arrears.

When the stabilization exercise began at the beginning of the year, the habitual matrix of enterprise links had already been disrupted by the collapse of the administrative planning mechanism and the emergence of new sovereign States, but no new *modus operandi* had yet been established. The Government expected the enterprises to act as "normal" market entities would have if they had faced a comparable mixture of tight credit, withdrawal of government subsidies, depletion of centralized investment and supply flows, falling sales and growing cost of their own production inputs. That is, they expected the enterprises to change their production programme, shed redundant workers and develop new markets.

Some enterprises had been expected to go bankrupt under the transition strategy, while the rest, it was hoped, would no longer even need government subsidies. Increased competition of newly efficient enterprises combined with structural change in production, it was thought, would eventually keep a lid on price increases, if not force prices down. The rise in unemployment in this scenario was expected to be politically tolerable.

Firms did not act as independent, private enterprises might have because that is not what they were. First of all, property rights were very confusing. No one knew how the government's privatization programme would be carried out or how long it would take.[34] Management of state-owned enterprises was cut loose and made independent, but that meant primarily termination of state subsidies and centralized investment, with no prod or incentive to improve efficiency or expand production.

In addition, industrial production was dominated by extremely large enterprises that enjoyed a high level of market power. There was considerable organizational slack, much experience in absorbing inefficient production runs, and hardly the vigilant monitoring of profits that corporate boards of directors or the stock market itself are supposed to undertake. Thus, Russian enterprises would not necessarily interpret the message that a falling sales volume sends to firms in market economies to lower prices. Instead, enterprises generally either stocked up their inventories, or, believing that demand was inelastic, raised prices and reduced the volume of production to try to sustain revenues.

When enterprises stopped paying their bills, they were responding in a traditional "command economy" way: they simply waited for the Government either to bail them out by issuing new sectoral credits at hugely subsidized interest rates, or, better, to reintroduce some sort of centralized supply discipline. As a result, production links were further disrupted and output plummeted.

There was yet another shortcoming in the policy package in that it did not adequately consider its effect on aggregate demand. It focused on questions of resource allocation, efficiency and flexibility of production, and monetary stabilization. It is hard to imagine, however, even maintaining output for sales to domestic customers when purchasers of intermediate goods were caught in a credit crunch, domestic buyers of consumer goods were experiencing a fall in real incomes and had great concern about future incomes, and buyers of investment goods did not know who would own or control the enterprises when potential investments might reach fruition.[35] In short, the adjustment programme severely curtailed aggregate demand as well as supply.

In the event, the great majority of enterprises found themselves in a liquidity squeeze and threatened by bankruptcy. As policy makers could not countenance that prospect, none of them were allowed to go bankrupt.[36] Instead, the rate of growth of the money supply was increased and substantial new credits again flowed to the enterprise sector. Also, seasonal credit requirements for agriculture and for supplies for the Far North regions had to be financed.[37] By the fourth quarter of the year, industry reacted by stabilizing and in some—albeit isolated—cases increasing production. As enterprises caught up on their tax arrears, fiscal revenues increased substantially and in September and October, Govern-

ment budget revenues exceeded expenditures. But the steep increase in money supply coupled with the overall fall in physical output spurred a new wave of inflation, stimulated also in part by the increase in energy prices, which were still set administratively.

With the new upsurge in prices, enterprises again found themselves in a liquidity squeeze. Their profits fell in October and November and their liquid assets covered on average less than a third of payments due. Non-payments swelled to 4 trillion roubles, and there were again very disturbing delays in payment of wages and salaries. Output continued to drop. In an effort to check the decline, the Government again loosened money and credit, although in November it declared a new tightening of fiscal expenditures in order to renew its attack on inflation. In December, however, the Congress of Russian Federation Deputies directed the Government to introduce a number of measures that would have major inflationary consequences, such as indexing fixed nominal incomes (pensions, student stipends etc.) and savings deposits and compensating agricultural producers for the higher prices of their industrial inputs. Meanwhile, the money supply continued to grow at a rate of over 25 per cent a month (see figure II.4).

As the year ended, inflation was spiralling upward, output was still falling and a new approach to macroeconomic adjustment was sought, one that would achieve monetary stabilization and structural change, while also allowing sufficient demand to give most enterprises—whether state-owned or not—the opportunity to meet payroll, pay taxes, benefit from exports and invest profitably. When this problem is solved through concerted action of policy-making institutions, the economic transition in Russia will be past the point of no return.

DEVELOPING COUNTRIES: UNEVEN GROWTH

The average rate of growth of all developing countries, stalled at 3.5 per cent in the three previous years, improved to nearly 5 per cent in 1992 (see table II.5). Nearly half of the population of developing countries was in countries that grew by more than 5 per cent in 1992. China weighs heavily in this figure, but 26 other countries were also in that grouping. Excluding China, about 26 per cent of the population was in the faster growing range, up from 22 per cent in 1991. On the other hand, about 18 per cent of the population of the developing countries, or 535 million people, were in countries that experienced no growth at all or a fall in output (see table II.6).

The acceleration in growth was the net result of very divergent trends. Three countries (Chile, China and Kuwait) expanded more than 10 per cent, while countries at the other extreme (man-made disasters Somalia and ex-Yugoslavia) declined more than 10 per cent. Taking the average growth of developing countries upwards was the boom in China and reconstruction in West Asia. The successful Asian exporters of manufactures were not entirely unscathed by the recession in the developed countries: South and East Asia, after the marked deceleration from 6.4 per cent to 5.3 per cent in 1991, reduced its pace again, with growth below 5 per cent in 1992, the slowest in seven years. Pushing the average downward was Latin America, which, after the modest recovery of 1991 to 2.9 per cent, decelerated again to 2.2 per cent in 1992, a rate explained mainly by stagflation in Brazil but also by some slow-down in Mexico. Also pushing downward again was Africa, where average GDP growth reached new lows of 2 per cent in 1991 and 1.4 per cent in 1992, owing to drought, wars, political instability and the long-term effect of the continuing deterioration of terms of trade.

LATIN AMERICA: STABILIZATION GAINS FURTHER GROUND

In Latin America and the Caribbean output increased by 2.2 per cent in 1992, down from near 3 per cent in 1991, leaving per capita incomes almost unchanged from the previous year. Overall, the stabilization effort gained ground and inflation continued to decline in most countries. The external sector registered its first trade deficit in many years, which was amply financed by substantial capital inflows. In addition, the debt burden continued to ease, owing, in particular, to the fall in interest payments following the decline in international interest rates (see chap. IV).

This aggregate picture hides mixed performances. A widening gap is observed between some countries with relatively poor results, mostly owing to either their delay in the implementation of stabilization policies (Brazil) or exogenous factors (Cuba and Haiti), and a majority of countries that are starting to see the results of their severe adjustment. However, within the latter group, a number of economies seem to be on an unsus-

Table II.5.
Developing countries: rates of growth of gross domestic product, 1981-1993
Annual percentage change

	1981-1988	1989	1990	1991	1992	1993[b]	Memo item: approximate share in 1991 world output
Developing countries[c]	3.1	3.5	3.4	3.4	4.9	5	16.6
Latin America and the Caribbean	1.4	1.1	0.1	2.9	2.2	3	4.3
Energy exporters	1.5	0.7	4.7	4.7	3.8	3	1.6
Energy importers	1.4	1.4	-2.3	1.9	1.3	2 1/2	2.7
Africa	1.8	3.0	2.9	2.0	1.4	3	1.6
Energy exporters	1.9	3.3	3.5	2.4	2.3	3 1/2	1.1
Energy importers	1.8	2.5	1.8	1.4	0.5	2 1/2	0.6
West Asia	-1.7	3.2	1.9	-0.1	6.6	6	2.1
South and East Asia	5.9	6.1	6.4	5.3	4.9	5 1/2	5.5
China	9.9	3.6	5.2	7.7	12.8	11	2.4
Mediterranean	2.5	0.3	1.1	-7.9	-5.2	3	0.6
Memo items:							
15 heavily indebted countries[d]	1.3	1.4	0	1.8	0.9	2 1/2	4.7
Sub-Saharan Africa (excluding Nigeria)	1.9	2.0	1.2	-0.2	0.3	3	0.5
Major developing economies							
Brazil	2.1	3.2	-3.8	0.9	-0.9	2	1.7
India	5.3	5.2	5.5	2.0	3.3	4	1.5
Republic of Korea	8.7	6.1	9.0	8.4	4.7	7	1.1
Mexico	1.1	3.1	4.4	3.6	2.7	2 1/2	0.9
Iran (Islamic Republic of)	1.7	4.0	10.0	6.0	6.0	4	0.9
Taiwan Province of China	8.1	7.6	5.0	7.2	6.1	6 1/2	0.6
Indonesia	4.2	7.4	7.4	6.6	6.5	6 1/2	0.5
Saudi Arabia	-2.0	0.2	9.0	10.0	5.0	4 1/2	0.5
Argentina	-1.0	-4.6	0.4	8.5	8.0	3 1/2	0.4
Turkey	4.3	-0.4	9.2	0.7	5.3	4 1/2	0.4
Thailand	6.2	12.2	10.0	8.0	7.5	8	0.4

Source: UN/DESIPA

a Preliminary estimate.
b Forecast.
c Covers 92 countries that account for 98 per cent of the population of all developing countries.
d Countries in this group are: Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and ex-Yugoslavia.

tainable path given the rapid deterioration in their current account related to their specific stabilization packages. The recession that hit Brazil—in conjunction with the deep political crisis in the second half of the year and the continued instability—sharply pushed down the regional growth figure. Excluding Brazil, the largest economy in the subcontinent, the region grew over 4 per cent, in spite of a slow-down in Mexico, with Chile, Argentina, Panama and Venezuela leading the group at rates between 7 and 10 per cent. Chile's remarkable growth of over 10 per cent was spurred by a 20 per cent increase in investment and a 15 per cent increase in exports. At the opposite end of the spectrum, Cuba and Haiti both suffered from penalizing external conditions which aggravated their economic difficulties. Cuba was still suffering from the loss of its advantageous economic relations with the eastern European countries, and especially the former Soviet Union,[38] only mitigated by a stable growth of tourism. In Haiti, the trade embargo declared by the Organization of American States at the end of 1991 and the drop in concessional external financing in reaction to the military coup that ousted President Aristide contributed to a 4 per cent fall in output, a crisis in government finances and the increasing misery of the population.

Several countries experienced a substantial decline in inflation.[39] Key to the process was a combination of fiscal adjustment and substantial structural reform, with less emphasis being placed on price and wage controls

Table II.6.
Developing countries:[a] frequency distribution of rates of growth of output, 1984-1992

	1984	1985	1986	1987	1988	1989	1990	1991	1992	Population of countries 1990 Number (Mn)	1990 Percentage of total	1991 Number (Mn)	1991 Percentage of total	1992 Number (Mn)	1992 Percentage of total
Zero or below	28	27	20	23	19	21	26	21	21	481	16.8	331	11.3	535	17.9
0.1 - 2.5 per cent	15	17	15	17	18	16	13	25	15	119	4.2	1 332	45.7	138	4.6
2.6 - 5.0 per cent	20	28	26	29	20	29	25	24	29	612	21.5	603	20.7	1 548	51.9
5.1 - 7.5 per cent	16	11	20	13	20	15	13	10	18	1 256	44.0	447	15.3	590	19.8
7.6 per cent and over	12	8	10	9	14	10	14	11	8	385	13.5	205	7.0	173	5.8
Total	91	91	91	91	91	91	91	91	91	2 853	100.0	2 918	100.0	2 984	100.0

Source: UN/DESIPA. The data on population and population growth rates are those published by the Department in *World Population Prospects, 1992* (to be issued as a United Nations publication), annex tables.

a Based on data for 91 countries that account for 98 per cent of the population of developing countries in 1992, excluding China.

than in the past. Fiscal adjustment contributed directly, through its effect on monetary expansion, and indirectly, by bolstering the confidence of private agents in the stability of economic policy. Structural reform aimed at reinforcing trade liberalization, tariff reduction and deregulation of the price system. Chile is at an advanced stage in the process of consolidating its fiscal and monetary balance, having reduced inflation from 19 to 13 per cent in 1992, in spite of the sustained economic expansion, thanks to a combination of fiscal surplus and careful monetary and exchange rates policies.

In Argentina and Honduras stabilization was accompanied by a marked recovery of output, and in Bolivia and Mexico stabilization was accompanied by growth considerably above that of the 1980s. On the other hand, in Nicaragua and Peru, which were able to go from hyper-inflation in the late 1980s to single- and double-digit inflation respectively by 1992, stabilization and adjustment kept the economy in a recession.

The main exception to this trend was Brazil (see figure II.5), where inflation rose from 480 per cent in 1991 to 1,160 per cent in 1992,[40] owing to, among other things, the high and rising level of domestic indebtedness of the public sector, the fiscal deficit, high debts of municipalities, States and some state firms with the Union, and indexation throughout the economy. Further inflationary pressure was exerted by the monetization of the trade surplus which led to a rise in foreign reserves from $11 billion to $20 billion (December 1991 to December 1992). A new tax of 0.25 per cent on bank-intermediated transactions approved by Congress in March 1993 is expected to increase government revenues but does not provide enough fiscal adjustment.

Sustainability of the present path

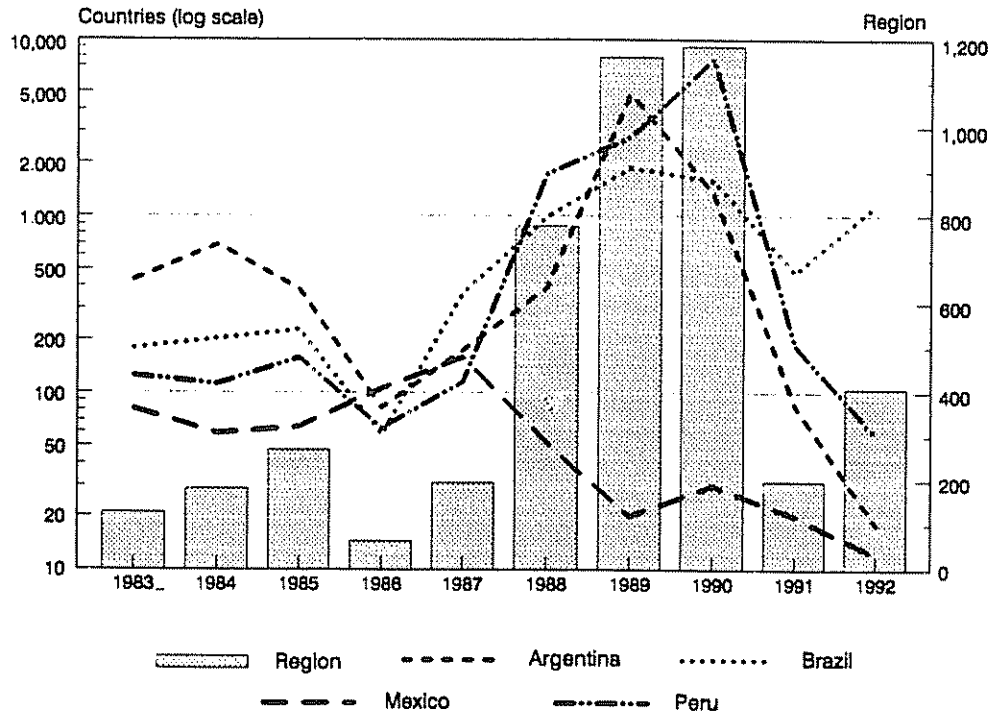
In an external context marked by continued sluggishness of industrial economies, Latin America was again confronted with a slow demand both for commodities and manufactured goods and a further decline in its terms of trade. On the other hand, the region benefited, for the second year in a row, from falling dollar interest rates and an estimated $56 billion capital inflow, after the already remarkable $42 billion the previous year (see table A.29).

Moderate growth of world markets and thus exports, combined with the recovery in several Latin American countries, the generalized trend towards trade liberalization and tariff reduction, and the appreciation of local currencies, led to a sharp deterioration in the regional trade balance. For the first time in a decade, it registered a $14 billion deficit, a $20 billion shift from a surplus of $6 billion in 1991 (table A.25).

In contrast to the 1970s and early 1980s, the sharp rise in imports has not derived from expansionary policies. In some cases this rise can even be seen as a by-product of the stabilization strategy adopted. Argentina and Mexico are extreme examples of this situation in Latin America.

Both in Argentina and in Mexico, the trade imbalance is the result of the gap between the private sector's total expenditure and total output, since the public sector is in equilibrium in the former country and in surplus in

Figure II.5.
Latin America: Consumer price indexes, 1983-1992



Source: UN/DESIPA and ECLAC.

the latter. To fill the gap, imports have been rising rapidly since import liberalization started in the mid-1980s. Argentina fixed the peso-dollar parity in April 1991, thus using the exchange rate as a nominal anchor of the general price level. Even though inflation was brought down, domestic prices have still risen faster than dollar inflation, leading to appreciation of the peso (see table A.15). This has led to a flood of imports which is causing some local firms to lose domestic market shares and turned a $3.7 billion trade surplus in 1991 into a $2.9 billion deficit. As the credibility of the stabilization programme becomes tied to the permanence of the nominal value of the exchange rate, the private sector is forced to become more competitive to counter the appreciated exchange rate. The Government intends to reform the pension system and eliminate various regulations to improve the flexibility of the labour market and to reduce domestic production costs of private firms. If cost-reducing measures cannot be implemented, pressure for depreciation would increase.

The Government of Mexico has, since 1988, a stabilization programme based on a series of labour, business and government agreements known as the *Pacto*. The first *Pacto* included an exchange rate regime characterized by a crawling peg, i.e., fixed daily devaluations of the peso against the dollar. In November 1991, this policy was modified by creating a band within which the peso was free to float. Facing very rapid increases in the trade deficit, the Government allowed a slight depreciation of the peso. In October 1992, in the renewal of the *Pacto* for 1993, an increase from 20 to 40 centavos was announced in the daily band, raising the maximum annual rate of devaluation to 4.6 per cent. In addition, administrative measures intended to prevent unfair trade practices and to enforce compliance with national quality standards contributed to a deceleration in imports in the second half of 1992. Nevertheless, the trade deficit almost doubled in 1992, to $21 billion. A large devaluation is being avoided by the Government because it could unravel the stabilization programme, but the exchange rate can only be sustained—as in Argentina—if the trade deficit is financed by new capital inflows. The main response by the Mexican authorities to the worsening external account and the resulting need for stable

capital inflows has been the adoption of tight fiscal and monetary policies, with persistently high interest rates. The result was slower growth than the year before.

Although Latin America's growth has been less than 3 per cent in the past two years, it was higher than in the 1980s (see table II.5). Growth, trade liberalization and currency appreciation, in various combinations, led to increased imports. They were made possible almost entirely by the large rise in private capital inflows, as export earnings rose only modestly. Net payments for factor services benefited from lower interest rates on the dollar, but remittances of profits on foreign direct investment increased significantly. Altogether, the net transfer of resources to the region, defined on a financial basis, registered a considerable rise for the second year in a row, to over $25 billion, after nine years of net transfers abroad (see table A.29). The inflows remained highly concentrated in a few countries, with Mexico still receiving 40 per cent of the total. However, the increase in the inflow in 1992 went largely to Argentina and Brazil, and, to a much lesser extent, Chile, Mexico and Venezuela. Capital inflows to Central America and the Caribbean stabilized at the preceding year's levels.

The large differential between domestic and foreign interest rates was still the main incentive behind the flow, both for foreign funds and capital repatriated by residents. However, in the second half of 1992, a changed perception of local economic and political risks, and of the permanence of the results of stabilization policies, led to a considerable decrease in these flows to Latin America. Much of the inflow was speculative and the real challenge for Latin American policy makers is to transform even a small but more sustainable financial inflow into more capital formation. To this end, the creation and maintenance of a stable economic environment that minimizes uncertainty for investors—domestic and foreign—appears crucial.

Indeed, most of the region registered a sharp decrease in investment during the 1980s (see table A.12). Between 1981 and 1991, investment as a proportion of GDP shrank from 21 per cent to below 16 per cent. Only in Guyana and Venezuela was the ratio higher at the end of the period than at the beginning. The main reason for such a trend was the drop in domestic savings owing to the decline in national incomes, a large proportion of the savings going abroad for servicing the external debt and through capital flight, while the drastic reduction in external credits meant less foreign savings available to these countries. According to preliminary estimates, investment recorded an upturn in both 1991 and 1992, particularly among the countries receiving the largest capital inflows, such as Argentina, Chile, Mexico and Venezuela. In other countries, such as Costa Rica, capital inflows, which were large in proportion to the economy, and lower domestic interest rates led to a recovery in private investment. In Brazil fixed investment declined in both years.

During the 1980s, adjustment and economic reforms had large social costs, as indicated by lower per capita consumption, higher unemployment, large real wage cuts and reductions in social expenditure.[41] Pressed by the increasing number of people living in extreme poverty conditions—estimated in 1992 at over 190 million, or 40 per cent of the population—several Governments have recently introduced new anti-poverty programmes. After Chile and Mexico, Brazil, Peru and Argentina, among others, have shown a policy shift placing new emphasis on the eradication of poverty within their development strategy. Social policies strengthening equity in the development process are increasingly seen as an integral component of economic reforms if the latter are to succeed.

AFRICA: THE DECLINE CONTINUES

In Africa, output grew by about 1.5 per cent in 1992, after a similar rate of growth in 1991.[42] Per capita output declined once again, as it has almost every year since the early 1980s. Output in northern Africa is estimated to have grown by 1.6 per cent in 1992 owing mainly to increased oil production, increased tourism and workers' remittances following the end of the Gulf crisis, and a rise in foreign direct investment into oil and gas and tourism. In sub-Saharan Africa, the record was far worse. Affected by drought, political crisis and civil strife, output in the region barely grew while human suffering increased. In Somalia an estimated 300,000 people have died of starvation and diseases caused by it, brought on by civil war. Drought affected eastern and southern Africa and Morocco. Cereal output declined by more than 50 per cent in 1992 in Botswana, Lesotho, Malawi, Mozambique, South Africa, Swaziland and Zambia, and by more than 70 per cent in Namibia and Zimbabwe. Early and massive measures by Governments and the international community have prevented large-scale famine (see chap. VI). Nevertheless, severe food shortages existed among refugees and drought-affected and displaced persons in Kenya and Malawi, where the number of refugees has almost reached 1 million, Mozambique, strife-affected Angola, Liberia, Rwanda and Sierra Leone, and drought- and strife-affected Ethiopia and the

Sudan, and in urban areas in Zaire. The food situation was tight in Mauritania.

The drought increased pressure on the balance of payments, owing to higher food imports and lower exports, and on fiscal budgets, as a result of relief programmes implemented. Export crops were in general not as much affected by the drought as food crops, because export crops grow in areas where rainfall was better or that were irrigated, or they are more drought-resistant (e.g., cotton and tobacco). Tobacco output increased in Malawi and Zimbabwe, but quality was lower owing to the drought. Moreover, as water became scarce and grazing conditions worsened on many pastures, farmers sold cattle, often at depressed prices, leading to increased beef production, as in Botswana, Namibia and Zimbabwe. Drought hit not only agriculture but also industries processing agricultural products and other manufactures, either because water-generated electricity became more expensive and water scarce for the production process requiring water, or because the lack of water (and food) had a negative effect on the productivity of the labour force. Industry in Zimbabwe was particularly affected by power scarcity and reduction in agricultural inputs.

Drought-induced food scarcity contributed to increased inflation, combined sometimes with price liberalization, changes in taxes, devaluation, wage increases or excessive money creation. The combination was different from country to country, but inflation increased in 1992 in a large number of countries (Algeria, Angola, Botswana, Guinea, Kenya, Malawi, Mauritania, Mozambique, Namibia, Nigeria, Uganda, Zaire, Zambia and Zimbabwe). Inflationary pressure fell in Egypt, Ghana, Mauritius and Tunisia and remained low in members of the franc zone. South Africa's inflation fell to its lowest level in 14 years and is now below 10 per cent.

Insecurity and civil strife

Insecurity and civil strife have continued to be ruinous to economic activity in 1992 in several countries. The civil war in Somalia virtually destroyed its economy. Fighting escalated in Liberia in August 1992, resulting in many deaths, a large number of displaced people, disruption of agricultural activities, exports and relief operations, and a deterioration of the food supply.[43] Similar effects resulted from the resumption of the civil war in Angola after the National Union for the Total Independence of Angola (UNITA) refused to accept the results of the September election. While the fighting stopped in the north of Ethiopia, there was unrest and fighting in other parts of the country during most of 1992. As a result of insecurity, tax collections decreased, relief operations were hindered and coffee farmers could not transport their produce to the sales points. The situation became calmer, however, towards the end of the year. Civil strife also affected Burundi, Chad, Mali, the Niger, Nigeria, Rwanda, Senegal, Sierra Leone, the Sudan and Uganda, though its impact varied greatly among countries. In Zaire, economic activity was greatly hampered by insecurity, which led to a large-scale exodus of skilled labour, especially since the riots of September and October 1991. Mutiny among troops in January and February 1993, which was triggered by salary payments with a new bank note issued by the central bank that was declared worthless by the interim government and rejected by businesses, led to a new exodus. GDP fell by nearly 5 per cent in 1992 after a decline of 10 per cent in 1991.

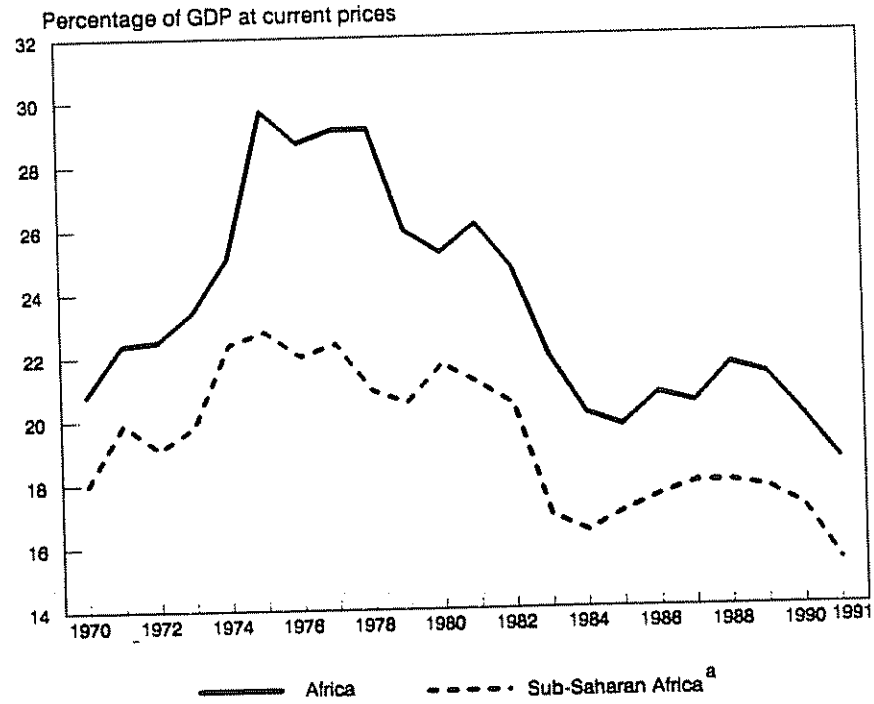
During the first half of 1992 some fighting continued in Mozambique but hostilities declined markedly after the peace agreement of 4 October between the Government and the Mozambique National Resistance (RENAMO).[44] Tens of thousands of refugees are returning from neighbouring countries and are resuming farming activities with seeds and tools distributed by the United Nations and other organizations, although many fled the severely drought-affected south.

The fall of investment

Recovery of investment is crucial to a long-term improvement in economic performance in Africa. Economic reform has not, however, brought a significant increase in investment. In some countries the investment ratio has marginally improved. However, in almost all African countries it remains far below its peak levels of the mid-1970s (see figure II.6). Several factors have contributed to this.[45] First, profit or net income expectations have been low because of a generally weak economy and declining export commodity prices. Secondly, the poor and deteriorating state of infrastructure in many countries has driven up the costs of private investment. Present levels of public investment in many countries are insufficient to reverse this and are unlikely to increase significantly because of fiscal adjustment.[46] In countries such as Burkina Faso, Chad, Ghana and Guinea, public investment levels have increased or been maintained largely owing to external finance.

Thirdly, investment continues to be hampered by the legal and administrative framework. Several coun-

Figure II.6.
Africa: gross domestic investment, 1970-1991



Source: UN/DESIPA, based on national data.
a Excluding Nigeria

tries have taken measures to improve this framework to attract foreign investment by establishing investment promotion centres and export processing zones, and adopting new investment codes that usually include incentives such as tax breaks, duty-free imports, repatriation of profits and ownership guarantees. Among these are Algeria, Angola, Benin, Cameroon, Congo, Egypt, Ghana, Kenya, Sao Tomé and Principe, the United Republic of Tanzania, Togo, Uganda, Zambia and Zimbabwe. In 1992 Burundi established that any non-traditional exporter could import free of customs duty and receive a tax holiday for 10 years. Similar measures are planned by Burkina Faso, Cameroon, the Comoros, Lesotho, Malawi, Mozambique and Nigeria. All these measures have not been able to increase Africa's share of world foreign direct investment. The increase in volume went largely to the mining sector of energy-exporting countries. Since 1980, foreign direct investment to energy-importing countries remained below half a billion dollars per year (except in 1989), with a small upward trend since 1983, and stayed below the average level of the period 1975-1980.[47]

Fourthly, foreign exchange scarcity, associated with debt servicing, low and declining prices of commodities and terms-of-trade losses, has limited the capacity to import capital goods. In addition, the debt overhang is a deterrent to investment, because it imparts a devaluationary bias to the economy and because of the heightened potential that the Government might in the future tax foreign exchange earnings to honour commitments to foreign creditors. In 1992, the value of exports increased somewhat, but the drought forced countries in eastern and southern Africa to increase food imports drastically. In Kenya, Malawi and Zaire, cutting of aid by donors to foster political changes has aggravated foreign exchange scarcity.

Several countries have liberalized their foreign exchange regimes. Reforms in the foreign exchange market have improved the access of the private sector to foreign currency. Nigeria let the naira float in March 1992.

Under the new system, the role of the Central Bank of Nigeria (CBN) was limited to open market operations, but a large potential to influence the market remains, since CBN provides the bulk of the foreign exchange.[48] Countries that in various ways and degrees liberalized foreign exchange controls and broadened access by individuals to foreign exchange in 1992 include Sierra Leone, the Sudan, the United Republic of Tanzania, Zambia and Zimbabwe. Several other countries devalued their currencies in 1992.[49]

A number of countries facing emergency situations interrupted liberalization. Kenya reformed its foreign exchange market in 1992 and early 1993 but later reversed the reforms as they proved unsustainable without balance-of-payments support. South Africa tightened exchange controls because investment abroad by South African companies had put the financial rand under pressure. Malawi temporarily suspended the normally liberal foreign exchange arrangements owing to foreign exchange shortages caused by aid suspension and drought-related food imports. Similarly, Zaire imposed import quotas when facing the dive of its currency (from 15,600 zaires per dollar in 1991 to 1.6 million in November 1992). Algeria tightened imports of some consumption goods to free foreign exchange for imports of spare parts and other essential goods, given the pressure of large debt-service payments. In early 1993, Nigeria reformed the foreign exchange market again, increasing the role of the Central Bank of Nigeria, and tightened foreign exchange regulation in face of dwindling reserves.

Fifthly, investment has been curtailed because of lack of finance. Access to bank credit is limited owing to high administrative and transaction costs compared to loan size, lack of collateral and the difficulties banks have in assessing credit risk. Credit to the private sector also has to compete with lending by banks to Governments and parastatals.[50] Restrictive monetary policies have also limited formal credit expansion, as was the case in Zimbabwe in 1992.[51] Finally, outside South Africa, formal stock exchanges are rudimentary and exist in only a handful of countries.

Insufficient attention has been given to the informal financial sector, although for smallholders and small enterprises it is the dominant source of credit. Informal institutions, such as (rotating) savings and credit associations and other group-based arrangements, have some advantages over formal financial institutions. Because of the personal relations and group control, it is easier to assess credit risk, administrative costs are lower and procedures are simpler and quicker. Linkages between formal and informal institutions can retain some of the positive attributes of the latter while resources are augmented and costs of lending remain low.[52]

Last but not least, because most investment is lumpy and irreversible, investors are reluctant to invest when the degree of uncertainty is high. The variability of income and purchasing power in Africa is rather high because of the dominance of rainfed agriculture. Input and output prices can also be hard to predict in countries with high inflation, floating and/or misaligned exchange rates. In the franc zone, for example, foreign investors are holding back and some increase in capital flight has been noticed because of the speculation about CFA franc devaluation. In many African countries, investments have been hampered by an unstable policy environment, resulting from poor policy implementation, sometimes policy reversal, political instability, civil strife and war. Because investors always have the option to wait, sustainability of policies becomes more important than the scope of the reform programme, the depth of liberalization measures or price policy.[53]

Political instability has negatively affected economic growth, often through its impact on domestic and foreign investment.[54] In the past few years, several countries faced demonstrations, strikes and riots, as well as demands for political change. In several countries, national conferences have rewritten constitutions, allowing multi-party elections, organized referendums on new constitutions, and appointed interim governments. During the transition period instability and uncertainty has often increased. For instance, in Chad and the Congo in early 1992 and in Togo since 1991, the deposed or marginalized ruler and/or the army have tried to revert the process. Certain groups (based on ethnicity, religion, clan or regional origin), underrepresented in the economy or the Government in the past, have sought to gain political power, in some cases leading to armed conflicts. Deferred multi-party elections have also prolonged instability in some countries. In 1992, in countries such as Chad, Kenya, Madagascar, Nigeria, South Africa, Togo and Zaire, the political transition has focused the attention of the Government, required resources, and delayed implementation and increased uncertainty of economic policy, with negative effects on investment in several cases. In Zaire investment almost collapsed in 1992 after continued looting, riots, ethnic conflict and extreme economic and political instability. On the other hand, in Benin, the Congo and Zambia, for example, the level of political tension declined during

1992 after a relatively smooth transfer of power. Zambia benefited from the peaceful transition, the comprehensive reform programme the new Government initiated, and donor support, despite public pressure to ease certain reform measures that have affected living standards. For example, the Zambian investment centre, established at the end of 1991, approved more than 440 projects, worth $650 million, during the first nine months of 1992 and during the first 10 months issued 300 licenses, worth $300 million.

Movements towards democracy have been accompanied by more openness and have in some cases given way to protests against economic reform programmes, increasing uncertainty and complicating implementation. In about a dozen countries, strikes and protests against unpaid wages and stipends or against economic policies were organized in 1992. Among them are Benin, Burkina Faso and Sao Tomé and Principe, countries in which multi-party elections have recently been held. Elections were also held in Cameroon, the Central African Republic (annulled), the Congo, Ethiopia, the Gambia, Ghana, Kenya, Madagascar, Mali, the Niger (in 1993), Senegal (in 1993) and the Seychelles. In the medium and long run a stable political environment for economic activity might depend on reforms that consolidate democracy and that go beyond holding formal elections.[55]

MEDITERRANEAN: WAR IN EX-YUGOSLAVIA

Despite the acceleration of growth in Turkey to over 5 per cent and the high rates of growth in Cyprus and Malta, the region's GDP declined by about 5 per cent in 1992, following the sharp fall of 1991. The reason is devastation from the war in the former Yugoslavia.[56] The economies of the newly independent republics collapsed with the war and the rupture of the trade linkages that existed within the former Yugoslavia.

Domestic output in Croatia fell again, by some 20 per cent in 1992, the unemployment rate rose above 8 per cent and inflation accelerated to about 25 per cent per month in the second half of 1992.

The once prosperous Slovenia has been hit hard by the loss of most of its markets in the former Yugoslavia. Slovenia trade with Croatia—its biggest single trading partner—fell by 50 per cent and efforts to revive trade with Serbia were undermined by the war and United Nations sanctions. The Bosnian market has also been mostly lost. Industrial output fell 16 per cent and most industries are operating below capacity owing to shortages of spare parts and raw materials. Unemployment has reached 15 per cent of the labour force. Restrictive monetary policy succeeded in reducing monthly inflation to 1 or 2 per cent during the latter part of 1992, but it was 200 per cent for the year as a whole.

In the Federal Republic of Yugoslavia (i.e., Serbia and Montenegro), prices escalated to hyper-inflation (estimated at about 20,000 per cent annualized by the end of 1992) as government spending for the war was mainly financed by printing money. Perhaps more than 750,000 people are unemployed. Social tension mounted and several strikes were registered during the year. The economy is damaged, but it is hard to put a figure on the damage.

The other Mediterranean economies by contrast grew strongly in 1992. Cyprus and Malta benefited from a strong expansion in tourism, contributing to over 6 per cent GDP growth. Turkey, the largest economy in this group, recovered from the Gulf war sequels and near stagnation of 1991.[57] GDP growth of over 5 per cent originated mainly in the manufacturing sector. The country still has not come to grips with high inflation and budget deficits financed by the Central Bank. Inflation accelerated to about 70 per cent in 1992. The privatization process, which has among its aims to release pressure on the budget, has continued, and fiscal reform has been announced.

WEST ASIA: RECOVERY UNDER WAY

For the first time in a decade output in West Asia increased significantly in 1992, with real GDP growth estimated at over 6 per cent. Output increased in almost all countries of the region. Much of the economic revival was due to a sharp increase in oil production in Kuwait after the precipitous decline of the previous years, but production also increased in other countries, though at a slower pace than in 1991. Manufacturing output—mainly refining, petrochemical and aluminium—also rose.[58] The post-war reconstruction programme in Kuwait, together with expanding infrastructural and industrial projects in several countries, brought about a strong recovery in the construction sector. There was a surge in banking activities.[59] Improved weather conditions resulted in record harvests in some countries. The overall economic recovery may, however, turn out to be fragile if the fiscal and balance-of-payments constraints that many of these countries face are not addressed and the political tension that exists in a number of areas is not diffused.

Fiscal policy in 1992 was expansionary in almost all countries in the region. Current spending increased

sharply. In most countries, defence expenditure was the fastest growing item and accounted for the lion's share of government outlays.[60] Development spending also rose significantly, in particular investment in infrastructure, including large projects to deal with water shortage (see box II.3). Government revenues, however, rose only moderately, thus contributing to mounting budget deficits in many countries.[61]

Expansionary fiscal policies led to rising inflation, especially in the Islamic Republic of Iran, Iraq and the Syrian Arab Republic. Consumer prices increased by more than 1,000 per cent in Iraq and about 25 per cent in the Islamic Republic of Iran and in the Syrian Arab Republic. Inflation persisted in the net energy-importing countries of the region.

The private sector in most of the energy-exporting countries continues to rely heavily on foreign labour.[62] The public sector, where nationals prefer to work, is facing increased difficulties in absorbing university graduates and others entering the labour market, and thus unemployment among nationals has been rising. In late 1992 most countries announced new programmes under which private companies are to receive financial compensation for hiring nationals.

The region's current account has been in deficit since 1983, and 1992 was not an exception. The region's oil exports rose only slightly. With almost unchanged prices, there was only a small increase in export earnings. Non-oil exports—mainly aluminium and petrochemical—continued to decline owing to lower prices. Meanwhile, import demand rose much faster, reflecting higher defence spending and accelerated diversification policies which brought more capital and intermediate goods to the region. Investment income (interest and dividend received) declined with the fall of international interest rates, and adversely affected earnings from the large volume of foreign assets held by the major oil-producing countries of the region. Unrequited private transfers outflows (essentially labour remittances) continued to be large in the net energy-exporting countries despite some reduction in wage rates for immigrants.

Transmission mechanisms collapsed

Although 1992 saw the highest economic growth in West Asia since the early 1980s, the consequences of the Gulf war are still being felt in the region. Major channels that helped recycle the oil wealth from the richer to the poorer countries of the region (workers' remittances, unrequited transfers and soft loans) have been disrupted. Of the net energy-exporting countries, Bahrain and the Syrian Arab Republic are heavily dependent on their richer neighbours for aid flows but are now receiving much reduced levels of assistance following the Gulf war, which drained the donor countries.

The situation is more severe for the less wealthy countries. Almost 1 million Yemenis returned home from the Gulf countries, leading to a collapse of private transfers and a doubling of the country's unemployment rate to about 36 per cent. Official transfers from neighbouring countries have stopped. The economic recovery of about 3 per cent in 1992, after two years of decline, was mainly the result of increased oil output. Meanwhile, inflation reached 100 per cent which, together with mounting unemployment, is contributing to social tension. Yemen is facing increased difficulties in meeting its foreign debt-service commitments.

Jordan recovered much faster than expected as real GDP grew by over 7 per cent, driven basically by buoyant construction and tourism activities and expanded manufacturing output. There was also a combination of other factors, such as aid disbursements (mainly Japan and the EC countries) together with repatriation of savings by Jordanians returning from the Gulf, which have more than compensated for the loss of aid and remittances from richer neighbouring States. Despite the recovery, however, unemployment remains high and is estimated to be over 25 per cent.

Confronting fiscal and external imbalances

Fiscal deficits in the region, since 1983, underline the weakness of the tax structure. In the net energy-exporting countries, the oil sector continues to provide the bulk of government revenues. Plans for tax reform and new revenue-raising measures were considered, but not implemented. Countries such as Bahrain, Jordan, the Syrian Arab Republic and Yemen increased their tax revenues through higher import duties and increases in land, car registration and commercial fees. In the net energy-importing countries, the bulk of tax revenues is obtained from taxes on international trade and indirect taxes. Taxes on income and wealth do not provide a significant part of total tax revenues. The tax-GDP ratio remains low.[63] Attempts are, however, being made to shift the tax incidence from customs tariffs to income and sales taxes.

The sluggish world demand for crude oil and overproduction continue to put pressure on the balance of

BOX II 3

The struggle for water in West Asia

WEST ASIA is mostly arid or semi-arid. The Gulf States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are situated in an arid zone; Iraq, Israel, Jordan, Lebanon, the Syrian Arab Republic and Yemen are in relatively arid or semi-arid zones. The Islamic Republic of Iran has some arid zones. The region has two types of water resources: the conventional groundwater and surface water and the non-conventional desalinated water, reused sewage effluent and transported water. With the exception of the Tigris and the Euphrates, there are only a few small rivers in Jordan, Lebanon and the Syrian Arab Republic. Wadis, or watercourses of the rainy season, exist in most of the region but can be dry for years. Groundwater reservoirs are critical for the region but are fast depleting.[a]

Caught between diminishing groundwater resources and the rising needs of a fast-growing urban population, as well as expanding industry and agriculture, countries in the region have designed programmes to increase water production. In most national development plans, "water security" has been a priority issue since the early 1980s and will be even more so in the 1990s. Desalination plants have been built and the region's on-line desalination capacity ranks highest in the world. Saudi Arabia alone has more desalination capacity than the rest of the world put together, and more is planned. Because desalinated water is costly, it is generally used for household consumption and has limited industrial use. Even in Saudi Arabia, aquifers supply two thirds of the needs. Efforts have been made to improve efficiency in irrigation schemes and to recycle water by industries. In various countries, treated municipal sewage effluent is being used for irrigation of public parks and gardens.

In several countries, the population is dispersed, and it was necessary to build pipelines to transport water from desalination and water treatment plants to remote areas. For more than a decade proposals have been made for transporting water across countries within the region and even importing water, but their feasibility remains mostly doubtful. Saudi Arabia conducted a feasibility study on transporting water by towing icebergs to its coast but with negative results.[b] Jordan envisaged the construction of a 600-kilometre pipeline to receive water from the Euphrates River in Iraq. Kuwait, which relies heavily on desalination, began importing water from Iraq but the project was cut short by the Gulf war. Before the crisis it considered building a 290-kilometre water pipeline to link with the Shatt Al-Ghoraf Canal in southern Iraq.[c] The United Arab Emirates, forced to draw water from aquifers at three times the replenishment rate, envisaged importing water from Pakistan via a water pipeline across the Arabian Sea. Turkey has the Peace Pipeline project to carry water from two of its small rivers, Seyhan and Ceyhan, to Jordan, the Syrian Arab Republic and the Gulf States.

Turkey controls the water flowing from its mountainous eastern region, the sources of the Tigris and Euphrates Rivers, as well as the waters of the Seyhan and Ceyhan, which flow entirely in Turkey and empty into the Mediterranean Sea at the Bay of Iskenderun. The Euphrates flows through Iraq and the Syrian Arab Republic to the tip of the Persian Gulf, and the Tigris flows directly to Iraq—receiving additional supplies from tributaries in the Zagros mountains in the Islamic Republic of Iran, then joining the Euphrates and into the Gulf. Thus, the major rivers originate from outside West Asia, making the region dependent on upstream developments which may reduce the availability of water resources in the lower riparian countries.

Iraq and the Syrian Arab Republic are the countries in the region to be most adversely affected by any possible diversion of water in Turkey. The Euphrates feeds Iraq's agriculture sector, and the Syrian Arab Republic relies mainly on hydroelectricity for power. Irrigation and hydroelectric power schemes involving dams in the Tigris and Euphrates Rivers in Turkey could reduce the quantity and quality of the water that these countries receive. The issue could become acute when Turkey completes its ambitious

Southeast Anatolian Project (GAP)[d] of large hydroelectric and irrigation dams in Upper Mesopotamia, started in the late 1970s.[e]

The three riparian countries have established the Trilateral Commission of the Euphrates River to discuss matters of common interest. Successive meetings have so far failed to produce any water-sharing agreement. Foreign assistance to the GAP project also depends on a resolution of the water dispute.

Another source of potential conflict or cooperation lies within the region itself. There are several groundwater aquifers that extend between two or more countries. Groundwater extraction by one State can affect the quantity and quality of supply available to other States. Up to now, the region lacks an appropriate institutional mechanism and a regional strategy for cooperation and for the equitable allocation, use and management of its shared water resources.

[a] For a detailed report on water in West Asia and North Africa, see Priit J. Vesilind and Ed Kashi, "Middle East water - critical resource", *National Geographic* (May 1993).

[b] *Survey of Economic and Social Developments in the ESCWA Region in the 1980s* (E/ESCWA/DPD/89/5), p. 129.

[c] *Gulf States Newsletter*, No. 452 (January 1993), p. 12.

[d] Guneydogu Anadolu Projesi.

[e] One study estimates that if the GAP programme and the Syrian Arab Republic's water storage schemes are fully implemented, the annual flow of the Euphrates into Iraq could be reduced by two thirds, from 32 billion cubic metres to 11 billion cubic metres (Ramzi Musallam, "Water: the Middle East problem of the 1990s", *Gulf Report Special Issue* (Gulf Centre for Strategic Studies, 1991), p. 3)

payments of the region. The trade surplus of the region declined from more than $100 billion in 1980 to $2.7 billion in 1986,[64] with occasional small improvements thereafter, particularly in 1991, when the trade surplus reached about $20 billion. Since services and unrequited transfer accounts (mainly labour remittances) were always in deficit, the erosion of the trade balance led to a persistent current account deficit, which reached $31 billion in 1991, with a smaller deficit in 1992 (see table A.25). The large capital-surplus status of the region in the 1970s and early 1980s was dramatically reversed (see figure II.7).

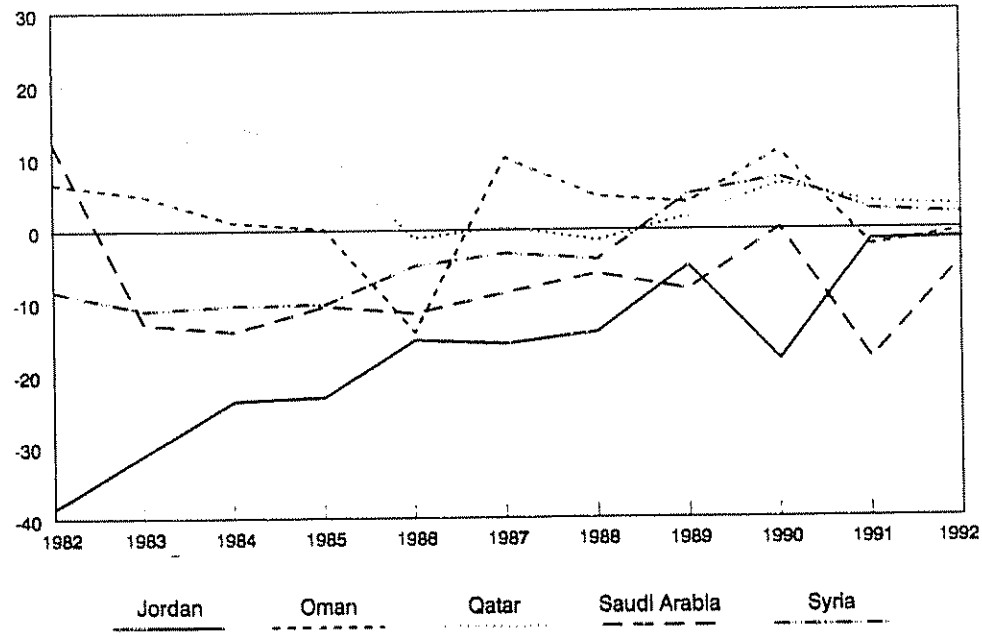
Various measures were taken to address the balance-of-payments problem. The net energy-exporting countries (which are also labour-importing) resorted to quantitative restrictions. Imports of goods and services (particularly labour services) were curtailed. Aid and soft loans to other developing countries were also reduced. The balance-of-payments problem is more severe for the net energy-importing countries (also labour-exporting) of the region. In response to declining official assistance, private transfers and exports, those countries also resorted to quantitative restrictions on imports and currencies were devalued.

In addition to quantitative restrictions, efforts were made to diversify exports away from oil. To this end, petrochemicals, fertilizers, aluminium and a few other indigenous semi-manufactured and manufactured products were promoted. Increasing attention has also been paid to the promotion of trade in services. Some countries have been endeavouring, with some success, to increase their earnings from services by creating conditions that would attract service-oriented activities and/or produce services for export such as ship repairing, travel and banking (Bahrain); ship repairing and transit services (United Arab Emirates); and the expansion of merchant fleets (Kuwait).

SOUTH AND EAST ASIA: SLOWER EXPANSION

South and East Asia, with its high concentration of successful exporters of manufactures, was not entirely immune to the world recession, even though the deceleration of growth in the region cannot be ascribed directly and entirely to the slight slow-down of its export growth in 1992 (see chap. III). On the whole, growth rates of the region slowed down to below 5 per cent, from 5.3 per cent in 1991. The deceleration was concentrated in the first generation of newly industrialized economies (NIEs) — Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China — the four mature "Asian tigers". Together, they lost almost two percentage points, growing at 5.4 per cent, compared with 7.3 per cent in

Figure II.7.
West Asia: current account balances

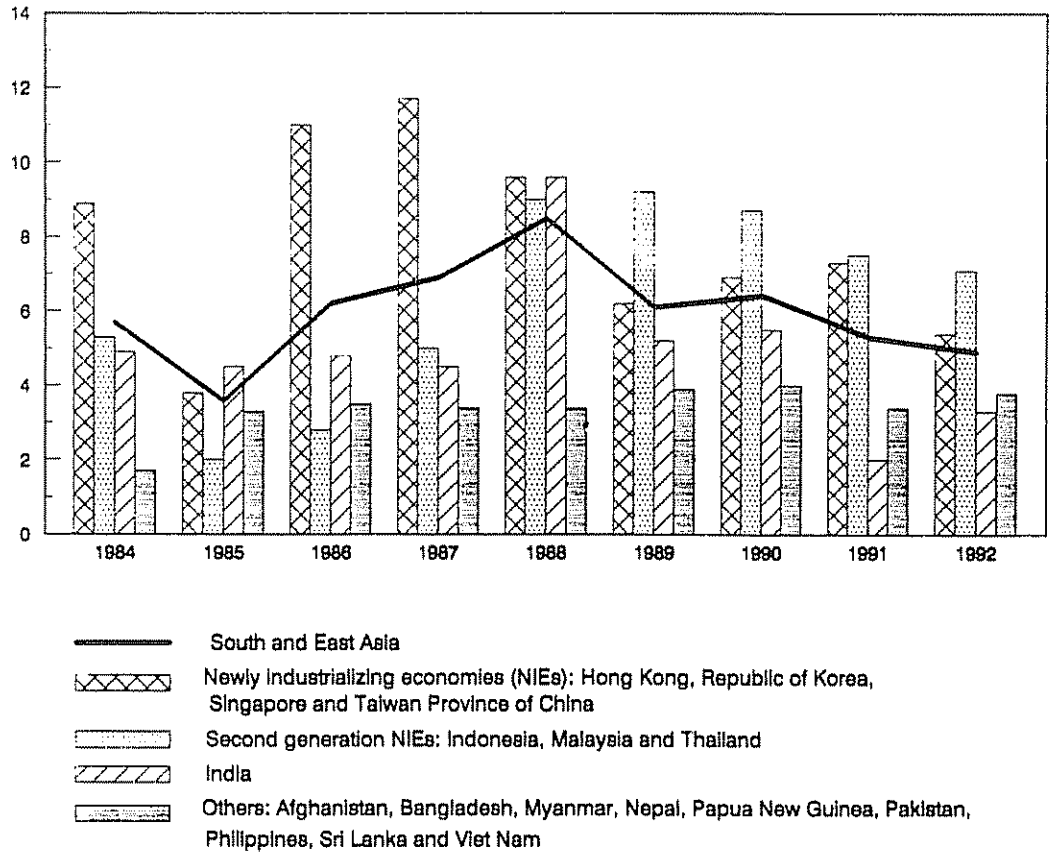


Source: UN/DESIPA, based on IMF, *Balance of Payments Statistics* tapes and national and international sources.

1991. The second generation of NIEs—Indonesia, Malaysia and Thailand—almost kept its pace, growing at 7.1 per cent, compared to 7.5 per cent the year before. India made a modest recovery in 1992, after a 2 per cent growth in 1991, its lowest growth rate since 1979. The rest of the countries in South and East Asia, taken together, kept up an average growth near 4 per cent, and have not changed much since 1989 (see figure II.8). The growth rates varied widely, however, in the last group.

The strongest deceleration occurred in the largest of the NIEs, the Republic of Korea, which experienced its slowest growth in 12 years. It was, however, largely policy-induced, i.e., brought about by restrictive fiscal and monetary policies aimed at reducing inflation that had reached double digits and at containing the rapid expansion of its current account deficit.[65] Permits for residential construction were almost frozen and construction of new commercial buildings was virtually stopped. The package brought down inflation to 6 per cent in 1992, half the level of the previous year, and almost halved the current acount deficit to $5 billion. There was virtually no growth in investment and GDP growth slowed to 4.7 per cent from 8.4 in the previous year. In Taiwan Province of China, economic growth slowed with a slow-down of export growth that reduced its trade surplus to an eight-year low of $10 billion, while in Singapore limits to growth are being set by constraints in the domestic supply of labour and land, in spite of relocation of labour-intensive industries to neighbouring countries, in particular Indonesia's Batam island and the Malaysian State of Johore. The currencies of Hong Kong, Taiwan Province of China and Singapore appreciated against the dollar, which contributed to slower growth of exports. Hong Kong was the exception among the NIEs in 1992, and its growth accelerated by almost one percentage point, to 5 per cent. Its economy benefited from the economic boom in the southern provinces of China, in particular Guangdong, the province closest to it. About two thirds of China's exports to the United States are conducted via Hong Kong, and it is also prospering as the middleman

Figure II.8.
South and East Asia: real GDP growth, 1984-1992



Source. UN/DESIPA

between China and Taiwan Province of China in channelling trade and investment. Such linkages were reflected in the 1992 export performance: re-export of goods from Hong Kong increased by about 30 per cent, while domestic exports rose by only 1.5 per cent.

Continuing a trend since 1988, the second generation of Asian NIEs remained at the top of the growth league for the region, with a rate of growth above 7 per cent. Investment ratios have remained high, at above one third of GDP, although the pace at which investment expanded did slow down somewhat in 1991 and 1992. In the last years, these countries have increasingly received capital from the Asian NIEs, in an industrial restructuring process in which the latter, having moved up the industrial ladder towards a mature industrial structure at home, are relocating to the second generation of NIEs (and also to China and the countries of "greater Indochina", and more recently to the Asian republics of the former Soviet Union) industrial activities that are more labour-intensive and often are in the lower end of the technological spectrum. In all three, industry has been the driving force, and remained so in 1992, with rates of growth that are far higher than those in agriculture or in services. Although foreign direct investment from the United States is still important in the accumulated stock, in recent years the largest share of foreign direct investment in Indonesia, Malaysia and Thailand has come from the Asian NIEs.[66]

In this group too there was a slight deceleration. Indonesia maintained its 6.5 per cent growth (see table II.5) despite brakes on monetary expansion and a cautionary fiscal policy that reduced consumer price infla-

tion from almost 10 per cent to 5 per cent. Growth was led by 11 per cent growth in the industrial sector, supported by a 12 per cent growth in manufacture exports, the bulk of which went to Asian markets. Gross domestic investment grew at a slower pace in 1992 (about 5.5 per cent), partly owing to high domestic interest rates. In Malaysia, a slight deceleration to 8 per cent, from 8.8 per cent in 1991, derived mainly from the slow-down in export-oriented industries, in particular machinery, electrical and electronic sectors, partly owing to currency appreciation. The strong expansion in manufacturing (about 13 per cent) was sustained by the domestic-oriented industries. Fiscal and monetary policies were on the cautious side. In Thailand, economic activity slowed down (see table II.5) mainly as the result of stabilization policies in reaction to the acceleration of inflation that accompanied double-digit growth before the Gulf crisis. The May 1992 political crisis delayed some private investment and affected tourism.

The Indian economy recovered in 1992 from the marked slow-down of 1991. GDP growth was about 3 per cent, up from 2 per cent the year before. At the same time, macroeconomic balance was beginning to be restored. A tight fiscal and monetary policy combined with rapid import liberalization and a good monsoon resulted in a rapid fall in inflation rates. From its peak of a 17 per cent annual rate reached in August 1991, inflation was reduced to an average rate of 9 per cent in 1992, and by the end of the third quarter of 1992 had fallen to an annual rate of less than 7 per cent. At the origin of the acceleration in inflation in 1991 were the balance-of-payments difficulties that became acute in 1990, in the wake of the Gulf crisis and a higher oil import bill. Foreign reserves at the end of 1990 had already reached a level insufficient to cover even one month's imports, and they were even lower by the end of the second quarter of 1991. To face the widening balance-of-payments gap, the Government sharply cut imports, which contributed not only to the slow-down but also to rising prices in 1991. To cope with inflation, austerity measures were introduced in the last quarter of 1991 and a process of trade liberalization was started. In 1992, the budget deficit was reduced to 4.9 per cent of GDP because of tax increases, but even more owing to cuts in expenditure. Major subsidies were cut by about 16 per cent; fertilizer subsidies were reduced by 30 per cent.

Regulations for industry were relaxed. For example, much of the previous requirement to obtain government permission to set up industries was abolished. Quantitative restrictions to imports were virtually abolished and tariffs were reduced, leading to a degree of import liberalization unprecedented in India. Imports increased almost 20 per cent, not only because of the relaxation of constraints, but also because of the generally higher level of economic activity. But total exports lagged (with only 3 to 4 per cent growth) as sales to the ex-Soviet Union, India's largest trading partner, plunged 50 per cent for the second year in a row. Hard currency exports, however, rose 10 per cent, helped by the rupee devaluation. Debt service on the country's $75 billion external debt has, however, begun to consume over 30 per cent of export earnings.

Altogether, the current account deficit, which had been reduced in 1991 with a sharp fall of imports in that year, started to increase again in 1992. Stabilization efforts require an increase in imports to help contain prices in the domestic market, but the trade-off is a worsening of the current account. In support of its balance of payments, India increased its use of IMF credit, through a stand-by facility of $2.2 billion approved in October 1991. Foreign direct investment recovered from the strong decline of 1991. Foreign exchange reserves had recovered by the end of 1992 to a level sufficient to cover four months of imports.

Building on its success in controlling inflation and the strong reduction obtained in the budget deficit in 1992, the Government has proposed an expansionary budget starting April 1993. On the one hand, it includes cuts in taxes such as customs and excise duties, tax holidays for new power plants and a reduction in the short-term capital-gains taxes on foreign investors in India's stock markets. On the other hand, public investment is to go up, with emphasis on infrastructure, and spending on anti-poverty programmes is also to increase. The expectation is that a reduction in budget support to state enterprises will keep the budget deficit within limits. A dual exchange rate system was replaced by a unified market-determined single rate for the trade account, a de facto depreciation that is expected to help exports. The sustainability of growth and stabilization hinges on capital inflows sufficient to compensate for the widening trade and current account deficit.

The other economies in South and East Asia had mixed performances but achieved rates between 3 and 6 per cent, with the exception of the Philippines, which registered barely any growth in the past two years. Viet Nam continued to reap good results from its economic reforms (or *doi moi*). In 1992, the national economy grew by 5.3 per cent, up from 4 per cent in 1991. Industry has led the expansion (with a rate of 15 per cent). Despite

unfavourable weather conditions, agriculture grew by over 4 per cent, enabling Viet Nam to increase its rice exports by 30 per cent over the level of 1991. This, combined with crude oil exports, helped turn the trade balance into a surplus (of $75 million) for the first time in over 40 years. Although the United States economic embargo remained in place, other countries have started resuming their ties with Viet Nam. Foreign direct investment in the country is estimated to have increased by over 70 per cent during 1992. Taiwan Province of China and Hong Kong are the leading investors, and together with other Asian countries including Japan, account for more than half of total foreign direct investment, suggesting that Viet Nam might become another link in the emerging intra-Asia growth circle.

Typical of countries in South and East Asia, in particular the old and the new NIEs, has been a high investment ratio during the 1980s, about or even above 30 per cent, far higher than rates in Latin America or in Africa in the same decade. Another characteristic has been their high share in foreign direct investment flows, and the way in which this investment moved from one country group to another, helping to evolve as well as responding to certain patterns of industrialization, and the corresponding change in their trade structure—the phenomenon that various analysts have described as the formation of a number of regional sub-zones, each one with a centre providing technological, financial and marketing services linked to an area with more abundant and cheaper labour. The sub-zones most commonly identified are the South China zone, consisting of Hong Kong and the southern and Taiwan Province of China, and the "growth triangle" of Singapore, Malaysia's Johore and Indonesia's Batam island.[67]

Beyond these well-known characteristics of investment in the region, another trait typical of countries in South and East Asia, in particular both the old and the new NIEs, is that investment in infrastructure was not abandoned during the 1980s, even though at present severe bottlenecks are being identified after a period of very rapid growth in private investment. With few exceptions, Governments in South and East Asia did not run into the deep and prolonged fiscal crises that caused strong decline in public investment and deterioration of the infrastructure in several Latin American and African countries during the 1980s. Governments in South and East Asia continued to develop large infrastructure projects, directly, through the private sector, or on a mixed funding basis. In the near future, investment in infrastructure is expected to be even more important as a factor of growth. Public investment has increased in Singapore and in Taiwan Province of China. The Republic of Korea has approved large road and railway projects. In Hong Kong, despite the on-and-off debate over financing of the new airport between the Governments of China and the United Kingdom of Great Britain and Northern Ireland, the construction of components of the project is proceeding. Ports are being expanded in Singapore and Pakistan. Power generation and transmission is being expanded in Indonesia. Malaysia is to implement its large-scale project of the North-South Highway, a new airport at Sepang and expansion of telecommunications. Thailand is starting large infrastructure investments, in particular to ease transportation bottlenecks in Bangkok.

CHINA: STRONG GROWTH

China turned out another outstanding economic performance in 1992. GDP growth rate accelerated to 12.8 per cent, the highest in the world. This expansion is brought on largely by a 20 per cent increase in industrial production. Agricultural production increased by about 3 per cent. Investment, both domestic and foreign, increased at a phenomenal rate, while international trade expanded rapidly. Inflation inched up, reaching 5.3 per cent in 1992 (see table II.7).

Growth was fostered by a generally liberal macroeconomic policy environment which spurred optimism in the economy. The fourteenth Congress of the Chinese Communist Party, convened in October 1992, reaffirmed the continuation of the policy of economic reform and opening up to the outside world. Such an assur-

Table II.7.
China: selected economic indicators, 1990-1993
Annual percentage change

	1990	1991	1992[a]	1993[b]
Gross national product	4.1	7.7	12.8	11
Industrial output	7.8	14.5	20.2	18
Agricultural output	7.6	3.7	3.0	4
Gross fixed investment	7.5	23.8	33.0	24
Value of retail sales	2.5	13.4	15.7	15
Retail price index	2.1	2.9	5.3	7 1/2
Total exports (dollar value)	18.1	15.0	14.3	16
Total imports (dollar value)	-10.1	19.1	22.0	19

Source: State Statistical Bureau of China and IMF, *International Financial Statistics*.

a Preliminary.

b Forecast based on project LINK.

ance sent a positive signal to domestic economic agents and foreign investors alike.

Several economic measures were taken as further steps to a more market-oriented economy. More prices were raised or freed; experiment in enterprise reform continued; new rules simplified procedures for foreign investment, opened up more economic sectors to foreign investment and reduced trade barriers; a campaign was launched to adapt China's enterprise accounting practice to international standards; commodity exchanges and the experimental stock market were expanded in scope.

The monetary policy was, de facto, loose. Defying government directives on credit expansion, banks increased their lending by 20 per cent over 1991, doubling the rate set by the government target. This contributed to a 30 per cent surge in total money supply when total output expanded by 12.8 per cent.

Although the estimated fiscal deficit was about 10 per cent higher than planned, it is still less than 4 per cent of total GDP in 1992. The number of loss-making state-owned firms declined. Food price subsidies to urban residents were eliminated. But the increase in central government revenues has not paralleled that in industrial output, owing to the lack of effective tax administration in the fast-growing and profitable non-state sector, which remains the most dynamic component of the national economy.[68]

Favourable policy environment and optimism encouraged a high growth of investment. Even after taking into consideration that China has maintained a relatively high rate of investment, at about 30 per cent of GDP since the 1970s, the increase in both domestic and foreign investment in China was very high during 1992. Total investment in fixed assets was 20 per cent higher in real terms than in 1991. The number of contracted new projects and new committed investment doubled their 1991 level, reaching over 40,000 projects and $58 billion respectively. Foreign capital inflow (investment and credit-related) totalled over $16 billion, about 50 per cent higher than in 1991.

Hong Kong remained the largest investor in China, with Taiwan Province of China catching up by increasing its investment rapidly.[69] Combined with increasing direct and indirect trade (mainly in the case of China-Taiwan Province of China trade through Hong Kong) among the three economies, investment in China originating from the other two is strengthening the economic ties among them. This linkage is part of the larger picture of increasing intra-Asia trade and investment ties.

General optimism in the Chinese economy is also reflected in consumer spending. Total domestic retail sales increased by 15.7 per cent, after a 13 per cent rise in 1991. This boom in consumption was supported by a 7 per cent increase in urban and a 5 per cent increase in rural real personal incomes per capita.

The 5.3 per cent rate of inflation (see table II.7) is moderate considering that the Government sanctioned retail price hikes for state-rationed grain and its processed products in April 1992, eliminating state subsidies that averaged about 30 per cent on these staples. Prices of industrial raw materials, coal, natural gas, rail freight charges and chemical products were also raised, leading to higher prices for some consumer goods. But excess supply pushed prices of textile downward. It should be pointed out, however, that the impact of these price reforms is felt more strongly by the urban population. The cost-of-living index compiled for 35 large and medium-sized cities registered an increase of 11 per cent. Such overall price inflation, together with signs of material shortage and unabated bottlenecks in energy, transport and other infrastructure facilities, hints at the possibility that the Chinese economy is overheating again.

As in the past decade or so, export growth in 1992 contributed significantly to GDP growth, even for as large a country as China where trade as a proportion of GDP is expected to be small. Custom-based data show that export value totalled $81 billion in 1992, representing a 14 per cent increase over 1991. Meanwhile, total imports rose by even more, 22 per cent over 1991, reaching $76 billion.[70]

NOTES

[1]Including only developed market economies that are members of the Organisation for Economic Co-operation and Development (excluding the eastern *Länder* of Germany)

[2]Food stamps are provided under a government programme to subsidize food purchases by the poor. The unemployed in the United States qualify for food stamps only after they exhaust their savings and become poor (data supplied by United States Department of Agriculture)

[3]The growth of real compensation in the 1970s period, after oil prices jumped, was itself less than half the 4.4 per cent growth in the 1966-1973 period (breaking points between periods are defined relative to economic growth cycles, as per OECD; calculations are based on estimates of compensation per employee in the business sector in 21 OECD member countries in *OECD Economic Outlook*, No. 52 (Paris, OECD, December 1992) and private consump-

tion deflators in United Nations database of national accounts).

[4]In the case of the United States, the end-year rebound in confidence was followed by successively lower levels of consumer sentiment in January, February and March 1993.

[5]Fiscal policy as a whole, including revenue as well as expenditure effects, was slightly expansionary; i.e., the cyclically adjusted fiscal balance of general government deteriorated by 0.4 per cent of GDP, about the same change as in 1991 (*OECD Economic Outlook*..., p. 146). The actual 1992 deficit was 4.7 per cent of GDP (see table A.8).

[6]See United States Department of Labor, *Monthly Labor Review*, February 1993.

[7]Economic Planning Agency of Japan, "Hojin kigyo doko chosa", February 1993.

[8]See *OECD Economic Outlook*..., p. 146.

[9]GDP in eastern Germany, in contrast to the west, grew in 1992 for the first time since reunification, despite continued weakness in manufacturing that was related in part to the loss of main export markets in eastern Europe and the former Soviet Union. The 6.8 per cent growth largely resulted from a surge in construction and other service sectors (see "The economic scene in Germany in winter 1992-3", *Deutsche Bundesbank Monthly Report*, vol. 45, No. 2 (February 1993)).

[10]Adjustment of the financial situation of government is a parallel concern in some of the countries, but with the higher creditworthiness of most government entities compared to the private sector, the adjustment pressures are of a different nature and magnitude (see, for example, the discussion of government activism, adjustment and policy priorities in Germany, Italy and Japan in *World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 16-23).

[11]The comparable debt reductions and income increases were 15 per cent and 18 per cent in Canada, and 14 per cent and 16 per cent in France (see *Amex Bank Review*, vol. 20, No. 1 (25 January 1993), p. 4).

[12]See *The Scandinavian Economies*, vol. XXIII, No. 2 (February 1993), p. 15.

[13]Yukio Noguchi, *Baburu no Keizaigaku* (Tokyo, Nihon Keizai Shimbun-sha, 1992), p. 31.

[14]Quantitative data on those and other economic areas from several of the economies in transition must be interpreted with great caution as national statistical systems and data collection remain in flux (see also box II.2).

[15]With the split-up of Czechoslovakia on 1 January 1993, the pace of reform seems set to move more rapidly in the Czech Republic than in Slovakia. Nevertheless, output is expected to decline in 1993 in both republics because of the economic disruptions caused by the split.

[16]Consumer prices have risen much more rapidly than producer prices in eastern Europe and a large gap has opened between indices of the two sets of prices. Sources of the gap include cuts in government subsidies of consumer goods, introduction of value-added taxes, and improvements in the availability and variety of consumer goods and in the retail services in providing these goods.

[17]It is convenient, but not essential, that participation in ownership be liquid, e.g., that there be a formal market in equity shares in corporations.

[18]For a discussion of the successful but in this sense incomplete adjustment programme in Bolivia, see *World Economic Survey, 1989* (United Nations publication, Sales No. E.89.II.C.1 and corrigendum), pp. 164-169.

[19]Privatization has been progressing in the other eastern European countries as well. For example, in Romania, large parts of retail trade and the services sector were put in private hands through state asset sales.

[20]See R. Frydman, A. Rapaczyski and J. S. Earle, eds., *The Privatization Process in Central Europe* (Budapest, Central European University Press, 1993), pp. 201-202; and for most recent data, *Heti Világgazdaság* (Budapest) 13 March 1993.

[21]The plan had three steps: first, the population received vouchers to be used to buy ownership shares in state enterprises being privatized; secondly, people (or mutual funds to which they transferred their shares) bid on the firms at a sequence of auctions until prices for the shares were determined; and in the third step, yet to be completed, the shares are distributed.

[22]For example, the stock of late payments in Czechoslovakia was estimated to have exceeded 25 per cent of GDP (*EKONOM* (Prague), 23-29 October 1992, citing a study by the Czechoslovak Statistical Office).

[23]See István Ábel and Pierre Siklós, "Constraints on enterprise liquidity and its impact on the monetary sector in Hungary" (Budapest University of Economics, December 1992).

[24]For a review of issues in creating effective financial systems in transition economies and policies undertaken to foster their development, see *World Economic Survey, 1992*..., pp. 81-84.

[25]Bulgaria and Romania opted for restitution of land to original owners, but Hungary chose financial compensation of previous owners, who could then seek to buy their land back. In the Czech Republic and Slovakia, restitution issues are expected to be completed in 1993, while in Poland, the Parliament considered several proposals for restitution, but agreed on none (see Frydman..., pp. 202-203). This latter case may threaten the broader privatization process since investors would be reluctant to buy properties on which others might assert a claim.

[26]At least some part of the decline in industrial output may be attributed to welcome changes in production structure, with conversion of military facilities to civilian use being a prime example. According to *Goskomstat* data, the military-industrial complex was expected to cut military production in its enterprises in half during 1992, with civilian manufacturing in the same facilities increasing only 9 per cent.

[27]Moreover, measured real wages of the Soviet Union had risen substantially in the period 1988-1990 without a concomitant increase in living standards. Goods at official prices were in short supply and people spent inordinate amounts of time in queues or paid extra to obtain whatever was available. Thus, the 1992 fall in measured real wages overstated the actual fall in living standards (see also David Lipton and Jeffrey D. Sachs, "Prospects for Russia's economic reforms", *Brookings Papers on Economic Activity*, No. 2 (1992), pp. 213-283).

[28]*O razvitii ekonomicheskikh reform v Rossiyskoy Federatsii* (Moscow, *Goskomstat*, December 1992), p. 29.

[29]For concise reviews of the policy debates and actions leading to the dissolution of the USSR, see *World Economic Survey, 1991* (United Nations publication, Sales No. E.91.II.C.1), pp. 22-25; and *World Economic Survey, 1992*..., pp. 26-30.

[30]See "Programma uglublenia ekonomicheskikh reform Pravitelstva Rossiyskoy Federatsii", *Voprosy Ekonomiki*, No. 8, 1992.

[31]The money supply is defined here as the amount of cash in circulation plus demand and time deposits (M_2).

[32]Tightening of credit meant tight administrative rationing of credit, as real interest rates remained highly negative.

[33]Apparently, some banks deliberately slowed payments to retain larger amounts of enterprise funds at their disposal for short-term credits and hard-currency arbitrage— very profitable activities in times of rapid inflation.

[34]Most of the privatization in 1992 involved small enterprises. By the end of November almost 34,000 enterprises belonged fully or partially to private owners, but four fifths of privatized businesses were small. Altogether, 40 per cent of wholesale and 8 per cent of retail trade were privatized, as were 3 per cent of public catering and 7 per cent of other services. But in industry less than 6 per cent of the total number of enterprises were privately owned by the end of the year, and their share in the 1992 industrial output was not even 7 per cent. On the other hand, the process that is to privatize large and medium-sized enterprises beginning in 1993 was worked out during 1992. A voucher scheme having some similarity to that of Czechoslovakia, noted above, was adopted and privatization vouchers began to be distributed to all citizens in October. With the privatization programme now gathering steam, non-state enterprises are expected to significantly increase their share in industrial output in 1993.

[35]One promising sales outlet was exports, where under-invoicing of exports also provided a means to transfer financial resources abroad until domestic conditions stabilized (see chap. IV).

[36]In fact, the long-awaited law on bankruptcy was not passed by Russia's Parliament until November 1992, and then did not take effect until 1 March 1993. At the time of writing, a limited number of well-publicized bankruptcies is providing a model of how the new procedure will work.

[37]Another major source of the swelling money supply was rouble credits issued by the Governments of other successor States to their own enterprises which, in turn, fed them into the economy of the Russian Federation (see chap. IV).

[38]Trade between Cuba and the former CMEA countries in 1992 amounted to a mere 7 per cent of its 1989 level.

[39]For a detailed review of the subject, see Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1992*, pp. 7-17.

[40]Thus, while the regional weighted inflation average doubled to 410 per cent, excluding Brazil it fell to only 22 per cent from 49 per cent in 1991 and over 900 per cent in 1990.

[41]For a discussion of this issue, see Samuel A. Morley, "Structural adjustment and the determinants of poverty in Latin America" (Vanderbilt University and Inter-American Development Bank, May 1992), and Carlos Massad, "Equidad y transformación productiva como estrategia de desarrollo: la vision de la CEPAL", CEPAL, documento de trabajo No. 12, diciembre 1992.

[42]Although classified by the *Survey* as a developed market economy, South Africa is discussed as part of the African region. The aggregate of Africa does not include data for South Africa.

[43]The Security Council imposed an arms embargo against Liberia in November 1992 (resolution 788 (1992)). The Economic Community of West African States (ECOWAS) also imposed sanctions.

[44]On 16 December 1992 the Security Council approved an operation to monitor and verify the cease-fire agreement and the demobilization, to provide security for activities in support of the peace process, to coordinate and monitor all humanitarian assistance, and to provide technical assistance and monitor the elections (see resolution 797 (1992) and document S/24892). Resources towards the United Nations operation are, however, still insufficient, albeit donors pledged about $1 billion towards economic rehabilitation and drought relief.

[45]See, for example, Temitope W. Oshikoya, "Macroeconomic adjustment, uncertainty and domestic private investment in selected African countries", *Economic Research Papers*, No. 16 (Abidjan, African Development Bank, 1992).

[46]Karim Nashashibi and others, "The fiscal dimensions of adjustment in low-income countries", *Occasional Paper*, No. 95 (Washington, D.C., International Monetary Fund, April 1992), pp. 11-12.

[47]*World Investment Report, 1992* (United Nations publication, Sales No. E.92.II.A.19).

[48]Until early 1993, foreign exchange was sold by CBN at a rate close to the parallel rate, the rate at which the *bureaux de change* sell currency from private sources. Earlier reforms in the foreign exchange markets of Nigeria were reviewed in *World Economic Survey, 1990* (United Nations publication, Sales No. E.90.II.C.1 and corrigenda), p. 30.

[49]Angola, Ethiopia, Malawi, Mauritania, Mozambique, Rwanda and the United Republic of Tanzania.

[50]In Nigeria, for example, 88 per cent of state debts to government-controlled banks were non-performing in June 1991 (*The Banker* (October 1992), p. 29).

[51]Low private investment in Ghana has been ascribed to credit ceilings imposed to counteract monetization of foreign aid (see Stephen D. Younger, "Aid and Dutch disease: macroeconomic management when everybody loves you", *World Development*, vol. 20, No. 11 (November 1992), pp. 1587-1597). Other causes of low private investment are discussed in Ishan Kapur and others, "Ghana: adjustment and growth, 1983-91", *Occasional Paper*, No. 86 (Washington, D.C., International Monetary Fund, September 1991), pp. 15-16.

[52]IFAD, *The State of World Rural Poverty: An Inquiry into Its Causes and Consequences* (New York, New York University Press, 1992), chap. 7; *Savings and Credit for Development*, report of the International Conference on Savings and Credit for Development, Klarskovgard, Denmark, 28-31 May 1990 (United Nations publication, Sales No. E.92.II.A.1); P. B. Ghate, "Interaction between the formal and informal financial sectors: the Asian experience", *World Development*, vol. 20, No. 6 (June 1992), pp. 859-872.

[53]See Dani Rodrik, "How should structural adjustment programs be designed?", *World Development*, vol. 18, No. 7 (July 1990), pp. 943-944.

[54]See Augustin Kwasi Fosu, "Political instability and economic growth: evidence from sub-Saharan Africa", *Economic Development and Cultural Change*, vol. 40, No. 4 (July 1992), pp. 829-841.

[55]*African Charter for Popular Participation in Development*, Arusha, 12-16 February 1990, (E/ECA/CM.16/11); *The State and the Crisis in Africa: In Search of a Second Liberation*, report of the Mweya Conference in Uganda, 12-17 May 1990 (Uppsala, Dag Hammarskjöld Foundation, 1992); and Rodrik..., p. 935.

[56]The former Yugoslavia includes the Federal Republic of Yugoslavia (Serbia and Montenegro), Bosnia and Herzegovina, Croatia, Slovenia and the former Yugoslav Republic of Macedonia.

[57]See *World Economic Survey, 1992*..., p. 45.

[58]Preliminary figures indicate that output of petrochemicals in

the Islamic Republic of Iran and Saudi Arabia—the largest producers in the region—increased in real terms by 8 per cent and 6 per cent, respectively.

[59]The rise in banking activities is mainly due to the fact that some countries in the region which used reserves and external borrowing to finance fiscal deficits turned in 1992 to local banks. In addition, for the first time major government-controlled agencies and corporations have also been allowed to turn to the market to raise funds. Preliminary figures indicate that in 1992 major banks in the region reported increased profit.

[60]Defence outlays in Kuwait alone more than quadrupled in 1992 and its share in total government expenditure stood at 43 per cent. The share in Saudi Arabia was 30 per cent, 34 per cent in Oman, 37 in the Islamic Republic of Iran, and between 20 and 30 per cent in the remaining countries. The high defence spending ratio in the region reflects the unprecedented rise of manpower in the armies and increased weapons purchases.

[61]All countries in the region faced fiscal deficits in 1992 and most of them (except Saudi Arabia, Jordan and Yemen) widened them. In the case of Saudi Arabia, the dimension of the deficit is unclear. In 1992, major state ventures of the Kingdom were allowed to raise loans from domestic sources. Since the Government has traditionally funded them directly, there is an argument that the 1992 deficit could be much larger than displayed by the statistics. The fiscal deficit ratio to GDP was 25 per cent in Kuwait, 7 per cent in Saudi Arabia, 7 per cent in Oman (against a surplus of 6.6 per cent in 1991) and 5 per cent in Qatar (against a 2 per cent surplus in 1991).

[62]It seems that the private enterprises prefer the flexibility gained by hiring foreigners, and nationals reject them for lack of social security legislation and other protection or benefits. In 1992, for instance, wage rates in the private sector for many immigrants were reduced by one third.

[63]The tax-GDP ratio was 2.8 per cent in 1991 and 2.7 per cent in 1992 for Jordan. In Yemen, it was 12.3 and 15 per cent in 1991 and 1992, respectively, in the Syrian Arab Republic, 7.8 and 9.2 per cent, respectively.

[64]*Survey of Economic and Social Developments in the ESCWA Region in the 1980s* (E/ESCWA/DPD/89/5), table 6.1, p. 98.

[65]A shift of almost $23 billion in the current account took place in the Republic of Korea in three years, from a surplus of $14 billion in 1988 to an $8.8 billion deficit in 1991.

[66]In 1991, the four Asian NIEs invested over $3 billion in Indonesia, Malaysia and Thailand, while United States investment was about $500 million, Europe's was about $1.4 billion and Japan's about $1.6 billion (based on Merrill-Lynch, *Asian Economic Commentary*, May 1992).

[67]More recently, other sub-zones have been mentioned, such as the Yellow Sea zone, including the Republic of Korea and the Democratic People's Republic of Korea and north-east China; the Japan Sea zone, which adds Japan and Asiatic Russia to the Yellow Sea zone; and the "Greater Indochina" zone, centred on Thailand and including Yunnan Province of China, the three Indochina countries and Myanmar (Professor Edward Chen, Director of the Centre of Asian Studies at Hong Kong University, as quoted in Alexander Nicoll, "The challenge facing Asia's growth cycle", *Financial Times*, 24 February 1992).

[68]Preliminary data show that industrial output of state-owned firms increased by some 13 per cent in 1992, while that of collectives and other ownership forms grew by close to 31 and 50 per cent, respectively (State Statistical Bureau of China, November 1992).

[69]In 1992, the estimated growth rate of Taiwanese investment in China was over 75 per cent, pushing total investment to $2.5 billion. This would make Taiwan Province of China the fourth largest investor in China, after Hong Kong, the United States and Japan.

[70]See box on China trade in chap. III.

III

International trade

The volume of world exports grew by 4.5 per cent in 1992, compared with around 3.5 per cent in 1991 (table III.1). Growth was modest in comparison with that reflected by the rates of the late 1980s, but it far exceeded the growth of world output, which barely recovered from the recession of the preceding year. There were also no large shocks. Commodity prices in general remained fairly stable though depressed. With a few exceptions, the pattern of trade flows did not suggest a large change from the trends of the recent past.

Yet there was heightened tension in a number of areas. The stalemate in the Uruguay Round of multilateral trade negotiations, already over two years behind schedule, continued to cast doubts on the future of the multilateral trading system. The preference for unilateralism and for bilateral and regional trading arrangements continued to grow stronger, while faith in the multilateral system appeared to wane. In recent months there has been a greater readiness to yield to protectionist pressures. Frictions between some of the largest trading partners rose after a period of relative calm. In early 1993, trade tensions between the European Community and the United States of America spilled over from the Uruguay Round of multilateral trade negotiations into the issues of trade in steel, and semiconductors and government procurement. Japan's trade surplus rose to record levels and aggravated the old tension between the country and its major trade partners, especially the United

Table III.1.
World trade, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]	1993[b]
Value of exports (billions of dollars)											
World	1 771	1 874	1 896	2 084	2 437	2 763	2 990	3 412	3 476	3 692	3 911
Developed market economies	1 171	1 248	1 289	1 504	1 759	2 007	2 147	2 476	2 541	2 695	2 800
Developing countries	475	501	486	453	546	625	713	812	854	922	1 034
Economies in transition	124	124	121	127	132	131	129	124	81	...	...
Eastern Europe	61	62	64	67	69	69	67	65	44	46	49
Former USSR	64	62	57	60	63	62	62	59	37	...	...
Volume of exports (annual percentage change)											
World	1.6	8.5	3.8	4.1	5.8	8.1	7.8	5.1	3.6	4.5	5.8
Developed market economies	1.8	9.8	5.2	3.4	5.0	8.6	6.7	5.7	2.5	3.9	4.9
Developing countries	0.0	6.1	1.3	11.6	9.7	8.0	11.7	7.9	9.7	7.4	9.2
Economies in transition	5.9	5.1	-0.8	4.0	2.5	4.5	-1.0	-9.7	-18.0	...	...
Eastern Europe	8.2	7.2	2.1	-0.7	1.7	4.3	-1.8	-6.5	-7.0	5.0	...
Former USSR	3.3	2.5	-4.3	10.0	3.4	4.8	0.0	-13.0	-27.7	...	...
Memo item: growth of world output (annual percentage change)	2.6	4.3	3.2	3.0	3.3	4.4	3.2	1.6	0.2	0.6	1.5

Source: IMF, International Financial Statistics, and UN/DESIPA estimates.

a Preliminary estimates.
b Forecasts, based on Project LINK.

United States. Finally, the case for managed trade appeared to gain intellectual support, pitting itself more strongly than before against the traditional advocacy of a liberal trading system.

While concern over the future of the trading system increased, a notable feature of world trade in recent years has been that trade has been growing more rapidly than warranted by the past relationship between the growth of trade and of world output. During the period 1988-1992, the growth of world output slowed sharply, its annual rate decreasing from 4.4 to 0.6 per cent. The growth of world trade also slowed but far less sharply, its annual rate decreasing from around 8 to 4.5 per cent. In other words, the growth of world trade remained more vigorous than that of world output. The decline in the responsiveness of world trade, that is, in its elasticity with respect to the growth of world income in the 1970s and the early 1980s, which had been causing concern,[1] appears to have been reversed. While that elasticity declined from around 1.6 per cent during the period 1951-1970 to 1.3 per cent during the period 1971-1975 and to 1.1 per cent during the period 1981-1985, it rose to around 2.4 during the period 1986-1992 (table III.2). It is too early to suggest, however, that this relatively high responsiveness will continue. Moreover, the growth of both trade and output has slowed down in the recent past, with the association between the growth of output and that of trade remaining an unmistakably close one (see figure III.1).

The growth of trade in 1992 in fact closely reflected the regional pattern of the growth of output. The growth of both differed widely among countries and regions. A number of areas of growth and of contraction of world trade stand out. First, there was a contraction in Japan's imports as the growth of the economy slowed, coming to a virtual standstill at the end of the year. The slow-down in the growth of volume of exports was also steep, though the trade gap in dollar value widened as a result of the appreciation of the yen and a continuing shift in Japanese exports to higher-value products, in some cases as a consequence of "voluntary" export restraints. Second, United States imports rose sharply as the domestic economy began to recover from the recession, while the country's exports increased only modestly. Third, the external trade of South and East Asia and China continued to grow strongly, outpacing the growth of trade of all other regions. The volume both of imports and of exports of South and East Asia grew by around 10 per cent. China's exports grew by some 14 per cent and imports by 20 per cent. The external trade of the region remained the most dynamic element of world trade. This was all the more remarkable as the region's exports to Japan virtually stagnated. Fourth, imports of Latin America continued to surge, with those from the United States accounting for a large proportion of the increase. Japan's export to the region also increased significantly. Fifth, the volume of external trade of the economies in transition continued to decline, but at a slower rate than in 1991, despite the growth of their convertible currency trade.

Table III.2.
Apparent elasticity of world trade with respect to world output, 1951-1992[a]

1951-1970	1971-1975	1976-1980	1981-1985	1986-1992
1.64	1.30	1.30	1.12	2.37

Source: UN/DESIPA, based partly on data in GATT, *International Trade*, various issues.

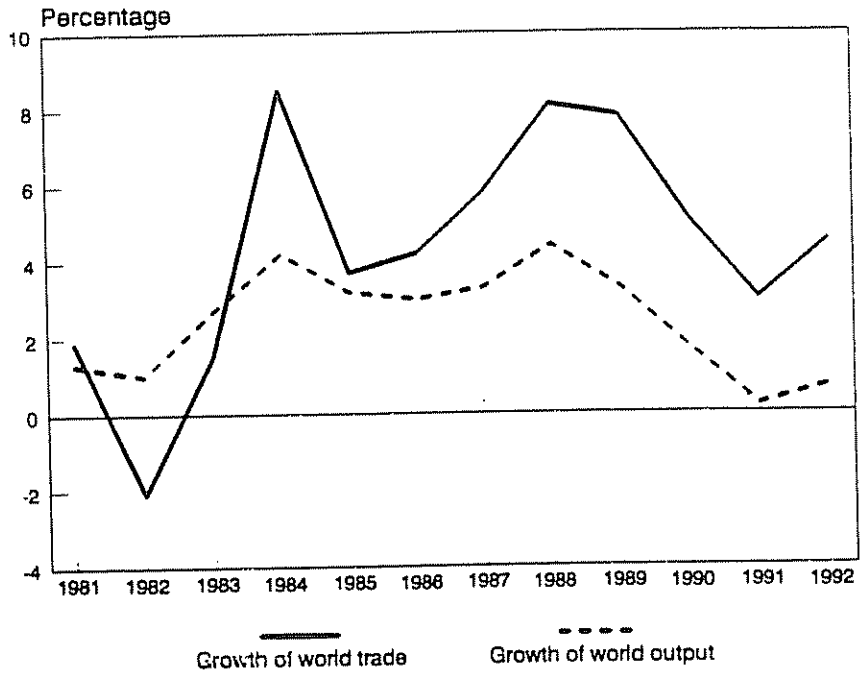
a Percentage change in export volume over the period divided by percentage change in output.

Though trade showed some resilience in the face of sluggish world output, threats to its growth remained large. Few trade liberalization measures were taken by the industrial countries which account for the bulk of world trade. Yet, a considerable number of new trade restrictions have in fact been undertaken, particularly in the form of anti-dumping actions. There was a discernible tendency among policy makers to give way to pressures for protection with respect to specific industries. By contrast, a large number of developing countries continued to adopt more liberal trade regimes (see chap. II).

Confidence in the efficacy of the multilateral trading system appeared to erode further. This was partly reflected in the proliferation of regional trade blocs and in efforts to strengthen them, as well as in the growing readiness to manage trade through bilateral deals. The failure of the major trading nations to reach agreements on some of the critical issues on which the successful completion of the Uruguay Round of multilateral trade negotiations depended only contributed to the erosion of confidence in the General Agreement on Tariffs and Trade (GATT) system. It also appeared to strengthen both the case for achieving the objective of higher levels of international trade through the alternative routes of regionalism and the arguments for more government intervention in trade in the name of the national interest.

Arguments for "strategic" government intervention to influence the pattern of trade are now being heard

Figure III.1.
Growth of world trade and world output



Source: UN/DESIPA.

more frequently and appear to be gaining support both in the profession of economics, still dominated by proponents of liberal trade, and among policy makers, in some important cases with new intellectual support for intervention. A not-quite-new genre of trade theory, which takes account of imperfect competition and external economies, and appears to provide an intellectual underpinning to the new policy, is now available. In fact, there has been a certain strengthening of the alliance of policy makers and economists believing in intervention and industrial policy, especially in the United States following the recent change in government.[2] The nature and future evolution of government action in trade remain unclear, however.

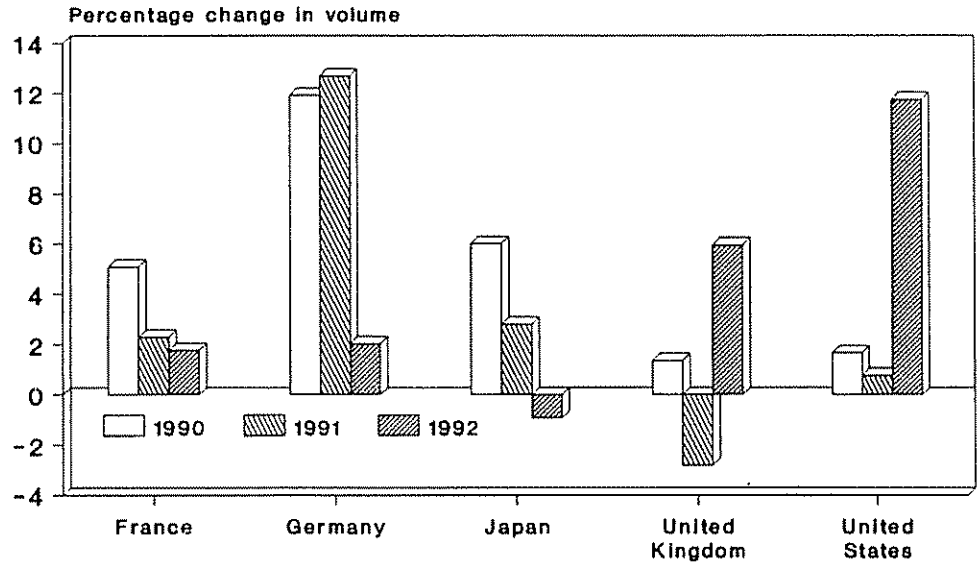
TRADE FLOWS IN 1992: SALIENT FEATURES

DEVELOPED MARKET ECONOMIES

International policy discussions of poles of growth in gross domestic product (GDP) and trade have generally focused on the developed market economies because together these countries account for over 70 per cent of world trade.[3] However, only one of the larger areas of strong import growth in 1992 involved any developed economies. This was North America, where the volume of imports surged 11 per cent, after two years of almost no import growth at all. The imports of North America, however, account for less than one quarter of the trade of the developed market economies. The other large economic areas within the group experienced very slow import growth on average, and in the case of Japan, there was an outright 1 per cent decline in the volume of imports (see figure III.2). As a whole, therefore, the developed market economies gave only a weak impetus to world trade in 1992 and under the economic outlook presented in chapter I, they are not expected to be a major source of dynamism in 1993 either.

The increase in North American imports in 1992 reflected the economic recovery that began to take hold in the United States and Canada during the year (see chap. II). United States import growth was especially

Figure III.2.
Growth of imports in the world's five largest trading nations, 1990-1992



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

strong, and led by consumer and capital goods, especially computers and semiconductors, surged almost 12 per cent. While all major exporters of capital goods to the United States increased their sales, the growth of imports of consumer goods was dominated by suppliers from the developing countries of Asia, especially China. By the end of 1992, China accounted for 16 per cent of United States imports of consumer goods, the figure being up from 14 per cent in 1991.[4]

The growth of United States exports in 1992 did not quite keep pace with that of previous years, as the major United States markets in Europe and Japan were quite sluggish.[5] The deceleration was especially marked for exports of capital goods, which grew at one half the 1991 pace. The decline in demand in Western Europe and Japan where investment was very weak was only partly offset by strong sales to developing countries in Asia and Latin America.

The volume of United States exports nevertheless grew in 1992 by 7 per cent which was almost twice the global growth rate and represented a continuation of the strong export growth that had begun in the second half of the 1980s. Although those exports had benefited from strong international demand during several years, their continued strength when that demand weakened illustrated the degree of international competitiveness that the United States had regained in recent years. Indeed, the real effective exchange rate of the dollar measured against the currency of industrial country trade partners fell for the third consecutive year in 1992 (see table A.9). It is now more than 25 per cent below its level in the early 1980s, before the period of overvaluation of the dollar began. The change in 1992 reflected a small fall in the average exchange rate of the dollar, as well as smaller increases in United States wage rates than in those of major trading partners and the country's improving productivity growth.[6] One particularly sensitive market for United States exports is Japan, with which the United States has had a large and persisting trade deficit that has been a focus of political attention in both countries for several years. Japan imported $52 billion of merchandise from the United States in 1992, a figure representing about the same dollar value as in 1991; but with United States imports from Japan rising, the bilateral Japanese trade surplus reached $44 billion, a figure $5.5 billion greater than that of 1991. Japan's trade surplus with other major trading partners also grew substantially in 1992, reaching record levels *vis-à-vis* the European Community ($31 billion) and Asia ($42 billion), but excluding the Middle East with which Japan persistently runs a trade

deficit owing to its oil imports. In each case, the main reason for the growth of the surplus was the very weak import demand in Japan due to its slowing economy. Imports of intermediate goods in particular fell sharply; for example, steel imports dropped 31 per cent and petroleum products almost 17 per cent.[7]

If the growth of trade was assisted in 1992 by the surge in the imports of the United States, which is the world's largest trading economy, it was also held back by the sharp curtailment of imports in Germany, the world's second largest trading country. The volume of Germany's imports had grown by double-digit rates in each of the previous two years owing to the programme of support of the Government for integrating the eastern *Länder* into the federal republic. With the sharply higher levels of demand pushing up the German inflation rate, a policy correction was needed and the German recession of the period 1992-1993 has been the result (see chap. II). The sharp reduction in German import growth in 1992 followed.

The weakening import demand in Germany and in other European economies during 1992 had important repercussions on their European trading partners. France, for example, had built up considerable gains in export-price competitiveness after four years of relatively slow growth in wage rates, rising labour productivity, low inflation and a propensity of exporting firms for squeezing profit margins to increase market share.[8] France thus entered 1992 with relatively strong export growth; indeed, exports were the most dynamic part of an otherwise sluggish economy, at least for the first four months of the year. With increasingly weak partner-economies, however, exports stagnated. The biggest fall was in exports of passenger motor cars and investment goods, in which France had made substantial gains in market share. Without its export stimulus, the French economy itself weakened and its own imports slackened. The French trade balance turned into a surplus in 1992 of almost $6 billion. It was only the sixth trade surplus in 30 years.

The counterpart of the higher-level competitiveness of French production was the lower-level competitiveness of some partner countries, especially within the European Community where exchange rates among member countries of the Exchange Rate Mechanism (ERM) had been essentially fixed from 1987 until September 1992. Indeed, the two countries that left the ERM in September, Italy and the United Kingdom of Great Britain and Northern Ireland, experienced particularly sharp deteriorations in their competitive position.

The United Kingdom had entered the ERM only in October 1990, in part as a means to impose some external discipline on the increasingly rapid growth of money wages, which it had been argued was having negative consequences for external competitiveness.[9] The United Kingdom's recession in the period 1991-1992, if not the pegging of the pound, slowed the growth of real wages, but the fall in external competitiveness continued. However, British inflation was dropping rapidly in the recession and had fallen below that of Germany. This would have tended to improve competitiveness, but the pound rose against the dollar and the yen because the deutsche mark rose and the pound was held in the ERM grid. British competitiveness thus continued to deteriorate. In the first quarter of 1992 the rise in total imports was greater than the increase in domestic demand and for the year as a whole imports grew by 6 per cent (figure III.2). As discussed in chapter II, the ERM exchange rates became unsustainable and the currency crisis ensued. The subsequent devaluation of the pound brought the real effective exchange rate against the currency of industrial country partners down 15 per cent by November from its August peak. British production of tradable goods should thus regain a degree of competitiveness in 1993 and although export markets will remain sluggish, the import penetration level might recede and domestic growth prospects improve.

The deterioration in competitiveness in Italy up to September 1992 was also quite marked. In 1991, the volume of exports had stagnated and the dollar value had fallen, the worst export performance since the early 1980s. As in the United Kingdom, wage rates had risen significantly faster than those in competitor countries. Relative unit labour costs in manufacturing rose 10 per cent against those of major trading partners over the period extending from the last ERM realignment in 1987 to the first half of 1992.[10] However, the currency realignment starting in September eliminated this accumulated loss of competitiveness.

ECONOMIES IN TRANSITION

International trade is of critical importance to transition economies. Since the transition process began in earnest in 1989 with changes of government first in eastern Europe and then in the Union of Soviet Socialist Republics, international trade has also encompassed the political dimension of being one vehicle for integration into the universe of the market economies. First eastern Europe, then the Baltic States, and then the other States of the former Soviet Union sought to build or strengthen

trading bridges to the West and to the South. They abandoned the complicated and inefficient administrative network of trade agreements that they had developed among themselves as centrally planned economies and concentrated on increasing hard-currency earnings. They looked for new sources of supply and new goods to import, as well as new markets for exports, seeking, in particular, to strengthen relations with the European Community (EC).[11] Developments in 1992 marked a continuation and intensification of these trends.

Throughout the group of transition economies, the net effect of the attempt to redirect their trade has been a sharp decline in exports and imports, as the degree of growth of trade with new partners could not match that of its contraction with old ones. The States of the former Soviet Union entered deeply into this process in 1992, while in eastern Europe, where the transition started earlier, the overall contraction in trade appears to have ended.[12]

Eastern European turn around

Although the value of intraregional trade continued to decline in 1992, trade of eastern Europe with the developed market economies burgeoned, and as a result the value of exports of the region grew by more than 5 per cent (table A.19). Bulgaria and the former Czechoslovakia experienced the largest increases in exports to market economies (61 per cent—albeit from a very low base—and 26 per cent respectively). Hungary and Poland had shifted most of their exports to market economies by 1991, but still raised the level of those exports by 10 per cent and 14 per cent respectively. Most encouraging was the fact that the free fall in their trade with other transition economies ended: exports of Hungary to other transition economies rose 14 per cent and those of Poland fell only slightly.

The growth of eastern European exports to market economies occurred despite the recessionary conditions in those economies that were discussed in chapter II. Indeed, the value of exports to European developed market economies grew by more than one fifth in 1992, helped by the association agreements of the former Czechoslovakia, Hungary and Poland with the European Community. Signed at the end of 1991, the trade portions of the agreements came into force on 1 March 1992. The growth of exports to the European Community has nevertheless had its tensions and in November 1992 the Commission of the European Communities imposed a dumping duty on steel tubes imported from the three above mentioned eastern European countries. Moreover, the three major commodity groups in which the eastern European exporters would be most competitive—agricultural products, steel and textiles—were not given full preferences.

Eastern Europe, meanwhile, is becoming a more significant market for exports from market economies, particularly those in Western Europe. While the eastern European market is still small, its share of Western European exports rose from 3 per cent in 1989 to 5 per cent in 1992. However, since eastern European imports from Western Europe grew more rapidly than exports from eastern Europe to the West, the eastern countries developed an overall regional trade deficit that was on the order of $3 billion. This has had to be financed with new credits on commercial terms, which will raise the foreign debt burden of the region. Exporters in the eastern European countries believe that had industrial countries further relaxed restrictions on imports of agricultural and other products (admittedly the goods are politically sensitive ones) or had they not had to compete in the traditional markets of other transition economies against the European Community's very low-priced, subsidized, surplus commodities, eastern European export earnings would have been significantly higher and their borrowing needs lower.

This notwithstanding, eastern and Western European partners have been seeking to further deepen their trading ties. Thus, besides the three EC association agreements signed in 1991, agreements were signed with Bulgaria and Romania, while the former Czechoslovakia, Hungary and Poland signed agreements with the European Free Trade Association.[13]

Trade implosion in the former Soviet Union

Before the dissolution of the Soviet Union late in 1991, inter-republic trade, as part of a matrix of supply links of state enterprises, was determined centrally. Since decisions on the location of factories in the Soviet Union sought to take advantage of scale economies and to spread manufacturing around the country, most of the republics became highly dependent on inter-republic supply flows.[14] With the breakup of the Soviet Union, those flows were abruptly transformed into international trade. The newly sovereign countries began restricting the outflow of their goods to other former republics of the Soviet Union early in 1992 in order to increase domestic consumption and boost exports that earned hard currencies. The vital inter-republic supply links thus suf-

fered, and thus contributed heavily to the decline in output in all countries of the group (see chap. II). New, bilateral agreements were negotiated in order to protect trade flows. They provided for volumes of supplies that were significantly lower than before, but even these were not achieved. By the end of 1992, customs barriers were being established, and new national currencies or their surrogates (for example, currency coupons) were introduced in several countries of the group.

With the Russian Federation stating its intention to raise the prices of its energy exports to world levels and to demand payment in hard currency, and given the fact that all the States lacked adequate foreign exchange reserves, continued trade required some mechanism for settling payments without hard currency. The members of the Commonwealth of Independent States (CIS) signed an agreement in February 1992 to use the rouble for all inter-State payments and credits. A mechanism of correspondent bank accounts was introduced to service trade payments between the Russian Federation and other States of CIS, but trade suffered from many payment and pricing disputes. Moreover, the Governments of the rouble-zone countries had to extend rouble credits to their enterprises to pay for imports. In the absence of the corresponding rouble deposits, this arrangement adversely affected the effort of the Russian Government to limit the growth of its money supply.

Trade of CIS as a whole with the rest of the world declined steeply as well. According to estimates of the CIS Statistical Committee, the value of exports fell by one quarter in 1992. The value of imports fell even faster than that of exports, and this gave a balance-of-trade surplus for the CIS as a whole that was essentially the result of the positive balances of trade of the two largest exporters of fuels and metals—the Russian Federation and Kazakhstan.

The disruptions experienced on the supply side in the former Soviet Union in 1992, as discussed in chapter II, could not but affect the production of exportables along with other goods and services. In addition, trade policies, regulations, and customs procedures changed frequently, and this affected negatively both exports and imports, especially in the Russian Federation. Traditional exports of petroleum and gas from the Russian Federation were sustained, however, through the reduction of supplies to the other CIS countries. Russian exports of oil outside the former Soviet Union, in fact, grew 14 per cent, while gas exports fell only 2 per cent.

Barter became an important mechanism for trade with countries outside the former Soviet Union. An acute shortage of hard currency in most of the countries of CIS and difficulty in finding markets were prime stimuli. In Belarus, for example, the share of barter in imports grew from 3 per cent in 1991 to 41 per cent in 1992; in Kazakhstan, it increased from 2 to 32 per cent; and in Uzbekistan, from 4 to 61 per cent.

DEVELOPING COUNTRIES

Trade of developing countries, including imports as well as exports, grew faster than the world average, continuing a trend of the recent past. The most important force behind that trend was the performance of developing countries in Asia, in particular the successful exporters of manufactures whose trade expanded at more than double the world average. The rate of growth of trade of developing countries as a whole slowed somewhat in 1992. Nevertheless, with exports growing at 7 per cent and imports at 10 per cent, they contributed significantly to the growth of world trade.

Imports of developing countries grew faster than exports, and this was true across the subregions, except for Africa, even if in different degrees and for different reasons. The largest differential between import growth and export growth was in Latin America and the Caribbean, the smallest in South and East Asia, where the main manufacture exporters expanded imports and exports more or less in tandem. Very few countries—Kuwait, and some newly industrialized economies—expanded exports more rapidly than imports. Trade liberalization in developing countries continued, though it was not the most important cause of growth in imports. In a number of developing countries, especially in Latin America and the Caribbean, appreciation of the currency contributed to a slowing of exports and accelerating growth of imports.

Latin America and the Caribbean

Reflecting a modest revival of economic growth in the region, trade liberalization measures, progress in regional integration and greater availability of external finance, Latin American trade, and particularly imports, expanded rapidly in 1992. The volume of exports increased by over 6 per cent in 1992 but weak export prices resulted in a lower increase in the value of exports. The increase in export earnings was, however, a significant improvement over the situation of the previous year, when the value of exports declined by 3 per cent. The overall results for the region reflected, on balance, the rapid expansion of exports of Brazil, Chile and a few of

the Central American countries and moderate increases for Argentina, Ecuador, Uruguay and Mexico. Intraregional trade grew much faster than total trade, in particular in the Southern Cone Common Market (MERCOSUR), the subregional trade grouping of Argentina, Brazil, Paraguay and Uruguay, but intraregional trade is not much more than 15 per cent of total trade.

Exports of the non-oil-exporting countries in the region increased in value by 9 per cent and in volume by an even higher 11 per cent. Brazil's export earnings recovered from a sizeable 9 per cent decrease in 1990 and a feeble recovery in 1991 to register an increase of 13 per cent for 1992, owing partly to the decline in domestic demand, and partly to a competitive foreign exchange policy. Chile's growth was similarly strong—an increase of 12 per cent following an increase of 7 per cent in the previous year—reaping the results of the diversification of its natural resources-based exports. Both countries benefited from increased intraregional trade and from a higher volume of exports of higher-value manufactured goods. Export earnings of the oil-exporting countries, on the other hand, declined slightly, by 2 per cent, owing to both weaker prices and lower volumes. Mexico's export growth slowed sharply to around only 1 per cent after an 18 per cent increase in the previous year, largely because of a sharp slow-down in the growth of its non-oil exports. Venezuela's exports also declined.

A vigorous growth of imports continued for the third consecutive year. Imports grew at a rate of 22 per cent in volume in 1992, following an 18 per cent increase in 1991. Almost all countries registered increases, with Mexico and Argentina alone accounting for 70 per cent of the increase. Much of the increase in the imports of the region was accounted for by the high levels of net capital inflows that strengthened the import capacity of many countries and the trade liberalization policies that many countries had begun to pursue.

Real appreciation of the currency, a policy followed in various countries to help contain inflation, was another major cause of the rapid import growth and the slow export growth of which Argentina and Mexico were only extreme cases (see chap. II).

Africa

Africa's exports, dominated by primary products, increased in volume by only 4 per cent, a figure reflecting a much slower rate of increase than that represented by the figure of 7 per cent in 1991. Prices of primary commodities remained depressed and thus the value of exports increased by only 2 per cent, but this was an improvement over the 5 per cent decline in the previous year. Africa's share of international trade has been declining even in the area of primary commodities, which dominate Africa's exports (see box III.1), and this trend continues.

Weak non-oil commodity prices further depressed the export earnings of the majority of countries in the region that were wholly dependent on commodity exports. Manufactures still constitute only around 10 per cent of Africa's exports and most of them are low-value consumer items and other light manufactures that are primarily traded intraregionally among neighbouring countries. In 1992, the prices of virtually all primary commodities were lower (see below). The prices of coffee and cocoa—the region's most important exports after crude petroleum—fell another 15 per cent to their lowest levels in over 20 years. Earnings from crude oil exports increased only marginally because of depressed oil prices and only slight increases in volume.

Supply disruptions in some cases contributed to the region's depressed earnings. Tea output dropped sharply in Malawi, Zimbabwe and Kenya because of drought. Exports of a wide range of agricultural and mineral commodities from some of the region's largest exporters were also reduced because of civil unrest that caused widespread disruption of production and transportation facilities in the countries affected.

Imports recovered modestly from the depressed 1991 level. Most of the increase was in food imports to supplement production shortfalls in the drought-stricken areas.

Asia

Trade of South and East Asia remained a major growth pole of world trade in 1992, although the growth of both imports and exports slowed after the vigorous expansion in the previous year. There was an increase in the volume of exports of some 11 per cent (a figure representing the most rapid growth in the world after China) compared with an increase of 17 per cent in 1991. The region was able to sustain this vigorous export growth, despite the persistent slump in sales to the European Community and other industrialized economies, because of the offsetting stimulus provided by a substantial expansion of exports to new markets in Latin America, a recovery of demand in the United States—the region's biggest trading partner—and a marked increase in exports to West Asia as post-war reconstruction in that area gath-

BOX III.1

Dwindling share of Africa in commodity trade

A COUNTRY that depends on a narrow range of commodities in some sense can be said to specialize in them. Other things remaining equal, it would outcompete other countries producing, but not specializing in, those commodities. In 1980, 95 per cent of Africa's exports consisted of primary products. Non-fuel primary commodities accounted for 20 per cent of the continent's exports. Africa has thus been "specializing" in primary commodities. Yet the share of the continent's exports in the total primary commodity exports of all developing countries has been steadily declining, as the following table shows.

Share of Africa in developing country exports, 1980-1989

Percentage

	1980	1985	1990
Food	4.6	3.9	2.8
Agricultural raw materials	4.0	3.9	3.0
Ores and metals	6.0	4.7	3.6
Fuel	14.9	11.5	11.7

Source: Table A.17

The explanation is not far to seek. Technological progress, innovative production processes and productivity increases often accompany specialization, leading to reduction of cost; though with stagnant demand this would only lead to lower prices and revenues, the country still could be expected to increase its share of the export market. However, adoption of better technologies and innovations does not depend (as it does in many countries of Africa) on the mere act of specialization, much of which in any event has been the product of historical forces rather than of choice; it critically depends on policy choices and the ability to invest in the production process which in turn largely depends on the dynamism of the rest of the economy. The lack of investment and general economic stagnation have been major reasons behind the dwindling share of Africa in the primary exports on which it so overwhelmingly depends.

ered momentum. Intraregional trade continued to grow vigorously, though exports to Japan slowed sharply.

The newly industrialized economies (NIEs)—Taiwan Province of China, the Republic of Korea, Singapore and Hong Kong—maintained high rates of growth in trade averaging 14 per cent for the year. Exports of Hong Kong and the Republic of Korea expanded moderately compared with those of 1991 (from 20 to 22 per cent and from 9 to 11 per cent respectively), while Singapore's growth slowed to 13 per cent from 14 per cent and that of Taiwan Province of China decelerated markedly (a 7 per cent increase, compared with a 13 per cent increase in the previous year). Roughly the same results (high growth rates but at a slower pace than in 1991) were obtained for Malaysia (12 per cent, compared with 19 per cent) and Thailand (18 per cent, compared with 24 per cent) among the second-generation NIEs. Growth of Indonesia's exports improved slightly, increasing from 10 to 11 per cent, largely as a result of a surge in non-oil export earnings which in 1992 and for the first time, surpassed oil receipts in total exports.

Exports of other countries in the region also expanded rapidly. Growth rates between 12 and 24 per cent were attained by Bangladesh, Pakistan and Sri Lanka. India's exports, recovering from a 2 per cent decline, achieved a 5 per cent increase mainly because of the successful implementation of various trade-enhancing industrial reform policies.

Imports of South and East Asia also increased rapidly, but as with exports, growth slowed. The volume of

imports increased by 10 per cent, compared with 15 per cent in 1991. Imports rose sharply in Indonesia, Hong Kong, India and Pakistan. In the Republic of Korea, the growth of imports declined sharply, partly reflecting the slow-down of the economy.

China's trade continued to expand vigorously in 1992. The value of its exports grew by some 14 per cent after a 15 per cent increase in 1991. Imports had been increasing even faster, by about 19 per cent in 1991, followed by 22 per cent in 1992. The very rapid growth of the country's exports and imports in recent years is a reflection of the success of its outward-looking development strategy (see box III.2). The country has also been undertaking trade liberalization measures in the context of its application for re-entry into GATT and the easing of trade tensions with the United States.

The value of exports of West Asia barely increased after the sharp 10 per cent reduction in 1991. This was entirely due to depressed oil prices. The small increase in the value of exports (under 1 per cent) resulted mostly from the restoration of Kuwait's oil exports to just about pre-war levels. Saudi Arabia's exports fell sharply, by 10.5 per cent, mainly because of a 6 per cent decline in oil shipments; but sales in its small-but-growing non-oil sector also weakened. Exports of the Islamic Republic of Iran and the United Arab Emirates declined by 6 per cent and 7 per cent respectively. The value of exports of the non-oil-exporting countries in the area expanded robustly by 10 per cent.

Imports of the region expanded by 7 per cent after a 12 per cent increase in 1991. The increase was largely accounted for by a sharp rise in Kuwait's imports to support its massive rebuilding effort. The growth of imports in the region as a whole has been far outpacing that of its exports, greatly increasing pressure on the balance of payments (see chap. II).

INTERNATIONAL PRICES: COMMODITIES

Some of the critical international prices—interest rates and exchange rates—changed sharply in 1992. The 1992 average London interbank offered rate (LIBOR) on six-month dollar deposits fell by about a third from their 1991 average level. The movement of the rates of exchange of major currencies was also considerable, with the dollar falling to record lows against the Japanese yen and fluctuating widely against the deutsche mark. By comparison, changes in the prices of internationally traded goods were modest.

Export prices of manufactures, which account for around 70 per cent of world exports, increased only moderately. The unit values of manufactured exports of the developed market economies increased by around 3.8 per cent in dollar terms over their 1991 average. This reflected a further moderation of inflation in those economies and only a small increase in unit labour costs.

Oil prices remained relatively stable though depressed (see chap. V). The average spot price of OPEC crude was about $18.4, almost the same as the average of $18.7 for 1991. In real terms—in terms of the manufactured imports oil would buy—oil prices declined by about 4 per cent, the decline taking them to their lowest level since 1988.

Prices of non-fuel primary commodities, which account for a little over 15 per cent of world trade but for a much larger proportion of the exports of many developing countries, declined in 1992 for the third year in a row. The combined index of nominal dollar prices of the United Nations Conference on Trade and Development (UNCTAD) declined by 3.4 per cent, following declines of 6 per cent in each of the previous two years. When measured in special drawing rights (SDR), the fall in the index was a steeper 5.7 per cent, because of the depreciation of the dollar *vis-à-vis* the currencies of other major industrial countries. In real terms, the decrease was 6 per cent (table A.21 and figure III.3).

The principal reasons for the decline in commodity prices in 1992 were weak demand for raw materials in most industrialized economies; severe contraction of demand for many commodities in the former Soviet Union and eastern Europe; high levels of exports of minerals and metals from the former Soviet Union and countries of eastern Europe; and a chronic excess supply of a wide range of agricultural commodities on world markets.

The adverse repercussions of disruption of normal economic activity in the transition economies of the former Soviet Union and eastern Europe continued to be felt in many commodity markets. Although imports picked up slightly in some eastern European countries, the reduction in import demand in the economies of the former Soviet Union was as severe as in 1991. Imports of a wide range of commodities were reduced to a fraction of previous levels because of severe foreign exchange shortages; virtual collapse of industrial activity in many of those economies; and disruption of trade links with tra-

BOX III.2.

China: another success in Asia of an outward-looking development strategy

THERE HAVE been many instances of developing countries adopting outward-looking economic policies and thereby achieving rapid economic growth. Most of these economies have been relatively small. Can a very large country successfully adopt a similar strategy based on its comparative advantage and increase its exports—and imports—rapidly? The case of China suggests an affirmative answer.

Opening up to the outside world has been an integral component of China's economic reform since 1978; economic growth has been accompanied by rapid expansion in China's international trade. During the period 1978-1991, real gross national product (GNP) growth averaged 8.6 per cent per annum, while the total value of trade (import and export) increased by more than 15 per cent per year. Export value alone—measured in dollar terms—grew at an annual rate of over 16 per cent in the same period. As a result, the ratio of exports to GNP increased from 4.7 per cent in 1978 to about 19 per cent in 1991,[a] a dramatic change for a country the size of China. Even after domestic inflation and currency devaluation are taken into consideration, the ratio of exports to GNP at 1980 prices and exchange rates is still about 11 per cent, a much higher figure than that for India. Among the world's exporters, China rose from twenty-seventh place in 1980 to eleventh place in 1992.[b] Moreover, the Chinese economy, especially its southern region's, is becoming increasingly integrated with those of Hong Kong and Taiwan Province of China, two of the newly industrialized economies (NIEs). It has been suggested that the area encompassing Guangdong Province of China, Hong Kong and Taiwan Province of China is emerging as a significant growth pole in Asia.

The composition of China's trade has also changed significantly. In 1980, China's exports were divided about evenly between primary commodities and manufactured products. By 1991, the share of manufactures in total exports had risen to over 77 per cent. The destination of China's exports also shifted from other developing countries to the more developed economies of Japan, the United States and Europe. In 1981 about 42 per cent of China's exports were to these countries; the share went up to 63.5 per cent in 1991.

An outward-looking development strategy and currency devaluation certainly helped exports. From 1978 to 1992, the Chinese yuan depreciated 328 per cent against the United States dollar. Such devaluation was high in relation to the domestic rate of inflation and entailed depreciation against the currencies of other developing countries as well, hence strengthening the competitiveness of Chinese exports in the global market-place. An abundant supply of low-cost labour is at the core of China's successful export drive. Not only does that labour supply enable the country to export labour-intensive manufacturing goods, but it also attracts international investors to set up manufacturing bases in China. In recent years, investors from Hong Kong and Taiwan Province of China, to take advantage of China's less expensive labour, have relocated their production of more labour-intensive products such as garments and textile-related goods. Foreign direct investment has played an important role in China's success in exports. Joint venture companies alone exported more than $10.5 billion (or 12.4 per cent of China's total export value) in 1992. All enterprises with outside investment, including joint ventures and totally-foreign-owned firms, accounted for a quarter of China's total imports and exports in 1992.[c]

Developed countries—the United States in particular (lately joined by those of the EC)—have claimed, however, that unfair trade practices, excessive trade barriers, and violation of patent and intellectual property rights do exist in China. To improve relations with its trade partners, and to prepare China for re-entry into the General Agreement on Tariffs and Trade (GATT), which will not only raise the rank of the country to that of the world's major

trading nations, but also enable it to enjoy the most favoured nation (MFN) status granted to a contracting party without recourse to annual renewals, the Government has taken steps to liberalize external trade. Those steps include joining international conventions protecting copyright, reducing tariffs and import licence requirements, and maintaining a more flexible exchange rate, which is mostly market-based today. Combined with strong domestic demand, these measures have already boosted imports, which have been growing faster than exports in the past two years.

Present policies indicate that the trade liberalization process will be maintained. As a result, trade intensities—exports and imports as a share of gross domestic product—should increase further.

[a] *Statistical Yearbook of China, 1992*.
[b] UNCTAD, *Handbook of International Trade and Development Statistics, 1991*, (United Nations publication, Sales No. E/F.92.II.D.6), and GATT.
[c] State Statistical Bureau of China.

ditional trading partners. At the same time, exports of aluminium, copper and nickel from the former Soviet Union continued at a brisk pace that sent prices plunging to new lows.

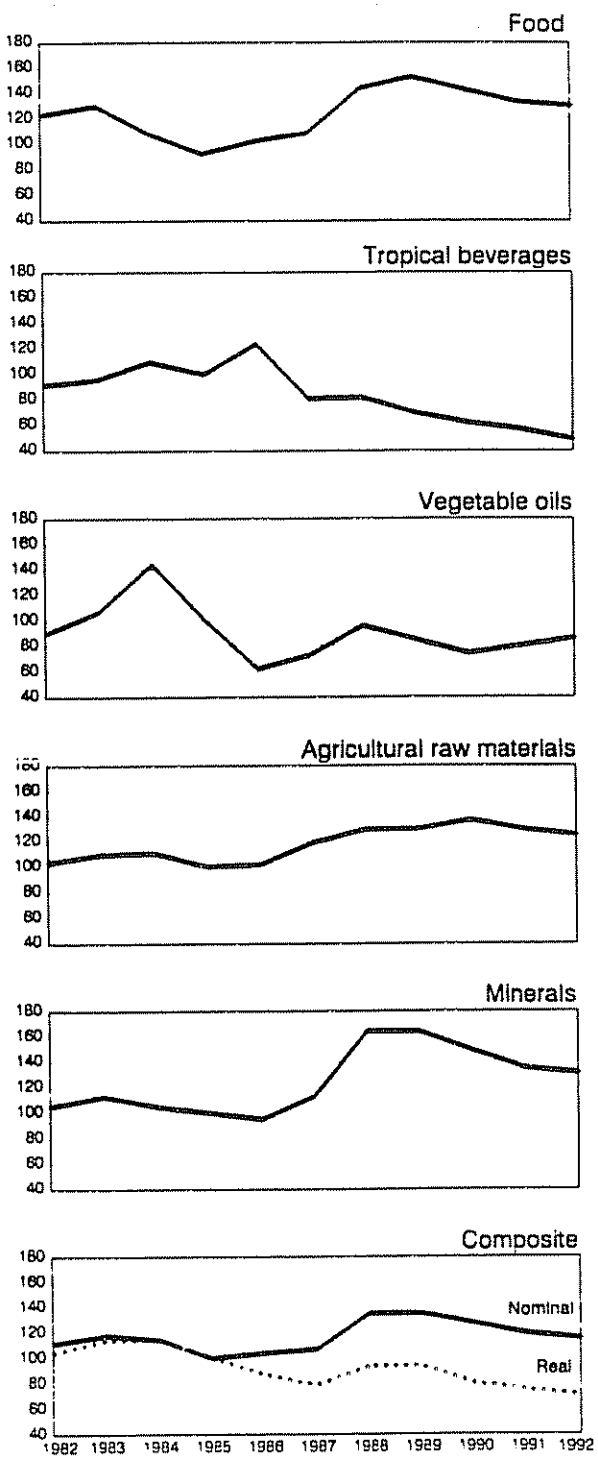
The persistent excess supply of a number of agricultural commodities such as tropical beverages and cotton, among others, resulted from several consecutive years of favourable weather conditions and bumper crops, and vigorous export policies in many producing countries. In the absence of demand growth to match the increased supplies, stocks of those commodities accumulated while prices fell to new lows. Combined consumer and producer stocks of coffee, for example, were estimated to be the equivalent of a year's consumption in the major importing countries. In other markets, new competitors emerged with significant exportable surpluses. In 1992, for example, Viet Nam's record rice exports weakened prices in a market that is very sensitive to sudden supply and demand shifts, since only a small percentage of world production is traded. Sugar prices increased only marginally, despite a fall in the exports of Cuba and other traditional developing country exporters, because of increased output in Australia, the European Community and Thailand. In the market for cocoa, West African producers sought to strengthen prices by restraining exports. Indonesia, on the other hand, currently the world's fourth largest producer, steadily increased its exports. The West African producers had to abandon the strategy of exports curbs in order to preserve their market shares. Prices continued to slide as supply increased.

Despite the overall decline, there were indications of incipient recovery in some prices. A resumption of growth in the United States led to increased demand and strengthened prices for some raw materials. Many developing countries, no longer dependent on exports of primary commodities, are themselves becoming important markets for those commodities. Without the continued strong demand by Asian exporters of manufactures and the emergence of China as a large and growing market for industrial raw materials, the erosion of the prices of minerals and metals as well as of agricultural raw materials would have been more severe.

Except for vegetable oils and oil-seeds which registered an increase, average prices for all the major commodity groupings declined in 1992. Prices of tropical beverages fell by 14 per cent, a figure representing double the rate of decline in the previous year. In midyear, robusta coffee prices had plummeted to their lowest level in 22 years. Coffee prices, on average, were 21 per cent lower than in 1991. Cocoa prices declined by around 8 per cent, also to all-time lows. Consumption increased faster than output in 1992 but excess supplies and high stock levels continued to depress prices. Tea prices improved by 8 per cent to reach their highest levels in three years. Shortages caused by drought in Sri Lanka and major producing countries in Africa, and by drought followed by heavy rains in southern India, led to a decline of 6 per cent in global output (output in Sri Lanka and southern India fell more drastically, by 26 per cent and 15 per cent respectively). On the other hand, import demand of the Commonwealth of Independent States fell sharply in 1992, and was less than 40 per cent of the 1990 level.

Food prices continued to decline, falling by 2 per cent in 1992 following a decline of 7 per cent in 1991

Figure III.3
Non-fuel commodity price indices, 1982-1992



Source: UNCTAD, *Monthly Commodity Price Bulletin*.

of 6 per cent in 1990. Wheat prices jumped 17 per cent for the year as a consequence of tighter world supplies resulting from lower output of high-quality crops in Australia, Argentina and Canada and higher-than-anticipated demand in Mexico, the drought-affected countries in southern Africa, Nigeria (after lifting its ban on wheat imports) and several countries in South and East Asia. Prices weakened, however, when the United States and other countries suspended exports to the Russian Federation after that country defaulted on repayments of loans for 1991 grain imports. Maize prices fell by 3 per cent, because of record harvests in the United States and increased output and lower import demand in the former Soviet Union. Prices of vegetable oil-seeds and oils increased by 7.5 per cent largely on the strength of significant increases in coconut oil, copra and palm oil prices.

Prices of agricultural raw materials as a whole declined by 3.1 per cent. Timber prices increased sharply because of the constraints imposed on logging in the United States at about the same time that its housing industry started to recover. Wool prices remain depressed because of lower import demand in the former Soviet Union, Japan and the European Community but strengthened slightly as a result of increased Chinese buying. Prices of other major commodities in this group, such as natural rubber, cotton, jute and sisal, declined by 3 to 25 per cent.

The index of minerals and base metals prices declined by 3 per cent. This followed a decline averaging 9 per cent over the preceding two years. Zinc and tin prices increased, by 11 and 9 per cent respectively, but prices of all other commodities in this group fell. The increases for zinc were largely attributed to suspected market manipulations, while the increases for tin were the result of tighter supplies and lower world stocks due to lower output and exports of Brazil, Malaysia and Bolivia and a slow-down in exports from China. Prices of other commodities weakened as demand remained depressed in most industrialized countries and collapsed in the transition economies. Nickel suffered the sharpest decline, a 14 per cent decrease, while prices of aluminium, copper, lead, iron ore and manganese ore fell less, by between 2 and 5 per cent.

Exports of aluminium, copper and nickel from the former Soviet Union declined somewhat after the sharp increase in 1991 but still remained high. The effect was felt among the producers of other countries leading to demand for protection. Aluminium producers in several European Community countries, claiming that 80 per

cent of Western Europe's productive capacity was idle because of increased imports from the Commonwealth of Independent States (600,000 tons in 1992 and 450,000 tons in 1991, compared with 82,000 tons in 1990), pressured their Governments to appeal to the Commission of the European Communities for the imposition of a ceiling on those imports.

Little progress was made in efforts to finalize arrangements for new international agreements regarding cocoa and coffee. Members of the International Cocoa Organization agreed in principle to a buffer stock arrangement with a limit of 350,000 tons that could be withheld from the market to stabilize prices. Beyond that, the major producing and consuming countries disagree on the financing arrangements for the new scheme and the price range to be defended in the new agreement. Similar stumbling-blocks are impeding progress towards a new international coffee agreement. Producers and consumers differ on some proposals, while producers differ among themselves on others. The United States, the largest consuming country, insists on an agreement that is market oriented—one free of buffer stocks and retention schemes—and a quota system that reflects the higher demand in that country for mild arabica coffees rather than robusta. Brazil, the world's largest producer and also the largest producer of robusta coffee, fearing a loss of market share, disagrees with the proposals of the United States. African producers differ with Brazil on its proposals for a quota system based on exports over the most recent 21 months in favour of a system based on exports over a longer period.

The International Natural Rubber Agreement expires at the end of 1993 although there is a provision for an extension for up to two years. In 1992, the International Natural Rubber Organization (INRO) was under pressure to cut its buffer stock intervention price when the average market price in the preceding six months had fallen below the intervention price. Under the present agreement, the intervention price should have been lowered by 5 per cent. Major consumers are insisting on the cut while producers are arguing for a higher intervention price in the new agreement to be negotiated.

DEVELOPMENTS IN THE TRADING SYSTEM

GATT AND THE PRECARIOUS URUGUAY ROUND

The Uruguay Round of multilateral trade negotiations, now lurching into its seventh year, has been the most ambitious by far of the eight GATT liberalization rounds. The ambitiousness lies in the attempt to bring some entirely new areas—trade in services, the trade-related aspects of intellectual property rights (TRIPs) and trade-related investment measures (TRIMs)—within GATT's purview, as well as in the effort to incorporate some old but contentious elements—agriculture and textiles—into the GATT system. While the talks clearly reflect multilateral commitments to strengthen the multilateral trading system, the past 6 1/2 years have demonstrated the difficulties of translating such commitments into action.

The two old but obdurate areas that the Uruguay Round has sought to tackle are agriculture and textiles. Agriculture, which accounts for just under 15 per cent of world exports, has remained outside the purview of normal GATT rules since the inception of the organization. This stemmed from a 1955 waiver granted to the United States by GATT, permitting that country to use quota restrictions to support domestic farm policies. Supported by high subsidies and defended by import restrictions in many countries, agricultural production and trade are today among the most protected sectors in the world. The Common Agricultural Policy of the European Community (CAP) and the Export Enhancement Programme of the United States have enabled the European Community and the United States to become the world's largest grain exporters, displacing traditional exporters such as Argentina, Australia and Canada.

Textiles, long governed by the Multifibre Arrangement (MFA), have thus far also resisted serious efforts at trade liberalization. The MFA is a detailed set of bilateral quotas for exports of clothing and textiles from developing to developed countries. Major holders of these quota rights are the countries that were the principal producers when the scheme was put into place in the 1960s—namely, Asian middle- and low-income developing countries. Today, therefore, some lowest-cost producers, such as Bangladesh and China, have lower quota rights than some long-standing exporters, such as Hong Kong and the Republic of Korea, which are no longer the most efficient exporters. Thus, as a general rule, most low- and middle-income developing countries want to see the MFA scrapped, with trade in textiles and clothing placed under the rubric of GATT rules.

Status of the negotiations

The Draft Final Act of the Uruguay Round (DFA)[15] — which was tabled by the Chairman of the Trade Negotiations Committee in December 1991—is still considered by the majority of participants to constitute the basis for a successful conclusion to the Uruguay Round. The DFA represents a substantial effort to reach a global consensus in all negotiating areas, although the need for further work has been identified in a number of spheres, involving, *inter alia*, certain limits on agricultural subsidies, market access negotiations on goods and services and ensuring of the legal compatibility of the various texts.

The Trade Negotiations Committee (TNC) meeting of 26 November 1992 adopted the Uruguay Round's current work programme. Basically, a four-track approach was reaffirmed, working on the proposition that nothing was final until everything was settled.[16] This strategy had already been agreed upon in January 1992. Track one provided for intensive bilateral and multilateral negotiations on market access, an area where substantive results were still lacking. Track two envisaged intensive negotiations on initial commitments in services, the second substantive area not covered by GATT. Track three aimed at ensuring the legal conformity and the internal consistency of the various agreements constituting the Draft Final Act. It was understood, however, that this exercise would not lead to changes in the balance of rights and obligations established in the agreements. Finally, track four envisaged work, at the level of the Trade Negotiating Committee, aimed at determining to what extent it might be possible to adjust the results in specific areas without unravelling the whole package. However, as indicated by the TNC Chairman in November 1992, negotiations had never actually taken off and tracks one, two and three were in effect blocked.[17]

The final results of the Uruguay Round—when and if achieved—would be consolidated in a document consisting of two elements: the Draft Final Act and the Schedules of Concessions (on market access and services). The Draft would then be multilaterally reviewed and finalized, one time only. However, a number of participants have submitted informal proposals designed to inject substantial changes into the DFA. At the January 1993 meeting of the TNC, the majority view was that the DFA remained the only viable basis for a rapid and balanced conclusion to the Uruguay Round—despite the fact that a number of political decisions still needed to be taken on a number of substantive items. This being the case, the TNC did not set any specific deadline for the conclusion of the Uruguay Round.

Impasse on agriculture

From the start, the Uruguay Round's objective was to tackle the national agricultural policies that distorted production, consumption and trade. Hence, fundamental differences have persisted in a number of key areas, including market access, internal supports and export competition.

It is the differences between EC and the United States that have drawn the most attention in recent times and are seen as a stumbling-block in the Uruguay Round of multilateral trade negotiations. The origin of the difficulties lies partly in the stagnating share of United States farm exports, which derive from one of the few sectors of the American economy that is still producing a trade surplus (in contrast with a growing EC share, seen largely as a result of CAP), and in the considerable political influence of farm lobbies on both sides of the Atlantic, especially in France (see box III.3). However, the dispute also involves other major agricultural exporters, including Argentina, Australia and Canada. The very high levels of protection accorded to agriculture in Japan is a major area of dispute.

The policies at stake in the area of market access are extremely sensitive ones politically; they include the EC variable levy; a United States waiver to protect dairy products, sugar, cotton and peanuts; and Japan's prohibition against rice imports. All these policies have two common denominators, namely, maintaining domestic prices above world prices and isolating producers from competition and changes in world markets. Potential approaches to reform in this area range from eliminating production subsidies and trade barriers entirely and replacing them with transparent protection in the form of tariffs, to allowing present import policies to be continued but limiting the difference between the world price and the domestic price of a given commodity.

As regards internal supports, it has become clear that the quest for total elimination of trade-distorting domestic subsidies to agriculture is not realistic. Similarly, reform of policies relating to export competition would imply the complete phasing out and prohibition of all export subsidies for either raw or processed agricultural products.

BOX III.3

Trade in grains: the situation in the 1990s

OVER THE PAST few months, the six-year-old Uruguay Round of multilateral trade negotiations has several times come tantalizingly close to a successful conclusion. Thus far, one unsurmountable hitch has been European subsidies to agriculture and, most recently and more specifically, the level of European oil-seed production. The United States has insisted that European farmers reduce their subsidized production of oil-seeds. Meanwhile, the EC—in the process of reforming its costly Common Agricultural Policy—has already mandated a 15 per cent reduction in the area planted, but has baulked at setting the precise output limits being demanded by the United States. Why is this such a sensitive issue for these two players?

Much of the touchiness of the subject can be understood by observing the United States and EC shares of world agricultural exports over the period 1970-1990. Whereas the EC share increased steadily and significantly over the past two decades, the United States share stagnated. This is especially worrisome for Americans since for years the United States farm sector was the world's leading producer of agricultural products. Moreover, agriculture is now one of but a handful of sectors that generate a trade surplus for the United States. (The agricultural sector generated a trade surplus amounting to an estimated $18 billion for fiscal 1992, ranking it fifth by export value).

However, the competition has become far more intense of late. To begin with, many countries subsidize agricultural production and exports. Then too, the spread of modern farming technology—high-yield varieties, as well as the use of potent pesticides and fertilizers—has allowed many countries, such as India and Mexico, to become more self-sufficient, thereby reducing their dependence on United States imports. Moreover, greater competition is also eating away at United States agricultural sales abroad. Thus, Brazilian soybean exporters now account for some 12 per cent of the world market and China has become the world's second largest corn exporter.

On the supply side, there are at least two problems from the United States perspective. First, the United States has not generated a major new crop in over 50 years, and this stands in contrast both to its own past tradition and to some of its competitors. Canadian scientists, for example, have developed an oil-seed plant from which to produce canola oil, which is low in saturated fat. Second, as the United States share of world agricultural output continues to decline relatively, American farmers are losing their monopoly power in trade. Thus, supply and demand are now defined globally and world supplies, not domestic stocks, are increasingly determining United States crop prices.

Not having perhaps recognized the phenomenon of globalization fast enough, during the course of the 1980s the United States Administration tackled a grain glut by paying farmers to idle their land. The upshot was that production of the three biggest United States crops—namely, corn, wheat and soybeans—fell some 7 per cent through the 1980s, while the rest of the world increased production roughly 30 per cent.[a]

The European Community stepped in as a particularly successful competitor in the wheat market, in large part owing to its extensive farm subsidies. From the early 1980s on, the United States and other major grain exporters pressed the EC to reduce those subsidies. When the EC complied, many European farmers switched to oil-seed crops—such as soybeans, rape-seed and sunflower seeds—which had been subsidized since 1966. Production of these oil-seeds, which are used as animal food supplements and for cooking oil, surged, reducing dependence on the United States for such crops. For example, between 1976 and 1985, the United States exported roughly 2 million tons a year of sunflower seeds to the EC. That market has totally vanished.

From the United States perspective, complete elimination of agricultural subsidies would at least boost demand for sagging American grain exports.

However, while many nations are baulking at the cost of such subsidies, their complete removal is probably a long way off. In the mean time, many American farmers regard the tentative farm trade accord, which the United States reached with the European Community in November 1992, as a victory with respect to grain subsidies, but as a defeat with respect to subsidies for soybeans and other oil-seeds.

Frustration over the results with regard to oil-seeds stems from the United States' inability to cap the European Community's burgeoning oil-seed production levels. In 1992, Europe's oil-seed crops amounted to over 12 million metric tons, as compared with only some 3 million in 1982 and about 2 million in 1980. The American Soya Bean Association had hoped for an agreement that would roll back EC production levels to the 1986-1987 average of 7-8 million tons annually.

However, to the European Community—and the French, in particular—the issue is more than simply output. While under 10 per cent of the French population live or work on farms (a figure down from over 20 per cent in 1960 but still representing more than twice that of the United States), those that do carry a large weight politically. Meanwhile, the issue is also a difficult one for the German Government, since German farmers are among the biggest beneficiaries of oil-seed production subsidies. Moreover, some 40 per cent of the one million hectares of German land planted with oil-seeds are situated in the impoverished east, making subsidy cut-backs today a politically unsavoury policy alternative.

Meanwhile, United States farming groups also wield a fair amount of influence. Thus, among the two major players, an already sensitive issue has increasingly been taking on a political spin.

[a] United States Department of Agriculture, as cited in *The Wall Street Journal*, 3 December 1992.

Services, TRIMs and TRIPs

Trade in some services has been growing rapidly (see box III.4), but the question of inclusion of services in the Uruguay Round was highly contentious. Nevertheless, negotiations on services have proceeded on the following three fronts: framework agreement, especially sensitive sectors, and initial commitments by countries to liberalize trade in services. Many see simultaneous progress in all three areas as critical. The United States services industry, for example, has stressed the fact that it would regard as inadequate any agreement consisting of a tough framework of international rules and an annex for financial services, but with little or no assurance that foreign markets would indeed be opened and no mechanism to prevent "free riders"—countries signing the agreement, but making few, if any, binding commitments to liberalize.

Many countries stopped negotiating on services while waiting to see the outcome of the talks between the United States and the European Community on agriculture. However, the services hurdle to an Uruguay Round agreement resurfaced in late March of 1992 as countries presented their initial commitments on opening their services markets and lists of sectors in which they wanted to keep restrictions. The United States, for example, wished to exclude sea transport, and financial and air transport services, as well as telecommunications, from rules that would bar countries from discriminating in favour of domestic companies. However, EC officials maintain that the exclusion of these sectors would exempt some 75 per cent of potential services trade from an agreement on trade in services.

The negotiations on trade-related investment measures (TRIMs) have been among the most trying in the Uruguay Round, owing in part to differing interpretations by developed and developing countries of the negotiating mandate. Thus, while developed countries have sought a prohibition of some TRIMs (mainly local content and export performance requirements), developing countries have opposed such prohibitions and tend to be of the view that the negotiations should deal with the adverse trade effects of TRIMs.

Owing to this wide divergence in positions, very few substantive negotiations have been carried out since December 1990, when the Uruguay Round was originally scheduled to conclude. Therefore, the Draft Decision on TRIMs, as it now stands, merely provides that countries should not apply TRIMs that are inconsistent with their obligations as specified in articles III and XI

BOX III.4

Trade in services

TRADE IN SERVICES has been receiving increasing attention in recent years and has been given a major place in the Uruguay Round of multilateral trade negotiations. During the 1980s, this trade increased at a faster pace than trade in goods. Available information indicates that at the beginning of the decade, non-factor services were the equivalent of about 20 per cent of the total merchandise exports of developed and developing countries taken together. By the end of the decade, they had increased to the equivalent of 25 per cent (see table below).[a] The same trend continues into the 1990s. According to GATT, world trade in commercial services was equivalent to almost 26 per cent of world merchandise trade in 1992.[b]

World exports of non-factor services[a]

Current values in billions of dollars

	1980	1990	Annual average rate of growth, 1980-1990
Shipping	57.3	88.7	4.5
Passenger services	17.9	48.1	10.4
Other transportation	54.8	79.7	3.8
Travel	91.8	233.9	9.8
Royalties and fees	11.6	32.2	10.8
Other private services	111.6	274.6	9.4
Total non-factor services	345.0[b]	757.2[c]	8.2
Memo item:			
Merchandise exports	1 691.7	2 979.6	5.8

Source: UN/DESIPA, based on IMF, *Balance of Payments Statistics*: values rounded to next 100 million.

a Figures do not include the economies in transition.
b Equivalent to 20.4 per cent of merchandise exports, 1980.
c Equivalent to 25.4 per cent of merchandise exports, 1990.

Notwithstanding the attention it has received, the growth of world trade in services has been about the same as that of the value of trade in manufactures. During the period from 1980 to 1990, international trade in non-factor services at current prices and exchange rates rose, on annual average, by about 8 per cent, which was approximately the same rate at which manufactured exports had been growing (8.6 per cent per year)[c]. This growth reflected (a) a considerable increase in tourism (as reflected in the items travel and passenger services); (b) a rise in royalties and fees accrued to the owners of patents, copyrights, trade marks and similar non-financial assets; and (c) a rise in the miscellaneous aggregate of private services, which included, among other items, the remarkable growth in telecommunications, including mobile and satellite links, and in particular commercial services that expanded through connections between computer networks. The growth rate for these three components (around 10 per cent per year) was higher not only than that for merchandise trade, but also than that for the aggregate of all services. In contrast, growth in the current value of transport (recorded under shipping and other transportation) was around 4 per cent annually, a figure representing much slower growth than that in merchandise trade. This reflected the widespread reduction in transportation costs per ton loaded, but also indicated a less-than-proportionate growth in international trade of bulk commodities.[d] Since the commodity composition of international trade, according to all indications, is changing towards

manufactures with higher valued added per unit of weight, a reduction in the value of transportation compared with the value of total goods loaded and unloaded should be expected.

[a] Non-factor services comprise transportation and tourism (registered in balance-of-payments statistics under the items shipping, passenger services, other transportation and travel), royalties and fees, and a very heterogeneous aggregate consisting of "other private services". Current values in United States dollars of trade in non-factor services and of merchandise trade were compared. To assess the importance of services in international trade, it will be necessary to focus on their share. Their rates of growth are meaningful only as compared with rates of growth of merchandise trade. Rates of growth in current values of trade in services, taken alone, have to be interpreted with caution, because they reflect the impact of currency fluctuations. For a discussion of conceptual and statistical problems of measurement of trade in services see *World Economic Survey, 1987* (United Nations publication, Sales No. E.87.II.C.1 and corrigendum), pp. 64-69.

[b] GATT's aggregate "commercial services" is slightly different from the aggregate "non-factor services" used here, because it does not include "royalties and fees"; but the latter represents about 4 per cent of total non-factor services and thus its exclusion does not change the basic trend.

[c] Statistical Division of the United Nations Secretariat, *Monthly Bulletin of Statistics*, March 1993.

[d] The volume of trade in bulk commodities did not increase much during the 1980s. Seaborne trade in crude oil (tanker cargo) and five main bulk commodities (iron ore, grain, coal, bauxite/alumina and phosphate) in 1990 was only 2 per cent above the level of 1980, namely 2,723 million tons loaded compared with 2,667 million. See *Review of Maritime Transport, 1991*. Report by the UNCTAD secretariat (United Nations publication, Sales No. E.92.II.D.9).

of GATT, though it does also provide for a phase-out period. This may have implications for developing countries as regards the extent to which they would be allowed to use investment measures to channel foreign direct investment in order to influence their own development.

The Draft on trade-related intellectual property rights (TRIPs) profoundly modifies the way in which intellectual property has been dealt with internationally. That is to say, it sets out detailed provisions for an upward harmonization of standards of protection of intellectual property rights for all countries, irrespective of their level of development. The Draft closely follows the standards applicable in major developed countries. TRIPs, therefore, are one of the only key areas of the Uruguay Round where developing countries have not been singled out for special and differential treatments, other than providing for a transitional period, which would only be adequate to bring their domestic legislation into conformity with the provisions of the Draft Final Act.

Safeguards and anti-dumping

The realization of a comprehensive agreement on safeguard provisions of GATT under which a country facing sharp increases in imports that could seriously injure its domestic industry would be allowed to take temporary protective measures is one of the main objectives of the Uruguay Round. The lack of an international consensus on the application of article XIX of GATT has led to the taking, outside the legal framework of GATT, of an ever-growing number of selective trade-restricting measures, such as voluntary export restraints. Such trade-restricting measures, frequently applied against developing country suppliers, have an extremely detrimental effect on the trade interests of the concerned countries.

From the perspective of developing countries, the draft on safeguards contains some positive elements. Included in the Draft is the proposed phasing out of grey area measures, for example, voluntary export restrictions and orderly marketing arrangements, which are frequently levied against items such as textiles and clothing, agricultural and food products, steel and steel products, and electronics products like televisions and video recorders.

Perhaps most significant is the proposed agreement's specifying that safeguard measures shall not be applied against developing countries whose share of the imports of a given product does not exceed 3 per cent, so long as the collective share of developing country sup-

pliers does not exceed 9 per cent of the total imports of that product. The importance of this provision lies in its furnishing a degree of predictability for developing countries, particularly small suppliers and new entrants into a market.

Rules to regulate—and hence legitimize—the imposition of anti-dumping duties were written into GATT during the Tokyo Round of multilateral trade negotiations of the 1970s. GATT, article VI, para. 1, refers to dumping as that act by which products of one country are introduced into the commerce of another country at less than normal value of the products, where normal value is considered to be the domestic sale price of a given product in the exporting country. In recent years, charges of dumping have become a major instrument of protection. Such cases accounted for over 70 per cent of all trade disputes in the 1980s.[18] To justify an anti-dumping measure, it is usually necessary to show only that the foreigner is selling at a loss, or at a price below that charged in the home market, and to then argue that this harms the domestic industry.

In light of the fact that anti-dumping actions can be used for protectionist ends, it is not entirely clear whether a Draft on anti-dumping that makes such actions easier to initiate should be considered an improvement over the current situation. While the Draft contains far more details regarding determination of dumping and determination of injury, it might indeed be wiser to give GATT itself a greater role in arbitrating such disputes, rather than leave the carrying out of that role to national authorities, as is now the case.

Value of an agreement

As of early April 1993, the Uruguay Round remained stalled, despite the fact that a tentative farm agreement—clearly the most visible stumbling-block—had been reached the previous November between the European Community and the United States. Even this agreement cannot be said to have been finally wrapped up because the French Government has not yet declared itself willing to accept the November accord. Moreover, the American President's "fast track" authority[19] expired on 1 March 1993. On 9 April, the President asked Congress to extend his authority until 15 December; without it, United States negotiators are unlikely to make much progress, since any deal struck by the President could, in principle, be unravelled by Congress.

A pact thus could easily be several months away and its complete success is not necessarily assured. But whatever the terms of a final compromise, there is clearly a great deal of urgency about concluding the Uruguay Round. While a comprehensive agreement would be optimal, the value of even a modest accord should not be minimized. The alternative to such an accord may be no pact at all.

IMPATIENCE WITH MULTILATERALISM

The uncertainty associated with the ongoing Uruguay Round of multilateral trade negotiations has provided a certain momentum to alternatives to liberal trade and multilateralism. The feeling has grown in some quarters that what is needed is a level playing-field or "fair trade" which the present multilateral trading system has failed to provide. Thus, unilateral, bilateral and subregional initiatives, if not actually on the rise, still continue to dominate the international trade scene. Moreover, some of these alternatives have come to acquire intellectual support from the so-called new trade theory.

The case for liberal—ideally, free—trade has dominated mainstream economics. Free trade, according to the standard arguments, and under a great many assumptions, would maximize global welfare. The so-called new trade theory[20] relaxes some of those assumptions and thus claims to be closer to describing the real world. It gives up the traditional assumption of well-functioning domestic markets and takes into account the existence of domestic distortions. Specifically, the traditional assumption of perfectly competitive product and factor markets is abandoned. Most important, the new trade theory recognizes the existence of external economies. The new thinking also drops the assumption that government policies are somehow given and it then becomes necessary to analyse the political and economic forces behind the determination of public trade policies.

Shunning the traditional comparative advantage explanation of trade, the new theory emphasizes non-comparative advantage trade. According to this train of thought, "countries do not necessarily specialise and trade solely in order to take advantage of their differences; they also trade because of increasing returns, which makes specialization advantageous, per se".[21] This, coupled with the existence of market distortion, presumably makes a case for government intervention to create or promote dynamic advantages through, for example, support to new technologies.

While the new trade theory provides insight into the sources of trade and the motivations of trade policies, it does not easily lend itself to serving as an aid

to policy formulation. Markets are indeed imperfect but there is no presumption that the consequences of government failure will be any smaller than those of market failures, nor is the extent of possible gain from government intervention for the purpose of taking advantage of economies of scale easy to assess. In fact, as one exponent of the new trade theory has himself pointed out, the theory probably need not generate a new trade policy.[22] Nevertheless, there is an implicit and increasing tendency to rationalize intervention using arguments many of which are components of the new theory. Finally, if one Government can identify an optimal policy of intervention for itself, so can others and retaliation may follow.

The rapid growth of international trade in the relatively liberal trade regime of the post-war period coupled with the risks associated with government intervention explains why economists have for so long now advocated the free trade route. Nevertheless, the current popularity of "managed" or "results-oriented" trade derives in large part from its association with fair trade. Clearly, any arguments in support of import taxes or export subsidies, or other interventionist trade policies, find a ready domestic audience when other countries are supposed to be practising unfair trading. The appeal of unilateral action to open up foreign markets further increases when the domestic economy is not growing rapidly.

Aggressive unilateralism

In the face of shrinking export markets, as well as of growing frustration with multilateral initiatives, a variety of unilateral and bilateral trade actions have continued to gain momentum over the past year, intellectually bolstered by the new trade theory. Such so-called strategic trade policies—designed to bring unilateral pressure to bear on other countries to open their markets to foreign goods—are becoming the trade tactic of choice.

The current focus on market access, while reminiscent of traditional protectionist measures, differs somewhat from the latter by virtue of its requiring remedial actions on the part of trading partners. Both the Special and Super section 301 provisions of the United States Omnibus Trade and Competitiveness Act of 1988, as well as the Structural Impediments Initiative, fall under the rubric of such remedial action.

In the mid-1980s, faced with growing trade imbalances, United States trade policy took a new turn and began to rely heavily on the threat of trade retaliation to reduce alleged foreign barriers to American exports.[23] Termed aggressive unilateralism,[24] this policy may be described as unilateral in two senses, that is, in so far as (a) the United States takes it upon itself to unilaterally decide what is fair or unfair in partner country trade practices and (b) foreigners are then expected to liberalize unilaterally.

These endeavours culminated in the Super and Special section 301 provisions of the 1988 Omnibus Trade and Competitiveness Act. This shifted retaliatory authority from the President to the United States Trade Representative (USTR), who is responsible to Congress, and made such retaliation mandatory, though subject to a number of loopholes. More specifically, Super section 301 required the USTR—in 1989 and 1990—to identify priority countries and practices whose unfair trading was deemed to be hampering United States ability to export. In each instance, the USTR was to initiate consultations with the offending Government aimed at elimination of the practice concerned. Such discussions were subject to a strict timetable under the threat of American retaliation. Meanwhile, Special 301—with an ongoing mandate—was designed to promote more aggressive assertion of American intellectual property rights.

Between 1975—when the original but more moderate section 301 legislation was drafted—and the spring of 1992, some 80-odd countries were investigated under section 301.[25] Assessing the impact of this policy requires two opposing considerations. On the one hand, despite the assertive use of section 301, especially since 1988, costly trade wars have thus far been averted. On the other hand, the trade gains reaped by the United States as a result of these acts also appear to be quite small, with one outer-bound estimate for the cumulative value of American exports involved being under $15 billion.[26] Moreover, a truly comprehensive assessment of this policy should also take into account at least two intangibles—namely its consequences for the United States' relations with its trading partners and its repercussions on the global trading system. In these two areas, the negative impacts may well outweigh the gains. Thus, an approach in which a country unilaterally defines unfair practices and forces bilateral negotiations under a threat of retaliation is antithetical to GATT which relies on negotiated reciprocal reductions of trade barriers on a multilateral basis and across industries. The greatest danger of the section 301 approach may be the extent to which it undermines the GATT system.

Despite the ongoing Uruguay Round of multilateral trade negotiations and their emphasis on multilateral solutions, calls for protection under the section 301 um-

brella have continued over the past year. In an interesting development, not only have such demands for protection been made by industries ostensibly hurt by unfair trading practices, but in addition industries manifesting impressive export performances have requested the help of section 301 to preserve their markets.[27]

Structural Impediments Initiative

The Structural Impediments Initiative (SII) was launched on 25 May 1989 in an attempt to bring about fundamental changes in both the Japanese and United States economies so as to reduce the trade imbalance between the two. In return for a Japanese commitment to make it easier for foreigners to export to and invest in Japan, and to do business there, the United States agreed to undertake concrete measures to improve its competitiveness, for example by bolstering savings and improving investment. The Initiative is clearly an attempt to influence the pattern of trade between these two countries.

In July 1992, Japan and the United States hammered out a second annual follow-up report to the SII agreement. The new commitments in the report included pledges by Japan to give more protection to small shareholders, conduct a joint one-year survey on the practices of major Japanese trading houses in the United States, and increase fairness and transparency in government practices. The United States, meanwhile, promised to encourage its companies to formulate their own export promotion plans, to review the lay-off system, and to work to revamp medical insurance for the purpose of trying to slash the massive budget deficit.

China concerns

Between 1980 and 1991, China became a significant player in the global trading system, its world exports growing some 13 per cent per year. In the process, its trade surplus soared, reaching almost $15 billion *vis-à-vis* the United States in 1991 and possibly as much as $19 billion in 1992. In the wake of this trade imbalance, the United States' demands for greater market access are perhaps not surprising, although China argues that these figures overstate its trade surplus since the United States includes as Chinese exports goods that China processed for Hong Kong and Taiwan Province of China. Nor is the United States alone in its critique of Chinese trade policy. The European Community, Japan and the Republic of Korea have at various points all charged China with dumping.

Trade talks between China and the United States commenced in September 1992, with the United States insisting that China lower a number of its import barriers and provide greater protection for foreign patents and copyrights. Discussions took place in the shadow of an August threat by the United States to impose punitive tariffs of up to 100 per cent on $3.9 billion worth of Chinese imports if no agreement on removing Chinese trade restrictions was reached by 10 October.

An accord between the two countries was reached by the unilaterally imposed deadline. The pact provides for a phasing out of a variety of licensing requirements, quotas, controls and restrictions between 31 December 1992 and 31 December 1997. Roughly 75 per cent of these non-tariff barriers to trade are to be removed within the first two years of the agreement. China also agreed to eliminate its import substitution system under which Chinese companies have not been allowed to import goods competing with similar goods produced domestically. The removal of certain restrictions applying to American motor car makers involved in joint ventures in China was also agreed upon. Those restrictions were said to limit the manufacturers' ability to import needed kits and parts from the United States. Lastly, all laws, regulations, policies and guidance on the import-export system were to be published, and commercial information on sales and marketing opportunities was to be made public.

Protecting specific markets

Apart from country-directed measures, a great deal of protectionist activity over the past year has been focused on specific products or markets—most particularly, motor cars, commercial jets, steel and utilities procurement.

Motor cars

The motor car trade, both between Japan and EC and Japan and the United States, has come in for its share of management. For example, in April 1992, confronted with weak European demand, Japan agreed to cut (down from 1.26 million vehicles) 1992 motor car exports to Europe by 6 per cent, or 75,000 motor cars. This was part of a prior agreement to limit Japanese motor car exports to EC over the period 1993-2000 in a bid to give European motor car makers time to improve their competitiveness. However, in undertaking the comparable exercise in 1993, EC and Japan failed to agree on quotas for Japanese motor car exports to the European Community, in large part because they disagreed over the demand outlook in EC. The European Community has main-

since market demand is declining, Japan should share the burden of cutting supply by reducing the level of its exports from 1.19 million units in 1992. Japan does not forecast as large a decline as EC.

At the same time, roughly a year after former President Bush declared that his trade mission to Tokyo had yielded a milestone agreement to sell 20,000 more American motor cars in Japan every year, the "big three" United States motor car makers[28] threatened to file unfair trade cases in order to have stiff dumping duties imposed on all imported Japanese motor cars. Shortly thereafter, several Japanese motor car makers—including Honda, Mazda, Nissan and Toyota—raised their prices in the United States in an apparent attempt to ward off protectionist pressures.[29]

Commercial aircraft

Meanwhile, in April 1992, the European Community and the United States, putting one of their most bitter trade quarrels behind them, agreed to tentatively curb government support for commercial aircraft development by reducing it to 33 per cent of total development costs. In reaching this settlement, negotiators broke a five-year impasse on the issue. While the United States claims that its companies receive little government support for their civilian aviation programmes, EC has estimated that indirect aid to all American aircraft manufacturers from the Pentagon and the National Aeronautics and Space Administration amounted to some $15 billion over the past 15 years. According to United States estimates, Airbus has drawn more than 75 per cent of its development costs from the British, French, German and Spanish Governments and subsidies to that company have been worth at least $10 billion.

Although the new United States Administration has reassured the Community that it will not renege on the July 1992 Airbus agreement, there appears to be continuing concern over the path to take as conditions in the American aerospace industry worsen, and thousands of jobs are lost. Moreover, legislation is again in motion to bring dumping and countervailing duty complaints against Airbus. While nothing in the bilateral Airbus pact precludes American producers from filing unfair trade cases, if they do so EC can, after consultations, terminate the agreement. Furthermore, in response to American criticism, the President of the German Aerospace Industry Federation argued that the real level of United States government support for its own civil aviation industry was actually far greater than that in Europe, and called for more state support for a strategic industry that was currently in steep decline.[30]

Semiconductor chips

Yet another area of potentially explosive trade conflict revolves around the semiconductor chip market. In an agreement reached during the summer of 1991, the Japanese Government supported the American semiconductor chip industry's intention of having foreign companies account for at least 20 per cent of all chip sales in Japan by the end of 1992. Instead, the foreign share has remained flat—at around 14.6 per cent—since the third quarter of 1991. A two-month inter-agency study carried out in the United States last summer concluded that Japan had made insufficient progress in opening its markets to foreign chip producers. However, the official figures released in March 1993 showed that foreign penetration of semiconductors in the Japanese market had reached 20.2 per cent in the final quarter of 1992—a figure slightly over the target.

Steel

In what was seen as a major gain for United States steel makers, the United States Commerce Department imposed steep temporary tariffs on steel imports from 19 countries in late January 1993, maintaining that these producers were selling steel in the United States for less than they did at home. Before the tariffs become permanent, American steel makers must persuade the International Trade Commission—an independent United States agency—that steel imports are a significant source of the industry's problems. These injury investigations are slated to take place beginning in late June 1993 and are likely to focus on the fact that imports account for roughly one sixth of the United States market, a figure that corresponds to the amount of unused productive capacity in the troubled American industry.

The newly imposed tariffs came in response to petitions by domestic steel makers who had been losing money—despite productivity increases—in a weak economy and as new factories opened that recycled steel from scrap. The tariffs are to cover some $2.6 billion per year worth of imported flat-rolled and plate steel, with the preliminary tariff averaging 27 per cent. They came on top of preliminary tariffs averaging 12.5 per cent that the Commerce Department had imposed in November 1992 on steel from 12 countries that were said to be subsidizing their domestic industries. The general consensus in the steel industry is that at current price levels, a 15 per cent tariff will price imports out of the market.

Objections to this move were of course quick in coming, with the European Commissioner for External Economic Affairs attacking the ruling. In early March, the Commission proceeded to formally request consultations under GATT's anti-dumping code in order to determine whether the American action was consistent with GATT rules. While EC officials made it clear that they were avoiding an escalation of the dispute and refraining from a discussion of retaliatory measures, they none the less challenged the method by which the Commerce Department calculates alleged material injury to its steel industry, as well as extent of EC producer subsidies.

Soon after the American action, the Canadian Government, charging unfair pricing, imposed provisional tariffs on steel imports from six countries including the United States. The two countries are each other's biggest steel customers; therefore, although other countries were included in the action, the move was generally viewed as retaliation for the Commerce Department's act. The Canadian International Trade Tribunal, a government agency, had 120 days from the time of the Canadian Government's late January action to rule on whether its domestic industry had been materially injured; and in the case of such a ruling, the provisional tariffs would become permanent.

Government procurement

EC adopted a new set of rules on 1 January 1993 regarding purchases by Governments and state-owned enterprises of equipment for electric-power generation, public water-supplies, telecommunications and transportation. In retaliation for the move, the United States announced at the end of that month that it would bar EC member nations from bidding on federal utility and service contracts. The ban—which was slated to take effect on 22 March 1993—would cover some $40 billion-$50 billion per year worth of government contracts. However, EC companies won only roughly $40 million-$50 million a year worth of such contracts, which involved a large number of local services such as the operation of cafeterias in government buildings. On the other hand, European Community utilities purchase about $10 billion-$15 billion a year worth of equipment, with American companies winning none of these contracts. In principle, further talks could resolve the dispute, with no ban ever taking effect. In a step in this direction, following a meeting with the President of the Commission of the European Communities on 19 March 1993, the USTR announced a freeze of at least a week on the planned American retaliation against EC for its refusal to rescind the government procurement regulation. While EC and the United States are both parties to an agreement barring domestic purchasing requirements for government procurement, the international code does not cover the four areas in question.

What is perhaps most troubling from the perspective of the global economy is that unilateral and bilateral trade initiatives, such as the ones described above, as well as the growing willingness on the part of Governments to risk potential "trade wars" over particular issues, are in fact symptomatic of a far greater problem — namely, a certain loss of commitment on the part of the major trading nations to multilateralism and the trading system as a whole.

THE REGIONAL APPROACH TO TRADE POLICY

One concomitant of the growing disenchantment with multilateralism has been the continuing resort to bilateral, regional or so-called mini-multilateral trading arrangements. While many view these emerging regional groupings as "building blocs", forging a more open and liberal trading system, there can be little doubt that such arrangements have diverted attention away from multilateral efforts to liberalize the world trading system, and from this perspective at least, such schemes are often described as "stumbling blocs" to liberalization. The ultimate outcome cannot yet be foreseen.

Concern over the wisdom of trade blocs has arisen with their proliferation. The thrust towards the EC Single Market and the fear that the European Community might become "fortress Europe" set off these worries. However, the recent United States–Canada Free Trade Agreement—which was in large measure a reaction to the proposal regarding the formation of the European Single Market—has only added to these anxieties, as has the proposed North American Free Trade Agreement (NAFTA) and increasing talk of the possible creation of an Asian trade bloc of some sort. It is important to point out that these concerns have arisen despite the fact that in the last three decades or so European integration and tighter Canada–United States links were often associated with increased liberalization towards third parties.

First and second waves of regionalism

Countries seeking to establish a trade bloc might set up anything from a preferential trading area to a full economic union.[31] While the range of possible arrangements is very large, the common denominator is that some sorts

of preferences (from which non-members are excluded) are extended to members.

The current preoccupation with trading blocs is actually not a new phenomenon.[32] It first manifested itself in the 1960s, stimulated by the 1957 creation of the European Community. The United States (at that time an ardent multilateralist) nevertheless supported EC for political reasons, viewing it as a potential economic counterweight to the growing influence of the former Soviet Union.

However, this first wave of regionalism did not flourish outside Europe. Largely motivated as it was by the quest for industrialization via regional import substitution, these regional schemes failed for much the same reasons that import substitution at the national level failed after the initial stage.[33]

The thrust towards regionalism is thus now experiencing its second wave, though with a number of striking differences. First, the trend is far more extensive than before. The major industrialized countries of the world, apart from Japan, all belong to one of four free trade groups: the European Community, EFTA, the Canada–United States Free Trade Agreement and the Australia–New Zealand Closer Economic Relations Agreement. Second, the United States, initially quite hesitant, is now a major supporter of regional integration schemes. Third, a new trend is emerging as developed and developing countries are for the first time attempting free trade arrangements with each other. Fourth, the approach to trade integration schemes among developing countries is now less defensive and it is often seen as part of an overall effort towards trade liberalization.

Regional developments

A growing number of bilateral, subregional and regional trade arrangements have emerged, solidified or expanded in all parts of the world over the past year or so. Although the number of regional arrangements has mushroomed the bulk of intraregional trade is still accounted for by only a few trade blocs. Intraregional trade remains most important by far for EC where it accounts for two thirds of total trade. It is also the only major bloc where intra-trade as a proportion of total trade has been fast-growing. In North America, intraregional trade, though significant, is far less important. In ASEAN, this trade constitutes an even smaller proportion of total trade but is growing (table III.3).

At the same time, a number of ongoing arrangements—most notably in Europe and North America—have hit unexpected snags, slowing down their forward momentum. Thus, some severe set-backs characterized the "deepening" the European Community had anticipated would take place over the past year, while at the same time a number of non-members continue to hope that the Community will open its doors and "widen" appreciably in the near term. Meanwhile, the countries of eastern Europe are eager to reverse their previously strong anti-West trade bias. For them, the major regional integration issue is how some form of regional arrangement could be worked out.

Under the new United States Administration, support for the North American Free Trade Agreement appears to have been eroding somewhat, as negotiations started on complementary agreement on the labour and environmental impacts of the proposed accord. Nevertheless, the integration impulse that the proposed NAFTA and Enterprise for the Americas Initiative set into motion has taken on a life of its own. A number of vigorous new attempts at regional integration are now under way in Central and Latin America.

In Asia, regional integration schemes are viewed to a large extent as a defensive, strategic weapon, largely for trying to ensure open markets elsewhere. In the Middle East, a primary question is whether factor mobility—most particularly, labour mobility—could forge integration among the economies of the area. Meanwhile, enthusiasm for regional integration in Africa is on the rise, despite the fact that a large number of such schemes are already in existence but largely ineffective.

Status of the EC Single Market

The deadline for the completion of the Single Market was 31 December 1992.

Some 95 per cent of the total number of measures required to make the internal market a reality have now been adopted. Thus as of 1 January 1993, all border controls on goods shipped within EC disappeared.

Border controls on people will take longer to eliminate completely since some member countries are behind schedule in reorganizing their airports so as to do away with passport checks on intra-Community travellers, while others, concerned with potential immigration and crime problems, still object in principle. Meanwhile, however, looking towards the efficient functioning of the Single Market, the Commission agreed on guidelines calling for annual reports on its operation, and periodic reports on national implementation, as well as a complete analysis of the programme's economic effects in 1996

Table III.3.
Intra-bloc trade of some major trading blocs

	Bloc's share of world exports						Share of intra-trade in bloc's total trade					
	1970	1975	1980	1985	1990	1991	1970	1975	1980	1985	1990	1991
EC[a]	34.4	35.5	34.5	33.6	36.8	35.8	53.1	52.2	55.7	54.4	66.3	67.6
EFTA[b]	6.6	6.2	6.0	6.2	7.3	6.9	17.6	17.5	14.2	13.2	13.1	12.4
United States–Canada Free Trade Agreement	19.2	16.2	14.4	15.7	15.3	15.7	32.6	30.3	26.5	38.0	34.3	33.0
CACM[c]	0.4	0.3	0.2	0.2	0.1	0.1	26.0	23.4	24.4	14.7	15.3	16.8
Latin American Free Trade Association (LAFTA)/LAIA[d]	4.1	3.4	4.0	4.4	3.0	3.2	9.9	13.5	13.7	8.4	12.1	11.7
Andean Pact[e]	2.1	1.7	1.8	1.5	1.2	1.1	2.2	5.5	5.8	4.7	5.2	6.3
CARICOM[f]	0.4	0.7	0.6	0.4	0.1	0.1	3.9	3.6	4.1	5.0	8.6	7.7
ASEAN[g]	2.0	2.5	3.6	3.7	4.2	4.6	12.8	15.9	16.9	18.4	18.6	19.3
SACU[h]	1.1	1.0	1.3	0.8	0.7	0.8	0	0	0	0	0	0
ACM[i]	1.5	1.0	1.4	1.4	0.9	0.6	2.1	1.5	2.4	1.7	2.6	3.6
ANCERTA[j]	1.9	1.6	1.4	1.5	1.4	1.5	6.1	6.1	6.4	7.0	7.6	7.6

Source: UN/DESIPA, based on IMF, *Direction of Trade Statistics*.

a European Community: Belgium, Denmark (from 1973), France, Germany, Greece (1981), Ireland (1973), Italy, Luxembourg, Netherlands, Portugal (1986), Spain (1986) and United Kingdom (1973).
b European Free Trade Association: Austria, Finland (1961), Iceland (1970), Liechtenstein (1991), Norway, Sweden and Switzerland.
c Central American Common Market: Costa Rica (1962), El Salvador, Guatemala, Honduras and Nicaragua.
d Latin American Integration Association: Mexico and all South American countries, except Guyana, French Guiana and Suriname.
e Andean Subregional Integration Agreement: Bolivia, Colombia, Ecuador, Peru and Venezuela (Chile withdrew in 1976).
f Caribbean Community: Antigua and Barbuda, Bahamas (1983), Barbados, Belize (1974), Dominica (1974), Grenada (1979), Guyana, Jamaica, Montserrat (1974), Saint Kitts and Nevis, Saint Lucia (1974), Saint Vincent and the Grenadines (1974) and Trinidad and Tobago.
g Association of of South-East Asian Nations: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.
h Southern African Customs Union: Botswana, Lesotho, South Africa and Swaziland.
i Arab Common Market: Egypt, Iraq, Jordan, Libyan Arab Jamahiriya, Mauritania, Syrian Arab Republic and Yemen.
j Australia–New Zealand Closer Economic Relations Trade Agreement.

These various aspects of "deepening"—in other words, more intensive integration—are being supplemented increasingly by attempts to "widen" the European Community by enlarging its membership. Thus, EC and the members of the European Free Trade Association (EFTA) (with the exception of Switzerland which voted in fall 1992 not to be included) will later in 1993 join in a free trade area, to be designated the European Economic Area (EEA). The European Community furthermore formally initiated enlargement negotiations with three individual EFTA applicants—namely, Austria, Finland and Sweden—on 1 February 1993. If negotiations go smoothly, these three countries might join EC on 1 January 1995. Negotiations with the three will in each case be bilateral, covering 29 different areas ranging from fisheries to foreign policy. Discussions are expected to focus on the applicants' requests for special treatment in the area of agriculture and regional policy, as well as on their neutrality in light of European Community plans for a common foreign and security policy. In March, the Commission of the European Communities approved Norway's application to join the European Community.

A fairly large number of other countries are waiting in the wings for membership. With longest standing among these are perhaps Cyprus, Malta and Turkey. Membership of the first two would require that the problems of linking together large and very small economies in the European Community, together with those of distributing benefits and costs, be addressed. Turkey's potential membership, meanwhile, raises the issue of regional aid within EC. The European Community paid out some $9.2 billion in regional aid in 1991, or roughly 7.4 billion European currency units (ECUs). By the same criteria, Turkey alone might warrant the paying out of 5.4 billion ECUs.[34]

Economies in transition

The collapse of intraregional trade that accompanied the dramatic political changes in eastern Europe and the former Soviet Union has been a compelling reason for the countries concerned to seek stronger trade relations with the West, particularly Western Europe. A number of eastern European countries aim at eventually joining EC. An association agreement was signed in 1991 between EC

and the former Czechoslovakia, Hungary and Poland. Similar agreements were later signed between EC and Bulgaria and Romania.

Poland signed a free trade agreement with EFTA that was to come into effect in March 1993. Under that agreement, the seven EFTA countries would lift tariffs on 80 per cent of Polish exports, while Poland would initially scrap customs duties on only one quarter of its imports from EFTA members. The former Czechoslovakia signed a similar agreement one year ago and Hungary signed an agreement in 1993.

While the objective of many of these countries is to become members of the European Community, a number of the economies of eastern Europe and the former Soviet Union are engaging in integration schemes of their own. For example, Hungary, Poland, the Czech Republic and Slovakia (the Visegrád Group) signed an agreement to establish a regional trading zone designed to gradually eliminate tariff barriers by the end of the century. Tariffs on agricultural and industrial goods are to be reduced between 1995 and 1997, while barriers to trade in other more sensitive areas—such as motor cars, steel and textiles—are to be eliminated by the year 2001.

Several other regional groupings appear to be emerging although their long-term trade implications are not yet clear. At the most recent meeting of the Black Sea Economic Cooperation Summit, late in 1992, members agreed to establish a permanent secretariat, and a Black Sea trade and development bank, as well as a regional statistics centre. Participants included Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, the Republic of Moldova, Romania, the Russian Federation, Turkey and Ukraine. Poland has recently been granted observer status.

Early in 1993, Armenia, Belarus, Kazakhstan, Kyrghyzstan, the Russian Federation, Tajikistan and Uzbekistan signed a charter calling for greater economic and political integration of the Commonwealth of Independent States. Included in what was set forth in the agreement was the future establishment of an economic coordination committee and an inter-State bank. The latter could provide for a badly needed clearing system and might coordinate credit and monetary policy among those republics that continued to use the rouble.

The North American Free Trade Agreement

In December 1992, a draft accord was signed between Canada, Mexico and the United States to create the North American Free Trade Agreement (NAFTA).

The proposed pact contains an extensive number of provisions, hammered out in the first instance over 14 months of negotiations. Overall, tariffs on nearly 10,000 products are to be eliminated over 15 years, allowing for the freer movement of goods between the three economies. More specifically, duties on all farm products will be phased out—some rapidly, and some over the course of 15 years. Clothing and textiles have been singled out for exemption, with garments to qualify for duty-free treatment only if the yarn is made, and the cloth woven, and all cutting and sewing are done in North America. As regards financial services, the limits on American and Canadian ownership of Mexican banks, securities firms and insurance companies will be phased out, with all restrictions removed by 1 January 2000. As regards the free movement of people, the accord will allow most professionals from all three countries to work anywhere in North America with greater ease than is currently the case, though large-scale immigration from Mexico will be barred.

A large number of studies on potential gains and losses in the wake of the accord have often led to different conclusions. For example, based on the fact that the pact will eliminate a number of agricultural taxes, some studies estimated that there might be savings for consumers. Other analyses, however, maintained that food prices would be higher since much of the agreement carves out special deals for powerful industries, with consumer interests regarded as only secondary.[35]

Some of the most intense debate naturally involves the potential impact of the agreement on employment. Large differentials in blue-collar wages between Mexico and the United States might bring about relocation of labour-intensive industries. Twenty studies reviewed by the United States Department of Labor anticipated that job losses would result from the pact, with one assessment suggesting that the pact might cost 150,000 American jobs over 10 years. However, a study undertaken by the International Trade Commission provided little ammunition for the pact's critics. It estimated that employment would eventually drop by up to 5 per cent in the automotive and apparel industries and by up to 15 per cent in the major household appliance, glass and ceramics industries; but, compared with employment forecasted in the absence of the pact, total employment with the pact would remain unchanged in the United States, and rise by up to six tenths of a percentage point in Canada, and by up to 6.6 per cent in Mexico. The American motor car parts, computer, industrial machinery and textile industries would gain jobs. One major consideration, however, is the permanence of these jobs. A major study

which, using 1990 as a base, projected a net gain of about 175,000 jobs in the United States by 1995, none the less concluded that any such net increase in jobs would evaporate after 15-20 years.[36]

The Agreement faces a host of current political problems. It still has to be approved by the United States House of Representatives where it is facing growing hurdles. Before the Agreement can come into effect, two complementary agreements on labour and environment are to be negotiated. On the other hand, a number of activist organizations—representing, for example, labour, environmentalists, consumers and farmers—remain opposed to the Agreement. With other matters considered more urgent, the undertaking is receiving lower priority from the new American Administration than from its predecessor.

Latin America and the Caribbean

A number of regional integration initiatives are under way in Latin America and the Caribbean, partly as a result of the wave of trade liberalization that the area has experienced in recent years and partly in response to the NAFTA accord involving countries to the north.[37]

Some of these initiatives are strictly bilateral. For example, in April 1992 Chile signed a free trade agreement with Venezuela, already its third largest trade partner in Latin America.

Argentina and Chile have been reducing obstacles to their bilateral trade, and their cross-border trade increased to over $1 billion last year. Bolivia and Mexico agreed to liberalize 60 per cent of their mutual trade in 1993, and the remaining 40 per cent by 1997. Mexico in turn signed a free trade treaty with Chile in 1991, which called for the phasing out of all bilateral trade barriers by 1998, and triggered an 80 per cent increase in Chilean trade with Mexico in 1992. Peru signed bilateral agreements with Bolivia and Venezuela eliminating tariffs and restrictions on imports originating in these countries.

Beyond this new net of bilateral agreements, subregional schemes are being implemented. The Southern Cone Common Market (MERCOSUR) has brought a rapid increase of trade between its members, Argentina, Brazil, Paraguay and Uruguay. By the beginning of 1995, when the intended customs union is to come into effect, MERCOSUR will have 200 million consumers and a gross domestic product exceeding $500 billion. Its member countries today account for 45 per cent of Latin America's population, 50 per cent of its gross domestic product and 30 per cent of its external trade. Though intraregional trade (as measured by total exports to member States) still represents only about 12 per cent of total trade in MERCOSUR countries, it is expanding rapidly. After having risen by 24 per cent in 1991, intraregional trade increased by 35 per cent in the first three quarters of 1992 over figure for the same period of the previous year.[38]

The potential for growth in intraregional trade is significant, in view of the complementarities between the two major MERCOSUR members, Argentina and Brazil, and the still-limited size of their exchange. However, differences in macroeconomic policy and exchange rate policy and in particular Brazil's persistent high inflation, constrain the integration process.

The Andean Group, comprising Bolivia, Colombia, Ecuador, Peru and Venezuela, is experiencing some sense of revival after a decade of stagnation in the 1980s. Despite the temporary withdrawal of Peru from the Group, the other members agreed in October 1992 to create a free trade area, which Venezuela joined in January 1993. By the end of 1993, and pointing to a new general liberalization effort, a new common external tariff, in the form of four bands ranging from 5-20 per cent depending on the product and averaging about 10 per cent, should come into effect. Already over the last three years, these nations had independently cut their average external import tariff by two thirds, from 42 to 13.6 per cent. Trade among Group members, as measured by their exports, rose, by 37 per cent in 1991 and an estimated 18 per cent in 1992, to a record over $2 billion, but still accounted for less than 7 per cent of their total exports. Over a third of the trade within the Andean Group is accounted for by trade between Colombia and Venezuela, which created a customs union in January 1992.

In Central America, the gradual spreading of peace and democracy has been the main factor in the reactivation of the integration process by the members of the Central American Common Market (CACM).[39] El Salvador, Guatemala and Honduras abolished all trade duties in March 1992 and intend to form a common market by 1995. In addition, in 1992, the five CACM members signed a framework agreement to create a free trade area with Mexico by the end of 1996 and with Colombia and Venezuela by the end of the decade. The short-term potential for expansion in intra-CACM trade is limited, however, by the similarity of many of its members' exports, namely largely traditional agricultural commodities. At the same time, CACM countries fear that with respect to their trade with the United States, Central America's main trading partner, they could be displaced by Mexico as the latter acquires preferential access to the United States through NAFTA.

The Caribbean Community (CARICOM), founded in 1973, is composed of 13 English-speaking countries[40] representing a population of 5.5 million. Its stated intention is to create a common market and a monetary union. The region already has a functioning partial monetary union. The Eastern Caribbean Dollar, one of the area's stronger currencies, is used in the seven-nation Organization of Eastern Caribbean States, a subgroup of CARICOM. However, intraregional trade is limited to around 7 per cent of total trade, while the United States is the dominant trading partner. After several delays in the implementation of the agreement, a compromise agreement was reached in October 1992 over a phased reduction of tariffs.

Economic integration in Asia: an emerging bloc?

Economic growth in Asia, particularly in the Pacific rim, has been the highest in the world. It has pushed most countries of the region to higher levels of economic development, a rise in per capita incomes, a decline in poverty rates, and improvements in many other social indicators. Following the lead of Japan, the Asian newly industrialized economies (NIEs)[41] grew at an average rate of almost 9 per cent per annum from 1971 to 1990. Three of the four resource-rich economies of the Association of South-East Asian Nations (ASEAN)[42] also experienced strong growth over these decades. In fact, Thailand and Malaysia, which rotated places at the top of the global growth ladder, now constitute, along with Indonesia, the second generation of successful exporters of manufactures.

These countries have relied on greater exploitation of the internatioal market-place and inflows of foreign direct investment (FDI) with its attendant increases in capital flows, technology transfer, and trade, and in some cases a considerable role for the State in the economy (accompanied, however, by a vibrant private sector).

Outward-oriented policies result per force in a greater dependence on the international market-place. Over the past decade, merchandise exports grew 11 per cent per annum in Japan, 13-18 per cent per annum in the NIEs, 6-15 per cent per annum in ASEAN, and 15 per cent per annum in China. That these growth rates were invariably higher than corresponding income growth rates led to an increasing openness or internationalization of the economies concerned. Moreover, the composition of the exports involved radical transformation; Japan became a premier exporter of sophisticated manufactures; the NIEs moved upscale from basic manufactured exports to increasingly physical-capital-intensive and human-capital-intensive exports; and ASEAN moved from the exporting of mainly natural resources to that of basic manufactures. In sum, structural change in the Asia-Pacific region has been reflected in the region's export structure, which seems to present a picture akin to a pattern of flying geese, with Japan out front, followed by the NIEs, ASEAN and China.

As the Asia-Pacific group of countries becomes more dependent on the external world, it will become more vulnerable to the vagaries of the international economy. The region's stakes in an open international market-place are now high, and this explains why Asian countries have been far more active in promoting liberalization at the current Uruguay Round of multilateral trade negotiations than at other GATT rounds of such negotiations. Rising unilateralism and protectionism in developed countries, particularly non-tariff protection of basic industries in which the region has a comparative advantage, threaten the global markets on which the Asian countries now rely.

Moreover, the trend towards regionalism in industrialized countries, such as those of North America and Europe, and the resulting trade and investment diversion, pose a threat to the competitive stance of non-partner countries such as those in Asia, with or without actual "fortress-building". Studies[43] assessing the effects of economic integration in developed countries on the Asia-Pacific region suggest that trade diversion exists in a number of industries of critical interest, but it is estimated that strong positive growth effects, derived through efficient cost reduction and other dynamic effects would stimulate imports into the integrating region to a degree that might more than compensate for the negative effects of trade diversion. Hence, it is generally estimated that net effects will be small and positive for the region, but with certain key industries being negatively affected.

Nevertheless, the dynamic benefits of economic integration are difficult to gauge, and these positive growth effects might be minimal if the developed economies turn out to be as sluggish as they have been in the early 1990s.[44] In any event, possible trade and investment diversion, inherent in the regional integration process, and the threat of a split of the global market-place into economic spheres of influence from which they are excluded, are of great concern to the countries of the Asia-Pacific region. While a successful Uruguay Round would mitigate some of the potential deleterious effects of this trend, the outcome is in question. In the meantime, the Asia-Pacific region is evaluating its options.

Currently, there exists no region-wide preferential

of this trend, the outcome is in question. In the meantime, the Asia-Pacific region is evaluating its options.

Currently, there exists no region-wide preferential trading arrangement in Asia.[45] Yet, informal—that is, market-driven—regionalization has been increasing at a rapid pace in the Pacific rim owing to market-opening measures, booming income growth and large investment flows from Japan (in the mid-to-late 1980s) and the NIEs (late 1980s and early 1990s). By 1991, intra-Asia trade as a share of total exports had grown to two thirds for China, over one half for ASEAN, and over two fifths for the NIEs. Japan's reliance on the United States market for its exports is often cited; however, in 1991, Japan's exports to ASEAN and the NIEs actually exceeded its exports to the United States. Nevertheless, the United States continues to be the single most important export market for East Asia, particularly for manufactures.

Given the market-driven increase in regional economic integration, it might appear that a formal agreement would be superfluous, especially in the light of economic disparities, widely divergent cultural, social and legal traditions, and the legacy of past conflict that might prevent the emergence of an obvious leader for the group. Nevertheless, two important considerations are pushing Asian countries to consider a regional initiative: potential exclusionism and the inherent benefits of economic integration.

First, exclusionism refers to the possibility of the existence of trade "fortresses" in the rest of the world that might shut out Asia. In this scenario, an Asian trade bloc would only be erected in response to the closure of foreign markets. Conceivably, this could be a result of higher external barriers as part of the integration process itself (the fortress phenomenon) or as a result of unilateral increases in protection. Hence, even though the North American Free Trade Agreement envisions no common external tariff or trade policy, dramatic increases in protection in the United States—through, say, a more aggressive "ultra-Super section 301 hit list" (which is advocated by some policy makers)—could be categorized as constituting an exclusionist policy.

Second, economic integration in the Pacific rim could be used as a commercial policy initiative that complements multilateral and unilateral liberalization policies. Preferential trading arrangements are by their very nature a second best solution and hence inferior to the best one, namely, generalized free trade; but because the best solution is at present unattainable, the proper comparison is between the status quo and a preferential grouping. In this sense, if, say, a Pacific rim free trade area were to be negotiated and the arrangements devoted to continued unilateral liberalization, the grouping would benefit through static trade creation and the dynamic benefits of regional free trade, while internal trade diversion would be negated by the external trade creation resulting from the liberalization of external barriers to trade.

While no region-wide preferential trading arrangement exists in Asia, there are several initiatives at the subregional level. While ASEAN began as a preferential trading area through agreements made in the Bangkok Declaration of the Ministerial Meeting of the Asian Group (1967), the first explicit preferential trade and investment programmes were not established until the first two summit meetings of Heads of State held in the mid-1970s. However, even with those programmes, margins of preference were kept low and the offered lists of commodities were usually ineffective.[46] Industrial programmes were not sufficiently geared to the private sector to attain the founders' goals of resource pooling and market sharing. Although substantial improvements in trade and investment programmes were made at the third summit meeting in December 1987, the hoped-for increase in trade and investment did not materialize adequately. In fact, intraregional trade flows as a share of total trade continue to be less than 5 per cent for ASEAN.

Recognizing the need to go forward in economic integration, ASEAN leaders began in December 1990 to discuss bold and innovative approaches to intraregional economic cooperation. For the first time, the circumstances appeared right, as all ASEAN countries were undertaking the same outward-oriented development strategies, making the resistance to liberalization less of an impediment to integration. Moreover, developments at the international level (for example, regionalism and perceptions of increased protectionism) and at the regional level (for example, perception of the Asia-Pacific Economic Cooperation Conference (APEC) as a competing organization that could dilute the strength of ASEAN) suggested that ASEAN was at a watershed.

The result was a declaration, at the fourth summit meeting, held in January 1992, on the creation of an ASEAN free trade area (AFTA), which would begin as a free trade area in manufactures over a 15-year period and also push for liberalization of non-border barriers to trade. This agreement was historic in that for the first time a strong will on the part of ASEAN leaders to increase real, comprehensive economic integration in ASEAN was in evidence. In January 1993, product lists

number of items were disappointing. Yet, this is only the beginning and the process is expected to speed up.

Several ASEAN countries have in recent years conceived, in addition to AFTA, the idea of creating plurilateral cooperative accords, known as growth triangles. The only existing growth triangle that has been formed by agreement is composed of the southern Malaysian region of Johore, Singapore, and Indonesia's Riau islands. This accord promotes trade and investment by exploiting economic complementarities between Singapore and the two other provinces through, *inter alia*, trade cooperation and infrastructural development (for example, of the Batam and Bintan industrial estates in the Riau islands).[47] This type of arrangement has been lauded as a private sector-based form of economic cooperation that works from the bottom up. The fourth ASEAN summit meeting endorsed this type of arrangement, and several other triangles are now being discussed.

In December 1990, Prime Minister Mahathir of Malaysia called for the creation of an East Asian Economic Grouping (EAEG), to include all countries in East and South-East Asia. As presented, EAEG was ostensibly to be a formal preferential trading area in reaction to exclusionism in the West. The concept has evolved and the group that it defines now receives general—albeit ambivalent—support from its proposed members as one that will be consistent with GATT, as well as parallel to the Asia Pacific Economic Cooperation Conference (APEC). APEC is an official consultative forum established in 1989, whose members include East Asian countries as well as Australia and New Zealand, Canada and the United States. Although at the fourth ASEAN summit meeting, ASEAN Heads of State decided to transform EAEG into a milder East Asian Economic Caucus (EAEC), the core idea of such a regional grouping continues to be discussed.

While the prospects for a scenario of extreme exclusionism are remote for Asia, the economic merits of a regional bloc are being explored. In fact, one study estimates that an economic bloc that included ASEAN, the NIEs and Japan would be an efficient one, in that the pattern of trade would be only slightly distorted and hence the negative efficiency effects of trade diversion would be minimal.[48] Moreover, such a grouping could lead to regional and global efficiency gains through trade creation and positive dynamic effects.

However, it is also possible that such a grouping could go beyond the confines of East Asia. After all, North America continues to be a key market for all Pacific rim countries, and Australia and New Zealand are now directing their international initiatives to Asia. APEC is intended to serve as a region-wide organization that could be moulded into much more. While directions for APEC's future have not yet been clearly set forth, some analysts point out that it could serve as an Asian Organisation for Economic Co-operation and Development (OECD). Also, the possibility of APEC's engaging in (non-binding) common investment codes, some types of microeconomic policy harmonization, and macroeconomic coordination, and of its even serving as an augmented GATT in which the implementation of GATT agreements would be expedited, is being openly discussed among the region's academics and business people, if not among its policy makers. These types of reform would not be discriminatory, and would serve to strengthen the multilateral trading system. Hence, open regionalism could characterize the direction of APEC in the future.[49]

Will there be an Asian bloc? The potential for an Asia-Pacific region-wide grouping based on the concept of open regionalism seems to be increasing. While the major concern of most Asian countries at present is to strengthen multilateralism through a successful Uruguay Round, bloc formation could be forthcoming as a second-best solution. And since most Asia-Pacific economies have chosen outward-looking rather than inward-looking policies in their economic development strategies with great success, the prospect of a "fortress Asia" is extremely remote.

Africa

While there is enthusiasm for integration in Africa, thus far it has not proven very successful: intra-African trade still accounts for less than 5 per cent of the value of the region's trade. Nevertheless, African policy makers have renewed their commitments to strategies and measures to accelerate economic integration.[50] Such measures include the harmonization of production and physical interconnecting infrastructures among neighbouring States; market integration through trade liberalization measures; an efficient payments settlement system; and currency convertibility.

In August 1992, the summit meeting of the Southern African Development Coordination Conference (SADCC) agreed to establish the Southern African Development Community (SADC). When the Treaty has been ratified by two-thirds of the members, the latter organization will replace SADCC. The objectives of SADC include achieving development and economic growth, promoting peace and security, and ensuring

complementarity of strategies and programmes. SADC intends to progressively eliminate obstacles to the free movement of goods, services, capital and labour. In this it follows the intent of the Organization of African Unity which regards strengthened regional economic integration as comprising the building blocks for the African Economic Community.

Trading blocs and the multilateral trading system

Some proponents of trade blocs view them as building blocks of an open international trading system. However, the great many protectionist and discriminatory practices that have often been associated with the formation and functioning of trading blocs cast doubt on this view. For example, the EC Common Agricultural Policy, discriminations by blocs against selected groups of non-member countries and the application of complex rules of origin in EC and the emerging regional trading arrangements greatly erode faith in trade blocs' becoming building blocks of the multilateral trading system. Indeed, blocs may provide greater incentives for the application of devices of trade management like anti-dumping measures and voluntary export restraints. Nor need there be great incentive on the part of member countries to expand their bloc by admitting new members who are not already large trade partners.[51] In the past the EC integration process was accompanied by further steps towards liberalization in many areas and widened by the inclusion of new members; the above considerations, on the other hand, are growing cause for concern.

Nevertheless, trading blocs had become a fact of life by the early 1990s and questioning their wisdom may not be fruitful at this stage. Moreover, there is no simple way of judging the impact of actual trade blocs on trade creation and trade diversion, particularly when their dynamic effects on the income of bloc members are taken into account. Neither is there an unambiguous motivation behind the formation of blocs.

A multilateral trading system in which every country trades freely with every other country remains the best way to increase world welfare. To ensure that trade blocs do not ultimately fragment the multilateral trading system, it is necessary to strengthen GATT rules, especially those relating to transparency and non-discrimination, and the commitment to abide by these rules. Trade blocs are not necessarily inconsistent with GATT; but the conditions permitting such blocs, as set forth in the rules of GATT, have never been fully complied with by any regional trading arrangement. The rules themselves need to be clarified and reinforced in the context of changed circumstances.

NOTES

[1]See for example, *World Economic Survey, 1986* (United Nations publication Sales No. E 86 II.C.1), chap. III.

[2]Nevertheless, the Clinton Administration has emphasized the need for an open trading system and a successful conclusion of the Uruguay Round.

[3]Trade among the member countries of the European Community (EC) has always been part of international trade. As of 1 January 1993, however, the Community became a single market for goods and services. If intra-EC trade were regarded as domestic instead of international trade, the share of the developed market economies in world trade would drop to about 60 per cent and the total value of world trade in 1992 would fall some $500 billion, according to estimates of the secretariat of the General Agreement on Tariffs and Trade (see GATT press release 1570, 22 March 1993, p. 16).

[4]United States Department of Commerce, *Survey of Current Business*, March 1993.

[5]Canada's export volume grew by a strong 8 per cent, much of it directed to the United States, after three years of export growth averaging only 2.4 per cent annually.

[6]For additional details, see *OECD Economic Outlook*, No. 52 (December 1992), pp. 50-55.

[7]Although quantitatively less important in the overall picture, imports of luxury goods also declined sharply, notably gold (down 22 per cent by value) and paintings (down 62 per cent), the decline reflecting the bursting of the financial bubble, discussed in chap. II.

[8]Republic of France, Institut national de la statistique et des études économiques (INSEE), *Une Année en demi-teinte: rapport sur les comptes de la nation, 1991* (Paris, INSEE, 1992), p. 130.

[9]OECD Economic Outlook ..., p. 54.

[10]*OECD Economic Surveys, Italy, 1992-93* (Paris, OECD, December 1992), p. 23.

[11]The transition in trade relations has been monitored in previous *World Economic Surveys* (see the 1992 *Survey* (United Nations publication, Sales No. E.92 II C.1 and corrigenda), pp. 52-55) and the 1991 *Survey* (United Nations publication, Sales No. E.91 II C.1), pp. 54-57); and in more detail in the *Economic Bulletins for Europe* (see No. 44 (1992), pp. 47-92, and No. 43 (1991), pp. 51-86).

[12]Data on trade of the transition economies in 1992 are of extremely uneven quality and, in the case of Poland and several successor States of the former Soviet Union, highly incomplete (see introduction to statistical annex). Estimates have been made by the United Nations Secretariat in consultation with the Economic Commission for Europe (ECE), as necessary. Al-

Economic Commission for Europe (ECE), as necessary. Although those estimates are believed to be the best that can be produced at the present time, they are of uncertain reliability.

[13]Efforts at regional integration in this group of countries are discussed in greater detail later in the present chapter.

[14]Exports to other republics in the former USSR were more than one third of net material product (NMP) in all former republics except Kazakhstan (28 per cent) and Russia (18 per cent); for Belarus, Moldova and the Baltic republics the figure exceeded 60 per cent of NMP (see *World Economic Survey, 1992*, pp. 28-29).

[15]"Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations" (MTN.TNC/W/FA).

[16]For further details, see "Developments and issues in the Uruguay Round of particular concern to developing countries", note by the UNCTAD secretariat, 15 March 1993 (TD/B/39(2)/CRP.1).

[17]Ibid.

[18]For example, between 1980 and 1986, a total of 1,272 antidumping actions were initiated, representing a significant increase over previous periods. Between 1975 and 1979, the United States initiated 97 such actions, while between 1980 and 1986 the corresponding figure was 350See Julio Nogues, "Less-than-fair trade cases against Latin American countries", *The World Economy*, vol. 14, No. 4 (December 1991), pp. 475-491.

[19]"Fast-track" negotiating authority limits the Congress to a simple yes or no vote (without the making of any amendments) on trade bills submitted to it by the President).

[20]For a lucid discussion on the new trade theory, see Paul Krugman, "Does the new trade theory require a new trade policy?", *The World Economy*, vol. 15, No. 4 (July 1992).

[21]Ibid

[22]Ibid.

[23]For further details, see Thomas O. Bayard and Kimberly A. Elliot, "Aggressive unilateralism and section 301: market opening or market closing?", *The World Economy*, vol. 15, No. 6 (November 1992).

[24]See Jagdish Bhagwati and Hugh Patrick, eds., *Aggressive Unilateralism: America's 301 Trade Policy and the World Trading System* (Ann Arbor, Michigan, University of Michigan Press, 1990).

[25]For further details and analysis, see Bayard and Elliot, loc. cit.

[26]One study of the section 301 "crowbar" approach concludes that this method generally fails, with markets opening because of domestic rather than external conditions. Thus, from 1975 to March 1990, only 13 of 79 section 301 cases that were filed led to market openings. In many instances, countries responded by further closing their markets. See Jim Powell, "Why trade retaliation closes markets and impoverishes people", *Policy Analysis* (Washington, D.C., Cato Institute, 30 November 1990).

[27]Thus Jack Valenti, head of the Motion Picture Association of America, testifying at the Hearings on Intellectual Property Rights: Protection Under Special 301, Hearing before the Subcommittee on International Trade of the Committee on Finance of the United States Senate, 6 March 1992, stated that "there is one American product which is supreme on every continent in the world. What American product, creative or manufactured, other than passenger aircraft, captures more than 40 per cent of the Japanese marketplace? ... Of course, it is the American movie and TV program. American-created movies and programs return to this country over $3.5 billion in SURPLUS balance of trade ... In the American movie we have a world winner. But we must protect it from thievery. We must preserve its ability to move unhobbled around the world".

[28]Chrysler, Ford and General Motors.

[29]As quoted in *The Financial Times*, 23 February 1993.

[30]Wolfgang Piller, as quoted in *The Financial Times*, 5 March 1993.

[31]In a preferential trading area such as the Association of South-East Asian Nations (ASEAN), which is the loosest form of association, restrictions on trade within the area are reduced partially. Most frequently, only trade in manufactures is affected. A free trade area, such as the European Free Trade Association (EFTA), is in turn created when member States completely dismantle all tariff and non-tariff barriers to their mutual trade. However, members are free to retain restrictions on their trade with the rest of the world. A customs union represents a yet tighter degree of association. Such a union is characterized by the complete elimination of restrictions on mutual trade, as well as the imposition of a common external tariff. A customs union becomes a common market when complete factor mobility is allowed. The European Community, a common market for several years now, undertook as of January 1993 to transform itself into an economic union.

[32]For a comprehensive discussion of the major issues of trading blocs see Jagdish Bhagwati, "Regionalism versus multilateralism", *The World Economy*, vol. 15, September 1992.

[33]For further details, see Jaime de Melo and Arvind Panagariya, *The New Regionalism in Trade Policy*, World Bank—Centre for Economic Policy Research, December 1992.

[34]For further details, see Alan Winters, *The Economic Effects of EC Integration*, London (Centre for Economic Policy Research, 1993). See also Harry Flam, "Product markets and 1992: full integration, large gains?", *Journal of Economic Perspectives*, vol. 6, No. 4 (fall 1992).

[35]Dale Hathaway, Director, National Center for Food and Agricultural Policy, Washington, D.C., cited in *The Wall Street Journal*, 19 August 1992.

[36]Gary Hufbauer and Jeffrey Schott, *NAFTA. An Assessment* (Washington, D.C., Institute for International Economics, 1993).

[37]For a discussion of integration, schemes in Latin America and the Caribbean, see Comisión Económica para América Latina y el Caribe, "Los nuevos proyectos de integración en América Latina y en el Caribe y la dinámica de la inversión" (LC/R.1145), 20 May 1992); and Sylvia Saborio and others, *The Premise and the Promise: Free Trade in the Americas*, Washington, D.C. (Overseas Development Council, 1992).

[38]Latest data available from Asociación Latinoamericana de Integración (ALADI), 18 January 1993.

[39]CACM was agreed in 1960 by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua but collapsed in the 1980s with war and the debt crisis. The share of intraregional exports over total Central American exports fell from 20 per cent in 1982 to 14 per cent in 1990, and amounted to only 15 per cent in 1991.

[40]Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago. The Bahamas is a member of the Community but not of the future common market.

[41]NIEs: Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

[42]Indonesia, Malaysia, the Philippines and Thailand; countries with full membership in ASEAN also include Singapore and Brunei Darussalam.

[43]See, for example, Mordechai E. Kreinin and Michael G. Plummer, "Effects of economic integration in industrial countries on ASEAN and the Asian NIEs, *World Development*, September 1992; and Vierbiest and Tan, *The Impact of EC 1992 on Developing Asia*, Asian Development Bank Working Paper, 1991.

[44]The Cecchini Report commissioned by EC to assess the benefits of integration gives extensive estimates of the dynamic effects of economic integration due to the EC Single Market, and concludes that EC economic growth should increase by a one-time 2.5-6 per cent. These results are frequently used in general equilibrium models to assess the effects of the EC Single Market on developing regions. However, there is reason to believe that the estimates are too high, particularly since economic growth in EC in the early 1990s has been so sluggish. Moreover, *ex post facto* estimates of the effect of the Single Market on East Asia have revealed net trade diversion, rather than strong net trade creation as suggested by the Cecchini Report (Michael G. Plummer, "Implications for EC 1992 for the Asia-Pacific rim" in "*Impact of EC integration on the Asian Industrializing Region*, forthcoming).

[45]Japan does grant preferential treatment to developing-country exports under its Generalized System of Preferences (GSP) programme, but this is a non-reciprocal arrangement.

[46]Preferential trade in snowploughs between those countries bordering the equator is one famous example.

[47]In fact, triangle is a misnomer, as there are really only two bilateral pacts with Singapore.

[48]Mordechai E. Kreinin and Michael G. Plummer, *Regional Integration and Economic Transformation in East Asia*, paper presented at the International Trade and Finance Association meetings, Anaheim, California, January 1993.

[49]Open regionalism is a concept that has also been embraced by APEC's unofficial sister organizations in the region. Established in 1980 with a tripartite membership of business people, academics, and government officials working in a private capacity, the Pacific Economic Cooperation Conference (PECC) is a broad-based regional organization including members from throughout the Pacific rim, including some Latin American countries. At its plenary meeting held in September 1992 in San Francisco, PECC issued a statement, which has come to be known as the San Francisco Declaration, actively supporting open regionalism. As research from PECC working groups is commonly used in APEC working groups and hence serves as input into the APEC process, the idea of open regionalism will be a topic of discussion for some time to come.

[50]Outlined in the Treaty Establishing the African Economic Community that was adopted by African Heads of State in 1991.

[51]Jagdish Bhagwati calls this "Our market is large enough syndrome". See "Regionalism versus multilateralism", *The World Economy*, No. 15, September 1992.

IV

The international transfer of financial resources

If the pattern of international transfers of financial resources in the past two years turns out to be representative of the 1990s, then some of the policy concerns in international forums in this decade will be very different from those of the 1980s. A central issue in the 1980s was the large net financial transfer from developing to developed countries that was associated with the external debt crisis of the developing countries. In 1991 and 1992, however, the developing countries as a whole were not only net recipients of financial resource transfers for the first time since the debt crisis began in the early 1980s, but the inflows were large. For many developing countries, particularly middle-income countries, the debt of the 1980s is no longer impeding their access to international credit, although for many others the external constraint on reactivating development binds as tightly as ever.

A second defining feature of international resource transfers in the 1980s was the very large absorption of international finance by the United States, the aggregate expenditure of which far exceeded the income and output produced by its domestic economy. The net transfer of financial resources to the United States grew again in 1992, but even so it remained less than a third of its peak in the 1980s. The outlook is for a further widening of the net transfer in 1993 and 1994, as the United States economic recovery draws in external resources. But the increase is expected to be moderate and easily financed by other industrialized countries and the reduction of the net transfer in dollar terms should resume in the second half of the decade, especially as the medium-term programme to reduce the United States fiscal deficit begins to bear fruit.

When the 1990s began, a new development in the global pattern of net transfers emerged. Radical political and economic changes occurred first in eastern Europe and then in the Soviet Union, and the international community was intent on supporting them. When the German Democratic Republic was reincorporated into the Federal Republic of Germany, a truly large-scale transfer of resources began from "west" to "east", albeit within the borders of a single country. From the beginning it was clear that this was a special case, but large-scale transfers to other "eastern" countries seemed possible. Today this seems less likely. Thus far in the 1990s, the economies in transition in eastern Europe appear to have continued to make a small net transfer to the rest of the world. Large-scale aid commitments have been made to them and the successor States of the USSR and there have been considerable—if smaller—gross flows, but the net absorption of resources during the early stages of transition now appears to have been quite limited.

One additional concern in the realm of international finance is that the potential volatility of the world's finances seems to have increased again, owing to the continuing technological revolution in communications, the greater speed with which the ownership of assets can be transferred internationally, the increasing variety and depth of markets around the globe and the increasing relaxation of policy restrictions on international financial movements. Vast sums are routinely moved into and out of countries and currencies, as corporate financial departments as well as financial institutions actively manage their portfolios of financial assets and liabilities. The players on this field—who come from developed, developing and transition economies—are well informed, quick to act, and have significant resources at their disposal. Thus, with less of a lag than ever before, the international stability of currencies depends upon credible policy-making, whether it concerns the Italian lira, the Mexican peso or the Russian rouble.

This potential volatility of financial flows is one reason that the international pattern of resource transfers warrants continuing international scrutiny. In particular, few observers regard the new financial inflows to several middle-income developing countries as fully appropriate or sustainable. The flows came from industrialized countries that have slipped into economic recession and unusually slow recovery. If their economies should strengthen markedly, it is feared that some developing

countries would have difficulty competing for financial resources. Certainly, the largest single source of the resource transfers from industrialized countries, Japan, is under considerable international pressure to reduce its trade surplus, which after all generates the financial resources that make up its transfer.

Moreover, there has been some concern that the external financial requirements of the transition economies in eastern Europe and the successor States of the Soviet Union might be met at the expense of the needs of the developing countries. If the net absorption of resources by the transition economies has not risen significantly, this was mainly because of private flows. Official commitments for transition economies have been large, although mostly non-concessional. Budgets for official development assistance have been under severe pressure in several countries. Indeed, tight fiscal constraints in donor countries seriously limit the prospects for official assistance for development and transition, let alone for meeting new international commitments for an environmentally sustainable world economy. Thus, with the potential volatility of private flows and the constraints on official ones, the international community will have to continue to focus on the generation of financial resources and their international transfer.[1]

THE TRANSFER OF RESOURCES IN 1992

The developed market economies transferred over $50 billion to other countries in 1992, $17 billion more than in 1991, according to preliminary estimates (see table A.26).[2] The developing countries received over $50 billion in transfers in 1992 from other countries, which marked the second year of very large aggregate net inflows (see table IV.1).[3] Very little can be said about the net financial transfer of the transition economies in 1992, but a rough estimate is that the eastern European countries together made a net transfer in hard currency to other countries on the order of $1 billion (see figure IV.7 below).

Receiving financial resources from abroad on a net basis is usually thought of as a positive development, although it also means that the country has a trade deficit, which is thought of negatively if it becomes unsustainably large. That is, when a country receives a net transfer from abroad, the payments for imports of merchandise and a broad range of services exceed the earnings from exports. In such a case, it means total domestic purchases in the country are larger than the value of production. In particular, this allows investment to exceed what could be financed out of domestic savings. By the same token, when a country makes a net transfer abroad, conventionally denoted a "negative transfer" or net outflow of resources, it means that not all its earnings from trade find their way into the purchase of imports.[4]

LARGE TRANSFERS TO DEVELOPING COUNTRIES, BUT NOT AFRICA

For most developing countries, the presumption is that the net transfer of resources should be positive, a net inflow, because foreign resources would then help to finance expenditures beyond those that could be undertaken on the basis of domestic income alone. This is precisely what occurred in 1991 and 1992 (see table IV.1).

In 1991, however, the first year of large-scale net inflows to the developing countries since 1982, all but one eighth of the net transfer went to West Asia, particularly Kuwait and Saudi Arabia, where expenditures soared to pay for the Gulf war and the reconstruction of Kuwait after the war ended. Yet this net transfer was different only in size from the net transfers received by the region as a whole over the past 10 years. Most of the transfers went to the major oil exporters, considerable amounts being consumed in the war between the Islamic Republic of Iran and Iraq.

The major oil exporters in this region also make up most of a grouping of countries that has been denoted for many years in the *World Economic Survey* as the "surplus energy exporters". They were given the name because in the 1970s these economies had supplied large-scale resources on a net basis to the rest of the world, based on the strength of their oil earnings. This was reversed, as noted above, in the 1980s. Another grouping was called the "deficit energy exporters". Those countries—including Algeria, Mexico, Nigeria and Venezuela, among others—had been heavy users of international finance in the 1970s. Despite their substantial oil sectors, the demand for domestic investment and other expenditures was so high that they drew in foreign capital on a net basis. In the difficult years of the 1980s, international oil prices fell, the debt crisis erupted and foreign capital inflows dried up, while the debt outstanding had to be serviced. The countries then had to bring imports below exports so as to produce a surplus of foreign exchange to transfer to

Table IV.1.
Net transfer of financial resources to groups of developing countries, 1982-1992[a]
Billions of dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
All developing countries	34.3	18.3	-22.9	-10.1	18.7	-27.9	-15.0	-24.5	-24.7	47.3	51.9
of which:											
Capital-importing countries[c]	26.9	-7.0	-29.3	-17.2	-4.2	-33.8	-31.8	-29.1	-22.4	4.7	20.7
Totals by region											
Africa	16.2	9.7	3.8	-2.6	7.6	2.1	7.0	4.8	-5.8	0.9	-1.6
of which:											
sub-Saharan Africa[d]	8.0	5.9	2.8	3.1	6.1	6.1	7.7	6.4	7.8	11.5	10.0
Latin America and the Caribbean	3.4	-25.7	-34.9	-30.2	-11.4	-17.9	-21.6	-28.9	-26.0	-7.2	6.9
West Asia	2.3	27.1	12.9	20.2	36.7	21.8	25.0	15.0	3.8	41.6	27.2
Other Asia	8.6	5.7	-4.6	4.1	-12.3	-30.8	-18.4	-10.4	-5.1	7.3	12.4
Mediterranean	3.8	1.4	-0.1	-1.6	-2.0	-3.3	-7.0	-4.9	8.3	4.7	7.0
Totals by trade category											
Energy exporters	12.0	12.1	-14.5	-7.9	30.3	-4.2	13.0	-5.4	-26.0	28.9	27.1
"Surplus" countries	0.5	22.1	8.6	13.0	32.0	18.1	21.4	15.1	4.3	38.5	22.1
"Deficit" countries	11.5	-10.0	-23.1	-20.9	-1.7	-22.3	-8.4	-20.5	-30.3	-9.6	5.0
Energy importers	22.3	6.2	-8.3	-2.2	-11.6	-23.8	-28.0	-19.1	1.3	18.4	24.9
Four exporters of manufactures[e]	-0.5	-4.6	-9.1	-12.1	-23.8	-31.2	-26.5	-21.9	-11.9	-4.1	-7.6
China	-5.5	-3.3	-0.8	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.5	-11.4
Others	28.3	14.0	1.6	-2.5	5.0	8.0	-5.2	-1.9	24.1	35.1	43.9
Memorandum item											
15 heavily indebted countries[f]	9.4	-23.9	-40.6	-40.5	-22.0	-28.4	-30.9	-37.8	-32.0	-12.8	2.5

Source: UN/DESIPA, based on data of IMF, official national and other sources.

a Expenditure basis (negative of balance of payments on goods, services and private transfers, excluding investment income)
b Preliminary estimate.
c Sample of 93 countries (for more detail, see table A.27).
d Excluding Nigeria
e Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.
f Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and former Yugoslavia.

the foreign creditors. Thus while the "surplus" energy exporters were in deficit in terms of net transfers in the 1980s, the "deficit" debtor countries were in surplus. In 1992 for the first time in a decade, the deficit countries again became net recipients of external resource transfers.

Not all energy exporters, however, have become net recipients of international resource transfers. Algeria, Nigeria and other African oil exporters, in particular, are still making net transfers abroad and Egypt has begun to do so as well, as it reduces its trade deficit as part of its adjustment programme. Indeed, the only geographical region of the developing countries that had a negative transfer in 1992 was Africa. The smaller countries of the sub-Saharan region at least continued to register a modest overall positive transfer of about $10 billion, as had been the case in 1990 and 1991.

The relatively disadvantaged position of Africa was, in fact, worse than is indicated by these calculations in terms of current dollar amounts. Since the economic role of positive net transfers is to allow purchases to exceed income by allowing the dollar value of imports to exceed the earnings from exports, developments in import and export prices matter a great deal. The ratio of export prices to import prices—the terms of trade—fell for most developing country regions in 1992; but for no region did it fall as much as for Africa (see table A.20). In other words, if international prices had not changed, Africa would have been able to purchase an additional $3.5 billion worth of imports with its 1992 merchandise

exports than was in fact the case. A positive net transfer of this amount would have offset the loss. The region's negative transfer only accentuated it.

A large net transfer of resources abroad had been an especially salient issue in Latin America and the Caribbean through most of the 1980s. The swing over the past two years in this region's net transfer is thus especially important. From negative transfers of between $20 billion and $30 billion in the late 1980s, the transfer became a net inflow of $7 billion in 1992 (see table IV.1). In other words, the Latin American region imported $7 billion more in goods and non-factor services than it exported and thus it was able to spend $7 billion more on domestic expenditures than it produced. In 1991, the reverse had been the case: Latin America spent $7 billion less than it produced. In previous years the gap between expenditure and production—the negative net transfer—had been much larger.[5]

The external financial situation in Latin America had actually improved by much more than the net transfer statistics indicate. Instead of net capital inflows on the order of $10 billion a year, as had been the average from 1985 to 1989, net capital inflows began to rise strongly in 1990 and exceeded $50 billion by 1992 (see table A.27). Moreover, with most international interest rates falling since 1990, Latin America's net payments of investment income declined (see table A.25). Thus, considered as the net cash flow of capital and investment income, the net transfer turned from negative to positive in 1991 and totalled $27 billion in 1992.[6] The reason that these transfers financed a net import gap of only $7 billion is that $20 billion were added to official reserves. A similar amount had been added in 1991 and $15 billion in 1990 (see table A.27).

From the perspective of conventional precautionary motives, official reserves might seem to have reached a quite comfortable level by 1992, exceeding 4.5 months of the expenditure on imports of goods and all services for the region as a whole, including interest expense (see table A.28). A common rule-of-thumb is that three-months' coverage of import expenditures is adequate. If that level were to have been maintained in 1992, Latin America could have raised its imports and its domestic expenditure, as on investment, by an additional $31 billion.

Latin American authorities were not, however, excessively cautious. The situation was not an ordinary one. Although some countries have experienced significant new flows of direct and portfolio investment, as will be discussed below, Latin America had a positive net financial transfer of resources in 1992 mainly because of a large surge in net short-term financial inflows. A considerable share of these flows are believed to have been funds taken out of the region during the period of financial instability that culminated in the debt crisis a decade before. Indeed, the net transfer on short-term flows — that is, measured net of interest on short-term debt — had been negative in Latin America for over 10 years. In 1991 it reversed direction and became a net inflow of $24 billion and in 1992 it rose further to $33 billion (see table A.27). Those resources have not gone into new capital formation, at least not directly, and they may leave the region at the same quick pace at which they arrived. The challenge to policy makers in the countries to which these flows have come—especially Argentina and Brazil—is thus to convince the short-term investors to instead make long-term commitments to capital formation in the region. As that occurs, the reserve situation can be modified and yet additional resources released for investment.

For more than a decade, analysts seemed to have been as encouraged by the economic and financial situation in Asia as they were discouraged by the difficulties and set-backs in Africa and Latin America. Economic growth in the vast region of China and South and East Asia and the Pacific has been very strong overall. Savings and investment are also high and considerable attention is given by policy makers to building and maintaining international competitiveness. As a result, productivity advances are strong. Indeed, earnings from foreign trade came to exceed import needs and savings rose above already high levels of domestic investment. In other words, the region made substantial net transfers abroad, this being an important case in which a "negative transfer" by developing countries did not have a negative connotation.

Of course, what was true for the region as a whole did not apply to every country in the region. The economic gains and net transfers in this case were first concentrated in a grouping that has been called the "four dragons" in the east and the "four tigers" in the west (Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China). At its peak in 1987, the total net foreign transfer of these economies exceeded $30 billion. It was used to build up official reserves, repay external debts and invest in other countries, particularly other Asian economies and the United States. By 1990 they were joined by China. Together they made a net transfer of almost $20 billion in 1992, although more of it was accounted for by China than the others, which were

going through or emerging from domestic adjustment processes, as well as coping with the slow growth of major export markets (see chap. II).

In fact, with the smaller transfers abroad by these five economies and with significant international transfers into other countries in Asia and the Pacific, the region as a whole became a net recipient of financial resources in 1991 and 1992. The inflows were spread across a variety of countries, which have been investing larger sums than domestic savings would permit, aimed in particular at relieving infrastructure bottlenecks, as in some countries of South-East Asia, and supporting adjustment-*cum*-liberalization drives, as in India.

Before the end of the 1990s, some of these latter countries may join the other Asian suppliers of resources to the rest of the world. In the short run, however, they are expected to continue to draw on international finance on a net basis as their investment demand is higher than their generally high savings rate. They enjoy access to international capital markets as for the most part they did not build up foreign debt to levels that became insupportable in the 1980s. Their high growth and investment prospects attract the interest of foreign direct and portfolio investors and as long as international markets remain open to their exports, they will be seen as attractive placements for funds.

Indeed, the developing countries as a whole may be expected to continue to absorb net resource transfers in the next few years. The Philippines and several Latin American countries have regained access to private credit markets, interest rates are not expected to rise strongly, and there is no shortage of private finance at the global level, or even of official credit on commercial terms. Official concessional assistance is another situation entirely, although countries that depend heavily on such flows for positive transfers today will probably not be forced into outright negative transfer situations as a result of limitations on the growth of aid.

This does not mean in any event that the overall resource constraint on the economic growth of the developing countries has been removed. A positive net resource transfer means, in effect, that foreign savings supplement domestic savings in financing investment. If the investment level is below what policy makers desire, removing a negative transfer would help raise it. But, the investment level might still be too low and the question of how to raise it further remains. The experience of the 1970s that led to the debt crisis of the 1980s showed that raising the net transfer to countries without also adequately raising domestic savings is unsustainable. The countries that did not slip into debt crises raised their investment rates through a more balanced combination of greater resource inflows and higher domestic saving. In particular, the marginal savings rate — the savings out of increments to income — was quite high in those countries and so when growth accelerated it fostered a "virtuous circle" of higher saving, investment and more growth.

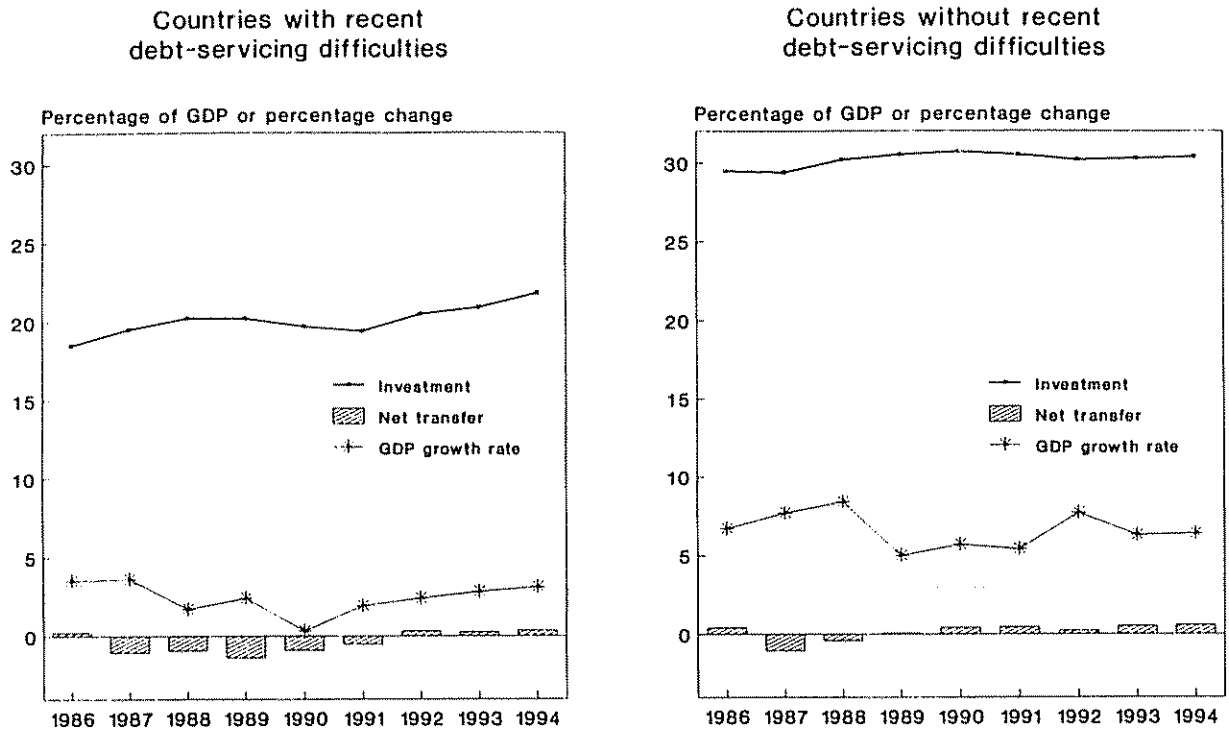
The continuing benefits of that virtuous circle can be seen by contrasting the current situation and prospects of two groupings of the developing countries, those that have had debt-servicing difficulties in the 1980s and those that have not.[7] For each of these groupings, the International Monetary Fund (IMF) has projected economic growth, investment and a variety of financing variables through 1994 and on the basis of that exercise, figure IV.1 was drawn.

The figure indicates, first, that IMF projects the net transfer of resources to remain positive for both groups of countries, although it would be less than one half a per cent of the GDP of the more heavily indebted countries, while rising slightly above one half a per cent of the GDP of the other group by 1994. In neither case, at least at this level of aggregation, would the net transfer be a major contributor to the financing of investment. The countries that did not experience debt-servicing crises are expected to continue to invest about 30 per cent of their GDP and their economies are forecast to grow on average over 6 per cent a year. The debt-crisis economies are expected to grow at about half that rate and have an investment rate about a third less as a share of GDP than the more rapidly growing grouping. This notwithstanding, investment and growth in the debt-crisis countries would be on a rising trend. In sum, it appears that the countries affected by the debt crisis will, as a group, continue to grow far more slowly than those that quickly overcame the economic shocks of the early 1980s.

DEVELOPED MARKET ECONOMIES: LARGE TRANSFERS, SHORT-TERM FUNDS

A central feature of the net transfer of resources of industrialized countries in the 1980s had been the very large absorption of international resources by the United States. It proved that if a country is large enough and supplies the world's chief currency for international transactions, capital from around the globe will finance unsustainable policies for a long period. As exporters rushed to meet the burgeoning United States demand for imports, foreign creditors and investors—including United States financial institutions that were already operating

Figure IV.1.
Investment, net transfers and growth in the developing countries, 1986-1994



Source: UN/DESIPA, based on IMF, *World Economic Outlook*, May 1993.
Note: Net transfer is defined on an expenditure basis (see table A.28).

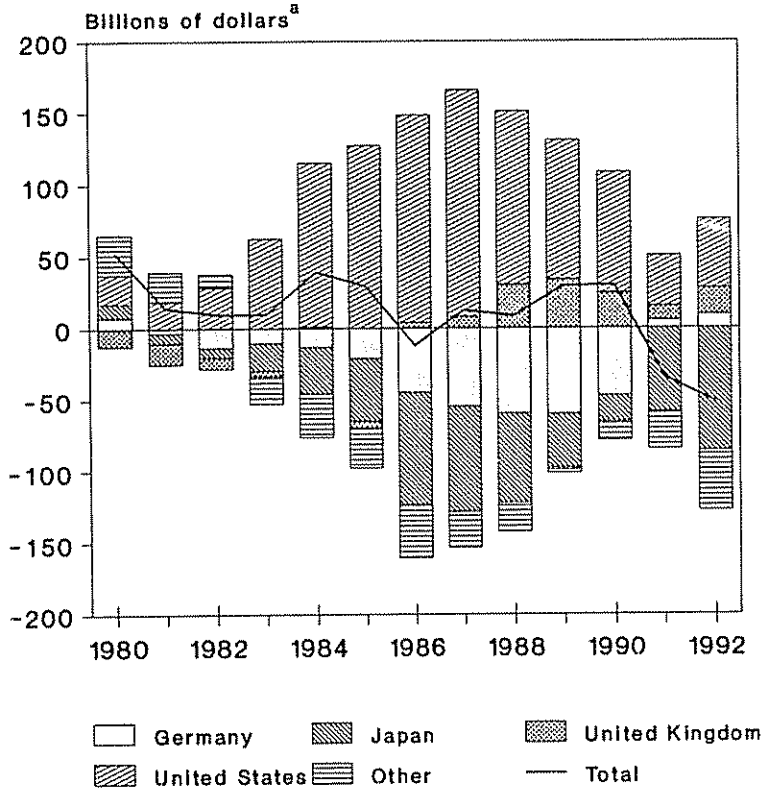
in overseas markets—stood ready to finance the transactions. Thus, large trade surpluses and the net outflow of resources that corresponded to them were generated in Europe and Japan as the counterpart to the United States trade deficit and net inflow. However, the industrialized countries did not themselves fully meet the United States demand for funds, and thus as a group these countries absorbed resources on a net basis for most of the 1980s, as may be seen in figure IV.2.

The United States quickly went from being the country with the largest international net asset position to the world's largest net debtor. The very large United States budget deficit was one central part of the story and, indeed, as foreign purchases of official securities were large for many years, the United States Government has made increasingly large net foreign interest payments. They reached $32 billion in 1992, up $1.5 billion from 1991 despite the large fall in interest rates on government debt in 1992 (see table A.8). In 1982, when interest rates on official United States debt were roughly twice as high as last year, the United States Government paid less than half as much in net interest.

Private debt has also mushroomed in the United States, as discussed in chapter II, and, correspondingly, so has net foreign borrowing by the United States private sector. Thus, instead of earning $20 billion to $25 billion a year in interest on a net basis, as had been the case in the first half of the 1980s, the private sector now is a net payer of foreign interest.

Considering all interest and dividend obligations together, the United States has to make increasingly large net foreign payments, which reached $23 billion in 1992 (see table A.26).[8] This means that the net capital flow into the United States needed to bring about a net transfer of resources has to be enough to also cover the net outflow of dividends and interest. In 1992, in particular, a net capital inflow of $68 billion was needed to bring about a net transfer of $48 billion.

Figure IV.2.
Net financial transfers of developed market economies, 1980-1992



Source: Table A.26.

[a]Net outflow shown as a negative number; net inflow as a positive number.

This notwithstanding, a considerable correction of the United States net transfer problem has taken place. The net transfer was less than 1 per cent of GDP in 1991 and 1992, compared to 3 per cent to 3.5 per cent from 1984 to 1987. On the other hand, the United States net transfer is expected to grow again, with economic recovery under way in the United States, albeit slow, while Europe and Japan are in economic stagnation or recession, as discussed in chapter I. The net transfer to the United States is likely to exceed $60 billion this year and be over $70 billion in 1994. Both amounts would still be, however, only 1 per cent of United States GDP. In the second half of the decade, as the fiscal adjustment policy of the United States begins to bear fruit, the transfer is expected to again fall in nominal dollar terms, let alone as a share of GDP.[9]

If the reallocation that the United States imposed on international financial flows in the 1980s is thus on a medium-term path to correction, the net transfer of the United States *vis-à-vis* particular groups of countries has already changed significantly. Thus, whereas Latin America and the Caribbean transferred over $20 billion a year to the United States in the mid-1980s, the United States began transferring resources on a net basis to that region in 1992 (see table IV.2). This was the hemispheric component of the change in the overall net transfer of Latin America noted above. The United States has also increased its transfer to the economies in transition to $4 billion on a net basis, although this was not a significant departure from the net transfers in prior years.

As the table indicates, the geographical pattern of United States net transfers is increasingly a composite of diverse regional inflows and outflows. While certain groups of countries transfer considerable sums to the United States, others receive them from the United States economy on a net basis. Latin America and Europe, west-

Table IV.2.
Net resource transfers to the United States, by region, 1982-1992
Billions of dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Canada	7.1	9.0	12.3	13.1	10.2	8.0	7.5	3.4	1.4	-1.6	0.1
Japan	15.5	24.6	42.1	51.3	52.1	53.4	47.4	40.8	31.9	32.3	36.8
Western Europe	-2.7	5.4	21.4	31.1	34.8	32.2	18.9	2.1	-2.4	-18.3	-11.4
of which:											
Germany	5.3	8.3	13.2	15.9	20.0	21.4	18.2	14.3	16.2	10.4	..
United Kingdom	2.9	2.8	3.0	5.3	5.6	4.7	0.1	-4.2	-3.9	-4.3	-5.4
Latin America and the Caribbean	7.7	21.2	24.1	20.4	16.7	19.7	14.8	13.4	13.1	0.9	-6.5
Major oil exporters of Africa and Asia[a]	5.4	-0.1	4.6	2.7	1.5	7.0	5.9	11.2	16.6	7.1	7.8
Other developing countries	2.8	11.6	23.4	24.1	34.1	44.1	36.8	38.0	35.7	27.0	34.6
Transition economies	-2.8	-1.7	-2.1	-1.4	0.0	-0.2	-1.6	-3.6	-2.2	-3.3	-3.9
Other countries[b]	-4.6	-8.8	-11.7	-14.0	-5.0	-6.6	-9.0	-8.5	-8.2	-8.5	-9.0
Total	28.4	61.3	114.1	127.3	144.4	157.6	120.7	96.8	83.9	35.5	48.5

Source: UN/DESIPA, based on data of United States Department of Commerce, *Survey of Current Business*.

a Comprising OPEC member countries, excluding Ecuador and Venezuela.
b Including net transactions with international organizations and unallocated amounts.

ern as well as eastern, now draw resources, while Japan and a large grouping of developing countries, mainly comprising large exporters of oil or manufactures, continue to build up dollar reserves and investments in the United States.

One feature of the geographical breakdown of the United States net transfer that has changed relatively little over the years is the net inflow from Japan. Since peaking in 1987, Japan's net transfer to the United States has been slowly but not steadily declining. In 1992, Japan played a rather small role in the increased transfer to the United States; Japan's transfer rose less than $5 billion. This happened, moreover, in a year in which the overall net transfer from Japan rose $27 billion, to a total of $86 billion.

In other words, the net transfer of Japan rose so much in 1992 mainly owing to net resource transfers to countries other than the United States. This follows a pattern that was already visible in 1991, when the $41 billion increase in the net transfer went primarily to the European Community and the developing countries of South-East Asia. The United States accounted for less than 40 per cent of the net transfer of Japan since 1991, compared to about two thirds in 1986-1987 and even higher shares before (see table IV.3).

The net transfer of Japanese resources is thus changing geographical direction as it also changes in total amount. The size of the net transfer fell from its $78 billion peak in 1986 until 1990 when it almost disappeared. However, in 1991 the trade surplus and net transfer began to grow again and by 1992 Japan broke its own record transfer. Under the momentum of recent developments, governed in essence by economic growth trends in Japan and its major trading partners, as well as exchange rate changes, the net transfer is expected to reach a new record this year and yet again in 1994. In other words, under the forecast presented in chapter I of this *Survey*, the net transfer of resources of Japan is expected to rise $20 billion in 1993 and another $14 billion in 1994. Although large in dollar amounts, the net transfers would not be significantly larger than they were in 1992 in relative terms. That is, whereas the net transfer was less that 2.5 per cent of Japan's GDP in 1992, albeit up from under 2 per cent in 1991, it would rise but still be on the order of 2.75 per cent of GDP in 1994.

What is quite remarkable, however, is that these large net transfers embody substantially larger net capital outflows from Japan, as net receipts of interest and dividends are themselves large and rising. In 1992 the net earnings reached $36 billion and the net capital outflow

Table IV.3.
Net resource transfers of Japan, by region, 1982-1992
Billions of dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
OECD countries	-17.4	-24.7	-40.8	-48.1	-67.1	-65.9	-54.8	-37.7	-20.6	-39.5	-49.3
of which:											
United States	-12.2	-17.9	-33.7	-39.5	-50.6	-50.2	-40.6	-33.3	-21.5	-23.0	-29.5
European Community	-7.1	-8.2	-8.0	-8.3	-14.5	-15.6	-18.0	-10.4	-7.8	-24.3	-28.7
of which:											
United Kingdom	-1.8	-1.9	-1.4	-1.2	-2.2	-2.9	-3.7	-0.8	2.5	-6.3	-8.2
Germany[b]	..	..	..	..	..	..	-7.6	-6.5	-5.8	-9.1	-8.8
Transition economies[c]	-1.8	-2.6	-3.3	-8.8	-6.5	-2.1	-0.8	0.0	0.9	1.2	1.0
of which:											
Former Soviet Union	..	..	..	..	..	..	-0.7	-0.6	0.7	1.0	1.3
Developing countries	12.7	8.0	11.9	13.1	-4.8	-5.9	-7.0	-0.2	1.6	-20.4	-37.8
of which:											
South-East Asia	..	..	..	..	..	..	-17.3	-15.7	-23.3	-38.7	-49.4
of which:											
Four exporters of manufactures[d]	..	..	..	..	..	..	-22.0	-20.6	-26.1	-40.1	-47.0
China	..	..	..	..	..	..	0.1	2.3	5.5	5.2	4.8
Major oil exporters and others	..	..	..	..	..	..	10.1	13.3	19.4	13.1	6.8
Others[e]	0.0	0.1	-0.1	-0.1	0.0	-0.2	0.0	-0.1	-0.1	0.0	0.0
Total	-6.5	-19.3	-32.3	-44.0	-78.4	-74.0	-62.7	-38.0	-18.1	-58.7	-86.1

Source: UN/DESIPA, based on Bank of Japan, *Balance of Payments Monthly*.

a Secretariat estimate based mainly on customs trade data.
b Including transactions with the eastern *Länder* of Germany from October 1990.
c Including China until 1987.
d Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.
e Including net transactions with international organizations and unallocated amounts.

was $124 billion (see table A.26). Both these figures will rise. Not only is the net asset position on which Japan earns foreign income growing, but interest and profit income was held down in 1992 by low dollar interest rates in which a great deal of international credits are denominated and low earnings on direct investment (including foreign real estate) in slow-growth industrial economies. Perhaps by mid-decade, in other words, the net capital outflow of Japan will surpass $200 billion.

It is impossible to say at this juncture what the likely composition of those flows would be. Certain unusual developments in Japan's international financial flows have been occurring in recent years. They entail an adjustment process whose duration is not yet clear. Nor are the consequences for post-adjustment flows.

The first unusual development is that Japan is supplying far less medium-term and long-term capital to the world than it did in the 1980s (see table A.26). It has not been a net provider of medium-term or long-term loans to the world since 1990. It has continued to be a source of official assistance and direct investment, although in 1992 the latter was about a third of the peak net outflows of 1990. Investment in Europe and the United States was cut back most sharply, although even investments in Asia fell significantly.

Japan was also still a net purchaser of foreign securities in 1990 and 1992, but not in 1991. In that year, institutional investors such as pension funds, mainly from the United States and Europe, and others purchased $115 billion of Japanese securities. They had reduced their holdings of stocks and other assets when their prices soared during the period of asset inflation in the 1980s. The Tokyo stock market crashed in 1990 and so they sought to rebuild their Japanese portfolios in 1991. As a result of those investments, Japan became a net recipient of long-term capital flows in that year. In 1992, however, the stock market decline resumed, the inflow of securities investment fell to a low level and

Japan again became a net provider of long-term funds overall.[10]

The main reason for much-reduced net outflows of long-term funds is the financial and economic difficulty into which the Japanese business sector fell, especially its financial system, as discussed in chapter II. Banks were no longer in a position to add significantly to their overseas lending when various parts of their domestic loan portfolios began to appear weak and the stock market decline erased a significant part of their reserves. Moreover, new internationally agreed guidelines for how large reserves had to be to back loans of various types were coming into effect. The strategy followed by banks to meet those guidelines had not taken into account the possibility of the crash of the Tokyo stock market. Thus a period of portfolio adjustment was needed by the banks.

One result is that Japan's foreign exchange banks reduced their outstanding short-term foreign loans by $38 billion in 1991 and $41 billion in 1992. There was thus no capital outflow on this score. There was, however, a very large net outflow that mainly took place when foreign holders of yen deposit accounts and Japanese holders of foreign currency accounts drew down their short-term placements in the foreign exchange banks of Japan. In 1991, a considerable sum of those deposits seems to have been used in the stock-market purchases noted above. They were also used extensively to pay for Japanese exports. Over $130 billion were withdrawn in 1991 and $119 billion in 1992.[11]

In other words, Japan transferred resources to the rest of the world in 1992 not so much by extending new credit as by reducing the short-term foreign debt of its domestic banking system. In essence, the financial system was unwinding a process that had worked in reverse in the second half of the 1980s. In those years Japan acted as an international financial intermediary that "borrowed short" and "lent long". Financed by net short-term inflows into the banking system as well as by its trade surplus, Japan supplied very substantial outflows of direct and portfolio investment from 1986 to 1989 (see table A.26). For the time being, those longer-term flows are very much reduced.

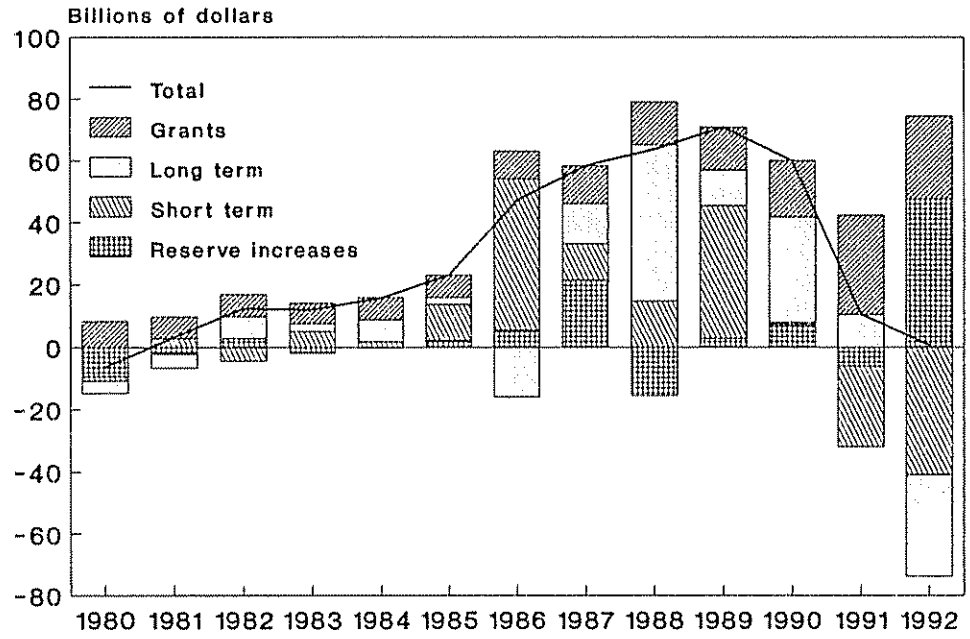
Short-term capital has also reversed direction in recent years and caused balance-of-payments complications in Germany. The difficulties, in this case, involved exchange rate strains among European currencies and a rush of funds into the country. By mid-1992, it had became apparent to the financial markets that several European currencies had become overvalued (or the deutsche mark undervalued). The authorities of all the countries pledged themselves to maintain the existing parities, which had been fixed within a European currency grid or informally tied to one or another currency. Unlike the dollar or the yen, which fluctuated without formal restrictions, speculators saw a European bet they could not lose. At worst they would have to repatriate their funds at the original exchange rate and so funds poured into Germany from each weak-currency country (see box IV.1).

Most of the short-term inflow occurred in the second half of 1992, but for the year as a whole, the net inflow of short-term capital to Germany was $58 billion. This was in a country that in most years over the past decade had been a net source of short-term funds (see table A.26). With open capital markets, the only way a Government can prevent an excessive inflow of funds from driving up the exchange rate is for its monetary authorities to buy up the funds with its own currency. This the Bundesbank did, adding $47 billion to its foreign exchange reserves in the year as a whole. Indeed, if changes in reserves are thought of as just another part of international capital, Germany's net capital flow in 1992 was zero. The inflows of short-term and long-term capital exactly offset the outflows of official grants and purchases of reserves (see figure IV.3).

In this regard, the German economy has come a great distance from its role in the 1980s when it was a major source of capital for the rest of the world. As a result of those capital outflows, Germany became a net recipient of dividend and interest income on the order of $10 billion to $15 billion a year since 1989. Indeed, this investment income, added to the zero net capital flow including reserve changes, as noted above, meant that Germany was a net recipient of resource transfers from the rest of the world. The $9 billion net transfer in 1992 was small, however, although it represents a large swing from the net outward transfers of $50 billion to $60 billion a year in the second half of the 1980s.

The change in net resource transfers was brought about by the mix of policies the German Government adopted to absorb the eastern *Länder* into the Federal Republic. Net resource transfers to the *Länder* totalled DM 172 billion in 1991 and DM 195 billion in 1992, about $104 billion and $125 billion, respectively.[12] Virtually all of the resources transferred originated in the western German economy, which thereby absorbed all of Germany's ability to transfer resources to foreign countries. Under the economic forecast described in chapter I, this pattern of net transfers is forecast to remain about the same this year and next.

Figure IV.3.
Total net capital flow of Germany, 1980-1992



Source: Table A.26.

BOX IV.1.

The new European financial market and economic policy

IN THE EARLY 1980s, Western European financial markets were far less sophisticated than they are today and most European Governments maintained restrictions on international capital movements. London was the one European financial centre of truly global dimensions and was somewhat distinct from the continent in economic and financial policy. In particular, the United Kingdom did not participate in early efforts to minimize fluctuations among the currencies of Europe. By the end of the 1980s, the pound sterling was part of the fixed grid of currencies in the Exchange Rate Mechanism (ERM) of the European Community and several other international financial centres had emerged, although still none rivals London in variety and depth of activities. However, today the pound is no longer in the exchange-rate grid; neither is the Italian lira. Europe had been rocked by an exchange-rate crisis in the fall of 1992 that involved speculative capital flows of unprecedented scale. Central banks, despite many billions of dollars' worth of intervention in exchange markets, were mainly unable to stem the speculation. Policy makers found themselves operating in a different financial world. It will affect how monetary and exchange-rate policy in Europe is made in the future.

Several factors had been responsible for creating the new and highly liquid financial markets in Europe. One set of factors involved the deregulation of the financial industry and the growth of new institutional forms of saving. Another set of factors involved the dismantling of controls on foreign exchange transactions, in particular cross-border capital flows.

Together, these developments encouraged substantial diversification of financial assets. Investment funds, pension funds, insurance companies and other institutional investors have, since the mid-1980s, steadily

raised the share of foreign securities denominated in national currencies in their portfolios. For instance, in 1990 pension funds and other institutions in the United Kingdom invested 20 per cent of their assets abroad, compared with 6 per cent in 1980. This international diversification has been a major force behind the rapid expansion in international capital flows in the region. In France, Germany and Italy, cross-border transactions in bonds and equities expanded, respectively, from 8, 7.5 and 1 per cent of GDP in 1980 to 53, 57.5 and 27 per cent in 1990. And in the United Kingdom, the volume of such transactions jumped from 367.5 per cent of GDP in 1985 to 690 per cent in 1990, dwarfing those associated with current-account transactions.[a]

The boom in cross-border investing has brought with it a surge in currency trading. To protect overseas holdings against currency risks, institutional investors buy and sell the currencies in which the assets are denominated on forward exchange markets. Indeed, the European markets have become so integrated that one could describe them almost as a single European financial market in several national currencies. The surge in flows among the different components has raised the deutsche mark above the yen as the second most widely traded currency in the world. Moreover, international currency trading in London, the largest currency centre in the world, grew 60 per cent in only three years, 1989-1992. Trading in European currency markets has also come to differ from that in the world's other centres for foreign exchange in the increasing variety of currencies traded. For instance, in 1992 non-dollar transactions accounted for 24 per cent of total net turnover in London, compared with 4 per cent in 1986. Last year the share of non-dollar transactions in Tokyo amounted to only 10 per cent.[b]

From 1987 until mid-1992, the pattern of capital flows within the EC was increasingly determined by confidence in the fact that central rates in the ERM would remain unchanged. Over the past few years, that is, along with German government bonds, there were substantial international purchases of bonds from France, Italy, Portugal, Spain and the United Kingdom. These securities paid a higher interest rate than German bonds and were quite attractive internationally as long as investors assumed there was little risk of devaluation of the currencies of the securities relative to the mark. Over time, spreads over the German bonds narrowed and foreign investors continued buying; i.e., the risk of devaluation was seen to be diminishing. Interest differentials also attracted substantial amounts of bank funds across borders. Taken together, foreign capital flows to relatively high-interest-rate countries in Europe far exceeded their current-account deficits. The difference was offset by outflows of private national capital, forward cover operations, and by increases in currency reserves.

For some time, the process of asset diversification embraced almost all of the EC countries as the substitutability among financial assets denominated in a growing number of currencies became greater. Italy was a particularly significant case after it completed its foreign exchange liberalization and adopted the narrow-band limit to exchange-rate fluctuation within the ERM grid, as used by France, the Netherlands and others. These actions led to a very substantial increase in gross capital flows in and out of Italy and a large net capital flow into the country. Even in 1990, when the exchange-rate band was narrowed, total gross capital inflows and outflows were over 800 trillion lire, more than one third more than total gross current-account flows, against 530 trillion lire in 1989. The net capital inflow amounted to 32.5 trillion lire, compared with 24 trillion lire in the preceding year.[c]

The trends described above continued broadly unchanged until May 1992. But from June, growing doubts about the durability of the prevailing European exchange-rate pattern radically changed the picture of capital movements. As a need for exchange-rate adjustment became increasingly clear (see box II.1), an unprecedented amount of funds flew to Germany from Italy, the United Kingdom and other countries outside the ERM "core". The rush culminated in the exchange-rate crisis of September 1992, though tensions in European foreign exchange markets resumed on various occasions well into 1993 (see chap. II).

The funds moved through a wide variety of financial channels. World international bank lending, for example, which had

been growing by about $20 billion a quarter since the beginning of 1991, jumped by $130 billion in the third quarter of 1992. Those funds came mainly from the banking systems of France, Italy, Spain and the United Kingdom, and were channelled primarily to Germany, but also to Japan and the United States.[d] In the main, those flows reflected customers' forward sales of weak currencies in September. In addition, there were substantial sales of bonds denominated in devaluation-prone currencies and purchases of German securities outside the banking sector. Indeed, in September 1992, non-residents acquired DM 34 billion of German bonds, compared with a monthly average of about DM 2 billion in the first half of 1992.[e]

Governments tried to stem the exchange-rate pressure of the private flows by official intervention and policy makers sought to calm the speculative fever. In the end, the interventions were extremely large. Over the four months to September 1992, the sales of deutsche mark by European central banks amounted to the equivalent of over $160 billion. Nearly all of the sales were against other European currencies.[f] In September alone, the Bundesbank spent almost DM 93 billion. Although since the end of September, some of those sales have been reversed, for the whole of 1992 interventions of the Bundesbank on behalf of the ERM exceeded DM 59 billion, compared with the previous peak of DM 18 billion in 1987.[g] In the end, of course, these flows did not prevent the exchange-rate adjustments.

The major lesson of the September ERM crisis seems to be that the capacity of the European central banks to oppose the market is more limited than had been thought. After the removal of the last policy obstacles to the free flow of capital in Europe, central bank reserves have become almost insignificant in comparison with the amount of funds that might sweep through the system. A loss of private-sector confidence in government monetary and exchange-rate policy has always threatened and often precipitated exchange-rate crises. Today, the margin for error in policy commitments to maintain a given exchange rate parity is far smaller than ever before. Central banks have no choice in such situations but to follow policies that the markets find credible.

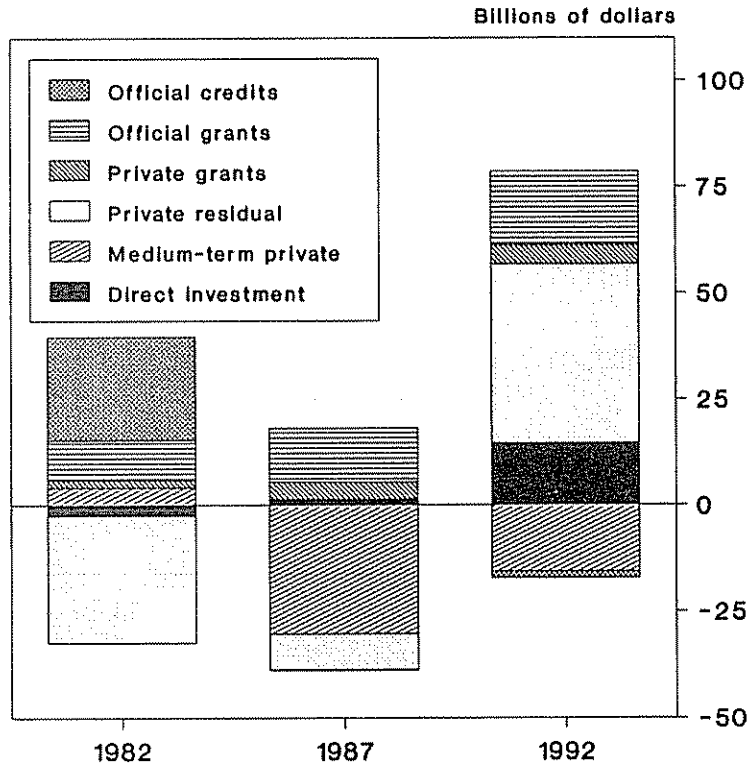
[a] Bank for International Settlements, *62nd Annual Report*. Basel. 15 June 1992. p. 93.
[b] *Bank of England Quarterly Bulletin*. vol. 32, No. 4 (November 1992), p. 409-411.
[c] *Bank of Italy Economic Bulletin*. No. 12 (February 1991). p. 28.
[d] Bank for International Settlements. *International Banking and Financial Market Developments*, February 1993, p. 3.
[e] *Deutsche Bundesbank Monthly Report*, January 1993, p. 88.
[f] *Bank of England Quarterly Bulletin*..., p. 387.
[g] *Deutsche Bundesbank Monthly Report*..., p. 22.

DEBT AND CAPITAL FLOWS FOR DEVELOPMENT

The developing countries have recently begun to receive very considerable net flows of financial resources, as noted previously. These can be ascribed to sharp changes in only a few of the flows, in particular direct investment, net interest payments on debt and short-term capital movements. Some of them are likely to be temporary. Other flows have not changed dramatically and are also not expected to improve significantly in the medium term. Prospects for one type of flow are a particular concern, namely, official development assistance.

Figure IV.4 illustrates the relative magnitude of recent flows for a large sample of capital-importing countries in 1982, 1987 and 1992. The most striking changes are in what are called the private residual flows, which are net short-term financing and net changes in medium-term assets held abroad by the private sector of the developing countries. These financial flows include the so-called "flight capital", a term that becomes obscure when the funds are rushing into developing countries, as they were in 1992. Certainly, domestic and foreign wealth holders moved large amounts of funds out of developing countries in the early 1980s when the debt crisis began, much as British, French, German, Italian and other investors moved substantial resources from several European economies into Germany in 1992, as discussed above.

Figure IV.4
Financial composition of the net transfer of resources to developing countries, 1982, 1987, 1992



Source: Table A.29.
Note: Net transfer is on a financial basis, i.e., excluding reserve changes.

The crucial point is that there is now a large stock of funds in developing countries that will move across borders easily when interest and inflation differentials and exchange-rate expectations warrant it. The reasons for the recent inflows to developing countries differ. In some cases, the progress in economic adjustment and more buoyant medium-term prospects seem to have been a key. In others, the still unresolved domestic adjustment issues have created real interest rates that are so high that they outweigh perceived risks of loss from exchange rate or inflation developments.

All in all, these funds are extremely volatile and the governments of countries that have been receiving them have a special need to maintain the confidence of their financial sector. To the degree that this imposes pressures on policy makers to adopt necessary measures that are otherwise politically difficult to take, there may be a positive side to it. But there is another dimension. Policy-making in the developing countries requires larger and more frequent policy adjustments than in the industrial world because developing countries are more vulnerable to external shocks than developed economies.[13] Now, however, the margin for policy error is smaller because developing countries are hosting large stocks of volatile funds. Yet, having enhanced access to official international finance which could be very quickly used in the context of the policy responses—the original idea behind the creation of the Compensatory and Contingency Financing Facility at IMF—would help bolster market confidence at times of policy change.

The other flows depicted in figure IV.4 pertain to longer-term sources of credit, grants or direct investment. Only two of them were still contributing "negative transfers" in 1992, namely, official and private foreign credits. In both cases debt-servicing payments exceeded new disbursements. In the case of official credit, there

has not been a significant positive net transfer since the middle 1980s. In the case of private credit, the negative transfer was smaller in 1992 than in recent years. The reason is not net lending, which was only about $10 billion for this sample of countries in each of the past two years, although in 1989 it was only $3 billion (see table A.27). Rather, interest payments have fallen substantially. At their peak in 1988, net interest payments were $40 billion. In the following three years they were about $30 billion and fell by over $6 billion more in 1992 to about $25 billion. This reflected both falling market interest rates, to which substantial parts of the interest obligations of developing countries are tied, and a stock of debt that has been growing slowly in recent years.

STATUS OF THE DEVELOPING COUNTRY DEBT SITUATION

Ten years after the debt crisis erupted, a natural question is whether the term "crisis" may have outlived its usefulness as a description of the debt situation of the developing countries. The total debt of the capital-importing countries reached a plateau in 1987 at $1.2 trillion and it did not begin to grow again until 1990. Since then it has grown on the order of 5 per cent a year, reaching $1.4 trillion in 1992 (see table A.35).[14] Since the dollar value of GNP and exports has grown more rapidly, the indicative ratios of debt/GNP and debt/exports have fallen from their peak levels (see table A.36). Indeed, the overall ratio of debt to GNP has returned to the level of 1982, while the debt/export ratio is more than 20 percentage points below what it was then.

If at the aggregate level the crisis thus appears past, the developing-country regions are in quite different situations. Thus, in 1992, the largest increase in debt was in Asia, where its broad access to credit raised its debt stock by almost 10 per cent. Latin America showed a marginal increase of less than 2 per cent, bringing the debt above the level in 1987, the previous peak. In Africa, the total level of debt rose less than 2 per cent, as some large countries, notably Algeria and Nigeria, reduced their outstanding debt, while in the sub-Saharan region, excluding Nigeria, the debt level rose 6 per cent, virtually all of it accounted for by official lending. Indeed, this latter region has had the highest share of debt owed to official sources among developing-country groupings. In 1992, the share of debt owed to official sources in total long-term debt increased still further, now surpassing 80 per cent, of which 44 per cent is owed to multilateral institutions. Viewed from a different perspective, these data reflect the continued exclusion of the sub-Saharan region from the private credit markets.

In any event, for the debt crisis to be over, developing countries need to be perceived as creditworthy, but they also need a sustainable relationship between debt levels and other variables. The relationship between debt servicing and export earnings, in particular, must appear to be stable over the long run, which would normally mean that the ratio of debt to exports and debt to GNP is not growing on average over long periods of time. By this measure, some countries have made considerable progress, but not others. In 1992, Asia continued to show that its relatively rapid rate of growth of debt was in line with its capacity for economic expansion.

Perhaps the most difficult situation has been that of Africa, which has the highest ratio of debt to GNP of all developing country regions. The ratio for the sub-Saharan area alone is even higher. Trends in recent years suggest, however, that the ratio may finally have stabilized for Africa as a whole (see table A.36). The special difficulty that African countries have faced is highlighted by the even more dramatic ratios of debt to exports. That ratio for the sub-Saharan area is not only the highest in the world, but it is one third higher than that of the next highest region, Latin America. The legacy of Africa's heavy dependence on a limited range of commodity exports whose prices have weakened considerably bears especially heavily on this indicator. It appears, in other words, that the debt crisis still exists, at least in Africa.

If trends in debt ratios are useful as indicators of the long-run sustainability of debt, the share of export earnings that is needed to pay debt servicing, the debt-servicing ratio, indicates the current burden of the debt. Overall, the ratio of debt service to exports of goods and services in 1992 was virtually unchanged from 1991. There was a rise in principal repayments, which was offset by a decline in the interest-servicing ratio associated with the decline in average interest rates, especially for dollar-based loans, which account for most of the debt.

Finally, perhaps further insight into whether the developing country debt crisis is over can be gathered from the implicit views of the international financial market as reflected in the secondary market for commercial bank debt. Since the mid-1980s, the bank debt of developing countries has been traded, first among banks and then with sales to non-bank investors, including enterprises looking to swap bank debt for equity in state enterprises being privatized or in private corporations in the debtor countries. As the secondary market grew in size, prices increasingly came to serve as indicators of the market's

assessment of the debt. The price, which is reported as a percentage of face value, is now commonly interpreted as the present value of the expected income stream from the loans. It thereby incorporates, *inter alia*, perceived risks of arrears and even default.

The secondary market prices even came to be used as reference points in negotiations to restructure the bank debt under the international strategy for a concerted approach to debt relief.[15] After the debt was restructured and much of the bank debt was replaced by various types of bonds, a market arose for these bonds, which has been thought of as an extension of the secondary market in bank debt itself. Indeed, the bonds also trade at a discount from face value.

If the debt crisis is over, in other words, it should be visible in these secondary market prices. What can be seen, in fact, is a very mixed picture (see figure IV.5). In some cases, such as the debt of Chile and Mexico, demand has strengthened in the secondary market and prices have risen in recent years. In other cases, such as Brazil and Morocco, the market has been somewhat cautious. In yet other cases, such as Bolivia and Côte d'Ivoire, the market has been quite pessimistic. What has to be concluded, in short, is that while for some countries the debt crisis has at last been overcome, for others it remains a pressing concern.[16]

Renegotiating commercial bank debt

Considerable progress was made over the past year in what is likely to be the final round of negotiations on the debt of three of the most heavily indebted developing countries, Argentina, Brazil and the Philippines.[17] Indeed, the Argentinian and Philippine cases were completed. Each of the agreements has been worked out under the international strategy for regularizing debt-servicing payment profiles of countries having large-scale commercial bank debt. The approach, informally known as the "Brady Plan", after the former Secretary of the Treasury of the United States, starts from the recognition that the originally contracted debt-servicing obligations of eligible countries are unlikely to ever be fully paid. The lending banks had already been obligated for the most part, both by regulators and the equity markets, to acknowledge this reality. The secondary market even quantified the percentage of scheduled debt servicing that was thought likely to be paid.

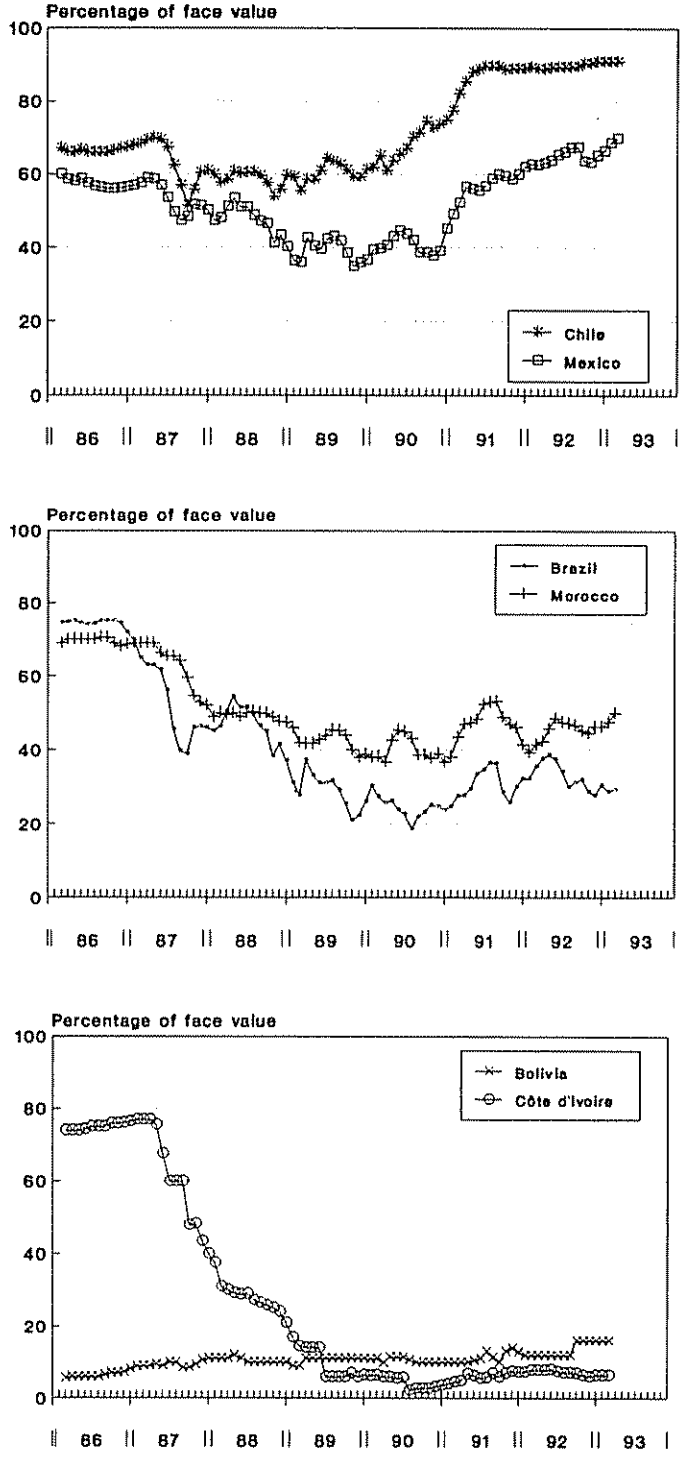
The Brady Plan thus sought to convert the unserviceable debt into smaller obligations that would be fully serviced and to encourage banks to exchange their claims on a debtor country by enhancing the new obligations with various partial guarantees. The latter, in turn, would be financed out of the debtor country's own foreign exchange reserves and special credits from IMF and the World Bank. Meanwhile, the indebted countries were to undertake rigorous adjustment programmes.

The negotiation process itself has essentially three steps. First, a set of options is agreed between the debtor country and a committee representing the bank creditors. The result of this stage, the "term sheet", outlines the options being made available to all the creditor banks. They might have the option to refinance their claims by extending new loans to cover interest due or to exchange their claims for a selection of bonds that either had lower face value and paid a market-based interest rate or had the same face value as the debt but paid below-market interest. The principal value of the bond, which is repayable on maturity, is usually guaranteed by a zero-coupon United States Treasury bond that matures on the same date as the debtor country's bond matures. Some of the interest payments might be guaranteed as well. Also, arrangements to repay any interest arrears have to be agreed.

The second stage, which overlaps the first, entails mobilizing the resources for the guarantees. For example, the deeper the cut in the stock of debt, the smaller the resources needed for any level of guarantee. To the extent the money to buy the zero-coupon bonds has to be borrowed from IMF and the World Bank, adjustment programmes have to be in place that these institutions agree to support financially. The third stage is for each bank to commit itself to a particular package of options and then implement the deal.

Argentina's case, which was finally closed in April 1993, illustrates how the process works and a special complication was introduced by the international economic environment. The arrangement covered $19 billion in principal and $8 billion in interest arrears and is expected to reduce Argentina's debt service by a third. Completing the deal had been delayed by the fall of dollar interest rates, owing to the recession in the United States. The menu had offered two types of 30-year Brady bonds. One was a "par bond" (i.e., exchanged at par for bank debt) that pays 4 per cent interest at first and gradually rises to 6 per cent in seven years. The other option was a 35 per cent "discount bond" (i.e., exchanged for bank debt at a 35 per cent discount from face value), but paying an interest rate that floats at 13/16ths of a percentage point above the London interbank offer rate (LIBOR), a standard indicative rate. As United States in-

Figure IV.5.
Secondary market prices of debt of selected developing countries, 1986-1993



Source: UN/DESIPA, based on data of Merrill Lynch and Company and Salomon Brothers.

terest rates fell, the implicit discount in the fixed interest rates of the par bond became smaller, which made the par bonds more attractive to the banks and less advantageous to Argentina. With the help of the World Bank, IMF and the steering committee of the creditor banks, the Government of Argentina persuaded the banks to choose more of the other option.

Analyses of the details of agreements such as these generally conclude that they do not significantly alter the expected cash flow associated with the debt.[18] However, they do seem to raise the prospect that the remaining debt-servicing obligations will be fully serviced and more generally they seem to bolster the confidence of potential investors and new lenders. The renewed access of several Latin American countries to capital markets has been a much-discussed case in point. An important further example is that a consortium of the Japanese Export-Import Bank and seven commercial banks, together with other international financial institutions, arranged a syndicated loan for a power plant in the Philippines in April 1993. This was the first time since 1983, when the Philippine Government announced a debt-servicing moratorium, that Japanese commercial banks joined in financing a project in the Philippines.

For all the successes of the Brady Plan, as these cases illustrate, it has had one major drawback. It was designed primarily for middle-income countries that had large-scale debts. It helped banks from industrialized countries extricate themselves from their non-performing assets in developing countries, as it helped the major debtors regularize their debt servicing. However, banks were not interested in going through the Brady process for small and low-income countries that also had unserviceable commercial bank debt, and the governments of the countries did not have the resources to establish a Brady Plan.

Earlier, a special arrangement had been worked out to reduce Bolivia's commercial bank debt wherein Governments donated financial resources to a special account established at IMF which Bolivia could use to buy back its debt at a steep discount negotiated with the banks. Building on this type of approach, the World Bank established a special Debt Reduction Facility in 1989 for low-income member countries. The Facility was initially due to expire at the end of June 1992, but was extended through 30 June 1994, and access to it was broadened, for example, to cover short-term debt.

Recent arrangements under the Facility included that of Guyana, which reached an agreement in November 1992 to buy back its commercial bank debt at 14.5 cents per dollar, utilizing an $11 million grant from the Facility. Bolivia reached an agreement in principle in July 1992 on a "term sheet" which included an option to buy back the bank debt remaining after its first operation noted above. In the earlier arrangement, Bolivia paid 11 cents on the dollar. In the current arrangement the price is expected to be 16 cents, reflecting the current secondary-market price.

Uganda will be the first to eliminate short-term debt using the Facility. Its operation is aimed at a purchase at 12 cents per dollar of debt and will be financed by $10 million from the Facility and $3.5 million that the Netherlands and Switzerland are to channel through the Facility. Nicaragua, Sierra Leone, Togo and Zambia are also preparing to carry out operations under the Facility.

Renegotiating debt owed to official creditors

Problem debt owed to bilateral official creditors is traditionally restructured in a different manner and in a different forum from commercial bank debt. The forum, the Paris Club, meets traditionally in the French Treasury and operates differently from the bank steering committees.[19] Instead of tailoring a "term sheet" for each case, the Paris Club has agreed to a set of generic term sheets for different classes of debtors, based primarily on their level of income per capita.

The most advantageous of the currently available treatments—and the only one with a promise of significant debt reduction—is the "enhanced Toronto terms". These terms are open only to the severely indebted low-income countries, whereas the less concessional "Houston terms" can be applied to severely indebted lower middle-income countries.[20] Other countries receive the standard treatment, which is a rather short-term rescheduling of debt servicing. A country on the borderline between groupings has to convince the Club to consider a more favourable treatment. In addition, the Club generally does not agree to restructure a country's debt if it is not in the process of a rigorous adjustment programme, as would be supported by an IMF stand-by agreement.

Among the major Paris Club arrangements in the past year was one for Argentina in July 1992. Although Argentina was not eligible for any of the special terms, it obtained an unusually long "consolidation period" of 33 months. A conventional Paris Club agreement reschedules the debt servicing falling due in a "consolidation period", which is often no more than one year. Argentina's agreement covered almost $3 billion out of almost $9 billion that the country owed to Paris Club creditors.

The long consolidation period was agreed in recognition of the country's adjustment programme which was supported by an arrangement under the IMF Extended Fund Facility (EFF). The agreement takes effect in three stages, on the condition that the EFF remains in effect at each stage. The agreement also has an exceptional feature in that the repayment schedule eases pressure on liquidity in Argentina in the early years of repayment.

In addition, over the past year additional countries that are classified as severely indebted low-income countries were awarded enhanced Toronto terms. Starting with Nicaragua and Benin in December 1991, 15 countries have received this treatment as of the beginning of 1993.[21] Of those, four countries (Ethiopia, Honduras, Mali and Zambia), which obtained the terms in the latter half of 1992, also were able to arrange long consolidation periods of just under three years. Jamaica was granted an agreement on Houston terms in January 1993. As per that treatment, official development assistance loans were rescheduled with a 20-year maturity and non-concessional debts are to be repaid in 15 years.

Because the Paris Club operates by consensus among the creditors, proposals for greater debt relief by some creditor Governments have not been adopted by the Club owing to the opposition of others. Notable among proposals for greater relief is the British Government proposal, the "Trinidad terms", under which up to 65 per cent of the debt of low-income countries could be written off. The "enhanced Toronto terms" were adopted in part in response to the British proposal and may accord up to 50 per cent reduction in debt and debt service. As generous as this seems, in some cases it may not be nearly enough.

Some creditor Governments have adopted their own approach to debt relief on a unilateral basis outside the Paris Club framework. A prominent example within the past year was the debt-relief package announced by the Government of France in October 1992 for four middle-income African countries (Cameroon, the Congo, Côte d'Ivoire and Gabon). These are seriously indebted countries, but as they are categorized as middle-income countries, they are not qualified to receive the more concessional treatments from the Paris Club. The French approach in this case was to create a debt-conversion fund of 4 billion francs, which would be partly financed by debt-servicing payments of these countries. The francs would then be recycled to development projects. Another case lies within the scheme of the Enterprise for the Americas Initiative of the United States. Thus, the United States agreed in December 1992 to reduce the debt owed by Chile, Colombia, El Salvador and Uruguay by a total of $514 million. In January 1993, the United States reduced the debt owed by Argentina by about 10 per cent and that of Jamaica by 70 per cent.

Finally, there is one category of official creditor for which any open or direct debt restructuring is precluded, namely, the multilateral financial institutions. Some countries nevertheless accumulated substantial arrears to these institutions, especially to IMF. Indeed, as at 31 January 1993, over $4.6 billion in payments of principal and interest owed to the Fund by 11 countries were overdue six months or more.[22] The countries in question did not have the means to become current on their obligations and IMF, the chief multilateral interlocutor for balance-of-payments stabilization and adjustment, was formally prevented from arranging a programme to support the policy adjustments that would bring them to creditworthiness. Some special mechanism was needed.

The Fund adopted such a mechanism in March 1990 under which, *inter alia*, it negotiates adjustment programmes with countries in arrears that wish to pursue a policy of "intensified collaboration" aimed at resolving the overdue obligations. The Fund monitors each programme, as it would regular adjustment arrangements, and as long as the programme remains in effect, the country is deemed to accumulate rights to make a drawing once it again becomes eligible, i.e., when its arrears are repaid. Meanwhile, bilateral creditors generally provide balance-of-payments support, some of which might be used to at least prevent IMF arrears from growing further.

As part of this approach, some industrialized countries started to donate or make loans to countries in arrears for the specific purpose of clearing those arrears. One such operation of special political significance in the United Nations took place in December 1992, at a meeting of Cambodia's donor countries, sponsored by France and Japan. It was decided there to repay IMF on behalf of Cambodia about $50 million of $61 million that the country owed to the Fund. Cambodia paid the balance using its gold stocks that the Fund had frozen. With this agreement in place, Cambodia would again be able to develop an adjustment package that IMF might be able to support after a hiatus of almost 17 years.

Another effort to assist a country to return to active member status at IMF was arranged for Peru in March 1993. The Governments of the United States and Japan agreed to jointly finance a short-term $860 million loan to Peru to be used to repay arrears to the Fund. In mid-March, Peru cleared its arrears using this bridging loan

and, in return, the Executive Board of IMF approved the country's economic programme for 1993-1995, enabling Peru to access the Extended Fund Facility for a total of $1.4 billion over three years. This is the first loan by IMF to Peru in seven years. A part of the money was used to repay the bridging loan. With a comparable operation, Peru cleared about $900 million in arrears with the World Bank. The World Bank immediately activated credits of $1 billion.

SOURCES OF EXTERNAL PRIVATE FINANCE

Although most of the surge in the transfer of resources to developing countries in the past few years involved short-term flows, as discussed above, a very significant increase has occurred in the transfer through direct investment (see again, figure IV.4). This has been considered quite a desirable outcome, as has the recent interest of the international financial markets in equity share issues from developing countries. These flows do not add to the debt of the developing countries, although they do, of course, entail balance-of-payments obligations to service the income part of the net transfer in later years. There is thus considerable interest in whether such flows are likely to continue to surge and whether they are likely to be a major means to supplement investment in developing countries. Failing that, a resurgence of long-term credit flows—more likely in the form of bonds than bank credits—would have to carry most of the weight of private net transfers for development.

In assessing the recent direct investment trends, however, it is important to recall that "direct investment" is not necessarily the same as gross capital formation. Direct investment can entail purchase of already existing assets, as in privatization operations or in mergers and acquisitions. Thus, although the net transfer associated with direct investment in both Asia and Latin America was estimated to have exceeded $6 billion in 1992 (see table A.27), the increment to capital formation was probably greater in the former region than in the latter, where major privatization drives have been under way.[23]

This does not mean that divestiture of state-owned assets to direct foreign investors is inappropriate. Indeed, one reason a privatizing Government frequently finds a foreign purchase attractive is the promise of introducing fresh approaches and new technologies to what may have become ossified and overly bureaucratic operations. Here, however, the quality of market incentives and the regulatory environment are crucial determinants of how successful the privatization will be, and some Governments have found that the net benefits of their first privatization are less positive than those undertaken with the benefit of hindsight.

There is a question, as well, of the overall degree to which policy should aim specifically to recruit direct investors. Africa is a region replete with formal incentives, legal guarantees, special protection, arrangements to speed the approval of investment applications and so on, but the net transfer through direct investment has been virtually nil, and for the sub-Saharan region excluding Nigeria it has been negative for at least a decade (see table A.27). The ability to attract significant and continuing direct investment inflows, as well as inflows of other private capital, hinges much more on the overall economic situation and the economic growth experience than it does on particular incentive schemes. Put differently, outside of investment in natural resource extraction, it is to the countries in which incomes per capita have already been rising significantly over a period of years that private capital is mainly attracted.[24] In the case of Africa, in other words, the major resource inflows from direct investment will follow rather than lead successes in economic rehabilitation, structural adjustment and growth.

While the flows of direct investment to developing countries have grown significantly in recent years, it can be asked whether the flows might continue at the new pace. For most of the 1980s, flows to most of the developing world were quite limited and in aggregate grew less rapidly than the flows to developed market economies. The latter flows grew 24 per cent a year in the second half of the 1980s, although in 1991 they fell 37 per cent.[25] The fall was related in the first instance to the recession in industrialized countries, but a longer-run slow-down in the growth of investment might also be in store.[26] Even if it is, developing countries that have undertaken structural adjustment and stabilization and whose economies are growing rapidly are likely to continue to attract substantial inflows and perhaps even a rising share of the global total.

This would be yet another indication of the growing role of the developing countries in a world economy that is increasingly integrated economically. But just as direct investment trends point to the greater globalization of production, increasing international trading in corporate equity shares points to greater globalization of financial relations. And, foreign purchases of developing-country stocks have become part of this market as well, under the rubric of "emerging markets".

Substantial funds have moved into these markets, most recently into Latin America, where the gross inflow

over 1991 and 1992 came to almost $12 billion.[27] The flows seem to reflect a diversification of holdings of investors who went into Asian markets earlier, and they have probably also been a vehicle for repatriating funds that investors from Latin America had taken offshore during the early years of the debt crisis. The markets seem to answer in part the demand for international speculative investments after the 1980s wave of corporate mergers and leveraged buy-outs passed.

This notwithstanding, emerging markets have limited appeal to the large-scale institutional investors that account for the depth of the equity market in industrialized countries. Share prices in the emerging markets have been extremely volatile. For example, stock market indices in the first quarter of 1993 were down 34 per cent over the same period in 1992 in Argentina, 17 per cent in Brazil, 54 per cent in India, 22 per cent in Turkey and 47 per cent in Venezuela; they were up 11 per cent in the Republic of Korea, 24 per cent in the Philippines and 14 per cent in Thailand.[28] The volatility comes in part from the relatively small size of the markets in terms both of number of shares listed and of total capitalization, and managers of large portfolios are aware that their own purchases and sales would perforce add volatility. For the time being, the emerging markets will continue to be a "speculative play" for smaller investors, who nevertheless have very substantial resources at their disposal.

It is not clear, in any event, whether it would be desirable to have extensive foreign activity on most developing-country stock markets. In terms of the balance of payments, foreign purchases of shares of equity are considered long-term capital inflows. However, they might better be thought of as short-term flows because of how liquid the ownership of stock must be if it is to be attractive to international investors.

The chief economic advantage of foreign purchases of developing-country equities is said to be lowering the cost of capital in those countries.[29] That is, after foreign buyers bid up the price of the shares of a particular company, it could issue new shares at a higher price. To raise a given sum of new equity capital, it would issue fewer shares than if the share price had not risen and be able to divide after-tax profits among fewer shareholders. This could lead firms to invest more and raise the aggregate rate of capital formation.

It can be argued, however, that stock markets are marginal sources of investment finance.[30] Moreover, the authorities in many developing countries and much of business opinion seek to limit foreign participation in the local market in order to curtail the volatility they accentuate and to prevent foreign control of domestic companies. Thus, restrictions on foreign share purchases are common, or separate classes of shares are the only ones made available to foreigners, or foreign unit trusts are the only vehicles allowed for foreign investment in the local market. None the less, the broad policy trend seems to be gradual liberalization of foreign access as markets deepen.

A related development is the flotation of developing-country stock issues on foreign markets. In such cases, the foreign investor does not directly face the exchange-rate risk of a foreign investment (although arbitrage should maintain the link between foreign and domestic prices of the security). However, to float an issue directly, for example, in New York, requires significantly greater reporting of company information than is common in developing countries, not to mention high fees. An alternative that has been used in the United States by corporations from other industrialized countries for many years and by developing countries more recently is the American Depository Receipt (ADR). Here a commercial bank serves as an intermediary that receives a special issue of shares in the non-United States company and issues dollar-denominated ADRs that can be traded on the stock market. A comparable asset issued outside the United States has also been created, the Global Depository Receipt.

Latin American firms issued over $4 billion in ADRs in 1991 and 1992.[31] Even so, very few developing-country enterprises have thus far been in a position to float share issues internationally, as ADRs or otherwise. The World Bank listed 47 international equity issues by developing countries from 1990 to 1992, of which 26 were Mexican, 7 were Korean and 3 or less were from all the other issuers: Argentina, Brazil, Chile, China, India, the Philippines and Venezuela, in all, only nine countries.[32] In short, this is unlikely to be a major source of international finance for development for the time being.

International bond finance, however, appears poised to reclaim its historically premier place as a vehicle for international capital flows for development. At the global level, total international credit arrangements through bond finance have exceeded the amounts through bank lending since 1985, and since 1991 the global value of bond issues has been more than twice the global value of bank syndications (see table A.30). Developing countries have been slower to move to bond finance, but it is happening. In 1992 bond issues made up

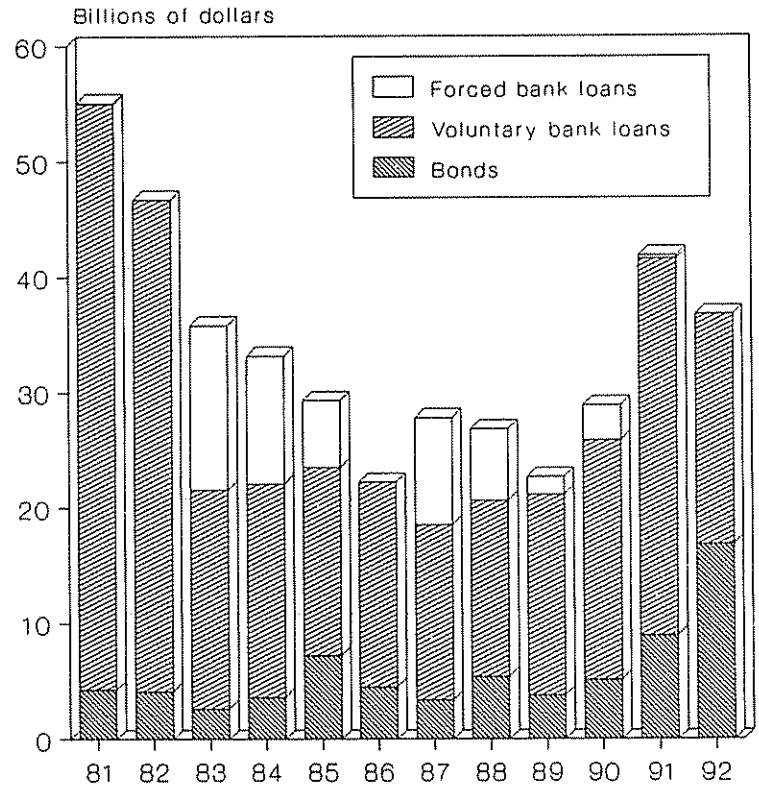
46 per cent of the funds raised, the first time bond finance was anything near this proportion (see figure IV.6).

In the past, international bond markets were less familiar with developing countries than the international banking sector had been through its trade and financial activities. The banks had been a natural locus of activity for recycling of oil revenues and other funds to developing countries in the 1970s. The international debt crisis curtailed that intermediary function of the banks. Indeed, in the mid-1980s a significant proportion of the bank lending arranged for developing countries was part of negotiated debt-restructuring exercises and called "concerted" or "forced" lending. Such lending is no longer a conventional part of debt renegotiations, but banks are reluctant to resume lending to borrowers from the debt-crisis countries.

The market for large, syndicated bank loans, in other words, remains open mainly to countries that have not undergone debt crises. Although a few sizeable facilities were arranged for Colombian and Mexican entities in 1992, banks find it relatively expensive to lend to borrowers from debt-crisis countries, owing to requirements that they add to provisions for bad debt for loans to these countries and the tighter capital standards that are now required.[33] Perhaps an indication of what is required to arrange bank participation in loans for the major debtors is given by a "jumbo" loan for the state oil company of Mexico, Pemex. A syndicate of seven Japanese banks loaned Pemex $800 million for five years at LIBOR plus 1.2 per cent, with a partial guarantee by Japan's Ministry of International Trade and Industry (MITI), the first time MITI guaranteed a syndicated loan that was not an export credit.

Thus, when corporate borrowers from major debt-crisis countries—and even the Governments of some—resumed borrowing in 1991 and 1992, they mainly

Figure IV.6.
Gross borrowing on international capital markets by developing countries, 1981-1992



Source: Data of OECD, *Financial Statistics Monthly*.

turned to the bond markets. In 1992 they did so in such numbers that towards the end of the year investment bankers found themselves holding a temporary glut of unsold bonds. The success was in part because bond buyers—mainly institutional investors—did not already hold large amounts of obligations of those countries. Also, all through the 1980s debtor countries had continued to service their bond issues even when they suspended servicing of their bank debt. The issues themselves were quite profitable; e.g., 1992 yields on Brazilian international bond issues ranged between 9 and 13.5 per cent, compared to a riskless investment in United States Treasury bonds yielding 7 per cent. The borrowers were willing to pay such high yields because they were lower than the alternative of borrowing on domestic markets where anti-inflationary monetary policy had forced rates up even higher. Indeed, in the Brazilian case, after no issues in 1989 and one in 1990, Brazilian borrowers brought 17 issues to market in 1991 and 22 issues in the first half of 1992. None of these, however, had a maturity of more than five years.[34]

Access to the bond market has also been enhanced by various forms of guarantee that reduce the perceived risk to lenders, such as collateral, the creditworthiness of international partners in joint ventures or official co-financing. Countries pay a price for entry to the market, however, in that their first borrowing tends to be for a shorter maturity and pays a higher interest rate than subsequent issues, when the borrower has developed a "track record".

SOURCES OF EXTERNAL OFFICIAL FINANCE

For many developing countries, especially low-income countries, international bond markets are not within the reach of most borrowers and even international bank lending is only available in limited amounts. For such countries, official finance still must carry much of the burden of financing international resource transfers. Yet, the trend in the net transfer through such financing has been disquieting. Aside from a one-time doubling of flows in 1990 that was associated with international support of several developing countries that were seriously affected by the situation between Iraq and Kuwait, the net transfer through official finance has stagnated at $16 billion since 1989 (see table A.27). There has been some strengthening of official grants, mainly to Africa, but this has been offset in aggregate by increased interest payments to official creditors, mainly in Latin America.

In some components of the total, there is a cycle to the flows, particularly as regards IMF flows. From 1986 to 1990, the developing countries made net repayments of IMF lending that had been drawn upon heavily during the early years of the debt crisis. In 1991, however, the net capital flow from the Fund to the developing countries became positive for the first time since that repayment cycle began. The 1991 inflow was $1 billion.[35] In 1992, however, the flows reverted to a net repayment of $0.2 billion (see table A.29). The largest net disbursements in both years were to India: $2.2 billion in 1991 and $1.2 billion in 1992.

Countries, in other words, largely continue to repay previous IMF loans to a greater extent than new ones are disbursed. One part of IMF flows, however, has been significantly positive in the past two years. These were the net drawings of about $1 billion in 1991 and 1992 by low-income countries from the Fund's concessional window, the Enhanced Structural Adjustment Facility (ESAF).[36] ESAF funds are disbursed over three-year periods for adjustment support and are repayable over 10 years at an annual interest rate of 0.5 per cent. As at the end of 1992, 23 countries had drawn ESAF funds, 18 of which were from Africa, three from Asia and two from Latin America and the Caribbean. ESAF had been slated to complete its commitment period on 30 November 1992, but was extended for one year. Discussions of a successor mechanism of ESAF are currently under way in IMF, including the possibility of a permanent facility.

Outside special arrangements such as ESAF, the Fund's capacity to lend is basically determined by the quotas of its membership. In years past, quota levels left the Fund without adequate resources and ad hoc borrowings were arranged with individual countries. In an effort to return the Fund to the situation in which it could rely on its own resources to meet expected lending demand, the Ninth General Review of Quotas sought to raise the total by about 50 per cent. In November 1992, more than three years after the Fund initially agreed to the quota increase, the Ninth Quota Review was finally adopted.[37] When all member countries have implemented their quota increases, IMF will have SDR 145 billion in quotas, over $200 billion.

Like IMF after its new quota increase, the World Bank is generally considered to have sufficient "headroom" for the time being to adequately expand lending in its regular programmes. The lending capacity of the International Finance Corporation (IFC), the arm of the World Bank that can lend to and invest in the private sector of member countries, was raised in 1992, when its authorized capital was increased from $1.3 billion to

$2.3 billion. This will allow IFC to increase investment approvals by about 10 per cent a year until 1998. Capital increases are under discussion as well for the Asian Development Bank and the Inter-American Development Bank, to permit an adequate expansion of lending in the rest of the decade.

All these multilateral lending programmes, however, are at close to commercial rates of interest. Funds to expand concessional lending at two multilateral institutions were also expanded in 1992. The largest source of such funds is the International Development Association (IDA), part of the World Bank family. In December 1992, 34 donor countries agreed to the tenth replenishment of IDA, supplying about $18 billion, which along with repayments and interest charges on earlier loans will allow IDA to lend $22 billion to the 64 poorest countries of the world from July 1993 to June 1996. The Asian Development Fund, the concessional arm of the Asian Development Bank, was also replenished in 1992, allowing accelerated lending by this facility through 1995.

Other negotiations to replenish concessional multilateral funds are on the international agenda at the moment. A unique collaboration is the Global Environmental Facility, involving the World Bank, the United Nations Development Programme (UNDP) and the United Nations Environment Programme. Negotiations were about to commence on replenishing this Facility, following the international review of its pilot phase and discussions on its restructuring. Indeed, re-examination, restructuring and replenishment is a general phenomenon in the multilateral system.

Considerable attention has focused in this regard in the past 12 months on the operational agencies of the United Nations, which rely on pledging conferences to mobilize funds for their programmes. Aside from the *sui generis* case of the World Food Programme, developments in the annual pledging conference are quickly reflected in the programme commitments of the agencies. As can be seen in table A.33, the dollar value of resource commitments of UNDP and the other operational agencies fell in 1992, which reflected a decline in the level of support being pledged to these programmes. As these resources are mainly technical assistance and are provided on a grant basis, they are a particularly advantageous form of international financial cooperation and uncertainty about their future needs to be resolved quickly.

The decline in resource commitments in 1992, however, was not unique to the United Nations agencies. The African Development Bank and the World Bank Group decreased their lending, in the former case below the level of 1990. Aside from the increase in IFC commitments, both IDA and the Bank itself agreed to less lending in dollar terms in 1992 than in 1991. The reasons for the drop are not clear, but seem to reflect difficulties in bringing some project and programme negotiations to a close. Certainly, the amount of scrutiny given to project proposals in the multilateral agencies is increasing, as they go through a period of self-evaluation of project performance. In this regard, then, the pause in lending should be temporary and better project design should be the outcome. In the mean while, total multilateral commitments in 1992 were 3.3 per cent lower than in 1991; in real terms, the fall was over 6 per cent (see table A.33).

These developments in multilateral flows are indicative of a broader concern in development finance, namely, the medium-term prospects for official development assistance (ODA). Although estimates of the flow of ODA in 1992 will not be available before June 1993, no sharp break in the trend of recent years is expected, at least not yet. Under that trend, the total value of ODA has risen steadily in dollar terms, reaching almost $56 billion in 1991.[38] The amount has fluctuated, however, in real terms. In 1991 it rose 2.5 per cent, measured in 1990 prices and exchange rates, which was welcomed after it had fallen in 1990 to the 1988 level. The overall trend in the 1970s as well as the 1980s was real growth on the order of 2 per cent a year.

Underlying this long-run trend has been a pattern of flows from donor countries in the 1980s that may now be changing. Under that pattern, ODA from member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development grew by 2.4 per cent a year on average, while concessional economic assistance by Arab donor countries fell, followed by declining flows from the former centrally planned economies as well. The capacity to provide ODA in the two latter groups is considered now to be quite limited. Aid from Arab donors is expected to remain significant, but to decline further, while the economies in transition have lost the capacity for major aid programmes for the time being.[39] The growth of aid in the 1990s thus hinges almost completely on aid from industrialized countries.

Developed countries have reaffirmed on many occasions "their commitments to reach the accepted United Nations target of 0.7 per cent of GNP for ODA", most recently at the Earth Summit in Rio de Janeiro.[40] However, since not all industrialized countries made a commit-

ment and since for others the time-frame for reaching the target has had to be adjusted, there is currently no realistic prospect that the target will be reached in a reasonable period. Recent policy discussions in donor countries rather point to little change or a decline in the overall ODA/GNP ratio.

There has been a major rethinking of aid in several developed countries and budget exigencies have caused aid cut-backs in others, most recently in Italy and Sweden.[41] Sweden has long sustained a major aid effort, having exceeded the United Nations target since the mid-1970s and having raised aid to near 1 per cent of GNP in the period 1990-1991. Italy had become a major donor in the course of the 1980s, accounting for about 15 per cent of the growth of all DAC aid in that period.

In the case of the United States, the growth of the aid budget did not keep pace with the growth of GNP and so ODA fell from 0.23 per cent of GNP in the period 1980-1981 to 0.20 per cent in the 1990-1991 period. Nevertheless, since the United States aid programme is the largest of any individual country, accounting for one fifth of total DAC assistance, even with relatively small growth, the United States provided about 12 per cent of the total increase in DAC assistance during the decade.

Japan, however, has made a major commitment recently to expand its aid programme. Japan already accounts for over one sixth of total DAC aid. The Government of Japan has raised its aid through a series of five-year targets for ODA. Under the fourth target, completed in 1992, Japan disbursed $50 billion. The fifth target is expected to be substantially larger. Since the aid prospects for the United States are clouded, Japan is likely to be the premier donor of the 1990s.

The world's ODA needs cannot, however, be met only out of the increments to Japan's aid and those anticipated from the other established donors, despite the increased aid efforts of some of the rapidly growing developing countries that have started aid programmes in recent years. In this light, the political and economic role of official development assistance needs to be rethought and the image and effectiveness of aid policies need to be re-examined if a voter constituency for international assistance is to be rebuilt where it has weakened in donor countries.

FINANCE FOR THE TRANSITION TO MARKET ECONOMIES

Since 1990, the international community pledged at least $170 billion to assist the former centrally planned economies to transform themselves into market economies.[42] Substantial disbursements were made, although they were far below the commitments. In any event, an assessment of the overall effectiveness of the assistance effort thus far is very difficult to make, as the economic situation in the transition economies is clouded and reliable data are scarce (see chap. II). This also means it is difficult to gauge how much additional assistance is needed. Precisely because the targets of assistance are economies in transition, the programming of assistance is perforce "planning without facts".[43]

DIFFICULTIES IN FINANCIAL COOPERATION FOR TRANSITION

A conventional approach to economic assistance is to design an analytical framework of key macroeconomic relationships involving investment, private and public consumption, domestic saving, exports and imports, the demand for and supply of money, inflation and the exchange rate and then determine the amount of total resources that would be consistent with a specified set of macroeconomic targets. The target level of international assistance is then the financing needed to fill the gap between the required level of resources and the net flows expected from other sources of financing, including domestic resource mobilization. The requisite international assistance package would have to be divided among donor and creditor sources and be further divided into relief from debt-servicing obligations and new flows.

The difficulty in applying this macroeconomic approach to transition economies is in the very first step. The relationships—as between income and savings, monetary relations and investment, imports and the exchange rate and so on—are assumed to be relatively stable in market and mixed economies that are planning adjustment programmes to be supported by international assistance. In most transition economies, those relationships are only now being formed. Any quantitative framework thus has to be based on assumed relationships, perhaps reasoning by analogy with particular market economies even though none will have had the same institutional history as the economy in transition. Moreover, data on many of the basic variables may be non-existent or issued by multiple and inconsistent sources, or

the data may be incompatible with other data or of very uncertain reliability (see box II.2).

The assistance effort, of course, cannot wait for the new relations to emerge or for the statistical authorities to develop a comprehensive and reliable set of data. Rather, it seems that a reasonable part of any programme for finance in such situations would be to arrange generous commitment authority for contingencies. The recipient Government would be expected not to draw on contingent commitments that exceeded its needs and the commercial terms for the funds would discourage unnecessary drawings.[44]

A second set of difficulties in programming aid efforts for transition (or for other) economies is to ensure that a given financial programme leads to the expected net transfer of resources. Foreign resources transferred to a transition economy might end up providing the foreign exchange for offsetting capital outflows if incentives in the domestic economy favour such outflows. If that were the case, there would be no net transfer from the assistance. For assistance to have any effect at the macroeconomic level, it must raise the level of investment relative to the level of domestic saving, just as it must raise the level of imports relative to exports. In other words, assistance could set in motion a sequence of interrelated economic reactions which in the worst case might fully negate the assistance. Much depends on the domestic economic incentives and expectations, particularly concerning the exchange rate. This is thus one argument that providers of assistance may give for the conditionality that they attach to their aid.

A third set of difficulties concerns the efficiency with which aid is used, assuming it is transferred successfully to the recipient. In a market economy, efficiency in production is generally said to be brought about by competition among profit-seeking enterprises, subject to government scrutiny of market behaviour and policy intervention to counter "market failures". Market prices are generally rooted in real costs. Investment decisions—public as well as private—are made with respect to these prices. The private sector is replete with entrepreneurs who make investment errors as well as successes, but bankruptcy serves to place a ceiling on the cost of those errors. Public sector decisions need pass no market test, but may face economic analysis, and in any event are limited in scope. By definition, this mostly does not apply in a transition economy, at least in its early stages. Indeed, the object of policy in a transition economy is to establish the institutional basis for the operation of private enterprises and the appropriate price signals for decision-making. It also requires a financial system that allocates credit effectively and enterprise structures that use credit appropriately.

When domestic prices do not reflect real costs, policy makers can seek guidance from international prices. Thus, a realistic exchange rate and open access to international markets are thought to provide valuable anchors for relative prices in a domestic economy, at least in the sectors making tradable goods and services. However, when moving to international prices means large price changes, the impact on the distribution of real incomes must be considered, as well as on resource allocation. Moreover, establishment of an appropriate legal structure, property rights and effective management practices is needed before resource allocation will be guided by the price system. To be efficient, in other words, international cooperation requires a package of technical assistance in legal and institutional matters, a domestic stabilization programme and structural adjustment policies, as well as appropriate volumes and terms of assistance.

THE EXPERIENCE IN EASTERN EUROPE

The international community first focused attention on assisting the transition process in eastern Europe. From January 1990 until mid-1992, ECU 38 billion (about $48 billion) had been committed to Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Romania.[45] This includes official grants, loans and guarantees of private loans and investments, as well as promised reductions of external debt, in particular for Poland through the Paris Club machinery. Comprehensive information on actual disbursements have not yet been published, owing to delays in reporting by certain countries, but the amounts are believed to be far less than the totals pledged.[46]

Complete information is available on IMF flows, which is of particular importance, given the Fund's leading role in international assistance efforts for transition. Thus, while Hungary was still repaying its previous drawing from IMF in 1990, a new lending programme began for Poland. Assistance efforts gathered steam in 1991, as five eastern European countries drew $3.7 billion from the Fund. However, by 1992, net disbursements were made to only three of those five, plus $14 million for Albania, dropping the total net flow below $1 billion. Disbursement of IMF resources is conditional on meeting national macroeconomic policy targets, as agreed with the Fund, and neither Hungary nor Poland was able to do so consistently. As a result, dis-

bursements to Poland were suspended in mid-1991 and Hungary did not draw all the funds committed for 1992.

World Bank disbursements to the region built up to about $1 billion a year in 1991 and 1992 (including the beginning of an IDA programme for Albania in the latter year), while disbursements by the European Bank for Reconstruction and Development, which had begun operations only in July 1991, were ECU 126 million ($163 million). In general, loans from these agencies, as well as from the EC European Investment Bank, are project loans and are disbursed over several years as the projects are implemented. In addition, five of the countries received structural adjustment loans from the World Bank between 1990 and 1992. These provide more rapidly disbursed balance-of-payments financing to support policy reform efforts.

The Group of 24 donors also established a programme of complementary exceptional financing for general balance-of-payments support. It is a coordinated programme of bilateral assistance that supplements the adjustment programmes with multilateral institutions. It supplied the region with $0.4 billion, $1.2 billion and $0.8 billion, respectively, in 1990, 1991 and 1992. In early 1992, the programmes for Czechoslovakia and Hungary were completed, while those for Bulgaria and Romania required continuing pledges and new programmes of support were sought for Albania and the Baltic Republics.[47]

In addition to disbursements of new resources, the international community sought to relieve the debt-servicing burden, which in certain cases was quite high (see table A.34). Some countries were not, in any case, fully servicing their debt. Thus, the cash-flow consequences of debt agreements were not the same as the amount of debt restructuring covered, although Poland's 1991 agreement with the Paris Club will reduce the $33 billion of eligible debt by one half when fully implemented.[48]

One heavily indebted country that has avoided rescheduling its foreign debt is Hungary. It makes gross interest payments of almost $1.5 billion a year, over 13 per cent of export earnings, and needs to borrow considerable sums merely to roll over maturing debt-servicing obligations. Nevertheless, Hungary has maintained access to international capital markets and indeed was the only eastern European country to borrow significant amounts on the capital markets in 1992. Aside from $211 million in syndicated bank loans, Hungary floated $1.2 billion of bonds in the major markets of Europe, Japan and the United States, to which it returned after a 70-year absence.[49]

Despite these loans and the official financing noted above, total debt of the region fell in 1992, largely owing to the negotiated fall in Poland's debt (see table A.34). With the fall in debt, not to mention a decline in international interest rates, the debt-servicing burden in the region is thus also being reduced.

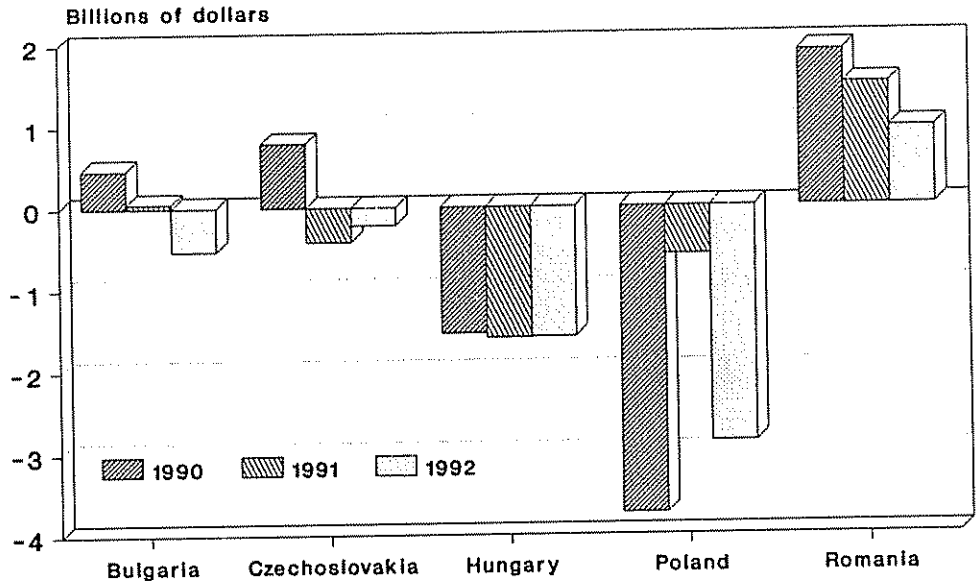
Aside from such debt-related financial flows, the major private capital flow into the region has been direct investment, reaching almost $3 billion in 1992. About 90 per cent of it, however, has gone to Czechoslovakia—or more precisely, the Czech Republic—and Hungary.

When all the financing discussed up to this point is summed along with all residual financial flows in convertible currencies, at least for five of the countries (as data for Albania are more limited), one finds that the net capital flow rose from less than $2 billion in 1990 to almost $8 billion in 1991, falling back to $4 billion in 1992. However, because net interest and dividend payments exceeded $5 billion a year on average, the net transfer of resources on a financial basis was far less. Indeed, for the five countries together it was a net outflow of almost $4 billion in 1990, became a net inflow of $3.5 billion in 1991 and then reverted to an outflow of over $1.5 billion in 1992.

The net transfer on an expenditure basis was even more limited, except in one case. In that country, Romania, the net transfer in convertible currencies in the 1990-1992 period differed significantly from what it had been in the 1980s. In the early years of that decade, Romania embarked on a forced march to debt reduction by squeezing the domestic economy to generate the financial surpluses to repay foreign creditors. Imports were sharply reduced, while export earnings more or less stagnated. As a result, Romania made net hard-currency transfers that averaged about $2 billion a year, although they reached almost $4 billion in 1988.[50] In 1989, the medium-term external debt of the country was eliminated and over $1 billion were added to official foreign reserves. But the economy was exhausted and left with a limited export capacity. In a chaotic 1990, exports dropped by one half, while imports grew by $1 billion, financed largely by exhausting external reserves. But by 1991, substantial international financial support began and thus the net transfer remained significantly positive (see figure IV.7).

The net transfer on an expenditure basis during the period 1990-1992 was small for Bulgaria and Czechoslovakia, while it was significantly negative for Hungary

Figure IV.7.
Net transfer of resources of five transition economies, 1990-1992



Source: Data of ECE, *Economic Survey of Europe in 1992-1993*.
Note: Transfers on expenditure basis in hard currencies.

and Poland. In each country except Poland, where the timing was different, the net resource transfer would have been negative or significantly more negative in 1990 if not for substantial use of official reserves. The new capital inflows in 1991 and 1992 were largely used to rebuild those reserves instead of being passed to the domestic economy as net transfers, except in Romania, as noted above. Rebuilding reserves was, indeed, an objective of policy in Czechoslovakia and Hungary, in order to strengthen international credit ratings and broaden access to international capital markets. Poland sought to increase reserves, *inter alia*, for use in a future debt reduction scheme with its commercial bank creditors. Bulgaria was under a considerable international liquidity constraint, but also sought increased reserves. Indeed, according to the Economic Commission for Europe, severe convertible-currency shortages—and thus unmet needs for international financial resources—remain in Albania and Romania, as well as Bulgaria.[51]

In virtually each case, in other words, the improvement in the net transfer on a financial basis that was engineered by the international community and by the private flows that the countries were able to attract did not significantly affect domestic expenditures in 1991 and 1992. Yet, this was during two years in which the combined output in these five countries pictured in figure IV.7 declined 17 per cent, while investment declined more (see table A.10). Perhaps the focus on building reserves was misplaced.

Whether or not that was the case depends on how the net transfers might have been used in this first stage of transition. The institutional locus of decision-making was in flux and the price system itself was being recreated. Finance was not the sole constraint on enterprise or even government investment at this time. In other words, additional resource transfers would probably have raised consumption. In the context of falling GDP and the uneven impact on personal incomes, this might have eased the strain of the first phase of transition.

POST-USSR: NEW FINANCE FOR NEW COUNTRIES

All the complications in international cooperation to assist the transition to market economies in eastern Europe applied as well to the successor States of the Soviet Union. But, there were additional complications. First, the eastern European economies are comparatively small and international trade accounted for a larger share

of economic activity there than it did in the Soviet Union. Thus, if a strategy were followed to introduce more realistic relative prices into the domestic economy through liberalization and stabilization of the foreign exchange market, it would more quickly penetrate deep into the eastern European economies than into the Soviet Union. Second, beginning in 1992, there was no Soviet Union, although there continued to be one currency used by all the successor States, at least at first. Thus, unlike eastern Europe, the money supply of several countries was jointly determined by national actions that were not coordinated.

All of the successor States of the USSR began 1992 with their own central banks, although the only money that each bank issued initially was the Soviet rouble. At first, it was thought that a common currency would facilitate payments and cement economic cooperation among the successor States. In practice, however, disputes and mutual recriminations on prices and rouble settlement procedures hindered rather than advanced the revival of trade flows that had been disrupted by the dissolution of the Union. Several countries, and especially the Russian Federation, began to realize that keeping the rouble as the currency of all the succesor States of the Soviet Union seriously aggravated the difficulties of national macroeconomic management.

Central banks of all the Republics could and did issue rouble credits to their enterprises. However, as Russia had a substantial trade surplus with the other Republics on the whole, their enterprises made net payments to Russia, above all for fuel and energy. This swelled bank deposits in Russia, and thus its money supply. By July 1992, Russia attempted to check the inflationary pressure created by the inflow of roubles by introducing "correspondent accounts" between the Central Bank of Russia and central banks of other successor States. These were to be the only legal channel for inflows of bank-account roubles from other former Republics. The main idea was that the accounts were to be credited with the rouble value of a country's exports to Russia and debited when payments were made for imports from Russia.[52]

The system did not work smoothly, owing to the very large trade surpluses that Russia had with the various other States. A distinction arose between the "heavy" rouble in Russia and Kazakhstan, and the "weak" rouble in other States, especially those of Central Asia. In other words, the correspondent accounts began to serve as mechanisms for bilateral barter in which the energy-exporting States tended to run substantial trade surpluses without there being any obvious mechanism to encourage them to raise their imports from the weak-rouble States. Thus, in January 1993, the members of the Commonwealth of Independent States (CIS) agreed to create the Interstate Bank in order to facilitate mutual account settlement among the States of the Commonwealth so that surpluses earned with one trading partner could be used to offset deficits with another.[53]

There was also the question of maintaining the single currency. The various States had different macroeconomic situations and while each central bank could create bank roubles, only Russia created cash. Widespread shortages of cash roubles developed. Estonia was the first to respond when it introduced a full-fledged national currency, the *kroon*, in June 1992. The other Baltic States, Azerbaijan and Belarus also introduced their own currencies or surrogates (coupons), and Georgia and Turkmenistan reported their intention to do so later. Ukraine, which pulled the rouble from circulation late in 1992, had earlier introduced a transitional currency, the *karbovanets*, and planned to introduce the *hryvnia* late in 1993 or early 1994. Moldova and Uzbekistan have begun to use both their own transitional currencies and the rouble, while Armenia, Kazakhstan, Kyrgyzstan and Tajikistan continue to use the rouble as of April 1993. They do not rule out the introduction of their own currencies, however, if Russia introduces a new, Russian rouble and current policy coordination efforts fail.

Within the Russian Federation itself there was a further difficulty. For reasons having mostly to do with domestic matters rather than the issuance of roubles by foreign central banks, inflation became very rapid especially in the second half of 1992, as discussed in chapter II. Foreign currency had an obvious attraction as a store of value. But with ever-present delays in payments settlement by banks, hard currency also became the preferred means of exchange for both businesses and individuals. Despite repeated statements of intention by the Government to banish hard currency from retail trade and services, it continued to circulate.

Not surprisingly in this environment, the exchange value of the rouble plummeted. With high inflation, a currency's exchange rate is generally expected to depreciate to offset the inflation, and this happened (see box IV.2). But even before the 1992-1993 depreciation of the currency, the rouble was widely considered very greatly undervalued. For example, even at the exchange rate in effect at the beginning of 1992, Russia's GNP per capita would have been so low in dollars as to place it in the World Bank's grouping of "low-income countries".[54]

Clearly, at that exchange rate, domestic currency equivalents of international prices would not give appropriate guidance to domestic resource allocation.

For these reasons, plus a lack of policy consensus among components of the Government of Russia, the international assistance effort was most difficult to programme. The inconsistency in policy and the severe economic deterioration, coupled with debt-servicing difficulties, had cut the successor States off from access to private financial markets. Indeed, the last borrowing arrangement by the Soviet Union was in 1990.

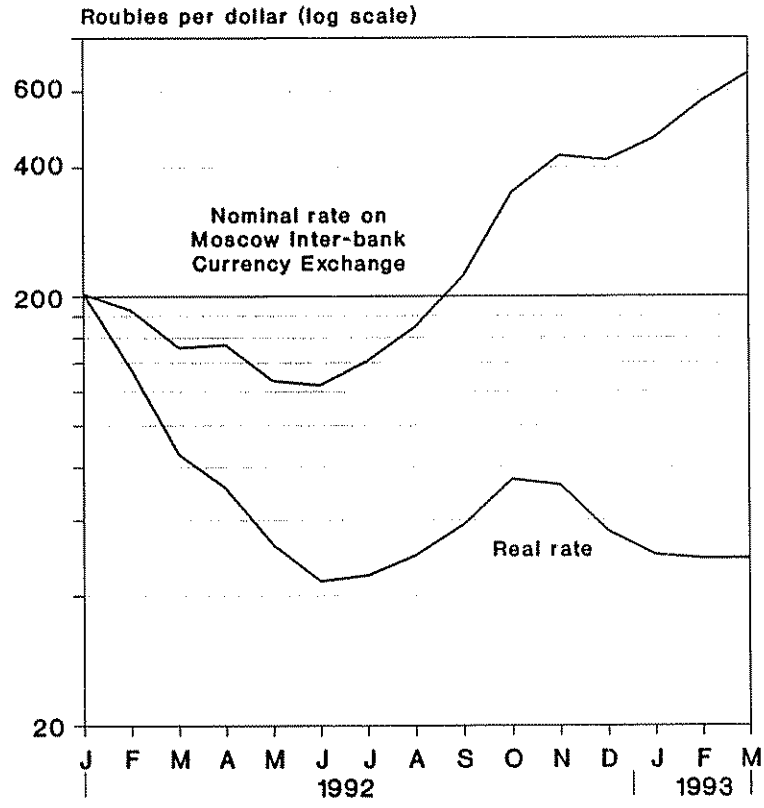
Also, despite very considerable interest of foreign investors in establishing joint ventures in the successor States, there has been virtually no inflow yet of foreign direct investment. The Economic Commission for Europe reported that the registry of joint ventures in the former Soviet Union contained over 15,000 projects at the end of 1992, up from almost 4,000 in 1991. Data on

BOX IV.2.

What is a rouble worth?

AT THE END of March 1993, it took almost 700 roubles to purchase a dollar on the Moscow Inter-bank Currency Exchange (MICE), which made the rouble "worth" less than 15 per cent of a United States penny. When 1993 began, over 400 roubles were required to buy a dollar. Six months before that, the dollar traded in Moscow for about 124 roubles per dollar, while during the first six months of 1992, the rouble had strengthened. Clearly some significant things happened in the second half of 1992.

Nominal and real exchange rate of the rouble, 1992-1993



Source: UN/DESIPA, based on national data (real rate is deflated by Russian/United States differential in CPI inflation).

First, certain changes were introduced in the requirements and mechanisms for buying and selling foreign exchange in the Russian Federation. In essence, this completed the dismantling of the highly convoluted Soviet system for mobilizing and allocating foreign exchange.[a] Before July 1992, currency was traded at multiple rates of exchange that were set by the Central Bank of Russia (CBR). It fixed the "special commercial rate" (55 roubles per dollar), which was used to calculate the rouble equivalent of the 40 per cent of foreign exchange revenues that exporters were required to surrender to the state hard-currency reserve and it also set the so-called "market" rate (90-110 roubles per dollar) at which exporters were required to sell an additional 10 per cent of their revenues to the CBR Stabilization Fund. The exporters could use the balance of their foreign-currency earnings to purchase imports or they could sell the resources on a currency exchange at a market-determined rate.

As of July, the rate on the MICE, the largest market, became the country's single legal exchange rate.[b] The "special commercial" and "market" rates were cancelled. Exporters were now required to sell 30 per cent of their hard-currency revenue to the Currency Reserve of the Central Bank of Russia and another 20 per cent was to be sold to the inter-bank currency market, but all sales were to be at the current MICE rate of exchange. That rate was determined in twice-weekly currency auctions and since late July 1992 the current MICE rate has served as the official exchange rate. Dollars can also be bought at numerous retail banking outlets that generally follow the MICE rate, plus commission.

The Russian Federation, in other words, has had a unified exchange rate and a floating currency since the summer of 1992, although convertibility was limited to commercial transactions. The float has been managed by the Central Bank, mainly using foreign exchange from the mandatory sales of export earnings that were noted above. Even before July, however, the Bank supplied a considerable portion of the foreign exchange coming onto the MICE and thus influenced the unrestricted rate.

In early 1992, there had been some thought that an exchange rate on the order of 50 roubles per dollar might be sustainable once Russia's new trading in foreign currency settled down. By May the exchange rate had risen from about 200 roubles to the dollar in January (at which there had been little trading) to under 130 roubles per dollar. In January prices, the exchange rate was almost at the 50-rouble level. In addition, the inflation rate had slowed down and the growth of the money supply seemed under control. By June the exchange rate was at 43 roubles in "real"—that is, constant—prices. Then, however, Russia's money growth exploded, as discussed in chapter II, inflation began to accelerate and the exchange rate plummeted. The real rate fell by almost 50 per cent by October, but as of early 1993 it had returned to about the level of mid-1992 and it seems to have been roughly keeping pace with inflation since (see figure).

In this limited sense, the exchange rate appears to have stabilized in real terms. However, the foreign exchange market is quite thin. The total volume of dollars sold through the exchanges in 1992 was less than $3 billion—although most of that in the second half of the year—compared to $38 billion of exports. Thus, freeing the rouble did not mean that the exchange rate began to effectively translate world market prices into rouble prices where they could offer competitive alternatives to domestic suppliers. Far greater amounts of foreign exchange would have had to be available for imports for this to occur.

One phenomenon that appears to have kept foreign exchange off the market has been the reported practice of firms not remitting all export earnings, identified by the World Bank as a form of "capital flight".[c] Indeed, the elimination of the multiple exchange rates, which Russia's inflation had made confiscatory, was intended to reduce the disincentive to bringing foreign exchange earnings back home. However, according to the World Bank, mandatory sales of currency to the CBR did not increase in the second half of 1992, after the new rates went into effect in July. Other disincentives apparently also existed which continued to discourage exporting firms from converting foreign exchange earnings into local currency. For example, exporters generally need some of their revenue to cover local costs, but the large, subsidized credits

provided by the CBR in the second half of the year, as discussed in chapter II, provided a cheaper alternative.[d] By the same token, real interest rates on deposits in Russia were negative, while they were positive internationally and in Western Europe were quite high (see tables A.7 and A.8). All these factors appear to hold lessons for increasing the flow of foreign exchange into the market.

[a] This evolution up to April 1992 was described in "How much is a rouble worth?", in *World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 85-86.

[b] Initially, only the United States dollar was traded on the MICE, but in February 1993 separate trading for the deutsche mark was introduced. Nevertheless, the official rouble/DM exchange rate continues to be determined through the rouble/dollar rate, as are rates for all other currencies. The Asia-Pacific Inter-bank Currency Exchange in Vladivostok, which opened for dollar trade at the end of 1992, started trading in Japanese yen in April 1993.

[c] See World Bank, *World Debt Tables, 1992-93*, vol. 1 (Washington, D.C., December 1992), p. 33.

[d] The point was made by David Lipton and Jeffrey Sachs in "Prospects for Russia's economic reforms", *Brookings Papers on Economic Activity*, 1992, No. 2, pp. 241-242.

foreign direct investment itself were available only for Russia where over 3,000 investment projects were registered at the end the year; but only about $100 million had been received in 1992 in investment flows.[55]

Most of the investment projects were quite small, especially the ones that were wholly foreign-owned. Those were registered mainly in wholesale and retail distribution and services. Other foreign investments have been concentrated in energy and agriculture and in computer software development and other services. Almost half the investments were by Western European companies, although China and eastern European countries have increased their investment activity, primarily in retail trade but also in energy and raw materials.

In 1990 and 1991, the USSR heavily drew down its official foreign reserves, but large-scale arrears on interest and principal payments emerged anyway. The successor States of the USSR thus began their existence with very large debt-servicing obligations, including arrears of $5 billion, and no firm agreement as to whose obligations these were. An arrangement had been made in late 1991 with the Group of Seven major industrial countries for "joint and several responsibility" for the debt, under which if one participating Republic did not make its proportionate share of a payment, the others would pay. In March 1992 the principle was adopted by the 11 member States of the CIS.

In a series of agreements, however, Russia assumed the debt obligations of each State, which agreed in exchange to forgo its share of the former Union's foreign assets, except in the case of Ukraine.[56] Although Russia has sought to extend the arrangement to Ukraine, the latter preferred to carry its share of the debt—over 16 per cent of the total—and to be allocated its share of the assets. Agreement between Russia and Ukraine has proved elusive, which has been an additional complication in negotiations with creditors who prefer a single, fixed counterpart with which to negotiate.

In any event, very small debt-servicing payments were made in 1992—for example, payments were made on bonds and other securities—and after only six months, arrears had risen to almost $10 billion, despite repeated deferrals of overdue principal payments by the Paris Club and commercial bank creditors. The total debt was estimated at $76 billion as of 1992 (table A.34), excluding any obligations incurred by the successor Republics themselves.[57]

By conventional criteria, this debt situation would not be judged a critical case. If all the debt were assumed by Russia, it would amount to about twice the value of its merchandise exports. By comparison, in the mid-1980s, the average ratio of debt to exports of goods and services of a sample of 15 heavily indebted developing countries was more than two thirds higher (see table A.36). If estimates of the export of services were added and if exports of Ukraine were included, the post-Soviet ratio would be even lower. Moreover, although Russia's foreign reserves have been largely exhausted and its traditional export capacity in oil and gas, gold and other minerals was greatly weakened by inadequate investment, its potential exports are substantial. It is also owed almost $145 billion by developing countries, although most of this debt can hardly be recovered.[58]

Yet, the situation of the debt of the former Soviet

Union is, indeed, considered severe. One indication is that in secondary market trading in New York, the average price of the commercial bank debt of the former USSR fell from 55 per cent of face value in November 1991 to 16 per cent at the end of 1992.[59] More than anything else, these price changes probably reflect the political and policy stalemate at the time. As transition policies are affirmed and uncertainties are reduced in 1993, the perception of economic prospects of the country, including its debt-servicing capacity, will improve.

For the time being, however, the country was clearly in need of a further reprieve from the postponed 1992 and new 1993 debt-servicing obligations. In April 1993, after almost a year of negotiations, the Paris Club agreed to the long-term rescheduling of $15 billion of debt-servicing payments that were due in 1993, with a further rescheduling possible in 1994. A comparable agreement with private creditors was still under negotiation at the time of writing.

Besides the debt relief, very large sums of financial support have been pledged by the international community to the successor States of the Soviet Union. As of November 1992, ECU 72 billion (over $90 billion) had been pledged to the USSR or the successor States. Almost all of it was bilateral assistance and most of that was by European countries.[60]

Large amounts, however, have not been disbursed for legal and financial reasons. Also, considerable sums were for export credits for investment goods when investment was in steep decline. Moreover, some financing was contingent on the recipients' having established adjustment programmes with IMF or the World Bank and it had been difficult to reach an agreed programme.

The Baltic States of Estonia, Latvia and Lithuania were the first to negotiate full stand-by arrangements with IMF, but this was only in the autumn of 1992. The World Bank and the European Bank for Reconstruction and Development also agreed to loan programmes for the Baltic States, but it was late in the year and disbursements in 1992 were thus small.

Russia made a limited, short-term arrangement with IMF in August, which it was to replace with a regular stand-by arrangement. The initial agreement expired in January 1993, but as of April no successor arrangement has been agreed. The World Bank's first arrangement for Russia was also in the summer of 1992, a $600 million "rehabilitation" loan to be used to finance imports. However, by the end of the year only $2 million of that loan had been disbursed. Moreover, $6 billion in credits for a rouble stabilization fund to be arranged through IMF had been pledged in 1992, but the fund was never established.

The Russian experience was perhaps the clearest example of the difficulties in financial cooperation for transition noted previously. But the needs in Russia and the other successor States of the USSR remain great. With this in view, the international community proposed a new package of assistance for the Russian Federation in April 1993. The package commits up to $28 billion, including about $3 billion from a new Systemic Transformation Facility at IMF to be available through 1994 that carries conditionality that is to be specifically tailored for the countries in transition and is different from standard Fund lending.[61] It also contains $5 billion of World Bank balance-of-payments loans for structural reform, imports of equipment for the oil sector and a second critical imports loan. In addition, up to $10 billion of export credit guarantees will be offered by government agencies of the Group of Seven, in cooperation with the World Bank. Moreover, IMF would be ready to support a comprehensive macroeconomic stabilization programme with a stand-by arrangement of up to $4.1 billion. A rouble-stabilization fund of $6 billion—in effect, the same arrangement that had not been established a year earlier—was again made available.

This new package was said to be based on a better understanding of both the urgency of the assistance and the distinctive character of the recipient's requirements and circumstances. Disbursement of most components of the package remains contingent, however, on implementation of economic stabilization policies, which is, indeed, the intention of the Government, as recently reaffirmed at the meeting of the Deputy Prime Minister and Foreign Minister of the Russian Federation and the Foreign and Finance Ministers of the Group of Seven.[62]

At the same time, internationally supported programmes are also being developed for other successor States of the USSR. These include potential access to the new Systemic Transformation Facility at IMF, as well as other forms of assistance from bilateral and multilateral creditors. As of mid-April, negotiations with multilateral institutions were at an advanced stage in at least three States. In other cases, states of conflict and political instability have hampered efforts for economic stabilization.

NOTES

[1]The importance of the issue continues to be highlighted by the General Assembly of the United Nations, as in resolution 47/178 of 22 December 1992, in which the Assembly requested, *inter alia*, that the present *Survey* address the main issues in the net transfer of resources between developing and developed countries.

[2]The net transfer is measured here as the balance of payments on goods, non-factor services and labour with its sign reversed. As such it is derived from balance-of-payments data that are subject to major inconsistencies among countries. In principle, the sum of the net transfers of all countries should be zero, with surpluses exactly offset by deficits. In fact, the sum of identified net transfers is usually positive and often large, in some years over $30 billion. This means that there is some combination of overstated net inflows and understated net outflows in the underlying national data (problems in various components of the data were described in IMF, *Report on the World Current Account Discrepancy*, September 1987).

[3]Because rather detailed data are required to estimate financial flows, it is necessary to work with a smaller number of developing countries in regional and analytical aggregates that discuss the financial composition of the net transfer as opposed to its overall amount. For this reason, the net transfer estimates in tables that give a financial breakdown (in particular, table A.27) differ somewhat from the net transfer as presented in table IV.1. The Secretariat uses a sample of 93 countries for its financial analysis, the major difference from the full panel of countries being the exclusion of the major oil exporters of the Middle East.

[4]For a formal derivation of the net transfer in terms of national income accounting concepts and its relation to components of the balance of payments, see *World Economic Survey, 1986* (United Nations publication, Sales No. E.86.II.C.1), annex III.

[5]The size of the increase in the Latin American net transfer in 1992 was very much affected by developments in Brazil, where the net transfer and trade balance did not swing as in the rest of the region. Indeed, Brazil spent almost $14 billion less than it produced in 1992, compared to a spending shortfall of $7 billion in 1991. In other words, Latin America, excluding Brazil, had a positive transfer of almost $21 billion in 1992, after essentially no net transfer in 1991 and a negative transfer of $19 billion in 1990.

[6]There are several widely used concepts of the net transfer of resources, of which this *Survey* uses two. The main concept used in this chapter, because it is directly related to national income concepts of investment, domestic savings and trade, is denoted the "net transfer (expenditure basis)" in the statistical annex tables. The concept that is derived as a net cash flow of capital and investment income is denoted the "net transfer (financial basis)". The relationship of these measures to concepts used by OECD and the World Bank was discussed in *World Economic Survey, 1990* (United Nations publication, Sales No. E.90.II.C.1 and corrigenda), pp. 79-81.

[7]The first grouping is defined as all developing-country members of IMF that "incurred external payments arrears or entered into official or commercial bank debt-rescheduling agreements during 1986-1990". There were 72 such countries and 50 economies in the other grouping (IMF, *World Economic Outlook*, May 1993, statistical appendix).

[8]The sum of net dividends and interest is not quite the same as "net investment income", which is often seen in balance-of-payments data. This also includes reinvested earnings in direct foreign investment. In principle, such earnings should be treated as though they were paid out as income and returned to the enterprise as new investment (see IMF, *Balance of Payments Manual*, fourth edition (Washington, D.C., 1977), pp. 101-102). Since many countries do not capture reinvested earnings in their balance-of-payments data, this *Survey* standardizes its presentation of the data on the financial components of the net transfer of resources by reporting "net dividends and interest" in lieu of net investment income and direct investment is shown net of reinvested earnings (see tables A.26 and A.27).

[9]As may be noted in figure IV.2, the United Kingdom also came to absorb considerable net transfers from abroad in the late 1980s. As in the United States, there had been a rapid build-up of indebtedness and an unsustainable, albeit different, set of macroeconomic policies (see chap. II). After some balance-of-payments correction related to economic recession, the resource transfer to the United Kingdom virtually doubled in 1992 owing to the substantial overvaluation of the pound sterling and the heavy import-penetration that resulted, leading to the floating of the pound in September (see chap. III).

[10]Based on "1992nen-chü no tainaigai shōken-tōshi no dōkō", in *Nippon Ginko Geppou*, Bank of Japan, April 1993.

[11]Data of the Bank of Japan, *Balance of Payments Monthly*.

[12]Data include east Berlin and are based on national income accounts, as per *Wirtschaft und Statistik* (Statistisches Bundesamt), 1993, No. 1 (January), p. 12. Transfers are defined here more broadly than government financial transfers *per se*, although these, too, were large at DM 132 billion and DM 163 billion in 1991 and 1992, respectively.

[13]For a recent demonstration of this vulnerability, see World Bank, *Global Economic Prospects and the Developing Countries, 1993* (Washington, D.C., April 1993), pp. 20-26.

[14]The estimated stock of debt in 1992 is based mainly on World Bank estimates, which valued non-dollar debt in dollars at end-September exchange rates. Final data will be in terms of end-December exchange rates, when the dollar had appreciated by some 5 per cent against the yen and almost 15 per cent against the deutsche mark. In other words, the final data are likely to show a smaller stock of debt for 1992.

[15]For a discussion of how this has operated, see report of the Secretary-General entitled "External debt crisis and development: recent experience under the international debt strategy" (A/47/396 of 10 September 1992), pp. 14-21. In addition, a variety of significant issues in interpreting secondary market prices is raised in World Bank, *World Debt Tables, 1992-1993*, vol. 1 (Washington, D.C., December 1992), appendix IV.

[16]The United Nations Secretariat has regularly assessed the progress of international attempts to address the developing-country debt crisis, as in the *World Economic Survey* and a series of reports to the General Assembly under the agenda item "external debt crisis and development". The World Bank, which, like IMF, is close to the actual negotiations, monitors and analyses the debt negotiations in greater detail in its annual *World Debt Tables* and its quarterly publication, *Financial Flows to Developing Countries*.

[17]For details of the restructuring of commercial bank debt, see table A.38.

[18]See, for example, Stijn Claessons, Ishac Diwan and Eduardo Fernandez-Arias, "Recent experience with commercial bank debt reduction", World Bank Policy, Research and External Affairs Working Paper No. 995, 1992.

[19]For a summary of Paris Club agreements, see table A.37.

[20]For details of the different treatments, see UNCTAD, *Trade and Development Report, 1992* (United Nations publication, Sales No. E.92.II.D.7), pp. 58-59.

[21]In 1991: Nicaragua (December) and Benin (December); in 1992: the United Republic of Tanzania (January), Bolivia (January), Equatorial Guinea (April), Uganda (June), Togo (June), Zambia (July), Honduras (October), Mali (October), Guinea (November), Sierra Leone (November) and Ethiopia (December); in 1993: Mauritania (January) and Mozambique (January).

[22]IMF, Financial Statements, quarter ended 31 January 1993.

[23]Fixed investment will rise even in cases of mergers or privatization if the receipts from the sale of the entity are invested, which is also more likely to occur in the high-growth Asian economies than in the current environment of Latin America.

[24]For an analysis of this in the case of Asian and Pacific developing countries, see Barry Herman, "International finance of developing Asia and the Pacific in the 1990s", Economic Bulletin for Asia and the Pacific, vol. XLII, No. 1/2 (June/December 1991), pp. 14-36.

[25]See report of the Secretary-General on trends in foreign direct investment (E/C.10/1993/2, of 18 January 1993).

[26]See report of the Secretary-General entitled "The growth of foreign direct investment in the 1980s: trend or bulge?", (E/C.10/1993/3, of 18 January 1993).

[27]World Bank, Global Economic Prospects..., p. 36.

[28]Data of the International Finance Corporation, as published in World Bank, Financial Flows to Developing Countries: Quarterly Review (April 1993), pp. 9-10.

[29]See, for example, World Bank, Global Economic Prospects..., chap. 4.

[30]See, for example, Joseph Stiglitz, "Financial markets and development", Oxford Review of Economic Policy, vol. 5, No. 4 (winter 1989), pp. 55-68.

[31]On a balance-of-payments basis, however, the net United States purchases of new Latin American stocks issued in the United States were half this amount (see United States Department of Commerce, Survey of Current Business, March 1993, table 6).

[32]World Bank, World Debt Tables..., pp. 125-126.

[33]Bank for International Settlements, International Banking and Financial Market Developments (November 1992), p. 27.

[34]For a complete listing, see World Bank, World Debt Tables..., p. 115.

[35]These data exclude IMF lending programmes with transition economies, as the latter are not classified as developing countries for purposes of the World Economic Survey.

[36]ESAF is the fourth concessional lending programme that was created at IMF, the others being the subsidized Oil Facility, the IMF Trust Fund and the Structural Adjustment Facility (see table A.29). All were temporary and introduced with different goals in mind (see Reginald Green, "ESAF renewal: project decision or structural entry point", research papers on international monetary and financial issues for the Group of Twenty-Four, February 1993; forthcoming in UNCTAD, International Monetary and Financial Issues for the 1990s, vol. 3 (UNCTAD/GID/G24/3)).

[37]Under the Fund's Articles of Agreement, the Ninth Quota Review should actually have taken place in 1988 and the next quinquennial review was thus due in 1993 (see IMF, Annual Report, 1992 (Washington, D.C., August 1992), pp. 70-71).

[38]ODA includes technical assistance and certain categories of debt relief, as well as financial flows to developing countries (see OECD, Development Co-operation, 1992 Report, report of the Chairman of the Development Assistance Committee (Paris, December 1992), part 3.

[39]Ibid., p. 95.

[40]See, for example, para. 33.13 of "Agenda 21", in Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992, vol. I. Resolutions adopted by the Conference (United Nations publication, Sales No. E.93.I.8).

[41]World Bank, *Global Economic Prospects...*, p. 45.

[42]As of the end of 1992, ECU 119 billion (about $150 billion) had been pledged, excluding resources for the eastern *Länder* of Germany provided by the rest of Germany (see ECE, *Economic Survey of Europe in 1992-1993* (United Nations publication, Sales No. E.93.II.E.1), table 4.1.3). Additional commitments were made in the first four months of 1993.

[43]The term seems to have originated in a different context in Wolfgang Stolper, *Planning Without Facts: Lessons in Resource Allocation from Nigeria's Development* (Cambridge, Massachusetts, Harvard University Press, 1966).

[44]The size of the international financial commitments for economic transition indicates an appreciation of the scope of the tasks at hand, but a great deal of those resources could only be disbursed under quite restrictive conditions and were not adequately fungible.

[45]Data were the most recent available, as of early April 1993 (see ECE, *Economic Survey of Europe...*, table 4.1.3).

[46]By agreement among donor and creditor countries, the information is to be supplied to the Organisation for Economic Co-operation and Development, which will make it available to the international community. The discussion that follows is based largely on multilateral sources and the review of financing for transition by the Economic Commission for Europe, as published in *Economic Survey of Europe...*.

[47]As of 3 February 1993, only 75 per cent of the requested target amounts had been pledged for 1992 and 1993 (ECE, *Economic Survey of Europe...*, table 4.1.6).

[48]On the multilateral and bilateral arrangements under this Paris Club agreement, see *World Economic Survey, 1991* (United Nations publication, Sales No. E.91.II.C.1), p. 80.

[49]Czechoslovakia, the other country that maintained access to the market, did not arrange substantial new funding in 1992.

[50]*World Economic Survey, 1991...*, p. 79.

[51]"...commitments of bilateral support to fully meet their estimated financing needs were not forthcoming and even firm commitments were disbursed only with a delay" (ECE, *Economic Survey of Europe...*, chap. 4, section 4.1 (v)).

[52]In addition, the Central Bank of Russia issued "technical credits" to partially finance the surpluses in Russia's trade balances with the other countries.

[53]The bank will not attempt to coordinate monetary and credit policies of the individual States.

[54]In fact, the World Bank classifies the Russian Federation as an "upper middle-income country" (see World Bank, *World Debt*

Tables, 1992-93, vol. 1 (Washington, D.C., December 1992), pp. 136-137).

[55]See *Economic Survey of Europe...*, table 4.1.2.

[56]The three Baltic States did not participate since they did not consider themselves responsible for the debt of the former USSR.

[57]For a fuller report on the treatment of the debt of the former Soviet Union, see World Bank, *World Debt Tables, 1992-93...*, chap. 2.

[58]Though in 1992 Russia did receive over $100 million in hard currency and close to $2 billion in kind in partial repayment.

[59]Based on data supplied by Merrill Lynch and Company.

[60]For details, see *Economic Survey of Europe...*, table 4.1.3.

[61]The Facility is meant as a precursor to a standard IMF-supported adjustment programme and requires, in effect, that measures be taken that would signal the Government was on an appropriate adjustment path. The loans, which will be financed out of regular IMF resources, would be disbursed in two six-month instalments and carry standard interest charges, although they would be repayable over a period (10 years, with a 4.5-year grace period) that is longer than normal. All transition economies will be eligible to draw from the Facility, as might other countries experiencing similar problems (for details, see *IMF Survey*, 3 May 1993).

[62]See Chairmen's Statement, "G7 Joint Ministerial Meeting and the following meeting with Russian Ministers", Tokyo, 15 April 1993.

V

Energy: recent developments and emerging trends

THE PRESENT CHAPTER consists of two sections. The first section provides an overview of recent developments in the international oil market and points to the increasing demand for OPEC oil, particularly in light of the continuing decline of oil output in the United States of America and the former Union of Soviet Socialist Republics. It also discusses the state of the oil industry in the successor States of the former Soviet Union, and provides an analysis of the outlook for the oil market in the 1990s.

The second section addresses the issue of the energy/carbon tax as a means to curb carbon dioxide emissions and combat global warming. It provides a brief analysis of the recent proposal of the European Community to levy new taxes on major sources of energy as a way of reflecting environmental costs in the final price of energy. The second section also addresses the subject of energy subsidies and their impact on global emissions.

THE INTERNATIONAL OIL MARKET

For the first time in several years, the international oil market witnessed a period of relative stability throughout most of 1992. Since the end of the Persian Gulf war in early 1991, world oil supply remained closely in line with demand despite the sharp decline in oil output from the former Soviet Union and the continuing embargo on Iraqi oil. Gradually resumed production from the war-damaged oilfields of Kuwait and output at near capacity from other OPEC members matched the market's need for oil.

With the increase in the OPEC supply and the near-stagnation in global oil demand, oil prices weakened in the first two months of 1992, falling to about $16 a barrel, or $5 below OPEC's reference price of $21 per barrel. However, in the following months, prices strengthened somewhat as anxiety over the fall in oil exports from the Russian Federation, and increasing doubt regarding the resumption of Iraqi oil exports, replaced concerns over the possibility of overproduction by OPEC. Oil prices weakened again in late 1992 owing to mild weather conditions, and remained in the $17-$19-a-barrel range through mid-1993.

The evolution of oil prices in the period ahead will depend on a variety of factors, the most important of which will be the timing and strength of the economic recovery in industrialized countries and elsewhere, the volume of oil exports from the successor States of the former Soviet Union and the ability of OPEC to restrain output, particularly when the embargo on Iraqi oil is lifted. It will also depend on the implementation of ongoing and announced plans for expanding oil production capacities in major OPEC countries and the resulting margin of spare capacity in the world oil supply system.

In 1992, world oil demand remained relatively weak owing, in large measure, to the sharp drop in consumption in the former Soviet Union and, to a lesser extent, to mild weather conditions in the northern hemisphere in the fourth quarter of the year and stagnation in the industrialized countries. It had risen by 0.4 million barrels per day, or 0.6 per cent, relative to 1991. Total oil consumption in the industrialized countries increased moderately. The largest increase was in the United States, reflecting the rebound in economic activity in the second half of the year. In eastern Europe and the successor States of the former Soviet Union, oil consumption continued to decline as the level of economic activity continued to fall. In the developing countries, growth in total oil consumption was relatively strong, especially in the rapidly growing economies of East and South-East Asia.

World oil output edged up slightly, and OPEC production reached its highest level since 1980. Output in the successor States of the former Soviet Union contin-

ued to decline sharply. Russian oil output reached its lowest level in almost two decades because of technical and logistic problems as well as the general disorganization of its oil industry. Production in the United States resumed its downward trend after a brief recovery in 1991. Elsewhere, production increased moderately.

An important factor that helped balance supply and demand in the aftermath of the loss of exports from Iraq and Kuwait was the ability of OPEC to expand capacity quickly and significantly. While initially this allayed fears of supply shortfall, it has since prompted new concerns over oversupply in the short term.

In view of the continuing decline of oil output in the United States and the former Soviet Union, most of the world is growing increasingly dependent on OPEC for additional supplies. At present, OPEC produces 40 per cent of the world's output and possesses 77 per cent of the world's proved reserves of one trillion barrels. By comparison, OPEC's share of the oil market was about 30 per cent in 1985. The Persian Gulf contains two thirds of those reserves and will be the most significant source of incremental supply in the future. Despite such vast oil reserves, however, most of the OPEC countries would need to expand production capacity as the demand for oil increases with the expected resumption of world economic growth. At present, the ability of most of the producers of the region to expand capacity on a long-term basis is constrained by domestic financial conditions.

The uncertainty over OPEC's ability to expand capacity in the near future may be partly allayed by the new reintegration of the oil industry, in which the major international oil companies are being offered joint ventures and partnerships in some OPEC countries that previously nationalized their oil industries. Similarly, producers are expanding investments at the downstream end of consumer markets. These developments appear to signal a new era of cooperation among the principal participants in the energy market. A key objective of such cooperation should be to provide security of supply to consumers and security of markets to producers in a mutually acceptable framework beneficial to all. The crisis in the Persian Gulf once again brought into sharp focus the need for such cooperation and led to preliminary talks and exchanges of views between producing and consuming countries and international oil companies. The continuation of this dialogue will be essential in view of the very large investments, probably exceeding $1 trillion for the rest of the decade, that may be necessary to match increased demand.

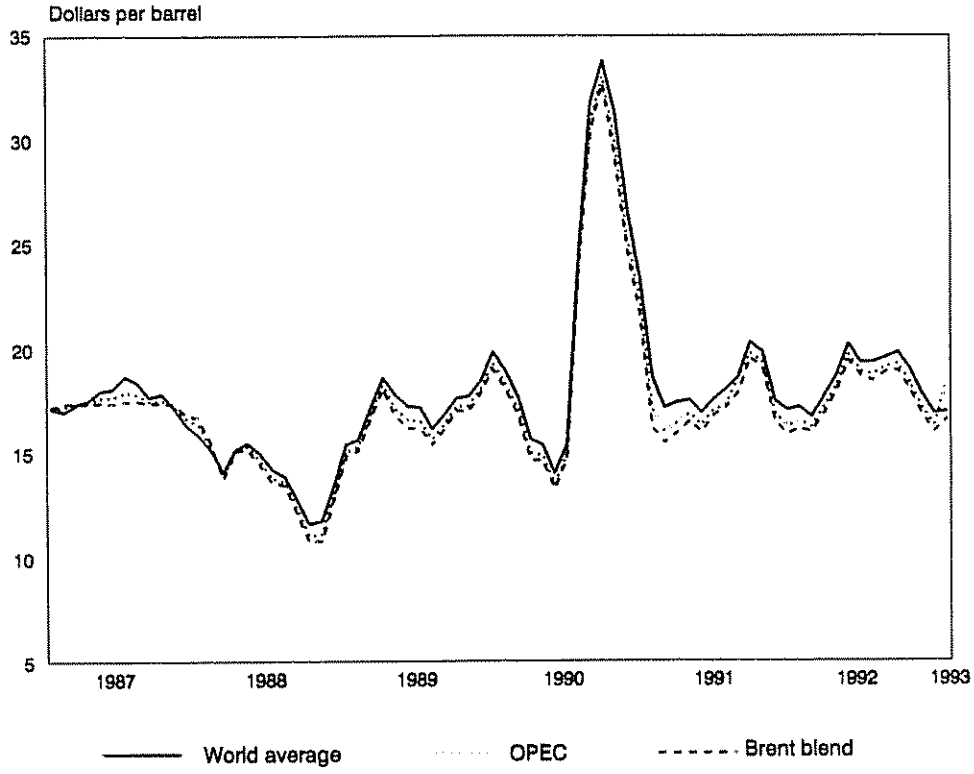
PRICES

Throughout most of 1992, oil prices were generally stable, thanks to a relatively tight balance between supply and demand. The average spot price of the OPEC basket of seven crudes ranged between $16.6 and $20.2 per barrel during the year, increasing from an average of $16.7 a barrel in the first quarter of 1992 to $19.5 a barrel in the third quarter before declining to $18.6 a barrel in the fourth quarter. For the year as a whole, the average stood at $18.4 a barrel, or $2.6 less than the reference price of $21 a barrel set by OPEC in July 1990. It was also lower than the 1991 price, which averaged $18.7 per barrel, and considerably lower than the 1990 price of $22.3 per barrel (see figure V.1).

The strengthening of oil prices in the second and third quarters of the year was partly due to a higher-than-expected demand, a continuing decline in non-OPEC supply and the decision at a meeting by OPEC countries in May 1992 not to increase their output ceiling. At that meeting, OPEC oil ministers agreed to maintain their countries' production ceiling for the third quarter at the same level as that for the second quarter, which was well below the level required by the market. That agreement, which restricted OPEC's total output of crude oil to 23.4 million barrels per day (mbd), was instrumental in firming oil prices. The continuing sharp decline in oil output in the Russian Federation and the uncertainty over the resumption of oil exports from Iraq contributed to the fairly buoyant prices throughout the second and third quarters.

Towards the beginning of the fourth quarter, prices began to weaken as OPEC output continued to rise and oil demand remained constrained by deepening economic recession in some major consuming countries. At its September ministerial meeting, OPEC, instead of fixing output ceilings and allocating individual quotas, adopted for itself what it called a market share of 24.2 mbd for the fourth quarter, with Kuwait permitted to continue to increase its output as it rebuilt its oil industry damaged by the Persian Gulf war. Although OPEC succeeded in avoiding the pitfalls that are usually associated with the allocation of individual quotas, its decision in a sense provided room for overproduction by several of its members. The very vagueness of what has been meant by the term market share raised market doubts about the ability of OPEC to restrain production and led to a further slide in oil prices. In October and November, total OPEC crude oil production was estimated at 25.3 mbd, a figure that was 1.1 mbd above its self-adopted market share. Oversupply was compounded by a warmer-than-

Figure V.1.
Crude oil prices, f.o.b.



Source: UN/DESIPA, based on United States Department of Energy, Energy Information Administration, *Weekly Petroleum Status Report*, various issues.

expected northern hemisphere winter and a substantial oil stocks drawdown in major oil consuming countries.

At the last 1992 meeting, OPEC allocated quotas for individual member countries totalling 24.582 mbd for the first quarter of 1993, a level which was considered lower than the one that it had been estimated would be required by the industry in that period. It was the first time since the Persian Gulf crisis of 1990, that OPEC formally attempted to apportion output quotas to member countries. The apparently credible output agreement did not, however, firm up prices. As most OPEC members did not cut production and expectation of strong winter demand failed to materialize, oil prices fell to around $17 a barrel in December, the lowest level in nearly 10 months. Reports of a rise in oil stocks and stabilization of oil exports from the former Soviet Union exerted further downward pressure on prices.

By the third week of January 1993, oil prices dipped below $17 a barrel for North Sea Brent and below $15 a barrel for Arab Light, representing the lowest levels in nearly four years. That prompted Saudi Arabia, the world's largest oil producer and exporter, to voice concern over sagging oil prices and to call on OPEC to reduce the total official ceiling by more than 1 mbd. That call, the substance of which was subsequently agreed to by OPEC members at their meeting in February 1993, had a positive but small impact on prices in the first quarter of 1993.

While oil revenues declined in some OPEC countries owing to lower oil prices, they rose in others owing to larger oil export volumes. Overall, oil revenues for OPEC are estimated at $135 billion in 1992, as compared with $128 billion in 1991 and $147 billion in 1990 (see table A.39). Because of the depreciation of the United States dollar, the decline in OPEC's oil revenues relative to levels in the first half of the 1980s was in real terms quite considerable.

The outlook for 1993 is somewhat unclear because

of uncertainty about Iraq and OPEC policy. As the oil market remains oversupplied in the face of slow economic growth and weak oil demand, oil prices may not improve nor even remain at their present level in the next few months in the absence of effective production restraints by OPEC. Even under the assumption that Iraq remains barred from exporting oil, the seasonal fall in demand in the second and third quarters is expected to coincide with the rise in exports from Kuwait, which could exert a downward pressure on prices. However, as recent past experience has shown, the short-term trend in oil prices can often contradict market fundamentals.

The evolution of oil prices in 1993 will therefore depend mostly on the ability of OPEC to implement its policy of concerted production restraint. Other important factors influencing oil prices in the period ahead will be the extent to which the decline in oil production in the former Soviet Union is arrested and whether or not Iraq will be allowed to export oil again soon. This will pose potentially the most serious challenge to a delicate balance within OPEC and in the world oil market.

CONSUMPTION

Following its peak in 1979 at 66 mbd, world oil consumption declined steadily in the first half of the 1980s owing to the introduction of energy efficiency and conservation measures and the substitution for oil of other forms of energy as a consequence of the oil price increases of the 1970s. By contrast, with the collapse of oil prices in 1986, world oil consumption increased significantly in the second half of the 1980s, particularly in developing countries (see table A.40). During that period, world oil demand rose by 2.2 per cent per annum to a new peak of about 66.2 mbd. However, since 1990, growth in oil demand has receded to less than 1.0 per cent per year, due to the slow-down in the world economy.

Over the past decade, trends in oil demand have been markedly different in developing and industrialized countries. While in the 1980s demand continued to grow relatively rapidly in developing countries, it declined in the developed market economies and remained almost stagnant in eastern Europe and the Soviet Union.

Despite the debilitating effects on most energy importers of the two rounds of sharp price increases in the 1970s, oil consumption in the developing countries in general kept rising relatively rapidly. This was due to a number of factors, including high-level population growth, rapid urbanization and increasing industrialization as well as limited possibilities for substitution of other forms of energy for oil. In a large number of developing countries, there are few alternatives to oil because of the high capital requirements for investments in alternative sources of energy. The increase in the demand for oil was reinforced by the precipitous decline in oil prices in 1986. Since then, the demand for oil of the developing countries has risen by one third, or 5.0 mbd. As a result, the role of developing countries in the global oil market has grown rapidly, with their share in total consumption having risen from 20 per cent in 1980 to 30 per cent in 1992. If these trends continue, it is anticipated that around two thirds of global incremental oil demand is likely to occur in developing countries, with their share rising sharply to over 40 per cent by the turn of the century.

Much of this increase was accounted for by the newly industrializing countries of South-East Asia, where oil consumption nearly doubled over the past six years. By contrast, oil demand in Africa and Latin America grew at considerably lower rates owing to slower economic growth and stagnant incomes.

Between the peak in 1979 and the year 1985, oil consumption in the developed market economies fell by nearly 7.7 mbd, or 19 per cent, owing to a considerable reduction in energy intensity and the replacement of oil by other forms of energy in response to the oil price increases of the 1970s. Low oil prices since 1986 have had opposite effects. They have reduced some of the pressure for improving energy efficiency, although energy intensities have continued to decline. Oil demand grew by 3.1 mbd, or 10.2 per cent. Despite this growth, it is still some 10 per cent below the peak level of 1979. Growth in oil demand since 1986 has been particularly strong in the Pacific and moderate-to-weak in North America and Western Europe mainly in response to the marked economic slow-down of the past few years.

After growing at a relatively rapid pace for a number of years in the 1970s, oil consumption in the former Soviet Union and eastern Europe remained virtually static during most of the 1980s due to weak economic growth and substitution for oil of natural gas. In the past five years, however, mainly because of the problems associated with the transition from centrally planned to market-oriented economies, the use of oil has dropped by one third, almost in line with the fall in economic activity. In the case of the countries of eastern Europe, it was due also to the shortfall in oil supplies after the former Soviet Union began to require payments in hard currency.

Global oil demand in 1992 is estimated at 67 mbd, a figure that is 0.6 per cent higher than for 1991. How-

ever, demand trends differed significantly in various regions and countries. While oil demand declined sharply in eastern Europe and the former Soviet Union, it continued to grow strongly in developing countries and moderately in the developed market economies. In 1992, total oil consumption is estimated to have risen by 5.2 per cent in developing countries and 1.3 per cent in the developed market economies but to have declined by 13.7 per cent in eastern Europe and the former Soviet Union. By entirely cancelling out the strong growth taking place in the developing countries, falling demand in eastern Europe and the former Soviet Union underestimates the strength of the oil market, and it may create a false impression that the economic stagnation in many industrialized countries is the only cause of the slow growth in global oil demand.

With the recent signs of economic recovery in many industrial countries, world demand for oil is expected to grow at a relatively more rapid rate in the next few years than in the recent past but less rapidly than in the second half of the 1980s. Growth in oil consumption in developing countries is likely to be the driving force behind global oil demand trends. However, the main source of demand uncertainty lies in the region of eastern Europe and the former Soviet Union. Declining economic activity in the countries of that region and efforts by the Russian Federation to sustain oil export volumes are likely to depress oil demand even further.

Over the medium to long term, global oil demand growth is expected to average 1.6 per cent per annum, reaching 76 mbd by the end of the present decade. Most of the impetus for growth will come from increased demand for transportation. Developing countries will continue to experience the highest rates of growth, averaging 4.5 per cent per year. Although oil demand is expected to grow in all developing countries, it is envisaged to remain most rapid in South-East Asia. Oil demand growth is expected to be moderate in the developed market economies and slow in the region of eastern Europe and the former Soviet Union. The consequences of the introduction of economic reforms and market-based pricing systems in the countries of that region are expected to entail lower-level energy intensity. They are also likely to lead to a shift, with respect to the composition of energy use, towards oil as demand for personal transportation increases.

PRODUCTION

Total world crude oil production remained virtually unchanged in 1992. A decline of nearly 1.0 mbd in non-OPEC supply was more than offset by increases in OPEC output (see table A.41). The fall in non-OPEC production was entirely due to the sizeable drop in output in the Russian Federation and, to a lesser extent, to the decline in the United States. Production continued to rise in most other oil-exporting developing countries and increased sharply in the Norwegian sector of the North Sea.

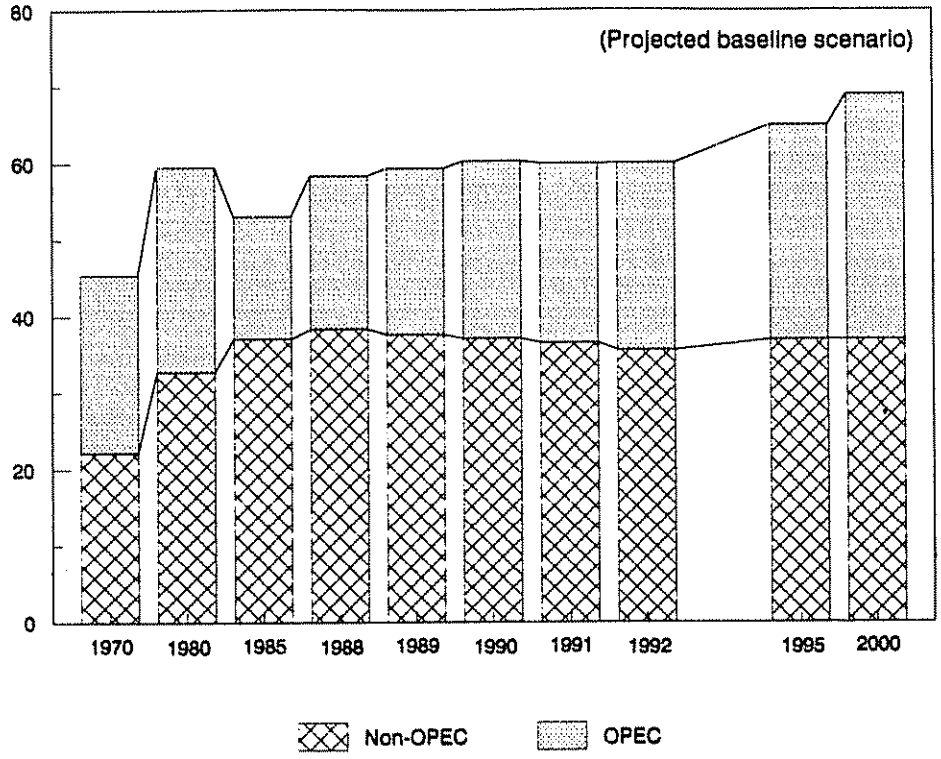
Throughout the second half of the 1970s and the first half of the 1980s, higher oil prices resulted in a shift, among investments in exploration and development, from OPEC to non-OPEC areas. During that period, nearly 10 mbd of crude oil were added to non-OPEC supplies, leading to a drastic reduction in the demand for OPEC oil. The growth in non-OPEC production was arrested, however, with the collapse of oil prices in early 1986. This had an immediate impact on exploration and development in high-cost areas, and resulted in a pronounced production shift in favour of OPEC. Since then, total crude oil production in OPEC countries has increased by over 8 mbd, or 52 per cent, raising their share of the global oil market from 30 to 40 per cent (see figure V.2). This trend of increase is expected to continue in the 1990s, with the OPEC supply rising to about 32 mbd by the year 2000, and accounting for just under 50 per cent of total world oil production.

Since the suspension of production quotas in August 1990, the increase in oil production of OPEC has been achieved through the expansion and almost full utilization of production capacity. Nearly two thirds of that increase has been accounted for by Saudi Arabia. This, however, has led to a greater concentration of supplies, particularly in the Persian Gulf, with the share of Saudi Arabia in total OPEC output rising from 25 to 35 per cent and that of the Islamic Republic of Iran from 13 to 16 per cent.

With Iraq remaining banned from exporting oil, the other OPEC members continued to produce at close to capacity throughout 1992. Total OPEC crude oil production averaged 24.4 mbd, a figure which was 4.5 per cent above the 1991 level. Partly because of loose production agreements, output quotas were consistently exceeded during most of 1992 (see table A.42). A large part of the increase was attributable to the rise in Kuwaiti oil output, which was close to its pre-invasion level by the end of the year.

Among oil-exporting developing countries, oil production increased most notably in Angola, Colombia, Egypt, Malaysia and Oman, and more recently in the Syrian Arab Republic, Viet Nam and Yemen. To a large

Figure V.2.
World crude oil production
Millions of barrels per day



Source:: UN/DESIPA.

extent, this increase resulted from the expansion of existing capacities and the development of a number of new oil discoveries. In China and Mexico, the two largest producers of this group, total output increased only slightly, reflecting, in part, lack of significant additional discoveries and levelling off of production in existing oilfields.

After having increased considerably during the first half of the 1980s, total oil production in the oil-importing developing countries remained virtually flat during the past several years. This reflected the decline in exploration and development activities in a large number of countries.

In the developed market economies, total crude oil production rose for the second consecutive time in seven years, increasing by about 1.0 per cent in 1992. The most notable trends in production continued to be those of rapid growth in Norway and of steady decline in the United States. Since 1986, depressed oil prices have led to a severe decline in exploration and development activities in the United States, the largest producer of the group. As a result, in 1992 crude oil production dropped from 9.0 to 7.15 mbd, the lowest output level since 1960. American dependence on imported oil continued to rise in 1992, accounting for 46.2 per cent of total demand. With the prospects for arresting the decline in domestic production remaining very limited, oil imports are expected to increase further over the rest of the 1990s. The United States Department of Energy estimates that United States petroleum demand will rise to between 18.9 and 24.0 mbd by the year 2010. Such an increase in demand, combined with the expected decline in domestic production, would lead to an increase in net imports to somewhere between 10.8 and 17.7 mbd by the year 2010.

In the North Sea, total crude oil production reached a record level of 4.1 mbd, reflecting the sharp rise in output in Norway. In the United Kingdom of Great Britain

and Northern Ireland, output remained unchanged at 1.8 mbd. Among other developed market economies, crude oil production increased in Canada and Denmark, but fell or remained unchanged elsewhere.

Output in the former Soviet Union grew at a rapid pace for a number of years through the late 1980s, reaching a peak of 12.5 mbd in 1987 and 1988. During the past four years, it has declined by nearly 30 per cent, falling to 8.9 mbd in 1992, a drop of more than 12 per cent from the 1991 level. Russian oil production is estimated to have dropped by about 15 per cent in 1992, to 7.9 mbd. Among other major producers of the former Soviet Union, production is reported to have remained unchanged in Kazakhstan at 0.44 mbd and to have declined slightly in Azerbaijan and elsewhere. The overall decline reflects not only the natural decline in large oilfields, but also, to a large extent, technical and logistic problems.

In eastern Europe, where Romania is the only country with any significant oil reserves, total crude oil output remained virtually unchanged in 1992 following several years of steep decline.

STATE OF THE OIL INDUSTRY IN THE POST-UNION OF SOVIET SOCIALIST REPUBLICS

Since 1974, the Soviet Union has been the world's largest oil producer, but for the past few years its oil industry has been beset with a number of serious problems due largely to reduced investment, poor maintenance of oil facilities, near-exhaustion of the more accessible oil deposits, lack of technology and years of price control policies. As a result, over the past four years, total oil production fell by 3.6 mbd, or by the equivalent of about 6 per cent of world oil supply, and at present it is declining at over 10 per cent per year. Should this downward trend continue, oil exports from this region may vanish entirely in two years. On the other hand with increased foreign investment and reduction in wasteful consumption of oil products, present levels of net oil exports could be maintained and even considerably improved Successor States of the former Soviet Union that rely on oil imports from the Russian Federation will be the hardest hit, particularly if the Russian Federation decides to divert supplies away from those States in favour of hard currency sales. Tighter supplies have already led to a worsening of distribution and delivery systems and exacerbated perennial winter shortages, particularly in non-oil-producing republics.

Though the region constituting the former Soviet Union is one of the largest producers and consumers of energy, the distribution of its energy resources is extremely uneven. While many States have practically no energy resources, the Russian Federation accounts for over three quarters of primary energy production (that is, of oil, natural gas, coal, nuclear power and hydropower). The bulk of the region's oil reserves is located in only four States: the Russian Federation, Kazakhstan, Azerbaijan and Turkmenistan (see table V.1). The political fragmentation of the Soviet Union has left the Russian Federation in control of 90 per cent of production, with the remainder under the control mainly of Kazakhstan and Azerbaijan (see figure V.3). Future developments in the world oil market may be significantly influenced by developments in the oil industry in these three States, that is, the Russian Federation, Kazakhstan and Azerbaijan.

Russia's oil industry faces serious difficulties owing to years of neglect and poor maintenance of oil facilities. Its largest and most productive oilfields have been rapidly exhausted and the average yield of wells have fallen considerably. As a result, oil production, more than 70 per cent of which comes from the Tyumen' region in western Siberia, fell from a peak of 11.2 mbd in 1988 to 7.9 mbd in 1992.

The drastic decline in Russian oil output is due mainly to investment cuts, equipment shortages and difficulties in obtaining basic spare parts from traditional suppliers, such as Azerbaijan, which was the main manufacturing centre for oilfield equipment in the former Soviet Union. As a result, many wells are shut-in and there are not enough wells being drilled to compensate for the decline caused by the depletion of the large fields.

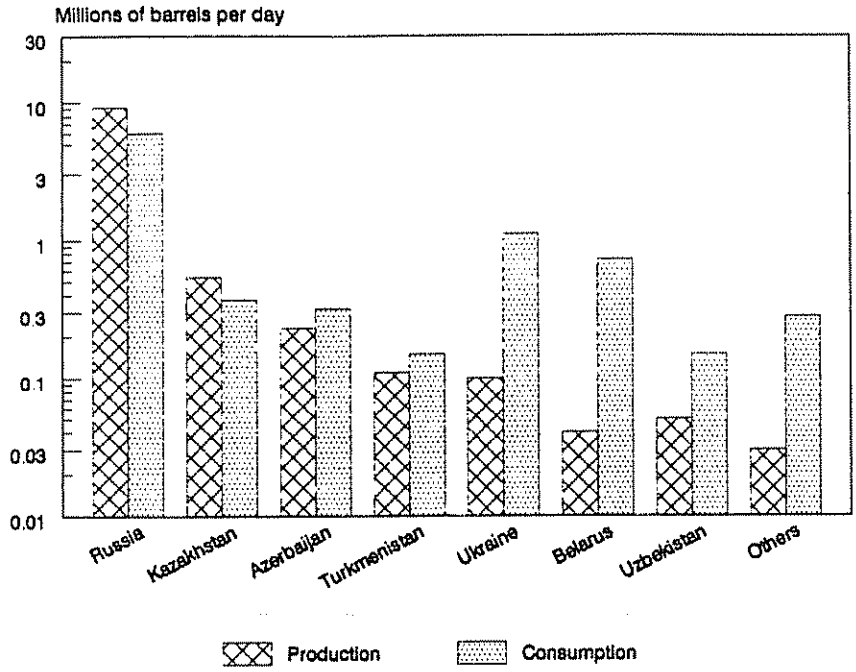
Table V.1.
Estimated oil reserves in selected republics of the former Soviet Union, 1991
Billions of barrels

Republic	Proved reserves	Probable reserve additions[a]
Russia	50.0	99
Kazakhstan	3.3	12
Azerbaijan	1.2	4
Turkmenistan	1.4	3
Uzbekistan	0.3	2

Source: UN/DESIPA, based on Joseph P. Riva, Jr., "Large oil resource awaits exploitation in former Soviet Union's Muslim republics", *Oil and Gas Journal*, 4 January 1993, p. 56.

a Probable reserves are usually defined as those quantities of recoverable hydrocarbons that are estimated on the basis of engineering and geological data, but lack the certainty required to classify them as proved reserves.

Figure V.3.
Oil balance of the republics of the former Soviet Union



Source: UN/DESIPA, based on Evgueni Khartukov, "Ex-Soviet Union: importer or exporter?", a paper presented at the Ninth International Symposium of Petroleum Economists, Quebec, Canada, 25-28 October 1992.

Many oil industry analysts, within and outside the Russian Federation, estimate that without structural reforms to facilitate foreign participation and stimulate rapid improvement in domestic technology, oil production in the Russian Federation may continue to fall by as much as 10 per cent per year over the next few years. However, there is potential for rapid productivity gains even from relatively small but timely oil industry-related business ventures, particularly in the areas of drilling technology and workovers. At present, it is estimated that in the Tyumen' region alone, there are some 27,000 wells closed owing to shortages of equipment and lack of workovers. Oil production could be increased significantly by simply bringing these idle wells on stream. Hence, the most effective immediate measures to address the decline in production would involve rehabilitation and reactivation of these shut-in wells and improvement of flow rates through stimulation and workovers.

However, while Russian producers need capital and modern technology to boost production from ageing oilfields, most international oil companies are looking for adequate incentives to undertake big exploration and development ventures to develop large untapped reserves. While the need to create favourable conditions for foreign investments in the energy sector has been recognized by other oil-producing States of the former Soviet Union, the creation of those conditions is still lagging in the Russian Federation. The obstacles to foreign investments in Russian oil involve more than the creation of adequate incentives. For many international oil companies, the main obstacle lies in the high political risk caused by the split between the central Government's ministries and regional authorities over the control of oil resources.

Despite some attempts made by the Russian Government to attract foreign investments, by the end of 1992 there were only a small number of joint ventures operating in the country, most of them on a relatively small scale. Uncertainties over control of oil resources have bewildered foreign oil companies trying to invest in large-scale joint ventures. Similarly, the weak pace of oil price liberalization and the imposition of an oil export levy have added to the reluctance of foreign investors. While the delay in the move towards raising domestic

prices to world market levels was intended to prevent a sharp and sudden oil price increase that could lead to political and social crises, it has kept the industry deprived of the financial resources that it needs and has prevented substantial savings in consumption. Although domestic prices have been raised to 4,000 roubles per ton, or the equivalent of $2.7 per barrel, they remain very low compared with international market prices.

These problems need to be addressed as soon as possible if the industry is to acquire the flexibility and operational efficiency required in market economies. In recent months, the Russian Federation has began to reform its oil industry and is at present reorganizing the oil sector under the control of five vertically integrated state companies. Those companies are expected to be responsible for establishing joint ventures with foreign oil companies.

International oil companies interested in investing in Russian oil are approaching potential joint ventures with a good measure of caution. Among potential investors, a group of five companies (American, Japanese and Netherlands) has recently completed and submitted a feasibility study to the Russian Government on the possibility of developing oilfields and gas fields off the island of Sakhalin. This project is valued at between $6 billion and $10 billion. More recently, another large company offered to invest more than $2.4 billion in the Timan-Pechora region in the north of the country. However, these and other interested companies will most likely not invest any money before some basic requirements are fulfilled. Some of those requirements may include raising domestic oil prices to international levels, changing or restructuring tax codes on oil production, and adopting more attractive oil industry legislation.

The serious problems faced by the oil industry in the former Soviet Union are not restricted to the upstream sector. The downstream sector, particularly transportation and distribution of oil, suffers from a similar set of problems, and substantial progress is required so that it can function in concert with expanding upstream development projects. Existing pipelines are either poorly constructed or worn out and a large volume of product delivery is reliant upon other underdeveloped and outmoded forms of transportation. The overall situation in the downstream sector is not hopeless, however. There are significant opportunities for restructuring and upgrading refining capacity, trade and transportation networks. Indeed many Western companies are already active in refinery rehabilitation, pipeline construction and marketing.

As a result of its pragmatic and flexible policy towards foreign investments, Kazakhstan, which has some of the world's largest untapped reserves of oil and gas, has signed a number of agreements with international companies (involving a total of nealy $40 billion) on investment in its oil and gas industry over the next 40 years. Most of the country's oil reserves are located in Tengiz, which is regarded as one of the world's largest oilfields, with recoverable reserves estimated conservatively at over 10 billion barrels. Production from this field is expected to reach 0.7 mbd by the year 2010, in contrast with the current output of 65,000 barrels per day.

According to the terms of the agreement, which involves a fifty-fifty production sharing joint venture, the partner is committed to invest $20 billion over the life of the project, estimated at about 40 years, with an initial investment of $1.5 billion over the first 3 years. The joint venture is expected to generate $60 billion in royalties and taxes over the 40-year period. Work on this project was supposed to start in April 1993. Other potential agreements in this country involve close to $20 billion. Numerous other proposals for oil and gas investment are under negotiation across most of the other republics.

To export its oil, Kazakhstan, in cooperation with Azerbaijan, the Russian Federation and Oman, is in the process of finalizing a Caspian Oil Pipeline Consortium for the purpose of constructing and operating an oil pipeline that would connect its oilfields to ports in the Persian Gulf, in the Mediterranean or on the Black Sea. Oman will provide the financing for the project, which it is estimated will cost between $700 million and $1.5 billion depending on the route selected.

GROWING DEPENDENCE ON OPEC OIL IN THE 1990S

In view of the continuing decline in oil output in the United States and the former Soviet Union and owing to the lack of major new discoveries elsewhere, world demand for oil is growing increasingly dependent on the OPEC supply, particularly from the Persian Gulf area. For the past decade or so, while depletion has outpaced reserve additions among other major producers, some 350 billion barrels have been added to OPEC reserves (see table V.2). Also significant is the fact that these additional reserves resulted from relatively small exploration efforts.

The fact that the Persian Gulf alone accounts for over two thirds of the world total makes it by far the most important source of the oil needed to meet incremental global demand in the future. Such a dominant position is

Table V.2
World proved oil reserves, 1979 and 1992

	End 1979		End 1992	
	Millions of barrels	Percentage of world total	Millions of barrels	Percentage of world total
Developed market economies	58 796	9.2	47 326	4.7
Eastern Europe and former USSR	70 000	10.9	59 192	5.9
Developing countries	512 545	79.9	891 266	89.3
OPEC member countries	435 611	67.9	771 190	77.3
Other oil-exporting countries	69 930	10.9	104 963	10.5
Oil-importing countries	7 004	1.1	15 113	1.5
World total[a]	641 341	100.0	997 784	100.0

Source: UN/DESIPA, based on *Oil and Gas Journal*, 24 December 1979 and 28 December 1992.

a Totals may not add up because of rounding.

further reinforced by the lower production costs that this area enjoys relative to the rest of the world.

The large increase in oil production outside OPEC between the mid-1970s and the mid-1980s resulted principally from the development of large discoveries in four major areas, namely Alaska, the North Sea, Mexico and the former Soviet Union. Output from those areas, except for the Norwegian sector of the North Sea, has more or less reached a plateau in recent years. Meanwhile, the finding of comparable new reserves is generally regarded as rather unlikely. In recent years, although a large number of new oil deposits have been found in many non-OPEC countries, they have tended to be modest in size and much less proportionate to the exploration activities undertaken.

Although the future course of non-OPEC supplies cannot be charted with certainty, it is expected that at best it will stagnate over the rest of the present decade. Production growth in Norway and in a number of other smaller producers will probably be able to compensate for the continued decline in the United States and other rapidly depleting oil-producing areas. Supply trends in the former Soviet Union is uncertain, but output is likely to drop further before it recovers.

Low oil prices, rising world oil demand and stagnation in non-OPEC supplies are powerful ingredients for a combination leading to a considerable increase in the demand for OPEC oil. The extent of that demand, however, will also depend on oil industry developments in the former Soviet Union. Developments there could shift demand for OPEC oil, either up or down, significantly.

While projections for world oil demand over the long term vary widely, depending as they do on assumptions about economic growth, level of oil prices, energy efficiency and substitution of other forms of energy, there is a large measure of agreement among analysts that oil demand will continue to grow for the rest of this decade, if only because of the prospective growth in developing countries.

Most forecasts currently anticipate that world oil demand will rise at the rate of 1-2 per cent per annum over the next several years. This would imply an additional oil demand of 0.7-1.5 mbd per annum. Latest projections by OPEC put the average annual rate of growth in world oil consumption at 1.1 per cent over the period 1990-2000. In this scenario, world demand for oil is expected to be 5.9 mbd higher in the year 2000 than in the year 1990. With non-OPEC production remaining virtually unchanged, OPEC estimates that the call on its oil will reach 31.4 mbd by the end of this decade. To meet this call, OPEC would have to expand its current sustainable production capacity of some 27 mbd to over 32 mbd by the year 2000. This would require investment of about $80 billion over the next five years to maintain production at existing fields and to develop additional capacity from new ones.

In recent years, the growth in the demand for OPEC oil has led to a shrinking of OPEC's excess production capacity. While production capacity may be adequate for the next few years owing to the rapid expansion of existing capacity in Saudi Arabia and and the unexpectedly rapid recovery of Kuwaiti crude production, without further investment in new outlets, it is unlikely to be adequate to meet expected additional oil demand during the latter years of the present decade.

Plans to expand capacity were under way prior to the Persian Gulf crisis and since then have been acceler-

ated considerably, particularly in Saudi Arabia and the Islamic Republic of Iran. The impact of the conflict in the Persian Gulf on overall capacity in that region proved to be less dramatic than what had been widely anticipated. The acceleration of capacity-expansion plans in Saudi Arabia, the Islamic Republic of Iran and the United Arab Emirates has largely offset reduced capacity in both Iraq and Kuwait. Other plans are also being carried out by some other OPEC members, notably Venezuela.

The prospects for further increase in capacity will depend to a large extent on whether oil prices will be at a level at which they could generate adequate profitability for committing the costs required to expand capacity. In retrospect, the sharp decline in oil prices of 1986 can be seen as having suppressed the development of alternative sources of energy, discouraged conservation efforts, limited investment in the upstream sector and stimulated the demand for oil. Being fully aware of these consequences, most OPEC countries, and especially those with large oil reserves such as Saudi Arabia, have shown a greater desire for price moderation, a desire that is, for a price not low enough to deprive member countries of much needed revenues yet not high enough to cause substitution and reduce their share in the world energy market. Yet, if low oil prices lead to a steep rise in demand and fail to attract adequate investment in exploration and expansion of additional capacities, there are bound to be supply shortages and acute market tightness.

In the present environment of relatively low oil prices, the oil industry is faced not only with replacing falling production and adding new capacity, but also with expanding refining and transportation capacities. This would involve replacing older tankers and adding new ones, upgrading and building refineries, and investing in distribution, marketing and other sectors. The cost of undertaking all these efforts might require an investment of over a trillion dollars in the 1990s.

In their quest for technology and capital, many OPEC countries (which not too many years ago nationalized their oil assets) have again begun to turn towards the large foreign oil companies with the offer of joint ventures and partnership. Caught between its lack of capital and its eagerness to sustain and improve current levels of oil and gas exports, Algeria had introduced by the end of 1991 a new hydrocarbon law designed to attract foreign companies to participate in exploration, development and enhanced oil recovery (EOR) activities. Following that, in early 1992, several oil companies participated in an international tender on development and EOR projects. In addition, the Government has offered foreign companies equity stake in some oilfields in return for development and and implementation of EOR projects. Other producers, such as the Islamic Republic of Iran, Nigeria and Venezuela have recently also signed agreements and awarded contracts to a number of international oil companies.

ENERGY AND THE ENVIRONMENT: THE ISSUE OF ENERGY AND CARBON TAXES

Because of worldwide concern about global warming, the interaction among energy, the environment and sustainable development is emerging as one of the most important issues of the present decade. Many of the proposals that are being negotiated and the problems that are being discussed in relation to environment and development are linked to levels and patterns of energy consumption and the subsequent emissions of carbon dioxide (CO_2), the main source of the greenhouse effect.

Ever since the start of the Industrial Revolution, the world has largely depended on fossil fuels for its energy needs. Today, less than 13 per cent of global primary energy is derived from other sources, such as nuclear power, hydropower, wind and solar sources. Even if there is no further increase in fossil fuel consumption, present levels of emissions are bound to add a large volume of new carbon dioxide to the atmosphere.

The contribution of energy activities to environmental degradation is well documented. Over the past four decades, a fourfold increase in the consumption of fossil fuels has produced a corresponding increase in emissions of carbon dioxide. At present, the combustion of fossil fuels for transportation, electricity generation, and industrial, commercial and domestic use emits some six billion tons a year of carbon into the atmosphere. The industrialized countries account for 47 per cent of this emission, the developing countries for 27 per cent, and the States of the former Soviet Union and eastern Europe for 26 per cent.

Energy is a basic requirement for economic development and fossil fuels will continue to occupy a central place in the supply of the world's energy needs in the foreseeable future. With economic growth and rapid increase in population, energy demand is expected to grow more rapidly in developing countries than elsewhere,

probably reaching the same level as that of the developed countries by the year 2010. Economic growth, however, is essential for the improvement of the living standards of the vast majority of the population of the developing countries. To reconcile the imperatives of economic growth with the necessity of reducing carbon dioxide emissions will be a difficult task and can be achieved only through extensive international cooperation. The United Nations Framework Convention on Climate Change opened for signature at the United Nations Conference on Environment and Development, and Agenda 21, adopted by the Conference, affirm that responses to climate change should be coordinated with social and economic development, taking into full account the legitimate priority needs of developing countries for the achievement of sustained economic growth. To that end, developing countries should be provided with financial resources and access to environmentally sound technologies to enable them to implement the provisions of the Convention.

The range of solutions to energy-induced environmental problems varies according to the nature and scale of the problems, but the promotion of improved energy efficiency and conservation, fuel substitution and the use of clean energy technologies have emerged as the most popular and practicable means of limiting future carbon dioxide emissions. There is substantial potential for improving energy efficiency, particularly in developing countries and in countries in transition. Technologies required to use energy more efficiently, particularly in the power generation sector, already exist. Losses in the transmission and distribution of power are most often unacceptably high in many developing countries, accounting for up to one third of the total power generated. Investments in energy efficiency through upgrading and rehabilitation of power stations serve not only to reduce the need for new supply capacity and lower power generation costs, but also to minimize the environmental impact.

The quest for solutions to the problem of climate change has also led to the proliferation of controversial proposals. Among them are imposition of energy/carbon taxes and elimination of energy subsidies.

THE EUROPEAN COMMUNITY ENERGY/CARBON TAX PROPOSAL

With mounting universal concern about atmospheric pollution and evidence that energy consumption is a significant source of carbon dioxide emissions, the Joint Energy/Environment Council of the European Community (EC) Ministers decided in October 1990 on a commitment to stabilize CO_2 in the Community in the 2000 at 1990 levels. Subsequently, the Commission of the European Communities proposed levying new taxes on major sources of energy as a way of reflecting environmental costs in the final price of energy. The goal is both to reduce CO_2 emissions and to improve energy efficiency.

The Commission proposed that a tax of $3 per barrel of oil equivalent (boe) be introduced at the beginning of 1993, rising annually by a $1 per barrel in subsequent years to reach $10 per barrel in the year 2000. These taxes would be divided fifty-fifty between an energy component and a carbon-content component of the fuel used. Based on this formula, by the year 2000, the taxes would amount to approximately $14 per boe for coal, $7 per boe for natural gas and $5 per boe for nuclear power (a carbon-free form of energy). Except for large-scale hydroelectric projects, most renewable energy sources would be exempt.

Under the plan, the taxes must be approved by the 12 EC member nations as well as by the European Parliament. In the months prior to the United Nations Conference on Environment and Development, held in June 1992 in Rio de Janeiro, member nations of the European Community failed to agree on the adoption of the proposed energy/carbon tax. Intense lobbying by industry and manufacturing groups led to changes in the original proposal. In its final version, the proposal depended for its implementation on whether other OECD members, notably the United States and Japan, took similar action. The proposal also envisaged exempting certain energy-intensive sectors. Otherwise, the international competitiveness of European manufacturers would be at a disadvantage. Although the EC Commission is still trying to accommodate further modifications, the prospects for adoption of the proposal at any time soon look remote at present.

The various arguments in favour of the EC energy/carbon tax proposal might also be seen in the context of several observations based on a number of studies, including those undertaken by the International Energy Agency (IEA), OECD and OPEC. Those observations include the following:

(a) Because energy prices vary across countries and between fuels, it would require different levels of taxes among countries to achieve the same percentage reduction in carbon emissions;

(b) If energy-intensive industries are exempted,

the taxes will not be as effective and the exclusive purpose of environmental protection will be weakened;

(c) Since the proposal involves a combination of energy and carbon taxes, it extends beyond fossil fuels, and therefore imposes a limit on fuel choices. The 50 per cent portion of the tax that would be charged to carbon-free energy industries like that based on nuclear power will not help the environment, rather will reduce the incentive for fuel switching;

(d) If enacted unilaterally, the proposed tax would have considerable trade implications. It may lead to relocation of various industries to countries where energy tax regimes are less stringent;

(e) It would reduce the revenues of most energy-exporting developing countries;

(f) Since the imposition of taxes is expected to reduce energy consumption in many developed countries, international energy prices may remain depressed. Lower prices would subsequently stimulate demand elsewhere and the associated rise in CO_2 emissions might partly offset expected gains in the EC countries;

(g) Because taxes usually distort production, investment and consumption, the economic costs of imposing an energy/carbon tax would adversely affect the growth of gross domestic product (GDP) and reduce personal income. Those costs need to be balanced against the benefits of reducing the danger of climate change, but present knowledge of this subject is too inadequate to provide quantification of the welfare implications of such policies.

Attempts have been made to quantify the economic effects of policies aimed at reducing emissions of carbon dioxide. According to the OECD secretariat's General Equilibrium Environmental model (GREEN), as a result of imposing the proposed tax, EC emissions would be lower than that of the Business-as-Usual (BaU) scenario, by 13 per cent in the year 2000 and 30 per cent in the year 2030 (see table V.3). The BaU scenario (that is, the expected trend of emissions in the absence of policy actions to limit their growth) projects a steady rise in global emissions by 2 per cent per annum. The economic costs to the EC Community would be a reduction in real GDP relative to the BaU scenario of 0.2 per cent in the year 2000 and 0.6 per cent in the year 2030.

These GDP losses are much lower than those projected by the Global 2100 model. This model has estimated that GDP in the EC would be lower than that of the baseline scenario by approximately 0.9 per cent in the year 2000 and by 1.3 per cent in the year 2030. Because the welfare costs of carbon taxes vary directly with the existing level of energy taxes, it has further estimated that those costs would be nearly three times greater in Western Europe than in the United States. The difference in projections illustrates the difficulty in evaluating the impact of such policies.

Table V.3.
Implications of the proposed energy/carbon tax for the European Community
Percentage deviation relative to the BaU scenario

Year	Carbon emissions	Real GDP	Real income
2000	-13	-0.2	-0.2
2010	-20	-0.4	-0.6
2030	-30	-0.6	-0.8
2050	-38	-0.6	-1.4

Source: Jean-Mark Burniaux and others, *The Costs of Reducing CO2 Emissions: Evidence From GREEN*, OECD Economics Department Working Papers, No. 115 (Paris, OECD, 1992), p. 39.

VARIATIONS IN ENERGY PRICES IN THE OECD COUNTRIES

Traditionally, energy taxes have been used to generate government revenues. However, excessive energy taxation has led to a wide variation in end-use energy prices across countries and between fuels. In the OECD, for example, while oil products and, in particular, gasoline are taxed heavily everywhere, coal is hardly taxed anywhere. As indicated in table V.4, the implicit average taxes on the carbon content of energy in the OECD countries in 1988 varied from a low of $28 per ton of carbon in the United States to more than $200 per ton in France, Italy and Sweden. In the case of oil, they ranged from $65 per ton of carbon in the United States to over $300 in France and Italy. However, coal, the most pollutant of the fossil fuels, was untaxed, or taxed lightly in a few countries, and even subsidized in others.

It is estimated that the 1991 average end-use price of gasoline in the OECD varied from a low of $48 per barrel ($1.15 per gallon) in the United States to a high of $197 per barrel ($4.7 per gallon) in Italy. By comparison, international oil prices averaged about $18.5 per barrel in 1991. Although there was some variation in before-tax prices among countries, the main reason for the very large disparity in prices was the level of the taxes levied on oil products. The level of taxation imposed on gasoline in the OECD countries was indeed remarkable, as indicated in figure V.4. It ranged from about $150 per bar-

Table V.4.
Average implicit carbon taxes in OECD, 1988
Dollars per ton of carbon

	Oil	Natural gas	Coal	Total
Australia	178	0	0	61
Austria	267	39	0	150
Belgium	162	35	0	86
Canada	108	0	0	52
Denmark	297	110	0	147
Finland	200	0	0	107
France	351	38	0	229
Germany	212	23	0	95
Ireland	277	4	0	139
Italy	317	80	0	223
Japan	130	2	0	75
Netherlands	221	27	0	89
New Zealand	235	0	0	117
Norway	258	0	0	182
Portugal	205	13	0	147
Spain	176	19	0	112
Sweden	268	13	6	214
Switzerland	224	2	18	198
United Kingdom	297	0	0	107
United States	65	0	0	28

Source: UN/DESIPA, based on Peter Hoeller and Jonathan Coppel, *Energy Taxation and Price Distortions in Fossil Fuel Markets: Some Implications for Climate Change Policy*, OECD Economics Department Working Papers, No. 110 (Paris, OECD, 1992), p. 19.

rel ($3.57 per gallon) in Italy to $16 per barrel ($0.37 per gallon) in the United States.

Because of the large taxation imposed on petroleum products by the European Community, it has been estimated that total tax revenues received by the EC Governments in 1991 amounted to approximately $210 billion for a 10.3 mbd consumption level. Oil exporters would get export revenues in the order of $64 billion for the same volume of oil. Such relative magnitudes have been highlighted by some OPEC members, particularly Persian Gulf region producers, to contest the policy proposal by the EC to levy additional taxes on oil products, over and above existing ones.

Several OECD countries are currently in the process of restructuring their energy tax systems so as to internalize environmental costs. Over the past three years, five European countries (Denmark, Finland, the Netherlands, Norway and Sweden) have imposed CO_2 or carbon taxes. However, because various categories of energy users, particularly coal users and energy-intensive industries, are exempted in some of those countries, the net effect of the taxes cannot be expected to reduce emissions significantly. Unless policies aimed at reducing emissions are more stringent and actually correlated with the carbon content of the fuel regardless of its type, they are bound to have little effect on global CO_2 emissions.

THE UNITED STATES ENERGY TAX PROPOSAL

The energy tax proposed by the new United States Administration in February 1993 would help lower the budget deficit, encourage conservation, reduce oil imports and meet environmental goals. It would also alter costs unevenly among producers of oil, natural gas and coal. By design, this tax is based on the heat content of each fuel, as measured by the British thermal unit (BTU). Under this tax programme, crude oil would be taxed at more than twice the rate applied to other forms of energy. The proposal is to impose a tax of 59.9 cents per million BTU for oil and 25.7 cent per million BTU for natural gas, coal, and nuclear and hydroelectric energy. Only solar and wind energy are to be exempted from the tax. These taxes, if approved by Congress, would be phased in over three years starting in July 1994, and would take full effect in July 1996.

In the case of oil, the tax would be imposed on the crude oil delivered to refineries. Regardless of its grade, a barrel of crude oil would be calculated as equivalent to 5.8 million BTU, and this would result in a tax of $3.47 per barrel, or 8 cents per gallon.

The United States Department of Energy has estimated that the proposal would generate revenue amounting to $1.5 billion in 1994 and $16.4 billion in 1996. Over the first five-year period, the federal Government will collect a cumulative $71.4 billion in revenues as a result of this tax. It has also been estimated that by the year 2000, oil imports will have been reduced by 0.35 mbd and the trade deficit cut by $18 billion. As a result of this tax, oil consumption is expected to fall 1.9 per cent from its projected level by the year 2000, while gas consumption is anticipated to decline by 1.2 per cent. Overall, greenhouse gas emissions are expected to drop by about 25 million tons per year, representing about 2 per cent of United States emissions per year.

Despite objections, particularly from the oil industry, the proposed tax is expected to be enacted because of some obvious arguments in its favour. The most powerful of these is based on the fact that energy prices have not kept pace with other prices in recent years and that those prices are much lower than in other industrialized countries. A case in point is gasoline, which is two to four times more costly in Western Europe and Japan than in the United States. Gasoline prices, adjusted for inflation,

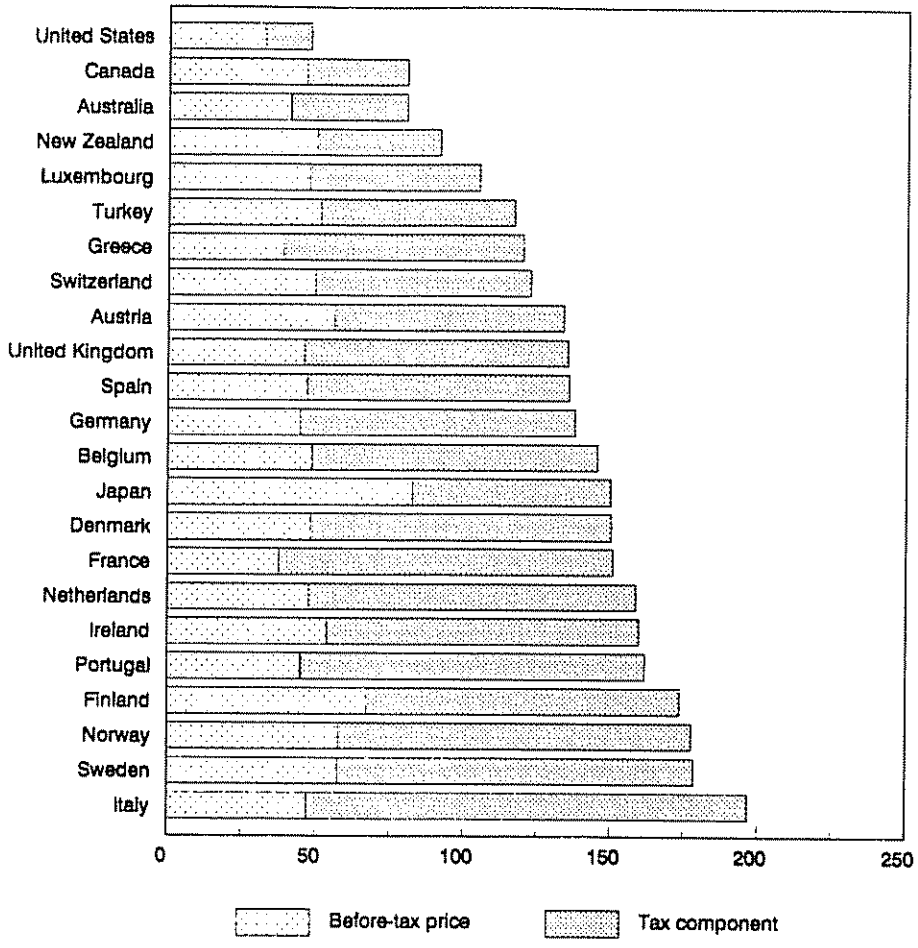
are now some 15 per cent lower than they were in 1973. Furthermore, with the improved fuel economy of motor cars in recent years, the cost per mile of driving has been reduced considerably.

ENERGY SUBSIDIES

While taxes on fossil fuels, especially oil, are already high in many industrial countries, energy subsidies are large in many developing countries as well as in eastern Europe and the former Soviet Union. The World Bank has estimated energy subsidies worldwide to be in excess of $230 billion per year, a figure representing some 20-25 per cent of the value of world fossil fuel consumption per year at current international energy prices. It is estimated that removal of such subsidies would reduce global emission of carbon dioxide by 9 per cent. However, because this fall in consumption would be expected to depress world energy prices and subsequently lead to higher consumption in non-subsidizing countries, the net effect of the elimination of those subsidies would be a 5 per cent drop in global emissions.

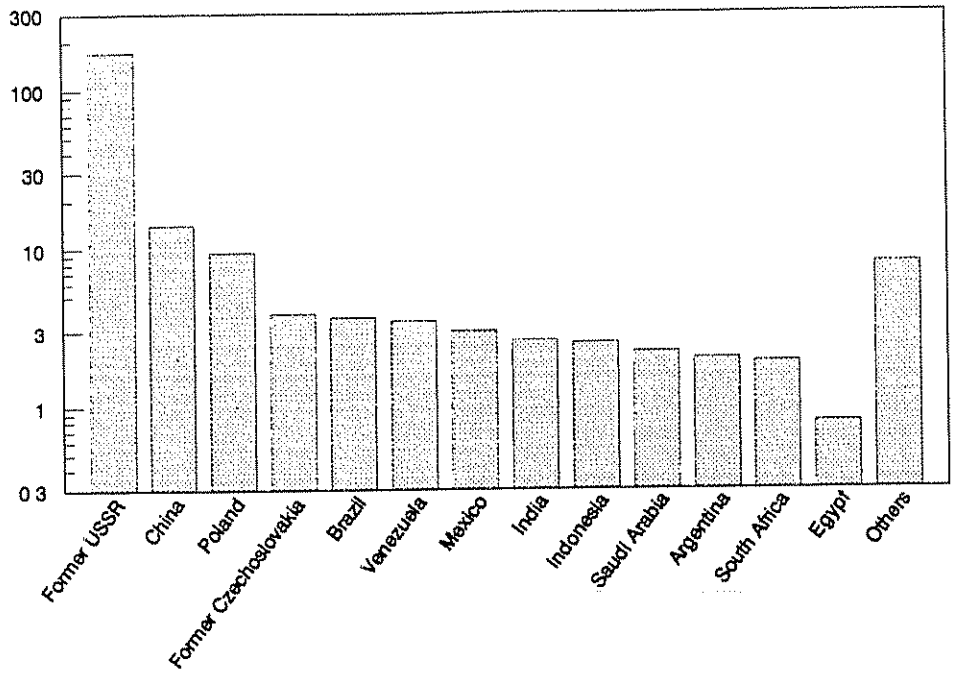
Figure V.5 illustrates the extent of energy subsidies among various countries. The largest subsidizers are the former Soviet Union, China and Poland. Given the fact that the States of the former Soviet Union accounted for nearly 20 per cent of world energy consumption and that domestic energy prices amounted to only

Figure V.4.
Gasoline prices and taxes in OECD, 1991



Source: UN/DESIPA, based on *Energy Prices and Taxes* (Paris, International Energy Agency, 1992)

Figure V.5.
Estimated annual fossil fuel subsidies
Billions of dollars



Source: UN/DESIPA, based on Bjorn Larsen and Anwar Shad, *World Fossil Fuel Subsidies and Global Carbon Emissions*, Working Paper Series, No. 1002 (Washington, D.C., World Bank, October 1992), p. 5.

about 10 per cent of world prices, energy subsidies in those States were estimated at $172 billion, a figure accounting for nearly 75 per cent of world subsidies. It should be noted, however, that estimates of energy subsidies in the former Soviet Union may involve a wide margin of error owing to exchange rate variations.

In addition to providing local, regional and global gains from CO_2 reduction, elimination of energy subsidies is expected to improve welfare in both subsidizing and non-subsidizing countries. The World Bank has estimated annual welfare gains from the removal of those subsidies amounting to about $22 billion in subsidizing countries. Because removal of energy subsidies is expected to induce a fall in energy consumption and therefrom a drop in world energy prices, the annual bills of energy importers in Japan, the United States and Western Europe are expected to be reduced by a combined $14 billion. However, energy exporters would experience welfare losses owing to lower export prices.

The practice of providing energy subsidies is not only confined to developing countries and countries in transition, but applied in several developed countries as well. It has been estimated that subsidies and price support measures for coal producers in five OECD countries (Belgium, Germany, Japan, Spain and the United Kingdom) totalled approximately $11 billion in 1991. Other OECD countries also provide financial support in various forms to their coal producers. Past arguments put forward in some of those countries in support of domestic production in inefficient coalmines may no longer be valid in view of the diminishing threat of supply securities. Removal of these subsidies would not only correct energy pricing distortion, but also reduce coal consumption and thereby cut carbon emissions.

NOTES

[1]The present chapter deals mostly with developments in the oil market. Although other forms of energy are mentioned briefly, they are not described in detail. for more information about other energy sources, please refer to *World Economic Survey, 1989* (United Nations publication, Sales No. E.89.II.C.1 and corrigendum) and *World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigendum).

[2]For more details on investment requirements in the oil industry in the 1990s, see *World Economic Survey, 1992*, p. 107.

[3]That total ceiling did not include production from Ecuador, which had requested the suspension of its OPEC membership.

[4]Energy Information Administration, United States Department of Energy, *Annual Energy Outlook 1991, With Projections to 2010* (Washington, D.C., March 1991).

[5]Mohamed Hafiz-Khodja, "Re-igniting oil production in the CIS: some key issues during the transition", *OPEC Bulletin*, January 1993, p. 10.

[6]Marathon Oil Company, McDermott International, Incorporated., Mitsui & Company, Ltd. Shell Development Sakhalin BV (business venture), and Mitsubishi Corporation.

[7]Texaco.

[8]The most important is its agreement with the Chevron Corporation to develop the immense Tengiz oilfield on the north-eastern Caspian Sea.

[9]See *The Economist*, 25 July 1992, p. 72. Kazakhstan's agreements with foreign investors include a $7 billion contract with British Gas, Agip and Statoil to explore and develop an oil and gas field in the north-western part of the country, and a package in the amount of $11 billion promised for investment by a Turkish engineering company for the purpose of developing oilfields and building gas-fired power stations.

[10]*Middle East Economic Survey*, 3 August 1992, p. A6.

[11]Dr. Subroto (Secretary-General of OPEC), "How OPEC perceives the energy outlook for this decade", *OPEC Bulletin*, April 1992, p. 12.

[12]See *World Economic Survey, 1992*, p. 107.

[13]Mustapha K. Faid, "Algeria courting foreign help in boosting oil, gas output", *Oil and Gas Journal*, 26 October 1992, p. 19.

[14]Contained in document A/AC.237/18 (Part II)/Add.1 and corr.1.

[15]*Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, *Resolutions Adopted by the Conference* (United Nations publication, Sales No. E.93.I.8), resolution 1, annex II.

[16]Peter Hoeller and Jonathan Coppel, *Energy Taxation and Price Distortions in Fossil Fuel Markets: Some Implications for Climate Change*, OECD Economics Department Working Papers, No. 110 (Paris, OECD, 1992).

[17]Jean-Mark Burniaux and others, *GREEN A multi-sector, Multi-region General Equilibrium Model for Quantifying the Costs of Curbing CO_2 Emissions: a Technical Manual*, OECD Economics Department Working Papers, No. 116 (Paris, OECD, 1992).

[18]Alan Manne and Richard Richels, "The EC proposal for combining carbon and energy taxes the implications for future CO_2 emissions", *Energy Policy*, January 1993, pp. 5-11.

[19]Hisham Nazer, Minister of Petroleum and Mineral Resources of Saudi Arabia, "EC carbon tax would bring uncertainty to oil market", *OPEC Bulletin*, June 1992, p. 7.

[20]International Energy Agency, *Energy Policies of IEA Countries: 1991 Review* (Paris, 1992), p. 28.

[21]One BTU is the quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

[22]Bjorn Larsen and Anwar Shah, *World Fossil Fuel Subsidies and Global Carbon Emissions*, Working Paper Series, No. 1002 (Washington, D.C., World Bank, 1992).

[23]Bjorn Larsen and Anwar Shah, "Combatting the greenhouse effect", *Finance and Development* (Washington, D.C., International Monetary Fund (IMF),December 1992), p. 20.

[24]Bjorn Larsen and Anwar Shah, *World Fossil Fuel Subsidies and Global Carbon Emissions*, Working Paper Series, No. 1002 (Washington, D.C., World Bank, 1992). To arrive at the figure of $172 billion in energy subsidies in the former Soviet Union, the authors used domestic prices from January 1992 and the commercial exchange rate for that month (55 roubles equivalent to 1 dollar).

[25]Bjorn Larsen and Anwar Shah, *World Fossil Fuel Subsidies and Global Carbon Emissions*, Working Paper Series, No. 1002 (Washington, D.C., World Bank, 1992), p. 18, table 4.

[26]International Energy Agency, *Energy Policies of IEA Countries: 1991 Review* (Paris, 1992), p. 40, table 2.

VI

Undernourishment and famine in developing countries

One of the great anachronisms of the present day is that, while the world produces enough food to meet the requirements of its entire population, a large number of people, mostly in developing countries, go hungry or are malnourished and many still starve to death every year. This anachronism was emphasized in the World Declaration on Nutrition, adopted at the 1992 International Conference on Nutrition.[1]

Perhaps as many as 780 million or 20 per cent of the population of the developing countries are undernourished. The proportion is on the decline in the developing countries as a whole, in Asia and North Africa, but not in sub-Saharan Africa or Latin America. Neither do all groups of the society suffer undernourishment and hunger equally. Some are more vulnerable than others. Famine, the extreme form of deprivation, killed hundreds of thousands as recently as 1992.

All these points raise complex issues, of which availability of food is only one, though a critical one. These are predominantly concerns of national economic and social policies and these policies are often greatly influenced by international systems of food trade. Moreover, food aid and timely international intervention can save many from starvation.

UNDERNOURISHMENT AND THE WORLD FOOD SYSTEM

UNDERNOURISHMENT IN THE DEVELOPING COUNTRIES

The global adequacy of food supplies

In 1988-1990, the dietary energy supplies (DES) in the world were calculated to be 2,700 calories per capita per day: in the developed countries 3,400, and in the developing countries 2,470.[2] The cut-off point established by the Food and Agriculture Organization of the United Nations (FAO) for the chronically undernourished ranged between 1,761 and 1,836 calories per capita per day, depending on the region, with an overall average of 1,784.[3] In other words, with distribution of the available food supplies strictly according to need, at the global level and even within the developing countries themselves as a group, there would, theoretically, have been enough food to go around to prevent chronic undernourishment. There is indeed no global scarcity of food supplies.

World stocks of grains[4] in 1991/92 amounted to 325 million tons, equivalent to 19 per cent of world cereal consumption, whereas FAO calculated that the minimum necessary to assure world food security was 17 per cent. In the 1980s, world stocks never fell below this minimum level of 17 per cent.[5] World imports of all cereals amounted to 209 million tons, equivalent to 11 per cent of production. The total cereal production of sub-Saharan Africa, the region that has caused most concern for food production shortfalls, was 60 million tons in 1992, and its imports were nearly 13 million tons. At the global level, any African shortfall could easily have been made up by imports. World stocks were less than the entire production of China, at 397 million tons. Yet, if an unheard of catastrophe had, for instance, destroyed the equivalent of all cereal production in China, world production and world imports would have increased: production in areas with later harvests would have responded to the price rises that such a shortfall would have brought about, and farmers would have diverted much of their own production from use as animal feed to sale on the market. It is difficult to visualize any disaster that could challenge the capability of the world food system to supply the food needed to keep entire populations alive. In sum, the world has created a world food system in which "almost anyone in the world, if he or she has the means to do so, can have access to the world's supply of food if his or her government permits such access",[6] and if he or she has the means to acquire that supply.

The "entitlement" and the "availability" approaches

Given the overall global adequacy of food supplies, the question arises why hunger and malnutrition persist in many parts of the world, and why famine is a frequent occurrence. In a world where rapid advances in communication and transportation have made it possible to deliver supplies of food to almost any community, the fact that people are dying calls for explanations that go beyond availability and the primary causes of hunger and malnutrition—poverty and a lack of education.[7]

The "entitlement" approach, more fully developed later, which emphasizes upholding the purchasing power of consumers during a time of scarcity, goes a long way in explaining why famines occur.[8] It complements the "availability" approach which looks at food balances—production, consumption and movements in stocks of food—at the national, regional and global levels but does not take into account the ability of individuals to purchase food and cannot explain how starvation has occurred when there were adequate food supplies at the national level.

Measurement of undernourishment and malnutrition

There are four broad ways to examine the extent of inadequate food supplies. The first would be to estimate the number of people who do not receive adequate supplies of food to give them the energy their physical activity requires. The second would be to look at the physical results of undernourishment by comparing body weights and heights in one country with the norm, based on an adequately fed individual. A third approach is to look at the number of people affected by a lack of specific micronutrients in their food intake. A fourth approach is to look at those who do not enjoy food security, defined in terms of the ability to obtain sufficient food whenever necessary.

Calculating the number of the hungry or undernourished

Hunger and undernourishment are essentially medical phenomena and the only reliable method to ascertain the number of people who are undernourished would be through extensive medical examinations. Expenditure on food, or even analysis of diets, cannot provide an accurate assessment of an individual's nutrition status, because his or her overall medical situation and physical activity and the resulting nutrition requirements have to be taken into account. It is obviously impossible for such extensive examinations to be undertaken, especially in the poorer countries where hunger is most prevalent, and so estimations, based upon incomplete data and various assumptions, have to be made.

One indicator of the extent of undernourishment in the developing countries is the combined population of those countries where the average supply of food is below a certain level. This method assumes that food supplies are divided equally within a country, or, rather, that all are equally undernourished and, similarly, that all those in a country whose average supplies were above the cut-off point received sufficient nourishment. The movement of a large country, particularly China or India, from one category of countries to another could drastically change the estimates of world hunger if this method were used.

Table VI.1 shows the estimates for the total number of people living in countries where average per capita food supplies, measured in terms of calories a day, were in specific ranges. Comparing averages is very difficult, because much depends on the population composition—the males and females in the different age groups, and the levels of activity undertaken, with, for instance, a man engaged in heavy physical activity requiring more than a light woman with a sedentary occupation. However, the estimates do indicate an improvement in the nutritional situation of developing countries.

In 1962, almost 80 per cent of the population of the developing countries lived in countries where the average level of daily calorie intake was under 2,100, a barely minimal level. The total number of people living in such countries was nearly 1.7 billion and included the populations of China and India. By contrast, in 1989, nearly 9 per cent of the population of the developing countries lived in such countries, while China and India had increased their food supplies to move out of this category. The number of people involved was 334 million. Similarly, the number of people living in countries where average food supplies were at apparently reasonable levels, above 2,700 calories per day, expanded, with less than 2 per cent of the population of the developing countries living in such countries in 1962 and nearly 17 per cent doing so in 1989. The numbers involved rose from 35 million to 650 million.

Even if China and India are excluded from the calculations, a considerable improvement was seen. In this case the percentage of those living in countries with an average calorie intake under 2,100 calories per day fell from 56.2 per cent of the sample to 16.6 per cent, and the percentage of those living in countries with an average intake above 2,700 rose from 3.4 per cent to 32.4 per cent.

Table VI.1.
Number of people living in countries with average daily per capita food supplies in given ranges, 1962-1989

Calorie	1962		1970		1980		1989	
Millions								
Under 2,000	1 581	(456)	1 046	(230)	197		123	
2,000-2,100	114		746	(191)	771	(82)	211	
2,100-2,300	176		338		483		1 425	(589)
2,300-2,500	196		230		1 234	(256)	212	
2,500-2,700	38		176		103		1 327	(225)
2,700-3,000	14		55		293		286	
Over 3,000	21		24		190		365	
Total	2 140	(1 015)	2 616	(1 245)	3 271	(1 604)	3 950	(2 012)
Percentage								
Under 2,000	73.9	(44.9)	40.0	(18.5)	6.0	(12.3)	3.1	(6.1)
2,000-2,100	5.3	(11.2)	28.5	(15.4)	23.6	(5.1)	5.3	(10.5)
2,100-2,300	8.2	(17.3)	12.9	(27.2)	14.8	(30.1)	36.1	(29.3)
2,300-2,500	9.2	(19.3)	8.8	(18.5)	37.7	(16.0)	5.4	(10.5)
2,500-2,700	1.8	(3.7)	6.7	(14.1)	3.1	(6.4)	33.6	(11.2)
2,700-3,000	0.7	(1.4)	2.1	(4.4)	9.0	(18.3)	7.2	(14.2)
Over 3,000	1.0	(2.1)	0.9	(1.9)	5.8	(11.8)	9.2	(18.2)
Total	100.0	(100.0)	100.0	(100.0)	100.0	(100.0)	100.0	(100.0)
Memorandum								
Under 2,100	79.2	(56.2)	68.5	(33.8)	29.6	(17.4)	8.5	(16.6)
Over 2,700	1.6	(3.4)	3.0	(6.4)	14.8	(30.1)	16.5	(32.4)

Source: Nikos Alexandratos, "World agriculture and food and nutrition prospects of the developing countries". Paper presented at the conference, "Science and ethics at the dawning of the third millennium", Varenna, Italy, 28-30 September 1992.

Note: Figures in parentheses exclude China and India

To estimate the number of those who are actually undernourished requires a definition of "undernourishment", and an agreed method to measure whether individuals fit this criterion. In one method, this number is defined as that of persons who, on average, during the course of a year are estimated to have food consumption levels below those required to maintain body weight and support light activity.[9] The method employed by FAO[10] is based upon calorie requirements. Those who failed to obtain the required calories were classified as "chronically undernourished".

The results for the different regions in the developing countries are given in table VI.2. The percentage of the population of the developing countries that was estimated to be undernourished fell in the past two decades from 36 per cent to 20 per cent, largely because of a sharp improvement in the picture in Asia, where the numbers of the undernourished fell from about 750 million in 1969-1971 to about 530 million in 1988-1990. The percentage of the Asian population that was undernourished fell between 1969-1971 and 1979-1981 as well as between 1979-1981 and 1988-1990, and was less than 20 per cent in the latter period. Whereas in 1969-1971 nearly 80 per cent of the undernourished people in the world were in Asia, at the present time the figure is about 67 per cent. Considerable progress was made in China, where the proportion of the population that was undernourished fell between 1975 and 1990 from about 40 per cent to 20 per cent.[11]

In sub-Saharan Africa, the situation deteriorated in both the 1970s and the 1980s, in both absolute and percentage terms. Whereas only 10 per cent of the undernourished people in the world were in sub-Saharan Africa in 1969-1971, at the present time, over 20 per cent are. The absolute number of the undernourished in sub-Saharan Africa almost doubled between 1969-1971 and 1988-1990.

In the Near East and North Africa, the situation im-

Table VI.2
Estimates of chronic undernutrition in the developing countries

	Year	Total population (millions)[b]	Undernourished[a] Percentage of total population	Undernourished[a] Millions
Sub-Saharan Africa	1969-1971	268	35	94
	1979-1981	358	36	129
	1988-1990	473	37	175
Near East and North Africa[c]	1969-1971	180	23	42
	1979-1981	236	10	23
	1988-1990	301	8	24
Asia	1969-1971	1 880	40	751
	1979-1981	2 311	28	645
	1988-1990	2 731	19	528
Latin America and Caribbean	1969-1971	281	19	54
	1979-1981	357	13	47
	1988-1990	433	13	59
Total	1969-1971	2 609	36	941
	1979-1981	3 262	26	844
	1988-1990	3 938	20	786

Source: Nikos Alexandratos, "World agriculture and food and nutrition prospects of the developing countries", p. 20.

a Persons who, on average during the course of a year, are estimated to have food consumption levels below those required to maintain body weight and support light activity. This threshold level (ranging from an average of 1,760 calories per person per day for Asia to 1,985 for Latin America) is set equal to 1.54 times the basal metabolic rate. For more explanations, see FAO, "World food supplies and prevalence of chronic undernutrition in developing regions as assessed in 1992" (ESS/MISC/1/92).

b Population data may differ from those in other tables because of minor differences in country coverage.

c Near East in FAO data includes Afghanistan, Bahrain, Cyprus, Egypt, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Turkey, United Arab Emirates and Yemen. North Africa includes Algeria, Morocco and Tunisia.

proved considerably between 1969-1971 and 1979-1981 in percentage and absolute terms, but after 1981 progress slowed down, and the absolute number of undernourished increased.

Similarly, in Latin America and the Caribbean the situation improved considerably between 1969-1971 and 1979-1981, with the absolute number of the malnourished and their share of the total population falling. In the 1980s, however, the number of the undernourished rose to exceed its level in 1969-1971 and the percentage of the region's population that was undernourished remained static. These trends in Latin America appear to confirm earlier concerns that, in spite of adjustment efforts, the debt crisis of the 1980s had in fact led to a deterioration of living standards.

In all, the total number of undernourished people in the world is estimated at 780 million, equivalent to 20 per cent of the population of the developing countries. This figure has now received wide international acceptance.[12]

Anthropometric measurements of malnutrition

Two groups are thought to be particularly affected by inadequate nutritional supplies: children and women.[13] In the case of the former, adequate supplies at an early age are important for their physical and psychological development. Inadequate supplies can slow down their cognitive development and make them more susceptible to disease. Similarly, women's essential functions of bearing and nurturing healthy children are jeopardized by inadequate nutritional intake. Deviations from normal bodily relationships in the course of growing up—weight from expected body weight for age, weight from expected weight-for-height, and height from expected height-for-age—can indicate nutritional deficiencies. It was estimated that the percentage of children under five who were seriously underweight for their age[14] in developing countries fell from 42 per cent in 1975 to 38 per cent in 1980 and then to 34 per cent in 1990, but the absolute numbers affected rose from 168 million in 1975

to 184 million in 1990 (see table VI.3). Underweight prevalence in South Asia remained the highest in the world, at 59 per cent, compared to 34 per cent in all developing countries and 30 per cent in sub-Saharan Africa. The percentages in Bangladesh, India and Nepal were all over 60 per cent in the 1980s. The absolute number of underweight children in South Asia was over 100 million and accounted for over half the world total of 184 million.

It was estimated that in the 1980s 45 per cent of women between the ages of 15 and 49 in the developing countries were underweight (under 45 kilograms).

Micronutrient deficiencies

One very common micronutrient deficiency is that of iron, one result of which is anaemia. A total of 370 million women—42 per cent of those between 15 and 49 years—were anaemic in the 1980s (see table VI.4). Indications were that anaemia prevalence might be increasing in South Asia and sub-Saharan Africa.

Deficiency in vitamin A affected at least 40 countries, and resulted in blindness in up to half a million schoolchildren a year, out of an estimated 14 million, with resulting eye damage. Up to one billion people are at risk of some degree of iodine deficiency, which causes

Table VI.3.
The prevalence of underweight children[a] in developing countries

Region	Percentages			Millions		
	1975	1980	1990	1975	1980	1990
Sub-Saharan Africa	31	29	30	18.5	19.9	28.2
Near East and North Africa	20	17	13	5.2	5.0	4.8
South Asia[b]	68	64	59	90.6	89.9	101.2
South-East Asia[c]	44	39	31	24.3	22.8	19.9
China	26	24	22	20.8	20.5	23.6
Middle America and Caribbean	19	18	15	3.4	3.1	3.0
South America	16	9	8	4.8	3.1	2.8
Total	42	38	34	168	164	184

Source: ACC/SCN, *Second Report on the World Nutrition Situation*, vol. I (Geneva, October 1992).

a Includes all children under 60 months.
b Afghanistan, Bangladesh, India, Islamic Republic of Iran, Nepal, Pakistan and Sri Lanka.
c Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Papua New Guinea, Philippines, Thailand and Viet Nam.

Table VI.4.
The prevalence of anaemia in women (15-49 years old) by region in the 1980s

Region	Pregnant[a]	Non-pregnant[b]	Total	Total
	(Percentages)			(Millions)
Sub-Saharan Africa	50	40	42	41
Near East and North Africa	44	31	33	15
South Asia	64	64	64	158
South-East Asia	56	47	48	57
China	34	26	26	75
Middle America and Caribbean	34	27	28	9
South America	31	21	23	15
Total	51	41	42	370

Source: ACC/SCN, *Second Report on the World Nutrition Situation*, vol. I (Geneva, October 1992).

a Proportion with haemoglobin below 11 g/dl.
b Proportion with haemoglobin below 12 g/dl.

mental retardation. It is estimated that there are up to six million people with overt cretinism in the world.

Food security

The FAO definition is that "a household is food secure when it has both physical and economic access to adequate food for all its members and when it is not at undue risk of losing such access".[15] The connection between food security and nutrition is that "food security is a necessary, but not of itself sufficient, condition for nutritional well-being. Nutritional well-being takes into consideration the nutritional quality of the household diet and absence of disease and adverse health conditions as well as household management abilities (such as time, non-food resources knowledge/ practices)".[16]

The concept of food security can be usefully extended from the level of the household to the local, national, regional and global levels. The International Fund for Agricultural Development (IFAD) devised a measure of food security at the national level that takes into account the existing level of per capita food consumption as a percentage of requirements, the growth in per capita consumption of food, and also the variability in consumption (as measured by the standard deviation). Similarly, the production picture was included, with the level compared to a base year, the self-sufficiency ratio (calculated as the ratio of domestic production to domestic absorption) and the variability in production entering into the calculation. This index was calculated for 113 developing countries - 23 in Asia, 45 in sub-Saharan Africa, 13 in the Near East and North Africa, and 32 in Latin America and the Caribbean.[17]

According to this index, 37 countries had low food security in 1988, of which 21 were in Africa and 22 were least developed countries. Of the 30 countries with high food security, 12 were in Asia and only 2 were least developed countries. Of the 46 countries with medium food security, 16 were in Latin America and 22 in sub-Saharan Africa.[18]

Implications of the data

There has been considerable discussion of the reliability and the implications of the data on nutrition.[19] In particular, in the African and Asian figures, the number of the undernourished appear to contradict the results obtained from the anthropometric measures for children and the prevalence of anaemia among women. According to the calculations, a higher percentage of the population is undernourished in sub-Saharan Africa than in Asia—and yet there are relatively more underweight children and anaemic women in Asia.

Part of the answer could be that the status of children and women in Asia is less favourable than in Africa. In particular, discrimination could result in girls and women receiving relatively lower amounts of food than men. Thus, the intra-household distribution of food in Asia could cancel out some of the advantages of a higher level of overall food supplies than in Africa.

Another part of the answer could be underreporting of production in Africa.[20] It has been pointed out that it is difficult to estimate production from sales as much food in Africa is not marketed. Furthermore, in Africa, the harvested area can vary considerably from year to year in response to rainfall and other vagaries and much African agriculture consists of roots and tubers where it is very difficult to estimate yields. Cassava, for instance, can remain in the ground for three years without losing its nutritional value. Finally, minor crops are important in many parts of Africa and estimates on their production are subject to wide margins of error. In sum, estimating production is especially difficult for Africa.

Also, in the methodology used to calculate the number of undernourished people (see note 10), much depends on the mean availability of calories and the assumed shape of its distribution. If the production statistics were to give too low a picture of actual calorie supplies and the true mean DES was in fact higher than the estimated mean, then there would be a smaller percentage of those estimated to be undernourished. Similarly, if the distribution were to be more nearly equal than was assumed, this percentage would also fall. With the mean DES lying close to the cut-off point, fairly small differences in its estimation, and in the assumed shape of its distribution, can make relatively large differences to the estimates of those who are undernourished. There are lower and upper limits to individual food consumption dictated by physiology, and it is generally found that, in countries with low average supplies, the distribution of food is more equal than in countries with medium levels of supplies, and that in countries with high average supplies, the distribution is also more equal.

Anthropometric measurements provide a good but not infallible guide to the actual state of nutrition: it is argued that people can in fact be "small but healthy". Moreover, the reason why children in developing countries are not as tall or heavy as those in developed countries is not simply a result of undernourishment, but also of an unsatisfactory non-food environment—poor hygiene, sewerage and sanitation and inadequate

attention by a mother who has to spend her time in such activities as fetching water or firewood, and who could have insufficient knowledge as to the nutritional needs of her children.

The food security index is helpful in showing the vulnerabilities that face a country. However, it does not give full information on the actual food security situation facing the population. The first reason is that it does not take into account the ability of a country to generate sufficient foreign exchange to purchase all the food necessary. Even if domestic production is low and variable and food imports are, as a result, highly variable—as, in particular, in small island countries, such as Grenada and Malta—the ability to pay for such imports from other export earnings could result in a largely satisfactory nutritional picture. In this connection, Oman, a country whose food self-sufficiency was the lowest in the world—1 per cent—and which was the second most food insecure country in the world, is clearly able to obtain all the food imports it needs: as long as it has oil and the oil price does not collapse.

The second problem with this index is that it does not take into account the internal situation of a country and, in particular, the poor infrastructure in many low-income countries that prevents an optimal distribution of food between regions within a country. Also, it does not show the effects on food distribution of different earnings capabilities among households.

However, in spite of the discrepancies among the data as to the numbers involved, a fairly consistent picture emerges of the direction of change in the developing countries. The number of undernourished people in sub-Saharan Africa has increased in absolute terms and as a percentage of the total population in the past two decades. Sub-Saharan Africa's food situation is also more insecure than that of the other continents. The situation in Asia has improved considerably in the past two decades, although, because of the sheer size of its total population, it remains the continent with the largest number of undernourished people. Its food security appears higher than that of sub-Saharan Africa. In Latin America and also in the Near East and North Africa, the improvement in the nutrition picture that had been seen in the 1970s either slowed down or was reversed in the 1980s.

Intra-family relationships and nutrition: the place of women and children

Discussions on the problems with the data on nutrition and on shortcomings in any indicators of food security have drawn increasing attention to some very important factors in the nutrition picture. One factor is the close relationship between poverty, which reduces entitlements to food, and malnutrition. Another is the intra-family distribution of food, and, in particular, the role of women in the food system. The third factor is that good nutrition must be seen as part of a broad spectrum of issues that comprise health and hygiene concerns and the ability of women to provide these essential services within the family. Unless policies address, or at least take into account, these socio-economic factors, they are unlikely to achieve the expected results.

In the developing countries, most of the chronically undernourished, about 80 per cent of the total, live in rural areas.[21] However, with the continued drift to the towns and the lack of job opportunities there, urban poverty and hunger is assuming ever greater importance.

In both rural and urban areas in some developing countries, what food is available may not be distributed according to need within the household. Female members of a poor household are usually worse off than male members because of gender-based differences in the distribution of food and other entitlements within the family. In some areas, women and children tend to be fed after the menfolk, the girls after the boys.

The intra-family inequality and disparity of entitlements is particularly paradoxical in that in the rural areas of developing countries, women play a vital role in the production of food. As labourers for hire and on the family farm, women produce more than half the food in developing countries, and as much as three fourths in Africa; they probably account for more than 90 per cent of all time spent processing.[22] In addition, they play a substantial part in storing, processing and marketing food and cash crops.

Women farmers face multiple obstacles to achieving their full productive potential. Women as workers face the double burden of high energy expenditure and low return for their effort. Disproportionate work burdens fall on women, especially during periods of peak labour demand. Women also encounter difficulties in obtaining access to improved seeds, new crop varieties, knowledge about improved cropping systems, and other forms of technology. Because they are poor and most of their productive activities are not market oriented, project designers, credit officials and extension staff too often assume that women can afford neither to purchase modern inputs nor to reimburse credit. Women's lack of legal rights to the land they cultivate also often circumscribes their membership in farmers' organizations and

hence their access to inputs, services and credit, while those crops that women tend to produce, their livestock activities and especially their crop processing and storage have received relatively little attention in agricultural research and technology development programmes.[23] Concern with household security has begun to shift the focus of research, extension and input supply towards the food sector, but rural women have yet to obtain adequate access to improved inputs.

While the Governments of developing countries are becoming aware of the role of women in food production and food security, macroeconomic and agricultural polices and programmes in many countries have not adequately helped rural women to make use of available resources. In many countries, agricultural development activities directed at rural women have taken the form of small projects such as dairying, poultry raising and vegetable gardening. Often the importance of these projects to the mainstream development effort is not appreciated and, as a result, they suffer from inadequate funding and policy support. Some of the projects geared to assist women also take the form of small components linked to, but not necessarily integrated into, larger agricultural and rural development programmes.

It has become increasingly clear that targeting benefits to the poor in general, and hoping women will get their share, does not work. Even when certain minimum levels of household food security, health environment and access to services have been reached, much depends on how the individuals in the household, particularly women, discharge their functions.

Women are not just important for the production of food, but also for its preparation and distribution within the household. The education level of mothers alone, independent of household income, is positively related to a better nutritional status of children and to lower infant mortality. Nutritional education programmes are reported to cause substantial behavioural change, as demonstrated by projects in the Gambia, Honduras, Indonesia, the Federated States of Micronesia, the Philippines and the United Republic of Tanzania.[24] These are likely to have a greater effect on nutritional outcomes if accompanied by programmes designed to increase demand for the appropriate foods. In Morocco, education plus food supplements was reported to produce a better nutritional situation than supplementation alone.[25] Maternal education influences child health by ensuring better management of household resources. Maternal education is also frequently associated with greater use of health-care services, lower fertility rates and more child-centred care-giving behaviour. With increasing education, women have more power within the family to allocate resources for food and other items needed for their children's health and welfare.

A distinction needs to be made between women's basic education/literacy and nutrition-oriented education. Experience has shown that, although female literacy is positively associated with nutritional improvement, the nutritional status of children can be improved in a very short period of time, through well-crafted and appropriate nutritional education programmes directed at mothers who may be illiterate.

Measures to alleviate hunger and prevent malnutrition

The importance of paying special attention to women in policy formulation reflects the vital role that they play in food production and distribution. It also reflects the new development paradigm which is based on the realization that it is necessary to "maximize the resources of the rural poor, especially women, and provide an enabling policy and institutional framework for them".[26] This paradigm is essentially based on the empowerment of the poorer and more disadvantaged members of society.

In many instances, it has been the poor themselves who seized the initiative to gain greater control over their own destiny and resources. In many cases, these local grass-roots initiatives had a very strong food and nutrition component.[27] As they responded to a need perceived by the participants, and involved what they considered the most appropriate response, they could be expected to be highly effective.

Government measures to alleviate hunger and prevent malnutrition include food subsidies, ration shops for staple foods and supplementary food programmes. In many of these programmes, the direct involvement and empowerment, primarily through education, of the targeted beneficiaries were essential elements.

As the examples given below demonstrate, the exact form of nutrition intervention that the Government decides upon varies widely among countries, depending upon the country's administrative capacity and the particular set of circumstances it confronts. The factors that have to be considered include the cost per intended beneficiary, the ratio of costs to benefits, the amount of infrastructure that is required, the leakage to the non-needy and whether in fact the nutrition habits of the malnourished will be improved.[28] If the objective of the programme is to maximize the reduction in the number of

malnourished, this could in fact be achieved by targeting those on the borderline, and not the most severely undernourished. In many cases, it indeed seems the not-so-poor rather than the poorest take most advantage of government programmes such as food-for-work or the provision of institutional credit.[29]

In the Gambia,[30] the Government's Health and Nutrition Programme distributes take-home food at about 100 centres throughout the country to almost 80,000 women and children. Indonesia's Family Nutrition Improvement Programme, started in 1974, covered about 21 million children nationwide by 1989. Other activities of the Programme were the monthly weighing of infants and children, nutrition education, home gardening and nutritional first aid (iron and vitamin A). In India, the Integrated Child Development Service's feeding programme, started in 1975, covered about 30 million children by 1989. In the Indian State of Tamil Nadu, the supplementary feeding activities of the Integrated Nutrition Programme served more than 1 million children and women by 1989.

Also, in the State of Kerala in India, where land reforms in the 1960s had reduced landlessness and inequity in landholding, the State Government maintained food supplementation programmes in the form of school lunch, daily meals for mothers and infants and ration shops for the staple food, rice, during the 1980s. In Sri Lanka, the Government launched a programme, in the 1980s, aimed at helping former food-stamp recipients by giving them monthly cash payments for a period of two years. Part of the amount was to be used for consumption and part saved to enable households to reduce their dependence on state welfare programmes.

Thailand's National Nutrition Programme covered about 2.5 million children in 60,000 villages in 1989. In the Philippines, an Alternative School Nutrition Programme, begun in 1983, comprised supplementary feeding, nutrition education, food production and income-generation activities and covered 1,000 schools by 1989. In the United Republic of Tanzania, a WHO/UNICEF Joint Nutrition Support Programme emphasized community mobilization and engaged in other activities, such as growth monitoring, maternal and child health, and household food security. It covered 600 villages in 1987. Zimbabwe's national programme included community production of supplementary foods, nutrition education and community mobilization and comprised over 6,000 local projects by 1989.

The Government of Bangladesh established a food-grain monitoring system to alert it to the development of any catastrophic food shortage and the measures to be implemented. Also, grain prices were stabilized to forestall the charging of exorbitant prices in times of crisis. Ration shops for rice were also set up.

To prevent further erosion of real incomes, which made it difficult for households to feed themselves, the Government of Ghana, under its Economic Recovery Programme of the 1980s, increased the minimum wage and raised the price to cocoa farmers for their produce. Also, public employees who were retired early as a result of the Government's retrenchment policy were given generous pensions and bonuses and were encouraged to take up farming to increase food production. Moreover, the Government tried to mitigate some of the adverse effects of its structural economic reforms, such as reduction of expenditures on social services, higher rates for water and electricity, higher tuition fees and a steep devaluation of the currency, with welfare programmes.

A review of food supplementation programmes in 19 Latin American and Caribbean countries in the 1980s gives an idea of the extent to which such programmes can be used to alleviate protein energy malnutrition.[31] They were targeted primarily at children and pregnant and lactating women but entire families were also included. Of the 104 programmes in place in 1990, the beneficiaries were as follows: 54 covered infants five years or less; 31 were intended for pregnant or lactating women; 30 for primary schoolchildren; 23 for malnourished children specifically; and 28 for entire families.

Some programmes also distributed food to other beneficiaries, such as adult women and men, elderly or handicapped persons, poor hospital patients and convalescents, and payments-in-kind to volunteers and day-care providers. The 104 programmes covered almost 100 million beneficiaries, of whom 9.8 million were adult women, 27.3 million were preschool children, 51.9 million were school-age children, and 10.3 million were other beneficiaries. In addition, food subsidies were provided to about 2 million people in the region.

The coverage of the supplementary food programmes in millions of persons was the following: Brazil (57.7), Mexico (14.9), Peru (8.3), Colombia (3.3), Argentina (3.2), Chile (1.9), Guatemala (1.5) and Bolivia (1.1).

The school meals programme provided free meals daily (breakfast, lunch or snacks) during the school year to schoolchildren. Other direct feeding programmes provided five meals per week. The free take-home foods were distributed on a daily, weekly, monthly or quar-

terly basis. The foods sold at subsidized prices were purchased daily or monthly. A few countries—Brazil, Jamaica and Mexico—used coupons in their subsidized food programmes.

In spite of substantial expenditures on food programmes, malnutrition was not eliminated in the major spending countries in the region for several reasons. First, the resources were often used ineffectively—they were spread thinly over many beneficiaries and some were directed to families that were not nutritionally at risk. Secondly, food distribution was not accompanied by other necessary components, such as health care, sanitation and education, which would not only have cured malnutrition but also would have prevented its future recurrence; that is, curative and preventive approaches should have been used simultaneously. Thirdly, theft and wastage were the bane of the programmes.

It is difficult to make any general point about government programmes. Even the record of targeted nutrition programmes is clearly mixed. Ones that work in one country can fail in another for totally unanticipated institutional factors. Many of them require a large amount of infrastructure and administrative capabilities that do not exist in the developing country in question. A high degree of community participation is, therefore, doubly necessary. In many cases, they can help achieve worthwhile objectives - encouraging the construction of rural infrastructure and the attendance of children at school—despite leakages to the non-needy.

FOOD SUPPLY

Regional trends in food production

The vast majority of undernourished people in developing countries are so because their domestic agricultural sector fails to produce sufficient food for their needs, and because variations are not adequately covered by supplies from outside. The relative failure of the developing countries to provide sufficient food for their populations can be judged from their food self-sufficiency ratios.

Self-sufficiency at the level of the individual country need not, of course, be a goal of national policy for all countries. Possibilities of trade almost always exist and there is no reason why a country that has a comparative advantage in production of non-food items should not import food in exchange for the former. Not many countries are, however, in such a position in the early stages of their development. Moreover, the poor rural dwellers are usually those who are the worst nourished within a country. Their poverty and undernourishment are often a result of their not being able to produce enough food to supply directly their own needs for nourishment and, if necessary, to exchange for cash to purchase those other food requirements that would ensure them a balanced and nutritious diet. If increases in their food production were an effective use of their resources, this would go a long way to solving nutrition problems.

In the past 30 years the developed market economies have moved from near self-sufficiency in major food groups to having a substantial surplus (see table VI.5). The economies in transition and the developing countries saw their self-sufficiency ratios fall[32] and their share of world imports of food increase. In every developing region there was a decline in self-sufficiency, except Asia where the self-sufficiency ratio, however, stayed below 100.

Table VI.6 gives trends in agricultural output from 1980 to 1991 in total and per capita terms. (Trends in food production mirrored trends in agriculture production.)

In the developed market economies, the total agricultural production was on average 10 per cent higher in 1992 than in 1979-1981.[33]

In the developing countries, production expanded more rapidly than in the developed countries—by an average of 45 per cent. The increase was particularly strong in the Far East where China and India increased their output by over 60 per cent and 50 per cent respectively. African production increased by 33 per cent, considerably more than did production in Latin America. African production was adversely affected by drought in 1992: production was 37 per cent higher in 1991 than in 1979-1981.

An indicator for trends in the ability of the agricultural sector to produce sufficient food for the population is the trend in production per head of the population. As shown in table VI.6, per capita food production in the developing countries as a whole increased by some 13 per cent between 1979-1981 and 1992, but with large differences between the regions.

In the Near East, output per head of the population declined. The figures for Latin America show stagnation in per capita production over the period. Although its total production rose less than in the other identified regions, including Africa, this was almost compensated for by lower population growth.

The contrast between Africa and the Far East is striking. In Africa, agricultural production per head of the population was 8 per cent lower in 1992 (and 2 per

Table VI.5.
Shares in world food exports, food imports and food self-sufficiency ratios in the developed economies, the economies in transition and developing countries, 1961-1964 and 1983-1986[a]

	Developed market economies	Economies in transition	Developing countries
Share of world exports			
1961-1964	56	9	35
1983-1986	70	9	25
Share of world imports			
1961-1964	58	16	27
1983-1986	40	20	41
Self-sufficiency ratio			
1961-1964	99	99	103
1983-1986	113	94	98

Source:Rod Tyers and Kym Anderson, *Disarray in World Food Markets* (Cambridge, Cambridge University Press, 1992), pp. 23-24.

a The commodities covered were wheat, coarse grains, rice, ruminant and non-ruminant meat, dairy products and sugar.

Table VI.6.
Agricultural production and the agricultural labour force, 1980 and 1992

	1992 A	1992 B	1980 C	1992 D	1992/1980 E	1980 F	1992 G	1992/1980 H
World	125.0	101.4	50.8	45.7	-10.0	993.1	1 117.2	11.1
Developed market economies	110.4	102.2	7.1	4.9	-31.2	25.5	19.3	45.3
North America	114.1	102.3	3.6	2.2	-39.5	4.4	3.1	63.2
Europe	107.4	103.2	7.7	6.0	-22.5	12.3	10.2	30.0
Australia and New Zealand	117.1	99.5	7.6	5.3	-30.1	0.6	0.5	35.2
Other developed economies[a]	100.3	89.7	11.8	7.0	-40.8	8.1	5.5	46.8
Former USSR	102.7	93.0	20.0	11.9	-40.7	27.2	17.2	62.0
Eastern Europe[b]	88.6	85.0	30.2	15.8	-47.7	14.3	7.8	62.1
Developing countries	145.2	112.9	65.7	58.3	-11.3	923.0	1 070.7	25.2
Africa	133.0	92.0	73.6	67.2	-8.7	118.8	145.9	8.3
Latin America	127.7	99.4	31.8	25.1	-21.2	39.3	41.5	21.1
Near East Asia	137.7	98.8	48.7	38.2	-21.5	32.4	35.7	24.9
Far East Asia	155.0	124.0	69.6	62.3	-10.5	731.1	846.1	34.0
China	164.4	139.6	74.2	66.0	-11.2	406.1	461.8	44.6
India	151.3	117.2	69.7	65.8	-5.6	185.0	220.8	26.8
Other developing countries	114.0	88.3	63.1	53.0	-16.0	1.4	1.5	6.4

Source: UN/DESIPA, based on FAO data.

a Including South Africa.

b Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia

Notes: A = Index of total agricultural production (1979-1981 = 100).

B = Index of agricultural production per capita (1979-1981 = 100).

C = Percentage of the economically active population in agriculture, 1980.

D = Percentage of the economically active population in agriculture, 1992

E = Percentage change in the share of agricultural workers in the economically active population

F = Numbers of those economically active in agriculture, 1980 (millions).

G = Numbers of those economically active in agriculture, 1992 (millions)

H = Change in productivity per economically active agricultural worker between 1980 and 1992 (percentage)

cent lower in 1991) than in 1979-1981, whereas in the Far East it was 24 per cent higher—and 40 per cent higher in China. Low population growth and expanding agricultural production brought about a marked improvement in food supply.

The size of the agricultural labour force

It would, though, be simplistic to conclude that Africa's agricultural failures resulted simply from excessive population growth. With most of the economically active population engaged in agriculture, productivity developments within this sector are of critical importance in determining the increase in overall and per capita agricultural production. Comparisons with other regions can shed light on the issues involved.

In the developed countries that, as outlined earlier, have achieved an excess of production over domestic requirements, a small percentage of the labour force works in agriculture (see columns C and D in table VI.6). Moreover, the shares of the economically active population employed in agriculture fell sharply by between 22 and 40 per cent between 1980 and 1992. In terms of the numbers involved, the size of the population dependent upon agriculture, which includes the families of those economically engaged in agriculture, fell by over 30 per cent between 1980 and 1992. Of the total population of 851 million in the developed market economies in 1991, only 42 million were dependent upon agriculture. The total number of those economically active in agriculture was 19.3 million in 1992 (see column G)—and yet they were able to produce more than sufficient food for all the developed market economies. Agriculture is, then, not unlike other industries in a developed country, in that, benefiting from the division of labour and the size of the market, the farming sector purchases most of its inputs (machines, power, tools and buildings) from other sectors and, using them, specializes in supplying items of food and agricultural raw materials to a much larger market than itself. In this case, because of the development of infrastructure, both domestically and in other countries, this market has become virtually the entire world.

The situation is radically different in the developing countries. Of the 4,220 million people living in those countries in 1992, slightly more than half—2,336 million—were dependent on agriculture. A total of 1,071 million people were estimated to be economically active in agriculture in 1992—58 per cent of the economically active population of the developing countries (columns D and G of table VI.6). This was a smaller percentage from 1980, when nearly 66 per cent of the economically active population of the developing countries was engaged in agriculture. The tendency for the proportion of those economically active in agriculture to decline is fairly universal as agriculture becomes more productive, as farmers purchase their present inputs from other sectors, as other sectors supply additional goods and services for its efficient development, as rising incomes make agricultural workers require more goods and services for their domestic consumption from outside the agricultural sector and, finally, as the development of transport, communications and rural infrastructure increases the size of the market from the village to the regional, national and international levels.

In the developing countries, the absolute number of those engaged in agriculture rose by nearly 16 per cent between 1980 and 1992. In two developing regions, Africa and the Far East, the number of those engaged in agriculture expanded much more than in other regions and the share of the economically active engaged in agriculture in total employment fell much less rapidly.

The productivity of the agricultural labour force

This contrast between less than 5 per cent of the economically active population being more than able to feed themselves in the developed market economies and about 60 per cent of the economically active population being unable to do so in the developing countries is quite startling. Not only are agricultural workers in the developed countries very productive, but their productivity has actually increased sharply over time. Column H in table VI.6 gives the change between 1980 and 1992 in the productivity of the agricultural labour force, as measured by the change in total agricultural production divided by the change in the agricultural labour force.

Output per head of the economically active population employed in agriculture increased by 60 per cent in North America and by 35 per cent in Australia and New Zealand where, despite popular images and the large importance of the agriculture sector in the national economies, the share of the labour force in agriculture is even lower than the market economies of Europe. In these countries, productivity increased by 30 per cent.

The economies in transition of eastern Europe and the former Soviet Union actually recorded the greatest increases in productivity as the shrinkage of the agriculture labour force, in percentage terms, exceeded that in the developed market economies. In 1980, there had been 2 million more people engaged in agriculture in the

eastern European economies in transition (excluding the former German Democratic Republic) than in the developed European countries, and in 1992 there were over 2 million fewer. Production was low in 1992 in both eastern Europe and the republics of the former Soviet Union, largely as a result of the transition process, but the potential for a revival in production is very good, especially if markets in the rest of Europe are opened to their exports.[34]

In the developing countries, the increase in labour productivity was only half that achieved in the developed market economies or the economies in transition. Again, China stands out as an exception, with an increase in labour productivity of 45 per cent. The increase for Africa, of only 8 per cent, was considerably below the average for the developing countries as a whole. If the calculation had been made for 1991, the figure would still have been only 14 per cent.

Productivity comparisons among regions

A closer examination of some of the relevant variables is necessary to highlight some of the structural problems, and, therefore, indicate the possibilities of expanding production.

A starting-off point is the land available per person and per person dependent upon agriculture. The figure for land will be the land area, less land that is barren (such as desert), built on or used for roads. Australia, New Zealand, the former USSR and North America had abundant supplies of land —more per person than any developing region. Because their agricultural populations were very small, the land available to the average person dependent upon agriculture was very large—671 hectares per person in Australia, 155 in North America and 69 in New Zealand. Europe has 12 hectares available for each person dependent on agriculture.

No area of the developing world had such a favourable ratio of acreage available per person as the agriculturally endowed regions of the developed world. Africa and Latin America were relatively well endowed, while the Far East was less so. However, the sheer size of the overall and agricultural populations of the Far East meant that, in the short term, ensuring food security depended upon expanding domestic production. Latin America has more hectares available to the average person dependent upon agriculture than any of the other developing regions.

For the world as a whole, increases in production of most foodstuffs came about through an increase in yield from a given acreage. The amount of the world's acreage devoted to cereal production decreased by about 2 per cent between 1979 and 1991, while the yield increased by 21 per cent. In contrast, in the case of Africa, the cereal acreage increased by 31 per cent and the yield by 15 per cent, resulting in an increase in production of 51 per cent. In the cases of sorghum and pulses, the yield per acre actually declined between 1979 and 1991, while the acreage increased by over 35 per cent. Even in a continent as relatively land abundant as Africa, such increases in the acreage harvested cannot be relied upon to provide the key to future production increases. The continuing expansion of the acreage devoted to production will make it more difficult to leave land fallow and so give it time to recover. Apart from the increasing risks of desertification resulting from overuse of land, the expansion of the acreage farmed will tend to put downward pressure on productivity as marginal land is increasingly brought into production. An increase in yields is critical for the future of African agriculture.

A comparison of African figures with those for China and India illustrate this: production increases in these countries came from increases in yield and smaller increases, and even decreases, in acreage. The yield per acre of cereals rose by over 40 per cent in both China and India between 1979 and 1991.

The rise in yields in the Far East can be attributed to the heavy use of irrigation and fertilizers on high-yielding varieties of cereals. In the case of irrigation, whereas 34 per cent of the arable land and land under permanent crops is irrigated in the Far East, the figure for Africa is only 3.6 per cent (see table VI.7). In the case of China, the figure was nearly 50 per cent. However, the figures for the Far East are quite exceptional—in North America only 8 per cent of such land is irrigated, in Latin America 10 per cent and in Australia 3.4 per cent. The figures for North America show declines between 1980 and 1990 in the area under irrigation and in the percentage of arable land and land under permanent crops that was irrigated.

In developing Africa, the area irrigated increased in absolute terms and as a percentage of arable land and land under permanent crops. The percentage increase was the greatest for any of the developing country regions shown but the proportion of land irrigated remained by far the smallest.

The Green Revolution in the Far East was also based upon extensive use of fertilizers. Table VI.8 gives figures for the use of fertilizer per hectare of agricultural land and per hectare of arable land and land devoted to

Table VI.7.
Land availability and changes in irrigation, 1980 and 1990

	Hectares available in 1990		Acreage under irrigation			Acreage under iirrigation as a percentage of arable land and land under permanent crops	
	Per person	Per agriculture dependent person	1980	1990	Increase (percentage)	1980	1990
World	1.7	3.7	210 975	237 421	12.5	14.9	16.4
Developed market economies	2.6	47.9	37 714	37 849	0.4	9.4	9.4
North America	4.2	155.3	21 178	19 631	-7.3	9.0	8.3
Europe	0.7	11.9	10 467	11 857	13.3	10.4	11.9
Australia	33.5	671.2	1 500	1 900	26.7	3.4	3.9
New Zealand	6.3	68.6	183	280	53.0	40.4	68.0
Other developed market economies	0.8	9.9	4 386	4 181	-4.7	23.6	23.0
Eastern Europe	0.8	5.3	3 855	5 065	31.4	9.6	12.9
Former USSR	5.3	41.0	17 487	21 215	21.3	7.5	9.2
Developing countries	1.3	2.2	151 919	173 292	14.1	20.4	22.4
Africa	2.8	4.3	4 431	5 394	21.7	3.1	3.6
Latin America	3.6	13.8	13 711	15 785	15.1	9.9	10.4
Near East Asia	1.8	4.7	17 333	20 355	17.4	20.9	24.0
Far East Asia	0.5	0.8	116 298	131 593	13.2	30.7	34.3
China	0.5	0.8	45 317	47 837	5.6	45.1	49.5
India	0.3	0.5	38 478	43 050	11.9	22.9	25.5

Source: UN/DESIPA, based on FAO, *Production Yearbook*.

permanent crops. The increase in the use of fertilizers in the Far East is quite marked: from 21 kilograms per hectare in 1973 to 35 in 1978 and 71 in 1988. China's use amounted to 262 kilograms a hectare in 1988, a figure higher than any other regional average, including Europe, but considerably lower than Japan or New Zealand. Africa's use of fertilizer also increased, although its use was much less intensive than in any other region.

Agricultural potential of different regions

The above comparisons across regions show that Asia's agricultural success was dependent upon the use of irrigation and fertilizers on high-yielding crop varieties. It was not, then, necessarily a model for all other countries to follow. Some countries in Africa and Latin America were more akin to North America and Australia in having a relative abundance of land, which, with reliance upon rains, could be expected to produce agricultural products without the use of as much fertilizers as Asian countries.

Moreover, Africa and Latin America also produced different crops from Asia. In 1991, fully 44 per cent of the total Asian tonnage of cereals, root crops and pulses consisted of rice. In that year, only 5 and 11 per cent, respectively, of the African and Latin American tonnages were rice. Furthermore, 58 and 32 per cent of the tonnage of their crops were root crops, whereas the Asian average was 22 per cent.[35]

It could be expected that, although Africa's yields for all crops might be lower than in other regions, because of the lack of infrastructure, irrigation and fertilizers, they would do relatively well with some crops. For cereals as a whole, African yields per hectare were only 40 per cent of the world average. In the case of millet and sorghum, however, Africa's yields surpassed the world average and Africa devoted relatively more of its acreage to the production of these crops than did the rest of the world. Local farmers did, then, produce what they tended to be best at producing.

The diversity of crops can be an important element in maintaining supplies during a drought. During the recent drought in southern Africa, Mozambique's cereal production in 1992 was a third of its level of 1990. Maize production, which accounted for nearly 55 per cent of cereal production by weight, fell by over 70 per cent. However, the tonnage of roots and pulses the country produces is about three times greater than that of cereals, and

Table VI.8.
Use of fertilizer per hectare of arable land and permanent crops, 1973-1988
Kilograms

	1973	1978	1983	1988
World	60.2	75.2	86.4	98.7
Developed market economies	112.1	122.6	121.6	116.1
North America	80.9	94.9	93.3	84.5
Europe	202.3	218.4	223.4	225.4
Australia	38.0	25.4	26.2	31.0
New Zealand	1 702.6	1 346.7	1 108.7	732.3
Japan	430.4	449.6	436.5	415.1
Other developed marketeconomies	158.2	172.2	166.5	157.0
Eastern Europe and USSR	81.5	105.1	121.4	136.7
Former USSR	57.9	79.4	98.7	117.0
Developing countries	25.7	40.5	56.4	76.8
Africa	6.4	7.5	9.7	10.8
Latin America	26.8	38.0	32.8	49.0
Near East	20.5	33.9	53.8	61.7
Far East	21.3	34.8	50.4	70.9
China	63.6	108.1	183.6	262.1
India	17.0	30.4	45.9	65.2
Other developing countries	12.9	20.1	16.4	33.4

Source: FAO, *Fertilizer Yearbook*, 1989.

their production declined by only 25 per cent. As a result, overall food production declined by 27 per cent. In neighbouring Zimbabwe, cereal production declined by a larger amount—80 per cent—but, although the production of roots and tubers fell by only 7 per cent, their relatively smaller importance—weighing only 3 per cent of cereal production—helped produce a much larger decline in total food production—of 50 per cent.

Overall comparisons among the developing regions show that Latin America and Africa have certain advantages and that a continued increase in production can be expected, even as the relative size of the agricultural sector in employment continues to shrink. While their use of irrigation and fertilizer can be expected to be lower than that of Asian countries, given their relatively greater abundance in land and geographic characteristics, they have nevertheless increased their areas under irrigation and their use of fertilizer, and further advances can be expected consistent with environmental protection.

They have, though, still not made the same advances as China and India towards reducing their food imports. These two countries reduced their food imports as a percentage of merchandise imports from 36 and 22 per cent respectively in 1974/75 to 2 and 5 per cent respectively in 1987/88. However, for sub-Saharan Africa the comparable figures show an increase from 14.5 to 18.8 per cent, and for Latin America a small reduction from 13.1 to 12 per cent. For the least developed countries as a group the percentage increased from 13.8 to 20.7 per cent.[36]

Measures to increase food production[37]

Rural infrastructure

As mentioned earlier, the provision of rural infrastructure (transport and communications) can play a crucial role in the development of agriculture in developing countries: by expanding the size of the market and reducing the costs of distribution.[38] Not infrequently, food that is harvested is left to rot or germinate for lack of feeder roads or adequate means of transportation to move foodstuffs from rural to urban areas. This is especially the case with the staples of the poor, such as tubers and plantains in the tropics and subtropics.

In addition to facilitating the transportation of food, a programme of rural road construction and maintenance can be a useful aspect of poverty alleviation in rural areas by offering employment opportunities off the farm, including employment in the marketing of foodstuffs, and by opening up of the countryside which strengthens the linkages between the farm and non-farm sectors. In this

connection, it is often considered that food aid provided for building rural infrastructure and Governments' feeder road programmes could make a substantial contribution to national and household food security in many developing countries.

Agricultural research and extension

Research offers considerable hope for increasing production in the developing countries. During the 1990s, the problems that would require the attention of the national institutions include overcoming the research bias against indigenous crops that are rarely traded on international markets (especially in Africa and Latin America and the Caribbean), the development of technologies that would reduce post-harvest losses, the effective coordination of research and extension systems and the forging of strong linkages among researchers, extension agents and farmers to ensure proper feedback.

At the international level, the Consultative Group on International Agricultural Research (CGIAR) and its network of 17 international research centres have been trying for some years to duplicate the successes they had in producing high-yielding pest- and disease-resistant varieties of wheat and rice (which were essential for the success of the Green Revolution in Asia) with other crops, such as maize and crops that are essential sources of energy, vitamins and minerals in the diets of the poor and low-income families in the developing world, for example, roots and tubers (cassava, potatoes and sweet potatoes), plantains, coarse grains (millet, sorghum) barley and legumes—beans, peas and cowpeas. In Latin America, genetic improvements in yields of potatoes were recorded. In sub-Saharan Africa, higher-yielding and more disease-resistant varieties of cassava and sorghum and millet were developed and were distributed late in the 1980s.

WFC recommends that,[39] in the 1990s, research should be directed at finding improved varieties and technologies for less-favourable ecological environments where many of the hungry live—for both the commodities currently covered by the Green Revolution and for other staples critical to the food security of low-income groups. It also recommends research agendas for sustained and sustainable food production during the 1990s for each of the developing regions, depending on its major needs.

The experience of the Green Revolution was not just that research led to increases in production, but that the farming community can respond quickly and effectively to the opportunities it has for expanding production, especially if the policy is supportive. The example of China shows how policy changes at the national level can have a decisive effect on output by "empowering" the local producers. The Chinese Government's agricultural reforms of the 1980s were part of its policy to relax direct planning controls, decentralize decision-making in the economy, rely increasingly on market forces in setting prices and determining output and promote private initiative.

The Government allowed individuals to own land, replacing collective farms as units of production. The diversification of production was encouraged and free markets were allowed to flourish in rural areas. Mandatory procurement by the Government was supplemented by a voluntary contract system under which farmers could sell specified amounts of certain crops either at prices set by it or in rural, free markets.

The Government's price reforms were composed of price adjustments, which increased agricultural procurement prices as well as the prices of other products, and price liberalization, which introduced a two-tier pricing system that permitted producers to sell some output to the State at fixed prices and the rest at negotiated prices or on the free market.

There is no reason not to believe that the farmers in Africa and Latin America would not respond in a similar fashion as their Chinese counterparts to opportunities that technology and the development of infrastructure present them with. In the case of Africa, there are additional grounds for optimism in that the advent of democracy and the rule of law in South Africa can be expected to lead to a cross-fertilization of ideas and expertise, especially in the realm of agriculture, between it and its neighbours. Moreover, the availability of the internal South African transport network and its ports and the refurbishment of the other transport networks in southern Africa that can be expected to take place as hostilities there cease, would vastly expand the market for the produce of African farmers.

Distortions against agriculture within developing countries

In general, all efforts should be directed to helping the farmer decide how to use his or her existing resources most effectively, and removing obstacles is the way of doing so. One of the major steps that national Governments have been encouraged to take, particularly by international lending institutions, is to remove the price bias against agriculture. Previous studies have shown

how a bias against agriculture has harmed domestic production by discouraging exports and encouraging imports.[40] In the case of some countries with high agriculture potential, this bias was substantial. As measured by the production subsidy equivalents,[41] agriculture in Argentina and Colombia was taxed to the extent of 38 per cent and 55 per cent respectively of its value between 1982 and 1987.[42] The low-income developing countries as a group[43] were estimated to tax agriculture to the extent of 25 per cent.

In countries with considerable agricultural potential, it was sometimes felt that this sector could be exploited to foster the overall development of the country. Prices paid to farmers would be low in order to keep the real wages of industrial workers high and agricultural exports taxed to pay for imports of industrial machinery. Behind much of this thinking, there was often the assumption that the farmers would keep delivering output to the market irrespective of the rewards they received. This bias against agriculture was reflected not only in prices but also in a lack of priority accorded to the needs of the agriculture sector, including the funding of extension services, rural infrastructure and agricultural research.

The argument that, in the early stages of development, agriculture should be taxed to finance the newly emerging industrial sector or to protect urban consumers has, however, been increasingly questioned on the grounds that, since the poor—and hungry—are both producers and consumers of agricultural products in poor countries, a policy that tries to assist them as consumers at the expense of encouraging them as producers could be counter-productive. It has been argued that in some parts of Africa where net food sellers are typically smallholders in the rural sector and net food buyers are mainly urban sector dwellers, who enjoy higher incomes, higher food prices could actually help the poor.[44]

On the other hand, in the case of Latin American and Asian countries, with a higher degree of urbanization and higher numbers of landless labour, it has been argued that policies that encouraged the importation of cheap food supplies from outside at the expense of domestic production might lead to a reduction of poverty.[45]

The argument against bias is, in the end, based upon efficiency and the beneficial effects of free markets. If prices encourage producers to devote their resources to where they have the comparative advantage, they will concentrate on those products that they can produce efficiently. Bias against agriculture discourages farmers from raising their own production and incomes, and thereby the nutritional status of the country. It also lowers the export potential of the country in agriculture. Agricultural exports can be an important factor in export diversification.[46]

It is not higher food prices that are required in developing countries. Indeed, the real price of food can be expected to continue to decline. Rather, prices should reflect the real opportunity costs and allow farmers to compete "on a level playing field" with other producers and direct their resources to where they will obtain the greatest return. However, this argument in turn demands that prices should reflect opportunity costs, and, in the case of agriculture, the degree of intervention in international food markets has meant that prices are often a very poor signal.

International food markets

The major players in international food markets are the developed market economies which, as described earlier, have turned from being net importers to net exporters of foodstuffs. Their producer subsidy equivalents are invariably positive, ranging, in 1991, according to OECD estimates, from 4 per cent in New Zealand and 15 per cent in Australia, through 30 per cent for the United States, 45 per cent for Canada and 49 per cent for EC, to 65-80 per cent for Japan and the EFTA countries.[47]

The high levels of support in Europe and Japan are a reflection that these fairly small and heavily populated countries do not have the same natural advantages in agriculture as the United States and Oceania, or even the agricultural producers of Latin America (see table VI.7), and so would not be able to compete with many food exports, particularly cereals and meat, from these countries. Yet Europe's exports of cereals in 1991/92 were estimated at 42 million tons, of which 31 million tons came from EC, as compared to Argentina and Australia's exports of 12.6 and 11.6 million tons respectively.[48]

The high levels of support in some developed countries in themselves act to deter imports from other producers, as their domestic production is higher than it would otherwise be. Moreover, domestic consumption is in many cases depressed —and domestic production encouraged—by high domestic prices in those countries that choose to raise domestic prices above world levels by restrictions on imports.[49]

It is increasingly realized that protectionist policies in the industrialized countries do not just impose an income transfer from their own domestic consumers to their domestic producers, but also from producers to

consumers in other countries. In other countries, as a result of the loss in exports, the internal prices of the exported goods would fall relatively to the prices of both domestic and imported goods. If the agricultural exporters are low-income farm families, this constitutes a transfer from them to higher-income urban families.[50] Moreover, loss of export opportunities could enhance the popularity of a policy of industrialization based upon import substitution which, as most of the import-substitution activities are located in urban areas, and as most of the loss in export opportunities will affect rural areas in developing countries, could mean a further transfer of income from rural to urban areas[51] and, therefore, on the whole, from those who are hungry to those who are better fed.

Static analysis shows that producers in developing countries are hurt by the food policies of the industrialized market economies and that consumers benefit from the relatively lower price of food imports. However, when the consequences of the industrialized countries' policies on the agricultural growth of the developing countries is taken into account, the benefits of trade liberalization can be very large. One estimate was that if present policies in the developed and developing countries continued, the former would, in the year 2000, still be more than self-sufficient. If the distortions in the industrialized economies were removed, they would only be 85 per cent self-sufficient in 2000, and the developing countries would be 102 per cent self-sufficient. The developing countries' net foreign exchange earnings from food trade would be $39 billion greater in the year 2000 in the absence of industrialized country food policies. If the developing countries were to remove their own distorting policies,[52] their self-sufficiency would reach 119 per cent, and their earnings from food would be $81 billion greater. If agricultural productivity were to grow with price incentives, instead of being assumed to be exogenous, developing countries' self-sufficiency would reach 108 per cent, if the industrialized countries' policies were alone changed, and 125 per cent if their own policies were also changed.

Food security and international trade

Food security would be fostered in many ways by the liberalization of trade in agriculture. Movements in world prices can help indicate a shortage of a product and therefore encourage the supply of substitutes. In the 1980s, approximately a third of grain output was fed to livestock and poultry. With the appropriate price signals, farmers should make available some of this output for the markets and therefore, potentially, for exports and human consumption. Indeed, when there was a shortfall in grain production in the United States in 1974/75 and world prices rose, United States utilization of grain to feed livestock fell drastically, making available supplies for export. However, in those countries whose systems of agricultural protection insulated domestic prices from world prices, there was no such shift from feed to export availability.[53] If United States feed use had not fallen in response to the price signals, export availability would have shrunk and the consequences for low-income food importers would have been much more serious.

It is through trade that differences between domestic production and consumption needs can be met, especially at times of drastic shortfalls in production. Table VI.9 gives figures for the maximum percentage year-to-year increases and decreases between 1961 and 1992 in the production of cereals, crops and food in the world and in several countries—exporters such as Argentina, Australia and the United States, large consumers, such as China and India, and several African countries. World production varies very little year to year, and the shortfalls were fairly small and certainly manageable—less than 4 per cent in the case of cereals, 2 per cent in the case of crops and 0.5 per cent in the case of food overall. The percentage fluctuations in individual countries were much greater, but in the countries with the largest populations, China and India, the falls in production tended to be relatively smaller than in smaller countries. In general, the falls in food production were smaller than in the production of cereals or crops, which is what would be expected as shortfalls in production of one set of products can be compensated for by increases in others. The overall figures, and especially the small changes in world production, show that shortfalls in food production in individual countries could not be expected to put the world food system under strain: in any one year, large decreases in production in one country or area are likely to be balanced by production increases elsewhere. The relatively small percentage of production accounted for by individual African countries illustrates that their shortfalls could be easily supplied by trade. The most populous sub-Saharan African country, Nigeria, only accounted for 1 per cent of total world food production.

Reliance on trade appears, then, to be the best means to guarantee food security. However, world trade prices are made much more volatile by those forms of protection that insulate domestic producers from international price developments and so fail to send the

Table VI.9.
The maximum year-to-year changes in production between 1961 and 1992 and shares in total world production in 1992

Percentage

	Decrease	Increase	Share in total world production
World			
Cereals, total[a]	3.67	8.73	100.00
Crops[b]	1.80	7.78	100.00
Food	0.43	5.36	100.00
Argentina			
Cereals, total	34.17	57.59	1.07
Crops	14.48	17.05	1.46
Food	7.61	10.12	1.63
Australia			
Cereals, total	39.79	115.32	1.10
Crops	23.22	51.07	0.98
Food	11.93	21.96	1.29
China			
Cereals, total	6.61	14.48	23.12
Crops	3.07	10.99	18.45
Food	1.01	10.78	16.15
Ethiopia			
Cereals, total	22.20	31.79	0.31
Crops	12.11	15.45	0.30
Food	7.93	10.28	0.30
India			
Cereals, total	16.70	23.52	11.98
Crops	7.94	14.79	11.80
Food	6.02	12.20	9.21
Kenya			
Cereals, total	35.83	67.20	0.12
Crops	16.28	20.22	0.21
Food	9.48	18.69	0.24
Mozambique			
Cereals, total	30.71	28.21	0.01
Crops	14.13	8.03	0.07
Food	9.05	8.55	0.06
Nigeria			
Cereals, total	28.85	51.28	0.63
Crops	12.80	20.16	1.46
Food	12.16	15.99	1.09
Philippines			
Cereals, total	12.76	21.64	0.87
Crops	10.66	15.32	1.03
Food	8.36	9.72	0.81
South Africa			
Cereals, total	44.69	104.09	0.21
Crops	25.75	44.59	0.43
Food	15.28	24.03	0.55

Table VI.9.
(continued)

	Decrease	Increase	Share in total world production
United States			
Cereals, total	36.63	49.06	14.84
Crops	27.87	30.80	11.36
Food	14.25	14.09	12.93
Zambia			
Cereals, total	38.12	76.91	0.03
Crops	22.89	39.63	0.04
Food	14.78	23.25	0.04
Zimbabwe			
Cereals, total	52.10	149.27	0.02
Crops	28.42	61.48	0.08
Food	21.07	37.59	0.04

Source: UN/DESIPA, based on FAO data.

a Wheat, rice and coarse grains.

b Primarily including cereals, roots and tubers, pulses, vegetables and fruits. Excluding livestock and dairy products.

right price signals. The required price adjustments are imposed on a limited part of the world with the result that price changes have to be much larger.[54] The greater variation in international prices further discourages reliance upon trade and encourages reliance on stocks.

However, building up stocks at the national level has its own costs. Often it involves large government expenditure and rapid deterioration of stocks which, especially in tropical climates, adds to the costs. In developing countries the internal transport system is inefficient and supplies cannot reach remote areas at a time of drought. This constitutes a powerful reason for developing countries to hold stocks at the village level. Moreover, storage at the village level is relatively cheap. Local storage facilities can often be improved at relatively little cost to avoid deterioration of stocks.

As discussed earlier, the very shortcomings in the transport and communication networks are themselves a reason why farmers in developing countries cannot make their full contribution to food production and to increasing their own incomes. With greater access to markets, their production of cash crops would be encouraged, which could improve their overall food security and nutritional status.

It is often suggested that the construction of rural infrastructure could itself be facilitated by food aid that could be applied to supplement the diets of the rural poor. There are also many other possible non-emergency uses for food aid, in particular helping supplement children's diets, as discussed above. The principal international channel for the provision of relief food aid and a major supplier of food aid in support of development activities is the World Food Programme, which is the largest source in the United Nations system for the transfer of grant resources to developing countries,[55] and which handles nearly a quarter of the world's food aid.[56]

There is little disagreement about how essential food aid can be in a famine situation and in helping many poor people achieve a higher nutritional status.[57] However, there has been some scepticism about the effectiveness of non-emergency food aid, especially in countries that do not have an advanced administrative capacity. Moreover, there is every reason for the food supplied in these programmes to be purchased from local farmers at market prices in order to encourage domestic production.

Another argument for food aid is that it can make up a part or all of the difference between production and requirements in low-income food-deficit countries that do not have the foreign exchange necessary to purchase food imports. However, as the International Conference on Nutrition recognized, "care must be taken to avoid creating dependency and to avoid negative impacts on food habits and on local food production and marketing".[58]

Finally, whatever their merit, there is a danger that food aid will be used to dispose of the surplus crops that are generated by the agricultural policies of the richer countries, and, thereby, to justify the continuance of these policies.

There exists an "agricultural dividend" in the developed countries that can, in many important respects, be compared to the "peace dividend". In the developed countries, the latter comes from the reductions in military expenditure that the end of the cold war makes possible. Similarly, if there was any threat to the food security of the developed countries in the past that justified the high degrees of support and protection they accorded to agriculture, such a threat no longer exists. Existing production techniques and trade have removed any threat to food supplies in the world as a whole and the developed countries in particular. However, the costs to consumers and taxpayers in developed countries of their agricultural policies are very large, amounting in United States dollars of 1985 to an estimated $78 billion annually in 1980-1982 and $109 billion in 1990.[59] For each non-farm household, the cost of agricultural support in 1990, again in United States dollars of 1985, amounted to $400 in the United States, $1,130 in EC, $2,290 in Japan and $2,800 in EFTA.[60] Considerable resources in the developed countries are being devoted to producing domestically agricultural products that could be imported at much lower cost, which would result in substantial savings to the consumer,[61] and especially low-income households.[62] The freeing up of these resources would be analogous to the freeing up of resources used to support the military in the time of the cold war.[63]

Increased food production in the developing countries and the freeing of international trade from distortions would enhance the availability of food in these countries and help raise their nutritional levels. But these may not be enough to ensure the attainment of this goal. People are hungry because of a basic failure of their entitlement for food. Market forces do not always guarantee such entitlement. This can be made starkly clear by an analysis of famines that still stalk some developing countries.

AN ANALYSIS OF FAMINE AND STARVATION

THE ENTITLEMENT APPROACH

A sharp fall in food availability is neither a necessary nor a sufficient condition for famine nor is a slow decline in food production per capita a condition for an increase in hunger. Large-scale famines have occurred while food supply did not significantly decrease (e g., the Ethiopian famine of 1972-1974) or while it even increased (e.g., the Bangladesh famine of 1974). On the other hand, famines have been averted despite a large drop in food output. Moreover, there are countries where food availability per capita has improved over time, while large segments of the population remain chronically undernourished (e.g., Bangladesh).

These apparent contradictions have led to a reassessment of famines. It is now frequently argued that famines are related to sudden and large declines in food entitlements and undernourishment to inadequate entitlements on a sustained basis.[64] According to the "entitlement" approach, it is not the availability of food but the ability of individuals and households to acquire command over food that allows for a better analysis of starvation. Enough food on a national level does not imply that everybody can acquire it. Likewise, famines rarely - if at all - affect the total population. Instead, famines affect occupational groups differently and there are usually certain groups that benefit during a famine, traders for example. The entitlement approach to hunger and famines is necessarily disaggregative. Even in the case that starvation is associated with a decline in food availability, an analysis of the effects on different groups is crucial to prevent a famine or organize relief.

Food entitlements are determined—in a private ownership economy—by the endowment of a person or family (land, labour, livestock) and the amount of food they can acquire by use of trade or production. A family is endemically undernourished if food entitlements are inadequate because the piece of land it cultivates is too small and/or yields too little, or because the income earned is insufficient. A person starves if food entitlements fail because wages, yields or the prices he receives for his produce collapse or food prices soar. If a natural disaster destroys the crop, kills livestock, or if a person becomes unemployed, the ability to acquire food is severely curtailed or even eliminated, if there are no safety nets, irrespective of total food availability at the national level. A local drought, for example, affects the entitlements of the farmers in that area but the direct impact on total food availability in the country might be small in the case where the area produces food and zero in the case where the area produces non-food products. Yet, food is

likely to move away from the drought-affected area owing to lack of purchasing power there, as, for instance, was the case in the Wollo region of Ethiopia in 1973, in Bangladesh in 1974, and during the Irish famines of the 1840s.

Important determinants of food entitlements are prices. Price fluctuations affect every household dependent on food purchases, including farmers, pastoralists and rural and urban wage-earners. In Africa, many smallholders—in some areas as many as 70 per cent—are net-buyers of food. In addition, some farmers sell food after the harvest when prices are often low, because of cash needs or insufficient storage capacity and buy food later when prices are often higher.[65] Farmers, fishermen and pastoralists also often sell their food output to acquire a cheaper source of calories, e.g., they trade teff, fish or animals for coarse grains. If the price of animals, teff or coffee declines relative to the price of cereals, food entitlements deteriorate. In several famines, terms-of-trade losses of pastoralists have been more important than the loss of animals to death.[66]

To sum up, failures to command food can result from the loss of employment, crops or livestock, a reduction in demand for the product supplied, a reduction in real wages or the deterioration of the terms of trade facing the individual. These have been called "pull" failures as opposed to "response" failures, which occur when the market does not respond to the demand for food, for example because of monopolies, inadequate transportation capacity, poor infrastructure or insecurity.[67]

FAMINE PREVENTION AND STARVATION RELIEF

If the entitlement approach to an analysis of hunger and famines is broadly correct, this has important implications for policy measures. When farmers lose their crops or livestock as a result of a natural disaster, and hence also lose all their purchasing power, providing food through the market will not help. Depending on the circumstances, possible measures to be taken include cash relief, free food distribution or food-for-work or cash-for-work programmes. Moreover, as in a famine situation most deaths are usually caused by disease, early and intense medical intervention, targeted at the most vulnerable, invariably women and children, is essential. Arguments in favour of cash relief include Government's limited capacity to transport food. Moreover, cash relief creates demand for trade and transport, which brings lasting benefits to the economy. Cash relief can also have disadvantages, such as being prone to corruption, and not being quick enough. Food-for-work or cash-for-work programmes have the additional advantage of improving the production capacity of the economy.

In cases where food entitlements have declined as a result of terms-of-trade losses, Governments might intervene by increasing food supplies in the commercial markets, thereby lowering prices there, by controlling cereal prices, by supporting livestock prices, by rationing, and by preventing panic, excessive hoarding, speculation and other price-destabilizing behaviour. Relief camps are the least preferred method: they disrupt normal social and economic activities, the crowded conditions in the camps make the outbreak of diseases often inevitable, and they make rehabilitation and recovery much more difficult. The advantages of relief camps are that they are an efficient and cost-effective way of reaching a large number of people. By early intervention, the need for them can, however, be averted.

A number of countries have been quite successful in averting famines, primarily because of Government's action. India, which had a centuries-long history of famines, has not seen a large-scale famine since the large Bengal famine of 1943.[68] After independence, public action became more systematic and extensive than the public works programmes of the colonial era and includes state involvement in trading, maintenance of public food stocks, employment guarantee schemes, free food distribution and fair price shops. The public distribution system contributed significantly to food price stabilization. These kinds of measures were able to prevent large-scale famines when severe droughts hit Bihar during 1966-1967, Maharashtra during 1970-1973 and several parts of the country in 1979-1980 and 1985-1988. Maharashtra was also hit by a drought in 1992.[69]

Bangladesh has averted large-scale famines since the flood and famine of 1974, despite natural disasters of larger dimensions than the flood of 1974, such as the floods of 1988 and the cyclone of 1991. Famines were also avoided—although narrowly—in 1979 (drought) and 1984 (floods) when crop damage was as severe as in 1974. In 1979 and 1984 the public food distribution system was particularly successful in importing food timely, distributing food to rural areas, stabilizing food prices, and preventing speculation, which had been especially disastrous in 1943 and 1974. However, successful famine aversion in 1979 and 1984 was to a large extent possible because of two fortuitous events: donor aid was forthcoming and the country had unexpectedly large foreign exchange reserves that could be used to import foodstuffs. Hence, vulnerability to famines remains.

Successful famine prevention over the past two decades is not exclusive to South Asia. African countries, such as Botswana, Burkina Faso, Cape Verde, Kenya and Zimbabwe, have also been able to prevent famines. In most of these cases, prevention was dependent on large-scale government intervention in response to large drought-induced declines in food production. Botswana and Cape Verde, in particular, have systems of disaster response and entitlement protection that are rather extensive and have been developed over decades. Most importantly, they proved effective during the long periods of drought, i.e., from 1982 to 1987 in the case of Botswana, and from 1968 to 1986 in the case of Cape Verde. In both cases, development-oriented public works were employed to provide cash relief on a large scale and direct food and cash transfers to vulnerable groups, such as pregnant or lactating women and children. Both countries have used food aid in their entitlement protection schemes but have not been dependent on it as it typically arrived after the Government had taken action. Drought relief in Kenya in 1984 and in Zimbabwe in 1982-1984 mainly took the form of free distribution of food. Given the severity of the droughts, the absence of starvation deaths in all four countries, and even a decline in mortality rates in Cape Verde and Zimbabwe, is a remarkable achievement.

SEVERE DROUGHT BUT NO FAMINE IN SOUTHERN AFRICA IN 1992[70]

Southern Africa averted a large-scale famine in 1992, despite declines in cereal output of more than 50 per cent, owing to early and large-scale measures taken by Governments and the international community. Severe food shortages, however, existed in Malawi and Mozambique and malnutrition rates have risen in many countries. Deaths from malnutrition and particularly from malnutrition-related diseases, such as cholera and meningitis, have been reported from Angola, Madagascar, Malawi, Mozambique, the United Republic of Tanzania, Zambia and Zimbabwe. The spread of cholera, which often started in refugee camps, has taken epidemic proportions. During 1992, Mozambique counted 225,673 cases of cholera and 587 deaths, Swaziland 2,228 cases and 30 deaths, Zambia 11,218 cases and 1,231 deaths, and Zimbabwe 4,434 cases and 208 deaths.

Falls in production in 1992

In early January 1992, weather conditions for the coarse grains harvest of April-June 1992 still appeared to range from excellent to about average in southern Africa, with the exception of central and southern Mozambique, South Africa and Zimbabwe. However, prolonged drought since January seriously affected food crops and livestock throughout the region, except in Angola and Madagascar. Cereal output declined by more than 50 per cent in Botswana, Lesotho, Malawi, Mozambique, South Africa, Swaziland and Zambia, and by more than 70 per cent in Namibia and Zimbabwe. In some areas in Mozambique, Zambia and Zimbabwe the cereal crop failure rate was close to 100 per cent. The worst-affected population in most countries comprised four groups: the smallholders who lost their food or cash crops, farmers who lost or sold their livestock, wage-earners who lost their jobs, and displaced persons.

Export crops were in general not as badly affected by the drought because they grow in areas where rainfall was better or because they benefit from irrigation. The export crops themselves are often better able to resist drought, as in the case of cotton and tobacco. Production of roots and tubers and of pulses held up better than that of cereals. The total production of crops and of food declined in all countries by considerably less than the production of cereals.

The livestock sector was among the most severely affected sectors. Cattle are especially vulnerable to drought and deaths from thirst, starvation or diseases such as botulism were reported from Botswana, Namibia, Swaziland, Zambia and Zimbabwe. Moreover, farmers have been forced to sell livestock in large numbers at depressed prices. In Botswana a third of the herd might die. In Zimbabwe an estimated 60 per cent of the cattle on commercial farms is expected to be lost and 40 per cent of the commercial pig herd was slaughtered by December. In Botswana, Lesotho, Namibia, Swaziland and the United Republic of Tanzania, where prices of livestock have fallen while prices of food have risen, livestock producers have suffered large terms-of-trade losses. In Swaziland, livestock prices fell by about 75 per cent. In Botswana, Namibia, Swaziland, Zambia and Zimbabwe unemployment increased in the agricultural and agro-industrial sectors as drought reduced these industries' production. Rural families in Lesotho and Swaziland also suffered from a decline in remittances from South Africa. Internally displaced persons, returnees and refugees endured severe food shortages in Angola, Malawi, Mozambique and Zimbabwe. On the other hand, people employed by the Government or in the mining sector have been affected mainly by increases in food prices.

The Governments 'response to the drought

Countries responded to the drought with varying combinations of different measures to prevent famine: importing cereals and appealing for food aid; increasing the supply of food in the market; organizing public employment projects; distributing free food to vulnerable groups; supporting livestock prices; increasing access to water; and expanding health-care programmes.

Zambia was one of the first countries to take action by declaring an emergency in February 1992, requesting 820,000 tons of food aid, and increasing commercial food imports. By May, it had imported 245,000 tons of maize with its own resources.

Zimbabwe responded somewhat later to the drought. Over at least three decades, except in 1964, 1980 and 1984, Zimbabwe had been a net exporter of cereals. However, in recent years many farmers switched from food to other crops, tobacco in particular, owing to better prices. After the normal harvest of 1990, the Grain Marketing Board (GMB) decided to reduce its stock and Zimbabwe exported 414,000 tons of maize in the marketing year up to March 1991. Drought, however, reduced the 1991 output and by April 1991 the stock was about 650,000 tons, down from 1.1 billion tons a year earlier. Pressure to earn foreign exchange and to reduce the deficit of the GMB led to further exports from the maize stock. Hence, when the impact of the drought began to become clear, Zimbabwe was still honouring its previous commitments and exporting maize. However, between December 1991 and June 1992, 519,600 tons of maize were imported, which particularly improved the urban food supply.

Timely arrival of commercial imports averted severe food shortages in Botswana, Lesotho, Namibia and Swaziland. Commercial imports and programme food aid have maintained market supplies and allowed groups with purchasing power to acquire food. However, this strategy, which was followed by all countries in the region, has not prevented food prices from rising, for instance, in Botswana, Malawi, the United Republic of Tanzania and Zambia. In Zambia the increase in food prices was augmented by the abolishment of food subsidies, which was part of its structural adjustment programme. A factor that contributed to higher import prices was the extent of the drought. Because countries were not able to import grains from South Africa and Zimbabwe, which were usually exporting countries, transportation costs were higher. Namibia and Mozambique exempted relief food imports from tariffs to reduce upward pressure on prices.

The use of the ports and internal transport system of South Africa was an important factor in ensuring that food supplies could reach the countries in need. However, the extent of the drought caused logistical problems throughout the region, which contributed to delayed arrival of food in the market. Transport operations have been particularly hindered by the limited capacity to transport food, especially to such land-locked countries as Malawi and Zambia, but also by congestion at ports and insecurity.

Public employment programmes have offered relief for people who lost their jobs, crops or livestock. Botswana, Lesotho, Namibia, South Africa, Zambia and Zimbabwe have implemented such programmes. Works carried out included, *inter alia*, road rehabilitation and building, erosion control, water supply schemes, repair and building of schools, clinics and houses. Botswana created 76,000 jobs by December 1992, which on a rotating basis provided cash relief to about 150,000 people. However, the lack of supervisory personnel limited the scale and geographical coverage, causing an increase in the number of people assisted under the destitute programme. The Zambian Programme for the Prevention of Malnutrition, which was created in April 1992, reached 750,000 people by November, mostly through food-for-work programmes. The focus of food-for-work projects in Zambia switched in late 1992 from community projects to land preparation and planting.

The percentage of free food distributed in Zambia was rather low compared to other countries. Free food was distributed in all countries and targeted at internally displaced persons and refugees, female-headed households, the elderly, the sick and children. The supplementary feeding programme in Zimbabwe was feeding about 1 million children under five years of age at schools, churches and clinics by November 1992, although the ration had been temporarily halved in September to 5 kilograms per person per month.[71] Information on the effectiveness of targeting is scanty. In Botswana not all pre-school children were reached, probably owing to delays in registration. An improved screening system was developed in Zimbabwe late in 1992.

Botswana and Namibia offered price incentives to farmers to sell livestock while they were still in good condition. Prices, however, might not have been high enough in Botswana for the more remote farmers, because of the high transportation costs they had to incur. In Botswana, deaths of animals from starvation particu-

larly affected the smaller farmers. During the first half of 1992 heads of cattle slaughtered exceeded the annual total of recent years in Botswana but slowed down in the second half in anticipation of rains. South Africa provided rebates on livestock transportation costs.

The international community's response to the drought

Donor countries, IMF, the World Bank and other international organizations made additional funds available to buy food imports, to ease the impact on the balance of payments and government budgets, to fund relief measures, and to assist rehabilitation. This has been crucial since most countries in the region are coping with foreign exchange shortages and some with high budget deficits. An exception is Botswana, whose foreign exchange reserves to imports ratio is one of the highest in the world. Mozambique's Enhanced Structural Adjustment Facility (ESAF) was supplemented by $21 million, Lesotho received new loans from IMF and, in June 1992, the World Bank approved $310 million in loans for drought relief to Malawi, Mozambique, Zambia and Zimbabwe. Zimbabwe signed an IMF extended arrangement in January 1992 from which it immediately drew $100 million. The Department of Humanitarian Affairs of the United Nations Secretariat and the Southern African Development Community (SADC) issued in June 1992 an appeal for $854 million in aid, excluding the cost of 2.5 million tons of programme food aid. This appeal estimated total cereal import requirements for the 10 southern African countries for the marketing year 1992/93 to be 6.1 million tons (4.2 in the form of food aid), on top of 5.5 million tons for South Africa. By December, $656 million had been pledged and about 80 per cent of the original food aid requirements were received in December 1992 (see table VI.10).

However, while crucial for rehabilitation, pledges in the non-food areas, such as water, health, livestock and agricultural sectors, are insufficient. About 40 per cent of the requirements of southern Africa (at the level originally estimated) had been funded as of December 1992. The requirements have actually increased by about 30 per cent since the original appeal of June 1992. Consequently, lack of seeds, fertilizer, tools and draught animals has hampered planting for the 1993 season, despite rains in most countries.

THE EFFECT OF HOSTILITIES ON FOOD SUPPLIES AND NUTRITION

As the above account shows, famines resulting solely from natural disasters have been prevented with increasing success in recent decades, owing to prompt action by national Governments and assistance from the international community. This makes warfare probably the most important determinant of famines. During 1982-1985, for example, many African countries were struck by

Table VI.10.
Drought in southern Africa in 1992: affected population and cereal import requirements

Country	Affected population (Targeted) May (thousands)	Affected population (Targeted) December (thousands)	Commercial imports 1992/93 (thousands of tons)	Programme food aid May (thousands of tons)	Programme food aid December (thousands of tons)	Target food aid May (thousands of tons)	Target food aid December (thousands of tons)	Value of non-food aid May (millions of dollars)	Value of non-food aid December (millions of dollars)
Angola	1 400	1 400	285	9	9	45	75	25	26
Botswana	100	313	240	12	12	5	5	3	3
Lesotho	170	394	297	62	45	16	16	6	5
Malawi	5 700	7 100 [a]	876	340	340	379	479	19	31
Mozambique	3 150	3 862	1 218	861	861	493	498	51	45
Namibia	250	250	125	44	20	18	18	12	14
Swaziland	250	415	129	19	0	46	46	2	7
United Republic of Tanzania	800	607	500	265	150	17	17	1	3
Zambia	1 700	1 700	970	726	726	109	109	3	42
Zimbabwe	4 600	5 603	1 410	203	203	518	518	26	25
Total	18 120	21 643	6 050	2 541	2 366	1 645	1 780	150	202

Source: "Drought emergency in southern Africa: consolidated UN-SADC appeal", May and December 1992; and FAO, *Food Outlook* (May 1992).

a Preliminary.

drought but famine was most severe in the war-affected regions of Ethiopia. Among the direct effects of warfare are looting, requisitioning or destroying of crops and farming inputs; raiding or killing of livestock, leaving farmers without the possibility of buying grains or ploughing their land; and uprooting, killing and the forced recruiting of civilians. Directly or indirectly, wars have disrupted trade, distribution, the free movement of people and grazing patterns. They have increased the vulnerability of the affected areas to drought and reduced the capacity of people to implement the strategies they would normally follow when struck by drought.[72] Governments have failed during wars to invest in agriculture and take timely and adequate action to prevent famine.[73] Parties in a struggle have interfered with the delivery of relief, especially when members of the drought-affected group were armed opponents.

The use of food as an instrument of war is probably as old as warfare itself. Yet, the change in the characteristics of war have contributed to their importance in explaining famines. First, civil wars as a percentage of the total number of armed conflicts have risen sharply. As the 1991 Gulf war illustrated, a "classic" confrontation between the regular armed forces of two or more countries can be quick and conclusive and not result in many direct civilian casualties. Civil wars, on the other hand, can last decades and are often waged at a low level of technological sophistication, involving guerrillas, militias, death squads, insurgents and separatists, fighting each other or the Government. In civil wars, the distinction between armed opponents and civilians is often perceived as being blurry and the objectives are usually wider than a simple military defeat, and often include the destruction of the social and economic structure of the opponents. Attacks have often been directed at the ability of civilians to produce or acquire food, at health and education facilities, and at transport and communication systems. Starvation has in some cases not simply been a consequence of war but an objective, often shared by both parties in the conflict.[74] Secondly and relatedly, but not confined to civil wars, is the rise in the ratio of ill-defined area targets located in rural areas to clearly defined military targets. Thirdly, the incidental or deliberate destructive impact of conflicts has increased owing to motorized and mobile war equipment, longer firing ranges and heavier firing power. In particular, the use of automatic weapons and chemicals such as defoliants has enabled the destruction of substantial amounts of crops and/or the killing of large numbers of people and livestock.[75]

The effect of wars on the capability to produce or acquire food depends on the military strategies used, and the intensity, the geographical coverage and the duration of the conflict. Since the end of the Second World War, there have been a number of famines almost exclusively induced by war. The famine in Somalia is the most recent example and is analysed separately below.[76] Frequently, wars have caused increased undernourishment and in some cases excess mortality through the effects on production and trade, but information on deaths from starvation is often too scanty to be able to label these conditions as famines.[77] The most severe situations have been those where a drought-induced production decline was exacerbated by hostilities that destroyed crops, livestock and physical capital, caused input shortages and massive displacement of people, hampered production, trade, relief and strategies to cope with drought, led to the neglect of agricultural development, and brought about interference with deliveries of relief supplies. In the past 15 years, these effects have been seen in countries such as Angola, Chad, Ethiopia, Mozambique, the Sudan and Uganda.

The exact weight of responsibility that can be attributed to wars, natural disasters and inadequacies of prevention and relief efforts in causing a particular famine is often difficult to determine.[78] This is particularly so in cases such as Ethiopia and the Sudan, where wars have lasted for a long time and coincided with long periods of below average rainfall and periodic droughts. In these instances, the vulnerability of households to external shocks has increased over time since the recovery from a drought, even without warfare, can take years. Traditional precautionary measures, such as amassing assets (including grains and livestock), diversifying production or engaging in other income-generating activities, have been difficult to implement because of recurrent below-normal rainfall, affecting productivity, and because of hostilities which impeded production and the movement of pastoralists and farmers. Insecurity has made it difficult for households to implement strategies to cope with a drought-induced decline in agricultural output, such as selling assets, searching for grazing areas, wild food and employment. In Ethiopia, Somalia and the Sudan, livestock raids among different groups, often provoked by a scarcity of resources in time of drought, have been a fact of life for a long time and methods to cope with them have been incorporated in the way of life. In southern Ethiopia, for example, regular cattle raids caused farmers to change planting practices and abandon the best, tsetse-free grazing areas in order

to minimize the risk of being attacked. More than the actual raids, these coping measures have lowered productivity and increased the vulnerability to climatic uncertainty.[79]

The combined effects of war and drought have been most severe in Angola, Ethiopia, Mozambique and the Sudan. In Angola and Mozambique, attacks by rebels were concentrated on, *inter alia*, villages, transport systems and health facilities. Millions have been displaced during the 1980s and agricultural production has suffered significantly.[80] When drought struck Angola and Mozambique in the early 1980s, it is estimated that at least 200,000 people died from war-related famine.[81] Drought hit Mozambique again in 1992 and deaths from starvation were reported. However, access to the affected population increased considerably after the peace agreement of October 1992. In Ethiopia, military action against insurgencies increased after 1978 and culminated in large offensives by the Government during the early 1980s. Military forces destroyed crops in surplus-producing areas, bombed markets and transport links, blocked roads and restricted the movement of traders and migrant labourers. This led to food shortages in deficit areas and contributed to the famine of the mid-1980s, which resulted in the deaths of between 400,000 and 1.5 million people.[82] Hostilities which hampered agriculture and interfered with relief efforts continued in northern Ethiopia until the fall of the regime of Mengistu in May 1991. It was estimated that in 1987 40 per cent of the land in Eritrea was not cultivated owing to stolen animals, shortages of seeds and tools, conscription, displacement of people, drought, insecurity, hostilities and mining of land.[83]

Since the mid-1980s, the civil war in the Sudan, involving the Government and several militias, has increased in intensity and geographical coverage, expanding into the southern and western provinces. Livestock have been killed or raided, land has been made unusable because of mines, insecurity, or poisoning of wells, large numbers of people have been displaced, and coping strategies have been impossible to implement. When drought hit the south in the years 1986-1988, famine resulted and about 250,000 people died in 1988. The belligerents interfered with food trade and aid on numerous occasions, except for a six-month period after the inception of Operation Lifeline Sudan in April 1989. Fighting intensified in September 1991, as the Sudan People's Liberation Army split into two factions, and in early 1992 the Government started an offensive in the south. Rainfall was very erratic during 1991 and 1992 and crops failed because of either heavy rains and flooding or poor rains. Since 1989, thousands have died from starvation and from related diseases, which were exacerbated by the breakdown of medical services. By March 1993 Kala-azar was estimated to have claimed 60,000 lives. As a result of an agreement between the United Nations, the Government and the various factions, access to the famine-affected population in the south increased after late 1992.[84]

Undernourishment, resulting from a decline in food consumption, becomes especially dangerous when health-care facilities have been destroyed and the delivery of health-care services has deteriorated or has been obstructed owing to warfare; warfare also increases the demand for health-care services because of injuries. Health-care facilities were destroyed and health-care workers killed in such countries as Angola, El Salvador, Ethiopia, Guatemala, Mozambique, Nicaragua, Sri Lanka and the Sudan. Immunization rates often decreased.[85] It is estimated that 331,000 and 494,000 children under the age of five have died in Angola and Mozambique, respectively, between 1981 and 1988 from war-related malnutrition, lack of immunization, lack of access to clean water and untreated diseases.[86]

Refugees and displaced people

Drought and hostilities result, independently and in combination, in the displacement of people. Table VI.11 shows the number of refugees and internally displaced persons in the different regions of the world at the end of 1991. The table also lists the countries from which more than 100,000 refugees originate. Nearly all are countries affected by war, drought or both. People leave their home to avert a worse fate, yet displacement is normally associated with increased undernourishment. In the case of war, people leave their farms and their jobs, and methods to acquire food are disrupted. This in itself results in increased undernourishment. In the case of drought, people are already undernourished when they migrate in distress. Migration is usually the last stage of household strategies to cope with drought.[87] Concentrations of displaced people are typically characterized by poor sanitation and poor and/or inadequate water, which promote the transmission of infectious diseases. Contaminated water causes such illnesses as typhoid, cholera, dysentery and infectious hepatitis. Undernourished people, exposed to such an environment, suffer from increased

Table VI.11.
Refugees by country of asylum and internally displaced persons as of 31 December 1991

	Refugees	Internally displaceda (Millions)	Countries or areas from which more than 100,000 refugees originate
Sub-Saharan Africa	5 067 932	14.2 - 14.7	Angola, Burundi, Ethiopia, Liberia,Mozambique, Rwanda, Sierra Leone, S,omalia, Sudan and Western Sahara
North Africa and West Asia	8 263 576		Afghanistan, Iraq and Palestine
South and East Asia	835 093	6.1 - 6 6[b]	Cambodia, China, Myanmar, Sri Lanka and Viet Nam
Latin America and Caribbean	883 319	1.2 - 1.5	
Europe and North America	2 222 623	1.5[c]	former Yugoslavia
Total	17 272 543	23.0 - 24.3	

Source: UN/DESIPA based on UNHCR, *World Population Monitoring 1993* (United Nations publication, forthcoming); and United States Committee for Refugees, *World Refugee Survey 1992*.

a Based on fragmentary information.
b Including West Asia.
c Including Commonwealth of Independent States, Georgia and the former Yugoslavia.

morbidity and mortality, especially during the first few months after displacement.[88]

All refugees and displaced people are vulnerable to hunger, but the women and girls among them are the most vulnerable. Women and children account for an estimated 70 to 80 per cent of the worldwide refugee population. In some cases, this percentage can be as high as 90.[89] The basic ration in a number of locations has been cut both in calories and in content as a result of financial difficulties of the United Nations High Commissioner for Refugees. Outbreaks of deficiency diseases such as scurvy and pellagra have been reported in some developing countries.[90] Inadequate food rations cause health problems for refugee women and children in particular because they are vulnerable to nutritional deficiencies, such as lack of iron, calcium, iodine and vitamin C. Pregnant women and lactating mothers are particularly at risk. For example, pregnant women who are anaemic run the risk of fatal haemorrhaging during childbirth.

Refugee and displaced women are particularly susceptible to water-borne diseases, as they are generally responsible for collecting and storing water. Insects which breed or bite near water can cause illnesses such as sleeping sickness, malaria, yellow fever and river blindness, and infection with diseases transmitted through contact with water, such as worms and schistosomiasis. Furthermore, female refugees are vulnerable to being forced to grant sexual favours in exchange for food or other assistance. Rape, abduction, torture, forced prostitution and murder are not uncommon forms of violence against female refugees.

Frequently, assistance to refugees has not been tailored to the characteristics, skills or needs of the majority of the adult women refugees. Male refugees are often placed in charge of food distribution, even though women often produce the food outside the camps, have more knowledge about the real needs, prepare the food and feed the children, the elderly and the disabled people.[91] Moreover, most refugee assistance intended to solve the problems of dependency has been directed towards men, who play a secondary role in the organization and support of refugee families. More attention needs to be directed at women and their families, and resettlement, reintegration, training, and employment-generating programmes need to be designed on the basis of the existing or potential productive abilities of women.[92]

Since the outbreak of the civil war in Liberia in December 1989, approximately three quarters of the population has been displaced, internally or externally, contributing to the collapse of production in almost all sectors.[93] Undernourishment has been widespread and deaths from starvation were reported. Circumstances were especially dire in the capital, which experienced a large influx of people. UNICEF estimated that in Monrovia in 1990 about 80 per cent of the children were severely malnourished. As a result of food aid, the rate

has decreased, at least until August 1992 when fighting escalated, disrupting relief operations.[94]

In Iraq, the collapse of economic activity, the inability to import food, the virtual breakdown of the distribution system and the input shortages in the agricultural sector during and immediately after the Gulf war, led to serious food shortages and rationing by the Government, exorbitant food prices on the parallel market, and increased hunger and malnutrition, but probably not to many—if any—deaths from starvation. However, it was estimated that infant mortality rates for the period January to August 1991 were three to four times as high as for the same period in 1990, owing to malnutrition-related diseases, lack of clean water, and related deprivations.[95] The situation among Kurds fleeing a counter-insurgency offensive by the Iraqi army was more critical. Several Kurdish refugees died in Turkey and the infant mortality rate over the first month of the crisis was about 18 to 29 times higher than in Iraq in the late 1980s.[96]

In Bosnia and Herzegovina, disruption of production, distribution and relief operations, including food supplies, has been an objective of some parties and has caused hunger. Perhaps as many as thousands have died from starvation and cold, quite apart from direct murder. Victims are mainly the inhabitants of besieged cities and towns and those who have been uprooted. Approximately 2.2 million people from the area of the former Yugoslavia have been displaced.[97]

THE NEED FOR DISASTER PREPAREDNESS AND COOPERATION

The FAO Global Information and Early Warning System on Food and Agriculture and the SADC Early Warning Units were instrumental in assessing food import requirements in southern Africa during the 1992 drought. While early warning systems can be important and can be improved, they are often neither a necessary nor a sufficient condition for early intervention to prevent a famine. Early warning systems played, for example, only a minor role in famine prevention in Africa during the 1980s: rain failure was easy to notice.[98] Also, in an open and pluralist society, the press and/or local politicians often give the earliest warning of impending disaster and trigger intervention.

In some countries the state of disaster preparedness needs to be improved. In particular, more attention needs to be given to the integration of emergency operations and development programmes. One aspect of this integration is that, during relief operations, the rehabilitation component should receive greater emphasis. Simply supplying food is not sufficient. Farmers often lose assets and animals during a drought and, if no attention is given to supplying tools, seeds and other inputs, aid dependency is easily perpetuated.

As stated in General Assembly resolution 46/182, "each State has the responsibility first and foremost to take care of the victims of natural disasters and other emergencies occurring on its territory". The resolution also stated that "[h]umanitarian assistance must be provided in accordance with the principles of humanity, neutrality and impartiality". The use of food as an instrument of war violates this resolution. However, relief operations continue to be hampered by insecurity and armed conflict, increasing hardship considerably among the affected population and endangering the lives of relief workers. Greater cooperation from the parties involved to ensure that humanitarian assistance reaches the affected population is required. Delivery of assistance to the affected population, whether by establishing peace zones and periods of tranquility or other methods, can be important in building trust and long-lasting peace. If cooperation is not forthcoming, military protection of relief operations might be required, as has been the case in Bosnia and Herzegovina, Iraq and Somalia.

SOMALIA:[99] PROFILE OF A FAMINE

Somalia will be examined in some depth as it provides an illustration of how a famine can take place as a result of civil strife and how the international community must continue to develop new modalities if such a tragedy is not to reoccur.

Background to the 1991-1992 famine

Somalia has a fragile environment. Its terrain is arid to semi-arid and droughts occur periodically. Areas with relatively good rainfall are concentrated between the Scebeli and Juba Rivers in the south and a small area around Hargeisa in the north-west. Only 1.6 per cent of the land is arable and 118,000 hectares, about 11 per cent of the arable land, is irrigated, primarily by the flooding of the rivers. Export crops are mainly cultivated under controlled irrigation. Approximately 20 per cent of the population are settled farmers who usually also keep some livestock. Nearly 60 per cent of the population are nomadic pastoralists and depend mainly on livestock production, but might also cultivate some land. The rest of the population is largely active in processing and trading of agricultural commodities and lives in the urban

areas. Livestock accounts for about 45 per cent of GDP and 75 per cent of merchandise export revenues. Total agricultural value added accounts for about 65 per cent of GDP.

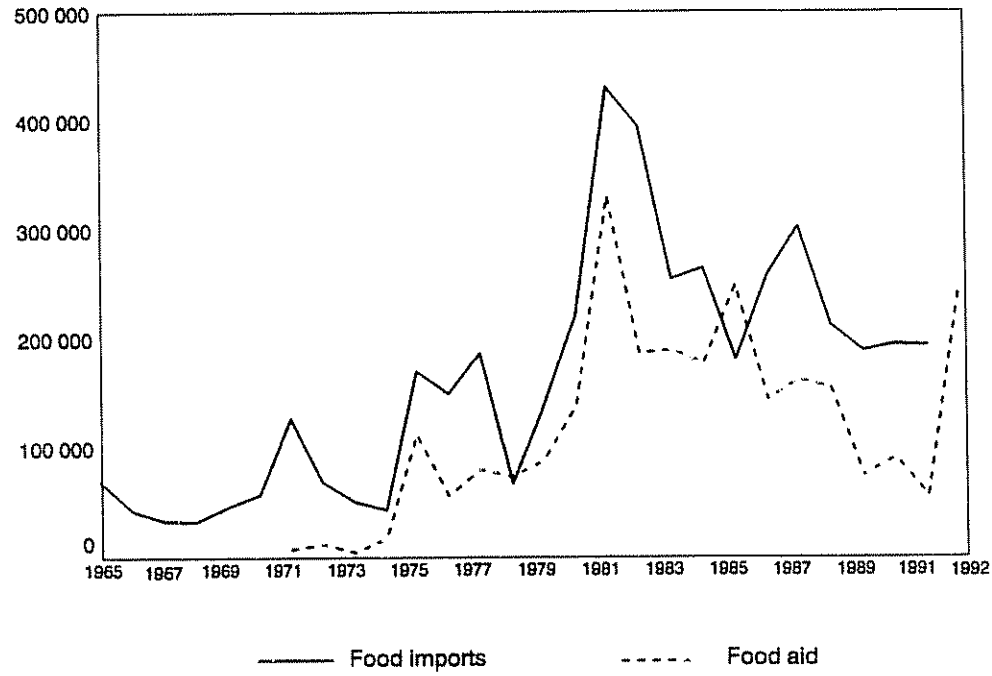
In 1978, as a result of continued fighting between Ethiopia and Somalia and drought, large numbers of refugees from the Ogaden in Ethiopia crossed the Somali border. For 1981, the estimate of the number of refugees varied between 700,000 and 1.3 million.[100] There are several accounts that these numbers were inflated, that an accurate assessment of the beneficiary population was not made, and that large quantities of food and other supplies did not reach the target population but instead was diverted to the military and government bodies or sold on the market. Food aid, which increased rapidly in the late 1970s (see figure VI.1), had several negative effects on the Somali economy, including price disincentives and changing food consumption habits from locally grown sorghum to wheat and rice. Hardly any attempt was made to use food aid for long-term development, neither with regard to project nor with regard to programme food aid.

In 1983, the possibility of integration of refugees in Somali society was accepted by the Somali Government but the measures taken were unsuccessful. Repatriation of refugees to Ethiopia was resisted by the Somali Government until 1986, although refugees have returned spontaneously, sometimes assisted by UNHCR, throughout the 1980s. The total number of persons returning from Somalia between 1980 and 1988 might have been as high as 400,000.[101]

Somalia did not have an effective public programme to cope with droughts. There were some sectoral early warning systems, which generated data on climate, food prices, crop yields and livestock losses, but they were neither integrated and analysed at the government level nor supplemented with nutritional information for which there was little or no infrastructure needed for monitoring. Somalia was preparing a disaster-preparedness programme in cooperation with United Nations agencies, in response to the 1987 drought, but insurgencies stopped the projects in December 1990.[102]

In 1988, the Somali National Movement (SNM),

Figure VI.1.
Somalia: food imports and food aid, 1965-1992
Metric tons (cereals in grain equivalent)



Source: UN/DESIPA, based on international sources.

which had been formed in 1981 by a group of Isaak exiles from the north of the country and had maintained bases in Ethiopia, was prevented by the Ethiopian Government from undertaking cross-border raids.[103] Its forces then crossed into north-west Somalia and intensified their military action to overthrow the regime of President Siad Barre. Fighting was first concentrated in the north-west and the Government magnified its counter-attacks, and economic targets, such as livestock, wells and watering points were targeted. Hargeisha, the second largest city of Somalia, was razed through bombing. Some 350,000 persons from northern Somalia sought refuge in Ethiopia in 1988. Most refugees from Ethiopia, who had been in the north since the 1977-1978 war, returned to Ethiopia.[104] At least 70,000 internally displaced persons became dependent on food aid but civil strife seriously hampered relief operations.

The north usually contributed a large share to total livestock exports. These declined from $59 million in 1987 to $22 million in 1988. Total Somali exports decreased from $94 million to $58 million. Official development assistance was cut by about $150 million in 1988. These factors probably affected the capacity to import cereals and lowered food availability in urban areas, as had been the case during the drought of 1983-1984. Cereal imports declined by 30 per cent from 1987 to 1988.

Cereal production, which mainly occurs in the south, was not yet affected. Indeed, the cereal output of 1988 was above average and 1989 saw a record crop of sorghum in particular. The food supply was therefore satisfactory in 1990, except among displaced people.

Urban areas suffer first despite sufficient food in 1991

Throughout 1989 and 1990 clashes widened as two new movements, the United Somali Congress (USC), which operated in the centre of the country with the support of the Hawiye clan, and the Somali Patriotic Movement (SPM), which was supported by Ogaden living in the south, joined in the attack on the Government. In September 1990, the three movements, SNM, SPM and USC, agreed to coordinate their military tactics to overthrow President Siad Barre and subsequently form a coalition Government.[105] During December 1990 and January 1991 heavy fighting took place in Mogadishu and at the end of January, President Siad Barre fled the city as USC forces commanded by General Mohammed Farrah Aidid entered. Without consultations between the three movements, an interim president, Mr. Mohammed Ali Mahdi, who was from USC, was appointed. This appointment was not accepted by General Aidid, or SNM and SPM, and civil strife resulted. This fighting was particularly tragic as there had previously been no history of rivalry between the various sub-clans of the Hawiye.

Until Siad Barre's ouster in January 1991, the fighting had had only a limited impact on farming activities in the south: the harvest of the secondary crop in February 1991 was estimated to be at least average. Taking into account the carry-over stocks, supplies of coarse grains at the national level were sufficient.

The new fighting spread to the farming areas in the south where troops loyal to the ousted president were also still fighting. Marketing was seriously affected and commercial imports had already ceased in December 1990. By February 1991, severe food shortages had developed in urban areas and people started to flee urban areas and to leave the country. The little food that appeared on the urban markets was traded at exorbitant prices, unaffordable by most of the population in need. Food entitlements in urban areas were also negatively affected by non-payment of salaries and high unemployment, which might have reached 100 per cent at one point, as a result of the governmental collapse.

In January 1991, United Nations agencies withdrew their staff from Mogadishu because of the fighting. In March, the first United Nations/UNICEF emergency shipment of food and medical supplies arrived in Mogadishu. The World Food Programme (WFP) distributed some food through the few non-governmental organizations that remained. The International Committee of the Red Cross (ICRC) and the non-governmental organizations themselves also distributed food and provided other assistance. Total food aid was far from adequate. Relief was often severely hampered by fighting and looting of supplies in the total absence of law and order. In July 1991, it was estimated that as much as 50 per cent of the population was in need of food assistance, and malnutrition and deaths from starvation and related diseases were being recorded, in urban areas in particular but also in some rural areas in the central districts. It was estimated that as many as 1 million persons were seeking refuge within the country, at the edges of Mogadishu and Kismayo and in other areas.

Two reconciliation conferences in mid-1991 and several diplomatic efforts to bring the warring groups together failed to stop the fighting. Agricultural infrastruc-

ture, including irrigation schemes, continued to be destroyed and equipment looted. The area planted for the main crop of August 1991 was small owing to lack of seeds, fuel and farm implements and was mainly confined to the rainfed fields. As a result, exports of crops collapsed. During November 1991, heavy fighting split Mogadishu into two sectors, closed the port, and forced all United Nations staff to evacuate. In December 1991, the Secretary-General requested a small team of United Nations staff to return to Mogadishu.

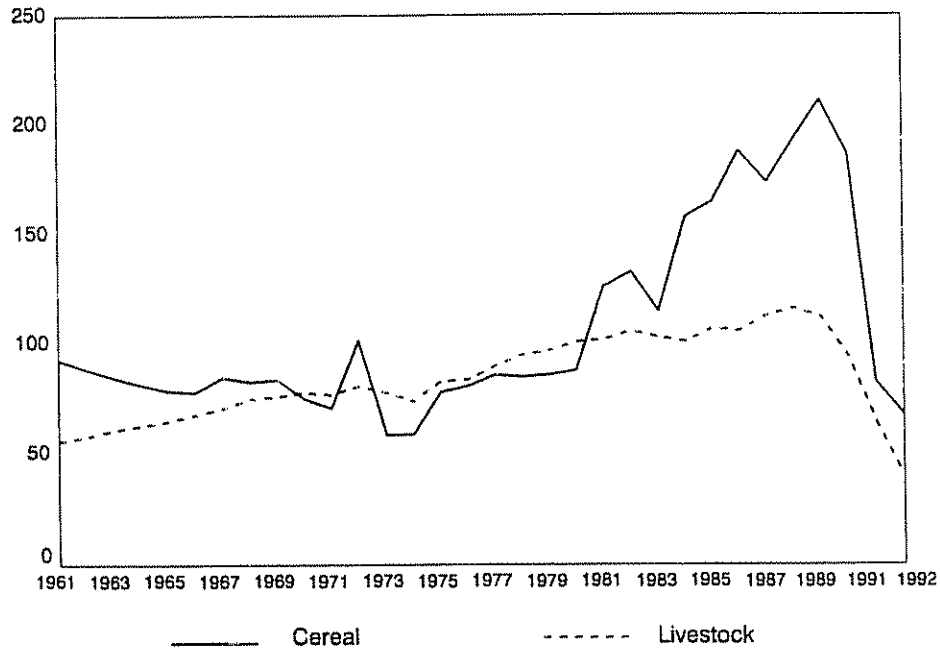
Widespread famine and starvation in 1992

At the end of 1991 then, a war-induced famine was in the making in southern and central Somalia. While no exact figures are known, the number of starvation deaths was still probably low. Cereal output was down by 55 per cent, grain reserves were consumed, destroyed or looted, exports had collapsed, no cereals were imported, livestock was severely affected, food production was disrupted by insecurity, displacement of people in massive numbers and the destruction or looting of infrastructure, such as irrigation pumps and canals, fruit trees, seeds and tools (see figure VI.2). During 1991, about 250,000 Somalis had fled to neighbouring countries.[106] Markets were largely non-existent. Electricity-generating and delivery systems, water-supply, sanitation and communication systems, and the contents of almost all public buildings, businesses, schools and health-care facilities were looted or destroyed.

Unlike in the case of the southern African countries described earlier, there was no Government to take action to restore food entitlements and provide security for food deliveries within the country. International relief efforts had largely been brought to a halt, except for ICRC and a few non-governmental organizations, by the fighting, insecurity and looting. Total food aid provided in 1991, 54,400 tons of cereals, was at its lowest levels since 1976 (see figure VI.1). WFP estimated that in 1991 some $6 million worth of food aid was destroyed or looted and a further 8,000 tons of food aid remained unaccounted for.[107]

From August 1991 onwards, ICRC and non-governmental organizations had distributed seeds and

Figure VI.2.
Agricultural production in Somalia, 1961-1992
1979-1981 = 100



Source: UN/DESIPA, based on FAO data.

tools in accessible areas for the February crop. However, displacement, civil strife, input shortages and damaged irrigation equipment limited the harvest, despite sufficient rainfall.

In early 1992, it was estimated that 4.5 million people were threatened by severe malnutrition and related diseases and of these, at least 1.5 million lives were at immediate risk. An estimated 500,000 tons of cereals was needed. On 1 February 1992, the Special Emergency Programme for the Horn of Africa (SEPHA) issued a consolidated inter-agency appeal which estimated that under prevailing security conditions and possibilities for implementation about $100 million was needed for Somalia. On 23 January 1992, the Security Council imposed an arms embargo on Somalia and on 3 March a United Nations-brokered cease-fire took effect in Mogadishu. The United Nations Operation in Somalia (UNOSOM) was established in April by Security Council resolution 751 (1992) by which the Council requested the deployment of 50 unarmed observers to monitor the cease-fire, agreed in principle to send 500 United Nations troops to protect relief operations and endorsed a 90-day Plan of Action for Emergency Humanitarian Assistance.

The cease-fire held despite periodic breaches. Security improved and relief operations expanded. Airlifts were organized by EC, ICRC, UNICEF, the United States (in August) and WFP, and in May, after an aborted attempt in March, the first ship since November 1991 arrived in the port of Mogadishu, thanks to the successful negotiations by the United Nations Special Representative for Somalia. FAO reported in July that food prices in Mogadishu had decreased but still remained beyond the purchasing power of many.

In July 1992, 50 United Nations observers arrived in Mogadishu to monitor the cease-fire. However, fighting continued unabated elsewhere, involving the rival clans and troops loyal to the ousted president. During the first half of 1992, relief was primarily concentrated on a few coastal cities and towns and the camps for displaced people around these cities. In May and June, one group gained control of most of southern and central Somalia, which brought some security there. ICRC, the non-governmental organizations and UNICEF steadily increased their operations in those areas from June onwards, although hampered by insecurity, fighting and looting. These organizations, *inter alia*, provided cooked meals and medical supplies, immunized children, rebuilt water-supply systems and other infrastructure and distributed seeds and tools to farmers. Securing the port and airport of Mogadishu, which was crucial to the success of the relief effort, ran into difficulties. After being opposed by General Aidid, the 500 troops envisaged by the Security Council in resolution 751 (1992) only arrived in Mogadishu in September and took control of the airport in November.

On 21 July 1992, the Secretary-General, in a report to the Security Council, stressed that insufficient priority had been accorded to Somalia.[108] On 22 July 1992, he reported to the Security Council that "the almost total absence of central, regional or local government pose[s] enormous operational difficulties for the United Nations in establishing a large-scale and effective presence. None the less, the threat of mass starvation ... require[s] an immediate and comprehensive response from the United Nations and the international community".[109] In its resolution 767 (1992) of 24 July 1992, the Security Council approved the mounting of an urgent airlift operation to provide assistance to those threatened by mass starvation. The Council also stated that, in the absence of cooperation by all parties, movements and factions in Somalia with the United Nations, in compliance with resolution 751 (1992), it did "not exclude other measures to deliver humanitarian assistance to Somalia". In August, the Security Council expanded the size of UNOSOM to 3,000 troops (Security Council resolution 775 (1992)). This deployment of additional troops was also opposed by General Aidid.

The area planted and the yields of the main harvest of August 1992 were again severely reduced as a result of the reasons mentioned above and, for the first time, of poor rainfall. FAO estimated that cereal production declined by about 20 per cent and livestock output by 40 per cent in 1992. Both categories had, therefore, declined by some 60 per cent between 1990 and 1992 (see figure VI.2). Owing to food aid, food supplies had improved somewhat by October. Mortality and malnutrition rates, of children in particular, declined in areas receiving substantial and sustained relief, such as Baidoa, Hoddur, Kismayo and Mogadishu. For example, the number of deaths in Baidoa, which had increased from 3,224 in August to 5,979 in September, declined to 2,434 in October. Some farmers returned to their home areas[110] and rainfall was sufficient during the last three months of 1992, which indicated an improvement in the first crop of 1993 over 1992 levels, although output would remain well below pre-war levels: about 60 per cent of normal.

In October 1992, the United Nations launched a 100-day Action Programme for Accelerated Humani-

tarian Assistance, building on the SEPHA appeals of February and also of July. In November UNICEF assisted some 187,000 beneficiaries, an increase from nearly 52,000 in August. However, the Programme's implementation was severely hampered by increased fighting, insecurity and looting in central and southern Somalia between September and November. Bardera, for example, changed hands in October, food stocks were looted and all programmes were closed down for a fortnight. Deaths soared in Bardera from about 550 in September to 6,000 in November. During the first 38 days of the Programme, only some 18,700 tons of food were delivered by WFP, against a monthly target of 31,000 tons, because the ports of Kismayo and Mogadishu were closed part of the time. It was estimated that less than 20 per cent of all food aid actually reached targeted beneficiaries. None the less, 85 per cent of the children monitored by UNICEF in feeding centres gained weight during November.

A fairly satisfactory situation in the north of the country

In the north, matters had been very different. In contrast to much of the rest of the country during 1991, the north, which had declared its independence in May, escaped large-scale hostilities, despite some disturbances and fierce fighting in March. The main obstacles for relief and rehabilitation were mines and destroyed infrastructure, a leftover from the 1988-1990 period. There was relatively little interference with relief efforts and some rebuilding of infrastructure, shipments of medical supplies and educational materials, and other relief efforts were able to take place throughout 1991. United Nations bodies, including FAO, UNDP, UNHCR, UNICEF and WFP, ICRC and several non-governmental organizations provided relief through food-for-work programmes, supplementary feeding of vulnerable groups and market sales schemes.

In the north, markets were well stocked, economic activity resumed and throughout 1992 food prices were stable. Despite poor grazing conditions for the third year in a row, there was no evidence of a nutritional emergency and malnutrition rates improved although anaemia was a major cause of morbidity. There was some renewed civil unrest in 1992, and early in the year UNICEF temporarily suspended its operations in the north-east after some of its staff members were killed. Many Somali refugees returned to the north from Ethiopia; some of them were assisted by UNHCR.

Military intervention to ensure that supplies reach the intended beneficiaries

The Security Council, in its resolution 794 (1992) of 3 December 1992, authorized the use of "all necessary means to establish a secure environment for humanitarian relief operations in Somalia". As mentioned above, this has been envisaged in Security Council resolution 767 (1992) of 24 July 1992. This resolution was the first one ever to authorize the use of force in support of humanitarian goals. The Unified Task Force (UNITAF), consisting of about 37,000 troops from 22 countries under the command and control of the United States, which supplied the bulk of the troops deployed in the initial stages, secured eight relief centres by the end of December. Large-scale looting declined markedly and there was a general improvement in security. While it did not set out to disarm the rival militia, the Unified Task Force made it clear that it would react forcefully to any interference with its operations. However, the work of relief agencies was impeded by disarmament of their local security guards who were not always adequately replaced by UNITAF forces and, as UNITAF moved out of Mogadishu, the movement of militia into the unsecured areas brought new outbreaks of looting, fighting and insecurity. ICRC and UNICEF temporarily suspended operations in certain places after staff members were killed. None the less, overall relief and rehabilitation operations by several United Nations bodies, ICRC and non-governmental organizations expanded.

Between 10 December 1992, when the first troops arrived, and 20 January 1993, 13 vessels carrying 40,000 tons of relief supplies docked in the port of Mogadishu. Food prices decreased considerably in Mogadishu. UNDP restored the Mogadishu water-supply system. Wells, roads and bridges were rehabilitated, schools reopened, dry food, tools and seeds were distributed to farmers, and agricultural activities increased. Malnutrition and mortality rates have declined dramatically. In Baidoa, for example, the number of deaths per day declined from 250 in early September to 8 in late December. However, as of February 1993, large groups of people in need were still beyond the reach of feeding programmes and deaths from diseases, such as diarrhea and measles, were still high.

Fourteen factions signed a cease-fire and disarmament agreement in January and they, joined with several others, held a conference in March 1993 in Addis Ababa, at which they agreed on the establishment of a transitional national council, consisting of 74 regional

representatives, and a complete, impartial and transparent disarmament within 90 days. Moreover, on 26 March 1993, the Security Council adopted resolution 814 (1993), authorizing the expansion of UNOSOM II with regard to size and mandate, which will supplant UNITAF. By acting under chapter VII of the Charter of the United Nations, UNOSOM II is empowered to disarm, to enforce the arms embargo and to ensure that humanitarian and other assistance reaches the people of Somalia.

The future

On 11 March 1993, the 1993 United Nations Relief and Rehabilitation Programme for Somalia was launched in Addis Ababa. This Programme detailed actions and activities which were determined by the relief community and the Somali people to be priorities for 1993. The total requested for the period 1 March to 31 December 1993 was $159.4 million.[111]

These funding requests covered the period to the end of December 1993, but longer-term assistance is envisaged. Two factors have been stressed as essential. The first is that the "success of any programme lies with the Somali people themselves and their leaders who are ultimately responsible for creating conditions conducive to peace and development". The second, as stated in General Assembly resolution 46/182 concerning the continuum from relief to rehabilitation and development, is that "emergency assistance must be provided in ways that will be supportive of recovery and long-term development".[112]

The task of rebuilding the country and ensuring long-term development is indeed enormous. At the end of 1992, it was estimated that at least 60 per cent of the country's basic infrastructure had been destroyed, 80 per cent of all social services had been rendered non-operational and 15 to 20 per cent of the livestock had been lost, with severe malnutrition being reported among the remaining animals. Moreover, it is estimated that there are over a million mines in the country, with the highest concentration in the north. Besides reconstructing the physical infrastructure and establishing security, rebuilding the social, political and economic institutions and the administrative and development management capacity are crucial to the rehabilitation of Somalia. Moreover, probably at least 1 million internally displaced persons have to be resettled, and 800,000 refugees who are now outside Somalia.[113]

For the past two years food aid to southern and central Somalia has been provided almost entirely on an emergency basis. Free food distribution will be needed as long as the situation remains insecure and people are displaced. However, where the situation allows, free food distribution should be transformed into programme and project food aid. In the 1980s, however, disincentive effects had already been present. During 1992 and early 1993 several signs of disincentive effect were again reported in some parts of the country. Some farmers could not sell the little crop they produced on the commercial market because of lack of demand and low prices, often below production costs.[114] During the period that large amounts of food aid are still needed, international organizations should seek to purchase local supplies and guarantee a minimum price for farmers to counteract any disincentive effects of food aid and to encourage domestic production.

Project food aid should aim at rebuilding and developing the infrastructure. Particular attention should be given to include former militia members in these projects, as employees or apprentices. In the future, project food aid can also be used as part of a drought relief and famine prevention programme. Food-for-work or cash-for-work projects allow people to augment their food entitlements in a period of drought. The programmes should be designed in advance and integrated into development plans so that there are no start-up delays and they do not have to be hastily designed with a high chance of being wrongly designed. These programmes should replace the role refugee camps now play in coping with droughts.

Over the longer run, emphasis should be given to the development of agriculture and processing of agricultural products. The potential of settled farming areas in south and central Somalia should be more fully exploited than in the past. The area of controlled irrigation could be expanded, increasing yields and reducing the risk of floods. Improved water management will also increase the effectiveness of other inputs, such as fertilizers and modern varieties of seeds, which are currently used at very low levels. To assist this strategy, extension services will have to be strengthened. Rainfed agriculture can also be expanded.[115] Livestock will continue to account for a large part of the economy. Rehabilitation of veterinary services is crucial. Range management needs to be strengthened, especially since hostilities and mines have caused overgrazing in certain areas. Finally, with the largest coastline of the African continent, fisheries have been vastly underdeveloped in the past. Rehabilitation efforts should focus on repairing or build-

ing boats and nets and further development of artisanal fisheries and of marketing channels to domestic and foreign markets.

All efforts at rehabilitation will only succeed if security is assured throughout the country. The Somalia emergency showed that the breakdown of internal security seriously impedes not only domestic production but also the delivery of outside food assistance. In the face of this breakdown, many Somalis 197such as the doctors who remained at their posts and the farmers 197helped avert an even worse disaster. Also, individual agencies and non-governmental organizations often achieved considerable results. However, the initial reaction of the international community can hardly be described as bold and aggressive; it was only in December 1992 that the military intervention that would put an end to looting and open up the clogged arteries of the country's delivery system got underway. One lesson from the famine in Somalia must surely be that modalities must be developed to ensure that international cooperation takes place at an early stage to assist strife-torn countries to guarantee a modicum of domestic security. Without domestic security, the food production and distribution system can hardly function. The example of Somalia highlighted the need for further progress along the lines proposed in the "Agenda for peace".[116]

NOTES

[1]"Hunger and malnutrition are unacceptable in a world that has both the knowledge and the resources to end this human catastrophe. We recognize that access to nutritionally adequate and safe food is a right of each individual. We recognize that globally there is enough food for all and that inequitable access is the main problem" (FAO/WHO, *International Conference on Nutrition: Final Report of the Conference* (Rome, December 1992), part two, para. 1).

[2]FAO, "World food supplies and prevalence of chronic undernutrition in developing regions as assessed in 1992" (ESS/MISC/1/92), p. 3.

[3]Ibid., p. 13.

[4]Grains are particularly important as they are a basic source of food for poor people.

[5]Statistics in this paragraph are from FAO, *Food Outlook*, No. 3 (March 1993).

[6]D. Gale Johnson, *World Agriculture in Disarray*, second edition (London, Macmillan, 1991).

[7]FAO/WHO, *International Conference on Nutrition: Final Report* ..., para. 5.

[8]As its proponents realize, the "entitlement" approach does not address all issues, and, in particular, given the limited capacity of the individual human being to consume food, cannot take into account the undeniable fact that some people consume much less than their entitlement, and that various groups in society can obtain an "entitlement" to food through coercion (for instance, the military), or through illegal transactions (see Amartya Sen, *Poverty and Famines* (Oxford, Claredon Press, 1981), pp. 48-50; and Christopher Locke and Fredoun Z. Ahmadi, "Famine analysis: a study of entitlements in Sudan, 1984-1985", *Economic Development and Cultural Change*, vol. 41, No. 2 (January 1993), pp. 364-376).

[9]United Nations, Administrative Committee on Coordination Subcommittee on Nutrition (ACC/SCN), *Second Report on the World Nutrition Situation*, vol. 1 (Geneva, October 1992), p. 7.

[10]For a description of the methodology used, see FAO, "World food supplies and prevalence of chronic undernutrition in developing regions as assessed in 1992" (ESS/MISC/1/92). The calorie requirements were derived from a multiple of the energy requirements for internal body functions only (the basal metabolic rate (BMR)) to take into account the energy required for physical activity. The multiple chosen was 1.54, which was considered a more realistic indicator than 1.2 or 1.4, which were used in earlier work. To calculate the number of people who did not meet this requirement, the mean dietary energy supply for the country was calculated from production data, net food imports and net movements in stocks, and estimates of wastage from harvest to retail, but not at the household level. Thus, food = total food supply – animal feed – industrial non-food uses – seed – waste (from harvest to retail) (Nikos Alexandratos, "World agriculture and food and nutrition prospects of the developing countries", p. 3, note 1. See also J. Mernies, "Construction of aggregated food accounts", *FAO Quarterly Bulletin of Statistics*, vol. 5, No. 2 (1992) and "Overall food accounts", *FAO Quarterly Bulletin of Statistics*, vol. 5, No. 3 (1992)). The distribution of this dietary energy supply around the mean was assumed to follow a log-normal distribution whose standard deviation was based upon available national household surveys, including those of the income expenditure type. The cut-off point—the minimum daily per capita calorie consumption level—was calculated on the basis of the age and sex distribution of the population and varied between continents - from 1,761 calories per capita per day for the Far East to 1,788 for Africa and 1,836 for Latin America (ESS/MISC/1/92, p. 13). The average for all developing countries was 1,784 calories per capita per day. From the distribution, the proportion of households with food consumption below the cut-off point can be readily calculated, together with the absolute numbers involved.

[11]ACC/SCN, *Second Report on the World Nutrition Situation* ..., p. 32.

[12]It was, for instance, given in FAO/WHO, *International Conference on Nutrition: Final Report* ..., para. 2.

[13]All figures in this paragraph are from ACC/SCN, *Second Report on the World Nutrition Situation* ...

[14]Defined as two standard deviations less then the median reference.

[15]For a discussion of this definition and the entire concept of food security, see "Improving household food security", in International Conference on Nutrition, *Major issues for nutrition strategies* (FAO/WHO, 1992).

[16]International Conference on Nutrition, FAO/WHO Joint Secretariat for the Conference, *WHO Preparatory Meeting for the In-*

ternational Conference on Nutrition Copenhagen, 6-9 April 1992 (ICN/92/INF/24), p. 6.

[17]The formula is given in Idriss Jazairy, Mohinddin Alamgir and Theresa Panuccio, *The State of World Rural Poverty* (New York, published for the International Fund for Agricultural Development by New York University Press, 1992), p. 459.

[18]Ibid., p. 31.

[19]For a fuller summary, see S. R. Osmani, "Controversies in nutrition and their implications for the economics of food", *WIDER Working Paper*, No. 16 (Helsinki, WIDER, July 1987).

[20]For a fuller discussion of the data problems in the case of Africa, see P. Svedberg, "Undernutrition in sub-Saharan Africa", in Jean Drèze and Amartya Sen, *The Political Economy of Hunger*, vol. 3 (Oxford, Clarendon Press, 1991).

[21]*Meeting the Developing Countries' Food Production Challenges of the 1990s and Beyond* (Seventeenth Ministerial Session of the World Food Council, Helsingor, Denmark, 5-8 June 1991 (WFC/1991/6) March 1991), p. 3.

[22]"Poverty and the socio-economic attainment of women", *World Economic Survey 1991* (United Nations publication, Sales No. E.91.II.C.1), p. 189.

[23]Janice Jiggins, "Women and seasonality: coping with crisis and calamity", *IDS Bulletin*, vol. 17, No. 3 (1986), pp. 9-18.

[24]J. Price-Gittinger, J. Leslie and C. Hoisington, *Food Policy: Integrating Supply, Distribution and Consumption* (Baltimore, Johns Hopkins University Press, 1987).

[25]J. W. Gilmore and others, "Morocco: aid and nutrition education", *USAID Project Impact Evaluation Report No. 8* (Washington, D.C., 1980).

[26]Jazairy and others, op. cit., p. 20.

[27]For example, in Peru, working women in shanty towns set up communal kitchens (*comedores populares*) which pooled together the food resources of families. Foodstuffs were often bought from the producer directly, thus realizing the economy of bulk purchase, and meals were prepared in large quantities at the lowest possible cost. Groups of women took turns in cooking and this allowed the women to feed their families while at the same time earning income outside the home. In the highlands of the Dominican Republic, where most people lived in poverty and were undernourished, *Plan Sierra*, a grassroots programme, was organized in the 1980s by the local people to provide credit to farmers and to promote vegetable gardens to improve household nutrition. The organization also carried out reforestation and the control of erosion. For further information, see Bread for the World Institute on Hunger and Development, *Hunger 1990, A Report on the State of World Hunger* (Washington, D.C., 1990), pp. 22-36, 45-58 and 70-85.

[28]Per Pinstrup-Andersen, "Targeted nutrition interventions", *Food and Nutrition Bulletin*, vol. 13, No. 3 (1991), p. 163.

[29]Kaushik Basu, "The elimination of endemic poverty in South Asia", in Drèze and Sen, *The Political Economy of Hunger* ..., pp. 360-363.

[30]The data in this section (on Gambia, India, Indonesia, Philippines, Thailand, United Republic of Tanzania and Zimbabwe) are taken from ACC/SCN, *SCN News*, No. 4 (late 1989), p. 15.

[31]This section is based on World Bank, *Feeding Latin American Children: An Analytical Survey of Food Programs*, pp. 12-68. The 19 countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

[32]Similar results of declining self-sufficiency were obtained by IFAD calculations on the food staples (cereals, roots and tubers and pulses) self-sufficiency ratio. Between 1965-1967 and 1986-1988, this fell from 98 per cent to 95 per cent in the case of the 114 developing countries examined and from 100 to 95 per cent in the case of the least developed countries. In Latin America and the Caribbean, it fell from 112 to 93 per cent. All the other regions had ratios of under 100 in 1965-1967, and in every region except Asia there was a decline (Jazairy and others, op. cit., p. 33).

[33]The former USSR is classified as a developed country by FAO, but is classified separately in the *Survey*.

[34]A recent study concluded that opening EC markets to eastern European farm imports would result in a gain to eastern Europe of £1.47 billion ($2.3 billion), and would benefit consumers in EC by £3.1 billion ($4.9 billion) and taxpayers by £1.39 billion ($2.2 billion). EC farmers would lose £2.92 billion ($4.6 billion), resulting in a net gain to EC of £1.57 billion ($2.5 billion) (Jim Rollo and Alasdair Smith, "The political economy of Eastern Europe's trade with the European Community: why so sensitive?", *Economic Policy*, vol. 16 (April 1993), reported in *The Economist*, 1 May 1993, p. 56).

[35]All figures are from FAO, *Production Yearbook*.

[36]All figures are from Jazairy and others, op. cit., pp. 382-383.

[37]Much of this section is based on Bread for the World Institute on Hunger and Development, *Hunger 1990* ..., pp. 21-75. For a discussion of constraints to increasing agricultural production in sub-Saharan Africa, see Henk-Jan Brinkman and Alberto Gabriele, "Problems in agricultural development in sub-Saharan Africa", *DIESA Working Paper*, No. 17 (January 1992).

[38]For instance, a study by the International Food Policy Research Institute (IFPRI) conducted in 16 villages in Bangladesh on the effect of infrastructural development on rural areas found that "infrastructure is the central element of rural growth strategies and that its effects are positive and profound ... Related to agricultural production, the study finds that fertilizer costs were 14 per cent lower, wage rates were 12 per cent higher, and crop output was 32 per cent higher in villages with more developed infrastructure. Income levels in the three most developed villages increased by 24 per cent from agricultural output, and 78 per cent from livestock and fisheries compared to the three least developed villages" (IFPRI, *1990 Report*, p. 25).

[39]This section is based on *Meeting the Developing Countries' Food Production Challenges of the 1990s and Beyond* ..., p. 6.

[40]See, in particular, World Bank, *World Development Report 1986* (Oxford, Oxford University Press, 1986).

[41]The producer subsidy equivalent is an attempt to measure the amount of compensation that needs to be given to cultivators in the event that all subsidies (including protection) are removed. For further details, see FAO, *Agriculture Protection and Stabilisation Policies: A Framework of Measurement in the Context of Agricultural Adjustment* (C75/LIM/2) (Rome, 1975).

[42]Ashok Gulati and A. N. Sharma, "Subsidising agriculture", *Economic and Political Weekly* (26 September 1992).

[43]In this study, the less developed countries comprised Bangladesh, China, India, Kenya, Nigeria and Pakistan.

[44]S. M. Ravi Kanbur, "Global food balances and individual hunger: three themes in an entitlements-based approach", in Jean Drèze and Amartya Sen, *The Political Economy of Hunger* ..., vol. 1, p. 71.

[45]Ibid., p. 73; and Kirit S. Parikh, "Chronic hunger in the world: impact of international policies", in Drèze and Sen, *The Political Economy of Hunger* ..., vol. 1, pp. 139-143.

[46]Chile can be taken as an example of a country that removed the distortions against agriculture and saw agricultural exports rise and its export base diversified. In 1970, 7.4 per cent of its export receipts were from agriculture: food (4.5 per cent) and agricultural raw materials (2.9 per cent). In 1989, the corresponding figures were 40.2 per cent, with 28.6 per cent from food and 11.6 per cent from agricultural raw materials. In 1970, 29.3 per cent of its imports were from agriculture: food (14.6 per cent) and agricultural raw materials (4.7 per cent); whereas in 1989, 6.6 per cent of its imports were: food (4.4 per cent) and agricultural raw materials (2.2 per cent). In 1970, 88.1 per cent of Chile's export revenues came from ore and metals (largely copper) and in 1989, 51.6 per cent. In Zambia, another major copper producer, the figures were 99.1 per cent in 1970 and 83.4 per cent in 1989. In 1970, 0.7 per cent of Zambia's export revenues came from food and agricultural raw materials. In 1989, the major inroads into Zambia's dependence on copper had come from manufactures, which contributed 11.2 per cent to exports. Food and agricultural raw materials contributed only 5.3 per cent to exports. In 1982, the latest year given in the UNCTAD statistics, 7.4 per cent of Zambia's imports were food and agricultural raw materials. All figures from UNCTAD, *Handbook of International Trade and Development Statistics* (United Nations publication, Sales No. E/F.92.II.D.6).

[47]OECD, *Agricultural Policies, Markets and Trade: Monitoring and Outlook 1992* (Paris, 1992), pp. 130-131.

[48]All figures from FAO, *Food Outlook* (March 1993).

[49]Farmer incomes have in some countries been protected by "deficiency payments" (paying farmers the difference between domestic costs and lower import prices). In these cases, although domestic production is higher than it would be otherwise and, therefore, demand for food imports lower, the importation of foodstuffs need not be excluded by tariff or non-tariff measures. Moreover, domestic prices will be similar to world prices. The United Kingdom employed such a deficiency-payment system before it entered EC.

[5]D. Gale Johnson, *World Agriculture in Disarray*, second edition (London, Macmillan, 1992), p. 231.

[51]Ibid., p. 218.

[52]For example, Rod Tyers and Kym Anderson estimated that in 1990 these policies had benefited consumers and taxpayers in developing economies to the extent of $15.3 billion annually and had harmed producer welfare to the amount of $26.5 billion, in United States dollars of 1985, in *Disarray in World Food Markets* (Cambridge, Cambridge University Press, 1992), p. 209.

[53]World Bank, *World Development Report 1986* (Oxford, Oxford University Press, 1986), p. 127; and Johnson, op. cit., pp. 157-158.

[54]See Johnson, op. cit., pp. 150-152.

[55]World Food Programme, *1992 Food Aid Review* (Rome, 1992), p. 23.

[56]Ibid., p. 121; and World Food Programme, *Food Aid Works* (Rome, 1987), p. 3.

[57]For a recent appraisal of food aid, see Edward Clay and Olav Stokke, eds., *Food Aid Reconsidered: Assessing the Impact on Third World Countries* (London, Cass, 1991).

[58]FAO/WHO, *International Conference on Nutrition: Final Report ...*, para. 12.

[59]Tyers and Anderson, op. cit., p. 209. OECD estimated that, in 1991, the implicit tax on consumers involved in agricultural support amounted to $135 billion at current prices (OECD, *Agricultural Policies, Markets and Trade ...*, p. 11).

[60]Tyers and Anderson, op. cit., p. 204.

[61]In 1992, the Australian Government distributed through its embassies in the EC countries a pamphlet entitled, *Are You Paying Too Much?*, which showed that consumers in five EC countries were paying between 57 per cent and 146 per cent more for steak than Australian consumers; between 41 per cent and 270 per cent more for butter; between 41 per cent and 130 per cent more for cheese; and between 40 per cent and 47 per cent more for sugar. It stated that "Australia is a world trading nation whose economic well-being is undermined by CAP".

[62]The food bills of low-income households in EC are from 30 to 50 per cent higher than they would be without its agricultural policy (ibid., p. 3).

[63]The Managing Director of IMF, Mr. Michel Candessus, stated, in April 1992, that an additional $100 billion would be needed by the economies in transition in the period 1992 to 1996. This could be found, without reviving inflation and without prejudice to the investment needs of the poorest countries, by cutting unproductive spending: military spending and "one of the most pernicious examples of unproductive spending - excessive protective subsidies in the major industrial countries" (*IMF Survey*, 27 April 1992, p. 134).

[64]The principal exponent of the entitlement approach has been Professor Amartya Sen. This section is primarily based on Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford, 1981); Amartya Sen, "Food, economics and entitlements", *WIDER Working Papers*, No. 1 (Helsinki, WIDER, February 1986); Amartya Sen, *Hunger and Entitlements* (Helsinki, WIDER, 1987); and Jean Drèze and Amartya Sen, eds., *The Political Economy of Hunger*, 3 volumes (Oxford, Clarendon Press, 1990 and 1991).

[65]Michael T. Weber and others, "Informing food security decisions in Africa: empirical analysis and policy dialogue", *American Journal of Agricultural Economics*, vol. 70, No. 5 (1988), pp. 1044-1052; and Ridwan Ali and Barbara Pitkin, "Searching for household food security in Africa", *Finance and Development*, vol. 28, No. 4 (December 1991), pp. 3-6.

[66] Amartya Sen, *Poverty and Famines ...*, p. 108; and Christopher G. Locke and Fredoun Z. Ahmadi-Esfahani, "Famine analysis: a study of entitlements in Sudan, 1984-85", *Economic Development and Cultural Change*, vol. 41, No. 2 (January 1993), pp. 365-376.

[67]Sen, *Hunger and Entitlements ...*, p. 17.

[68]See Jean Drèze, "Famine prevention in India", in Sen and Drèze, *The Political Economy of Hunger ...*, vol. 2, pp. 13-122; and P. R. Dubashi, "Drought and development", *Economic and Political Weekly*, vol. 27, No. 13 (28 March 1992), pp. A27-A36.

[69]D. N. Dhanagare, "1992 drought in Maharashtra: misplaced priorities, mismanagement of water resources", *Economic and Political Weekly*, vol. 27, No. 27 (4 July 1992), pp. 1421-1425.

[70]This section is partly based on "Drought emergency in southern Africa: consolidated UN-SADC appeal", May 1992, mid-term review, December 1992, and monthly situation reports, Department of Humanitarian Affairs of the United Nations Secretariat and Southern African Development Community.

[71]Notably, elephants and impalas were slaughtered to save the remaining herd and their meat was freely distributed (see *The New York Times*, 5 July 1992).

[72]Sen, *Poverty and Famines ...*, pp. 49, 164 and 166, argued that

entitlements only refer to legal transfers and are therefore not applicable to war situations. None the less, wars can have consequences similar to droughts, such as a terms-of-trade collapse, crop losses and unemployment, and analysing the effects and their respective impact on certain groups can be important in determining measures to prevent famine and organize relief.

[73]Drèze and Sen have argued that an open and pluralist society with a free press is an important condition for early response to the threat of famine. This condition is not fulfilled in most countries currently at war.

[74]Ruth Leger Sivard, *World Military and Social Expenditures 1989* (Washington, D.C., World Priorities, 1989); Joanna Macrae and Anthony B. Zwi, "Food as an instrument of war in contemporary African famines: a review of the evidence", *Disasters*, vol. 16, No. 4 (December 1992), pp. 299-321; *1985 Report on the World Social Situation* (United Nations publication, Sales No. E.85.IV.2), pp. 14-15; and *1993 Report on the World Social Situation* (United Nations publication, Sales No. E.93.IV.2), chap. XII.

[75]SIPRI, *Warfare in a Fragile World: Military Impact on the Human Environment* (London, Taylor and Francis, 1980). "[T]he capacity for destruction of modern firearms has no historical parallel, and future historians may well compare the impact of the AK 47 with that of the diesel engine" (Alex de Waal, "Sudan: searching for the origins of absolutism and decay", *Development and Change*, vol. 24, No. 1 (January 1993), p. 181.

[76]Another example is the famine in Nigeria during the years 1967-1969 which resulted from a blockade of food shipments to the secessionist region of Biafra.

[77]Famines are usually defined as a sudden collapse of food consumption causing widespread deaths (see Sen, *Poverty and Famines* ..., p. 40).

[78]Some have argued, for example, that the famine in northern Ethiopia in 1984-1985 was mainly due to the civil war, while others give additional importance to drought and inadequate and/or delayed international and government response. All agree that wars have exacerbated the famine (see Alex de Waal, *Evil Days: 30 Years of War and Famine in Ethiopia* (New York, Human Rights Watch, 1991); and B. G. Kumar, "Ethiopian famines 1973-1985: a case study", in Drèze and Sen, *The Political Economy of Hunger* ..., vol. 2, pp. 173-216).

[79]David Turton, "Warfare, vulnerability and survival: a case from southwestern Ethiopia", *Disasters*, vol. 15, No. 3 (September 1991), pp. 254-264.

[80]At the end of 1991, about 1.5 million Mozambicans were living in neighbouring countries and about 2 million were internally displaced. For Angola, these numbers were about 0.4 million and 0.8 million, respectively (see United States Committee for Refugees, *World Refugee Survey* (Washington, D.C., American Council for Nationalities Service, 1992)).

[81]Reginald Herbold Green and others, *Children on the Frontline* (New York, UNICEF, 1989), p. 24.

[82]Alex de Waal, *Evil Days* ..., p. 13; B. G. Kumar, "Ethiopian famines 1973-1985 ...", pp. 203-205.

[83]Lionel Cliffe, "The impact of war and the response to it in different agrarian systems in Eritrea", *Development and Change*, vol. 20, No. 3 (July 1989), pp. 373-400.

[84]Francis M. Deng and Larry Minear, *The Challenges of Famine Relief: Emergency Operations in the Sudan* (Washington, D.C., The Brookings Institution, 1992); and Alex de Waal, "Famine and human rights", *Development in Practice*, vol. 1, No. 2 (summer 1991), pp. 77-83.

[85]Everett M. Ressler, Joanne Marie Tortorici and Alex Marcelino, *Children in War: A Guide to the Provision of Services* (New York, UNICEF, 1993), pp. 82-84 and 90; Helmut Kloos, "Health impact of war in Ethiopia", *Disasters*, vol. 16, No. 4 (December 1992), pp. 347-354; and Macrae and Zwi, "Food as an instrument of war ...", p. 300.

[86]Reginald Herbold Green and other, op. cit., pp. 24-25 and 38-40.

[87]Jane Corbett, "Famine and household coping strategies", *World Development*, vol. 16, No. 9 (September 1988), pp. 1099-1112.

[88]Crude mortality rates can be up to 40 times higher among the displaced population relative to the non-refugee populations. See M. J. Toole and R. J. Waldman, "An analysis of mortality trends among refugee populations in Somalia, Sudan, and Thailand", *Bulletin of the World Health Organization*, vol. 66, No. 2 (1988), pp. 237-247; and Helmut Kloos, "Health impact of war in Ethiopia", *Disasters*, vol. 16, No. 4 (December 1992), p. 351. Whether undernourishment leads to increased susceptibility to diseases - besides increased exposure - is a matter of dispute. Death records usually allow for only one cause of death and do not allow for differentiation between proximate causes (diseases) and ultimate causes (starvation). De Waal argued that there was no empirical relation in African famines between mortality on the one hand and destitution or mild or moderate malnutrition on the other hand. The medical literature, however, indicates that adaptation to undernourishment involves a greater susceptibility to infection and disease. See Alex de Waal, "Famine mortality: a case study of Darfur, Sudan 1984-85", *Population Studies*, vol. 43, No. 1 (March 1989), pp. 5-24; Alex de Waal, "A re-assessment of the entitlement theory in the light of the recent famines in Africa", *Development and Change*, vol. 21, No. 3 (July 1990), pp. 469-490; and Partha Dasgupta and Debraj Ray, "Adapting to undernourishment: the biological evidence and its implications", in Drèze and Sen, *The Political Economy of Hunger* ..., vol. 1, pp. 191-246.

[89]*The World's Women 1970-1990: Trends and Statistics* (United Nations publication, Sales No. E.90.XVII.3), p. 74.

[90]International Organization for Migration, "Women refugees face special health problems", *People*, vol. 18, No. 4 (Geneva, 1991).

[91]Office of the United Nations High Commissioner for Refugees, *Guidelines on the Protection of Refugee Women* (Geneva, July 1991), p. 51.

[92]Eve Hall, "Vocational training for women refugees in Africa", *International Labour Review*, vol. 129, No. 1 (1990), pp. 91-107.

[93]However, integration of Liberians in neighbouring countries has led to some recovery of food production (see *Refugees*, No. 88 (January 1992)). Food production by displaced persons has also been observed among Mozambicans along the protected railroad corridors (see *The New York Times*, 8 January 1991 and *The Economist*, 16 February 1991).

[94]*Africa Recovery* (October-December 1990), p. 5; report of the Secretary-General on assistance for the rehabilitation and reconstruction of Liberia (A/47/528), 16 October 1992.

[95]Jean Drèze and Haris Gazdar, "Income and economic survey" (October 1991), pp. 30-31; letter dated 20 March 1991 from the Secretary-General addressed to the President of the Security Council, transmitting the report prepared by Mr. Martti Ahtisaari, Under-Secretary-General for Administration and Management on humanitarian needs in Kuwait and Iraq in the immediate post-crisis environment (S/22366); and report of the Secretary-General pursuant to paragraph 5 of Security Council resolution 706 (1991) (S/23006), 4 September 1991.

[96]See Robert W. Kneller, Kristin Ingolfsdottir and Jean-Pierre Revel, "The mortality experience of Kurdish refugees remaining in Turkey", *Disasters*, vol. 16, No. 3 (September 1992), pp. 249-254.

[97]*The New York Times*, 5 March 1993 and 2 April 1993; and *World Population Monitoring 1993* (United Nations publication, forthcoming).

[98]Jean Drèze, "Famine prevention in Africa: experiences and lessons", in Drèze and Sen, *The Political Economy of Hunger* ..., vol. 2, pp. 138, 153, 159 and 160; see also pp. 5-7 of that volume.

[99]This account of the development of the famine was largely based on publications and mimeographs of FAO, UNICEF and ICRC, reports of the Secretary-General, *inter alia*, on emergency assistance for humanitarian relief and the economic and social rehabilitation of Somalia (A/47/553), 22 October 1992; and Ernest Harsch, "Somalia: restoring hope", *Africa Recovery Briefing Paper*, No. 7 (15 January 1993). The statistics for Somalia, especially after the outbreak of civil violence, are subject to wide margins of error.

[100]John R. Rogge, "Refugee migration: changing characteristics and prospects", paper prepared for the Expert Group Meeting on Population Distribution and Migration, Santa Cruz, Bolivia, 18-22 January 1993, for the International Conference on Population and Development, 1994 (ESD/P/ICPD.1994/EG.VI/19), 8 December 1992.

[101]For a further discussion of the issues discussed in this paragraph, see Edward Clay and Elisabeth Everitt, eds., "Food aid and emergencies: a report on the third IDS food aid seminar", *Discussion Paper*, No. 206 (Institute of Development Studies, July 1985), pp. 20-24; United States Committee for Refugees, "Beyond the headlines: refugees in the horn of Africa", *Issue Paper* (January 1988); Y. Hossein Farzin, "Food import dependence in Somalia: magnitude, causes, and policy options", *World Bank Discussion Papers*, No. 23 (Washington, D.C., 1988); Mark Thomas and others, "Food aid to sub-Saharan Africa: a review of the literature", *Occasional Paper*, No. 13 (Rome, World Food Programme, 1989), p. 14; Joanna Macrae and Anthony B. Zwi, "Food as an instrument of war in contemporary African famines: A review of the evidence", *Disasters*, vol. 16, No. 4 (December 1992), pp. 299-321; and Vali Jamal, "Somalia: survival in a 'doomed' economy", *International Labour Review*, vol. 127, No. 6 (1988), pp. 783-812.

[102]Government of the Somali Democratic Republic in cooperation with UNICEF, *A Programme for Women and Children in Somalia: Plan of Operations, 1988-1992* (Government of the Somali Democratic Republic, 1987), pp. 61-65.

[103]The Ethiopian Government ordered this in compliance with a peace agreement it had concluded with the Somali Government in April 1988.

[104]*World Population Monitoring 1993* ...

[105]Rakiya Omaar, "Somalia: at war with itself", *Current History* (May 1992), p. 232.

[106]Moreover, probably nearly all remaining Ethiopian refugees in Somalia, some 375,000, returned to Ethiopia (Rogge, "Refugee migration ...").

[107]World Food Programme, *1992 Food Aid Review* (Rome, 1992).

[108]"My concern is that if the Security Council continues to concentrate its attention and resources to such an extent on Yugoslav problems, this will be at the expense of the Organization's ability to help resolve equally cruel and dangerous conflicts elsewhere, e.g., in Somalia" (report of the Secretary-General on the situation in Bosnia and Herzegovina (S/24333) 21 July 1992).

[109]The Secretary-General also proposed sending a technical team to Somalia, the terms of reference of which would be to examine, *inter alia*, (a) the feasibility of an "arms for food" exchange programme, bearing in mind that this would require military personnel adequately armed and equipped for the task; and (b) the need for security forces to provide escort and protection for humanitarian aid activities and personnel in other parts of the country (report of the Secretary-General on the situation in Somalia (S/24343) 22 July 1992).

[110]However, Rogge estimated that in August 1992 between 550,000 and 650,000 persons were still internally displaced in southern and central Somalia ((Rogge, "Refugee migration ...", p. 4).

[111]United Nations Project Summaries for the Relief and Rehabilitation Programme for Somalia covering the period 1 March to 31 December 1993, 13 March 1993, introductory pages. The priority interventions and the immediate funding requests were: public administration ($14.6 million), women ($0.5 million), agriculture ($12.4 million), livestock ($7.9 million), employment opportunities ($20 million), education ($10.5 million), displaced persons and refugees ($22.5 million), food security ($30.0 million), basic health and nutrition ($23.7 million), potable water ($12.7 million) and sanitation ($1.7 million). Donors were requested to provide resources directly to agencies listed as appealing agencies.

[112]United Nations Relief and Rehabilitation Programme ..., p. 4. This point was further emphasized by the United Nations Administrative Committee on Coordination at its first regular session of 1993, Rome, 19-20 April 1993 (ACC/1993/14, p. 9).

[113]United Nations Relief and Rehabilitation Programme for Somalia ..., pp. 1 and 34.

[114]*The New York Times*, 14 December 1992 and 13 January 1993; and Alex de Waal and Rakiya Omaar, "Doing harm by doing good? The international relief effort in Somalia", *Current History* (May 1993), pp. 200-201.

[115]Farzin, "Food import dependence in Somalia ...", p. 25; and FAO, *Atlas of African Agriculture* (Rome, 1986).

[116]Report of the Secretary-General pursuant to the statement adopted by the Summit Meeting of the Security Council on 31 January 1992 (A/47/277-S/24111).

VII

Economic reform and the development of the non-state sector: a case-study of China

In the transition from a centrally planned to a market-oriented economy, China has chosen a policy of promotion of the rapidly growing non-state sector instead of one of privatization of state enterprises. This path towards a market economy, referred to as marketization, focuses on subjecting all production units regardless of ownership to market forces rather than to privatization of production. Indeed, the development of the non-state sector in the 1980s has been an integral part of the continuing and far-reaching process of economic reform begun in 1978 in China. The following analysis presents the evolution of the non-state sector in the last decade and a half.

The basis of reform was initially the decentralization of economic decision-making from the central Government to local governments and to individuals and production units. Following initial success, notably in the agricultural sector, the focus of reform shifted to reducing price distortions and reforming and developing economic institutions of every sector—rural economic institutions, the distribution system, financial institutions, and the foreign sector. Output and productivity growth was also seen to require specific policies promoting the rapid development of collective and private enterprises. As reform accelerated in the mid-1980s, the basis of foreign trade and investment policy shifted from the mere increasing of exports to finance needed imports, to the development of export-oriented production exploiting China's comparative advantage in labour-intensive industry as a means of stimulating economic growth. Against this background of reform the share of the non-state sector in industrial output increased rapidly, from 25 per cent in 1980 to 46 per cent in 1991. The non-state sector consists of (a) collective-owned enterprises, that is, those owned by local governments and/or workers; (b) individual-owned or privately owned[1] enterprises including the self-employed and private enterprises with paid workers; and (c) foreign-owned enterprises, including wholly foreign-owned enterprises and joint ventures. The development of the non-state sector has certain distinctive characteristics. First, the development of the sector has taken primarily the form of the rapid growth of new smaller enterprises rather than of the privatization and/or breaking up of inefficient large state enterprises. Second, while the largest proportion of these non-state enterprises are collectively owned, growth of the still very small private sector has been accelerating. Third, the successful liberalization of foreign trade and investment has created a very significant export-oriented foreign ownership sector[2] as well as substantial growth in export production of non-state enterprises in coastal provinces.[3] Last, because of regional variations in government policy and the history of economic development, the development of the non-state sector has been concentrated in the coastal region of the country.

POLICIES SUPPORTING THE DEVELOPMENT OF THE NON-STATE SECTOR

The progress in the development of the non-state sector in the 1980s was the result of policy changes at various levels. Monetary policy and foreign trade and exchange policies have generally been supportive of development of the sector. Overall reform of the economic system removed many inherent barriers that had restricted economic activities outside the state sector. Specific sectoral reforms and promotional policies also created incentives for the growth of the non-state sector although the momentum of reform has vacillated with political change, most notably in the aftermath of the change of leadership in 1989.

MACROECONOMIC POLICY

The macroeconomic environment since 1980 has generally been favourable to the growth of the non-state sector. Especially important for the growth of non-state economic activities has been the consistently high savings rate, of around 30 per cent of gross national product (GNP), for much of the 1980s and early 1990s.

A certain amount of macroeconomic instability has characterized recent economic trends. The principal source of that instability has been inflationary pressures generated by high rates of growth of the money supply, as the authorities desired to ensure sufficient liquidity for rapid economic growth, and particularly for high rates of fixed investment, as well as to respond to the rapid monetization of the agricultural sector since 1979. Sharp cyclical slow-downs in growth resulted from drastic albeit brief curtailment of monetary growth, which has been the main macroeconomic policy instrument. Economic slow-downs in 1981, 1986 and particularly in 1989-1990 were detrimental in the short term to the growth of the non-state sector. Because of the importance of the use of administrative means of allocating credit and the priority placed on the production of the state sector, the non-state sector bore the brunt of the credit contractions in the 1980s. However, the policy response has generally been a prompt reining in of inflation. The excessive macroeconomic instability that characterized many developing countries and economies in transition in the 1980s was thus avoided.

The external sector has also generally been in balance, with the current account deficits kept to a small fraction of gross national product (GNP) (see table VII.1). External debt has also been kept at easily manageable levels. Foreign exchange rates, though centrally controlled, were periodically adjusted and tended to follow market trends, particularly since 1984, and this resulted in a significant devaluation of the yuan over the years.

REFORM OF THE ECONOMIC SYSTEM

Reform in three key areas—goods markets, credit markets and local fiscal authority—provided a strong impetus for the development of the non-state sector. Non-state firms gained access to markets and inputs following the decontrol of the production, pricing and marketing of numerous categories of goods. Price liberalization which began in 1979 has accelerated since 1982.[4] At the same time, import of consumer goods and unsophisticated capital goods, some of which compete with products of non-state enterprises, has remained generally restrictive, thereby providing protection for emerging domestic industries.

Concurrently, the decentralization of the banking system and the tacit approval given to informal financial institutions have greatly improved access of non-state

Table VII.1.
Macroeconomic indicators, 1979-1991

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Average annual growth rate (percentage)													
GNP	7.6	7.8	4.5	8.7	10.3	14.6	12.7	8.3	11.0	11.3	4.3	4.1	7.7
Money supply[a]	..	..	..	..	..	..	10.0	27.7	20.0	22.3	7.1	18.1	27.6
Inflation[b]	2.0	6.0	2.4	1.9	1.5	2.8	8.8	6.0	7.3	18.5	17.8	2.1	2.9
Share of GNP (percentage)													
Current account balance	..	0.3	1.1	2.4	1.6	1.0	-3.9	-2.8	0.2	-1.0	-1.1	2.9	3.3
External debt	..	1.5	2.1	3.1	3.3	4.0	5.7	8.5	11.6	11.2	10.6	14.2	15.3
Exchange rate													
Yuan per dollar	1.56	1.50	1.71	1.89	1.98	2.32	2.94	3.45	3.72	3.72	3.77	4.78	5.32
Index of real exchange rate[c]	105.4	96.2	79.9	68.2	69.8	53.4	49.3	45.2	48.2	59.0	57.2	43.1	39.4

Source: *International Financial Statistics Yearbook, 1992*; *Statistical Yearbook of China, 1992*; and J. Orr, "Evolution of United States trade with China", *Federal Reserve Bank of New York Quarterly Review*, winter, 1991-1992

a End-of-year averages, excluding quasi money. Consistent series begin in 1984.

b Retail prices.

c Fourth quarter of each year.

enterprises to credit since the early 1980s. The primary functions of the central bank were strengthened while commercial banking functions devolved to state-owned banks that specialized in lending to specific economic sectors—agriculture, foreign trade, industry and construction, and rural credit cooperatives (RCC) in rural areas. In a move towards greater reliance on indirect credit control, credit creation by the RCCs was based on the loan-to-reserve ratio of individual units. This made control less easily enforceable by central authorities and, as rural household deposits had been growing rapidly, provided greater leeway to rural credit extension.

More important, informal financial networks and fledgling local capital markets, consisting of informal cooperatives, financial cooperatives organized by local governments, borrowing from friends and family members and issuance of bonds, developed in rural and urban areas and became important sources of credit for the non-state sector.[5] This development was implicitly sanctioned by the central Government as it continued the pursuit of diversification of formal financial institutions begun in the mid-1980s.

The decentralization of fiscal authority through revenue sharing with various levels of local governments was important in creating an incentive for those governments to promote local economic development through growth of the non-state sector. This was built on a strong existing system of local governments and local systems of tax collection in which the major source of local revenues was industrial enterprises. The development of local industries was regarded as the most promising means of generating additional local tax revenues.[6] In addition, the comprehensive implementation of the production responsibility system by 1983 had released a large number of farmers from agriculture, creating problems of local rural unemployment for local governments. The development of rural enterprises was seen as a means of mitigating this pressing problem. Furthermore, income from non-agricultural employment could increase overall local income levels which, in turn, justified the higher salaries of local officials.[7] As a result, local governments have been instrumental in the promotion of rural industries and industries in small cities and towns.

RURAL REFORM POLICY

The development of the non-state sector was closely linked with reform policies for the rural economy. In a fundamental departure from official policy since the mid-1960s, the development of private as well as collective non-agricultural enterprises was seen as an important means of stimulating growth in rural output and employment in 1984. The dissolution of communes had released large numbers of underemployed farmers previously hidden in the collective system without creating alternative sources of employment. This pressure was aggravated by the already high unemployment in urban areas necessitating continued restriction on rural urban migration to forestall the potential of massive urban unemployment and other urban social problems.

Rural economic growth since 1978 has also been highly favourable for the development of non-agricultural industries. Rural income increased at an average annual rate of approximately 12.8 per cent between 1978 and 1985.[8] This resulted in substantial growth in the demand for consumer goods and services exacerbating existing shortages created by prolonged underinvestment in these sectors under the previously centrally planned system. Consumption of the agricultural population increased by 126 per cent in real terms in the period 1978-1991.

Besides becoming a strong source of demand, rural households also became important sources of capital as their savings grew at a rapid rate. Rural financial savings in RCC deposits had risen 11-fold between 1978 and 1985 and almost 4-fold between 1986 and 1991.[9] The surge in savings also led to a demand for alternative instruments for financial savings, and funds for investment were channelled through the rapidly growing informal financial systems.

Scope of rural enterprises

The policies announced in 1984 on the development of the rural sector[10] reaffirmed the importance of rural collective enterprises and officially sanctioned private household enterprises, involving the use of hired workers. This ended several years of rural enterprise policy that had vacillated between promotion and clamp-down.

Farmers were allowed to engage solely in non-agricultural production and leases on farm land became transferable, whereas previously they had been obligated to produce a certain amount of grain. This enabled greater specialization in rural production, and the non-agricultural activities of many rural households were elevated from the status of a secondary source of income to that of a primary one. Mobility was facilitated by the growth of "free markets" where sales of staples and other consumer goods were transacted.

The existing monopoly of urban enterprises in manufacturing industries was ended (except in the ciga-

rette industry). Many administrative barriers to intraprovincial trade and, to a much lesser extent, to labour mobility were reduced. Markets for the output of rural enterprises began to enlarge as those enterprises were permitted to cross local administrative boundaries to market their products, purchase inputs and hire workers. Furthermore, with the existence of persistent excess demand conditions in the overall economy during most of the period 1984-1988, there was a rapid growth in demand in the urban market which could be tapped.

Financing

For a short period of time, the central Government channelled large amounts of credit through the state agricultural bank to rural credit cooperatives expressly for the purpose of financing rural enterprises.[11] Since this initial injection of state credit, local capital has become the most important source of funding. Rural enterprises were also officially permitted to raise capital outside the bank sector, through the issuance of bonds and via informal channels, including the direct mobilization of the savings of the local populace and of the workers in those enterprises. Local governments have also tapped their tax revenues for investment capital, while some have financed investments through the issuance of bonds. The formation of private cooperative ventures has also been a means of financing new enterprises. All this has enabled the non-state sector to reduce its reliance on credit from the banking system and increase its reliance on local sources of credit: by 1989, the share of financing from informal financial sources (27 per cent) exceeded that from RCCs and other banking institutions (24 per cent) for fixed investment by rural collective enterprises, while retained earnings accounted for almost half of investment funds (table VII.2). This reliance on local savings was possible only because of the rapid growth of rural income and the development of informal financial markets.

Table VII.2.
Source of funds for fixed investment by rural collective enterprises, 1987-1991
Percentage

	Banks and credit cooperatives	Self-raised[a]	Other
1987	38	37	25
1988	32	41	27
1989	24	49	27
1990	24	47	29
1991	28	47	26

Source: Statistical Yearbook of China, 1992, p. 204.

a Retained earnings

Tax policies

In the initial years of their development, rural collective enterprises were granted a variety of tax exemptions and tax holidays. They benefited from low effective tax rates, as their income was subject to a low flat rate in contrast with progressive tax rates for urban enterprises. Over time the exemptions were phased out, so that by the late 1980s tax payments (as a share of pre-tax profits) of rural collective enterprises were similar to those of state enterprises.[12] Rural collective enterprises have also been subject to a progressive income tax rate of 10-50 per cent, reducing the incentive for greater profitability. In practice, effective tax rates of collective enterprises have been found to be broadly negotiable with local authorities and have therefore tended to vary among regions.[13] Besides taxes, enterprises have been subjected to a large variety of payment demands by local administrative units, in many cases as transfers to local agriculture or supplements to local government revenues. As a result, rural enterprises have not benefited from fiscal incentives (except for the early period of development) and in fact have borne substantial burdens in taxes and ad hoc payments.

Technology policy

Government policy on technological improvement of rural collective enterprises has been based on linkages with larger state enterprises and technical assistance. Most linkages have taken the form of the outsourcing production by state enterprises to gain an advantage from the lower cost of the land and labour of rural enterprises, and been mutually beneficial. Sale of used equipment and licensing of brand names to rural enterprises have also constituted a mode of technology transfer as well as a means of entry of the enterprises into established markets.

The Spark Programme, a national programme of technical assistance to collective rural enterprises for the purpose of improving their access to technology, market information and technical and management skills, was launched in 1986.[14] Over time, its funding and implementation have been decentralized and become increasingly dependent on local governments, bank credit and local branches of the State Science and Technology Commission (SSTC). Preliminary assessment of the Programme indicates that it has been well conceptual-

ized and implemented but that there are several constraints on its continued expansion, the primary one being the sharp decline in central funding. In addition, the weak technical and business training of rural enterprises personnel have limited their capacity to absorb new technology and business methods. Government policy aimed at reducing the barriers to hiring across administrative boundaries has facilitated the hiring of trained personnel from scientific and technical institutes by non-state enterprises. The Government has also encouraged and facilitated joint ventures between research institutes/universities and enterprises to improve the level of technology of the latter while generating income for the former. These policies have had a positive impact primarily in more developed areas and in those in proximity to urbanized areas.

POLICY TOWARDS PRIVATE OWNERSHIP

The overall trend in private ownership policy since the beginning of reform has been one of progressive liberalization with some vacillations. In the 1970s the only form of private economic activity that was sanctioned was household handicraft production, as private small-scale businesses had been virtually eliminated since the Cultural Revolution in the late 1960s. Initial reform in the late 1970s in the renewed development of private production was limited and motivated primarily by the need to generate employment and supplement state production of consumer goods and services.

The 1984 decision that liberalized the limits on private production to permit private units to employ up to eight non-family workers provided the major impetus to the further development of the private sector. The accelerated reform of the urban economy generated additional momentum for the development of the private sector in urban areas, although local government implementation of private enterprise policy has in general been much more liberal in rural areas. As a result, private enterprise grew rapidly and often exceeded official limits on the number of workers to be employed and the scope of their activities. In response to the de facto development of the private sector, a 1987 amendment to the Constitution eliminated earlier restrictions and effectively upgraded private production, which had consisted solely of family production, to include private enterprises with an unrestricted number of employed workers. In 1988, the legal status of private enterprises was established with attendant legal rights and obligations in the Regulations on Private Enterprises. At the same time the supplementary role of the private sector with respect to the state and collective sectors was maintained.

Some important obstacles to the steady development of the private sector have been its susceptibility to the effects of contractionary macroeconomic policy and retrenchments in reform. In periods of economic stabilization, particularly in 1989-1990, the private sector suffered the brunt of the effect of scarce credit and inputs. Economic stabilization has also tended to lead to retrenchment in reforms which has in turn created uncertainty about recently instituted policies favourable to the development of the sector. This was compounded by the change in political leadership in mid-1989, after which the supplementary role of the private sector was interpreted more strictly and the sector itself more closely regulated and monitored. The environment for the sector remained unfavourable until early 1991 when macroeconomic policy became more expansionary and government leaders reaffirmed the legitimate status of private enterprise.

Policy announcements since 1992 have reaffirmed a supportive policy stance in private enterprise development within the context of a shift to an overall reform-oriented policy stance with the objective of developing a "socialist market economy".[15] However, the supplementary role of private ownership with respect to state and collective ownership within the economy was reiterated. A package of new measures regarding the private sector was recently announced that included fewer restrictions on its scope of operations and its entry into certain industries, and encouragement of its development of exports and involvement in joint ventures with international capital.[16]

The legal underpinnings of property rights and their enforcement remain weak and poorly defined. The 1982 Constitution protects the right of individuals to own and inherit property. A system of transferable long-term land leases has been developed for rural areas and is developing in coastal urban areas. The legalization of private enterprises in 1988 also guaranteed important property rights, including the right of inheritance of ownership, rights to operate autonomously within a legally approved scope and the right to enter into legal contracts, including loan agreements, foreign joint ventures and processing contracts. Regulations designed to safeguard the autonomy of enterprises have not been effective in staving off ad hoc levies by some local governments. More important, the legal system of the country does not provide the necessary safeguards, found in most developed market economies, against government appropriation and other forms of intervention.

Private enterprises in both urban and rural areas have encountered substantially greater difficulty in obtaining credit than collective enterprises.[17] In the initial years after the 1984 reforms, state credit to private rural enterprises was very liberal, with bank loans accounting for 40-50 per cent of start-up capital.[18] However, with the contraction of credit in 1989-1990, this source of funding was eliminated and the creation and expansion of private enterprises have been constrained by the factor of credit availability.[19]

Local governments have also made public property available to private parties through various forms of leasing/management contracts and outright sale. Most recently, there have been sales of groups of small state-owned enterprises to established domestic private entrepreneurs as well as to foreign investors, but this form of privatization has been instituted only on a local basis and is by no means representative of national policy.[20]

Tax rates established for private enterprises were generally below those of state enterprises but those on personal income derived from profits were set very high. It has been found that actual tax rates applied to enterprises have been negotiable between enterprises and local governments. The Government has attempted to control the withdrawal of profits by owners as well as wage differentials between managers and workers.

FOREIGN TRADE AND INVESTMENT REFORM

The reform of the foreign trade system since 1979, particularly with more comprehensive decentralization since 1985, set the stage for rapid expansion of exports by domestic enterprises as well as by foreign-owned ones. The reforms aimed at increasing exports by permitting direct exports by enterprises, instead of through foreign trade corporations, and the retention of a portion of foreign exchange earnings from exports, which could be used for the import of equipment and materials. At the outset, in implementing these measures, preferential treatment was given to coastal provinces and cities and special economic zones. Over time, the retention rights were extended to all regions and the share retained was raised substantially. Concurrently, the decontrol of foreign exchange transactions and the determination of the market exchange rate were implemented with the creation of a parallel market consisting of foreign exchange adjustment centres where foreign-owned and domestic enterprises could trade foreign exchange at market-determined rates. The official exchange rate of the currency was devalued successively between 1984 and 1991 to reflect changes in market rates.[21] Since 1991, a managed floating rate system has been in place. These exchange rate policies created a favourable environment for export growth in support of specific incentives to export.

In 1987, a strategy of economic development based on accelerated development of outward-oriented production in the coastal provinces, known as the Coastal Development Strategy, was announced. Furthermore, there was a push to link the rapidly growing rural enterprise sector to the international market by providing the sector with credit and other incentives to export production.[22] This greatly broadened the markets for the output of the rural enterprise sector. In early 1990, measures were undertaken to increase credit to export-oriented rural enterprises in spite of an overall stringent credit policy toward the sector.

One means of developing exports of the smaller and rural enterprises was the promotion of licensed processing and assembly by small enterprises for foreign purchasers. Value added from the assembly of imported materials and components, often using equipment and product design provided by foreign purchasers, was small, however. After the selection of Guangdong province as an experimental region with regard to the implementation of the Coastal Development Strategy in 1988, licensed processing and assembly for purchasers from Hong Kong was strongly promoted, with supporting local investment in plants and infrastructure.[23]

Policy on foreign direct investment (FDI) has been progressively liberalized since 1979 with a significant acceleration in the process since 1984, focusing on improving tax incentives, terms of investment, corporate structure, repatriation of profits and currency exchange. That the initial goal of focusing on foreign investment in high-technology production had to be modified to attract investment in labour-intensive manufacturing was consistent with the comparative advantage of China. The liberalization of policy on foreign investment coincided with major industrial restructuring in the newly industrialized economies (NIEs) in the second half of the 1980s, necessitated by rising wages and (except for Hong Kong) appreciating exchange rates. The result has been a surge in the inflow of FDI in the manufacture of labour-intensive exports primarily from Hong Kong and, more recently, from Taiwan Province of China[24] as they moved their production to take advantage of substantially lower costs in China (see chapter III, box III.2).

More recently, the scope of FDI has been extended from industry to finance, commerce and infrastructure, and from coastal areas to the heartland along the Yangtze

River.[25] Through joint ventures in retail trade, the domestic market will be significantly opened up to imported consumer goods. Long-standing barriers, with respect to the domestic market, facing the products of joint ventures in consumer goods and food industries have recently been relaxed on a limited scale. In a renewed attempt to attract high-technology investment, there are plans to further open the domestic market to international conglomerates that could transfer high technology as well as capital. In 1992, private and rural collective enterprises were encouraged to form joint ventures with smaller foreign firms.[26]

REGIONAL DIFFERENCES IN POLICY

The approach to the development of non-state enterprises in localities has differed significantly among geographical areas since the promulgation of the major policies promoting collective and private enterprises. The pre-reform experience, the practices of local governments in dealing with rural enterprises and the level of economic development were important determinants of the direction and speed of transformation of the sector in the 1980s. In areas with relatively high levels of agricultural development the rural industrial base was stronger at the beginning of the reforms.[27] Proximity to industrialized urban areas has also resulted in a stronger base of rural collective enterprises. The underlying local government policy towards the development of rural industries had also differed greatly and these variations seem to have persisted. It appears that in areas where rural collective industries had been strong in the 1970s, their development continued in the 1980s and was the dominant form of non-state enterprise.

Local approaches to non-state enterprise development may be broadly categorized according to one of three models,[28] the first based on promotion of collectively owned and managed enterprises, the second on development of privately owned enterprises and the third on balanced development of both the private and the collective form of ownership. The first model can be found applied in large areas of the eastern coastal provinces of Zhejiang and southern Jiangsu where local governments have actively promoted rural collective enterprises and restricted the private sector. In the economically less developed areas, mostly in the interior, where rural collective enterprise had not emerged, the growth of rural enterprises depended on expanding private ownership. In other areas, such as the southern provinces of Guangdong and Fujian, there has been much more of a balance between collective and private enterprises. Private ownership was an important source of growth of the non-state sector in the 1980s in areas where there was a tradition of private enterprise that had survived, owing to protective local policies, the various central campaigns of suppression of private ownership since the 1950s.[29]

The primary means of promoting rural collective enterprises by local governments were the channelling of capital to those enterprises from banks and RCCs, the use of local government funds and actual local government involvement in the start-up of the enterprises. The restrictions on private enterprises usually took the form of credit limitations and, to a lesser degree, restriction on supply of inputs and denial of licence. Where local governments have actively promoted private enterprises, they have provided direct loans as well as assistance in securing loans from banks and inputs from suppliers. More important, because of uncertainties in the national policy environment for private enterprise, local governments have conferred collective or joint ownership status on private enterprises to facilitate their business transactions and to shield them from central policy.

Local governments have also pursued very different policies regarding the development of export industries and the attracting of foreign investment, depending in part on their response to preferential central policies, local experiences and locational advantages in establishing international linkages. Thus, in the coastal region and in particular the provinces, cities and special economic zones designated to be open for foreign investment, local governments have followed much more aggressive policies in these fields, including the encouragement of rural enterprises to seek economic linkages with producers in Hong Kong as early as 1985-1986. Since 1987, many localities in Guangdong province pioneered the promotion of licensed processing and assembly arrangements between rural enterprises and foreign purchasers.

Local governments have also differed significantly in the degree and form of their intervention in collective enterprises. In some localities, governments have directly intervened in many aspects of enterprise operations and controlled the allocation of labour and financial resources. In others, governments have encouraged autonomy in collective enterprise management while stressing accountability. It appears that greater intervention in operations has tended to be found in areas with less developed industrial bases. Direct control of employment and wages has tended to be found in areas with lower incomes and more burdensome problems of employment. In addition, the degree of intervention has also

tended to follow the degree of liberalization of the local economy in general.

Local governments generally make attempts to protect the markets of local enterprises and the employment opportunities of the local populace. These efforts have included prohibition of employing workers outside the local area and barriers to the inflow of goods produced outside the provincial or any lower-level jurisdiction.

DEVELOPMENT OF THE NON-STATE SECTOR

INCREASING IMPORTANCE OF THE NON-STATE SECTOR

The share of the non-state sector in total industrial output increased rapidly from 24 per cent in 1980 to 47 per cent in 1991 (see table VII.3) as the result of the substantially stronger growth of the sector relative to that of the state sector. By 1991 the share of the rural collective sector[30] was 21 per cent of total industrial output, exceeding that (13 per cent) of the urban collective sector. The individual private-owned sector emerged with a small but significant share (almost 6 per cent) of industrial output. The sharp rise in the share of the non-state sector in industrial output was in response to policies promoting rural enterprises and to the liberalization of private enterprise in 1983-1984. Consolidation of growth in 1989-1990 reflected the susceptibility of the sector to contractionary macroeconomic policy and retrenchment in the policy promoting the development of the sector. Entrepreneurial capacity, however, does not seem to have been a constraint on the growth of the non-state sector (see box VII.1).

The share of the foreign-owned sector increased rapidly after 1985 as FDI grew sharply in response to continued liberalization of FDI policy and improvement of production conditions in China (see table VII.4). By 1991, output of this sector equalled that of the private sector and accounted for almost 6 per cent of total industrial output (see table VII.3).

The rapid growth of the share of individual or private ownership in the commerce sector has been even more dramatic. In 1991, individual-owned units accounted for 20 per cent of total retail sales and the "other" ownership category,[31] which included a large number of individual farmers, for 10 per cent (see table VII.5). That is to say, these two categories of ownership had increased from a position of negligible proportions in 1980 to one representing a combined 30 per cent share of total retail sales by 1991.

The development of the individual or private sector as a whole has reflected the evolution of official policy since 1978. Self-employed[32] units have been much more widespread than private enterprises[33] since they existed in the 1960s and were reinstated at the outset of reforms in 1979. By year-end 1988, self-employed units had grown to 14.5 million with employment of 23 million (see table VII.6). In contrast, there were only 225,000 private enterprises, with employment of 3.6 million.[34] Many private enterprises have developed from self-employed units and are concentrated in light manufacturing

Table VII.3.
Share of industrial output by type of enterprise, 1980-1991[a]
Percentage

Type of enterprise	1980	1983	1984	1985	1988	1989	1990	1991
State-owned	76.0	73.0	69.0	65.0	57.0	56.0	55.0	53.0
Non-state-owned	24.0	27.0	31.0	35.0	43.0	44.0	45.0	47.0
Collective-owned	24.0	26.0	30.0	32.0	36.0	36.0	36.0	36.0
Urban	..	..	..	15.0	15.0	14.0	14.0	13.0
Rural (township and rural)	..	..	..	15.0	19.0	20.0	20.0	21.0
Joint urban-rural	..	..	..	2.0	2.0	2.0	2.0	2.0
Individual (private-owned)	0.0	0.1	0.2	1.8	4.4	4.8	5.3	5.7
Urban	..	..	..	0.3	0.4	0.4	0.4	0.5
Rural	..	..	..	1.5	4.0	4.4	4.9	5.2
Foreign-owned	0.5	0.8	1.0	1.2	2.7	3.4	4.4	5.7

Source: *Statistical Yearbook of China, 1992* (Beijing, 1992), pp. 403 and 406

a Based on output in current prices.

BOX VII.1

Growth of entrepreneurship in China

ENTREPRENEURS are generally defined as individuals possessing the ability to identify and exploit business opportunities and willing to take financial risks in the process. They combine inputs, including labour and capital, for production, often in an environment of uncertainty, and in markets that do not always function well. The activities undertaken by the entrepreneur may involve innovation or just imitation of existing technology.[a]

Although there is general agreement that a major motivation of entrepreneurs is the accumulation of wealth, the entrepreneur need not also be the owner of capital. That is to say, private ownership is not a necessary condition for the development of entrepreneurship. The development of entrepreneurial activities is thus not necessarily dependent on the privatization of ownership. The entrepreneur can be committed to the success of the endeavour and risk professional and financial loss from its failure as long as there are sufficiently strong incentives for financial, professional and other gains.

The formation of collectively owned enterprises has been the largest source of growth of entrepreneurial activities in China in the 1980s, while private enterprises still contribute a small share. Growth of collective enterprises has been concentrated in rural areas where income growth has been rapid and the local government has provided the support and impetus for such development. The local government would provide the start-up capital while working capital and funds for subsequent expansion came from banks and retained earnings. Thus, local governments could exert substantial control over the management of collective enterprises. The manager of those enterprises received a wage with incentives linked to performance. Autonomy depended entirely on the policy of the local government and thus varied greatly across regions. At one end of the spectrum, there were managers who had full autonomy in most aspects of decision-making, while at the other end there were those who merely executed the decisions of the local government. Similarly, the opportunity for reward and the risk of failure varied significantly among managers.

Private entrepreneurs have emerged primarily from the ranks of former cadres, technical workers in collective enterprises, supply and marketing personnel of enterprises, retired employees of state enterprises and farmers with some business experience. It appears that the new entrepreneurs have been relatively well trained and that they are individuals with business experience and a familiarity with the workings of the political system, and in many cases with some political connections.[b] Directors of collective enterprises have usually been cadres or retired state enterprise managers having a familiarity with the political system, and some political connections, as well as experience with management.

a W. Baumol, "Is entrepreneurship always productive?", *Journal of Development Planning*, No. 18, 1988, p. 86.

b See S. Young, "Policy, practice and the private sector in China", *Australian Journal of Chinese Affairs*, No. 21, January 1989, p. 68. Most recently, the central Government granted permission to central government units and cadres (except security departments) to run businesses (see *South China Morning Post*, 10 June 1992).

Table VII.4.
Foreign direct investment[a] in China, 1979-1992

	1979 1983	1984	1986	1988	1990	1992
Millions of dollars						
Foreign direct investment	1 802.0	1 258.0	1 874.0	3 193.0	3 487.0	11 160.0
Percentage						
Growth over previous year	-	97.8	12.8	38.0	2.8	160.0

Source: Statistical Yearbook of China, 1992, p. 641; and State Statistical Bureau.

a Amount utilized

Table VII.5.
Total retail sales, by type of ownership held by selling agents, 1980-1991
Percentage

	Share of total retail sales									
Type of ownership	1980	1983	1984	1985	1986	1987	1988	1989	1990	1991
State	51.4	47.0	45.5	40.4	39.4	38.6	39.5	39.1	39.6	40.2
Collective	44.6	41.8	39.6	37.2	36.4	35.7	34.4	33.2	31.7	30.0
Individual	0.7	6.5	9.6	15.4	13.4	17.4	17.8	18.6	18.9	19.6
Other[a]	3.3	4.7	5.3	7.0	10.8	8.3	8.3	9.1	9.8	10.2

Source: Statistical Yearbook of China, 1992, p. 608.

a Consisting of individual farmers and joint ownership of various forms, including private collective joint ownership.

and food services. Other larger private enterprises are mainly found in construction, manufacturing and transport—but seldom in commerce. Private enterprises have been overwhelmingly small-scale units (with less than 100 employees); those enterprises averaged 16.7 employees in 1992.[35]

The unfavourable economic and policy environment in 1989-1990 resulted in a substantial decline in the number of private units, with the number of self-employed units decreasing from 14.5 million in 1988 to 13.3 million in 1990. The decline in the number of private enterprises, from 225,000 to 98,000, was proportionately much more drastic.[36] With the progressive improvement in policy environment since 1991, the size of the sector, particularly with regard to the self-employed units, has recovered substantially. By the third quarter of 1992, the size of the self-employed sector had surpassed the previous peak in 1988, but the size of the private enterprise sector remained substantially below the 1988 level. It appears that much of the growth in private enterprises in 1991-1992 was due to the relatively more rapid increase in larger units.

The pace and scope of development of private enterprises have till recently been more rapid in rural than in urban areas, mainly owing to differences in policy implementation and availability of land and labour and entrepreneurs. In the earlier period of development (1980-1988), it was estimated that over 70 per cent of private enterprises were located in rural areas. By 1992, however, only 55 per cent of private enterprises were located in rural areas[37] reflecting the substantially more rapid growth in urban areas in 1991-1992. As the size of private enterprises tended to be larger in rural areas (18.2 employees per unit compared with 15 in urban areas), they accounted for 60 per cent of total employment in private enterprises.

Despite the rapid growth of output of the non-state sector, the share of investment in fixed capital by enterprises exemplifying different forms of ownership remained largely unchanged in the 1980s. State enterprises continued to account for the majority share, 75-76 per cent of total productive investment, while the rural collective sector accounted for 10-11 per cent and the private sector for 8-9 per cent.[38] The most significant change has been the relative growth in the size of foreign direct investment which increased from approximately 3 per cent of total domestic productive investment in 1985 to almost 7 per cent in 1991.

Table VII.6.
Number of units and employment in the private sector, 1986-1992

	1986	1987	1988	1989	1990	1991	1992
Self-employed units							
Number of units (thousands)	12 799.0	13 725.0	14 520.0	12 470.0	13 283.0	..	14 540.0[a]
Employment (thousands)	19 710.0	21 583.0	23 049.0	19 420.0	20 930.0	..	24 000.0[b]
Employees per unit	..	..	1 6	..	..	..	1.6
Private enterprises							
Number of units (thousands)	..	115.0	225.0	..	98.0	107.8	121.8
Employment (thousands)	..	..	3 600.0	..	1 700.0	1 839.4	2 038.0
Employees per unit	..	..	16.0	..	..	..	16.7

Source: *China Daily*, 16 April 1991; *Economic Daily*, 12 November 1992; *Zhongguo Jingji Nianjian, 1989*, p. X - 153; and S. Young, "Policy, practice and the private sector in China", *Australian Journal of Chinese Affairs*, No 21, January 1989, p. 67.

Note: Underestimation in 1987-1988 could be as high as 50 per cent (see S. Young, op. cit., 1990, p. 62).

a End of third quarter.
b Estimate.

REGIONAL PATTERN OF DEVELOPMENT

The regional differences in the development of the non-state sector reflect two factors: variation in local government policies towards the development and internationalization of the private and collective sectors, and central government policy towards international trade and investments at the national and regional levels (discussed earlier).

From 1980 to 1988, growth in rural collective industries was much more rapid in the more developed provinces along the coast than in other regions,[39] so that by 1988 the shares of the collective sector in industrial output were largest in those provinces (see table VII.7). By 1991, the share of the non-state sector dominated that of the state sector in industrial output in six of those provinces, with the non-state sector share ranging from 52 to 71 per cent.

In contrast, private enterprise growth was the path to development of the non-state sector in localities where economic conditions and political structures for developing collective rural enterprises had been weak. There were many more provinces (15) with above-average shares of industrial output attributed to the private sector in 1988. Of these, only two provinces had above-average shares of industrial output in the collective sector. This regional pattern of ownership structure in industry remained largely unchanged in 1991.

Growth of the foreign-owned sector has been very rapid since 1985 but concentrated in those areas that had been designated by the central Government as having been opened to foreign trade and FDI.[40] By 1988, eight coastal provinces and municipalities where these open areas were concentrated had the highest shares of industrial output in the joint venture sector (see table VII.7). By 1991, in all except one of those provinces (Liaoning), the size of this sector exceeded that of the private sector. The intensified development of the foreign-owned sector in the late 1980s resulted in a rapid increase in its share in industrial output, with shares approaching one sixth to one quarter in Hainan, Fujian and Guangdong in 1991.

EXPORTS OF THE NON-STATE SECTOR

Exports of the non-state sector have become the source of the very rapid growth of China's exports. Exports of rural enterprises increased at an average annual rate of 40 per cent between 1985 and 1992. By the end of 1992, their exports constituted 23 per cent of the country's total exports, compared with only 4 per cent in 1985[41] (see table VII.8). However, these exports are concentrated geographically in coastal provinces and accounted for by a relatively small proportion (4 per cent) of rural enterprises. Moreover, a large majority of these enterprises are engaged in labour-intensive manufacturing, of, for example, garment, electrical and electronic goods.

Table VII.7
Share of industrial output by type of enterprise and by region,[a] 1988-1991
Percentage

Share of total output

Province/municipality[a]	By region	By type of enterprise							
		State-owned		Collective-owned		Individual-owned		Foreign-owned	
	1991	1988	1991	1988	1991	1988	1991	1988	1991
Zhejiang	6.4	22.5	29.5	63.5	60.9	3.9	6.8	1.3	2.8
Jiangsu	1.2	34.7	33.0	59.4	58.3	3.2	3.6	2.7	5.1
Guangdong	8.9	45.1	38.6	39.5	32.8	4.2	4.7	11.2	23.9
Shandong	9.2	45.5	40.0	48.9	51.3	5.2	7.8	0.3	0.9
Fujian	2.3	49.6	40.7	34.0	31.8	4.6	5.9	11.8	21.5
Hebei	4.7	50.3	47.9	40.2	40.0	8.9	10.4	0.8	1.7
Henan	4.3	57.2	53.2	33.3	33.8	9.3	12.3	0.2	0.7
Tianjin	2.7	65.1	57.1	30.7	34.7	0.4	1.2	3.9	7.0
Anhui	2.7	59.4	57.1	32.0	32.6	8.3	9.7	0.4	0.7
Beijing	3.1	67.0	59.9	28.0	29.7	0.9	0.9	4.1	9.4
Liaoning	6.6	61.2	60.3	29.5	28.1	5.7	7.2	3.6	4.4
Shanxi	2.1	70.6	61.1	23.6	32.1	5.3	6.6	0.4	0.2
Sichuan	5.1	66.2	62.6	28.0	28.7	5.2	7.8	0.5	0.9
Hunan	2.8	64.7	62.8	29.6	29.2	5.4	7.4	0.3	0.6
Jiangxi	1.7	69.2	63.0	25.5	27.9	4.8	8.2	0.6	0.8
Hubei	4.0	64.0	63.2	31.9	31.4	3.7	4.3	0.3	1.1
Shanghai	6.9	70.5	64.9	21.8	20.6	0.1	0.8	7.6	14.4
Shaanxi	1.8	71.0	68.5	23.7	22.5	5.1	7.4	0.2	1.6
Hainan	0.2	74.8	71.1	11.1	8.8	5.5	4.2	8.6	15.9
Guangxi	1.5	72.6	71.2	22.1	20.7	4.7	6.0	0.6	2.0
Jilin	2.2	70.7	71.5	23.8	21.7	5.4	6.3	0.2	0.4
Yunan	1.4	75.8	76.3	21.1	20.5	2.5	2.6	0.5	0.5
Guizhou	0.9	77.9	76.4	13.6	13.4	7.1	8.1	1.4	2.1
Inner Mongolia	1.1	65.1	77.4	31.5	17.4	2.4	4.3	0.1	0.9
Gansu	1.1	82.3	78.1	15.0	17.7	2.7	4.1	0.0	0.1
Xinjiang	1.0	81.7	78.7	14.5	18.6	2.0	1.5	1.8	1.2
Ningxia	0.3	77.2	78.9	18.9	16.1	0.3	3.8	0.4	1.2
Heilongjiang	3.5	79.7	81.1	17.9	15.8	2.2	2.6	0.2	0.5
Qinghai	0.2	84.4	83.9	13.7	13.7	1.7	2.3	0.2	0.05
Tibet	0.0	72.8	84.4	21.6	11.8	..	3.8	..	..
Total	100.0	56.8	52.9	36.2	35.7	4.3	5.7	2.7	5.7

Source: *Statistical Yearbook of China, 1992*, pp. 409-410; and *Statistical Yearbook of China, 1989*, p. 228.

a Ranked in ascending order of state-owned sector's share of 1991 total output.

Exports from the foreign-owned sector were increasing at an average annual rate of 58 per cent between 1985 and 1992. By 1992, exports of this sector accounted for 20 per cent of total exports compared with a negligible share in 1984 (see table VII.8). The combination of the exports of rural and foreign-owned enterprises constituted 43 per cent of China's exports in 1992. More important, the increase in exports of those enterprises accounted for 72 per cent of total export growth between 1988 and 1992.

EFFECT ON EMPLOYMENT AND INCOME

The growth of the non-state sector has been a major source of employment generation in the 1980s. In the period 1985-1991, growth in employment in rural collective and private enterprises accounted for 43 per cent of total employment growth (see table VII.9), with those enterprises absorbing excess labour from agriculture into higher-productivity manufacturing industries. Urban private and foreign-owned enterprises accounted

Table VII.8.
Exports of rural and foreign-owned enterprises, 1985-1992

	1985	1986	1987	1988	1989	1990	1991	1992
Exports (billions of dollars)								
Rural enterprises	1.2	2.7	4.4	8.0	10.0	13.0	15.0	20.0
Foreign-owned enterprises	0.3	0.9	1.3	2.3	3.9	6.0	12.0	17.4
Total	27.4	30.9	39.4	47.5	52.5	62.1	71.9	85.0
Share of total exports (percentage)								
Rural enterprises	4.4	8.7	11.2	16.8	19.0	20.1	20.9	23.0
Foreign-owned enterprises	1.1	2.9	3.3	4.8	7.4	9.7	16.7	20.0
Share of total export growth (percentage)								
		1986-1992				1989-1992		
Rural enterprises		32.6				32.0		
Foreign-owned enterprises		29.7				40.3		

Source: A. Ody, "China: rural enterprise, rural industry, 1986-90". Manuscript, World Bank, 24 July 1991, p. 10, citing *The Township and Village Enterprise Yearbook*, 1990; J. Orr, "Evolution of United States trade with China", *Federal Reserve Bank of New York Quarterly Review*, winter 1991-1992, p. 53, citing Hong Kong Bank; *Statistical Yearbook of China*, 1992; Renmin Ribao, 1 January 1993; and *China Daily Business Weekly*, 15 February 1993, p. 2.

for 4 and 2 per cent of the growth respectively, while urban collective enterprises accounted for 4 per cent of the growth. In contrast, state enterprises generated 20 per cent of employment growth.

These trends are reflected in the increasing share in employment of the non-state sector. By 1991, the share in employment of the state sector (18 per cent) was smaller than the total of the shares of urban collective, urban private, foreign-owned and rural collective and private enterprises (24 per cent) (see table VII.10).

Despite the growth in employment in the non-state non-agricultural sector, underemployment and unemployment remain serious problems. Rural enterprise growth has not been sufficient to absorb existing surplus agricultural workers and the growth in the agricultural labour force. As rural enterprise development has been regionally concentrated, lower-income interior regions have benefited much less from that development's employment generation. This has resulted in substantial migration of job seekers from interior rural areas into urban areas and coastal regions.[42]

Rapid growth of non-state enterprises and agricultural reform have significantly increased income and wages, and contributed to a dramatic reduction in rural poverty. Rural per capita income increased at an average annual rate of 7.5 per cent in real terms between 1978 and 1991, with markedly more rapid growth in the first half of the period as the combined result of decollectivization of agriculture, increases in agricultural prices and rapid growth of rural enterprises and other forms of non-agricultural production.[43] The reduction in the incidence of poverty was dramatic from the beginning of reform to the mid-1980s, with little change since. The poverty rate is substantially higher in rural areas than in urban areas.

PRODUCTIVITY GROWTH, COMPETITION AND INTERNATIONAL COMPETITIVENESS

Productivity growth in collective-owned industries was substantially higher than that in state-owned industries in the 1980s. Average productivity of labour in the former increased by 12 per cent annually while productivity of capital grew by 4.5 per cent annually between 1980 and 1988. Total factor productivity of collective industries grew at the rate of 4.6 per cent annually in the period with a higher growth rate, of 5.9 per cent, in the period's latter part.[44] These rates of productivity growth far exceeded those of the Republic of Korea and Taiwan Province of China in the earlier years of development, when rates had ranged from 0.75 to 0.9 per cent per annum.[45]

Although many factors affect profitability, evidence of decline in profits in sectors where the monopoly power of state enterprises was eliminated and non-state

enterprises have entered in large numbers suggests that there has been increased competition. The results of an analysis of profits of state enterprises showed sharp declines in profitability in the 1980s in those sectors, such as textiles, garments, handicrafts and sporting goods, with low barriers to entry. Conversely, profits in the sector with persistent state monopoly power, namely tobacco, and in those with very high costs of entry, such as ferrous mining and ferrous metallurgy, did not decline. Furthermore, rural enterprises have themselves been subject to increasing competition with the continuing growth in their numbers. This was a factor in their declining profitability from 1978 to 1988, which was correlated with a period of government promotion of rural industry and more rapid entry of new enterprises, leading to subsequent greater reduction in profitability.[46]

A negative phenomenon within the development of competition and markets has been the increased barriers to the geographical flow of goods and resources. With the increasingly widespread development of non-state industries, many provincial and lower-level governments have erected myriad barriers to the inflow of goods from other jurisdictions and pressured local producers into using only locally produced inputs. This has resulted in fragmented markets and higher costs, and is leading to reduced efficiency in the allocation of resources. Attempts by the central Government to reduce these barriers have yet to have any significant effect.[47]

While competition among domestic industries in-

Table VII.9.
Source of employment growth by type of enterprise and by sector, 1985-1991

Type of enterprise	Growth in employment (thousands)	Share in growth of total employment (percentage)
State-owned	20 270	19.9
Urban collective	4 120	4.1
Urban private	4 210	4.1
Foreign-owned	1 790	1.8
Total rural	71 250	70.1
Rural collective and privately owned	43 951	43.2
Rural farm[a]	27 300	26.9
Total	101 630	100.0

Source: *Statistical Yearbook of China, 1992*, pp. 97 and 389.

a Calculated as the difference between the rural workforce and the total employment of rural enterprises.

Table VII.10.
Employment by type of enterprise and by sector, 1980-1991
Thousands

	Type of enterprise							
		Urban				Rural		
	Total	State-owned	Collective	Private	Foreign-owned	Total	Collective and private	Farm[a]
1980	423 610	80 190	24 250	810	..	318 360	29 996.7	288 363.3[b]
	(100.0)	(18.9)	(5.7)	(0.2)		(75.2)	(7.1)	(68.1)
1985	498 730	89 900	33 240	4 500	440	370 650	69 790.3	300 859.7[c]
	(100.0)	(18.0)	(6.7)	(0.9)	(0.1)	(74.3)	(14.0)	(60.3)
1991	583 600	106 640	36 280	7 600	2 160	430 930	96 091.1	334 839.0[d]
	(100.0)	(18.3)	(6.2)	(1.3)	(0.4)	(73.8)	(16.5)	(57.3)

Source: *Statistical Yearbook of China, 1992*, pp. 97 and 389.

Note: Figure as percentage of total employment for the year concerned appears in parentheses.

a Figures calculated as the difference between the rural workforce and the total employment of rural enterprises.
b Representing 90.6 per cent of total rural workforce, 1980.
c Representing 81.2 per cent of total rural workforce, 1985.
d Representing 77.6 per cent of total rural workforce, 1991.

creased in the 1980s, to a large extent they were shielded from international competition. This was accomplished through a restrictive import policy regarding industries where substantial domestic production capacity existed. This policy has been extended to foreign-owned enterprises, most of which have been required to export their output. The major exemptions were imports of capital equipment and inputs not produced in China or in short supply and certain consumer goods that were scarce. Recent announcements of the opening of the domestic consumer market to imports can be expected to expose domestic enterprises to international competition.

The non-state sector, however, has been increasingly exposed to international competition in the world export market since it entered production for export on a large scale in the latter 1980s. Improving competitiveness has been reflected in the rapid growth of the exports of domestic enterprises, which has led to an increasing share of China in world exports.[48]

CONCLUSION

The rapid increase in the importance of non-state industrial enterprises in China has been based on their phenomenal growth. The privatization of state enterprises has played a minor role in that increase in importance. The rapid growth of the sector was manifested in initial rapid growth in rural collective enterprises and subsequent accelerating growth in private and foreign-owned enterprises, and such growth led to diversification of ownership within the sector by the early 1990s. The non-state sector contributed substantially to the growth of output, employment and productivity and has been responsible for most of the growth in the country's exports since the mid-1980s. The development of non-state enterprises has resulted in substantial gains in wages, income and consumption and contributed to the dramatic reduction of poverty in rural areas.

The impetus for the development of the non-state sector came from a programme of extensive reforms of the economic system, supported by a high-growth and generally stable macroeconomic environment, as well as sectoral promotion policies. The reform of prices and markets provided the necessary opening for the non-state sector to compete with the state sector. Similarly, the commercial policies and liberalization of foreign investment provided access to international markets and new technologies. The development of the non-state sector was also supported by policies that improved access to the financing and the foreign exchange needed by the sector.

The non-state sector was a major source of high-productivity growth in the 1980s. As the initial stimulus given by reform to productivity growth weakens, the continuation of that growth will depend on the adoption of new technology. Continued high rates of domestic investment and growth in FDI with transfer of advanced technology will help create conditions for long-term productivity growth.

The areas where reform has been slowest and that are likely to become more serious impediments to the growth of the non-state sector are those involving the legal framework necessary to support market-based economic activities and improvement in the operation of markets. Specifically, property rights, contract law, financial and banking legislation and corporate law need to be clearly defined and enforced. Barriers to markets persist and need to be removed for the purpose of establishing national markets. Within the sector itself, the Government's burdensome administration of, and frequent intervention in, collective enterprises have hindered their efficient operation.

The prospects for continued development of the non-state sector depend on a continuation of official economic reform policy. Policy announcements in the last year have affirmed the goal of transforming the economic system into a socialist market economy having a larger opening into international trade and investment. Further development of the non-state sector is consistent with this goal and continued economic reforms would improve the environment for the sector's sustained development. The rural collective sector will remain an important foundation of the non-state sector. Some recent announcements suggest that private enterprises will continue to grow and that the scope of their operations will be extended, although their role will be supplementary to that of state and collective enterprises. The current trade policy of the country points to liberalization of imports and a shift in priority with respect to attracting foreign investment, with the focus on increasing such investment in infrastructure and services and in more technology-intensive manufacturing industries. The future course of economic reform is thus expected to be supportive of the continued development of the non-state sector.

NOTES

[1]The terms individual-owned and privately owned are used interchangeably in the present chapter.

[2]This sector is dominated by Chinese-foreign joint venture enterprises, with a small percentage of wholly foreign-owned enterprises.

[3]The coastal provinces are, from north to south, Hebei, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong.

[4]By 1982-1983, prices of over 200 products had been fully liberalized and determined by the market so that approximately 6 per cent of retail sales were market-determined. After 1985, prices of large numbers of agricultural and light manufactures were placed on market pricing. By 1988, increasingly larger numbers of goods including major producer goods were decontrolled. At the same time, the number of intermediate goods subject to state allocation fell rapidly, from 256 in 1979 to 27 in 1988, and continues to decline.

[5]See On Kit Tam, "Capital market development in China", *World Development*, vol. 19, No. 5 (1991), pp. 511-532, for a discussion of this aspect of the development of the financial sector in China.

[6]See C. Wong, "Fiscal reform and local industrialization", *Modern China*, January 1992, for a detailed discussion of local versus state authority.

[7]See W. Byrd and A. Gelb, "Why industrialize? The incentives for rural community governments", in *China's Rural Industry: Structure, Development and Reform*, W. Byrd and Qingsong Lin, eds. (New York, Oxford University Press, 1990).

[8]Real growth rates were calculated using the rural consumer price index in *Statistical Yearbook of China, 1992*.

[9]The extent of growth in personal financial savings at the national level is illustrated by the increase in their share of GNP, from 6 per cent in 1980 to 46 per cent in 1991 (see *Statistical Yearbook of China, 1992*, pp. 31 and 281).

[10]People's Republic of China State Council Document No. 4, 1984.

[11]Net growth of credit to rural collective enterprises by RCCs increased twofold from 1983 to 1984 before, with the contraction of credit at the national level in 1985, rural credit policy became significantly more restrictive.

[12]A. Ody, "China: rural enterprise, rural industry 1986-90", Manuscript, World Bank, 24 July 1991, p. 16.

[13]Ibid. Tax levels in 1989 ranged from a high 70 per cent in the south-west province of Sichuan and the central coastal provinces of Shanghai, Zhejiang and Jiangsu, to 40-50 per cent in Guangdong province in the south and Shandong province in the north-east.

[14]The primary function of the Spark Programme has been fourfold: (a) introducing improved technology and management methods to rural enterprises through technical partners from research institutes; (b) developing and organizing training programmes for staff of rural enterprises; (c) meeting information needs of rural enterprises on technology and business operations; and (d) providing technical assistance in the preparation of comprehensive development strategies. The Programme was initiated and funded at the national level under the leadership of the State Science and Technology Commission. See A. Ody, op. cit., annex 5.

[15]This was sanctioned by the Fourteenth National Congress of the Communist Party of China in October 1992 and subsequently reiterated by the Party Chairman in an outline of China's main goals for 1993 (see *China Daily*, 12 January 1993, p. 1).

[16]*China Daily*, 4 January 1993.

[17]Informal financial cooperatives have preferred to extend credit to collective enterprises rather than to private enterprises as most of the latter have tended to be small and lacked collateral whereas the former have had the backing of local governments as collateral (see Zhonghui Wang, "Private enterprise in China: an overview", *Journal of Communist Studies*, vol. 6, No. 3 (September 1990), p. 88).

[18]Zhongui Wang, "Private enterprise in China: an overview", *Journal of Communist Studies*, vol. 6, No. 3 (September 1990), p. 88.

[19]In 1991, only 18 per cent of funds for investment in non-residential assets by the private sector came from bank loans compared with 28 per cent of funds for such investment by the state and collective sectors. In addition, approximately 45 per cent of funds for the private sector was from informal financial sources, including personal savings of owners (see *Statistical Yearbook of China, 1992*, p. 146).

[20]The more reform-oriented researchers and advisers have tended to highlight such cases as indicating a viable path to privatization of the state sector, while their more orthodox counterparts have tended to downplay the significance of those cases and emphasize the problems of large-scale private ownership (see *South China Morning Post*, 27 December 1992).

[21]Real exchange rates declined by over 60 per cent between 1980 and 1991 and by over 40 per cent between 1984 and 1991.

[22]D. Zweig, "Internationalizing China's countryside: the political economy of exports from rural industry", *China Quarterly*, December 1991, p. 722.

[23]By the end of 1988, 10,000 rural enterprises in the province, specializing in the processing and assembly of textiles, electronics and light manufactures such as toys, were engaged in this arrangement (see Ministry of Foreign Economic Relations and Trade, *Almanac of China's Foreign Economic Relations and Trade 1989/90* (Beijing, 1990), p. 761).

[24]The cumulative amount of FDI between 1984 and 1991 was approximately $21.8 billion, compared with only $1.8 billion for the period 1979-1983. Foreign direct investment from Hong Kong accounted for 56 per cent of cumulative FDI in the period 1985-1991. Foreign direct investment from Taiwan Province of China accounted for 6 and 11 per cent of FDI in 1990 and 1991 respectively.

[25]*China Daily*, 16 June 1992.

[26]*South China Morning Post*, 7 December 1992.

[27]J. Svejnar and J. Woo, "Development patterns in four counties", in *China's Rural Industry Structure, Development and Reform*, W. Byrd and Qingsong Lin, eds. (New York, Oxford University Press, 1990).

[28]See ibid.; and W. Byrd and A. Gelb, loc. cit.

[29]Examples include Wenzhou in Zhejiang province and the Pearl River delta area adjacent to Hong Kong. (See J. Svejnar and J. Woo, loc. cit.; and Liu Yia-ling, "Reform from below: the private economy and local politics in the rural industrialization of Wenzhou", *China Quarterly*, No. 130, June 1992.

[30]Comprising enterprises denoted as township or village enterprises in official statistics.

[31]This category of ownership in the commerce sector includes

large numbers of individual farmers who sell their products independently in "free" markets. There has been no significant joint venture ownership in the retail industry (as there has been in the industrial, hotel and tourism sectors) until very recently.

[32]Defined as those individual-owned (private) units employing fewer than eight persons.

[33]Defined as private units employing eight or more persons.

[34]Owing to underregistration of self-employed units and registration of private enterprises as self-employed units or collective enterprises to avoid the negative effects of policy reversals towards the sector, underestimation of the private sector could have been as high as 50 per cent in 1987-1988 (see S. Young, "Policy, practice and the private sector in China", *Australian Journal of Chinese Affairs*, No. 21, January 1989, p. 62).

[35]*Economic Daily*, 12 November 1992, citing data from the State Industrial and Commerce Administration. The problems of underestimation discussed earlier apply.

[36]These statistics are likely to overstate the decline, since the following fact has been documented: privately owned units tended to seek to change their official registered status to collective-owned when the policy environment turned negative (discussed earlier).

[37]Data cited in the rest of this paragraph are from *Economic Daily*, 11 December 1992.

[38]Statistics on investment are based on *Statistical Yearbook of China, 1992*, pp. 32, 281 and 641.

[39]A. Ody, op. cit., 1991, pp. 8-9.

[40]In 1980 and 1984, 4 special economic zones and 14 coastal cities respectively were so designated. They were located in the following provinces and municipalities: Liaoning, Tianjin, Beijing, Shanghai, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong. Hainan island was established as a special economic zone in 1988.

[41]A substantial amount of the export production involved the assembly of goods through licensed processing and assembly arrangements with foreign purchasers using imported components, material and machinery. In 1990, $9.1 billion of licensed processed goods were exported to Hong Kong, a major source of such foreign purchasers (see J. Orr, "Evolution of United States trade with China", *Federal Reserve Bank of New York Quarterly Review*, winter 1991-1992, table 4).

[42]*South China Morning Post*, 3 March 1993.

[43]The share of rural income from non-agricultural production increased from 7 per cent in 1978 to 22 per cent in 1985 and to 25 per cent in 1991 (*Statistical Yearbook of China*, various issues).

[44]G. Jefferson, T. Rawski and Y. Zheng, "Growth, efficiency and convergence in China's state and collective industry", *Economic Development and Cultural Change*, vol. 40, No. 2 (January 1992), p. 253.

[45]A. Ody, op. cit., p. 18.

[46]B. Naughton, "Implications of state monopoly over industry and its relaxation", *Modern China*, vol. 18, No. 1, pp. 25-32; and A. Ody, op. cit., p. 15.

[47]C. Wong, loc. cit., 1992; and New China News Agency (Hong Kong), November 1992.

[48]China's share of world merchandise exports increased from 1.0 per cent in 1980 to 1.5 per cent in 1985 and to 2.1 per cent in 1991.

Annex

Statistical tables

The statistical annex contains the main sets of data on which the analysis provided in the *World Economic Survey, 1993* is based. Those data are presented in greater detail in the annex than in the text and for a longer time-series, and incorporate information available as of 15 April 1993.

In preparing the annex, the Macroeconomic and Social Policy Analysis Division of the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat collaborated with the United Nations Conference on Trade and Development (UNCTAD). The annex is based on information obtained from the Statistical Division and the Population Division of the Department for Economic and Social Information and Policy Analysis, as well as from the Economic Commission for Europe, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the World Bank, and national and private sources. Estimates for the most recent years were made by the Macroeconomic and Social Policy Analysis Division in consultation with the regional commissions.

Forecasts are based on the results of the March-April forecasting exercise of Project LINK, an international collaborative research group for econometric modelling, headquartered in the Macroeconomic and Social Policy Analysis Division. The global model links together 79 country or region models that are monitored by over 40 national institutions and by the Division. The primary linkages are merchandise trade and prices, as well as interest and exchange rates of major currency countries. The model is solved by an iterative process and thus key exchange rates, interest rates and a complete matrix of trade flows and price changes are determined endogenously. The one significant exception is the international price of crude oil, which is set as an assumption, in this case at the average price of $18 per barrel of Saudi Arabian light crude in 1993. It is assumed that in 1994, the price of oil will have risen by an amount equal to the increase in the average dollar price of manufactured exports of developed market economies, which is an endogenous variable. The models also assume that existing or officially announced macroeconomic policies are in effect.

COUNTRY CLASSIFICATION

The country classification in the *World Economic Survey* divides the world into three major groups: developed market economies, economies in transition and developing countries, as defined in the explanatory notes that appear at the beginning of the *Survey*. The groups were chosen for analytical convenience in 1980 and are currently under review, especially in the light of the major geopolitical changes that have taken place recently.

The group of developed market economies (24 countries) is further subdivided for analytical purposes into the following overlapping classifications: the major industrial countries, which consist of the seven largest economies in terms of gross domestic product (GDP)—namely Canada, France, Germany, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States of America—in the group of developed market economies (DME); Western Europe; the European Community; and North America. Data cover the 12 current members of the European Community for all years. North America includes Canada and the United States.

The group of economies in transition is subdivided into eastern Europe, which comprises Albania,[1] Bulgaria, the former Czechoslovakia, Hungary, Poland and

Romania, and the successor States of the Union of Soviet Socialist Republics. Those successor States consist of the Commonwealth of Independent States, including Azerbaijan and Georgia, and the Baltic republics (Estonia, Latvia and Lithuania). Individual data for the successor States of the Soviet Union, as well as for the Czech Republic and Slovakia and the successor States of the former Yugoslavia, will be included in the annex as they become available for a reasonably extended time-series.

Developing countries are grouped mainly by region, according to their geographical location (see explanatory notes). For analytical purposes, a distinction is also made between capital surplus countries and capital-importing countries (for country composition, see explanatory notes). The latter are further subdivided into energy exporters and energy importers. A country is defined as an energy exporter if it meets the following twin criteria: (a) its primary energy production (including coal, lignite, crude petroleum, natural gas, hydropower and nuclear electricity) exceeds its consumption by at least 20 per cent and (b) its energy exports are equivalent to at least 20 per cent of its total exports. (Myanmar, Yemen and Zaire, as least developed countries, are not included in the group.)

Energy-importing developing countries are further differentiated—as belonging either to the group of recent surplus economies, that is, the four Asian countries considered to constitute the first generation of successful exporters of manufactures (Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China), or to that of other countries.

DATA CONVENTIONS

Aggregate data are either sums or weighted averages of individual country data. Unless otherwise indicated, multi-year averages of growth rates are expressed as compound annual rates of change. Year-to-year growth rates are expressed as annual percentage change.

Historical data presented in the statistical annex may differ from those in previous editions because of continuous updating, as well as changes in the availability of data for countries.

OUTPUT

The growth of output in each group of countries is calculated from the sum of the gross domestic product (GDP) of individual countries measured at 1988 prices and exchange rates.

Developed market economies

Up to and including *World Economic Survey, 1992*,[2] the *Surveys*, in order to be as current as possible, published either GDP or gross national product (GNP) data (depending on which data series was released first) as indicators of economic activity in DMEs. However, as a result of the improved availability of GDP data, as of *World Economic Survey, 1993* the *Survey* is switching to GDP in its reporting of aggregate output for all countries.

Beginning in 1991, aggregate economic growth data for Germany included the former German Democratic Republic. Because official data for the level of GDP in post-reunification Germany were available as of 1991, the first year for which a growth rate could be calculated from official data was 1992. The growth rate in 1991, as shown in table A.2, was a weighted average of official and estimated GDP growth rates in the two parts of Germany, with the weighting based on the level of GDP in 1991, as published by the *Statistisches Bundesamt* (federal statistical office) of Germany.

Economies in transition

Starting with the *World Economic Survey, 1992*, there was a switch to GDP, from net material product accounts, as the source of data for the aggregate output of economies in transition. Adjustments were made, notably in the case of the former Soviet Union, to the GNP data published in terms of local currency for the purpose of arriving at a complete time-series in real and nominal terms.

Furthermore, in order to convert 1988 national output estimates into dollars for the purpose of calculating a regional aggregate growth rate in table A.3, a set of currency conversion factors were estimated. The level of output of the region in dollars was then estimated using a purchasing power parity conversion factor, in order to give the region a more realistic weight than the one that exchange rate conversion would have given relative to the market economies in the calculation of world output growth.[3]

In addition to the factor of a general caveat as to the reliability and comparability of the data for the economies in transition, which has been validated by the important revision made with respect to the estimated de-

cline in GDP in the Soviet Union in 1991, there is a more recent phenomenon to take account of, namely that of the increasing multiplicity of sources for the same or similar data, leading to conflicting or inconsistent results (see box II.2). It therefore bears repeating more than ever that the statistical information provided for the former Soviet Union and other countries in transition must be treated as tentative estimates subject to revision.

Developing countries

World Economic Survey, 1993 estimates of the growth of output in developing countries are based on the data of 92 countries, accounting for an estimated 98 per cent of the population of all developing countries. As for developed market economies and economies in transition, the growth of output of each group of countries is calculated from the sum of the GDP of individual countries measured in 1988 prices and at 1988 exchange rates. The starting-point for the calculation was thus to convert GDP expressed in national currency in 1988 to a figure expressed in dollars. In cases where the conversion at the official exchange rate yielded unrealistic results, adjustments were made.

It has to be borne in mind that the veracity of estimates of output and of other statistical data of developing countries is related to the stage of development of their statistical systems. In Africa in particular, there is wide divergence in the values of the economic aggregates provided by different national and international sources for many of the countries in the region. Data for the countries in Asia and Europe as well as Africa in which civil strife and war exist should be interpreted as indicating only orders of magnitude.

International trade

The main source of data for annex tables A.15 - A.18 on the direction and structure of trade is the United Nations trade data system and the External Trade Statistics Database (COMTRADE). Adjustments and estimates to this data set are made by UNCTAD, which also prepared the tables.

Trade values as presented in table A.19 are largely based on customs data converted into dollars using average annual exchange rates, as in the International Monetary Fund (IMF) publication *International Financial Statistics*. Those data are supplemented by balance-of-payments data in certain cases and by estimates of dollar values in the case of the economies in transition, and the provision of this material involved drawing on the considerable research undertaken in the Economic Commission for Europe (ECE). Data for the most recent year include estimates by the regional commissions and the Department for Economic and Social Information and Policy Analysis.

For developed market economies and economies in transition, the growth of trade volumes are aggregated from national data, as collected by ECE, IMF and the Department for Economic and Social Information and Policy Analysis. Implicit unit value indices in table A.20 are calculated from value and volume measures. Terms of trade are defined as the ratio of export to import unit values.

Two factors preclude the presentation of estimates for trade values and volumes for economies in transition as other than tentative ones: first, the switch, which occurred mainly in 1991, from intraregional trade at artificial prices in transferable roubles to trade at world market prices in convertible currency, and second, the inadequacy of the data-collection systems in the region. This makes calculations of changes in unit values less meaningful than they might have been within one trading system or another.

For developing countries, unit values of exports are estimated for groupings of those countries from weighted averages of export prices of commodity groupings at a combination of three- and four-digit Standard International Trade Classification (SITC) levels, based on COMTRADE. (The weights reflect the share of each commodity or commodity group in the value of the region's total exports.) Unit values of imports for groupings of the developing countries are estimated from weighted averages of export unit values of groupings of supplier countries. (The weights reflect the shares of each supplier group in the value of the region's imports.)

International finance

World Economic Survey, 1993 includes standardized tables on net transfer of financial resources of developed and developing countries, in addition to those on balance of payments on current account, external debt and particular financial flows. Net transfer is measured in two ways based on either of two definitions, according to the derivation set forth in *World Economic Survey, 1986*.[4]

One definition covers the concept of net transfer on an expenditure basis, which is closest to the net transfer concept presented in the System of National Accounts. This concerns the implicit financing of the balance of trade in goods, non-factor services and labour income

and transfers. Mathematically, if X represents exports of goods, non-factor services and labour income and transfers, and M represents the corresponding import variable, then the net transfer on an expenditure basis is defined as -(X-M). A positive net transfer means that total expenditure in the economy on domestic production and imports exceeds the value of output produced domestically (including net foreign earnings of labour).

The second concept is of net transfer on a financial basis, which is defined as net flow of capital minus net payment of interest and dividends. Capital is so defined as to include official grants, private grants (other than workers' remittances), direct investment[5] and all credit flows, including use of IMF resources. This treatment embodies one — but not the only — standard approach to the balance of payments. It incorporates a definition of the current account as the balance of payments on goods, all services and private transfers, and also treats borrowing from IMF as a credit flow, whereas in some other treatments such borrowing is considered part of the change in reserves.

The link between the two definitions of net transfer is net change in reserves, that is, net transfer on a financial basis minus net increase in reserves equals net transfer on an expenditure basis. When the reserves of a country increase, it in effect lends foreign exchange, by purchasing a United States Treasury bill or making a deposit in a Eurocurrency bank account. An increase in reserves is thus a special form of capital outflow. The concept of net transfer on an expenditure basis in effect makes no distinction between reserve changes and other capital flows, lumping them all together as constituting the means of financing the net transfer. The concept of net transfer on a financial basis in effect focuses attention on the composition of the financial flows of all actors other than the central bank of the country concerned.

NOTES

[1]Presently, none of the aggregated data for eastern Europe include Albania.

[2]United Nations publication, Sales No. E.92.II.C.1 and corrigenda.

[3]For further details, see *World Economic Survey, 1992*, pp. 181-182.

[4]United Nations publication, Sales No. E.86.II.C.1, pp. 163-164.

[5]Direct investment is defined on an actual payments basis so as to be consistent with the practice of a large number of developing countries in reporting such data, that is to say, direct investment excludes reinvested earnings (and investment income excludes reinvested earnings as well).

LIST OF TABLES

I GLOBAL OUTPUT AND MACROECONOMIC INDICATORS

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I. GLOBAL OUTPUT AND MACROECONOMIC INDICATORS

Table A.1. World population, output and per capita GDP, 1973-1992

	Population (millions)		Growth rate of population (annual percentage change)		GDP (billions of 1988 dollars)		GDP per capita (1988 dollars)		Growth of real GDP per capita (annual percentage change)	
	1982	1992	1973-1982	1983-1992	1982	1992	1982	1992	1973-1982	1983-1992
Developed market economies	792	847	0.8	0.7	11 552	15 316	14 583	18 085	1.7	2.2
of which:										
United States	232	255	1.0	1.0	3 905	5 112	16 825	20 034	0.9	1.8
European Community[a]	336	346	0.4	0.3	4 093	5 244	12 175	15 146	2.0	2.2
Japan	119	124	1.0	0.5	2 272	3 350	19 161	26 913	2.9	3.5
Economies in transition	356	381	0.8	0.7	1 818	1 606	5 101	4 210	..	-1.9
Eastern Europe	94	97	0.7	0.3	552	422	5 893	4 357	..	-3.0
Former Soviet Union	263	285	0.9	0.8	1 266	1 184	4 818	4 160	..	-1.5
Developing countries	3 393	4 170	2.2	2.1	2 548	3 659	751	877	2.5	1.6
By region										
Latin America	370	451	2.4	2.0	763	919	2 064	2 037	2.0	-0.1
Africa	450	607	2.9	3.0	277	342	616	564	1.4	-0.9
West Asia	97	138	3.7	3.6	473	482	4 883	3 487	-0.4	-3.3
South and East Asia	1 382	1 703	2.3	2.1	679	1 212	492	712	3.6	3.8
Mediterranean	70	83	1.8	1.7	121	124	1 716	1 482	2.5	-1.5
China[b]	1 025	1 188	1.6	1.5	235	580	229	488	4.6	7.9
By analytical grouping										
Capital-surplus countries	74	106	3.9	3.7	429	410	5 838	3 875	-0.7	-4.0
Capital-importing countries	3 309	4 049	2.1	2.0	2 095	3 216	633	794	2.8	2.3
Four recent surplus economies	65	73	1.8	1.2	214	458	3 279	6 237	5.9	6.6
Other	3 243	3 976	2.1	2.1	1 881	2 758	580	694	2.5	1.8
Memo items										
Sub-Saharan Africa	273	370	2.9	3.1	103	117	376	316	-0.4	-1.7
Fifteen heavily indebted countries	504	631	2.5	2.3	869	1 012	1 725	1 604	1.9	-0.7

Source: UN/DESIPA.

a The former German Democratic Republic is included in Germany and thus in the European Community, beginning 1991.

b Net material product until 1988.

Table A.2. Developed market economies: rates of growth of real GDP, 1983-1993
(Annual percentage change[a])

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]	1993[c]
All developed market economies	2.6	4.4	3.3	2.8	3.2	4.4	3.3	2.3	♦ 0.7	1.5	1 ½
Major industrialized countries	2.7	4.6	3.4	2.8	3.3	4.6	3.3	2.3	♦ 0.6	1.6	2
Canada	3.2	6.3	4.8	3.3	4.3	4.9	2.3	-0.5	-1.7	0.9	3 ½
France	0.7	1.3	1.9	2.5	2.3	4.5	4.1	2.3	1.2	1.6	0
Germany	1.6	2.8	1.9	2.2	1.4	3.7	3.3	4.7	♦ 1.2	2.0	-½
Italy	-0.4	4.1	2.7	2.8	3.1	4.1	3.1	2.0	1.6	0.9	½
Japan	2.7	4.3	5.0	2.6	4.1	6.2	4.7	4.8	4.0	1.3	1 ½
United Kingdom	3.8	1.9	3.9	4.1	4.8	4.4	2.1	0.6	-2.3	-0.5	1 ½
United States	3.9	6.2	3.2	2.9	3.1	3.9	2.5	0.8	-1.2	2.1	3
Other industrialized countries	1.4	3.4	2.8	2.3	2.9	3.5	3.6	2.4	0.8	0.9	1
Memo item											
Western Europe	1.5	2.6	2.6	2.8	2.7	4.0	3.4	2.6	♦ 0.7	1.0	0
European Community	1.4	2.5	2.5	2.8	2.8	4.1	3.4	2.7	♦ 0.9	1.2	½
Other	2.2	3.0	3.2	2.5	2.5	2.9	3.2	1.8	-0.5	-0.3	0

Source: UN/DESIPA.

♦ Indicates discontinuity in the series: from 1991, Germany includes eastern *Länder*.

a Data for country groups are weighted averages, where weights for each year are GDP valued at 1988 prices and exchange rates.

b Partly estimated.

c Forecast, based on Project LINK.

Table A.3. Economies in transition: rates of growth of GDP, 1983-1993
(Annual percentage change[a])

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]	1993[c]
Economies in transition	4.2	3.5	2.0	3.5	2.6	4.5	2.1	-6.3	♦ -9.0	-16.8	-10
Eastern Europe	4.2	4.6	2.6	3.1	2.3	2.7	0.0	-11.8	♦-12.0	-6.2	-1
Bulgaria	3.4	3.4	2.7	4.2	6.1	2.6	-1.4	-9.1	-16.7	-13.0	-8
Former Czechoslovakia	2.4	2.1	2.2	1.8	0.8	2.6	1.3	-4.7	-15.9	-7.2	-2
German Democratic Republic	4.0	5.4	5.5	3.9	3.3	3.1	2.4	-25.1	-	-	-
Hungary	0.7	2.7	-0.3	1.5	3.8	2.7	3.8	-4.0	-11.9	-5.0	1 ½
Poland	5.6	5.6	3.6	4.2	2.0	4.4	0.2	-12.0	-7.6	0.0	2
Romania	6.1	5.9	-0.1	2.3	0.8	-0.5	-5.8	-7.4	-13.7	-15.0	-6
Former Soviet Union and Successor States	4.3	3.0	1.7	3.6	2.8	5.3	3.0	-4.0	-8.0	-20.0	-13 ½

Sources: UN/DESIPA and ECE.

♦ Indicates discontinuity in the series.

a Country group aggregates are averages weighted by GDP in 1988 dollars (see *World Economic Survey, 1992*, (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 181-182, for methodology).
b Partly estimated.
c Forecast.

Table A.4. Developing countries: rates of growth of real GDP, by country group, 1983-1993
(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]	1993[b]
All developing countries	1.8	4.1	3.5	3.8	4.0	4.4	3.5	3.4	3.4	4.9	5
By region											
Latin America	-2.6	3.8	3.6	4.2	3.0	0.7	1.1	0.1	2.9	2.2	3
Africa	1.4	0.8	5.0	1.9	0.2	2.3	3.0	2.9	2.0	1.4	3
West Asia	-0.6	-1.3	-3.6	-3.1	-0.8	0.0	3.2	1.9	-0.1	6.6	6
South and East Asia	6.0	5.7	3.6	6.2	6.9	8.5	6.1	6.4	5.3	4.9	5 ½
Mediterranean	1.0	3.7	2.8	5.5	1.1	0.8	0.3	1.1	-7.9	-5.2	3
China[c]	10.2	14.5	13.0	7.8	9.4	10.9	3.6	5.2	7.7	12.8	11
By analytical grouping											
Capital-surplus countries	-0.8	-2.2	-4.8	-4.5	-1.8	-1.1	3.6	1.4	-0.6	6.5	..
Capital-importing countries	2.4	5.4	5.0	5.2	4.8	5.2	3.4	3.6	3.9	4.7	..
Net energy exporters	-0.1	3.2	3.5	1.0	1.7	3.5	2.9	5.2	4.4	4.2	..
Net energy importers	3.2	6.2	5.5	6.6	5.8	5.7	3.6	3.2	3.8	4.8	..
Four recent surplus economies	8.5	8.9	3.8	11.0	11.7	9.6	6.2	6.9	7.3	5.4	..
Other	2.4	5.7	5.8	5.9	4.8	5.0	3.1	2.4	3.1	4.7	..
Memo items											
Sub-Saharan Africa	0.6	1.2	1.9	2.6	0.6	2.9	2.0	1.2	-0.2	0.3	3
Fifteen heavily indebted countries	-2.7	2.7	3.4	4.1	2.4	1.2	1.4	0.0	1.8	0.9	2 ½

Source: UN/DESIPA.

a Preliminary estimates.
b Forecast, based in part on Project LINK. Estimates are rounded to the nearest half percentage point.
c Net material product until 1984; data for 1981-1989 are Government estimates.

Table A.5. Developed market economies: investment, saving and net transfers, 1980-1990
(Percentage of GDP)

		Gross domestic investment	Gross domestic saving			Net financial transfer
			Total	Government saving	Private saving	
Total[a]	1980	23.4	22.6	0.9	21.7	0.8
	1985	21.4	21.1	-0.6	21.7	0.3
	1986	21.3	21.4	-0.3	21.8	-0.2
	1987	21.5	21.5	0.6	20.9	0.0
	1988	22.3	22.3	1.2	21.1	0.0
	1989	22.8	22.6	1.9	20.8	0.1
	1990	22.2	22.3	1.2	21.0	-0.1
Major industrialized countries[a]	1980	23.2	22.7	0.8	21.9	0.5
	1985	21.4	20.9	-0.8	21.6	0.5
	1986	21.2	21.3	-0.5	21.8	0.0
	1987	21.5	21.3	0.5	20.9	0.1
	1988	22.2	22.1	1.1	21.0	0.1
	1989	22.5	22.4	1.9	20.6	0.1
	1990	22.0	22.0	1.2	20.8	0.0
of which:						
Germany	1980	23.4	22.9	2.4	20.5	0.5
	1985	19.6	23.1	2.6	20.5	-3.5
	1986	19.6	24.7	2.4	22.3	-5.2
	1987	19.4	24.4	1.7	22.7	-5.0
	1988	20.0	25.3	1.3	24.0	-5.2
	1989	21.3	26.7	3.7	23.0	-5.4
	1990	22.0	27.5	1.5	26.1	-5.5
Japan	1980	32.2	31.3	3.2	28.2	0.9
	1985	28.2	31.5	4.9	26.6	-3.4
	1986	27.8	31.8	4.7	27.0	-4.0
	1987	28.7	31.8	6.3	25.5	-3.2
	1988	30.6	32.9	7.5	25.4	-2.3
	1989	31.7	33.1	8.5	24.7	-1.4
	1990	33.2	33.9	9.0	24.9	-0.7
United States	1980	19.9	19.3	-0.1	19.5	0.6
	1985	20.2	17.2	-2.5	19.7	3.0
	1986	19.4	16.2	-2.9	19.1	3.3
	1987	19.0	15.7	-2.0	17.7	3.3
	1988	18.4	16.1	-1.8	17.8	2.4
	1989	18.4	16.7	-1.1	17.7	1.7
	1990	17.1	15.7	-2.0	17.6	1.4

Source: OECD, *National Accounts* and national information supplied to the Statistical Division/DESIPA.

a National currency data converted to dollars for aggregation at annual average exchange rates.

Table A.6. Developed market economies: unemployment rates, 1983-1993[a]
(Percentage of total labour force)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]	1993[c]
All developed market economies	8.4	7.8	7.7	7.6	7.2	6.6	6.1	6.0	6.7	7.4	8
Major industrialized countries	8.1	7.3	7.2	7.1	6.7	6.1	5.7	5.6	6.3	6.8	7
Canada	11.8	11.2	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.2	11
France	8.3	9.7	10.2	10.4	10.5	10.0	9.4	9.0	9.5	10.3	11
Germany	7.7	7.1	7.2	6.4	6.2	6.2	5.6	4.9	4.4	4.8	6
Italy	8.8	9.4	9.6	10.5	10.9	11.0	10.9	10.3	9.9	10.1	10 ½
Japan	2.6	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2 ½
United Kingdom	12.4	11.7	11.2	11.2	10.3	8.5	7.1	6.8	8.7	10.0	11
United States	9.5	7.4	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.2	7
Other industrialized countries	9.6	10.2	10.3	9.9	9.6	9.1	8.1	7.9	8.7	10.0	11
Memo item											
Western Europe	9.4	9.8	9.9	9.8	9.6	9.0	8.2	7.7	8.1	9.0	10
European Community	10.1	10.5	10.6	10.6	10.3	9.7	8.8	8.3	8.6	9.4	10 ½
Other	3.5	3.3	3.2	3.2	3.0	2.9	2.6	2.8	4.2	6.1	7 ½

Source: UN/DESIPA, based on data of OECD.

a For the seven countries shown and ten others, 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)); national definitions and estimates are used for other countries.
b Partly estimated.
c Forecast, based on Project LINK.

Table A.7. Developed market economies: consumer price inflation, 1983-1993[a]
(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]	1993[c]
All developed market economies	4.8	4.8	4.2	2.5	3.1	3.4	4.6	5.2	4.5	3.3	3
Major industrialized countries	4.3	4.4	3.8	1.9	2.7	3.1	4.4	4.9	4.2	3.0	3
Canada	5.9	4.3	4.0	4.2	4.3	4.1	5.0	4.8	5.6	1.5	2
France	9.6	7.5	5.7	2.5	3.3	2.7	3.5	3.4	3.1	2.8	2 ½
Germany	3.4	2.4	2.2	-0.1	0.2	1.3	2.8	2.7	3.5	4.1	3 ½
Italy	14.6	10.9	9.2	5.8	4.7	5.1	6.3	6.4	6.4	5.4	5
Japan	1.8	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	2
United Kingdom	4.5	5.0	6.0	3.4	4.2	4.9	7.8	9.5	5.9	3.7	2
United States	3.2	4.3	3.5	1.9	3.7	4.0	4.8	5.4	4.3	3.0	3
Other industrialized countries	8.3	7.2	6.9	6.0	5.4	5.2	6.2	7.0	6.2	5.0	5
Memo item											
Western Europe	7.5	6.5	5.7	3.3	3.3	3.7	5.2	5.7	5.1	4.3	4
European Community	7.8	6.6	5.8	3.3	3.2	3.6	5.3	5.7	5.1	4.5	4
Other	5.8	5.7	5.0	3.0	3.5	4.0	4.6	6.2	5.6	3.1	4

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

a Data for country groups are weighted averages where weights for each year are consumption expenditure for the year valued at 1988 prices and exchange rates.
b Partly estimated.
c Forecast, based on Project LINK.

Table A.8. Major developed market economies: financial indicators, 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
					Growth of real money[a] (percentage change)						
Canada	-3.4	-5.6	2.8	2.7	5.4	3.9	5.6	8.3	4.3	2.1	5.0
France	-0.7	1.1	1.1	1.0	2.3	3.5	2.7	-0.8	-0.7	-3.5	-1.6
Germany	2.5	2.2	3.4	5.3	3.1	4.0	4.2	2.4	14.6	2.2	4.4
Italy	1.0	-3.8	2.0	2.1	1.5	2.4	2.0	5.3	1.9	5.8	-5.9
Japan	5.8	5.5	4.5	7.1	7.5	11.2	9.4	9.7	6.2	0.8	-1.2
United Kingdom	5.6	4.7	6.9	5.4	18.6	15.5	11.0	11.8	3.8	-5.2	0.2
United States	2.4	11.8	4.4	5.7	6.1	0.8	2.1	-0.6	-1.1	-0.8	-0.6
					Short-term interest rates[b] (percentage)						
Canada	10.4	9.1	10.1	9.8	8.2	8.5	10.4	12.1	11.6	7.4	6.8
France	14.9	12.5	11.7	9.9	7.7	8.0	7.5	9.1	9.9	9.5	10.4
Germany	8.7	5.4	5.5	5.2	4.6	3.7	4.0	6.6	7.9	8.8	9.4
Italy	20.2	18.4	17.3	15.3	13.4	11.5	11.3	12.7	12.4	12.2	12.5
Japan	6.9	6.4	6.1	6.5	4.8	3.5	3.6	4.9	7.2	7.5	4.6
United Kingdom	11.4	9.1	7.6	10.8	10.7	9.7	10.3	13.9	14.7	11.7	9.6
United States	12.3	9.1	10.2	8.1	6.8	6.7	7.6	9.2	8.1	5.7	3.5
					Long-term interest rates[c] (percentage)						
Canada	14.3	11.8	12.8	11.0	9.5	10.0	10.2	9.9	10.9	9.8	8.8
France	15.7	13.6	12.5	10.9	8.6	9.4	9.1	8.8	10.0	9.1	8.6
Germany	9.0	7.9	7.8	6.9	5.9	5.8	6.1	7.1	8.9	8.6	8.0
Italy	20.9	18.0	15.0	13.0	10.5	9.7	10.2	10.7	11.5	10.1	10.0
Japan	8.1	7.4	6.8	6.3	4.9	4.2	4.3	5.1	7.4	6.5	4.9
United Kingdom	12.9	10.8	10.7	10.6	9.9	9.5	9.4	9.6	11.1	9.9	9.2
United States	13.0	11.1	12.5	10.6	7.7	8.4	8.9	8.5	8.6	7.9	7.0
					General government financial balances[d] (percentage)						
Canada	-5.9	-6.9	-6.5	-6.8	-5.4	-3.8	-2.5	-3.0	-4.1	-6.1	-5.8
France	-2.8	-3.2	-2.8	-2.9	-2.7	-1.9	-1.7	-1.1	-1.4	-2.2	-2.8
Germany	-3.3	-2.6	-1.9	-1.1	-1.3	-1.9	-2.2	0.2	-2.0	-3.2	-3.2
Italy	-11.3	-10.7	-11.6	-12.6	-11.6	-11.0	-10.7	-9.8	-10.9	-10.2	-11.1
Japan	-3.6	-3.6	-2.1	-0.8	-0.9	0.5	1.5	2.5	3.0	2.4	1.3
United Kingdom	-2.4	-3.3	-3.9	-2.9	-2.4	-1.3	1.0	0.9	-1.3	-2.8	-6.6
United States	-3.4	-4.1	-2.9	-3.1	-3.4	-2.5	-2.0	-1.5	-2.5	-3.4	-4.7

Source: UN/DESIPA, based on IMF, *International Financial Statistics*, and OECD, *Economic Outlook*.

a Real money is here defined as broad money (denoted by M2 and comprising currency outside banks and demand deposits plus time, savings and foreign currency deposits of resident sectors other than central Government) deflated by GDP deflators. Growth rates measure changes from year-end to year-end (1992 data are partly estimated).

b Money market rates.

c Yield on long-term government bonds.

d Surplus (+) or deficit (-) as a percentage of nominal GNP or GDP.

Table A.9. Major developed market economies: effective exchange rates, 1982-1992
(1985=100)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Nominal effective exchange rates: global[a]											
Canada	106.5	108.5	104.6	100.0	93.5	93.3	100.1	105.5	106.0	107.9	101.4
France	107.5	100.8	98.1	100.0	104.5	103.9	103.0	102.3	107.4	105.7	108.8
Germany	93.7	98.8	98.4	100.0	110.8	115.8	116.2	114.7	122.5	121.7	126.3
Italy	112.8	109.6	105.1	100.0	102.9	101.6	99.2	100.0	103.5	102.4	99.4
Japan	84.6	93.5	97.1	100.0	130.2	138.9	152.4	146.6	136.0	147.7	156.1
United Kingdom	111.2	103.9	99.5	100.0	93.6	89.9	95.7	93.2	92.1	92.9	90.2
United States	88.1	92.3	97.4	100.0	84.1	72.6	69.1	71.6	69.8	68.7	67.2
Real effective exchange rates: industrial country partners[b]											
Canada	101.8	106.5	105.2	100.0	92.1	95.5	103.6	112.0	111.5	113.9	107.9
France	102.3	98.6	97.0	100.0	102.5	101.9	98.0	95.2	96.7	93.1	94.8
Germany	98.0	101.3	99.8	100.0	109.9	119.0	119.6	117.6	123.0	122.8	128.5
Italy	95.3	99.9	101.6	100.0	100.2	101.5	99.0	104.3	111.4	114.1	113.6
Japan	89.8	96.5	100.4	100.0	124.0	129.3	138.3	132.6	115.0	125.6	132.2
United Kingdom	117.4	107.3	101.5	100.0	93.4	93.0	99.3	99.6	103.1	108.1	107.8
United States	89.8	91.9	97.4	100.0	79.4	68.4	64.6	67.0	62.5	61.2	58.1

Sources: IMF, *International Financial Statistics*, and OECD, *Economic Outlook*.

a Weights based on manufactures trade with 23 OECD countries and 6 non-OECD areas (rebased from 1970 first quarter = 100).

b Based on relative normalized unit labour costs in 16 industrial countries.

Table A.10. Economies in transition: output and demand indicators, 1982-1992
(Annual percentage change)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Industry, gross product					
Eastern Europe	1.1	4.4	4.9	3.9	4.6	3.2	3.3	-0.1	-18.9	♦-17.6	-7.6
Bulgaria	4.6	4.3	4.2	3.2	4.7	6.0	3.2	2.2	-12.6	-23.3	-22.0
Former Czechoslovakia	1.1	2.8	3.9	3.5	3.2	2.5	2.1	0.8	-3.5	-24.7	-11.0
German Democratic Republic	3.2	4.2	4.2	4.4	3.7	3.1	3.2	2.3	-28.1	-	-
Hungary	2.5	1.2	3.2	0.7	1.9	3.5	-0.3	-2.5	-4.5	-19.1	-9.8
Poland	-2.1	6.4	5.2	4.5	4.7	3.4	5.3	-0.5	-24.2	-11.9	4.2
Romania	1.0	4.7	6.7	3.9	7.3	2.4	3.1	-2.1	-17.8	-19.6	-22.1
Former Soviet Union	2.9	4.2	4.1	3.4	4.4	3.8	3.9	1.7	-1.2	-7.8	-18.2
Total	2.4	4.3	4.3	3.5	4.5	3.6	3.7	1.2	-6.2	♦-10.0	-15.9
						Agriculture, gross product					
Eastern Europe	1.5	1.2	6.8	-0.9	1.8	-2.8	2.0	0.1	-7.8	♦ -2.8	-12.3
Bulgaria	5.3	-6.6	7.2	-11.9	11.7	-3.5	0.9	1.2	-6.0	-6.4	-12.9
Former Czechoslovakia	4.4	4.2	4.4	-1.6	0.6	0.9	2.9	1.7	-3.9	-8.4	-11.5
German Democratic Republic	-4.1	3.9	6.6	3.9	0.0	-0.3	-2.1	1.6	-30.0	-	-
Hungary	7.3	-2.7	2.9	-5.5	2.4	-2.0	4.3	-1.3	-3.8	-5.0	-22.7
Poland	-2.8	3.3	5.7	0.7	5.0	-2.3	1.2	1.5	-2.2	-2.0	-11.9
Romania	6.9	0.0	13.3	0.7	-5.5	-8.9	5.8	-5.0	-2.9	1.2	-9.2
Former Soviet Union	5.7	6.3	-0.2	0.1	5.3	-0.5	1.7	1.3	-2.8	-7.0	-10.0
Total	4.3	4.6	2.1	-0.2	4.1	-1.3	1.8	0.9	-4.4	♦ -6.1	-10.5
						Gross investment					
Eastern Europe	-4.4	2.2	2.4	3.6	4.5	3.2	2.4	-1.4	-14.1	♦-17.8	-6.6
Bulgaria	3.7	0.0	1.7	6.2	13.7	0.3	4.5	-10.1	-18.5	-48.6	-21.0
Former Czechoslovakia	-2.3	0.6	-4.2	5.4	1.4	4.4	4.1	1.6	6.1	-27.2	0.0
German Democratic Republic	-5.1	-0.3	-4.9	3.4	5.3	8.0	7.3	0.9	-5.7	♦ -	-
Hungary	-1.6	-3.4	-3.7	-3.0	6.5	9.8	-9.1	7.0	-8.1	-11.6	-8.0
Poland	-12.1	9.4	11.4	6.0	5.1	4.2	5.4	-2.4	-10.1	-4.1	0.0
Romania	-3.1	2.4	6.0	1.6	1.1	-1.4	-2.2	-1.6	-38.3	-28.8	-18.9
Former Soviet Union	3.5	5.6	1.9	3.0	8.3	5.7	6.2	4.7	1.0	-12.0	-45.0
Total	1.2	4.7	2.1	3.2	7.3	5.0	5.2	3.2	-2.6	♦-13.4	-35.9

Sources: UN/DESIPA and ECE, based on national data.

♦ Indicates discontinuity in the series.

a Preliminary estimate.

Table A.11. Developing countries: investment, saving and net transfers, 1980-1991
(Percentage of GDP)

	Gross domestic investment				Gross domestic saving				Net transfer of resources			
	1980	1985	1990	1991	1980	1985	1990	1991	1980	1985	1990	1991
All developing countries	25.8	23.4	24.6	25.3	26.0	23.4	25.3	25.0	-0.2	0.0	-0.7	0.3
By region												
Latin America	24.2	18.2	18.6	19.5	22.8	23.0	21.1	20.0	1.4	-4.8	-2.6	-0.5
Africa	24.4	20.6	21.9	20.1	22.1	18.2	18.2	17.5	2.4	2.4	3.8	2.7
West Asia	25.3	19.8	18.3	23.5	39.2	16.6	20.7	18.6	-13.9	3.1	-2.4	4.9
South and East Asia[a]	26.2	24.4	28.9	29.6	23.9	24.6	28.2	28.9	2.3	-0.1	0.7	0.6
Mediterranean	22.5	21.5	23.5	21.5	14.4	17.8	18.6	23.2	8.2	3.7	4.8	-1.7
By analytical grouping												
Capital-surplus countries	24.5	19.2	18.9	25.0	44.5	17.5	23.2	22.6	-20.1	-1.8	-4.2	2.4
Capital-importing countries[a]	26.0	24.0	25.1	25.4	23.9	24.3	25.5	25.1	2.1	-0.3	-0.4	0.2
Energy exporters	26.7	22.4	23.0	25.4	29.0	25.0	25.0	24.7	-2.3	-2.6	-2.0	0.7
Energy importers	25.7	24.7	25.7	25.3	21.7	24.0	25.7	25.3	4.0	0.8	0.0	0.1
Recent surplus economies	34.4	26.2	31.4	32.6	29.2	31.7	34.1	34.2	5.2	-5.4	-2.7	-1.7
Other countries	24.7	24.5	24.1	23.1	20.8	22.6	23.4	22.5	3.9	1.9	0.8	0.6
Memo items												
Sub-Saharan Africa	18.2	17.6	17.3	15.7	12.1	15.3	11.9	10.4	6.1	2.3	5.4	5.3
Fifteen heavily indebted countries	24.4	17.3	18.7	19.5	23.3	22.2	21.4	20.4	1.1	-4.9	-2.8	-0.8
Selected developing countries												
Argentina	22.2	8.5	8.4	12.5	20.0	15.2	15.8	14.8	2.2	-6.6	-7.4	-2.3
Bangladesh	14.9	12.8	11.8	11.7	2.1	1.9	1.9	4.3	12.8	10.9	9.9	7.5
Brazil	23.3	19.2	21.7	18.9	21.1	24.4	23.4	20.9	2.3	-5.2	-1.8	-2.0
China	32.2	40.5	36.6	35.7	32.2	36.5	40.1	38.9	0.0	4.1	-3.5	-3.2
Côte d'Ivoire	28.2	14.6	9.8	10.2	22.2	27.8	14.2	16.4	6.1	-13.2	-4.4	-6.2
Egypt	27.5	26.7	21.9	20.4	15.2	14.5	4.8	7.0	12.4	12.1	17.1	13.4
India	20.9	24.0	22.8	21.0	17.4	20.9	20.4	20.2	3.6	3.1	2.4	0.8
Indonesia	24.3	28.0	36.8	35.0	37.1	29.8	37.3	35.5	-12.8	-1.8	-0.5	-0.5
Kenya	29.2	26.0	23.9	20.7	18.1	24.9	18.7	19.3	11.1	1.1	5.2	1.5
Mexico	27.2	21.2	19.6	25.5	24.9	26.3	19.1	22.2	2.3	-5.1	0.5	3.2
Nigeria	23.9	9.0	14.6	16.9	27.3	12.6	29.5	25.7	-3.4	-3.6	-14.8	-8.7
Peru	29.0	18.4	14.6	16.0	31.4	24.9	15.3	13.1	-2.4	-6.5	-0.7	2.9
Republic of Korea	31.7	29.3	36.9	39.1	24.3	30.5	36.4	36.5	7.4	-1.3	0.6	2.6
Thailand	26.4	24.0	37.9	38.9	20.1	21.2	29.9	31.7	6.3	2.8	8.0	7.2
Tunisia	29.4	26.6	26.6	23.7	24.0	20.4	19.3	18.5	5.4	6.1	7.2	5.2
Turkey	21.9	21.0	23.1	21.7	14.1	17.8	18.3	23.9	7.8	3.2	4.8	-2.2
United Republic of Tanzania	23.0	15.7	23.7	23.9	9.8	7.4	-15.5	13.0	13.2	8.3	39.2	10.9
Zambia	23.3	14.9	14.3	13.5	19.3	15.4	17.0	12.0	4.0	-0.5	-2.6	1.5

Source: UN/DESIPA, based on World Bank, *World Tables*, and United Nations Secretariat estimates.

a Excluding China.

Table A.12. Developing countries: structure of trade in goods and services, 1980-1990
(Percentage)

	Share in total exports of goods and services of											
	Manufactures			Non-fuel primary commodities			Travel receipts and remittances			Fuels trade balance		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
All developing countries	19.5	31.3	40.1	16.9	16.6	14.7	6.5	7.2	8.3	32.4	16.9	9.4
By region												
Latin America	13.3	20.3	24.9	31.9	30.0	30.7	5.9	6.2	10.0	12.7	18.1	11.8
Africa	3.7	4.9	9.7	16.7	16.9	19.7	7.6	10.5	14.0	57.6	45.6	41.0
West Asia	4.5	8.3	14.5	1.4	2.6	3.6	2.8	3.6	2.7	80.2	52.5	42.4
South and East Asia[a]	42.1	51.3	53.5	20.9	14.6	10.6	6.6	6.2	5.0	-7.2	-3.7	-2.8
Mediterranean	40.7	50.2	44.1	22.7	17.5	14.1	44.1	27.2	41.8	-36.6	-24.2	-15.6
By analytical grouping												
Capital-surplus countries	1.6	2.4	4.5	0.5	0.9	1.2	1.0	0.2	0.0	89.2	68.2	63.4
Capital-importing countries[a]	27.0	36.6	44.2	23.7	19.5	16.2	8.9	8.5	9.3	8.8	7.6	3.1
Energy exporters	5.0	12.2	22.1	15.9	14.1	16.2	6.9	7.4	10.6	58.2	51.4	34.4
Energy importers	39.7	47.6	51.0	28.2	22.0	16.2	10.0	9.0	8.9	-19.8	-12.3	-6.4
Recent surplus economies	60.1	66.2	58.3	8.9	6.4	4.2	1.9	1.9	2.9	-15.1	-9.9	-4.8
Other countries	28.9	35.6	43.9	38.4	32.1	28.0	14.3	13.6	13.8	-22.4	-13.8	-8.0
Memo items												
Sub-Saharan Africa	7.4	6.7	8.0	51.6	43.6	45.2	6.1	6.0	6.5	2.7	3.3	1.0
Fifteen heavily indebted countries	11.8	20.3	25.5	29.3	28.8	28.6	5.4	5.6	9.1	25.8	25.4	17.2
Selected developing countries												
Argentina	16.6	17.4	28.8	52.5	58.0	50.3	3.1	5.1	6.0	-7.2	1.5	0.4
Bangladesh	52.2	52.9	62.5	23.6	24.9	21.4	36.3	43.1	40.5	19.3	30.8	-24.3
Brazil	33.4	39.1	46.5	51.6	42.7	39.5	0.6	0.2	3.9	-44.6	-17.5	-12.3
China	61.9	60.8	67.3	18.8	18.5	16.7	0.0	3.6	2.7	6.0	5.4	5.7
Côte d'Ivoire	4.3	8.5	7.6	75.7	66.8	53.8	2.2	1.1	1.3	-9.4	-3.8	-3.3
Egypt	5.1	2.5	12.8	11.6	5.4	10.1	50.5	48.8	59.4	29.2	14.1	7.4
India	35.8	39.1	57.5	24.7	24.0	19.0	34.8	25.3	14.2	-49.6	-28.2	-13.6
Indonesia	2.4	12.2	30.8	25.3	18.6	17.8	0.8	3.0	7.9	62.9	55.1	31.5
Kenya	7.8	6.8	4.9	34.7	43.1	36.1	11.6	15.5	20.8	-13.6	-19.1	-24.8
Mexico	8.4	22.4	28.3	14.9	10.6	12.1	15.1	10.4	17.9	45.2	47.2	20.9
Nigeria	2.5	2.2	2.2	2.5	2.2	2.2	0.3	0.3	0.2	84.2	93.5	91.8
Peru	11.4	8.7	11.8	42.2	46.6	59.0	6.1	7.6	6.0	12.6	16.2	1.8
Republic of Korea	69.5	83.6	78.4	7.6	5.1	4.5	1.6	2.4	4.1	-29.3	-19.3	-13.4
Sudan	0.6	0.4	0.5	69.5	42.9	58.1	37.3	39.6	12.7	-22.3	-15.8	-14.9
Thailand	20.9	26.8	47.0	53.4	41.3	25.5	10.1	11.4	13.7	-33.5	-19.6	-9.2
Tunisia	23.9	26.9	45.6	7.8	7.8	9.0	29.9	30.6	30.5	13.3	11.7	2.1
Turkey	21.3	42.7	40.1	56.8	23.8	17.6	65.3	24.6	29.5	-98.8	-29.9	-19.8
United Republic of Tanzania	9.9	7.0	5.9	56.1	57.9	48.8	2.7	4.5	8.3	-30.1	-43.5	-31.5
Zambia	0.8	0.9	10.5	68.5	60.8	82.8	1.3	0.9	0.0	-14.6	-11.4	-8.1

Source: UN/DESIPA, based on World Bank, *World Tables*, and United Nations Secretariat estimates.

a Excluding China.

Table A.13. Developing countries: inflation, 1982-1993[a]
(Annual percentage change)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]	1993[c]
All developing countries	28.3	47.3	61.4	82.2	35.6	51.2	121.2	318.7	514.5	80.4	145.1	120
By region												
Latin America	71.5	134.6	170.6	249.2	96.2	145.4	374.0	997.1	1 746.8	228.8	427.8	400
Africa	12.2	16.7	18.2	11.0	13.1	13.8	19.7	21.5	16.9	66.7	104.2	40
West Asia	25.7	30.4	56.6	43.1	16.9	19.8	18.9	15.5	8.0	13.4	14.8	13
South and East Asia	7.3	7.3	7.6	4.5	4.7	5.5	7.2	6.5	8.2	10.6	8.2	7
China	2.0	2.0	2.8	11.9	7.0	8.8	20.7	16.3	1.3	3.9	5.3	7 ½
Mediterranean	31.7	34.4	48.4	55.5	58.1	74.0	125.6	589.6	292.8	86.4	196.3	200
By analytical grouping												
Capital-surplus countries	12.7	12.9	7.6	2.0	10.8	17.8	18.5	14.7	5.6	12.9	15.1	..
Capital-importing countries	29.8	50.6	66.6	90.0	38.0	54.4	131.1	348.0	563.4	86.9	157.6	..
Energy exporters	28.6	43.9	38.7	118.6	37.9	52.5	78.3	191.2	387.2	40.4	22.3	..
Energy importers	30.2	52.5	74.5	81.8	38.0	55.0	146.1	392.7	613.6	100.2	196.1	..
Recent surplus economies	6.3	3.6	2.6	1.8	2.0	2.4	5.3	5.6	7.3	8.2	6.0	6
Other	35.1	62.5	89.2	98.2	45.4	65.8	174.9	471.8	737.6	119.0	235.0	..
Memo items												
Sub-Saharan Africa	16.6	23.9	17.0	13.2	12.6	19.0	20.5	22.7	26.2	166.1	286.6	90
Fifteen heavily indebted countries	64.6	120.5	155.0	221.6	89.0	134.1	339.3	947.8	1 553.7	206.4	396.0	150

Source: UN/DESIPA, based on IMF, *International Financial Statistics*, and United Nations Secretariat estimates.

a Weights used are GDP in 1988 dollars.
b Preliminary estimates based on data for part of the year.
c Forecast.

Table A.14. Selected developing countries or areas: real effective exchange rates,[a] 1982-1993
(1980-1982 = 100)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993[b]
Argentina	77.0	71.6	80.2	71.0	61.1	53.7	59.8	50.0	58.9	69.2	67.6	64.8
Brazil	113.0	86.0	85.7	85.2	75.0	74.4	81.4	98.3	117.8	89.3	83.7	98.4
Chile	97.3	89.3	90.1	79.6	68.8	65.6	60.8	62.3	60.0	65.3	70.1	66.4
Mexico	82.7	79.0	91.9	87.4	62.9	64.6	77.2	74.0	71.8	77.5	78.5	79.9
Venezuela	110.2	117.3	85.9	93.0	90.7	65.3	71.9	62.0	52.4	51.7	51.8	51.2
Hong Kong	101.4	94.9	99.5	103.6	94.0	90.0	90.6	98.6	99.1	105.6	110.9	120.7
Indonesia	111.7	96.2	96.0	94.7	73.6	56.1	53.8	55.3	54.7	54.8	53.8	53.2
Malaysia	105.6	113.9	119.6	116.3	95.5	89.6	80.0	79.4	76.3	76.1	81.9	82.7
Philippines	106.7	96.1	107.9	114.7	91.0	87.7	89.4	95.4	88.8	87.2	95.6	92.8
Republic of Korea	101.9	97.6	96.5	89.4	76.4	75.7	82.2	92.2	85.1	83.4	75.8	73.6
Singapore	100.8	101.8	102.5	95.7	81.0	74.6	73.2	78.1	80.7	83.1	85.8	86.1
Taiwan Province of China	96.6	94.6	97.1	94.2	86.4	91.8	95.2	100.8	94.0	92.7	92.8	88.3
Thailand	102.9	104.2	102.6	91.8	78.2	73.7	74.6	77.1	75.1	78.3	75.3	75.2
Israel	108.7	120.8	119.5	106.6	101.0	97.7	107.2	109.5	103.2	104.8	102.5	102.2
Turkey	90.8	85.9	77.3	77.0	79.1	83.0	91.1	97.9	116.9	114.8	110.6	116.6

Source: Morgan Guaranty Trust Company, *World Financial Markets*, various issues.

Note: The real effective exchange rate, which adjusts the nominal index for relative price changes, gauges the effect on international price competitiveness of the country's manufactures due to currency changes and differential inflation. A rise in the index implies a fall in competitiveness and vice versa. The relative price changes are based on indices most closely measuring the prices of domestically produced finished manufactured goods, excluding food and energy at the first stage of manufacturing. The weights for currency indices are derived from 1980 bilateral trade patterns of the corresponding countries.

a Measured against 18 industrial country currencies and 22 emerging-market currencies.
b May 1993 level.

II. INTERNATIONAL TRADE

Table A.15. Direction of trade: exports, 1980-1991

Origin		Destination								
		World	Developed market economies	Economies in transition	Developing countries (total)	Latin America	Africa	West Asia	South and East Asia	Other Asia[a]
		Billions of dollars	Percentage							
World	1980	2 000.9	66.8	7.2	25.2	6.3	4.2	4.8	7.5	1.1
	1985	1 933.4	66.4	7.8	24.6	4.8	3.3	4.6	8.6	2.2
	1990	3 391.9	71.6	4.2	22.8	3.9	2.4	3.0	10.9	1.7
	1991	3 507.8	70.2	3.8	24.8	4.4	2.3	3.3	12.0	2.1
Developed market economies	1980	1 258.9	70.8	3.4	25.1	6.1	5.2	5.3	6.6	1.1
	1985	1 266.9	74.0	2.7	22.2	4.5	3.6	4.5	7.0	2.0
	1990	2 445.2	77.5	2.0	19.5	3.9	2.4	2.8	8.8	0.9
	1991	2 506.9	75.9	2.3	21.0	4.4	2.3	3.1	9.6	1.1
Economies in transition	1980	155.1	27.9	50.7	20.9	3.3	2.8	3.8	2.0	2.7
	1985	172.2	24.0	53.2	21.4	4.0	2.5	3.0	2.2	3.7
	1990	171.9	38.3	37.8	23.0	4.8	2.1	2.5	2.6	5.0
	1991	176.0	43.4	31.5	23.9	6.1	1.8	3.0	3.2	6.4
Developing countries	1980	586.9	68.4	3.9	26.5	7.6	2.6	4.0	11.0	0.7
	1985	494.3	61.6	5.3	31.8	5.7	2.7	5.5	14.7	2.4
	1990	774.8	60.6	3.6	33.0	3.7	2.5	3.8	19.2	3.4
	1991	824.9	58.5	2.5	36.4	4.2	2.6	3.8	21.2	4.2
of which:										
Latin America	1980	107.8	64.4	6.5	27.5	21.3	2.2	1.5	1.3	0.7
	1985	109.2	69.0	8.0	20.8	11.9	2.5	1.9	2.8	1.5
	1990	133.6	62.8	4.9	21.4	13.6	1.5	1.6	3.7	0.8
	1991	136.6	60.5	3.9	24.2	15.8	1.3	1.8	4.3	0.8
Africa	1980	94.9	82.9	2.6	13.7	6.2	3.1	1.9	1.2	0.4
	1985	59.3	80.4	4.1	14.3	3.9	5.0	2.0	1.7	0.3
	1990	66.7	82.6	3.3	13.1	1.1	5.9	2.6	2.3	0.5
	1991	65.3	81.1	3.0	13.9	0.9	6.0	2.6	2.8	0.5
West Asia	1980	211.0	71.6	1.6	25.4	5.6	1.7	5.3	12.2	0.1
	1985	104.8	50.2	2.5	46.3	8.8	2.9	13.6	20.0	0.1
	1990	106.0	59.0	3.9	36.3	2.3	5.4	12.2	15.4	0.4
	1991	99.6	59.7	2.5	35.9	2.5	6.2	11.4	15.3	0.2
South and East Asia	1980	141.6	62.2	2.5	34.3	2.6	3.0	5.3	21.1	1.9
	1985	178.5	62.7	2.0	34.0	1.7	2.0	4.1	20.6	5.2
	1990	385.5	61.1	1.4	36.5	1.7	1.7	2.7	23.9	6.2
	1991	440.3	58.3	1.3	40.0	2.0	2.0	3.2	25.1	7.4
Other Asia[a]	1980	20.4	43.5	13.1	43.4	1.8	5.6	4.9	30.6	0.0
	1985	30.1	39.2	12.6	48.2	2.2	1.9	6.0	36.3	1.7
	1990	65.8	33.3	9.0	55.9	1.2	1.1	1.7	51.0	0.8
	1991	75.1	34.1	5.7	60.2	1.1	1.3	2.0	54.8	0.9

Source: UNCTAD secretariat computations, based on data from Statistical Division/DESIPA.

a Including China, Democratic People's Republic of Korea, Mongolia and Viet Nam.

Table A.16. Direction of trade: imports (f.o.b.), 1980-1991

Origin		Destination								
		World	Developed market economies	Economies in transition	Developing countries (total)	Latin America	Africa	West Asia	South and East Asia	Other Asia[a]
		Billions of dollars								
World	1980	**2 000.9**	**1 336.0**	**144.0**	**504.0**	**126.1**	**84.4**	**96.5**	**150.7**	**22.8**
	1985	**1 933.4**	**1 283.4**	**151.7**	**475.3**	**92.6**	**63.6**	**89.0**	**165.5**	**43.3**
	1990	**3 391.9**	**2 429.7**	**142.9**	**772.7**	**132.1**	**81.9**	**101.5**	**369.6**	**56.8**
	1991	**3 507.8**	**2 461.7**	**132.5**	**868.5**	**154.8**	**82.0**	**115.5**	**420.0**	**73.0**
		Percentage								
Developed market economies	1980	62.9	66.7	29.3	62.7	60.5	77.0	69.5	55.1	63.2
	1985	65.5	73.1	22.2	59.2	61.9	71.9	63.4	53.6	57.7
	1990	72.1	78.0	34.9	61.8	72.1	72.0	67.0	58.5	38.7
	1991	71.5	77.3	42.9	60.5	70.7	69.7	68.1	57.0	36.9
Economies in transition	1980	7.8	3.2	54.7	6.4	4.1	5.2	6.0	2.1	18.3
	1985	8.9	3.2	60.4	7.8	7.5	6.8	5.9	2.3	14.6
	1990	5.1	2.7	45.5	5.1	6.2	4.3	4.3	1.2	15.3
	1991	5.0	3.1	41.9	4.9	7.0	3.8	4.5	1.4	15.5
Developing countries	1980	29.3	30.0	16.0	30.8	35.4	17.8	24.5	42.9	18.5
	1985	25.6	23.7	17.3	33.0	30.6	21.3	30.7	44.0	27.6
	1990	22.8	19.3	19.6	33.1	21.7	23.7	28.7	40.3	46.0
	1991	23.5	19.6	15.3	34.6	22.3	26.5	27.3	41.6	47.6
of which:										
Latin America	1980	5.4	5.2	4.8	5.9	18.2	2.8	1.6	0.9	3.3
	1985	5.6	5.9	5.8	4.8	14.1	4.3	2.3	1.9	3.9
	1990	3.9	3.5	4.5	3.7	13.8	2.4	2.1	1.3	2.0
	1991	3.9	3.4	4.1	3.8	14.0	2.2	2.1	1.4	1.5
Africa	1980	4.7	5.9	1.7	2.6	4.7	3.5	1.9	0.7	1.5
	1985	3.1	3.7	1.6	1.8	2.5	4.6	1.3	0.6	0.4
	1990	2.0	2.3	1.5	1.1	0.5	4.8	1.7	0.4	0.6
	1991	1.9	2.2	1.5	1.0	0.4	4.8	1.5	0.4	0.4
West Asia	1980	10.5	11.3	2.3	10.6	9.3	4.2	11.5	17.1	1.4
	1985	5.4	4.1	1.7	10.2	9.9	4.7	16.1	12.7	0.4
	1990	3.1	2.6	2.9	5.0	1.9	7.0	12.7	4.4	0.7
	1991	2.8	2.4	1.9	4.1	1.6	7.5	9.8	3.6	0.2
South and East Asia	1980	7.1	6.6	2.5	9.6	2.9	5.0	7.7	19.8	11.7
	1985	9.2	8.7	2.3	12.8	3.2	5.7	8.3	22.2	21.4
	1990	11.4	9.7	3.6	18.2	4.8	7.9	10.4	24.9	41.8
	1991	12.6	10.4	4.2	20.3	5.8	10.6	12.4	26.3	44.5
Other Asia[a]	1980	1.0	0.7	1.9	1.8	0.3	1.4	1.0	4.1	0.0
	1985	1.6	0.9	2.5	3.0	0.7	0.9	2.0	6.6	1.2
	1990	1.9	0.9	4.1	4.8	0.6	0.8	1.1	9.1	0.9
	1991	2.1	1.0	3.2	5.2	0.5	1.2	1.3	9.8	0.9

Source: UNCTAD secretariat computations, based on data from Statistical Division/DESIPA.

a Including data for China, Democratic People's Republic of Korea, Mongolia and Viet Nam.

Table A.17. Commodity composition of world trade: exports, 1980-1990
(Billions of dollars and percentage)

Exporting country group	Total Exports (billions of dollars)			Primary commodities											
				Food			Agricultural raw materials			Fuels			Ores and metals		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
World (billions of dollars)	**2 000.9**	**1 933.4**	**3 191.9**	221.1	199.2	318.3	73.9	61.2	101.6	480.8	393.4	393.4	93.5	70.6	118.9
World				(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed market economies	**1 258.9**	**1 266.9**	**2 445.2**	64.4	61.1	68.5	61.2	64.5	68.8	18.3	27.9	30.4	67.5	64.5	68.7
Economies in transition	**155.2**	**172.2**	**171.9**	4.4	4.6	3.1	8.8	9.0	6.9	8.8	14.7	14.1	5.2	6.3	4.4
Developing countries	**586.8**	**494.3**	**774.2**	31.2	34.3	28.5	30.0	26.5	24.3	72.9	57.4	55.4	27.3	29.2	26.8
Latin America	**107.8**	**109.2**	**133.6**	14.2	15.8	11.2	4.6	4.0	4.4	9.5	11.0	10.3	10.9	13.3	12.8
Africa	**94.9**	**59.3**	**66.7**	4.6	3.9	2.8	4.0	3.9	3.0	14.9	11.5	11.7	6.0	4.7	3.6
West Asia	**211.0**	**104.8**	**106.0**	1.2	1.5	1.5	1.3	1.1	0.9	41.5	24.7	22.6	1.2	1.4	1.7
South and East Asia	**141.6**	**178.5**	**325.5**	8.0	9.5	9.5	17.1	13.7	12.8	6.3	8.2	9.2	6.4	6.5	5.6
China[a]	**20.4**	**30.1**	**65.8**	2.3	2.6	2.6	2.1	3.1	2.4	0.6	2.0	1.6	1.2	1.9	1.5

Exporting country group	Manufactures														
	Textiles			Chemicals			Machinery and transport			Metal			Other		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
World (billions of dollars)	96.0	103.2	218.9	140.7	152.4	298.6	513.1	601.1	1 212.0	114.1	104.8	173.6	221.1	227.3	509.4
World	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed market economies	61.3	52.7	50.3	87.1	83.2	85.0	85.0	82.3	84.3	85.7	77.9	78.7	80.1	76.2	74.2
Economies in transition	5.0	4.6	2.1	5.5	7.1	3.5	9.0	8.3	3.2	6.8	8.2	5.3	5.2	4.6	2.4
Developing countries	33.7	42.7	47.7	7.4	9.7	11.5	6.0	9.4	12.5	7.5	13.9	16.0	14.7	19.2	21.8
Latin America	2.2	2.3	1.9	2.0	2.9	2.2	1.0	1.5	1.2	1.6	4.2	4.3	1.7	2.4	1.7
Africa	1.2	1.3	1.7	0.6	0.8	0.8	0.1	0.1	0.1	0.2	0.3	0.3	0.5	0.4	0.5
West Asia	1.5	2.8	2.3	1.0	0.9	1.2	0.3	0.4	0.3	0.4	1.5	1.3	0.6	0.9	0.8
South and East Asia	23.1	29.8	32.2	2.3	3.4	5.4	3.9	6.6	9.7	4.0	6.4	7.7	9.9	13.6	16.0
China[a]	4.8	5.6	8.1	0.8	1.0	1.3	0.1	0.2	0.9	0.6	0.6	1.6	1.2	1.0	2.2

Source: UNCTAD secretariat computations, based on data from Statistical Division/DESIPA.

a Including data for Democratic Peoples' Republic of Korea, Mongolia and Viet Nam; China accounts for more than 90 per cent of amounts shown.

Table A.18. Commodity composition of world trade: imports, 1980-1990
(Billions of dollars and percentage)

Importing country group	Total Imports (billions of dollars)			Primary commodities											
				Food			Agricultural raw materials			Fuels			Ores and metals		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
World (billions of dollars)	**2 000.9**	**1 933.4**	**3 391.9**	221.1	199.2	318.3	73.9	61.2	101.6	480.8	361.6	343.4	93.5	70.6	118.9
World				(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed market economies	**1 336.0**	**1 283.3**	**2 430.0**	61.4	63.0	71.0	68.3	67.5	71.1	75.3	68.2	68.2	79.1	73.1	77.8
Economies in transition	**144.0**	**151.7**	**142.9**	10.3	10.5	5.9	7.5	7.5	3.9	3.9	7.9	5.9	5.5	6.0	3.2
Developing countries	**504.0**	**475.3**	**772.7**	27.3	25.8	22.5	24.0	24.7	24.2	18.9	21.6	19.8	13.2	17.6	18.7
Latin America	**126.1**	**92.6**	**132.1**	6.0	4.8	4.3	3.1	3.1	3.0	6.7	5.5	3.2	3.1	3.8	2.5
Africa	**84.4**	**63.6**	**81.9**	6.0	6.1	3.9	2.3	2.6	2.9	1.6	1.7	2.3	1.4	1.4	1.2
West Asia	**96.5**	**89.0**	**101.5**	5.6	6.1	4.2	2.1	2.1	1.8	2.0	2.5	2.5	1.5	1.8	2.1
South and East Asia	**150.7**	**165.5**	**369.6**	7.0	7.2	7.7	10.5	11.2	13.2	7.4	10.0	9.9	5.1	6.9	10.7
China[a]	**22.8**	**43.3**	**56.8**	1.7	1.0	1.4	4.1	3.8	2.7	0.1	0.4	0.7	0.7	2.1	1.0

Importing country group	Manufactures														
	Textiles			Chemicals			Machinery and transport			Metal			Other		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
World (billions of dollars)	96.0	103.2	218.9	140.7	152.4	298.5	513.1	601.1	1 212.0	114.1	104.8	173.6	221.1	227.3	509.4
World	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed market economies	69.7	70.8	71.5	63.8	65.1	69.8	59.5	65.6	71.9	56.3	56.9	70.4	72.2	73.9	77.3
Economies in transition	6.8	6.5	3.9	7.4	6.8	4.0	8.7	8.0	3.7	9.3	9.1	3.8	5.5	5.0	2.8
Developing countries	23.1	22.2	24.3	28.5	27.5	25.4	31.3	25.7	23.9	33.9	33.2	25.3	22.0	20.9	19.4
Latin America	3.6	2.4	2.7	8.0	6.6	4.4	7.8	5.2	4.5	6.4	3.5	3.8	4.9	3.6	3.0
Africa	4.4	2.5	2.2	4.7	3.6	2.4	6.2	3.7	2.5	6.4	5.0	3.0	3.9	2.6	1.7
West Asia	5.8	6.0	3.1	4.2	4.1	3.0	6.9	5.1	2.9	8.7	8.2	4.1	5.6	5.3	2.7
South and East Asia	7.3	8.0	12.4	8.7	9.5	11.8	8.1	8.0	11.8	8.5	8.5	11.2	6.2	7.3	10.1
China[a]	1.1	2.4	2.7	1.6	2.5	2.3	1.3	3.0	1.6	2.3	6.6	2.1	0.7	1.5	1.3

Source: UNCTAD secretariat computations, based on data from Statistical Division of the United Nations Secretariat.

a Including data for Democratic Peoples' Republic of Korea, Mongolia and Viet Nam; China accounts for more than 90 per cent of amounts shown.

Table A.19. World trade: changes in value and volume of exports and imports, by major country group, 1982-1992
(Annual percentage change)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Dollar value of exports					
World	-6.7	-2.6	5.8	1.2	10.0	17.0	13.4	8.2	14.2	2.1	6.1
Developed market economies	-5.5	-1.2	6.5	3.3	16.7	17.0	14.1	7.0	15.4	1.8	6.1
Economies in transition	3.5	-1.1	-0.1	-2.6	5.2	4.1	-0.8	-1.5	-4.1	♦-15.5	..
Eastern Europe	0.8	-1.3	1.9	2.9	5.6	2.8	0.5	-3.2	-3.1	♦ -8.9	5.3
Former Soviet Union	6.3	-0.9	-1.9	-8.1	4.7	5.7	-2.2	0.4	-5.1	-21.0	..
Developing countries	-11.5	-6.1	5.5	-3.0	-6.8	20.5	14.5	14.2	13.8	5.4	8.0
Latin America	-8.8	-0.5	10.9	-4.6	-16.3	11.3	14.1	10.2	7.6	-2.7	4.6
Africa	-15.9	-3.1	0.5	-1.7	-24.5	13.7	2.2	14.9	24.6	-5.4	1.8
West Asia	-22.1	-23.1	-10.9	-8.0	-21.0	8.5	-7.0	34.4	25.4	-10.4	0.4
South and East Asia	-0.7	5.3	15.1	-2.4	8.8	29.6	23.5	11.9	10.2	14.3	12.0
Mediterranean	2.0	-2.8	11.2	6.4	-3.9	21.5	12.9	3.8	9.9	1.4	-7.3
China	1.9	1.4	12.0	10.1	14.0	26.9	20.2	9.1	18.1	15.0	14.3
Memo items											
Net energy exporters	-17.0	-14.7	-1.7	-7.6	-25.5	12.7	-0.9	25.1	25.1	-3.2	1.6
Net energy importers	-3.8	5.4	13.1	0.2	8.0	24.6	22.6	9.7	7.4	9.4	10.5
						Dollar value of imports					
World	-6.3	-2.7	6.4	0.9	9.7	16.3	14.1	8.4	13.7	2.7	6.2
Developed market economies	-6.3	-2.0	9.4	2.1	13.1	18.4	13.1	8.1	14.8	0.9	4.8
Economies in transition	-4.5	-3.3	-1.2	4.0	7.0	-0.6	2.0	4.5	1.5	♦-17.0	..
Eastern Europe	-9.0	-3.5	0.3	6.5	13.2	0.7	-2.7	-2.2	3.0	♦ 1.5	6.2
Former Soviet Union	0.4	-3.0	-2.6	1.5	0.5	-2.2	7.9	12.0	0.0	-30.1	..
Developing countries	-6.6	-4.8	0.5	-3.2	-0.1	13.9	20.2	10.2	12.6	11.5	12.2
Latin America	-19.7	-18.6	5.5	0.1	1.4	9.5	11.2	6.2	9.7	14.7	22.1
Africa	-11.9	-6.1	-8.7	-12.3	-0.1	-1.7	10.6	-0.3	19.5	0.3	5.2
West Asia	3.3	-6.5	-10.3	-15.7	-10.8	1.3	9.5	5.0	6.4	12.2	6.9
South and East Asia	-1.8	2.6	5.8	-4.8	4.5	28.1	29.7	15.4	15.5	14.1	12.0
Mediterranean	-8.9	-4.0	6.3	3.0	-2.2	18.0	4.4	11.9	32.9	-11.1	-3.9
China	-12.6	12.9	21.6	63.9	1.5	0.5	27.4	5.7	-10.1	19.1	22.0
Memo items											
Net energy exporters	-3.5	-11.6	-6.2	-14.5	-9.4	0.8	16.6	8.0	15.6	16.0	12.8
Net energy importers	-8.9	0.5	4.1	-1.7	5.4	23.1	20.9	11.7	14.3	8.9	10.8

Table A.19. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Volume of exports					
World	-2.1	1.6	8.5	3.8	4.1	5.8	8.1	7.8	5.1	3.6	4.5
Developed market economies	-1.8	1.8	9.8	5.2	3.4	5.0	8.6	6.7	5.7	2.5	3.9
Economies in transition	4.9	5.9	5.1	-0.8	4.0	2.5	4.5	-1.0	-9.7	♦-18.0	..
Eastern Europe	5.2	8.2	7.2	2.1	-0.7	1.7	4.3	-1.8	-6.5	♦ -7.0	5.0
Former Soviet Union	4.5	3.3	2.5	-4.3	10.0	3.4	4.8	0.0	-13.0	-27.7	..
Developing countries	-4.7	0.0	6.1	1.3	11.6	9.7	8.0	11.7	7.9	9.7	7.4
Latin America	-1.1	3.1	11.6	0.1	-4.0	6.4	7.7	6.8	3.0	3.9	6.3
Africa	-10.3	3.5	1.6	2.7	10.6	8.2	7.6	4.7	8.1	6.8	4.1
West Asia	-18.4	-15.1	-7.8	-4.0	31.7	-5.7	8.9	17.3	3.1	4.3	0.5
South and East Asia	8.1	8.5	12.2	1.8	19.8	18.2	14.1	10.6	7.3	17.2	11.2
Mediterranean	9.0	-2.5	13.8	9.1	-18.3	12.9	4.2	4.3	2.7	2.5	-6.7
China	13.7	5.4	11.6	14.4	22.1	17.3	11.2	6.6	14.5	18.2	13.9
Memo items											
Net energy exporters	-12.7	-6.5	0.4	-3.6	16.1	1.8	7.4	16.1	8.7	7.8	1.3
Net energy importers	5.2	7.4	11.4	4.6	9.9	15.3	11.9	8.2	5.1	11.7	10.7
						Volume of imports					
World	-1.4	1.4	8.3	3.3	5.1	5.7	9.6	7.7	4.3	4.5	5.0
Developed market economies	-1.4	2.0	10.8	4.6	8.9	6.6	8.7	7.5	4.6	3.1	3.7
Economies in transition	1.7	4.1	4.0	5.2	-0.8	1.0	3.6	5.0	-5.2	♦-24.7	..
Eastern Europe	-5.6	4.2	3.7	5.7	4.6	3.5	3.3	1.3	-8.9	♦ -5.8	5.7
Former Soviet Union	9.7	4.0	4.4	4.7	-6.0	-1.6	4.0	9.3	-1.4	-38.5	..
Developing countries	-2.0	-0.7	2.9	-0.7	-4.7	4.3	15.0	8.9	5.8	13.6	10.3
Latin America	-15.8	-15.6	8.1	3.1	-4.1	3.2	6.5	4.5	5.1	17.5	21.7
Africa	-7.8	-2.6	-6.2	-10.3	-6.2	-12.5	5.8	-1.3	7.0	2.6	2.6
West Asia	7.9	-3.0	-7.9	-13.8	-15.5	-8.8	5.8	3.3	-3.1	14.8	4.6
South and East Asia	3.8	7.0	7.8	-2.1	0.8	17.2	23.8	14.3	9.6	15.4	9.7
Mediterranean	-5.1	0.9	9.6	6.4	-3.9	5.1	0.3	8.4	18.0	-8.4	-6.0
China	-8.1	16.1	25.0	67.1	-5.0	-6.5	19.8	5.8	-14.4	20.3	19.7
Memo items											
Net energy exporters	0.9	-8.6	-3.8	-12.5	-15.5	-7.2	11.3	6.2	7.9	17.9	10.9
Net energy importers	-3.8	5.1	6.3	1.2	2.2	12.3	15.9	10.7	7.3	10.9	8.9

Source: UN/DESIPA, based on data of United Nations and estimates of ECE from national data.

♦ Indicates break in the series.

a Preliminary estimates.

Table A.20. World trade: changes in prices of exports and imports and terms of trade, by major country group, 1982-1992
(Annual percentage change in dollar-based indices)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Unit value of exports					
World	-4.7	-4.1	-2.5	-2.5	5.6	10.5	4.9	0.4	8.6	-1.4	1.6
Developed market economies	-3.7	-2.9	-3.0	-1.8	12.9	11.5	5.1	0.2	9.2	-0.7	2.1
Developing countries	-7.2	-6.1	-0.6	-4.3	-16.5	9.8	6.0	2.2	5.5	-3.9	0.5
Latin America	-7.7	-3.5	-0.7	-4.7	-12.8	4.6	6.0	3.2	4.4	-6.4	-1.6
Africa	-6.3	-6.4	-1.1	-4.4	-31.7	5.1	-5.1	9.8	15.2	-11.5	-2.2
West Asia	-4.5	-9.4	-3.4	-4.1	-40.0	15.0	-14.6	14.6	21.7	-14.1	-0.1
South and East Asia	-8.1	-2.9	2.6	-4.1	-9.2	9.6	8.2	1.3	2.7	-2.5	0.7
Mediterranean	-6.4	-0.3	-2.3	-2.5	17.6	7.7	8.4	-0.4	7.0	-1.1	-0.7
China	-10.4	-3.8	0.3	-3.8	-6.7	8.2	8.1	2.3	3.2	-2.7	0.3
Memo items											
Net energy exporters	-5.0	-8.8	-2.1	-4.2	-35.8	10.7	-7.8	7.7	15.1	-10.2	0.3
Net energy importers	-8.6	-1.8	1.6	-4.2	-1.7	8.1	9.6	1.4	2.2	-2.1	-0.1
						Unit value of imports					
World	-4.9	-4.1	-1.7	-2.3	4.3	10.0	4.0	0.7	9.1	-1.8	1.2
Developed market economies	-4.9	-3.9	-1.3	-2.4	3.8	11.0	4.1	0.6	9.7	-2.1	1.1
Developing countries	-4.7	-3.8	-2.3	-2.5	4.8	9.3	4.6	1.1	6.8	-1.8	1.7
Latin America	-4.7	-3.5	-2.4	-2.9	5.8	6.1	4.3	1.6	4.4	-2.4	0.3
Africa	-4.4	-3.6	-2.7	-2.2	6.5	12.3	4.5	1.0	11.7	-2.3	2.5
West Asia	-4.2	-3.7	-2.5	-2.2	5.5	11.1	3.5	1.6	9.8	-2.3	2.1
South and East Asia	-5.4	-4.1	-1.9	-2.7	3.6	9.3	4.8	1.0	5.4	-1.2	2.1
Mediterranean	-3.9	-4.9	-3.0	-3.2	1.8	12.3	4.1	3.3	12.6	-3.0	2.2
China	-4.9	-2.8	-2.7	-1.9	6.8	7.4	6.3	-0.1	5.0	-1.0	2.0
Memo items											
Net energy exporters	-4.3	-3.2	-2.5	-2.3	7.3	8.6	4.7	1.6	7.2	-1.6	1.7
Net energy importers	-5.3	-4.4	-2.1	-2.9	3.2	9.5	4.3	0.9	6.5	-1.8	1.8
						Terms of trade					
Developed market economies	1.3	1.0	-1.7	0.6	8.7	0.4	1.0	-0.4	-0.5	1.1	1.0
Developing countries	-2.6	-2.4	1.8	-1.8	-20.3	0.5	1.4	1.1	-1.3	-2.2	-1.2
Latin America	-3.2	0.0	1.8	-1.9	-17.6	-1.5	1.6	1.6	0.0	-4.9	-1.9
Africa	-1.9	-2.9	1.6	-2.2	-35.9	-6.4	-9.1	8.7	3.2	-9.4	-4.7
West Asia	-0.3	-5.9	-0.8	-2.0	-43.2	3.5	-17.6	12.7	10.8	-12.1	-2.2
South and East Asia	-2.9	1.3	4.6	-1.5	-12.3	0.3	3.3	0.3	-2.6	-1.3	-1.4
Mediterranean	-2.6	4.8	0.8	0.8	15.6	-4.1	4.1	-3.6	-5.0	2.0	-2.8
China	-5.8	-1.0	3.1	-1.9	-12.6	0.7	1.6	2.4	-1.7	-1.7	-1.6
Memo items											
Net energy exporters	-0.7	-5.7	0.3	-1.9	-40.2	1.9	-11.9	6.0	7.4	-8.7	-1.4
Net energy importers	-3.5	2.7	3.8	-1.3	-4.8	-1.3	5.0	0.4	-4.0	1.3	-1.9

Source: UN/DESIPA, based on data of United Nations and IMF.

a Preliminary estimates.

Table A.21. Indices of prices of non-fuel primary commodities exported by developing countries, 1982-1992
(1985 = 100)

	Food	Tropical beverages	Vegetable oil-seeds and oils	Agricultural raw materials	Minerals and metals	Combined index		Prices of manufactures[a]	Real prices of commodities[b]	Memo item: crude petroleum[c]
						Dollar	SDR			
1982	131	92	90	103	105	111	102	107	104	121
1983	138	96	107	110	113	118	112	103	114	108
1984	116	110	144	111	105	114	112	100	114	102
1985	100	100	100	100	100	100	100	100	100	100
1986	110	124	62	102	95	104	90	120	87	55
1987	117	81	73	119	113	107	84	135	79	62
1988	152	82	96	129	164	135	102	144	94	49
1989	161	70	85	129	164	135	107	143	94	59
1990	151	62	74	137	149	127	95	158	80	75
1991	141	57	80	129	135	119	88	158	75	62
1992	138	49	86	125	131	115	83	164	71	63
1991 I	145	61	78	139	142	124	89	166	74	64
II	142	57	76	128	136	119	90	152	78	58
III	138	55	80	125	132	116	88	152	76	62
IV	140	56	85	123	130	116	85	157	74	66
1992 I	141	50	88	123	129	116	85	160	72	57
II	138	46	88	123	132	116	84	162	72	65
III	143	46	83	128	138	118	83	170	70	65
IV	131	52	83	127	125	112	81	163	69	65

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

a Unit value of exports of manufactures from developed market economies. The base of the original index has been shifted to 1985.

b Dollar index deflated by unit values of manufactured exports of developed market economies.

c OPEC oil price, which is the average spot price of a basket of seven OPEC country crudes (Saharan Blend, Minas, Bonny Light, Arab Light, Dubai, T. J. Light and Isthmus).

III. INTERNATIONAL FINANCE AND FINANCIAL MARKETS

Table A.22. World balance of payments on current account by country group, 1982-1992[a]
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
Developed market economies	-8.9	-1.4	-29.2	-28.7	6.6	-17.9	-12.2	-31.4	-45.1	12.3	20.2
Major developed market economies of which:	13.6	6.5	-30.8	-30.1	7.6	-15.5	-7.6	-12.0	-24.8	18.0	31.6
Germany[c]	11.1	10.8	15.9	23.3	47.7	56.9	62.3	69.8	62.1	10.0	-1.2
Japan	8.1	22.2	36.4	50.5	87.3	89.7	82.6	60.3	40.4	84.7	121.0
United States	-3.1	-35.0	-87.9	-108.4	-133.5	-150.9	-113.7	-87.9	-69.9	-24.7	-44.9
Other industrialized countries	-22.5	-7.9	1.6	1.5	-1.0	-2.4	-4.6	-19.4	-20.3	-5.7	-11.5
Economies in transition[d]	3.8	7.6	10.0	2.6	2.5	7.4	3.7	-2.9	♦-10.5	-3.0	..
Eastern Europe	0.2	1.8	3.3	2.5	-0.2	0.1	0.8	-2.1	♦ -5.7	-2.2	-0.3
Former Soviet Union	3.6	5.8	6.7	0.1	2.7	7.3	2.9	-0.8	♦ -4.8	-0.8	..
Developing countries	-75.6	-54.0	-21.4	-32.7	-54.0	-13.7	-27.3	-20.5	-15.7	-83.3	-87.4
Capital-surplus countries	17.9	-2.4	6.8	2.9	-13.3	-2.3	-4.3	2.8	12.0	-23.0	-9.4
Capital-importing countries	-93.5	-51.6	-28.2	-35.6	-40.7	-11.4	-23.0	-23.3	-27.7	-60.3	-78.0
Energy exporters	-36.5	-13.4	-2.7	-4.2	-19.6	-1.9	-16.8	-7.6	2.1	-17.4	-28.1
Energy importers	-62.9	-42.5	-27.9	-19.9	-14.0	-9.8	-2.5	-11.2	-41.7	-56.3	-62.3
Recent surplus economies	-2.8	2.1	7.2	11.0	23.9	31.8	29.4	25.2	16.1	9.3	10.3
Other	-60.1	-44.6	-35.1	-30.9	-37.8	-41.7	-31.9	-36.4	-57.9	-65.6	-72.5
China	5.9	4.4	2.4	-11.5	-7.2	0.3	-3.8	-4.5	11.9	13.4	12.3
World residual[e]	80.7	47.8	40.7	58.7	44.9	24.2	35.8	54.8	71.3	74.0	67.5
of which:											
Trade residual (imports, f.o.b.)	-9.9	-21.1	-29.5	-19.5	-13.7	-33.8	-38.6	-24.1	-23.6	-30.9	18.2
Services and private transfers	90.7	68.9	70.2	78.2	58.6	58.0	74.4	78.9	94.9	104.9	49.3

Source: UN/DESIPA, based on data of IMF and other national and international sources.

♦ Indicates break in series.

a Balance on goods, services and private transfers.
b Preliminary estimate.
c Including transactions of the former German Democratic Republic as from July 1990.
d Balance in convertible currencies; total includes the former German Democratic Republic until 1990.
e Unreported trade, services and private transfers, as well as errors and timing asymmetries in reported data.

Table A.23. Current account transactions: developed market economies, 1982-1992[a]
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
All developed market economies											
Merchandise exports	1 159.1	1 144.8	1 221.0	1 259.2	1 465.4	1 713.8	1 973.0	2 111.2	2 421.9	2 460.7	2 618.3
Merchandise imports (f.o.b.)	-1 184.9	-1 168.3	-1 269.1	-1 298.7	-1 470.2	-1 737.0	-1 977.7	-2 140.7	-2 453.6	-2 445.3	-2 619.0
Trade balance	-25.8	-23.6	-48.1	-39.4	-4.8	-23.2	-4.7	-29.4	-31.6	15.3	-0.7
Net services and private transfers	16.9	22.1	18.9	10.8	11.4	5.2	-7.5	-2.0	-13.5	-3.1	20.9
of which: investment income	6.7	14.1	15.3	5.9	1.5	1.9	5.3	7.3	-3.2	-8.6	-15.5
Current account balance	-8.9	-1.4	-29.2	-28.7	6.6	-17.9	-12.2	-31.4	-45.1	12.3	20.2
Major developed market economies											
Merchandise exports	846.2	836.6	897.8	926.1	1 071.5	1 239.1	1 434.7	1 541.0	1 747.7	1 786.5	1 903.0
Merchandise imports (f.o.b.)	-846.4	-849.5	-945.5	-966.5	-1 071.9	-1 251.0	-1 426.8	-1 549.1	-1 757.8	-1 756.7	-1 843.3
Trade balance	-0.2	-12.9	-47.7	-40.4	-0.4	-12.0	7.9	-8.1	-10.2	29.8	59.7
Net services and private transfers	13.8	19.3	16.9	10.2	8.0	-3.5	-15.5	-3.9	-14.7	-11.8	-28.0
of which: investment income	19.8	27.0	28.8	21.0	17.9	18.2	24.1	29.2	27.7	21.6	16.8
Current account balance	13.6	6.5	-30.8	-30.1	7.6	-15.5	-7.6	-12.0	-24.8	18.0	31.6
of which:											
Germany[c]											
Merchandise exports	165.8	159.9	161.4	173.7	231.0	278.5	308.6	325.0	391.3	378.0	404.5
Merchandise imports (f.o.b.)	-141.1	-138.5	-139.2	-145.1	-175.3	-208.3	-228.9	-247.2	-319.6	-354.5	-372.4
Trade balance	24.7	21.4	22.1	28.6	55.8	70.2	79.8	77.7	71.7	23.5	32.1
Net services and private transfers	-13.6	-10.6	-6.3	-5.3	-8.0	-13.3	-17.5	-7.9	-9.6	-13.6	-33.4
of which: investment income	-1.2	1.6	3.6	3.3	4.2	4.0	5.2	11.8	17.3	17.9	11.1
Current account balance	11.1	10.8	15.9	23.3	47.7	56.9	62.3	69.8	62.1	10.0	-1.2
Japan											
Merchandise exports	137.7	145.5	168.3	174.0	205.6	224.6	259.8	269.6	280.4	306.6	330.8
Merchandise imports (f.o.b.)	-119.6	-114.0	-124.0	-118.0	-112.8	-128.2	-164.8	-192.7	-216.8	-203.5	-198.2
Trade balance	18.1	31.5	44.3	56.0	92.8	96.4	95.0	76.9	63.6	103.1	132.6
Net services and private transfers	-9.9	-9.3	-7.9	-5.5	-5.5	-6.7	-12.4	-16.6	-23.2	-18.4	-11.6
of which: investment income	1.7	3.1	4.2	6.8	9.5	16.7	21.0	23.4	23.2	26.7	36.2
Current account balance	8.1	22.2	36.4	50.5	87.3	89.7	82.6	60.3	40.4	84.7	121.0

Table A.23. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
United States											
Merchandise exports	211.2	201.8	219.9	215.9	223.4	250.2	320.2	361.7	388.7	416.0	439.3
Merchandise imports (f.o.b.)	-247.7	-268.9	-332.4	-338.1	-368.4	-409.8	-447.2	-477.4	-497.5	-489.4	-531.5
Trade balance	-36.5	-67.1	-112.5	-122.2	-145.1	-159.6	-127.0	-115.7	-108.8	-73.4	-92.3
Net services and private transfers	33.4	32.1	24.5	13.8	11.6	8.6	13.3	27.8	38.9	48.8	47.4
of which: investment income	29.8	31.9	30.9	23.2	15.3	10.9	12.4	14.4	19.3	16.5	10.1
Current account balance	-3.1	-35.0	-87.9	-108.4	-133.5	-150.9	-113.7	-87.9	-69.9	-24.7	-44.9
Other industrialized countries											
Merchandise exports	312.9	308.2	323.3	333.1	393.9	474.7	538.3	570.3	674.3	674.2	715.3
Merchandise exports											
Merchandise imports (f.o.b.)	-338.5	-318.9	-323.7	-332.2	-398.3	-485.9	-550.8	-591.6	-695.7	-688.6	-775.7
Trade balance	-25.6	-10.7	-0.4	0.9	-4.4	-11.2	-12.6	-21.3	-21.5	-14.4	-60.3
Net services and private transfers	3.0	2.8	2.0	0.6	3.4	8.8	7.9	1.9	1.2	8.7	48.9
of which: investment income	-13.0	-12.9	-13.5	-15.1	-16.3	-16.3	-18.9	-21.9	-30.9	-30.2	-32.3
Current account balance	-22.5	-7.9	1.6	1.5	-1.0	-2.4	-4.6	-19.4	-20.3	-5.7	-11.5

Source: UN/DESIPA, based on data of IMF and national sources.

a Balance on goods, services and private transfers.
b Preliminary (based in part on United Nations Secretariat estimates).
c Including transactions of the former German Democratic Republic as from July 1990.

Table A.24. Current account transactions: economies in transition, 1982-1992[a]
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
Economies in transition[c]											
Merchandise exports	74.4	75.7	76.8	70.3	58.3	64.2	69.5	72.8	♦ 72.7	♦ 75.3	..
Merchandise imports (f.o.b.)	-65.1	-64.2	-63.4	-63.9	-52.0	-54.0	-62.0	-71.4	♦-78.1	♦-74.5	..
Trade balance	9.3	11.5	13.4	6.4	6.3	10.2	7.5	1.4	♦ -5.4	♦ 0.8	..
Net services and private transfers	-5.5	-3.9	-3.4	-3.8	-3.8	-2.8	-3.8	-4.3	♦ -5.1	♦ -3.8	..
Current account balance	3.8	7.6	10.0	2.6	2.5	7.4	3.7	-2.9	♦-10.5	♦ -3.0	..
Eastern Europe[c]											
Merchandise exports	31.0	31.5	33.5	33.4	31.5	32.9	36.1	37.6	39.1	♦ 37.6	45.0
Merchandise imports (f.o.b.)	-26.0	-26.2	-26.8	-27.7	-28.8	-30.9	-33.3	-36.0	-42.8	♦-39.2	-46.5
Trade balance	5.0	5.3	6.7	5.7	2.7	2.0	2.8	1.6	-3.7	♦ -1.6	-1.6
Net services and private transfers	-4.8	-3.5	-3.4	-3.2	-2.9	-1.9	-2.0	-3.7	-2.0	♦ -0.6	1.3
Current account balance	0.2	1.8	3.3	2.5	-0.2	0.1	0.8	-2.1	-5.7	♦ -2.2	-0.3
of which:											
Former Czechoslovakia											
Merchandise exports	4.1	4.0	4.0	3.9	4.3	4.5	5.0	5.4	6.0	8.3	11.3
Merchandise imports (f.o.b.)	-3.4	-3.2	-3.1	-3.2	-4.1	-4.7	-5.1	-5.0	-6.8	-8.8	-12.9
Trade balance	0.7	0.8	0.9	0.7	0.2	-0.2	-0.1	0.4	-0.8	-0.4	-1.6
Net services and private transfers	-0.3	0.1	0.2	0.0	0.2	0.3	0.2	-0.1	-0.3	0.8	1.8
Current account balance	0.4	0.9	1.1	0.7	0.4	0.1	0.1	0.3	-1.1	0.4	0.2
Hungary											
Merchandise exports	4.8	4.8	4.9	4.2	4.2	5.0	5.5	6.4	6.3	9.3	10.9
Merchandise imports (f.o.b.)	-4.2	-4.1	-4.0	-4.1	-4.7	-5.0	-5.0	-5.9	-6.0	-9.1	-11.0
Trade balance	0.6	0.7	0.9	0.1	-0.5	0.0	0.5	0.5	0.3	0.2	-0.1
Net services and private transfers	-1.1	-0.8	-1.0	-1.3	-1.2	-1.2	-1.3	-1.9	-0.2	0.1	0.4
Current account balance	-0.5	-0.1	-0.1	-1.2	-1.7	-1.2	-0.8	-1.4	0.1	0.3	0.4
Poland											
Merchandise exports	4.5	4.8	5.3	5.1	5.3	6.2	7.2	7.6	10.9	12.8	14.0
Merchandise imports (f.o.b.)	-4.3	-3.9	-3.9	-4.0	-4.3	-5.1	-6.3	-7.3	-8.6	-12.7	-13.5
Trade balance	0.2	0.9	1.4	1.1	1.0	1.1	0.9	0.3	2.3	0.1	0.5
Net services and private transfers	-2.5	-2.3	-2.2	-1.7	-1.7	-1.5	-1.5	-2.1	-1.6	-1.4	-0.8
Current account balance	-2.3	-1.4	-0.8	-0.6	-0.7	-0.4	-0.6	-1.8	0.7	-1.4	-0.3

Table A.24. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
Former Soviet Union											
Merchandise exports	43.4	44.2	43.3	36.9	26.8	31.3	33.4	35.2	♦ 33.6	37.7	..
Merchandise imports (f.o.b.)	-39.1	-38.0	-36.6	-36.2	-23.2	-23.1	-28.7	-35.4	♦-35.3	-35.3	..
Trade balance	4.3	6.2	6.7	0.7	3.6	8.2	4.7	-0.2	♦ -1.7	2.4	..
Net services and private transfers	-0.7	-0.4	0.0	-0.6	-0.9	-0.9	-1.8	-0.6	♦ -3.1	-3.2	..
Current account balance	3.6	5.8	6.7	0.1	2.7	7.3	2.9	-0.8	♦ -4.8	-0.8	..

Source: UN/DESIPA, based on data of IMF and ECE.

♦ Indicates break in series.

a Balance in convertible currencies on goods, services and private transfers.
b Preliminary (based in part on United Nations Secretariat estimates).
c Including transactions of the former German Democratic Republic until 1990.

Table A.25. Current account transactions: developing countries, 1982-1992[a]
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
All developing countries (128 economies)											
Merchandise exports	506.9	476.5	508.4	484.8	438.2	544.6	627.5	708.3	805.9	849.5	921.5
Merchandise imports (f.o.b.)	-480.5	-443.3	-444.2	-432.3	-426.0	-497.8	-591.7	-656.2	-745.3	-834.7	-937.5
Trade balance	26.4	33.1	64.2	52.5	12.2	46.8	35.8	52.2	60.6	14.8	-16.0
Net services and private transfers	-102.0	-87.1	-85.7	-85.2	-66.2	-60.5	-63.1	-72.6	-76.3	-98.1	-71.4
of which: investment income	-43.6	-38.2	-47.3	-46.3	-39.7	-46.4	-48.0	-49.3	-46.0	-41.8	-41.3
Current account balance	-75.6	-54.0	-21.4	-32.7	-54.0	-13.7	-27.3	-20.5	-15.7	-83.3	-87.4
By region											
Latin America											
Merchandise exports	98.5	97.6	107.0	99.2	82.2	93.5	106.5	116.7	128.3	127.8	132.2
Merchandise imports (f.o.b.)	-91.3	-68.1	-69.4	-67.1	-67.0	-74.9	-84.6	-90.5	-103.8	-122.1	-146.0
Trade balance	7.2	29.5	37.6	32.0	15.2	18.7	21.8	26.2	24.5	5.7	-13.8
Net services and private transfers	-49.3	-38.4	-39.9	-36.9	-35.6	-31.9	-33.5	-34.2	-31.7	-26.5	-19.9
of which: investment income	-39.1	-35.0	-37.9	-36.1	-32.7	-32.2	-34.7	-38.4	-35.4	-30.2	-29.1
Current account balance	-42.1	-8.8	-2.3	-4.9	-20.4	-13.3	-11.6	-7.9	-7.1	-20.7	-33.7
Africa											
Merchandise exports	68.4	63.5	66.1	66.5	49.1	54.8	54.7	61.4	79.9	75.8	76.0
Merchandise imports (f.o.b.)	-73.6	-64.9	-63.0	-57.3	-51.3	-54.9	-59.9	-63.3	-72.3	-73.9	-72.0
Trade balance	-5.2	-1.3	3.1	9.2	-2.3	-0.1	-5.2	-1.9	7.6	1.9	4.0
Net services and private transfers	-19.6	-16.6	-15.1	-15.4	-13.3	-12.8	-13.3	-15.0	-15.0	-14.2	-14.3
of which: investment income	-8.5	-8.5	-8.6	-9.6	-9.0	-11.7	-12.5	-13.0	-14.0	-12.5	-12.9
Current account balance	-24.8	-18.0	-12.0	-6.2	-15.6	-12.9	-18.5	-16.9	-7.3	-12.3	-10.3
West Asia											
Merchandise exports	154.7	122.7	113.8	99.8	69.2	87.2	88.2	110.7	131.9	119.1	118.6
Merchandise imports (f.o.b.)	-109.6	-99.7	-89.1	-77.1	-69.2	-75.7	-78.2	-82.5	-87.8	-95.1	-103.4
Trade balance	45.1	23.0	24.7	22.8	0.0	11.5	10.0	28.2	44.1	24.0	15.2
Net services and private transfers	-32.9	-31.8	-23.0	-28.7	-19.4	-19.3	-19.7	-26.8	-36.8	-55.4	-32.1
of which: investment income	13.6	17.6	13.8	13.5	16.5	13.2	14.3	15.4	9.8	8.9	8.2
Current account balance	12.2	-8.8	1.7	-5.9	-19.4	-7.8	-9.7	1.4	7.4	-31.4	-16.9

Table A.25. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
South and East Asia											
Merchandise exports	164.2	172.6	199.9	196.7	216.3	284.4	350.2	390.7	434.0	495.3	565.6
Merchandise imports (f.o.b.)	-182.5	-188.2	-199.0	-206.1	-213.5	-264.0	-339.3	-385.5	-435.9	-502.7	-580.6
Trade balance	-18.3	-15.6	0.9	-9.4	2.8	20.4	10.9	5.1	-1.9	-7.4	-15.0
Net services and private transfers	-0.9	-0.7	-7.6	-5.6	-0.8	-0.2	-2.1	-4.9	-1.0	-7.9	-6.4
of which: investment income	-11.2	-11.3	-12.0	-11.5	-11.5	-12.3	-11.4	-10.5	-8.3	-8.8	-9.8
Current account balance	-19.2	-16.3	-6.7	-15.0	2.0	20.1	8.8	0.2	-2.8	-15.3	-21.4
By analytical grouping											
Surplus energy exporters (8 economies)											
Merchandise exports	155.6	122.8	111.4	95.8	62.1	76.9	76.7	97.1	118.1	105.8	103.8
Merchandise imports (f.o.b.)	-97.6	-86.1	-75.3	-60.4	-54.3	-58.8	-61.0	-67.1	-69.9	-74.6	-81.3
Trade balance	58.0	36.7	36.1	35.4	7.8	18.1	15.7	30.0	48.1	31.2	22.5
Net services and private transfers	-40.1	-39.1	-29.3	-32.5	-21.1	-20.4	-20.0	-27.2	-36.1	-54.2	-31.9
of which: investment income	18.4	19.7	15.4	15.9	18.7	15.8	17.1	17.9	16.3	15.5	12.7
Current account balance	17.9	-2.4	6.8	2.9	-13.3	-2.3	-4.3	2.8	12.0	-23.0	-9.4
Deficit energy exporters (19 economies)											
Merchandise exports	125.7	121.3	133.5	127.3	91.7	111.2	113.7	134.5	169.6	170.9	180.4
Merchandise imports (f.o.b.)	-117.9	-99.6	-98.9	-93.8	-80.9	-85.0	-102.0	-111.4	-136.3	-158.2	-176.9
Trade balance	7.8	21.7	34.6	33.5	10.8	26.2	11.7	23.1	33.3	12.8	3.5
Net services and private transfers	-44.2	-35.2	-37.3	-37.7	-30.4	-28.1	-28.5	-30.7	-31.2	-30.2	-31.6
of which: investment income	-25.1	-23.7	-26.2	-25.8	-22.4	-25.1	-26.2	-29.2	-29.4	-28.5	-24.7
Current account balance	-36.5	-13.4	-2.7	-4.2	-19.6	-1.9	-16.8	-7.6	2.1	-17.4	-28.1
Energy-importing countries (100 economies)											
Merchandise exports	225.6	232.3	263.5	261.7	284.4	356.5	437.1	476.7	518.3	572.7	637.4
Merchandise imports (f.o.b.)	-265.0	-257.6	-270.0	-278.1	-290.8	-354.0	-428.8	-477.7	-539.0	-601.9	-679.3
Trade balance	-39.4	-25.3	-6.5	-16.4	-6.3	2.5	8.3	-1.0	-20.8	-29.2	-42.0
Net services and private transfers	-17.7	-12.9	-19.0	-15.0	-14.8	-12.0	-14.6	-14.7	-9.0	-13.7	-8.0
of which: investment income	-36.9	-34.3	-36.4	-36.4	-36.0	-37.2	-38.9	-38.0	-32.9	-28.7	-29.4
Current account balance	-57.1	-38.1	-25.5	-31.4	-21.1	-9.5	-6.3	-15.7	-29.8	-42.9	-50.0

Table A.25. *(concluded)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
Recent surplus economies (4 economies)											
Merchandise exports	83.1	90.7	107.6	108.6	130.2	175.5	221.1	243.7	262.8	300.1	343.5
Merchandise imports (f.o.b.)	-90.5	-93.2	-101.0	-99.8	-111.1	-150.0	-198.9	-224.3	-255.6	-297.6	-340.5
Trade balance	-7.4	-2.5	6.5	8.8	19.1	25.5	22.2	19.4	7.2	2.5	3.0
Net services and private transfers	4.6	4.6	0.6	2.2	4.8	6.3	7.2	5.8	8.9	6.8	7.3
of which: investment income	-3.6	-2.9	-2.2	-1.4	-0.7	-0.4	1.8	3.4	4.2	5.2	2.7
Current account balance	-2.8	2.1	7.2	11.0	23.9	31.8	29.4	25.2	16.1	9.3	10.3

Source: UN/DESIPA, based on data of IMF, official national and other sources.

a Balance on goods, services and private transfers.
b Preliminary estimate.

Table A.26. Net transfer of financial resources of industrial countries, 1982-1992
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
United States											
Net capital flow	10.0	44.7	100.6	122.7	137.9	154.1	122.4	131.0	102.7	51.2	68.1
Private grants[b]	-4.5	-4.5	-4.7	-4.2	-4.4	-4.3	-5.4	-5.4	-5.2	-5.7	-6.4
Official grants	-8.3	-8.7	-10.8	-13.4	-14.0	-12.5	-13.0	-13.3	-20.6	21.0	-17.6
Direct investment[c]	19.9	18.6	28.1	21.3	27.7	47.7	52.1	62.2	48.2	22.3	-6.2
Portfolio	9.5	1.7	25.0	68.5	81.5	61.7	66.0	73.6	-6.8	10.7	21.5
Medium- and long-term loans	-22.7	-18.0	-12.8	8.0	-5.1	-0.6	11.7	3.2	22.6	13.2	2.0
Short-term capital	-25.3	36.4	50.0	17.7	36.9	66.3	11.2	8.4	17.0	-9.1	87.9
Errors and omissions	41.4	19.1	26.0	24.8	15.5	-4.1	0.0	2.4	47.5	-1.1	-13.1
Use of IMF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interest	23.3	18.8	16.6	8.5	6.2	-5.7	2.2	-8.9	-16.5	-21.5	-23.0
Net transfer of resources (financial basis)	33.4	63.6	117.2	131.2	144.1	148.4	124.6	122.1	86.2	29.7	45.2
Use of official reserves[d]	-5.0	-1.2	-3.1	-3.8	0.3	9.1	-3.9	-25.3	-2.2	5.8	3.4
Net transfer of resources (expenditure basis)	28.4	62.4	114.1	127.3	144.4	157.6	120.7	96.8	84.0	35.5	48.5
United Kingdom											
Net capital flow	-12.4	-7.3	-2.7	-5.7	3.1	28.8	37.9	28.0	31.5	20.9	18.9
Private grants[b]	0.1	0.5	0.5	0.4	0.1	-0.2	-0.5	-0.5	-0.5	-0.5	-0.5
Official grants	-3.1	-2.9	-2.9	-4.4	-3.3	-5.3	-5.9	-7.0	-8.2	-1.9	-8.5
Direct investment[c]	-0.8	-1.5	-5.2	-3.5	-3.7	-9.2	-5.4	3.7	25.7	10.5	10.6
Portfolio	-13.3	-8.5	-11.4	-8.4	-14.9	41.2	7.3	-33.9	-19.8	-25.8	-17.6
Medium- and long-term loans	-1.7	-3.9	-2.4	2.1	6.5	1.8	4.3	9.5	11.6	24.8	19.0
Short-term capital	10.4	7.8	9.8	7.8	13.8	-0.1	26.0	52.7	13.0	13.2	-1.3
Errors and omissions	-3.7	1.3	9.0	0.3	4.6	0.6	12.1	3.5	9.8	0.6	17.1
Use of IMF credit	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interest	1.6	2.8	2.7	1.6	2.5	-0.5	-2.7	-2.9	-6.8	-6.3	-0.6
Net transfer of resources (financial basis)	-10.8	-4.5	0.0	-4.1	5.6	28.3	35.2	25.1	24.7	14.6	18.3
Use of official reserves[d]	2.4	0.9	1.3	-0.6	-1.4	-20.2	-4.9	8.8	-0.1	-5.0	-0.2
Net transfer of resources (expenditure basis)	-8.4	-3.6	1.3	-4.7	4.2	8.1	30.3	33.9	24.6	9.7	18.1
Germany[e]											
Net capital flow	-9.6	-14.0	-15.9	-20.8	-41.7	-36.8	-79.0	-68.1	-52.7	-16.5	46.6
Private grants[b]	-1.2	-1.2	-0.9	-1.0	-1.5	-1.6	-2.2	-1.8	-2.4	-2.7	-3.0
Official grants	-6.1	-5.4	-6.3	-6.3	-7.6	-10.6	-11.7	-12.2	-15.8	-29.5	-24.0
Direct investment[c]	-2.5	-0.6	-3.9	-2.0	-7.8	-7.5	-10.9	-6.9	-15.5	-12.8	-13.4
Portfolio	-0.5	3.5	1.3	1.8	23.6	-1.9	-43.8	-4.6	-2.4	24.5	43.3
Medium- and long-term loans	-3.9	-5.1	-4.3	-1.9	0.1	-3.6	4.3	0.0	-16.0	-22.0	2.9
Short-term capital	7.0	-5.4	-4.0	-14.5	-49.9	-10.6	-17.3	-47.5	-15.9	14.2	58.3
Errors and omissions	-2.5	0.3	2.2	3.0	1.4	-1.0	2.6	4.9	15.3	11.7	-17.4
Use of IMF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interest	-1.0	1.7	2.3	2.1	2.2	3.8	4.2	11.0	12.8	15.8	10.2
Net transfer of resources (financial basis)	-10.7	-12.4	-13.6	-18.8	-39.5	-33.0	-74.8	-57.1	-39.9	-0.7	56.8
Use of official reserves[d]	-2.8	1.9	0.3	-2.2	-5.4	-21.5	15.4	-2.8	-7.3	6.0	-47.4
Net transfer of resources (expenditure basis)	-13.5	-10.4	-13.3	-21.0	-44.9	-54.5	-59.4	-59.9	-47.2	5.3	9.3

Table A.26. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
Japan											
Net capital flow	-12.9	-20.8	-34.4	-51.4	-73.1	-52.8	-67.2	-74.0	-48.0	-92.0	-123.7
Private grants[b]	-0.1	-0.2	-0.1	-0.3	-0.6	-1.0	-1.1	-1.0	-1.0	-0.7	-1.2
Official grants	-1.3	-1.4	-1.4	-1.4	-1.5	-2.7	-3.0	-3.3	-4.5	-11.8	-3.4
Direct investment[c]	-4.1	-3.2	-6.0	-5.8	-14.3	-18.4	-34.7	-45.2	-46.3	-29.4	-14.6
Portfolio	0.8	-2.9	-24.0	-41.8	-102.0	-91.3	-52.8	-32.5	-14.5	35.5	-27.5
Medium- and long-term loans	-13.0	-12.6	-20.1	-15.7	-15.8	-24.3	-29.6	-16.0	7.7	25.3	12.4
Short-term capital	0.1	-2.6	13.4	9.7	58.6	88.6	50.9	45.8	31.5	-103.2	-79.8
Errors and omissions	4.7	2.1	3.7	3.8	2.5	-3.7	3.1	-21.8	-20.9	-7.7	-9.6
Use of IMF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interest	1.7	3.1	4.2	6.8	9.5	16.7	21.0	23.4	23.2	26.7	36.2
Net transfer of resources (financial basis)	-11.2	-17.7	-30.2	-44.6	-63.6	-36.1	-46.2	-50.6	-24.8	-65.3	-87.5
Use of official reserves[d]	4.7	-1.6	-2.1	0.6	-14.8	-37.9	-16.5	12.8	6.6	6.6	1.4
Net transfer of resources (expenditure basis)	-6.5	-19.3	-32.3	-44.0	-78.4	-74.0	-62.7	-37.8	-18.2	-58.7	-86.1
Other industrialized countries											
Net capital flow	34.4	23.1	15.6	1.0	0.7	54.0	54.3	69.9	109.7	48.4	2.5
Private grants[b]	-0.2	-0.5	0.2	0.1	-0.7	-0.4	0.3	-0.6	-2.7	-4.5	. .
Official grants	-5.4	-3.8	-3.5	-3.0	-7.2	-6.9	-7.5	-10.0	-13.6	-8.0	. .
Direct investment[c]	-0.2	-1.4	-4.0	-10.7	-9.6	-10.6	-7.5	-16.2	-17.1	-10.3	. .
Portfolio	5.0	4.3	10.9	16.8	14.6	21.3	28.4	54.4	38.7	35.8	. .
Medium- and long-term loans	22.1	18.7	13.5	5.1	4.3	26.7	14.3	37.4	43.8	45.5	. .
Short-term capital	5.8	7.1	3.4	4.7	9.1	26.8	35.4	17.4	76.6	-4.8	. .
Errors and omissions	6.7	-1.6	-5.0	-12.1	-9.6	-2.1	-8.7	-12.7	-15.9	-5.1	. .
Use of IMF credit	0.6	0.3	0.2	0.0	-0.4	-0.8	-0.5	0.0	0.0	0.0	. .
Net dividends and interest	-26.5	-28.0	-30.5	-29.9	-34.6	-38.6	-46.9	-53.1	-68.3	-71.0	-79.9
Net transfer of resources (financial basis)	7.8	-4.9	-15.0	-28.9	-33.9	15.5	7.4	16.8	41.4	-22.6	-77.4
Use of official reserves[d]	2.0	-14.5	-15.5	0.8	-3.4	-40.2	-27.8	-20.4	-54.6	-3.6	36.1
Net transfer of resources (expenditure basis)	9.8	-19.4	-30.4	-28.1	-37.3	-24.8	-20.4	-3.6	-13.2	-26.1	-41.3

Source: UN/DESIPA, based on data of IMF, and World Bank, and United Nations Secretariat estimates.

a Preliminary estimate.
b Excluding workers' remittances.
c Net of reinvested earnings.
d Additions to reserves are shown as negative numbers.
e Including transactions of the former German Democratic Republic as from July 1990.

Table A.27. Net transfer of financial resources of capital-importing developing countries, 1982-1992
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						All countries[b]					
Transfer through direct investment											
Net investment flow	7.2	6.3	6.3	7.5	6.0	9.5	14.6	16.8	17.4	23.3	25.2
Net dividends and other income	-9.8	-9.4	-8.6	-8.0	-7.1	-8.1	-8.4	-10.0	-10.6	-10.9	-10.4
Net transfer	-2.6	-3.1	-2.3	-0.5	-1.1	1.4	6.1	6.8	6.8	12.5	14.7
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	41.4	27.8	18.2	12.7	8.1	3.7	10.1	3.1	6.3	10.1	9.9
Interest paid	-37.2	-35.4	-40.3	-39.3	-34.8	-33.9	-39.8	-32.8	-29.1	-32.0	-25.5
Net transfer	4.2	-7.6	-22.2	-26.5	-26.7	-30.3	-29.7	-29.6	-22.9	-22.0	-15.6
Transfer through short-term borrowing and domestic outflows[c]											
Net transfer	-29.9	-22.5	-13.5	-13.3	-3.6	-8.4	-15.0	-6.5	-1.9	40.0	42.0
Transfer through private grants (net)	1.7	2.1	2.6	3.0	3.8	4.1	4.9	3.5	4.5	4.6	4.5
Transfer through official flows											
Official transfers (grants)	9.3	10.2	10.9	11.6	11.2	12.7	13.2	14.1	28.8	19.8	17.4
Net official credits	32.7	30.0	25.1	19.1	19.0	16.6	15.2	20.0	21.9	17.7	22.4
Interest paid	-8.3	-9.7	-11.2	-12.8	-15.7	-16.8	-18.2	-18.5	-20.3	-21.8	-23.8
Net transfer	33.8	30.6	24.9	17.9	14.6	12.5	10.2	15.5	30.5	15.7	15.9
Total net transfer (financial basis)	7.3	-0.5	-10.6	-19.4	-13.0	-20.7	-23.5	-10.3	16.9	50.8	61.5
Use of official reserves[d]	19.7	-6.4	-18.7	2.2	8.7	-13.1	-8.3	-18.9	-39.4	-46.1	-40.9
Total net transfer (expenditure basis)	26.9	-7.0	-29.3	-17.2	-4.2	-33.8	-31.8	-29.1	-22.4	4.7	20.7
						Latin America					
Grants											
Private	0.4	0.5	0.7	1.0	0.9	1.1	1.5	1.5	2.2	2.2	2.2
Official	0.7	0.9	1.2	2.1	1.4	1.9	1.9	2.1	3.2	3.0	2.9
Net direct investment	0.6	-0.4	-0.5	0.1	-1.8	0.8	2.0	-0.6	0.7	4.2	6.5
Foreign official credit	7.3	4.7	6.1	2.1	1.4	-1.7	-1.8	-1.8	-0.3	-7.4	-5.5
Foreign private credit[e]	-0.7	-11.7	-19.1	-23.3	-22.2	-18.9	-24.5	-20.0	-12.6	-13.8	-12.2
Short-term borrowing and domestic outflows[c]	-24.4	-18.9	-11.4	-12.1	-1.8	0.7	-7.7	-7.8	-4.8	23.6	32.8
Total net transfer (financial basis) of which:	-16.1	-24.8	-22.9	-30.2	-22.0	-16.0	-28.6	-26.7	-11.6	11.8	26.8
Net capital flow	20.0	8.7	13.6	4.2	9.2	14.0	3.8	9.4	22.3	39.8	53.6
Use of official reserves[d]	19.7	-0.7	-12.2	-0.6	7.9	-3.4	6.5	-3.1	-15.4	-20.2	-20.6
Total net transfer (expenditure basis)	3.6	-25.5	-35.2	-30.8	-14.1	-19.4	-22.1	-29.7	-27.0	-8.4	6.2

Table A.27. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
						Africa					
Grants											
Private	0.2	0.3	0.5	0.9	1.1	0.9	1.0	0.9	0.9	1.1	1.1
Official	2.9	3.9	4.2	4.8	5.1	6.1	6.3	7.3	20.4	10.2	10.2
Net direct investment	-0.8	-0.2	-0.2	0.6	0.2	-0.1	0.2	2.5	0.5	0.0	0.2
Foreign official credit	7.4	6.2	4.4	2.1	1.7	2.6	1.2	2.0	1.0	0.6	1.3
Foreign private credit[e]	2.7	-0.3	-2.3	-3.0	-1.0	-0.1	0.2	-2.5	-4.8	-6.2	-7.0
Short-term borrowing and domestic outflows[c]	-0.9	-1.8	-3.7	-3.6	-1.3	-7.0	-4.6	-5.7	-16.1	-1.5	-1.7
Total net transfer (financial basis) of which:	11.6	8.1	2.9	1.7	5.7	2.3	4.4	4.6	2.1	4.3	4.2
Net capital flow	19.4	15.6	10.6	10.7	14.1	13.6	16.2	16.6	15.1	17.5	17.1
Use of official reserves[d]	3.0	0.3	-0.3	-2.3	1.0	-1.5	0.0	-1.0	-6.0	-5.2	-3.6
Total net transfer (expenditure basis)	14.7	8.4	2.6	-0.6	6.8	0.8	4.4	3.6	-4.0	-0.9	0.7
						Sub-Saharan Africa					
Grants											
Private	0.2	0.2	0.5	0.7	0.6	0.7	0.9	0.7	0.9	1.0	1.0
Official	2.8	2.9	3.0	3.5	3.9	4.9	5.2	5.8	5.9	6.2	6.2
Net direct investment	-0.3	-0.3	-0.6	-0.5	-0.7	-0.6	-0.5	-0.6	-0.9	-1.0	-0.9
Foreign official credit	4.2	4.0	2.5	1.4	1.7	2.7	2.4	2.5	2.7	1.6	3.2
Foreign private credit[e]	1.2	0.0	-0.2	-0.6	-0.4	-0.7	0.1	-0.2	-0.4	-0.6	-1.5
Short-term borrowing and domestic outflows[c]	-0.9	-1.0	-2.7	-0.5	0.7	-0.3	-0.3	-1.6	-1.2	-0.3	2.6
Total net transfer (financial basis) of which:	7.2	5.8	2.6	3.9	5.8	6.8	7.8	6.6	7.1	7.0	10.7
Net capital flow	10.2	9.2	6.0	8.0	9.8	11.7	13.0	11.9	12.7	12.7	16.2
Use of official reserves[d]	0.2	-0.4	-0.3	-0.8	-0.5	-0.7	-0.7	-0.3	0.4	1.4	-1.1
Total net transfer (expenditure basis)	7.4	5.4	2.3	3.1	5.3	6.1	7.1	6.3	7.5	8.3	9.6
						Asia					
Grants											
Private	0.8	1.0	1.0	0.9	1.5	1.8	2.0	0.6	0.7	1.1	1.1
Official	5.6	5.2	5.3	4.6	4.6	4.3	4.6	4.3	4.1	4.4	4.4
Net direct investment	-2.5	-2.6	-1.8	-1.4	0.1	0.3	3.1	3.5	3.9	6.3	6.2
Foreign official credit	9.4	10.4	3.6	3.2	1.4	1.1	0.4	4.8	2.9	4.8	5.0
Foreign private credit[e]	4.4	5.4	1.5	1.9	-2.0	-11.2	-7.7	-7.3	-3.6	0.8	1.3
Short-term borrowing and domestic outflows[c]	-3.8	-3.1	0.9	2.4	-0.6	0.2	3.3	7.0	10.7	18.3	4.8
Total net transfer (financial basis) of which:	13.8	16.3	10.6	11.6	4.8	-3.5	5.7	13.0	18.6	35.6	22.9
Net capital flow	26.5	29.1	23.9	25.3	19.1	11.9	21.8	29.2	33.2	51.9	42.3
Use of official reserves[d]	-3.9	-5.6	-5.8	4.8	0.8	-8.3	-12.3	-10.4	-14.1	-22.5	-11.9
Total net transfer (expenditure basis)	9.9	10.7	4.7	16.3	5.6	-11.7	-6.6	2.6	4.5	13.1	10.9

Table A.27. *(concluded)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
						Fifteen heavily indebted countries					
Grants											
Private	0.6	0.7	0.9	1.1	1.0	1.3	1.4	1.6	2.6	1.8	1.8
Official	0.7	0.7	0.8	1.3	0.9	1.2	1.3	1.6	2.8	2.6	1.3
Net direct investment	0.2	-0.5	-0.5	0.3	-1.6	0.7	2.5	1.4	1.4	5.1	7.9
Foreign official credit	7.3	5.4	5.5	0.2	0.0	-2.6	-4.1	-3.8	-2.2	-10.0	-11.8
Foreign private credit[e]	1.2	-12.0	-22.4	-25.8	-25.2	-21.0	-27.2	-23.0	-16.2	-17.6	-14.7
Short-term borrowing and domestic outflows[c]	-23.8	-19.1	-11.6	-16.1	-2.9	-4.3	-9.5	-9.9	-0.6	27.5	37.7
Total net transfer (financial basis) of which:	-13.9	-24.7	-27.4	-39.1	-27.8	-24.7	-35.5	-32.1	-12.2	9.5	22.2
Net capital flow	27.0	12.7	13.4	0.1	7.4	11.1	2.8	10.2	27.1	42.7	51.9
Use of official reserves[d]	23.3	1.0	-13.2	-1.5	5.8	-3.7	4.6	-5.7	-19.7	-22.2	-20.8
Total net transfer (expenditure basis)	9.4	-23.8	-40.6	-40.5	-22.0	-28.4	-30.9	-37.8	-32.0	-12.8	1.4

Source: UN/DESIPA, based on data of IMF, and World Bank, and United Nations Secretariat estimates.

Note: Direct investment is net of reinvested earnings (cash flow approach); official credits include use of IMF credit; interest includes IMF charges; private grants include net flow of gifts from overseas residents (excluding workers' remittances) and grants by non-governmental organizations.

a Preliminary estimate.
b Sample of 93 countries (principal difference with data in table IV.1 is omission of certain countries, mainly from Asia, for which full financial data were unavailable).
c Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears of interest due and other flows captured in balance-of-payments data as errors and omissions and presumed to be financial flows).
d Additions to reserves are shown as negative numbers.
e Medium- and long-term foreign borrowing.

Table A.28. Official reserves and coverage of current expenditures of capital-importing developing countries, 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Billions of dollars					
Level of reserves[b]											
All countries	100.8	109.3	127.5	139.0	157.1	207.3	209.2	228.4	277.6	341.4	393.1
Energy exporters	31.4	32.0	36.2	38.6	34.3	44.5	31.8	37.3	53.8	73.0	85.1
Energy importers	57.6	61.8	73.5	87.2	110.9	145.9	158.2	172.6	193.5	224.1	264.2
Recent surplus countries	20.0	23.6	29.0	38.5	62.8	96.0	104.0	109.4	115.7	130.9	141.4
Other	37.6	38.2	44.5	48.7	48.1	49.9	54.3	63.2	77.9	93.2	122.8
China	11.8	15.5	17.8	13.2	12.0	16.9	19.1	18.5	30.2	44.3	43.8
Memo items											
Latin America	28.2	29.3	40.8	41.7	33.8	38.7	31.4	33.7	48.9	67.2	86.7
Sub-Saharan Africa	2.6	2.9	3.0	4.0	5.0	5.8	7.0	8.7	12.1	13.9	11.8
Fifteen heavily indebted countries	26.3	27.5	39.6	40.9	34.4	38.7	33.5	38.1	57.2	75.1	84.1
						Months of import coverage					
Coverage of current expenditures[c]											
All countries	1.9	2.3	2.7	2.7	2.6	2.8	2.5	2.6	3.0	3.6	3.9
Energy exporters	1.9	2.3	2.6	2.8	2.9	3.7	2.2	2.4	3.0	3.7	4.1
Energy importers	2.0	2.3	2.7	2.6	2.4	2.4	2.6	2.6	3.0	3.6	3.9
Memo items											
Latin America	2.0	2.6	3.5	3.8	3.1	3.4	2.5	2.5	3.2	4.1	4.7
Sub-Saharan Africa	0.9	1.0	1.1	1.4	1.6	1.7	1.9	2.4	3.0	3.4	2.8
Fifteen heavily indebted countries	1.6	2.1	3.0	3.2	2.8	2.9	2.2	2.3	3.0	4.0	4.2

Source: UN/DESIPA, based on data of IMF and national estimates.

[a] Partly estimated.
[b] Total reserves, end of period (with gold valued at SDR 35 per ounce).
[c] Expenditures on goods and services (including interest payments) for given year relative to total reserves at end of year, sample of 93 countries.

Table A.29. Net IMF lending to developing countries, by facility, 1982-1992
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Regular facilities	4.3	8.4	4.4	1.1	0.1	-3.8	-4.0	-3.0	-1.6	-1.2	-0.1
Repayment terms:											
3-5 years (Credit tranche)	0.5	0.8	0.2	0.6	1.3	-0.5	-0.4	-0.2	-1.7	0.2	1.4
3.5-7 yrs (SFF/EAP)[a]	2.6	5.2	2.6	0.6	-1.0	-2.7	-2.7	-2.8	-0.7	-0.8	-1.5
4-10 years (Extended Facility)	1.1	2.3	1.6	0.0	-0.2	-0.5	-0.9	0.1	0.7	-0.7	0.0
Concessional facilities	-0.2	-0.1	-0.2	-0.3	-0.5	-0.2	-0.3	0.9	0.2	1.1	0.8
In order created:											
Subsidized Oil Facility[b]	-0.2	0.0	-	-	-	-	-	-	-	-	-
Trust Fund[c]	0.0	-0.1	-0.2	-0.3	-0.6	-0.7	-0.7	-0.5	-0.4	-0.1	0.0
SAF[d]	-	-	-	-	0.1	0.5	0.3	0.7	0.1	0.2	0.0
ESAF[d]	-	-	-	-	-	-	-	0.8	0.5	0.9	0.7
Additional facilities[e]	1.6	2.3	0.0	-0.5	-1.6	-0.7	-0.4	0.2	-0.8	1.2	-0.9
In order created:											
Compensatory financing[f]	1.6	2.1	0.0	-0.4	-1.4	-0.7	-0.4	0.2	-0.8	1.2	-0.9
Buffer stock[g]	0.1	0.3	0.0	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Oil Facility[h]	-0.2	0.0	0.0	-	-	-	-	-	-	-	-
Total	5.6	10.6	4.3	0.3	-2.0	-4.7	-4.7	-1.9	-2.3	1.0	-0.2
Memo items											
Selected characteristic of higher-conditionality-lending agreements											
Number initiated during year	19	33	20	26	31	25	28	23	13	24	17
Average length (months)	14	18	14	16	22	26	25	25	19	22	26
Total amount committed (billions of dollars)	2.6	15.7	4.0	3.4	4.0	4.4	5.4	13.8	1.9	6.4	6.8

Source: Data of IMF, *International Financial Statistics* and *IMF Survey*.

a The Supplementary Financing Facility (SFF) (1979-1981) and Enhanced Access Policy (EAP) (1981-present) have provided resources from funds borrowed by IMF from member States, on which the Fund pays a higher interest rate than the remuneration paid to countries that have a net creditor position with the Fund. Thus, users of SFF and EAP resources have paid a higher interest rate than that on drawings from ordinary resources, which are partly subsidized. However, up to a 3 percentage point subsidy was made available for IDA-eligible countries and up to half that for countries with GDP per capita above International Development Association (IDA) limits but under the maximum for Trust Fund eligibility, in order to reduce interest on SFF drawings towards the rate on ordinary drawings. There has been no subsidy on EAP drawings.

b See Oil Facility below; a subsidy was originally available to "most seriously affected" countries as defined by the United Nations for drawings under the 1975 Facility; it was extended to all users of the 1975 Facility that were also eligible to use the Trust Fund, as resources permitted; the subsidy was 5 per cent, reducing interest to 2.7 per cent; maturity was 7 years and repayments began in 3.5 years.

c Mainly using resources from IMF gold sales, the Trust Fund lent during 1977-1981 under 1-year adjustment programmes. Eligibility was based on maximum per capita income criteria and loans had 10-year maturities, with repayments beginning in the sixth year. The interest rate was 0.5 per cent per year.

d The Structural Adjustment Facility and the Enhanced Structural Adjustment Facility (the first financed mainly from Trust Fund reflows and the second from loans and grants) have made loans to IDA-eligible countries with protracted balance-of-payments problems; funds are disbursed over 3 years (under Policy Framework Paper arrangements), with repayments beginning in 5.5 years and ending in 10 years; the interest rate is 0.5 per cent.

e All having final maturity of 7 years and repayments beginning in 3.5 years.

f Compensatory Financing Facility from 1963 to 1988; Compensatory and Contingency Financing Facility from August 1988.

g Helps to finance buffer stock purchases under approved international buffer stock arrangements; established June 1969.

h Two separate Oil Facilities were established with borrowed resources in 1974 and 1975; data shown here exclude subsidized arrangements for most seriously affected and other countries referred to above.

Table A.30. Funds raised on international credit markets, 1982-1992
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
World total	**179.1**	**157.8**	**228.8**	**279.1**	**321.4**	**303.7**	**371.9**	**385.3**	**361.4**	**421.4**	**458.3**
Grouped by borrower											
Developed market economies	123.2	113.3	182.5	231.3	285.2	260.3	330.3	345.0	312.5	363.2	399.2
Economies in transition	0.7	1.1	3.4	5.3	3.9	3.7	4.3	4.7	4.7	1.7	1.5
Developing countries	46.7	35.8	33.1	29.3	22.2	27.8	26.8	22.7	28.9	41.8	36.7
Multilateral institutions	8.5	7.7	9.8	13.2	10.1	11.9	10.5	12.9	15.4	14.7	20.9
Grouped by instrument											
Bonds	75.5	77.1	111.5	169.1	228.1	180.8	229.7	255.8	229.9	297.6	333.7
International bonds	50.3	50.1	81.4	136.5	187.7	140.5	178.9	212.9	180.1	248.5	276.1
Foreign and special placements	25.2	27.0	30.1	32.5	40.4	40.3	50.8	42.9	49.8	49.1	57.6
Loans	103.6	80.7	117.3	110.1	93.3	122.9	142.2	129.5	131.5	123.8	124.6
Bank loans	98.2	67.2	62.0	61.1	63.2	91.7	125.6	121.2	124.5	116.0	117.9
Other facilities	5.4	13.5	55.3	48.9	30.0	31.2	16.6	8.4	7.0	7.7	6.7

Source: OECD, *Financial Statistics Monthly*.

Table A.31. Net Official Development Assistance (ODA) from major sources, by type, 1981-1991

Donor group or country	Growth rate of ODA[a] (1990 prices and exchange rates)		ODA as percentage of GNP[a]	Total ODA[a] (billions of dollars)	Percentage distribution of ODA by type, 1991					
					Bilateral			Multilateral		
	1981-1985	1986-1991	1991	1991	Grants[b]	Technical cooperation	Loans	United Nations	IDA	Other
Total ODA	1.7	-2.4	..	60.9		72.8[c]			27.2[d]	
Total DAC countries	3.2	1.8	0.33	56.7	61.1	21.8	11.7	7.7	8.2	11.3
Total EC	4.1	2.1	0.46	26.7	52.4	23.4	11.3	5.9	6.3	24.1
of which:										
France[e]	5.6	-0.4	0.62	7.5	53.8	28.6	22.8	2.0	5.8	15.7
Germany	2.6	1.9	0.41	6.9	56.9	25.2	8.4	5.2	8.4	16.5
Italy	13.3	5.1	0.30	3.3	44.3	9.8	22.7	9.4	0.0	23.7
United Kingdom	1.3	0.9	0.32	3.2	59.4	25.7	-3.4	7.1	11.2	25.7
Netherlands	-0.6	2.4	0.88	2.5	72.4	38.2	-2.7	9.6	6.0	14.6
Denmark	7.3	4.6	0.96	1.2	57.8	11.3	-0.6	20.3	6.3	16.2
Spain	-	33.9	0.23	1.2	20.7	16.6	46.5	2.0	3.6	27.2
Belgium	2.4	-1.5	0.42	0.8	52.1	20.7	7.5	4.7	10.8	24.5
Portugal	-	46.8	0.31	0.2	38.5	17.4	39.4	0.9	0.0	0.9
Ireland	8.4	0.2	0.19	0.1	41.7	15.3	0.0	5.6	8.3	45.8
Australia	4.0	-2.2	0.38	1.0	69.0	23.8	0.0	9.7	19.0	2.3
Austria	5.2	0.7	0.34	0.5	44.9	14.1	34.5	5.1	8.4	17.3
Canada	5.4	1.3	0.45	2.6	69.7	24.7	-1.0	12.9	10.6	7.8
Finland	16.0	13.5	0.76	0.9	61.0	18.0	2.0	22.0	7.0	8.0
Japan	2.0	7.0	0.32	10.9	31.0	13.0	50.0	6.0	10.0	3.0
New Zealand	-2.7	-0.3	0.25	0.1	81.0	34.0	0.0	24.0	6.0	8.0
Norway	5.9	4.1	1.14	1.2	62.0	9.0	0.0	24.0	6.0	8.0
Sweden	3.5	2.5	0.92	2.1	69.4	9.6	0.0	18.5	7.3	4.4
Switzerland	7.2	4.7	0.36	0.9	83.0	0.0	1.0	13.0	0.0	3.0
United States	0.5	-0.5	0.20	11.3	106.9	25.9	-23.6	5.8	9.2	1.6
Arab countries	..	..	..	2.7		88.5[c]			11.5[d]	
of which:										
Saudi Arabia	..	..	1.44	1.7		87.4[c]			12.6[d]	
Kuwait	..	..	..	0.4		84.5[c]			15.5[d]	
United Arab Emirates	..	..	1.66	0.5		99.3[c]			0.7[d]	
Other developing countries	..	..	..	0.4		75.5[c]			24.5[d]	
China	..	..	..	0.1		90.0[c]			10.0[d]	
India	..	..	..	0.08		81.3[c]			18.8[d]	
Republic of Korea	..	..	0.03	0.07		71.4[c]			28.6[d]	
Taiwan Province of China	..	..	0.07	0.1		68.6[c]			31.4[d]	
Venezuela	..	..	0.02	0.01		60.0[c]			40.0[d]	
Economies in transition	..	..	..	1.1		..			..	

Source: UN/DESIPA, based on OECD, *Development Co-operation*, various issues.

a Including debt forgiveness of non-ODA claims in 1990 and 1991 except for total DAC countries.
b Including technical cooperation.
c Total bilateral: grants and loans.
d Total multilateral: United Nations, IDA and "other".
e Flows from France to the *Départements d'outre-mer* (DOM), namely Guadeloupe, French Guiana, Martinique and Réunion, have been excluded.

Table A.32. Regional distribution of ODA from major sources, 1980-1991

Donor group or country	All developing countries		Latin America		Africa		West Asia		South and East Asia		Mediterranean	
	1980-1981	1990-1991	1980-1981	1990-1991	1980-1981	1990-1991	1980-1981	1990-1991	1980-1981	1990-1991	1980-1981	1990 1991
Total ODA (billions of dollars)	63.0	106.3	6.2	10.8	20.9	48.9	10.3	10.0	22.1	30.1	1.8	3.2
						Percentage share						
DAC countries, bilateral	47.7	64.6	48.2	79.5	60.0	65.2	22.9	59.5	49.0	68.1	71.1	54.9
Australia	1.6	1.3	0.0	0.0	0.4	0.3	0.0	0.1	4.1	4.1	0.0	0.0
Austria	0.6	0.6	0.2	0.4	0.5	0.3	0.6	0.8	0.6	1.1	3.4	2.3
Belgium	1.2	0.7	1.0	0.7	2.8	1.2	0.1	0.1	0.6	0.3	0.9	0.3
Canada	1.7	2.0	2.0	3.3	2.4	2.1	0.0	0.7	1.9	2.3	1.1	0.0
Denmark	0.6	1.0	0.1	0.6	1.1	1.3	0.1	0.2	0.7	0.9	0.0	0.0
Finland	0.2	0.8	0.1	0.6	0.4	1.1	0.0	0.3	0.2	0.7	0.1	0.7
France[a]	6.6	9.8	4.8	5.1	12.9	15.0	0.8	2.0	4.6	7.5	3.2	3.9
Germany	6.5	7.7	10.0	9.7	7.4	7.2	2.7	12.9	4.6	6.3	35.0	13.6
Ireland	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Italy	0.3	3.2	0.3	7.5	0.7	4.5	0.1	0.7	0.0	0.7	1.5	3.9
Japan	6.5	13.6	4.7	13.0	3.3	5.5	0.8	7.7	13.6	29.3	2.8	23.4
Netherlands	3.4	2.7	9.2	5.8	3.6	2.4	0.4	1.0	3.4	3.2	0.3	0.3
New Zealand	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0
Norway	0.7	1.2	0.2	1.2	1.3	1.7	0.0	0.1	0.8	0.9	0.6	0.0
Sweden	1.8	2.1	0.8	2.5	3.0	3.0	0.0	0.7	2.0	1.5	0.7	0.3
Switzerland	0.4	0.9	0.6	1.4	0.6	1.1	0.1	0.5	0.4	0.9	0.6	0.1
United Kingdom	3.5	2.4	2.1	2.0	4.4	2.8	0.4	1.0	4.7	2.9	3.8	0.3
United States	11.7	14.2	12.3	25.4	15.1	15.5	16.8	30.5	6.4	5.0	17.0	5.7
DAC countries, multilateral	22.4	24.4	28.0	20.5	24.8	26.1	6.7	16.3	28.7	30.0	6.2	8.7
Arab countries, bilateral[b]	17.8	7.8	0.3	0.0	13.5	8.5	69.0	23.9	3.7	2.0	21.7	36.4
Arab countries, multilateral	1.0	0.4	0.7	0.0	1.6	0.1	1.4	0.3	0.4	-0.2	1.1	-0.1
Economies in transition	11.1	3.1	22.8	..	..	..	..	..	18.1	..	..	..
Total ODA	100	100	100	100	100	100	100	100	100	100	100	100

Source: UNCTAD calculations, based on data supplied by OECD.

a Flows from France to the *Départements d'outre-mer* (DOM), namely Guadeloupe, French Guiana, Martinique and Réunion, have been excluded.

b Approximately 35-40 per cent of Arab bilateral aid is geographically unallocated, depending on the year.

Table A.33. Resource commitments of multilateral development institutions, 1982-1992[a]
(Millions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Financial institutions	18 339	22 036	20 300	23 809	24 960	26 640	27 655	32 518	34 862	39 840	38 737
African Development Bank	766	899	897	1 154	1 640	2 140	2 176	3 000	3 300	3 288	2 993
Asian Development Bank	1 702	1 922	2 257	1 845	2 044	2 508	3 241	3 709	4 067	5 117	5 232
Caribbean Development Bank	45	48	65	50	67	41	74	73	124	112	91
Inter-American Development Bank	2 793	3 099	3 615	3 102	3 057	2 408	1 738	2 694	4 005	5 661	6 246
of which: Inter-American Investment Corporation								15	67	102	158
International Fund for Agricultural Development	338	282	211	131	147	233	244	277	323	281	331
World Bank group	12 695	15 786	13 255	17 527	18 005	19 310	20 182	22 765	23 043	25 381	23 844
International Bank for Reconstruction and Development	9 398	11 721	9 448	12 952	13 593	14 066	14 411	16 251	15 176	17 021	15 551
International Development Association	2 832	3 112	3 222	3 541	3 373	3 841	4 350	4 924	6 300	7 160	6 310
International Finance Corporation	465	953	585	1 034	1 039	1 403	1 421	1 590	1 567	1 200	1 983
Operational agencies of the United Nations system	1 947	1 722	2 028	2 032	1 933	2 242	2 763	2 851	3 012	3 978	3 616
United Nations Development Programme[b]	621	527	531	567	656	809	942	1 063	1 111	1 159	960
United Nations Population Fund	115	117	134	141	116	134	169	194	211	212	164
United Nations Children's Fund	405	182	204	452	248	330	454	498	545	947	917
World Food Programme	806	896	1 159	872	913	969	1 198	1 096	1 145	1 660	1 575
Total commitments	**20 286**	**23 758**	**22 328**	**25 841**	**26 893**	**28 882**	**30 418**	**35 369**	**37 874**	**43 818**	**42 353**
Memo item											
Commitments in units of 1980 purchasing power[c]	22 050	26 694	25 963	30 048	26 110	24 898	24 531	28 755	27 849	32 219	30 252

Source: Annual reports and information supplied by individual institutions.

[a] Loans, grants, technical assistance and equity participation, as appropriate; all data are on a calendar-year basis.
[b] Including UNDP-administered funds.
[c] Total commitments deflated by the United Nations index of manufactured export prices in dollars of developed market economies, 1980=100.

Table A.34. External debt and debt indicators for economies in transition, 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
					External debt (billions of dollars)						
					Former Soviet Union						
Total external debt	..	..	..	28.3	30.7	38.3	42.2	53.8	59.5	67.2	75.8
Long-term debt	..	..	..	21.4	23.3	29.7	31.0	35.6	47.7	54.4	..
Concessional	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
of which: bilateral	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Official, non-concessional	..	..	..	0.1	0.2	0.3	0.3	0.3	6.2	12.3	..
Bilateral	..	..	..	0.1	0.2	0.2	0.2	0.2	6.0	12.2	..
Multilateral	..	..	..	0.0	0.0	0.1	0.1	0.2	0.2	0.2	..
IMF	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Private creditors	..	..	..	21.3	23.2	29.5	30.7	35.3	41.5	42.1	..
Bonds	..	..	..	0.0	0.0	0.0	0.3	1.4	1.9	1.9	..
Commerical banks	..	..	..	13.5	14.9	17.3	20.0	24.6	19.2	18.3	..
Other private	..	..	..	7.8	8.3	12.2	10.3	9.4	20.4	21.9	..
Short-term debt	..	..	..	6.9	7.4	8.6	11.2	18.2	11.8	12.8	..
					Eastern Europe						
Total external debt	20.2	19.9	18.7	62.9	71.4	82.5	80.8	82.1	90.4	98.8	97.5
Long-term debt	15.6	15.4	15.2	53.8	59.8	68.7	64.2	65.3	73.2	85.1	..
Concessional	0.8	0.9	0.8	3.3	3.3	3.0	2.8	1.8	1.7	1.6	..
of which: bilateral	0.8	0.9	0.8	3.3	3.3	2.9	2.7	1.7	1.7	1.6	..
Official, non-concessional	3.8	4.5	4.7	22.0	24.4	27.1	23.9	25.3	30.6	43.1	..
Bilateral	1.2	1.1	1.2	17.2	18.6	20.9	19.2	21.7	26.0	33.2	..
Multilateral	1.5	1.8	1.6	3.2	4.1	4.8	3.9	3.1	3.8	5.2	..
IMF	1.1	1.5	1.9	1.6	1.7	1.3	0.8	0.5	0.8	4.6	..
Private creditors	11.0	10.0	9.7	28.5	32.1	38.6	37.5	38.3	40.9	40.4	..
Bonds	0.0	0.0	0.1	0.6	1.0	1.8	2.6	3.8	5.6	7.3	..
Commercial banks	9.2	8.0	8.1	20.5	22.9	26.8	24.7	25.0	25.7	26.1	..
Other private	1.8	1.9	1.5	7.3	8.1	10.0	10.2	9.4	9.6	7.0	..
Short-term debt	4.6	4.5	3.5	9.1	11.6	13.8	16.6	16.8	17.2	13.6	..
					of which:						
					Hungary						
Total external debt	10.2	10.7	11.0	14.0	16.9	19.6	19.6	20.4	21.3	22.7	21.4
Long-term debt	6.9	6.8	8.0	10.9	13.4	16.5	16.2	17.1	18.3	20.5	..
Concessional	0.8	0.9	0.8	0.8	0.7	0.2	0.1	0.1	0.1	0.1	..
of which: bilateral	0.8	0.9	0.8	0.8	0.6	0.1	0.0	0.0	0.0	0.0	..
Official, non-concessional	0.3	0.7	1.2	1.5	2.0	2.1	2.3	2.4	3.0	5.0	..
Bilateral	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	..
Multilateral	0.0	0.1	0.2	0.4	0.8	1.2	1.6	1.8	2.5	3.3	..
IMF	0.2	0.6	1.0	1.0	1.0	0.8	0.6	0.5	0.3	1.3	..
Private creditors	5.8	5.2	6.0	8.6	10.8	14.2	13.8	14.6	15.3	15.4	..
Bonds	0.0	0.0	0.1	0.6	1.0	1.8	2.5	3.4	4.7	6.0	..
Commercial banks	5.1	4.3	5.0	6.4	8.2	10.7	9.9	10.2	9.6	8.1	..
Other private	0.7	0.9	1.0	1.6	1.5	1.7	1.4	1.0	1.0	1.2	..
Short-term debt	3.3	3.9	3.0	3.0	3.5	3.1	3.4	3.3	2.9	2.2	..

Table A.34. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Poland					
Total external debt	..	..	..	33.3	36.7	42.6	42.1	43.1	49.4	52.5	49.8
Long-term debt	..	..	..	29.8	31.9	36.1	33.7	34.5	39.8	44.9	..
Concessional	..	..	..	2.5	2.7	2.8	2.7	1.7	1.6	1.5	..
of which: bilateral	..	..	..	2.5	2.7	2.8	2.7	1.7	1.6	1.5	..
Official, non-concessional	..	..	..	16.5	18.1	20.6	19.2	21.9	26.6	32.1	..
Bilateral	..	..	..	15.8	17.2	19.7	18.4	21.4	25.6	30.3	..
Multilateral	..	..	..	0.6	0.9	0.9	0.7	0.5	0.5	0.9	..
IMF	..	..	..	0.0	0.0	0.0	0.0	0.0	0.5	0.9	..
Private creditors	..	..	..	10.8	11.1	12.6	11.7	10.9	11.5	11.3	..
Bonds	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Commerical banks	..	..	..	8.0	9.1	10.2	9.5	9.3	10.3	10.2	..
Other private	..	..	..	2.8	2.1	2.5	2.3	1.7	1.3	1.1	..
Short-term debt	..	..	..	3.6	4.7	6.6	8.5	8.6	9.6	7.6	..
						Debt indicators (Percentage)					
Ratio of external debt to GNP											
Former Soviet Union	..	..	..	..	..	..	..	..	..	..	..
Eastern Europe	13.7	13.0	12.6	43.4	44.5	40.5	38.9	37.4	46.9	51.6	..
of which:											
Bulgaria	0.0	0.0	0.0	22.9	26.1	25.2	40.4	48.4	53.4	73.6	..
Former Czechoslovakia	0.0	0.0	0.0	11.7	12.1	12.8	14.4	15.7	18.6	29.5	..
Hungary	46.3	53.0	56.3	70.6	74.3	78.1	70.7	73.1	67.6	77.0	..
Poland	0.0	0.0	0.0	48.7	51.5	69.9	63.9	54.6	82.0	61.4	..
Romania	0.0	0.0	0.0	0.0	0.0	17.4	6.3	1.2	1.1	7.1	..
Ratio of external debt to exports											
Former Soviet Union[b, c]	..	..	..	..	..	..	..	..	..	147.4	199.0
Eastern Europe	34.1	32.9	29.9	106.0	116.4	123.1	116.8	122.3	149.3	178.1	..
of which:											
Bulgaria	0.0	0.0	0.0	34.8	52.9	61.3	86.5	106.2	154.6	234.8	..
Former Czechoslovakia	0.0	0.0	0.0	32.4	33.8	36.2	40.2	45.1	56.3	68.3	..
Hungary	104.2	110.8	111.9	148.5	166.0	174.9	173.8	169.7	172.7	180.8	..
Poland	0.0	0.0	0.0	252.1	259.5	294.8	254.0	261.7	251.5	281.3	..
Romania	80.0	74.0	57.0	63.5	66.1	57.7	20.3	4.3	6.1	39.2	..
Ratio of debt service to exports											
Former Soviet Union[b, c]	..	..	..	..	..	..	..	..	..	30.3	5.2
Eastern Europe	9.0	7.0	7.7	18.1	19.7	18.5	19.9	17.6	13.3	14.3	..
of which:											
Bulgaria	0.0	0.0	0.0	14.9	27.9	23.1	24.8	32.1	19.0	21.8	..
Former Czechoslovakia	0.0	0.0	0.0	8.7	7.9	7.8	8.8	9.6	10.0	11.5	..
Hungary	24.9	24.3	27.6	39.3	41.0	33.5	31.2	29.7	34.3	32.5	..
Poland	0.0	0.0	0.0	15.5	12.8	14.3	10.6	9.4	4.8	5.4	..
Romania	23.3	15.2	15.5	18.7	18.7	21.9	34.4	16.9	0.5	2.0	..

Source: UN/DESIPA, based on data of IMF and World Bank.

a Estimate.

b Data for former Soviet Union in 1992 assume that the Russian Federation takes total responsibility for the debt. Debt incurred by the successor States of the Soviet Union is excluded.

c Merchandise exports only.

Table A.35. External debt of capital-importing developing countries, 1982-1992
(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						All countries[b]					
Total external debt	780.5	856.2	879.7	966.5	1 066.1	1 208.9	1 200.6	1 212.9	1 288.4	1 343.5	1 419.4
Long-term debt	618.9	719.3	751.1	838.0	943.5	1 067.8	1 051.7	1 050.0	1 097.8	1 141.7	1 199.9
Concessional	161.6	176.2	169.9	194.1	222.9	267.2	277.3	290.4	317.8	333.3	365.8
Bilateral	130.3	141.9	132.6	151.4	174.1	210.0	216.8	224.1	242.5	249.5	276.0
Multilateral[c]	31.3	34.3	37.3	42.7	48.7	57.2	60.5	66.3	75.3	83.8	89.8
Official, non-concessional	110.5	135.0	147.3	179.7	218.2	262.9	250.7	254.4	278.7	296.9	306.6
Bilateral	51.8	60.5	69.0	79.7	94.3	112.8	108.9	111.8	116.3	128.2	126.3
Multilateral	39.1	45.5	47.3	64.6	86.3	111.7	109.6	114.1	132.2	140.0	151.2
IMF	19.7	29.0	31.0	35.4	37.7	38.4	32.2	28.5	30.2	28.7	29.1
Private creditors[d]	346.8	407.8	433.9	464.3	502.4	537.6	523.8	505.3	501.3	511.6	527.5
Bonds	19.4	21.6	21.9	30.2	33.9	36.4	40.2	43.0	102.0	114.9	..
Commercial banks	156.1	195.7	224.3	239.2	266.3	289.8	283.5	268.7	191.8	183.5	..
Other private	55.2	65.0	65.8	80.6	94.7	109.5	108.4	108.6	114.3	106.2	..
Short-term debt	161.6	136.9	128.7	128.5	122.6	141.1	148.9	162.9	190.6	201.8	219.5
Memo items											
Principal arrears on long-term debt	0.0	0.0	0.0	15.7	22.9	29.1	33.7	36.3	45.8	49.8	..
Interest arrears on long-term debt	2.0	3.3	5.7	6.3	8.9	15.3	18.3	28.7	38.7	35.4	..
						Latin America					
Total external debt	354.3	385.4	397.4	411.6	433.7	473.5	455.8	450.7	462.5	470.1	477.8
Long-term debt	262.9	323.0	346.2	365.7	397.0	428.3	404.9	389.2	391.7	399.7	401.8
Concessional	32.1	34.9	31.7	35.0	39.5	44.5	45.3	46.7	49.0	49.3	..
Bilateral	28.1	30.7	27.1	30.1	34.1	38.9	39.5	40.6	42.5	42.4	..
Multilateral[c]	4.0	4.2	4.6	5.0	5.4	5.7	5.8	6.1	6.5	6.8	..
Official, non-concessional	31.0	42.1	48.8	62.2	76.5	96.4	95.7	97.5	113.3	118.5	..
Bilateral	12.4	15.7	18.4	21.8	24.7	32.3	34.5	35.9	41.6	45.7	..
Multilateral	15.7	17.7	19.0	26.0	35.5	46.0	44.9	46.0	53.6	55.7	..
IMF	2.9	8.8	11.5	14.5	16.3	18.1	16.3	15.6	18.1	17.1	16.4
Private creditors[d]	199.8	245.9	265.7	268.4	281.1	287.4	263.9	245.0	229.6	232.0	227.8
Bonds	15.6	16.2	15.6	17.8	17.5	16.7	18.0	19.1	76.2	85.1	..
Commercial banks	107.2	140.0	164.9	173.6	189.0	200.9	190.0	178.1	102.0	96.4	..
Other private	13.6	20.2	19.2	20.9	24.3	26.4	25.4	25.1	26.0	22.5	..
Short-term debt	91.3	62.4	51.2	45.8	36.7	45.2	50.9	61.4	70.7	70.4	76.0
Memo items											
Principal arrears on long-term debt	0.0	0.0	0.0	7.0	9.5	12.3	13.9	17.1	23.0	25.1	..
Interest arrears on long-term debt	0.4	1.4	3.3	2.9	3.7	8.6	9.0	17.1	25.9	21.9	..

Table A.35. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Africa					
Total external debt	138.9	151.0	157.3	184.1	213.0	252.0	258.1	268.2	280.2	283.2	288.4
Long-term debt	120.2	131.0	135.1	160.0	187.6	228.9	233.0	240.0	250.9	254.2	259.2
Concessional	42.3	44.8	45.9	52.2	60.2	72.3	75.3	80.8	89.5	92.5	..
Bilateral	31.7	33.1	33.3	37.7	43.1	50.8	52.3	54.8	60.3	59.7	..
Multilateral[c]	10.6	11.7	12.6	14.5	17.1	21.5	23.0	26.0	29.2	32.8	..
Official, non-concessional	29.8	36.5	40.3	50.2	64.4	81.2	79.8	82.4	83.0	90.4	..
Bilateral	18.1	22.6	25.9	31.9	41.6	52.8	52.7	55.0	53.2	59.4	..
Multilateral	6.7	7.8	8.0	11.0	15.2	20.2	19.6	20.8	23.7	25.3	..
IMF	5.0	6.1	6.4	7.3	7.6	8.2	7.4	6.6	6.1	5.7	5.9
Private creditors[d]	48.1	49.8	48.9	57.5	63.0	75.5	77.9	76.9	78.2	71.3	66.8
Bonds	0.9	0.8	0.8	1.3	1.4	1.5	1.7	1.8	1.7	1.7	..
Commercial banks	18.9	18.6	17.2	17.9	20.0	25.5	26.4	25.2	24.9	23.4	..
Other private	22.7	24.2	24.3	31.6	35.0	41.3	42.0	41.8	43.1	37.3	..
Short-term debt	18.8	20.0	22.1	24.1	25.4	23.1	25.1	28.2	29.3	29.0	29.2
Memo items											
Principal arrears on long-term debt	0.0	0.0	0.0	7.6	12.7	15.2	18.6	18.2	21.1	21.4	..
Interest arrears on long-term debt	1.5	1.7	2.3	3.3	5.2	6.6	9.0	11.3	12.0	12.5	..
						Sub-Saharan Africa					
Total external debt	56.8	61.3	65.6	79.2	92.5	112.2	114.5	121.9	138.1	143.5	152.1
Long-term debt	50.1	55.0	58.2	69.9	82.6	100.0	101.0	105.5	118.6	122.3	128.4
Concessional	19.1	21.2	23.2	27.5	33.1	41.6	43.8	48.3	57.6	61.9	..
Bilateral	12.5	13.2	14.4	17.1	20.2	24.8	25.3	27.0	31.8	32.7	..
Multilateral[c]	6.6	8.0	8.8	10.4	12.9	16.8	18.5	21.3	25.8	29.2	..
Official, non-concessional	14.2	17.8	18.7	23.1	28.1	34.5	33.6	33.3	36.3	36.1	..
Bilateral	6.7	8.7	9.3	11.6	14.8	18.9	19.0	20.0	22.3	22.3	..
Multilateral	3.5	4.0	4.1	5.5	6.9	9.0	8.6	8.6	9.6	10.0	..
IMF	4.0	5.1	5.3	6.0	6.4	6.6	6.0	4.7	4.4	3.8	3.8
Private creditors[d]	16.8	16.0	16.3	19.3	21.4	23.9	23.6	23.7	24.5	24.2	21.9
Bonds	0.0	0.3	0.4	0.4	0.5	0.5	0.4	0.4	0.3	0.3	..
Commercial banks	6.9	6.9	6.7	6.8	7.6	8.4	8.1	8.0	8.6	8.1	..
Other private	6.5	5.6	5.6	8.0	8.8	9.9	9.4	9.2	8.9	8.6	..
Short-term debt	6.7	6.3	7.5	9.3	9.9	12.2	13.5	16.5	19.4	21.2	23.7
Memo items											
Principal arrears on long-term debt	..	..	..	3.4	4.4	6.0	8.0	10.2	12.8	17.1	..
Interest arrears on long-term debt	0.8	0.9	1.2	1.8	2.5	3.7	5.4	7.4	8.8	11.4	..

Table A.35. *(concluded)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
						Asia					
Total external debt	235.9	263.3	267.7	302.3	340.7	390.6	394.2	401.9	445.2	488.9	539.3
Long-term debt	190.3	215.0	219.5	253.0	291.7	331.5	333.4	339.6	371.1	402.8	447.9
Concessional	75.1	82.7	78.3	90.1	103.5	126.7	132.3	138.2	153.9	165.7	..
Bilateral	59.4	64.9	59.2	68.0	78.9	98.6	102.8	106.3	116.8	124.2	..
Multilateral[c]	15.7	17.8	19.1	22.1	24.6	28.1	29.5	31.9	37.1	41.6	..
Official, non-concessional	36.3	42.2	44.2	50.4	57.6	62.4	54.6	54.4	61.1	66.9	..
Bilateral	15.9	17.3	19.4	20.4	21.6	21.0	15.3	13.9	14.5	15.9	..
Multilateral	11.9	14.6	14.9	19.7	25.3	32.1	32.4	34.9	41.2	45.3	..
IMF	8.6	10.4	9.9	10.3	10.7	9.6	6.9	5.6	5.6	5.7	6.2
Private creditors[d]	78.9	90.1	96.9	112.5	130.6	142.4	146.5	147.1	156.0	170.3	197.7
Bonds	2.8	4.6	5.5	11.1	14.8	17.9	17.3	17.3	18.6	22.2	..
Commercial banks	23.8	28.6	32.0	34.0	40.3	43.1	44.9	43.2	43.0	43.8	..
Other private	16.4	17.6	19.0	24.2	30.7	35.7	36.0	36.6	40.0	40.4	..
Short-term debt	45.6	48.3	48.3	49.3	49.1	59.1	60.8	62.3	74.1	86.1	91.4
Memo items											
Principal arrears on long-term debt	0.0	0.0	0.0	0.8	0.2	0.9	0.5	0.3	0.4	0.6	..
Interest arrears on long-term debt	0.1	0.2	0.1	0.1	0.0	0.0	0.2	0.1	0.3	0.4	..
						Fifteen heavily indebted countries					
Total external debt	384.6	415.8	430.7	448.9	473.8	520.3	500.6	494.0	509.8	516.0	525.6
Long-term debt	279.9	340.7	366.2	391.9	432.3	474.6	449.8	433.9	440.5	446.7	454.2
Concessional	16.2	16.1	16.0	19.0	23.0	25.1	25.3	25.9	29.7	29.2	..
Bilateral	13.1	13.1	12.8	15.5	19.4	21.4	21.5	22.0	25.2	24.4	..
Multilateral[c]	3.0	3.0	3.2	3.4	3.6	3.7	3.8	3.9	4.5	4.9	..
Official, non-concessional	35.3	47.6	55.5	71.2	94.1	120.5	118.4	124.4	145.0	152.1	..
Bilateral	11.2	14.7	19.0	22.9	32.4	43.8	46.2	51.6	60.4	65.9	..
Multilateral	18.7	21.4	22.6	30.9	42.4	55.5	53.6	55.4	65.2	68.1	..
IMF	5.5	11.5	13.9	17.4	19.3	21.0	18.6	17.4	19.4	18.0	17.5
Private creditors[d]	228.4	277.0	294.8	301.7	315.1	329.0	306.1	283.6	265.9	265.4	269.8
Bonds	15.8	16.6	15.4	17.5	17.3	16.4	17.6	18.6	75.6	83.9	..
Commercial banks	115.5	149.1	174.2	184.4	203.4	220.1	209.8	197.3	119.5	112.5	..
Other private	20.2	28.3	27.0	31.5	34.9	40.9	39.7	37.6	38.0	32.9	..
Short-term debt	104.7	75.1	64.5	57.1	41.5	45.7	50.8	60.0	69.3	69.3	71.4
Memo items											
Principal arrears on long-term debt	0.0	0.0	0.0	7.4	9.4	11.6	13.3	14.2	20.6	22.3	..
Interest arrears on long-term debt	0.3	1.5	3.1	2.6	3.0	8.0	8.3	15.0	24.2	20.3	..

Source: UN/DESIPA, based on data of IMF, OECD and World Bank.

a Estimate.

b Debt of 122 economies, drawn primarily from the data of the Debtor Reporting System of the World Bank (107 countries). For non-reporting countries, data are drawn from the Creditor Reporting System of OECD (15 economies), excluding, however, non-guaranteed bank debt of offshore financial centres, much of which is not the debt of the local economies.

c Including concessional facilities of IMF.

d Including private non-guaranteed debt.

Table A.36. Debt indicators and debt-service payments for capital-importing developing countries, 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	199
						Debt indicators (percentage)					
Ratio of external debt to GNP											
All countries	37.5	42.6	42.7	46.2	49.5	51.2	44.1	40.0	39.0	39.7	38
of which:											
Latin America	52.0	67.6	65.5	67.6	69.4	69.5	55.4	47.7	42.5	41.3	37.
Africa	51.0	55.1	56.1	63.1	75.6	91.4	94.8	99.1	95.4	101.7	100.
Asia	23.4	24.7	25.0	28.0	30.5	30.6	25.9	23.8	25.5	26.9	26.
Memo items											
Sub-Saharan Africa	59.5	64.2	66.3	80.8	79.1	65.6	94.7	100.8	106.5	109.8	108.
Fifteen heavily indebted countries	49.0	63.2	61.7	64.1	67.7	70.3	56.9	48.8	44.0	46.2	42.
Ratio of external debt to exports											
All countries	156.5	172.1	162.3	180.8	200.5	187.0	158.2	142.4	134.1	131.8	129.
of which:											
Latin America	268.5	304.5	287.6	310.8	373.4	363.2	309.8	273.1	252.6	256.9	246.
Africa	191.5	213.7	209.5	247.0	337.2	363.4	356.8	335.9	285.8	288.6	281.
Asia	91.9	98.4	91.3	104.8	107.9	95.8	79.0	71.6	71.5	70.2	70.
Memo items											
Sub-Saharan Africa	222.7	247.3	226.8	274.0	312.5	348.4	338.7	340.5	347.0	367.9	363.
Fifteen heavily indebted countries	259.8	296.5	278.4	296.6	356.5	348.6	296.7	260.8	234.3	250.9	240.
Ratio of debt-service to exports											
All countries	24.2	23.0	22.5	23.9	24.8	22.1	20.5	17.4	15.7	15.2	15.
of which:											
Latin America	47.6	42.3	39.4	38.0	43.3	37.6	39.8	30.6	25.8	29.3	30.
Africa	22.3	24.5	26.1	29.2	33.6	27.9	31.6	30.1	27.7	27.0	26.
Asia	13.1	13.3	13.0	16.1	16.0	15.6	12.3	10.8	9.8	8.7	8.
Memo items											
Sub-Saharan Africa	20.8	22.4	20.6	23.7	27.2	24.0	23.4	20.7	18.9	18.0	17.
Fifteen heavily indebted countries	46.4	42.0	40.3	38.1	42.4	36.1	37.9	30.3	25.5	29.5	26.

Table A.36. *(continued)*

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
					Debt-service payments (billions of dollars)						
All countries											
Total debt service	114.6	108.3	117.2	122.8	126.7	136.5	147.9	140.5	144.6	148.6	157.5
Interest payments	67.8	64.6	68.6	68.4	63.9	63.1	72.9	66.4	63.5	69.7	65.3
of which: non-concessional	65.9	62.8	62.4	66.0	61.2	60.0	70.1	58.0	54.6	59.9	..
Latin America											
Total debt service	59.5	50.8	52.3	48.4	48.3	46.9	55.4	47.8	45.5	50.0	54.3
Interest payments	37.9	35.1	35.6	35.1	30.4	28.7	33.5	26.0	22.1	27.0	21.8
of which: non-concessional	37.7	34.9	35.3	34.8	30.1	28.3	33.0	25.8	21.5	25.8	..
Africa											
Total debt service	16.2	17.4	19.7	21.8	21.2	19.3	22.9	24.0	27.2	26.4	26.9
Interest payments	7.9	7.9	8.9	8.8	8.5	7.4	9.6	9.9	9.9	9.9	10.4
of which: non-concessional	7.5	7.5	8.5	8.2	7.8	6.8	8.9	9.0	9.1	9.1	..
Asia											
Total debt service	30.5	32.0	35.0	43.0	46.8	58.2	55.6	54.9	56.3	56.2	60.7
Interest payments	17.5	16.9	18.6	19.5	19.6	21.3	23.2	24.5	24.8	26.5	26.5
of which: non-concessional	14.8	14.5	16.2	16.8	16.2	17.4	19.3	20.6	20.5	21.9	..
Memo items											
Sub-Saharan Africa											
Total debt service	5.3	5.5	5.9	6.9	8.0	7.7	7.9	7.4	7.5	7.0	6.3
Interest payments	2.8	2.6	2.8	3.0	3.3	3.0	3.2	3.0	3.0	3.0	2.5
of which: non-concessional	2.5	1.6	2.7	2.8	2.9	2.6	2.8	2.6	2.4	1.8	..
Fifteen heavily indebted countries											
Total debt service	68.6	58.9	62.3	57.6	56.4	53.9	64.0	57.5	55.5	60.8	58.7
Interest payments	43.1	39.5	41.5	39.7	34.3	32.4	38.8	31.5	26.8	32.3	27.1
of which: non-concessional	42.8	39.1	41.2	39.4	34.0	32.1	38.4	31.2	26.3	31.7	..

Source: UN/DESIPA, based on data of IMF, OECD and World Bank.

a Preliminary estimate.

Table A.37. Debt restructuring with official creditors, 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Number of agreements	5	15	14	22	19	17	15	24	17	14	16
Developing countries, total											
Middle-income countries	-	4	2	9	3	4	3	5	1	2	4
Lower-middle-income countries[a]	-	3	5	4	6	5	3	5	6	8	4
Low-income countries	5	8	7	9	10	7	8	12	9	3	8
Sub-Saharan Africa	5	9	9	10	15	9	9	16	9	6	9
Amounts rescheduled[b] (millions of dollars)											
Developing countries, total	428	8 644	3 764	6 457	12 183	19 969	9 362	18 600	6 075	44 308	12 522
Middle-income countries	-	4 172	704	3 789	2 201	6 670	6 721	6 016	200	1 825	7 287
Lower-middle-income countries	-	1 635	1 939	1 692	7 502	10 962	1 342	9 312	3 320	34 150	2 628
Low-income countries	428	2 837	1 121	976	2 480	1 987	973	2 518	2 445	390	2 607
Sub-Saharan Africa	428	2 854	1 494	1 192	9 466	2 904	1 299	10 330	3 374	1 810	3 687
Average consolidation period (years)											
Developing countries, total	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.4[c]	1.5	..[d]	1.9
Middle-income countries	-	1.1	1.0	1.1	1.2	1.1	1.4	1.6	1.4	0.8	1.5
Lower-middle-income countries	-	1.1	1.2	1.2	1.2	1.4	1.4	1.4	1.4	..[d]	1.5
Low-income countries	1.1	1.0	1.1	1.3	1.2	1.2	1.2	1.3[c]	1.7	1.2	2.1
Sub-Saharan Africa	1.1	1.0	1.1	1.2	1.2	1.2	1.2	1.3[c]	1.6	1.2	2.0
Average maturity on consolidated debt (years)											
Developing countries, total	8.8	8.7	10.7	9.9	10.3	13.1	16.1	13.7	15.3	..[d]	..[f]
Middle-income countries	-	..	8.8	9.1	9.9	8.1	9.4	9.4	9.3	9.8	9.5
Lower-middle-income countries	-	..	10.0	10.1	10.1	10.4	9.0	10.1	14.0	..[d]	..[f]
Low-income countries	8.8	..	11.8	10.6	10.5	17.6	22.0	17.6	17.4	17.4[e]	..[f]
Sub-Saharan Africa	8.8	9.8	11.4	10.5	10.3	15.9	20.7	15.2	17.1	15.2[e]	..[f]

Source: UNCTAD, based on Paris Club Agreed Minutes.

Note: In 1988, Paris Club creditors adopted new concessional debt-relief measures for low-income countries, which are known as the Toronto terms.

a This group of countries is likely to comprise the main beneficiaries of the Houston terms, although a small number have benefited from the Toronto terms.
b Including previously rescheduled debt.
c Excluding Equatorial Guinea.
d Owing to the menu options for Egypt, it is not possible to calculate consolidation periods and maturity averages for 1991.
e Excluding Benin and Nicaragua which received Enhanced Toronto terms.
f Owing to the options under the Enhanced Toronto terms it is not possible to calculate consolidation periods and maturity averages for 1992 for Bolivia, Ethiopia, Guinea, Honduras, Mali, Sierra Leone, Togo, Uganda, United Republic of Tanzania and Zambia.

Table A.38. Debt-restructuring agreements with commercial banks: all developing countries, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Number of agreements	27	26	14	12	19	10	4	5	0	1
Amounts rescheduled[a] (billions of dollars)	47.6	91.3	23.2	72.7	89.7	79.7	6.8	5.4	-	0.2
Average consolidation period (years)	1.5	2.8	2.8	2.8	4.0	6.5	3.3	7.3	-	4.0
Average repayment terms										
Maturity (years)	6	9	11	10	15	19	16	13	-	13
Grace (years)	3	3	4	4	5	7	5	4	-	3
Spread over LIBOR (percentage)	2.0	1.8	1.5	1.3	1.0	0.8	0.9	0.8	-	0.8

Concluded debt and debt-service reduction agreements
(billions of dollars)

	1990				1991	1992		1993
	Mexico	Philippines	Costa Rica	Venezuela	Uruguay	Philippines	Nigeria	Argentina
Debt reduction								
Debt buyback	-	1.3	1.0	1.4	0.5	1.3	3.3	-
Discount bonds	20.6	-	-	1.8	-	-	-	6.6
Debt-service reduction	22.4	-	0.5	10.3	0.4	2.6	2.0	12.2
New money	4.4	-	-	6.1	0.4	0.5	-	-
Total debt restructured	48.1[b]	1.3	1.5[c]	19.6	1.3	4.4	5.3	27.0[d]
Total financing required	7.0	0.7	0.2	2.4	0.5	1.2	1.7	3.7[e]
of which: own resources	1.2	0.05	0.04	0.4	0.3	1.0	1.7	1.1[e]

Sources: *World Debt Tables 1992-1993* and IMF.

a Including previously rescheduled debt.
b Including portion ($693 million) not committed to any option.
c One hundred fourteen million dollars overdue interest was converted into bonds by those banks that chose the buyback option.
d Total including $8.3 billion past-due interest.
e Financing proposal, as reported in World Bank, *Financial Flows to Developing Countries*, January 1993.

IV. THE INTERNATIONAL OIL MARKET

Table A.39. Value of oil exports of OPEC member countries, 1970-1992[a]
(Millions of dollars)

Country	1970	1980	1985	1987	1988	1989	1990	1991	1992[b]
Algeria	681	12 647	9 170	6 057	4 988	7 000	8 854	9 590	7 200
Ecuador[c]	1	1 551	1 926	724	976	1 147	1 258	1 029	1 400
Gabon	62	1 745	1 629	896	779	1 200	1 967	1 740	1 900
Indonesia	446	15 595	9 083	6 157	5 189	6 059	8 700	6 868	5 700
Iran (Islamic Republic of)	2 358	13 286	13 115	10 515	8 170	12 500	17 300	15 280	16 500
Iraq	788	26 296	10 686	11 416	10 952	14 500	9 463	--	--
Kuwait	1 596	17 678	9 817	7 520	5 584	9 306	5 536	--	6 500
Libyan Arab Jamahiriya	2 356	21 378	9 962	5 432	5 169	7 500	9 700	10 025	9 500
Nigeria	716	25 290	12 353	7 161	6 267	7 500	13 200	12 150	11 500
Qatar	227	5 406	3 068	1 829	1 536	1 955	2 800	2 187	2 500
Saudi Arabia	2 418	105 813	24 180	19 271	19 607	24 093	39 700	42 652	45 000
United Arab Emirates	523	19 558	11 842	8 665	7 352	11 500	15 000	13 920	14 000
Venezuela	2 371	18 248	10 352	6 959	8 162	10 020	13 958	12 995	13 000
Total	**14 542**	**284 491**	**127 180**	**92 601**	**84 731**	**114 280**	**147 436**	**128 436**	**134 700**

Source: *OPEC Annual Statistical Bulletin*, various issues.

a Where appropriate, petroleum product exports are included. Data for some countries may include exports of condensate Starting in 1980, Saudi Arabia data exclude natural gas liquids.
b Estimate.
c In 1992, Ecuador suspended its membership in OPEC.

Table A.40. World oil demand, 1986-1993[a]

	1986	1987	1988	1989	1990	1991	1992	1993[b]	Percentage change between 1986 and 1992
	(millions of barrels per day)								
Developed market economies	35.4	36.0	37.5	37.8	37.9	38.0	38.5	39.0	10.2
North America	18.0	18.5	19.2	19.3	18.9	18.6	18.8	19.2	6.7
Western Europe	12.2	12.3	12.8	12.8	13.0	13.4	13.5	13.6	11.5
Pacific[c]	5.2	5.2	5.5	5.7	6.0	6.1	6.2	6.3	21.2
Economies in transition	11.0	11.1	10.8	10.6	10.0	9.5	8.2	7.4	-32.7
Eastern Europe	2.0	2.1	1.9	1.8	1.6	1.2	1.1	1.1	-45.0
Former Soviet Union[d]	9.0	9.0	8.9	8.8	8.4	8.3	7.1	6.3	-30.0
Developing countries	15.2	15.8	16.6	17.6	18.4	19.2	20.2	21.2	32.9
Latin America	4.7	4.8	4.9	5.0	5.1	5.3	5.4	5.6	19.1
Africa	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.2	22.2
West Asia	2.9	3.0	3.0	3.3	3.4	3.5	3.7	3.9	34.5
South and East Asia	3.8	4.0	4.5	4.9	5.4	5.8	6.3	6.8	78.9
China[d]	2.0	2.1	2.2	2.4	2.4	2.5	2.6	2.7	35.0
World total[e]	**61.6**	**62.9**	**64.9**	**66.0**	**66.2**	**66.6**	**67.0**	**67.6**	**9.7**

Source: UN/DESIPA, based on International Energy Agency, *Monthly Oil Market Report*, April 1991, January 1992 and January 1993.

a Including deliveries from refineries/primary stocks and marine bunkers, and refinery fuel and non-conventional oils.
b Estimate.
c Australia, Japan and New Zealand.
d Based on estimates of apparent domestic demand derived from official production figures and quarterly trade data.
e Totals may not add up because of rounding.

Table A.41. World crude oil production, 1970-1992

	1970	1980	1985	1986	1987	1988	1989	1990	1991	1992	Percentage change between 1985 and 1992
	(millions of barrels per day)										
Developed market economies	11.24	12.60	14.36	14.25	14.20	14.12	13.50	13.27	13.63	13.75	-4.2
Economies in transition	7.42	12.40	12.24	12.62	12.79	12.81	12.54	11.74	10.52	9.18	-25.0
Developing countries	26.84	34.58	26.60	29.12	28.76	31.47	33.35	35.3	35.77	37.10	39.5
OPEC member countries	23.31	26.80	16.08	18.39	17.59	20.02	21.71	23.22	23.35	24.40	51.7
Other oil-exporting countries[a]	2.66	6.68	8.59	8.77	9.25	9.51	9.70	9.99	10.26	10.51	22.4
Remaining countries	0.87	1.10	1.93	1.96	1.92	1.94	1.94	2.09	2.16	2.19	13.5
World total	**45.50**	**59.58**	**53.20**	**55.99**	**55.75**	**58.40**	**59.39**	**60.31**	**59.92**	**60.03**	**12.8**

Source: UN/DESIPA, based on *Oil and Gas Journal*, various issues.

a Angola, Bahrain, Brunei Darussalam, Cameroon, China, Colombia, Congo, Egypt, Malaysia, Mexico, Oman, Papua New Guinea, Peru, Syrian Arab Republic, Trinidad and Tobago, Tunisia, Viet Nam and Yemen.

Table A.42. OPEC crude oil production, 1992
(Thousands of barrels per day)

Country	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Algeria	800	780	760	770	770	770	770	770	770	770	770	770
Ecuador	310	310	310	315	315	315	315	320	325	325	325	325
Gabon	300	270	300	300	300	310	300	300	300	300	300	300
Indonesia	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 370	1 370	1 370	1 340	1 340
Iran (Islamic Republic of)	3 380	3 410	3 380	3 100	3 370	3 145	3 300	3 550	3 540	3 620	3 835	3 630
Iraq	420	450	450	450	450	450	450	450	450	450	450	450
Kuwait[a]	590	630	760	875	920	990	1 100	1 150	1 225	1 350	1 450	1 630
Libyan Arab Jamahiriya	1 550	1 550	1 430	1 430	1 470	1 500	1 500	1 450	1 500	1 500	1 530	1 500
Nigeria	1 900	1 900	1 790	1 790	1 850	1 900	1 900	1 900	1 930	1 980	1 970	2 000
Qatar	350	350	370	370	380	390	400	400	420	450	450	430
Saudi Arabia[a]	8 755	8 570	8 060	8 075	8 070	8 140	8 180	8 400	8 450	8 470	8 400	8 400
United Arab Emirates	2 420	2 370	2 240	2 245	2 245	2 220	2 280	2 300	2 280	2 300	2 300	2 300
Venezuela	2 300	2 300	2 150	2 150	2 150	2 200	2 250	2 370	2 370	2 370	2 370	2 345
Total	**24 475**	**24 290**	**23 400**	**23 270**	**23 690**	**23 730**	**24 145**	**24 730**	**24 930**	**25 255**	**25 490**	**25 420**

Source: *Middle East Economic Survey*, 18 January 1993.

a Including share of neutral zone.