

World Economic and Social Survey 1994

**CURRENT TRENDS
AND POLICIES IN THE
WORLD ECONOMY**



United Nations

DEPARTMENT OF ECONOMIC AND SOCIAL INFORMATION
AND POLICY ANALYSIS

World Economic and Social Survey 1994

Current Trends and Policies in the
World Economy



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Note

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PREFACE

The *World Economic and Social Survey, 1994* is the forty-seventh report of the United Nations Secretariat on the current state of the world economy. From its inception in 1948—and even then continuing a practice begun under the League of Nations—the *Survey* has sought to bring to the attention of the international policy-making community the major economic and social issues that are of global significance.

The report has previously been issued as the *World Economic Survey*. It has, however, never been only “economic” in the strictest sense. In recent years, the *Survey* has increasingly focused on specific social issues. This year, to signal our intention to integrate the treatment of the economic and social dimensions of development more fully, we have added the word “social” to the name of the *Survey*.

It is our hope that the *Survey* will serve as a main background document for the discussions of the world economy that take place annually in the United Nations. Attention is thus accorded to the analysis of current and emerging issues—of both a macroeconomic and a microeconomic, as well as of a social, nature. Chapter I presents a short-term forecast of world economic conditions and a preliminary assessment of medium-term prospects, presenting some implications for national and international policy-making. Chapter II surveys recent economic activity and policy in developed and developing countries and countries with economies in transition. Chapter III is concerned with international trade and the global trading system, while chapter IV analyses international transfers of financial resources and issues in the financial development of developing countries and countries with economies in transition. Chapter V examines the world energy situation.

An issue with both social and economic dimensions featured in the current *Survey* is that of unemployment. Recently, unemployment has become one of the major economic and social challenges faced by the developed market economies. However, the problem is of global proportions and chapter VI provides an insight into the differing nature of unemployment in developed market economies, developing countries and the countries with economies in transition. Chapter VII is on demographic changes and the important social, economic and environmental phenomena that are affected by them. These two chapters were prepared with a view to assisting in the global preparations for two important United Nations meetings, the *International Conference on Population and Development* to be held this year and the *World Summit for Social Development* to be held in 1995. Indeed, the population chapter draws heavily on material prepared in the *Population Division* of this Department for the *Population Conference*.

The statistical annex contains standardized economic and financial data pertaining to the analytical groupings of countries that are the main focus of the discussions in the text and to the key parameters of the international economy. In addition, this year's *Survey* also includes a technical note on alternative ways to measure gross world output and its distribution among countries over time. It draws on research that has been under way in the *Statistical Division* of this Department for some years.

The *Survey* was prepared in the *Macroeconomic and Social Policy Analysis Division* of the Department and draws on information and analyses of the agencies and organs of the United Nations system, especially the counterparts to the *Headquarters Survey* team in the offices of the regional commissions. In addition, staff of the *United Nations Conference on Trade and Development (UNCTAD)* have contributed to the *Survey*, in particular to the statistical annex and to the analysis of the *Paris Club*, in which UNCTAD has observer status. We are very grateful for the material assistance and the spirit of cooperation of these offices,

which has deepened over the years. The *Survey* also uses information and analysis provided by other organs of the United Nations system and international agencies, in particular the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade and the Organisation for Economic Co-operation and Development. The analysis in the *Survey* is based on information available to the Secretariat as of late April 1994.

A handwritten signature in black ink, appearing to read 'J. Milleron', with a long horizontal line extending to the right.

JEAN-CLAUDE MILLERON
Under-Secretary-General
for Economic and Social Information
and Policy Analysis

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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 1993 and 1994 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:

- ADB
Asian Development Bank
- AfDB
African Development Bank
- AMS
aggregate measurement of support
- APEC
Asia-Pacific Economic Cooperation Forum
- ASEAN
Association of South-East Asian Nations
- BBC
British Broadcasting Corporation
- bcm
billion cubic metres
- boe/d
barrel of oil equivalent per day
- CCFF
Compensatory and Contingency Financing Facility (of the International Monetary Fund)
- CEAO
Communauté économique de l'Afrique de l'ouest
- CEPII
Centre d'études prospectives et d'informations internationales
- CFA
Communauté financière africaine
- CIS
Commonwealth of Independent States
- CMEA
Council for Mutual Economic Assistance
- COMESA
Common Market for Eastern and Southern Africa

COMTRADE External Trade Statistics Database	GATT General Agreement on Tariffs and Trade
CPI consumer price index	GCC Gulf Cooperation Council
CSCE Conference on Security and Cooperation in Europe	GDP gross domestic product
DSB Dispute Settlement Body	GEF Global Environment Facility
DSU Understanding on Rules and Procedures Governing the Settlement of Disputes	GNP gross national product
EC European Community	GWP gross world product
ECA Economic Commission for Africa	IDA International Development Association
ECE Economic Commission for Europe	IDB Inter-American Development Bank
ECLAC Economic Commission for Latin America and the Caribbean	IFAD International Fund for Agricultural Devel- opment
ECU European currency unit	ILO International Labour Organisation
EFTA European Free Trade Association	IMF International Monetary Fund
EMU Economic and Monetary Union (Treaty on European Union, signed at Maastricht)	INSEE Institut national de la statistique et des études économiques
ERM exchange rate mechanism	JEC Joint Economic Committee (of the United States Congress Staff Study) (concerning NAFTA)
ESAF Enhanced Structural Adjustment Facility (of the International Monetary Fund)	LNG liquified natural gas
EU European Union	mbd million barrels per day
FAO Food and Agriculture Organization of the United Nations	MER market exchange rate
FDI foreign direct investment	MERCOSUR Southern Cone Common Market
FIBOR Frankfort inter-bank offer rate	MFA Multifibre Arrangement
FILP Fiscal Investment and Loan Programme (of Japan)	MFN most favoured nation
	MSPA Macroeconomic and Social Policy Analy- sis Division (of the Department for Eco- nomic and Social Information and Policy Analysis of the United Nations Secretariat)

EXPLANATORY NOTES

mtoe	million tons of oil equivalent	STF	Systemic Transformation Facility (of the International Monetary Fund)
NAFTA	North American Free Trade Agreement	TRIMs	trade-related investment measures
NAIRU	non-accelerating inflation rate of unemployment	TRIPs	trade-related intellectual property rights
NBER	National Bureau of Economic Research (Cambridge, Massachusetts)	UDEAC	Union douanière et économique de l'Afrique centrale
NIE	newly industrialized economy	UEMOA	Union économique et monétaire de l'Afrique de l'ouest
ODA	official development assistance	UN/DESIPA	Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat
OECD	Organisation for Economic Co-operation and Development	UNCTAD	United Nations Conference on Trade and Development
OPEC	Organization of the Petroleum Exporting Countries	UNDP	United Nations Development Programme
PARE	price adjusted rate of exchange	UNESCO	United Nations Educational, Scientific and Cultural Organization
PLO	Palestine Liberation Organization	UNHCR	Office of the United Nations High Commissioner for Refugees
PPP	purchasing power parity	UNICEF	United Nations Children's Fund
PREALC	Programa Regional del Empleo para América Latina y el Caribe	UNIDIR	United Nations Institute for Disarmament Research
Project LINK	International Research Group of Econometric Model Builders, with Headquarters at the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat	UNSTAT	Statistical Division of the United Nations Secretariat
PTA	Preferential Trade Area for Eastern and Southern African States	URV	unit of real value
REER	real effective exchange rate	USTR	United States Trade Representative
SDR	special drawing rights	VAT	value-added tax
SEM	Single European Market	VER	voluntary export restraint
SII	Structural Impediments Initiative	WA	<i>World Bank Atlas</i>
SITC	Standard International Trade Classification	WAMU	West African Monetary Union
		WTO	World Trade Organization

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.

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, 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.

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 solely 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 BEGINS TO GROW AGAIN

The world economy appears set, in early 1994, for the first significant expansion in four years (table I.1). The growth of world output this year will still be weaker than the average rate of growth of the 1970s and 1980s, but prospects have improved for stronger growth in the medium term.

In 1994, world output is expected to increase by over 2 per cent, twice as fast as in 1993. The developed market economies are growing again but robust growth is expected in only the United States of America; in many of them recession bottomed out only recently and unemployment continues to rise. Output declined again in the economies in transition to the market system but considerably more slowly than before, and some of them appeared to be at a turning point. Among the brightest features of the world economy, economic progress continues to spread among large populations in the developing countries, including some of the poorest. The conclusion of the Uruguay Round of multilateral trade negotiations in December 1993 was an historic achievement in international cooperation that opened up great possibilities of trade liberalization and brightened prospects of long-term growth. On the other hand, political and ethnic unrest and military conflict further exacerbated human misery and impeded

economic and social development in many areas of the world.

The world economy remains a complex mosaic of sharp contrasts between countries and regions that trends in aggregate output do not convey. The recent stagnation of the world economy was due mostly to the developed market economies, which account for over 70 per cent of world output. While the severity of the recession and the problem of unemployment differed greatly among them, income per capita fell only slightly in these countries, which are still immensely rich. By contrast, output and income fell sharply in countries in transition from central planning to the market system, which account for a small fraction of world output and where living standards have already been far lower than in the developed economies at the beginning of the transition. The systemic nature of their problem also marks these economies from the developed economies. The contrast within the group is hardly less sharp. A number of countries appear to be turning the corner, while in the majority of the countries output continues to decline. The developing countries as a whole, accounting for only 20 per cent of world output but 80 per cent of world population, have, on the other hand, been growing strongly in recent years, and the trend con-

Table I.1.
Growth of the world economy, 1988-1995
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995
World output	4.5	3.2	1.6	0.3	0.8	1.1	2½	3
Developed market economies	4.5	3.3	2.4	0.7	1.6	1.0	2½	2¾
Economies in transition	4.5	2.1	-6.2	-8.8	-15.2	-8.6	-6	0
Developing countries	4.5	3.5	3.0	3.4	4.9	5.2	5	5
World trade	7.3	8.0	5.6	4.6	5.5	2.7	6	6½
<i>Memo item:</i>								
Growth of world per capita income	2.8	1.5	0	-1.4	-0.9	-0.6	0.6	1.3

Source: UN/DESIPA. Figures for 1994 and 1995 are forecasts based on Project LINK.

tinued in 1993. This growth has also been widely spread among large populations of the developing world. Incomes of a large proportion of the population of the developing countries, still very low, are growing faster in recent years than considered likely even a decade ago. At the same time, the number of countries where incomes continue to stagnate and decline remains large, though they comprise a much smaller proportion of population of the developing countries than the fast-growing regions.

The virtual stagnation in aggregate world output in recent years was paralleled by a slowing of growth of world trade. The rate of growth of world exports declined from over 5 per cent in 1992 to under 3 per cent in 1993. The growth was also closely reflected in the regional variety of the growth of output, with much of the impulse coming from the strongly growing developing economies and the recovery in the United States.

Some of the parameters of the international economy changed significantly but major shocks were avoided. Interest rates fell further in the industrialized economies, helping their economic recovery as well as providing an impetus to flows of capital to the developing countries. Changes in bilateral exchange rates of some major currencies were significant but appeared to be of no great concern to policy makers till recent months, while the turmoil in the European Exchange Rate Mechanism (ERM) was resolved. Non-fuel commodity prices fell slightly, while fuel prices dropped to the lowest level in five years.

Despite the great diversity of conditions, the growth of the world economy, as well as improvements in critical economic and social areas in many parts of the world, still

largely depends on sustained growth in the developed market economies. Recent gains, especially low inflation and a revival of consumer and business confidence, are grounds for optimism for growth in these economies in the short and medium term. Any early application of macroeconomic tightening or failures in policy coordination among the major economies could, however, still undermine their growth prospects. The strength of growth in many of the developing countries needs to be sustained while great efforts at reform and adjustment are still needed to achieve growth in many others. The transition of the former centrally planned economies to the market economy is still a long way away for many of them and success will depend greatly on the socio-political dynamics of each country. A growing world economy is indispensable for the smooth transition of these economies as well as for the growth of many developing countries, even though the latter group as a whole has been growing strongly in recent years despite slow world growth.

The greatly divergent trends among countries and regions and the changing relations among them, as well as the technological changes that are linking economies ever more tightly through increased flow of trade and finance, are imparting new urgencies to international economic policy-making and coordination. The conclusion of the Uruguay Round was a significant step in this direction. To implement the Round fully and to address the many complex issues that go beyond those formally covered by it, a great deal of international cooperation, mutual understanding and commitment to multilateralism would still be needed.

THE ECONOMIC-SOCIAL-POLITICAL WEB

Developments in macroeconomic aggregates are only warps in a seamless economic, social and political web. Thus, in most developed market economies, the stagnation in output in recent years has sharply increased unemployment, which contributed to other economic and social ills. But the solution of the problem is more than a matter of raising the growth rate; it requires changes in the labour market as well, which in turn raises other social issues. In large areas of the world, inadequate economic growth has increased poverty, while in others poverty continues to increase despite growth. Economic reform has been sweeping many developing countries. In some, it has produced growth. In some others, the short-term effects of stabilization have been increased poverty and rising political and social tension, which tended to erode the very base of growth. A resurgence of democracy has coincided with the need for reform in many developing countries as well as in countries in transition to the market system. But democratic rights have also found expression in resent-

ment of the cost of reform in some countries. In others, political and social inertia has proved too strong for reform efforts, resulting in economic stagnation and the *status quo*. Everywhere, long-term demographic trends have been influencing economic and social policies. In too many countries violence has led to immense human misery and stifled economic change. The present overview of the world economy briefly draws attention to some important developments beyond changes in output and trade in this web of changes, and some of them are elaborated later in the *Survey*.

GROWING UNEMPLOYMENT

As economic growth slowed, unemployment rose sharply in the developed market economies. The unemployment rate has been on a secular increase for over two decades, and the recent recession pushed it to 7.7 per cent of the labour force in 1993, from 6 per cent in 1990. In western Europe, the rate shot to 10 per cent and was rising. While

slow growth itself has contributed to this phenomenon, a host of other factors, including structural problems and demographic trends, themselves determinants of growth, are closely linked with rising unemployment. In the economies in transition, the very process of restructuring the economy has led to a sharp increase in joblessness in societies that are unaccustomed to the phenomenon. In many developing countries, especially those in which economic growth has been slow, unemployment, already large, continues to increase. Whatever the cause, the cost of unemployment is large. It ranges from the tangible, such as loss of income and output, to the social and psychological, such as alienation and xenophobia, and often does not stop at national boundaries.

POVERTY AND INEQUALITY

Reduction of poverty is one of the ultimate goals of development. Yet, after years of development, large numbers of people remain in poverty in many countries. The total number of people in poverty is estimated at some one fifth of the total world population, with 90 per cent of them in the developing countries, mostly in Asia and Africa. The eradication and alleviation of poverty are major concerns of policy at both the national and the international levels. Development in recent years both heightened these concerns and held out hopes of betterment. Thus, the evident emergence of massive populations in a number of countries in Asia from structural and endemic poverty in as short a period as 30 to 40 years has shattered earlier fears that the process would perpetuate and thus overwhelm societies. At the same time, the drift into poverty in other countries, mostly but not exclusively in Africa, in even a shorter space of time, demonstrated the weaknesses of domestic and international economic institutions and policies in sustaining economic and social development. On the other hand, poverty has been on the increase in some of the developed countries despite overall economic growth, and their social security mechanisms, which were designed to hold selected vulnerable populations from falling into poverty, have run up against hitherto insurmountable problems. Available information also indicates a deterioration in the distribution of income in many developing and developed countries during the past years. In Latin America, real wages fell during much of the past decade. Those who escaped open unemployment by joining the informal sector could not prevent a deterioration in their incomes. This process was aggravated by changes in the allocative pattern of government expenditure, especially the decrease or removal of subsidies on items such as food and transport and reduced public expenditure on education, health and other social services. South and East Asia has been experiencing fast rates of economic growth, low unemployment rates and gains in real wages. Many countries in the region made considerable progress to-

wards a more equitable distribution of income over the past years, though trends in others are less discernible. This was partly the result of deliberate distributive policies by the Government coupled with a growth strategy that made better use of available labour resources and in which human resources development, mainly through the provision of education, played an important role.

Among many of the developed market economies, increased earnings inequality is one of the major factors responsible for the deterioration in the distribution of income among households. Since the early 1980s, profits have tended to grow faster than wages. The gap between the average earnings of the educated and the non-educated has grown. The phenomenon is discernible in Australia, Canada, France, the Netherlands, Sweden, the United Kingdom of Great Britain and Northern Ireland and the United States.

POLITICAL AND SOCIAL TENSION IN MIDDLE-INCOME COUNTRIES

Changes in economic policy to respond flexibly to changing circumstances are essential for growth and development. In open societies such changes can, however, be undertaken and maintained only in a political context. In Latin America, general or presidential elections in a large number of countries will have been held between December 1993 and December 1994. Throughout the region, the economic reform process is at different stages of implementation and has different degrees of popularity, and its success depends largely on political support, of which the election results are an important gauge. So far, in Chile, where consensus on current economic policies is widespread, the new Government pledged continuity, and reforms are most likely to remain in place. By contrast, in Venezuela, elections were won partly on a platform that was critical of economic reforms. In no country has the process of reform been reversed but the need for political consensus and the attendant tension has come to the fore.

A quest for equity is part of that tension. The Chiapas uprising in Mexico last January, ironically coinciding with the coming into effect of the North American Free Trade Agreement (NAFTA), which was billed as a major step towards Mexico's economic prosperity, symbolized the level of socio-economic tension in Latin America stemming from unbalanced regional development and a large incidence of poverty. Despite a sharp increase in overall social spending, over 40 per cent of the population of Mexico is officially classified as poor, many of them living in Chiapas, the least developed of the regions. In both Argentina and Brazil, further evidence of scattered social unrest stemming from poverty and inequality has been reported in recent months, even though success with reform differed widely between the countries.

SETBACK IN HUMAN CAPITAL FORMATION IN AFRICA

Concern about the economic decline in Africa has generally focused on external factors and the fragility of the economic structure. Far less attention has been given to the development of human capital, which is an integral part of the development process. All developing regions made considerable progress in social areas over the past three decades. In many countries in Africa, however, progress has been much slower, and was even reversed in some countries during the 1980s, as economic conditions deteriorated and adjustment programmes capped government expenditures on health and education. For example, Ghana, Uganda and Zambia—as well as such war-torn countries as Angola and Mozambique—faced an increase in the under-five mortality rate between 1980 and 1992. Under-five mortality rates failed to improve in the Niger and Rwanda. Enrolment rates also suffered in Africa. During the 1980s, gross enrolment in primary schools declined from 80.4 to 72.5 per cent and, for all levels, from 42.3 to 41.7 per cent. Africa was the only region in the world where enrolment rates for all levels declined during the 1980s.

CONFLICTS EXACERBATE HUMAN MISERY

Economic development continues to bypass countless victims of political and ethnic violence. The officially estimated number of refugees can only be a partial measure of the scale of human suffering. At the end of 1993, according to preliminary estimates of the Office of the United Nations High Commissioner for Refugees (UNHCR), there were about 16 million refugees in the world, with some 6 million in Africa, 5.5 million in Asia—the bulk of whom were in the Islamic Republic of Iran and Pakistan—about 3 million in Europe and the former Soviet Union, and about 130,000 in Latin America. In addition, millions were internally or otherwise displaced, nearly 3 million in the former Yugoslavia alone. Wars are the foremost cause of displacement. During 1993 and early 1994, civil strife and political

instability in Angola, Burundi, Haiti, Liberia, Rwanda, the Sudan, Togo and Zaire caused large displacements of people. Recent conflicts in Armenia, Azerbaijan, Georgia and Tajikistan, as well as in former Yugoslavia, have led to millions of refugees and displaced persons. On the other hand, in areas where conflicts are subsiding, people have tended to return. For example, millions have returned to Afghanistan, Cambodia and Mozambique during 1992 and 1993. A peace agreement in Liberia, for instance, will allow the repatriation of about 700,000 refugees from neighbouring countries.

THE PEACE DIVIDEND REMAINS UNREALIZED

One of the great hopes generated by the end of the cold war was that a large-scale switch of expenditure from military to civilian use could be made. The expectation was that the savings arising from reduced military expenditure would help reduce budget deficits, increase national economic welfare and possibly enable rich countries, now strapped for cash, to increase economic assistance to developing countries. The hoped-for “peace dividend” seems not to have materialized, even though cuts in military expenditure have been large, because the demand-reducing effects of such cuts have frequently swamped the supply-increasing effects of the switch. The rapid decline in global military expenditure was largely the result of the reduction in such expenditure in Russia. The reduction in military expenditure in the United States has also been substantial but less spectacular. Both countries are reported to have lost some 400,000 jobs each in the armament industry by early 1993. But redeployment of resources has been slow, and this only contributed to depress aggregate demand and tended to worsen growth prospects in the short run. Far from contributing to peace, the necessity of mitigating the employment impact of the contraction of defence industries led countries to seek bigger markets for arms abroad. The peace dividend has proved difficult to reap in an environment of economic stagnation and decline.

MAJOR DEVELOPMENTS IN 1993 AND EARLY 1994

World output increased by about 1 per cent in 1993, after similar growth in 1992 and practically none in 1991, the third successive year when it lagged behind the growth of world population (see table I.1). Growth slowed further in the developed market economies as a whole, and improved in the developing countries and output declined again in the economies in transition, though less fast than before.

DEVELOPED MARKET ECONOMIES: CAUTIOUS POLICY AND WEAK RECOVERY

Output in the developed market economies grew by about 1 per cent in 1993, a drop from the 1.6 per cent growth in

1992. Growth had thus been practically crawling along recessionary output levels. The weakness was pervasive. Output declined in 10 of these economies and stagnated or grew by half a per cent or more in six others. Much of the increase in output in these economies was attributed to growth in the United States, but growth also picked up in the United Kingdom and a few of the smaller economies. Output declined in France, Germany and Italy, the three largest economies in continental Europe, and was virtually unchanged in Japan, the second largest economy in the world.

The macroeconomic objectives in these countries continued to be to achieve sustainable growth while keep-

ing the levels of inflation and budget deficits low. Further considerable gain was made in containing inflation, which reached its lowest levels in many years in most countries. Consumer prices rose by 2.8 per cent in the developed market economies as a whole in 1993, the lowest increase since 1986, compared with 3.1 per cent in 1992. On the other hand, budget deficits increased in most countries, partly because of the recession itself, as social expenditure increased and tax revenues declined or stagnated. Except for Japan and, to a lesser extent, the United Kingdom, anxiety over growing fiscal deficits effectively precluded the use of fiscal stimulus. Almost all countries had been relying on monetary policy to stimulate the economy, and interest rates fell to historic lows in some. In continental western Europe, monetary policy was much more cautious than elsewhere, largely reflecting German concern about inflation.

Recession and weak growth pushed the rate of unemployment in the developed market economies from 6 per cent in 1990 to 7.3 per cent in 1992 and to 7.7 per cent in 1993. Both the rate of unemployment and its trend differed markedly among countries. In Japan, the unemployment rate remained low by international standards but has been edging upward. In the United States, the rate of unemployment, the second lowest among the major economies, rose from 5.4 per cent in 1990 to 7.3 in 1992, but strong growth began to push the rate down. In all other major economies and most of the others, unemployment continued to increase in 1993, with the unemployment rate reaching a range of 10 to 12 per cent in Canada, France, Germany, Italy and the United Kingdom. The total number of unemployed in western Europe reached 18 million in 1993, or an increase of over 5 million since 1990. Despite recent declines in some countries, for the developed economies as a whole the rate of unemployment is expected to increase further in 1994 and possibly continue to increase well into 1995.

Yet, in no country was the solution of the problem of unemployment considered to lie within the realm of short-term macroeconomic policy. While a pick-up in growth was considered necessary to reduce unemployment, fiscal stimulus was deemed imprudent. In effect, attempts at policy formulation in the area in the past year consisted essentially of a search for explanations of high unemployment.

ECONOMIES IN TRANSITION: TURNAROUND IN SOME BUT FURTHER DECLINE IN OTHERS

Output fell further in 1993 in most of the economies in transition but the deterioration was less sharp than in 1992 and in a few cases the economy was growing or was about to grow again. For these economies taken as a whole, output is estimated to have declined by some 9 per cent in 1993. The cumulative loss of GDP in individual countries in eastern Europe since 1989 probably amounted to between 20 and 35 per cent, and even more in Russia and

some of the other successor States of the Soviet Union. Unemployment has been increasing in almost every economy and has already exceeded the levels of most western European countries.

In some of the countries of eastern Europe, where the change to the market system began earlier than in the successor States of the Soviet Union, there has been considerable progress in the transition as well as evidence of a turnaround in output. Output grew by 4 per cent in 1993 in Poland and appeared to have stopped contracting in the Czech Republic. In Romania, output increased slightly after one of the sharpest declines in these economies since the process of change began. Decline of output, also among the steepest, slowed in Bulgaria and Slovakia.

The results of stabilization measures have been mixed. Inflation remains high in most countries. In 1993, annual inflation ranged from 20 per cent in the Czech Republic to 265 per cent in Romania and increased in the Czech Republic, Romania and Slovakia. In Poland, inflation eased but was still as high as 35 per cent in 1993. High inflation in most of these economies was closely associated with large fiscal deficits. Fiscal consolidation was, however, beginning to be achieved in some countries. In the Czech Republic, the budget was brought into balance in 1993 and in Poland the deficit shrank to 3.4 per cent of GDP.

Measured by the success of privatization, considerable progress in transition has been made in some countries. In the Czech Republic, there has been a wave of successful privatization. Hungary launched a programme of mass privatization in early 1994. In Poland, 60 per cent of total employment is accounted for by the private sector. A third of GDP was produced in the private sector in the Czech Republic in 1993, and a quarter in Hungary and Romania. Most countries, however, still have a long way to go in privatization of large state enterprises.

In the former Soviet Union, the transition process not only started later than in eastern Europe, but in most of the successor countries the magnitude of the problems associated with the change has proved large, especially in Russia, by far the largest country of the group. This was reflected in very large declines in output and difficulties of macroeconomic stabilization and reform. In Russia, GDP fell by about 12 per cent in 1993, following a 19 per cent decline in 1992, taking the level of output below 65 per cent of that of 1989. Presaging the difficulties of recovery, investment declined even more steeply.

The difficulties of macroeconomic stabilization in Russia are reflected in high inflation, which has from time to time appeared close to being tamed, only to surge again. Consumer prices rose some ninefold in 1993, but appeared to be easing in early 1994. The fundamental underlying cause of high inflation has been an excessive growth of money supply, owing, in turn, to the lack of hard budget constraint of state enterprises. Credit creation has, how-

ever, been on a downward trend. The consolidated central government deficit, a prime source of demand for money creation, though still high, fell from 37 per cent of GDP in 1992 to 9 per cent in 1993.

DEVELOPING COUNTRIES: STRONG GROWTH CONTINUES

In the developing countries taken as a whole, output grew by 5 per cent in 1993, which is expected to be maintained in 1994. Two features of this growth stand out. First, it has been widespread. Countries where per capita output increased by 2 per cent or more accounted for over 70 per cent of the population of the developing countries in 1992-1993. Countries where it increased by 5 per cent or more accounted for 40 per cent of the population. Secondly, developing countries have, on the average, continued to grow strongly while the industrialized economies stagnated or were in recession. This is in particular true of South and East Asia and China. The region appears to be emerging as a new growth pole with a still small domestic market, but whose influence on the rest of the world economy is beginning to be felt.

In Latin America and the Caribbean, output grew at a modest 3.3 per cent in 1993, up from 2.1 per cent in 1992. The growth in 1993 was largely accounted for by strong growth in Brazil, the largest economy in the region, and continued growth in Argentina and Chile. Among the large economies, Mexico experienced a virtual stagnation in output after a modest growth in 1992. In most of Latin America, economic reform efforts continued and the success of stabilization measures was reflected in a marked fall in inflation to under 15 per cent in a majority of the countries in 1993.

By contrast, in Africa there was little change in the decade-long trend of falling output per capita. GDP grew by about 1.5 per cent in 1993, or half the rate of growth of population, after an even lower growth in 1992. Adverse weather conditions still critically determine agricultural output in many countries, and political strife continues to stifle economic growth and development in many areas of the continent.

In the Mediterranean region, much of the economies of former Yugoslavia are devastated, providing one of the starkest illustrations of the goals of economic and social development being totally subjugated by ethnic rivalry and military conflict. Output in these economies in 1993 was on the average probably half the 1991 level.

The strong recovery of West Asia from the impact of the Persian Gulf crisis could not be sustained in 1993 and growth slowed down to about 3.5 per cent. This was largely the result of falling oil revenues and the accompanying contractionary fiscal policy. The rate of economic growth declined sharply in the Islamic Republic of Iran and Saudi Arabia. In Kuwait, post-war reconstruction and rehabilita-

tion were near completion but the Iraqi economy continues to languish under the effects of international sanction.

The economies of South and East Asia were able to sustain an average GDP growth of over 5 per cent in 1993, the eighth consecutive year of above 5 per cent growth. Despite a wide range of economic performance, a large majority of the countries of the region, excluding China, achieved growth rates of 5 per cent or more, with half achieving 6 per cent or higher rates. Growth was led by the newly industrialized economies (NIEs). In general, continued strong export performance, buoyant domestic demand, often supported by investment in infrastructure, expanding intraregional trade and continued inflow of foreign direct investment contributed to strong growth. In India, major economic reforms are under way and are expected to lay the foundation for sustained growth.

The Chinese economy grew by 13.4 per cent in 1993, after only a slightly lower rate in 1992. The economy has been growing at an average annual rate of almost 10 per cent since 1980, which has gone a long way in improving the living standards of the vast population, despite regional and other disparities. A major concern in 1993, however, was the sustainability of such growth. Inflation increased sharply and measures were taken to cool down the economy but with uncertain results.

Economic stabilization and reform, a central feature of policy in numerous developing countries over the past decade, continued. Stabilization measures in Latin America can already claim considerable success in bringing down inflation in the region. Large-scale privatization has been implemented in many countries, especially in Latin America. Among the large developing countries, Brazil initiated a new programme of reform and, in India, efforts at major reforms that were started in 1991 were stepped up. In Africa, reform efforts continued in a number of countries but in some others there were policy reversals or suspension of reform efforts, often resulting from political turmoil.

Improvement in economic fundamentals in a number of countries, especially in Latin America, and strong growth, diversification and continuing economic reform in a number of others, particularly in Asia, have led to a large flow of private external finance to developing countries in recent years. The flow continues to be large, though slowing somewhat, in 1993. The uncertainty surrounding the flow to Latin America has, however, increased with the continuing widening of the current account balance of many of these countries. The prospects of an increase in interest rates in the industrialized economies might also tend to discourage some private flows. Nevertheless, on balance, the flows of private finance to developing countries are expected to remain sizeable for the near term. On the other hand, the flow of concessional official finance, on which many low-income countries critically depend, has been barely increasing and its prospects remain dim.

OUTLOOK FOR THE WORLD ECONOMY¹

FORECASTS FOR 1994 AND 1995

The rate of growth of world output is expected to increase from 1.1 per cent in 1993 to 2.3 per cent in 1994 and to slightly above 3 per cent in 1995. World per capita output is thus expected to increase in 1994 for the first time since 1989. The improvement in 1994 would comprise continued strength of the United States recovery and modest growth in western Europe and Japan, while developing countries should maintain their recent rate of growth of above 5 per cent. Growth is expected to resume or pick up in a number of countries in eastern Europe, but the successor States of the former Soviet Union will suffer another large fall in output. The problem of unemployment in the developed market economies will not be diminished by these growth prospects and will worsen in the economies in transition.

Reflecting the gathering strength of world economy, the growth of world trade is expected to accelerate to 6 per cent in 1994 from less than 3 per cent in 1993. Expansion of world output and trade is in turn likely to be accompanied by a modest increase in non-fuel commodity prices and improvement of terms of trade of commodity-producing developing countries.

In the developed market economies, growth is forecast to improve from 1 per cent in 1993 to slightly over 2 per cent in 1994 and 2.7 per cent in 1995, the slowest recovery in recent history. Individual economies, in early 1994, remained at different phases of the business cycle but their growth rates will tend to converge over the year.

As of late 1993 and early 1994, the strength of the United States economy was the greatest source of optimism about the short-term growth prospects of these economies. The dip in growth rate in the first quarter of 1994 is likely to prove temporary. The economy, which began a slow process of recovery in early 1991, is expected to return to its long-term growth path in 1994. Although the strong growth in the last quarter of 1993 will not be sustained, the economy appears set to grow by 3.5 per cent in 1994 and by about 3 per cent in 1995. Growth in 1994 will be led by robust housing and business investment, both increasing by 10 per cent, supported by consumer spending, which is expected to grow by 3.5 per cent. The growth climate is expected to be sustained by low inflation, with the consumer price index rising by 2.5 per cent in 1994 and 3.5 per cent in 1995. Unemployment is set to fall, as the growth momentum is maintained, but only slowly to 5.8 per cent by 1995, a percentage point lower than in 1993. That rate is, however, already close to the "natural" rate, at which inflation could pick up, but there is considerable differences of opinion on the exact value to be attached to that rate.

In Japan, recession appeared to be bottoming out in early 1994 but only a modest growth of 1 per cent is

expected for the year as a whole. The weakness of the recovery is likely to persist well into 1995, with growth for that year averaging only about 1.5 per cent. Private consumption and housing construction are expected to lead the modest recovery, the latter spurred by lower land prices and mortgage rates. Business investment would continue to be weak largely because of the overcapacity built during the "bubble" years of the late 1980s. The recent appreciation of the yen would further discourage investment by making exports less competitive. The series of fiscal packages introduced over the past two years has so far had only limited effects on the economy but should have a more significant impact by the middle of the year.

Western Europe is expected to emerge from recession this year. In the United Kingdom, output should grow by 2.6 per cent in 1994, spurred by low interest rates, which can be expected to increase somewhat towards the end of the year. In continental western Europe, a general but modest reduction of interest rates, following the Bundesbank's lead, is, however, expected through 1994. Low inflation and the favourable impact of the policy mix of loose monetary policy and tight fiscal positions on investment should lead to modest growth. For western Europe as a whole, output is expected to grow by about 1.7 per cent in 1994 and 2.6 per cent in 1995. Exports are likely to pick up in 1994 as growth in the United States and developing Asia boosts demand, but are unlikely to be a strong source of growth except for countries that left ERM, because of the loss of competitiveness entailed by the appreciation of European currencies.

Despite the upturn in output, unemployment will continue to be high in most developed market economies and will grow in some. For the developed market economies as a whole the rate of unemployment will remain unchanged in 1994 and 1995 at its 1993 rate of 7.7 per cent. In western Europe, it will rise to over 10 per cent in 1994 and remain at that level in 1995.

In the economies in transition, output is expected to fall again, by some 6 per cent, in 1994 and may stop falling in 1995, ending five successive years of decline. The diversity of the prospects is, however, far wider than in the developed market economies and the uncertainties surrounding the outlook far greater.

In the six countries of eastern Europe, output is likely to increase on the average by just over 2 per cent in 1994 and 3 per cent in 1995. In Poland, output is expected to grow by 4 per cent in 1994, while growth is expected to turn positive in the Czech Republic. In Bulgaria, Hungary and Slovakia, the decline in output is likely to bottom out in 1994.

The outlook for Russia and some of the other successor States of the former Soviet Union is generally more

dim. Output is likely to fall by some 9 per cent in the successor States of the Soviet Union as a whole in 1994 and would probably stop falling in 1995. The tasks of reform and transition in some of these countries, including Russia, by far the largest, remain difficult and the prospects uncertain.

Stabilization will continue to be a major task of economic policy in most of the economies in transition, though the magnitude of the problem will vary from country to country. In the Czech Republic, inflation is likely to decline to single-digit numbers in 1994. The improvement in Hungary and Poland is likely to be far less impressive, with inflation remaining in a 20-25 per cent range in 1994. Inflation may not fall below 50 per cent in Bulgaria and below 120 per cent in Romania. For Russia, even broad orders of magnitude are hard to predict but inflation is unlikely to fall to two-digit levels soon.

In the developing countries, the comparatively strong growth of recent years is likely to be maintained in 1994 and 1995, with output growing by slightly above 5 per cent in both years. This mostly reflects prospects of continuing robust growth in South and East Asia and China. A significant further improvement in per capita output can thus be expected in the region.

In Latin America, the growth of output is expected to slow down, from 3.3 per cent in 1993 to under 3 per cent in 1994 and to a slightly lower rate in 1995. In Brazil, growth is unlikely to be sustained at the strong level of 1993 as the implementation of new stabilization programmes continues. This alone will contribute much to the slow-down in the region. With the major exception of Venezuela, most economies will expand, though growth is expected to slow down in Argentina and Chile. The Mexican economy is expected to grow by about 3 per cent in 1994, responding to recent expansionary policies and the effects of NAFTA, after a year of practically no growth. Further reduction of inflation is expected in most countries of the region.

The economic prospects of Africa remain poor. Output is likely to grow by a little more than 2 per cent in 1994, with only a slight improvement in 1995. In other words, a reversal of the trend of declining per capita output is not in sight. More than in any other region, growth in Africa continues to depend on the weather. In a number of countries, economic prospects also depend on the return of peace and stability. While economic reform is expected to continue in many countries, results in terms of growth can be expected in only a few. The modest improvement in non-fuel commodity prices expected in 1994 and 1995 can be only a partial respite to the fall in income. The improvement would not, however, extend to the energy exporters since oil prices are likely to remain weak.

In South and East Asia, growth is expected to accelerate from 5.4 per cent in 1993 to over 6 per cent in 1994

and to be maintained at that rate in 1995. Countries of both the first and the second generation of NIEs are forecast to maintain high growth rates. With economic recovery in the industrialized countries and continuing strengthening of intraregional links, exports should increase strongly and thus provide a stimulus to growth in most of these economies. Investment in infrastructure is also expected to remain a major source of growth. The recent high level of foreign direct investment is expected to be maintained in these countries. Among the other countries, progress in economic reform is expected to be maintained in India and growth of output is likely to improve from 3.8 per cent in 1993 to 5 per cent in 1994.

Since late 1993, a major objective of economic policy in China has been to cool down the overheated economy, while avoiding a hard landing. Pursuit of this policy is expected to continue for the near future and is likely to reduce the rate of growth of GDP from 13.4 per cent in 1993 to about 10 per cent in 1994. A significant improvement in the living standards of the most populous country in the world would nevertheless continue. The infrastructural bottleneck, especially in transport, is expected to persist and tend to constrain output. Strong growth shifted the country's balance of trade into a deficit in 1993, which is likely to persist in 1994 but to improve somewhat. A number of major new economic reform programmes are expected to be implemented this year, including reform of the taxation system and strengthening of the banking system.

SHORT-TERM RISKS AND UNCERTAINTIES

The modest growth of the world economy for 1994 and the moderate rate forecast for 1995 are subject to a number of risks and uncertainties of various degrees. Some of these are associated with the critical global assumptions made, while others concern possible developments in individual countries or regions.

While most indications are that oil prices will remain fairly stable though depressed over the medium term, the possibility of large changes cannot be ruled out. The re-entry of Iraq in the oil market, without adjustment in production in other OPEC member countries, or a rapid recovery in production in the former Soviet Union could, for example, lead to a sharp fall in oil prices. Though this can only benefit oil importers and can even provide a short-term stimulus to their economic growth, the large transfer of real resources that such price changes imply will have serious consequences for the balance of payments of developing country oil exporters, which are already under stress, and will sharply reduce their growth prospects.

The risks of a resurgence of inflation in the developed market economies are perceived to be small. An over-anxious action by a major country to stifle inflationary expectations by raising interest rates could undermine growth prospects,

with obvious adverse consequences, through repercussions on exchange rates and interest rates on other countries.

In the economies in transition, the growth forecast and the progress in economic reform critically depend on the preservation and strengthening of social consensus on reforms. In a number of countries, political complexities and the continuing fall in living standards can still undermine such consensus. Moreover, inter-State rivalries could forestall attempts at regional economic cooperation, which is essential in a number of cases. Reform and growth will also depend partly on the ability of these countries to expand their exports to developed market economies. A slow-down of growth in the latter would adversely affect the prospects of the economies in transition.

While political leadership is critical in developing countries and the economies in transition in sustaining desired economic policies, it is important in the industrialized countries as well. Frequent changes of government in a number of these countries, in the wake of scandals and internal disputes, and prospects of changes of government in a few others, could affect the continuity of policies assumed in the present forecasts.

Among the developing countries, while their large number might allow offsetting developments to leave the forecast of average growth unchanged, growth prospects of some country groups are subject to considerable risks. This is especially the case for many countries in Africa, where large sectors of the economy are dependent on the weather and political and ethnic unrest can produce sharp losses of output.

Uncertainty also surrounds the flow of financial resources to the developing countries. The positive flow of private capital to those countries, especially to Latin America, was partly the result of a large interest-rate differential between those countries and the industrialized economies. A substantial rise in interest rates in the latter could reduce the volume of the flow and may even change its direction.

While these risks and uncertainties would point to growth that is weaker than forecast, there are also factors that could eventually lead to a more robust growth in 1994 and 1995. In particular, a surge in confidence as a result of more solid signals of non-inflationary growth in parts of Europe and Japan could lead to additional increases in consumption and investment. Feedback effects could reinforce the process leading to a significantly faster growth in the world economy.

THE SECOND HALF OF THE 1990s

Beyond 1995, the world economic outlook becomes more conjectural. Nevertheless, recent changes in the world economic landscape point to a combination of forces that have rarely been present since the early 1970s. They suggest the possibility of more sustained growth in the second half of the 1990s.

The recovery after the world recession of 1982 led to an unbroken period of economic growth in the developed market economies that stretched to 1989. The average annual rate of growth during those seven years was close to 3.5 per cent and, on the whole, unemployment receded by two percentage points. However, two features made the process unsustainable: structural fiscal deficits, which remained large in some of the major economies, and asset inflation. The latter was largely the result of falling interest rates and rapid increases in household and corporate debt, and partly explains the vigour of consumer expenditures during that period. The costs of German unification and the Iraq-Kuwait conflict, accompanied by sudden changes in oil markets, further complicated a situation that was proving unsustainable by the late 1980s.

By mid-1994, the underlying situation in the developed market economies is markedly different. Economic policies are more balanced. Fiscal consolidation rather than benign neglect of fiscal deficits is the preferred approach. Financial rehabilitation has run its course, and the financial health of business and households has largely been restored in most countries. In Germany, the costs of unification have largely been met, providing more room for policy manoeuvre in the country and its partners in EU.

Interest rates are lower today than in the mid-1980s. While this leaves less room for further reductions, it should be possible to keep interest rates relatively low, especially since present measured inflation as well as underlying inflationary pressures have been remarkably subdued.² International oil markets have attained some degree of stability and it is not expected that markets will tighten significantly in the medium term. Although non-fuel commodity markets could be expected to strengthen somewhat with the recovery, real prices of primary commodities are unlikely to become a significant source of cost-pushed inflation.

The rate of investment has, on the whole, also increased since 1992. Accumulated technological change and the fact that business confidence is still improving point to further increases in gross fixed capital formation, making it less likely that supply bottlenecks would soon emerge to slow down the recovery. The completion of the Uruguay Round has allayed some of the tensions in the trade field and should significantly boost business confidence. Barring sudden changes in policies, therefore, developed market economies appear poised to return in the second half of the 1990s to an expansion path that could emulate the period 1983-1989—growing at an average annual rate of 3 per cent or possibly higher.

Under such conditions, unemployment should begin to recede. The present trend towards growing income inequality in many developed market economies, as well as increasing poverty in several of them, should also be expected to subside.

Among the transition economies, the eastern European countries are showing clearer signals of a turnaround. While their decline in overall output constituted a drag on the world economy in the early 1990s, a positive rate of growth—even if modest—should contribute significantly to world gross domestic product in the future. Recovery in the successor States of the Soviet Union, which could take longer, should also contribute to a stronger world economy.

Developing economies as a group have grown at an annual rate of 5 per cent or more since 1992. Growth impulses have come largely from internal dynamics, rapid increases in intraregional trade and net inflows of external finance. The latter might cost more as developed market economies recover. Nevertheless, the supply of international capital for creditworthy countries is unlikely to be constrained. Sound investment projects should find adequate financing in either domestic or external markets. The progress made in the late 1980s and early 1990s in resolving the commercial debt problem should further ease constraints in access to capital markets. Thus, on the aggregate, external financing should not constitute an obstacle to the continuation of the growth path of the past few years.

Yet, the large divergence of performance among developing countries will not disappear. Spontaneous economic forces are not likely to reduce the marked differences in their rates of growth in gross domestic product; nor will they tend to ameliorate the debt situation of many middle-income and low-income countries. National and international cooperation policies will still be required to pull slow-growing developing countries and put an end to the debt overhang.

In sum, the gradual strengthening of developed market economies, the turnaround—albeit with a different time-frame—of economies in transition, the consolidation of economic reforms and the likely continuation of relatively fast growth in many developing countries suggest a significant growth acceleration for the world economy in the second half of the 1990s. Barring any unforeseen shocks, in particular if industrialized and developing countries absorb smoothly the unprecedented changes taking place in the international capital markets as a result of pervasive deregulation and globalization, the world economy should enter the twenty-first century in a much improved condition.

IMPLICATIONS FOR POLICY

The prospects for the world economy clearly turned for the better in the first part of 1994. In many countries, the economic fundamentals are more encouraging than they were a year ago: inflation is at its lowest level in many years, financial rehabilitation is well under way and fiscal balances are moving towards consolidation. Higher growth in the United States and a continuation of strong growth in many developing countries lifted income in large areas of the world. A number of other industrialized countries appear well on their way to recovery, adding to the prospects of a faster growth of world income in 1995. At the same time, there were signs of a turnaround from a long decline in output in a number of economies in transition. Growth in the developing countries as a whole has accelerated and is expected to remain robust. Within specific regions, the historic political changes in the Middle East and in South Africa and political settlements in Asia and Central America should have far-reaching positive impacts on the future economic well-being of those regions, particularly if the processes receive adequate international support. The completion of the Uruguay Round has added a further boost to global confidence about growth prospects.

Nevertheless, the overall pace of growth of the world economy leaves little room for complacency. Many problems continue to call for the attention of national and international leaders. The improved growth of 2.7 per cent projected for the developed market economies in 1995 is

unlikely to result in a significant reduction in unemployment in most of those countries. The improvement in the economies in transition is important because it marks a return to positive growth, but the levels of output in those countries will remain less than they were some years ago. Among the developing countries, a large number will still stagnate and poverty and human suffering will remain rampant, albeit in some cases for political rather than economic reasons.

In the developed market economies, no major departure in policy stance is called for at the present time. Rather, there is a need to maintain stability in policy and to improve policy coordination among the major economies. Because growth is picking up in most of these countries, a return to fiscal consolidation, rather than a fiscal stimulus, needs to be a main objective of policy in the United States and Europe. Only in Japan does fiscal expansion continue to have a large role to play. On the other hand, an abrupt consolidation, beyond that expected from automatic stabilizers, could hurt the chances of recovery.

Otherwise, the room for stimulative macroeconomic policies is limited to the possibility of further reductions of interest rates, especially in Europe. The recent action of the Bundesbank in nudging down short-term rates should help growth in that region. The danger appears to lie in an overcautious monetary policy in any major economy. Recent actions by the United States Federal Reserve to push

up short-term rates with the objective of scotching inflationary expectations has been widely seen as an example of such a danger. The very low inflation prevailing in the United States and the evidence, such as data on wage settlements, that it will remain low in the short term call into question the need for monetary tightening.

The economies in transition as a group are still experiencing a fall in output. Even in countries that are showing signs of recovery, economic hardships endured by the population remain severe and social problems continue to mount. Considerable progress, however, has been made in a number of countries in the process of economic transformation. The future development of the emerging private sector will be an important factor for their stable recovery. Economic changes are acquiring socio-political dynamics of their own in every country and, to outside observers, not all shifts in policies may appear consistent with reform. In so far as the commitment to reform is firm and clear, however, external support must continue to be made available and increased.

In most countries of Africa, the problems of growth and development remain grim, even though considerable efforts have been made at economic reform and adjustment. Various circumstances, both internal and external, have often prevented these efforts from being sustained for an adequate period of time and policy reversals have taken place. Africa's economic vulnerabilities and the weaknesses of its development institutions make the task of reform that much more difficult, and neither deficiency is likely to be quickly remedied. Nevertheless, Africa has no realistic alternative to sustained reform efforts. However, given the magnitude and nature of the challenge, success in this long-term venture will require a commensurate commitment by the international community.

In addition to its economic difficulties, Africa has now become the region where political instability and violence are most widespread. In an increasing number of African countries, civil unrest has not only halted development but has also reversed previous achievements. Its cost is measured not only in terms of national human and physical resources destroyed or wasted, but also in terms of the possible erosion of international support for African development. Consolidation of peace and political stability throughout Africa must remain a priority, both on short-term humanitarian grounds in the afflicted countries and because it will immensely enhance the prospects for the long-term economic development of the continent as a whole. In this context, the historic step to multiracial democracy in South Africa should open a new era of economic development effort in that country, which will also have a positive impact on other countries in the region.

Reform and adjustment must also continue elsewhere among the developing countries. The considerable gain that has been made in economic stabilization and reform

in many countries needs to be consolidated. The encouraging recent net flow of financial resources to the developing countries has been as much a result of the reform measures undertaken and the consequent increase in confidence in those economies as it has been a factor contributing to their improved performance. Sustaining this confidence by continuing and consolidating these reforms is necessary to prevent a possible reversal of these flows.

Short-term fluctuations in the markets of primary products remain a critical factor of instability for many developing countries, particularly in Africa. However, the long-term question also has to be addressed. Adjustment programmes have to be focused on changes leading to more efficient production structures and diversification of exports. The experiences of a growing number of developing countries demonstrate the value of policies that promote exports of manufactures, semi-manufactures, services and primary commodities with a comparatively high-income elasticity. But changing the production structures of traditional primary commodity exporters will take time and will require considerable investments. Adequate signals to potential investors—domestic and foreign—are as important as financial flows. The international financial system, including multilateral financial institutions—the World Bank and regional development banks—will be a key instrument in the mobilization of financial resources for investment in new export diversification programmes, especially in Africa. The reduction of trade barriers as a result of the Uruguay Round should also facilitate diversification, although it will be necessary to cushion some of these countries, especially some of the net food importers and the least developed countries, from the short-term effects of liberalizing world trade.

The past decade has seen unemployment evolve into a universal problem, from one that used to be concentrated heavily in the developing countries. In the vast majority of these countries, the number of unemployed and underemployed remains very large, although the problem differs widely among countries in its magnitude and nature. Employment creation in the developing countries must in general be seen primarily in the context of long-term economic growth and development. The example of labour shortages in some of the fast-growing developing countries underlines the importance of raising the pace of economic growth as an indispensable way of reducing unemployment.

In the economies in transition, visible unemployment has increased sharply as a result of economic reform, but the real extent of unemployment is often disguised by labour-hoarding in state enterprises. Further labour-shedding by these enterprises is bound to increase the problem. Success in reducing the real magnitude of unemployment will depend largely on how fast the private sector expands, especially in manufacturing. At the same time, policy

measures are needed during the restructuring process to avert massive lay-offs from state enterprises through targeted temporary subsidies. After a while, successful restructuring could be expected to open new opportunities for employment.

In the developed market economies, levels of unemployment are much too high and, in some cases, still growing. This is not only a cyclical phenomenon, but also has secular elements. Despite the magnitude and the long-term nature of the problem, it has not been a universal national policy priority in these countries. A political constituency of the unemployed themselves does not exist: they are neither a homogeneous nor a permanent group. Political leadership therefore has to play a critical role in solving a problem that has large collective economic and social costs. An improvement in economic growth is essential for job creation in these countries. However, structural factors and rigidities in the labour market are also major constraints to growth in employment in many cases and the problem therefore calls for a multiplicity of approaches. The latter should comprise macroeconomic policies, including changes in the social security systems that enhance the labour content of growth, as well as labour market measures.

The liberalization and globalization of financial markets have changed the nature of the economic risks that individual countries face. The deregulation of financial flows has made countries more prone to speculative actions by private agents, foreign as well as domestic. By and large, financial markets have functioned smoothly, coping with the rapid growth in the volume of transactions. In some developing countries, however, the robustness of capital markets has depended heavily on the foreign funds that were attracted as a result of economic and financial liberalization measures. The increased volatility of these markets in more recent times has, however, been largely due to the intrinsic instability of international capital flows. A number of such countries have been forced to raise interest rates sharply to prevent large outflows of short-term capital, thereby putting in jeopardy their real economies and their reform efforts. The question of adequate provision of liquidity to confront a speculative run has thus become a key issue for international cooperation in the current environment. More generally, the systemic implications of the virtually instantaneous transfer of funds in markets that function 24 hours a day and the emergence of new instruments in the financial markets need the attention of domestic and multilateral financial institutions.

Any long-term improvement in growth in any country hinges on structural change, flexibility of markets, technological progress and better microeconomic management. While the last three are largely matters of national effort, structural changes have important international dimensions. By aiming to bring down trade barriers, the agreements under the Uruguay Round also aim at changes in the structure of production that raise efficiency through improved resource allocation.

The conclusion of the Uruguay Round was a landmark in international cooperation, but some recent expressions of concern about the rapid growth of exports from developing countries suggest the persistence of protectionist sentiments. These need to be immediately dispelled and, to do so, it is important to see how trade between countries arises. One of the major determinants of trade is the differences in factor endowments between countries. That is why, for example, many developing countries have a natural advantage in exports of labour-intensive or low-technology products to labour-scarce and capital and skill-abundant developed countries. The growing chorus of concern in the developed countries that increased competition from the developing countries is depressing wages in their high-wage economies, therefore, strikes at the very rationale of trade. Such concern has no basis in fact. High unemployment and depressed wages in the advanced economies are largely the result of slow growth and technical change and have little to do with import competition from low-wage countries. Any policies or measures that restrict trade harm both the importing and the exporting countries, reducing the growth prospects of both of them and of the world as a whole. It is in this spirit that the Uruguay Round aimed at improving the growth and development prospects of the world economy and it is for the same reason that the ratification and speedy implementation of the Final Act of the Round must remain at the top of the international agenda.

Among the results of the Uruguay Round, the decision to set up the World Trade Organization is a milestone in the evolution of the trading system. As a permanent body providing a forum for continuing trade negotiations, it should eliminate the need for periodic "rounds" of negotiations. As a more effective dispute settlement body, it should contribute greatly to the strengthening of the multilateral trading system. As a key instrument in enforcing disciplines and "rules of the game", it will ensure that there are fair opportunities for all and not just for those that have substantial bargaining power.

NOTES

1 These forecasts are assessments of the United Nations Secretariat using mainly Project LINK, a global econometric model incorporating over 70 national models, and are based on the following major assumptions: macroeconomic policies of the major developed market economies will not diverge significantly from their current stances; in particular, it is assumed that interest rates will remain low, with long-term United States rates close to 7.5 per cent; the consolidation of the United States fiscal deficit will continue on its present course; oil prices will decline further, with the average price of OPEC crude falling from about \$16 per barrel in 1993 to \$14 in 1994 and \$13 in 1995. Prices of non-fuel commodities are assumed to increase by 3 per cent in each year

for food and tropical beverages, and by 2 per cent in 1994 and 6 per cent in 1995 for other commodities. A critical assumption behind the forecasts for the economies in transition is that social consensus on economic reform will hold or strengthen where it is still weak.

2 For the seven major industrialized countries, the GDP deflator declined from a range of 2 to 8 per cent during 1983-1991, to between 2 and 4 per cent in 1993 and is likely to decline to between 1 and 3.5 per cent in 1994. That is, inflation has been virtually halved.

II

Current developments and policies

World output grew by 1 per cent in 1993, barely above the growth rate in 1992 and the fourth consecutive year of growth well below the average of the 1980s (see table II.1). The outlook for 1994, while incorporating a faster rate of world economic growth, will still be less than the 1980s' average. This global trend is mainly owing to the growth of output in the developed market economies, which account for almost three fourths of world economic activity

(see table A.1). Almost 80 per cent of the world population, however, live in the developing countries where output grew 5 per cent in 1993 for the second year in a row and where output is expected to continue at the same pace this year. Economic activity continues to drop sharply in the countries in transition from centrally planned to market economy systems, although the beginnings of recovery can be seen in some of the eastern European countries.

Table II.1.
Growth of gross domestic product (GDP) by region, 1981-1994

	Growth of GDP (annual percentage change)							Memo items: comparative indicators	
	1981- 1988	1989	1990	1991	1992	1993 ^a	1994 ^b	Growth of population, 1991-1995 (average annual percentage change)	Population in 1993 (millions)
World	2.9	3.2	1.6	0.3	0.8	1.1	2½	1.7	5 572
Developed market economies of which:	2.8	3.3	2.4	♦ 0.7	1.6	1.0	2¼	0.6	812
United States	2.8	2.5	0.8	-1.2	2.6	3.0	3½	1.0	258
European Union	2.1	3.4	2.8	♦ 0.7	1.1	-0.4	1½	0.3	347
Japan	4.0	4.7	4.8	4.3	1.1	0.1	1	0.4	125
Economies in transition ^c	3.1	2.1	-6.2	♦ -8.8	-15.2	-8.6	-6	0.4	394
Eastern Europe USSR and its successor States	2.2	0.0	-11.6	♦ -11.2	-5.2	0.8	2	0.2	97
USSR and its successor States	3.5	3.0	-4.0	-8.0	-18.3	-12.0	-9½	0.5	297
Developing countries	3.1	3.5	3.0	3.4	4.9	5.2	5	2.0	4 341
Latin America and the Caribbean	1.4	1.1	-0.1	2.8	2.1	3.3	3	1.8	466
Africa	1.8	2.8	2.2	1.6	0.8	1.6	2½	2.9	702
West Asia	-1.7	3.2	1.9	-0.2	5.7	3.5	3½	3.0	146
South and East Asia	5.9	6.1	6.4	5.3	5.2	5.4	6	2.0	1 755
China	9.9	4.3	3.9	8.0	13.2	13.4	10	1.4	1 205
Mediterranean	2.5	0.4	1.1	-5.6	-1.9	-0.3	4	1.5	85

Source: UN/DESIPA. Data on population are those published by the Department in *World Population Prospects, the 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a Preliminary.

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

c The former Soviet Union and eastern Europe.

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

The fast-growing developing countries were concentrated in Asia, as in the past, although a number of Latin American countries experienced rapid growth as well. Africa remains a major focus of concern, however, as per capita output for the continent as a whole continued its relentless fall. Africa remains highly vulnerable to adverse international and domestic economic conditions, as well as being stricken by civil conflict and instability. Output in Africa is not expected to grow as fast as population once again this year.

Policy concerns around the world focused, as they have in the past, on the search for sustainable economic

growth. In the developed market economies this largely took the form of seeking to overcome recession or nurture recovery without setting off inflationary forces. Unemployment rates were more and more considered a structural issue and largely beyond the capacity of short-term policy cures. In transition economies, the focus of policy has been on stemming the declines in production while advancing the fundamental institutional changes required for introduction of market economies. In developing countries, the concerns centred on managing growth or preparing for it, while continuing with macroeconomic stabilization and structural adjustment programmes.

RECESSION AND RECOVERY IN THE DEVELOPED MARKET ECONOMIES

In 1993, real GDP fell in 10 developed market economies.¹ Output of the group as a whole, however, grew by 1 per cent because some of the other countries in the group—in particular the largest, the United States of America—had passed from earlier recessions into the recovery phase of their business cycles. As of the first quarter of 1994, signs of recovery were broadening to more countries, but the economic environment was still difficult for policy makers to interpret. Indeed, consumer attitudes, even where improved, were generally cautious (see figure II.1).

The key macroeconomic objective of policy makers in these countries has been to steer their economies onto an adequate and sustainable economic growth path, while keeping or moving inflation, unemployment and government budget deficits within acceptable limits. Progress on the inflation front has been considerable. For the group as a whole, consumer prices rose by 2.8 per cent in 1993, almost half the inflation rate of 1990, when accelerating price increases in some countries had begun to concern policy makers (see table A.7). However, the anti-inflationary policies that the monetary authorities of several countries began to take at the start of the 1990s—when coupled with other developments, in particular rising debt burdens, that were in any case weakening the impulses to economic growth—had tipped several countries into recession.² Australia, Canada, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States were the first into recession, beginning in 1990, as well as Finland and Sweden, followed later by much of the rest of continental western Europe and Japan.

Unemployment was already high in several countries for structural reasons (see chap. VI), but the recessions forced it higher and in many countries it became a highly salient political issue. Also, budget deficits swelled partly as a consequence of the “automatic stabilizers”, i.e., the increases in social expenditures and declines in tax revenues that usually come into play during recessions. Some

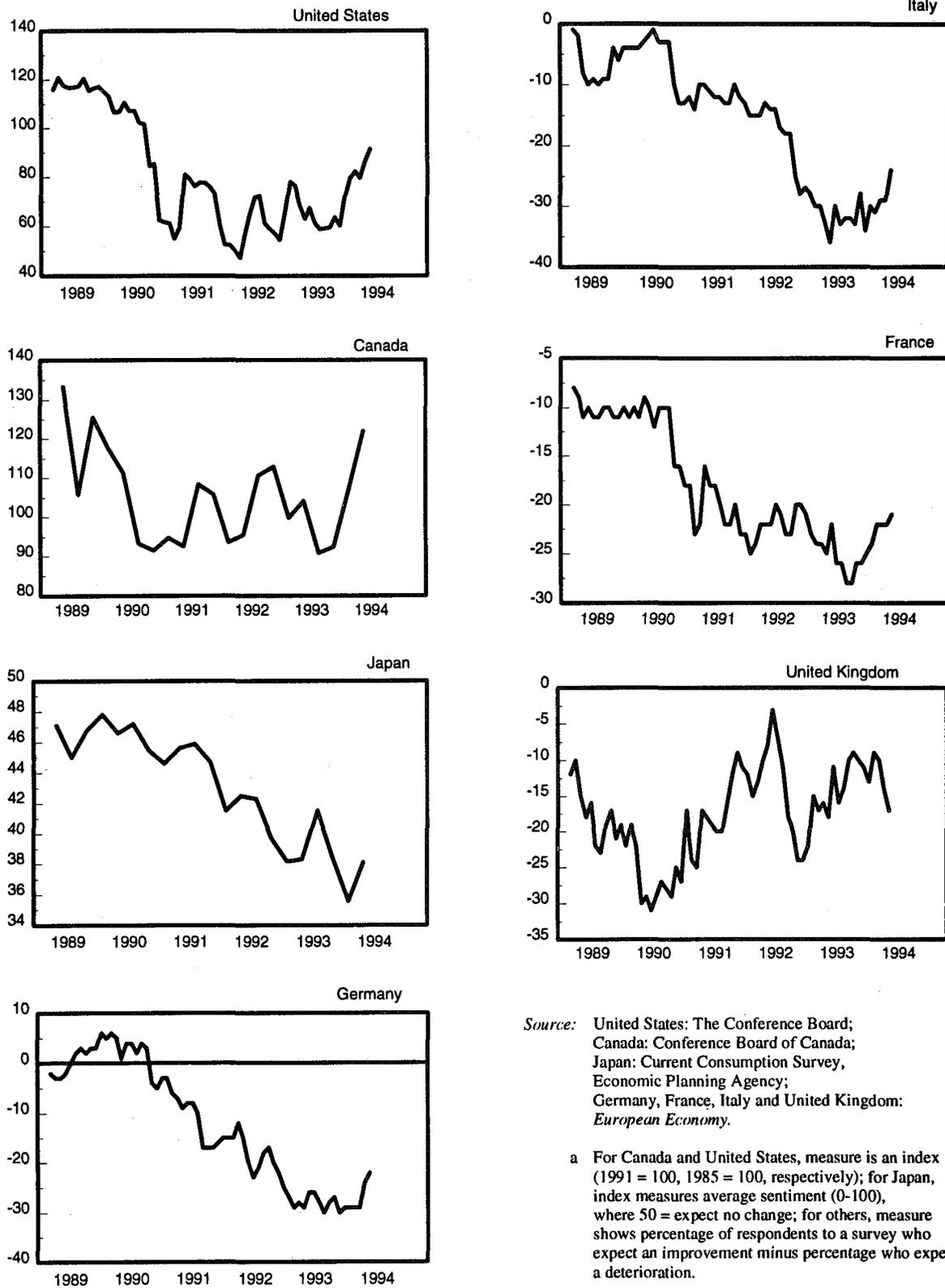
Governments, including those of Japan and the United Kingdom, also took direct steps to counteract recession with fiscal measures, which added to the budgetary impact of the automatic stabilizers. In all the large economies except Italy, which has been fighting severe budget difficulties, and in most of the small economies, government deficits surged (see table A.8).

When 1993 ended, unemployment rates had begun to decline in most of the countries that had been the first to slip into recession, as mentioned above. Yet in all of them, and in the countries still waiting for recovery to gather steam, the scope for employment remained a central policy concern. However, only the Government of Japan still found room to contemplate an additional fiscal stimulus and that only as a temporary measure that would be corrected soon after. Elsewhere, swollen budget deficits had alarmed policy makers and 1994 fiscal programmes for budget correction were set up in many countries. In addition, monetary policy was already quite loose in Japan, while in Europe the monetary authorities continued to consider only small and tentative new steps towards easing their policy stances. Each wished to rebuild or hold the confidence of the business community that the Government would pursue only sustainable policies. Meanwhile, in the United States since early this year, the same concern began to turn the attention of the monetary authorities to the need for a slightly more restrictive policy stance. In other words, fixing the unemployment problems of the industrialized countries—even to the degree they had a cyclical component—was widely considered to lie beyond the scope and time-frame of new macroeconomic policy initiatives in 1994.³

THE UNUSUAL 1993 RECOVERIES

Among the economies that began their recession first, Canada and the United States reached the trough in the first quarter of 1991, but there was little growth in economic activity in either country until 1992 and even then the

Figure II.1.
Consumer confidence in seven major economies,^a 1989-1994



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 Economy.

a For Canada and United States, measure is an index (1991 = 100, 1985 = 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.

growth was unusually slow for the recovery phase of a business cycle. In the United Kingdom, output declined into 1992 and significant growth did not resume until 1993. Australia and New Zealand began to recover slowly during 1992.

However, towards the end of 1993, the growth of output accelerated in Canada and rose sharply in the United States. It rose to almost a 3 per cent rate in the second half of the year in the United Kingdom (see table II.2). The growth of activity in all three countries was supported by reduced interest rates and an improvement in the net asset position of households and firms, as excessive debt levels from an earlier period were worked down and refinanced, and as corporate restructuring operations proceeded.

In all these countries, various combinations of monetary and fiscal policies to counter the recession were actively considered, if not always taken. They illustrate the opportunities and limitations of making macropolicy for recovery in the present economic environment.

In the case of the United States, the Federal Reserve reduced its discount rate in several stages from 7 per cent in December 1990 to 3 per cent in July 1992, the lowest level since 1963. From then until February 1994 no further steps in either direction were taken, as the stance of policy was considered to be broadly appropriate to the evolving economic conditions. Reflecting the monetary policy easing as well as persistent economic slack, short-term interest rates fell sharply, ending close to zero in real terms, compared with an average real interest rate of 2 per cent in the past 30 years.

Despite its low price, credit demand in the United States remained flat and the broad measures of the money supply showed little growth.⁴ Low deposit rates encouraged households to use deposit balances to pay off debt as well as to shift funds into longer-term instruments, especially bonds and stocks. A considerable amount of debt refinancing took place and with the stock market rising, many firms issued new equity shares. Declining interest rates also contributed to a substantial fall in debt-service burdens of both the business and household sectors. In this way, accommodative monetary policy helped ease the deflationary impact of the excessive debt build-up that had taken place in the latter part of the 1980s.⁵ Nevertheless, it took almost two years of balance-sheet adjustment after the decline in GDP had ended in 1991 for debt repayment burdens to fall enough and net asset positions to improve so as to generate a significant increase in aggregate spending.

During that period, there were many calls for a fiscal stimulus to strengthen the United States recovery. But long-standing budget problems and then growing, if weak, signs that the economy was gaining strength deterred the United States Government from undertaking a fiscal stimulus. Instead, in August 1993, the United States Congress and Administration adopted a five-year budget-re-

duction plan. The prospects that the United States budget deficit would finally be corrected then helped reduce long-term interest rates. Nominal yields on long-term bonds fell to record lows by the autumn of 1993.

Not surprisingly, sectors that are sensitive to interest rate changes have led the United States expansion, notably housing, consumer spending on durable goods and business investment in capital equipment. The latter was the strongest component of the expansion in the second half of 1993, rising at an annual rate of about 20 per cent compared to average annual growth rates of 1.5 per cent in the previous three years. Indeed, it was the fastest increase since 1972.

The United States was not the only country demonstrating unusually slow reactions of economic activity to a sharp easing of monetary policy. In Canada, short-term rates fell from over 14 per cent in mid-1990 to under 6 per cent in 1993. Accompanying the monetary easing, there has been a substantial decline in the external value of the currency (see table A.9), which reinforced the impact on aggregate demand of the monetary actions. Yet, during the first two years of the recovery, growth was weak, as the economy continued struggling with the consequences of earlier inflationary pressures and excessive debt accumulation. As in the United States, no major fiscal action to stimulate demand was taken.

Recovery came, also as in the United States, when the delayed effects of the monetary easing finally worked their way through the system, coupled with the stimulus from a revival of import demand in the United States, which accounts for three fourths of Canada's foreign sales. The recovery has been led by a strong rise in capital spending, taking advantage of interest rates having fallen to a 30-year low. Consumer spending, however, was growing more slowly than output, reflecting the continuing very high rates of unemployment and modest wage increases.

In the case of the United Kingdom, economic recession was at first tolerated as a cost of maintaining the exchange rate of the pound sterling within the currency grid of the Exchange Rate Mechanism (ERM) of the European Monetary System. Speculation against the pound, in essence, forced the British Government to abandon this policy, however, in September 1992 and it left the ERM. Short-term interest rates had been forced up from about 10 per cent in the summer months of 1992 to 15 per cent at the moment of the exchange rate crisis. Monetary policy was then substantially relaxed and the exchange rate of the pound fell some 10 per cent against a basket of European currencies (the ECU). Short-term interest rates fell in several steps, continuing down to 5.25 per cent in February 1994. As a result, exports grew significantly in 1993, and because mortgage costs fell substantially and mitigated the household debt burden, it helped stimulate consumer expenditure.

Table II.2.

Key economic indicators in seven major industrialized economies, 1992-1993

	Quarter								Year	
	1992				1993				1992	1993 ^a
	I	II	III	IV	I	II	III	IV ^a		
<i>Growth of gross domestic product^b</i>										
Canada	0.0	0.0	0.4	2.5	3.2	3.5	1.7	3.8	0.7	2.4
France	3.1	-0.3	0.7	-1.0	-3.5	0.7	1.4	0.4	1.2	-0.9
Germany ^c	7.9	-0.5	-1.4	-3.4	-6.4	2.3	2.6	-2.0	1.6	-1.9
Italy	2.0	1.4	-2.3	-2.0	-0.7	2.7	-2.0	0.3	0.9	-0.7
Japan	2.1	-1.9	-0.3	-1.1	3.5	-2.1	1.1	-2.2	1.1	0.1
United Kingdom	-3.8	0.7	1.4	1.4	2.5	2.4	2.8	2.8	-0.5	1.9
United States	3.5	2.8	3.4	5.7	1.0	1.9	2.9	7.0	2.6	3.0
Total	2.9	0.7	1.1	1.5	0.6	1.0	1.9	2.4	1.6	1.1
<i>Unemployment rate^d</i>										
Canada	10.7	11.2	11.5	11.5	11.0	11.3	11.3	11.0	11.2	11.1
France	10.1	10.3	10.4	10.7	11.1	11.5	11.9	12.1	10.4	11.6
Germany ^c	4.5	4.7	4.6	4.9	5.3	5.6	5.9	6.3	4.6	5.8
Italy	9.9	10.0	10.1	9.3	9.1	10.7	10.3	10.7	9.8	10.2
Japan	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.8	2.1	2.5
United Kingdom	9.5	9.7	10.1	10.4	10.5	10.3	10.4	10.0	9.9	10.3
United States	7.2	7.4	7.4	7.2	7.0	6.9	6.7	6.5	7.3	6.7
Total	6.6	6.8	6.8	6.8	6.8	6.9	6.9	6.9	6.7	6.9
<i>Consumer price increases^e</i>										
Canada	1.8	1.8	1.8	1.5	3.0	0.6	1.8	2.1	1.5	1.8
France	2.0	3.0	0.3	2.0	3.3	2.6	1.0	1.6	2.4	2.1
Germany ^c	4.7	4.3	1.8	3.9	7.4	3.8	1.7	2.3	4.1	4.1
Italy	5.7	4.5	3.3	5.2	4.1	4.3	4.0	4.5	5.2	4.3
Japan	-1.4	5.5	-1.8	1.8	0.0	3.6	1.8	-1.0	1.7	1.3
United Kingdom	2.3	8.9	-0.3	1.6	-2.7	6.7	1.1	1.3	3.7	1.6
United States	2.8	3.1	3.1	3.1	3.4	3.0	1.5	3.0	3.0	3.0
Total	2.1	4.2	1.4	2.8	2.6	3.4	1.7	1.9	2.9	2.6
<i>Industrial production increases^b</i>										
Canada	-2.7	2.0	4.0	5.6	9.2	6.6	4.2	5.6	0.4	6.1
France	0.4	-0.7	-2.1	-7.6	-9.7	0.0	1.5	2.3	-0.1	-4.7
Germany ^c	7.9	-7.0	-6.8	-12.3	-11.4	-1.8	1.5	0.4	-1.8	-6.7
Italy	2.4	-1.7	-7.7	-5.2	-1.1	-4.6	2.9	2.5	-0.7	-3.6
Japan	-9.2	-9.2	-1.7	-10.7	1.7	-6.7	1.1	-13.9	6.2	-4.5
United Kingdom	-3.3	-0.4	4.9	2.2	0.7	3.7	4.4	4.7	-0.5	2.5
United States	-3.1	5.5	2.1	4.6	-2.1	2.1	2.8	7.4	1.5	2.2
Total	-2.8	-1.6	-0.8	-3.5	-2.1	-1.2	2.2	-0.4	-1.5	-1.5

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

Note: Growth rates of totals are weighted averages, with GDP, consumption and industrial production weights, as appropriate.

a Partly estimated.

b Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate.

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 preceding quarter, expressed at annual rate.

The Government's budget deficit in 1992 and 1993 rose substantially, reflecting both automatic stabilizers and the decision to take deliberate growth-promoting measures. These included more funding for capital projects, purchases of unoccupied housing, a temporary increase in tax incentives for investment in plant and machinery, and the abolishment of a 10 per cent tax on motor vehicles. As

a result, instead of the surpluses of almost £5 billion per year of 1986-1990, the Government once again became a net borrower. The public-sector borrowing requirement rose to £37 billion in 1992 and approximately £48 billion in 1993. Lastly, with the recovery under way, corrective fiscal policies were put in place for 1994 and 1995.

In both Australia and New Zealand as well, monetary

policy was eased significantly since 1990, with interest rates in Australia having fallen from 18 per cent to under 5 per cent, while in New Zealand short-term borrowing costs are now at a 23-year low. In addition, in the early 1990s strong public-sector spending was the major growth component in the Australian economy.

In none of the five economies was inflation reignited. In the United States—the country furthest along its recovery path—consumer prices in 1993 rose by the smallest amount since 1986 and producer prices were virtually unchanged. Even United States health-care prices rose only 5 per cent in 1993, less than in any year since 1973. This notwithstanding, more recently the prices of some industrial commodities, especially base metals and textiles, as well as all major categories of chemicals have increased substantially. But emphasis continues to be placed on raising productivity and wage increases continue to be modest.

Even so, in February 1994, for the first time in five years and again in March and April, the United States Federal Reserve tightened monetary policy and thus the interest rate at which commercial banks borrow from one another rose from 3 per cent to 3.75 per cent. The intent seemed to be primarily to signal to the private sector that inflationary pressures would not be allowed to build up. If that were to happen, it would require more drastic tightening later on and that could endanger the expansion. As it is, long-term interest rates began to rise significantly, indicating that inflationary expectations were returning to the financial markets, albeit in advance of hard data on actual inflationary pressures.

The United States was also the farthest along in seeing improvements in its employment situation. The rate of unemployment fell from over 7 per cent in mid-1992 to 6.5 per cent in the last quarter of 1993 and it is expected to fall further this year. Yet the employment situation is considered quite serious in the United States, as the full-time openings in a broad swath of job categories—including those for semi-skilled workers and recent graduates from college as well as high school—are far below what is needed to absorb the available workforce. Thus, even though the employment statistics in the United States look encouraging set next to those of most other developed market economies, it was the United States President who proposed that the Group of Seven, the Governments of the major industrialized countries, collectively take up the problem of unemployment and that the resulting conference of the Group—held at the ministerial level in March of this year—took place in Detroit, where unemployment has been especially severe.

LIMITED RESULTS OF RECOVERY EFFORTS IN JAPAN

Japan ended 1993 with GDP falling and unlike earlier recessionary periods, no brisk recovery is under way or

expected. Unemployment was also rising as the year ended (see table II.2). The unemployment rate was still under 3 per cent, reflecting the reluctance of large Japanese employers to release workers during downturns. But firms were paying a price for this policy, as industrial output remained about 13 per cent down from its peak in the first quarter of 1991. Indeed, if not for funds provided through the Ministry of Labour for employment adjustment, enterprises would by now have released considerably more workers.

There had been certain signals by the spring of 1993 that the Japanese economy might finally be turning up. First, public investment and then, in the second quarter, private residential investment propped up aggregate demand. Both were widely seen as outcomes of government efforts to pull the economy out of recession through monetary easing and a series of fiscal expansion programmes. Towards the end of the year, private consumption also started to firm, especially spending on durable goods that are associated with housing investment.

But the rapid appreciation of the yen during 1993 appears to have had a countervailing effect on the manufacturing sector, which accounts for about 30 per cent of GDP. Inventory adjustment stagnated, then deteriorated significantly in the fourth quarter and, as a result, industry continued to reduce investment spending.

All the monetary easing by the Bank of Japan and the economic policy packages of the Government since the recession began have done little more than slow the overall sharp contraction in Japanese private expenditure. The Bank of Japan, on its part, has eased its monetary stance in several steps. In the seventh reduction since July 1991, the official discount rate was set to the historically lowest level of 1.75 per cent in September 1993. Easing of the monetary stance has been helpful in reducing the cost of business operations and the cost of carrying high levels of debt; but with the existence of considerable excess capacity, it has not been effective in inducing private non-residential investment.

On the fiscal side, the Government announced its fifth economic package in February 1994. It is larger than its predecessors, committing an additional ¥15 trillion—over 3 per cent of GDP—to the recovery effort. It also reduced income taxes. The size and composition of this package underline how much the initial steps underestimated the difficulties of the Japanese economy. The first economic measures, announced at the end of March 1992, did not entail additional spending, but the rescheduling of planned projects. In that case, 75 per cent of the public works scheduled in the 1992 fiscal budget were to be started in the first half of the year.⁶ The first large expenditure programme was announced in August 1992, followed by additional programmes announced in April and September 1993, and finally the programme of February 1994. As

table II.3 shows, the 1992-1993 programmes together committed about ¥30 trillion, although, as will be discussed, the fiscal impact of the programmes was far smaller.

While the commitments in the fiscal programmes added up to a substantial sum, disbursements have been far lower. The supplementary budget to support the spending for the August 1992 package was not approved by the parliament until December, and comparable delays were experienced in the subsequent programmes, excepting the 1994 effort. Even after funding approval, projects had to go through a bidding competition before execution began and thus the direct expenditure impact of the programmes could well be expected to be drawn into 1994. Moreover, political scandals involving large construction companies have further delayed the execution of projects in the latter half of 1993.

In the first three fiscal packages, the bulk of the spending was on investment-related projects, although not all of that translated directly into additional expenditure on goods and services. About half the total was for public investment in the classic sense, i.e., public works, construction of facilities and local government projects. But a portion of this was for land purchases for the projects and was a transfer of ownership rather than a direct increase in

aggregate demand. The same applies to the remaining items in table II.3. In particular, the separate land-purchase item, which entailed advanced purchases for projects planned for future years, was mainly aimed at undergirding the depressed land market.⁷

Even if the actual amount of public investment was smaller than the nominal value of the packages, it was still significant. And from the second quarter of 1992 until the second quarter of 1993, government fixed investment was the most regularly expanding component of domestic demand. However, this component accounts for only about 7 per cent of GDP. It does not compensate for the sluggishness of private consumption, which accounts for 57 per cent, and the steady decline of private non-residential investment, accounting for 21 per cent. Indeed, private construction orders at the 50 largest construction companies declined 24 per cent in 1993, the third consecutive year of decline and the year of the largest fall.⁸

In other words, for the public investment programme to raise the Japanese economy out of recession, it must either be quite large or set off other categories of expenditure. In Japan, a public investment programme has traditionally been seen as a catalyst for additional private investment. In the current recession, however, business investment appears to be less responsive than before to

Table II.3.
Japanese fiscal packages, 1992-1994

Date of package	August 1992	April 1993	September 1993	February 1994
Date supplementary budget was adopted	December 1992	June 1993	November 1993	February 1994
Amounts (billion yen)				
Public investment	8 600	10 620	5 150	7 200
of which:				
Public works ^a	4 450	4 170	1 450	2 810
Facilities ^b	550	1 150	--	610
Local government	1 800	2 300	500	300
Land purchase	1 000	1 200	300	2 280
Housing Loan Corporation	800	1 800	2 900	1 200
Measures for small and medium-sized firms and promotion of private investment	2 100	2 430	1 000	1 460
Employment measures	.. ^c	28		10
Tax reduction	.. ^c	150 ^d		5 850
Other				730 ^e
Total	10 700	13 200	6 150	15 250
Total as a share of GDP (per cent)	2.3	2.8	1.3	3.3

Source: Government of Japan.

- Excluding expenditure on facilities, but including allocation for public corporations other than Housing Loan Corporation.
- Investment in education, research, medical and cultural facilities.
- ¥5 billion for employment measures and ¥8 billion of tax reduction were added to the Government's initial proposal.
- Proposed amount of tax reduction was "about ¥150 billion".
- Comprising ¥500 billion for Private Urban Development Organization, and ¥230 billion for an emergency measure for agricultural adjustment under new GATT framework.

infrastructure investment, as companies had heavily invested during the preceding "bubble period" and now have high levels of excess capacity.

The Japanese Government has, however, a longer-term plan of social capital improvement to which the new public investment programmes contribute. New facilities for education, research and social welfare were included specifically for this purpose in the packages of August 1992 and April 1993. The programmes are also helping schools buy computers and improving the research infrastructure of universities and institutions. In addition, the expenditures on general public works emphasized social capital projects. For example, in the September 1993 package, two thirds of the ¥1.5 trillion for general public works was directed towards expansion of social capital to improve the "living environment". Thus, even if the expenditures undertaken in these categories have had limited counter-cyclical impact, they are important from the standpoint of the long-term social and economic development of Japan.

The one part of the recovery strategy that has been effective in raising aggregate spending has been the support given to housing investment. Housing loans have become the backbone of the recovery, such as it is. The number of housing starts increased by 6 per cent in 1993, according to the Ministry of Construction, making it the second year of increase following the big plunge of nearly 20 per cent in 1991. This was owing in part to the general lowering of interest rates through monetary easing, but access was also increased to special low-cost funds from the government-owned Housing Loan Corporation. The funds allocated to the Housing Loan Corporation increased steadily in the successive economic stimulus packages and the annual budgets themselves. In addition, limitations on the amount to be borrowed and the size of the house have been relaxed. The demand to own houses in Japan has always been latently high. But during the bubble period, land and houses became too expensive and the many who were left out of the bubble had almost given up hope of owning a home. Now that the prices of houses have come down and the borrowing conditions have become very favourable, people are taking advantage of the new opportunities.

The Housing Loan Corporation is one of a number of Japanese Government facilities that operate within the framework of the Fiscal Investment and Loan Programme (FILP).⁹ Others have also assisted in the counter-cyclical effort, namely, the People's Finance Corporation and the Japan Finance Corporation for Small Businesses. Both provide finance for small-scale and medium-scale companies to supplement what is available from the private financial system. There is a question, however, whether all the FILP-financed loans have added to aggregate spending, i.e., whether they are fully complementary to private finance, as intended, or whether they have substituted for

private finance to some degree. Some argue, in other words, that the increase in FILP loans overstates the net increase in aggregate lending.

In any event, the adjustment process of the banking system, which had made it a reluctant source of credit in some sectors, was not yet complete and the February package thus included additional measures of support. For example, the credit insurance scheme, which reduces the risk to banks of lending to small-scale and medium-scale enterprises, is to be enlarged. Also, many banks still have on their books loans of questionable value to non-bank financial institutions made during the bubble period, the interest on which has been mostly waived. The banks will now be allowed to set up a company to buy those loans and thereby help to strengthen their balance sheets by clearing the loans from their books and recognizing the loss in an accounting sense.

Not only does the Government's package see a healthy financial system as important to smoothly translate increased demand into increased production, it also directly addresses the need to capture the momentum created by the earlier rise in housing investment and bolster consumer demand. For this purpose, the Government has emphasized efforts to deregulate markets to improve competition.

Most importantly, the new package supplements the investment-oriented approach of earlier packages with an effort to raise private consumption spending. It thus includes a 20 per cent income tax credit (with a ceiling on the yen amount of the credit). There has been some disappointment, however, that this long-sought tax reduction is only for one year, but the negotiations were continuing on whether to extend it for additional years. The debate is entangled in questions of a broader tax reform that would substitute indirect taxation for part of the income tax, the concern being to allow a sufficient time lag after the income tax reduction comes into effect before implementing the increase in indirect taxes. Even if the income tax reduction is uncompensated for only one year, it is likely to give some encouragement to consumer demand and thus total spending in the economy. Nevertheless, as the business sector is still making adjustments and undergoing restructuring, it is not playing its traditional role as a major source of spending for recovery; and so despite all the policy efforts, the recovery this year is only a gradual one.¹⁰

LIMITED RECOVERY EFFORTS ON THE EUROPEAN CONTINENT

If policy makers in Japan have been preoccupied for over two years with overcoming economic recession, their western European counterparts have mainly focused until very recently on other economic issues. In Germany, this meant first the reintegration of the eastern *Länder* into the Federal Republic beginning in 1990 and subsequently

dealing with the budget and inflation consequences of the process by which this was undertaken. In France, attention focused on wringing the remaining inflation out of the economy and maintaining a strong national currency, the "franc fort", in tandem with Germany. The Government of the United Kingdom also sought to counter inflation and maintain parity with the deutsche mark, until speculation forced a devaluation of the pound and Britain left the European exchange rate arrangement in September 1992. The Government then turned to more growth-oriented policies, as noted previously. Like the United Kingdom, Italy was forced to devalue the lira and it, too, left the ERM. It was not in a position, however, to initiate a stimulative policy as the United Kingdom had.

The other European countries broadly followed the larger continental economies, though differences in domestic conditions and policies were sometimes important. For instance, over the past few years, the Governments of Finland, Norway and Sweden were preoccupied with the threat to their financial systems from a wave of bank failures related to the end of speculative bubbles, as had also occurred in the United States and elsewhere. In addition, Finland also had to adjust to the loss of trade with the former Soviet Union and Sweden has had to face the necessity of reforming its generous social security system. As in the United Kingdom, these countries allowed their currencies to depreciate against the mark in 1992 and eased their monetary stance. In Finland and Sweden, however, this failed to offset structural impediments to growth in 1993.

The net result of the above developments was broad-based recession in western Europe in 1993, with only tentative signs of recovery as the year ended. Over the course of the year, however, monetary policy was eased. For example, the ECU interest rate, which broadly reflects European interest rate conditions, fell 4 percentage points from January to December. Most countries shadowed German monetary policy, although from August there was an opportunity to reduce rates more rapidly, owing to an agreement to widen the ERM fluctuation bands.¹¹ As the decline in German rates through the year has restored confidence within the ERM, the French franc, in particular, moved back into the former narrow bands.

Despite this and despite prospective further interest rate declines in 1994, the overall policy stance in Europe is expected to be only moderately stimulative, as the gradual relaxation of monetary policy will be at least partially offset by the significant tightening of fiscal policy in several countries. The reasons may be seen from a discussion of developments in the three largest economies on the continent.

GDP of the largest economy in the region, Germany, fell 1.2 per cent, but this was the combined effect of growth in the eastern *Länder* of about 7 per cent and

decline of 1.9 per cent in the west German economy, the sharpest drop in the GDP of the latter since the Second World War. The west German unemployment rate rose to 6.3 per cent by the fourth quarter of the year (see table II.2), as measured on a standardized basis by the Organisation for Economic Co-operation and Development (OECD). This was 2 percentage points higher than in 1991. Excluding the self-employed and the military from the labour force, 9 per cent of workers were unemployed as December ended.¹²

German inflation was 4 per cent in 1993, the highest rate since 1982. This was consumer price inflation, however, and heavily reflected the special situation arising out of the reintegration of the eastern *Länder* rather than endogenous, cyclical demand-pull factors. In other words, while rents and tax components of consumer prices rose significantly, industrial product prices (excluding value-added taxes) were unchanged and the unit value of imports fell. Moreover, consumer price inflation slowed dramatically during the year, so that even though prices in 1993 were on average 4 per cent higher than in 1992, the quarter-to-quarter price changes during 1993 slowed dramatically (see table II.2).

Policy-directed interest rate increases in 1992 and earlier years had accomplished what they could in reducing inflationary pressures by reducing total spending. Indeed, the economy went into recession; but the continuing inflation in 1993 made it difficult for the Bundesbank to ease monetary conditions other than in a long series of small steps that continued this year. For 1993 as a whole, short-term interest rates were almost 2 percentage points lower than in 1992 and long-term rates about 1.5 percentage points less (see table A.8). But from a producer's perspective, even the end-year interest rate of 6 per cent on short-term credit would have appeared unusually high since producer prices were not rising at all.

By early 1994 there was a considerable degree of economic slack and wage settlements in the annual round of national union-management negotiations reflected this reality, as workers traded wage increases for greater job security. The outlook for inflation in 1994 is thus quite weak.

As to the fiscal side of macroeconomic policy, the combined budget deficits of state, local and federal governments rose to 4 per cent of GDP (see table A.8). This, however, understates the actual fiscal impact of the public sector, as there has been considerable off-budget financing. Adding in the government-related agencies, including the borrowing of the *Treuhandanstalt*, the agency responsible for privatization in the east, the Bundesbank estimated that the total borrowing requirement of the German public sector reached 7 per cent of GDP in 1993. Much of the explosion in the fiscal situation in Germany arose from the commitment to transfer resources on a large and unexpect-

edly persisting scale to the eastern *Länder*, although the automatic stabilizers have also enlarged the deficit since the recession began. But faced with the need to continue making substantial transfers to the east for additional years, the Government has had to raise taxes and seek to cut certain categories of other spending, mainly in the west. The net result of these changes has been felt as a fiscal tightening, while the Bundesbank remained cautious in relaxing the monetary reins.

Germany's recession was exacerbated in 1993, moreover, by a plunge in foreign orders, also owing in part to German policies. First, Germany's partners in the ERM were forced to maintain high interest rates to defend their exchange rates *vis-à-vis* the deutsche mark, which caused their aggregate demand to weaken. And secondly, as dollar and yen interest rates fell relative to German interest rates, the deutsche mark appreciated, making German exports relatively more expensive. Coupled with the effects of continuing wage increases and declining productivity growth in Germany, unit labour costs in manufacturing relative to major industrialized-country trading partners deteriorated by 9 per cent in the four quarters ending in June 1993.¹³

While the recession raised unemployment in Germany, France holds the record for high unemployment among the seven major economies.¹⁴ Unemployment reached 12 per cent of the labour force in the last quarter of 1993 on the standardized basis, up from 10 per cent in the first half of 1992 (see table II.2). The number without work, already over 3 million people in 1993, may reach 3.5 million this year. Unemployment has thus become a major political as well as economic and social concern. The difficulty in France encompasses both a large number of long-term unemployed and a continuing high increase in the labour force. It is not primarily a consequence of business-cycle developments, although the recession that France entered in 1992 aggravated the difficulty.

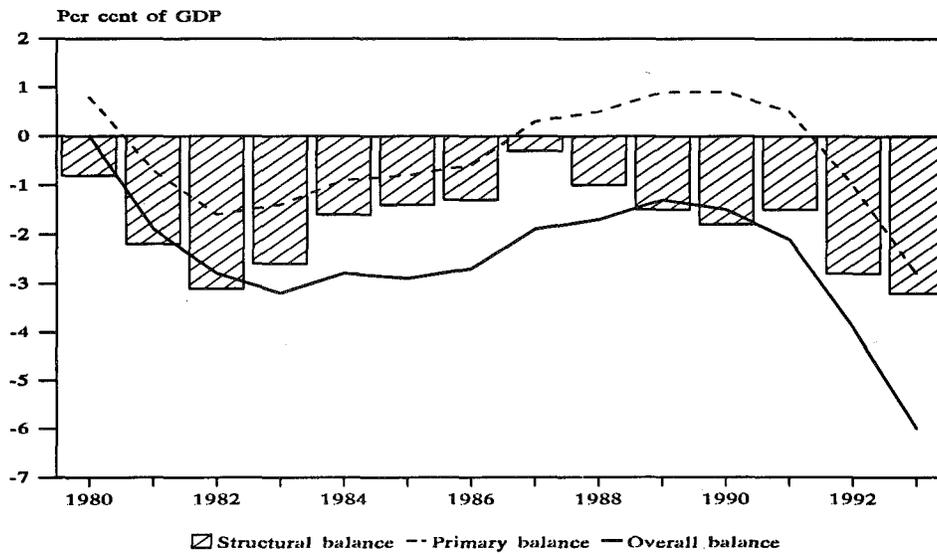
The priority accorded in France to maintaining the strong franc within the European exchange rate grid and continuing the anti-inflationary battle meant that monetary policy was not readily mobilized to combat the recessionary forces. Instead, it exacerbated them by keeping the cost of credit high. Even after the August 1993 agreement widening the bands of the ERM, France was slow to reduce interest rates, although they have fallen. Fiscal policy was unavailable for stimulus because of the already increasing government deficit and the concern a further increase might raise in the financial markets. Moreover, it was necessary to take account of financial market attitudes about the fiscal balance. With the new degree of financial openness in Europe under the single market of the European Union, adverse inflationary expectations could have extremely deleterious effects on French financial flows, interest rates and foreign exchange markets.

France had undergone a budget correction policy in the 1980s that halved the general government deficit from over 3 per cent of GDP at its largest point in 1983 to about 1.5 per cent in 1989-1990 (see table A.8). The deficit at the end of the 1980s might have been even lower if not for a rise in the interest cost of government debt. Indeed, the Government's primary balance, which excludes net interest payments, was in surplus from 1987 to 1991 (see figure II.2). The rising government interest burden, moreover, embodied one sign that the fiscal correction was incomplete; i.e., it resulted in part from a relatively rapid growth of public debt, raising the ratio of net government debt to GDP from 14 per cent in 1980 to 25 per cent in 1990.¹⁵ The interest burden also rose because the average interest rate on government debt rose steeply in the 1980s and this was in part because the structure of government borrowing shifted away from reliance on monetary instruments. Thus, negotiable debt instruments rose from 28 per cent of total government debt in 1981 to 77 per cent in 1990.¹⁶ And, as of 1 January 1994 the Banque de France was made independent of the Government.

Once France slipped into recession, the overall deficit jumped, reaching 4 per cent of GDP in 1992 and 6 per cent in 1993. To a large degree, this was attributable to endogenous spending and revenue changes associated with the recession. But there were also some long-run weaknesses in the fiscal situation of France, particularly involving the social security system, whose health and pension expenditures have been rising more rapidly than its revenues could support. As can be seen in figure II.2, the structural budget balance had been deteriorating since the late 1980s. This indicator, as calculated by OECD, estimates what the budget balance would be if the economy were operating at its long-run trend rate of growth, i.e., excluding cyclical effects.¹⁷ In short, there was virtually no room for expansionary fiscal policy in France in 1993 and a tightening is programmed for 1994.

Italy, too, had no room for a fiscal stimulus as its recession began in 1992 and deepened in 1993. Unlike France, Italy's overall fiscal deficit fell in 1992 and barely rose in 1993 as a fraction of GDP (see figure II.3). The main reason is that Italy was in the midst of a major economic and political reform, pressures for which had been building for several years. For several years as well, the fiscal situation was widely understood to have become unsustainable.¹⁸ Net government interest payments, for example, reached 11 per cent of GDP; without those payments the government sector's deficit would have disappeared. The Government has brought down the structural budget deficit for three consecutive years, but it was estimated by OECD to remain at 7.6 per cent of GDP in 1993, still very much above the average structural deficit of OECD of 3.4 per cent of GDP or even the western European average of 5 per cent.

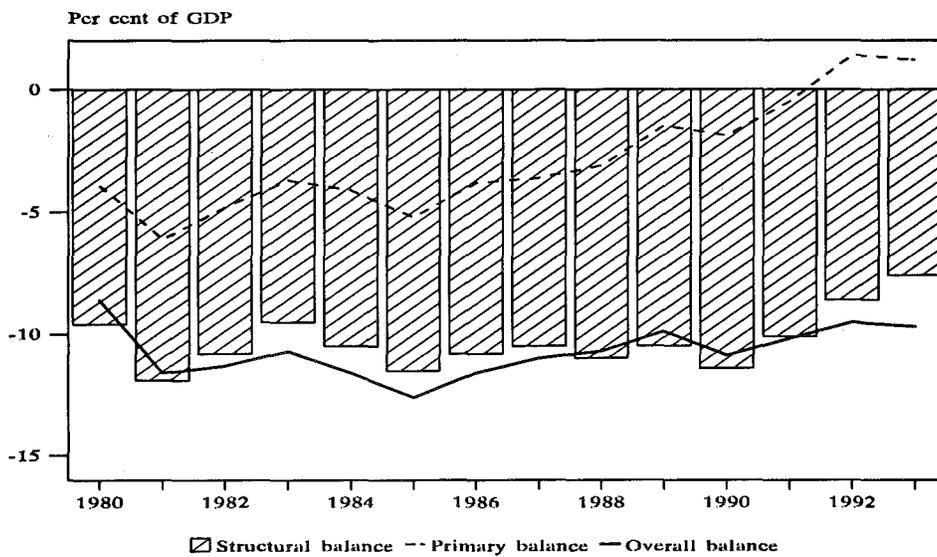
Figure II.2.
Government budget balances of France, 1980-1993



Source: OECD.

Note: Data are for "general government", as per national accounts definitions.

Figure II.3.
Government budget balances of Italy, 1980-1993



Source: OECD.

Note: Data are for "general government", as per national accounts definitions.

Italy's recession had become quite marked. Private consumption fell during the third quarter of 1992 for the first time in the post-war era and continued falling for a full year. Consumers have been facing higher unemployment, lower real wages, increased taxes, and cuts in welfare benefits and pensions arising from budgetary reform. In addition, Italy had left the ERM at the same time as the United Kingdom in September 1992 and interest rates fell once defence of the ERM parities was abandoned. Short-term interest rates fell from over 16 per cent in the third quarter of 1992 to under 9 per cent by the last quarter of 1993, and long-term rates fell accordingly. But with inflation reduced to little more than 4 per cent in Italy, real interest rates remained high. However, in the light of the economic and political environment of 1993, it is unclear whether interest-sensitive expenditures would have responded significantly to lower rates. Thus, faced with the disincentive of the low level of consumer spending, invest-

ment fell substantially. The one sign of strength was that the fall in the lira exchange rate against European partners since late 1992 helped boost Italian exports, although not by enough to offset the contractionary factors.

The economy of Italy, like that of France, Germany and several smaller European countries, could thus do little more than wait for the cumulative effects to build of the slow, cautious sequence of reductions in interest rates that were taking place across the region in 1993 and 1994. Indeed, it even seems that the benefit in terms of output and employment that might have been gained through a more rapid reduction of interest rates in 1993 would have been small, especially set against the extra inflation that might have resulted (see box II.1). Policy makers in Europe generally were taking a longer view of adjustment and the need to rebuild confidence in the long-run growth prospects on which investment demand and ultimately growth itself would hinge.

TRANSITION ECONOMIES AT A TURNING POINT

When the centrally planned economies of Europe and central Asia began their transition to market economies at the end of the 1980s, they initiated a social experiment that had never been attempted before. In the years since, there were numerous examples of large gaps between proclaimed goals of economic policy and actual performance. There were large declines in output and income, which were accompanied by a drop in living standards and a growing unemployment problem. The euphoria from the sweeping political and economic changes was succeeded by disillusionment at the widespread impoverishment, the loss of personal security and the dim prospects of substantial improvement in well-being in the foreseeable future. A rapid differentiation of incomes and wealth is also bringing a new stratification of relatively egalitarian societies, another source of social tension. A burgeoning wave of crime, including organized crime—something that was not previously a part of everyday life—has added to the social burden in many countries.

Nevertheless—and most important from a long-run perspective—a considerable distance has been traversed in many countries in making the institutional changes required for market economies to operate. The middle 1990s may thus well be the years when economic contraction largely ends in the transition economies.

As of early 1994, however, growth had been re-established in only one economy, that of Poland, which began to recover in 1992. But there were signs of a resumption of economic growth as well in certain other eastern European countries (see table A.3). In the other countries of eastern Europe, in the Baltic States and in the Commonwealth of Independent States (CIS), the rate of contraction

slowed and in many cases it appeared that the low point in terms of domestic production had been reached or was near (see table II.4). In yet other countries, budgetary support of state enterprises had held back the decline in production that elsewhere accompanied the breakdown of the central planning mechanism, while macroeconomic imbalances mushroomed. In such cases, the major deterioration began instead in 1993 or early 1994.¹⁹

In very few countries, however, does it seem that the almost violent destabilization of macroeconomic conditions brought about by transition has been overcome. In only five countries—the Czech Republic, Estonia, Hungary, Poland and Slovakia—did prices rise by between 20 and 40 per cent in 1993, and in none was it less than 20 per cent. In the five countries, however, inflation rates have been brought down from far higher levels and lower rates are expected in 1994. In the other eastern European countries and in all the CIS countries with the exception of Russia and Azerbaijan, in contrast, inflation rose. In Georgia and Ukraine, inflation appeared to have crossed the threshold into hyper-inflation, with prices rising more than 50 per cent a month. In many countries, the bulk of the macroeconomic adjustment process thus still lay ahead.

PROSPECTS BEGIN TO BRIGHTEN IN EASTERN EUROPE

The transformation to market economies first began in earnest in 1989 in eastern Europe and progress in transition is most advanced there. Poland, which introduced sweeping economic reforms—"shock therapy" in 1990, appears to be on the path of recovery. GDP there grew 4 per cent

BOX II.1.

What if German interest rates had fallen faster in 1993?

Since the onset of economic recession in 1992, German interest rates have been on a cautious downward path. Short-term interest rates were lowered by more than 2 percentage points during 1993 in small, regular decrements. The Deutsche Bundesbank was criticized in the press and in private for not moving faster. What would have happened if it had? This is a question that cannot, of course, be answered definitively. The clock cannot be reversed. However, an econometric model of Germany and its partner countries can be run with alternative policy assumptions and the results can be compared. This was done in this instance using the cooperative international modelling system of the world economy known as Project LINK, which is maintained in the Department of Economic and Social Information and Policy Analysis.

Much of the criticism of the Bundesbank came from outside Germany, as the high German rates were seen as hurting Germany's main trading partners. Several countries had been shadowing German interest rates out of their efforts to maintain fixed exchange rates within the Exchange Rate Mechanism of the European Monetary System or to follow informal monetary policy guidelines that would also maintain a fixed exchange rate against the deutsche mark. As several economies went into recession and unemployment began to mount, their monetary authorities were hampered by the limited extent to which they could ease monetary conditions without creating incentives for capital outflows and exchange-rate depreciation against the mark.

In the event, the exchange rates of several currencies fell against the mark, and in some cases interest rates fell by considerably more than German rates. In particular, as noted in the text, the United Kingdom withdrew from the Exchange Rate Mechanism of the European Monetary System in September 1992 and immediately lowered short-term interest rates. From the third quarter of 1992 through the first quarter of 1993 British short-term rates came down by almost 4 percentage points, which might be compared to the fall of 140 basis points (1.4 percentage points) in Germany during the same period. The contrast in economic performance between the United Kingdom and

the rest of Europe has been particularly striking since in the short term it was able to register significant growth with low inflation, while most of the rest of Europe experienced a strong recession.

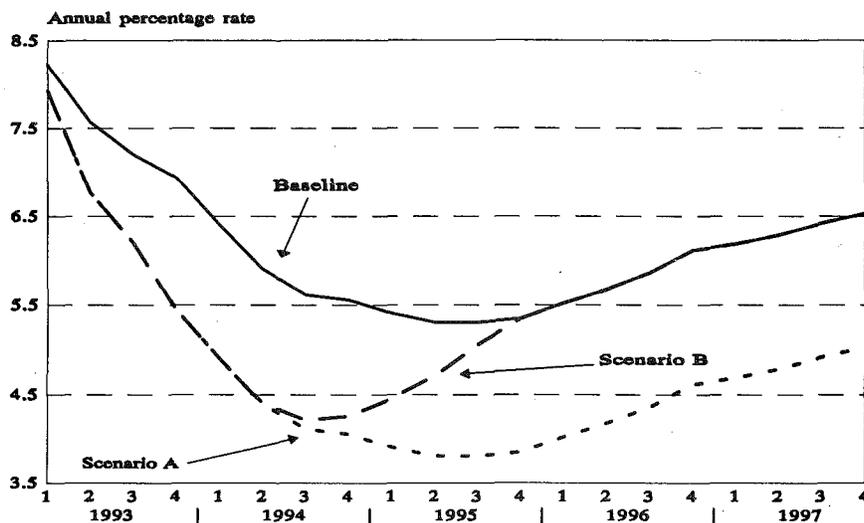
The caution of the German monetary authorities had been due to the inflationary pressures that continued in Germany into early 1993, despite the recession (see table II.2). For the year as a whole, however, consumer prices were 4 per cent higher than they were in 1992, just as they were 4 per cent higher in 1992 than in 1991 (table A.7). It thus appears that German inflation peaked and indeed the forecast is for a generally declining inflation trend, beginning with a rise in prices of 3 per cent this year. If the Bundesbank had allowed interest rates to fall faster, would inflation have kept rising? Would unemployment have been lower and the level of output higher?

To shed light on these questions and to highlight the nature of the trade-offs policy makers were faced with, two different interest-rate scenarios were examined with the LINK model, comparing them to the historical period and the "baseline" forecast which runs through 1997. In one, a permanent interest rate cut is assumed and in the other, the cut is temporary. In both cases, short-term interest rates fall a total of 150 basis points during 1993. This is in addition to the interest rate declines that actually took place, the additional cuts being made in four successive decrements starting in the first quarter of 1993. Thus, the full cut is assumed to be in force by the fourth quarter of 1993.

The first variant of the policy experiment, scenario A, assumes the cut is maintained throughout the entire simulation period, simply shifting the baseline path of interest rates down. In scenario B, in contrast, a modest tightening occurs in the final two quarters of 1994, followed by a more substantial tightening in 1995 so that by 1996 one comes back to the baseline interest rate scenario (see figure).

It is further assumed, as in the baseline, that European partner countries, with the exception of the United Kingdom, continue to seek to limit the changes in their exchange rates *vis-à-vis* the mark, and thus most nominal interest rate differentials within Europe remain un-

Interest rate scenarios in Germany, 1993-1997
(Three-month money markets^a)



Source: UN/DESIPA.

a Frankfurt inter-bank offer rate (FIBOR).

changed.^a The scenarios apply in principle to all the countries that seek to maintain stable parities against the deutsche mark, although given technical limitations in some of the LINK models, the exercise could only be done for a group of 10 countries, albeit accounting for 84 per cent of western European GDP.^b

In the baseline, European interest rates were seen to be falling relative to the rest of the world, particularly the United States where interest rates were firming. Under the two scenarios, the decline in European interest rates is greater, creating an incentive to move funds into dollar-denominated assets and thus additional downward pressure on European currencies against the dollar. In scenario A, there is an additional depreciation of 12 per cent by 1997, while in scenario B the final result is an exchange rate that is little more than 2 per cent weaker than the baseline in 1997 (see deutsche mark results in table below).

The major interest in the exercise is, of course, to compare GDP growth, unemployment and inflation under the two scenarios. These results are presented in the table. The key effect of both scenarios is to change the timing of the recovery, moving it forward by one year. In other words, in both scenarios, GDP growth of the 10 European countries in-

cluded in the exercise is made marginally positive in 1993 instead of marginally negative in the baseline, while in 1994 it registers 2.6 per cent as compared to 1.8 per cent for the baseline case. Growth continues to accelerate in 1995 and then begins to moderate, with GDP growing less than the baseline by 1997 in both scenarios. The scenarios differ, however, in that the level of real GDP in 1997 is about the same in scenario B as in the baseline (i.e., only the timing of the growth in output is changed), while the absolute level of GDP in 1997 is about 1.5 per cent more under scenario A than it would be under the baseline. The latter is not, however, a large improvement.

The impact on unemployment reflects the output results. Both scenarios add about 300,000 extra jobs in 1994. This is a typical result in recoveries from recessions, particularly when the recovery is slow. Employment does not rise significantly until the recovery is well under way. Under the baseline, however, the number unemployed rises again in 1995 before beginning to decline, while the peak is reached in 1994 under both scenarios. Both scenarios add about half a million jobs to what the baseline says is expected in 1995. Scenario A then becomes a better jobs machine than scenario B so that by 1997 there would be almost 700,000

Results of two scenarios on German interest rates, 1993-1997

	1993	1994	1995	1996	1997
Ten western European countries					
Growth of GDP (percentage change)					
Baseline	-0.1	1.8	2.6	2.6	2.9
Scenario A	0.2	2.6	3.2	2.8	2.4
Scenario B	0.2	2.6	2.9	2.2	2.3
Numbers unemployed (millions)					
Baseline	16.3	17.2	17.4	17.0	16.7
Scenario A	16.3	16.9	16.8	16.4	16.0
Scenario B	16.3	16.9	16.9	16.6	16.4
Inflation (percentage change)					
Baseline	3.3	3.0	2.9	2.8	2.9
Scenario A	3.3	3.5	3.6	3.7	3.8
Scenario B	3.3	3.5	3.5	3.1	2.9
Germany					
Exchange rate against dollar (DM/\$)					
Baseline	1.65	1.75	1.79	1.80	1.79
Scenario A	1.68	1.87	1.97	2.00	2.00
Scenario B	1.68	1.87	1.92	1.87	1.83
Inflation (percentage change)					
Baseline	4.1	3.0	2.4	2.7	2.3
Scenario A	4.2	3.6	3.4	3.7	3.3
Scenario B	4.2	3.6	3.2	3.0	2.3

Source: UN/DESIPA.

more jobs under scenario A than the baseline, but about 300,000 more jobs under scenario B than the baseline.

While not insignificant, these employment increments do not seem large when set against the size of the labour force in the 10 countries in the sample, which totals about 148 million people. Indeed, in neither scenario is the four-year average rate of unemployment significantly lower than in the baseline (0.3 percentage point in the case of scenario A; 0.2 percentage point in the case of scenario B).

Finally, according to the model results, there would be inflation penalties in the two scenarios. In the baseline solution, the 10-country inflation rate declines each year through 1996, albeit extremely slowly. In scenario A, in contrast, the inflation rate increases each year throughout the period, with inflation a full percentage point higher than in the baseline solution by 1997. It is, however, not even 4 per cent. The inflationary impact of scenario B is again one of timing rather than lasting changes, with prices rising as in scenario A in 1994 and 1995, but then slowing in 1996 and coming down to the baseline rate by 1997.

In sum, at the cost of postponing the reduction of inflation, the recovery could have been

shifted forward by one year, according to this scenario analysis. A gain in GDP—for the period under consideration—would have required accepting that inflation would remain higher than it is expected to be under the baseline forecast all the way to 1997, although the inflation rate itself never exceeds 4 per cent in the scenarios. In Germany itself, both scenarios merely slow the reduction in inflation that is otherwise expected. In both cases there would be some modest improvements in the jobs situation, but not of an order sufficient to make major headway on the problem of unemployment in Europe.^c

All in all, it thus appears that the criticism of the slow reduction of interest rates by the Bundesbank was both right and wrong. It seems right that had interest rates come down faster, the recovery would have come sooner than is now expected and the total number of unemployed would have been lower than the baseline in every year. If the interest rates had been adjusted back to the baseline path in 1994 (scenario B), the inflation rate would reach the baseline level by 1997, and in that sense the recovery would have been advanced without lasting penalty. It seems wrong, however, to expect that had the Bundesbank implemented reason-

able alternative monetary policies, it could have had a significant impact on unemploy-

ment as this problem does not seem to be mainly of cyclical origin.

- a The United Kingdom was assumed to follow an independent monetary policy under the baseline, which led to minor exchange rate changes *vis-à-vis* the mark, after the large adjustment in late 1992. In the scenarios, it was assumed that the baseline differentials against the mark are maintained.
- b Austria, Belgium, France, Germany, Italy, Norway, Portugal, Spain, Switzerland and United Kingdom.
- c Presumably, an even more stimulative policy would have reduced unemployment more than in the cases studied here, but at the cost of a greater inflation penalty, perhaps one that might have adversely jolted the expectations of households and enterprises in Europe.

in 1993, driven by strong growth in an already large private sector. Romania's economy grew as well in 1993, according to preliminary data, owing to strong performance in agriculture and a stabilization of industrial output. However, as industrial sales lagged behind production, there were large increases in inventories, financed by a loose monetary policy. This was an unsustainable situation that Romania began to address at the end of the year.

Albanian authorities reported strong economic growth in 1993, thanks to a sharp recovery in agriculture, where privatization has made considerable progress (see tables A.3 and A.10). Albania had launched a comprehensive reform programme with international financial support and after one year the collapse in output and slide

towards hyper-inflation appeared to have been arrested.

The Czech Republic seems to have hit the bottom of its contraction in 1993, with a brighter prospect for 1994. Like Slovakia, its output suffered from the dissolution of the Czech and Slovak Federal Republic (see box II.2). Output declined in Hungary as well in 1993, although industrial output grew 4 per cent, a first sign that the forces of recovery were gathering. Hungarian agriculture held back the start of growth, owing to the vagaries of weather and difficulties in agricultural reform, especially concerning land ownership uncertainties. The rate of decline of GDP slowed in Bulgaria and in Slovakia (see table A.3).

The importance of a turnaround in the contraction of output of these countries cannot be overestimated. They

Table II.4.

Economic indicators of successor States of the USSR, 1992-1993
(Annual percentage change)

	GDP		Industry		Consumer prices	
	1992	1993	1992	1993	1992	1993
Armenia	-52.3	..	-48.2	-11.1	900	1 920
Azerbaijan	-35.2	..	-23.7	-6.8	1 210	1 080
Belarus	-10.1	-9.0	-9.4	-10.9	1 160	1 670
Georgia	..	..	-45.8	-26.6	..	..
Kazakhstan	..	-13.0	-13.8	-16.1	1 070	1 450
Kyrgyzstan	-16.4	-13.4	-26.4	-24.2	1 190	1 290
Moldova	..	..	-27.1	4.2	1 210	1 280
Russia	-19.0	-12.0	-18.0	-16.2	1 570	980
Tajikistan	..	..	-24.2	-19.5	1 010	2 240
Turkmenistan	..	..	-14.9	5.3	870	2 000
Ukraine ^a	-13.7	-18.0	-6.0	-12.5	2 734	8 940
Uzbekistan	-9.6	-3.5	-6.7	4.1	510	1 200
CIS total ^b	-18.3	-12.0	-18.0	-14.6	1 390	1 560
Estonia ^c	-14.8	-2.0	-29.0	..	1 053	36
Latvia	-33.8	-19.9	-34.7	-36.0	1 051	209
Lithuania	-35.0	-17.0	-52.0	-46.0	1 163	188

Source: National data; Economic Commission for Europe.

a 1993 inflation data for Ukraine are IMF estimates as reported by the Ukraine expert at the meeting of Project LINK, United Nations Headquarters, March 1994.

b The GDP of the CIS is an average of member countries' growth rates weighted by their share in the output of the USSR in 1991.

c 1993 GDP for Estonia is preliminary.

Box II.2.

A "velvet" divorce? The case of the Czech and the Slovak Republics

Much attention has focused in recent years on the need for increasing harmonization of policies among countries building an economic union. It now seems clear that in countries that are dissolving a union but seeking to maintain closer linkages than are typical between completely separate States, a measure of policy harmonization is also required. The recent division of Czechoslovakia is a case in point.

On 1 January 1993, two new sovereign States appeared on the changing map of Europe: the Czech Republic and the Slovak Republic. Czechoslovakia was separated into two independent States not by war but according to the Constitutional Law on the Dissolution of the Czech and Slovak Federal Republic, passed by the federal parliament on 25 November 1992. Another law of the former federal parliament defined the basic principles for dividing the property of the federal republic between the two new States. It was based on two fundamental principles: (a) the "territorial principle", by which federal property was to be transferred to the republic on which it was located; and (b) the "population-size principle", which divided property in a ratio of two to one in favour of the Czech Republic, reflecting the ratio of the populations of the two territories. The territorial principle was generally applied to structures, whereas the population-size principle was applied to movable property.

The two parties did not intend the split to be complete. They also drew up agreements on a number of issues of shared interest, the most important of which related to trade between them and the periodic settlement of net bilateral payment imbalances. One agreement was to operate a monetary union and continue use of the old federal currency in bilateral trade in order not to disrupt cross-border payments in "domestic" currency. This was to be a transitional measure until 30 June 1993, with a possible extension thereafter. Another agreement, probably the most important one, was to establish a customs union aimed at promoting bilateral trade.^a

It was expected, of course, that there would be costs to the split. A newly established State would have to build up official institutions. In this respect the Czech Republic was much better placed as it inherited practically all the federal institutions located in Prague. Al-

though many republican ministries already existed in Bratislava within the federal State, Slovakia had to build up a central bank, a central statistical office and other important institutions from scratch.^b

The divorce and its costs, however, went far beyond this, as the split was more rapid and complete than envisioned. The agreement on the currency union was the first one to collapse. Just over a month after the division, on 8 February 1993, both sides withdrew from the currency union and new national currencies were established the same day. Both countries thus had to undertake the costly operation of issuing new banknotes and coins and withdrawing the old ones from circulation, as well as replacing other state documents.

The currency union agreement had committed the central banks of the two new States, *inter alia*, to limit lending to each Government, limit credit expansion in each country and hold minimum levels of foreign exchange reserves. Implementation of these policy goals turned out to be beyond the capacity of the monetary authorities. In January alone, owing to capital flight, the National Bank of Slovakia lost about 60 per cent of its foreign exchange reserves.^c Also, with the dissolution of the federal republic, the federal budget transfers to Slovakia ended, which raised fiscal problems there that, in turn, created pressures for central bank financing of the deficit and thus a looser monetary policy than envisaged. Thus, the monetary union broke down.

The two Governments agreed, however, to operate a bilateral clearing arrangement in "clearing ECUs", a unit of account whose exchange rate into each local currency was set by agreement. The country having a net trade deficit with the other at the end of each month would settle the balance in convertible currency, which became necessary for the newly "international" trade between the two States.

However, the collapse of the currency union and the switching to trade in convertible currency made bilateral trade more cumbersome and adversely affected the trade in spite of the clearing agreement. Two devaluations of the new Slovak *koruna* against the ECU, and hence, against the new Czech *koruna* (by 10 per cent in July and by an additional

8 per cent in December) further reduced the appeal of Czech goods in Slovakia. The Czech Republic remained Slovakia's largest trading partner, whereas Slovakia ranked second among Czech trading partners (after Germany).

For 1993 as a whole, Czech exports of goods and services to Slovakia declined in real terms by over 30 per cent, according to preliminary estimates, whereas Czech imports from Slovakia dropped by some 15 per cent. The much larger than expected drop in bilateral trade undoubtedly contributed—though to a different extent in the two States—to the decline in GDP in 1993 (see table A.3). Both economies performed much below the projections made before the division of the federation. Yet, one year after the divorce, the Czech economy looked close to the beginning of recovery, although it had also been adversely affected by the split, while the Slovak economy was still depressed.

The impact of the trade changes had another dimension. In 1992 the Czech Republic had a significant trade surplus *vis-à-vis* Slovakia, which meant that there was a transfer of resources from the Czech to the Slovak Republic, as the latter imported a greater value of goods from its partner than the value of goods it exported.^d Since the trade had all been internal at the time, the financing of Slovakia's deficit did not involve any foreign-currency obligations. In 1993, in contrast, the Slovak deficit became quite small and had to be financed in hard currency and on commercial terms.

Indeed, the split ended the direct official transfers between the former republics, as already noted. In 1992, the Czech Republic transferred 25 billion Czechoslovak *koruna* to Slovakia, 7 per cent of the Slovak GDP.^e In 1993, the Czech Government budget was in surplus (the same is targeted for 1994 as well) whereas the Slovak budget deficit was larger than the targeted 5 per cent of GDP.

The split also brought to the surface the substantial differences in the economic situation in the two parts of the former federation. To take just one indicator, foreign direct investment into the Czech Republic in 1993 amounted to \$561 million and that into Slovakia, \$134 million. The difference had been even greater in the earlier years of transition; i.e., the cumulative investment from 1990 to 1992 in the Czech part of Czechoslovakia was \$1.5 billion while in the Slovak part it was roughly a tenth of that (\$176 million).^f

In sum, the failure to maintain a currency union between the two States even for a very short period of time followed from the diverging economic policies conducted in the two sovereign States, which addressed their very different economic situations immediately after the division. An economic union in its strongest form—the currency union—requires strict coherence of economic policies and especially of monetary policies in the participating States. Loss of the Czech financial transfers, in particular, was a major shock to the Slovak economy, requiring price and output adjustments that would have been even more difficult within the constraints of monetary union. Even a less complete form of economic integration, however, such as the customs union, requires significant efforts in mutual tuning of elements of economic policy. There was thus new concern in March 1994 when, after long debates, Slovakia introduced a controversial import tax surcharge of 10 per cent on some consumer goods, including imports from the Czech Republic, despite the customs union. Although this had been an outcome of Slovakia's fiscal and balance-of-trade difficulties, it strained the customs union. The prospect for continuation of economic integration of the two States, in other words, seems to depend on the speed of absorption of the costs of the separation and the ability to harmonize relevant economic policies.

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- a The Customs Union was also a condition for the uninterrupted implementation of the interim trade agreement with the European Union (EU); in the course of 1993, however, two separate association agreements with the EU were negotiated and both were signed in October 1993.
- b The two new States also had to apply for separate membership in international organizations, which was accomplished in the course of 1993.
- c See *OECD Economic Surveys: the Czech and the Slovak Republics* (Paris, OECD, 1994), p. 114.
- d See chap. IV for a more detailed discussion of the net transfer concept as applied in a global context.
- e See *OECD Surveys...*, p. 59.
- f Data as per the annual reports of the State Bank of Czechoslovakia, 1990-1992; *Statistical Yearbook of the Czech Republic* (Prague, 1993); and *Annual Report of the National Bank of Slovakia* (Bratislava, 1994).
-

had lost from 20 to 35 per cent of their pre-transition GDP and 30 to 50 per cent of their industrial output (see tables A.3 and A.10), with gross investment spending generally declining by even greater amounts. Most are not likely to recover their previously reached peaks of economic activity until the end of the century.

At the end of 1993, over 6 million people or about 13 per cent of the labour force were officially recorded as unemployed in the countries of central and eastern Europe. Double-digit unemployment rates prevail in all countries in the region with the exception of the Czech Republic; in Poland and Bulgaria unemployment reached 15 per cent, and in Albania it exceeded 30 per cent. Even these figures, however, are thought to under-count the unemployed, owing to the newness of the statistical procedures in recently established labour offices.

Perhaps more importantly, the level of open unemployment in general lags behind the level of output contraction, except in Poland and Albania (see figure II.4). One determinant of this phenomenon has been the shrinking of the labour force in most of the transition economies.²⁰ The period of central planning in these countries was characterized by unusually high participation rates in the labour force. Unemployment itself was considered unlawful in some socialist countries. With the liberalization of the labour markets the participation rates started to decline.

Even so, there has been considerable underutilization of employed labour, and unlike the situation in such indus-

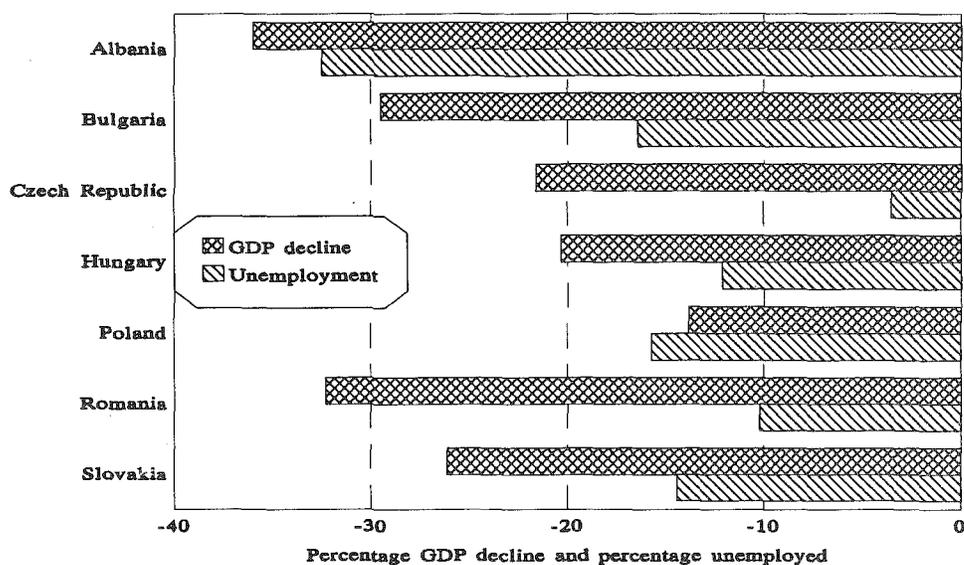
trialized countries as Japan, the workers are not being retained with the expectation that their idleness is only a temporary matter. "Labour hoarding" is concentrated in the public sector, mainly in state-owned enterprises that have not yet undergone major restructuring. And even where the private sector is growing rapidly, the growth of labour absorption capacity lags behind the layoffs that may arise from the inevitable restructuring of the public enterprises.

The Czech Republic may represent the most extreme case. Aside from the effect of the decrease in the labour force, as noted above, the low unemployment record is the outcome of greater vocational training and job placement activities than in the other transition economies and strict control over the social safety net (i.e., a number of stringent requirements must be met to qualify for unemployment benefits), and the Government has sought to prevent massive layoffs and the closing of loss-making enterprises in the course of privatization. Open unemployment was also kept low by the relatively low wage level (at least in the first years of transition), the fast growth of small-scale private enterprises and the expansion of the service sector in general. However, the successful implementation of two rounds of privatization has now turned over the majority of industrial enterprises to private owners who are far less likely to keep surplus labour on their payrolls. Labour adjustment can be expected to become more intensive also in Romania as its Government applies harder budget constraints on its enterprises.²¹

The unleashing of very powerful inflationary forces

Figure II.4.

Eastern European economies in 1993: fall in GDP since 1989 and rate of unemployment



Source: UN/DESIPA and ECE.

has been another consequence of the reorganization of planned economies along market-oriented lines. While inflation rates have been brought down significantly in most countries, it has proved very difficult to reduce them to desirable levels, even in the relatively more successful countries of central Europe (see table II.5).

Some of the inflation has been transitional and unavoidable. In 1993 this included particularly that arising from the introduction or modifications of value-added taxes (VAT), resulting in higher levels of tax paid by final consumers. VAT was introduced in the Czech Republic and in Slovakia in January 1993 and in Poland and Romania in July. Hungary, where it has been in effect for several years, eliminated some previous VAT exemptions, leading to a higher average tax rate as of the beginning of 1993. Bulgaria passed VAT legislation as well last year, for implementation in April 1994.

The VAT-related price increases accounted for almost half the annual inflation in the Czech Republic and Slovakia and one third in Hungary. In the other countries, however, most of the inflation was embedded more deeply in the cost and demand structure of the economies, as the 1993 growth of nominal wage rates suggests (see table II.5). In such cases, inflation was not so clearly a transient phenomenon.

The sources of inflation in transition economies are various and complex.²² The starting point in the transition process, for example, has had a considerable impact on price behaviour in the different countries. Both the initial level of inflation and the initial degree of distortion of the price structure have been important.²³ Hungary and the

former Czechoslovakia were best positioned as far as initial conditions were concerned. Hungary's experience with market-oriented reforms in the 1980s had helped eliminate some distortions of the price structure. Czechoslovakia had a relatively well-performing domestic market, balanced budget and balanced external accounts. Poland, in contrast, had already experienced a chronically high inflation. And both Bulgaria and Romania were suffering from a large monetary overhang, a sign that inflation had been suppressed through price controls which limited supply and left households unable to spend money incomes.

Macroeconomic policies, of course, contributed significantly to the course of inflation. High budget deficits associated with unsustainable government outlays were at least partly responsible in 1993 for fuelling inflationary pressures in Bulgaria, Hungary and Slovakia. Government outlays rose as well in Bulgaria and Hungary in 1992 and 1993 with the launching of large-scale financial rescue operations to relieve the commercial banks from continuing to carry a heavy load of non-performing loans from the early transition period. The situation in Bulgaria was exacerbated when indexation of wages in the public sector was reintroduced in 1993, compensating for 90 per cent of consumer price increases. It resulted in an extremely high budget deficit, exceeding 11 per cent of GDP.

Inflation was most serious in Romania, where direct and indirect subsidization of state-owned enterprises continued and money creation was used to finance the deficit. At the end of 1993, however, Romania adopted a new macro-economic stabilization programme that the

Table II.5.

Inflation and wage increases in eastern Europe, 1990-1993
(Annual percentage change)

	1990	1991	1992	1993 ^a
Consumer prices				
Albania	..	104.0	266.0	90.0
Bulgaria	24.0	338.5	91.3	74.0
Czech Republic	..	56.6	11.1	20.8
Hungary	28.9	35.0	23.0	22.5
Poland	584.7	70.3	43.0	35.3
Romania	5.7	165.5	210.4	265.0
Slovakia	..	61.2	10.0	23.4
Nominal wage rate^b				
Albania	..	..	..	..
Bulgaria	31.8	165.7	113.8	60.8
Czech Republic	3.5	16.7	22.5	25.8
Hungary	22.6	33.4	27.8	23.5
Poland	397.6	76.5	37.6	32.8
Romania	10.5	121.3	170.0	201.0
Slovakia	4.5	14.2	18.5	21.2

Source: UN/DESIPA and ECE.

a Preliminary.

b Annual average of monthly per capita gross earnings from wages, salaries and distributed profits.

International Monetary Fund supported with a Stand-by Arrangement.

Although inflation surged again in the Czech Republic and Slovakia in 1993, this was considered a temporary phenomenon, largely related to the introduction of the VAT. Indeed, the Czech Republic ended the year with a balanced budget and the expectation of remaining on this track in the future. The success of the former Czechoslovakia, and now of the Czech Republic, in containing budget deficits and maintaining relatively low inflation rates was also helped by the rather strict income policies followed since the beginning of the transition process. In particular, in July 1993 the Czech Government reintroduced a wage control tax (applied since 1991 but relaxed in January 1993), which heavily penalized wage increases beyond prescribed levels.

The situation was markedly different in Slovakia where problems similar to those in Hungary and Bulgaria emerged. Poland's fiscal deficit shrank, as tax revenues rose owing to the improving economic performance in the country. The preliminary budget deficit figure for Poland in 1993 was 3.4 per cent of GDP, about 2 percentage points below the figure targeted by Parliament for the year.

Ultimately, however, neither economic stabilization measures nor rates of economic growth are measures of progress in economic transition. Reform of ownership rights is a more fundamental change, as is the formation of new private economic agents.²⁴ Indeed, some countries have seen considerable advances in the share of output and employment contributed by the private sector. In Poland, in particular, 60 per cent of employment and on the order of 50 per cent of GDP were in the private sector last year. Although data are not fully comparable across countries, owing to differences in accounting and statistical practices, it seems that more than one third of GDP was produced in the private sector in the Czech Republic and Slovakia in 1993, and about one quarter in Romania and Hungary. In the case of the latter, the number of economic organizations with "legal personalities" (i.e., corporations) multiplied more than seven times from 1988 to 1993, far outpacing the doubling in the number of all other forms of organization in the same time period.²⁵

Privatization has followed two main directions: privatization of state-owned enterprises and emergence of newly established private firms. Privatization of large state-owned enterprises has been slower than expected, in spite of some progress. Some of the main obstacles seem to have been the weak financial situation and obsolete physical assets in the enterprises, which reduced their attractiveness in the eyes of investors, and a general shortage of local private capital.

There were also different approaches to transferring ownership out of state hands. After some hesitation, however, all countries in the eastern European region seem to

have opted for some form of "mass privatization" for their large enterprises. In one version of that approach, small, local investors are given preferential terms for acquiring stakes in the enterprises. Other mass privatization schemes offer participation to the entire adult population of the country. An important factor in the thinking of economic policy makers about the approach was the smooth completion of the first scheme of "voucher privatization" in the former Czechoslovakia, in which vouchers that could be exchanged for equity shares in privatized firms were distributed to the public. The Czech Republic started a second wave of voucher privatization in 1993, and Hungary launched a mass privatization programme in the beginning of 1994. Poland and Romania are also expected to start their programmes for mass privatization soon, and Bulgaria is likely to follow suit.

Also in 1993, privatization was introduced for the first time in some sectors long considered "sensitive". Although new, private banks had already emerged in all countries, two large state-owned banks were privatized in Poland and practically all Czech and Slovak banks were partially privatized in the first wave of voucher privatization, which was completed in 1993. Hungary became the first country in central and eastern Europe to privatize a public utility, the national telecommunications company, and it is likely to proceed with the privatization of other utilities as well.

There has been a burgeoning as well of new private companies. Many of them originated in the so-called "small privatization", when the State sold small retail outlets, repair workshops, restaurants and catering establishments, taxis, car rentals and so on. However, this process has been concentrated mainly in the service sector, either driving out the State through competition, as in the case of wholesale and retail trade, or offering services that did not exist before, such as financial, consulting and other business-related services. Relatively few new private firms have emerged in the manufacturing sector.

The new private companies generally face serious difficulties, especially in mobilizing financing for their expansion, as their natural source of financing, the banking system, is still quite weak (see chap. IV). Companies that are relatively stronger often seem to form relationships with foreign partners or markets.

Here, the importance of geography comes into play. The central European countries (especially the Czech Republic and Hungary and to a lesser extent, Slovakia and Poland) are close to important markets in western Europe, and share cultural and other traditional links with their neighbours. The western border regions of the Czech Republic and Hungary are thus undergoing a process of rapid development. Being able to offer a well-trained and educated labour force at one tenth the wage rate of neighbouring Austria and Germany, these areas are attracting

increasing inflows of foreign investment. A significant number of both large and small businesses have been reallocating some of their activities into these newly emerging and attractive markets. Border trade has also been flourishing.

AT WHAT POINT IS RUSSIA IN THE TRANSITION PROCESS?

The world has closely followed the transition process in the Russian Federation. As it is the main inheritor of the military superpower status of the Soviet Union, analysts dissect the twists and turns of every political and economic development. However, the "revolutionary" phase in the economic transformation is now essentially over in the sense that the political process has discarded the command model of economic organization and set about introduction of a market model. The unresolved policy debates are about the shape of the new model and the speed of transition to it. Though creation of the economic, financial and legal structure of a market economy is far from complete, economic agents for the most part have adapted themselves to the still evolving economic environment. One could thus say Russia is now a "marketoid" economy.²⁶ Economic activity, particularly that of non-state firms, has acquired its own momentum, for which the State's economic policy and regulatory efforts, though very important, are but one of many determining factors.

The cost of transition in terms of lost output continues to be very heavy. Official data report that GDP fell 12 per cent in 1993, a smaller decline than in 1992 (19 per cent), but still a major contraction. Agricultural output fell 4 per cent last year, after a drop in 1992 of 9 per cent, while industrial production continued to plummet, falling 16 per cent in 1993, after a drop of 18 per cent the year before. Gross investment, after its declines in 1992 and 1993, is on the order of half the level in the last year as a Soviet Republic.

On these figures, in 1993 Russia produced a little over 60 per cent of the GDP of 1989, implying a larger cumulative drop than in any of the eastern European countries (compare with figure II.4). But other data suggest that the decline has been overstated. In particular, the mushrooming informal sector is undoubtedly undercounted and the new tax system has created incentives to underreport business activity.

One indicator that the economy had not deteriorated as much as data on output imply is that aggregate real income was reported to have risen by almost 10 per cent in 1993.²⁷ Generally, changes in real income roughly parallel changes in total production and at least some correspondence should still be observed. By the same token, household surveys in recent years showed a sharply rising share of food in total expenditures, while recent data indicate the share has stabilized, suggesting that average

household incomes at least may have stopped falling.

Finally, the reported level of unemployment is far below what might be expected from the reported decline in production. In 1993 almost 4 million people or 5 per cent of the labour force would be classified as unemployed under the standardized methodology developed by the International Labour Office, although only 0.8 million or 1 per cent were actually registered as unemployed.²⁸ As in eastern Europe, workers have been retained by Russian enterprises despite large declines in output and so the unemployment rate was not expected to fully reflect the GDP decline. Indeed, the cost of carrying excessive staffing is one of the reasons that state enterprises have pressed the Government for the low-cost credits that have made budget control in Russia so difficult. Yet, even with the credits, which are no longer cheap, the cost seemed prohibitive of carrying a share of underutilized workers that was so disproportionately large relative to output.

Whatever the actual rate of decline of production, the ownership structure of the economy has been changing dramatically. Progress in divestment of state-owned enterprises has been rapid. The "small privatization" of 1992-1993, which involved firms of less than 200 employees, placed almost 70 per cent of the firms in retail trade and other services (including restaurants and food catering) into full private ownership. In 1993, more than 8,000 large and medium-sized enterprises, employing nearly 40 per cent of the industrial workforce, were given the ownership structure of corporations, although the State retained varying degrees of ownership and control.²⁹ In October, some of the country's leading enterprises, in particular in the energy and automotive sectors, were added to the privatization programme.

By the end of September 1993, over 40 per cent of industrial output was produced by divested enterprises. In some important branches of industry the share of non-state production was significantly higher: 51 per cent in light industry and 44 per cent in construction materials, respectively. Non-state enterprises now generate 29 per cent of capital goods sales volume, compared to 13 per cent a year earlier.

In agriculture the number of private farms grew to 277,000. However, these farmers own and work only 5 per cent of agricultural land, and have less than 2 per cent of livestock. Even so, goods provided by private agricultural producers—traditional small plots tended by city dwellers plus the new private farmers—grew from 24 per cent of the total in 1990 to 38 per cent in 1993.³⁰

Aside from data such as these, the effect of a growing market economy in Russia should begin to be visible in a changing structure of production, as sales respond to market signals. So far, however, evidence of structural changes in industrial production is limited to shifts in production programmes of a few industries. For instance, although the

volume of aggregate production in ferrous metallurgy has been falling, deliveries of certain highly processed types of output in the sector have grown almost twofold. As the expanding products included those with good export potential, it points to an increasing degree of production for markets. In consumer electronics, competition with imports led to a severe contraction of domestic production, which is thought to reflect consumer concern for quality as much as price.

Once production and investment decisions are mainly market-determined, a sustainable macroeconomic situation becomes a critical part of the requisite economic environment. In this sense, the ninefold rise in consumer prices in 1993 was an improvement on the 15-fold price rise in 1992. However, much of the earlier inflation was caused by the initial decontrol of prices in January 1992. By the third quarter of 1992, inflation had fallen to about 10 per cent a month, a level that was not again approached until the end of 1993 (see figure II.5).

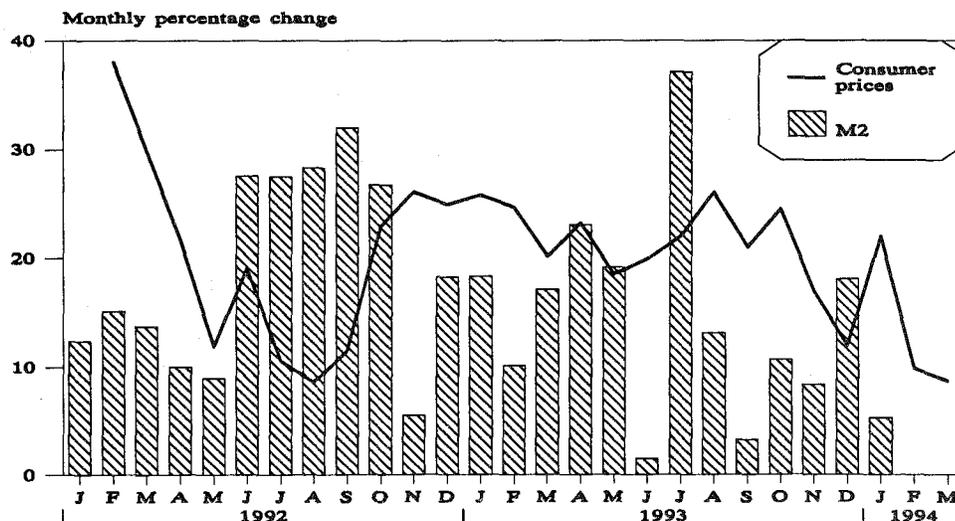
The difficulty can be seen in the path of prices and money creation over time. Inflation rose to about 25 per cent a month in the fourth quarter of 1992, mainly because the growth of the money supply had jumped to about 30 per cent a month from June to October 1992, after having averaged 11 per cent a month from January to May. Some degree of control was reasserted over money creation during 1993, particularly in the later months, and monthly inflation rates slowed. In December, however, the rate of money creation returned to the level in the first half of 1993 and, if continued, inflation rates would be expected to respond after a lag.

Money supply growth has not been strictly curtailed consistently because government policy has refrained from permanently placing a hard budget constraint on the enterprise sector and has eventually met the demand for credits for continued operations. However, despite the monthly fluctuations in money creation and in central bank credits to the Government and enterprises, the annual total of these "centralized credits" fell from 35 per cent of GDP in 1992 to 13 per cent in 1993. In September 1993, moreover, it was decided to do away with subsidized credits for enterprises. Credits were henceforth to be issued at a uniform Central Bank interest rate that was increased in steps and became positive in real terms by the end of the year.

The Government, on its part, accepted the need to place its operations on a sounder footing so as to reduce its deficit through new revenue measures (including new or higher export and import taxes, fees etc.), more effective collection of taxes from enterprises and individuals, and withdrawing or significantly reducing subsidies, including those extended to other successor States of the Soviet Union. Thus, while government expenditures on a consolidated basis were slightly higher in 1993 than in 1992, the consolidated deficit fell to about 9 per cent of GDP, compared to 36.5 per cent the year before.³¹ Clearly, revenue collection improved, including, in particular, that from the constituent territories of the Federation.

Indeed, the Government's budget is the field where the major policy battles are fought. The opponents of the radical reformers have claimed that the radicals were excessively "monetaristic", at the cost of "deindustrializing" the na-

Figure II.5.
Money and inflation in the Russian Federation since 1992



Source: National data.

tional economy, and have advocated an urgent return to the support of industrial production as the highest priority, even at the risk of driving up inflation. The reformers, on the other hand, believe that any softening of monetary policy would lead to the loss of the accumulated momentum of market reform by sending a signal that might be interpreted as saying that market reform might not be irreversible.

Both concerns are important. Enterprises must be continually pushed towards efficiency, yet the State cannot afford simply to abandon all the inefficient ones. First, there are too many of them, which not only makes the political and social cost of mass bankruptcy unacceptable, but would also deprive the country of essential production and services. While only 7 to 8 per cent of state enterprises in industry and construction were classified as loss-making, 30 to 40 per cent of municipal and other services firms were so classified, in publishing over 40 per cent, and in the arts and entertainment industry about 70 per cent.³²

Secondly, in the absence of operational market mechanisms and appropriate market prices, a proper determination of "inefficiency" is difficult, if not impossible to make. In Russia, the market is not yet able to function as a mechanism to select which firms should not survive—and as the experience of developed market economies attests, it will never be considered an adequate guide in certain sensitive sectors.

A third reason to continue mechanisms of state financial support is that neither the legal system nor the financial sector function yet as they do in market economies. In Russia today, a firm could become bankrupt mainly because it could not collect payment for goods and services shipped (and in many cases it was the Government that was delinquent on its payments, especially late in 1993). There was no effective legal recourse in 1993 to force payments and no autonomous source of liquidity to tide an enterprise over until its accounts receivable were cleared.

More generally, with capital resources still concentrated in the hands of the State, with private savings at present not being available for investment—indeed, with considerable sums fleeing the country—and with the financial intermediation system in its infancy, there is no alternative to continued state financing to keep industry and services operational during the current stage of transition. This said, the amount of financial support and the principles for its allocation to individual enterprises are matters the policy makers must still decide.

A PERSPECTIVE ON POLICY IN THE FIRST YEARS OF TRANSITION

After several years of policy-making for transition and economic stabilization, Governments in eastern Europe and the successor States of the Soviet Union have become more aware of the unusual consequences of macroe-

conomic policy actions in their unusual situations. Monetary and fiscal restrictions, in particular, were not successful to the extent expected partly owing to the low responsiveness of supply to new price signals and partly to unexpected resourcefulness of individuals in evading policy constraints.

Many state-owned enterprises, lacking the incentives and decision capacity that are part and parcel of functioning corporate structures, responded to contractionary forces by avoiding restructuring and instead found sources of finance which they hoped would carry them through the difficult period, often making use of lacunae in regulations. When subsidies were cut and commercial bank credit became expensive, enterprises switched to inter-enterprise credit, in most cases involuntary credit (i.e., bills simply were not paid). Firms also defaulted on bank loans, suspended remittance of taxes to the Government and sometimes paid current expenses such as wages by selling their assets. Practically all transition economies experienced to some degree such negative side-effects of austerity measures and have since had to cope with deteriorated financial discipline, accelerated accumulation of bad loans and de-capitalization of enterprises.

A first policy response to this type of behaviour was to close some of the fissures, which many Governments did by introducing bankruptcy legislation. Hungary made the most radical move by introducing a very strict bankruptcy law, including an "automatic trigger" in 1992 that forced enterprise managers of illiquid enterprises to file for bankruptcy at the threat of being charged with a criminal offense (later the "automatic trigger" was abolished). One consequence of this strict legislation was the congestion of the courts, which did not have the capacity to process all the bankruptcy filings. Other countries, including the Baltic States, the Czech Republic, Poland, Russia and Slovakia, have been reluctant to press ahead on the bankruptcy process, although legislation is in place, probably fearing the resultant unemployment and threat to solvent firms when their customers or suppliers close their doors.

Indeed, when macroeconomic restriction works in the expected direction, loss-making enterprises close and layoffs occur in the firms that remain in business. The resulting increase in unemployment raises the demand for unemployment benefits and labour market policy actions. Coupled with decreasing budget revenues resulting from shrinking tax collections, as both corporate profits and personal income are negatively affected by the austerity measures and as tax evasion becomes widespread, fiscal imbalances rise and push up public sector borrowing requirements. As borrowing is predominantly from the monetary authorities rather than the public, this feeds back as new inflationary pressures on the economy, which is precisely counter to the goals of the original austerity policies. Such an outcome was most pronounced in Bul-

garia but also in Poland and to some extent in Hungary in 1992-1993.

This does not imply, however, that expansionary macroeconomic stances (intended or not) are a solution either, as they, too, did not have the expected results. In the period 1992-1993, for example, nominal wages rose more rapidly than consumer prices in Bulgaria, the Czech Republic, Hungary and Slovakia (see table II.4). However, the increase in household expenditures induced by this rise in real labour income did not induce a proportional growth in domestic output. In part, this reflected the low responsiveness and rigidities on the supply side, but it was mainly the result of the income elasticity of import demand, which turned out to be much higher than the income elasticity of demand for domestic products. Coupled with appreciating real exchange rates—as reductions in nominal exchange rates did not keep pace with inflation—the foremost result was rising trade deficits in 1993.

A misappreciation of the structural and institutional impediments to supply responses also made for unexpected outcomes of the general liberalization of trade and payments that formed part of the stabilization-*cum*-transition packages. That is, at the start of transition, a wide-ranging liberalization of trade was advocated and implemented in most central and eastern European countries, in the Baltic States, and in many of the CIS countries as well. It was thought that the immediate opening of the economies of these countries would introduce competitive pressures and help break up local monopolies, leading to the restructuring of the domestic industries and the establishment of more competitive prices. Again, what was misjudged in such policy moves was the responsiveness of local enterprises to changing market conditions and external shocks. Numerous systemic factors set limits to the speed of market adaptation of local enterprises. A generation or more of history outside the market nexus, disturbances in the supply of some inputs, a lack of marketing and managerial skills, the malfunctioning of imperfect domestic markets, the unclear (sometimes non-existent) incentives for enterprise managers to compete and a general resistance to change are only some of the factors that impeded the process of restructuring and adjustment.

The positive impact on trade balances that was observed in the first one or two years after trade liberalization in eastern Europe turned out to be mostly a one-time effect. It was partly driven by the incentive that depreciated exchange rates created for diverting existing production from domestic markets to export sales and for drawing down the levels of existing stocks. All this was an expected first response to devaluation, but it was supposed to be followed by a significant increase in the production of tradable goods and that has been missing. By 1993, the momentum caused by the initial factors was gone and most countries in eastern Europe recorded trade deficits.

The key question that policy makers in most transition economies thus are facing in 1994 is how to strengthen the supply response generally, in tradable goods and in non-tradables as well. It is widely regarded as essential to continue making progress in macroeconomic stabilization. In any event, stepping back from that goal would not advance the cause of economic transition and recovery. It certainly would send the wrong signal to entrepreneurs and investors.

Additional government activism in particular sectors is sure to be considered, even though there might not be a consensus behind it. In some cases, policy makers even feel it necessary to avoid mentioning various interventionist policies on purely ideological grounds, owing to the connections to central planning they might raise in the mind of the population.

This notwithstanding, most transition countries can be expected to seek to revitalize domestic production through selective measures to protect output and employment in particular sectors or regions, and specific trade protection measures, in contrast to the initial, almost-full liberalization of trade. One may also expect to see selective stimulation of the demand for domestically produced investment goods. With rising pressures from the population and from businesses, one could expect that industrial policies, however named, will play an increasing role in the transition economies, of course, to the extent possible within overall economic policy stances.

All in all, the external and internal constraints limit the effectiveness of policy-making and impose ceilings on the pace of economic recovery in these countries. Besides the constraints imposed by the policy-based factors emphasized here, the initial production structures have had different effects on transition difficulties. For example, countries with a large share of military and resource-based production in their GDP have had to adjust to the post-cold war era and weak global commodity markets, as well as make all the institutional changes that constitute the transition process.

In many respects economic policy for transition is still a process of "groping in the dark". In none of the transition economies did economic policy makers come up with a clear and consistent longer-term strategy that could serve as a benchmark for day-to-day economic policy or decision-making. Rather—and 1993 revealed that openly—economic policy has largely reacted to pressing issues in an ad hoc manner. Political instability, change of governments, elections or approaching elections and the changing or contesting of national borders contributed to swings in economic policy-making in many countries.

At the same time, substantial progress has definitely been made. As they put in place the institutional and regulatory framework of modern market economies, the transition economies are in many respects repeating the

experience of the developed market economies and especially that of western Europe in the post-war era. However, what took decades to implement in those countries is now taking place in the course of a few years in several of the transition economies (currency convertibility, market liberalization and deregulation, privatization of sensitive sec-

tors). On top of this is the fundamental process of transforming the basic ownership structure. Thus, comparing the current experience of the transition economies with the evolution of other countries, the intensity of policy and institutional changes that has already been achieved is unprecedented.

DEVELOPING COUNTRIES: STRONGER GROWTH

Economic growth in developing countries continued to improve. From an average of slightly above 3 per cent in 1990, the GDP growth rate of these economies rose to almost 5 per cent in 1992. Growth improved further to above 5 per cent in 1993 and is expected to stay at that level in 1994 (see table II.6). Very large differences in growth rates between regions and economies persisted.

The major contributors to the strong growth in 1993, as in very recent years, were China and South and East Asia, with growth in the latter centred in the first and second generation of successful exporters of manufactures. The pace of expansion in Latin America was modest, but has been improving over the two previous years and was more than double the average of the 1980s. In Africa, growth was no higher than the dismal rates of the 1980s and, although the 1993 performance was an improvement on that of drought-stricken 1992, per capita incomes continued to decline. In the Mediterranean region, strong growth in Turkey was offset by steep declines in the warring successor States of Yugoslavia. In West Asia, growth slowed down in 1993, after a sharp recovery in 1992, when pre-Gulf war levels of output were almost restored in Kuwait.

The strong growth in the developing countries was achieved amid very sluggish conditions in the developed economies (see figure II.6). This divergence between the two groups of countries reflects both the strong growth in China and South and East Asia and the rapidly increasing size of their economies. It also reflects the recovery in Latin America and the Caribbean since 1991.

The apparent weakening of the link in growth between developed and developing countries in the 1990s is evident in the case of South and East Asia, where the recent divergence in growth represents a distinct contrast to the pattern in the 1980s. The case for a similar shift in the relationship between growth rates in developed and developing countries as a whole is weaker, but it is still apparent that growth rates in developing countries did not follow the strong deceleration in developed countries since 1989.³³ Various factors contributed to the continuing strong growth or economic recovery of these groups of developing economies in the face of stagnation in the industrialized countries.

A number of developing countries in which industri-

alization has advanced now have large domestic markets with their own internal dynamism. Major investments in infrastructure provided an additional domestically generated impetus for growth in the region. The importance of trade as the mechanism for transmission of growth from developed countries also appears to have diminished somewhat in the economies of South and East Asia. In addition, large inflows of capital have had a stimulative effect on many economies.

As exports represent a large share of aggregate demand in the newly industrialized economies (NIEs) and second-generation NIEs, the continued strong export growth in 1993 (see chap. III) was a major determinant of robust GDP growth. The rapid diversification from commodities to manufactures and, within manufacturing, from labour-intensive consumer goods to capital- and skill-intensive electronic equipment and consumer durables, insulated these economies from the effects of the sharp decline in commodity prices in recent years. Moreover, with increased concentration in electronics, export growth benefited from the sustained global demand for these products despite slacking growth of world trade. Meanwhile, intra-developing Asia exports, particularly of China and the second-generation NIEs, have been increasing rapidly and growth in exports to Japan from many of these economies remained strong. While exports to non-Asian developed economies are still a large share of total exports, the share of intraregional exports has increased.³⁴ Thus, the strength of exports to developing economies and moderate strength in exports to Japan more than offset the weakness of the North American and European markets.

One of the impulses of intraregional trade in Asia is the pattern of relocation of manufacturing of labour-intensive consumer goods as well as electronics from the higher-cost centres (Japan and the NIEs) to the lower-cost locations of the second-generation NIEs and China. The emergence of China as a growth centre and its expanding economic linkages with the regional economies boosted exports from all the NIEs.

In Latin America, too, intraregional trade, in particular in the framework of Mercosur, but also between Mexico and other major Latin American countries, was an important factor behind the increase in exports since 1990 and in particular in 1993 (see chap. III). However, the improve-

ment of economic performance in recent years has much to do with an alleviation of external constraints. The large capital inflow into Latin America in 1993 was the continuation of a trend that began in 1990, after a long period of net outflow. Paradoxically, Latin America and the Caribbean might also have benefited from the economic slowdown in developed economies, as the large differentials in interest rates are an important reason for the large private capital inflows into the region, in addition to economic

policy reforms aimed at market liberalization and the success of the majority of countries in reducing inflation. Foreign capital had both a stimulative effect on growth and, through appreciation of the currencies, a moderating impact on inflation in the region in 1993.

The large private capital inflow into Asian developing countries in 1993 had similar stimulative effects. Foreign direct investment (FDI) remained strong in the region as a whole and increased sharply in some of the countries. While

Table II.6.

Developing countries: rates of growth of gross domestic product, 1981-1994
(Annual percentage change)

	1981- 1989	1990	1991	1992	1993 ^a	1994 ^b	Memo item: approximate share in 1993 world output
Developing countries ^c	3.1	3.0	3.4	4.9	5.2	5	19.0
Latin America and the Caribbean	1.4	-0.1	2.8	2.1	3.3	3	4.5
Energy exporters	1.4	4.7	4.6	3.6	0.8	2	1.6
Energy importers	1.4	-2.6	1.8	1.3	4.8	3	2.9
Africa	1.9	2.2	1.6	0.8	1.6	2½	2.1
Energy exporters	1.9	3.3	2.4	2.5	1.7	1½	1.0
Energy importers	2.0	1.0	0.8	-1.0	1.6	3	1.1
West Asia	-1.1	1.9	-0.2	5.7	3.5	3½	2.4
South and East Asia	5.9	6.4	5.3	5.2	5.4	6	6.1
China	9.5	3.9	8.0	13.2	13.4	10	3.1
Mediterranean	2.3	1.1	-5.6	-1.9	-0.3	4	0.6
<i>Memo item:</i>							
Sub-Saharan Africa (excluding Nigeria and South Africa)	1.9	1.2	0.4	0.3	1.7	2½	0.6
Major developing economies							
Brazil	2.2	-4.4	0.9	-0.9	4.9	2½	1.7
India	5.3	5.5	2.0	4.0	3.8	5	1.6
Republic of Korea	8.4	9.0	8.4	4.7	5.5	7½	1.3
Mexico	1.3	4.4	3.6	2.6	0.4	3	0.9
Iran (Islamic Republic of)	2.0	10.0	6.0	6.0	3.4	2½	0.9
Taiwan Province of China	8.0	5.0	7.2	6.6	6.2	6½	0.7
Indonesia	4.6	7.4	6.6	6.3	6.5	6½	0.6
Argentina	-1.4	0.4	8.9	8.7	6.0	5	0.5
South Africa	1.7	-0.5	-0.4	-2.1	1.1	3	0.4
Saudi Arabia	-1.8	9.0	6.0	3.0	2.0	3	0.4
Turkey	3.8	9.2	0.7	5.5	7.3	5½	0.4
Thailand	6.9	10.0	8.0	7.4	8.0	8	0.4

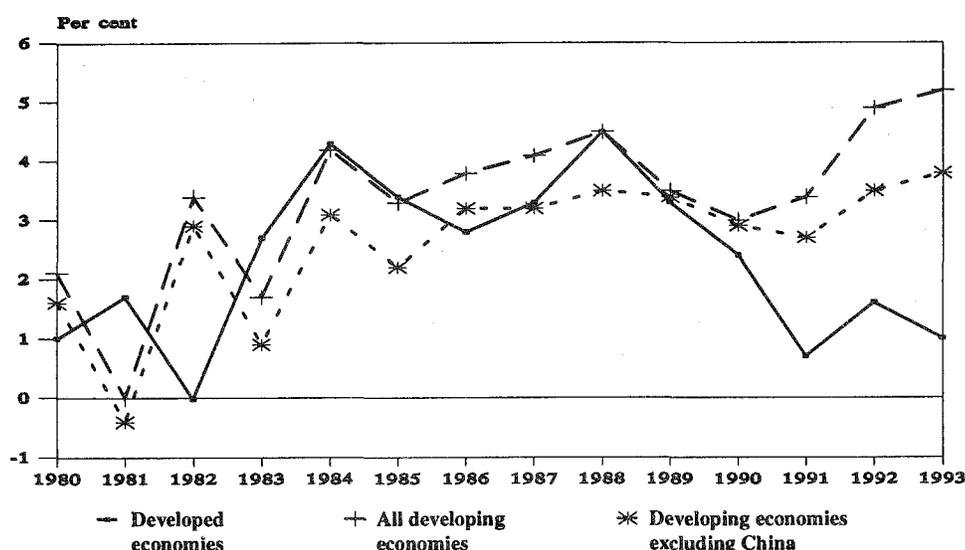
Source: UN/DESIPA.

a Preliminary estimate.

b Forecast.

c Covers 93 countries that account for 99 per cent of the population of all developing countries.

Figure II.6.
GDP growth of developed and developing economies, 1980-1993



Source: UN/DESIPA, based on national and international data.

some of these economies are not currently dependent on external capital for economic growth, these resources are still important for the achievement of their medium- to long-term development targets, which requires massive investment in infrastructure. The influx of capital also resulted in a boom in the financial markets and was an important source of growth in those economies that have a large financial sector, such as Hong Kong and Singapore.

LATIN AMERICA AND THE CARIBBEAN: RECOVERY CONTINUES

In Latin America and the Caribbean per capita incomes increased marginally in 1993 for the third consecutive year, but they are still lower on average than their 1980 level. Output grew at a moderate 3.3 per cent last year, but that was higher than in 1992, and a similar pace is expected for 1994. Overall, the recent trend of declining inflation, widening current account deficits and large foreign capital inflows is also likely to continue this year.

Growth in 1993 was led by a stronger than expected recovery in Brazil and Peru and a still buoyant though slowing pace in Argentina and Chile. After three years of recession, the Brazilian economy bounced back with a nearly 5 per cent growth, fuelled by an upturn in manufacturing. With a 9 per cent increase in output, the industrial sector was responsible for over half the growth in GDP. The recovery slackened in the second half of the year, as production was reaching full capacity in several durable consumer industries. Growth in Peru

(6.5 per cent), largely concentrated in fishing, construction and mining, was bolstered by prospects of a more stable economic environment, which stimulated domestic and foreign investment. Two Southern Cone economies, Argentina and Chile, together with Guyana and Panama, were the fastest growing in the region in the past three years, with average rates of between 7 and 8 per cent. In Chile, and to a lesser extent Argentina, domestic demand, and in particular construction and services generally were the most dynamic, while exports were negatively affected by unfavourable world market conditions.

In contrast, Mexico experienced a sharp slow-down, triggered by the uncertainty surrounding NAFTA and restrictive monetary and fiscal policies intended to curb inflation and the external deficit. The growth of GDP declined to 0.4 per cent from 2.6 per cent in 1992. More expansionary policies and stability deriving from the ratification of NAFTA should lead to a recovery this year. Similarly, in Venezuela, political instability, economic uncertainty preceding the December elections and tight monetary policy to control inflation led to a fall in investment and a contraction in output. GDP fell by 1 per cent in 1993, after a period of robust growth. The weak performance also reflected a decline in oil revenues, owing to low petroleum prices.

Cuba and Haiti suffered further severe declines. The former, in addition to the problems deriving from the collapse of its economic relations with eastern Europe and Russia, was hit by bad weather, which disrupted the sugar-

cane harvest. Acute fuel shortages caused widespread electric power blackouts. Trying to overcome economic difficulties, the Government introduced some limited liberalization, such as legalizing the use of convertible currencies and allowing over 100 occupations, such as plumbers, electricians and cooks, to be taken up as private entrepreneurial activity. These measures are too modest to have a major economic impact, but could signal the beginning of a transition to a more market-oriented economy. In Haiti, the army's effort to prevent a democratically elected President from taking office prolonged the internationally sanctioned trade embargo and the suspension of foreign assistance, which contributed to a 10 per cent fall in GDP and a rise in the rate of unemployment to over 40 per cent. Overall, in the other Caribbean countries, economic growth was sluggish despite a moderate recovery in the tourism industry, and high levels of unemployment persisted.

In the Central American subregion, GDP grew on the whole by over 4 per cent, a slightly lower rate than the year before, but still considerably above the average of the past decade. Growth, stimulated by a recovery in investment, was fairly homogeneous, with the only exception of Nicaragua, where incomes per capita continued to decline.

Towards lower inflation

Further progress was made in price stabilization in 1993, when annual inflation was under 15 per cent in a majority of the countries in Latin America.³⁵ Among countries with the most rapid fall in inflation were Argentina and Peru, which experienced four-digit rates of price increases as recently as 1990. At less than 8 per cent in 1993, Argentina registered its lowest inflation rate since 1969, while Peru's level dropped from 7,650 per cent in 1990 to 40 per cent last year. Mexico's inflation of 8 per cent was the lowest in over 20 years. In Bolivia, Costa Rica, the Dominican Republic and Panama, prices increased by under 10 per cent.

Most countries maintained the economic policies introduced in previous years. Falling inflation reflected fiscal adjustment and structural reforms which have been spreading throughout Latin America. The process was greatly facilitated by large inflows of foreign capital into several countries (see also chap. IV). This not only relieved external constraints but also led to widespread appreciation of real exchange rates, which helped to contain inflation, though sometimes at the cost of increasing trade deficits.

Competitive exchange rates were a common element in Latin America's trade reforms in the past decade. In the 1990s, currencies appreciated and exchange rate policy has been used as an anti-inflationary tool by several Governments. An extreme example of this switch is Argentina, where a fixed nominal exchange rate, used as a nominal anchor of the price level, is a key component of the

stabilization effort.³⁶ Although this policy has succeeded in rapidly reducing inflation, it has also led to real overvaluation, losses in competitiveness and a sharp deterioration of the trade balance, from a surplus of \$8.6 billion in 1990 to a deficit of \$3.7 billion in 1993. In short, internal disequilibrium has been reduced at the expense of external balance.

The case of Brazil

With inflation at 2,800 per cent at the end of 1993—the highest ever—Brazil is a case apart in Latin America. The country's persistently high inflation reflects the difficulty of adopting stabilization programmes and structural reforms capable of eliminating the fiscal and monetary imbalances originating inflation, in a regime of generalized indexation. In the light of lessons of failed past attempts at stabilization, the Finance Minister introduced a new stabilization programme that aims at balancing the federal budget for 1994 and de-indexing the economy through a consensual process.

The first stage of the plan, already in effect, centres on measures to obtain a balanced budget in place of the \$22 billion deficit (5 per cent of GDP) originally forecast for 1994. The measures involve cuts in spending and increases in taxes on personal incomes and financial institutions. They also include the creation of a two-year, \$15.5 billion, Social Emergency Fund, intended to increase federal control over expenditures on education, housing and health. The second stage of the plan, put into operation in March 1994, involves the introduction of a new, daily adjusted, price index and unit of account, known as the unit of real value (URV). The index is linked to the exchange rate, which could at a later stage serve as a nominal price anchor. Initially, the new unit of account is being used for public and private sector wages, social security benefits and tax payments. The private sector has been encouraged to adopt the new unit of account on a voluntary basis and some sectors have started to quote their prices in URV. The aim of the new price index is to gradually synchronize nominal-price adjustments and inflationary expectations, replacing the large number of existing price indices, often specific to individual industries. It was also hoped that in the process of converting to URV the present distortions in relative prices could be reduced. The third and final stage of the programme involves the conversion of the new unit of account into a new currency, the *real*, to replace the present cruzeiro. That, according to the plan, would open the way for a relatively low inflation for prices denominated in the new currency.

Key to the success of the plan are continuous progress on fiscal adjustment, the wide diffusion of the URV and an effective procedure to ensure a smooth transition to the new currency. In addition, since the URV is linked to the exchange rate, the Government will be faced with the

trade-off between slowing down the rate of currency depreciation as a means to reduce inflation and maintaining external competitiveness. Given a large trade surplus and foreign reserves over \$30 billion, adequate to cover well over one year of imports, the country is able to withstand some real appreciation of the exchange rate. However, the trade surplus has already declined by 15 per cent over the past year, when strong GDP growth and trade liberalization led to a 25 per cent increase in imports.

Are current economic reforms irreversible?

Between December 1993 and December 1994, at least 11 countries in Latin America will have held general or presidential elections, or both.³⁷ Voters thus have a chance of reacting to structural adjustment, and policy reversals cannot be discounted. Throughout the region, the reform process is at different stages of implementation and has different degrees of popularity. Consolidation of economic reforms depends primarily on three factors: political support stemming from election results, in turn hinging on socio-economic pressures; institutionalization of the reforms themselves; and the continuation of external factors that have facilitated the reforms, among others, sustained capital inflows.

Regarding political support, the first of the two elections, held in Chile and Venezuela in December 1993, had different results. In Chile, the ruling *Concertación* coalition candidate, Eduardo Frei, posted a strong victory. This came as no surprise. The overall economic record of the *Concertación* Government, since the end of military rule four years ago, has been relatively successful. Incomes per capita are today 30 per cent higher than in 1980. Inflation gradually declined from close to 30 per cent in March 1990, when President Aylwin took office, to slightly over 12 per cent at the end of 1993. Unemployment has dropped to 4.5 per cent, its lowest level in 20 years. The number of people in poverty, though still too high, fell from 40 per cent to 33 per cent of the population between 1990 and 1992. President Frei's expressed priorities are to continue the effort towards reducing poverty and improving educational and health standards. As a result, consensus on current economic policies is widespread and reforms are most likely to remain in place.

In contrast, in Venezuela, Rafael Caldera, President during the period 1969-1974, won elections partly on the basis of his critical stance on economic reforms pursued since 1989. These were associated with a large deterioration of social conditions. Poverty increased sharply in the past five years. Incomes per capita are still some 10 per cent lower than their 1980 level, inflation rose to 45 per cent in 1993 and the fiscal deficit was about 5 per cent of GDP. Moreover, the new Government inherited low prices for oil, the country's principal export, and a banking system in crisis. In the light of this situation, the

new administration justified the recent decision to issue decrees in economic matters that would usually be the responsibility of Congress. The first presidential decree under the new emergency powers concerned the suspension of the value-added tax which had taken effect on 1 January 1994, as a reform measure to be replaced by a sales tax and other taxes.

The Chiapas uprising in Mexico in January 1994 is a symptom of the level of socio-economic tension existing in Latin America, owing to, among other factors, the unbalanced pace of regional development. Income distribution in the region is among the most uneven in the world, and inequality has widened over the past decade, with the poorest 20 per cent of the population receiving about 4 per cent of GDP. The number of Latin Americans living below the poverty line was recently estimated by ECLAC at 196 million in 1990 (about 45 per cent of the total population), an increase of 2.5 per cent over the 1986 level. In Mexico, despite sharply increased social spending by the Salinas Government, over 40 per cent of the population is officially classified as poor. Argentina and Brazil, where further evidence of localized social unrest was reported in recent months, share similar problems, in spite of their different experiences with reforms. These pressures put at risk the success of reforms, which depends on public confidence and institutional stability.

A second requirement of success of reform is its institutionalization, of which Argentina's Convertibility Law of April 1991 is a good example. The Law required the central bank to back the entire monetary base with international reserves at a fixed exchange rate of the peso with the dollar, removing its ability to print money to cover fiscal deficits.

Similarly, the formal independence of central banks should, in principle, shield the conduct of monetary policy from short-run political influences. Chile accorded autonomy to its central bank in early 1990, Colombia in 1991, Venezuela in 1992, and Mexico in 1993. In addition, in a number of countries various trade and foreign investment regulations have been passed into law. Institutional arrangements go beyond national laws, as exemplified by NAFTA, involving a predetermined further reduction of tariff and non-tariff barriers between Mexico and its two northern neighbours. Negotiations are about to start to extend the agreement to Chile. Furthermore, several subregional trade agreements have enhanced trade among member countries (see chap. III).

Privatization of state enterprises is yet another way of institutionalizing the reforms of recent years. Argentina, Chile and Mexico are the leaders of a trend that is spreading throughout the region. In Mexico, over 390 state-owned companies have been sold, for a total value of \$23 billion. They included banks, telecommunications, national airlines, copper mining, steel, broadcasting com-

panies, and, recently, power plants, ports and motorways. Argentina has completed in three years a \$20 billion privatization programme that included the landmark sale of the first oil company (YPF) in Latin America, generally considered a sector of "strategic interest". In Brazil, where the Government has sold some \$6.6 billion worth of state assets so far, the process could gain momentum after a slow-down last year. Bolivia has started in 1994 a creative capitalization scheme inspired by eastern Europe's mass privatization. The programme involves the capitalization of 50 per cent of each enterprise with a strategic investor and distribution of the remaining 50 per cent to the Bolivian population. The enterprises include the state telecommunications system, the oil and gas company, electricity, airlines and railways. The Government, which put no restrictions on foreign investors, is hoping to attract a \$3 billion capital inflow in the next three years.

Finally, external factors play an important role in the sustainability of reform policies. Latin America registered an estimated \$15 billion trade deficit in 1993, up from about \$9 billion the previous year.³⁸ This deficit was largely financed by the large capital inflow that entered the region for the third consecutive year. Net inflows were fairly widespread, though Mexico—the country with the largest deficit—continued to attract over 40 per cent of the total, followed by Argentina, Brazil, Chile and Peru.

Capital inflows have temporarily reduced the external constraint to the region's growth. As current substantial flows have resulted partly (particularly the short-term component) from external factors such as large interest rate differentials and recession in industrialized countries,³⁹ they might not be sustainable in the medium term. Their possible decline would have a dampening effect on Latin America's recovery, which could only be eased by a balancing increase in its exports.

AFRICA: A SLENDER IMPROVEMENT

In Africa, the slow growth of recent years persisted in 1993. Output grew by 1.7 per cent in 1993, an improvement over 1992 but still well below the growth rate of population.⁴⁰ Policy reform continued in many countries, but economic development continues to be heavily influenced by political factors and civil strife in several countries and by exogenous factors, such as weather patterns, low commodity prices and weak demand for Africa's exports (see chap. III for trade-related factors).

The decline in the oil price contributed to the lowest GDP growth rate for the oil-exporting countries since 1988. In several of these countries, this exacerbated other severe economic and political problems. In Algeria, Angola and Nigeria, debt-servicing problems mounted and trade balances and budget deficits deteriorated sharply, although not solely owing to the oil price decline. Eritrea's crop, its first after independence, was two thirds below the

record 1992 level owing to drought and pests. Drought in Kenya, and dry spells, excessive rains and pests in Ethiopia and the Sudan, resulted in a large cereal deficit in eastern Africa for 1994.

Total cereal production in Africa increased by about 12 per cent in 1993. In western Africa, cereal output broke records in many Sahelian countries and was above-average in nearly all countries. Most countries in southern Africa recovered from the 1992 drought, with a tripling of the coarse grain crop for the region. The increase in agricultural output in South Africa in 1993 has been an important factor behind the recovery from its longest recession of this century. In Botswana, Lesotho, Namibia and Swaziland, however, agricultural output stagnated owing to below-normal rainfall. Morocco suffered from drought for the second consecutive year. In areas of Algeria, Angola, Eritrea, Ethiopia, Kenya, Rwanda, the Sudan, Uganda and the United Republic of Tanzania, agricultural production was affected by insufficient or irregular rain. Control operations limited damage by desert locusts in the Sahel.

Fragile peace and much political instability

Civil strife in Algeria, Burundi, Kenya, Liberia, Rwanda, Sierra Leone, the Sudan and Zaire and outright civil war in Angola reduced areas planted, displaced persons, hampered economic activities and relief, and precluded economic reform. In Angola, agricultural activities were severely hindered and non-agricultural activities outside the oil sector came almost to a halt. Thousands have died from famine-related causes, at times more than 1,000 per day, particularly in besieged cities. Diplomatic breakthroughs and reduced military activities have permitted a stepped-up relief effort since September 1993, but about 3.3 million people remain in need of assistance. In early 1994, despite some increase in fighting, hope for peace in Angola increased when agreements were reached during United Nations-brokered talks. In the Sudan, food shortages remain acute owing to continued fighting and drought. Increased fighting in early 1994 made relief operations impossible in some areas.

Peace agreements reached during 1993 have in some instances raised growth expectations, but reconciliation, formation of a transitional Government, disarmament, resettlement of displaced persons and demobilized soldiers, organization of elections, and reconstruction is a slow and often fragile process. Agreements have been reached with the Tuareg in Mali and the Niger and seem to be holding. Despite delays, Mozambique has made considerable progress since the peace agreement of October 1992. In Somalia, however, there is still much disagreement about the peace process. Agricultural production increased in some of these countries. In Mozambique, production increased owing to the improved security situation, the return of rain and the return of about 2 million displaced persons, many

of whom went back to farming. In Somalia, food production was substantially above the 1991 and 1992 levels, owing to a significant reduction in hostilities in most areas, generally favourable weather and the distribution of large amounts of seeds and tools, but crops remain well below average pre-war levels.

Africa continues to experience the intricacies of simultaneous implementation of economic and political reforms. Initial effects of adjustment programmes have had adverse consequences on living standards, while the openness accompanying democratization has been a vent for protests against economic measures. Political instability has been accompanied by policy reversals (e.g., recently in Algeria, Nigeria and the Sudan), and has hampered economic reform and performance.⁴¹ Effective economic reform remained virtually suspended in Algeria, Angola, Togo and Zaire in 1993. The failed *coup d'état* in Burundi in October, which led to a wave of ethnic strife and a flow of refugees, severely disrupted economic and political reform. Egypt suffered from a sharp drop in revenues from tourism owing to increased insecurity. Strikes among the civil service against salary cuts and pay arrears in countries of the franc zone have been frequent in recent years and unrest increased in early 1994 in the wake of the 50 per cent devaluation of the CFA franc that affected 13 countries in West and Central Africa (see box II.3). Political instability and strikes affected output, foreign trade and tax revenues negatively in, for instance, the Niger and Togo. Prospects improved in the Niger after an agreement was reached in October with the trade unions on the reduction of civil service salaries. Political transition also progressed in Madagascar and economic policy reform gained in prominence.

Zigzag in foreign exchange market reform

In many areas, economic reform policies have lacked a degree of consistency and persistence that are essential for their ultimate success. While the factors contributing to this have varied greatly among countries and over time, this has been a major feature of economic reform efforts in many countries of Africa.

In a number of countries, for example, reform focused on the foreign exchange market. But reforms in this area have shown considerable zigzagging because they have become rapidly unsustainable, have sometimes run against vested interests and have been easily disrupted by an external shock affecting foreign exchange availability. Foreign exchange shortages and uncertainty surrounding the exchange rate, foreign exchange regulation and retention rates have negatively affected exports and investment, foreign investment in particular, in a number of countries (see also box II.3). The experiences of Kenya and Nigeria are illustrative.

In November 1991, donors suspended aid to Kenya to

press for political and economic reforms. Multi-party elections were held in December 1992 and in February and March 1993 economic reforms were announced. The grain market was liberalized, foreign exchange retention accounts (at 50 per cent) were extended to traditional exports and services, the official exchange rate was devalued, and use of the official exchange rate was restricted to debt servicing and government imports, allowing importers to buy foreign exchange from the commercial inter-bank market. International financial institutions and donors, however, did not resume aid and balance-of-payments support. As a result of the lack of foreign exchange and the rapidly growing money supply, mainly through fraudulent use of a pre-export financing scheme and large overdrafts at the central bank by some commercial banks, the exchange rate on the inter-bank market plummeted and reform measures proved unsustainable. Some were reversed in late March and early April.

In late April 1993, the Government suspended the operations of the first of several banks, devalued once more, and the central bank started to mop up excess liquidity by issuing high-interest-rate treasury bills. The World Bank responded by providing balance-of-payments support, while additional support was made dependent on further reform measures. In May 1993, Kenya agreed to an economic reform programme for the rest of 1993 monitored by IMF, the foreign exchange retention accounts for all exporters were restored and import licenses were abolished for all but a short list of imports. Additional reform during the last three months of 1993 gained back the support of the bilateral donors. The measures taken include the flotation of the official exchange rate, the liberalization of foreign exchange regulation and the abolition of the monopoly on the import and distribution of maize.

In Nigeria a similar zigzagging took place, although the factors behind it were somewhat different. In March 1992, the auction for foreign exchange was replaced with a floating rate determined in the inter-bank market. However, at the end of 1992, foreign exchange reserves dwindled, partly resulting from a commercial-debt buy-back, which endangered the capacity to prevent a sharp depreciation of the naira. The auction system was reinstated and foreign exchange regulation was tightened in early 1993. The gap between the official and the parallel market increased, once again providing scope for "round-tripping", i.e., gaining access to foreign exchange at the low official price and selling at the high parallel rate.

Uncertainty regarding the exchange rate market, and economic policy in general, heightened during the second half of 1993 owing to political turmoil. The Government annulled the presidential elections of June 1993 and installed an interim Government in August which was ousted in November. Moreover, foreign exchange shortages mounted, owing partly to the decline in the oil price. The

BOX II.3.

Difficult adjustment to external shocks in the franc zone^a

Economic performance in the CFA franc zone compared relatively favourably with other African countries until the mid-1980s. Since then, the franc zone endured a number of external shocks that worsened economic performance markedly. After several years of unsuccessful adjustment, it became increasingly apparent that the centre-piece of the franc zone—the fixed exchange rate against the French franc—was seriously impeding the adjustment effort. Speculation about the devaluation, capital flight and paralysis in economic decisions that such speculation engendered, ultimately made devaluation inevitable.

On 11 January 1994, an agreement was reached between the 14 African member countries and France to devalue the zone's currencies, which had been kept at the same nominal exchange rate—50 CFA francs to one French franc (FF)—since 1948. The new exchange rate is 100 CFA francs to one FF, or a nominal devaluation of 50 per cent, except for the Comorian franc, devaluation of which was limited to 33 per cent.

Economic reasons for devaluation

Since the mid-1980s, GDP growth in the CFA countries has been in general low or negative and investment ratios have been falling. Except in Gabon, current account deficits became chronic. The current account (before official transfers) deteriorated in particular in Cameroon and Côte d'Ivoire from a positive balance in 1985 to a deficit of 8 and 14 per cent of GDP, respectively, in 1992. The average deficit of the franc zone was about 12 per cent in 1992 but varied from a 28 per cent deficit in Chad to a 1 per cent surplus in Gabon. External debt ratios were large and increasing and, more recently, some of the members were accumulating debt arrears.

Several exogenous developments have led to this situation. For several countries in the CFA franc zone, most of whom are dependent on commodity exports, the terms of trade have declined since the late 1970s, but since the mid-1980s the fall has become more pronounced (see also chap. III). At the same time, many of these countries were losing competitiveness owing to the appreciation of the French franc against the United States dollar since 1985. The

situation worsened when neighbouring non-member countries, e.g., Ghana and Nigeria, sharply devalued their currencies. The real effective exchange rate—the nominal exchange rate corrected for trade patterns and inflation differences with its trading partners—became overvalued in the CFA countries, though in different degrees. Smuggling into the CFA franc zone, particularly from Ghana and Nigeria, fuelled by their devaluations, was an additional problem for the economies of the franc zone, reducing customs revenues and demand for domestic goods.

To alleviate the impact of external shocks such as these and restore macroeconomic balances, depreciating the real effective exchange rate is often called for. With nominal parity fixed, countries could only rely on fiscal, monetary and wage policies to reduce prices and wages relative to their trading partners and bring about a lower real effective exchange rate. Export subsidies and import taxes are another way of changing price incentives in favour of exports. However, they run against budget constraints and distort trade. Fiscal and monetary policy, restricting demand and reducing inflation below the rate of its competitors, has had some effect in reducing the real effective exchange rate. Inflation rates were low and even turned negative in some countries, since about 1987. But there are limits to tightening fiscal and monetary policy. Indeed, the price, in terms of low output growth, has been high. Wage policy has also been difficult as attempts to cut nominal wages, often in the face of accumulating salary arrears, have set off waves of protests.

Speculation about a devaluation of the CFA franc fuelled capital flight over the past couple of years, affecting investment negatively. According to some estimates, total capital flight from the CFA countries was equivalent to over \$800 million during the first half of 1993, amounting to about 4 per cent of the region's GDP. In August 1993, to stem capital flight, convertibility of the CFA franc was suspended outside the CFA zones.

In the end, devaluation became unavoidable as the French Government made clear to franc zone Governments, in September 1993, that it would no longer cover their current ac-

count and budget deficits, or debt-service obligations, and that other sources of finance had to be sought, which could only be expected if an agreement was reached with IMF that favoured a devaluation of the CFA franc.^b

Immediate effects

In the short run, the devaluation is not likely to have a major impact on exports. It immediately increases the remuneration of exporters, but the shift in production from non-tradables to tradables takes time. There is unused capacity in industries and, in agriculture as well, some abandoned perennial plants such as cocoa and coffee could perhaps be recovered. Thus, a limited degree of short-term response in production is possible.^c But foreign markets for it are unlikely to expand immediately.

Furthermore, devaluation also makes imported inputs more expensive. This is a disadvantage for the manufacturing and transport sectors, which are particularly dependent on imported capital goods and intermediate inputs. Also, agriculture uses imported inputs. Their importance can be measured by the imports of intermediate agricultural inputs as a percentage of agricultural exports, because the use of imported inputs is often biased towards the export sector. To judge from these measures (see table, column 2), the use of imported inputs in agri-

culture in the franc zone is not high.^d

Devaluation makes imports more expensive in domestic currency and is indeed meant to contain demand through this mechanism. But food and fuel comprise a relatively large share in total imports of these countries (see table, column 3). It is hard to compress such imports, even with higher prices, and thus devaluation translates immediately into an increase in the cost of living.^e Virtually all CFA Governments reinstated price controls in the wake of the devaluation but difficulties in the implementation immediately surfaced. Temporary subsidization and tax and tariff rate reductions are alleviating but not eliminating the impact on prices. Hence, inflation was accelerating and demonstrations and strikes in demand of wage increases were organized in several countries in early 1994.

The impact of the devaluations and the accompanying international support on the fiscal budget of the African member countries depends in part on the relative importance of tariff revenues and foreign debt servicing (see table, columns 4 and 5). Revenues will increase, since the weight of taxes on foreign trade in total government revenues is, in general, high.^f On the other hand, some debt has been cancelled, which will have a positive ef-

Selected factors determining the effects of a devaluation in the franc zone

	Not-traded food ^a	Imported agricultural inputs ^b	Food and fuel imports ^c	Debt service ^d	Trade taxes ^e
Benin	45	4	30	19	53
Burkina Faso	34	10	40	8	23
Cameroon	30	10	17	7	14
Central African Republic	30	6	25	12	..
Chad	26	7	29	8	24
Comoros	46	1	..	14	61
Congo	45	39	20	25	..
Côte d'Ivoire	28	2	39	17	27
Equatorial Guinea	..	0	..	..	..
Gabon	54	308	19	20	17
Mali	19	6	48	7	28
Niger	52	18	37	3	..
Senegal	10	13	43	17	42
Togo	38	15	30	6	33

Source: UN/DESIPA, based on FAO, UNCTAD, IMF and World Bank data.

- Not-traded food (millet, sorghum, bananas, plantains, pulses, and roots and tubers) as a percentage of total agricultural production in 1992, at international dollars.
- Imports of agricultural intermediate inputs in 1991 as a percentage of agricultural exports.
- Food and fuel imports as a percentage of total merchandise imports (latest year available).
- Total debt-service payments on long-term, public and publicly guaranteed debt in 1992 as a percentage of current government revenues (latest available data; for Benin, Central African Republic, Congo and the Niger, data are more than 10 years old).
- Taxes on international trade and transactions as a percentage of total revenue (latest year available).

fect (see chap. IV). The impact on the budget will also depend on how much and for how long Governments will take compensatory measures to cushion the effect of devaluation on the cost of living. In the immediate post-devaluation period, it seems that fear of social unrest is predominating and, accordingly, compensatory measures could absorb considerable budgetary resources. Several countries, for instance, announced civil service salary increases of the order of 10 to 15 per cent.

Concerned about immediate social consequences of devaluation, in particular increases in the price of food and pharmaceutical imports, and in order to alleviate the heavy deficits in their balance of payments and restrictions on the import side, Governments sought complementary support for the new arrangement. France cancelled ODA debt and arrears (see chap. IV for more details), is providing finance in support of adjustment programmes and continues to guarantee the convertibility of the CFA franc. But the existing overdrafts of the African countries in the operations account held at the French Treasury are to be reduced.^g Moreover, IMF, mainly through the Enhanced Structural Adjustment Facility, earmarked about \$1.6 billion, \$550 million in 1994, and the World Bank \$1.5 billion in support of adjustment programmes.^h

Longer-term effects on exports and growth

The hope is that devaluation, as part of adjustment programmes, will stem capital flight, reduce balance of payments and budget deficits and restore competitiveness and growth. A number of qualifications are, however, necessary for such a process to work.

In the longer term, in so far as the nominal devaluation will translate into real devaluation, it will improve or restore the profitability of the production of export goods, and this will have a positive impact on growth.ⁱ However, if the production of traditional exports is stimulated as a result of increased producer prices, the effect on international prices can be negative. Price elasticities of the demand of traditional agricultural commodities are in general inferior

to unity, so that a decline in prices brings about an increase in volume but a decline in export revenues. This is especially likely for cocoa, where Cameroon and Côte d'Ivoire together account for nearly 30 per cent of world exports.^j

The degree to which nominal devaluation will translate into devaluation of the real effective exchange rate (REER), of course, will not be the same for all countries and all products, because the degree of overvaluation of the REER was different among the CFA members. The intended long-term impact of devaluation on exports will depend on the ability of the Governments to keep a lid on inflation and on complementary policies to raise competitiveness.

By itself, a large immediate impact on GDP growth rates is unlikely, and can be expected only in the longer run. The aggregate supply response to prices in agriculture becomes large only in the long run (as much as 10 to 20 years), and if public investments in infrastructure, technology and education are made.^k Moreover, a sizeable share of agricultural production is for subsistence and is produced by farmers with little contact with markets, owing to remoteness and inadequate infrastructure (see table, column 1). Hence, the REER will not affect a large share of agricultural production in several countries. On the other hand, because the prices of the not-traded food crops are important determinants of wages, and hence of the prices of tradables, efforts to improve productivity and lower prices of these non-traded crops are an important instrument to lower the REER.^l

CFA countries have not succeeded until now in diversifying their economies. On the contrary, concentration on a few export commodities intensified during the 1980s.^m Devaluation should be seen as a necessary condition and an opportunity to pursue, through non-price reforms and provision of infrastructure, research, extension and credit, diversification out of traditional exports and into products with higher value added and higher income and price elasticities. Less distorted exchange rates also allow a more efficient import substitution strategy.

a The monetary zone between France and its African partners includes 14 countries. Two different regional currencies, both known as CFA franc, are pegged to the French franc. One is issued by the Central Bank of West African States (Banque centrale des états de l'Afrique de l'ouest) for seven member countries of the West African Monetary Union: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo. Six other countries have a second issuing authority, the Bank of Central African States (Banque des états de l'Afrique central): Cameroon, Central African Republic, Chad,

- Congo, Equatorial Guinea—a former Spanish colony which entered the franc zone in 1984—and Gabon. Finally, the Comoros has its own central bank and its currency, the Comorian franc, also pegged to the French franc. France guarantees the convertibility of the “satellite” currencies into French francs, and keeps, for that purpose, an operations account at the French Treasury which mediates between the central banks and centralizes the exchange reserves of the member countries. The instrument to limit the use of large overdraft facilities is regulation of monetary policy in the African member countries, through some warning thresholds that trigger restrictive credit policies.
- b As of 31 December 1993, only five franc zone countries had arrangements with IMF: Benin, Burkina Faso, Comoros, Equatorial Guinea and Mali.
 - c ECA has made an attempt to measure the impact on production and other variables with the help of a simple econometric model. See Economic Commission for Africa, “*Simulation dynamique des effets macro-économiques de la dévaluation du franc CFA*” (E/ECA/TRADE/94/5), February 1994.
 - d The weight is high in Congo and especially Gabon, but these countries have virtually no agricultural exports and oil determines 70 to 80 per cent of their export revenues.
 - e Demand for rice, for example, is very price inelastic and is consumed particularly by the urban poor. See Thomas Reardon, “Cereals demand in the Sahel and the potential impacts of regional cereals protection”, *World Development*, vol. 21, No. 1 (January 1993), pp. 17-35.
 - f In Gabon trade taxes provide a lower share of government revenues than that claimed by debt servicing, but the Gabonese Government has large non-tax revenues from its oil sector.
 - g The operations account at the French Treasury has deteriorated since the beginning of the 1980s and has been negative since 1986. The overdrafts of the CFA countries in this account are a measure of the cost to France of guaranteeing the convertibility of the CFA franc. They were, however, relatively small compared to either total foreign reserves of France or other French support to the franc zone.
 - h As at end of March 1994, IMF had approved loans for 11 countries.
 - i It will also improve net revenues from tourism, but these are not an important part of total foreign exchange revenues of CFA countries.
 - j Franc zone countries also comprise about 6 per cent of world coffee exports and nearly 5 per cent of world cotton exports. Senegal’s share in world exports of fish is 3 per cent. The Comoros has a sizeable share of world vanilla exports. But for all other commodities, including petroleum and metals, the share of the franc zone in world exports does not reach 2 per cent.
 - k World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead* (Oxford, Oxford University Press, 1994), p. 148.
 - l See Steven Kyle, “Pitfalls in the measurement of real exchange rate effects on agriculture”, *World Development*, vol. 20, No. 7 (July 1992), pp. 1009-1019; and Christopher L. Delgado, “Why domestic food prices matter to growth strategy in semi-open west African agriculture”, *Journal of African Economies*, vol. 1, No. 3 (November 1992), pp. 446-471.
 - m UNCTAD’s export concentration index worsened in the 1980s in almost all CFA countries.

new Government announced in its budget in January 1994 that all foreign exchange earnings should now be sold to the central bank at the fixed rate of 22 naira per United States dollar, which was half of the then prevalent—now illegal—parallel market rates. The central bank set up a committee, with representatives from banking and industry, which is allocating foreign exchange in pre-set proportions to the different sectors.

Policy measures announced in the 1994 budget are likely to be reversed once again because they prevent an agreement with IMF. Such an agreement is a prerequisite for debt rescheduling, which will be unavoidable owing to rapidly increasing arrears. Moreover, without additional measures to counter inflation, running at over 50 per cent, gross overvaluation of the exchange rate will quickly result.

Compounding the political turmoil is the difficulty the Government has in increasing the fuel price, i.e., lowering the subsidy. A reduction of the fuel subsidies in Nigeria will not only reduce the budget deficit, an estimated 15 per cent of GDP in 1993,⁴² but will also lessen the incentive to smuggle fuel from Nigeria to neighbouring countries and reduce disruption in Nigeria and its neigh-

bours. But attempts to increase the fuel price ran into stiff political resistance.

Other zigzagging regarding exchange rate market reforms occurred in 1993 in Angola, the Sudan and Zaire. Malawi underwent a cycle similar to that of Kenya (aid suspension, tightening foreign exchange regulation, political reforms and, finally, aid resumption and economic reforms).

Slow privatization

Privatization of state-owned enterprises has been one of the most difficult areas of reform in Africa. Preparing enterprises for privatization or their restructuring after the sale frequently has negative effects on employment, exacerbating the poor employment situation of most African countries and fuelling social unrest and political instability. Consequently, many countries delayed privatization, took time to prepare it, started with small and easier to privatize firms to gain experience, and proceeded slowly to spread the negative effects over time.

Sales of state-owned enterprises on a more extensive scale have occurred in Benin, Côte d’Ivoire, the Gambia,

Ghana, Guinea, Guinea-Bissau, Madagascar, Mali, the Niger, Nigeria, Senegal and Togo. During 1993, countries such as Côte d'Ivoire, Egypt, Ghana, Morocco, Mozambique, Sierra Leone, Tunisia and the United Republic of Tanzania accelerated the privatization process, and other countries, such as Burkina Faso, Cape Verde, Uganda and Zambia, embarked on privatization programmes. Egypt and Zambia saw their first major privatizations during 1993.

Some of the difficulties that have been encountered in privatizations in Africa are unclear property rights, deficient company accounts, poor financial and material condition of the public enterprises, valuation problems, how to deal with the company's debt, and the lack of skilled professionals to design and implement a privatization programme.

Privatization has also been hindered by the lack of finance and entrepreneurship. There is also a danger that, as private financial resources are used to transfer ownership, less finance is available for new investment. This can be compensated if the Government invests the proceeds, instead of covering current expenditures. This is particularly important in countries, such as Côte d'Ivoire, Egypt, Nigeria, Uganda and Zimbabwe, where public investment is necessary to stimulate private investment.⁴³

Finance, skills and entrepreneurship constraints can be alleviated by foreign investment, though a sale of public enterprises to foreigners does not necessarily bring an additional flow to the country, if it replaces investment that would have otherwise occurred. In Côte d'Ivoire, Ghana, Guinea and Togo, foreigners have bought a sizeable number of the privatized enterprises. Privatization, accompanied by regulatory reform, is revitalizing dormant stock exchanges in a number of countries, e.g., Egypt, Ghana, Kenya and, especially, Morocco. The repeal of sanctions against South Africa also brought an increase of foreign direct investment from South Africa to the rest of Africa, in particular in mining.

Finally, privatization has been slow owing to resistance by the Government, interest groups or political opposition. The Government is often reluctant to give up control over enterprises it regards as strategic. Countries have excluded strategic enterprises from privatization altogether or from extensive or majority foreign ownership. Reluctance to privatize is sometimes due to ethnic, regional or egalitarian considerations. The opposition or the general public has been against privatization, for example, because of non-transparent procedures or because assets were sold at prices perceived as too low, creating resentment and the impression of favouritism or a sell-out to well-connected individuals. Influential groups have feared loss of employment, income or control and therefore opposed privatization.

Privatization is mainly pursued to improve efficiency

and to reverse often negative net financial flows from the government budget to the public enterprises. The limited experience with privatization in Africa precludes definite conclusions about its effects. However, in so far as the revenue-raising objective of privatization is concerned, owing to the poor state of some government-owned enterprises, revenues from sales have often been marginal and might not have covered redundancy payments (quite large in Ghana, Guinea and Togo) and government expenditures made to rehabilitate the company before the sale.⁴⁴ Transfer of ownership has not always meant an end to subsidies, tariff or tax benefits from the Government, e.g., in Guinea, Togo and Zaire. If liabilities are taken over by the Government, debt service, combined with foregone tax and tariff revenues, can be larger than the net transfers the Government was paying to the companies.

The potential efficiency gains of privatization can also be exaggerated.⁴⁵ In practice, efficiency gains have been limited in many cases by concessions regarding subsidies, taxes, tariffs, protection and monopoly made to buyers and by political interference.⁴⁶ Transfer of ownership in itself does not necessarily lead to increased efficiency, for example, if a public monopoly is just converted into a private one. Moreover, efficiency is difficult to measure and flawed proxies, such as profitability or the net transfer from the Government, have often been used. Indeed, if externalities are involved, public ownership, or regulation, control and subsidization by the Government, may be appropriate.⁴⁷

These arguments and ambiguous results do not deny that performance of public enterprises must be improved upon. They imply, however, that organizational reform measures, including the hardening of budget restraints and general improvements in the competitive business environment, can have a larger effect on public sector performance than change of ownership alone.⁴⁸

MEDITERRANEAN: WAR ECONOMY

Since the violent breakup of former Yugoslavia and with the continuation of war in Bosnia, it has been difficult to make any overall assessment of this area. The negative growth numbers for the region are the results of the war devastation in the area. The largest economy in the Mediterranean, Turkey, accelerated to over 7 per cent in 1993 (see table II.6), while the small economies of Cyprus and Malta had relatively strong growth.

Turkey's growth strategy since the mid-1980s has proved successful largely owing to rapid liberalization and modernization of the economy. GDP grew by 7.3 per cent in 1993, up from 6 per cent in 1992. High GDP growth stemmed from high levels of private consumption and fixed investment, which increased by 14 and 12 per cent, respectively. Services and industrial production expanded by about 8 per cent, while agricultural output stagnated.

Private consumption was fuelled by generous wage increases, especially in the public sector, and a boom in consumer credit. Private sector investment was responding to the buoyant domestic demand as well as upgrading production facilities to prepare for the impending full customs union with the European Union in 1993.

Imbalances were, however, rapidly developing in the economy. In 1993, the Government increasingly resorted to borrowing from the international bond markets and to short-term central bank advances to finance the fiscal deficit, which reached 16 per cent of GDP in 1993. The need remains for the Government to carry out its own policy of increasing government revenues through tax reform. Privatization of state-owned enterprises will not only bring in revenues from sales but will also stem subsidies. State-owned enterprises incurred losses equivalent to a quarter of public sector borrowing requirements. However, in 1993, out of a target figure of \$1.2 billion, only \$509 million of revenue from privatization was realized. The target for 1994 is double the 1993 target, increasing to \$10 billion by 1998. Until now, only minority stakes in private sector companies have been sold. Privatization of the major loss-making public companies in the energy, railways, coal and steel sectors has proved politically difficult, given the fact that they employ over one third of the Turkish labour force outside of agriculture. The high rates of consumption and investment led to a steep increase in imports and a rapid deterioration in the current account deficit which jumped to an estimated \$5 billion, from \$1 billion in 1992. External debt rose sharply to \$64 billion, from \$54 billion in 1992.

A 70 per cent annual inflation had turned the high nominal short-term interests on lira deposits negative in real terms and an overvalued exchange rate had made dollar deposit accounts attractive. This combination created a run on the lira, triggered by the downgrading of Turkey's international credit rating in January 1994. The lira was devalued officially for the first time in 14 years and had lost 50 per cent of its value by mid-April.

Foreign direct investment, which could fill important resource gaps in Turkey, has yet to pick up compared to other industrializing countries. In spite of a liberal régime since 1980, only about \$4 billion has flowed in, \$2.5 billion of it since 1988.

Economic decline continued in the successor States of former Yugoslavia. War has ravaged the economy of Bosnia and Herzegovina. The United Nations-imposed trade embargo against Yugoslavia (Serbia and Montenegro) has virtually cut off that economy from the outside world since May 1992.⁴⁹ GDP in 1993 was probably less than half of its 1991 level. Output also declined in Croatia, Slovenia and the former Yugoslav Republic of Macedonia, although not as sharply. As has been the case in every year since 1990, industrial output declined even more strongly than

GDP in all the successor States. Trade among the successor States of former Yugoslavia has continued to contract.

Unemployment is high, ranging from 15 per cent in Slovenia to 25 per cent in Yugoslavia, Serbia and Montenegro. Unrestricted money supply has triggered an explosive inflation in Yugoslavia, Serbia and Montenegro and Croatia. By the end of the year, however, Croatia was succeeding in its new attempt at stabilization.

WEST ASIA: RECOVERY SLIPS

After a strong recovery in 1992, economic growth in West Asia slowed in 1993 to about 3.3 per cent, owing largely to a steep fall in oil revenues, leading to contractionary fiscal policies and a weak performance of the agricultural sector. GDP expanded in all countries except Yemen. Growth in the region was largely attributable to the marked increase in oil production in Kuwait and the expansion of the infrastructural and industrial base in several countries. Growth rates fell sharply in the largest economies of the region, the Islamic Republic of Iran and Saudi Arabia. Although most countries of the region have recovered from the effects of the Gulf crisis, sequels of the conflict remain. The sharp fall in worker's remittance in the aftermath of the crisis, combined with reduced trade flows and the disruption of grants and soft loans from the rich countries of the region, continue to depress domestic economic activities in the less developed countries. Other trammels to economic and social development that persist from the Gulf crisis include strained relations between some countries and the diversion of resources from development to security and defence.⁵⁰

Inflation continues to pose serious difficulties for a number of countries, in particular Iraq, the Islamic Republic of Iran, the Syrian Arab Republic and Yemen. In Iraq, inflation reached about 400 per cent.

Oil prices reached a five-year low, sharply increasing the strain on the external account of the oil-exporting countries. The value of oil exports fell by some \$10 billion or about 13 per cent. The current account of the region thus remained in deficit for the third consecutive year and the modest improvement in 1993 was mainly the result of further cuts in imports. The overall improvement was due mainly to narrowing of the current accounts of the Islamic Republic of Iran, Kuwait and Saudi Arabia.

In Saudi Arabia, the current account deficit narrowed from its high level of \$19 billion in 1992 to about \$15 billion in 1993. The trade balance remained strongly positive, although its surplus shrunk below the 1992 level. In 1993, export revenues fell to just under \$40 billion because of a 13 per cent decline in oil prices. Imports also declined below \$29 billion, from \$30 billion in 1992.

In Iraq, still under United Nations trade sanctions, a small volume of trade, involving very limited export of oil and meagre imports of other goods from neighbouring

countries, could support economic activity at a very low level. Because of the economic problems facing the country, Iraq has had to pay for much of its food imports mainly in gold. However, rising consumer prices have aggravated the hardship of most of the people.

In other oil-exporting countries, notably the Islamic Republic of Iran, the current account deficit was reduced mainly owing to import restrictions. An estimated \$2.5 billion in private transfer payments has also contributed to the more favourable current account performance in the Islamic Republic of Iran. The trade surplus that the Syrian Arab Republic has experienced since 1988 may have disappeared in 1993 after falling sharply in 1992. The drop in exports, which began in 1990, was caused by the loss of the Syrian Arab Republic's traditional non-oil export markets in eastern Europe and the former Soviet Union.

While these and other challenges may continue to hinder economic integration and cooperation for some time, the cessation of hostilities in Lebanon and hopes for peace in the Middle East following the peace accord between Israel and the Palestine Liberation Organization (PLO) are bringing about new attitudes and perceptions towards future economic cooperation in the region.

The fall in oil prices and policy changes

Lower oil revenues put further strain on the budget deficits of some oil-exporting countries. In the six countries of the Gulf Cooperation Council (GCC),⁵¹ oil revenues still account for more than 80 per cent of government revenues. Some of these Governments succeeded in dealing with the financial consequences of the slump in oil prices by quick cuts in spending. These include cuts in some public services and government transfers, reduction of imports and rescheduling of projects.

A number of countries plan to cut spending in 1994 and restructure some of their debt. Saudi Arabia, in particular, has reduced its budget for 1994 by 20 per cent, and negotiated a plan to restructure \$10 billion in payments it owes United States defence firms. Oman has also reported cutting its budget by 10 per cent and Kuwait and Qatar have signalled the need for big cuts in government spending. Meanwhile, major European creditors have agreed to reschedule debt payments of the Islamic Republic of Iran.

In recent years, there has been a broad consensus in most countries of West Asia on the need to diversify their economies and introduce economic reforms. These reforms involve less reliance on oil, changes in the fiscal and monetary policies, removal of state subsidies, attraction of foreign investment, and privatization and deregulation of state-owned companies. In an attempt to reduce the budget deficit, many of the oil-exporting countries are considering tax reform. In the Islamic Republic of Iran and in Kuwait, for instance, reduction of government subsidies and privatization of state assets are being discussed. Privatization

and deregulation are gaining momentum not only in Jordan, where structural adjustment programmes have been supported by the World Bank and IMF, but also in other countries of the Gulf Cooperation Council, as well as in the Syrian Arab Republic and Yemen.

In the GCC countries, the scope of privatization is expected to expand in the next few years in most sectors of the economy. Efforts aimed at diversification and privatization include the transfer to private business of parts of the publicly owned companies, including those in the downstream sector of the oil industry. In Kuwait, the Government is studying a plan to sell off 62 state enterprises over the next five years, valued at \$2.7 billion, and to privatize services that it now subsidizes or provides free of charge.

Reconstruction in Kuwait

Three years after the end of the Persian Gulf war, Kuwait's reconstruction and rehabilitation are nearly complete. Its oil industry has almost been restored to its pre-invasion level and production capacity is to increase above 3 million barrels per day. The Kuwait Investment Authority (KIA), responsible for the country's foreign investment portfolio, is also gradually rebuilding its credibility following allegations of mismanagement of some of its foreign holdings. Thanks to a near doubling of its oil production in 1993, Kuwait is the only country of the region where oil revenues increased in 1993 despite the sharp fall in oil prices. This has led to a current account surplus for the first time since 1990 and a reduction in the budget deficit, which had been growing in the past few years as a result of the Gulf war and later owing to reconstruction. The budget deficit of the past few years had been aggravated by a drop in earnings from its foreign asset holdings, which, before the war, had helped to balance the budget. These assets, which had been estimated at about \$100 billion before the war, were reduced to under \$40 billion to finance war efforts. The accumulated budget deficit in 1991-1992 was equivalent to the accumulated surplus of the previous five years, estimated at some \$27 billion.

SOUTH AND EAST ASIA: KEEPING UP THE HIGH PACE

South and East Asia was able to maintain GDP growth of over 5 per cent (see table II.6). Economic performance varied greatly, with growth rates ranging from 1.7 per cent in the Philippines to 8 per cent or above in Malaysia, Singapore, Thailand and Viet Nam. Substantial progress was made in stabilization in the Republic of Korea, and reform in India and Viet Nam.

The economies of the second-generation NIEs, as well as of Singapore and Viet Nam, grew most rapidly—in the range of 6.5 to nearly 10 per cent—and some countries

also improved their growth performance somewhat on the high rates of 1992, benefiting from strong exports, monetary easing and large inflows of portfolio investment. Foreign direct investment declined in all three second-generation NIEs, as funds were diverted to other Asian economies (China and Viet Nam) with lower production costs and greater domestic market potential. But, in Thailand, a substantial increase in government investment compensated for the decline in FDI and, combined with a rapid recovery in private domestic investment, contributed to generate growth of 8 per cent. Rapid growth in Malaysia (8 per cent) was primarily export-driven as domestic private investment remained weak. In Indonesia, too, the economic expansion (6.5 per cent) was supported by external demand in addition to strong government investment, while recovery in domestic private investment and consumption from the effects of tight monetary policy in 1990-1991 remained weak. Growth in Singapore surged to 9.9 per cent owing to a combination of strong exports and private investment and a substantial increase in consumption, in response to the sharp appreciation of financial and real assets. The continued expansion in Viet Nam was broad-based, with record agricultural output and strength in the industrial and service sectors.

Except for Singapore, the NIEs registered rates of growth of about 6 per cent. The Republic of Korea had been emerging from a period of stabilization and achieved a GDP growth rate of 5.5 per cent, compared with 4.7 per cent in 1992. Exports, benefiting from increased competitiveness with Japanese exports in Asian markets as the yen appreciated substantially, increased at a moderate rate, offsetting the effect of subdued investment and government expenditure. Hong Kong and Taiwan Province of China maintained growth at near 6 per cent, as they continued to adjust to the shifting of manufacturing investment offshore. In Taiwan Province of China, the impact of weak exports to the developed economies was offset by substantial government investment and a moderate increase in consumption and private investment. Hong Kong's growth was supported by strong and growing trade links with China, a financial and real estate boom and substantial investment in infrastructure.

The recovery in India slowed to 3.8 per cent in 1993, as a result of weak growth in agriculture and sluggish industrial production early in the year. Growth also slowed in Pakistan (3.5 per cent), as the agricultural sector suffered from serious damage to all major crops from blight and drought and this, in turn, led to a slow-down in the important yarn and textile industries because of a shortage of cotton. Economic expansion in Bangladesh maintained a moderate pace at 4.5 per cent, on the continued strength of the manufacturing sector and a slight improvement in growth of the agricultural sector. Growth accelerated in Sri Lanka (6.7 per cent), as agriculture rebounded from the

drought of the previous year and growth in all other sectors was strong. The Philippine economy registered modest growth of 1.7 per cent after two years of stagnation, as the bottleneck created by the power crisis began to ease.

Weakened link to developed economy growth

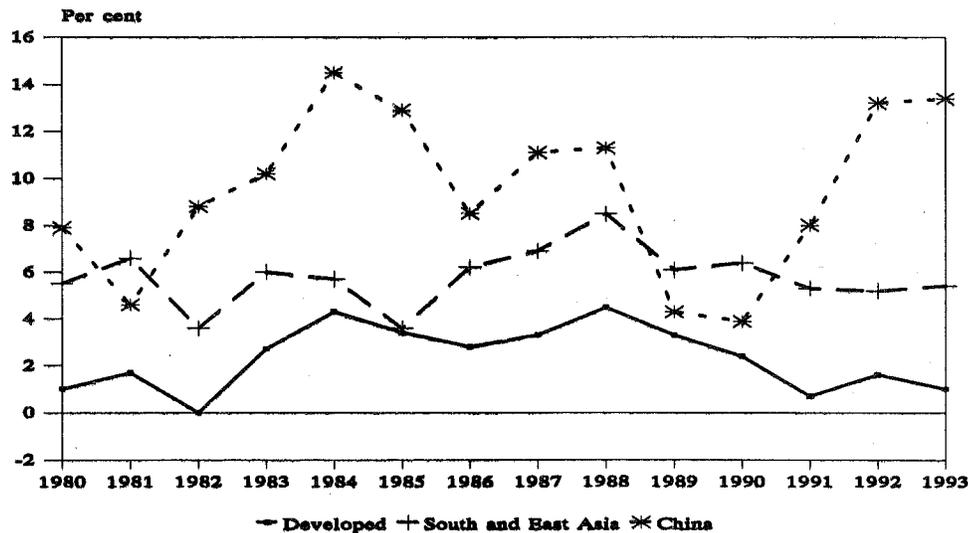
A remarkable feature of the economic trends in South and East Asia in recent years has been their continued strong economic growth in the face of economic stagnation in the developed economies, which contrasts with the situation in the early 1980s when growth in the two groups slowed in tandem. A combination of factors appears to have contributed to the weakening of the linkage.

First, in the early 1980s, the major transmission mechanism of economic conditions from developed economies to Asia was international trade, as the developed economies received the bulk of the exports of the region. Since the 1980s, however, their intraregional trade has been growing faster than total trade (see chap. III), and its strength in the 1990s more than compensated for the weaker exports of South and East Asia to developed economies. Secondly, the weight (17 to 26 per cent) of non-oil commodities in the exports of the second-generation NIEs in the early 1980s, which made their export revenues vulnerable to the sharp price decline that occurred, has been drastically reduced (to 3 to 8 per cent). The concentration in manufactured goods has risen correspondingly to high levels (49 to 62 per cent), allowing these economies to benefit from the relative strength in world manufacturing exports. Thirdly, inflow of external capital and strong increases in domestic sources of demand contributed to the strength of the NIEs and the second-generation NIEs.

The sustained strength in regional exports in 1993 was attributable to two trends. One has been the changing comparative advantage within the region and the resultant relocation of more labour-intensive production from Japan and the NIEs to the second-generation NIEs and China.⁵² The growth of "offshore" manufacturing in the region has led to increased trade in capital goods and intermediate goods and components between these economies.

The second major and related trend is the rising share of manufactured goods in total exports and increasing specialization within manufactures in electronic components, personal computers and peripherals and telecommunications equipment (in Singapore, Malaysia, Taiwan Province of China and to a lesser extent, Thailand and Indonesia) and capital goods (Republic of Korea and Taiwan Province of China). For example, output of the electronics industry as a proportion of manufacturing production in Singapore has grown to 40 per cent by 1993. The annual output of computers and related hardware of Taiwan Province of China is now almost \$10 billion, placing it fourth in the world, after Japan, the United States and

Figure II.7
GDP growth of developed countries and developing Asia, 1980-1993



Source: UN/DESIPA, based on national and international data.

Germany. Behind this trend has been the increasing outsourcing of assembly and production of labour-intensive components first from the developed economies to the NIEs and since the late 1980s, to the second-generation NIEs and China from the developed economies and the NIEs.⁵³ The NIEs have also rapidly developed domestic industries in this sector. Consequently, these new producers benefited from the sustained growth in global demand for electronic equipment. The demand for these products, especially computer hardware and components, remained strong despite the slow-down in world trade as a whole.

The substantial appreciation of the yen in recent years was an important incentive for offshore production by Japanese firms in electronic machinery and equipment as well as consumer electronics and automobile parts, both for exports and imports to the home market. As the yen appreciated sharply last year, further investments in new lines of production are being planned in the second-generation NIEs, Singapore, Hong Kong and China for the outsourcing of additional components⁵⁴ in order to control cost. Offshore production and trade compensate to varying degrees for the adverse effect of recession in Japan on the exports of some economies in the region.⁵⁵

With its pursuit of a strategy of high growth and expanding economic linkages in the region beyond Hong Kong, China has become a growth centre in the region. The rapidly growing demand in China for imports of capital goods, manufactured inputs and consumer durables has been an important impetus in the growth of exports to China from these economies.⁵⁶ Direct investment in the

country from the Republic of Korea, Hong Kong, Taiwan Province of China and Singapore surged in 1993, generating strong exports of capital goods and inputs from these economies to China. The rapidly expanding second-generation NIEs also generated a high growth in demand for exports of the old NIEs, particularly of Singapore.

Other sources of growth in South and East Asia, such as domestically generated demand from government investment, easing of monetary policy and large inflow of capital, have also been strong. These have been able to offset or reinforce the impact of export performance on overall economic growth. For example, weak export growth of about 4 per cent in Taiwan Province of China was offset by increased government investment in infrastructure and lower interest rates, which strengthened private investment and consumption to maintain a GDP growth of over 6 per cent.

The large inflow of portfolio investment in the NIEs and second-generation NIEs in 1993 had a significant stimulative effect. While low international interest rates made returns in these economies more attractive to foreign capital, developments within these economies created additional incentives. Buoyant domestic demand and continuing decontrol and privatization in infrastructure (e.g., utilities and telecommunications) and in financial sectors attracted capital into regional stock markets. Capital also flowed into debt and local money market instruments. Where banking reforms have made significant progress, as in Thailand, domestic enterprises have access to credit from offshore funds at lower rates and foreign bank funds

are being tapped by local banks as a source of credit.

One direct effect of the capital inflow was the boom in the financial industry. A more troublesome effect for many of these economies has been the stimulus to money supply growth and the upward pressure on their exchange rate. As these economies (except Singapore) were reluctant to allow substantial appreciation of their currencies for fear of declining competitiveness and as many lacked the instruments to absorb the increased liquidity in the system, money supply grew more rapidly than desired. Although monetary easing was already prevailing in 1993, the additional stimulative effect on consumption and/or investment has led some Governments to tighten their monetary policies since the beginning of this year. In addition, in some cases (Malaysia, Republic of Korea and Taiwan Province of China), measures have been taken since the beginning of 1994 to stem the inflow of funds.

Large-scale investment in infrastructure was another source of economic growth in the region (in Hong Kong, Singapore, Taiwan Province of China, Indonesia, Thailand and Malaysia) in 1993 and is expected to continue for the rest of the decade.⁵⁷ Investment in this sector to alleviate bottlenecks is receiving priority, as it has lagged behind the increasing demands generated by rapid economic development in the past decade. With the continuing trend in privatization in this sector, the scope for investment financing has been widened to include foreign and domestic private investors.

Impetus from continuing reform and structural adjustment

Major reform and liberalization measures continue to be implemented in India. Government control of domestic markets was greatly reduced through various changes, including the reduction of the number of industries reserved for the public sector from 17 to 6, the abolition of monopoly control laws and the greatly relaxed industry licensing policy. Excise taxes were reduced on a range of goods to boost consumption. The exchange rate was decontrolled and unified and the currency was made convertible in the trade account, resulting in a depreciation of approximately 20 per cent. Import licensing and quotas for most capital goods and raw materials were abolished and tariffs were reduced to facilitate imports, particularly of capital goods and other inputs crucial to the development of industry.

Important steps were taken to attract FDI by drastically simplifying approval of projects and providing access to the vast domestic market. Foreign investment is now permitted in a large number of major industries, including raw materials, energy, telecommunications and consumer goods. The easing of restrictions on foreign portfolio investment and the freeing of domestic companies to raise funds overseas have greatly invigorated the

financial sector. The result has been an influx of capital into the economy in 1993: an estimated \$1.5 billion in direct investment and \$3.5 billion into the stock market and bonds and shares issued overseas.⁵⁸

Nevertheless, the Indian economic recovery in 1993 slowed to 3.8 per cent. Industry recovered only slowly from the political disturbances early in the year, in spite of substantial easing of monetary policy with successive cuts in interest rate and a reduction of bank reserve requirements. The strongest performance was in exports which grew 20 per cent, benefiting from currency depreciation and trade liberalization. Basic industries performed better than average, with the steel industry boosted by strong exports. The cut in excise tax helped to bolster output of the automotive industry. Strong exports of garments, jewellery and computer software helped growth in these industries.

The large inflow of capital increased money supply, the growth of which was exacerbated by the larger than planned budget deficit (over 7 per cent of GDP). Inflation rose to just over 8 per cent at the beginning of 1994 after a low of 7 per cent in mid-1993.

The 1994/95 budget is aimed at stimulating growth by fostering private investment and consumption and promoting international trade and FDI. It places less emphasis than in previous budgets on restraining government expenditure and on reduction of major price subsidies. The improvement in the external account and substantial rise in foreign exchange reserves to nearly 10 billion by year-end 1993 is providing more flexibility to stimulate the economy. Cuts in still high corporate and income taxes and additional liberalization indicate a continuation of recent policies, but more radical reforms, such as elimination of worker redundancies in public enterprises and elimination of the ban on imports of consumer goods, have not been attempted, owing to concerns about a too rapid rise in unemployment. Interest rates are to be lowered to stimulate sluggish investment. Import tariffs are to be reduced further to lower the cost of imported intermediate goods and raw materials. Convertibility is to be extended to all current account transactions. Financial sector reform will intensify with the restructuring of the banking industry, the beginning of privatization of banks, liberalization of the insurance industry and strengthening of the regulation and safeguards of the stock market.

Among the other countries where reform and structural adjustment continued in 1993 was Viet Nam. A high rate of economic growth of 8 per cent was sustained while inflation was reduced drastically to some 5 per cent from 17.5 per cent in 1992. Growth was broadly based. Agricultural and industrial sectors grew strongly and construction surged. While domestic demand was an important source of industrial growth, strong exports bolstered the textiles and clothing, processed foods and oil industries.

Monetary expansion moderated in 1993 with slower growth in credit. There was also a slow-down in credit to state enterprises and an increase in loans to the non-state sector, as non-state banks raised their share of credit extension significantly. Although nominal interest rates were lowered, real interest rates remained very high. In addition to these factors which reduced inflation, the growth of imports also contributed to the much improved price stability. A substantial increase in the import of low-priced manufactured goods from China and the appreciation of the currency translated into a slight decline in the domestic price of industrial goods in 1993.

Exports increased by 15 per cent, benefiting from the liberalization of exports and the opening of new markets, such as garment exports to the European Community. The substantial increase in manufactured exports has also diversified the composition of exports from a concentration in oil and rice. More favourable terms for investments, economic reform and the expectation of large inflows of multilateral aid for infrastructure projects have attracted growing FDI which doubled to \$700 million, particularly from Asian economies (Japan, Taiwan Province of China, Singapore, Hong Kong, Malaysia and Australia) and France.

CHINA: MANAGING AN OVER-HEATED ECONOMY

The Chinese economy grew by 13.4 per cent in 1993, the second year of double-digit growth. However, inflation also increased. At about 13 per cent, measured in retail prices, inflation was more than double the rate of 1992. The cost-of-living index rose at a slightly higher rate. Other signs of economic over-heating were also visible: fixed investment increased by over 50 per cent in nominal terms (22 per cent in real terms), and merchandise trade

balance swung from surplus into the first deficit since 1989 (see table II.7).

As in the past few years, GDP growth in 1993 was accounted for mostly by the industrial sector, which was in turn propelled by the growth of non-state enterprises.⁵⁹ Total industrial output rose by 21 per cent during the year while that of state-owned enterprises increased 6.4 per cent during the same period, implying much higher growth of collective, private and foreign enterprises. On the other hand, the agricultural sector, where most of the population is still located, experienced about 4 per cent of growth, with the output of grains estimated to have increased by 3 per cent over 1992.

Despite the size and growth of the external sector, the domestic dynamism remains paramount. Although total export value as a percentage of GDP has more than tripled since 1978, the ratio was still only about 17 per cent in 1993. Moreover, the 8 per cent export growth in 1993 lagged behind that of total GDP (see chap. III). Similarly, fixed investment was also mostly financed by domestic resources. Total inflow of foreign capital, at \$36.8 billion and about double the 1992 level of \$18.8 billion, was equivalent to roughly 18 per cent of total fixed investment. Disbursed foreign direct investment, at \$26 billion, amounted to about 13 per cent of total investment.

The strong economic growth in 1993 was supported by both consumer spending and investment. Real personal income rose by 10 per cent in urban areas and by 3 per cent in rural areas. Retail sales increased by 11.6 per cent in real terms. A surge of speculation in real estate, including some purchases in newly created regional economic development zones, further fuelled the economic boom. Money supply grew at a rate of about 30 per cent, feeding inflation during the first half of 1993. Buoyant domestic demand for consumer goods induced the diversion of some exports to

Table II.7.

China: selected economic indicators, 1991-1994
(Annual percentage change^a)

	1991	1992	1993 ^b	1994 ^c
Gross domestic product	8.0	13.2	13.4	10
Industrial output	14.5	20.8	21.1	19
Agricultural output	3.7	3.0	4.0	4
Gross fixed investment	23.8	37.6	50.6	31.5
Value of retail sales	13.4	15.7	24.6	20
Retail price index	2.9	5.3	13.0	13
Total exports (dollar value)	15.0	14.3	8.0	14
Total imports (dollar value)	19.1	22.0	29.0	12

Source: State Statistical Bureau of China.

- a Output in real terms, all others are in nominal terms.
- b Preliminary.
- c Forecast based on project LINK.

the domestic market, slowing down export growth. The investment boom worsened infrastructure bottlenecks, especially in transport, and a rapid increase in demand for energy combined with insufficient output growth was pushing China toward the position of a net importer of oil. Building material prices soared.

Faced with an economic boom that threatened to get out of control, macroeconomic policy focused on cooling down the economy without causing a crash landing of the type experienced during the boom-bust cycle of 1988-1990. The Government instituted a stabilization programme employing both indirect and more traditional administrative measures. However, the lack of a well-functioning taxation system and fiscal deficits financed mostly by borrowing from the People's Bank of China rendered monetary policy the only feasible macroeconomic policy option. To attract more money into banks and to discourage enterprise borrowing, interest rates were raised in May and again in July, amounting to a total increase of 3.9 percentage points on bank deposits and 2.2 percentage points on loans. However, real interest rates remain low or negative. The Government also instructed banks to call back loans for mostly speculative investments totalling about 90 billion yuan. Shortly afterwards, the central Government ordered regional governments to close down more than 1,000 special economic development zones that had been set up at the local levels without central approval to attract investment. These measures produced some results. The monthly rate of inflation in 35 major cities slowed down from the peak of 23.3 per cent in July to 20.7 per cent by September; industrial output growth decelerated from 30 per cent in June to 19 per cent by September; fixed investment was reported to have fallen by over 10 per cent between July and August; but only about one third of targeted loans were called back even after the mid-August deadline was extended by one month.

The credit squeeze set off a chain reaction of bad debt and scarcity of working capital, especially among industrial enterprises, a recurring problem in periods of economic stabilization. As the tightening of credits caused the real estate bubble to burst, companies were caught with properties they could not sell. In order to cover their soured real estate deals firms started cutting into their working capital to pay back loans, causing a shortage of working capital which touched off another episode of bad debt among enterprises. Local authorities also found it difficult to pay cash for official purchases of farm products and there were already scattered peasant protests against the use of credit slips promising later payment for their output.

In the wake of the partial success in economic stabili-

zation, the difficulties generated by credit-tightening and the reaffirmation of a policy in favour of growth and reform at the Third Plenum of the Fourteenth Central Committee of the Communist Party, held in November, eventually prompted a virtual suspension of the stabilization programme by the end of 1993.

In addition to the above-mentioned macroeconomic forces, price reforms undertaken during the year also contributed to the high rate of inflation in 1993. The Government had freed the prices of grain, cooking oil and some services, together with some producer goods, which indirectly contributed to higher consumer prices during the year.

This latest bout of economic over-heating brings again to the forefront the need for effective macroeconomic control in an increasingly decentralized economy and the need for further reform of the fiscal and financial systems and state enterprises. The lack of an adequate tax structure and expenditures that are difficult to reduce rule out fiscal measures as a means to influence the economy. The existing banking sector in China has also shown its inadequacy regarding implementation of monetary policy. The Government has started implementing plans to introduce a new tax system and to reform the banking sector. The People's Bank of China is to become a central bank in its autonomy and responsibility for monetary policy. All other specialized banks, whose lending is currently restricted to a particular sector of the economy and sometimes have to make loans dictated by government policy rather than by profitability, will become genuine commercial banks while "policy banks" will carry out lending in support of government industrial policy. But acceleration of inflation in the first months of 1994 is making it necessary to postpone some reform measures for fear of excessive credit expansion in the immediate short run as the new instruments for monetary policy are not fully in place.

At this juncture, it is still not clear if the Chinese economy can finally cool down in 1994 without stronger administrative means. Even if GDP growth slows down in later months, the year as a whole may still turn out another double-digit performance with accelerating inflation. Exports will be helped by the devaluation of 1 January 1994, but its impact on the trade balance will be offset by trade liberalization measures already in place, including cuts in tariffs and elimination or simplification of licences. Slower growth will diminish demand for imports somewhat, while the expected recovery in the world economy improves export prospects, but these changes may not be enough to curb the trade deficit.

NOTES

1 Austria, Belgium, Finland, France, Germany, Italy, Portugal, Spain, Sweden and Switzerland.

2 For a brief description of the slide towards recession and the macroeconomic policies of major developed market economies at the time, see *World Economic Survey, 1991* (United Nations publication, Sales No. E.91.II.C.1), pp. 10-18.

3 The call for a structural orientation in employment policy, albeit within a context of adequate and sustainable growth, was clearly made by the Commission of the European Communities in its recent "White Paper" (see *Growth, Competitiveness, Employment: the Challenges and Ways Forward into the Twenty-First Century* (Bulletin of the European Communities, Supplement 6/93)) and by the Council of Economic Advisors of the President of the United States (see *Economic Report of the President* (Washington, D.C., February 1994), chap. 3).

4 The reluctance of firms and households to borrow from banks and the renewed activity in long-term capital markets rechannelled credit flows outside depository institutions. This created an atypical behaviour of broad monetary aggregates relative to income and led the Federal Reserve to downgrade the monetary aggregates as a reliable measure of financial conditions. It now places more emphasis on a wider range of variables, including real short-term interest rates, in setting monetary policy.

5 For a discussion of the causes and consequences of the 1980s debt build-up in the United States and other developed market economies, see *World Economic Survey, 1993* (United Nations publication, Sales No. E.93.II.C.1), pp. 19-27.

6 The Japanese fiscal year runs from April to March of the following year.

7 To the degree that aggregate expenditure would have been even weaker if land prices—and thus wealth—were lower, the land-purchase policy, of course, indirectly supported the recovery effort.

8 Government of Japan, Ministry of Construction, January 1994.

9 FILP mobilizes resources through national pension funds, the Postal Savings Fund and other channels and then allocates the funds to the affiliated financial institutions, which make loans at low interest rates.

10 The change of government at the end of April did not entail any break in economic policy. As of the end of the month, however, the delay in the adoption of the budget for fiscal year 1994 was an increasing concern.

11 Widening the bands had been the policy response to an exchange rate crisis. That is, after the Bundesbank made only a token reduction in interest rates on 29 July 1993, a Thursday, the financial markets bet heavily that Germany's partners in the ERM would not be able to maintain their own interest rates in the face of recession, that they would eventually lower them and that their exchange rates would have to fall *vis-à-vis* the deutsche mark. This prompted a tremendous surge of funds into marks from the other currencies and required central banks of ERM countries to spend DM 50 billion in two days (Thursday-Friday) to hold the exchange rates within the ERM bands. Over the weekend, the

ERM bands were widened.

12 Seasonally adjusted national definition of unemployment, as per OECD, *Main Economic Indicators* (February 1994), p. 144.

13 Based on an index of "relative normalized unit labour costs" *vis-à-vis* 16 industrialized-country trading partners (see IMF, *International Financial Statistics* (March 1994), p. 58).

14 Among the smaller developed market economies, however, unemployment rates in 1993 were higher in Denmark, Finland, Ireland and Spain.

15 General government debt (consolidating the debt and financial assets of all levels of government), as per OECD, *OECD Outlook*, No. 54 (December 1993), table A.30.

16 It reached 84 per cent by 1992 (Institut national de la statistique et des études économiques, *L'économie française en 1992* (Paris, INSEE, 1993), p. 270).

17 The structural deficit is shown in figure II.2 as a per cent of trend GDP, rather than actual GDP (for additional details about the measure, see Jean-Claude Chouraqui, Robert P. Hagemann and Nicola Sartor, "Indicators of fiscal policy: a re-examination", *OECD Department of Economics and Statistics Working Papers*, No. 78 (April 1990)).

18 The policy challenges concerning the budget difficulties of Italy were reviewed in *World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 20-22.

19 Statistical information from the transition economies, especially some of the successor States of the Soviet Union, remains of extremely varying reliability and although data improvements in some countries have been quite marked in particular subject areas, much of the data concerning these economies should be interpreted with great caution and considered subject to extensive revision. Specific figures, when reported here, should be treated as indicators of broad orders of magnitude (for additional details on data difficulties, see *World Economic Survey, 1993* (United Nations publication, Sales No. E.93.II.C.1), pp. 32-33).

20 According to estimates of the Czech National Bank, for example, the labour force in the Czech Republic declined from 5.7 million people in 1989 to 4.8 million in 1993. If all the people who left the labour force were actually unemployed, the Czech unemployment rate in 1993 would have been almost 19 per cent instead of less than 4 per cent, as measured. It is not possible without more data, however, to disentangle the "disguised unemployed" from the people who intended to leave the labour force, not to mention the people working in the informal sector who are outside both employment and labour force statistics.

21 For a more extended discussion of unemployment issues in transition economies, see chap. VI.

22 See "The transition from the command to the market system: what went wrong and what to do now", Vienna Institute for Comparative Economic Studies (March 1993); Leszek Balcerowicz, "Common fallacies in the debate on the economic transition in central and eastern Europe", Working Paper No. 11 (London, 1993), European Bank for Reconstruction and Development; and also Economic Commission for Europe, *Economic*

Survey of Europe in 1992-1993 (United Nations publication, Sales No. E.93.II.E.1), pp. 104-106.

23 One such distortion was the degree of "suppressed inflation" that existed before reforms began, when some administered prices were held well below the market-clearing level and the limited supply was rationed. Also, in some countries when foreign exchange markets were liberalized, the exchange rate depreciation overshot the long-run equilibrium and market forces continue that undervaluation. In this situation, domestic prices will change until the real exchange rate is corrected. Thus, the prices of non-tradable goods will rise relative to the prices of tradables; but if relative prices change only through differential rates of price increase (i.e., prices are "sticky" downwards), inflation must be going on for the relative price changes to take place. Also, where the prices of non-tradables rise slowly, the adjustment period—and thus the duration of inflation—can be protracted.

24 The terms "private sector" and "privatization" do not have standardized meanings in the transition economies and may refer to everything from the creation of corporate structures as separate legal entities to the transfer of state assets to individual private owners and corporations (for further details, see Jozef M. van Brabant, "The economics of property rights and privatization in transitional economies", *Supplement to World Economic Survey, 1990-1991* (United Nations publication, Sales No. E.92.II.C.2), pp. 56-109).

25 Time series data were presented in case-studies of eastern European countries in *Economic Survey of Europe in 1993-1994* (United Nations publication, Sales No. E.94.II.E.1), chap. 5; for cross-section data for 1993, see *Economic Bulletin for Europe*, vol. 45 (1993), p. 46.

26 What the term "marketoid" seeks to capture is, on the one hand, that market institutions are for the most part in place, and the State's economic policies are getting closer to those of a market model, while on the other hand, neither these institutions nor policies function as they would in a market economy. The behaviour of economic agents, while mostly market-driven, is heavily distorted by both the legacy of the command economy and the pervasive disarray in society. The result is an economy that resembles a market economy but is certainly not one yet, hence a "marketoid" economy.

27 Defined as the growth of aggregate monetary income deflated by the rate of increase in consumer prices (see *Polozhenie Rossiyskoy Ekonomiki v 1993 godu i perspektivy ee razvitiya na 1994 god* (*Polozhenie...*), Moscow, January 1994), p. 72.

28 *Ibid.*, p. 82.

29 Centre for Economic Reforms of the Government of the Russian Federation, *Russian Economic Trends, 1993*, vol. 2, No. 4, p. 9.1.

30 *Finansovye Izvestia*, No. 4 (Moscow, February 1994), p. V.

31 See Ministry of Finance, "Russia's finances in 1993", in *Voprosy ekonomiki*, No. 1 (Moscow, 1994), pp. 32, 41 and 43.

32 State Committee on Statistics, *Sotsial'no-ekonomicheskoe polozhenie Rossii* (Moscow, November 1993), p. 41.

33 However, given that population growth in the developing countries group is on average 2 per cent, while it is 0.7 per cent

in the developed countries, there is less of a discrepancy in GDP per capita growth rates.

34 The share of total exports from South and East Asia to developed economies declined from 70 per cent in 1986 to 51 per cent in 1992, while the share of exports to developing Asia rose from 25 per cent to 31 per cent in the same period.

35 While the regional weighted inflation average doubled to 800 per cent, excluding Brazil it decreased from 22 per cent in 1992 to 19 per cent. For a detailed review of the issue, see Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1993* (LC/G.1794), pp. 8-18.

36 Nicaragua also adopted a fixed nominal exchange rate, whereas Mexico slowed down the pace of the crawl. For a discussion of different exchange rate policies to reduce inflation in the Latin American context, see Sebastian Edwards, "Exchange rates, inflation and disinflation: Latin American experiences", National Bureau of Economic Research Working Paper No. 4320 (April 1993).

37 Chile and Venezuela in 1993; Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Panama and Uruguay this year.

38 If values corresponding to the in-bond *maquiladora* industry are included in Mexican trade, in line with the latest international recommendation, the Latin American trade deficit is significantly lower.

39 For an analysis of the role of external factors in recent capital flows to Latin America, see Guillermo A. Calvo, Leonardo Leiderman and Carmen M. Reinhart, "Capital inflows and real exchange rate appreciation in Latin America", IMF Staff Papers, vol. 40, No. 1 (March 1993).

40 The increase in the growth rate over 1992 is partly owing to the inclusion of South Africa in the developing countries' aggregate. South Africa is now included in the aggregate of Africa. Inclusion of South Africa revises the growth rates of Africa downwards for the years 1990, 1991 and 1992. During those years, South Africa experienced a long recession, with GDP growth rates of -0.5, -0.4 and -2.1, respectively. South Africa accounts for 28 per cent of Africa's GDP. With a positive growth in South Africa in 1993, the improvement in growth in the continent as a whole is thus larger than it would be if South Africa were excluded. South Africa is here excluded from sub-Saharan Africa, as is Nigeria, owing to its large weight. For the relationship between investment and instability, see *World Economic Survey, 1993* (United Nations publication, Sales No. E.93.II.C.1), pp. 43-44.

41 In the 1993 budget, it was estimated that the total subsidy on petrol amounted to N63 billion, more than half of total projected expenditures.

43 Lance Taylor, *The Rocky Road to Reform: Adjustment, Income Distribution, and Growth in the Developing World* (Cambridge, Massachusetts, MIT Press, 1993), pp. 28, 76-77.

44 For example, an IMF study states that "Togo was one of the few [low-income] countries to generate a significant amount of funds from privatization" (Karim Nashashibi and others, "The fiscal dimensions of adjustment in low-income countries", Occasional Paper, No. 95 (Washington, D.C., International Mone-

tary Fund, April 1992), p. 19). Between mid-1988 and mid-1993, Nigeria realized N3.3 billion from privatization, a minuscule amount compared to the budget deficit. On the other hand, up to 1988, Côte d'Ivoire gained financially from selling the assets of 28 companies, of which 21 were loss-making, partly owing to the fact that the Government generally insisted on cash and simply sold what private buyers wanted to purchase. The Government of Morocco raised the equivalent of about \$240 million from the sale of public enterprises in 1993, helping to reduce pressures on the budget. Ghana is expected to raise about \$400 million in 1994, the lion's share from the sale of 25 per cent ownership in a gold-mining company.

45 Theory would predict that (allocative) efficiency would increase when controls on markets are lifted. However, efficiency gains are static and one shot (that is, as long as productive factors are relocating). Moreover, theory only predicts an increase in efficiency if all distortions are totally removed (there only is one first best). For example, the effect of ownership on efficiency, without changes in the operation of markets, is likely to be small. See Nicolas van de Walle, "Privatization in developing countries: a review of the issues", *World Development*, vol. 17, No. 5 (May 1989), pp. 601-615; and Ha-Yoon Chang and Ajit Singh, "Public enterprises in developing countries and economic efficiency", UNCTAD Discussion Papers, No. 48 (August 1992).

46 See, for example, Charles Vuylsteke, *Techniques of Privatization of State-Owned Enterprises, vol. I, Methods and Implementation*, World Bank Technical Paper No. 88 (Washington, D.C., World Bank, 1988), pp. 145-146; Thomas M. Callaghy and Ernest J. Wilson, III, "Africa: policy, ritual or reality?", in Raymond Vernon, ed., *The Promise of Privatization: A Challenge for U.S. Policy* (New York, Council on Foreign Relations, 1988), pp. 206-207, 220, 227; and World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead* (Oxford, Oxford University Press, 1994), pp. 105-106.

47 Elimination of the Nigerian Cocoa Marketing Board had, for example, disastrous consequences for the quality of cocoa. See Carliene Brenner, *Technology and Developing Country Agriculture: The Impact of Economic Reform* (Paris, OECD Development Centre, 1993).

48 Heidi Vernon-Wortzel and Lawrence H. Wortzel, "Privatization: not the only answer", *World Development*, vol. 17, No. 5 (May 1989), pp. 633-641; Raaj Kumar Sah and Martin L. Weitzman, "A proposal for using incentive precommitments in public enterprise funding", *World Development*, vol. 19, No. 6 (June 1991), pp. 595-605; UNDP, *Guidelines on Privatization* (New York, 1991); Chang and Singh, op. cit.; and UNCTAD, *Trade and Development Report, 1992* (United Nations publication, Sales No. E.92.II.D.7). Options such as management contracts and leases have been followed in, among others, Côte d'Ivoire, Ghana, Togo, Tunisia, Zaire and Zambia. In Togo and Zaire, the results have been mixed. Management contracts have been signed in 1993 for public utilities companies in the Gambia and Guinea-Bissau, while they are about to be signed in Guinea and aimed at in Rwanda. They are also to be used in Sao Tomé and Principe for large estate farms.

49 Economic Commission for Europe, *Economic Bulletin for*

Europe, vol. 45 (1993) (United Nations publication, Sales No. 94.II.E.2), p. 75.

50 See "Summary of the survey of economic and social developments in the region of the Economic and Social Commission for Western Asia, 1992" (E/1993/48), 7 May 1993.

51 The member countries of GCC are: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

52 Investment from Japan in the ASEAN economies (excluding Singapore) increased from \$951 million in 1986 to \$6.8 billion in 1990 and investment from the NIEs in these economies increased from \$500 million to \$8.7 billion in the same period (Industrial Bank of Japan). Both of these flows have since levelled off, although recently there have been indications that there might be a renewed increase. Meanwhile, direct investment from Japan in China has surged, increasing by 129 per cent in the first six months of 1993 (Japan Ministry of Finance). The dominance of investment from Hong Kong and Taiwan Province of China has been well established since the late 1980s. Investment in China from Taiwan Province of China is estimated to have exceeded \$3 billion in 1993 and Singapore invested over \$1 billion in the first nine months of the year. Investment from the Republic of Korea has surged from a very low base in 1991 to over \$200 million in 1993.

53 An illustration of the extent of outsourcing in the Japanese electronics industry is the estimate of the Electronics Industry Association of Japan that 20 per cent of all employees of Japanese electronics manufacturers are located overseas (*Asian Wall Street Journal*, 14 February 1994, p.14).

54 These include low-priced disk drives to Thailand, floppy disk drives to China, computer monitors to Malaysia and personal computer motherboards to Hong Kong.

55 Exports from Singapore to Japan increased by 20 per cent, exports from Malaysia grew by 19 per cent and exports and re-exports from Hong Kong by 10 per cent (based on United Nations Direction of Trade (DOT) statistics for January to September 1993). National data for Thailand show a surge in exports to Japan in the second half of 1993, driven by sharp increases in electronic and computer components and automobile parts, as well as rice.

56 Based on preliminary estimates, exports to China from the Republic of Korea increased 96 per cent in 1993, while exports from Taiwan Province rose by 21 per cent and those from Singapore (through Hong Kong) grew by over 30 per cent.

57 These projects include highway and rail construction, construction of new airports and ports, expansion of energy-generating capacity and distribution systems, building of industrial parks, and modernization and expansion of telecommunication systems.

58 The data for direct and portfolio investment flows are for the fiscal year, beginning in April 1993 (Ministry of Finance).

59 See discussion in *World Economic Survey 1993*, chap. VII, "Economic reform and the development of the non-state sector: a case-study of China".

III

International trade

The growth of world trade slowed sharply in 1993, but is expected to improve this year. Concerns over current trends in trade were upstaged, however, by major developments in the trading system, in particular the completion of the Uruguay Round of multilateral trade negotiations, which should lay the foundations of significant liberalization and growth of trade over the next decade. The North American Free Trade Agreement (NAFTA) was another landmark development. Moreover, from a more medium-term perspective, the growing role of developing countries as leading traders is becoming a noteworthy phenomenon. In 1993, developing countries accounted for over a third of the world's top 25 exporters and importers.

The volume of world exports increased by about

2.7 per cent in 1993, after a growth rate of over 5 per cent in 1992 (table III.1).¹ Despite the slow-down, in 1993 the growth of world trade far exceeded the growth of world output, as it has been doing since the mid-1980s (figure III.1).

As in the past few years, the growth of world trade increasingly reflected the growth of trade of developing countries, especially in Asia, where output had also been growing strongly. Among the developed countries, the strongest source of growth was the United States of America whose volume of imports increased by almost 13 per cent in 1993 as the economy continued to expand. As most other major developed economies stagnated, their import demand remained depressed. This was particularly

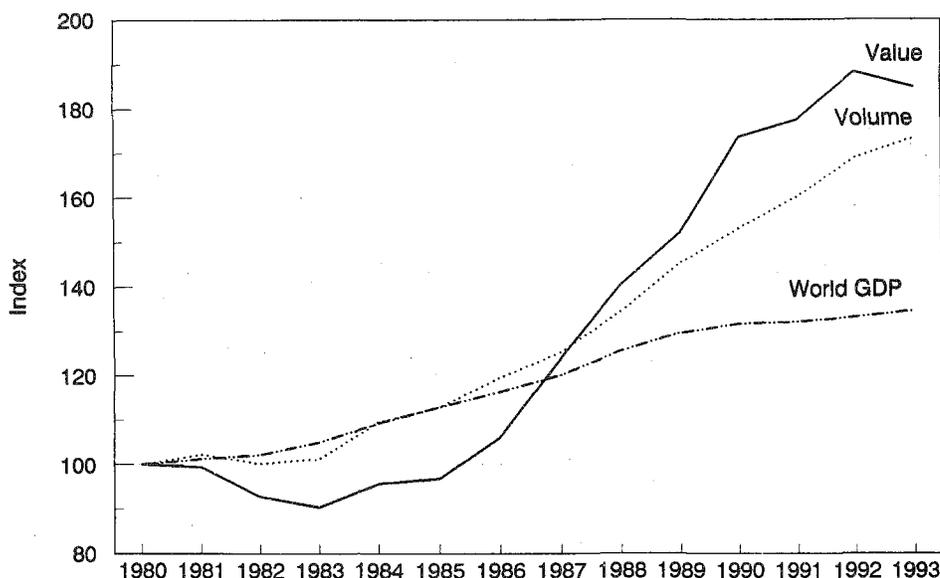
Table III.1.
World trade, 1984-1994

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
<i>Value of exports (billions of dollars)</i>											
World	1 884	1 906	2 087	2 437	2 762	2 991	3 419	3 493	3 708	3 639	3 814
Developed market economies	1 240	1 282	1 488	1 736	1 986	2 127	2 454	2 502	2 647	2 524	2 624
Developing countries	520	503	472	569	644	735	841	886	970	1 026	1 137
Economies in transition	124	121	127	132	131	129	124	105	91	..	..
Eastern Europe	62	64	67	69	69	67	65	61	58	55	..
Former USSR	62	57	60	63	62	62	59	45	33	..	..
<i>Volume of exports (annual percentage change)</i>											
World	8.3	3.0	5.9	4.7	7.3	8.0	5.6	4.6	5.5	2.7	6.0
Developed market economies	9.6	4.7	2.5	4.4	8.5	7.3	5.1	3.7	4.2	1.3	5.0
Developing countries	5.9	-0.1	15.2	6.6	4.4	11.8	8.7	8.7	8.5	8.3	7.4
Economies in transition	4.9	-0.6	4.3	2.6	4.5	-1.5	-9.5	-18.8	-11.3	..	..
Eastern Europe	7.3	2.0	-0.6	1.7	4.3	-2.9	-6.2	-9.3	-0.1	-5.0	..
Former USSR	2.5	-4.3	10.0	3.4	4.9	0.1	-13.0	-31.0	-22.7	..	..
<i>Memo item: world output (annual percentage change)</i>											
	4.2	3.2	3.0	3.3	4.5	3.2	1.6	0.3	0.8	1.1	2.3

Source: IMF, *International Financial Statistics*, and DESIPA estimates.

a Preliminary estimates.

b Forecasts.

*Figure III.1.*World merchandise exports (value^a and volume) and world gross domestic product (GDP), 1980-1993

Source: DESIPA/MSPA, based on GATT and UNSTAT (COMTRADE).

a US dollars.

true of continental Western Europe where intraregional imports weakened.

Exchange rates between the major currencies changed significantly. The Japanese yen appreciated from 125 yen to the dollar in January to 110 yen in December and by an average of 12 per cent in 1993 compared with the average in 1992. Severe strains developed in the European Exchange Rate Mechanism (ERM) in late 1992, leading to the exit of the United Kingdom of Great Britain and Northern Ireland, and Italy from the system, and again in 1993. The United Kingdom, still outside the system, has

increased its competitiveness by letting the pound sterling fall and has significantly expanded its exports. The depreciation of the dollar over recent years, coupled with improved productivity, has significantly improved longer-run United States competitiveness.²

Among the other developments, non-fuel commodity prices weakened further in 1993, pushing some prices to historic lows, though there was some evidence of recovery towards the end of the year. Oil prices fell to their lowest level since 1988.

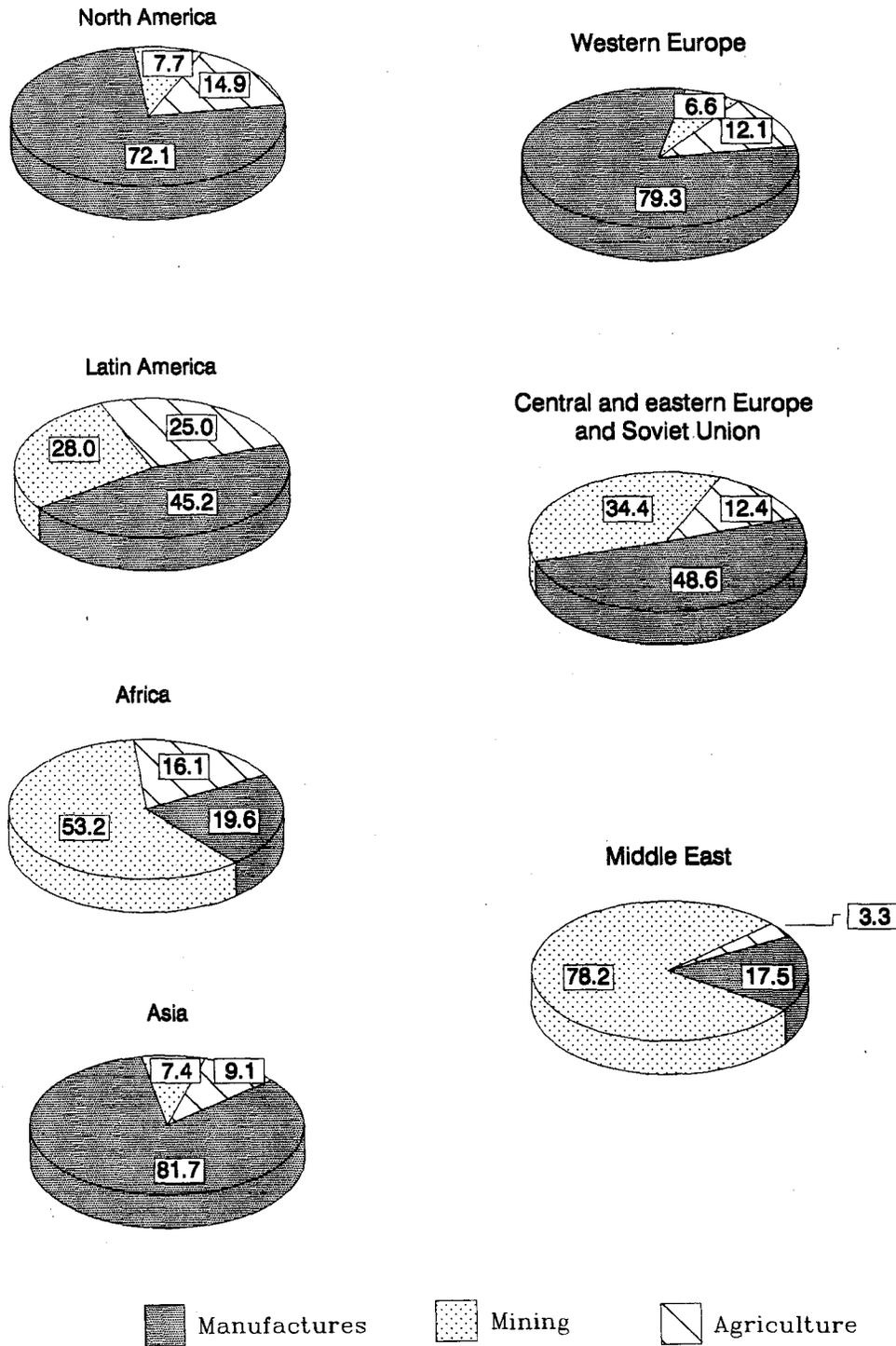
EMERGING ACTORS AND NEW STRUCTURES

Structural shifts in the world economy have been significant over the past decade. This has been accompanied by a sizeable number of developing country exporters gaining a significant share of the global market-place. Merchandise exports are now heavily concentrated in manufactures—for the world as a whole and for all regions except Africa and the Middle East, where exports of minerals predominate (see figures III.2 and III.3). The share of manufactures in world merchandise exports rose from 56 per cent in 1980 to about 73 per cent in 1992. The developing countries, especially those in Latin America and Asia, accounted for a large share of the increase.

Also significant in the emerging global trade profile

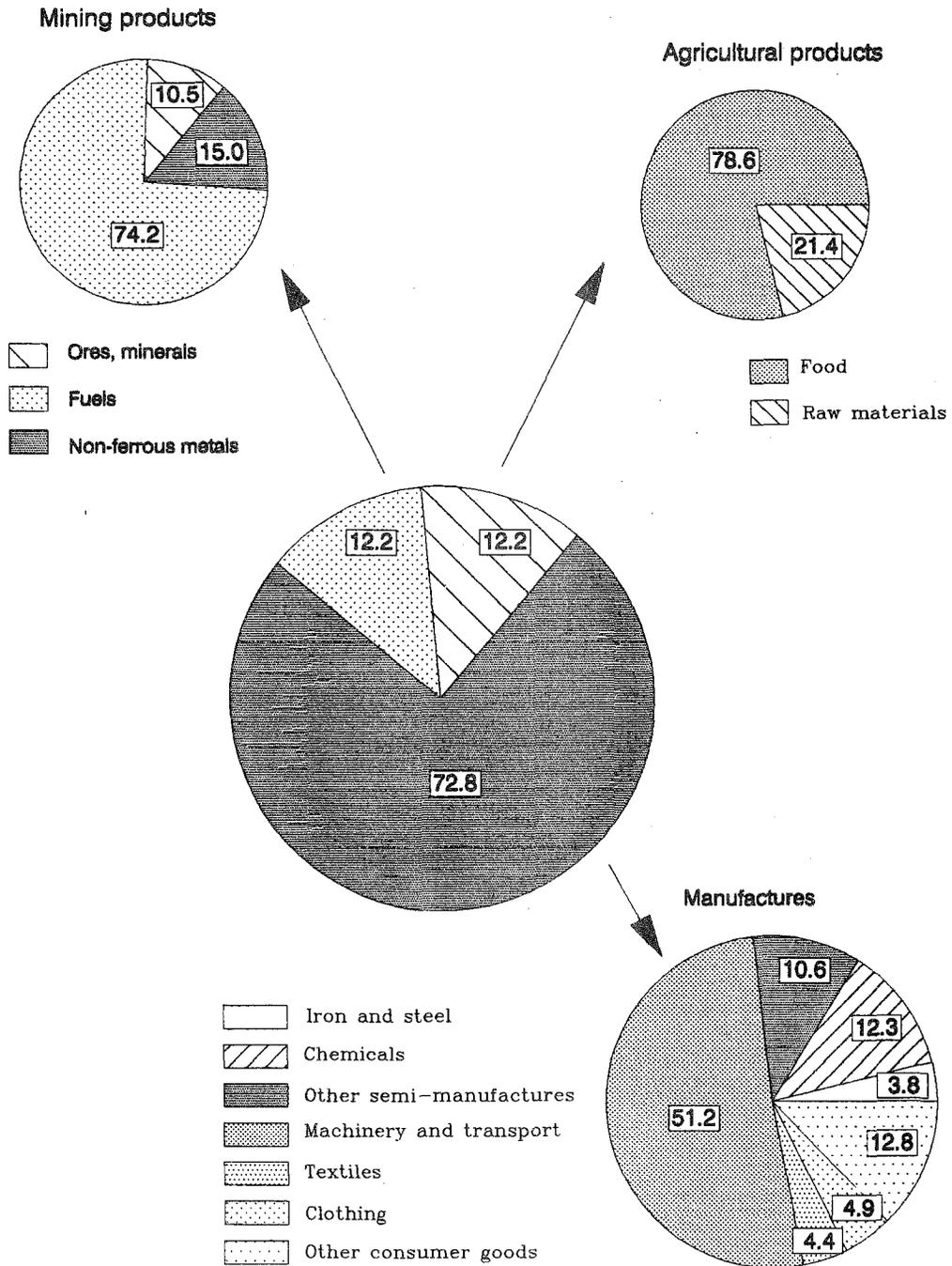
has been the composition of this growth of manufactured exports. In 1992, world trade in machinery and transport equipment accounted for just over half of world exports of manufactures (see figure III.3). Within this area, moreover, one category in particular stands out—namely, office machines and telecommunications equipment (table III.2). Exports of machinery and transport equipment grew at the rate of 8.3 per cent per annum between 1980 and 1992, compared with 7.6 per cent for manufacturing exports and 5.0 per cent for world merchandise exports as a whole. Over the same period, exports of office machinery and telecommunications equipment increased at the rate of 12.6 per cent per year. Not only is this a growth area, but

Figure III.2.
Merchandise exports by major product groups, 1992
(Percentage)



Source: GATT, *International Trade, 1993: Statistics*.

Figure III.3.
World merchandise exports by major product subgroups, 1992
(Percentage)



Source: GATT, *International Trade, 1993: Statistics*.

Table III.2.
World trade in selected products, 1992

Commodity ^a	Value (billions of US dollars)	Percentage			Average annual rate of growth 1980-1992
		Share in world merchandise exports	Share in world exports		
			Primary products	Manufactured products	
Food	349	9.6	39.3		3.8
Fuels	331	9.1	37.2		-2.8
Iron and steel	103	2.8		3.9	2.5
Chemicals	327	9.0		12.3	7.2
Machinery and transport equipment	1 359	37.3		51.2	8.3
Of which:					
Office machines and tele- communications equipment	349	9.6		13.2	12.6
Automotive products	361	9.9		13.6	8.8
Textiles	117	3.2		4.4	6.5
Clothing	131	3.6		4.9	10.2

Source: DESIPA/MSPA based on GATT, *International Trade, 1993: Statistics*.

a Food: Standard International Trade Classification (SITC), Revision 3, sections 0, 1 and 4, and section 2, division 22; fuels: SITC, section 3; iron and steel: SITC, section 6, division 67; chemicals: SITC, section 5; machinery and transport equipment: SITC, section 7; office machines and telecommunications equipment: SITC, section 7, divisions 75 and 76, and division 77, group 776; automotive products: SITC, section 7, division 78, groups 781, 782, 783 and 784, division 71, subgroup 713.2, and division 77, subgroup 778.3; textiles: SITC, section 6, division 65; and clothing: SITC, section 8, division 84.

within it developing country exports have been growing much faster than industrialized country exports. Between 1980 and 1992, for example, among the top 15 exporters,

the shares of the developed countries in world exports of these items generally went down, while the shares of the developing country exporters on the whole went up.³

TRADE FLOWS IN 1993: SALIENT FEATURES

DEVELOPED COUNTRIES

The developed economies still account for 70 per cent of global trade and world trade trends are therefore in large part a mirror of tendencies in these economies. The volume of exports of these economies increased by a little over 1 per cent in 1993, compared with over 4 per cent in 1992, and was accounted for mainly by the growth of United States exports.

The 1993 slow-down in the pace of global trade to a large degree emanated from the recession in Western Europe, with its concomitant drop in domestic demand. Imports of the region declined by over 4 per cent, while its exports fell by about 1 per cent.⁴ Imports and exports of France and Germany, the largest economies of the region, registered sharp falls. However, for a number of European countries—specifically, Italy, Spain, Sweden and the United Kingdom—changes in trade also reflected the currency depreciations that came in the wake of the September 1992 crisis in the ERM, leading to competitiveness gains for these economies. All of them registered export growth

and (with the exception of the United Kingdom, where domestic demand grew strongly) import reduction.

In the United States, a slow-down of external demand, coupled with robust imports, contributed to an increase in the current-account deficit last year, a situation unlikely to be mitigated in 1994, with import demand expected to increase strongly as the economy continues to expand. Overall, United States exports grew at a rate of just over 5 per cent in 1993, compared with a rate of over 7 per cent the previous year, while United States imports grew at a rate of almost 13 per cent, roughly comparable with the rate of growth in 1992. The slowing down of exports last year reflected a deceleration in exports to recession-bound Western Europe and Japan, as well as a sharp slow-down in exports to Latin America. Meanwhile, however, intraregional trade—bolstered by burgeoning demand in Canada—grew briskly. The growth of imports also reflected a rapid increase in imports from the Association of South-East Asian Nations (ASEAN) economies, as well as Mexico and Japan.

Japan's trade surplus rose by 7 per cent to \$141 billion in 1993, exceeding the already historic high level it had achieved in 1992. Exports increased by 6.6 per cent in dollar terms, while imports increased by only around 3.5 per cent, as economic stagnation tended to compress import demand. In volume terms, however, exports declined by some 1.7 per cent, the first such decline in seven years, while imports increased by over 4 per cent. In yen terms, the trade surplus declined by 0.7 per cent.

The fact that Japan's trade surplus with the United States increased by 15 per cent for the third consecutive year, reaching \$50.2 billion, contributed to the trade tension between the two countries. Moreover, the country's surplus with Asia increased by 29 per cent to reach \$53.6 billion, surpassing its surplus with the United States. The surplus *vis-à-vis* EU, on the other hand, decreased by 15.6 per cent, reflecting the slow-down in economic activities in Europe. Last year, China became Japan's second largest trade partner, measured by the sum of exports and imports, after the United States.

DEVELOPING COUNTRIES

Trade of the developing countries, accounting for just over a quarter of world trade, contributed to the bulk of its growth in 1993. The volume of exports of those countries increased by over 8 per cent, with a larger increase in the volume of their imports. Over the period 1990-1992, incremental developing country imports accounted for over 60 per cent of incremental world imports, suggesting an increasingly dynamic role of these countries in world trade.

Latin America and the Caribbean

Trade of Latin America and the Caribbean continued to increase rapidly despite sluggish world trade. The volume of exports grew by about 8 per cent last year although export earnings increased by only 4 per cent as export unit values declined. Expanding intraregional trade contributed to the overall growth of trade of the region.

Oil-exporting countries of the region, especially Venezuela and Ecuador, suffered a decline in oil prices. However, Colombia's exports rose slightly on the strength of increased sales of non-traditional products and higher world market prices for coffee. Exports of Mexico increased, despite a 10 per cent drop in oil revenues, reflecting strong growth of manufactured exports and a recovery of exports of agricultural products.

Among the non-oil-exporting countries in the region, Brazil experienced a rise in exports of almost 8 per cent, driven by robust sales of light manufactures, semi-manufactured steel products and automotive parts. Exports to the United States, the country's biggest trading partner, and to Asia and elsewhere in Latin America, rose significantly.

Argentina's exports increased by 6 per cent, after three years of poor growth, largely reflecting increased sales of manufactured goods, particularly automotive products, to regional markets. Chile's exports fell 6 per cent as a result of lower external demand and weak prices of its main commodity exports. In Central America and the Caribbean, exports recovered from the stagnating level of the previous year, despite a fall in commodity prices.

The growth of imports in the region slowed to 9 per cent in volume, after an average annual increase of 16 per cent in the previous three years, as the large inflows of foreign capital that had fueled the high levels of imports in that three-year period slowed in 1993. Brazil and Colombia accounted for most of the increase. With a sharp pick-up in domestic demand, Brazil's imports grew 25 per cent, while Colombia's imports climbed 50 per cent over levels of the previous year. Argentina's unsustainably large increase in imports in the previous two years slowed sharply to an increase of just under 10 per cent. Mexico's imports similarly slowed, after five consecutive years of steady growth, owing largely to a slow-down in domestic demand.

Africa

Africa's exports expanded by 5 per cent in volume in 1993 as a result of a 2.5 per cent decline in value as well as a sharp 7 per cent drop in export unit values. The decline in commodity prices was the most significant factor in limiting the increase in export revenues since more than 85 per cent of the region's exports fall in this category. Much of the decline was due to stagnation of demand for Africa's exports as a consequence of the recession in the developed market economies, especially in Europe which absorbs the bulk of those exports. Some countries, however, have recently been able to increase their exports of non-traditional commodities in efforts to diversify their economies and reduce their reliance on primary commodities. In countries such as Kenya, Lesotho, Malawi, Swaziland and Zimbabwe, diversification efforts focused on increasing the production and exports of horticultural products which have a high value-added content and are highly income-elastic, and of counter-seasonal fruits.

Imports of the region increased by around 2.5 per cent in volume, while import prices declined by about 3 per cent. Despite a general trend towards more liberal trading regimes, a number of countries—Tunisia, the United Republic of Tanzania and Zimbabwe, among others—recently took selective measures to protect local industries, such as textiles and clothing, from cheap imports. Other countries found it necessary to impose tighter restrictions on imports because of severe foreign exchange constraints. Nigeria, for example, imposed high import duties to discourage luxury imports, while the Sudan banned such imports altogether. Several countries in West

Africa also imposed tariffs on subsidized frozen-beef imports from EU sold locally and at half the price of beef produced in the region.

South and East Asia

South and East Asia remained a major contributor to the growth of world trade. The volume of the region's exports grew by 14 per cent in 1993. Concentrated in manufactured goods, the region's exports were generally insulated from the adverse effect of the sharp declines in oil and non-oil commodity prices which affected other developing countries. The further diversification of manufacturing production and exports into more technology-intensive and capital-intensive goods enabled the region to benefit from strong worldwide demand for electronics equipment, and strong regional demand for a wide range of machinery and equipment. Commodity exporters in the region also benefited from increased sales of industrial raw materials and other commodities to booming regional economies. Several countries received an additional boost in export sales from strengthened demand in the United States as that country's economy recovered.

The strong export performance is also attributable to the vigorous expansion of intraregional trade and increased trade and economic linkages with Japan and China. Growing intra-Asian trade compensated to a significant degree for weak import demand in many of the region's developed-economy trading partners. The growth in intra-Asian trade also underscores the flexibility with which some countries were able to change the output-and-export mix as their competitiveness changed. The high-technology, capital-intensive products of the newly industrialized economies (NIEs) now compete effectively with similar products from more advanced countries in all global markets. As labour and other costs rose in the NIEs—and as they continued to shift upscale to the production of more advanced manufactured goods—more of their production facilities for labour-intensive consumer and electronic goods were shifted to second-generation NIEs and to China where labour and other production costs were lower. The substantial appreciation of the yen in 1993 resulted in increased offshore production by Japanese firms and accelerated the relocation of more Japanese production facilities to the lower-cost centres. China's emergence in recent years as a significant importer of a wide range of capital equipment, intermediate inputs, industrial raw materials and consumer durables from other countries in the region also provided considerable impetus to the rapid growth of intra-Asian trade. The country expanded its economic linkages with other economies in the region beyond Hong Kong and Taiwan Province of China to include strengthened ties with Singapore and the Republic of Korea.

The growth of exports was widely spread among the

countries of the region. Export growth of the NIEs averaged 12 per cent in 1993, led by a doubling of Singapore's growth to 16 per cent. Growth of Hong Kong's exports slowed to 13 per cent from 21 per cent in the previous year. Exports of Taiwan Province of China increased by 4.5 per cent in 1993, compared with a growth increase of 7 per cent in 1992. In both Hong Kong and Taiwan Province of China, the lower growth rates reflected a continuing relocation of labour-intensive manufacturing to China. Korea's exports grew by 8.4 per cent compared with 6.5 per cent in 1992. The combined exports of the second-generation NIEs grew by 17 per cent. Malaysia maintained its rapid export expansion with a growth of 16.5 per cent in 1993, based mainly on the strength of electronics exports, while exports of Thailand rose 12.8 per cent. Indonesia's exports improved by 8.4 per cent despite declines in oil-export revenues. The 20 per cent increase in India's exports was attributable mainly to a substantial depreciation of the currency and the successful implementation of trade liberalization policies.

Imports of the region also increased vigorously, at an average rate of 12 per cent in volume. Imports were sluggish in India and the Republic of Korea, as both economies were still recovering from earlier stabilization measures.

China

China's economic success in the past decade has been closely linked to a phenomenal growth in its external trade. In 1993, the volume of exports expanded robustly; on the other hand, the growth rate slowed to 10 per cent from 17 per cent in the previous year, while the growth of imports accelerated to 30 per cent compared with 24 per cent in 1992, turning the trade account from a surplus to a deficit of around \$12 billion. Growth in exports slowed because of weak demand in many of China's foreign markets but also because part of the export surplus was diverted into the booming domestic economy (see chap. II). Imports surged across the board, encompassing capital equipment, intermediate inputs and raw materials. The greatest surges were in the importation of machinery (including motor vehicles), commercial and other aircraft, mining and construction equipment, and industrial raw materials such as steel and steel products, copper and petroleum products.

ECONOMIES IN TRANSITION

Eastern Europe

A detailed analysis of the trade performance of the transition economies of eastern Europe in 1993 is hindered both by persistently unreliable trade statistics⁵ and by the methodological problems related to the breakup of the former Czechoslovakia.⁶ The trade figures for eastern Europe should therefore be treated with caution.

Just as domestic developments in the countries of eastern Europe are becoming increasingly differentiated (see chap. II), so is their trade performance. The Czech Republic, Poland and Romania reported positive growth of 5-6 per cent in the dollar value of their merchandise exports in 1993; Bulgarian exports remained practically unchanged; Hungary and Slovakia reported large declines in merchandise exports (-23 per cent and -16 per cent, respectively). On the import side, the picture was also mixed. The merchandise imports of Poland and Hungary grew substantially (13 per cent and 8 per cent, respectively); Bulgaria and the Czech Republic reported imports close to their 1992 levels, whereas the imports of Slovakia and Romania declined by 19 per cent and 7 per cent, respectively.

Despite the differences, recent trade performance of all eastern European countries has been marked by one common feature. For the second consecutive year, all countries in the region reported a deficit in their merchandise trade in 1993. Moreover, the imbalance widened substantially in 1993: the total merchandise trade deficit of the region had increased to \$8.8 billion from \$5.5 billion in the previous year. The reported trade deficit was especially large in the cases of Hungary and Poland (over \$3 billion in each of the two countries). The Czech Republic and, to a lesser extent, Slovakia were able to offset their merchandise trade deficits by the net export of services.

Trade of the transition economies of eastern Europe in 1993 was influenced by a variety of factors. For the region as a whole there was a reversal of the previous trend of expanding exports to Western Europe. The continuing recession in that part of the continent (most notably in Germany, the biggest trading partner for the central and eastern European countries) had a major negative impact on imports from the transition economies. The entering into force of the Association Agreements with EU and of the free trade agreements with the European Free Trade Association (EFTA)⁷ was too recent to offset the impact of the recession.

Trade relations between the transition economies of eastern Europe and EU were marked by inconsistency. On the one hand, the European Council at its Copenhagen meeting in June 1993 adopted a series of measures aimed at the acceleration of the opening up of EU markets to the transition economies.⁸ On the other hand, the year 1993 saw a rise in protectionist acts on the part of EU in a number of cases.⁹ The discrepancy between the general trend of liberalization and the raising of new trade barriers (especially taking into account the negligible share of eastern Europe in EU imports) can give only confusing signals for policy-making in the transition economies.

Apart from reduced external demand, exports in some central and eastern European countries were also adversely affected by domestic supply-side problems. This was the

case, for example, in agriculture. The drought experienced in 1993, coupled with the problems of land reform, led to a sharp contraction in the exports of agricultural products from Hungary and Bulgaria and, to a lesser extent, from Slovakia and Poland.

The general trend for appreciation (in real terms) of the national currencies of all eastern European transition economies played a large role in the worsening of the trade balances in the period 1992-1993.¹⁰ It remains to be seen, however, whether the balance-of-trade problems will reach a magnitude that requires major policy interventions.

The former Union of Soviet Socialist Republics

With the dissolution of the Union of Soviet Socialist Republics (USSR), the flows of goods and services among its successor States became bona fide international trade. Nevertheless, that most of those States continue to officially report their trade with the other Commonwealth of Independent States (CIS) States and their trade with the rest of the world as separate entities, reflects the fact that major differences in the nature and modalities of these two flows persist. Trade links between former republics are maintained as a matter of necessity rather than choice, and most have sought to reorient both their exports and their imports to Western markets. Bilateral intergovernmental agreements and government regulations, not market-driven decisions of autonomous economic agents, remain paramount in shaping both the composition and the volume of trade.

A general decline in output, as well as liquidity problems and the effort of reorienting trade, resulted in a drastic contraction in trade among the successor States of the USSR. For instance, Russia's trade with the former partner republics in 1993 was estimated at \$20 billion¹¹—merely half the volume of 1991. Oil deliveries fell 60 per cent, coal deliveries 68 per cent, rolled metal deliveries 64 per cent, in the same two-year period.

Meanwhile, the uniquely interdependent character of the successor States' economies has prompted them to seek new ways to restore their ties. There were, for example, several attempts to introduce mechanisms to ensure a "common economic space", but concrete action—such as the establishment of the Inter-State Bank—has been slow in coming (see below).

According to official reports, in 1993 the CIS countries as a whole maintained a significant surplus in their trade with the rest of the world. The surplus was formed by the Russian Federation, Ukraine, Kazakhstan and Turkmenistan, with the other countries registering negative balances.¹² Developed countries remained the principal trade partners, accounting for almost 60 per cent of total trade. Exports to developing countries grew over 50 per cent last year, while trade with the former Council for Mutual Economic Assistance (CMEA) countries, with

the Baltic countries and with the former Yugoslavia fell.

In the Russian Federation, the State has been withdrawing from actively involving itself in export-import operations. In 1993, centralized exports—for which the State assumes the role essentially of an intermediary—constituted a quarter of total exports. Revenues from these operations were used for debt servicing and financing centralized imports. As of mid-1994, however, centralized exports were to be discontinued, with the Government relying on taxes, licensing fees and strict enforcement of currency regulations for currency revenues.

The foreign exchange market has been liberalized, with the rouble now freely convertible for current account purposes, so that importers' access to hard currency is limited only by their rouble liquidity. The regulatory regime, however, kept changing throughout the year, and there was frequent changing of duties, quotas, and licensing requirements. Coupled with real appreciation of the rouble, high export duties resulted in a significant loss of export motivation.

The liberalization of foreign trade—and the resulting emergence of a totally new set of actors—has thus far proved to be a mixed blessing for the Russian Federation's economy. On the one hand, one of the major spheres of economic activity has switched to market principles of operation, providing needed inputs for industry and con-

sumers, and at the same time creating the competitive stimulus necessary for structural changes in the domestic economy. On the other hand, the absence of procedures and mechanisms required to monitor and regulate decentralized foreign trade activity has led to substantial illegal exports (in particular, of non-ferrous metals) and non-repatriation of export revenues, which is in effect a form of capital flight. World markets flooded by exporters seeking short-term hard-currency revenues created a downward pressure on the world prices for many traditional Russian exports. The liberalization of imports, in particular of consumer goods, had an adverse, though not unexpected, effect on domestic industries. To mitigate some of these negative effects, the Government of the Russian Federation introduced in early 1994 a set of measures to re-establish order in monitoring international trade, repatriation of revenues, and export licensing.

Access to markets remains one of the major foreign trade concerns for the countries of the region. Negotiations to this end were continuing both multilaterally and bilaterally. The Russian Federation, for example, has concluded several agreements aimed at regularizing its exports and, at the same time, providing market access for them. Such an arrangement was reached with EU with respect to aluminium, and with the United States concerning uranium.

COMMODITY PRICES

Primary commodities still account for almost one quarter of the \$3.5 trillion in world trade and for just under half of the exports of the developing countries. Changes in commodity prices continue to vitally affect a large number of developing countries, despite a phenomenal growth of exports of manufactures from the group, and have often been a barometer of inflation in the developed countries. Prices continued to fall in 1993, entailing further losses of export revenues for many commodity-dependent developing countries, but contributing to the containment of inflation in commodity-importing countries. In general, the changes during the year were modest, but there were important exceptions.

The most important change was a substantial fall in oil prices. After the period of relative stability that characterized the oil markets since the Gulf crisis, persistent excess supply pushed oil prices to their lowest level since 1988. The average spot price of the Organization of the Petroleum Exporting Countries (OPEC) basket of crudes remained stable during the first half of 1993, at around \$17.6 a barrel, but dropped sharply in the second, ending at \$14.4 in the last quarter of the year. For the year as a whole, the average price was at \$16.3, about 11 per cent lower than in 1992. The real price (in terms of dollar prices

of manufactured exports of developed countries, which fell by about 2 per cent), declined by around 9 per cent. The fall in oil prices in 1993 led to a 3.4 per cent decline in the terms of trade of the oil-exporting countries and a \$20 billion fall in their oil export revenues.

Non-fuel commodity prices weakened further over most of 1993 with some signs of recovery towards the end of the year. For the year as a whole, average dollar prices fell by some 3.5 per cent from their 1992 level, and this represented the fourth consecutive annual drop in prices. In real terms—dollar prices deflated by the index of prices of manufactured exports of developed countries—prices declined by around 1.4 per cent. The average decline was thus modest in comparison with past changes; but it nevertheless tripped the real prices of a number of non-fuel commodities to their lowest levels in over 30 years.

Sugar, among the major commodities exported by developing countries, increased its prices by about 10 per cent, owing largely to a 40 per cent fall in Cuban sugar exports. The sugar industry of the country faced severe shortages of machinery and spares, and floods caused crop damage. Prices of tropical beverages, the most important group of non-fuel exports, recovered after four years of fall. Coffee prices rose by around 16 per cent,

partly as a result of concerted action by producers to restrain output. Cocoa prices improved only slightly (around 1 per cent) for the year, partly as a result of reduced excess supply. However, prices were rising more strongly in the second half of the year. Tea prices fell 7 per cent as output recovered from the previous year's drought.

Prices of agricultural raw materials remained weak (see figure III.4). The price index of these commodities declined by around 3 per cent for the year as a whole, and this was the third consecutive annual fall, partly as a result of weak demand (for example, for rubber). Supply shortages led to a rise in prices of cotton and wool.

Prices of minerals and metals registered the largest declines in 1993. For the group, the average price plunged 15 per cent, with prices of aluminium, lead and zinc falling to record lows, caused by weak demand as well as excess supply. Exports of aluminium, lead, nickel and zinc from the former Soviet Union remained large, as in recent years, adding to the already high levels of stocks of these commodities in Western markets. Exports of copper and tin from China were at record levels. Sale of surplus minerals and metals from United States stockpiles was another factor behind excess supply and the fall in prices. A further drop in aluminium prices was probably prevented, as in the case of coffee, by concerted action by producers to reduce excess supply. While International Commodity Agreements have been largely ineffective in stabilizing prices, the recent producer efforts to achieve such a goal stand out.

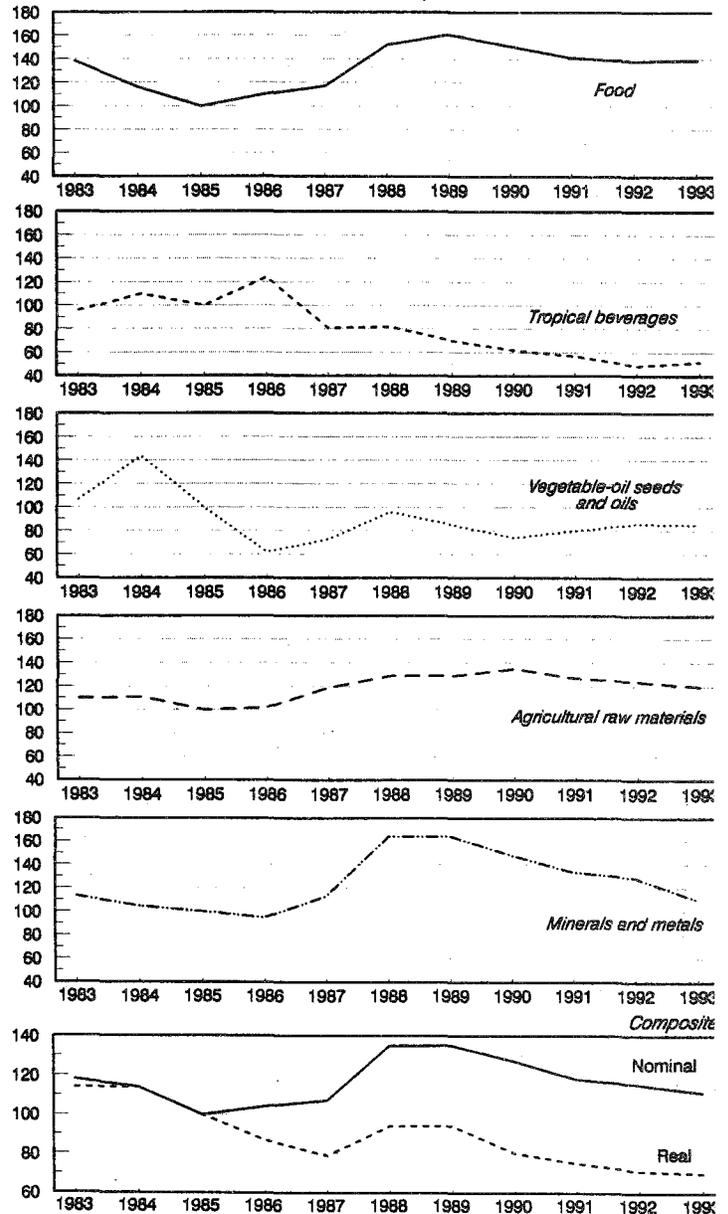
The main reason behind the declining trend in commodity prices is the relative stagnation in their world demand. The factors contributing to the sluggishness of demand for primary products are well known: economy in the consumption of raw materials per unit of output of goods, substitution of synthetics for natural products, shift in the composition of output towards services that require few material inputs.

Within this global shift in demand, however, a major change has been taking place in the structure of the world economy, the absence of which would have led to a faster fall in the relative demand for primary commodities. This is the emergence of developing countries as major commodity consumers. As income rises in those countries and manufacturing industries are developed, the demand rises rapidly for both food and industrial raw materials—for the former because of its high elasticity of demand at a low level of income, and for the latter (demand for which may increase even faster) because the pattern of manufacturing industries is normally a raw materials-intensive one at the early stages of industrialization.

The relative strength of demand for primary commodities in these countries is reflected in the pattern of their imports and exports. Developing countries have themselves become important consumers of commodities

Figure III.4.

Non-fuel commodity price indices, 1983-1993



Source: UNCTAD, *Monthly Commodity Price Bulletin*.

produced by the group. Over the period 1970-1990, the dollar value of imports of primary commodities by developing countries increased some 12-fold or at a rate of 13.5 per cent a year. During the same period, world imports of those commodities increased less than 7.7-fold, or at about 10.8 per cent a year. Exports of food, raw materials and fuel from developing countries destined for other developing countries, as a proportion of their total exports

of these products to all destinations, rose from around 14 to 24 per cent. For developing countries that are growing fast or have a large manufacturing sector, the importance of this trade is even greater and is increasing apace. For a sample of 9 of these countries, imports of primary commodities from other developing countries as a share of their total imports of those commodities increased from around 43 per cent in 1970 to 55 per cent in 1990 (table III.3).

Table III.3.
Trade in primary commodities

	Intra-developing country imports (billions of dollars)	World imports (billions of dollars)	Share of intra-trade in total exports ^a (percentage)	Major manufacturing countries' import share ^b (percentage)
1970	13	115	13.5	42.5
1980	123	870	19.2	66.1
1990	155	882	23.8	54.8
Percentage change, 1970-1990	13.5	10.8	..	..

Source: UN/DESIPA, based on Compressed International Trade Database (COMTRADE); and UNCTAD, *Handbook of International Trade and Development Statistics, 1992* (United Nations publication, Sales No. E.93.II.D.9).

- a Share of primary exports of a sample of about 70 developing countries to other developing countries in their total exports of primary commodities to the world.
b Share of imports of primary commodities (SITC, Rev. 3, sections 0-4) of a sample of nine developing countries with a large manufacturing sector from other developing countries in their total imports of primary commodities of the world.

SOME BONES OF CONTENTION IN TRADE POLICY

The United States figures prominently in any examination of trade policy developments for a number of reasons. This country ranks as the world's largest exporter and importer, having accounted for 13 per cent and 16 per cent of global exports and imports, respectively, in 1993. It has also played a leading role in past multilateral trade liberalization efforts and has a comparatively open economy. Moreover, there is considerable information and assessments available on American trade actions and policies, as well as an open airing of the Administration's policy intentions. All of this brings the country's trade policies to the forefront of any policy discussion on the subject.

The past year has seen a rift in United States-China trade relations as the former has sought to use most-favoured-nation (MFN) status as a tool to pressure the latter to change some of its domestic policies. Regardless of its origins however, the tactic has economic implications that are quite clear for both parties. The loss of MFN status could affect the flow of foreign investment to China. The United States also has an interest in keeping the trade channels open. American companies have already commit-

ted or invested some \$10 billion in China and the country is their fastest growing export market, having expanded by 19 per cent in 1992 and 17 per cent in 1993. It remains to be seen how the issue is to be resolved.

On 3 March the United States announced the resurrection of the Super section 301 provision of the 1988 Omnibus Trade and Competitiveness Act. The reinstatement of this trade law—which embodies decisive unilateralism—met with a quick reaction from EU and Japan. Both had challenged the legality of the Super 301 provision in the General Agreement on Tariffs and Trade (GATT) in 1989, but the case was left undecided when the law lapsed.

In its single year of use out of its previous two-year mandate (1989 and 1990), Super 301 cited three "unfair traders"—Brazil, India and Japan—and six "priority" unfair practices to be eliminated. Three of these trade practices concerned Japan—and involved wood products, supercomputers and satellites—and Japan has since then increased its imports in all three categories. India, designated an unfair trader for its closed insurance industry and its practices involving trade-related investment measures,

refused to negotiate. Brazil has since done away with the quantitative import restrictions for which it was cited, though this may have had to do as much with a change of government as with the use of Super 301.

The revived Super 301 differs significantly from the old law in that in the new version the President has the flexibility to forewarn nations that particular practices, if not revised, may lead to a Super 301 designation. The new version extends the tool for only two years—1994 and 1995—and could exclude barriers already under negotiation, or falling under separate trade agreements.¹³

While one may argue that Super 301 is feared more than it is effective since it has so many loopholes, it is as a unilateral trade measure that the Act has evoked the most criticism. Measures such as these contradict the very idea of multilateralism that the Uruguay Round of multilateral trade negotiations was meant to uphold.

Special 301, another arm of the 1988 Omnibus Trade and Competitiveness Act, specifically deals with perceived infringements of United States intellectual property rights. This statute allows the USTR to earmark countries deemed to be denying protection to United States intellectual property rights and to designate the worst offenders—from the United States' perspective—as “priority countries”, thereby triggering a six-month investigation.¹⁴

In June of last year, the United States—in a move intended to serve as a successor to the Structural Impediments Initiative (SII) launched in 1989—first submitted a framework plan for opening sectors of the Japanese economy to foreigners and thereby reducing Japanese trade surpluses. This proposal on Japanese market access bears similarities to the SII in that it seeks to effect broad changes in the underlying structure of the Japanese economy so as to make it more receptive to foreign goods. At the same time, it differs from the previous approach in that it specifically seeks numerical benchmarks for measuring progress. The initial United States proposal thus included the demand that Japan halve its current account surplus—from

3 to 1.5 per cent of its gross national product (GNP). Japan, in turn, was adamant that it would reject such “managed trade” proposals and indicated that it was averse to the setting of any numerical targets. Perhaps inevitably, therefore, a gulf developed over how to define “objective measures” of success in the four areas that were ultimately targeted for early agreement: automobiles and automobile parts, medical equipment, telecommunications equipment and insurance.

The impasse continued into early 1994. The United States backed off with regard to threatened sanctions against Japan as the latter presented a plan for opening up its construction market to outside bidders, a move said to be worth some \$20 billion annually. While no specific “measures” were cited that could be used to gauge the success of this agreement, a number of so-called data points, or indicators, were outlined, including the total yen value and number of construction, design and consulting contracts awarded to foreigners, as well as an evaluation of the efforts made by foreign companies to win such contracts.

In a parallel attempt at forcing a market opening, the United States late last year formally asked Taiwan Province of China to cut tariffs on some 2,800 of its products and to reduce protection levels on other goods—all as a precondition for acceptance into membership in the GATT, to which it had applied. The United States is only the first of several countries expected to make similar demands of Taiwan Province of China over the next few months. While a GATT working group set up to examine Taiwan Province of China's application for membership has drawn attention to its restrictive market access and tendency to undertake bilateral deals with the United States, Taiwanese trade officials maintain that the levels of protection have already been reduced. The nominal industrial tariff was lowered from about 24 per cent in 1986 to under 7 per cent in 1992; agricultural tariffs were reduced from about 35 to under 22 per cent in the same period.

SECTORAL CONTROVERSIES

There was a great deal of tension over a number of “sensitive” trade areas in 1993. In what turned out to be an extremely short-lived protectionist effort, the United States at mid-year announced steep penalties on steel imports from 19 countries that, it was claimed, had been sold at less than fair value. The ruling was designed to more than double the price of some imported steel by raising the average punitive duty from 24.04 per cent in January 1993 to 36.45 per cent in June. Less than a month later, however, the United States International Trade Commission rolled back most of the tariffs on steel used in construction and machinery on the grounds that the American steel industry

had not been hurt by the foreign competition. At the same time though, the Commission made permanent some high temporary tariffs on the corrosion-resistant type of steel used for household appliances and for automobile and truck body panels. This move was viewed as being likely to force American steel makers into further specializing in high-value, corrosion-resistant steel—already one of the industry's few money makers.

In early 1994, five specialty-steel producers joined with the United Steelworkers of America to file a countervailing duty petition against imports of stainless steel bar from Brazil, Italy, Japan and Spain. This was the largest

single dumping petition ever filed by the specialty-steel industry on one product. Total United States consumption of stainless steel bar had increased in the first nine months of 1993, according to the petition. However, imports had jumped more than 31 per cent, thereby capturing nearly all that growth allegedly through unfair pricing tactics. The countries targeted had dumped on the United States market to offset their own recessions, according to the petition—which also noted that net operating income in the specialty-steel industry had fallen from \$29.6 million in profits in 1990 to \$12.5 million in losses in 1992.¹⁵

The United States and EU early this year agreed to take the aluminium market into their collective hands after the metal's price plunged from \$1 to 47 cents per pound as Russian aluminium exports flooded the world market. The USTR indicated that a "voluntary restraint agreement" was one instrument under consideration, while EU threatened unilateral import controls on imports from the Russian Federation.

Trade in automobiles and automobile parts has been a particularly troublesome issue for some time now owing to the high value of that trade. For example, this sector accounts for some 60 per cent of the United States' bilateral trade deficit with Japan. The past year has seen trade "management" of two sorts in this area: improved market access for foreign automobiles and automobile parts on the Japanese market, on the one hand, and renewed restraints on Japanese sales of cars and parts to EU, on the other.

Thus a new market access package for foreign vehicles and parts was announced this past spring. The voluntary programme, developed by the Japan Automobile Manufacturers' Association, aims at meeting the ongoing United States charge that the Japanese restrict access to their automobile market. The proposal calls for increased exchanges among automobile and automobile parts industries globally, and support for foreign car makers in Japan, as well as the providing of better availability to foreign companies as regards the Japanese market. The move, however, does not commit the Government to actively interfering in the industry. The agreement comes in the wake of a recent Japan-United States study that found that American cars were sold in Japan for an average 40 per cent more money than in the United States—thereby giving local cars an average 20 per cent cost advantage.

The Japanese simultaneously sought to deflect EU fears by agreeing to a new limit on Japanese new vehicle exports to Europe, thereby averting the sort of prolonged conflict between Japan and EU that had taken place the previous year. At that time, the Japanese had refused to accept dismal European forecasts of greatly reduced sales and were then obliged to drastically curtail their shipments in order to bring them into line with the 1991 EU-Japan accord on Japanese sales in EU. As a result, Japanese car

exports to EU fell by 18.3 per cent in 1993, to 980 thousand units.

The agreement allows for a small increase in car exports to Europe this year, made possible by the expectation of a slight recovery in the European car market. Hence Japanese car exports to EU would increase by only 0.41 per cent after two years of decline. The 1994 ceiling for Japanese car exports would be 984 thousand cars, practically the same as the 1993 figure. The agreement does not, however, cover Japanese automobile factories in Europe because of insufficient information on their expected performance.¹⁶

The 1991 Japan-United States Semiconductor Arrangement mandated a minimum 20 per cent import penetration rate for foreign semiconductors in Japan. Since that time, the foreign market shares for each quarter have been closely scrutinized—with the United States, on the one hand, claiming success for this "results-oriented" trade approach, and Japan, on the other, warning that market share alone is not a reliable measure of success, since constant changes in the size of the market and in market demand structure inevitably create fluctuations in market shares. In the third quarter of 1991, when the Arrangement was formalized, the foreign market share of the Japanese semiconductor market stood at 14.3 per cent. Despite fluctuations, it has increased and in the fourth quarter of 1993, stood at 20.7 per cent, an all-time high.¹⁷

The Semiconductor Industry Association, a trade group representing American chip makers, views the maintenance of this percentage as a "litmus test" as to whether real progress in penetrating the Japanese market can be made. Meanwhile, however, there is deep resentment in Japan over what is viewed as a no-win situation in which a given expectation was turned into a target. If the target is not met, there are fears of retaliation; and if it is met, there are concerns that the perception that target-setting works in opening markets will be strengthened. A mid-term review of the Semiconductor Arrangement is slated for the end of July.

Telecommunications—because of its tremendous growth potential—has been another area of contention. A 1989 agreement between Japan and the United States on cellular phones stipulates that North America should be granted "comparable market access"—comparable, that is, with that of Japanese companies—to the Tokyo-Nagoya market, where 60 per cent of Japan's population lives. The accord grew out of the United States' contention that Motorola, the country's leading manufacturer of cellular phones, was being frozen out of the Japanese market in order to give local companies the opportunity of catching up with Motorola's leading-edge cellular technology.

The market-opening accord, however, proved to be far from a guarantee, with Motorola making very little headway in the lucrative market, as indicated in the American

annual review of the situation. In the wake of threatened import sanctions by the United States, which could have amounted to some \$300 million, an agreement was forged in which Japan Mobile Communications (IDO), one of the largest Japanese cellular phone providers, agreed to vastly accelerate its construction of base stations using the Motorola equipment, so that they would reach 95 per cent of the area's population by 1995.

Textiles and clothing have been a perennial source of conflict, as well as constituting a clear-cut case of managed trade for several decades. One of the more recent manifestations of such trade management is the China-United States textile quota agreement, concluded on 17 January 1994. China's textile exports to the United States, under the Multifibre Arrangement (MFA), amounted to \$4.7 billion in 1993. Silk amounted to an additional \$2.5 billion, up dramatically from \$900 million in 1991. China is the

largest supplier to the American market, accounting for 20-25 per cent of all clothing sold. China had admitted, however, to transshipments of its textiles through third countries to avoid United States quotas. A conservative estimate for such "overshipping" is some \$2 billion per year and American textile manufacturers claim that it has cost the domestic textile industry 50,000 jobs. The fact that under the terms of the agreement China's exports to the American market will not be allowed to grow as they have in the past three years will cost China some \$700 million in exports and result in a 13 per cent reduction in expected shipments to the United States in the period 1994-1996. Thus, there is to be no growth in such exports in 1994 and growth of only about 1 per cent per year in the following two years. Moreover, China agreed to accept stiff penalties where "clear evidence" of transshipments existed.

REGIONALISM: RECENT DEVELOPMENTS

The proliferation of regional trading blocs in recent years culminated in 1993 in a landmark event—the signing of NAFTA.

The factors behind the proliferation and expansion of regional arrangements have been the subject of considerable debate. One explanation is based on "the domino effect".¹⁸ When, for example, Mexico and the United States announced their intentions of forming a free trade area in 1990—for reasons that were in large part geopolitical and visionary—the announcement of the proposed United States-Mexico Free Trade Agreement shook up the status quo of political economy in the Americas, thereby touching off a domino effect. Thus, other Caribbean, and Central and South American economies feared that they would be frozen out of the North American market when Mexican goods gained preferential access to the United States. In addition, there were concerns that foreign investment would increasingly be diverted to Mexico at the expense of third parties. Canada saw benefits in being a party to the agreement, while a number of other economies formally or informally approached the United States for bilateral free trade agreement talks. Similarly, 26 countries signed former President Bush's Enterprise for the Americas Initiative, requiring them to make concessions on trade and investment in return for closer relations with the United States that would culminate in a free trade agreement.

A similar argument pertains to Europe where, it is maintained, the move to create a Single Market posed a threat to non-EU exporters who depended heavily on that market. The domino effect began to operate, leading first the EFTA nations and thereafter Cyprus, a number of Maghreb countries, Turkey and virtually all of central and eastern Europe to seek membership.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA): A MILESTONE IN REGIONAL INTEGRATION

On 17 November 1993, legislation to put NAFTA into effect passed in the United States. NAFTA creates a trading bloc—encompassing 370 million people, and producing some \$6 trillion worth of goods and services each year—larger than the 12-nation EU.

The immediate impact of the accord was to be the elimination of 60 per cent of existing United States and Mexican tariffs and quotas by 1 January 1994. The remainder will be phased out over the next 5-15 years, though tariffs could be reimposed temporarily if imports surge. There are individual specifications as regards rules of origin, automobiles, textiles and apparel, agriculture, trucking and government procurement.

Thus, as regards rules of origin, goods made with materials or labour from outside North America qualify for NAFTA treatment only if they have undergone "substantial transformation" within Canada, Mexico or the United States. As regards automobiles, tariffs will be eliminated after eight years for automobiles only if 62.5 per cent of the cost represents North American materials or labour.¹⁹ Strict rules would eliminate tariffs only for textiles and apparel made from North American-spun yarn or for fabrics made from North American fibres. As a way of assuaging the American textile and apparel industry, quotas could be reimposed temporarily if imports were deemed to cause "serious injury". About half of existing agricultural tariffs and quotas are to be removed immediately, though those on politically sensitive crops—such as American corn sold to Mexico or Mexican peanuts, sugar and orange juice sold to the United States—will be lifted over 15 years. In trucking, limits on cargo driven across the Mexico-United

States border will be lifted by 1999. As regards government procurement, major government purchases will be open to companies from all three nations, with a 10-year phase-out of Mexican restrictions on purchases by its state-owned energy industry.

Foreign investors from member countries will generally be treated no less favourably than domestic investors, though there will be exceptions and varying phase-out periods. Mexico has agreed to open most petrochemical and electric-generation sectors to United States investors, though restrictions are to continue on foreign investment in oil or gas exploration, production and refining. Lastly, limits on foreign investment in Mexican banks, insurance and brokerage firms will be lifted over the next 7-15 years.

There are, moreover, two important "side agreements". As regards the environment, an agency is to be established to investigate environmental abuses in any of the three partners. Fines or trade sanctions could be imposed. As regards labour, an agency is to be established to investigate labour abuses if two of the three members agree. Fines or trade sanctions could be imposed in a number of instances, such as those involving failure to enforce worker-safety rules.

It is difficult to assess the eventual impact of the agreement both on members and on non-members. A recent Joint Economic Committee (JEC) of the United States Congress Staff Study has examined 16 major NAFTA economic impact models reflecting widely different conclusions depending on the assumptions made. Thus, 10 studies claimed generally favourable or neutral outcomes for the American economy from NAFTA, while the other 6 reached mostly negative conclusions about its potential impact.²⁰ All in all, however, what is most striking is that the potential impact—at least for the United States—appears to be only modest.²¹

LATIN AMERICAN INTEGRATION

Economic integration is making rapid strides in the region. Early this year, Brazil launched an initiative for a South American free trade area and Mexico signed an agreement with Costa Rica. The Mexico-Costa Rica agreement is expected to eventually remove tariff and most non-tariff barriers between the two countries, to offer national treatment to each country's investors, to set rules on intellectual property rights, to ease the movement of workers and to provide for a dispute resolution panel.

Liberalization agreements are also in effect between Argentina and Brazil, Argentina and Paraguay, and Argentina and Uruguay, as well as between Chile and Mexico, and Colombia and Venezuela. As part of this new emphasis on "open regionalism" intra-Latin American trade has swelled. Trade among the largest 11 South American economies grew about 28 per cent in 1992, reaching over \$19 billion. Within the Andean region, trade increased by

20 per cent in 1992, when Bolivia, Colombia, Ecuador and Venezuela cut almost all their mutual tariffs to zero. In MERCOSUR—the Southern Cone Common Market—regional trade increased almost 25 per cent in 1993, reaching roughly \$9 billion. Intraregional trade had been about one third that amount in 1990, the year MERCOSUR's four members—Argentina, Brazil, Paraguay and Uruguay—signed their agreement. However, early this year, the presidents of the four member nations agreed to postpone a decision on the implementation of a common external tariff, by far the most contentious issue among them. While this will make it almost impossible for them to meet 1 January 1995 deadline for the formation of a fully fledged common market, another attempt to agree on tariffs will be undertaken at the end of June 1994.

The Caribbean and Central American countries are similarly eager to avert diversion of their exports due to NAFTA. Under discussion are proposals in the United States Congress to put the entire region's exports to the United States and Canada on a par with Mexico's. These parity proposals—on which the Caribbean basin countries naturally want quick action—are designed to give those countries an open door into the NAFTA market for three years. One possibility is that parity will be granted to only a few of the region's exports, including textiles.

THE EUROPEAN UNION'S SINGLE MARKET

EU continues to deepen as well as widen. Thus, on 1 March of this year, Austria, Finland and Sweden agreed to terms for joining EU as of January 1995. Special terms were negotiated by all three countries. Sweden was allowed to phase in its contributions to the EU budget; Finland was promised special aid to its farmers for their disadvantages due to relatively harsher weather conditions and longer delivery distances than in the rest of EU; Austria was allowed to continue its restrictions on heavy truck traffic on its Alpine passes until the year 2001, with an option to extend those restrictions for another three years. Later in the month, EU also agreed on terms for Norway's membership after settling the question of fishing rights.

Agriculture is highly subsidized in all four of these countries. One condition of their membership is that they must lower food prices, on 1 January 1995, to the level set by EU's Common Agricultural Policy as of that date. However, EU has offered roughly \$4 billion in aid to each of the new entrants to assist them in this transition by cushioning their farm price adjustments. Referendums on the issue of membership will be the next step for all four countries.

EU, meanwhile, has had to work on adjusting its voting rules to accommodate these new members, which proved to be a contentious issue. The question hinged on the concerns of EU's larger members. Thus far, important matters of policy such as trade, the environment, and health

and safety regulations—as well as EU's budget—have been determined by a so-called qualified majority of votes in the Council of Ministers, where voting is distributed roughly by size. For EU's current 12 members, the votes add up to 76 and the qualified majority required for policy decisions is 54 of those 76 votes. Hence, only 23 votes are needed to form a "blocking minority"—which might consist of any two larger countries plus any small country other than Luxembourg.

However, when the four new applicants join EU, the total number of votes will add up to 90, the qualified majority to 64 and the blocking minority to 27. Two large countries would no longer be able to block a decision, and this prospect is of concern to Italy, Spain and the United Kingdom—three large countries. Moreover, if the blocking minority increases to 27, it could, in theory, be formed by the nine small country members, which account for less than 15 per cent of EU's population. While the balance between large and small countries has worked fairly well thus far, the potential entry into EU of four more small countries would upset a delicate balance.

The current compromise—offered to Spain and the United Kingdom by the other 10 members—would allow member States at risk of being outvoted the automatic right to delay EU decisions for two months. While this arrangement falls short of the wish of those that tried to maintain present voting rules unchanged, it none the less allows for some "protection" of the interest of the big member States.

Deepening is also encountering obstacles. For example, 1 January 1993 was the initial deadline for abolishing all controls at internal land, sea and airport borders. Denmark, Ireland and the United Kingdom, however, exempted themselves from the objective of eliminating passport controls. Meanwhile, the other nine members had set and missed three later deadlines. Part of the blame is being laid on problems encountered in making the nine countries' computer systems—which are expected to link up the various countries' immigration and police authorities—compatible. Nevertheless, the European Commission has pledged to enforce what it claims is a legal obligation on the part of all EU members to lift border controls.

REINTEGRATION OF THE COMMONWEALTH OF INDEPENDENT STATES ?

The successor States of the former Soviet Union have also sought to find means of reintegrating their uniquely related economies. For example, some countries, notably the Russian Federation, Belarus, and Kazakhstan, advocated the creation of a CIS "common market". In September 1993, a summit of the CIS States adopted a Treaty on Economic Union, designed to pave a way to the eventual creation of a common market covering most of the territory of the former USSR. That treaty envisions the free movement of

goods, capital and labour, as well as a single customs space. Coordination of the member States' fiscal and monetary policies and currency regulation is also foreseen, as is a single monetary and currency system using national currencies, leading up to the eventual creation of a currency union with floating exchange rates.

Significant differences remain, however, and as of the second quarter of 1994, the treaty had not been implemented. The creation of a "rouble zone of a new type"—which was to become a major component of a new mechanism—was abandoned late in 1993. Meanwhile, Ukraine is still negotiating its status as an associate member of the Economic Union. Kazakhstan, Kyrgyzstan, and Uzbekistan, endeavouring to establish a Central Asian Economic Union, agreed to a customs-free zone on their territory. In general, inter-State economic relations continue to be conducted mainly on the basis of bilateral arrangements, which generally seek to remove trade barriers.

ASIA-PACIFIC ECONOMIC COOPERATION FORUM (APEC) AND OPEN REGIONALISM

The Asia-Pacific Economic Cooperation Forum (APEC) was originally conceived in early 1989 as a counterpoise to the increased regionalism in the rest of the world—especially as manifested in the European Single Act which was to culminate in EU. Two years later, the original 12 members had grown to 15 and APEC began to spell out its members' commitment to free trade and to "open regionalism".²² APEC members now account for some 40 per cent of world trade, and intraregional trade among the APEC countries in 1992 reached roughly 65 per cent of their total trade. APEC, moreover, is slowly becoming more action-oriented. Thus, the Report of the Eminent Persons Group to APEC Ministers recommended that APEC accelerate its economic cooperation with a view to eventually establishing a free trade and investment regime in the area.²³ In March of this year, finance ministers from the APEC countries held their first joint meeting in Honolulu and agreed on broad principles to guide economic policy in the region, including sound macroeconomic policy, as well as more open trade and cross-border investment.

REGIONAL INTEGRATION IN AFRICA

While existing formal integration efforts in Africa have proved largely ineffective, some progress towards integration was made in the past year. The Union douanière et économique de l'Afrique centrale (Central African Customs and Economic Union (UDEAC)), whose members also share a central bank, began implementing fiscal and customs reforms to establish uniform tariff and tax rates and agreed to harmonize investment codes. Franc zone members also agreed, concurrently with the recent devalu-

ation of their currencies (see box II.2), to intensify their regional cooperation. For example, the seven members of the West African Monetary Union (WAMU) set up the Union économique et monétaire de l'Afrique de l'ouest (UEMOA), and dissolved the moribund Communauté économique de l'Afrique de l'Ouest (CEAO) (Economic Community of West Africa), while the six members of UDEAC also signed a treaty establishing an economic and monetary union. Kenya, Uganda and the United Republic of Tanzania signed an accord on cooperation in a wide range of areas. Among the priorities were the free movement of people, goods, services, and capital. To that effect, the central banks of the three countries agreed in April

1994 to allow their currencies to be traded freely in each country. It was stressed that it was envisaged not to resurrect the East African Community, which had broken down at the end of the 1970s, but instead to build on some surviving institutions, such as the East African Development Bank. Finally, the Preferential Trade Area for Eastern and Southern African States (PTA) was transformed into the Common Market for Eastern and Southern Africa (COMESA). In May of 1993, the three countries announced a four-phase plan to establish a full monetary union with a common currency issued by a common central bank by the year 2020.

THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS: A PRELIMINARY ASSESSMENT OF RESULTS

A period of stagnation in world trade, pervasive drift to protectionism and erosion of confidence in the multilateral trading system followed surprisingly close on the heels of the Tokyo Round of multilateral trade negotiations, completed in 1979, which was designed to strengthen the system and liberalize trade. Already in the early 1980s these developments were beginning to be seen as a danger signal to the trading system. The GATT Ministerial meeting of November 1982, considering the multilateral trading system to be in serious danger, took a number of decisions on strengthening the system and initiated an elaborate work programme to this end. The sharply deteriorating international economic situation, the large amount of unfinished business from the Tokyo Round and lack of progress in the GATT work programme soon made it clear, however, that a new round of multilateral negotiations had become necessary. Those negotiations, the Uruguay Round, started with the Punta del Este Ministerial Declaration of September 1986 and were completed in December 1993. Some three years behind schedule, the agreement under the Uruguay Round comes into effect on 1 January 1995, subject to ratification, with implementation of some of its major elements spread over the next 10 years.

The major aims of the Uruguay Round, as set out in the Punta del Este Declaration were (a) to bring about further liberalization and expansion of world trade in goods to the benefit of all countries, especially less developed countries, through improvement of access to markets by reduction and elimination of tariff and non-tariff barriers and (b) to strengthen the role of GATT, improve the multilateral trading system and bring about a wider area of world trade in goods under effective multilateral disciplines. The Declaration also agreed to an immediate stop to further trade-restrictive measures inconsistent with GATT rules and to minimize the use of restrictive measures which were legal under GATT rules and to roll back all

measures that were inconsistent with GATT rules before the completion of the Uruguay Round. In parallel with negotiations to liberalize trade in goods, a major decision was taken to launch negotiations on trade in services—which now accounts for over 20 per cent of world trade—having the objective of establishing a “multilateral framework of principles and rules for trade in services” with a view to expansion of such trade.

In its coverage of issues, the Uruguay Round has been the most ambitious of the multilateral trade negotiations.²⁴ Important areas, such as textiles and agriculture, which had so far remained largely outside the purview of GATT, were to be brought under GATT discipline. Negotiations were extended to services, intellectual property and trade-related investment, areas which had never before been regarded as concerns of the multilateral trading system. The widespread use of trade-distorting measures which evaded or ignored GATT rules and the perceived weakness of GATT in such areas as dispute settlement clearly called for action. Some of the GATT rules needed review and clarification. The number of issues negotiated was thus very large.

The number of countries participating in the Uruguay Round had also been far larger than in any other round. In all, as of December 1993, 117 countries took part in the Uruguay Round; of these 113 were contracting parties (full members) of GATT.²⁵ In the Tokyo Round, about 100 countries participated in the negotiations; of these, 70 were contracting parties. Unlike other multilateral trade talks, the involvement of the developing countries in the Uruguay Round was extensive. They fully participated in practically all major aspects of the negotiations and played a large role in bringing the Uruguay Round to a successful conclusion. A total of 88 developing countries participated in the Uruguay Round compared with 70 in the Tokyo Round. This reflected an increased realization among

those countries that the rapid globalization of the international economy was a process from which no country could afford to be left out, as well as the continuing need of many of those countries for differential treatment, which could be met only through participation in negotiations.

A SUMMARY OF THE RESULTS OF THE NEGOTIATIONS

The negotiators sought to achieve the objectives of further trade liberalization and strengthening of the multilateral trading system through simultaneous negotiations in a large number of areas. Some of the negotiations related directly to the opening up of markets, some others sought to extend the rules of multilateral trade to specific areas, and still others concerned the clarification and strengthening of these rules and institutional questions. The following paragraphs contain a brief survey of the main results.²⁶

Market access

Increased access to markets was one of the critical, as well as one of the most complex, areas of negotiations. The negotiations aimed at reduction of tariff and non-tariff barriers, and binding of tariffs (in other words, undertaking to not raise the agreed rate) in agricultural and non-agricultural goods, and involved scores of country offers covering tens of thousands of tariff lines. By 15 December, when the Round was formally completed, a number of market access offers were still to be completed and the least developed countries had been allowed an extra year to lodge their tariff schedules.

The assessment of the results of market access negotiations can be only partial at this stage. Based on offers as of mid-November 1993, the GATT secretariat estimated that the trade-weighted average tariffs on developed country industrial imports from all sources should decline from the pre-Round level of 6.4 to about 4 per cent, representing a reduction of 38 per cent.²⁷ Tariffs on their imports from developing countries should decrease from 6.8 to 4.5 per cent, or by 34 per cent. Though the average tariffs were small to start with, large differences in tariffs existed across product categories. For example, the developed country average tariff offered on imports of textiles from developing countries was estimated at 11.5 per cent (compared with 14.6 per cent at present) which was two and a half times the average tariff on industrial imports.

There has been a large increase in the proportion of duty-free developed country imports. This proportion is expected to increase from 20 to 43 per cent for imports of industrial products. In agriculture, significant reductions in tariffs are expected as a result of the Uruguay Round. As of mid-November 1993, the tariff reduction (including tariff equivalents resulting from tariffication of quantita-

tive restrictions) offered by developed countries was 36 per cent.²⁸

The importance of tariffs as a trade barrier has, in general, declined over the years as successive multilateral negotiations cut them down, while quantitative trade restrictions have gained in importance. A major objective of the Uruguay Round was to reduce non-tariff barriers. In so far as this will have been successful, the extent of reduction of trade barriers expected to be achieved through the Uruguay Round negotiations will exceed that indicated by the reduction of tariffs alone, probably very considerably. Major examples of non-tariff barriers are the Multifibre Arrangement (MFA), most trade in agriculture, import restrictions imposed under the safeguard clauses of GATT and the various "grey area" measures like the voluntary export restraint (VER). Among the successes of the Uruguay Round are the phasing out or reduction of those barriers.

Textiles and clothing

The objective of negotiations has been to bring trade in textiles and clothing, which has been dominated for so long by MFA, fully under GATT rules and disciplines. The agreement envisages integration of this trade into GATT in three phases beginning 1 January 1995 and to be completed by 2005. It also provides for a formula for a progressive increase in the growth of trade for products remaining under restraints during the implementation period. Non-MFA restrictions will also be brought into conformity with GATT within the same time-frame. A Textiles Monitoring Body will be set up to oversee the implementation of the agreement.

Agriculture

Agriculture was an issue of protracted negotiations in the Tokyo Round. Except for limited agreements on dairy products and bovine meat, however, the negotiations foundered, mainly on basic disagreements between EU and the United States. It would be another 15 years before an agreement on agriculture could finally be reached.

The agreements on agriculture provide a framework for long-term reform of agricultural trade and domestic policies. At the core of the agreements lie commitments on market access, domestic support and export subsidies. In addition, under a Ministerial decision concerning least developed and food-importing developing countries, the possible adverse effect of liberalization on those countries will be closely monitored and their food requirements considered. A related agreement on sanitary and phytosanitary measures seeks to discourage arbitrary application of rules concerning food safety and animal and plant health regulations that impede trade.

On market access, non-tariff measures are to be re-

placed by their tariff equivalent, and total tariffs (that is, tariffs combining this tariffication process and existing tariffs) are to be reduced by an average of 36 per cent in the case of developed countries and by 24 per cent in the case of developing countries. The developed countries are to undertake this reduction over six years while the developing countries have ten years to achieve their target. Least developed countries are not required to reduce their tariffs.

Domestic support to agriculture, which has been a major source of distortion in trade in agriculture, is to be significantly reduced. An agreed measure of such support, called the Total Aggregate Measurement of Support (Total AMS), is to be reduced by 20 per cent during the implementation period in the case of developed countries. For the developing countries, the reduction required is 13.3 per cent, while the least developed countries are not required to undertake any reduction. For all countries, support measures that have a minimal impact on trade ("green box" policies), including payments under structural adjustment assistance and environment programmes, are exempted from these requirements.

Direct export subsidies to agriculture are to be reduced, in the case of developed countries, to a level 36 per cent below their 1986-1990 base period level over six years, and the quantity of subsidized exports are to be cut by 21 per cent over the same period. There is some flexibility regarding the base period but not on the period of implementation. In the case of developing countries, the reductions, which are two thirds of those for the developed countries, are to be made over a 10-year period. The least developed countries are exempted from these requirements.

Services

Considering the growing importance of trade in services for growth and development of the world economy, the negotiators sought to bring services under multilateral rules and disciplines and create a framework for continuing trade liberalization. The agreement recognizes, however, the right of member countries to regulate supply of services within their own territories in order to meet national policy objectives and the particular need of developing countries to exercise that right.

The basic agreement on services, which applies to all member countries, defines services as being covered by multilateral rules, and as including services supplied by one country to another, services supplied by the territory of one country to the consumers of another (for example, tourism), services provided through the presence of service-providing entities of one country in the territory of another (for example, banking) and services provided by nationals of one country in the territory of another (for example, construction projects and consultancies).

The basic agreement also sets out the general obliga-

tions and disciplines. The MFN obligation is extended to trade in services. It recognizes, however, that MFN treatment may not be possible for every type of service and therefore envisages that parties may indicate specific MFN exemptions. Those exemptions are to be reviewed after five years and generally limited to a 10-year duration. The agreement includes the important general obligation to provide national treatment to foreign suppliers. It also recognizes that domestic regulations, as distinct from border measures, significantly influence trade in services and requires that such measures should be administered in a reasonable, objective and impartial manner. The basic agreement further emphasizes transparency and requires all parties to enhance it through publication of all laws and regulations concerning trade in services.

The agreement of course goes far beyond basic principles. One of its major components contains rules and disciplines relating to particular services (telecommunications, financial services and air transport services) and movement of labour. The agreement on labour movement permits countries to negotiate specific commitments applying to movement of people providing services. The agreement does not apply to measures affecting persons seeking access to the employment market of a member or to measures regarding citizenship, residence or employment on a permanent basis.

A third major component of the agreement provides the basis of progressive liberalization of trade in services through successive rounds of negotiations and the development of national schedules of market access commitments. A large number of national offers of commitments on market access are already on the table in this area. Countries are free to decide which services they would include in the offer and may also impose limitations on market access and national treatment with the agreement of other participants.²⁹ The agreement also allows parties to withdraw or modify, through negotiations, their schedules after three years.

Trade-related aspects of intellectual property rights (TRIP)

Infringement of intellectual property rights and trade in counterfeit products have often been a source of international tension. The agreement addresses the applicability of GATT principles and those of relevant international intellectual property agreements, provision of adequate enforcement measures for intellectual property rights, and multilateral dispute settlement.

Under its basic principles, the agreement extends, for the first time, the requirement of MFN treatment to intellectual property. It then takes up each type of intellectual property and, where necessary building on existing international agreements, lays down the guidelines and requirements of each type. Among the major features of the

agreement are the following: it requires parties to comply with the substantive provisions of the Berne Convention for the protection of literary and artistic work; it ensures that computer programs will be protected as literary work; it seeks to protect the rights of authors of computer programs and producers of sound records to authorize or prohibit the commercial rental of their work and to protect live performances from bootlegging. In trade marks, the agreement defines what type of signs should be eligible for protection. Industrial designs are similarly protected under the agreement.

The agreement sets out the obligation of member Governments to provide adequate protection under their domestic laws to the intellectual property rights of foreigners as well as to those of their own nationals. Settlement of disputes over infringements of intellectual property rights between member countries are to be brought under the GATT dispute settlement procedures.

For developed countries, the agreement envisages a one-year transition period to bring their national legislation and practices into conformity with the guidelines of the agreement. Developing countries and economies in transition to the market system have a five-year transition period and the least developed countries have an eleven-year one.

Trade-related investment measures (TRIM)

The agreement provides that no member shall apply any trade-related investment measure (TRIM) that is inconsistent with GATT rules of national treatment and prohibition of quantitative restrictions. It provides an illustrative list of TRIMs that violate those rules. The agreement requires notification of all non-conforming TRIMs and their removal within a specified period: two years for developed countries, five years for developing countries and within seven years for the the least developed countries.

Safeguards

GATT article XIX, which allows a member country to take temporary action to protect ("safeguard") a domestic industry from "serious injury" due to a sudden and large increase in imports, has often been used as a pretext for protection and its provisions have often been skirted around through "grey area measures", such as "voluntary" export restraints. Strengthening of article XIX was a major objective of the Tokyo Round but little was achieved. Among the achievements of the Uruguay Round was its prohibition of the grey area measures and its setting of definite time-limits (the "sunset clause") to the duration of action that could be taken under the article.

The agreement provides, *inter alia*, that all existing safeguard measures taken under article XIX shall be terminated not later than eight years after the date on which

they were first applied, or five years after the date of entry into force of the agreement establishing the World Trade Organization (WTO), whichever comes later. It lays down criteria for determining "serious injury" to domestic industry and provides that safeguard measures can be applied only to the extent necessary to prevent or remedy the injury. The safeguard measures should not normally discriminate as to the sources of import. Time-limits of all safeguard measures have been laid down. The duration should not generally exceed four years, though this could be extended to a maximum of eight years. Safeguard measures should not be applied to a product from a developing country if the imports of the product from the country do not exceed a minimum share defined in the agreement (around 3 per cent, given other conditions).

Anti-dumping measures

GATT rules provide for a member country's right to take measures against imports of products that are priced by their exporters below their "normal value". In recent years there has been an increasing use of such anti-dumping measures which have become a major mode of protection.

Rules governing the application of such measures have been more clearly spelled out under the new agreement, in particular the method of determining whether a product is being dumped, the criteria for determining that the dumped imports have caused injury to the domestic industry, the procedure to be followed in anti-dumping investigation and the duration of anti-dumping measures. The agreement also calls for prompt and detailed notification of all anti-dumping action to the GATT Committee on Anti-Dumping Practices.

Subsidies and countervailing measures

Subsidization of domestic industries has been a major source of trade distortion. By seeking to reduce or eliminate subsidies, the negotiations under the Uruguay Round aimed at reducing these distortions as an important way to liberalize trade. Reduction of subsidies in agriculture is a major example of this effort but subsidies are by no means limited to that sector.

Subsidies that the agreement sought to address are those that are specific to industries rather than general subsidies. The agreement establishes three categories of subsidies. In the first category are subsidies that enhance competitiveness of exports or import-competing industries. These are to be prohibited under the agreement and are subject to the new dispute settlement procedures. In the second category are subsidies that adversely affect the interest of other member countries, for example, through injury to domestic industry ("actionable" subsidies). Members affected by actionable subsidies may take up the matter with the Dispute Settlement Body. The third cate-

gory of subsidies are either non-specific or involve assistance to industrial research or to disadvantaged regions, and are non-actionable.

The agreement also covers the use of countervailing measures against subsidized imports. It lays down rules for initiating countervailing cases and for investigation by national authorities. Countervailing duties have normally to be terminated within five years.

While subsidies distort, they also play an important role in economic development policies of developing countries. The agreement exempts the least developed countries and developing countries with per capita income under \$1,000 from the disciplines of "prohibited" export subsidies. For other developing countries, prohibition of export subsidies would take effect eight years after the establishment of WTO. For countries in transition to the market system, the prohibited subsidies are to be phased out within a period of seven years from the date of entry into force of the agreement.

Dispute settlement

The working of the multilateral trading system depends critically on the speed and effectiveness of its dispute settlement procedures. Indeed, a major source of dissatisfaction with the present system has been its perceived weakness in this area. Bilateral or unilateral action is often seen as far more effective by comparison. One of the major results of the Uruguay Round has been the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) which significantly strengthens rules and procedures. In particular, the new Understanding provides for greater automaticity in decisions on the establishment, terms of reference and composition of dispute settlement panels in that they no longer depend on the consent of the parties to the dispute.

The DSU requires a member to enter into consultation within 30 days of a request for consultation from the complaining member; and if there is no settlement within 60 days, the latter may request the setting up of a dispute settlement panel. The DSU sets out the panel procedures. The panel, normally consisting of three persons of appropriate background, from countries not parties to the dispute, and approved by the Director-General if there is no agreement among the parties on its composition, will complete its work within six months or, in urgent cases, within three months. A Dispute Settlement Body (DSB), exercising the authority of the General Council of WTO, will adopt the report within 60 days of its issuance, unless the DSB decides, by consensus, not to adopt it or if one of the parties wishes to appeal.

Appellate review is an important new feature of the dispute settlement mechanism. The DSU provides for an Appellate Body which will examine only the issues of law covered by the panel. The proceedings of the Body should

not exceed 60 days and the resulting report shall be adopted by the DSB and accepted unconditionally by the parties to the dispute, unless the DSB decides, by consensus, against its adoption. The DSB will keep the implementation of the adopted recommendation under review till the issue is resolved. The agreement provides for rules of compensation for the party concerned, or suspension by the party of its concessions or other obligations to the other party, where the recommendation is not implemented. The DSU explicitly provides that the parties will not themselves make the determination of the violation or suspend concessions, but rather will use the DSU mechanism.

Customs unions and free trade areas (article XXIV)

The agreement recognizes that the number of regional trade blocs, in the form of customs unions and free trade areas, has greatly increased in recent years and notes the contribution they might make to the expansion of world trade. It reaffirms the general principle contained in article XXIV of the GATT that these regional trading arrangements should be such that they cover all trade among the constituent territories because the contribution to the expansion of world trade is diminished if any major sector of trade is excluded. It stresses that the purpose of such arrangements should be to facilitate trade between the constituent territories and not to raise barriers to trade of other member countries with such territories. The agreement clarifies and reinforces the criteria and procedure for the review of new or enlarged regional trading arrangements and for evaluation of their effects on third parties.

Trade Policy Review Mechanism

An early result of the Uruguay Round, achieved in December 1988, was an agreement on the Trade Policy Review Mechanism under which trade policies of member countries are already being examined in detail by GATT. The objective of the Mechanism is to improve the adherence by all members to rules, disciplines and commitments made under multilateral agreements by achieving greater transparency of national trade policies. The final agreement of December 1993 confirms the Mechanism and encourages greater transparency in national policy-making in trade.

Achieving greater coherence in global economic policy-making

The Uruguay Round negotiators recognized the importance of the interrelationship between international monetary and financial conditions and international trade. A separate decision sets out proposals for achieving greater coherence in global economic policy-making and called on WTO to develop cooperation with the World Bank and IMF with this objective in view.

The World Trade Organization (WTO)

The agreement creates the World Trade Organization (WTO) which will encompass the GATT, as modified by the Uruguay Round, and all agreements and arrangements concluded under the Round. The highest body of the organization will be the Ministerial Conference, which will meet at least every two years, and under which the General Council will oversee the operations of WTO agreements and ministerial decisions on a regular basis. The General Council will also act in the capacity of the DSB and the Trade Policy Review Body. Like GATT, WTO will conduct decision-making on the basis of consensus. Where voting is necessary, decisions will be taken by a majority vote, except in cases where an interpretation of the WTO agreement is involved, where a two-thirds majority will be required.

The main functions of WTO will be to facilitate the implementation of multilateral agreements on trade and provide the forum for multilateral trade negotiations; to administer the dispute settlement mechanism; to administer the trade policy review mechanism; and to develop cooperation with international organizations dealing with other major issues such as money and finance.

IMPACT ON WORLD TRADE AND INCOME

The liberalization of trade resulting from the Uruguay Round should lead to a significant increase in world trade and income. Quantification of such aggregate results is difficult, however, and results obtained by the various studies so far should be seen as reflecting only broad orders of magnitudes. A GATT study suggests that world trade (in 1992 prices) in 2005 should be some \$745 billion or 12 per cent higher—owing to the effects of trade liberalization through improved market access as a result of the completion of the Uruguay Round—than it would otherwise be.³⁰ Some of the largest projected increases in trade are in sectors of great interest to developing countries, such as clothing (60 per cent), textiles (34 per cent), and agricultural, forestry and fishery products (20 per cent). The assumption used in estimating what the trade volume in 2005 would be without the Uruguay Round results was that trade would grow at around 4 per cent, the rate at which it had been growing over the period 1980-1991. One implication of the aggregate numbers is that the average annual growth rate of world trade would rise by a full one percentage point over the period 1995-2005.

Trade liberalization resulting from the success of the Uruguay Round will bring about a corresponding increase in world income. The GATT study estimates that world income will be some \$230 billion (in 1992 dollars) higher by 2005 than it would be without the Round. This is broadly in line with the results of other studies on the impact of the Uruguay Round.³¹ These numbers represent

approximately 1 per cent of world income in 1992. According to one study, income in developing economies would increase by some \$80 billion as a result of trade liberalization from the Uruguay Round.

While these aggregate numbers represent only broad orders of magnitude and appear merely modest, they almost certainly underestimate the gains from the Uruguay Round. First, as the GATT study points out, they do not take into account the gains in trade in services due to liberalization measures taken in the Uruguay Round. Furthermore, the estimates assume that international trade and world income would have continued to grow at the same rate as in the past even if the Round had failed. The possibility of a deterioration in the international economy directly linked with a failure of the negotiations was real, however. Thus, in so far as a "without the Round" situation underestimates the potential cost of failure, the aggregate number also underestimates the net gain due to the success of the Round. There are also other important gains that are not easily quantifiable. The conclusion of the Round, for example, is expected to increase confidence in the trading system through the strengthening of the multilateral rules of trade, and this should by itself encourage investment in trade-related activities leading to higher volumes of traded output. It is also likely that the success of the multilateral trade negotiations will help to weaken regionalism.

While the completion of the Uruguay Round is expected to result in significant gains for the world economy, its impact will vary greatly among industries and economic groups within a given country and among countries and regions of the world. Within individual countries, there will be gainers and losers among both producers and consumers, with consumers in general tending to gain from any import liberalization. The gains or losses, in absolute and relative terms, will also differ greatly among countries, though the gains from trade liberalization should in general outweigh any losses in the long run. Particular concern has been expressed regarding the net impact of the Round on some developing countries.

The relative gain or loss of a country as a result of any trade liberalization measure will depend on the role of international trade in the national economy, the pattern of its imports and exports, the extent of liberalization in specific areas of trade, and the time-horizon considered relevant for the assessment of the results. For trade negotiations as vast and complex as the Uruguay Round, it is too early to assess gains and losses of individual countries with any degree of accuracy, although a number of observations on the broad directions of the relative gains and losses can nevertheless be made.

The developing countries as a whole should gain significantly as some of the impediments to exports that are of interest to them fall down. As pointed out above, the expansion of exports of textiles and clothing due to the

phasing out of MFA is expected to be substantial. More important, since the fastest growth of trade is expected to take place in manufactures in general rather than in primary commodities, and given the past experience of high rates of growth of manufactured exports from the developing countries, a considerable share of the benefit of liberalization in manufactures should accrue to those countries.

The gains from trade expansion will, however, differ greatly among developing countries. Though the structure of an economy does indeed change over time, the 10-year time-horizon in which most of the negotiated measures are expected to take effect is not long enough for radical changes in many developing countries to take place. In a large number of primary-producing developing countries, diversification into manufacturing to take advantage of the potential expansion of trade in manufactures will be a slow process. Those countries will probably gain only little from liberalization. In terms of regions, many countries in Africa would fall within this category. Most of the gain is likely to accrue to the more diversified economies of Asia and Latin America. Even in the relatively simple labour-intensive industries like clothing, where new producers are likely to emerge as MFA is phased out, a large gain for Africa is not assured in the next 10 years.

Many African and other primary-producing countries could also find themselves among the least benefited, partly because of the low price elasticity as well as the low income elasticity of demand for many primary commodities and partly because trade barriers to some of those commodities are already low. Barriers to most tropical foods are already low in the industrialized countries and the further reduction in tariffs resulting from the Uruguay Round would probably not lead to a significant expansion of their exports. On the other hand, developing country exporters of food grain should see a substantial increase in their exports. Once again, most African countries will not benefit from an increase in this trade.

Some of the net food-importing developing countries, many of them African and West Asian, may face an increase in the cost of imported food as world food prices rise as a short-term result of the Uruguay Round. However, in so far as food is obtained as grant, the price increase should leave the cost to the importers unchanged. On the other hand, continuing dependence on food aid cannot be a long-term choice for any country. In any event, the question of whether to buy food from abroad or produce it at home is one that policy makers have to decide early in any programme of sustained economic development.

As MFN tariffs are cut and non-tariff barriers in general come down, the preferences given to developing countries under special arrangements such as the Generalized System of Preferences and the Lomé Convention will tend to erode. The extent of the erosion will depend, however, on how those arrangements, which have limited

durations, are renewed and adjusted to take into account the general reduction of trade barriers and how the new margins of preferences are worked out.³²

BEYOND THE URUGUAY ROUND

The Uruguay Round has been a major step towards liberalization of world trade and strengthening of the multilateral trading system. The cuts in tariffs and reduction of non-tariff barriers through such measures as reduction in subsidies in agriculture and phasing out of MFA, and other agreements that further discourage the use of arbitrary border measures, should lead to a significant increase in world trade. The agreement brings under the multilateral framework the important new area of trade in services which should expand faster as a result. The creation of a permanent and more effective body—the WTO—to oversee world trade and provide a forum for continuing trade liberalization is a major achievement. In a fundamental sense, the agreement is also a commitment not to practice “managed” trade. A number of steps have been taken to increase transparency of national trade policies, and to strengthen multilateral disciplines and rules. In the final analysis, however, these results will depend on how member countries live up to the agreements. Above all, it will depend on whether the Uruguay Round’s multilateralism will be upheld in letter and spirit.

A nation may often be tempted to bend its own rules, however liberal they might be for international trade, to accommodate special interests or to pursue short-term gains, and thus diminish its own long-term economic well-being as well as that of the world. Binding international rules are meant to guard against such temptations. The Uruguay Round does strengthen multilateral rules of trade. Yet threats of unilateral action, which usually come from the powerful countries, can undermine even the most elaborately designed multilateral system. As the Secretary-General of the GATT points out, there is evidence since the signing of the accord in December that “major economic powers are still ready to take the unilateral approach to trade problems. We have clearly not heard the last of managed trade, an idea which is the antithesis of an open multilateral system. Arguments for protectionism based on the alleged threat of low-cost competition to production and jobs will not just fade away because the Round is a success”.³³ A willingness of all countries to adhere fully to the agreed multilateral rules of trade thus lies at the heart of the ultimate success of the Uruguay Round in liberalizing world trade.

The obvious first step is a speedy ratification of the agreement by national Governments. While ultimate ratification by most signatories is not in doubt, concern has been expressed over the prospect of only a slow process of ratification in some cases. With the Final Act of the Round formally signed on 15 April 1994 in Marrakesh, it is

imperative that all signatories proceed to ratify the agreement without delay.

While implementation of the various agreements on market access and removal of trade distortions, such as subsidies, and unfinished business in liberalization of trade in services, will be some of the major tasks in the years ahead, two sets of issues are likely to be important concerns of international trade policy: developing country import competition and labour standards, and the relationship between trade and the environment.

Increasingly, concern is being expressed in the industrialized countries over the impact of increased imports of labour-intensive commodities on employment and wages in those countries. Since the *sine qua non* of the trade liberalization measures of the Uruguay Round is increased trade and trade arises out of differences between countries, concern over increased competition from developing countries, which have a comparative advantage in some products but not in others, appears to question the very rationale behind the Round. However, the question has been greatly complicated by the issue of labour standards. The argument is being increasingly made that labour is cheap in developing countries because their labour standards are lax, while high labour standards make labour expensive in developed countries. Violation of human

rights, including use of child labour, has also been seen as a way of keeping wages low in developing countries and giving them an unfair competitive advantage. Such issues have great social, cultural and moral ramifications. However, they can also be used as a pretext for protection against imports from developing countries. A balance must be struck between the recognition of the fact that trade arises because countries are different and the incontrovertible need to protect human rights; but it would be essential to separate the two issues.

The relationship between the environment and trade is receiving increasing attention at national and international levels. Environmental considerations were never completely ignored in GATT and a number of GATT articles take those considerations into account. Multilateral discussions of these issues are bound to increase in importance in the coming years, despite the reservations of many countries regarding the competence of trade organizations in this area. A GATT/WTO programme of work is being drawn up including items on trade, labour standards, competition policy, investment rules, finance/exchange rate policies, and environment, as well as sustainable development. WTO, unlike GATT, already embodies the question of sustainable development in its preamble.

NOTES

1 There is an unusual degree of uncertainty surrounding trade numbers for 1993, much of it arising out of doubts about trade data for the European Union (EU). With the implementation of the Single Market on 1 January 1993, a new reporting system, called Intrastat, came into effect. Cross-border intra-trade is no longer tracked by customs offices, but rather is reported directly by exporting and importing firms to local statistical offices. In the absence of customs data, information on this trade, which accounts for over 65 per cent of the region's trade, is incomplete. Efforts are under way to improve the data.

2 The real effective exchange rate, however, appreciated by 5 per cent in 1993.

3 The industrialized economies in question were Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, the United Kingdom and the United States. For all of these countries except Ireland, their shares in world exports of office machines and telecommunications equipment declined between 1980 and 1992. The six leading developing country exporters were Hong Kong, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand. All of them except Hong Kong registered increases. For specific data see GATT, *International Trade, 1993: Statistics*, table II.28.

4 See caveat on data mentioned in note 1 above.

5 For a discussion of the problems related to trade statistics in the transition economies of central and eastern Europe, see ECE, *Economic Survey of Europe in 1992-1993*, p. 126; and ECE,

Economic Bulletin for Europe, vol. 44 (1992), pp. 54-55, and vol. 45 (1993), pp. 64-65.

6 The emergence of two new sovereign States—the Czech Republic and Slovakia—whose bilateral trade was not recorded as foreign trade before 1993, resulted in a discontinuity in the trade series (both for these two States and for the region as a whole) and created serious methodological problems in analysing the dynamics of trade flows. In all the statistical tables appearing in this *Survey*, total trade figures have been taken for 1993 from the Czech Republic and Slovakia (including bilateral flows) and these have been compared with estimates of comparable flows for 1992, as reported *ex-post* by the statistical offices of the two States. The 1993 growth rates and indices for the region “eastern Europe” are calculated as weighted averages, based on the weights of trade flow for the two new States.

7 The interim trade agreements (providing for the liberalization of trade with EU until the ratification of the Association Agreements is completed) with Hungary, Poland and the former Czechoslovakia came into force on 1 March 1992 (in 1993 the latter was renegotiated separately with the Czech Republic and Slovakia); the interim agreement with Romania came into force on 1 May 1993 and that with Bulgaria on 1 January 1994 (the latter was delayed following internal procedural disputes among the EU member States). By the middle of 1993, all central and eastern European countries had signed free-trade agreements with EFTA. However, those agreements will come into force in

member States only after the ratification by the corresponding State and this process was not completed in 1993. See ECE, *Economic Bulletin for Europe*, vol. 45 (1993), pp. 103 and 104.

8 The policy actions adopted by the Copenhagen Summit include a set of measures for speeding up the process of lifting existing EU barriers to imports from central and eastern European countries, such as quotas and tariffs. See ECE, *Economic Bulletin for Europe*, vol. 45 (1993), pp. 105 and 106.

9 The most prominent of these cases involved the imposition of minimum prices on the imports of some fish (from February to June 1993 and affecting imports from Iceland, Norway, Poland and the Russian Federation); a similar measure on sour cherries imported from Poland (July 1993); a temporary embargo on the imports of livestock, meat and dairy products from eastern Europe (blamed on the outburst of foot-and-mouth disease and effective, in varying forms, from April to July 1993); and the temporary imposition of anti-dumping duties on the imports of steel tubes from some countries. Anti-dumping procedures and other restrictive measures were also undertaken on the part of EU in a number of cases involving industrial chemicals imported from eastern Europe.

10 To measure the real appreciation of those currencies is also to be faced with serious problems due to the lack of data on the proper deflators for all these countries. A very rough estimate based on the consumer price index (CPI) indicates that in 1992 the national currencies of the former Czechoslovakia, Hungary and Bulgaria appreciated in real terms *vis-à-vis* the United States dollar (based on yearly averages) by some 10-15 per cent and the currency of Poland by some 7 per cent. The corresponding figures for 1993 are of the same magnitude (10-15 per cent) for the Czech Republic and Slovakia, higher for Bulgaria and Romania and slightly positive for Hungary and Poland.

11 Data on foreign trade officially reported by the successor States of the former Soviet Union are subject to interpretation and revision. In addition to earlier methodological problems, new uncertainties were added by the liberalization of trade and the general disarray in monitoring and enforcement mechanisms. In the Russian Federation, for example, the value of both exports and imports in 1993 were officially presented as estimates, whereby data reported by the exporters and importers, the customs, the Ministry of Foreign Economic Relations and others were "corrected" on the basis of mirror statistics of partner countries. In addition, more than \$16 billion in non-reported export-import operations by private individuals was added to "officially recorded" flows.

12 There were indications, however, that the reported trade figures for the Russian Federation, for one, reflected significant underreporting of imports. The actual trade balance was estimated by the International Monetary Fund (IMF) to have been slightly negative (see *IMF Survey*, 7 February 1994, p. 48).

13 The process begins on 31 March at which time the Office of the United States Trade Representative (USTR) issues its annual National Trade Estimate Report. Six months thereafter, the USTR issues a list of "priority foreign country practices", described as those whose elimination would have the greatest potential for expansion of United States exports. Three weeks after identification, those practices formally become the object of 301 investigations. Negotiations may proceed for up to 18

months on matters that fall under the rubric of GATT and a maximum of 12 months with respect to other areas of dispute. When a trade agreement is violated and no agreement can be reached, USTR is required to retaliate. Where there is no violation of a trade agreement or obligation, USTR may use its discretion as to a response. Retaliatory authority is broad, encompassing increased tariffs, quotas, and restrictions, or withdrawal from a prior trade agreement. For further details, see *Washington Trade Daily*, 4 March 1994.

14 Countries can be singled out for special attention by being placed on a "Watch List" or a "Priority Watch List". See *World Economic Surveys, 1990, and 1993*, chap. III, for further details on the special 301 process.

15 *Washington Trade News*, 1 January 1994.

16 More specifically, the 1994 Japanese ceiling for car exports to France is 74,900, up 8.5 per cent over 1993. For Italy the 1994 ceiling is 47,000 cars, up 21 per cent. The 1994 ceiling for Spain is 32,400, up 10.5 per cent, and for Portugal it is 39,500, representing an increase of 1.2 per cent. For the United Kingdom, the 1994 ceiling of 183,000 represents a 13 per cent increase in real exports over 1993, though it is a de facto drop from the 202,800 ceiling that had been set because of the early recovery of the British market.

17 See *Washington Trade Daily*, 21 March 1994.

18 See Richard Baldwin, *A Domino Theory of Regionalism*, National Bureau of Economic Research Working Paper, No. 4465 (Cambridge, Massachusetts, September 1993).

19 Actually, 50 per cent for the first four years, 56 per cent for the next four years, 62.5 per cent thereafter.

20 This wide disparity in results has led the JEC Staff to conclude that the utility of those 16 models with respect to reaching policy conclusions is extremely limited. The models may be helpful in determining a general range of possibilities for the most important questions associated with the impact of NAFTA. What the JEC Staff does stress, though, is that *net* job creation is likely to be much smaller than many proponents or opponents claim and will involve perhaps up to 200,000 net jobs gained or lost over five years or more. However, even if the United States turned out to be a marginal winner in net job creation, this would not necessarily mean that NAFTA had not had substantial negative effects for a sizeable segment of the American economy. NAFTA, it is claimed, could result in gross job dislocation of half a million or more, as well as downward pressure on wages in the United States, especially for non-professional workers. See *Potential Economic Impacts of NAFTA: An Assessment of the Debate*, Staff Study, Joint Economic Committee, United States Congress, Washington, D.C., October 1993.

21 For example, a model used by Gary Hufbauer and Jeffrey Schott of the Institute for International Economics projects that NAFTA will add some 170,000 jobs to the American labour market. Another model, used by Clyde Prestowitz of the Economic Strategy Institute, projects a loss of between 32,000 and 220,000 jobs. The wide disparity notwithstanding, neither result is huge when put in the perspective of an American labour market of 120 million workers.

22 The original 12 members were the ASEAN 6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thai-

land), together with Australia, Canada, Japan, New Zealand, the Republic of Korea and the United States. The three newer members are China, Hong Kong and Taiwan Province of China.

23 See "Report of the Eminent Persons Group to APEC Ministers: a vision for APEC: towards an Asia-Pacific economic community", Singapore, October 1993.

24 Though world trade still faces numerous barriers, the post-war world has seen an unprecedented degree of trade liberalization. Much of this has taken place through a series of rounds of multilateral trade negotiations under GATT auspices. These were:

Geneva Round: 1947; Annecy (France) Round: 1949; Torquay (England) Round: 1951; Geneva Round: 1956; Dillon Round: 1960-1961; Kennedy Round: 1964-1967; Tokyo Round: 1973-1979;

25 For further details, see *Focus, GATT Newsletter*, No. 104 (December 1993).

26 These paragraphs draw heavily on the press summary of the results issued by GATT on 14 December 1993 and its addendum of 15 December 1993 and partly on GATT, Final Act Embodying the Results of the Uruguay Round of Multilateral Negotiations (MTN/FA, 15 December 1993), and GATT, "An analysis of the proposed Uruguay Round agreements, with particular emphasis on aspects of interest to developing countries" (MTN.TNC/W/122, MTN.GNG/W/30 and corrigendum). In several cases, the language of the press summary and the Final Act has been retained.

27 GATT, "An analysis of the proposed Uruguay Round agree-

ments, with particular emphasis on aspects of interest to developing countries" (MTN.TNC/W/122, MTN.GNG/W/30 and corrigendum), p. 24, table 11.

28 Ibid.

29 Ibid.

30 See GATT, "An analysis of the proposed Uruguay Round agreement, with particular emphasis on aspects of interest to developing countries" (MTN.TNC/W/122, MTN.GNG/W/30 and corrigendum), November 1993, based on offers as of mid-November 1993.

31 Organisation for Economic Cooperation and Development (OECD), *Assessing the effects of the Uruguay Round*, Trade Policy Issues, No. 2 (Paris, 1993). The study suggests that net world welfare will be around \$270 billion higher in the year 2002. Of this, some \$86 billion will accrue to non-OECD countries.

32 A study by the GATT secretariat—based on the assumption that preferential rates are adjusted to retain their current relationship with MFN rates and that rates that are currently at zero remain at zero—suggests, however, that the overall results will be a net expansion of trade receiving preferential treatment. See GATT, "An analysis of the proposed Uruguay Round agreements, with particular emphasis on aspects of interest to developing countries" (MTN.TNC/W/122, MTN.GNG/W/30 and corrigendum), p. 42.

33 GATT, "Global trade—the next challenge", address by Peter D. Sutherland to the World Economic Forum, Davos, 28 January 1994 (NVR 082, 28 January 1994).

IV

International resource transfers and financial development

The world of international finance has been rapidly evolving in recent years, altering the size, form and destination of international financial transfers, a process that the *World Economic Survey* sought to monitor. The most significant development in 1993, it seems, was the rapid escalation in the value of international transactions in equities, bonds and other securities. Economies that can participate in this burgeoning market now tap portfolio finance for substantial net capital inflows.

However, economies in which private corporations or government have limited access to private channels of financing continue to rely mainly on official flows, which have grown slowly in aggregate, particularly concessional loans and grants. Policy makers are facing how to ade-

quately mobilize appropriate resources for these countries until they, too, are seen to be creditworthy by private lenders and promising locations by direct investors. In part, this is a question of strengthening aid flows by rebuilding the political constituency for international assistance, which in turn has entailed taking steps to make aid more effective. But it is also a matter of speeding the development of the financial sector itself in the developing and transition economies. Thus, following a survey of international resource transfers and official and private sources of international finance, including an examination of "emerging markets", this chapter looks at aspects of the development of the financial sector in developing and transition economies.

THE INTERNATIONAL TRANSFER OF RESOURCES IN 1993

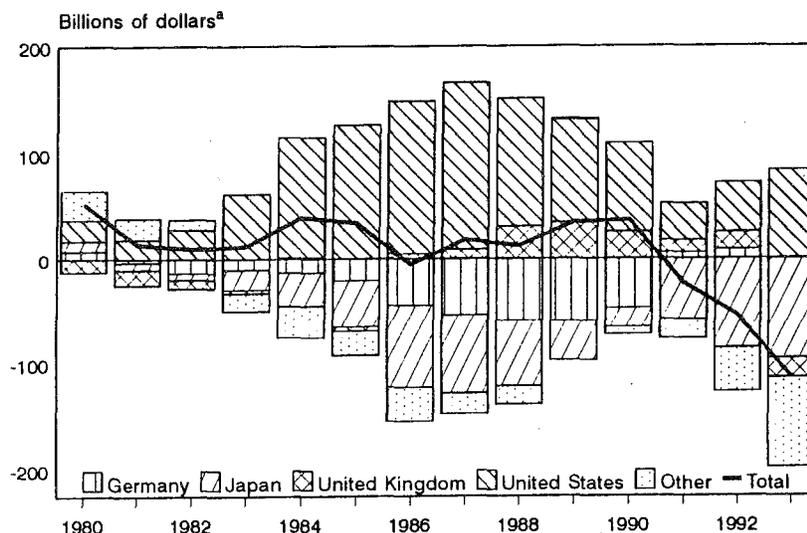
More than a decade ago, many developing countries sank into foreign debt crisis, lost access to foreign credits except from official institutions and saw domestic funds leave their economies. As a whole, the industrialized economies absorbed those resources. Some of the economies, however, especially those of Germany and Japan, sent financial resources abroad on a net basis. But the United States absorbed most of what the economies of the other industrialized countries supplied, as well as what was provided by the economies of the developing countries. In 1993, the United States was still absorbing foreign financial resources on a large scale, but now many of the developing countries that had been in debt crisis were also absorbing substantial quantities of international financing, as were other developing countries, especially in Asia, and certain of the transition economies. The Japanese economy became the overwhelmingly large net supplier of financial resources to the rest of the world, joined by several European economies. As is always the case in explaining changes in the net transfer, both trade and capital movements were behind the developments in 1993.¹

LARGEST TRANSFER EVER FROM INDUSTRIALIZED COUNTRIES

Since 1991, the industrialized economies have been net suppliers of funds in each year and in increasing amounts, after a decade in which in almost every year they absorbed financial transfers from the rest of the world. The net transfer in 1993 measured \$114 billion, which was well beyond anything in recent experience, as may be seen in figure IV.1.² The transfer more than doubled the net outflow in 1992 (\$55 billion), which had more than doubled the outflow of 1991 (\$24 billion). Moreover, the 1993 net transfer came about despite a net absorption of foreign resources by the United States of \$84 billion, almost double the amount that it had taken in 1992 (see table A.26).

Developments in the United Kingdom provide one reason the overall net outflow was so large in 1993. It had absorbed resources on a significant scale in the previous seven years, but last year supplied \$18 billion to the rest of the world. As the United Kingdom had absorbed a transfer of \$17 billion in 1992, the total British shift in flows in 1993 amounted to \$35 billion. That means, in

Figure IV.1.
Net transfers of developed market economies, 1980-1993



Source: Table A.26.

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

effect, that the British balance of trade in goods, labour and non-factor services rose by \$35 billion in 1993. Indeed, largely owing to the devaluation of the British pound in the autumn of 1992, the real effective exchange rate was 10 per cent lower in 1993 (see table A.9), which helped boost production of tradable goods and strengthened the trade balance.³

Viewed from the financial side, the net transfer of the United Kingdom appears to have resulted as well from the fall in British interest rates that accompanied the devaluation in 1992, as it created an interest differential in favour of continental European countries (see table A.8). However, not all interest-sensitive components of financial flows shared in the surge in outflows. Thus, in the first of what will be several examples of surging international portfolio flows, British net purchases of foreign securities rose to \$138 billion, almost triple the average annual amount since the decade began. Moreover, foreigners purchased almost \$60 billion of British securities (see table IV.1).

Just as British investors made large purchases of foreign securities, foreign investors from many countries purchased \$147 billion of German securities in 1993 (up from \$93 billion in 1992 and \$40 billion in 1991).⁴ Some of the inflows were undoubtedly attracted by the interest differential as well as by the abundant supply of German Government securities, owing to the high public-sector borrowing requirement (see chap. II). Indeed, foreign purchases of government and municipal bonds accounted for three fourths of Germany's total portfolio inflow. But

purchases went into other securities as well.

At the same time that Germany attracted such a large net inflow of medium-term and long-term financing, its overall net financial transfer was close to zero. Owing to the economic recession in Germany, which was discussed in chapter II, imports weakened. This helped to raise the trade balance and limited the German demand for foreign exchange. Since there had been a large inflow of medium-term capital, there also had to be some large outflow for the overall net transfer to be so small. It was net short-term capital outflows, which totalled over \$90 billion (see table A.26). For various reasons, German banks—and to a lesser degree, German individuals and enterprises—had decided to raise their short-term foreign asset positions.⁵

The case of the United States further illustrates the difference between particular and aggregate flows. The United States absorbed \$84 billion in net resource transfers overall in 1993. This implies that United States residents imported goods and non-factor services and foreign workers in the United States transferred funds home by a total amount that was \$84 billion more than the foreign exchange earnings from like activities. The deficit *vis-à-vis* Asian economies was larger than this total and in this regard helped finance small United States transfers to Latin America and the Caribbean, European transition economies and others. The net transfer from Asia was divided almost equally between Japan and the rest of Asia (see table IV.2) and was an intensification of a pattern that has existed for years.

Table IV.1.

Portfolio and other long-term financial flows of four major economies, 1980-1993

(Billions of dollars per year)

	1980-1984	1985-1989	1990	1991	1992	1993 ^a
Germany^b						
Net portfolio flow	4.3	-5.0	-2.5	24.3	49.5	126.5
Change in assets	-4.3	-20.5	-14.2	-15.7	-43.2	-20.8
Change in liabilities	8.6	15.5	11.7	39.9	92.7	147.3
Net lending	-3.4	-0.2	-15.6	-20.2	-1.9	6.2
Change in assets	-6.0	-7.2	-28.3	-18.4	-11.3	-21.5
Change in liabilities	2.6	7.0	12.8	-1.8	9.4	27.7
Japan						
Net portfolio flow	-1.8	-64.1	-14.5	35.4	-28.4	-65.6
Change in assets	-13.8	-90.0	-40.2	-74.3	-35.0	-51.9
Change in liabilities	12.0	26.0	25.7	109.8	6.6	-13.7
Net lending	-12.0	-20.3	7.7	25.3	12.2	-1.9
Change in assets	-12.0	-24.1	-33.1	-16.6	-6.5	-8.2
Change in liabilities	-0.1	3.8	40.8	41.9	18.6	6.3
United Kingdom						
Net portfolio flow	-9.3	-0.3	-16.5	-17.2	-19.3	-79.3
Change in assets	-10.9	-24.7	-30.4	-51.6	-55.3	-137.7
Change in liabilities	1.6	24.5	14.0	34.3	36.1	58.3
Net lending	-2.8	4.9	11.9	24.2	0.4	35.0
Change in assets	-2.5	-0.3	-2.0	-0.6	-0.4	-6.0
Change in liabilities	-0.3	5.2	13.8	24.8	0.7	41.0
United States						
Net portfolio flow	12.4	68.2	-6.8	12.8	24.0	-17.0
Change in assets	-5.8	-9.4	-28.8	-44.7	-48.0	-125.4
Change in liabilities	18.2	77.7	22.0	57.5	72.0	108.4
Net lending	-16.3	3.4	22.6	14.0	0.7	8.2
Change in assets	-16.7	3.4	20.7	12.5	-1.9	5.5
Change in liabilities	0.4	0.1	1.9	1.5	2.6	2.7

Source: UN/DESIPA, based on IMF and national sources.

Notes: Data are cross-border transactions in stocks and credit instruments with an original maturity of at least one year (all data are net changes; outflows shown as negative numbers and inflows as positive numbers).

a Preliminary estimate.

b Including transactions of the former German Democratic Republic as from July 1990.

The bulk of the transfer took the financial form of short-term lending to the United States. Indeed, when "errors and omissions" are included as uncounted short-term financial flows, as is conventionally assumed, net short-term inflows to the United States in 1993 came to \$137 billion. This, of course, far exceeded the net transfer, but the capital inflows also had to cover net United States payments of interest and dividends of \$34 billion, reflecting the net-debtor status of the United States (see table A.26).

The experience of the United States differed substantially from that of Germany and the United Kingdom, as discussed above, in that there was no large net movement of securities. United States investors, however, made net purchases of \$125 billion in foreign securities last year,

more than double the level in 1991. But foreign investors also significantly increased their purchases of United States securities, so there was only a small net outflow of funds for securities investment (see table IV.1).

Short-term capital inflows were an important part of the net transfer to the United States in 1993. One special type of capital inflow that consists almost entirely of short-term assets carried a large part of the weight, namely, foreign official purchases. That is, foreign Governments added \$69 billion in United States assets to their official reserves. Some of this was the result of reserve accumulation by developing countries that arose from balance-of-payments surpluses owing to success in raising export earnings and attracting foreign capital inflows. Another part of the United States inflow resulted from exchange-

Table IV.2.

Net resource transfers to the United States, by region, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Canada	9.0	12.3	13.1	10.2	8.0	7.5	3.4	1.7	-2.1	0.5	4.8
Japan	24.6	42.1	51.3	52.1	53.4	47.4	40.8	33.0	33.6	37.9	48.3
Western Europe	5.4	21.4	31.1	34.8	32.2	18.9	2.1	-2.2	-20.5	-14.7	-1.6
of which:											
Germany	8.3	13.2	15.9	20.0	21.4	18.2	14.3	16.3	9.9	11.0	..
United Kingdom	2.8	3.0	5.3	5.6	4.7	0.1	-4.2	-3.9	-4.8	-5.6	-5.8
Latin America and the Caribbean	21.2	24.1	20.4	16.7	19.7	14.8	13.4	13.7	1.5	-5.2	-2.8
Major oil exporters of Africa and Asia ^a	-0.1	4.6	2.7	1.5	7.0	5.9	11.2	16.7	7.2	5.9	} 47.6
Other developing countries	11.6	23.4	24.1	35.1	44.0	36.5	37.6	33.4	26.7	35.1	
Transition economies	-1.7	-2.1	-1.4	0.0	-0.2	-1.6	-3.6	-2.3	-3.2	-3.8	-3.1
Other countries ^b	-8.8	-11.7	-14.0	-6.1	-6.5	-8.7	-8.1	-8.5	-7.9	-8.7	-9.1
Total	61.3	114.1	127.3	144.4	157.6	120.7	96.8	85.5	35.2	47.1	84.2

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.
Discontinuity in data; estimates not fully comparable after 1990.

rate management policy, particularly in industrialized countries that sought to stem or slow the appreciation of their exchange rates. A prominent example, besides the German case already mentioned, was that of Japan, whose net purchases of reserve assets during 1993 totalled \$27 billion.

The Japanese authorities bought dollars on various occasions during 1993 in reaction to the upward pressure on the yen during much of the year, which arose in part because of the economic recession in Japan and in part because speculators saw an appreciation of the yen as one outcome of trade-policy tensions with the Government of the United States.⁶ As it was, the yen appreciated by 20 per cent in 1993 (see table A.9) and this in itself helped bring about the largest net transfer out of Japan ever recorded, \$96 billion (see table A.26). Thus, despite the fact that the volume of Japanese exports fell almost 2 per cent and the volume of imports rose 4 per cent (see table A.19), the balance of trade rose \$9 billion (see table A.23) owing to the price effects of the appreciation of the yen. Added to the already large and growing trade surpluses of earlier years, the resources for net foreign transfer reached an unprecedented level.

The main recipients of the 1993 Japanese net financial transfers were the United States and South-East Asia, especially the newly industrialized economies (see table IV.3). The net transfer to the United States grew again in 1993, after it fell in 1990 and 1991 to less than a half of the peak in 1986 and 1987. This is the financial counterpart to the persistent Japanese trade surplus with the United States that has created a degree of tension between the two

countries, as discussed in chapter III. But while exporters and importers of individual products may see obstacles to trade in their goods, the overall net transfer is mainly a reflection of the different saving rates in the two countries, which in Japan typically exceeds 30 per cent of GDP and in the United States has been closer to half that share (see table A.5). Unless and until the saving rates approach each other, the imbalance will persist. In a sense, the United States would not want it otherwise, since its investment rate has been significantly below the average for industrialized countries and it would be even lower without the savings transferred from abroad.

An unusual feature, however, of the Japanese net transfer in recent years is that to a considerable degree it was directed not to expanding foreign assets but to reducing Japan's foreign liabilities. From 1986 to 1990, during a period known in Japan as "the financial bubble", the Japanese financial sector borrowed short-term funds abroad to boost the total amount it could lend or directly invest abroad at long term (see table A.26). As a result, long-term outflows were considerably larger than even the quite-large net transfers of the time would permit. Since the bubble burst, Japanese financial institutions have refrained from making substantial new long-term commitments, while seeking to rapidly repay the short-term loans they undertook during the bubble period. To a degree this continued in 1993, as short-term capital registered a third year of net outflows, albeit smaller than in the previous two years. Medium-term and long-term foreign lending by Japanese financial institutions remained quite small (see table IV.1), as did net direct foreign investment (see table A.26).

Table IV.3.
Net resource transfers of Japan, by region, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
OECD countries	-24.7	-40.8	-48.1	-67.1	-65.9	-54.8	-37.7	-20.6	-39.5	-52.7	-48.1
of which:											
United States	-17.9	-33.7	-39.5	-50.6	-50.2	-40.6	-33.3	-21.5	-23.0	-30.2	-39.5
European Union	-8.2	-8.0	-8.3	-14.5	-15.6	-18.0	-10.4	-7.8	-24.3	-29.3	-19.0
of which:											
United Kingdom	-1.9	-1.4	-1.2	-2.2	-2.9	-3.7	-0.8	2.5	-6.3	-9.6	-4.5
Germany ^b	..	..	..	..	..	-7.6	-6.5	-5.8	-9.1	-8.9	-7.1
Transition economies ^c	-2.6	-3.3	-8.8	-6.5	-2.1	-0.8	0.0	0.9	1.2	1.2	1.2
of which:											
Former Soviet Union	..	..	..	..	..	-0.7	-0.6	0.7	1.0	1.1	1.2
Developing countries	8.0	11.9	13.1	-4.8	-5.9	-7.0	-0.2	1.6	-20.4	-34.4	-50.3
of which:											
South-East Asia	..	..	..	..	..	-17.3	-15.7	-23.3	-38.7	-44.6	-57.4
of which:											
Four exporters of manufactures ^d	..	..	..	..	..	-22.0	-20.6	-26.1	-40.1	-44.5	-53.5
China	..	..	..	..	..	0.1	2.3	5.5	5.2	4.6	3.4
Major oil exporters and others	..	..	..	..	..	10.1	13.3	19.4	13.1	5.6	3.7
Other ^e	0.1	-0.1	-0.1	0.0	-0.2	0.0	-0.1	-0.1	0.0	0.0	1.0
Total	-19.3	-32.3	-44.0	-78.4	-74.0	-62.7	-38.0	-18.1	-58.7	-86.0	-96.2

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.

Yet, as can be seen in table IV.1, portfolio investment swelled, owing both to a reduction in liabilities to foreigners, which mainly occurred in the first three quarters of the year, and a much stronger increase in Japanese foreign assets, especially in the last quarter of the year. The shift in Japanese funds was prompted by the third year of falling long-term interest rates in Japan (see table A.8) and a stock market that, while rising for most of the year, was still considered subdued relative to its peak at the end of 1989. The securities that Japanese investors purchased were mainly United States and Euro-market bonds and Asian stocks, especially through mutual funds.

To the degree that the portfolio flows of Germany, the United Kingdom and the United States, as well as Japan, are indicative of the developed market economies in general, it appears that investors have undertaken a major adjustment of their asset portfolios. While reasons for the surge in portfolio flows taking place in 1993 are not fully understood, it appears that two factors were major contributors to the process. First was the increasing familiarity

of investors with international securities and a continuing improvement in the ease of purchase and reduction in the cost of international securities transactions. An important case in point was international investment in developing-country equities, which swelled in 1993. Once thought of as an "exotic" investment by financial market specialists, such "emerging markets" are rapidly becoming an established asset class in professionally managed portfolios.

The second main reason for the shift to portfolio investment seems to have been the financial weakness of banks themselves. Aside from the adjustment in the Japanese banking system to the after-effects of the bubble period, the banking systems of the United States and parts of Europe have been undergoing an adjustment of their own, also brought about by excessive high-risk lending in the late 1980s.⁷ The banks have thus been far less aggressive in expanding loans and therefore in seeking to attract funds to lend. Moreover, at least in the United States, several large commercial banks have diversified into securities-related activities, including provision of retail bro-

kerage accounts through affiliated securities firms. And while the financial health of the United States banking system has improved markedly in 1993, and bank lending—including foreign bank lending—is expected to significantly expand again, the inroads of securities financing are not likely to be reversed.

TRANSFERS TO EASTERN EUROPE AND FROM RUSSIA

For the countries in transition from centrally planned to market economies, 1993 was a year of major changes in the net transfer of resources. Although consistent data are not available for enough countries to estimate the net transfer for regional groupings, data for five countries shown in figure IV.2 illustrate two major developments.⁸ First, several eastern European countries appear to have become net recipients of international resource transfers and secondly, the Russian Federation made a substantial transfer to the rest of the world.

The net transfer out of Russia in 1993 seems to have been more a reflection of domestic economic conditions than international ones. There were substantial gross financial inflows, mainly from official sources, that came to almost \$12 billion, according to the Economic Commission for Europe (ECE).⁹ Most debt-servicing obligations were not met but either rescheduled or not paid, with arrears accumulating especially on interest payments due to commercial bank creditors. ECE estimates these forms of "special finance" to have exceeded \$18 billion, for total

external financing of almost \$30 billion.

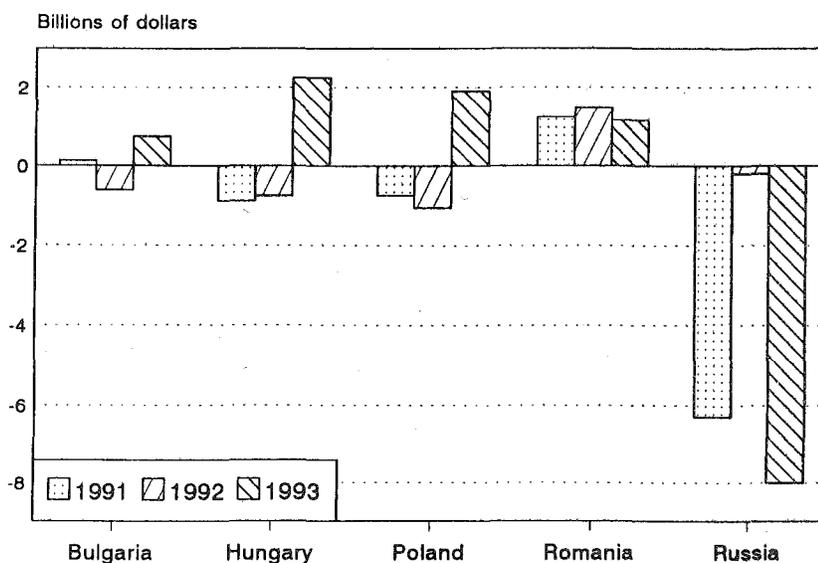
Viewed another way, the \$18 billion of special finance offset what would otherwise have been debt-servicing outflows, but the \$12 billion of new inflows were potential funding of imports and additions to reserves. In fact, reserves rose by over \$3 billion. This means that, to the degree that the data are reliable, there was an outflow of capital resources from Russia on the order of \$17 billion (\$8 billion surplus of exports of goods and non-factor services plus \$9 billion of capital inflows that were not used for reserve accumulation).¹⁰

A certain amount of capital outflow normally accompanies trade and financial relations, but it seems to be the consensus that residents of Russia were moving large amounts of assets into foreign currencies in 1993. Indeed, as the unstable economic and political situation in 1993 was not conducive to investment, a prudent use of available rouble funds was to buy and hold foreign currency. Some was held abroad and some in foreign-currency accounts in Russia. In addition, in the face of persistent high inflation and a widespread distrust of financial institutions among households, it appears that many people bought hard-currency banknotes and held them as a store of value.¹¹

It had become quite easy to purchase foreign exchange, both at wholesale and retail levels. Numerous *bureaux de change* were established across the country, especially in Moscow and other major cities, although their precise number was not known because many were not

Figure IV.2.

Net transfers of five transition economies, 1991-1993



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

Note: Transfers on trade and payments in hard currencies.

properly licensed and supervision by the financial authorities was fragmentary. In addition, over 600 banks were authorized to conduct hard-currency operations on their own behalf and for their corporate clients.

The Russian currency market, in short, became in 1993 a fully operational, relatively open and market-driven mechanism providing rouble-holders with practically unrestricted daily access to convertible currencies. The gross volume of hard-currency sales on currency exchanges was almost \$15 billion in 1993, compared to less than \$3 billion in 1992 and only \$200 million in 1991. Actual foreign-currency trading was even larger, as a substantial informal market has existed alongside the currency exchanges. Indeed, to better monitor the flow of foreign exchange and to reduce tax evasion, the Russian authorities in early 1994 introduced a programme to collect and cross-check data on foreign transactions of banks, customs authorities and exporters. While this will likely bring the informal market largely within the formal one, to increase the willingness of the population and enterprises to hold roubles, the incentives to move funds into foreign currencies also need to be reduced. For the latter, continued progress in the Government's programme of economic stabilization and adjustment is critical.

As regards eastern Europe, the net transfer in 1993 in part compensated for the disappointing year in the region's exports, which was discussed in chapter III. While the volume of exports fell 5 per cent, imports rose, albeit more slowly than in 1992 (see table A.19). As a result, the trade balance of the region fell by over \$5 billion (see table A.24). The net transfer of resources made it possible to finance the resulting trade deficit.

As in other years since the transition period began, the region attracted significant capital inflows in 1993. Some were voluntary flows, such as direct investment, new funds raised on capital markets, or official lending. Others were involuntary flows, notably arrears on debt-servicing payments. All in all, they "covered" net foreign interest obligations. For some countries, such as Hungary and Romania, the capital inflows also covered the full trade deficit, with additional funds left over to add to reserves. For other countries, such as Bulgaria and Poland, the "net transfer on a financial basis" did not cover all of the trade deficit and reserves had to be utilized.

The reserve issue has been significant in the region, because the transition began with generally inadequate official holdings of reserve assets. Thus, in some countries, especially Czechoslovakia and Hungary, policy makers sought to bolster reserve accumulation instead of higher import levels. This made the net transfer negative in those years, although imports rose as exports had been strong and the negative transfer was in any event expected to be only a temporary phenomenon.

However, according to ECE, only four transition

economies could be said to have adequate reserve holdings as of the end of 1993: the Czech Republic, Estonia, Hungary and Slovakia. In each case, the value of reserves exceeded three-months' imports of goods and services. Poland had enjoyed that status in 1992, but in drawing down its reserves in 1993, its reserves fell to 2.5 months of imports.¹²

Reserves are built up mainly for three reasons. One is to smooth fluctuations in exchange rates or maintain the exchange rate within a fixed band. A second is to meet contingencies, such as the need to help finance a sudden deterioration in the trade balance, as in 1993, or for additional contingencies. The third is to raise the standing of the country in the eyes of potential foreign investors and creditors. In this regard, Hungary was particularly successful in 1993. It received over \$2.3 billion of direct investment, up from \$1.5 billion in each of the two previous years. No other transition economy had even one quarter of that level, although the Czech Republic and Poland had raised amounts closer to the Hungarian total in earlier years.¹³ Hungary also arranged lending of over \$5 billion on international credit markets, mainly in foreign and international bonds, and accounted for 80 per cent of the funds raised by transition economies, much of the rest being bonds and bank loans of the Czech Republic.¹⁴ Both countries have also been able to diversify their sources of funds; e.g., the Czech Republic borrowed in yen and Hungary returned to the syndicated banking market for the first time since 1989.

Besides the international investment and financing activities of the Czech Republic, Hungary and Poland, and aside from Slovakia, which began to tap the credit markets in September 1993 and has had modest but increasing success in attracting direct investment, other transition economies have yet to draw on international private sources of funds to any significant degree. They remain, for the time being, dependent on official flows.

The intergovernmental effort to assist the transition economies involves many developed and some developing economies and several multilateral organizations, with the International Monetary Fund (IMF) accorded a lead role. Indeed, the only major analytical grouping of countries to which IMF was a net lender in 1993 was the transition economies. They received over \$2 billion net of repayments, of which \$1.5 billion were lent to Russia.

Moreover, having a domestic adjustment programme that is supported by IMF has been a prerequisite for some other forms of funding and for certain debt-restructuring agreements. Thus, nine countries made full Stand-by Arrangements with the Fund in 1993 and four others made lower conditionality arrangements that qualified them to draw from the Fund's new Systemic Transformation Facility (STF).¹⁵ That Facility, which was formally established in April 1993 and empowered to make loans through 1994,

is available to transition economies that satisfy the Fund that they will cooperate with it in solving their balance-of-payments problems and that they will move as soon as possible to policies that the Fund could support under one of its regular arrangements.¹⁶

The World Bank Group has also been a major source of lending to the transition economies, its commitments in 1993 rising to \$3.5 billion from \$2.6 billion in 1992. In addition, the European Bank for Reconstruction and Development, which had some start-up problems in earlier years, raised its commitments to \$1.8 billion last year. Since funding by these institutions is mainly for projects and programmes that stretch over a number of years, net disbursements were significantly lower, but totalled almost \$2 billion. Coupled with funds from the European Union and bilateral loans and grants, total official disbursements to the transition economies were estimated at \$26.5 billion in 1993, virtually the same as in 1992 (\$27 billion).¹⁷

These funds excluded the value of debt rescheduling or forgiveness, which was also significant. Three countries have been involved in debt-restructuring exercises: Bulgaria, Poland and Russia (which assumed the debt obligations of the former Soviet Union); and Albania is expected to seek to restructure its debt as it, too, has not been able to service its debt, owed mostly to commercial banks.

Long-term arrangements for restructuring the debt of Poland were agreed in 1991 with official creditors through the Paris Club and in March 1994 agreement in principle was reached with private creditors, applying a menu of options for creditor banks to choose from that is much like that made available to creditor banks of developing countries.¹⁸ When all of Poland's agreements are fully implemented, half of its bilateral official debt and over 40 per cent of its bank debt will have been forgiven, although other debt will have been incurred in the mean time, in particular to multilateral institutions.

While Bulgaria has undertaken a series of debt reschedulings with the Paris Club, the bulk of its debt is owed to commercial banks. Bulgaria reached agreement in principle with the banks in November 1993, which will lead to debt and debt-service reduction on the affected debt of about 50 per cent when implemented. Russia has had a series of short-term arrangements with commercial banks to cope with its inability to make debt-servicing payments, and in October 1993 negotiations began on what will be a long-term treatment. Russia has also had a series of agreements with the Paris Club. In April 1993 it won a five-year grace period and five-year repayment period on principal and part of the interest falling due in that year. A subsequent agreement was expected to treat the debt-servicing payments falling due in 1994.

In the case of Russia, none of the debt is being forgiven, based on the long-run debt-servicing capacity of the

country in contrast to the obvious difficulties of the transition period. Instead, the debt obligations are being rolled forward and some of the interest payments are capitalized while arrears rise on other interest payments. The net result is that Russia's debt reached \$86 billion as of the end of 1993, more than half of it owed to private creditors (see table A.34). Since the Russian economy is so large, the debt is only 17 per cent of GDP, although it is over 200 per cent of exports. The debt of eastern Europe, in contrast, while larger in absolute amount (\$96 billion) and as a share of GDP (46 per cent), is only 165 per cent of exports, less than that of the heavily indebted regions of the developing world.

LARGE TRANSFERS TO DEVELOPING COUNTRIES, EXCEPT IN AFRICA

In 1993, many developing countries—but not all countries and particularly not most countries in Africa—seemed to be in a third and generally encouraging phase in their changing access to international financial resources. In the first phase, from the 1960s until the early 1980s, developing countries gradually, and then with increasing success, tapped international sources of financing. Some resources were official—for example, this was a period of rapid growth of the World Bank and regional development banks—but much was private finance, especially syndicated international bank lending. The second phase was a period of extreme resource scarcity, especially for countries that had become heavy users of international bank credit and that fell into foreign debt crises, but also for countries that were heavily indebted to official creditors. The third phase seems to be one of new access to various sources of private finance, but marked scarcity of concessional flows.

One indicator of the new phase is that the net transfer of financial resources to the developing countries as a whole in 1993 reached \$54 billion, an order of magnitude not seen since the early 1980s (see table IV.4). Some of the transfer was to countries, such as China, that have enjoyed access to international credit markets for many years, as well as to official credit sources and direct investment. In recent years, China did not draw on foreign resource transfers on a net basis, as its export success stayed ahead of its import demand. But, as discussed in chapter III, in 1993 China's strong import growth shifted its balance of trade into deficit and with additional financing from abroad, the net transfer changed from outward to inward.

All but one major regional grouping shared in the high resource transfers, the excluded region being Africa. Moreover, this financial loss came on top of a 3.5 per cent loss in Africa's terms of trade in 1993, which reduced the purchasing power of Africa's 1993 exports by over \$3 billion relative to 1992 prices, which were already quite depressed (see table A.20). A positive transfer might have

Table IV.4.
Net transfer of financial resources to groups of developing countries, 1983-1993^a
 (Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
Africa	7.4	3.2	-7.3	1.9	-3.2	3.7	0.8	-10.6	-6.9	-4.5	-0.2
of which:											
Sub-Saharan Africa ^c	5.5	2.4	2.8	5.5	5.5	7.1	5.6	7.2	7.8	9.8	8.6
Latin America and the Caribbean	-25.7	-34.9	-30.2	-11.8	-17.9	-21.4	-28.5	-25.8	-7.2	12.2	18.9
West Asia	30.8	13.5	20.2	26.9	18.3	19.2	10.1	-2.0	41.9	32.2	21.0
Other Asia	6.0	-4.1	4.1	-11.6	-30.1	-17.2	-10.1	-3.0	-2.6	-1.4	6.7
of which:											
China	-3.0	-0.4	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.0	-5.8	9.7
Four exporters of manufactures ^d	-4.6	-9.1	-12.1	-23.1	-30.3	-25.4	-21.1	-10.4	-5.3	-5.4	-9.1
All developing countries	16.2	-23.0	-15.0	5.2	-33.7	-20.3	-27.7	-31.3	32.9	43.7	54.0
Memorandum items:											
Sample of 93 countries ^e	-6.9	-28.9	-17.3	-4.2	-33.7	-31.6	-29.9	-22.0	-0.5	18.9	44.2
15 heavily indebted countries ^f	-23.9	-40.6	-40.6	-22.0	-28.4	-30.9	-37.8	-31.8	-12.0	3.8	14.6

Source: UN/DESIPA, based on data of IMF, 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 Excluding Nigeria and South Africa.

d Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

e 93 countries, for which adequate data are available to make a financial decomposition of the transfer (see table A.27).

f Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and former Yugoslavia.

helped to compensate for the terms-of-trade loss in 1993 and, indeed, the volume of Africa's imports was estimated to have grown by only 2.5 per cent in 1993, less than in either of the previous two years (see table A.19).

As may also be seen in table IV.4, sub-Saharan Africa, excluding Nigeria and South Africa, has continued to receive a modest positive transfer, albeit one that has been virtually unchanged in current dollar terms since the 1990s began. But this means that the negative transfer has been concentrated in the rest of the continent. In at least one large country, South Africa, there is reason to think that the period of negative transfer—one that it was the policy, in effect, of the international community to impose—may soon end (see box IV.1).

One group of countries absorbed over a third of the total net transfer in 1993. These are the major petroleum exporters of West Asia which, along with Brunei Darussalam and the Libyan Arab Jamahiriya, comprise a grouping of countries that since the late 1970s has been called the "surplus energy exporters" in the *World Economic Survey*. The name of that grouping is now of mainly historical significance. The oil-export earnings of these countries had surged on the run-up in petroleum prices,

first in the early 1970s and then in the period 1979-1981. In 1980, they had transferred \$93 billion to the rest of the world, mostly to the industrialized countries that in part needed to borrow the funds to meet their higher oil bills (see figure IV.3). By 1982, however, their aggregate surplus disappeared and soon they were absorbing international resource transfers on a large scale, as they drew down foreign assets and also began to borrow abroad, in part to finance a costly war between the Islamic Republic of Iran and Iraq that lasted from 1980 until 1988.

In 1990, Iraq invaded Kuwait and oil prices jumped again, but the price rise was very short-lived and most "surplus" countries needed virtually all the extra foreign-exchange earnings they could tap to help finance the war that ensued. They continued to draw heavily on international resources for post-war reconstruction in 1991 and 1992 and again in 1993. The degree to which they will need to draw on international resource transfers in the future depends on developments in international oil prices; but given the underlying wealth of these countries, they could be expected to enjoy unhindered access to external sources of credit and investment under normal political and market conditions. In the case of Iraq, however, this would not

BOX IV.1.

Foreign finance for reconstruction and development in South Africa

Nineteen eighty-five was a watershed year for South Africa; 1994 is another one.^a In 1985, South Africa faced rising opposition to apartheid and a growing withdrawal of international finance from the country. It helped provoke a debt crisis and a decade of economic weakness. Nineteen ninety-four marks the end of apartheid. It is possibly also the beginning of a major renewal of foreign inflows and a rise in domestic investment at a time when they will be greatly needed.

In late 1984 and 1985, political unrest against apartheid boiled over and a financial crisis erupted. South Africa's terms of trade had fallen 25 per cent since 1980, including an 8 per cent decline in 1985 owing to a major drop in international prices of gold, a major South African export. The current account of the balance of payments had shifted sharply into deficit in the early 1980s and was mainly financed by short-term borrowing, leading to a rapid increase of the foreign debt burden. In this atmosphere, direct investors began to close their South African operations, and funds began to flee the country. By mid-1985, the Government declared a limited state of emergency. Foreign banks, already hit by the burgeoning developing-country debt crisis, became unwilling to roll over maturing loans. This precipitated a liquidity crisis and an announcement by the Government in September 1985—the "Debt Standstill"—that it would not repay principal on about half of its foreign debt.

International anger over the inflexible South African position on apartheid intensified and between 1985 and 1987 trade and financial sanctions against South Africa deepened. Large sums were divested and between 1985 and 1990 almost no capital flowed into the country, except trade credits. Indeed, South Africa made net financial transfers abroad of almost \$4.5 billion a year on average from 1985 to 1993.

To bring about these transfers, imports had to be curtailed and savings diverted away from investment. Gross investment had already fallen from about 30 per cent of GDP at the start of the 1980s to 25 per cent in the early years of the decade, when the country was in recession. Under the political and economic pressures of the latter 1980s, the investment share continued to decline, reaching about 14 per cent in 1993. Economic growth in the

1980s averaged only 1.5 per cent a year, less than half the rate of the 1970s, and far too slow a rate to create enough employment to match the growth of the labour force.

After outright economic contraction in the period 1990-1992 and economic growth of only 1 per cent in 1993, South Africa now turns to rectify decades of apartheid policies. Well over one in five South African workers is unemployed (and many more are underemployed) and the capacity to generate jobs has been starved by a decade of inadequate investment. At the same time, the new Government is about to address a new social agenda, as for investment in housing and public infrastructure in disadvantaged communities. A more effective mobilization of the domestic saving potential and a reversal of the net outflow of financial resources would thus be most timely. As South Africa's financial infrastructure is already highly developed, much will hinge on the economic and political environment.

Indeed, several developments in 1993 and 1994 may be setting the stage for an increase in domestic and international investment in South Africa. The primary factor is the political transition. During 1993, agreement was reached on establishing a Government of National Unity after elections in April 1994. A Transitional Executive Council (TEC) was installed in December 1993, giving blacks a role in Government for the first time in the history of the country, and an interim constitution was adopted. On this basis, the United Nations requested Governments to lift economic and oil sanctions against South Africa (General Assembly resolution 48/1).

The TEC quickly gave a signal to the domestic and international financial community that the new Government would pursue sustainable macroeconomic policies. It addressed a "letter of intent" to the International Monetary Fund which committed the Government of National Unity during the next five years to a number of monetary and fiscal policy guidelines. On this basis, the Fund approved a loan of \$850 million under its Compensatory and Contingency Financing Facility, to help finance trade losses attributable to a drought in 1992.

Aside from the endorsement that the IMF action gave to South African economic policy, the loan helped bolster foreign reserves which had been seriously depleted between August

1992 and March 1993. The loan, which was disbursed by the Fund in December 1993, also helped South Africa make debt-servicing payments in February 1994.

Beyond the immediate injection of liquidity, the international community indicated that longer-run financial commitments to South Africa will increase substantially. The World Bank and the African Development Bank are expected to provide significant new funding. In addition, certain bilateral donors have also indicated their intention to increase aid flows. If South Africa's black communities receive as much per capita as the neighbouring countries, combined bilateral and multilateral official flows might total over \$1 billion per year.^b

The South African Government also moved to resolve the foreign-debt problem that had resulted from the 1985 Debt Standstill, noted above. In September 1993, it reached an agreement with its commercial bank creditors on a final rescheduling of the \$5 billion of bank debt that would still be outstanding at the end of 1993, when the earlier "Third Interim Arrangement for the Debt Standstill" was to expire. The three interim arrangements had involved extensions of the moratorium and re-scheduling of payments. They had also contained exit options for creditor banks to convert debt covered by the moratorium to debt outside it or to South African equity or property. The final Debt Arrangement stipulates that the debt will be repaid between February 1994 and August 2001, with the bulk to be repaid during the last three years of the period.

While it was important to settle the debt problem, by the end of the 1980s it no longer prevented South Africa from tapping the international financial markets, as had also been the case with Latin American and other borrowers. Private bond issues on the international markets had slowly increased starting in December 1988, and in 1991 the South African Government returned to the international public bond market. International bank lending also resumed in 1991 for the first time since 1984. But access stopped abruptly after a massacre at Boipatong in June 1992 and the subsequent breakdown of the Convention for a Democratic South Africa, the negotiating forum for the transition from apartheid. The political developments of 1993-1994 were thus important for rebuilding the confidence of the market and borrowing activity is expected to resume this year.

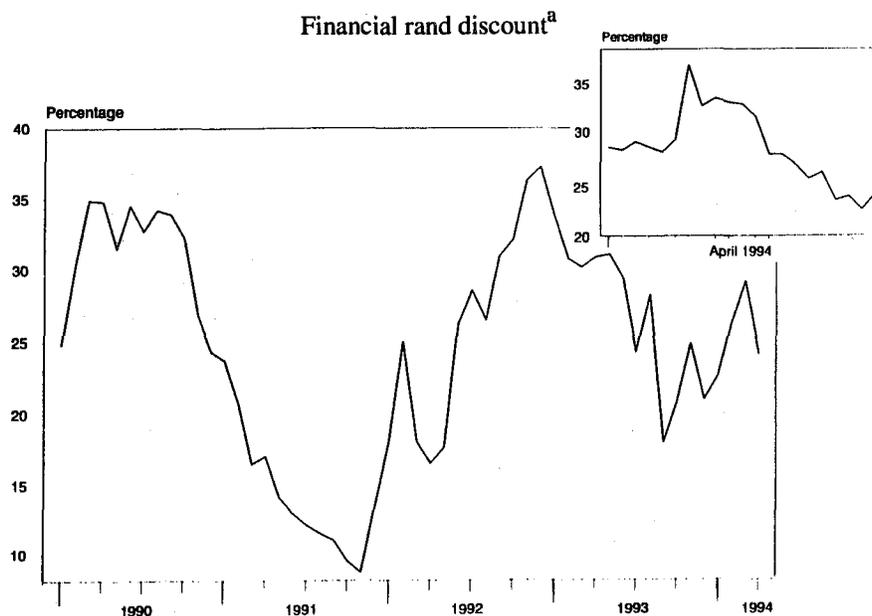
As of early 1994, however, direct foreign investment has been hesitant to return. Once

home government sanctions that had restricted them began to be repealed in 1991, several companies re-established themselves in South Africa through sales and marketing offices, licensing, joint ventures and franchising. But they have generally hesitated to make significant commitments to invest in manufacturing where the losses might be high were the political situation to deteriorate.^c

Foreign activity on South Africa's securities markets in recent years has been less hesitant although the convertibility into foreign currency of the proceeds from selling rand securities remained under the restrictions that were reintroduced following the debt crisis of 1985. When foreigners sell South African assets, they have to place the proceeds into special accounts at designated banks. The balance in those accounts can then be sold to foreigners against foreign exchange. The mechanism ensures that investment capital can only flow out of the country when a matching inflow is found, with the exchange rate of the "financial rand" depreciating relative to the "commercial rand" as necessary to clear the market.^d

Foreigners were net sellers of shares on the Johannesburg Stock Exchange from 1985 until 1992. They sold over R4 billion on a net basis in 1990 and 1991, but only R500 million in 1992. Although foreigners were net buyers of South African bonds between 1989 and mid-1992, the amount was less than the net selling of shares until 1992.^e During the second half of that year, foreigners became net buyers of shares and bonds. The net inflow of portfolio investment steadily increased between October 1992 and early 1994, and thus for 1993 there was a net portfolio inflow of R4 billion and an inflow of about R1 billion in January 1994 alone.^f

Changes in the discount on the financial rand relative to the commercial rand illustrate well the sensitivity of foreign investors to political developments. That discount, expressed as the percentage by which the financial rand price of a dollar exceeds the commercial rand price, had been trading in a range between 20 and 40 per cent since 1988. In 1990, after Mr. Nelson Mandela, President of the African National Congress, was released from prison and negotiations on the future of South Africa began to take shape, the discount began to fall (see figure). It rose again sharply during the political disturbances in 1992, but when agreements on the TEC and the Debt Standstill were reached and Mr. Mandela asked for the repeal of sanctions in September 1993, the discount



Source: UN/DESIPA, based on South Africa Reserve Bank, *Quarterly Bulletin*, various issues.

a The difference between commercial rand and financial rand exchange rates as a percentage of the commercial rand, end of month; daily for April 1994.

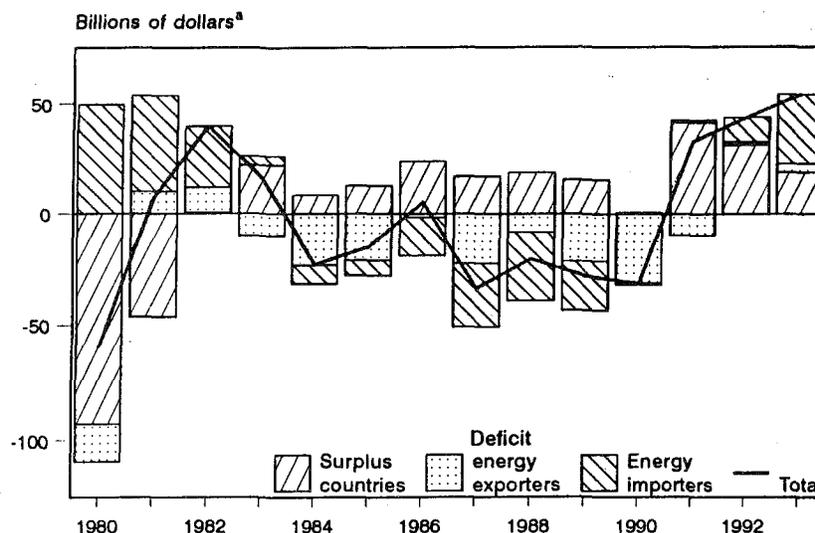
fell by more than 10 percentage points to 17 per cent in October. The discount fluctuated between September and March but when in April, the peace summit between the Government, the African National Congress and Zulu leaders failed, the discount rose sharply, only to recoup the loss after Zulu leaders agreed to participate in the elections.

As the present *Survey* went to press, the South African election had just been completed and optimism was high that the country could

get down to the business of recovery, restructuring and development. With its ample resource base and domestic infrastructure, as well as with confidence-inspiring economic policy by the new Government and considerable international good will, the prospects are good for the resumption of economic growth and a considerable increase in investment that would be financed both from domestic sources and a likely inflow from abroad.

- a Preparation of the ensuing analysis benefited significantly from the materials and discussions presented at the seminar on Sustainable Economic Growth and Development in South Africa: Policy Priorities for the Early Years of a Democratic Government, organized by the Centre for the Study of the South African Economy and International Finance of the London School of Economics and Political Science (LSE) and co-sponsored by the United Nations Special Committee against Apartheid, London, 22-24 January 1994.
- b OECD, *Development Co-operation, 1993 Report*, report of the Chairman of the Development Assistance Committee (Paris, 1994), p. 9.
- c Changes in the flow of foreign direct investment into South Africa between 1989 and 1993 appear to have been mostly associated with political variables, such as the state of negotiations, the level of political violence, and the removal of sanctions, and less with economic factors (see Jonathan Garner, "Determinants of recent direct investment flows to South Africa", LSE Centre for the Study of the South African Economy and International Finance (London), *Research Paper*, No. 8, November 1993).
- d Dividends and interest payments can be repatriated through the regular foreign exchange market at the "commercial rand" exchange rate.
- e These figures, which apply to transactions on the stock exchange, underestimate the total flow of portfolio investment into South Africa because they exclude a large volume traded off the exchange, on which comparable data are unavailable.
- f Interest has been especially strong in gold-mining shares. The all-share index of the Johannesburg Stock Exchange rose by almost 50 per cent and the all-gold index almost tripled in 1993.

Figure IV.3.
Net transfers to developing countries, 1980-1993



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

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

occur before the international embargo is lifted and normal international relations are resumed.

Roughly another third of the net financial transfer to developing countries in 1993 was to Latin America and the Caribbean, a region that until recently had not seen positive resource transfers for a decade, largely owing to the developing-country debt crisis. And while Latin America was not the only region to be rocked by the debt crisis, it affected a great many countries in the region. Latin America's return to significant positive net transfers is thus taken as indicative of considerable progress in overcoming the developing-country debt crisis; and indeed, Latin American debtors are not the only ones to have returned to the market after a long absence. However, there is some concern that a crisis similar to the one that ended the earlier period of major resource inflows could reappear to cut short what might otherwise be a sustained new period of positive transfers.

In the early 1980s, aside from the group of surplus oil-exporting countries noted above, the rest of the developing countries were net international borrowers, categorized as "capital-importing countries". They included, on the one hand, a group of oil-exporting countries such as Algeria, Indonesia, Mexico, Nigeria, Venezuela and others that generally had such heavy import and investment demands that they typically tapped external sources of capital. These were the "deficit-energy exporters". The other developing countries made up the "energy-importing countries". In 1980 the energy importers absorbed \$50 bil-

lion; in 1982 they took \$28 billion. After that the debt crisis took hold and they transferred resources abroad as a group until 1991. But in 1993 the energy importers once again absorbed resources on a large scale, the total reaching \$30 billion. The deficit-energy exporters had also begun to make net financial transfers abroad in 1983 as the debt crisis hit many of them too. They began to absorb resources once again in 1992 (see figure IV.3).

The developing-country debt crisis had erupted at roughly the same time that oil and other commodity prices began the major decline that—except for a brief hiatus for oil in 1990 and non-oil commodities in 1988-1990—continued until 1993 (see table A.21). The heavily indebted countries thus faced the very difficult challenge of undertaking domestic stabilization and structural adjustment to two large external shocks, the cut-off in credit and drop in commodity prices. The impact can be highlighted by the effect on a group of 15 heavily indebted countries. Aggregate investment in the 15 countries fell from 24 per cent of GDP in 1980 to 17 per cent in 1985 (see table A.11). The domestic saving rate barely changed, but the net transfer shifted from adding 1 per cent to domestic resources in 1980 to subtracting 5 per cent in order to make the foreign transfers in 1985.

This experience was not universal, however, as some capital-importing developing countries, largely in Asia, escaped the crisis. They had managed their external liabilities more successfully, diversified their exports appropriately and enjoyed a period of rapid economic growth. Over

time, they began to build up foreign reserve assets and repay their debts. The four exporters of manufactures, whose resource transfers are shown in table IV.4, highlight this other experience. Indeed, these countries continued to transfer resources to other countries in 1993.

By the early 1990s, several of the heavily indebted countries had undertaken the difficult economic adjustment programmes, lessened macroeconomic instabilities and reduced their debts. In part, the latter was through debt-equity swaps and buy-back schemes that allowed the debtor countries to reduce the debt at a cost below its face value. Also, the commercial banks and their regulators had come to accept that not all their loans would be recovered and the international community devised a scheme—the Brady Plan, named after the Secretary of the Treasury of the United States who proposed it—that seemed to move some countries back to creditworthiness. Comparable schemes began to be devised as well for debts owed to official creditors.¹⁹

The outcome, it now seems, is that several of the debt-crisis countries have regained creditworthiness in the sense that Governments and corporate borrowers from those countries can raise funds in international bond markets and even attract a measure of new international bank lending, albeit the latter usually under quite restrictive conditions. As a result of this and the fall in most international interest rates, the negative transfer owing to foreign private credit was less than half of what it was in the latter

1980s for the heavily indebted countries (see table A.27). The positive transfers to them have come from two other sources. First, is direct investment, which provided \$12 billion in 1993 to the 15 heavily indebted countries. Secondly, was \$28 billion in a category that is perforce measured as a residual, but includes funds that residents had earlier moved offshore and were bringing back for local investment, plus new foreign capital inflows. These appeared to go largely into purchases of short-term financial assets and equity shares on local stock exchanges.

In sum, the funds that underwrite the new net transfers of resources are primarily private funds. As will be discussed below, the recent performance and outlook for official flows for development are quite restrained. Main components of the private flows are direct investment, bonds and, most recently, equity share purchases. All these can be effective modalities for resource transfers, but all also entail risk. They require, in particular, that export earnings of the capital-importing countries grow adequately so the transfer of investment-income payments that these inflows will earn can be comfortably made. They equally require that domestic income and output grow adequately to generate the gross domestic savings for the investment-income payments. In short, to be able to sustain high inflows, the borrowing countries have to transform them into additional investment and economic growth.

DEBT AND THE SOURCES OF INTERNATIONAL FINANCE FOR DEVELOPMENT

That the access of the developing countries to international financing has been improving can be demonstrated with a variety of measures. Some, such as the net transfers discussed above, focus on the flows to the countries in 1993. Others entail the level of international assets and liabilities at the end of the year. But by all measures, the situation of most African countries is uniquely weak, leaving them dependent on concessional official flows at a time when donors have been reassessing programmes of official development assistance.

A picture of the surging financial inflows into developing countries as a whole can be obtained from the sample of 93 developing countries whose net transfers were monitored in the *World Economic Survey* for many years. As can be seen in table IV.4, the net transfer into this grouping was estimated to have reached \$44 billion in 1993. These countries thus imported \$44 billion more in goods and non-factor services than they exported or earned from workers' remittances. Yet, the net transfer to the group as measured by adding up the net transfers from all the usual foreign and domestic financial flows came to \$91 billion

(see table A.27). The \$46 billion difference is the amount added to the official reserve assets of the group. In the past four years they have added \$173 billion to reserves. In 1990, the group as a whole already had reached the rule-of-thumb norm of having reserves equivalent to three months of imports of goods and all services, including interest payments. By the end of 1993, they had virtually reached four months of coverage (see table A.28), while the volume of imports, at least of merchandise, grew 41 per cent since 1990 (see table A.19).

There are 44 African countries in the 93-country sample, almost half the total, but their experience was not at all captured by these aggregate figures. First, annual net resource transfers were close to zero in recent years, when not negative (see table A.27). In sub-Saharan Africa (excluding Nigeria and South Africa), even though the net transfers have been somewhat higher, reserve accumulation has been modest and reserve levels have not risen above 2.5 months of expenditure on goods-and-services imports since 1991. At the heart of the situation—perhaps a symptom of Africa's development crisis—is that private

flows have largely avoided Africa. Instead, official and private grants (excluding workers' remittances) made up almost 90 per cent of the net transfer to the sub-Saharan region. Taking the continent as a whole, the transfers to private foreign creditors plus domestic outflows have been almost as large as the inflow of grants (see table A.27).

STATUS OF THE DEVELOPING-COUNTRY DEBT SITUATION

In 1993, the developing countries arranged \$71 billion in borrowing from international capital markets, more than \$15 billion above the level in 1981, before the debt crisis began (see figure IV.4). Almost 70 per cent of these arrangements were bonds, a form of lending that was once open only to a few countries and in limited amounts. The rest were loans arranged by international commercial banks, which used to dominate the extension of credit to developing countries. The degree of market access in 1993 was possible mainly because most of the large debt-crisis countries have either reduced their debt-burden indicators to levels that the market accepts, or developed high reserve levels to which the market looks for security, or borrowers have made arrangements for various types of guarantees, such as collateral, that reduce the perceived risk. Moreover, several active borrowing countries never developed debt crises and have enjoyed uninterrupted access to market financing. Despite this, debt difficulties remain in various parts of the world, but the continuation of the crisis

situation in Africa stands out.

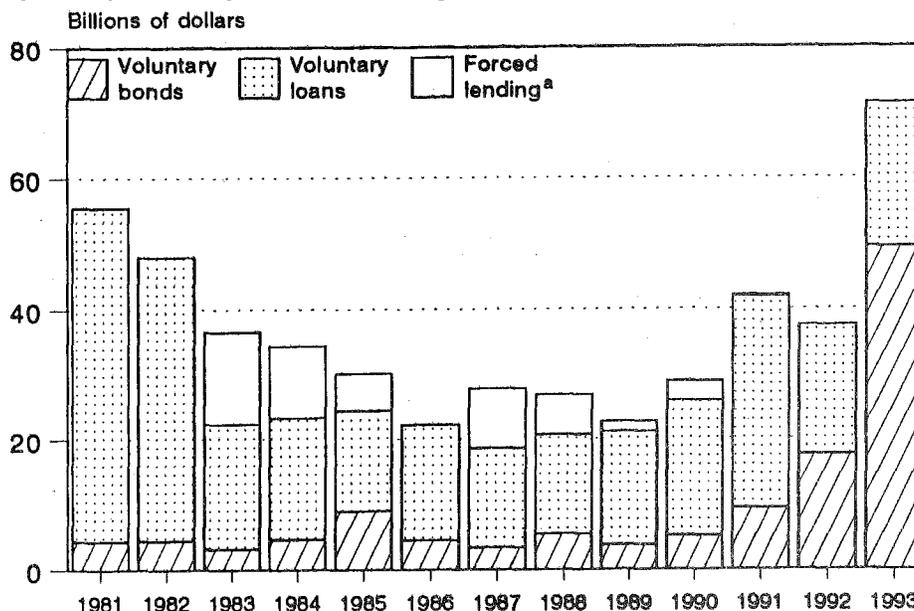
In other words, the world's financial markets have taken with equanimity the fact that the developing-country debt is now over \$1.6 trillion (see table A.35). But the \$305 billion owed by Africa—and even more, the \$152 billion owed by sub-Saharan Africa—are seen to exceed the debt-carrying capacity of these respective areas. Indeed, while the total of arrears on principal and interest payments on long-term debt has fallen for the capital-importing developing countries as a whole, both types of arrears rose last year for Africa and for the sub-Saharan subgrouping (see table A.35).

The growth of arrears is one reason the ratio of Africa's debt-servicing to foreign exchange earnings has fallen. Africa's debt-servicing ratio has fallen in every year since 1989, and at 22 per cent in 1993 was a third less than in the peak year of 1986 (see table A.36). In sub-Saharan Africa, the decline in the debt-servicing ratio has been even greater, as it fell in every year beginning in 1987 and in 1993 it was 12.7 per cent, exactly half the peak in 1986. But the dollar value of African merchandise exports peaked in 1990 and has fallen in each year since (see table A.25). The debt-servicing ratio continued to fall, in part because of the growth of non-merchandise exports, but also because of the arrears.

The debt-servicing ratio declined as well in the rest of the developing world. For the capital-importing countries of Asia it is also about half the peak rate in 1986. The ratio

Figure IV.4.

Gross developing-country borrowing on international capital markets, 1981-1993



Source: Data of OECD, *Financial Statistics Monthly*.

a In the context of debt-rescheduling exercises.

was only 8.6 per cent in 1993, largely owing to the strong export growth of the region. In Latin America, the ratio has fallen as well, albeit by less than a third. It was 30 per cent, however, in 1993, which is relatively high. If financial markets were nevertheless not concerned, it may have to do with the very high reserve levels in the major economies, making the regional reserves exceed five months of imports, as well as perceptions that economic adjustment programmes will bear fruit.

There is an important *caveat* here to anyone who might become overly sanguine about the debt situation in Latin America. Although the renewed access of the region to capital markets may seem to signal the end of the debt crisis, the still high debt-servicing ratio—not to mention the quite modest rates of economic growth that continue in many countries—suggests that it would be prudent not to rush to judgement on this question.

One of the reasons for the popular perception that the Latin American debt situation is close to solution is that the largest outstanding-debt negotiation was concluded in 1994. That is, Brazil reached a final accord with its creditor banks in April to restructure \$49 billion of its commercial bank debt, applying the general approach of the Brady Plan.

The plan has underpinned a process of negotiation of several of the largest and certain of the smaller debtor countries. In each case, the debtor negotiates with a committee of its creditor banks to work out an agreement in principle by which the debtor offers an agreed menu of options from which creditor banks choose. The menu can include buy-backs and exchanges of bank claims for bonds at a lower face value, or at the same face value but at reduced interest rates, or the debt servicing on loans can be rescheduled for banks that do not wish to give up their claims and are also willing to lend new money to help meet the service payments. The bond-exchange options are typically enhanced by partial guarantees, as through purchase of zero-coupon United States Treasury bonds that would mature on the same date as the bonds, and thus assure the resources to repay the principal of the bonds. The funds to buy the zero-coupon bonds are provided in part by the debtor country from its reserve assets, and in part from the proceeds of loans by IMF and the World Bank. In addition, to raise the confidence of the creditor banks that the debtor will be able to meet its post-agreement obligations, an active IMF Stand-by Arrangement has been considered a prerequisite for completing a debt agreement.²⁰

The Brazilian agreement was unique in that Brazil did not have an active Stand-by Arrangement with the Fund and thus did not draw any loans from IMF to help pay for the enhancements, using its own reserves instead. Brazil's negotiations had taken three and a half years to complete and were the most complex of the Brady-Plan restructurings. Its 750 creditor banks were offered a package of six

different options for either exchanging their bank claims for a variety of securities having different interest rates or rescheduling principal payments for up to 30 years if they provided new loans. The arrangement is expected to reduce Brazil's debt by \$4 billion and lead to annual savings of \$4 billion in debt-servicing expenditures.

Two other significant cases were settled recently. Jordan completed an arrangement in December 1993 to restructure an estimated \$895 million of debt, and the Dominican Republic signed an agreement in February 1994 to restructure its \$1.1 billion commercial-bank debt. With these two arrangements, 10 countries have completed Brady-Plan arrangements since this approach was proposed in 1989.²¹

Overall, while Brady agreements produced a certain reduction in the face value of commercial-bank debt, net cash flow has improved much less in the light of the need to service the increased borrowing for the enhancements. However, the agreements provided a framework for settling claims in an orderly way and have improved investor perceptions of the debtors' creditworthiness.

The Brady Plan, however, was essentially conceived for middle-income countries with large debts and resources to finance up-front costs. The majority of the smaller countries holds low foreign reserves and has limited access to funding for enhancements. While commercial-bank debt accounts for only 10 per cent of low-income countries' total external debt, arrears to commercial banks have had a negative impact on needed trade financing. To assist in reducing the outstanding obligations and to take advantage of the discounts on the secondary market, where banks trade the claims that they no longer want to hold, the International Development Association (IDA) of the World Bank established a special Debt Reduction Facility in August 1989 for low-income member countries. To date, five countries reduced their commercial-bank debt through buy-backs or discounted exchanges financed by this Facility.²² With a contribution of about \$45 million from the Facility and \$48 million from bilateral donors, debt with a face value of \$623 million was extinguished. An extension of the Facility until July 1995 and an additional \$100 million to finance future operations were recently approved. Six more countries—Albania, Nicaragua, Sao Tomé and Príncipe, Sierra Leone, the United Republic of Tanzania and Zambia—are in the process of concluding such operations.²³

The other major cooperative international effort to negotiate reduced debt-servicing obligations is the Paris Club, an informal meeting of government creditors that agree to offer a shared measure of relief to debtor Governments. The Club adopts various types of "treatment" of debt, depending mainly on the average income level of the affected country, and applies them on a case-by-case basis. An "agreed minute" of the Paris Club outlines how the

creditors will restructure the debt service due during a specified "consolidation period" on debt incurred before a specified "cut-off date". Like the commercial-bank renegotiations that were described above (which are sometimes called "London Club" agreements), an IMF Stand-by or equivalent arrangement is usually a prerequisite for a Paris Club agreement.

In 1993, 10 developing countries rescheduled their official bilateral debt at the Paris Club,²⁴ compared with an average of 18 countries per year in the three preceding years. One reason is a tendency over recent years towards multi-year rescheduling, rather than requiring the debtor to return each year to renegotiate another single year of debt-servicing obligations. The latter had been especially burdensome because the Paris Club agreements only set the framework for rescheduling the debt repayments, and individual agreements then had to be negotiated with each of the government creditors. Multi-year rescheduling arrangements, covering two to three years of debt-servicing obligations, represented about a third of the total number of agreements signed during the period 1990-1992, and 60 per cent of those signed in 1993. By comparison, only three out of the 39 agreements signed in 1988-1989 covered two years or more.

About two thirds of the countries that rescheduled their debt in the past two years were low-income countries, mostly in sub-Saharan Africa. Most of these countries had gone repeatedly to the Paris Club, many of them at least four times over the past 10 years. Recognizing the inadequacy of the terms applied to the debt restructuring of the most heavily indebted low-income countries, Paris Club creditors increased the concessionality of these terms in December 1991 through adoption of an "enhanced concessional treatment for the poorest highly indebted countries", also referred to as the "enhanced Toronto terms". Through a menu of options, this treatment provides for a 50 per cent reduction of the net present value of the consolidated debt servicing. For creditor countries whose legislatures had not authorized debt reduction, there was an option wherein the debt servicing due in the period being consolidated is rescheduled for 25 years, with a 12-year grace period.²⁵

The standard agreement under these enhanced terms also contains a clause that three or four years after signature, creditors could consider reducing the stock of debt, which held out the possibility of deeper cuts in debt servicing. Nicaragua, which with Benin was the first to benefit from these terms in December 1991, might be the first country to become eligible for this review in December 1994. As of April 1994, 22 countries (Benin twice) have received enhanced Toronto terms.

Despite these activities there is a broad view among creditors, albeit not a consensus, that the enhanced Toronto terms are inadequate to pull the indebted countries out from under their "debt overhang". One well-known pro-

posal for greater debt-service reduction that would apply immediately to the full stock of debt is known as the "Trinidad terms", after they were proposed in Trinidad and Tobago by the Chancellor of the Exchequer of the United Kingdom in the autumn of 1990. It was thought that the treatment granted by Paris Club creditors would progressively move closer to the Trinidad terms. The Economic Declaration adopted at the Summit Meeting of the seven major industrialized countries in Tokyo in July 1993, for instance, invited the Paris Club to continue reviewing the question of debt relief for the poorest highly indebted countries.

Although there was no change in Paris Club terms *per se*, there has been some increased flexibility in how debtor countries are treated. Thus, because debt servicing due on debt contracted after the cut-off date has grown significantly, the Paris Club has begun to treat these obligations as well, for example, deferring arrears on such debt for up to two years, and even, in a very few cases, to reschedule the arrears over several years. In addition, over the past 18 months, there have been a few cases in which Paris Club creditors have rescheduled the "moratorium interest" that is supposed to be paid on the debt servicing deferred by the agreement. This practice, however, remains the exception.

The Paris Club has also become more flexible in the terms it applies to different countries. Following the devaluation of the CFA franc in January 1994 (see box II.2), 11 African countries (as of end-March) concluded agreements with IMF on adjustment programmes and became eligible for new Paris Club arrangements. As a result, enhanced Toronto terms were accorded to Cameroon, the Central African Republic, Côte d'Ivoire, the Niger and Senegal. Before the CFA franc devaluation, Cameroon and Côte d'Ivoire were classified as middle-income countries and would not have been eligible for these terms. Indeed, not all Paris Club creditors agreed to the enhanced terms; two creditors in the case of Côte d'Ivoire and five in the case of Cameroon opted for the long-term rescheduling option.

Although the Paris Club mechanism was set up to ensure that the cost and inconvenience of rescheduling was shared appropriately among the creditors, the latter have been free to offer better terms on a unilateral basis. France recently did so as part of its package of assistance to CFA franc countries after the devaluation. France thus cancelled FF 25 billion of debt, including the total debt that had been extended originally as official development assistance (ODA) to the lower-income countries (Benin, Burkina Faso, the Central African Republic, Chad, the Comoros, Equatorial Guinea, Mali, the Niger, Senegal and Togo), as well as half of the ODA debt of the four others (Cameroon, Congo, Côte d'Ivoire and Gabon). In addition, arrears to the Caisse française de développement, amounting to

FF 3.3 billion, were cancelled so that it can now start lending again to those countries. Taken together, these amounts represent about 10 per cent of the \$47 billion of debt of the group at the end of 1993, with each country receiving approximately the same overall debt reduction from the exercise. In a related action, Switzerland cancelled \$222 million in the debt of Côte d'Ivoire.

Most of the countries discussed in this section have been through a long and difficult series of debt-restructuring exercises in the Paris Club, the London Club and other mechanisms, including those dealing with the debt owed to multilateral institutions.²⁶ It would be one thing if that were the end of the story; i.e., that a decade or so ago many countries slipped into debt crisis from which only some can be said to have thus far emerged. Recently, however, new debt-servicing problems came to a head for Algeria and Kenya, two countries that had never rescheduled before. Thus, after it devalued and embarked upon a new adjustment programme, Algeria, in April 1994, requested a first rescheduling from the Paris Club. With the decline in prices of oil and gas, the country faces sharply lower export revenues which would exceed its 1994 debt-servicing obligations if there were no debt rescheduling. In the case of Kenya, a foreign-exchange shortage led to a rapid build-up of arrears during 1992 and 1993 (see chap. II) and in January 1994 the Paris Club agreed to reschedule Kenyan debt, also for the first time. Thus, as an ongoing crisis in some countries and an apparent danger in others, the developing-country debt situation must still be monitored.

WHAT FUTURE FOR OFFICIAL FINANCIAL COOPERATION?

The role of the international community in assisting countries in debt crisis has become almost a routine one in the past decade. But it is really an atypical activity. The standard function of international cooperation in finance for developing countries has been the direct provision of resources for activities that the international private sector does not undertake. The necessary extent of this role, however, is being re-examined, while in quantitative terms the role has already begun to decrease.

One area where the international role is not questioned but the flows have diminished is in international support for economic adjustment programmes. For the seventh year out of the past eight, the developing countries have made net repayments of IMF loans (see table A.28). Developing countries continue to adopt adjustment programmes that the Fund supports financially, but the numbers are fewer and the amounts committed are smaller (i.e., 13 programmes committing \$3 billion in 1993, versus 17 programmes committing \$7 billion in 1992). The Fund continues to disburse loans on a net basis to low-income countries that draw concessional resources, but even those flows have diminished.

IMF resources were recently enlarged and thus the capacity for additional regular lending is in place. Further increases in commitment authority have, however, been needed. Thus, in December 1993 the Executive Board of IMF extended and enlarged the Fund's concessional lending window, the Enhanced Structural Adjustment Facility (ESAF). Resources for the Facility come from voluntary loans by member countries at market-based interest rates (Japan alone is providing almost half the total of \$6 billion). The Facility is able to extend concessional loans because grants to cover the interest differential are also made to a subsidy account. This time, more than 20 developing countries out of 43 contributors in all are providing more than 15 per cent of the subsidy account, compared to five developing countries contributing 9 per cent in the initial ESAF arrangement.²⁷ Looking to future needs, the IMF Executive Board has begun preparatory work on the Tenth General Review of Quotas, to be completed by December 1994, which could further enhance Fund resources.

All regular IMF lending programmes are agreed on condition that they support economic adjustment programmes that meet particular criteria. The Fund has also supplied a form of unconditional liquidity, the special drawing right (SDR), which is an asset that the Fund periodically allocates to member States and which they can use to settle payment obligations with the monetary authorities of other IMF members.²⁸ Despite the fact that the Second Amendment of the IMF Articles of Agreement intended the SDR to become the principal reserve asset of the international monetary system, SDRs are an almost insignificant share of reserves. None have been issued and allocated to countries since 1981. The Managing Director of IMF has thus proposed a moderate allocation valued at about \$50 billion, to be issued over five years. The amount is small enough to have virtually no inflationary impact, but could help ease liquidity problems in some countries.

As yet, there is no agreement among member States on a new issue of SDRs, but even when issued, the bulk would go to the richer countries since SDRs are allocated according to IMF quotas. The allocation would also not address a separate equity issue; i.e., the 37 IMF members that joined the Fund after 1981 have not received any SDRs thus far. While a separate allocation of SDRs for these countries does not seem feasible, the Managing Director has proposed a mechanism by which countries could pass part of their SDRs (or other assets) to proposed "Co-financing Trust Accounts" (CTAs). The CTAs would be administered by the Fund and used for the benefit of countries with low reserves and no past SDR allocations which were undertaking adjustment and reform programmes. Following the 25 April meeting of the Interim Committee, the Managing Director saw some movement among member Governments on his second proposal.²⁹

Concluding an agreement on CTAs—and even more, on a new allocation—by the autumn IMF meetings would give an appropriate signal on the possible future role of the SDR as the international community celebrates the fiftieth anniversary of the Bretton Woods Conference.

Outside IMF, most multilateral cooperation is for development. As in the case of IMF in 1993, there was also a decline in resource commitments of the multilateral development institutions, including the lending institutions and the operational agencies of the United Nations, whose resources are provided on a grant basis (see table A.33). The one significant exception was the level of commitments of the International Finance Corporation, the affiliate of the World Bank that lends to and invests in the private sector. This rose 30 per cent. Overall, non-concessional lending by the financial institutions did not change in nominal terms, and since average import prices fell in dollar terms, the “real value” of non-concessional commitments rose slightly.

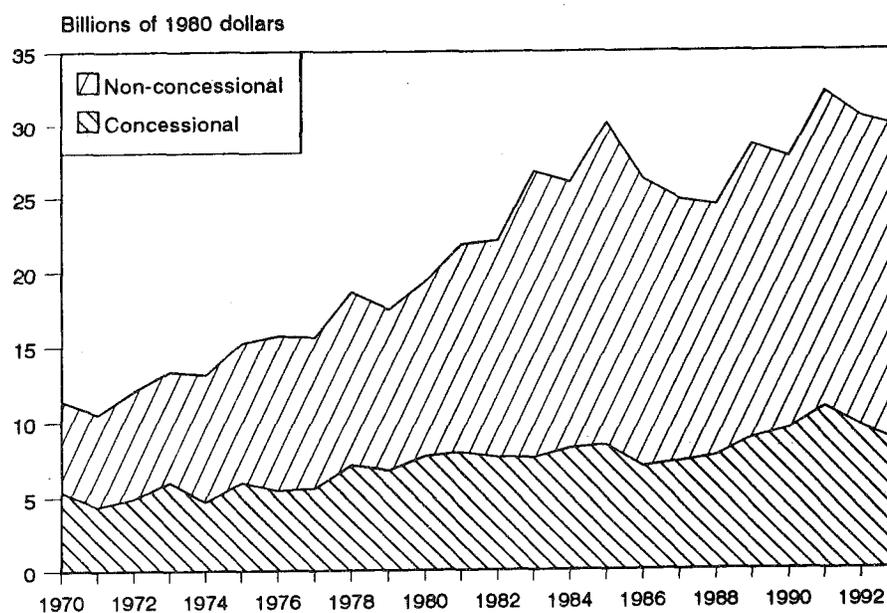
Total commitments fell because of the fall in concessional lending and United Nations operational activities. It was the second year of a drop of 10 per cent or more in concessional arrangements.³⁰ IDA commitments alone fell 15 per cent and were thus 25 per cent below their peak in 1991. Commitments of the African Development Fund, the concessional facility of the African Development Bank, fell by more than a third. At the United Nations Development Programme, a 15 per cent drop in voluntary contri-

butions forced it to hold commitments to 70 per cent of indicative planning figures. Contributions to the other operational activities for 1993 dropped as well.³¹

In aggregate, the entire gain in concessional programmes since 1990 has been erased and the increasingly modest role of concessional activities in overall multilateral finance seems set to continue. While concessional flows were almost half of total multilateral development programmes in 1970, they are now less than 30 per cent of the total (see figure IV.5).

The drop in multilateral flows seems to reflect a reassessment that is taking place in the institutions. In the case of the United Nations agencies, there has been a period of reflection on the process of technical cooperation and the governance of operational activities. This led the General Assembly in December 1993 to clarify and streamline the work of the Assembly, the Economic and Social Council and their subsidiary bodies in the economic, social and related fields, including major reforms of the governing bodies of United Nations development funds and programmes (resolution 48/162). The result is a leaner structure of executive boards that have monitoring and supervisory responsibilities in their respective areas, operating under the coordination and guidance of the Council, with overall policy formulated by the Assembly. A multi-year programme of reform is also under way to strengthen the coordination and management of United Nations operational activities (as per

Figure IV.5.
Multilateral resource commitments, 1970-1993



Source: UN/DESIPA, based on information supplied by individual institutions.

General Assembly resolution 47/199).³²

In the lending institutions, there has also been a reassessment, to a degree prompted by non-governmental organizations and legislators in major shareholder countries. The lending institutions have thus turned their focus more to improving the quality of loans and their impact on environmental and social matters. For instance, the World Bank has been criticized that as a result of some of the projects it finances—particularly the Narmada Dam Project in India—millions of residents have been evicted from their homes. This has been quite controversial, as is often the case in large construction projects anywhere. In general, the issue is one to resolve within domestic political processes and, as far as the World Bank is concerned, under international guidelines. Indeed, the World Bank has its own resettlement guidelines. It has responded to the recent controversy with a Bank-wide review of involuntary-resettlement consequences of Bank-funded projects.³³

The World Bank is also seeking to improve the preparation and oversight of projects. One strategy in this regard is to explicitly foster “stakeholder” participation in order to generate long-term support—in part, so that projects once completed are adequately maintained and utilized—as well as to stimulate new ideas and better management practices. To this end, the Bank established the Participation Fund in June 1993 to finance extra costs of involving target beneficiaries in project preparation. The Fund was replenished in March 1994. In addition, criticized that its lending programmes have not paid appropriate attention to their environmental impacts, the Bank has decided that project reviews, particularly for power and energy loans, will be made public. In January 1994, the Bank thus opened its Project Information Centre in Washington, D.C.

Within and outside its walls, the Asian Development Bank (ADB) has been criticized as being overly concerned with lending volume at the expense of project quality, called the “approval culture”. Thus, ADB has committed itself to tighten lending policies, seek to reduce the concentration of its loans on a few borrowers and strengthen country-risk assessment. At the African Development Bank (AfDB), there is also heightened concern about loan quality, improved country programming, harmonization of new initiatives and better surveillance of the absorptive capacity of the borrowing countries. Concern for environmental and poverty matters has also risen at the Inter-American Development Bank (IDB).³⁴ Moreover, out of concern that the development impact of the multilateral development banks be raised and “remain at the cutting edge of...poverty reduction, good governance and environmental protection”, the United States proposed and the Development Committee agreed to create a task force to review the role of the World Bank and the main regional banks.³⁵

One result of the new concerns is that project propos-

als are reviewed more intensively and loan commitments are slower in coming, which is one of the reasons for the drop in lending arrangements discussed above. A second result is that with their concerns increasingly being met, major shareholder Governments are able to approve requests for expanded lending capacity of the institutions. After some hesitation, in March 1994, negotiations advanced on a general capital increase of more than \$20 billion for ADB. Similarly, after years of dialogue about the functioning of IDB, negotiations for its Eighth General Increase in Resources began in 1993. In April 1994, shareholders agreed to increase capital by two thirds to \$101 billion. This will enable the Bank to sustain lending at the present rate of \$6 billion a year and for the first time extend loans to the private sector under certain conditions.³⁶

In another difficult negotiation, the replenishment of the Global Environment Facility (GEF), a jointly operated fund of the World Bank, the United Nations Development Programme and the United Nations Environment Programme, was agreed in March 1994. Donors pledged \$2 billion after an agreement was reached among the 87 member countries on a “double majority” voting system in its 32-nation council. This means that for a decision to pass, it has to have a minimum support of 60 per cent of its members, who together have contributed at least 60 per cent of GEF’s funds.

The concern of major shareholders to enhance the effectiveness—and especially the social and environmental accountability—of the institutions is paralleled by the concern of Governments about their ODA programmes and about the broader category of foreign aid in general. Budgetary pressures, exacerbated by the economic recessions of the early 1990s (as discussed in chap. II), have caused legislatures in many donor countries to focus attention on aid programmes, especially as the cold-war argument for assistance programmes—a powerful factor in some donor countries—was no longer germane.

Much is at stake here, since even though ODA flows have grown slowly for many years, the total funds are quite substantial, almost \$62 billion in 1992.³⁷ Several countries make very considerable development-assistance efforts and indeed exceed the United Nations target of providing development aid equivalent to 0.7 per cent of gross national product (Denmark, the Netherlands, Norway and Sweden) or are close to the target, with ODA/GNP ratios in excess of 0.6 (Finland and France), while the aid provided to other developing countries by three Arab countries (Kuwait, Saudi Arabia and the United Arab Emirates) remains very substantial (see table A.31).

Several donors conducted reviews of their aid programmes in the past two years. Aid administrations were streamlined and several donors, among them Austria, Denmark, Italy, the Netherlands and the United States, chose to concentrate their aid on a reduced number of countries,

in order not to scatter their funds and to be more effective.

The case of the United States is particularly instructive. In 1970, United States ODA was 0.6 per cent of GNP; by 1992 it was 0.2 per cent. In the early years of United States assistance programmes, there was broad public support for aid, but much of that has been eroded. A humanitarian desire to assist poor people in poor countries was popular, while the argument that foreign aid would win the political and military support of recipient countries had broad acceptance. Moreover, it was widely believed that development assistance would have a major impact on the rate of economic growth. The humanitarian concern remains strong, but belief in the efficacy of official channels for delivering development assistance weakened and aid came to be seen as having a more modest political and developmental role.

The current Administration is thus attempting to re-focus the United States foreign-aid programme and improve its efficiency. With shifting strategic, ideological and commercial concerns, the 1961 law governing United States foreign aid had become encumbered by a plethora of provisions and restrictions, politically motivated *caveats*, exemptions, mandates and requirements. By the late 1980s, the Foreign Assistance Act contained 29 categories of development assistance, defined by 33 objectives, requiring 288 reporting requirements. Simply fulfilling these requirements occupied an estimated 140 work-years annually on the part of the agencies that administered United States aid.³⁸

The United States Administration has thus proposed new legislation to the Congress to narrow the goals of foreign aid to promotion of democracy, human rights and sustainable development, providing special attention to population growth, environment, free trade, global health issues and combatting drugs, terrorism and nuclear proliferation. At the same time, the Administration decided to close 21 aid missions serving 35 countries during 1994-1995, and concentrate on development programmes in about 50 countries.³⁹

To the degree that the experience of the United States, the multilateral organizations and others might be generalized, donor Governments indeed need to look hard at their foreign-aid operations. This in no sense means, however, that they should withdraw or reduce their commitments to international cooperation for development. It remains a major reason for foreign aid. Aid as a general category of international cooperation is in no sense obsolete, although the context and scope of aid evolves. Some new reasons for foreign assistance may arise on a temporary and ad hoc basis (see, for example, box IV.2). Others are ongoing global concerns and some are key dimensions of development. Private flows can address many needs, but substantial assistance flows are still required for activities that cannot practically be financed on private terms.

WHY THE "BOOM" IN DEVELOPING-COUNTRY STOCK MARKETS?

It was noted earlier in this *Survey* that international portfolio flows have surged in industrialized countries and that the rising net capital inflows to developing countries have been mainly accounted for by portfolio investment. International interest in developing-country stock markets, especially in 1993, has been the latest manifestation of this.

Indeed, share prices on developing-country stock markets have advanced about 120 per cent in dollar terms from 1990 to 1993. By the end of 1993, the capitalization of the equity markets in developing countries—the total market value of the equity that was available to trade on the stock exchanges—surpassed \$1.3 trillion, or 6 to 7 per cent of the global stock market. As a percentage of GDP, the average market capitalization rose from less than 16 per cent in 1988 to over 30 per cent in the early 1990s.⁴⁰ This is a very large gain, but seen against an average market capitalization of about 65 per cent for the seven major industrialized countries, it suggests the process in the developing countries could develop much further.

The run-up in prices was partly the result of an explosive growth in foreign purchase of equity shares on these markets. Beginning in 1989, net foreign investment in developing-country equities and related securities began to climb, surpassing \$20 billion in 1992, whereas in 1988 it was on the order of \$3 billion (see figure IV.6).⁴¹ In 1993, foreign-equity flows to these markets soared to \$52 billion. Foreign-equity investment has been mainly concentrated thus far in a few countries of Asia and Latin America, although the interest of investors is spreading to a growing number of developing-country stock markets, including those in Africa and the Middle East. Financial institutions from the United Kingdom and Japan, the traditional leaders in foreign-equity investment, were the first to channel funds into the emerging stock markets. More recently, investors from the United States jumped into the lead, accounting in 1992 for 60 per cent of the net cross-border inflow to Asia and Latin America. By the end of 1993, however, the United States share of the inflow dropped to 40 per cent, as funds from the emerging markets themselves grew to supply 17 per cent of the total.⁴²

Holdings by foreign investors were worth approximately \$186 billion in 1993, up from \$2.4 billion in 1986. Since 1991 these "emerging markets" have been the source of more than a quarter of the new issues floated internationally, up from insignificant amounts in the late 1980s. In 1993, institutional investors in North America, Europe and Japan increased their holdings of stocks from emerging markets to 13 per cent of their international funds, up from 10 per cent in 1992 and 2 per cent in 1989.⁴³ Third-world equity markets, in short, seem to have entered the mainstream of global investment. An important question is why, or why now?

BOX IV.2.

Issues in assisting countries that are inadvertently hurt by United Nations sanctions

Analysts of economic cooperation have long grappled with the question of the nature and degree of international response when a country is subjected to an economic shock. In the past several years, an unusual type of economic shock has become increasingly common, namely, the impact on non-target countries of economic sanctions imposed by the United Nations to alter the behaviour of the government of a target country. Responses to this type of shock may require a different set of principles than has evolved for the more traditional cases.

In general, countries seek to prepare themselves for economic shocks, whether through building food-storage capacity for times of drought or increasing holdings of official reserve assets to meet unforeseeable fluctuations in foreign exchange flows. The international community comes to the assistance of countries when the economic consequences of a shock exceed the country's own response capacity and the Government requests international assistance, which may take the form of food aid, balance-of-payments financing, or other modalities of support. Beyond the immediate response to crisis is the question of economic adjustment to reduce the vulnerability to subsequent shocks (and thus reduce the need to make subsequent calls on international assistance). The international community typically assists in these longer-run concerns as well, through the lending programmes and technical assistance of multilateral and bilateral agencies.

In the case of countries adversely affected by United Nations sanctions, the adjustment problem is different, depending on how long the sanctions are expected to be needed. If the sanctions are expected to change the behaviour of the target country in a short period of time, it would not be appropriate to seek to permanently replace the prohibited economic relations with comparable relations with third countries. For example, a country might be prohibited from continuing to receive natural gas by pipeline from the low-cost, but targeted supplier. The country should probably not begin to build a pipeline to a new, higher-cost gas pro-

ducer, which would take several years to complete and incur considerable expense. It must, in any event, solve the short-run problem of obtaining alternative supplies that could be delivered at as small an incremental cost as possible.

The incremental cost of a "sanctions shock" may be absorbed in the same way as fluctuations in international prices of commodity imports and exports, namely, use of official reserves, borrowing from private and official sources, reduced consumption, reduced income and so on. In some cases the costs may be minor, but in several cases implementation of sanctions has been quite costly and special international assistance was sought to share the burden of the cost.

While member States are obliged under the Charter of the United Nations to implement economic sanctions imposed by the Security Council, it is in the nature of international solidarity that the "front-line" States should not be asked to bear a disproportionate share of the international burden in so doing and that the international community at large should consider and, as appropriate, provide assistance to those affected non-target States. Indeed, the Charter provides a mechanism by which such cooperation can take place.

THE SANCTIONS CONSULTATION PROCESS

Under chapter VII of the Charter of the United Nations, which treats "actions with respect to threats to the peace, breaches of the peace, and acts of aggression", the Security Council is empowered to impose sanctions "to give effect to its decisions" (Article 41). If, as a result of such measures being taken, any State "finds itself confronted with special economic problems arising from the carrying out of those measures [then it] shall have the right to consult the Security Council with regard to a solution of those problems" (Article 50). Several countries have availed themselves of this right under various occasions in which the Security Council imposed such sanctions.^a

The essence of such a consultation is an appeal for assistance by a State, based on its as-

assessment of the damages and losses it identifies as having been incurred as a result of carrying out the sanctions. Currently, there are no uniform and internationally recognized guidelines for such an evaluation. Affected countries have performed their own quantitative assessments, often applying different principles and criteria. The range of activities seen to have been harmed by enforcing the sanctions has also been diverse. However, the effects on counterpart countries can generally be classified into two broad categories:

“Direct costs”, which are evaluated as the income forgone and losses incurred resulting directly from the cancellation of contracts with the sanctioned country. Examples include suspended sales or outstanding orders for contracted deliveries, interrupted shipments, payments or other transactions and disrupted production of jointly operated or other facilities. In most cases, they are related to exports to or imports from the sanctioned country, but they can also refer to other activities such as joint investment projects.

“Indirect costs”, which are the induced effects of the above, such as disrupted production owing to the absence or higher cost of sanctioned supplies or deliveries. Indirect effects also include disrupted deliveries to third parties, disrupted financial services, the negative effect on employment from lost jobs, the negative fiscal effect of forgone tariff revenues from undelivered imports and the need to increase unemployment benefits.

The magnitude of the direct and indirect costs depends on the intensity of the trade links and other forms of economic cooperation between the target country and the country appealing to the Council, but usually the neighbouring countries are the most affected. In addition, a third type of costs can be incurred, which might be termed “secondary side-effects”. These are damages and losses of entities in third-party States which stem from the cancellation of or impediments to relations and contracts not directly involving the target

State. An example would be when a firm in country A contracts to deliver goods to a buyer in country B but cannot do so because of sanctions against country C, through which the goods would normally have been hauled.

In response to an Article 50 consultation, the Council can take—indeed, has taken—various actions aimed at promoting and coordinating support for the affected countries. In the view of the Secretary-General, the results have been mixed.^b Established multilateral mechanisms may, in any event, be approached under regular procedures.^c In the most successful cases, however, ad hoc and temporary mechanisms have been established to mobilize and channel funds to the affected States.

A RECENT EXAMPLE: THE YUGOSLAV SANCTIONS

By resolutions 757(1992), 787(1992) and 820(1993), the Security Council imposed a comprehensive set of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro). As a result, eight States invoked Article 50 and requested consultations with the Security Council,^d although other countries in the region and beyond were also affected. The seven neighbouring countries reported losses totalling \$8.3 billion.^e

A specific feature of the Yugoslav sanctions was that their secondary side-effects were unusually high. Many important international rail and road transportation routes cross the Yugoslav territory, in particular, the main routes linking western Europe with south-eastern Europe, and with Asia beyond. When these routes were closed, a large territory found itself in almost complete isolation from the rest of the continent. The worst-affected countries were Albania, Bulgaria, Romania and the former Yugoslav Republic of Macedonia. The bulk of Bulgarian trade with central and western Europe had moved through the Federal Republic of Yugoslavia (Serbia and Montenegro); all other routes reduce the competitiveness of Bulgarian exports and push up the prices of imported goods. The only railway link between Albania and the rest of Europe passes through Montenegro. The attempts in 1992 to re-route some traffic through Romania caused severe road congestion and border delays which, in

some cases, lasted for several days. These delays led, in turn, to the cancellation of a significant volume of transactions.

The disruption of the transportation system in southern Europe also disclosed the very poor state of the infrastructure in this part of the continent. No international highways exist besides the prohibited routes and even the main road through Serbia is not a highway in all sections. The spare roads were not designed for intensive international traffic, and along the whole length of the border between Bulgaria and Romania, passing along the Danube, there is only one bridge.^f

Another feature of the sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) was the elaborate system of monitoring and inspection, which was the responsibility of the enforcing country. Hence, the enforcement costs of those sanctions were much higher than in earlier cases.

Finally, the timing of the sanctions has been particularly adverse for the countries that are in transition from centrally planned to market economies. At a time when these countries are seeking to restructure and redirect their trade, the sanctions were a strong shock. Access to important European markets has been disturbed and a reallocation of trade flows has turned out to be virtually impossible in many cases.

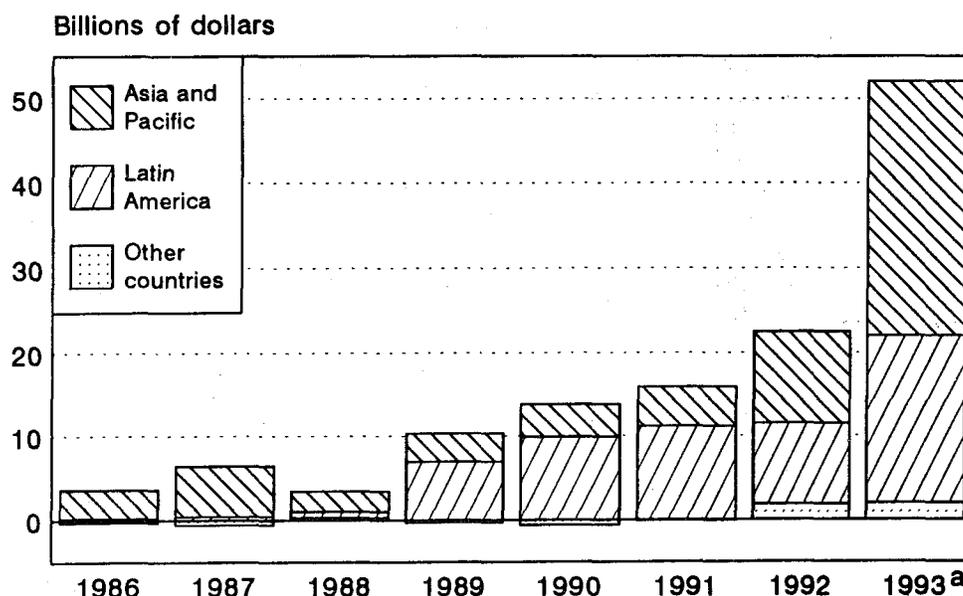
In response to the eight requests for assistance, the Security Council thus issued recom-

mendations concerning each country.^g By these recommendations, the Council recognized the urgent need to assist the affected States, appealed to all States to provide technical, financial and material assistance to the affected countries and invited the competent organs and specialized agencies of the United Nations system to consider possibilities of alleviating the economic problems arising from the applications of the sanctions. The Council also requested the Secretary-General to monitor the action taken to alleviate the economic problems of the affected States. Similar measures were subsequently recommended by the General Assembly (resolution 48/210).

Some discussions and actions have followed. For example, at a meeting organized under the auspices of the Conference on Security and Cooperation in Europe (CSCE) in January-February 1994, participants from both CSCE-member States and international organizations approved a number of short-term projects relating to custom/border bottlenecks for which European finance was foreseen in 1994. Also, a proposal that might bring substantial relief to the affected countries of the southern part of Europe was to establish "transit corridors" through the territory of the Federal Republic of Yugoslavia (Serbia and Montenegro), operating under the control of the United Nations. As of the time of writing, however, that proposal has not been acted upon.

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- a For a comprehensive review of the application of Article 50, see report of the Secretary-General prepared pursuant to the note by the President of the Security Council regarding the question of special economic problems of States as a result of sanctions imposed under chap. VII of the Charter of the United Nations (A/48/573-S/26705 of 8 November 1993).
- b See report of the Secretary-General..., paras. 150-159.
- c In principle, difficulties that lead countries to seek consultations under Article 50 appear to be the type of development that the Compensatory and Contingency Financing Facility (CCFF) of the International Monetary Fund might help address as a first step in an emergency programme. Although never covering more than a fraction of the financial shortfalls that countries experience, CCFF was designed to quickly disburse assistance in cases of economic shocks that cause balance-of-payments difficulties (see Louis M. Goreux, *Compensatory Financing Facility*, Pamphlet Series, No. 34 (Washington, D.C., IMF, 1980)).
- d Albania, Bulgaria, Hungary, Romania, Slovakia, the former Yugoslav Republic of Macedonia, Uganda and Ukraine.
- e See letter dated 2 July 1993 from the Acting Chairman of the Security Council committee established pursuant to resolution 724(1991) concerning Yugoslavia, addressed to the President of the Security Council (S/26040); letter dated 4 August 1993 from the Chairman...(S/26040/Add.1); and letter dated 10 December 1993 from the Chairman...(S/26040/Add.2).
- f Although the Danube as an international route was not included in the sanctions, the transit traffic on it was also heavily curtailed.
- g The recommendations are contained in annexes to the aforementioned documents, S/26040, S/26040/Add.1 and S/26040/Add.2.
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Figure IV.6.
Net cross-border equity flows to developing countries, 1986-1993



Source: Data of Baring Securities (London).

a Estimated.

In part, the emerging-market boom is a consequence of higher economic growth outside the developed market economies. From 1980 to 1993, for instance, the average economic growth of the developing countries of South and East Asia (excluding China) averaged 5.8 per cent a year, against about 2 per cent annual growth in the United States and the European Union, and 3.6 per cent in Japan. Growth at two times the rate in the developed economies is likely to continue in many of these Asian economies for the rest of the decade.

Outside Asia, although economic growth has not yet generally reached such magnitudes, many countries have seriously tackled their macroeconomic adjustment problems and have brought inflation largely under control. At the same time, several developing countries that were barred from international financial markets owing to their foreign-debt crises have regained a measure of market access. Accordingly, investors from the developed countries have seen strong incentives to take a stake in the growth prospects of the emerging-market countries.

Macroeconomic fundamentals, however, are only partially responsible for the brisk performance of the emerging stock markets. Indeed, growth in some developing countries has been superior for much more than a decade, whereas the stock market boom is but a few years old. Besides, several studies have shown that the outstanding returns to equity purchases obtained in

many developing countries surpass levels that can be explained by measures of economic performance.⁴⁴ Apart from economic fundamentals, the recent surge in equity inflows seems to be attributable to profound structural and institutional changes in both the developed and the developing countries.

In the developed countries, the rapid growth of institutional investors (pension funds, insurance companies and other collective investment schemes) together with greater sophistication of the securities markets, has led to the expansion in the use of marketable financial instruments at the expense of traditional deposits and loans. In particular, the burgeoning of mutual funds has given small savers access to the full range of foreign and domestic securities, including "derivatives" as well as primary securities. These developments went hand in hand, reinforcing one another.

Alongside the move into securities there has been a diversification into foreign markets. Indeed, in 1993 investors made record net purchases of almost \$160 billion of stocks in other countries, well above the previous record of \$100 billion, set in 1991.⁴⁵ Clearly, investors were willing to accept the exchange-rate risk from foreign investment in exchange for the expectation of greater profits from foreign companies.

Widespread international equity investment began in the 1980s with large institutions putting large amounts of

funds into the world's largest and most mature stock markets at home and abroad. In the 1990s, cross-border equity capital flows are expanding into a much broader spectrum of markets, including those in developing countries.

The reassessment of the importance of foreign-equity investment on the part of the market has been echoed by the authorities that regulate institutional investors. The concern of the regulators is mainly prudential and thus limits are set in many countries on the share of assets that insurance companies and pension funds may hold abroad. The tendency since the mid-1980s has been to relax these limits, although in some instances management has been even more cautious than the regulators and the limits were not binding.⁴⁶ This notwithstanding, United States corporate pension funds have been reassessing their strategy regarding investment abroad. As a result, according to press reports, some of the larger institutions now have about 10 per cent of their assets abroad, against approximately 3 per cent in the late 1980s.

Furthermore, changes in industrial-country equity market regulations have significantly lowered costs and made it easier for industrial-country investors to purchase stock in developing-country firms. Although few developing-country stocks are traded directly on industrial-country exchanges, buyers in industrialized countries can purchase many such shares indirectly through the use of "depository receipts".⁴⁷ Thus, international equity placements by developing-country companies increased from about \$100 million in 1990 to \$6 billion in 1992 and almost \$10 billion in 1993.⁴⁸

By the same token, developing countries have been taking steps to encourage direct equity portfolio inflows, generally under more or less controlled conditions. In many cases, equity inflows accelerated dramatically after the dismantling of capital account restrictions and other impediments to direct foreign share purchases. For instance, following the 1989 implementation of equity market reforms, foreign direct equity holdings of Mexican stocks grew from nil to about 4 per cent of market capitalization at the end of 1989 and to 19 per cent at the end of 1991. In 1993 foreign financial institutions poured over \$1 billion into India's stock markets after they had been permitted to invest in shares in Indian companies in late 1992.

Entry restrictions vary a great deal from country to country. As of 1993, 21 developing countries permitted free entry, and another 11 countries permitted relatively free entry, while 10 others were judged restricted.⁴⁹ Many countries, particularly in Asia, impose limits on foreign ownership of shares in individual companies, a ceiling of 49 per cent being applied most frequently. Foreign ownership is kept separate from domestically held shares by defining special classes of shares which only foreigners are permitted to purchase. With strong external demand, the

by-product of this approach has been a premium on shares available to foreign investors over the shares of the same companies that only domestic investors can buy. For example, in late 1993 in the Philippines and Singapore the average foreign premium was about 30 per cent and 43 per cent, respectively.

In general, countries seem to be easing their restrictions, and this is likely to continue, albeit in a controlled and phased manner. The "Three-Stage Plan for Capital-Account Liberalization" of the Republic of Korea is a case in point (see box IV.3). In China, liberalization of foreign access to domestic stock purchases is part and parcel of the overall economic reforms—which embody a transition from a centrally planned to a "socialist market economy"—and the rethinking of the role of the financial sector in China's development.⁵⁰ The "B shares" that foreign portfolio investors can purchase only began to be offered in China in 1991. In the latest reform, planned for 1994, foreign securities firms would be permitted to become members of the Shanghai Securities Exchange, thereby eliminating the need for them to trade B shares through Chinese brokers.

The sharp rise in international placements and in foreign purchases on the equity markets of developing countries are in some cases successor steps to a much more limited vehicle for foreign purchases of developing-country equity, the "country funds". During the 1980s, these funds were the primary and, in some cases, only available channel for foreigners to invest in developing-country equity shares. They pooled a fixed amount of money from international markets for the purchase of a limited portfolio of securities in a given country (or region, depending on how the fund was defined). Shares in the ownership of the pooled portfolio traded in New York or London, but the underlying shares were never turned over.⁵¹ More recently, the proliferation of more direct means of equity investing shifted the composition of investment, so that such funds accounted for from 10 to 20 per cent of foreign-equity investment in 1991-1993 instead of over 60 per cent as in the preceding two years.⁵²

Along with the relaxation of the rules of foreign access to local equity investment, many developing countries have taken steps to improve accounting standards and regulatory systems, as well as to upgrade financial infrastructures. Better settlement and clearance of stock trades and reduced taxes and fees on transactions have led to a significant decline in transaction costs and management fees. Some exchanges have also moved to enhance market transparency and discourage insider trading through better regulation, registration and monitoring of stock-market transactions. The improvements are, of course, of primary benefit to the domestic investors in the local markets, but raising the exchanges to international standards has the dual benefit of attracting foreign interest and maintaining

BOX IV.3.

The Korean approach to financial market liberalization

The Republic of Korea began in 1993 to implement a three-stage plan for stock and bond market liberalization. It extends over a five-year period, 1993-1997, and is a follow-up to the revised capital-market liberalization plan of 1988, which extended over four years, 1989-1992. The new reforms are to be implemented over several years, to allow the domestic economy to absorb the changes along the way. The new plan accelerates changes that were begun in the previous plan, but were partially delayed when Korean economic conditions deteriorated in the early 1990s. The controlled liberalization was designed to minimize shocks to the Korean economy, yet accelerate the development of the financial sector which it was felt had lagged behind the evolution of the "real" economy. Although every country situation is unique, the concerns of Korean policy makers embodied general lessons on financial liberalization in developing countries.

The turn to financial liberalization in the Republic of Korea did not arise out of concern for raising the quantity of domestic investment and saving or out of a desire to tap foreign savings *per se*. Gross capital formation has been well over a third of GDP throughout the 1990s and is expected to remain quite high over the remainder of the decade. This places the Republic of Korea among the countries with the highest domestic investment ratios in the developing or developed world (see tables A.5 and A.11). Virtually all of the investment is financed out of domestic saving, even though the slow-down in the growth of the world economy in the early 1990s and rising labour costs brought about a renewed deficit in the current account and a net transfer of financial resources to the country.^a Indeed, it was when net capital inflows threatened to become large that the Government decided to delay liberalization measures, precisely because it did not want to have to cope with a new financial inflow at that time.

The concern of policy makers in liberalization of the financial sector was rather to improve the allocation of financial resources. The Korean financial system had been dominated since the 1960s by a tightly controlled—and in-

itially state-owned—banking system, supplemented by an extensive, informal "curb" market that arose early in response to unmet demands for credit. With Government encouragement in the 1970s, the development of the financial system was spurred by a burgeoning of non-bank financial institutions (NBFIs), including investment and finance companies and regional savings and credit institutions, which in part competed with the informal sector. Some were owned by large corporate groups and provided them with a "captive" source of finance. Domestic bonds were an insignificant source of funds until the 1980s when they and the NBFIs, being less regulated than the banks, expanded rapidly.^b

Through the entire period, the corporate sector relied heavily on debt finance, mainly domestic, but also including foreign borrowing which was regulated by the Government. Most equity was closely held in business groups and families,^c and stock-market trading was relatively thin, with individuals rather than institutions holding a majority of the outstanding stock. The key to the entire structure is that control of credit was the main mechanism by which the Government, in conjunction with the business leadership, directed the industrial development of the country.^d

In the latter 1980s, however, the development strategy began to change, as the Government started to back away from the intensive direction of development and move to greater market allocation of investment resources. Financial liberalization was an integral part of the new approach. This would require, *inter alia*, relaxation of financial controls, especially on interest rates of banks and the more controlled components of the NBFIs, and greater development of financial markets, including through increased linkages to international markets.

Foreign securities firms and markets were mainly seen as important means for learning the technology of financial market development, and thus in the early 1980s Korean securities firms were allowed to open representative offices abroad and foreign firms were allowed to open offices in the Republic of Korea and to purchase up to 10 per cent of the equity of

large Korean securities companies. The financing opportunities of Korean firms would be enhanced over time, as Korean securities firms gained experience in floating securities in the international market and as more funds were attracted into the domestic markets. Foreign funds themselves, however, were excluded from the Republic of Korea, although by the end of the decade foreigners could indirectly purchase limited quantities of Korean stocks in either of two ways. They could purchase outstanding international issues of convertible Korean bonds or they could buy shares that were traded in New York or London in one of two closed-end mutual funds that were in turn invested in Korean equity shares. But foreigners could buy neither stocks nor bonds issued in the Republic of Korea itself.

One concern of policy makers that led them to keep out foreign buyers from the Korean market was macroeconomic. Domestic interest rates, in particular outside the commercial banking sector, were quite high and, it was feared, might attract substantial inflows which would tend to drive up the exchange rate. As pressure for higher wages was already strong in the early 1990s, there was a desire to avoid also absorbing the impact on the production of tradable goods of an appreciating exchange rate.

New capital inflows would also add to the domestic money supply, except to the degree sterilized by new issues of "monetary stabilization bonds", on which the Bank of Korea, the central bank, would have to pay high market interest rates. Authorities in the Bank and the Ministry of Finance were heavily influenced by the negative experiences in Latin America in this regard in the late 1970s and early 1980s.

There were also several concerns pertaining directly to the possibility that the relatively small Korean financial markets would be overwhelmed by unrestricted foreign inflows. One concern was about control of domestic companies passing to foreign hands. Another was recognition that, while foreign capital inflows might help eliminate financial market distortions that have kept interest rates excessive in the bond market, the capital gain from eliminating the distortion might be largely captured by the foreign investors. It would be preferable, on this argument, to reduce the distortion before

opening the market. Moreover, if a large inflow of funds were to raise market and political pressure to abandon liberalization, it would send confusing signals to the market and disrupt the sought-after normal competitive behaviour associated with stable expectations of market prices. Finally, it was thought that if entry were simply decontrolled, the domestic financial services industry might be swamped by foreign firms with larger capital bases and greater competitive powers.

None of these concerns were arguments against liberalization *per se*, only its speed. The benefits of liberalization, it was appreciated, were primarily of a structural nature. It would add liquidity to the domestic markets and reduce distortions among market segments. In particular, to the degree that long-term investors were attracted to the stock market—and there were grounds for optimism on that score—it could help stabilize a highly volatile market. It would make the domestic securities industry more competitive and increase the range of services it could provide. Moreover, by bolstering the equity markets it would help strengthen Korean firms that need to issue more equity and reduce the high degree of leveraging that evolved from the heavy historical reliance on debt finance. It would also further integrate the Korean economy into the global economy, adding a financial dimension to the Republic of Korea's growing international role in trade and direct investment.

Thus, foreign investors were permitted in January 1992 to buy and sell Korean shares directly for the first time, albeit with limitations. The limits were that the total foreign holding allowed in each firm was held to 10 per cent of outstanding shares and that no single foreign shareholder could accumulate more than a 3 per cent stake in any one company. By the end of 1993, almost 1,800 foreign institutional investors and 1,500 individuals had registered with the Korean Securities Supervisory Board to buy and sell Korean securities. These foreigners accounted for 2.5 per cent of stock transactions during the year and held 9.8 per cent of the number of shares listed on the Korean Stock Exchange.^e

For the future, the Government's three-stage liberalization plan—formally, "the Three-Stage Plan for Capital-Account

Liberalization"—will gradually increase foreign access in the stock market and begin to grant access to the bond market. The latter is to begin during stage II (1994-1995) by allowing foreign unit trusts to purchase Korean-issued bonds, to be followed by allowing direct purchases, beginning in stage III (1996-1997). International organizations are to be allowed to issue won-denominated bonds in the domestic market in stage II, adding a limited international dimension to the Korean market itself.

During stage I of the plan (1993), the Government has already allowed Korean institutional investors to place more of their funds overseas and it began to allow Korean individuals to make foreign stock purchases indirectly, through mutual fund companies. As in other aspects of the liberalization plans, liberalization of this latter flow begins with use of an indirect vehicle, the investment trust, and expands on that in the next stage of the plan.

- a Net payments of investment income abroad are quite small—on the order of \$1 billion a year or less than 1.5 per cent of earnings from exports of goods and non-factor services—as the Republic of Korea took advantage of large current-account surpluses in the late 1980s to repay substantial amounts of its external debt. The recent net transfer to the Republic of Korea peaked in 1991 at about 2.5 per cent of GDP, enough to finance only 6.5 per cent of total investment.
- b Most corporate bonds, however, carried commercial bank guarantees, and so were not independent of the banking system (OECD, "Financial systems and financial regulation in dynamic Asian economies", *Financial Market Trends*, No. 47 (October 1990), p. 24).
- c See, for example, Takao Taniura, "The Lucky-Goldstar Group in the Republic of Korea", *The Developing Economies*, vol. XXXI, No. 4 (December 1993), pp. 465-484.
- d See Yoon Je Cho, "Finance and development: the Korean approach", *Oxford Review of Economic Policy*, vol. 5, No. 4 (winter 1989), pp. 88-102; and on the overall development strategy, see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, Oxford University Press, 1989).
- e This means the limit on foreign shareholding was in essence already reached (data of Korean Securities Supervisory Board, *Securities Monthly Review*, January 1994).

the confidence of domestic equity buyers.

The main national economic benefit from a deepening of the stock market is the increase in the number of equity shares outstanding that it encourages. This reduces the ratio of debt to equity of the affected corporations and thus their risk of bankruptcy. It makes a firm a better credit risk and thus supports the expansion in business fixed investment.

A special instance of the issuance of new equity shares and one of the key factors that boosted developing-country stock markets and propelled the surge in foreign-equity investment has been privatization. The growth in privatization issues not only greatly deepened the pool of investible equity securities, but also raised the level of foreign investors' interest. For instance, in Mexico, the acceleration in equity issuance coincided with the government sales of shares in the state telephone company, Telemex, in 1991 and 1992. In Argentina, the privatization of the state oil and gas company, Yacimientos Petrolíferos Fiscales (YPF), in June 1993, increased the market capitalization of the Buenos Aires stock exchange by over \$8 billion, or 35 per cent.⁵³ As in the case of Mexico, since the YPF offering there has been a strong rise in direct foreign purchases of shares in other leading Argentine companies.

A similar story could be told for Asia. In Thailand, the

largest-ever stock flotation, which raised \$484 million in 1993, was also connected with privatization. Half of the offering was bought by foreign investors. The partial privatization of Singapore Telecom (ST) in October 1993 has made it Singapore's largest quoted company, accounting for about 20 per cent of total stock-market capitalization. By the end of 1993, ST had a market capitalization comparable to that of British Telecom.

Following and accompanying the surge in privatization issues, as well as liberalization measures, several developing-country stock markets have moved to substantially higher issuance of new shares than was the case in the past. The huge price increases raised price-earnings ratios, which reduced the costs of raising equity capital through new public offerings. In addition, owners of closely held firms could capture substantial capital gains by "going public" at this time, and thus the number of listings has grown. Indeed, equity issuance in several economies of East Asia has been almost in line with the high rates of issuance—10 to 15 per cent of domestic fixed investment—experienced by the United States in the period 1900-1933, as private, highly indebted corporations have been searching for non-debt sources of finance.⁵⁴

There is, however, reason to temper enthusiasm about the international "discovery" of developing-country equity

markets. Despite their dramatic growth, each individual "emerging market" is quite small by global standards. Moreover, as the rising capital flows from industrialized countries have been the major driving force behind the performance of some of the emerging markets, there has been a growing fear that the funds might be pulled out as quickly as they came in. If they were abruptly shifted to other equity markets, it might provoke a foreign-exchange crisis as well as a stock-market crash. There is some evidence, however, that instability of international flows is not so much inherent in fluctuations in the instruments traded (stocks, bonds, long-term instruments and short-term ones) as in changes in the institutional and policy environment.⁵⁵

It does seem likely, however, that the explosive growth of international investment in emerging stock markets may be coming to an end. The vast changes in developing countries' economic and financial structure, and in industrialized-country financial markets, as noted above, have caused a portfolio reallocation. By its nature, that is a one-time event. After several years of huge net purchases, investors from developed countries have accumulated significant holdings of emerging-market securities. In the future, it is likely that the portfolios will be adjusted, that funds will be moved among markets and among stocks within individual markets. At the same time, massive foreign withdrawal from the total of developing-country markets is unlikely, as foreign investors have come to consider these stock markets as an established asset class. About 90 per cent of foreign-equity transactions in emerging stock markets in recent years involved large global institutional investors. They are mainly interested in getting stable and high returns over the long term in contrast to purely speculative traders that dominated these markets a decade ago. It is this former group that is likely to continue investing new money on a long-term basis according to their targets for foreign share ownership. The emerging markets' weight in the global stock market may thus rise further, albeit more gradually.

This notwithstanding, the transition from a closed and fragmented financial system to an open one is prone to shocks. Experience with stock markets in the developed countries suggests that excessive price movements may be inevitable. No equity market seems immune from speculative bubbles. Given the specifics of emerging stock markets, the swings there could be much larger than in their developed-market counterparts. For instance, in Hong Kong, after the break in the global bubble in October 1987, share prices tumbled by 42 per cent in a single day. At the New York Stock Exchange the comparable losses, while also extreme, were only 23 per cent.

It also seems, moreover, that emerging stock markets are becoming a more integrated part of the global equity

market. For example, they seem to be more closely influenced by developments in the major markets. Price linkages have tightened, subverting one of the motives of industrialized-country portfolio managers in placing funds there in the first place. In particular, it has been found that movements of indexes of stock prices in Chile, Malaysia, Mexico, the Philippines and Thailand, among developing-country markets, have become positively correlated with those of the United States. These correlations are generally smaller than those that the major developed-country markets have with the United States market, but the degree of correlation has been rising.⁵⁶

In other words, developing-country equity markets are increasingly responding to the same shifts in international investor behaviour that affect developed-country equity returns. Furthermore, as capital mobility increases and emerging markets become more liquid, their reaction to events that affect major exchanges becomes more synchronized. Besides, market movements tend to be much more contagious on the downside than on the upside. Indeed, after United States interest rates began rising in February 1994, almost all the markets, in developed as well as developing countries, simultaneously tumbled from their peaks reached just previously, with the declines having been much greater for smaller exchanges. In particular, from 31 December 1993 to end-April 1994, the United States market fell less than 4 per cent, whereas average share prices fell on the order of 20 per cent in Hong Kong, Indonesia, Malaysia and Thailand.⁵⁷

More generally, since the market capitalizations and values traded on developing-country markets are much smaller than in developed countries, these markets are likely to remain more volatile. For instance, excluding the United States, the largest market, each new \$1 billion invested in developed-country stock markets pushes share prices up an average 0.3 per cent. The same amount of money invested in emerging markets as a group would raise share prices by 1.4 per cent.⁵⁸ Sector and stock selection in the emerging markets are limited and many of the stocks listed on the exchanges are not even traded daily. It is thus more difficult to enter or exit quickly in some countries, further raising volatility.

This said, the costs associated with the inherently volatile nature of equity markets do not cancel out the benefits for resource mobilization and allocation in developing countries. Stock markets are in any event the most volatile part of the financial system and not the main source of funds for capital formation. As long as the volatility of the stock market in developing countries is contained within the market and does not spill over and unsettle the foreign-exchange market, the volatility will be no more disruptive than in the industrialized countries.

DEVELOPMENT OF THE FINANCIAL SECTOR IN DEVELOPING AND TRANSITION ECONOMIES

Although access to external capital makes an important contribution to the resources for investment, the bulk of finance in any country is domestic. Today, however, with communications so advanced and international financial transactions so simple and low cost, domestic financial sectors have to compete with international markets for their own savings. Policy makers find that it is increasingly difficult—and less and less desirable—to maintain walls between domestic and international financial markets. Whether developed, developing or transition economies, if the risk-adjusted returns “outside” depart substantially from those “inside”, the resources seem to find a way to move to the more profitable location. It is a common proposition in the economics of market regulation that given enough time, economic actors find ways around market restrictions that prevent acting on unusually profitable opportunities. In the financial realm, technological advances in communications and transaction techniques have drastically shortened the effective life of policy restrictions.

This has led policy-making in two directions. One is to pay increasing attention to building and maintaining the confidence of the business sector at home and abroad (indeed, it is often difficult to discern where the domestic business community ends and the international one begins). This is one reason anti-inflationary strategies dominate monetary policy in most countries and the emphasis in fiscal policy is to reduce excessive budget deficits. Much attention is thus devoted to development of broadly based and more equitable tax systems, better recovery of the cost of government services and close scrutiny of the composition of budget expenditures.

The second policy direction has been to focus on developing the financial sector itself, emulating the wide and expanding variety of financial institutions and markets that exist internationally. And while countries differ in the pace of the changes they introduce, countries everywhere seem to be moving in the same direction, reducing policy barriers to international flows and cutting back restrictions on foreign competition in providing financial services in domestic markets. Experiences of this sort may have begun in several of the larger industrialized economies, but they are now a phenomenon as well of developing countries. They are also an issue in financial development in the transition economies, although the issue in these latter countries is more the creation of a market-oriented financial system rather than the liberalization of a system that already exists.

FINANCIAL-SECTOR REFORM IN DEVELOPING COUNTRIES

Although the developing countries are such a diverse grouping that exceptions can be found to virtually any

generalization, there has seemed to be a more-or-less common structure to their financial systems. Thus, although markets for long-term equity and debt securities have emerged in some of the countries, banks have generally been the dominant financial institutions. Commercial banks—some private and others state-owned—account for the bulk of activity, although Governments usually also established specialized financial institutions. These have ranged from postal savings schemes—operated in some countries mainly as a service for small savers and in others as a major mechanism for mobilization of small-scale savings—to national development banks for promoting particular sectors or regions in a country.

In the early decades of post-war thinking about development, issuing credit selectively at subsidized rates was typically seen as a major mechanism for channelling economic activity in desired directions, according to priorities hammered out in overall development plans. Government involvement in the financial sector was extensive and competition in the financial system was minimal. The exception—and there only partial—was the informal sector that supplied credit, especially in rural areas and to small enterprises and individuals. Often, formal, policy-directed credit did not reach the intended users, as larger or more powerful units captured the credit instead.⁵⁹

The average person in most developing countries made relatively limited use of the financial system, more so where inflation was high and the real return on financial assets was negative or where people were only partly integrated into the monetary economy. Personal wealth was held to a greater degree than in developed countries in real assets such as real estate and livestock, gold and jewellery, or business properties. Even large-scale private business groups were more likely to be family enterprises than “modern” corporations with widely dispersed and largely passive shareholders.

As of the late 1970s, financial resource allocation in developing countries was typically highly fragmented, with more or less distinct formal and informal financial structures in many countries and with government playing a heavy role in investment allocation. Gradually, however, it was increasingly appreciated that the quality of investment was as important for development as the quantity, and that quality would improve with greater economic decentralization, including in the financial sector. The ability of development planners to derive an optimal investment programme also came to be questioned, and an emphasis began to be placed instead on making markets function better so that, *inter alia*, prices would adequately reflect real resource costs. The current thinking about development policy nevertheless still encompasses a wide range

of views on the appropriate extent of government influence over investment, although, as a general rule, more decisions are being left to market participants than before.

To foster increasingly decentralized decision-making about investment, financial arrangements needed considerable change. Reforms have typically included the decontrol of interest rates, reduction of direct government allocation of credit, removal of barriers to entry of competing financial institutions, elimination or reduction of restrictions on financial activities, and strengthening of legal, regulatory and administrative structures. In addition, the above measures have in many cases been accompanied by varying degrees of liberalization of controls on capital flows in and out of countries.

Experience has shown the importance of the sequencing and timing of reforms. Some early reform efforts led to financial collapse and the return—albeit temporary—to controls. The most studied cases are probably the “Southern Cone” countries of Latin America in the 1970s, which deregulated their banking systems before bringing inflation under control and developing adequate prudential supervision of the banks. This led to abnormally high real interest rates and fostered unsound borrowing and lending practices. The result was reduced investment, worsened resource allocation and mounting numbers of non-performing loans, domestic and foreign.⁶⁰

Aside from the need for macroeconomic stabilization as an integral part of a financial-sector reform plan, the consensus now is that government withdrawal from extensive control of private financial markets should be phased as the sector develops.⁶¹ By the same token, the direct allocation of credit through budgets is not a policy tool to forgo completely, although the common direction of policy is to reduce its scope, while encouraging the development of financial intermediaries that would be able to channel funds to the most appropriate projects and monitor the use of those funds.

It is broadly appreciated, in other words, that a simple removal of all regulations does not immediately generate the better investment allocation, especially as enterprises are typically still constrained by other policy controls on production, input costs and pricing of their outputs.⁶² In some cases, loss of an implicit interest subsidy renders a firm insolvent, and to the degree that the books of the banks come to accumulate “bad debts”, the solvency of the banking system itself can be endangered.

The banks were typically able to extend the low-interest credits in the first place because they paid artificially low interest rates on their own deposits. It had long been argued that positive real rates of interest on deposits were important to a properly functioning financial system.⁶³ Although there was never a consensus on whether it raised the aggregate level of saving,⁶⁴ positive real rates were believed to attract more savings into the financial system.

However, this, too, needed to be interpreted cautiously as it was possible that total credit would fall as higher interest rates drew more funds into the formal banking sector where reserve requirements limited the amount of deposits that could be lent.

Today, given how the world financial system has evolved, competitive real returns are often necessary to retain the savings within the economy itself. Although national controls on capital flows across borders are still effective within limits, the limits have been shrinking, particularly in terms of interest-rate differentials at home and abroad, owing to declining transaction costs and mushrooming numbers of channels for moving funds internationally. Thus, the move to market-based interest rates became virtually essential.

Yet, a sudden increase in deposit interest rates would leave the banks with higher costs that would possibly not be matched by higher revenues if significant numbers of their borrowers went into arrears. Prudential oversight and preparation of the banking system and the enterprise sector for a change in financial regime are thus part and parcel of the liberalization process. This often includes restructuring and recapitalizing financial institutions such as through mergers, closure of branches or activities, new partnerships with foreign banks and privatization. Similarly, enterprises whose operations had been built around subsidized loans might not quickly become viable at market interest rates. In some cases, this might be because enterprise control over the pricing of their output had been restricted, as for public utilities, and either direct budget subsidies or deregulation of prices might be required.

Besides liberalization, a further major question in financial-sector reform is the shape of financial development. Financial intermediaries fall into two groups: banking institutions and markets. Banks afford an opportunity for an ongoing relationship of the lender with the borrower. Whether it is the commercial banker and his clientele, or the development banker and the projects in which he participates, the borrower-lender relation commonly includes auxiliary services and often technical support, as well as funds. It may even include a degree of management oversight, as when a bank representative serves as an external director of a corporation.

In market finance, in contrast, although an institution such as a merchant bank or investment house helps prepare a security to be sold in the market to raise funds for the borrower, once the security is placed the relationship ends. The underwriting investment bank arranges the finance; it does not provide it. However, securities firms also perform a separate function of advising clients about which stocks to purchase or sell and they thus employ stock analysts to monitor the performance of individual corporations. Along with similar analyses by the staff of institutional investors—drawing on auditing and financial reporting require-

ments and regulatory systems—the market as a whole may be said to oversee corporate management. In part for this reason, it is in the more complex and economically advanced countries that securities markets, beyond those for government bonds and bills, generally flourish.

In recent years there has been an extensive global reassessment of the merits of bank-oriented and market-oriented finance. A market-driven trend towards more securities financing is apparent in the United States and the United Kingdom, two countries that have historically had extensive financial market activity. But financial markets have been developing as well in Germany and Japan, which have long been viewed as the models of bank-centred finance. That does not mean, however, that all countries should seek to emulate the same pattern, at least until their financial sectors reach a certain size and sophistication. Certainly, a stock market in a lower-income country that trades only a limited number of hours per week and without much liquidity is not an institution that can serve the same function as one in the developed market economies.

A further part of the evolving shape of the financial sector is the prospect for the informal sector. With a progressive easing of constraints on formal-sector institutions and, consequently, with a lowering of the differential in interest rates between the two, formal sector lending should become accessible to clients who previously could only tap the informal sector. Moreover, the development of non-bank sources of finance for large companies forces banks to pay more attention to retail customers and small firms, which are traditional clients of the informal sector. To varying degrees, the “curb” markets also represented a prototype of market finance, as informal lenders not only originated loans, but also in effect provided brokerage services by bringing lenders and borrowers together. With the development of conventional money-market instruments, a part of these informal activities—perhaps along with informal-sector enterprises themselves—could well be transferred to the “organized” capital market.

It does not follow, however, that the informal financial sector would completely disappear even with a fully liberalized financial system, as some activities are so small-scale as to preclude formal institutions from participating.⁶⁵ For small-scale activities, generally, the informal sector also has cost advantages owing to personal relations and group control over arrears. Indeed, savings mobilized and held by informal groups have been pledged as collateral for bank credit in several African countries.

Yet another dimension of financial development that allows for a wide range of possibilities is the role of government. Even in a minimalist model of government, prudential supervision and lender-of-last-resort functions are usually considered necessary public-sector activities. But if industrialized countries are a guide, there is also

room for a significant role of government in providing or influencing financial services. In the 1950s and 1960s, for example, between 20 per cent and 40 per cent of household savings in Japan passed through the postal savings system into various bodies whose main purpose was to make development loans in line with government policy. Even today, Japanese government agencies account for more than 18 per cent of all loans.⁶⁶ And in the United States, more than a quarter of all loans to private individuals or firms are made with federal government guarantees or are intermediated by lending agencies of the United States Government.⁶⁷

In addition, in developed and developing countries, government-controlled banks provide credit to priority sectors or geographic areas that, by their nature or size, do not receive enough funding from commercial banks to reach specified policy objectives. In most cases of successful policy-based finance, credit was allocated to new industries with good prospects at close to the market rate of interest. In Japan and later in the Republic of Korea, financial support was conditional upon fulfilment of well-defined and market-based performance indicators.⁶⁸ Thus, despite the growing importance of private institutions, government-controlled development banks and financial agencies are likely to continue playing a meaningful role in domestic financial systems.

FINANCIAL-SECTOR REFORM IN EASTERN EUROPE

Under central planning, there was no financial sector comparable to that in market economies that would allocate resources for investment. Also, financial institutions mobilized only a small portion of the savings of the economy in the sense that certain institutions held small-scale deposits of households. The planning authorities mobilized the great bulk of investable resources, mainly from the enterprise sector, and applied them to investment programmes decided upon centrally. The banking system was little more than a large accounting and payment service that carried out the central directives. It advanced working capital to enterprises and returned profits to the central accounts, where they offset losses of other enterprises and were used for new investment.

A totally different model of a financial sector was thus needed if the transition economies were to operate as market economies. Exactly what that model will be and how it will be integrated into the international financial system is not yet fully clear, but the debates over the proper shape of the financial system have begun to crystallize and some basic financial structures have been created. These relate mainly to the nascent commercial banking sector, but that sector is in any event the centre of the financial system in a market economy and it may be expected to play a similar role in transition economies.

The first step in financial-sector reform was typically to break apart the "monobank" system of central planning into a "two-tier" system that comprised a central bank and a group of commercial banks. In principle, the central bank would act only as the monetary authority and provide services to and oversee the commercial banks. They, in turn, were to operate as profit-seeking institutions that made loans, especially to companies—and these based on assessments of the firms and their projects—charging them a realistic rate of interest that had to be paid, the bulk of which would be passed on to the bank's depositors and creditors, with the rest used to cover the operating costs and profits of the bank. In addition, certain specialized state banks were also to be made into commercial banks. It was envisaged that the new commercial banks would compete in providing banking services, as would foreign entrants and new domestic banks just starting up. Other parts of financial reform entailed creation or reform of non-bank financial institutions and financial markets, with a view to providing a broad and competitive array of financial services.

Individual transition economies have progressed at very different rates along the path of financial reform. The two-tier banking system can now be found in all the transition economies. The commercial banks, however, do not function as autonomous institutions in all countries; e.g., in the Russian Federation, the new commercial banks mainly continued to function as conduits for centrally directed credits, which in 1993 still accounted for 85 per cent of total credit. In eastern Europe, commercial banks no longer function in the traditional way, although there is still a substantial gap between their functioning and how commercial banks operate in market economies. It is thus instructive to focus on the eastern European experiences.

Although some of the eastern European planned economies started on the road of market-oriented reforms well before the changes of political regime that began in 1989, the financial sectors were mainly kept out of the reform processes. The first country to launch financial reform measures was Hungary, which introduced the possibility of bond finance for state-owned enterprises in 1984 and—more importantly—established a two-tier banking system in 1987. It also introduced a relatively liberal policy to license new entrants to the banking sector. Poland followed the Hungarian banking example in 1989.⁶⁹ In both cases, the domestic banks remained almost completely protected from foreign competition of any sort. In the other countries, reforms in the financial system mainly started after the collapse of the political and economic system and are being implemented simultaneously with other reform measures.

Commercial banks were thus created across the region of the transition economies, along with the core of national

banking regulations. But each bank that was carved out of a monobank inherited the loan portfolio and deposit base—indeed, the clients—that it had as a branch of the monobank. They thus remained under pressure to continue operating as before. Also, since this was a wholesale transfer operation based mainly on bureaucratic and political considerations, the composition of the asset portfolios of the newly created banks was usually very far from what might have been selected on business principles. In particular, whereas it is prudent for banks to have highly diversified loan portfolios, the portfolios of these banks were excessively concentrated either in individual industries or geographical regions, or both.

The transition process quickly imposed very high demands on the nascent banking system. There was an explosive increase in the number of enterprises in many of the countries. This generated an enormous demand for new corporate accounts and efficient payment services, something that went well beyond the traditionally slow and erratic payment practices of the central planning era.

Moreover, a fast-growing proportion of a rapidly increasing number of enterprises in eastern Europe started to engage in foreign trade, generating an even faster increase in the demand for foreign payment services, foreign-exchange transactions and related derivative instruments such as currency options to hedge against losses from exchange-rate changes. The banks that were carved out of the commercial sections of the monobanks were not equipped to meet this demand. And while foreign-owned and joint-venture banks have played an important role in providing foreign payment services and introducing new financial instruments, they have the capacity to serve only a very limited volume of demand.

The new banks were under great pressure to extend new credits to their enterprise clients, as they had in the past when the cash flow of the state enterprises had not met their payment needs. They would automatically renew maturing credits and almost routinely capitalize interest obligations when the firms had difficulty making the payments. As in market economies, this allowed a bank to maintain an enterprise in difficulty as a customer in good standing and not have to declare its debts as non-performing loans. In market economies, however, considerations of the bank's own profitability and regulatory restraints limit the degree to which this is done. There were no effective limits in the transition economies, but rather, political pressure to extend the practice. The result was the rapid build-up of the stock of "bad loans", which quickly created solvency difficulties for the banks.⁷⁰

In the conventional treatment, when a bank has to acknowledge that a borrower has difficulty in servicing its loan, the bank sets aside some of its earnings as a reserve against non-repayment. Ultimately, if the loan has to be written off as uncollectible, the lost asset is set against

profits, and if the profits are not large enough, against the reserve. Failing adequate reserves, the loss is set against the equity capital of the bank. The special difficulty faced by the new banks in the transition economies is that they generally did not have adequate net earnings from which to create loan-loss reserves and their initial equity base was too small.

Moreover, although the state-owned banks that were created from the monobanks accounted for the bulk of financial transactions, there was also a mushrooming of small private banks. As of late 1993, 50 to 80 banks were registered in each of the eastern European countries.⁷¹ The small banks as well as the large ones suffered from inadequate capital bases. The small banks also shared with the large ones the grave shortage of appropriately trained staff who, for example, could adequately assess loan applications.

What the banks needed, in sum, was technical assistance and training in providing modern banking services, assistance in dealing with their bad loans and guidance in establishing adequate equity backing. Governments have sought to address these problems with policy reform, technical assistance from abroad and blending foreign banks into the local financial system through direct investment.

The broad strategy of reform has included preparation of the devolved commercial banks for privatization, while establishing tougher standards that existing private banks would have to meet. Thus, since 1992 the Czech Republic and Poland raised the minimum capital requirements to qualify for a banking licence, Bulgaria and Hungary encouraged bank mergers and several countries encouraged banks to seek foreign partners.

The bad-debt problem has been addressed by new infusions of government capital into banks, by infusions of cash into firms to repay arrears and by schemes to remove the debts from the books of the banks. These schemes have taken two basic forms: transferring bank claims to a fund in exchange for government bonds, with the current value of the bonds being less than the face value of the bad loans, and pushing the enterprises to work out repayment plans or go into bankruptcy, with the bank then foreclosing on the assets of the enterprise.

These could all be, however, only partial and temporary solutions. A key difficulty is what economists call "moral hazard", which means that the actual and potential beneficiaries of a rescue operation may be encouraged to undertake precisely the behaviour that the bail-out policy was meant to overcome. In this case, once the bad debt was removed, the banks might again lend excessively, expecting to be rescued (or new banks might lend excessively on the belief that they, too, would be rescued). The conventional approach to moral hazard is for policy makers to insist that the bail-out is a "one-shot" operation, that it does

not set a precedent and that the beneficiaries will be allowed to fail the second time around. For this to be credible, however, the economic situation would have to be much improved and the legal and accounting situation in most cases clarified. All in all, the incentive structure in which the banks operate would need to be changed.⁷² Indeed, the bad-debt problem remains.

For the state-owned commercial banks, at least, one way to change the incentive structure would be to change their ownership, i.e., to privatize them. However, privatization of these banks, in particular the large ones, has been very slow, much slower than expected and also significantly slower than in other sectors of the economy. For the most part, Governments have treated the privatization of banks separately from that of other state-owned enterprises. As discussed in chapter II, transition economies have largely opted for mass privatization schemes; but only Czechoslovakia included the state-owned banks in its scheme. Even in that case, however, the State retained a substantial equity stake, on average about 42 per cent, and foreign partners were being sought for the banks in the Czech Republic and Slovakia. Other countries have sought to sell their banks to private investors on a case-by-case basis.

With the exception of an early sale of a few relatively small banks, this process has moved quite slowly.⁷³ In early 1994, however, a large Polish bank was privatized with the participation of strategic foreign investors who can provide much needed expertise, know-how and access to foreign capital markets. The success or failure of this bank will likely have a strong bearing on the process of bank privatization in the whole region.

Although a foreign ownership stake need not be a defining feature of privatization, even for large banks, it is an obvious option, given the advantage the foreign banks have in banking expertise. If, however, they are reluctant to invest in eastern European banks, the reasons should be explored. Indeed, foreign participation in the banking sectors has thus far been more narrowly focused than anticipated, although it has become significant in the rapidly reforming countries of central Europe. There were 19 banks with foreign participation and six branches of foreign banks in the Czech Republic in 1993, out of 50 banks in all. In 1992, Hungary had 13 banks with foreign participation out of 38, and Poland had 11 foreign banks out of 94. In the other countries, foreign participation was very moderate. But even in the countries with the larger foreign participation, the nature of the business strategies of foreign and joint-venture banks turned out to be quite different from what policy makers expected at the beginning of economic transformation.

The major international banks in particular—those having large capital bases, international networks, easy access to international financial markets, expertise and

know-how—generally eschewed the areas where their contribution was most desperately sought. They showed very limited interest, for example, in buying into the large state-owned banks or in moving directly into retail banking or servicing small enterprises. Instead, they concentrated on the segments of the financial-services sector such as foreign payment services and related primary and derivative products in which they had huge cost advantages and where risk was limited, in part because the capital and staff requirement to efficiently and prudently pursue business was relatively small and there was no need for a large branch network.

Put differently, the foreign and joint-venture banks concentrated their business activities in areas where the profit-risk ratio was the highest and where activities could be expanded and contracted rapidly. Moreover, in each segment where they developed a significant share of the market, they concentrated on the upper end of the market, taking only the best clients. Indeed, by offering industrialized-country standards of service, they attracted much of the business of the foreign and joint-venture enterprises in the non-financial sector.

While some observers appear somewhat irritated by this attitude of foreign and joint-venture banks, it was a rational approach for the banks and not that much different from the experiences of some industrialized countries.⁷⁴ The financial markets of all the eastern European economies are in fact highly volatile and risky. The macroeconomic environment is rather unstable by industrialized-country standards even in the most successful countries. And the real financial situation and economic viability of firms have been extremely difficult to judge, owing to the rapid changes since 1990 in relative prices, the sudden reorientation of external trade from eastern markets to western ones, and the consequent massive changes in the market values of enterprise assets.

This situation is further complicated by massive and frequent changes in corporate law and other legislation, including such very important areas as accounting and tax regulations. Moreover, regulations regarding financial institutions are new, in many cases untested in courts, and oversight responsibility is vested in supervisory agencies that have yet to gain substantial experience. At the same time, while commercial banks in the industrialized countries compete in providing services to clients, they also work together, as in clearing arrangements, operating the interbank financial market and making markets for sophisticated financial products such as options or commercial paper. The domestic banks in the transition economies are unable to be effective counterparties for such activities at this time.

Therefore, it is natural for the foreign banks to concentrate their activities and resources on the markets and clients that they have actually pursued. But in order not to

miss potentially significant investment opportunities in the transition economies, it is also rational for the major international banks to "put their feet in" as early as possible, be present and accumulate local experience. In so doing, they position themselves for the time when it may be attractive to seek a larger presence in the market.

That time may now be approaching, as the Polish privatization noted above suggests, at least in the eastern European countries that seem poised to begin economic recovery or, as in Poland, have already begun it (see chap. II). Moreover, as in other industries on other occasions, the medium-sized international banks may be the more aggressive competitors in the transition economies. Certain such banks, based in Austria, Germany and other major trading partners of individual transition economies have already become active. Ironically, as in privatization experiences in other sectors in eastern Europe and in Latin America as well, some of the foreign "private" partners may even turn out to be from among the state-owned banks of industrialized countries.

Every transition economy, like every market economy, will need to be successful in developing its commercial banking system. But the financial systems of market economies typically make use of additional institutions and markets for securities and other financial assets, as was seen in the preceding discussion of financial development in developing countries. Aside from a government securities market, which is a basic institution, a major strategic question in the transition economies has been how large a role to accord to other financial markets as opposed to widening the range of activities of the commercial banking system.

In this regard, many people think first about stock exchanges. In 1990 and 1991, stock markets were established in Bulgaria, Hungary, Poland and the Russian Federation, but as of 1992 less than 50 companies were listed for trading on all of them together, none in Bulgaria.⁷⁵ In the Czech Republic, the Prague stock exchange was opened only in 1993 but soon became one of the busiest in eastern Europe, owing to the large number of shares that could be traded in "quoted", "listed" or "over-the-counter" companies, largely owing to the first wave of voucher privatization (see chap. II). The Czech market also attracted portfolio investment from abroad, amounting to almost \$1 billion in the first 11 months of 1993.⁷⁶

Will these and other such markets, including markets for corporate bonds, come to play a major role financially and how differentiated will the institutional structure be for mediating these markets? In the economic literature and in policy discussions in the region, this is known as the "model issue", as it was mainly brought up as a choice between the "Anglo-Saxon" model and the "German" model (the key difference being that some of the services provided in the "univer-

sal banks" of the German model are provided by specialized institutions in the Anglo-Saxon model).⁷⁷

The "model" debate has had several important aspects. One was legislation and regulations. As transition economies started practically from scratch in this regard, observers might have had the illusion that legislators could choose any model they regarded suitable, based on abstract principles. However, the debate, in particular regarding the role of commercial banks, was a highly politicized one. Many researchers and policy makers feared that with large commercial banks that operated in equity markets and oversaw enterprise operations, too much economic and thus political power might be concentrated in the hands of a few bank managers. Therefore, mainly based on political considerations and past experience with state-run businesses, they suggested set-ups that were nearer to the Anglo-Saxon model than to the German one. Some researchers also seriously questioned the ability of the state-owned commercial banks, in particular, to properly allocate financial resources and impose financial discipline and corporate governance on enterprises.⁷⁸ Thus, they suggested opting for narrow banking, a system that keeps banks as far away from enterprise management as possible.

Other researchers—and in the course of time, policy makers in the more rapidly reforming countries—emphasized the positive role commercial banks could play in restructuring the enterprises of transition economies.⁷⁹ They emphasized the inside knowledge these banks already possessed about enterprises stemming from their previous credit links. This line of argument naturally led to policy proposals that would bring the financial systems nearer to the German model. Another major factor pulling in this direction was that there were hardly any non-bank financial institutions, especially at the beginning, that could have assumed the role of collecting and effectively allocating domestic savings and foreign financial re-

sources. Banking finance had an overwhelming importance, while other instruments, such as corporate bonds or equity shares, and institutions that supported them, such as a stock exchange and investment banks, were too embryonic to assume this role.

Moreover, the limited capacities of supervisory bodies also pointed towards a system that relied more heavily on commercial banks, as prudential regulations for banks were much more elaborate (and the authorities had more experience in enforcing them) than for any other type of financial institution. The intention of many countries for closer economic integration and harmonization of economic institutions with other continental European countries—in particular, with the legislation of the European Union—meant that they would tend to eschew any domestic legislation or regulation different from the European standards that were based on the universal banking model. Thus, the practice and the modifications implemented since the beginning of economic transformation gradually pushed the financial systems of the eastern European countries more or less towards the German model.

As anywhere else, real-world development is always an outcome of a series of sometimes highly political compromises and new initiatives that embody the learning processes of policy advocates and legislators. Laws and regulations on the financial system have already been changed and amended a number of times in several of the transition countries since the beginning of economic transformation.⁸⁰ Moreover, implementation of the laws and the practices adopted by the authorities that regulate the banking and securities sectors also reflects an evolutionary process. Thus, the original debate and the first decisions of policy makers on financial-sector design turn out to have influenced mainly the starting positions of the process. One may expect that the financial systems will evolve further in directions that respond to the particular needs of transition in each of the countries.

NOTES

1 The "net transfer" is a concept that is commonly used in United Nations studies of international finance and is a measure of international resource flow that takes account of both capital flows and the investment income on such flows. It can be measured for any country by adding together all such financial flows in and out of the country, including changes in holdings of official reserve assets. It can also be measured as the financial counterpart to the balance of payments on goods, net foreign labour earnings (e.g., workers' remittances) and non-factor services (e.g., transportation, tourism and business services). If the balance of payments on this basis is negative (a deficit), the net transfer of resources is positive and may be thought of as the

financing necessary to have the deficit. If the payments balance is positive (a surplus), the transfer is a net outflow and is conventionally shown as a negative number (for additional definitional details and a derivation of the measure from standard national accounting and balance-of-payments concepts, see *World Economic Survey, 1986* (United Nations publication, Sales No. E.86.II.C.1), annex III).

In terms of the newly revised system of national accounts, the net transfer can be derived by making certain adjustments to the "current external balance"; i.e., the net transfer would be the negative of the current balance (item B.12), excluding certain items. These are "property income" (item D.4) and the compo-

nents of "other current transfers" (item D.7) that correspond in the balance-of-payments accounts to "other current transfers of general government" (balance-of-payments item 1.C.1.6) and "other current transfers of other sectors" (balance-of-payments item 1.C.2.2.6), all adjustments expressed as "net, receivable from abroad" (see *System of National Accounts, 1993* (United Nations publication, Sales No. E.94.XVII.4), pp. 315 and 545).

2 There are major measurement problems in balance-of-payments statistics of the developed market economies, let alone in developing and transition economies. If the data were complete and accurate, the sum of current account balances would be zero, instead of a surplus of from \$50 billion to \$75 billion in each of the past five years (see table A.22). Even this results from partially offsetting errors in trade and services accounts. By the same token, the measured net transfer out of the industrialized countries is far more than the transfer into the rest of the world.

3 A similar factor was at work in the case of some of the countries included in the grouping of other industrialized economies in figure IV.1. In particular, the late 1992 devaluations of the lira and the peseta helped raise export volumes of Italy and Spain by 8 and 16 per cent, respectively, in 1993; in addition, recessions in both countries and in France helped reduce import volumes. Taken together, the trade balance of the three countries rose by almost \$50 billion (although this may be overstated by measurement problems in 1993 arising from the elimination of customs data on trade within the European Union; it depends on the degree to which import data were more underestimated than export data).

4 It appears that some of the "foreign" investors in 1993 were actually German residents who were seeking to avoid taxation on investment income by investing from foreign accounts. Thus, a part of the long-term inflow and an equal part of the short-term outflow—which likely total "several billion deutsche marks"—are spurious (see *Monthly Report of the Deutsche Bundesbank*, March 1994, p. 42).

5 The measured short-term outflow of \$92 billion, along with the unusual "errors and omissions" outflow of \$21 billion, as shown in table A.26, may be partly exaggerated. Aside from the point mentioned in the previous footnote, 1993 German trade is believed to be underreported, with greater error for imports than exports, owing to the aforementioned elimination of customs-based data on trade within the European Union. This differential might account for much of the errors-and-omissions outflows. "Time will tell whether or not the revisions in the foreign trade statistics...can shed any additional light on this" (*Monthly Report of the Deutsche Bundesbank*..., p. 46).

6 The resurgence of upward pressure on the yen began again in February 1994 and caused renewed intervention by the Bank of Japan in increasing amounts, rising to about \$1 billion a day in mid-April, when the major industrialized countries began an effort of coordinated intervention to try to calm the dollar, mark and yen markets.

7 For background on the recent debt problems of the industrialized countries, see *World Economic Survey, 1993* (United Nations publication, Sales No. E.93.II.C.1), pp. 19-27.

8 For several of the transition economies, data on the balance of payments, which are the basis for calculating the net transfer

of resources, are particularly difficult to interpret and sometimes unavailable. Thus, while improvements have been made in several cases, data coverage and reporting methodologies have changed in some cases, so it can be difficult to compare data of different years. Specific figures reported here and in the statistical annex tables should thus be interpreted with great caution and considered subject to potentially large revision.

9 See ECE, *Economic Survey of Europe in 1993-1994* (United Nations publication, Sales No. E.94.II.E.1), p. 141.

10 Data on balance of payments and reserve changes as per Central Bank of Russia, *Vestnik Banka Rossii*, No. 6 (April 1994), pp. 4-10. If, as has been argued, imports were seriously underestimated, then the actual net transfer and the size of the capital outflow would be smaller (see, for example, statement of the Managing Director of the International Monetary Fund, *IMF Survey*, 7 February 1994, p. 48).

11 Expenditure on foreign currency was estimated to have grown to almost 10 per cent of incomes in the second half of 1993, compared to less than 2 per cent in the first quarter of the year (Ministry of Finance of Russia, "Rossiyskie finansy v 1993 godu", in *Voprosy ekonomiki* 1994, No. 1, p. 21).

12 See ECE, *Economic Survey of Europe*..., pp. 110-115.

13 *Ibid.*, p. 136.

14 Data of OECD, *Financial Statistics Monthly* (February 1994), part 1, sect. 1.

15 The nine countries were Albania (which qualified for concessional funds under arrangements for use of the Enhanced Structural Adjustment Facility), the Czech Republic (which dropped its programme during the year), Estonia, Hungary, Kyrgyzstan, Latvia, Lithuania, Poland, and Republic of Moldova (Romania also reached agreement with the Fund in December 1993, but formal adoption of the programme required Romanian legislative action, which occurred in 1994); the four countries to draw under the STF arrangements were Belarus, Kazakhstan (which adopted a full Stand-by Arrangement in January 1994), Russia and Slovakia, as per press releases of IMF.

16 See IMF, *Annual Report, 1993* (Washington, D.C., 1993), pp. 60-61.

17 ECE, *Economic Survey of Europe*..., p. 141.

18 The mechanism by which the Paris Club and commercial bank negotiations take place is discussed in the section below on debt and sources of finance for development.

19 Recent developments under these debt-restructuring programmes will be discussed below.

20 See *World Economic Survey, 1991* (United Nations publication, Sales No. E.91.II.C.1), chap. VII; and for an assessment of the benefits to seven indebted countries of the Brady Plan over unilateral buy-backs of debt, see Stijn Claessens and Ishac Diwan, "Recent experience with commercial bank debt reduction: has the 'menu' outdone the market?", *World Development*, vol. 22, No. 2 (February 1994), pp. 201-213.

21 Argentina, Brazil, Costa Rica, Dominican Republic, Jordan, Mexico, Nigeria, Philippines, Uruguay and Venezuela (for terms, see table A.38).

22 Mozambique and the Niger in 1991, Guyana in 1992 and

Uganda and Bolivia in 1993.

23 See World Bank, *World Debt Tables, 1993-1994* (Washington, D.C., December 1993), pp. 38-40.

24 In order of agreement: Jamaica, Mauritania, Mozambique, Guatemala, Peru, Guyana, Burkina Faso, Costa Rica, Benin and Viet Nam (for average terms and conditions, see table A.37).

25 In the autumn of 1993, the United States Congress authorized the Administration to apply the enhanced Toronto terms for the first time, and in March 1994 Senegal was the first country to benefit from the new arrangements.

26 On the World Bank's programme for refinancing debt owed to itself through its "Fifth Dimension" programme, see World Bank, *World Debt Tables...*, p. 40; and, more generally, on difficulties in servicing multilateral debt, see report of the Secretary-General entitled "External debt crisis and development: the international debt strategy as of mid-1993" (A/48/345 of 9 September 1993).

27 See *IMF Survey*, 2 May 1994, p. 150; and IMF, *Annual Report, 1993*, p. 121.

28 Use of SDRs is comparable to borrowing funds as the country that holds less than the allocated amount of SDRs pays interest to the Fund and has to reconstitute its SDR holdings over a specified schedule (see IMF, *The Role of the SDR in the International Monetary System*, Occasional Paper No. 51, March 1987).

29 See *IMF Survey* (2 May 1994), p. 132.

30 Since these data include resources arranged for transition economies, many of which have only recently joined the institutions, they understate the decline in commitments for traditional recipients.

31 Contributions for 1993 fell 22 per cent at UNICEF; the overall income at the United Nations Population Fund fell 8 per cent; and as of end-April 1994, only slightly more than half the target level was reached for contributions to the World Food Programme for 1993/94 (see report of the Secretary-General entitled "Progress report on the implementation of General Assembly resolution 47/199" (E/1994/64, May 1994), para. 6).

32 See "Progress report..."

33 See "Population resettlement: a Bank-wide review", *Environment Bulletin* (autumn 1993), pp. 6-7.

34 For additional issues of lending effectiveness in the regional banks and their complementarity with the World Bank, see Delphin G. Rwegasira and Hencock Kifle, "Regional development banks and the objectives of the Bretton Woods institutions", presented at the conference of the Group of 24 on the occasion of the fiftieth anniversary of the Bretton Woods Conference, "The international monetary and financial system: developing-country perspectives", Cartagena, Colombia, 18-20 April 1994.

35 See statement of the Secretary of the Treasury of the United States, forty-eighth meeting of the Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the transfer of real resources to developing countries), Washington, D.C., 26 April 1994 and communiqué of the Committee, 26 April 1994, para. 17.

36 As of end-April, discussions on funds for IDB's concessional loan window, the Fund for Special Operations, were not

yet completed.

37 Aid data for 1993 were not available at the time of writing (preliminary data are traditionally released in the summer of the following year), but no sharp departure is expected from recent trends.

38 Anne O. Kreuger, *Economic Policies at Cross Purposes: the United States and Developing Countries* (Washington, D.C., The Brookings Institution, 1993), p. 61.

39 See J. Brian Atwood, "The administration view" and Senator Paul S. Sarbanes, "The view from the hill", in Ralph Stuart Smith, ed., *The Future of Foreign Aid: Findings of a Conference [19 November 1993, Washington, D.C.] organized by the DACOR Bacon House Foundation* (Washington, D.C., DACOR Bacon House Foundation, 1994), pp. 32-56.

40 Data of International Finance Corporation, *Emerging Markets Factbook, 1993* (Washington, D.C., World Bank, 1993).

41 There are no internationally accepted standards for defining international flows of equity shares (e.g., there is no fixed cut-off separating share purchases into portfolio and direct investment). There is also no systematic official collection of data, although private-sector data collection and estimation—as utilized in this chapter—appear to be increasingly comprehensive (see Michael J. Howell and Angela Cozzini, *Cross-Border Equity Flows: Hot or Cold?* (London, Baring Securities, April 1994), pp. 4-5).

42 See Howell and Cozzini, op. cit., pp. 10-11.

43 Based on a survey by Kleiman International Consultants, as reported in *Euromoney* (December 1993), p. 68.

44 See, for instance, John Mullin, "Emerging equity markets in the global economy", *Federal Reserve Bank of New York Quarterly Review*, vol. 18, No. 2 (summer 1993), pp. 54-83.

45 Howell and Cozzini, op. cit., p. 2.

46 World Bank, *Financial Flows to Developing Countries: Quarterly Review* (April 1993), pp. 18-20.

47 A "depository receipt" (DR) is a security, usually issued by a bank in an industrialized country, which is backed by equity shares in a company from another country, now frequently a developing country. Owners of DRs are entitled at any time to redeem their DRs for shares of the underlying stock. The DR mechanism avoids the necessity of settling a purchase or sale directly in foreign currency on a foreign market. Depository receipts can be global depository receipts (GDR), which are usually listed in Europe, or American depository receipts (ADR), which are listed in the United States. Except for the place of listing, GDRs and ADRs are identical from a legal, operational, technical and administrative standpoint, although the system in the United States, where the scheme originated, is slightly more complex.

48 World Bank, *Financial Flows to Developing Countries: Quarterly Review* (February 1994), p. 14.

49 "Foreign portfolio equity investment in developing countries: current issues and prospects", report by the UNCTAD Secretariat (TD/B/WG.1/11, 28 October 1993), p. 6.

50 The key principles in the financial reforms include separation of policy-oriented lending from commercial lending by having each done in separate institutions; creating efficient, nationwide

and strictly managed interbank and securities markets; and establishing a strong central bank, as per "An overview on China's financial system reform", address of Chen Yuan, Deputy Governor, People's Bank of China, at Project LINK Fall Meeting (State Planning Commission, Beijing, 13-17 September 1993). For additional background on China's stock-market development, see Paul Bowles and Gordon White, "The dilemmas of market socialism: capital market reform in China—part II: shares", *Journal of Development Studies*, vol. 28, No. 4 (July 1992), pp. 575-594.

51 This was a main advantage from the perspective of the developing-country markets; i.e., since the country fund could not trade the underlying shares, they would not disrupt the local market.

52 The closed-end funds still channel \$1 billion to \$3 billion a year of equity investment (see World Bank, *World Debt Tables, 1993-1994* (Washington, D.C., December 1993), vol. I, p. 21).

53 More than two thirds of the Telemex issues (\$3.2 billion) were passed to the United States market through sales of American depository receipts, as were \$3 billion worth of YPF.

54 Mullin, op. cit., p. 73.

55 See Stijn Claessens, Michael P. Dooley and Andrew Warner, "Portfolio capital flows: hot or cold?", in Stijn Claessens and Sudarshan Gooptu, eds., *Portfolio investment in developing countries*, World Bank Discussion Paper No. 228 (December 1993), pp. 18-44.

56 More precisely, the correlations pertain to the excess returns in each country from holding stocks versus holding risk-free government securities. The change in correlations over time pertain to two periods of monthly data (where sufficient data existed), namely, December 1976 to September 1985 and December 1985 to December 1992 (see Geert Bekaert, "Market integration and investment barriers in emerging equity markets", in Claessens and Gooptu, op. cit., pp. 221-251).

57 Not all downward movements are contagious, however, as the 15 per cent fall during this time period in Mexico, largely for domestic reasons, was not echoed in Brazil or Chile, whose markets rose strongly (based on press reports of market indexes).

58 Howell and Cozzini, op. cit., p. 8.

59 These are some of the observations of the International Conference on Savings and Credit for Development, Klarskovgård, Denmark, 28-31 May 1990 (see chap. II of the report of the Conference, in *Savings and Credit for Development* (United Nations publication, Sales No. E.92.II.A.1), pp. 8-10).

60 See, for example, Carlos Diaz-Alejandro, "Good-bye financial repression, hello financial crash", *Journal of Development Economics*, vol. 19, No. 1/2 (September-October 1985), pp. 1-24; Vittorio Corbo, Jaime de Melo and James Tybout, "What went wrong with the financial reforms in the Southern Cone?", *Economic Development and Cultural Change*, vol. 34, No. 3 (April 1986), pp. 607-640; and Ricardo Ffrench-Davis, ed., *Las Relaciones Financieras Externas: su Efecto en la Economía Latinoamericana* (Mexico, D.F., Fondo de Cultura Económica, 1983).

61 See José M. Fanelli and Roberto Frenkel, "On gradualism, shock treatment and sequencing", in *International Monetary and*

Financial Issues for the 1990s: Research Papers for the Group of Twenty-Four (United Nations publication; UNCTAD/GID/G24/2 (vol. II)), pp. 73-100; and Donald J. Mathieson and Liliana Rojas-Suárez, *Liberalization of the Capital Account*, IMF Occasional Paper No. 103 (Washington, D.C., March 1993).

62 This is an example of a general proposition in economic theory that when many markets are controlled, freeing one does not necessarily lead to a better allocation owing to the possibly heightened misallocation resulting from the remaining restraints (the classic exposition was in R. G. Lipsey and Kelvin Lancaster, "The general theory of the second best", *Review of Economic Studies*, vol. 24 (1956), pp. 11-32).

63 The classic studies were Ronald I. McKinnon, *Money and Capital in Economic Development* (Washington, D.C., Brookings Institution, 1973); and E. S. Shaw, *Financial Deepening in Economic Development* (New York, Oxford University Press, 1973).

64 For a critical view, see Alberto Giovannini, "Saving and the real interest rate in LDCs", *Journal of Development Economics*, vol. 18 (1985), pp. 197-217.

65 Examples include *tontines* in francophone Africa and other rotating credit associations (see two papers by Anand Chandavarkar: "Of finance and development: neglected and unsettled questions", *World Development*, vol. 20, No. 1 (January 1992), pp. 133-142; and "The non-institutional financial sector in developing countries: macro-economic implications for savings policies", *Savings for Development: Report of the Third International Symposium on the Mobilization of Personal Savings in Developing Countries*, Yaoundé, Cameroon, 10-14 December 1984 (United Nations publication, Sales No. E.85.II.A.17), pp. 81-86).

66 Data of the Bank of Japan, *Economic Statistics Monthly*.

67 See Joseph E. Stiglitz, "Government, financial markets and economic development", National Bureau of Economic Research Working Paper No. 3669 (April 1991), p. 3.

68 See Ylmaz Akyüz, "Financial liberalization: the key issues", UNCTAD Discussion Paper No. 56 (March 1993), p. 10.

69 Although Poland adopted a banking law in 1982 that created the legal opportunity to set up new banks, only three banks were actually established between 1982 and 1989, owing to the highly centralized licensing procedure and the set-back that reform socialists suffered during this period. Moreover, the new banks served very special purposes and did not contribute to a market-based allocation of capital (see Paweł Wyczański, "Polish banking system 1990-1992", Friedrich Ebert Stiftung, *Economic and Social Policy Series*, No.32, Warsaw, 1993).

70 This has not been a problem in all transition economies, but could become a problem in more of them. In Russia since 1992, for example, the high rate of inflation—higher than the interest rate—has reduced the real value of enterprise debt to an insignificant amount even as the firms kept borrowing. However, beginning in late 1993, real interest rates turned positive and debt will no longer be inflated away.

71 ECE, *Economic Survey of Europe...*, p. 56; over 2,000 banks were registered in Russia, two thirds of them created from scratch (see Central Bank of the Russian Federation, *Tekushchie tendent-*

sii v denezhno-kreditnoy sfere, No. 7 (October 1993), p. 7).

72 The argument is elaborated in OECD, "Transformation of the banking system in formerly planned economies", *Financial Market Trends*, No. 57 (February 1994), pp. 35-43.

73 One Hungarian bank and two Polish banks that had no significant bad debt on their books were sold to private owners. In Bulgaria, the banks diluted the state holdings by issuing new shares, as a result of which four regional banks went into private hands. In Poland and Romania, after state banks were turned into joint stock companies, "twinning" arrangements were established for several of the large banks with commercial banks from developed market economies (twinning is a partnership arrangement meant as a prelude to outright foreign participation in the bank). For additional details, see John P. Bonin and István P. Székely, *The Development and Reform of Financial Systems in Central and Eastern Europe* (London, Edward Elgar, 1994); and Daniel Daianu, "Banks in Romania today", paper presented at the Conference on Banking Reform in the Former Soviet Union and Eastern Europe: Lessons from Central Europe, Budapest, 14-15 January 1994.

74 See John Savelle and Risto Herrala, "Foreign-owned banks in Finland", *Bank of Finland Bulletin*, vol. 66, No. 4 (April 1992), pp. 8-12.

75 UNCTAD, "Foreign portfolio equity investment...", p. 31.

76 ECE, *Economic Survey of Europe...*, p. 136.

77 See, for example, Jennifer Corbett and Colin Mayer, "Finan-

cial reform in eastern Europe: progress with the wrong model", *Oxford Review of Economic Policy*, vol. 7, No. 4 (1991), pp. 577-5.

78 A prominent example is Ronald I. McKinnon, *The Order of Economic Liberalization* (Baltimore, Johns Hopkins University Press, 1991).

79 See, for example, István Ábel and John P. Bonin, "Financial sector reform in the economies in transition: on the way to privatizing commercial banks", in Bonin and Székely, op. cit.; and Sweder van Wijnbergen, "On the role of banks in enterprise restructuring: the Polish example", Centre for Economic Policy Research, *Discussion Paper Series*, No. 898 (London), February 1994.

80 In Czechoslovakia, the first Law on Banks and Saving Banks (Law No.158/1989) came into force on 1 January 1990. A new Law on Banks (Law 21/1992) was passed in 1992 and carried forward by the Czech Republic. In Hungary, the Act on Financial Institutions and Financial Institutional Activities (Act No. LXIX of 1991) was passed in 1991. A major amendment to this law was made at the end of 1993. In Poland, the first Banking Law was enacted in 1982. This was replaced by the new Banking Law in 1989 (*Dziennik Ustaw* No. 4/1992, item 21), which was amended in 1992 (*Dziennik Ustaw* No. 72/1992, item 359). Experts foresee further major amendments and changes (see, for example, Wyczański, op.cit.).

V

Energy: past developments and emerging trends

Issues of production, trade and prices of energy retain their significant importance in the world economy. Changes in prices of energy are anxiously watched as a barometer of inflation and involve, even when they are modest, large international transfers of real income between suppliers and importers of energy. Large price changes generate shock waves throughout the international economy. The use of energy and its mix are closely

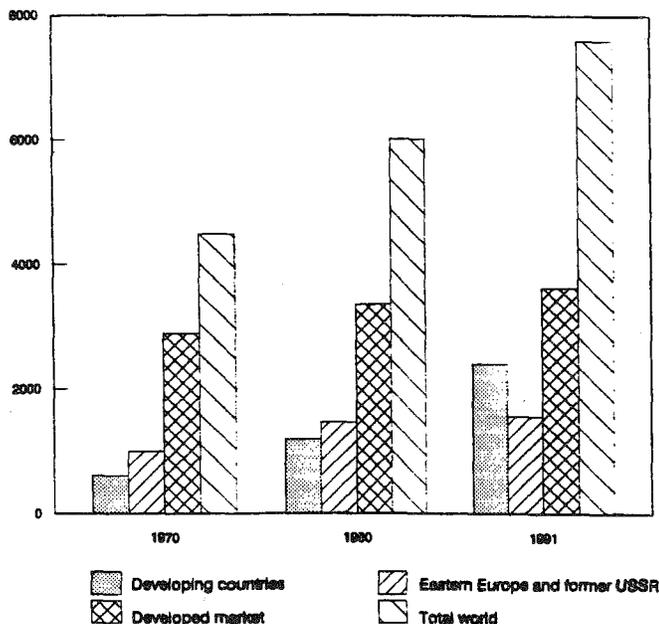
linked to many issues of the environment, while constraints in energy supply limit growth and development possibilities in many countries and critically influence the choice of energy modes and the pattern of investment. The present chapter briefly examines recent changes in selected aspects of the world energy situation, placing some of these changes in longer-term perspectives.

TRENDS IN GLOBAL ENERGY SUPPLY AND DEMAND

World energy demand has been growing at an average annual rate of 2.5 per cent since 1970. Within this rising trend, there has been a considerable amount of regional diversity. On average, commercial energy consumption rose more rapidly in the developing countries than in the developed market economies or in eastern Europe and the

former Soviet Union. The developing countries as a whole consumed in 1991 almost four times as much as they did in 1970 and twice as much as they did in 1980 (see figure V.1). As a result, the share of the developing countries in global energy consumption increased rapidly from 15 per cent in 1970 to 27 per cent in 1991. Over the same

Figure V.1.
Global commercial energy consumption
(Million tons of oil equivalent)



Source: UN/DESIPA, based on *Energy Statistics Yearbook*, various issues.

period, the share of the developed market economies declined from 64 per cent to 52 per cent, while the share of eastern Europe and the former Soviet Union fell slightly from 22 to 21 per cent. Thus, the major portion of the increments in global energy demand, which, up to the early 1970s, used to originate in the developed countries has shifted to the developing countries.

Market responses to the large increases in oil prices in the 1970s, and to measures undertaken by Governments, have led to major structural changes in the demand for energy and the composition of supply. In the developed market economies, conservation and improved energy efficiency, resulting from more efficient vehicles and electrical machinery in industry, as well as in heating and air-conditioning, contributed to the overall improvement in energy use. As a result, energy intensity (i.e., the amount of energy consumed per unit of economic output) has declined by nearly one third since 1970. This decline is in sharp contrast to the situation in the developing countries, where energy intensity has increased by over one third during the same period. The steady rise in energy intensity in the developing countries is due partly to the less efficient use of energy, but mainly it is the result of the spread of urbanization and industrialization.

In addition to the changes in energy-consumption patterns, significant changes also occurred with regard to the type of fuels consumed (see figure V.2). Prior to the first oil crisis of 1973, the major share of world incremental energy requirements had been met by petroleum supplies. Following the crisis and up to around 1985, a large part of such requirement was met through the use of coal and natural gas, and to a smaller extent, nuclear energy and hydropower, particularly in the developed market economies. In most of those countries, there was a large decline of oil consumption, especially between 1979 and 1985. This drop in oil consumption was brought about through higher taxes on oil products, improvements in efficiency, large investments in alternative energy supplies, mainly coal and nuclear, and deliberate policies, including restriction in the use of oil for electricity generation.¹ Still, oil continues to account for 44 per cent of total energy consumption, as compared to 21 per cent for natural gas, 22 per cent for coal and 13 per cent for nuclear energy and hydropower.

In eastern Europe and the former Soviet Union, changes in energy-consumption patterns occurred mainly because of a massive expansion of natural gas at the expense of coal. In the developing countries, considerable changes also occurred in the composition of energy demand, particularly in favour of natural gas and hydropower. However, apart from India and China, where coal accounts for the largest share of commercial energy consumption,² oil dominates all sectors of the economy in the

rest of the developing countries.

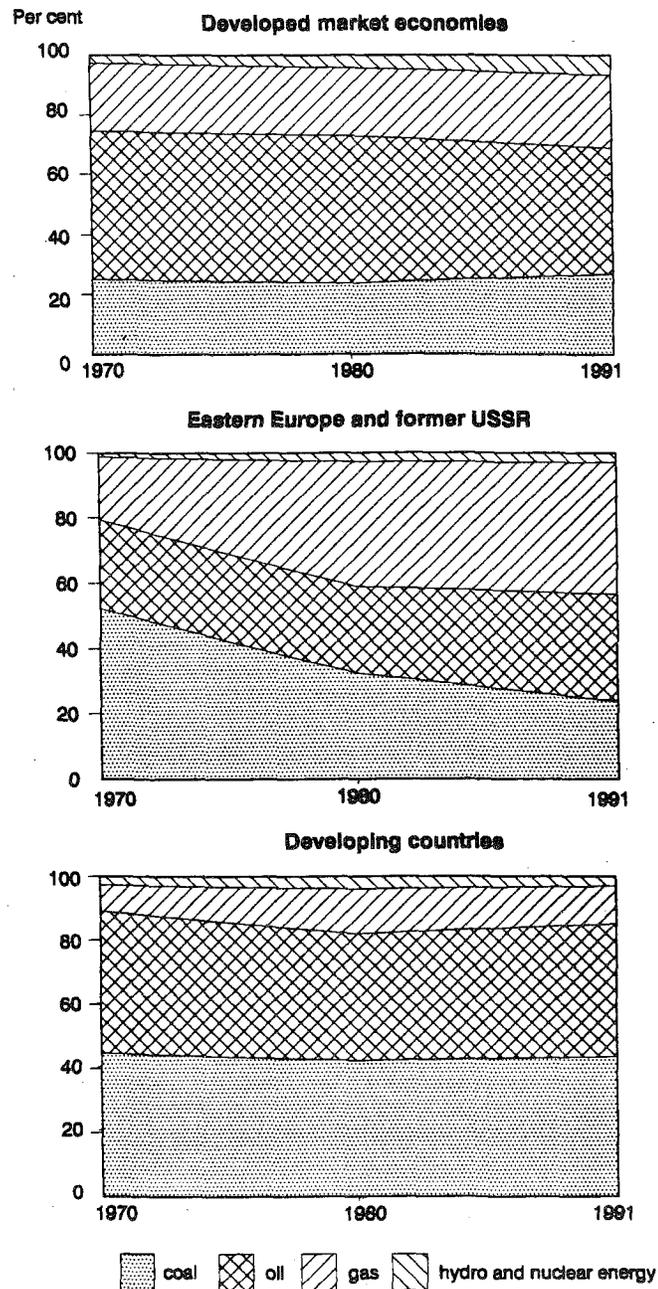
Despite the various changes in the pattern and composition of energy consumption at the national and global levels, the share of fossil fuels in commercial energy consumption worldwide still accounts for over 90 per cent, with oil accounting for the lion's share at 40 per cent (see figure V.3).

The most notable change in the pattern of energy supply in the past two decades has been that for oil. Through most of the 1970s, OPEC countries were producing over half of the world's oil, but by 1985, their share fell to less than 30 per cent before it began to rise again following the oil price collapse of 1986. As a result of that decline in oil prices, global oil demand has increased significantly, halting the declining trend in oil consumption in industrialized countries. As a result, the dependence on OPEC oil has again been growing, with much of the new supplies coming from the Middle East, in particular from Saudi Arabia.

Since 1970, the world has had to make available an additional 65 million barrels of oil equivalent per day (boe/d) to meet global energy demand; nearly 60 per cent of that increment has accrued in the developing countries. Further improvements in energy conservation and efficiency, recently underscored by environmental concerns, will slow the call for new energy supplies, particularly in the industrialized countries. In the developing countries, however, with the pressure of rapidly increasing population and the drive towards improving the living standards, growth in demand for additional supplies of energy will likely continue at a fast pace in the foreseeable future.

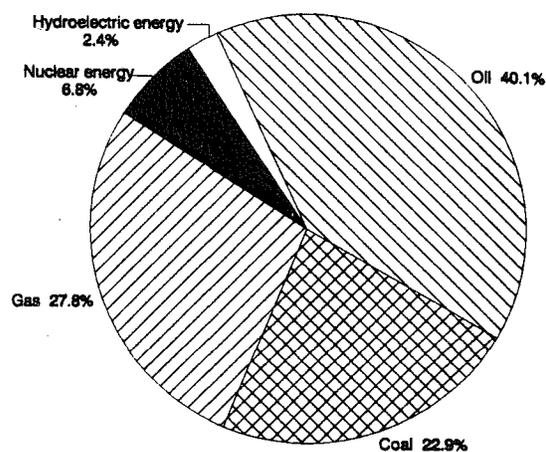
Future energy demand trends will depend on a number of factors, the most important of which are economic growth, energy prices, technological developments and changes in the structure of national economies. The implementation of Agenda 21 will, for example, profoundly influence the growth and composition of demand for energy. Under one possible conservative scenario, energy consumption worldwide is expected to grow between 1990 and 2010 by 42 per cent, or at an average annual rate of 1.8 per cent (see table V.1).³ About two thirds of the incremental energy demand will likely occur in the developing countries, with their share rising from 27 per cent in 1990 to 37 per cent by the year 2010. Demand is expected to grow at annual rates of 0.9 per cent in the developed market economies, 1.3 per cent in eastern Europe and the former Soviet Union and 3.4 per cent in the developing countries. Given the large degree of uncertainty about some of the assumptions, these numbers should be considered only as broad orders of magnitude. If these rates were to materialize, an additional 72 million boe/d of new energy supplies would need to be developed by the year 2010.⁴

Figure V.2.
Regional commercial energy consumption by fuel type



Source: UN/DESIPA, based on *Energy Statistics Yearbook*, various issues.

Figure V.3.
Structure of commercial energy consumption by fuel type, 1992



Source: UN/DESIPA, based on *BP Statistical Review of World Energy*, June 1993.

Table V.1.
Estimated future commercial primary energy demand
(Million tons of oil equivalent)

	1990	1995	2000	2010	Average growth (per cent/year)
Developed market economies					
Oil	1 626	1 679	1 774	1 991	1.0
Gas	864	953	1 011	1 140	1.4
Coal	931	930	931	933	0.0
Electricity	536	589	630	701	1.4
Total	3 957	4 150	4 345	4 766	0.9
Eastern Europe and former USSR					
Oil	431	404	435	593	1.6
Gas	630	622	651	771	1.0
Coal	467	402	429	503	0.4
Electricity	90	101	159	244	5.1
Total	1 618	1 530	1 674	2 111	1.3
Developing countries					
Oil	768	932	1 137	1 696	4.0
Gas	276	349	436	715	4.9
Coal	912	990	1 118	1 429	2.3
Electricity	107	143	172	160	2.1
Total	2 063	2 415	2 864	4 000	3.4
World total					
Oil	2 825	3 015	3 346	4 280	2.1
Gas	1 770	1 923	2 098	2 625	2.0
Coal	2 310	2 322	2 478	2 866	1.1
Electricity	733	834	961	1 105	2.1
Total	7 638	8 094	8 883	10 877	1.8

Source: UN/DESIPA.

THE INTERNATIONAL OIL MARKET: RECENT DEVELOPMENTS

In 1993, world oil supplies remained abundant despite the continuing decline in oil output from the former Soviet Union and the ongoing embargo on Iraqi oil. A sluggish demand for oil and energy around the world, combined with overproduction by OPEC and a record high output in the North Sea, have glutted world oil markets and led to a drop in oil prices to the lowest level in five years. The return of Kuwait's oil production to its pre-invasion level has also contributed to the glut in oil markets. In the last six months of 1993, oil prices fell by more than 25 per cent, from about \$18 a barrel in June to \$13 a barrel in December. Oil prices remained weak in early 1994 despite the surge in the demand for heating oil caused by the exceptionally cold weather in large parts of the northern hemisphere. Attempts to secure cooperation between OPEC and non-OPEC producers in cutting output to prop up prices have, so far, failed. With the prospects of additional oil becoming available in the next year or two from OPEC countries, as well as from a resurgent North Sea and other smaller producers, oil prices could fall even further.

World oil demand remained weak, declining by 0.1 million barrels a day from its 1992 level, owing largely to the sharp drop in consumption in the former Soviet Union and, to a lesser extent, to the near stagnation in the industrialized countries. In the developing countries, growth in total oil consumption was relatively strong, especially in the rapidly growing economies of East and South-East Asia.

With the resumption of economic recovery in the industrialized 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. Growth in oil consumption in the developing countries is likely to be the driving force behind global oil demand trends. Declining economic activity in the successor States of the former Soviet Union and efforts by the Russian Federation to sustain oil export volumes are likely to depress oil demand in that region. Global oil demand is expected to grow at 1.5 per cent per annum, reaching 74 million barrels per day by the end of this decade, from the 1993 level of 67 million barrels per day.

World crude oil production also declined slightly in 1993. A decline of nearly 1.0 million barrels per day in the Russian Federation was offset by increases in OPEC and the North Sea. The fall in non-OPEC production was entirely due to a sizeable drop in output in the Russian Federation and, to a lesser extent, to a further decline in the United States. Russian oil output declined by almost 12 per cent, reaching its lowest level in almost two decades, because of continuing technical and logistic problems. Should this trend continue, oil exports may even vanish in the next few years with the expected stop in the

slide in domestic oil demand. Production in the United States continued its downward trend, reaching its lowest level in more than three decades. Elsewhere, production increased moderately.

The upturn in non-OPEC supply is expected to continue for the next few years as production in the North Sea continues to rise and the rapid decline in the former Soviet Union subsides. Production growth in the United Kingdom, Norway and the non-OPEC developing countries will probably be able to more than compensate for the decline in the United States and other rapidly depleting oil-producing areas. Supply trends in the former Soviet Union are uncertain, but output is expected to drop even further before it begins to recover.

In view of the continuing decline of oil output in the United States and the Russian Federation, most of the world is growing increasingly dependent on OPEC for additional supplies. At present, OPEC produces 41 per cent of the world's output and possesses over three quarters of the world's proved reserves of one trillion barrels. Two thirds of these reserves are in the Persian Gulf countries, which are expected to remain the most significant source of incremental supply in the future. To meet the expected rise in global oil demand, total OPEC production could increase to about 31 million barrels per day by the year 2000 from the present level of some 25 million barrels per day.

The international oil market today faces a very different future from that foreseen even less than 10 years ago. Today, major international oil companies are being offered joint ventures and partnerships in many oil-exporting countries including OPEC members that previously nationalized their oil industries. This is likely to result in additional sources of oil supply. In the mean time, the role of national oil companies of most oil-exporting countries has been increasing in the past several years. Many of those companies are expanding investments at the downstream end of consumer markets, a trend that is likely to result in more secure sources of supply.

Because of these and other developments, the gradual tightening of market conditions, which have been foreseen by many market analysts, will be delayed. As oil production capacity is being expanded in a number of OPEC and non-OPEC countries in the face of weak oil demand, the oil market may remain amply supplied for the next few years. The oil market will soften further once oil export from Iraq is resumed. The evolution of oil prices in the period ahead will, therefore, depend on the ability of OPEC to restrain output, as well as on the level of economic recovery in the industrialized countries, the continued growth of the developing countries and the volume of oil exports from the successor States of the former Soviet

Union. It will also depend on the rate at which additional production capacities are being developed in the North Sea and other non-OPEC areas. Developments in the successor States of the former Soviet Union will remain a major factor in the oil market.

OIL PRICE: STEEP DECLINE

Excess supply of oil pushed prices in the second half of 1993 to their lowest level since 1988, ending a period of relative stability that characterized oil markets since the end of the Persian Gulf crisis in early 1991. Oil prices were also undermined by nervous financial markets, which have reacted negatively to prospects that Iraq might be allowed to export \$1.6 billion worth of oil for a period of six months. The average spot price of the OPEC basket of seven crudes remained almost stable at about \$17.6 a barrel in the first two quarters of the year, before trending slowly downward in the third quarter and falling sharply in the fourth quarter to an average of \$14.4 a barrel (see figure V.4). For the year as a whole, the average stood at \$16.3 a barrel, or some 12 per cent lower than in 1992. This is the lowest price of the OPEC basket since 1988, when it fell to under \$14.2 a barrel. In real terms—the quantity of manufactured imports it would buy—the price of a barrel of oil in 1993 was 40 per cent lower than the price in 1974, but still higher than the prices prior to the 1973 oil crisis.

Crude oil prices started to slip by mid-year, when seasonal demand weakened and oil stocks rose. The fall accelerated in July in the wake of negotiations between the

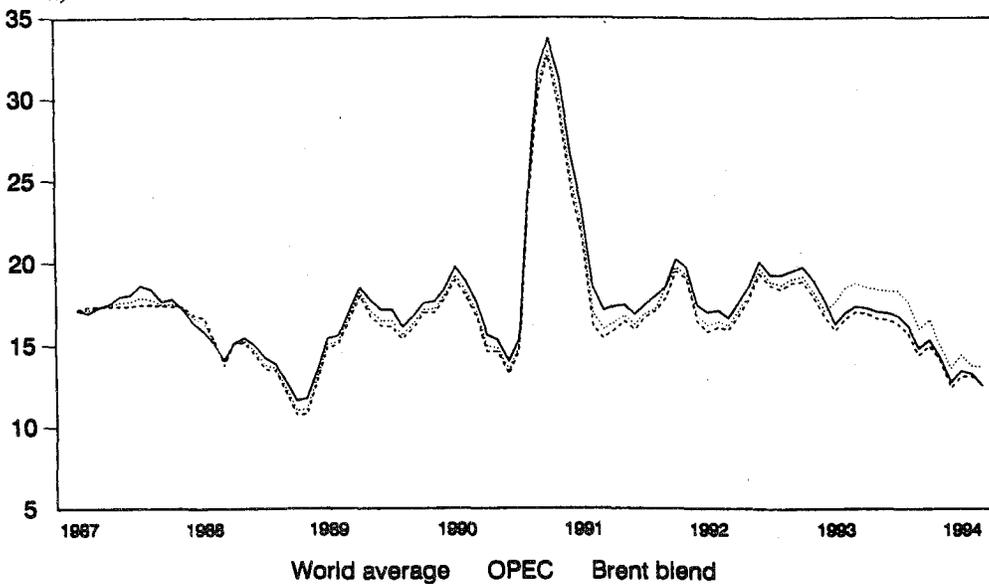
United Nations and Iraq to permit limited oil exports under Security Council resolutions 706 (1991) and 712 (1992). Even though those negotiations failed to lift the embargo on Iraqi oil, prices continued to fall, probably on the expectation that they might succeed later. The market was further hit by a price mark-down following the release in September by the International Energy Agency of a downward revision in its forecast of world oil demand for the period October 1993 to March 1994. This came at a time when OPEC usually boosts its production level in anticipation of higher winter demand.

At its Ministerial Monitoring Committee meeting, held at Geneva in September, OPEC appeared to have reached a production agreement with a ceiling of 24.52 mbd for the six months until end-March 1994. In the first two weeks following that meeting, the market reacted favourably and prices rose by almost \$1.5 a barrel. However, soon afterwards, market fundamentals pushed prices further down owing to excess supplies caused by OPEC over production, rising North Sea output and higher than expected exports from the Russian Federation.

In a situation of unexpectedly large increases in non-OPEC supply during the fourth quarter of the year, a reversal in the downward trend of persistently low oil prices could be achieved only through drastic production cuts. However, at the last meeting of the year, in November, OPEC kept its production ceiling and individual quotas unchanged and prices slid further.⁵

The lack of consensus among members of OPEC to

Figure V.4.
Crude oil prices, f.o.b.
(Dollars per barrel)



Source: UN/DESIPA, based on United States Department of Energy, Energy Information Administration, *Weekly Petroleum Status Report*, various issues.

reduce output quotas was regarded by many analysts as a shift away from an emphasis on price to a strategy of protecting the OPEC market share in response to rising output by non-OPEC producers. This was despite the fact that all members of the organization have been facing financial difficulties because of falling oil revenues. The decision was also regarded as a signal to the markets and non-OPEC producers, whose output rose considerably in 1993, that OPEC could no longer play the role of swing producer in support of oil prices.

OIL PRICE OUTLOOK

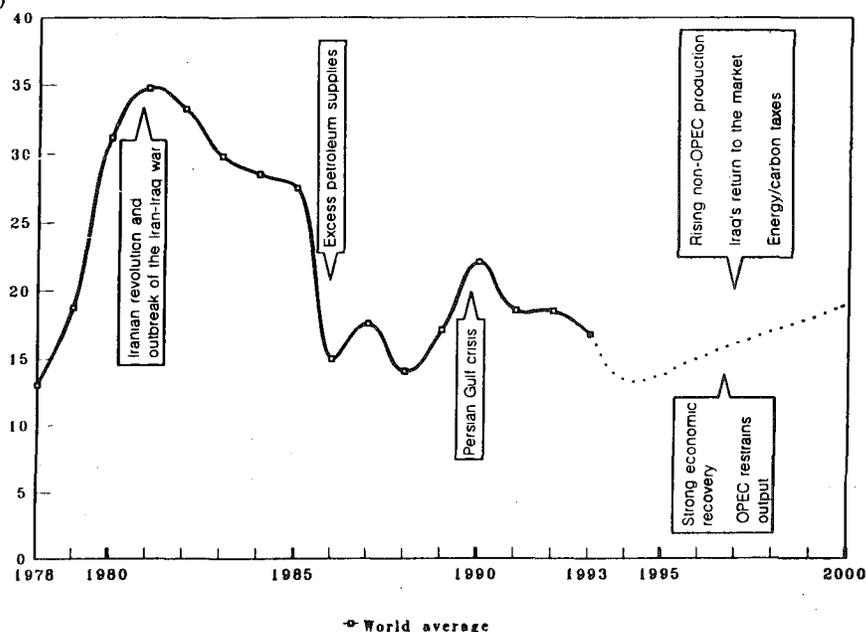
Oil market analysts differ greatly in assessing the outlook of oil prices owing to the ever-changing variables affecting demand and supply trends. Most forecasts of oil prices have a dismal record. In the early 1980s, a number of forecasts expected oil prices to reach as much as \$100 a barrel by the end of the decade. Today, few forecasters would place it outside a range of \$10 to \$20 a barrel for the next several years. The conceptual trend of oil prices in figure V.5 takes into account factors exercising either upward or downward pressures over the rest of the present decade. Upward pressures on oil prices include the ability of OPEC to restrain output, the continued decline of oil production in the former Soviet Union and the revival of economic growth in the developed countries and in the countries in transition. On the other hand, the most important factors that will continue to exert downward pressures

on oil prices are the spectre of Iraq's return to the oil market and the continuing recovery of non-OPEC supply, including oil exports from the former Soviet Union.

Apart from the uncertainty associated with the output policies of OPEC member countries, the expected upturn of economic activity in the developed countries and the sustained momentum of economic growth in the developing countries would keep some demand-driven upward pressure on oil prices. However, the prospects of even higher supplies of oil becoming available in the next two years from the North Sea and other non-OPEC oil producers, combined with the eventual return of Iraq to the oil market, are likely to sustain downward pressure on oil prices. Under such circumstances, oil prices will largely be determined by the ability of OPEC to influence supply. Prices are likely to fall sharply with the return of Iraq to the market unless output is reduced in other countries. If output is not reduced to allow for the reinstatement of Iraqi oil, oil prices will probably drop to even less than \$10 a barrel. For 1994, oil prices are expected to average \$14 a barrel, 15 per cent lower than in 1993.

If one were to assume that OPEC is no longer the dominant market force, then it would be easier to suggest that the current low oil price environment reflects supply/demand fundamentals in an emerging competitive market. A fully competitive market, however, would carry oil prices even lower. Over the past several years, advances in petroleum technology and operating efficiencies, com-

Figure V.5.
Main determinants of oil price movements
(United States dollars per barrel)



Source: UN/DESIPA, data for oil prices up to 1993 from United States Department of Energy, Energy Information Administration, *Weekly Petroleum Status Report*, various issues.

bined with the opening of doors for international oil companies in many parts of the world, have led to progressive cuts in exploration and production costs. Many oilfields, particularly in the North Sea, which were considered uneconomic at \$20 to \$30 a barrel as recently as 10 years ago, today are being developed on the basis of less than \$15 a barrel.⁶

OIL EXPORT REVENUES WEAKENED CONSIDERABLY

Over the past 20 years, major oil exporters have done much less than the importing countries to reduce their dependence and vulnerability to the inherent instability of oil markets. Even after the price collapse of 1986 and the subsequent deterioration of their balance of payments, OPEC members continue to argue over production quotas. In 1993, their combined value of oil exports fell by nearly \$14 billion, or 10 per cent as compared to 1992 (see table A. 39). With eroding real oil prices and purchasing power, total OPEC oil revenues in 1993 are estimated at less than half the 1974 level in inflation-adjusted terms (see table V.2). The inability of many oil exporters to diversify their economies and reduce their dependence on oil revenues has compounded the negative impact induced by the recent price fall in those countries.

Expressed in 1974 dollars, the average price of the OPEC basket in 1993 was estimated at \$6.6 a barrel. By comparison, in 1980, the average price of Arab light cost over three times as much, or \$20.4 a barrel and in 1974 it cost \$10.4 a barrel. The fall in the per capita income of oil

revenues has been even more drastic owing to the large population increases over the past 20 years. On a per capita basis, 1993 real oil revenues of OPEC member countries are only one fourth of what they were 20 years ago and one sixth of what they were 13 years ago. Average per capita oil revenues of OPEC at current prices increased from \$422 in 1974 to \$655 in 1980 before slumping to \$110 last year. As a consequence, some of the OPEC members, which used to be classified by the World Bank and IMF as high-income countries, are now middle income.

OIL CONSUMPTION REMAINS DEPRESSED

Over the past two decades, world demand for oil grew at an average rate of 2 per cent per annum, less than all other forms of energy. World oil consumption grew at a rapid pace in the 1970s, reaching a peak of 66 mbd in 1979 before it declined steadily in the first half of the 1980s. That decline, which was solely accounted for by the developed marked economies, was primarily attributable to the energy efficiency, fuel substitution and conservation policies triggered by the rise in the price of oil. However, with the precipitous fall of oil prices in 1986, consumption increased considerably until 1990. During that period, world oil demand rose at an annual rate of 2.2 per cent to reach a new peak of 66.5 mbd. However, since 1990, world oil demand has remained nearly stagnant, owing largely to the sharp drop in consumption in eastern Europe and the successor States of the former Soviet Union, but only partly due to the slow economic expansion in the industrialized countries (see table A. 40). Indeed, if eastern Europe

Table V.2.

Oil prices and OPEC member countries' value of petroleum exports, in 1974 prices^a, 1972-1993
(Millions of United States dollars)

	1972	1974	1980	1985	1986	1990	1993
Algeria	1 476	4 267	7 082	5 971	2 620	3 646	2 438
Gabon	144	773	977	1 061	393	810	706
Indonesia	1 311	5 211	7 196	4 994	2 809	2 669	1 608
Iran (Islamic Republic of)	5 224	20 904	7 440	10 152	3 404	6 876	6 567
Iraq	1 475	6 534	14 614	6 958	3 754	3 897	99
Kuwait	3 403	10 394	9 900	6 392	3 468	2 280	4 293
Libya Arab Jamahiriya	4 158	8 149	11 972	6 487	2 957	4 035	3 141
Nigeria	2 579	8 640	14 162	8 044	3 268	5 435	4 382
Qatar	549	1 979	3 027	1 998	935	1 219	1 048
Saudi Arabia	7 864	35 476	59 255	15 745	9 229	16 523	17 859
United Arab Emirates	1 433	6 948	10 952	7 711	4 052	6 424	5 099
Venezuela	4 102	10 548	9 835	8 436	3 903	5 745	4 718
Total	33 718	119 823	156 413	83 949	40 791	59 558	51 957
Oil prices ^b (Dollars per barrel)	2.7	10.4	20.4	17.9	7.1	9.2	6.6

Source: UN/DESIPA, based on OPEC Annual Statistical Bulletin, various issues. Data for oil prices in nominal terms are taken from BP Statistical Review of World Energy, June 1993.

a Values are deflated by the export price of manufactures of the developed market economies.

b Oil prices are those of Arabian light until 1987, and of the OPEC basket afterward.

and the former Soviet Union are excepted, world oil consumption has been growing at an annual rate of 1.3 mbd, or 2.2 per cent, even in the midst of a weak global economy.

But the pattern of growth has been uneven. The rise in oil consumption of the developing countries has been considerably faster than in the developed market economies, reflecting high population growth, rapid urbanization and increasing industrialization in a large number of countries. The rapid rise in oil consumption in the developing countries was, however, largely accounted for by the newly industrializing countries of South-East Asia, where oil demand rose by one fourth over the past three years. By contrast, oil consumption in Africa grew by 5 per cent over the same period.

It is significant that in 1993, total oil consumption in the developing countries of Asia was already equal to that of western Europe, and if recent trends continue, it may surpass that of the United States by the end of this decade. Thanks to this growth momentum, the role of the developing countries in the international oil market has been rising markedly, with their share in global oil demand growing from 20 per cent in 1980 to 32 per cent in 1993.

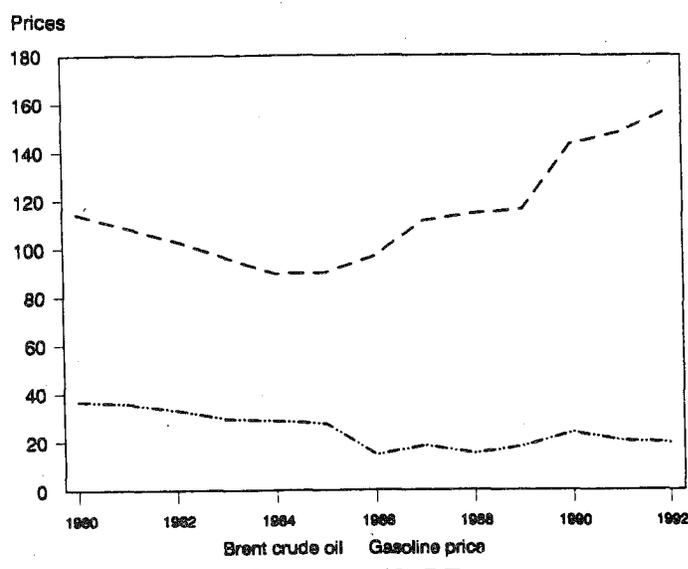
Despite improved energy efficiency and subdued economic growth, oil consumption in the developed market economies grew by nearly 1 mbd, or just under 1 per cent per annum, over the past three years. Although there has been some relaxation of conservation measures in recent years in response to the decline in oil prices, many of the

policies implemented during the period of high oil prices have remained largely intact. The most important of those measures has been the heavy taxation of oil products, which has continued to affect oil consumption since the early 1980s. Those taxes more than offset the beneficial pass-through effect of lower international oil prices to end-users. While crude oil prices declined by over one half in nominal terms since 1980, average end-use prices of gasoline in western Europe, for example, increased by over one third during the same period (see figure V.6).

After a rapid increase in the 1970s and near stagnation in the 1980s, oil consumption in eastern Europe and the former Soviet Union declined drastically over the past several years. From its peak of 11.1 mbd in 1987, the use of oil fell by over one third, largely in response to the economic problems associated with the transition from centrally planned to market-oriented economies. In the case of the former Soviet Union, the fall in oil consumption was also due to the change in the composition of energy use in favour of natural gas in order to divert more oil for exports. For eastern Europe, in addition to the fall in economic growth, the drop in oil consumption reflects, in part, the shortfall in oil supplies following the shift to hard currency trading between the Russian Federation and its former partners in eastern Europe. Falling oil production has forced Russia to reduce its exports to eastern Europe and other countries of the Commonwealth of Independent States in order to maintain its hard currency earnings by exporting more oil to the OECD area.

Figure V.6.

Spot prices of Brent crude oil and average gasoline prices in OECD Europe, 1980-1992
(Dollars per barrel)



Source: UN/DESIPA, based on International Energy Agency, *Energy Prices and Taxes*, various issues.

Global oil demand fell in 1993, but only by 0.15 per cent. However, as noted previously, this conceals very significant regional variations that tend to underestimate the strength of oil demand in most parts of the world. It may also portend a significant increase in demand in 1994 and beyond, particularly when the decline in the Russian economy subsides. World oil demand outside eastern Europe and the former Soviet Union rose by 1.2 mbd, or 2 per cent, compared to 1992. By contrast, oil demand in the successor States of the former Soviet Union fell by 1.3 mbd, or 19 per cent, relative to 1992. That decline was more than enough to offset the gains in the developed market economies and the developing countries, where oil consumption grew by 0.3 per cent and 5.5 per cent, respectively.

In the short term, global oil demand is expected to strengthen significantly as economic activity in Japan and western Europe recovers and the United States economy sustains its recent momentum. In eastern Europe and the former Soviet Union, as the pace of economic decline decelerates, the drop in oil demand will also subside. Most of the increase in oil demand will, however, continue to originate in the developing countries.

Over the medium term (i.e., until the year 2000), total world oil demand is expected to grow at 1.5 per cent per annum, reaching 74 mbd by the end of this decade. Most of the growth in oil consumption will be for transportation fuels. Developing countries currently account for 32 per cent of world oil demand, but they will account for about two thirds of the growth, with their share rising sharply to over 40 per cent by the turn of the century. While oil demand is expected to grow in all developing countries, the biggest absolute gains will come from the countries of South and East Asia, notably China, India and the Republic of Korea, as well as from Brazil and Mexico.

In the developed market economies, oil demand is expected to grow at less than 1 per cent per annum. The substitution of oil by other forms of energy will continue to be reinforced by market forces supplemented by regulatory measures and discriminating excise taxes on oil products. Even without taxes, however, improved fuel efficiency, combined with nearly stagnant population growth, will gradually reduce the growth of the demand for oil.

In eastern Europe and the former Soviet Union, oil consumption is expected to drop further as subsidies are removed and oil is used more efficiently. But oil demand is likely to increase in the second half of the 1990s as output expands and demand for transportation fuel grows.

OIL PRODUCTION: SHIFT IN SOURCES OF SUPPLY

World crude oil production edged slightly downward in 1993, almost in line with the decline in oil demand. A

further drop of 1 mbd in the former Soviet Union was offset by increases in OPEC and other oil-exporting developing countries (see table A. 41). Production continued to fall in the United States, but increased sharply in the North Sea.

OPEC crude oil production is estimated to have averaged 24.7 mbd in 1993, or 0.7 mbd higher than the level in 1992. Most of the increase was accounted for by Kuwait, where production surpassed its pre-invasion level. Production in the Islamic Republic of Iran also rose significantly (see table A. 42). In a number of other OPEC countries, production was reduced to "make room" for Kuwait and to try to balance the market.

In other oil-exporting developing countries, oil production rose by 2.5 per cent over its 1992 level. Oil output increased most notably in Oman, Papua New Guinea, the Syrian Arab Republic, Viet Nam and Yemen, while it declined in Angola, Colombia, Malaysia and Trinidad and Tobago. In China and Mexico, the two largest producers of this group, oil production remained virtually flat.

In the oil-importing developing countries, total oil output declined by about 12 per cent in 1993 owing largely to the decline in exploration and development activities in a large number of countries.

In the developed market economies, total oil production remained unchanged in 1993. A decline in the United States was made up by increases in Canada and the North Sea. The increase of oil output in the North Sea was most notable in the fourth quarter of the year, where the year-on-year increase amounted to 0.5 mbd relative to the same period in 1992. Production from the North Sea reached a peak of 3.7 mbd in 1987 before it declined to about 3.5 mbd in 1989. That declining trend was expected to continue, but the application of new offshore technology, specifically ocean-floor pumping techniques, improved oil recovery from older fields and made the development of new ones more economically viable. The bulk of the new oil projects came on stream in 1993, boosting North Sea oil production to 5.1 mbd in the first quarter of 1994, 1 mbd more than in the same period in 1993.

In eastern Europe and the former Soviet Union, total crude oil production declined to 8.1 mbd, a fall of nearly 12 per cent as compared to 1992. Most of the decline was accounted for by the Russian Federation, where oil production fell from its peak of 11.2 mbd in 1988 to 6.9 mbd in 1993, largely due to reduced investment and poor maintenance of oil facilities. Oil output in Kazakhstan, the second largest oil producer of the former Soviet Union, is reported to have fallen to under 0.4 mbd, a decline of 6 per cent from the previous year. Despite this decline, however, oil exports from the former Soviet Union actually increased from 2.14 mbd in 1992 to 2.24 mbd in 1993, possibly attributable to the even sharper decline in oil consumption.

Following the 1986 fall in oil prices and, most notably

since 1988, there has been a large shift in the relative shares of total world oil production between OPEC, the former Soviet Union and the rest of the oil-producing countries. Total non-OPEC production stabilized at about 37 to 38 mbd for about four years, but declined steadily since 1990 owing largely to the decline of oil output in the successor States of the former Soviet Union (see figure V.7). While the share of the former Soviet Union in world crude oil output fell from 21.9 per cent in 1988 to 13.6 per cent in 1993, OPEC's share rose from 34.3 per cent to 41.4 per cent over the same period. The share of the rest of the oil-producing countries rose to 44.5 per cent in 1993, from 43.8 per cent in 1988.

Over the past few years, while other States of the former Soviet Union, such as Kazakhstan and Azerbaijan, have been successful in courting international oil companies to participate in developing their oil industries, the Russian Federation has, so far, had only very limited success owing to the lack of attractive legal, financial and institutional foundations. Uncertainty over control of oil resources, combined with the slow pace of oil-price liberalization and the imposition of a high oil export levy, have compounded the reluctance of international oil companies seeking to invest in large-scale joint ventures. It is estimated that some \$50 billion of investment between now and the year 2000 is required to stabilize Russian oil production at its present level and another \$50 billion to \$70 billion to return it to the levels of the 1980s.⁷ Without investment, production could fall to as low as 4 mbd, which

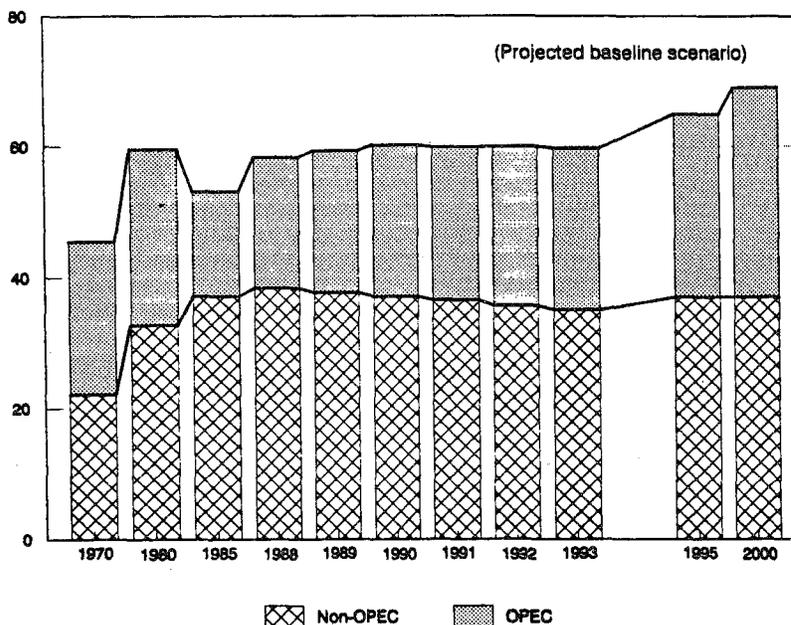
would have great impact on the Russian Federation and on the world oil market.

While production in the former Soviet Union could be turned around given adequate investments and incentives, it is likely to remain depressed in the United States, where oil production has dropped by over 25 per cent since 1986. As a result, between 1985 and 1993, United States dependence on petroleum imports jumped from 27.3 per cent of petroleum products demand to 43.5 per cent. This dependence is expected to increase to close to 50 per cent by 1995.⁸

In non-OPEC developing countries, output will likely rise over the next few years and then stagnate by the end of the present decade. Production in China, Mexico, Oman, Papua New Guinea, the Syrian Arab Republic, Viet Nam and Yemen will continue rising, while production in many other countries in Africa, Latin America and Asia is expected to remain unchanged. Oil output in the States of the former Soviet Union remains very uncertain, but it is likely to fall further before it recovers in the second half of the 1990s. By contrast, oil output in the North Sea is likely to keep rising before it declines by the late 1990s. Output in Canada is also expected to rise further in this decade.

Over the past nine years, total crude oil production in OPEC has increased by nearly 9 mbd, or 56 per cent. Some 50 per cent of that increase has been accounted for by Saudi Arabia, with its share in total OPEC output rising from 21 per cent in 1985 to 35 per cent in 1993. In the aftermath of the Iraqi invasion of Kuwait and the sub-

Figure V.7.
World crude oil production
(Millions of barrels per day)



Source: UN/DESIPA.

sequent loss of exports from both countries, Saudi Arabia increased its production rapidly, through debottlenecking and opening up of many wells that were shut in during the 1980s. The reactivation of those shut-in facilities, together with the rapid expansion of production capacity in Saudi Arabia and other OPEC countries should be adequate to meet world demand for a few years. The sustainable production capacities of OPEC are expected to increase from the present level of 28 mbd to a range of 32 to 36 mbd by the year 2000. Such an expansion of capacity would require large investments, probably exceeding \$100 billion. The largest growth in oil-production capacity is likely to come from the OPEC countries of the Middle East. However, unless expansion of capacities is coordinated by

OPEC in line with the growth in demand, recent experience would indicate that the continued pursuit of competing national interests would lead to price volatility.

Total world proved oil reserves now stand at 1,000 billion barrels, of which OPEC accounts for 77 per cent (see table V.3). Of these, approximately 85 per cent is located in the Persian Gulf, making it the most important source of incremental supply in the future. If the countries of the Persian Gulf were to produce at the current rate without ever discovering additional oil, their present reserves would last for 100 years. By comparison, non-OPEC reserves would last for 18 years. Even more significant is the fact that the per barrel cost of expanding production in that area is the lowest in the world.

Table V.3.
World proved oil reserves, 1979 and 1993

	End 1979		End 1993	
	Millions of barrels	Percentage of world	Millions of barrels total	Percentage of world total
Developed market economies	58 796	9.2	46 821	4.7
Eastern Europe and former USSR	70 000	10.9	59 168	5.9
Developing countries	512 545	79.9	893 135	89.4
OPEC member countries	435 611	67.9	772 130	77.3
Other oil-exporting countries	69 930	10.9	109 002	10.9
Oil-importing countries	7 004	1.1	12 003	1.2
World total ^a	641 341	100.0	999 124	100.0

Source: UN/DESIPA, based on *Oil and Gas Journal*, 24 December 1979 and 27 December 1993.

a Totals may not add up because of rounding.

INTEGRATION AND PRIVATIZATION IN THE OIL INDUSTRY

The dominance of the international oil industry by a number of multinational oil companies is slowly fading as a large number of state-owned oil firms continue to assert their standings in both ownership of oil reserves and production, a trend that has been under way since the early 1970s. At present, state-owned oil companies control some 90 per cent of total world oil and gas reserves. Their dominance is particularly pronounced in the oil sector, where they control about 95 per cent of the reserves and 75 per cent of production.

Some 27 state oil enterprises, most of them in the developing countries, are ranked among the 50 largest petroleum companies of the world.^{9,10} Those 27 companies account for 83 per cent of world proved oil reserves and produce half of the world oil production. Six of the national oil companies are in the top 10 list of the world's largest petroleum companies (see table V.4). Saudi Aramco, the national oil company of Saudi Arabia, tops

that list followed in third place by PDV, the national oil company of Venezuela.

The shift to state ownership was based on political considerations and national sovereignty over energy resources. More recently, however, economic imperatives, aimed at improving profitability and efficiency, are moving many state oil companies towards privatization and integration. While privatization has become synonymous with economic liberalization and restructuring, integration has been driven by the desire of many oil-exporting countries to secure outlets for their crude oil in major consumer markets. Both of these trends are likely to have an impact on energy policies around the world, while at the same time helping the future investment climate for international oil companies.

Following the wave of nationalization of upstream activities during the 1970s, and with the subsequent reduction of the majors' equity ownership of oil reserves, na-

Table V.4.
Top 10 rankings of oil companies in 1992^a

Rank	Company	Country	State-owned	Oil reserves (Millions of barrels)	Oil production (thousands of barrels a day)	Revenues (Millions of US dollars)
1	Saudi Aramco	Saudi Arabia	X	261 203	8 165	..
2	Royal Dutch/Shell	Netherlands/United Kingdom		9 320	2 143	128 420
3	PDV	Venezuela	X	63 330	2 484	21 426
4	Exxon	United States		6 805	1 705	117 106
5	NIOC	Iran (Islamic Republic of)	X	92 860	3 432	..
6	Pemex	Mexico	X	51 225	3 123	19 200
7	Mobil	United States		3 372	816	64 076
8	British Petroleum	United Kingdom		6 365	1 293	58 952
9	Chevron	United States		3 096	944	42 893
10	Sonatrach	Algeria	X	9 200	1 281	14 100

Source: "PIW ranks the world's top 50 oil companies", *Petroleum Intelligence Weekly*, special supplement issue, 13 December 1993.

^a The Iraqi National Oil Company should normally belong on this list, but because of the current sanctions imposed on Iraq, it is not ranked in the top 10 owing to its low level of oil production.

tional oil companies began to supply increasing proportions of crude oil requirements in consumer markets. Because most of the downstream assets in major consuming countries were in the hands of the international oil companies, the upstream and downstream sectors of the industry became decoupled and capacity surplus emerged in both production and refining. In such surplus markets for crude oil, however, ownership of downstream assets provides more secure outlets and a predictable off-take. It also offers a larger profit margin per barrel of oil produced owing to the value added by refining and marketing.

Despite these efforts by the national oil companies of the oil-exporting countries to enter into the downstream sector of major oil-consuming countries, the international majors remain dominant in that sector (see table V.5). However, the ranking of PDV of Venezuela, Saudi Aramco of Saudi Arabia, Pemex of Mexico and Petrobras of Brazil among the top 10 downstream companies testifies to the growing importance of state-owned oil companies in that area.

Along with downstream integration, oil-exporting countries are seeking international oil companies' technology, capital and expertise. In many parts of the world, countries are offering upstream opportunities for exploration and development to multinational oil companies. A number of countries, including Algeria, China, Venezuela, Viet Nam and others are actively inviting companies to explore for and develop new and marginal oilfields.

Privatization of oil companies has been under way for many years in Europe and only recently picked up momentum in the developing countries, most notably in Latin America and, to a lesser extent, in Asia. The privatization programme in several European countries, and particularly

in the United Kingdom, passed essentially through three interrelated approaches: deregulation, denationalization and contracting-out before ownership is transferred to the public. The most notable example of successful privatization in Europe is that of British Petroleum and British Gas. Privatization of British Petroleum, which started as far back as 1977, has been completed only recently. British Gas was also successfully sold to the public in December 1986. The sale of both British Petroleum and British Gas was the world's largest-ever stock offering, involving gross proceeds of over \$10 billion each. Verba Oel of Germany has also been completely privatized. Elf-Aqui-

Table V.5.
Integration of the top 10 downstream companies, 1992

Downstream rank	Company	(Thousands of barrels a day)	
		Refining capacity	Product sales
1	Exxon	4 172	4 909
2	Royal Dutch/Shell	4 161	5 109
3	British Petroleum	2 020	3 041
4	Mobil	2 207	2 744
5	PDV	2 369	1 791
6	Chevron	1 966	2 329
7	Saudi Aramco	1 782	1 780
8	Texaco	1 501	2 334
9	Pemex	1 632	1 329
10	Petrobras	1 555	1 233

Source: "PIW ranks the world's top 50 oil companies", *Petroleum Intelligence Weekly*, special supplement issue, 13 December 1993.

taine in France and Repsol in Spain have been partially privatized. In Portugal, Petrogal, which operates Portugal's two refineries, has also been partially privatized. In Italy, where there is an extensive state presence in energy through ENI group, only partial privatization of some of the subsidiaries has been accomplished. Although these moves have left most of those Governments with a majority holding, introduction of private capital has had positive impact on the operations of those companies.

The move to open state oil monopolies to private investment in developing countries has intensified only recently, but still remains limited. In what was considered the largest privatization undertaking in Latin America, the Government of Argentina, in June 1993, sold more than \$3 billion worth of shares, or 45 per cent of its state oil company, YPF. Now, YPF offers a role model for privatization in developing countries. The second most notable example of privatization is taking place in Peru, where privatization began in March 1993 with the sale of the offshore subsidiary Petromar. In September 1993, a new hydrocarbon law was adopted, mainly with a view to demonopolizing the country's oil industry and attracting foreign participation. Privatization in both Argentina and Peru is thought to have resulted in a considerable increase of 0.29 mbd of combined oil production in those two countries in 1993.¹¹

A number of other Latin American countries are actively considering denationalization or partial privatization of oil operations.¹² In Brazil, privatization of

Petrobras began in the mid-1980s. Privatization in Mexico and Venezuela, the two largest oil-producing countries in Latin America, is unlikely at the present time, but both countries have encouraged state companies to operate more like private firms. However, unlike Venezuela, where the Government approved foreign participation in natural gas development and heavy crude upgrading, Mexico continues to retain a monopoly over the entire petroleum industry. But recently, there has been debate over the need for foreign participation to assist the state oil company, Pemex, to boost the country's oil output. Other small producers, including Bolivia, Colombia and Ecuador, are also considering partial privatization.

In the Asia and Pacific region, in addition to the complete privatization of oil companies in Japan, New Zealand and Singapore, there have been a number of other moves towards privatization. In Malaysia and the Philippines, for example, privatization of their national oil companies is under consideration. Indonesia has also taken some steps towards reducing the State's control of the oil industry by demonopolizing Pertamina, the country's national oil company.

In its drive to revitalize its economy and involve the private sector, Kuwait is also considering privatizing part of its petroleum industry. However, privatization efforts will be confined to the downstream sector, mainly refineries and retail markets. For now, the upstream sector, including production and drilling operations, is to remain under the control of the State.¹³

THE INTERNATIONAL GAS MARKET: RECENT DEVELOPMENTS AND FUTURE PROSPECTS

Natural gas, once the unwanted by-product of oil, is becoming the fuel of choice in many countries because of its qualities as an abundant, versatile and environmentally more benign fuel. Historically, world wide use of natural gas has not been at a pace commensurate with its resource base. The difficulties and high costs associated with its transportation and distribution networks limited its share in global energy consumption. Meanwhile, the development of the natural gas industry has generally been limited to markets that are not very distant from the source and that can be economically connected by pipelines. Consequently, there are wide variations in natural gas consumption, ranging from practically nothing in many oil-importing developing countries to 26 per cent of energy consumption in North America and 41 per cent in eastern Europe and the former Soviet Union.

The patterns of natural consumption have also been different among regions and countries. In the developed countries, where large gas networks have been established for household consumption, gas use tends to be dominated

by the residential sector. By comparison, in the developing countries, where the residential sector is less highly developed, gas use tends to be dominated by the electricity generation sector and petrochemicals.

Global proved gas reserves are estimated to be the energy equivalent of about 912 billion barrels of crude oil, or about 91 per cent of world proved oil reserves. Despite this large reserve base, natural gas now provides just over half the energy that is supplied by oil.

Greater environmental awareness and increased emphasis on the economics of interfuel substitution are expected to affect regional gas supply and demand positively and create enormous opportunities for producers to supply gas to rapidly expanding markets. With gas no longer regarded as a scarce fuel, its penetration into the so called low-priority markets, particularly electricity generation, will contribute significantly to market growth in many developed countries. In the mean time, with the electricity generation sector increasingly influenced by more stringent environmental constraints on other fuels, the avail-

ability of new technologies that use gas more efficiently, such as combined-cycle electricity-generating plants, will make for further market growth. Similarly, in most developing countries, numerous possibilities for market penetration and expansion exist in industry, power generation and the residential sector.

The future growth of world gas supplies will not likely be inhibited by the availability of resources, but rather by the geographical distribution relative to markets. Expansion of gas markets will, therefore, depend, to a large extent, on the pace of development of the international gas trade, which, in turn, will depend on trade arrangements and long-term investment schemes, as well as on the level of prices that are acceptable to both producers and consumers.

At present, the volume of gas traded internationally amounts to only 17 per cent of world consumption, of which 75 per cent is transported by pipelines and the rest by tankers in the form of liquified natural gas (LNG). The former Soviet Union is the largest exporter of gas by pipeline, accounting for just under half of the international gas trade by pipeline, with annual exports of 100 billion cubic metres (bcm), followed by Canada and the Netherlands, with 58 and 43 bcm, respectively. International LNG trade is dominated by Indonesia, which accounts for 39 per cent of total exports with annual volumes of 32 bcm, followed by Algeria at 20 bcm and Malaysia at 10 bcm.

NATURAL GAS RESERVES AND GEOGRAPHICAL DISTRIBUTION

The natural gas resource base is believed to be much larger than the current levels of proved reserves. Until recently, relatively few exploration efforts targeted natural gas, which was generally regarded as much less valuable than oil, particularly when it was found far from potential

markets. In remote locations, notably in the developing countries, gas discoveries were often considered worthless and were abandoned. Estimates of remaining recoverable resources of natural gas vary greatly but most analysts tend to agree that they are at least double the present proved reserves. They are generally estimated to be between 250 trillion and 350 trillion cubic metres.¹⁴

However, the distribution of natural gas reserves is very uneven, with four countries (namely, the Islamic Republic of Iran, Qatar, the Russian Federation and the United Arab Emirates), together accounting for nearly two thirds of the total. While the natural gas reserves of the developing countries account for half of the world total, they are mostly located in the member countries of OPEC. Natural gas reserves of the oil-importing developing countries represent only a minor portion of the global total. These reserves, most of which have only lately been discovered, have hardly been exploited. In many of these countries, where oil-import bills constitute a heavy burden on the balance of payments, the development and use of indigenous gas resources could contribute significantly to both domestic energy availability and economic development.

The former Soviet Union accounts for about 40 per cent of the world's gas reserves (see table V.6). Most of the reserves are located in western Siberia. The countries of the Middle East claim the second largest accumulation of proved gas reserves, accounting for 31 per cent of the world total. Since the bulk of those reserves are still undeveloped, most of the gas produced in those countries is associated with oil.

The countries of North America and Europe account for only 8 per cent of the world's proved gas reserves, but produce 40 per cent of total world gas output. Current proved reserves are mainly located in the United States, Canada, Norway and the Netherlands. The relatively modest natural gas reserves in Latin America and Asia began

Table V.6.

World proved reserves, production and consumption of natural gas, 1980 and 1992
(Billion cubic metres)

	Reserves		Production		Consumption	
	1980	1992	1980	1992	1980	1992
Developed market economies	12 800	13 500	819	845	908	985
Eastern Europe and former USSR	25 700	55 600	443	757	464	694
Developing countries	33 600	69 200	185	441	142	300
OPEC member countries	27 600	55 700	90	240	61	168
Other oil-exporting countries	4 300	9 300	66	122	55	80
Oil-importing countries	1 700	4 200	29	79	27	52
World total ^a	72 100	138 300	1 447	2 043	1 514	1 979

Source: UN/DESIPA, based on *BP Statistical Review of World Energy*, various issues; and *Oil and Gas Journal*, various issues.

a Totals may not add up because of rounding.

to be extensively developed in recent years. Because of soaring gas demand, particularly in Asia, indigenous regional supplies are being complemented by imports from other countries. The rapid growth in demand, especially in Japan, the Republic of Korea and Taiwan Province of China, is also encouraging regional producers to expand their existing capacity.

DEVELOPMENT AND PRODUCTION

Development of gas reserves requires long lead-times and large capital investments. A typical large LNG or pipeline project can cost up to several billions of dollars, while it may take many years to recoup the capital cost and generate profits. In addition, unlike oil where it is commonly traded in markets around the world, gas buyers must be secured through long-term contracts, usually based on gas prices partly linked to unknown future oil prices.

Production costs of natural gas are usually only slightly higher than those of oil, but the costs of gathering gas and bringing it to the market continues to give oil an advantage. Moreover, whether gas is transported by pipelines or by special tankers, a local network is required to distribute the gas to consumers. In the developing countries, in particular, the lack of domestic gas networks is another impediment to gas development. At present, over 60 developing countries are known to have some gas reserves. Because of a lack of financial resources, nearly half of those countries have, so far, not been able to develop their indigenous gas resources.

For the past two decades, world market production of natural gas grew by 3.0 per cent per annum. By comparison, oil production grew at 2 per cent per annum over the same period. Although output in the developed market economies as a whole remained roughly at the same level during the past two decades, its share of global production has dropped from 73 per cent to 41 per cent over the same period. The major producers of the developed market economies are the United States, Canada, the Netherlands, the United Kingdom and Norway, which together accounted for over 90 per cent of the group's production in 1992.

Between 1970 and 1992, natural gas production in the former Soviet Union has more than tripled, increasing at an average rate of 7.0 per cent per year. Such a rapid rate has come primarily from the development of major gas and gas condensate fields in western Siberia, Turkmenistan and the Caspian lowlands. Over the past several years, and particularly since the completion of the pipeline through which gas is delivered to western Europe, total exports have escalated rapidly.

Production of natural gas in the developing countries is still well below potential. The developing countries account for half of the world's proved reserves, but produce only 22 per cent of world output. Over 80 per cent of

this is accounted for by OPEC and other oil-exporting countries. Algeria is the largest producer in the developing countries, followed by Indonesia, Saudi Arabia, Mexico, the Islamic Republic of Iran and Argentina. Together, these six countries produced over half of all the gas produced in the developing countries in 1992. Other countries such as the Libyan Arab Jamahiriya, Nigeria, Qatar, the United Arab Emirates and Venezuela also have considerable potential as exporters as well as for expanding domestic use.

At present, South-East Asia is one of the most dynamic producing regions. The natural gas industry in that region is growing rapidly not only because of the LNG trade, mainly to Japan, but also owing to the expansion of domestic gas use, particularly for power generation. This soaring gas market is expected to be boosted further following the completion of a proposed pipeline, still under a feasibility study, that would connect Indonesia, Malaysia, the Philippines, Singapore and Thailand into a single gas grid with a capacity of 20 bcm per year. Production of natural gas in the Middle East accounts for only 4 to 5 per cent of world production. Since most of the gas produced in the Gulf region is associated with oil, a large portion of it is re-injected. Recently, however, most of the countries in the region began cutting wasteful flaring of associated gas and embarked on full-scale gasification of their domestic markets. Plans for the construction of a Gulf gas grid and a pipeline to central Europe across Turkey have not yet materialized.

In Africa, Algeria which produces about 70 per cent of the continent's output, continues to maintain its dominant position as the main exporter of natural gas to Europe. In addition to its trans-Mediterranean pipeline across Tunisia to Italy, Algeria has embarked on new programmes designed to expand its export capacity through the construction of a pipeline via Morocco and Gibraltar to Spain. Algeria is also expanding its LNG exports, mainly to Europe and the United States. Elsewhere in Africa, the only relatively significant gas producers are Egypt, Nigeria and the Libyan Arab Jamahiriya.

In Latin America, 10 countries produce natural gas on a commercial scale. Mexico, Argentina and Venezuela are the largest producers, accounting for 80 per cent of market production in the region in 1992. Future expansion of the natural gas industry in the region will depend, to a large extent, on the development of domestic markets, as well as on distant export markets, particularly in the case of Venezuela and possibly Peru and Bolivia.

NATURAL GAS CONSUMPTION

Historically, the share of natural gas in total primary energy consumption has remained relatively small despite its versatility as a fuel and its relatively benign effect on the environment. As of 1992, natural gas provided 22 per cent of total world commercial energy consumption. The

United States was the world's largest consumer of natural gas, followed by the Russian Federation. Combined, these two countries accounted for over half of the world total. Other significant consumers were Canada, Germany, Japan and the United Kingdom. The share of the developing countries amounted to only 15 per cent despite the rapidly increasing rate of gas consumption over the past several years.

In 1992, natural gas accounted for 14 per cent of overall commercial energy demand in the developing countries as compared to 42 per cent in eastern Europe and the Soviet Union and 22 per cent in the developed market economies. On a sectoral basis, although demand trends in the developing countries show varying patterns, overall industry and power generation predominate the end-use sectors, with residential gas use accounting for only about 10 per cent of the total.

Growing demand of natural gas during the past several years has been particularly noticeable in countries where natural gas networks of considerable size have been established. These include Argentina, Egypt, the Islamic Republic of Iran, Malaysia, Pakistan and Thailand. In a number of these and other developing countries (e.g., Egypt, Indonesia and the Syrian Arab Republic), gas is being promoted as a substitute for oil either to ease the pressure on demand for oil products or to augment oil-export capacities.

In the developed market economies, growth in natural gas use over the past two decades has been slow in spite of the rapid expansion of gas markets in many parts of western Europe. While new natural gas markets were building up gradually elsewhere in the developed market economies, gas use in the United States declined steadily between 1972 and 1986 at an average annual rate of about 2 per cent. However, since 1987, this trend has been arrested and natural gas demand has been rising steadily.

Although there has been some noticeable growth of gas demand in the industrial and electricity generation sectors, residential and commercial demand continue to make up the largest sector for total natural gas consumption in North America and western Europe. Typically, 40 to 50 per cent of gas consumption goes to the residential/commercial sector. Industry consumes approximately the same volume, much of it to produce petrochemicals. On the other hand, power generation may use only 10 to 15 per cent of total consumption. Fuel-switching capability is most widespread in the United States and to a lesser degree in western Europe. For this, the power generation sector, particularly in the United States, acts as a swing consumer, using gas in the summer, when it is not needed for residential heating, then switching to other fuels in the winter.

The natural gas market in Japan is quite different from those in western Europe and North America in that Japan relies almost entirely on LNG imports, of which over

70 per cent is used for power generation. Since the mid 1970, gas use in Japan has increased sharply following the implementation of a number of long-term LNG contracts for supplying primarily large combined-cycle electricity-generating plants. As a result, gas demand increased from almost nothing to 57 bcm per year—equivalent to nearly 1 million barrels of oil per day in 1992. The large demand for LNG in Japan derives mainly from that country's policy of diversifying energy sources and reducing its dependence on imported oil. More recently, Japan became more committed to improving the environment, a policy that could lead to further increases in gas demand for many years to come.

It is expected that natural gas consumption will rise faster than both oil and coal because of its competitive prices and environmental advantages over those fuels. The driving force for gas growth will be power generation, where the level of gas use in 1990 is expected to more than double in the OECD members of western Europe before the turn of the century and in North America before 2005.¹⁵ In Japan, gas use in power generation will continue to increase, but its rate will depend on the extent to which nuclear development plans are implemented.

Since 1970, natural gas consumption in eastern Europe and the former Soviet Union has more than tripled, growing from less than 200 million tons of oil equivalent (mtoe) to 677 mtoe in 1990, before it fell to 625 mtoe in 1992. Nearly two thirds of this gas is consumed in the Russian Federation. While demand for gas has been growing steadily in all sectors of the economy, industry and electricity generation predominated as large supplies of natural gas in the former Soviet Union were substituted for oil and coal. However, in the countries of eastern Europe, only a small amount is used for electricity generation. The use of natural gas is expected to increase in these countries as they become more committed to alleviating their massive environmental problems by reducing the use of coal and lignite, the single largest energy source in those countries.

INTERNATIONAL GAS TRADE

International trade in natural gas amounted to 335 bcm in 1992. The major exporters and importers are shown in table V.7. Most of the gas trade contracts that were in operation in 1992 were directed towards the markets of western Europe, North America, eastern Europe and the Far East. Although data for 1993 are still preliminary, no significant changes relative to 1992 have taken place.

LIQUIFIED NATURAL GAS TRADE

The contribution of LNG to world trade in natural gas has been increasing steadily since 1973. LNG trade is currently confined to eight exporters and nine importers. Indonesia

Table V.7.
International gas trade in 1992
(Billion cubic metres)

To:	From:									Total imports
	Former USSR	Canada	Netherlands	Algeria	Indonesia	Norway	Malaysia	Brunei Darussalam	Others	
Germany	25.1		25.3			9.0			0.9	60.3
Japan					25.0		9.6	7.1	11.0	52.7
United States		58.3		1.3						59.6
Italy	13.7		5.5	15.3						34.5
France	11.4		6.2	9.2		6.0				32.8
Former Czechoslovakia	12.2									12.2
Belgium			4.5	4.6		2.7				11.8
Poland	6.3									6.3
United Kingdom						5.3				5.3
Romania	4.9									4.9
Bulgaria	5.5									5.5
Hungary	5.1									5.1
Others	14.9		1.4	4.8	6.6	2.8	1.3		11.7	43.5
Total exports	99.1	58.3	42.9	35.2	31.6	25.8	10.9	7.1	23.6	334.5

Source: UN/DESIPA, based on *BP Statistical Review of World Energy*, June 1993.

remains the world's largest exporter and Japan the world's largest consumer of LNG.

In 1992, Asia accounted for nearly three quarters of all LNG exports, about 85 per cent of which was supplied from within the region, much of it imported by Japan. The expansion of LNG markets in the Republic of Korea and Taiwan Province of China is also developing rapidly and imports there are expected to double or even treble by the end of this decade. To meet the rapidly rising markets for LNG in those countries, a number of capacity-expansion programmes are already under way in Indonesia, Malaysia and Brunei Darussalam. Australia is another potential supplier of LNG to the Far East markets, with exports amounting to 6.2 bcm in 1992, mainly to Japan. Further expansion of LNG capacity in Australia is expected in the next few years as production from new gas fields comes on stream.

Algeria continued to expand its LNG supply capacity. Most of the country's LNG trade is committed to the close markets of Europe, with France, Belgium and Spain being the largest buyers, importing 18.3 bcm in 1992. The Libyan Arab Jamahiriya is another potential supplier of LNG, with exports to Spain amounting to 1.8 bcm. With gas reserves that are well able to sustain large export volumes, Nigeria is also expected to be a large exporter of LNG, probably before the end of the present decade.

In the Middle East, the only LNG exporter in 1992 was Abu Dhabi, which for the past several years has been increasing its LNG exports to Japan. In 1992, those exports amounted to 3.4 bcm. However, the largest potential exporter in that region is Qatar, where construction of a large

LNG project has been under way for the past several years.

Among other potentially large future suppliers is Venezuela, where the Petroleos de Venezuela affiliate Lagoven entered into a joint venture with three international companies¹⁶ to develop an LNG project with a supply capacity of about 10 bcm per year based on large gas reserves in the Gulf of Paria, off the north-east coast. Most of the LNG is expected to be marketed in the United States some time in the second half of the present decade.

Existing forecasts estimate world demand for LNG to be about 90 bcm per year by the turn of the century, an increase of 25 per cent over 1990. By comparison, growth in oil trade is expected to grow by half that rate over the same period. There are prospects, however, for a much larger volume of LNG at that time, particularly following the changing attitudes with regard to natural gas and its attractiveness as the fuel of choice for electricity generation in a world becoming more aware of environmental concerns. With Japan accounting for two thirds of LNG, much of which is used for electricity generation, the future level of supplies will undoubtedly be influenced by developments in the power generation sector in that country.

GAS TRADE BY PIPELINE

Because of the high capital costs required to transport gas over long distances and, in some cases, rigidity of the terrain, international gas trade by pipeline has developed mainly on a regional scale. At present, the most important pipelines transport gas from the Russian Federation to eastern and western Europe, from Canada to the United

States, from the Netherlands and Norway to western Europe and from Algeria to Italy. Small deliveries of gas by pipelines also exist from Bolivia to Argentina and from Algeria to Tunisia.

The former Soviet Union is the leading exporter of gas by pipeline, with a share of 39 per cent, followed by Canada 23 per cent, the Netherlands, 17 per cent, Norway, 10 per cent and Algeria, 6 per cent. The most important markets for piped gas are Germany, with a share of 24 per cent, the United States, 23 per cent and Italy, 13 per cent.

Despite potential domestic gas markets in Latin America, the only significant existing trade involves the export of 2.2 bcm per year of piped gas from Bolivia to Argentina and a smaller volume from Argentina to Chile. In Asia, too, where some of the largest gas producers and potential gas markets are located, almost no pipelines exist. With 14 per cent of world reserves, and less than 1 per cent of world consumption, the Islamic Republic of Iran is exploring the possibilities of pipeline exports to both Asia and Europe.

COAL AND OTHER SOLID FUELS

After oil, coal remains the most important fuel in the world, accounting for 27 per cent of commercial energy supplies in 1992. World demand for coal increased rapidly during the late 1970s and most of the 1980s, as coal became more competitive with oil following the large increases in oil prices in that period. The relatively rapid growth of coal, particularly in the developed market economies, was also driven by a desire to limit dependency on oil for reasons of supply security, or to maintain domestic coal production levels for social policy reasons.¹⁷ Coal became a substitute for heavy fuel oil for the generation of electricity. As a result, the consumption of such oil fell by 45 per cent in the developed market economies during the period 1980-1986.¹⁸ However, more recently, growth in coal consumption decelerated significantly in response to low oil prices and more stringent environmental regulations. International trade in coal remains at only 10 per cent of world consumption, as most coal demand continues to be supplied by indigenous production.

The magnitude of proved coal reserves is enormous as shown in table V.8. At current production levels, those reserves could last for more than 200 years, four to five times longer than either oil or natural gas. However, like oil and natural gas, the distribution of those reserves is uneven, with Australia, China, India, South Africa, the

former Soviet Union and the United States accounting for nearly 80 per cent of world proved recoverable reserves.

International coal prices remain low, but costs associated with meeting environmental regulations will likely rise, limiting the construction of new conventional coal-fired facilities. However, commercialization of advanced clean-coal technology could lead to relatively more rapid growth some time in the next decade.

Coal production continues to expand in many countries owing in part to the large subsidies to support high-cost coal production in some countries of OECD, where costs of domestic coal remain far higher than international coal prices. The combined subsidies benefiting coal producers provided by five countries (Belgium, Germany, Japan, Spain and the United Kingdom) were estimated at 18 billion dollars in 1989.¹⁹ However, such subsidies, which have a distorting effect on energy trade, have been reduced in recent years and will likely be reduced further.

About 80 per cent of world output is accounted for by seven countries, namely, Australia, China, Germany, Poland, the Russian Federation, South Africa and the United States. China is the world's largest coal producer, followed by the United States and the Russian Federation.

Between 1980 and 1989, world consumption of coal increased by 27.0 per cent, while that of oil and gas rose

Table V.8.

World reserves, production and consumption of coal^a, 1992
(Billion cubic metres)

	Million tons	Million tons of oil equivalent		Years
	Reserves	Production	Consumption	Reserves-to-production ratio
Developed market economies	430 860	872.1	879.2	253
Eastern Europe and former USSR	315 449	438.9	414.5	301
Developing countries	292 873	859.9	870.5	167
Total world	1 039 182	2 170.9	2 164.2	232

Source: UN/DESIPA, based on *BP Statistical Review of World Energy*, June 1993.

a Including bituminous, sub-bituminous and lignite.

by 4.3 per cent and 33.0 per cent, respectively. Since then, however, it declined slightly owing to a particularly large fall in demand in eastern Europe and the former Soviet Union and a moderate drop in other countries of the developed market economies. Consumption in the developing countries continues to rise largely because of strong demand by electric utilities in China and India. As of 1992, the share of coal in total commercial energy consumption varied from 22 per cent in the developed market economies to 30 per cent in eastern Europe and the former Soviet Union and 41 per cent in the developing countries. Among the developing countries, the share of coal in total commercial energy consumption varied widely, ranging from 77 per cent in China and 57 per cent in India to non-existence in a large number of other countries. Similarly, in the developed market economies, it varied from about 40 per cent in Australia and Denmark to under 10 per cent in France, Italy, the Netherlands, New Zealand, Norway, Sweden and Switzerland.

Over half of world coal production is used for electricity generation and 40 per cent of the total electricity produced in the world is generated from coal. In the member countries of OECD, coal inputs to electricity generation increased by an average annual rate of 3.3 per cent between 1973 and 1988, reaching 42 per cent in 1989.²⁰ Since then, however, it fell slightly. Coal demand in the developing countries, and, most notably in China, India and other countries in the Asia-Pacific region, has grown even more rapidly as policies in a number of those countries were directed at substituting coal for oil in electricity generation. In China, the contribution of coal to total inputs increased to over 80 per cent, while in the Asia-Pacific region it tripled during the 1980s, with coal displacing oil as the main fuel for electricity generation.²¹

In the light of increased awareness about the environmental consequences of coal use, it is uncertain whether

such trends can be sustained. Nevertheless, while growth in coal use is expected to decelerate significantly in the developed market economies and in eastern Europe and the former Soviet Union, it is likely to grow very considerably in the developing countries. In some countries, most notably China, India and South Africa, indigenous coal will continue to be fundamental in meeting the rapid growth of electricity in those countries.

Because of its relatively high carbon and sulphur content, as compared to oil or gas, coal is becoming a prime target of regulations and measures aimed at combating acid rain and global warming. Although few of these measures, such as carbon taxes, have yet to be implemented, their proposals in a number of countries have already led a large number of power stations, particularly in the OECD area, to move away from coal in favour of natural gas.

While technologies for controlling the emissions of sulphur dioxide and nitrogen oxides in power stations are already in use in many countries, control of carbon dioxide emissions is not yet widely available. However, new technologies intended to improve the efficiency of coal-fired power stations are in various stages of development and demonstration in Europe, Japan and the United States. The most promising of these technologies are pressurized fluid-bed combustion (PFBC) power stations and integrated coal-gasification combined-cycle (IGCC) power plants. Currently, a number of these plants are planned or under construction in several OECD countries. These technologies, which have significant potential for reducing the emission of CO₂ and other pollutants, are likely to be in large-scale commercial use in most developed countries by the end of the present decade. The cost of emissions control in these new power plants is estimated at 30 per cent of the total cost, while the cost of retrofitting clean coal technologies to existing power stations is even higher, often exceeding the original cost of the plant.²²

ELECTRICITY: RESILIENT GROWTH

Since 1970, electricity generation worldwide increased more than twofold at an average annual rate of 4.4 per cent. In 1991, about 60 per cent of the world's production of electricity was generated in the developed market economies, while 22 per cent was in the developing countries and 18 per cent in eastern Europe and the former Soviet Union (see table V.9). Although electricity production in the developing countries more than doubled in the past decade, supply remains mostly concentrated in densely populated areas. Despite recent efforts by a large number of Governments to expand electricity grids in rural areas, some 2.5 billion people still have no access to electricity. The fast growth of electricity in the developing countries is being driven by a growing need for basic energy serv-

ices, such as lighting and heating. This growth momentum is expected to remain strong, reflecting the ongoing process of urbanization and industrialization.

Over the past two decades, power station construction programmes in the developing countries accounted for nearly 30 per cent of total public investment. The expected growth in electricity consumption in the developing countries will require even more substantial investments. In a large number of these countries, shortages of electricity have become a critical constraint to economic growth. To meet their anticipated electricity demand by the end of this decade, the developing countries will need to double their installed capacity of about 590 gigawatts in 1990, at a total cumulative cost of \$1 trillion (1989 constant dollars).²³

Table V.9.
Production of electricity by type
(Million kilowatt hours)

	Year	Thermal	Hydro	Nuclear	Geothermal	Total
Developed market economies	1980	3 584 575	1 058 599	581 798	10 097	5 235 069
	1991	4 372 450	1 177 112	1 701 186	26 491	7 277 239
Eastern Europe and former USSR	1980	1 438 188	236 581	82 577	0	1 757 346
	1991	1 591 112	280 098	267 180	30	2 138 420
Developing countries	1980	774 899	459 830	16 830	3 357	1 254 916
	1991	1 717 806	778 545	109 639	12 431	2 618 421
Total world	1980	5 797 662	1 755 010	681 205	13 454	8 247 331
	1991	7 681 368	2 235 755	2 078 005	38 952	12 034 080

Source: UN/DESIPA, based on *Energy Statistics Yearbook*, various issues.

These costs do not include additional costs associated with emissions control of pollutants. It is uncertain whether such large investments could be mobilized without bilateral and multilateral assistance. Such funding often requires incorporating an environmental component in the total capital cost of new plant projects, making cumulative capital costs even larger.

Per capita consumption of electricity varies widely from about 700 kilowatt hours (kWh) in the developing countries to 5,100 kWh in eastern Europe and the former Soviet Union and 8,870 kWh in the developed market economies. Even within the member countries of OECD, per capita demand for electricity varied markedly, from a high of over 18,000 kWh in Canada and Norway to a low of under 4,000 kWh in Greece, Portugal and Spain. On the other hand, in China and India, the two most populated countries in the world, electricity use per capita was only 592 and 360 kWh, respectively, in 1991.

World electricity production remains heavily dependent on fossil fuels (oil, natural gas and coal) despite a substantial increase in nuclear power and hydropower (see figure V.8). At present, 63 per cent of the total electricity produced in the world is generated by fossil fuels, 20 per cent by hydropower and 17 per cent by nuclear power.

Even after nearly two decades of growth, the contribution of other new and renewable sources of energy (excluding nuclear and hydroelectric energy) to world electricity output remains insignificant. Energy prices, particularly those of oil, play a major role in the development of new and renewable sources of energy. The sharp decline of oil prices in the second half of the 1980s had far-reaching impacts on the development and utilization of new and renewable sources of energy and made the widespread use of these alternative sources seem less relevant. As a result, interest in new and renewable sources of

energy waned, resulting in major cut-backs in research and development and other activities in the developed countries and in multilateral as well as bilateral cooperation programmes. Many new and renewable sources of energy projects in both the developed and the developing countries were scaled down and many others abandoned. More recently, however, increased concern about the environment appears set to reverse the impact of low oil prices on the growth of new and renewable sources of energy.

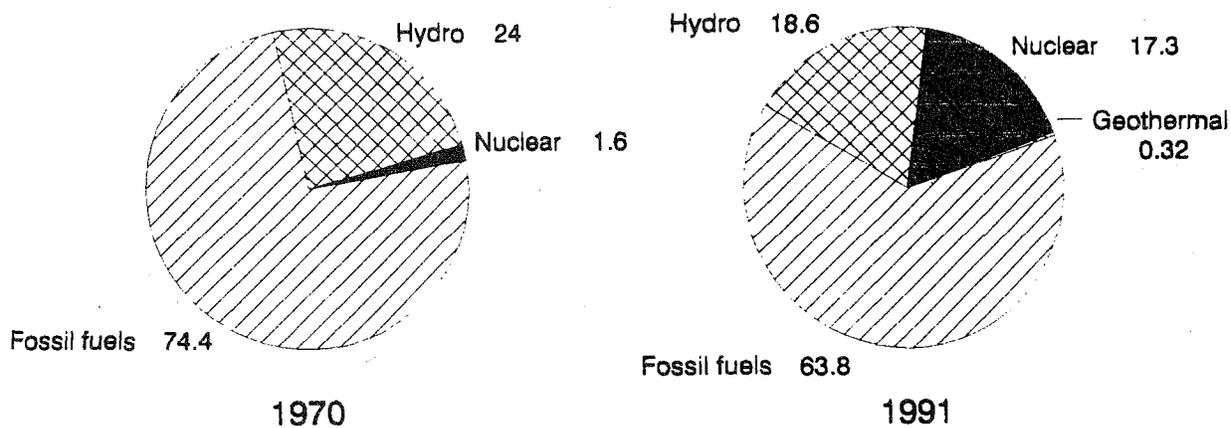
Figure V.9 presents an outlook of a possible evolution of electricity production until the year 2010.²⁴ It is expected that world demand for electricity will double between 1990 and 2010, while demand in the developing countries will treble over the same period. Fossil fuels will continue to be the dominant source for electricity generation. Among fossil fuels, the use of gas will expand, while that of oil will fall.

NUCLEAR ENERGY

Since the early 1970s, nuclear energy has made significant inroads into electricity supplies. Electricity generated by nuclear power increased from under 100 billion kWh in 1970 to over 2 trillion kWh in 1991. As a result, its share in total electricity production rose from 1.6 per cent to 17.3 per cent over the same period. However, in recent years and particularly following the Chernobyl accident, rising public concern about nuclear safety and waste disposal has halted nuclear programmes in many countries and dampened earlier prospects for more rapid increases in nuclear output. Moreover, the cost differential per unit of electricity production has widened considerably in recent years in favour of fossil fuels owing largely to the decline in oil prices.

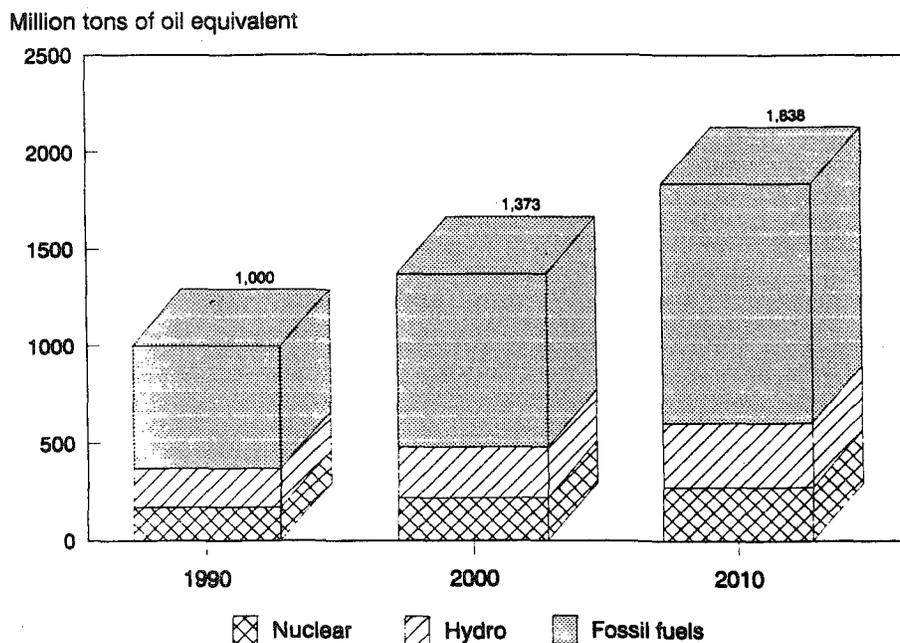
At present, there exist about 424 commercial nuclear power plants in the world, with a total generating capacity of 330 gigawatts (GW). Another 72 plants currently under

Figure V.8.
 Fuel inputs to world electricity generation
 (Percentage share)



Source: UN/DESIPA, based on *Energy Statistics Yearbook*, various issues.

Figure V.9.
 Estimated future electricity production by fuel type



Source: "Senior Expert Symposium on Electricity and the Environment, Helsinki, Finland, 13-17 May 1991", based on a projection made by the Commission of the European Community.

construction are expected to add approximately 60 GW of capacity by the year 2000.²⁵ Nuclear electricity is still largely concentrated in the developed market economies despite its rapid expansion over the past two decades in eastern Europe and the former Soviet Union and in several developing countries (see table V.10). At the end of 1992, the developed market economies had 327 power reactors in operation, with a combined capacity of 269 GW, ac-

counting for 81 per cent of total nuclear capacity worldwide. By comparison, there were 65 units in operation in eastern Europe and the former Soviet Union, with a total capacity of 44 GW. As for the developing countries, 32 units were in operation by the end of 1992, with a capacity of 13 GW.

The United States is the largest producer of nuclear energy, followed by France and Japan. Together, these

Table V.10.
Nuclear energy status around the world^a

	In operation		Under construction	
	No. of units	Total net capacity (Megawatts)	No. of units	Total net capacity (Megawatts)
Developed market economies	327	268 507	19	20 803
Belgium	7	5 484		
Canada	21	14 874	1	881
Finland	4	2 310		
France	56	57 688	5	7 125
Germany	21	22 559		
Japan	44	34 238	9	8 129
Netherlands	2	504		
Spain	9	7 101		
Sweden	12	10 002		
Switzerland	5	2 952		
United Kingdom	37	12 066	1	1 188
United States	109	98 729	3	3 480
Eastern Europe and former USSR	65	43 971	36	27 746
Bulgaria	6	3 538		
Czech Republic	4	1 632	2	1 784
Hungary	4	1 729		
Kazakhstan	1	135		
Lithuania	2	2 760	1	1 380
Romania			5	3 155
Russian Federation	28	18 893	18	14 175
Slovakia	4	1 632	4	1 552
Slovenia	1	632		
Ukraine	15	13 020	6	5 700
Developing countries ^b	32	18 173	17	11 171
Argentina	2	935	1	692
Brazil	1	626	1	1 245
China	1	228	2	1 812
Cuba			2	816
India	9	1 593	5	1 010
Iran (Islamic Republic of)			2	2 392
Mexico	1	654	1	654
Pakistan	1	125		
Korea (Republic of)	9	7 220	3	2 550
South Africa	2	1 842		
World total	424	330 651	72	59 720

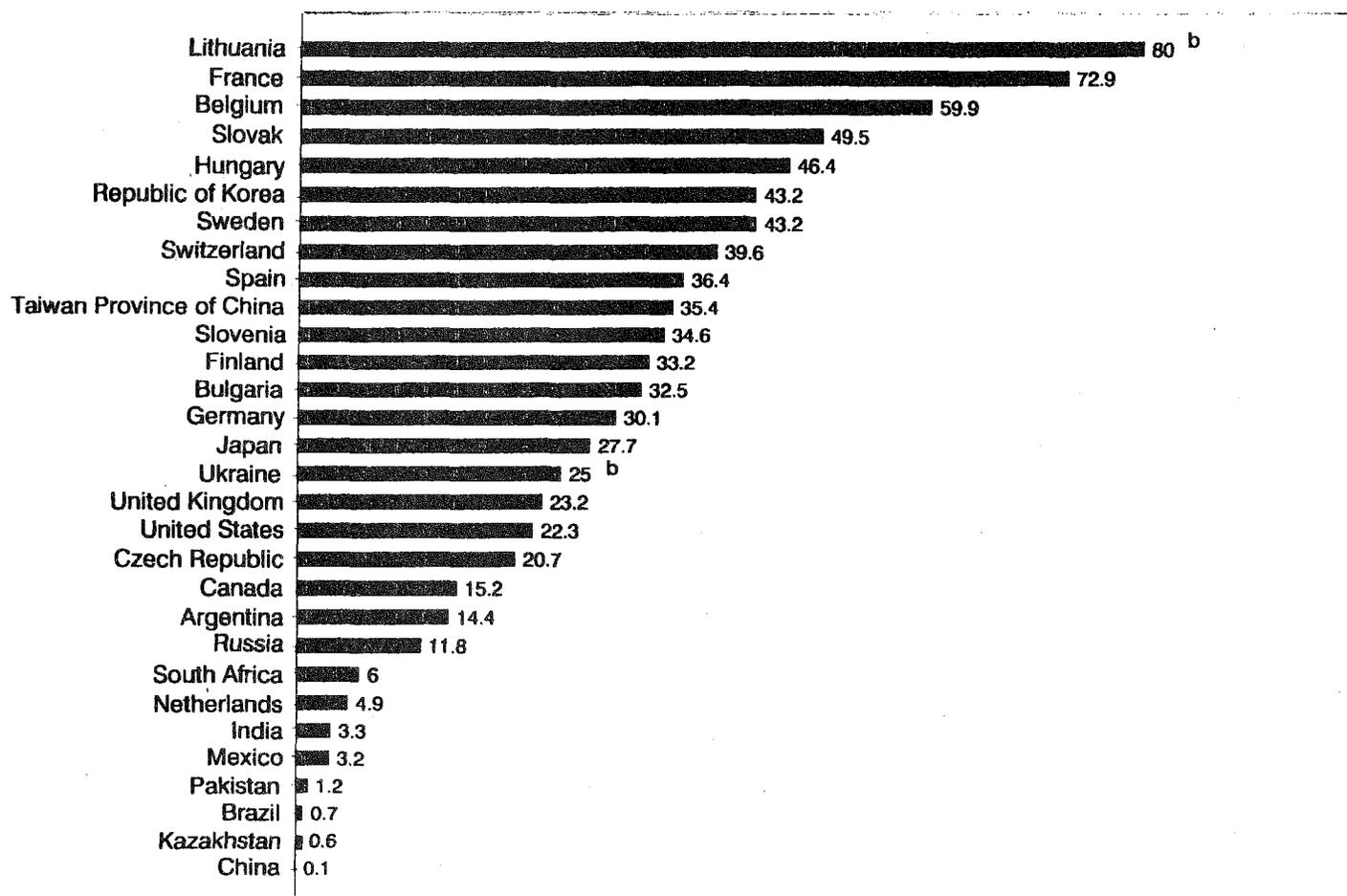
Source: UN/DESIPA, based on International Atomic Energy Agency, *IAEA Bulletin*, vol. 35, No. 4 (Vienna, 1993), p. 60.

a The data reflect the status of nuclear energy around the world at the end of 1992, as reported to IAEA.

b The total includes Taiwan Province of China, where six reactors with a capacity of 4,890 megawatts are in operation.

Figure V.10.

Nuclear share of electricity generation in individual countries^a
(Percentage)



Source: UN/DESIPA, based on International Atomic Energy Agency, *IAEA Bulletin*, vol. 35, No. 4 (Vienna, 1993), p. 60.

a Percentages are for 1992.

b The data are IAEA estimates.

countries accounted for 58 per cent of all nuclear energy produced in the world in 1992. The nuclear energy share of electricity generation is highest in Lithuania, contributing some 80 per cent of electricity produced in that country, followed by France at 73 per cent and Belgium at 60 per cent (see figure V.10). In the developing countries, the contribution of nuclear power to total production of electricity remained insignificant, except in the Republic of Korea, where it was at 43 per cent in 1992.

Based on existing plans, nearly half of the net addition to total world nuclear output will be accounted for by eastern Europe and the former Soviet Union despite the cancellation of a large number of projects following the Chernobyl nuclear accident in 1987. In the developing countries, while the number of nuclear reactors under construction is almost equal to that in the developed market economies, the contribution of nuclear power to their expected electricity demand by the year 2000 will remain under 1 per cent. With the exception of a few countries, such as the Republic of Korea and South Africa, the expansion of nuclear power in the developing countries faces serious difficulties owing to its high capital cost and the need for technological infrastructure and specifically trained and skilled manpower. In the developed market economies, the expected addition of nuclear energy to total electricity output will also be insignificant, increasing at less than 1 per cent per annum, as compared to a growth rate of about 10 per cent per annum in the 1980s.

However, because of the higher cost of electricity generated by nuclear power plants relative to the cost of fossil-fuel-fired plants, as well as concerns about safety and waste disposal, a large number of nuclear power plants have been closed. In the United States, for example, although nuclear facilities are licensed to operate for about 40 years, 15 plants have already been closed so far. These

plants were in operation for an average of only 12.7 years.²⁶ Dismantling shut-down plants is estimated to cost more than the cost of building them.

HYDROELECTRIC ENERGY

World production of electricity from hydropower doubled between 1970 and 1991, from 1,178 billion kWh to 2,236 billion kWh. The bulk of this increase was attributable to the rapid expansion of hydropower output in the developing countries and, most notably in Asia and Latin America, where it increased sixfold over that period. By contrast, in the developed market economies, where most of the hydropower potential had already been exploited, hydropower output rose by only one third during the same period. As a result, the share of the developing countries in world hydropower production rose from 11 per cent in 1970 to 35 per cent in 1991, while that of the developed market economies fell from 75 per cent to 52 per cent. Eastern Europe and the former Soviet Union's share of world hydroelectricity output remained unchanged during that period.

The future expansion of hydroelectric energy, particularly in the developed market economies and in eastern Europe and the former Soviet Union, is expected to be limited because a large part of the hydropower potential in those countries has already been developed. It seems likely, therefore, that most of the future increases of hydroelectricity will continue to be in the developing countries, where large hydropower potential remains untapped. However, the lack of large markets near hydropower sites and a number of other factors, including the lack of capital and regional cooperation, as well as concern about environmental impacts, may delay the full exploitation of those indigenous resources in several countries.

NOTES

1 Report of the Secretary-General on changing global energy patterns (E/C.13/1994/2), 15 December 1993.

2 In 1992, the share of coal in total commercial energy consumption was 57 per cent for India and 78 per cent for China.

3 Under this scenario, it is assumed that oil prices would remain constant in real terms over the projection period, and that GDP growth rates will average about 2.5 per cent in the developed market economies, 2.7 per cent in eastern Europe and the former Soviet Union and 4.4 per cent in the developing countries over the same period.

4 This is fairly close to the forecast made in the reference case of the World Energy Council. This case assumes large energy-efficiency gains and expects global energy demand to rise by over

50 per cent between 1990 and 2020. See World Energy Council, *Energy for Tomorrow's World* (New York, 1993), p. 277.

5 The benchmark Brent price fell to about \$14 a barrel in the first week of December from over \$15 a barrel in November. Based on the December price formulas for Saudi Arabia crude deliveries to Europe, a \$14 a barrel price for Brent crude translated into less than \$12 a barrel for Saudi Arabian crude oil.

6 It is estimated that, on average, the cost of exploration and development of oil reserves has been halved since the early 1980s to about \$5 a barrel.

7 Joseph Stanislaw and Daniel Yergin, "Oil: reopening the door", *Foreign Affairs*, vol. 72, No. 4 (September/October 1993), pp. 86-87.

- 8 United States Department of Energy, Energy Information Administration, *EIA's Short Term Energy Outlook* (Washington, D.C., 1994).
- 9 *Petroleum Intelligence Weekly*, special supplement issue, 13 December 1993.
- 10 Oil companies are ranked in six different operational areas, including reserves and production of oil and gas, refining capacity, and petroleum product sales. The six individual ranks are then averaged to determine the cumulative, overall position.
- 11 *Oil and Gas Journal*, 27 December 1993, p. 29.
- 12 Centre for Global Energy Studies, *Global Oil Report*, vol. 5, issue 1 (January-February 1994), p. 2.
- 13 *The Financial Times*, 2 February 1994.
- 14 One billion cubic metres of natural gas is equivalent to 6.29 million barrels of oil equivalent.
- 15 International Energy Agency, *Natural Gas Prospects and Policies* (Paris, 1991).
- 16 Shell, Exxon and Mitsubishi.
- 17 International Energy Agency, *Coal Information 1989* (Paris, 1989) p. I.24.
- 18 *World Economic Survey 1989* (United Nations publication, Sales No. E.89.II.C.1 and corrigendum), p. 103.
- 19 International Energy Agency, *Energy Policies of IEA Countries: 1991 Review* (Paris, 1992), p. 40, table 2.
- 20 International Energy Agency, *Energy Policies of IEA Countries: 1990 Review* (Paris, 1991), p. 34.
- 21 International Energy Agency, *Global Energy: The Changing Outlook* (Paris, 1992), p. 53.
- 22 "Clean coal technologies for developing countries" (TCD/NRED/E.19), October 1991.
- 23 See "Report on the Stockholm initiative on energy, environment and sustainable development (SEED): strategies for implementing power sector efficiency, Stockholm, 13-15 November 1991", key issues paper.
- 24 "Senior Expert Symposium on Electricity and the Environment, Helsinki, Finland, 13-17 May 1991", key issues paper, p. 16.
- 25 International Atomic Energy Agency, *IAEA Bulletin*, vol. 35, No. 4 (Vienna, 1993), p. 60.
- 26 *The Wall Street Journal*, 25 January 1993.

VI

The global employment situation: present and near-term

For at least two decades after the Second World War, a broad consensus prevailed on the major purposes and priorities of macroeconomic policy: to foster and sustain high levels of employment—and in some countries full or near-full employment—while achieving a reasonable degree of price stability and promoting sustainable growth in an equitable manner. The high levels of unemployment experienced in the Great Depression led many Governments to explicitly adopt high or full employment as a policy goal. The objective of high employment also received the vigorous support of the various multilateral institutions set up after the War. Indeed, the Charter of the United Nations defined full employment as one of the major goals for member Governments to achieve.

The extent and nature of the post-war policy consensus differed across countries. In a number of developing countries it proved impossible to guarantee full employment because of underlying economic and social structures, while some developed countries gave greater attention to price stability than to high employment or growth. The above goals of economic policy, however, certainly prevailed in centrally planned economies, in most developed market economies and in a surprisingly wide range of developing countries.

With a series of major shocks to the international economic system starting in the late 1960s and early 1970s, the priority accorded to pursuing employment objectives was gradually diluted or abandoned in many developed market economies, and superseded by the need to deal with stagflation and stamp out inflationary pressures, which had surged to record post-war highs. However, as the structure of economies has changed, and partly in response to the types of anti-inflationary policies pursued, problems associated with unemployment have become much more endemic and well entrenched. In 1994, policies continue to be highly sensitive to fears of inflation, thereby undermining the pursuit of a more expansionary, employment-promoting macroeconomic stance. This is occurring despite the fact that inflation has been under control in most developed economies, the outlook for non-inflationary growth for the medium term in developed market econo-

mies is promising and a sizeable portion of the available productive potential, particularly labour, continues to be idle.¹ At the same time, however, inflationary expectations of many market participants remain high.

In many developing countries, following the comparatively buoyant expansion of the 1970s and the onset of the debt crisis of the 1980s, the attention of policy makers turned to the management of external accounts and to stabilization and structural adjustment policies. Here, too, employment stimulation receded in importance. In the planned economies, on the other hand, until the political shifts of the late 1980s, policy makers held to the priority of full employment, even at the cost of ignoring adjustment needs. Policy makers in the centrally planned economies suppressed pressures for change, apparently preferring an erosion in sustainable growth and factor productivity over structural changes. This stance led countries onto a path that complicated both effective competition abroad and the delivery of the promised standards of living at home. Since the late 1980s, as these economies have begun a transition to a market orientation, employment objectives have received less attention and the level of unemployment has risen substantially. As with many of the issues being confronted in these economies, the problem of unemployment is unprecedented in its scope.

Rising unemployment is increasingly recognized as a major problem with global dimensions and consequences, and with roots both in changes in economic structure and in policy dilemmas. In March 1994, the President of the United States of America convened a ministerial-level meeting of the Group of Seven industrialized countries devoted to the problem of unemployment. In addition, unemployment is one of the major issues to be addressed at the World Summit for Social Development, to be held under the auspices of the United Nations in Denmark in March 1995.

The present chapter examines the salient features of the employment situation in the early 1990s in the three major groups of countries; the degree of macroeconomic flexibility that now exists to tackle more directly the chronic aspects of unemployment, especially in the

European market and transition economies;² underemployment and the divergent labour demand patterns in developing countries; and the basic features of labour

markets that could be addressed through macroeconomic and microeconomic policies targeted at enhancing flexibility.

UNEMPLOYMENT: A MAJOR CONCERN FOR POLICY MAKERS

Unemployment is a problem because it is inextricably associated with economic, psychological and social costs. For individuals, unemployment represents a loss of income and the need to find alternative means of support. Arguably most devastating in modern societies is the psychological cost of involuntary unemployment, particularly chronic or structural unemployment. The unemployed—the unsuccessful first-time job-seekers as well as the long-term unemployed and discouraged workers—suffer a loss of self-respect that is bound to have ramifications throughout the immediate family and neighbourhood. The cost of unemployment, moreover, can spill over national boundaries and arouse xenophobia.

At the social level, unemployment may also exacerbate the polarization of society into “have” and “have not” groups, frequently regionally or ethnically concentrated. Chronic unemployment may contribute to the incidence of mass violence and even open warfare; unemployment aggravates the already substantial problems of drug addiction, crime, violence and urban degradation. Policy makers cannot hope to deal effectively with public safety, health-care reform, welfare reform, or rapid structural change without confronting the problem of unemployment. Soci-

ety's tolerance of unemployment has been remarkably elastic over the past two decades so that the boundaries for what constitutes an employment crisis have been redrawn several times. They cannot, however, be stretched indefinitely without setting off a social crisis.³

Apart from the individual costs and societal dislocations involved, the economy as a whole does not realize its potential output when a portion of its stock of primary resources is idle. Furthermore, the fact by itself of being employed in most modern economies enables workers to expand their human capital through the acquisition of specific skills as well as more general training, often within the firm, and the accrual of valuable contacts, experience and knowledge. Long unemployment spells lead to a deterioration of skills. Likewise for new entrants into the labour force:⁴ if they are not offered job opportunities soon after leaving school, they may lose whatever value their formal training may have otherwise embodied. The lack of offers may even discourage them from looking for a job, thus taking them out of the category of those counted as unemployed. In any case, that the direct and indirect costs of unemployment must be borne by taxpayers may in fact widen social polarization.

KEY CONCEPTS OF LABOUR MARKETS AND UNEMPLOYMENT

The demand for labour depends on a number of production considerations, including real wages, labour productivity, wage-related taxes, non-pecuniary benefits accruing to labour, the costs of hiring and firing, and the legal provisions affecting the costs of severing employment. The supply of labour, in turn, emanates from the choice between work and leisure, which in turn depends on real wages, wage-related benefits, deferred emoluments, non-pecuniary benefits and alternative sources of income. It is widely believed that if wages are subject to market forces, the wage-setting process will clear the market and reduce or eliminate unemployment. Since unemployment clearly exists—and persists—in many countries, substantial attention has been given to explaining and addressing imperfections and failures in markets for labour services.

THE NATURE OF UNEMPLOYMENT

An individual is generally regarded as involuntarily unemployed if he or she is out of work but available for, and seeking, work at the prevailing wage, suitably adjusted for

productivity and occupational differences among individuals. (For a discussion of measurement issues, see box VI.1). Unemployment can be seasonal, frictional, cyclical or structural, with the last form perhaps capable of being further disaggregated into technological and import-induced unemployment. Seasonal unemployment, such as occurs in the construction or tourism sectors, is a phenomenon about which policy can do very little aside from making labour markets as transparent as possible and ensuring that those affected are offered opportunities to obtain a more regular income stream. The same is true for frictional unemployment, which might result from geographical and occupational mobility. The costs of moving from one job to another may be lessened by better dissemination of labour-market information, and perhaps through unemployment compensation; but beyond these measures there is little that policy can hope to accomplish.⁵

The implications of cyclical and structural unemployment are fundamentally different. Spontaneous or policy-induced recoveries will substantially reduce involuntary cyclical unemployment. However, since the early 1970s,

BOX VI.1.

Principal methods for collecting unemployment and vacancy statistics

Unemployment statistics are collected chiefly in one of three different ways: through household surveys, unemployment registers or lodged unemployment compensation claims. The International Labour Office of the International Labour Organisation (ILO) has an internationally accepted definition of the unemployed: they are individuals who are without work, are actively searching for work and are available to start work during some agreed period of time. This definition omits, among others, the involuntary part-time employee, the discouraged unemployed and those assigned to various interim measures, such as training, that may or may not be designed to improve labour market conditions.

The "household labour force survey" method is as a rule applied to a controlled sample of individuals, who are asked to fill in a questionnaire on the nature of their employment status and how they have been trying to identify a job. Such surveys usually also capture data on the discouraged unemployed, but definitions vary and some are rather restrictive. Such an assessment, which is the only one that can be used reliably to compare unemployment levels among countries, corresponds to the ILO definition and is therefore subject to its cited limitations.

The "claimant method" counts the number of recipients benefiting from unemployment compensation. Statistics based on this method are affected by the specific rules of the benefit system and their changes over time, by different practices across countries, by the introduction or modification of other social policy benefits and by the degree to which the rules are actually enforced. The "claimant unemployed" are captured by those reported as unemployed according to the ILO's definition, but the converse does not hold.

Finally, most countries use the "registration method". This measures unemployment by counting the number of those registering with state labour offices among those apparently actively looking for work but currently without a declared job. Usually, registration is a precondition for obtaining benefits. However, once the statutory benefit period runs out registration may lapse, as the unemployed may not deem it worth their while to continue registering when labour offices are not particularly effective in

identifying suitable jobs. In addition, persons who have never been entitled to unemployment benefits may simply not register at all. Furthermore, those registering may not in fact be actively looking for work, given various unemployment insurance and social welfare programmes, or may already have a (part-time) job in the informal sector. That is to say, the relationship between the registered unemployed and those unemployed according to the ILO's definition varies greatly from country to country and may do so over time.

Statistics on unfilled vacancies as a rule measure the number of unfilled posts reported to or identified by labour offices at a given date. Ascertaining the level of vacancies is difficult, however, particularly in countries where the institutional infrastructure for measuring and analysing labour market behaviour is weak. Thus, if firms choose not to report their vacancies to labour offices, only a fraction of the vacancies are likely to be reported, and this will vary among countries and over time. Thus, official vacancy statistics necessarily understate the actual number of vacancies; but their evolution over time may be instructive, particularly when the structure of new jobs is not changing too rapidly and the infrastructure for labour market registration has been in place for some time.

Aside from the problem of obtaining full information from all economic agents, labour markets are not sufficiently flexible to permit individuals to seek gainful employment for any non-standard duration of the regular work week. This complicates record-keeping. In the ILO's practice, for example, a person is considered employed if he or she works at least one hour during the time-period, usually a week, utilized for statistical-reporting purposes.^a Furthermore, various social benefit programmes are structured in such a way that some of those who are in fact nominally unemployed are kept in their job or forced to accept jobs involuntarily at pain of losing the benefit even though they are only partially employed or simply counted among the employed without really contributing to the firm's value added; sometimes, these "workers" are not even expected to report for duty and their "salary" may be minimal, the real attraction of remaining on the payroll being access to the various non-wage

benefits of being considered employed. Particularly this provision of non-wage benefits might constitute one critical systemic determinant of disguised unemployment, on which information is scanty at best, as distinct from hidden unemployment associated with low productivity. Short work weeks, substantial wage subsidies, involuntary part-time employment, forced training programmes and many other devices designed to act on labour markets may significantly mask the real nature of the underlying employment problem and therefore the target population for potentially remedial policy action.

These discrepancies between the magnitudes of the ostensibly involuntary unemployed and the recorded unemployed can at best be uncovered approximately in comprehensive or statistically representative labour surveys targeted at more than binary information on employment and the desire to work.^b Such channels of information are expensive. If only for that rea-

son labour surveys are conducted, at best, at discrete intervals.

Most available unemployment statistics simply record those who report as being currently unemployed and not paid by any employer, but willing and able to work. Such data are sometimes disaggregated by gender, skill and/or preferred sector or region of employment. In countries with a substantial agricultural sector, the data collected tend to refer only to urban labour markets. Data collections may further provide details on unemployment spells, which shed light on the chronic nature of unemployment and the type of policy that can best be embraced in an attempt to ameliorate the situation, and the source of entry into or the destination of those exiting from the unemployment pool, both elements essential in judging, for example, whether the state sector is shedding labour that will be soaked up, perhaps after some spell of frictional unemployment, by the private sector.

a See 1992 *Year Book of Labour Statistics—Annuaire des Statistiques du Travail—Anuario de Estadísticas del Trabajo: 51st issue—51e édition—51.a edición* (Geneva, International Labour Office, 1993), p. 349.

b For an informative discussion, see Jørgen Elmeskov and Karl Pichelmann, *Unemployment and labour force participation—trends and cycles*, OECD Economics Department Working Papers, No. 130, (Paris, OECD, 1993) pp. 5-11.

cyclical upswings appear to have lost some of their power to reduce unemployment and some unemployment previously thought of as cyclical has become longer-term in nature. It is currently a matter of debate as to how large a reduction in unemployment could be achieved through stronger cyclical expansions.

UNEMPLOYMENT, INFLATION AND THE LABOUR MARKET

Changes in the ability of cyclical upswings to reduce unemployment are closely tied to the issue of a shifting inflation-unemployment trade-off. It has long been recognized that attempts to reduce unemployment towards full or near-full employment increase an economy's risk of wage and price inflation. It used to be thought that the inflation-unemployment trade-off in developed economies—widely known as the Phillips curve—was reasonably stable and policy makers could anticipate how much inflation would result from a given unemployment target. However, the experiences of the late 1960s and 1970s, along with developments in economic theory, cast doubt on the existence of such a policy menu except for relatively short periods. Once inflation starts, market participants expect it to continue, or even accelerate, and adjust their behaviour accordingly, further bidding up prices of goods

and services. This behaviour pushes actual inflation even higher, to the point where the actual inflation-unemployment trade-off differs from the one that had been expected, with substantially higher, and perhaps accelerating, inflation associated with any given rate of unemployment.

For a market economy, there is thought to be a rate of unemployment that is consistent with an unchanging inflation rate—the non-accelerating inflation rate of unemployment, or NAIRU. Numerous estimates have been made of the NAIRU for individual countries.⁶ An economy's NAIRU is not directly observable and, while thought to be reasonably stable in the short term, can shift over time. One approach is to focus on changes in the composition of the labour force. When groups with relatively less attractive labour market prospects, such as less skilled workers, grow in importance, it can be expected that an economy's NAIRU will rise.⁷

Another approach relates the pattern of rising unemployment to variations in the pressures imposed on the bargaining system and to the prevailing institutional structure.⁸ The institutional structure influences the level to which unemployment has to rise to have a particular change in real wages accepted by workers. Wage-bargaining at a level where several groups are involved and where some have significant market power gives rise to an exter-

nality in that the cost of a shock or change in trend can be passed from one group to another. The result is accelerating inflation; unemployment will eventually be forced up to hold back wage claims. By contrast, a highly centralized bargaining system internalizes the externality: because the cost of a particular shock cannot be shifted to other groups there is no point in trying; failure to accept wage moderation obviously leads to more inflation and probably higher unemployment. Not only will the unemployed suffer, but also those who maintain their jobs, albeit to a lesser extent, as they have to pay additional taxes to support the unemployed directly and indirectly. The net result can be that a highly coordinated system may absorb shocks in living standards without any necessity for unemployment to be pushed up. On the other hand, highly decentralized bargaining may have advantages in allowing wages to perform more effectively as incentives to raise productivity without offering possibilities for the exertion of monopoly power. The worst outcome occurs when bargaining is carried out by groups large enough to be strong, but not large enough to have to absorb the full impact of their actions.

Estimates of the NAIRU for most developed market economies show a rise over the post-war period, especially since the early 1970s. Thus, policy makers have in effect been forced to accept higher unemployment rates over time as the cost of avoiding high, and possibly accelerating, inflation. In terms of the structure of economies, a larger share of the working population of many economies appears to fall outside of the definition of seasonal, frictional or cyclical unemployment.

STRUCTURAL UNEMPLOYMENT

Structural unemployment is unemployment that cannot be alleviated by season changes, by reducing frictions or by cyclical upswings. It results from changes in economic structure and requires longer-term solutions. One view is that technological advances and low-wage import competition take away jobs from those currently employed. Certainly, each technological advance can create a temporary rise in unemployment as production technologies that utilize less labour replace those that utilize more or as new skills replace older ones. However, despite extensive mechanization and automation extending over several centuries, there has not been a steady increase in unemployment over the long term. Instead, technology has stimulated productivity, and output, employment and standards of living have risen over time, fuelling demand for goods and services in which the bulk of the technologically unemployed have found new employment, perhaps after some suitable retraining, and not necessarily at the same real wage. Technological change can effect specific industries or occupations. In the United States over the last decade, for example, the introduction of computers and

computerized technologies has contributed to a widening of the wage gap between more educated and less educated workers, and to a growth in unemployment among the latter.⁹ In addition, the processes by which new skills are generated to match new demands may cover a time-span deemed unacceptable socially and politically, and may not reach all those affected.

Similar arguments can be made regarding low-wage import competition. Import competition may accelerate the decline of employment in traditional industries in economies whose markets are being penetrated by low-wage producers. However, the impact of low-wage imports is too small to explain a substantial rise in structural unemployment extending over several decades in a large number of economies.¹⁰ In addition, as the low-wage producers raise and spread their incomes and levels of living, their demand for goods and services expands as well, which increases the demand for skills-intensive and service activities from high-wage countries. Indeed, most countries that experience a rise in imports also see their exports grow. Moreover, import competition can hardly explain a global rise in unemployment since, presumably, jobs lost in importing countries are gained by exporters. Problems may arise, however, if the workers affected by import competition are unable to shift to the expanding industries or sectors. Thus, both for technological and for import-induced unemployment, disruptions and dislocations can lead to an increase in structural unemployment in the short and medium terms.

The growth of structural unemployment may also be explained by the workings of market-based institutions. A rise in the rate of unemployment, in the average duration of unemployment, in the duration of unemployment among those considered "long-term" unemployed and in the numbers of those of working age who are no longer seeking employment—"discouraged workers"—has stimulated a rethinking of the operations of labour markets. Many economists have formulated models of labour markets that include hysteresis effects, whereby spells of unemployment increase the probability of future, and longer, periods of unemployment for affected workers. In these models, unemployment itself becomes a cause both of future unemployment and of the creation of barriers between the employed and unemployed. To the extent that hysteresis effects are important, they could explain why an increase in cyclical unemployment or seemingly short-term structural unemployment becomes, instead, long-term and apparently "permanent" in nature.¹¹

Traditional labour market theory argues that if labour markets do not clear, it is because they are not sufficiently flexible to permit wages to move up or down depending on the prevailing combination of demand and supply forces, perhaps with some friction taken into account. It is frequently asserted that wages are sticky downwards,

largely because of labour market rigidities and government regulations; but traditional theory did not offer much by way of clarification of why this was so. Key to a proper formulation is an explanation of why the involuntary unemployed do not as a rule underbid incumbents and why the employed are not underbid by their employers.

One group of explanations focuses on differences between "insiders" and "outsiders" within a workforce. For example, some firms may be willing to offer above-market wages to currently employed workers, even in the presence of unemployed workers who are willing to work for lower wages. For the firm, such practices can be efficient to the extent that higher wages encourage effort, improve morale, reduce the need for training expenses, avoid termination expenses and enable the firm to continue benefiting from the firm-specific skills of its workforce. In an era of substantial corporate restructuring and rapid technological advance, the benefits of retaining key workers may outweigh the gains from paying lower compensation to outside workers.

From the standpoint of labour supply, rapid changes in economic structure, relations between economies and various government policies can make certain labour skills less relevant to emerging needs, and contribute to a skills mismatch problem. Moreover, since prolonged unemployment can erode skills, including basic, general skills such as workplace behaviour, unemployment can itself be at the source of mismatch problems and the gap between insiders and outsiders. Changes in labour supply, through demographic changes and migration, can surpass changes in the demand for labour, leading to an oversupply of labour for some occupations and skill levels. Problems associated with large-scale migration have emphasized the global nature of changes in labour supply.

Other explanations of the sources of hysteresis on labour markets focus on government policies, and the degree to which they might prevent market-clearing adjustments in labour markets. A high social safety net, for example, can create disincentives towards work, especially for lower-wage, entry-level positions. Tax systems may create disincentives both for employees and for employers, and help prevent the achievement of market-clearing wages.¹²

The various explanations put forward to explain unemployment suggest some cautionary observations. First, to identify and explain the nature of involuntary unemployment, and indeed to formulate a more policy-relevant understanding of how labour markets function and what policy makers could usefully undertake to enhance their flexibility and transparency, it is important to understand institutional and behavioural features of existing labour markets. Second, it is not sufficient to look only at the aggregative aspects of involuntary unemployment because neither the demand for nor the supply of labour is homo-

geneous. Firms seek specific skills and the involuntarily unemployed have their own skills to offer; the two may not match and the costs to both parties of adjusting may outweigh the expected benefits. In addition, the sources of unemployment are not necessarily easily identified, or always the same. Hysteresis effects, for example, may convert cyclical unemployment into structural unemployment, thereby complicating the search for solutions. Finally, the mix of policies required to combat unemployment will not be the same in all circumstances, as countries face differing combinations of cyclical and structural constraints.

UNEMPLOYMENT AND DEVELOPMENT STRATEGIES

In developing countries, the question of employment has been closely associated with modernization and industrialization, and debates on development strategies. In earlier stages, strategies for industrialization through import substitution were adopted in many developing countries. This modernization path was expected to absorb the labour surplus hidden in rural areas. Moreover, large state firms were often set up in strategic sectors—such as oil, steel and railways—for which at the time no private investors were available. The public sector itself was seen as a major provider of service jobs, particularly in urban areas. For a while, such strategies resulted in comparatively high growth rates in several countries in Asia and Latin America. However, as the process advanced, import substitution as a channel for bolstering domestic growth and employment ran out of steam. Fiscal constraints also inhibited further public employment.

In its extreme versions, the import substitution process disadvantaged exports as compared with import substitutes. It has also been claimed that the use of cheap credit to promote certain types of private industry encouraged the use of the most capital-intensive techniques. The same criticism was voiced regarding the provision of interest-free capital for public sector enterprises.¹³ Local criticism of the process also considered that labour costs had been raised by populist policies beyond what was deemed justified given the relative abundance of labour and capital, in other words, that the "shadow price" of labour in relation to capital, reflecting real scarcities, was in fact lower than the existing costs of labour to industries. As a result, the necessary investment per unit of employment created was very high.

Developing countries with outward-oriented industrialization strategies have had some measurable success in generating growth and stimulating employment.¹⁴ Yet, given the historically high rate of labour force growth, the initially large relative size of the primary sector, and the low income elasticity of services employment in low-income countries, the reallocation of labour out of the pri-

mary sector has been slow, with the exception of those cases of extremely rapid growth of industrial employment. Gradually, the creation of employment moved from unskilled labour to successively higher levels of skills.

This pattern of export-oriented industrialization has been most pertinent to small- and medium-sized countries, while large countries with successful development experiences have relied much more on production for the domestic market. As these economies have moved along the development scale towards becoming more mature and as they have liberalized and opened themselves to international market forces, they have been exposed to many of the same cyclical and inflationary pressures as have been noted in the developed economies. Most developing and some transitional economies are still struggling with issues of strategy and orientation. The need to reduce the extent

of underemployment and unemployment in developing countries remains an important concern. While there is a consensus on the importance of industrialization via efficiency gains and productivity growth to generate sustained economic growth, the debate continues on the strategy or pattern of industrialization that should be adopted. It is recognized that although economic growth is essential for the creation of employment, the pattern of growth and other policies influences the rate and structure of employment generation. Specifically, strategies of industrialization with different labour-intensiveness of production have differing effects on employment generation. Key issues regarding sectoral emphasis, macroeconomic balance and the relationship between overall development policies and specific labour market policies remain to be resolved.

EMPLOYMENT IN DEVELOPED MARKET ECONOMIES: WORSENING BEFORE IMPROVEMENT

Throughout the developed market economies, the level of involuntary unemployment in the two decades following the Second World War—the “golden age”—was much lower than during most of the inter-war period.¹⁵ From about the mid-1970s on, however, absolute and relative levels of involuntary unemployment began to rise rapidly, albeit with some fluctuations (see table VI.1). Unemployment levels rose from a range of 2-4 per cent of the labour force typical of cyclical upturns earlier in the post-war years to a range of 6-12 per cent typical of more recent cyclical upturns, with levels of unemployed at both peaks and troughs of the business cycle being well above what they had been during the first two decades of the post-war period. Measured unemployment in the Organisation for Economic Co-operation and Development (OECD) region is now about 35 million people or 8.5 per cent of the labour force; but the range among countries is considerable, extending from some 3 per cent in Japan to 23 per cent in Spain.

Since about 1980, labour markets in developed countries have exhibited contrasting trends. Although unemployment climbed absolutely and relatively, employment grew at least as fast as during the golden age, implying the inability of these economies to fully absorb a more rapidly expanding labour supply. Linked to rising unemployment, earnings inequality rose in most countries, reversing the previous pattern of stable or falling inequality. Non-standard forms of employment, such as self-employment and part-time and temporary employment, grew substantially, frequently reflecting the deterioration of working conditions and the reduction in employment security observed for some of the full-time employed. Furthermore, the reduction in the work week, which had been very significant during the first two post-war decades, slowed down considerably.

The worsening of the employment situation has been especially prevalent in many of the countries of Western Europe, notably the members of the European Union, and

Table VI.1.
Developed market economies: unemployment rates, 1961-1994
(Percentage: period averages and end of period)

Country group	1961-1970	1971-1980	1981-1990	1991	1992	1993	1994 ^a
Group of Seven	3.1	4.6	5.9	6.2	6.7	6.9	7.0
United States	5.6	6.5	6.4	6.6	7.3	6.7	6.5
Japan	1.1	1.6	2.1	2.1	2.1	2.5	2.9
European Union	2.1	4.6	8.0	8.3	9.0	10.2	10.7
Western Europe	2.0	4.3	7.4	7.9	8.7	10.0	10.5

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

^a Forecast.

has largely resulted from a rise in the absolute numbers and relative share of youth unemployment and of the long-term unemployed. Even though the inflow rate from employment into the pool of unemployed in Europe is on the whole quite low, the duration of unemployment tends to be long and rising, except, until recently, in Austria, Finland, Norway, Sweden and Switzerland. Indeed, matters appear to have taken a sharp turn for the worse in the Nordic economies since the early 1990s.

Unemployment spells in Europe are substantially longer than in North America. Western Europe has not been able to match the pace of job creation and mobility, and it has failed to bring the observed peaks and troughs in unemployment levels closer to those in the United States. The rise in average unemployment in the European Union is in marked contrast with that of the United States. At the end of the 1960s, the ratio of the employed relative to the working-age population—the employment rate—was similar. By the 1980s, however, the employment rate was nearly 10 percentage points lower in the European Union. On the other hand, job creation in the United States has often involved a substitution of lower-paying jobs, particularly in low-skill, labour-intensive activities in the service sector, for higher income employment in manufacturing and mining. Taking the last two decades as a whole, this disproportionate rise in lower-productivity jobs has contributed to the slower rise of aggregate factor productivity in the United States relative to Europe.

More pronounced and longer-term unemployment may become an issue in Japan as well, as the vaunted life-time employment system¹⁶ in the large firms has been weakening. Indeed, it can be argued that the lifetime employment system could only be maintained in an economic environment characterized by rapid growth.¹⁷ Furthermore, over time the system has also been sustained by adjusting working hours, by awarding variable bonuses and by absorbing unemployment within firms or within interfirm groupings.¹⁸ None the less, the observed unemployment rate in Japan—under 3 per cent—continues to be remarkably low in comparison with that of other developed countries.

CHANGES IN LABOUR SUPPLY

Since 1973, aggregate output growth in developed countries, at some 2.5 per cent per year, has been about half the rate (4.9 per cent) experienced over the period 1960-1973; the slow-down was slightly less severe in the United States. The key labour market issue is how growth was translated into labour productivity and employment. A decline in labour productivity growth after 1973 (in OECD countries, from 4.9 per cent in 1960-1973 to 2.7 per cent in 1973-1990) parallels very closely the decline in output growth. This bears the implication that the growth of employment has not slackened; rather, problems of un-

employment reflect the inability of economies to fully absorb a faster growth of the labour supply. Indeed, as shown in table VI.2, employment growth was as strong after 1973 as before; this was true even in Europe, where the upward trend in unemployment has been most severe despite a faster rate of job creation than occurred during the 1960s. During the 1990s, however, a major slackening of employment growth manifested itself in Europe and North America, on account of the protracted recession, just as it did in the periods 1974-1975 and 1981-1983. A slow-down in job growth also has occurred in Japan, but not as significantly.

In OECD countries, the growth rate of the labour supply accelerated from an average annual rate of 1.1 per cent during 1960-1973 to 1.3 per cent after 1973, while in the European Union, it more than doubled, from 0.3 to 0.8 per cent. One source of this increased supply of labour has been the growth of the working-age population, on account of the post-war baby boom. In the United States, however, population growth was nearly halved in the 1980s, while in the European Union the working-age population grew only slightly faster (at 0.7 per cent per year) after 1973 than before (at 0.6 per cent); trends in individual countries differed, of course.

The main factor behind the faster growth in the labour force after 1973 in developed economies has been an increase in labour force participation rates. After 1973, this rise stemmed in large part from growing female participation, which has more than offset a decline in male participation since 1979. Comparing the 1980s with the 1960s, of the average annual 0.6 per cent acceleration in the growth of the labour force in the European Union, 0.5 per cent is accounted for by changes in the participation rate. As a result, despite considerable employment growth since 1973, available employment has failed to match the increased numbers of those seeking work.

While unemployment problems have been most severe in Europe, other developed countries have not escaped entirely unscathed, as shown in table VI.3. Even the

Table VI.2.

Developed market economies:
employment growth, 1961-1993
(Average annual percentage rates)

Period	OECD	European Union	United States	Japan
1961-1973	1.1	0.3	2.0	1.3
1974-1990	1.2	0.5	1.9	1.0
1991-1993	-0.1	-1.1	0.3	1.3

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

Table VI.3.

Developed market economies: participation rates, employment and unemployment
(Period average shares and average annual percentage rates)

Period	OECD	United States	Japan	European Community	Euro4 ^a
1969-1973					
Labour force	67.9	66.9	71.9	65.9	69.9
Employment	65.6	63.8	71.0	64.1	68.7
Unemployment	2.3	3.1	0.9	1.9	1.2
1980-1990					
Labour force	69.8	74.1	72.7	65.7	75.7
Employment	64.8	68.9	70.9	59.5	73.2
Unemployment	5.0	5.2	1.8	6.2	2.5

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a Austria, Finland, Norway and Sweden.

steep rise in the United States employment rate did not keep pace with the rising participation rate, and so unemployment was distinctly higher in the 1980s. Moreover, the impressive expansion in the employment rate in the United States was not unique. In the so-called social corporatist countries of Europe (including Austria, Finland, Norway and Sweden), the expansion of job opportunities was nearly as great and kept pace with the rising demand for jobs, so that unemployment was much lower, and rose less, than in the United States.

The growing proportion of women in the labour force became evident in the 1960s in Australia, North America, most of northern Europe and the United Kingdom of Great Britain and Northern Ireland; in Japan and southern Europe, this occurred in the 1970s. By 1990, women constituted 41.6 per cent of the OECD labour force, a rise of about one quarter as compared with 1960. The marked rise in female participation can be illustrated (see table VI.4) by focusing on "prime-age workers", defined as members of the age group 25-54, because it helps to abstract from the differences across countries and over time that result from variations in education and in statutory retirement.

Female participation for prime-age workers rose in all OECD countries over this period. However, the extent of the rise varied substantially, from about 10 percentage points in Finland, from a high base, and Japan, to about 15-20 percentage points in Australia, most European Union countries and Sweden, and to 25 percentage points or more in Canada, the Netherlands (from a very low base), Norway and the United States. The rise in female participation appears related only weakly to the increase in overall employment opportunities. Demand-side changes towards jobs requiring better-educated labour and the increase in service-based employment, combined with im-

provements in equal opportunities, encouraged the trend towards greater female participation. In addition, there has been a marked change in the nature of home production, family commitments and the distribution of home-making responsibilities.

However, larger female participation has tended to be associated with marked increases in female unemployment (to 8-10 per cent in France, Italy and the Netherlands, and 19 per cent in Spain) or noticeable falls in male employment rates (a fall of three percentage points in the United States and of about six percentage points in Canada and France). Norway and Sweden are the only countries that managed to absorb, at least until 1990, a substantial growth in female participation that did not entail either some rise in female unemployment or some drop in male employment. In contrast with North America and the United Kingdom, the rise in female participation in most of Europe has been at the lower end of the educational distribution and returns to education have not increased. Virtually everywhere, Japan being an exception, earnings of women rose relative to those of men.

LABOUR DEMAND AND EMPLOYMENT

A common trend in developed economies has been the changing level of qualifications demanded by employers, as shown by changes in the distribution between manual and non-manual employment: for most countries, the rise in the non-manual employment share was in excess of 10 percentage points over the last two decades. The rise in the skill level of employment left the unskilled to bear a disproportionate share of rising unemployment. Blue-collar unemployment rates in the 1980s were typically two to three times higher than white-collar rates throughout OECD.

The rise in the share of white-collar employment cannot be fully explained by changes in industrial compo-

Table VI.4.

Developed market economies: employment, unemployment and inactivity, 1973-1992

(Share of population aged 25-54)

		1973	1979	1990	1992
United States					
Men	Employed	91.6	90.6	88.5	86.2
	Unemployed	2.3	3.1	4.1	6.0
	Inactive	6.1	6.3	7.4	7.8
Women	Employed	49.7	59.0	70.6	70.2
	Unemployed	2.3	3.2	3.3	4.4
	Inactive	50.3	37.8	26.1	25.4
Japan					
Men	Employed	96.7	95.6	96.1	96.2
	Unemployed	1.0	1.6	1.4	1.4
	Inactive	2.3	2.8	2.5	2.4
Women	Employed	53.8	55.1	62.9	64.1
	Unemployed	0.5	1.1	1.3	1.3
	Inactive	45.7	43.8	35.8	34.6
United Kingdom					
Men	Employed	93.5	91.8	86.3	81.3
	Unemployed	2.1	3.8	6.3	11.5
	Inactive	4.4	4.4	6.3	7.2
Women	Employed	58.3	62.0	71.0	70.2
	Unemployed	0.3	1.3	2.0	3.2
	Inactive	41.7	36.7	27.0	26.6
France					
Men	Employed	94.5	93.3	89.8	88.5
	Unemployed	2.3	3.1	5.6	6.5
	Inactive	3.2	3.7	4.6	5.0
Women	Employed	52.8	59.5	65.1	66.4
	Unemployed	1.3	3.5	7.8	8.5
	Inactive	45.9	37.0	27.1	25.1
Sweden					
Men	Employed	92.7	94.0	93.8	87.4
	Unemployed	1.6	1.3	1.3	5.4
	Inactive	5.7	4.7	4.9	7.2
Women	Employed	66.8	79.5	89.2	85.2
	Unemployed	2.1	1.6	1.2	3.5
	Inactive	31.1	18.9	9.6	11.3

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

sition, as even within manufacturing industries the proportion of non-manual employment rose by some four to six percentage points between 1973 and 1990 in Denmark, Finland, Japan, the United Kingdom and the United States, the only countries for which data were readily available. None the less, the shift towards non-manual employment has occurred more rapidly in manufacturing industries introducing new technology. Hence new technologies have been partly responsible for the shift away from low-

skilled labour. While the trend away from manual labour need not necessarily imply changes in the education levels sought by employers, the available evidence suggests just such a secular trend in developed countries since the Second World War. The pattern of low employment rates among the less skilled is common to all countries and only fully recognized when those who have withdrawn from the labour force into inactivity are added to the unemployed (for some data, see table VI.4). Within manufacturing, the

trend away from unskilled workers has partly reflected technological change and import competition from developing country producers in products particularly dependent on less-skilled manual labour. At the aggregate level, this effect is compounded by the decline in the industrial sector which provides, over time, fewer (relatively well-paid) jobs.

Between 1973 and 1990, the share of industrial employment in OECD countries declined from 36 per cent overall (41 per cent in the European Union) to 30 per cent overall (32 per cent in the European Union). A declining share of industrial employment implies either that industrial output grew more slowly than gross domestic product (GDP) or that industrial productivity grew faster. Since 1973, productivity in industry in the European Union grew at an average annual rate of 2.4 per cent—0.6 per cent faster than in the economy as a whole—while the growth of industrial output (1.5 per cent per year) was 0.8 per cent slower than the growth of GDP. Thus, both factors were of similar significance in explaining the declining share of industrial employment after 1973. Between 1973 and 1979, the stagnation of fixed investment, which was heavily concentrated in construction and machinery, held back industrial growth. After 1979, net exports of manufactures—that is, the surplus of manufacturing exports over imports—from developed countries declined as a share of output. In the European Union, it dropped from 14 per cent of value added in manufacturing in 1979 to 5 per cent in 1990; the corresponding data for the United States reveal a drop from about zero to minus 12 per cent. The decline in net exports contributed to the shortfall in industrial output growth as compared with that of GDP and thus to the declining share of industrial employment. The reasons for this decline overall are complex, however.

Clearly, trade is necessarily a two-way street. The impact of trade on industrial employment in developed countries is not confined to the reduced volume of output as a result of a declining share of net exports. The expansion of two-way trade in manufactures between developed countries and the rest of the world has generated a switch in developed countries from industries relying heavily on unskilled labour to those where skilled labour is of critical importance. This has reduced the average labour-intensiveness of manufacturing both directly, as labour-intensive sectors decline in relative importance, and indirectly, through the competitive effects of imports forcing productivity increases on the rest. Such effects could account for the loss of a substantial share of manufacturing jobs, particularly the well-paying ones previously available to low-skilled, chiefly male, manual workers.

The import-competition argument should not be exaggerated, however, particularly for countries where import penetration in manufactures is not very large (during the period 1985-1990, it ranged from 4.3 per cent of con-

sumption in the United States to 3.2 in the four large European Union members and to 2.6 per cent in Japan).¹⁹ Moreover, if the import-displacement argument was correct then activities producing non-traded goods should have taken advantage of the decline in the relative price of unskilled labour by raising their relative use. There is no evidence that this has been the case. Whatever the reasons for the decline in the number of industrial jobs, the regional concentration of the industrial unemployed may make it more difficult for service activities, which are more evenly population-based, to pick up the slack. This is particularly so when unemployment derives from male-dominated sectors, as most service jobs have traditionally been taken up by female entrants into the labour market.

THE DIVERSITY OF LABOUR MARKET EXPERIENCE

The particular pattern of unemployment and of inactivity in individual countries is determined by labour market institutions, especially the social security system, the wage determination systems, the wage flexibility at the lower end of the distribution, and the response of the education and training systems to shifts in the pattern of labour demand. Clearly, the unemployed have borne the brunt of changed labour market conditions. However, these changes affect also the distribution of earnings, and the hours and conditions of work—especially for non-standard forms of employment—among the employed.

Table VI.5 presents the broader measures of unemployment and its diverse impacts for OECD countries other than the small ones, the large agricultural ones, and those for which data are lacking. As already noted, between the 1960s and the late 1980s, measured unemployment rose in all the economies considered, but much less in North America (where rates had earlier been higher), Japan (which remained a star performer) and some of the smaller European countries, particularly Austria, Finland, Norway, Sweden and Switzerland. The recession of the 1990s has markedly raised unemployment in the latter group, though Austria and Switzerland still have low unemployment by European standards. The largest rises have been in Ireland and Spain.

Long-term unemployment (defined as the condition of those without work for more than a year) varies across the major economies much more than the level of unemployment; in some countries there is evidence that it is a direct function of the initial duration of unemployment.²⁰ In Canada, Finland, Sweden and the United States fewer than 10 per cent of the unemployed fell within this category; within the European Union, France and the United Kingdom had shares about one half those of Belgium, Italy and Ireland. Since the unemployed can only compete in the labour market when there are vacancies, higher rates of job turnover are likely to reduce the duration of unemployment

Table VI.5.
Developed market economies: indicators of unemployment and non-employment

Country	Percentage				Ratios				
	Change in unemployment rate ^a	Unemployment rate, 1990	Unemployment rate, mid-1993	Prime-age male non-employment rate, ^b 1992	Change in male non-employment rate, 1974-1992	Long-term unemployment ^c as a share of unemployed, 1990	Youth/adult unemployment, ^d 1990	Female/male unemployment, 1990	Non-employment, least/most educated, ^e 1988
North America									
Canada	2.3	8.1	11.3	18.1	10.2	5.7	1.8	1.0	3.5
United States	0.5	5.4	6.7	13.8	5.4	5.6	2.5	1.0	5.2
Asia /Australasia									
Australia	5.4	6.9	11.1	15.9	11.8	21.6	2.6	1.0	3.1
Japan	1.3	2.1	2.5	3.8	0.5	19.1	2.5	1.0	..
New Zealand	4.8	7.7	9.0	15.0	..	..	2.4	0.9	..
EC									
Belgium	7.8	7.2	9.2	..	..	69.9	..	2.1	4.0
France	8.8	8.9	11.7	11.5	7.3	38.3	2.4	1.7	..
Germany	5.9	4.8	5.9	13.1	8.5	46.3	1.2	1.5	3.0
Ireland	11.9	13.4	16.7	19.6	7.5	67.2	1.6	0.6	..
Italy	6.8	10.3	10.3	14.2	6.6	71.2	4.6	2.3	1.9
Netherlands	8.4	7.5	8.5	10.5	3.2	48.4	1.7	2.0	3.2
Spain	17.7	15.9	23.1	18.7	13.9	54.0	2.7	2.0	1.3
United Kingdom	7.9	6.8	10.4	18.7	12.2	36.0	1.6	0.5	3.9
Other Europe									
Austria	1.5	3.2	4.4	..	..	..	..	1.2	3.5
Finland	3.3	3.4	17.9	20.8	11.0	◆ 6.9	2.2	0.7	3.7
Norway	1.2	5.2	6.1	13.7	5.0	19.2	3.0	0.9	1.8
Sweden	0.6	1.5	9.4	12.2	6.8	4.8	3.0	1.0	1.6
Switzerland	0.6	0.6	4.5	..	..	..	..	1.2	..

Source: DESIPA.

a Difference between averages of 1985-1989 and 1960-1964.

b Age group 25-54.

c Registered unemployment for more than one year.

d Age group 16-24 relative to age group 25-54.

e Unemployed and inactive males, aged 25-54, with education below upper secondary (or equivalent vocational) level and those with at least a college degree.

◆ 1989.

spells. Those workers entering or re-entering the labour force are similarly dependent on vacancies if they are to secure jobs. Hence youth unemployment, where duration is also high, is predictably higher relative to that among older workers (and female unemployment relative to male). However, high youth unemployment is also characteristic of the Nordic countries, the Pacific economies and the United States, suggesting that youth unemployment has other important determinants, including relative wage levels. If minimum-wage legislation reduces the ability of youth to compete with low wages and thereby compensate for their lack of experience, then higher youth unemployment can be anticipated. In this way, minimum wages may have little impact on overall employment but

may affect its distribution. However, the evidence is mixed and analysts do not agree on either the signs or the size of the impact of minimum wages on youth employment.²¹

Measured unemployment and inactivity are different categories, with the former depending on the institutional structure of labour markets, including the eligibility for benefits. When inactivity is measured for prime-age males, a picture of much more severe joblessness results. Only Japan has a male non-employment rate of less than 10 per cent; other countries are in the range of 10-21 per cent. Levels of male inactivity are particularly high for the United States. In many European Union countries where male unemployment is moderate, there are very high rates of inactivity. The increase in non-employment

for prime-age men, which is typically in the range of 7-12 per cent, shows the extent to which rising joblessness has affected what was traditionally the "core" of the labour force. A final tabulated comparison shows the relative employment position of the least educated (those below upper secondary level or with the equivalent vocational training relative to those with at least a college degree) relative to the best educated. If job and wage flexibility succeed in generating more employment, and in allowing the low-skilled to compete for work by lowering their relative wage, then differences in employment rates between these groups should not be too large. The data emphasize that in the United States those with education below upper secondary levels are 5.2 times as likely to be without work than college graduates. This ratio is also unusually high in Austria, Belgium, Canada, Finland (before its big rise in unemployment in recent years) and the United Kingdom.

The incidence of non-standard forms of employment has increased sharply in recent years. These are sometimes termed "flexible" labour forms, reflecting their proneness to higher rates of job creation and destruction, more restricted employment rights and more varied terms and conditions of employment. Part-time employment has always been used in certain industries—such as retail, restaurants and hotels—faced with regular variations in labour needs. As shown in table VI.6, the rise in part-time work in the 1980s varied across countries. Only in Australia, the Netherlands, New Zealand and the United Kingdom had the share of part-time employment expanded by more than 5 percentage points since 1979. In all countries, part-time work was dominated by women (70-90 per cent), although their share in the total normally fell a little through the 1980s. Large rises in the use of part-time employment and in women's share of total employment have tended to move in tandem.

The use of temporary workers is very variable across countries and shows little correlation with the degree of regulation of this form of labour. For example, France had a high proportion of temporary workers but the regulations (such as the terms of renewability, dismissal and protection) were among the most restrictive. Temporary workers were most widely used in Australia and Spain, and least in Belgium, Italy and the United Kingdom. Furthermore, there was little change in the 1980s except for a rapid rise in Spain and a smaller one in France, possibly related to attempts to generate new jobs for young workers outside the rather tight employment regulations governing permanent work.

Considered over the post-war period, average hours of work declined markedly. This trend, which earlier had been pronounced, slackened to some 0.4 per cent per year despite a continued increase in the number of part-time workers. One reason is that to contain the impact of the

slower growth in real wages on levels of living, the scope for raising leisure time was reduced. On the other hand, the stronger bargaining position of employers as a result of higher unemployment and a rather generalized reduction of trade-union power must have made collective agreements to reduce hours on the whole more difficult to achieve (except in Germany).

Given the concentration of unemployment (and non-employment) among the less skilled, a declining relative wage for this group would be expected unless there were restrictions on wage adjustment. Country experience was surprisingly mixed, however (see table VI.6). Half the countries had substantial increases in wage differentials, often from rapid rises for high salaries relative to the middle range rather than from relative falls for low wages. These included Sweden with a 9 percentage point increase in the average pay of the 10 per cent at the top of the earnings distribution as compared with the 10 per cent at the bottom (reversing partly the earlier unprecedented compression of differentials), Australia with a 12 percentage point rise and the United States with a 16 percentage point increase from a very unequal starting-point. Finally, the United Kingdom showed an extraordinary 34 percentage point rise in the 1980s, taking it from the lower end of the European distribution of wage inequality to a position among the most unequal in Europe, where it was well on its way to catching up to Canada. This profound shift towards wage inequality has been reflected in a rapid rise in overall income inequality, as it has been combined with rising unemployment.²²

The influence of the trend towards higher-skill requirements on wage inequality has been compounded by other factors. First, movement in the 1980s towards higher educational attainment slowed down in Japan, the United Kingdom and the United States, but not in Canada and France. This helped to boost the earnings of the better educated, as indicated in table VI.6 by the difference in the proportions of the young (aged 25-34) and of older workers (aged 45-54) with minimum education levels (below upper secondary education or the vocational equivalent) as a measure of the speed at which an economy has been moving towards hiring those with more education. It is striking how slowly this measure is changing in the United Kingdom and the United States—the countries with the biggest increases in inequality. Germany had only a small reduction in the numbers of its least educated, given its fall in wage inequality, but the situation reflected the low proportion of those with this low level of education to begin with, combined with improvements in qualification further up in the education hierarchy.²³

THE INSTITUTIONAL SETTINGS: FOUR MODELS

It is helpful to place the observed patterns of labour market outcomes in the context of the institutions typical of the

Table VI.6.
Developed market economies: indicators of non-standard employment, wage inequality and education

Country	Change in part-time employment as percentage of total employment ^a	Temporary employment as percentage of total employment, 1991	Change in self-employment as percentage of total employment (non-agricultural), 1980-1990	Median tenure with firm, around 1991 (years)	Percentage point change in wage differential between those 10 per cent from the top and those 10 per cent from the bottom of earnings distribution ^b	Difference in percentages of population ^c with below upper secondary level qualification, 1988
North America						
Canada	2.9	..	0.7	4.1	9	-25.2
United States	..	..	0.5	3.0	16	-8.3
Asia /Australasia						
Australia	5.4	19.7	0.0	3.5	12	-15.4
Japan	2.2	10.5	-2.5	8.5	9	-30.7
New Zealand	6.2	..	5.1	..	..	..
EC						
Belgium	2.8	5.1	1.7	..	-2	-20.4
France	3.8	10.2	-0.3	7.5	5	..
Germany	1.8	9.5	-0.5	7.5	-7	-15.8
Ireland	3.0	8.3	2.9	..	..	..
Italy	0.4	5.4	3.4	..	..	-20.9
Netherlands	16.6	7.7	-1.0	3.1	0	-17.1
Spain	..	32.2	1.4	6.3	..	-40.5
United Kingdom	5.4	5.3	5.0	4.4	34	-9.7
Other Europe						
Austria	1.2	..	-3.5	..	2	-20.6
Finland	0.5	13.1	1.7	5.2	..	-16.6
Norway	1.3	..	-0.5	6.5	-4	28.1
Sweden	-0.4	..	2.5	..	9	-23.4
Switzerland	..	..	..	..	..	-15.0

Source: DESIPA.

a Difference in the percentage for 1979 as compared with that for around 1989.

b Around 1980 as compared with late 1980s and early 1990s.

c Ages 25-34 as compared with ages 45-54.

countries concerned. They may be grouped according to four models, drawn from the experiences of four countries or groups of countries—Japan, the United States, the European Union and the social-corporatist countries.

Japan has exhibited relative stability over the long haul. Population growth has been favourable, increases in female participation have been moderate and success in world markets limited the fall in the share of industrial employment to 1 per cent in the 1980s as compared with a figure of more than 5 per cent in the European Union. The absence of an excess supply of less qualified manufacturing workers has meant that the low-productivity service sector has had to absorb a manageable number of workers without driving down their relative wages.

The key institutions shaping the responses to the limited pressures faced by Japan are four: (a) very limited duration of unemployment insurance (30 weeks) and no

national unemployment assistance system otherwise; (b) a highly coordinated pay-setting system, paced by the annual "spring offensive" on wage increases, even though union density declined from around 35 per cent in the mid-1970s to 25 per cent in the late-1980s; (c) firm-specific employment regulation which, in the major industrial corporations, is often associated with lifetime employment, but is highly flexible in the small firm, even though overall job tenure rates are high, especially among prime-age men; and (d) rapid expansion of educational attainments, so that the number of those in the age group 25-34 with degree-level education was nearly double that in the age group 45-54. The decline in the proportion with below upper secondary education was even more rapid. Through these institutions, notably limited benefits with low job turnover, the labour market problems afflicting many other developed countries have been avoided. Also, the recent

recession, though severe by Japanese standards, has been mild compared with those experienced elsewhere.

The United States has experienced a very rapid rise in female participation and total population (although similar to that of the 1960s), but only moderate deindustrialization. However, trends away from low-skilled labour have accelerated since 1973. The impact of these shifts has been compounded by the immigration to the United States of less-educated workers. More recently, the impact of these changes has been partly mitigated by a shorter and less severe recession than Europe's.

The key institutions shaping labour market responses in the United States are five: (a) a relatively harsh benefit system with the shortest period of unemployment insurance (26 weeks) and limitations on unemployment assistance to families; (b) a minimum wage set at a federal level (but often with higher state-specific rates) which is low relative to average wages and affects mainly young workers; (c) little collective bargaining and very low union density (about one sixth); (d) confinement of employment regulation to equal-opportunity issues, leaving the labour market highly unregulated, which may be partly responsible for higher turnover and mobility rates than in Europe or Japan,²⁴ and a median tenure that is the lowest in OECD (see table VI.6); and (e) higher education that is largely self-financed (however, the educational level of new entrants is high), although the rate of increase of degree-holding has slowed since the mid-1970s and is almost constant (at about 25 per cent) across those aged 25-54.

Unemployment is at a low level and has risen much less in the United States than in Europe. It is the institutional framework, notably the less generous benefits, that helps explain why long-term unemployment is so markedly different as compared with that of the European Union. The unemployment benefit system is central in identifying whether people remain attached to the labour market, and continue to be counted as unemployed when out of work; most benefits require some degree of search commitment. The lack of a link between search commitment and benefits in the United States means that more of those out of work are inactive (see table VI.4), particularly those groups for whom appropriate job opportunities are scarce. Hence the gap of non-employment rates between the best and least educated workers in the country is around double that in Europe (see table VI.5).

Most of the rise in non-employment has occurred among the two fifths of the population with the lowest earnings potential.²⁵ The rapid fall in relative wages in the United States (as well as the United Kingdom) combined with declining employment rates has contributed to the drop in participation among low-skilled men.²⁶ The wage and employment flexibility central to the United States labour market model does seem to reduce the duration of unemployment and enable the relative and real wages of

the less qualified to adjust downwards in response to the shift in demand away from such workers. That flexibility had been reinforced by the relative decline of the real minimum wage, until the statutory minimum wage was raised in the late 1980s. Furthermore, unionization rates fell and there was large inward migration of less-qualified labour. The effect of all this has been that the real hourly earnings of the bottom 10 per cent of wage earners have fallen by 30 per cent since the early 1970s, in contrast with the near-constancy of real hourly earnings of the top 40 per cent. However, this wage flexibility has not protected the low-skilled from a falling employment share. Rather, it has induced labour market withdrawal, especially among groups that are often personally and socially destructive, having alternative sources of income that are often crime- or drug-related.²⁷

European Union countries experienced an unusual combination of trends, including an acceleration in population growth, a rise in female participation, a large shift towards non-manual employment and more rapid deindustrialization, with the last three being interrelated. Within the European Union there has been substantial variation among major economies: the United Kingdom had the smallest rise in population of working age (Germany, the fastest), the slowest rise in female participation (France, the fastest), the second smallest shift towards non-manual labour (after Germany), but the most rapid deindustrialization (Italy, the least); yet it was the country with the most profound shift in policy and institutional framework towards a more deregulated labour market.

The key institutions shaping the responses to these pressures faced by the EU are: (a) a relatively generous unemployment benefit system, equivalent to 60-70 per cent of average wages for the low skilled, available for 12-30 months, and extensive income supports unrelated to income; (b) minimum wages that are either set officially (as in France and Spain) or by industry agreements (as in Germany and Italy) and tend to be in excess of half of average earnings and typically around two thirds; (c) a unionization that has declined in all countries in the 1980s, particularly in France, the Netherlands, Spain and the United Kingdom, but is often (as in Belgium, Denmark, Germany and Italy) still at levels close to those of the early 1970s; (d) labour legislation that extends beyond equal-opportunity statutes to include constraints on working hours and hiring and firing, and calls for high social contributions that have an effect similar to that of a tax on wages; and (e) higher-education levels that are much lower than in Canada, Japan and the United States (France and Germany in particular, however, have an extensive population with intermediate qualifications, often vocational, as the decline in the proportion with no upper secondary education has been remarkable, most notably among women).

The European Union model of high benefits and extensive regulation of employment and wages generates high levels of recorded unemployment and low job turnover. It tends, therefore, to produce high levels of youth, female and long-term unemployment. In most of the European Union members, the brunt of labour market developments has been borne by females (and youth) experiencing high unemployment, whereas in the United Kingdom, particularly during the 1980s, and in the United States, where the trend has been more progressive since the late 1960s, the brunt has been taken by males in the form of low rates of employment. The sharp divergences between the experiences of the best and least educated in the United States are not repeated in Austria, Belgium, Germany, Italy, Norway or Sweden. Nor are the high levels of female unemployment in continental Europe especially concentrated on the less-skilled; at any rate, there is no clearly discernible trend in this direction.

Several countries have changed policies to create jobs exempt from regulation to encourage employment for those excluded from access to work. There has been a sharp increase in the number of temporary jobs in France and Spain and of part-time work in the Netherlands. This approach has limited the level of male non-employment and has been associated with much smaller increases in earnings inequality than in the United Kingdom and the United States. That this appears to have been achieved by extensive training of the workforce has meant that non-employment is less concentrated on the least qualified. In addition, minimum wages and high benefits may also have supported the wage floor. The avoidance of major rises in inequality, without substantially lower rates of male employment, is an attraction of the European model; but a price has been paid in terms of a rising burden on the welfare state and thus of increasing tax levels.

The United Kingdom has moved away dramatically from the European Union pattern in the 1980s and is now a key outlier. The ratio of benefits to earnings is much lower than elsewhere because the earnings-related element was abolished in 1982. Minimum wage rates were progressively reduced relative to earnings and abolished altogether in 1993. Trade-union density has fallen sharply since 1979, closed-shop arrangements were made unlawful and many industrial or collective bargaining agreements were scrapped. As a result, wage-setting became increasingly fragmented and more akin to the United States model.²⁸ Employment legislation was reduced (with longer qualification periods for employment rights, especially for part-time workers, and the removal of many industry-specific regulations, for example). The educational system saw a steady expansion of higher educational qualifications especially among women, but the decline in the proportion with no post-secondary education was modest by the standards of the rest of Europe.

The changed United Kingdom model yields relatively low female and youth unemployment, rather high wage inequality and higher rates of job turnover (more part-time and temporary work). However, male employment has shown the most substantial changes, with a dramatic drop in unskilled male employment from around 90 per cent in 1977 to just two thirds in 1992. For graduates the fall was from 95 to 90 per cent and confined to those close to retirement age. A change in regime, in this case towards the United States model, produced fairly strong evidence of the impact of institutions on behaviour in labour markets. The one United States achievement not reproduced in the United Kingdom model was low recorded unemployment. Several factors may have brought about this combination of some of the worst features of both (the United States and European) worlds: the strength of the deindustrialization in the early 1980s, the particular combination of a flexible labour market (primarily for the less skilled) with an inflexible benefit system and a fragmented wage-setting system for those permanently employed.

The four selected social-corporatist countries (Austria, Finland, Norway and Sweden) faced rapid increases in female participation from an already high level and rates of deindustrialization similar to the European Union's (though Austria and Finland, until recently, showed slower declines of industrial employment and in Sweden the pace of decline was slowed by subsidies in the early 1980s). The trend away from less-skilled labour was eased in part by increasing public sector employment and population growth was moderate. These countries were among the most generous in terms of welfare provisions and had high union density with centralized wage-bargaining combined with an aggressive policy to raise minimum wages through collective bargaining. Sweden in particular has had a strong programme of active labour market interventions to provide training and subsidies to keep workers close to the labour market. Education systems produced more graduates relative to EC countries but fewer than in Japan or North America. Yet the proportion with below upper secondary education continued to fall in the 1980s at rates close to or faster than those seen in the EC.

The labour market institutions in these countries proved highly effective at keeping the level of unemployment (and inactivity) very low and in reducing wage inequality to an extraordinary extent.²⁹ Sweden's inflation record, although not outstanding and requiring periodic devaluations, was remarkable in the light of the degree of redistribution from the employed in the 1970s in order to fund the expansion of welfare services and benefits. Furthermore, active labour market policies and education trends produced low levels of long-term unemployment and less concentration of inactivity among the less skilled (although the latter was not apparent in Austria or Finland even before the recent rises in unemployment). Since 1990,

however, this model has begun to unwind in Sweden owing to pressures from within the labour market—divergent bargaining stances of blue-collar workers, white-collar workers and state employees and competitive pressures on manufacturing firms—combined with escalating costs of the welfare state, and finally, following a severe recession.³⁰ Finland also has undergone a collapse of trade with the Russian Federation which, together with the overvalued exchange rate and other unsustainable macroeconomic policy stances, helped to drive unemployment from 3.5 to nearly 19 per cent in just three years.

EMPLOYMENT PROSPECTS

Economic growth remains a major source of job creation. Over the last decade, with average labour productivity growing slowly, output growth has been creating jobs at a rapid rate. Moreover, even countries with high unemployment, such as Australia, the Netherlands, Spain and the United Kingdom, grew rapidly and experienced several consecutive years, in the mid to late 1980s, of employment rises in the range of 2-4 per cent.

Rapid growth of output depends on trends in personal consumption, government spending, business investment and exports to the rest of the world. The prospects for rapidly rising personal consumption are distinctly poor at this juncture, given the felt need to restore savings and the unlikely prospect that financial institutions will enable again soon a debt-financed consumer binge. A continuation of the trend towards both wage inequality and a lower share of wages in aggregate income distribution would also tend to depress the growth of consumption. Given concern about government deficits, at current policy stances, government expenditures are not likely to play a dynamic role, unless consumer confidence is restored.

Given these prospects, it is understandable that great hopes are placed on exports to the rest of the world as a catalyst for growth in developed countries. Spectacular increases in this category can be expected only with a strong recovery in commodity and oil prices. The demand from the newly industrializing economies is at present too small to provide a major impetus to aggregate demand for developed countries. Early hopes for rapid growth in the transition economies have faded; sustained growth in China could change the perspective for growth in the world market considerably, but not in the very near future. This leaves business investment as crucial both for demand and for raising the employment capacity of the capital stock.

Slow growth in the capital stock in Europe (3 per cent per year since 1973) appears to have been a major constraint during the 1980s on the expansion of European employment.³¹ There was, however, quite a strong investment boom at the end of the 1980s in most of the industrialized countries; but in a number of countries the pattern of investment emphasized the non-traded sector and par-

ticularly those parts of the economy (financial services and retail trade) most closely connected with financial deregulation and the consumer boom.³² Overexpansion of these sectors contributed to subsequent investment weaknesses. Conversely, manufacturing investment, except in Japan, has been hesitant in spite of a recovery in profitability, the rather strong consumer demand at the end of the 1980s and, more recently, low real interest rates. Factors dampening manufacturing investment possibly included the unpredictability of international competition, springing from the combination of large gyrations in real exchange rates and the emergence of new suppliers of the more labour-intensive products among developing countries; but aggregate demand remains a central determinant of investment, whereas the effect of interest rates is relatively minor.³³ Labour supply in Europe is expected to decelerate slightly in the years ahead. However, if participation rates, notably of women (currently 54 per cent in the European Union), were to rise to levels observed in Scandinavian countries (81 per cent, for example, in Sweden) and the United States (some 68 per cent), such deceleration might not take place. Some modest slow-down in growth of the population of working age is likely for Japan and the United States. However, labour force estimates appear to be strongly influenced by the recession of the early 1990s, when many laid-off workers withdrew into inactivity.

As regards hours worked, performance in Europe during the 1980s has been uneven, with large variations around the 3 per cent reduction on average for the European Union between 1983 and 1991, owing to the rise in part-time and temporary employment. Without deliberate intervention, average working time is unlikely to decline faster and decreases in the growth rate of the labour supply are unlikely to have a major impact on the employment scene over the next few years, particularly in the European Union.

Finally, on the demand for and supply of skills, the recent trend favouring higher-qualified workers is likely to continue, owing to the further relative—and in some cases even absolute—decline in industrial employment and perhaps a rise in technological change and import competition. Since the responses of the educational and training systems to such trends in skill demands are far from clear it cannot be presumed that they are on the verge of delivering cohorts of much more highly qualified workers.

THE NON-ACCELERATING INFLATION RATE OF UNEMPLOYMENT (NAIRU) AS A GUIDE TO POLICY

The use of the NAIRU approach as a guide to policy choices remains difficult. NAIRU estimates for developed countries seem to confirm that the highly coordinated wage-bargaining systems (notably those of the corporatist

countries, together with rather different forms of coordination in Japan and Switzerland) delivered wages that were very responsive to unemployment; thus unemployment was much less affected by the pressures that the bargaining system had to absorb. However, on the whole the relationship between the degree of centralization of wage-bargaining and aggregate economic performance is rather tenuous.³⁴

During the 1980s, trade unions suffered major setbacks in Europe and the United States, and several countries (notably the United Kingdom) toughened the unemployment benefit system and reduced or abolished minimum wages. Furthermore, increases in taxation were more moderate as welfare-state spending was held back. All these developments should have seen a downward revision in the NAIRU estimated for the 1970s and early 1980s. Recent investigations³⁵ have found, however, that the functioning of the labour market was essentially unchanged in France, Germany and the United Kingdom as NAIRU estimates for the late 1980s were still in the range of 8-10 per cent; some shifts could be detected for Italy, however; and for the United States, recent research suggests that country's NAIRU may be rising.³⁶

The above paradox may perhaps be explained by the rise in the level of long-term unemployed, who are expected to have a lessening influence on wage-bargaining as the duration of their spell extends, as discussed earlier. In the hypothetical extreme case, when all unemployed became long-term and ceased to function as part of the reserve army of labour, a higher level of unemployment would cease after a time to have any impact on wage-bargaining (as in the insider-outsider models, cited earlier). More plausibly, some of the rise in unemployment will take the form of long-term unemployment, so that the impact of higher unemployment on wage-bargaining will diminish over time, but not disappear.³⁷ Such an approach is consistent with the shifts in the pattern of demand for particular groups of labour—such as the unskilled, women and youth. Mismatch between demand for and supply of labour, as argued earlier, is the most likely explanation of the concentrated incidence of unemployment and inactivity reported above. However, the fundamental message of the NAIRU approach stands: if increased employment worsens inflation, it may severely confine the room for innovating policies aiming at reducing joblessness.

POLICIES FOR EMPLOYMENT

As regards present policies, the outlook for any marked reduction in the current levels of unemployment is not very encouraging. Various remedial actions have been proposed: bolster investment, reduce real labour costs, contain labour supply via early retirement or a shorter working week, improve the qualifications of labour, take special measures to encourage employers to hire the long-term

unemployed. The last two inevitably mandate active government policies. The others may require a combination of intervention and market-based variants.

An expansion in demand for labour essentially depends on a rise in aggregate output for which, as has been argued, a strong recovery in business investment is critical. One source of higher investment is greater confidence arising from general economic stabilization as measured directly by the decline of inflation and the restoration of profitability, and indirectly by the lessening intensity of social conflict.³⁸ According to some observers, achieving sounder government finances might spur on an upswing of business investment, growth and employment. Although stabilization of the type pursued in recent years was necessary to encourage private investment, after the excesses of the 1970s, it cannot be a sufficient condition at this stage. For one thing, the international economic environment is less predictable than it was during most of the golden age, thus raising the level of uncertainty and affecting expectations. Also, the catch-up effect of emulating United States levels of productivity in the post-war years is much reduced. Finally, there are lingering fears that any marked improvement in employment prospects would trigger inflation. That possibility itself may depress the climate for business investment. In any case, an investment-led recovery is likely to have little effect on low-skilled labour.

Reducing unemployment by increasing the employment intensity of production seems an attractive proposition, and forms one of the critical components of the strategy recently endorsed by the European Union (see box VI.2); its corollary, that productivity growth would be slower and the future capacity to employ might weaken, unless real wages were compressed sufficiently to prevent declines in profit, seems less appealing. The appeal declines even more when it is recognized that productivity gains from the dissemination and application of micro-electronics-based technologies are likely to become more widespread. This would not, of course, be the case if increased production could be focused on sectors, such as construction, that are much more intensive in unskilled labour than the rest of the economy. There is no contradiction between calling for increased productivity growth in sectors open to international competition while advocating an expansion of non-traded sectors where the level and growth of productivity are low.

Given the level of output and employment in the traded sector, how can employment be expanded in the non-traded sector? A policy of compressing real labour costs reduces the relative price of labour-intensive services and thus increases real demand for them. If the reduction in real labour cost were greater for the relatively unqualified workers most affected by unemployment, this would ensure a relatively larger rise in their employment. Esti-

BOX VI.2.

The strategy of the European Union in the 1990s and beyond

In the context of wide-ranging concerns about the economic and social costs of the economic recession of the early 1990s and the perceived severity of the unemployment situation in the European Union, the Commission of the European Communities was asked by the European Council, meeting in Copenhagen in June 1993, to prepare a broad-ranging policy position and to present a white paper on a medium-term strategy for growth, competitiveness and employment. It did so in December 1993.^a The *White Paper* presents a diagnosis of the reasons for the current economic slump, which the Commission characterizes as largely policy-induced, and the deterioration in the employment situation. In addition, it analyses various broad-ranging policy measures to bolster growth and stimulate competition, *inter alia*, in order to foster employment opportunities in the longer run, not only for new job entrants but also for the long-term unemployed and particularly for the groups identified as disadvantaged.

Of particular importance has been the rapid rise in the absolute number of unemployed (at the end of 1993 some 17 million people, with a net loss of 4 million jobs in 1992-1993 alone) as well as the steep rise (at the end of 1993 to over 11 per cent) in the relative share of those without a job. Furthermore, the short-term outlook does not indicate an improvement in the situation. Indeed, the current outlook is for little to no gain in the economic and employment situation in the next two years or so. The absolute level of unemployment is expected to rise to some 18 million—roughly 12 per cent of the labour force—by the end of 1994. It is sobering to contemplate that this magnitude equals the *total* populations of Belgium, Denmark and Ireland combined.

In addition to diagnosing the unemployment situation, the *White Paper* also offers some strategic suggestions on how the European Union could best emerge from the prevailing predicament and lay the foundations for sustainable growth at an adequate pace through the end of the decade and indeed well into the twenty-first century. Such a new development path is envisioned not only in terms of feasible rates of growth. An essential component of the strategy is steady gains in employment levels at

rates exceeding the anticipated growth in the labour force. Since the latter is slowing down, mainly because the labour force effects of the baby boom of the 1960s have all but ended, the tasks of generating more jobs than the net addition to the labour force should be eased.

The *White Paper* is emphatic that there can be no miracle cure, neither for the current unemployment situation nor for the more general economic and related malaise besetting the European Union. Protectionism, a dash for liberalization, a generalized reduction in the length of the working week, job-sharing, cuts in wages and pruning of social protection are rejected—both individually and in some apparently suitable combination—as feasible, or even as desirable, policy choices to remedy the current situation; but some elements of such partial, and in some cases cosmetic, remedies for unemployment do constitute ingredients of the advocated strategy for emerging from the current employment calamity, if only because any feasible pace of output growth under prevailing institutional conditions cannot generate sufficient jobs to alleviate significantly the unemployment situation in the European Union. Rather, the focus of the analysis and recommendations is unambiguously on how to generate output growth at a level well surpassing the pace of gains in average labour productivity. The emphasis is on coordinated action by the various players responsible for the components of the prevailing employment environments.

The recent downturn in the rate of growth, and indeed the contraction in feasible activity levels, are seen largely as the consequence of the fact that the member States have been pursuing a lower potential rate of growth, as compared with what would have appeared feasible on the basis of the record of the second half of the 1980s. This has been done in part to address the consequences of policy errors that had led to actual rates of growth in excess of the potential rate at the very end of the 1980s. The lower potential rate of growth is attributed to underinvestment. Policy errors are seen in the overheating of 1989-1990, including lax fiscal policy, and the overly restrictive monetary policy followed in the early 1990s. The monetary policy stance in the various member States

also led to actions outside the economic sphere—presumably currency speculation and the consequences of the unification of Germany—that further aggravated macroeconomic balances.

With respect to policy measures designed to tackle the chronic unemployment situation, the *White Paper* relies fundamentally on the assumption of some stable “employment content” of growth that can be notched higher than it has recently been through positive policy measures. That is to say, the rate of aggregate output growth is decomposed into positive changes in labour productivity—gains in average value added per worker—and increases in the number of those actually employed are apparently unadjusted for effective working time and for shifts in the “quality” of jobs, hence level of pay. Even so, the *White Paper* asserts that growth is not in itself the solution to unemployment, that vigorous action is needed to create jobs. With a constant employment content or an exogenously postulated rising magnitude of that parameter, however, growth becomes in essence the *White Paper*’s focus for how Europe’s chronic level of unemployment could best be tackled in the years ahead. In other words, the focus of the *White Paper* is on the ways and means of restoring growth at least at a level above that achieved in the second half of the 1980s (about 3 per cent per year), when 9 million jobs were created (with employment rising at 1.3 per cent per year), to permit expansion in employment levels at a pace well above that required to avoid worsening the absolute level of the presently unemployed.

However, the underlying aim of the *White Paper* is, in effect, more ambitious: to expand employment by some 15 million jobs by the end of the decade by targeting a steady rise in the levels of employment of 2 per cent annually between 1995 and 2000. From the arithmetic, *inter alia*, on the expansion of the labour force, this would require a higher employment content of growth or a “higher rate of growth” (or both) than that achieved in the second half of the 1980s. Assuming that the employment content will be at least 1 per cent per year lower than output growth, the call is, in effect, for steady-state aggregate output growth at a rate of at least some 3 per cent per year from 1995-2000; it would imply a slow-down in the pace of growth of average labour productivity.

Reaching such a pace of expansion of output and employment is an ambitious target. Its realization, in turn, depends on reaching much higher investment rates than recently observed, made possible by lifting the share of investment in GDP from the present 19 to some 23-24 per cent over the period considered. Furthermore, this investment will have to be channelled into activities with a higher employment content than that reached over the past decades, such as labour-intensive health care and recreation activities.

The *White Paper* disaggregates unemployment into three components. Cyclical unemployment is expected to disappear with the emergence from the current economic slump through proper macroeconomic policies directed at reaching “potential output”. Second is a wide range of problems that are characterized as structural unemployment. Their resolution, it is argued, requires some industrial policy to ease workers from traditional industries, some upgrading of labour skills to stave off capital-for-unskilled labour substitution, removal of a number of impediments to flexible labour markets and efforts to come to grips with import displacement for cost reasons. Finally, the *White Paper* addresses what it calls technological unemployment: the introduction of new technology that destroys jobs at a more rapid rate than macroeconomic policy can create them.

The creation of 15 million new jobs in the European Union by the year 2000, according to the *White Paper*, depends on five factors. First, its economic situation needs to be restored to health through properly balanced macroeconomic policies. The *White Paper* thus argues for a rapid return to the path of agreed policy convergence indicators leading to the second phase for realizing the Economic and Monetary Union (EMU), as laid out in the Maastricht Treaty on European Union; that is, generating sufficient coordination of macroeconomic policies so that inflation can be reduced, exchange rates within the European Exchange Rate Mechanism (ERM) held stable, public deficits compressed to a smaller share of GDP and public debt levels reduced to below the chosen cut-off point of 60 per cent of GDP.

Second, the *White Paper* underlines the importance of keeping the European economy open and, indeed, opening it even more

through extraordinary measures in favour of southern and particularly eastern European competitors. Third, the report emphasizes the need for greater decentralization through information-sharing and communication. In this context, the construction of "information highways" is strongly advocated. It is proposed that the Commission be authorized to issue special bonds for this and related purposes.^b

Fourth, the report argues the case for strengthening competition in the European economy. Aside from regaining the proper mix of macroeconomic policies leading to progress with EMU as scheduled, top priority is allocated to further enhancing the functioning of markets and hence improving the framework for microeconomic decision-making through proper national and Community-wide actions. Further realization, particularly in practice, of the provisions of the Single European Market (SEM) so that its full benefits will finally come within reach, will play a critical role in this respect.^c Further completion of the SEM will eventually lead to a better, more flexible and more competitive common market. This in turn hinges on changes in employment policy, which the *White Paper* characterizes as "the centre-piece of our overall strategy". Also important is the positive encouragement of small- and medium-sized enterprises, if only to impart greater flexibility into the SEM. Furthermore,

the *White Paper* argues for the accelerated establishment of "trans-European infrastructure networks", which are also to be financed through special bond issues. Moreover, it calls for placing greater emphasis on cooperative research.

Finally, the *White Paper* stresses the need to work out a broad consensus on more active social solidarity through "flanking actions" to obtain greater "economic and social cohesion". This essentially advocates the establishment of a European social pact, *inter alia*, on lifelong education, greater flexibility in labour markets for "insiders" as well as "outsiders", decentralization and initiative, including in "a sensible, socially responsible form of partial unemployment", such as a shortened work week, reducing the non-wage costs of employment and active labour market policies, including through fiscal means.

In conclusion, the *White Paper* contends that, following implementation of the above agenda, the new-found consistency between macroeconomic policy and an active employment policy will eliminate all the behavioural or structural rigidities that are partly to blame for the underemployment with which we are having to contend. At least in the short- to medium-term, this might well be an optimistic view.

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- a See Commission of the European Communities, *Growth, Competitiveness, Employment—The Challenges and Ways Forward into the 21st Century: White Paper* (Brussels and Luxembourg, Office for Official Publications of the European Communities, 1993).
- b This has in the mean time become one of the more controversial features of the follow-up to the *White Paper*. The ongoing policy debates make it rather unlikely that the Commission will be authorized to issue such bonds, certainly in the proposed amounts.
- c For various aspects of the SEM, see *Journal of Development Planning*, Nos. 21 and 22 (1992).
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mates of the elasticity of substitution for labour in general and blue-collar workers in particular are significant on average. However, they vary quite widely.³⁹ Moreover, studies of the impact of minimum-wage changes report relatively small or no effects on employment.⁴⁰

Furthermore, it should be clear that various ways of reducing real labour costs have different distributional implications. Cuts in wages in general imply a further redistribution of income towards profits, thereby increasing inequality. Cuts in wages for the lower-paid contribute to growing wage inequality and enhance the possibility of labour market withdrawal into registered unemployment

or into inactivity. By contrast, reductions in social contributions would have to be paid for by taxpayers in general and would have quite different effects on income distribution. Because social contributions are levied in a regressive manner in most countries, moving towards a more progressive social contribution level could exert a significant impact on relative employment costs across qualifications, thus improving the employment prospects of the lower-paid. It would also reduce the attractiveness to employers of expanding overtime as a substitute for hiring more workers. If a substantial tranche of income was exempt from taxation this could offset the fixed costs of employ-

ment, which are often cited as a disincentive to the hiring of labour.⁴¹

Policies to increase labour-intensiveness can be extended beyond the market sector. Public services and construction are exceptionally labour-intensive, and so additional public outlays for those activities expand employment—notably for unskilled males, the group that has been most adversely affected by recent employment trends—without necessitating a cut in labour costs and without cutting prices to increase demand. However, it does require political support for such programmes and some assurance that the additional tax burdens are not resisted within the wage-bargaining process.

There are many ways to reduce labour supply. One obvious case is early retirement. If used by the unskilled with poor job prospects, this has the disadvantage of driving home to them the point that there is seemingly no alternative to low incomes and welfare dependence, thereby exacerbating some of the psychological and social costs of unemployment. Another way would be to divide available work more evenly via cuts in working time, an approach that has long been advocated as a measure to combat unemployment, and it has recently been widely discussed in Europe. Such an approach, however, is fraught with difficulties. Would a shorter working week lead to more overtime? Would it yield to higher productivity, and more leisure, with real wages kept at a level warranted by the increase in productivity? Or would a reduction in hours not offset by productivity gains lead to higher labour costs? A reduction in the working week can sustain growth and employment beyond the short term only if it does not result in lower utilization of given capacity over the working week, including the hitherto unutilized capacity being used by those previously unemployed. Otherwise, capital costs will rise and depress investment demand. For a reduction in the working week to have a significant effect on unemployment, other things being equal, there can be no increase in real wages per unit of work delivered.

There is a close analogy between this form of work-sharing and proposals for increased public expenditure financed by higher taxation. In both cases, there is a redistribution towards the unemployed. Higher public spending yields benefits in improved public services and infrastructure; reductions in hours afford greater leisure. The central question in both cases is whether the reduction (or in the medium term, reduced rate of growth) of consumption is acceptable for those who would have jobs anyway. Arranging this at the level of one firm, as in the

well-publicized case of Volkswagen in Germany, is quite different from doing so at the national level, however.

Improvements in educational attainment could be designed to meet the apparent shift in demand towards high-skill categories of labour. Increasing education would have a positive effect on productivity, it would reduce labour supply, it is a labour-intensive activity, it complements investment in capacity and research and development, and by evening out the unequal incidence of unemployment and low wages and by reducing mismatch it may allow the economy to sustain higher employment levels. Investments in infrastructure, as discussed, and in education are similar in that they are labour-intensive and productive; but more education is not a panacea, particularly in terms of remedying the general rise in unemployment, if aggregate demand does not recover. Faster improvement in skill levels could simply reduce the unequal incidences of unemployment rather than the overall level. It would raise total employment only if reduced mismatch increased competitive pressure on wages, thus reducing the NAIRU. If an improvement in skills simply resulted in more qualified people's filling particular jobs, then policy would have to extend beyond the numbers of qualified to include their career development. The evidence of rising inequality at the top end must imply that competitive pressures are low there. Of particular concern is the likelihood that women are not getting access to career development in the same way as men,⁴² and thus being forced to compete with less qualified men.⁴³

Finally, because unemployment is concentrated on the long-term unemployed and particular groups (women, youth and the less skilled) suggestions have been made for targeted policy intervention. In particular, training for the long-term unemployed or those displaced from declining industries may appear to meet the need for a better-qualified workforce. Obviously, they can only have a limited impact on general levels of qualification, and even this will be constrained by the unsuitability of some of the long-term unemployed (because of age or ability) for retraining. Hence these schemes can be assessed realistically only with respect to their impact on individual participants. The obvious criteria are the enhanced chance of finding work, level of wages secured and probability of future spells of unemployment. Only the relatively expensive schemes appear to be successful in this sense, and then normally for the better-qualified or younger unemployed.⁴⁴ Low-cost schemes with low-quality training have at best a poor record.⁴⁵

DIVERGENT PATTERNS OF UNEMPLOYMENT IN DEVELOPING COUNTRIES

The features of unemployment in developing countries are much more diverse than they are in developed countries. For one thing, the level of development and degree of modernization in those countries differ greatly. Also, the fact that in the vast bulk of developing countries the rural sector continues to predominate leads to substantial levels of disguised or hidden unemployment. The infrastructure for assessing unemployment and inducing those so affected to report themselves as such is much more rudimentary than is the case, discussed above, in the developed countries. Finally, in many developing countries the problem of unemployment is one that policy makers can track and tackle only with substantial progress in development. All this has implications for the formulation of remedial policies and the architecture of development strategies.

THE NATURE OF UNEMPLOYMENT IN DEVELOPING COUNTRIES

Conventional wisdom argues that open unemployment in developing countries does not have the same meaning as elsewhere: the root problem is more chronic (or structural) than cyclical. To come to grips with this phenomenon, propping up aggregate demand would not suffice. Substantial unemployment would remain even upon full utilization of non-labour productive capacity. Rather, these views advocate action on the supply side to expand productive capacity. More recently, however, the relevance of distinguishing between structural and cyclical unemployment has been diluted, in part because of prevailing limits on short-term expansionary policies, and because the issue of sizeable and protracted structural unemployment is now *de rigueur* in the discourse about macroeconomic problems in all groups of countries.

Open unemployment in developing countries is often low, but the measure can be misleading (see box VI.3). Indeed, a very high proportion of the labour force is employed in low-productivity, low-income sectors. These include traditional agriculture, but also production and services in urban areas, particularly those that have been subject to large rural migration pressures. Various forms of self-employment in these activities complicate the assessment of open unemployment and hide the disguised unemployment characteristic of the multitude of ways and means of scraping together a living in rural areas as well as in urban centres, such as personal services, petty trade and one-person firms with low productivity and low incomes accommodated within the urban "informal sector".

Open unemployment tends to be higher among the younger groups and for women, and in some cases among lower-income groups.⁴⁶ Usually there is also a high concentration of the unemployed in the categories of "urban

production workers" or workers who cannot be otherwise classified by occupation. Expansion of the educational system and slow growth together led to a rise in unemployment among educated youth almost everywhere in developing countries. In many cases, this has occurred in spite of a rise in school attendance and in spite of the fact that the latter may mask what would otherwise be recorded as youth unemployment. In that case, the recorded unemployment problem will shift to higher age brackets, after passage of the relevant additional schooling years.

In some cases there is also a mismatch between the supply of skills and the demands of the changing productive structures, and high rates of unemployment among the educated have been persistent.

Because of the absence of unemployment insurance, far fewer people are captured in the statistical measures of the involuntary unemployed in most developing countries, as noted earlier. Unable to afford large periods without a job, those affected have to earn a living somehow by engaging in some productive activity, however marginal. This type of "underemployment", when defined as comprising those partly employed or whose productivity is very low, was estimated for the late 1970s at roughly 20 per cent of the labour force in Latin America,⁴⁷ 40 per cent in Africa and 26 per cent in Asia.⁴⁸ In the last dozen years or so, efforts to measure underemployment have faltered. Thus, reliable data for more recent years are not available, but it is unlikely that these magnitudes have changed significantly in the aggregate. It should be noted, however, that the very low incomes obtained by a major part of the urban labour force are not necessarily indicative of underutilization. On the contrary, many low-wage workers have long working hours and perform physically exhausting tasks.

From the early 1970s, the notion of the informal sector came into wide use in studies on urban employment problems in developing countries (see box VI.4). The concept is somewhat vague and has been used to cover, as a residual, anything but the large and/or modern industrial and commercial establishments and the government. The terms "formal" and "informal" are not mutually exclusive, but intricately interrelated. As such, the sector covers very heterogeneous ways of earning a living, but some general features can be discerned. The informal sector tends to attract new migrants from the rural areas and those with the lowest incomes. Wage-earners are a minority among those working in the informal sector. Self-employed or own-account workers are the vast majority. Entrepreneurs employing other workers are a minority, but those who reach this stage generally enjoy higher incomes. They might be workers, previously in the formal sector, who

have brought special skills. Many employees work without regular monetary wages. Instead, they obtain food, shelter, or training, or some combination of these non-monetary emoluments.

Naturally, given the fuzziness of the concept, estimates of the labour force in the urban informal sector

exhibit a wide range. The studies carried out by the World Employment Programme of the ILO have shown that 25-50 per cent of the urban employed in the countries surveyed are engaged in informal sector activities. In some urban areas the proportion is even higher. In urban Africa, the informal sector currently employs an estimated

BOX VI.3.

Measuring open unemployment in developing countries

As presently measured, open unemployment in developing countries is basically an urban phenomenon. In rural areas, the concept simply cannot be generally invoked. It could at best be applied in modernized, capitalist-oriented agriculture with wage-earning agricultural workers. In traditional agriculture, characterized by small plots cultivated by the family, low productivity might be endemic but open unemployment is simply not recognized. Indeed, survival in that segment of society is ensured by sharing output within the subsistence family structure. Following the standard definition of unemployment, open unemployment is for all practical purposes unknown in traditional agriculture, even if the marginal peasant occasionally performs some seasonal wage labour in the bigger units but returns to the family plot. Moreover, it is difficult to measure the rural labour force given the role of women in these countries. When two thirds or more of the population is rural, when wage-earners are a small proportion of the total labour force and more than half of it are own-account workers or unpaid family workers, as is true in most of Africa, it should not be surprising to find that urban unemployment is high while at the same time rural unemployment—and with it overall unemployment—is low.

Even in urban areas, data on open unemployment in developing countries should be interpreted as minimum estimates. The identification of the unemployed is in general more difficult because in a less-organized labour market it is not easy to ascertain whether a person is really trying to find a job. The sensitivity of the rate of unemployment to different definitions of "search for a job" is illustrated by research done in the metropolitan region of São Paulo, Brazil: from the 587,000 people declar-

ing themselves unemployed, only 71 per cent had actively tried to find a job in the reference week. According to the conventional definition, the result was a 7.7 per cent rate of unemployment. However, considering all those who declared themselves unemployed and were trying to find a job, although not always in the week of reference, the rate was 10.8 per cent of the economically active population.^a

Seen against this backdrop, it should not be surprising that information on employment and unemployment in developing countries is extremely uneven, highly incomplete and of varying quality. Reliable aggregate measures are difficult to obtain, complicating international and intertemporal comparisons as well as the formulation of remedial policy measures. For example, regular data for Africa are virtually non-existent. The only exceptions are ILO-based data for Algeria and South Africa. Point estimates based on isolated labour force surveys exist for half a dozen countries of sub-Saharan Africa. For some 20 other African countries, the data cover those registered as looking for a job, whether or not they are presently unemployed or entitled to some form of support. The infrastructure of employment offices in most countries is rudimentary and concentrated in capitals and other large urban centres.

The situation is better in Latin America and the Caribbean. Some 20 countries have more or less regular labour surveys with fairly timely publication. Two others have labour-office registrations of applicants who are actually unemployed. Also, nine Asian countries report data based on labour surveys and another six report data based on other collection techniques, including labour-office registrations or official estimates.

^a See *Pesquisa de Padrão de Vida e Emprego (Relatorio Preliminar)* (São Paulo, Departamento Intersindical de Estatística e Estudos Socio-Economicos, July 1981).

BOX VI.4.

On the notion of the informal sector

The term "informal sector" suggests at least a productive activity. This activity may be either for hire or because of one's own enterprise. Without further specification, the designation "enterprise" applies to the cigarette vendor and the shoeshine boy as well as to the intrepid construction manager and the unlicensed transportation operator. Generally speaking, it denotes activities characterized by free entry, by competition and few formal rules, by small-scale and family-ownership, and by reliance on indigenous resources; they are labour-intensive, adapt technology and attract mostly workers with skills acquired outside the formal educational system. Most such activities emerge not so much from true enterprise, in which the founder will put up some more-or-less substantial capital investment, but rather from the dire need to survive from one day to the next.

Lack of access to finance is a major characteristic and constraint of these micro-enterprises. For concrete identification purposes, some dividing line has to be drawn in order to separate the lower end in the total number of urban production units. Studies mandated by ILO or inspired by its approach to studying unemployment in many developing countries tend to include in the informal sector all enterprises with 10 persons or less engaged in manufacturing, construction, transport, trade or services. However, other criteria of "informality" have to be added to the size of the firm, because in some instances these incipient enterprises may be quite organized, respecting fully the legal (including fiscal) framework, and may provide

their workers and owners with a higher income than in the formal sector.

The informal sector tends to include a particularly high proportion of service activities. Several developing countries have a high share of services in employment (and in GDP), as compared with the proportions in now-developed countries when they were at similar income levels. Except for a few cases, this high ratio of tertiary to secondary employment cannot be attributed to any kind of economic specialization, be it financial intermediation or tourism. The bulk of such tertiary employment represents the enormous variety characterizing the self-employment and ways of earning a living identified also as belonging to the informal sector—extending literally, from the work of the cigarette vendor to that of the intrepid construction manager.

The informal sector in developing countries, unlike that in other economies, is not identical with the so-called illegal, second, or shadow economy. Even though the activities of the informal sector are generally not registered or at best incompletely recorded in official statistics, their owners are not necessarily trying to avoid registration; their absence in unemployment measures is oftentimes a function primarily of the weakness of the local statistical system. None the less, a good proportion of this activity is actually trying to evade fiscal and labour regulations. The fact remains, though, that the activities themselves did not necessarily originate for these reasons.

61 per cent of the urban labour force.⁴⁹ In Mexico City, informal employment was estimated at about 23 per cent on the basis of 1980 census information.⁵⁰

The function attributed to "underemployment"—of offering a brake to the rise of open unemployment—is also attributed to the informal sector; but measurement of either informal sector employment or underemployment is not straightforward (see box VI.5). ILO states that the informal sector is increasingly becoming the employer of last resort in urban Africa;⁵¹ but the rise in the informal sector is not always sufficient to avoid a rise in open unemployment, as is evident from the analysis of the experience of stabilization and adjustment with negative or slow growth in several countries.

MIXED SIGNALS IN THE 1980S

Available data suggest that the number of unemployed continued to reflect the rising trend of the 1970s throughout most of the 1980s in the majority of developing countries; but because of the substantial growth in the labour force, this did not everywhere entail a rise in the rate of unemployment. Measured by the rate of open unemployment, which, as argued, is largely confined to urban areas, the employment situation appears to have improved, particularly since the second half of the 1980s and in more recent years. This was notably so in the fast-growing Asian newly industrializing economies (NIEs), which have recently been suffering from labour shortages, and in several Latin American countries, where open unemployment re-

BOX VI.5.

Measuring unemployment and the informal sector

Because estimates of open unemployment understate the severity of the unemployment problem in developing countries, alternative and supplementary measures have been suggested, but they all are problematic. Thus, as argued by ILO, part of the group of employers and own-account workers and all unpaid family workers are logically not at risk of becoming unemployed in the sense of seeking work for pay or profit since the work they perform is not for pay or profit, and they should therefore not be included. Open unemployment should as a result be compared with the category "employees" as a proxy measure of the workforce at risk of becoming unemployed. The rate of employee unemployment measured in terms of total employees tended to be double or more—and in some cases very much greater than—the rate calculated as a percentage of the labour force.^a Whereas the traditional measure understates, the alternative overstates, particularly in countries in which agriculture is still the dominant sector. In the end, the most that can be gleaned from such measures is the importance of employees in the labour structure.

The most common approach to dealing with the limits of open unemployment as an adequate gauge on the unemployment problem starts from the concept of underemployment and takes the time worked as the defining variable. As such, it is a measure of "visible underemployment". It includes people who work part-time or shorter working hours but would like, and are physically able, to work longer. The problem is where precisely to choose the cut-off point for categorizing such persons as underemployed. The practical result has been a number of estimates using different operational definitions based on length of working time for segregating the employed from the underemployed. In some cases no such line is drawn, and visible underemployment is counted as comprising the part-time employed who want a full-time job or just those working short hours.

Conducting sample labour surveys in rural areas is often difficult or virtually impossible. As a result, another methodology has occasionally been used: it compares the hourly labour requirements of different crops during the year, at the given state of technique, with the quan-

tity of equivalent labour available, thereby yielding some estimate of the underutilization of the labour force. Once the estimate is expressed in terms of the number of workers and related to the economically active population, a proxy for the rate of underemployment is obtained. Despite their appearance of high precision, these estimates by their nature are at best very rough approximations. Given the variety of definitions and results, cross-country comparisons and regional aggregates are virtually meaningless.

Very often people can be working up to the limit of their energy, yet be unable to earn a living. Thus, if there are too many goatherds for the number of available goats, perhaps none can be kept fully occupied in the herding activity. The term "invisible underemployment" (or disguised unemployment) has been used to characterize those occupied in activities with low incomes and/or productivity, as well as in activities in which their qualifications are not utilized. In most cases, invisible underemployment comprises the employed whose earnings lie below a given level, though the assumptions that low productivity equals underutilization of labour and that incomes reflect productivity are doubtful. Such an estimate of unemployment implies the drawing of a poverty line (such as an estimated subsistence minimum or the legal minimum wage) below which people are counted as underemployed, but that by itself does not convey information on employment conditions. Furthermore, different definitions of the cut-off point complicate comparisons over time (for instance, in case of adjustments for purchasing power) for and across countries. Moreover, there is considerable controversy about the relevance of measuring underemployment in terms of income. At any rate, after attempts in the 1970s, efforts to assess unemployment in this manner have faltered.

By its nature, the "informal sector" is rarely captured in official statistics, including notably those collected and disseminated by ILO. The latter's data refer chiefly to "formal sector" employment. For some countries, data are available for the categories "employers and own-account workers" and "unpaid family workers" in urban areas. Those data are indica-

tors of informal sector employment, assuming that "modern employers" constitute a small proportion of the first category. This is not to say that the total number of self-employed plus unpaid family workers can simply be equated with underemployment or with the working

poor; but it seems reasonable to assume that a rise in urban activities with low productivity and low earnings is reflected in an increase in the number of those belonging to the categories of self-employment and unpaid family work.

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- a For example, unemployment in Mali was 31 per cent of employees but only 1.9 per cent of the labour force (J. N. Ypsilantis, "Measuring unemployment severity: an alternative approach", paper presented to the meeting of the Administrative Committee on Coordination (ACC) Task Force on Long-term Development Objectives, Geneva, 24-26 February 1982).
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ceded from very high levels incurred in the early 1980s. In many other countries, however, unemployment rates in the early 1990s are higher than those observed in the early or mid-1980s.

In a large number of developing countries, open unemployment has assumed chronic proportions, meaning that the rate has remained persistently high—mostly at the double-digit level—over a sustained period of time. Some Caribbean countries, Panama, Sri Lanka and Uruguay are examples. The same probably applies to many African countries, but data are highly incomplete and not very reliable. However, there is ample, if scattered, evidence to the effect that unemployment in urban areas has remained high or increased; it now hovers between 15 and 20 per cent in sub-Saharan Africa.⁵² This is hardly surprising, given the low output and high population growth throughout most of the region.

Among the more transitory causes was economic recession, which hit very hard a large number of countries in Latin America and the Caribbean in 1981-1983 and led to a steep increase in unemployment. With the exception of Argentina, unemployment in those countries was later reversed, beginning with the second half of the 1980s. In several of those countries, unemployment rates are currently lower than a decade ago (see table VI.7).

The countries experiencing a very steep increase in the absolute and relative magnitudes of open unemployment during the preceding decade had been the exception (namely Argentina, Barbados, Bolivia, Israel, Nicaragua, Pakistan and Trinidad and Tobago); several others reported a much smaller rise in unemployment than had been experienced earlier. The causes of the sharp upward drift in the enumerated countries were various. In some, like Argentina, the main culprit was the lack of growth with a prolonged period of decline in investment and accelerating inflation; more recently, policies to suppress inflationary expectations have confined the scope for flexibility, hence for job creation. The adverse economic environment similarly explains a good deal of the deteriorating employment situation in Barbados and Trinidad and Tobago. In some other countries, notably Israel, the rise in unemployment

since 1989 has derived mainly from low growth and the large influx of migrants, in particular from Ethiopia and the former Union of Soviet Socialist Republics.

DIVERSE EMPLOYMENT SITUATIONS

A good part of the diversity of the employment situation in developing countries derives from fundamental differences in development experience. In the majority of countries in sub-Saharan Africa, overall open unemployment appears to be low; but this stance derives largely from the fact that two thirds of the population still resides in rural areas with most of its labour force self-employed in some format, including the extended household. For example, wage employment was about 19 per cent of the labour force in Nigeria in 1986, suggesting widespread disguised unemployment. Open unemployment is substantial in urban centres, and after decades of economic stagnation, it is likely to have increased.

Throughout Latin American and the Caribbean, the process of urbanization is much older, and more than two thirds of the population lives now in urban centres. Unemployment is therefore basically an urban phenomenon. Differences in unemployment rates among countries are large and have varied considerably over time, depending on the evolution of output growth. Unemployment trends are by and large related to the stage of economic stabilization and adjustment programmes in the various countries. Open unemployment between 1985 and 1992 declined in the majority of these countries, on average from some 10 per cent in 1985 to just over 7 per cent in 1992. This derived to some degree from the fall of real wages throughout the 1980s and the expansion of the informal sector.⁵³

The experience of another group of now highly urbanized countries—the Asian NIEs, including notably Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China—offers a marked contrast to the preceding discussion. Because of strong growth sustained over a prolonged period of time, those countries have come to grips with their unemployment "problem"; some are in fact now facing labour shortages. Unemployment in these countries has either remained low or declined significantly

Table VI.7.
 Developing countries: rates of open unemployment
 (Percentage of labour force)

	Early 1980s (1980)	Mid-1980s (1985)	Early 1990s (1992)
Africa			
Algeria	..	..	21.1 ^a
Burundi (Bujumbura) ^b	..	..	0.5 ^a
Egypt	5.2	6.0 ^c	10.6 ^a
Ethiopia ^b	..	..	0.3
Ghana	1.2	0.4	..
Morocco	..	13.5	15.4 ^d
Seychelles	5.2	22.5	..
South Africa (excluding 10 towns)	5.0 ^e	8.1	8.6 ^a
Sudan	13.2 ^f	12.1	..
Latin America			
Argentina (Gran Buenos Aires)	2.3	5.3	7.3 ^g
Bahamas	..	12.2 ^h	14.8
Barbados	11.4	18.7	23.0
Bolivia	5.8	18.0	19.0 ^d
Brazil (excluding rural in 6 provinces)	4.3 ⁱ	3.4	3.7 ^d
Chile	10.4	12.1	4.4
Colombia (7 main cities)	9.1	14.0	10.2 ^d
Costa Rica	5.9	6.8	4.1
Ecuador (urban areas)	..	7.2 ^j	5.8 ^a
El Salvador (urban areas)	..	9.4 ^k	7.9
Jamaica	27.3	25.0	15.7 ^d
Mexico (3 largest metropolitan areas)	4.2 ⁱ	4.4	2.8
Nicaragua	..	3.2	14.0 ^a
Panama	8.4 ^e	12.3	13.6
Paraguay (metropolitan area)	5.6 ^e	5.1	5.1 ^a
Peru (Lima)	7.0	5.3 ^h	5.8 ^a
Trinidad and Tobago	10.0	15.5	18.5 ^a
Uruguay (urban areas)	..	10.7 ^h	9.0 ^a
Venezuela	6.4 ⁱ	13.1	9.5 ^a
Asia			
China (urban areas)	4.9	1.8	2.3
Hong Kong	3.8	3.2	2.0
Israel	4.8	6.7	11.2
Pakistan	3.6	3.7	6.3
Philippines	4.8	6.1	8.6
Republic of Korea	5.2	4.0	2.4
Singapore	3.0	4.1	2.7
Sri Lanka	14.2	..	14.1
Syrian Arab Republic	4.2 ^f	4.7 ^c	6.8 ^a
Thailand	1.3 ^l	3.7 ^c	2.2 ^d
Turkey (urban areas)	..	11.2	7.8

Source: ILO, *Yearbook of Labour Statistics*, various issues.

- a 1991.
- b As percentage of economically active population.
- c 1984.
- d 1990.
- e 1982.
- f 1983.
- g 1989.
- h 1986.
- i 1992.
- j 1987.
- k 1988.
- l 1981.

over the decade. In the Republic of Korea, for instance, unemployment continued to decline from about 5 per cent in 1980 to less than 3 per cent in 1992. In countries where the process of rapid industrialization has been accompanied by a marked decline in population growth, the problem at present is not unemployment but labour shortage.⁵⁴ The deficit is being partly met by migrant workers, some official but others informal, from the poorer countries in the region (including the Philippines). It is also being alleviated through relocation of the more labour-intensive activities towards countries, such as Indonesia, Malaysia and Thailand, that are at an earlier stage of export-oriented industrialization (see chap. II).

Another group, mainly large and populous Asian countries, has bolstered the agricultural sector for employment growth. Urban unemployment is lower in that group because rural-urban migration has been deliberately slowed down. Moreover, non-farm rural employment has a higher weight than elsewhere. In China, besides official restrictions on mobility, a rapid growth of non-farm rural employment linked to successful agricultural performance and a rise in farm incomes has so far on the whole kept the rural exodus within bounds; but some erosion appears to be taking place in conjunction with the very rapid—and geographically speaking, markedly uneven—output growth that China has experienced in recent years. Recently there have been press reports about an increase in urban unemployment in China. Rural urban migration is accelerating owing to the pull provided by the economic boom, overall liberalization of the economy (which reduced the ability to control movements of labour) and a push factor in that land is being converted from agricultural to industrial use. New migrants are arriving at the train stations of the booming cities as fast as or faster than they are being absorbed.

Similar patterns of rural employment creation can be detected in the experiences of India, Indonesia and some other Asian countries. Non-farm activities absorbed about one third of the rural labour force in Bangladesh, Pakistan and the Philippines, 38 per cent in Indonesia (Java) and above 45 per cent in Malaysia and Sri Lanka.⁵⁵

Off-farm industries in rural areas depend mainly on the demand, and thus the rise in incomes, of the agricultural sector. Nevertheless, a rise in agricultural incomes does not always provide an impetus to successful "village industries". This appears to be largely an Asian phenomenon in any case.⁵⁶ In Africa, the weaker link may stem from the generally looser relationship between agriculture and industry, because agriculture there relies much less on purchased inputs. For Latin America, the predominance of large-scale estate and commercial farming with weak contacts with local communities offers an explanation.⁵⁷

Spending on rural public works, such as for large-scale irrigation projects, has been an important element in

the creation of non-farm rural employment, notably in China and India. Also in Bangladesh, labour-intensive rural public works, such as irrigation and flood-control infrastructural projects, have been undertaken in the framework of its "food-for-work programme". High public sector employment is another characteristic of this group of Asian countries, in particular China and India, but this is not typical of the region as a whole. In some Latin American countries as well as in Africa, the Mediterranean and West Asia, the public sector has been a large employer since the early development stages or has acted as a shock absorber.

In India, besides the large state sector, labour legislation mandates government control over private employers' right to dismiss workers. The controversy over whether this helps or hampers employment continues unabated. Thus, industrialists claim that India's labour legislation is dampening competitiveness and that the growth of employment is less than it would otherwise be. They contend that entrepreneurs would be reluctant to hire new workers because they were unable to fire workers in loss-making firms. As part of the pro-market reforms launched in mid-1991, the Government intends to restructure the country's labour legislation. The process is likely to be slow, however, because it will tend to raise unemployment in the short run, thus weakening political support for further economic liberalization.⁵⁸

STABILIZATION AND ADJUSTMENT

A key feature of rising unemployment in the 1980s derived from the measures adopted in the context of stabilization and adjustment programmes. Virtually all were associated with a compression of output, employment and real wages in the short term. In some cases, target policies to reduce the number of civil servants and employees of state enterprises as well as dismissals in the wake of divestment were the main factor. Substantial and protracted increases in open unemployment, despite expansion of the informal sector and strong declines in real wages, are short-term consequences of the stabilization and adjustment experience of many countries.⁵⁹

Overstaffing in public services and in state enterprises has frequently been cited as a symptom of employment difficulties in developing countries, where the share of the public sector in total employment is often high. The corollary is that any effort to reduce public employment as part of measures aimed at reducing the budget deficit has a larger impact on overall employment and on real wages. Bolivia is perhaps an extreme example. To come to grips with hyperinflation, it undertook drastic adjustment after 1985, including the firing of public employees and workers in state enterprises (20,000 tin miners alone). About one quarter of the public sector labour force was cut. By 1988, with weak economic growth, the unemployment rate had

risen to nearly 12 per cent from about 6 per cent in 1985. This occurred despite the expansion of the informal sector and a decline of some 25 per cent in real wages during the period, on top of the massive erosion incurred earlier during the phase of hyperinflation.

In principle, such increases in unemployment, like other social costs, should be transitional, pending the correction of previous macroeconomic imbalances, and the unemployed should be reabsorbed as normal growth resumes. However, the transition can take a long time. In Mexico, for instance, there was an interval of seven years between the start of a stabilization programme and the resumption of growth. In Bolivia, only in 1991, six years after the stabilization programme had started, did economic growth improve somewhat, but not yet enough to reabsorb the previous increase in unemployment. Increases in unemployment have to be acknowledged, together with other social costs, as the inevitable concomitant of structural adjustment policies. This implies that the political feasibility of an adjustment programme might depend on measures taken to alleviate its impact on certain groups of the population, a circumstance that deserves to be taken into account not only at the country level but also in policies being propounded by those providing external assistance.

EXOGENOUS FACTORS

In a number of developing countries large rises in unemployment in the early 1980s and early 1990s were caused by sudden shocks that were not immediately related to the structure of the economy, in combination with new approaches in economic management or in policy orientations. War, demobilization, large and sudden migrant reflux, natural calamities, the need to adjust to external shocks, economic embargoes, and so on—all can, in specific circumstances, cause unemployment to rise suddenly. Depending on the country's economic flexibility or capacity to react, the higher unemployment levels thus obtained can remain as they are for quite some time.

Soaring international interest rates, the unanticipated and persistent decline of commodity prices and the withdrawal of commercial loans to developing countries in the early 1980s called for major adjustments in economies characterized by structural rigidities and by low labour mobility. While agriculture was less affected by these developments, the demand for labour in the urban areas of countries with external-debt problems fell dramatically. The need to undertake sizeable fiscal adjustments led the public sector in many countries to shed labour in unprecedented amounts. Also, the import constraint of capital goods and particularly that of intermediate goods severely affected the manufacturing sector, and industrial production contracted as a result. The acute limitations imposed by high debt-service burdens subsided in several of these

countries in the second half of the 1980s. None the less, only in a limited number has economic growth been strong enough to have a decisive impact on urban unemployment.

On the other hand, the ravages and economic disorganization caused by war have led to the suspension of agricultural activities, causing idleness and famine, in various parts of Africa, including Angola and Somalia, but also other areas. In such conditions, the core issue is not creating employment but building the foundations for peace and sustaining it; but this in itself cannot be a panacea. Since the late 1980s, demobilization has become an important component of the employment situation of various countries. The end of the cold war allowed for the termination of some of the armed conflicts in developing countries, such as Cambodia, El Salvador, Ethiopia, Haiti, Liberia, Mozambique, Namibia, Nicaragua and Sierra Leone, with immediate consequences for other countries involved in the conflicts (such as Eritrea, Uganda and Viet Nam). In several cases, at best a fragile peace is holding. In some countries, new armed conflicts have since been launched; those countries include Rwanda, where the conflict has had repercussions for other parts of Africa, and several of the successor States of the former Soviet Union and of the former Yugoslavia.

Absorbing demobilized soldiers into an already difficult labour market is part of the process of achieving some measure of sociopolitical stability. In other cases, defence expenditures are being cut in the context of adjustment and stabilization programmes. The simple demobilization of soldiers, leaving former combatants without means of providing for themselves and their families, could endanger the peace process and exacerbate an already fragile sociopolitical situation. The ways and means of reintegrating them into the labour market is being further complicated by the fact that so many former soldiers have little experience with civilian life, and are without housing, savings and marketable skills; in addition, many are in poor health.

Eritrea is still in the process of creating employment for almost 100,000 members of its liberation army demobilized since the achievement of its independence in April 1992. Uganda, as part of a World Bank-supported economic recovery programme, started end-1992 to carry out an ambitious plan to demobilize some 45,000 soldiers, which will reduce by half the size of its army. The demobilized soldiers are being gradually relocated to their villages and provided initially with cash, tools and food for a few months. A similar programme to reinsert ex-combatants, which goes beyond merely disarming them in preparation for elections, is being implemented in Mozambique and could give the peace process in that country a more solid foundation. The same type of reabsorption of ex-combatants into economic life has yet to take place in El Salvador. Viet Nam, despite rapid economic growth in the

last years, has yet to overcome the impact on unemployment of the demobilization of almost half a million soldiers following their withdrawal from Cambodia after the peace accords of 1989.⁶⁰

Another adverse circumstance of the employment situation of many developing countries in recent years has been the reflux of the substantial wave of earlier emigration. One important contributing factor was the Gulf crisis, which forced more than 2 million migrants to return to their home countries. Some, notably Egypt, Jordan, Yemen (which faced a return of just under 1 million individuals) and several countries in South and East Asia, have not yet succeeded in reabsorbing this massive reflux of migrant workers, even though emigration to the Gulf area resumed after war's end. This return has exacerbated already high rates of unemployment.⁶¹ Turkey had not only to face the return of its own nationals but also to come to grips with a sizeable number of refugees.⁶²

Large-scale return of migrant workers or repatriation of refugees in the early 1990s aggravated the employment situation in developing countries that had not traditionally been in the vanguard of out-migration. In addition to demobilization, Viet Nam faced the repatriation of 30 thousand "boat people" and of some 200,000 workers whose jobs had been eliminated by the dismantling of the Council for Mutual Economic Assistance (CMEA) and the economic difficulties of its member countries. Also, Israel had to cope with a sudden influx of some 300,000 immigrants between mid-1990 and end-1991, mostly from Ethiopia and the former Soviet Union; because a high share of Soviet immigrants are professionals, they face problems in obtaining jobs in a country that has a surfeit of professionals.⁶³ Likewise in Mozambique: reinsertion has to be supported with respect not only to ex-combatants, but also to returning refugees (some 600,000 by early 1994, yet only one third of the total) as peace gets under way. Over 350,000 refugees from Cambodia and over 1.5 million from Afghanistan returned to their country of origin during 1992-1993.⁶⁴

EMPLOYMENT PROSPECTS

The rate of growth of population in developing countries started slowing in the 1970s. The slowing of the population growth rate is now a feature, albeit with variations, of most developing countries. The notable exception is Africa as its population continues to grow by some 3 per cent per year (as compared with 1.4 per cent in China and 1.9 per cent in India, for example). In Africa, the demographic transition is expected to begin only in the second half of the 1990s.

From roughly 2.5 per cent per year in the mid-1960s, it is estimated that population growth in developing countries will drop to somewhere below 2 per cent per year during the second half of the 1990s. Since the slow-down in population growth affects the growth of the labour force only after a lag, and since there is no trend indicating lower participation rates, the labour force in the developing countries will in the aggregate continue to grow substantially for some time to come; but here too, there are large differences among countries. While there might be very little natural growth in the labour force in Hong Kong, the Republic of Korea, Singapore or Taiwan province of China, in many countries the labour force is still growing at some 4 per cent per year.

Sustained economic growth is needed not only to absorb the new entrants into the labour force but also to reduce the currently existing levels of involuntary unemployment and underemployment. The experience of countries that are presently encountering labour shortages suggests that sustained growth of some three to four percentage points above population growth is required to make a difference in the employment situation. If developing countries continue to grow on average at the rate of some 5 per cent per year, as has been reached in recent years, there is hope that measurable progress will be achieved in reducing unemployment and underemployment over the medium-to-long term.

SYSTEMIC TRANSITION AND EMPLOYMENT ISSUES

The range and severity of the problems involved in identifying the involuntary unemployed, in quantifying their salient features, in otherwise detailing the behaviour of economic agents during systemic transformations, and in embracing constructive measures designed to combat unemployment are especially daunting in transition economies.⁶⁵ This stems in part from a deficient institutional infrastructure for assessing the situation in labour markets and for formulating and implementing labour market policies. Another complication for policy is that the labour market situation in most of these countries could further

deteriorate in the next several years. Putting in place remedial measures depends in large part on the regaining of substantial and sustainable growth.

It is now clear that the problems of rapidly rising unemployment and the generating of employment opportunities in the transition economies are much more severe than had earlier been anticipated. They stem in large part from the legacies of central planning; however, specific features of the transition policies pursued to date and of institutional changes embraced by these countries since 1989 have resulted in a worsening of the employment

situation. In addition, most of these countries experienced chronic disguised unemployment,⁶⁶ a problem central planning could not solve. Planning only managed to suppress some of the underlying conditions of low-level economic development, which is why the degree of disguised unemployment under planning is now slowly coming into the open. At the same time, some part of the employment problem in these economies stems from demographic factors. The working-age population in the more populous of the transition economies (particularly Poland and Romania, and to a lesser extent the Czech Republic and Slovakia) is due to rise during the 1990s. That other countries (particularly Bulgaria and Hungary) will soon face a rapid rise in the number of aged persons relative to the working-age population⁶⁷ ushers into the debate a completely different set of social policy issues.

LABOUR MARKETS UNDER CENTRAL PLANNING AND THEIR LEGACIES

For over four decades in eastern Europe⁶⁸ and even longer throughout most of the former Soviet Union (except the Baltic States), open unemployment was all but non-existent. Not only was every able-bodied person above school age and under retirement age entitled to a job, but in many countries it was a specific legal obligation for every such person to be gainfully employed, largely within the socialized sectors (namely state and cooperative undertakings), although private agriculture remained the dominant form of rural organization in Poland. The State assumed responsibility for creating employment opportunities, primarily in the state sector. As a result, the working-age population—except the indigent, students, the clergy, home-makers, those temporarily on work leave (such as mothers on maternity leave) and some workers who voluntarily eschewed statutory retirement—essentially coincided with the labour force as a whole.

Job security was deeply anchored in the socialist welfare state and the stigma of being jobless was pronounced; it lingers even at this stage, particularly in most of the successor States of the Soviet Union. Citizens had come to take this form of social security as an acquired right largely independent of actual work performance. One of the consequences of this situation was exceedingly high participation rates, though with variations among the countries.⁶⁹ Seen over the longer haul, participation rates during the decade preceding the political revolution, when they had declined in several countries as compared with levels observed at the peak of socialist industrialization, ranged on average from some 70 per cent in Hungary to some 80 per cent in the former Czechoslovakia; in OECD countries, the comparable participation rate was around 70 per cent in 1989. Though lower than for men, female participation was particularly high when compared with that of most other countries. The relevant rate ranged from

some 60 per cent in Hungary to about 75 per cent in Bulgaria and Czechoslovakia; the comparable figure for OECD countries, for example, was about 60 per cent.

Another feature of the planned economies was that the vast majority of new jobs tended to be created in heavy industry. Services not directly related to material production were as a rule given short shrift in development priorities throughout most of the post-war period. However, in some countries changes away from the strong priority accorded to heavy industry in favour of light industry and some “non-material” services had already started well before the recent transitions got under way. This explains in part the dynamics through which lay-offs or quits in the industrial sectors have recently been absorbed in part into emerging private activities, as detailed below.

At some stages of their evolution, the planned economies also managed labour markets by assigning individuals to jobs or by confining the geographical mobility of workers. Even without such measures, labour mobility remained confined by the housing shortage and the housing allocation system. At the same time, the planned economies associated some jobs with low-cost housing, particularly in the state sector. Employment also eased access to schools, and in-house training and medical care, including hospitals and sanatoriums; and arranged for privileged availability of consumer goods, health-care institutions, child-care and nursery facilities without which female participation would have been far lower than it was, and a variety of leisure activities in some cases. These and related perquisites had little to do with actual job performance or strict labour productivity. The enumerated non-wage social and other benefits facilitated “organized” labour mobility, but discouraged voluntary mobility.

A rationale of this policy can be found in various features of administrative planning. Organizationally, the delivery of social welfare provisions that the State had committed itself to ensure was thus strongly decentralized. Beneficiaries could be reached directly with minimal transaction costs. This was a not inconsiderable benefit, given the poor infrastructure in some of these countries, notably the former Soviet Union;⁷⁰ but it remained so only for as long as the system could be safeguarded against the eventually staggering costs of rent-seeking and, in some cases, outright corruption. Furthermore, because socialist development policies sought to appropriate resources largely on the basis of instruments other than those typical of market-type allocation, this employment system in principle ensured the physical distribution of many goods and services in accordance with societal precepts rather than individual preferences.

Housing at very low rents was one of the most important services thus provided. This hindered labour mobility.⁷¹ Workers bent on moving had not only to find a new

job, but also to identify a package of non-pecuniary benefits associated with the new workplace but independent of their productivity. Particularly as far as housing was concerned, this practice limited mobility. In the case of enterprise-owned housing, some lock-in of employment was even more binding. Not only did these circumstances inhibit the emergence of a real-estate market, there was a chronic undersupply of housing in spite of planning, especially in urbanized areas where the vast majority of industrial firms tended to concentrate.

TRANSITION POLICIES AND EARLY RESULTS

The abrupt transitions starting in the late 1980s have shattered the formerly secure right to work, and in many cases the right to social security more generally. The favourable environment that followed the abandonment of administrative planning and the ushering in of elected Governments had led to expectations that privatization would bring new employment opportunities and yield tangible income and wealth benefits. Those benefits were to have been propelled in part by liberalization of domestic markets and opening of the economies to global competition on the basis of market criteria and with the full assistance of market-based instruments. The combination of rapid divestiture of state-owned assets and the emergence of new firms founded by domestic and foreign agents was expected to provide the impetus to this type of renewal with minimal disruptions.

In fact, employment has precipitously declined in a number of transition economies. The sharp rise in unemployment explains only part of this decline. All countries have sustained substantial output losses, albeit with considerable variations as to timing and depth. The decline in employment levels has been accompanied by a booming private sector, which has created some new jobs, particularly in previously neglected or suppressed trading and service activities. The pace of such expansion throughout these economies has been frenetic, albeit from very low levels (see chap. II). In a number of these economies, the successful restructuring of state-owned enterprises, pending either divestment to private owners or reforming of the remaining public sector, has begun; but much remains to be done before these economies possess a "normal market". In any case, the pace of new job creation has remained on a scale well below what most observers and policy makers had earlier anticipated.

There can be no doubt that the new privatized economic activities—but not the large companies, where labour-shedding has been more common—have created many new employment opportunities. None the less, the decline that has characterized the region since 1990 has prevented the emergence of a large impetus to job creation. For reasons of social and political stability, many of the Governments of the transition economies have been reluc-

tantly endorsing ways of maintaining employment in public firms, in some cases even after nominal divestment. Furthermore, it has proved to be much more difficult to abolish or reform social welfare provisions traditionally passed on through the socialized sectors.

Outright subsidies to existing activities have been reduced in virtually all transition economies. In some, however, these transfers have for now been replaced with temporary devices, of which the granting of credit—on a basis that has little to do with the borrower's creditworthiness—has been the most common;⁷² but there have been other facilitations, such as fiscal easements and greater protection against foreign competition than decision makers would otherwise have wanted to institute. This means that further sizeable streamlining of the economy, and notably employment, must be reckoned with for some time to come.

Rates of open unemployment have risen to very high magnitudes—around 15 per cent, except in the Czech Republic and the successor States of the former Soviet Union—though unemployment trends have lagged the cut-backs in aggregate output to a greater extent than has customarily been observed in developed market economies. This contrast suggests apparent labour hoarding, with some abatement recently beginning to occur in certain economies. The implied drop in average labour productivity levels⁷³ has been slowly reversing itself only in a few countries, including notably the Czech Republic and Poland, and this achievement is expected to be sustained in the near term. Such encouraging trends have perhaps been under way also in Albania, Estonia and Hungary, which are all promising candidates for emulation of the Czech and Polish experiences beginning in 1994. Yet on the whole, the unemployment situation is likely to worsen well beyond the duration of the contraction in economic activity,⁷⁴ partly as a result of major sectoral shifts induced by the marked mutations in economic structures.

With the redirection of resource allocation in tune with market-based decision-making, activities of firms have become increasingly focused on their commercial tasks. Newly established firms will not offer their workers the kind of non-labour services whose provision had traditionally inhered in being employed by a state-owned firm. Once this separation of functions begins to take root, many problems arise, in particular, who will provide these services, how they will be financed, who will be responsible for the associated assets and how the population at large will be able to afford such services—fully or partly commercialized—which in some cases are essential (housing, medical care, and nurseries). Government budgets are not able to fully fund these services, especially since the benefits of such activities are frequently captured by those best placed in the privatization process, while the obligation to deliver the services end up being entrusted once again to

government. Because the private sector is yet unable to provide such services on a competitive commercial basis or through voluntary charities, the result is often a marked decline in their availability during the early phases of the transition, when the need for a broad social safety net tends to be most pronounced.

The problem is not solely who will henceforth provide those goods and services effectively and how quickly this transformation can credibly materialize so that at least essential services can be maintained in the interim. Arguably even more important is the question of the prices at which these outputs will henceforth become available, for the change in relative prices against the erstwhile free or nearly free social benefits of employment and of welfare cannot but drastically affect the allocation of family budgets. Also critical is how soon such market-based pricing can realistically be enforced, for there is a limit to how much of the real cost the consumer can absorb in the short run. These crucial issues provide the link between privatization and divesting of state-owned firms of their non-commercial operations and the emergence of new, private economic and other agents.

Similar questions arise with respect to the various aspects of enhancing flexibility in labour markets. Thus, none of the transition economies has thus far succeeded in enforcing market-based rents, except in the thoroughly privatized sector, where the owner can negotiate his or her own rental conditions.⁷⁵ In most countries, essential utility charges, such as electricity and energy, and a range of other services continue to be heavily subsidized. All this complicates the process of ensuring that adequate goods and services will be kept available, given the weakened state of government budgets, and that those operations can be run profitably without creating monopolies.

In most of the successor States of the former Soviet Union, however, the difficulty of transferring the task of providing the services still performed by state-owned firms to fully or quasi commercialized operations has posed a major obstacle in bringing about a restructuring of the labour force. Many of the state-owned firms or even those ostensibly privatized but largely turned over to management and workers, particularly in the Commonwealth of Independent States (CIS), are currently short of cash to pay their wage bills and have furloughed a sizeable proportion of their staff. Most of these workers continue to be on the enterprise roll but not on the payroll, if only to preserve continuous access to non-wage benefits (particularly housing, canteens and essential medical services), as well as to avoid the stigma of unemployment, to reserve their right to shares in companies if and when privatization gets under way and to be able to cherish the hope of being rehired in better times. Among other factors partly explaining overstaffing are calculations regarding the benefits of preserving "human capital" and "worker support" in pri-

vatization campaigns. As a result, the bulk of existing state enterprises continue to be a repository of a substantial part of the real labour redundancies in these countries.

New employment has in fact been assured not from the pool of the unemployed, but by recruiting new entrants into the labour force or hiring away those in the state sector. There are many reasons to explain the latter phenomenon, including that connected with the embodied knowledge that "insiders" carry with them particularly when placed in the context of massive divestment. This is especially valuable in the emerging market economy based on private property, whose "new" agents are to a significant extent unfamiliar with the past and the business environment characterizing these countries.

DECLINING EMPLOYMENT AND RISING OPEN UNEMPLOYMENT

One important feature of the transition has been the rapid decline in absolute levels of employment, from some 191 million in 1989 to perhaps 180 million in 1992—a reduction of 6 per cent—and even less in 1993, although final data are not yet available. Some contraction had been anticipated, given the disguised unemployment under administrative planning and high participation rates. Yet, substantial decline in employment became unavoidable, given the depth and duration of the unanticipated sharp economic contraction.

Table VI.8 shows indices of the evolution of employment since 1989. For eastern Europe as a whole, employment levels in 1992 had receded by some 12 per cent, but the range for the various countries extended between 28.7 per cent for Bulgaria at one extreme and 4.5 per cent for Romania at the other. Preliminary indicators and more qualitative policy statements suggest that in most countries this downward trend continued into 1993, albeit at a more moderate pace; but in some, a reversal occurred. The decline in employment has been much smaller in the Baltic States (only 4.4 per cent for the group) and indeed in the other successor States of the former Soviet Union (2.4 per cent on average), though the pace appears to have accelerated in 1993. In some of the latter (particularly the Central Asian States other than Kazakhstan), in fact, employment levels are reported to have increased, in some cases by up to 8.5 per cent between 1989 and 1992. Some of the severe measurement problems discussed earlier undoubtedly confound matters here.

In contrast to overall developments, employment levels in the non-state sector have risen rapidly throughout the transition economies for which data are available; but the trend would seem to be much wider, judging by anecdotal observations, than the available data indicate. Table VI.9 presents the available evidence in terms of share of total employment. The share has unquestionably risen and is partly genuine; but to a large extent, notably for the suc-

Table VI.8.

Transition economies: employment, 1990-1993
(Mid-year estimates: 1989 = 100)

Country	1990	1991	1992	1993
Eastern Europe (total)	96.7	92.7	88.4	..
Albania	103.1	96.5	76.3	..
Bulgaria	93.9	81.7	71.3	68.4 ^a
Czech Republic	99.1	93.6	91.2	87.4 ^b
Slovakia	99.2	91.3	86.5	..
Hungary	99.4	96.8	88.0	88.7 ^b
Poland	93.8	90.3	88.3	88.4 ^b
Romania	99.0	98.5	95.5	95.2
Baltic States (total)	98.4	99.3	95.6	..
Estonia	98.0	98.5	92.4	..
Latvia	100.1	99.3	95.6	..
Lithuania	97.4	99.7	97.1	..
Soviet Union without Baltic States/CIS and Georgia (total)	99.7	99.1	97.6	..
Armenia	101.9	104.5	98.6	..
Azerbaijan	99.8	103.8	98.1	..
Belarus	99.1	96.6	94.0	..
Georgia	103.7	93.2	72.2	..
Kazakhstan	100.8	99.9	98.1	..
Kyrgyzstan	102.8	101.8	103.8	..
Republic of Moldova	99.1	99.0	98.0	..
Russian Federation	99.0	98.2	96.2	90.2
Tajikistan	102.0	103.7	100.4	..
Turkmenistan	102.8	104.8	104.9	..
Ukraine	99.4	98.2	94.3	..
Uzbekistan	104.2	109.2	108.5	..

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

- a March 1993.
b June 1993.

cessor States of the former Soviet Union, it derives from the way in which the new data are assembled and reported. Thus, with the transition, all cooperative and joint-enterprise undertakings have in some countries become classified as private. Furthermore, many undertakings that are no longer classified as state firms are in fact only leased to private managers. In some cases, the contrast between the private and the non-state sectors is striking.⁷⁶ Moreover, those employed in small private firms or in the informal sector, which is non-state by definition, are simply not captured by these measures. All this suggests that, at the very least, caution should be exercised in equating the non-state sector with the private or privatized sector, particularly in most of the successor States of the former Soviet Union. At the same time, the private sector, which started from a very small number of establishments with a low share in aggregate output (except in Poland, where agriculture had remained largely in private hands), has mushroomed rapidly, although it remains an open

Table VI.9.

Transition economies: non-state employment, 1990-1993
(Percentage of total employment, end of period)

Country	1990	1991	1992	1993
Eastern Europe				
Bulgaria	3.9	10.1	14.1	23.5
Czech Republic	8.1 ^b	19.9 ^b	..	40.0
Slovakia	4.9	12.8	17.0	..
Hungary	34.0	35.8	..	..
Poland	33.6	40.3	44.4	..
Romania	6.9	12.0	..	..
Soviet Union without Baltic States/CIS ^a	22.0	28.2	..	..
Armenia	21.5	22.9	..	..
Azerbaijan	25.2	32.4	..	..
Belarus	25.2	30.8	..	..
Kazakhstan	21.8	24.1	..	..
Kyrgyzstan	26.7	34.5	..	..
Republic of Moldova	39.0	44.9	..	..
Russian Federation	17.4	24.6	31.9	42.0 ^c
Tajikistan	30.9	42.4	..	..
Turkmenistan	43.5	44.3	..	..
Ukraine	25.6	31.0	..	..
Uzbekistan	36.4	42.3	..	..

Source: Olivier Blanchard, Simon Commander and Fabrizio Coricelli, "Unemployment and restructuring in Eastern Europe" (paper prepared for the conference on "Unemployment, Restructuring and the Labor Market in East Europe and Russia", organized by the World Bank, Washington, D.C., 7 and 8 October 1993).

- a Data include the cooperatives, so that changes in shares are more representative than absolute shares.
b Excluding cooperatives.
c June 1993.

question whether the dynamism in the private sector can be sustained.

Without the private sector's moving into industrial activities, it is difficult to envision how the recent pace of expansion could possibly be extended beyond the catch-up to "normal" levels of service-provisioning, at prevailing levels of purchasing power. The obstacles in moving into the industrial sector, other than into intermediating activities classified as industrial in some countries and firms with close links to the state sector for distribution or supply purposes, are such that it seems rather unlikely that a massive shift in private sector employment can be anticipated for some time to come.

Table VI.10 reports the cumulative declines in output and employment during 1990-1992, and the resulting apparent level of hoarding in 1992.⁷⁷ A comparatively small discrepancy between the drop in output and the loss in employment levels might not reveal much, owing to the

Table VI.10.

Transition economies: cumulative output (GDP), employment, and apparent labour hoarding, 1990-1992
(Cumulative percentage changes)

Country	Output decline	Employment decline	Apparent hoarding ^a
Eastern Europe			
Albania	39.6	23.7	15.9
Bulgaria ^b	36.6	28.7	7.9
Czech Republic	21.3	8.8	12.5
Slovakia	22.4	13.5	8.9
Hungary	19.1	12.0	7.1
Poland	17.5	11.7	5.8
Romania	32.2	4.5	27.7
Baltic States			
Estonia	42.1	7.6	34.5
Latvia	37.7	4.4	33.3
Lithuania	48.1	2.9	45.2
Soviet Union without Baltic States/CIS and Georgia			
Armenia ^b	56.1	1.4	54.7
Azerbaijan ^b	36.5	1.9	34.6
Belarus ^b	15.1	6.0	9.1
Kazakhstan ^b	23.7	1.9	21.8
Kyrgyzstan ^b	19.5	3.8	15.7
Republic of Moldova ^b	36.4	2.0	34.4
Russian Federation	30.4	3.8	26.6
Tajikistan ^b	36.7	-0.4	37.1
Ukraine	24.4	5.7	18.7
Uzbekistan ^b	11.3	-8.5	19.8

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a Decline in output minus decline in employment.

b Net material product only (equal to GDP minus amortization and non-material sectors or services not directly related to material production).

unreliability of the data. A large discrepancy, however, indicates that average labour productivity declined as well and that the country in question was largely "hiding" unemployment relative to the situation that had existed prior to the transition.

These data suggest the prospective dimensions of the incremental unemployment problem, once enterprise restructuring finally gets under way. In some countries, this prospect is daunting even if only the apparent deterioration of productivity performance since the inception of the transitions is taken into account. This is particularly the case in Albania, Romania and virtually all of the successor States of the former Soviet Union, where the unemployment magnitudes are likely to worsen considerably in the future, even though in some cases unemployment is already large. This is bound to be compounded by the level of overstaffing inherited by many firms.

Equally surprising is the considerable (gross) flow in and out of the state sector in spite of apparent hoarding. Thus, data for 1992 indicate that while the flow out of the state sector was 20 per cent of total employment in Poland, the flow in was 10 per cent. The case is similar for Hungary, where the corresponding numbers are 22 per cent and 10 per cent. In the Russian Federation, the data are even more startling, given the economic depression and output losses: 22 per cent out and 19 per cent in.⁷⁸ Various explanations have been offered, but none is completely satisfactory. In countries that feel compelled to continue to resort to very soft budget constraints for state firms, the impetus towards hiring workers may simply stem from expectations regarding the amounts of credits that can be procured from (largely state-owned) commercial banks,⁷⁹ often at well-below market rates, at least to help defray the wage bill, and that are not expected to be serviced. Also, managers of firms may still have overly optimistic expectations as regards output recovery and are therefore keen on reconstituting their labour complement. In some cases, however, the inflow must reflect the fact that the state sector simply cannot function without replacing some of those quitting, particularly the more successful workers who migrate into the private sector. After all, firms are heterogeneous and some have been expanding in spite of the marked economic slow-down.

The overall drop in employment cannot, of course, be equated with involuntary unemployment. Some of those ejected from the labour force have become registered unemployed or been identified in labour surveys as actively looking for work. Others have been discouraged, and thus have given up registering in labour offices and also looking for employment; many are probably involuntarily unemployed, however. In the interim, some may have joined the informal economy, which by definition eludes official statistics. In several countries, women have dropped out of the labour force, in some cases because child assistance is no longer available on affordable terms. Problems have often been deferred through various part-time jobs, sometimes subsidized through budgetary allocations, and various training and retraining programmes. Also, in several countries early-retirement schemes have been applied. While alleviating the unemployment problem, such measures do not improve the country's social security situation or counteract the negative economic, psychological and social impacts of the transitions on individuals.

Open unemployment swelled (see table VI.11) in eastern Europe from some 1.7 million individuals in 1990 to some 5.5 million in 1992 and perhaps 6.3 million in 1993. In the Baltic States, the numbers of registered unemployed are still rather small, having increased from some 7,400 in 1991 to some 67,000 individuals in 1992 and to perhaps double the latter number in 1993. The data for the

other successor States of the former Soviet Union showed only moderate open unemployment: the absolute level rose from under 100,000 in 1991 to over 800,000 in 1992 and to perhaps just over 1.2 million in 1993.

These data underline the rapid increase in the share of the labour force that is registered as unemployed but apparently willing to work. These shares have remained small (see table VI.12)—at end-1993 about 1 per cent in Belarus, Georgia, the Russian Federation⁸⁰ and Tajikistan, but less elsewhere in the CIS, except for Armenia⁸¹ (where the share was reportedly some 6 per cent). Even among the eastern European countries at end-1993, levels of open and registered unemployment ranged from some 3.5 per cent in the Czech Republic to some 15-17 per cent in Bulgaria and Poland, but it was probably much higher, perhaps over one third, in Albania. Actual levels of unemployment, using labour survey methods,⁸² would probably yield significantly higher magnitudes.⁸³ In the Baltic States, unemployment rates continued

to be fairly low (between 2 and 6 per cent), but they are expected to rise markedly for some time to come once industrial restructuring gets under way.⁸⁴

As already intimated, the data on unemployment for transition economies are particularly weak. There are various reasons that help explain why it is hard to obtain precise quantitative magnitudes of unemployment and data on their evolution over time. One set derives from the very concept of unemployment, as discussed above. A number of the responses to transition—for example, that reflected in the existence of workers who remain tied to enterprises to receive benefits—have tended to mask unemployment. However, the dearth of quantitative information also stems from institutional features peculiar to these economies, if only because the infrastructure for measuring unemployment, the regulations on the granting of unemployment benefits, which encourage registration only when the registrant can expect some financial com-

Table VI.11.

Transition economies: levels of unemployment, 1990-1993

(Thousands, end of period)

Country	1990	1991	1992	1993
Eastern Europe (total)	1 657.9	3 981.8	5 467.6	6 311.0
Albania	150.7	139.8	394.3	440.0
Bulgaria	72.7	419.1	576.9	626.1
Former Czechoslovakia	77.0	523.7	395.1	..
Czech Republic	39.4	221.7	134.8	185.2
Slovakia	37.6	302.0	260.3	368.0
Hungary	81.4	406.1	663.0	632.1
Poland	1 126.1	2 155.6	2 509.3	2 889.6
Romania	150.0	337.5	929.0	1 170.0
Baltic States (total)	..	7.4	67.0	123.1
Estonia	0.6	0.9	15.0	16.2
Latvia	..	1.9	31.3	76.7
Lithuania	..	4.6	20.7	30.5
CIS and Georgia (total)	..	..	..	..
Armenia	..	..	56.3	102.6
Azerbaijan	..	3.8	6.4	19.5
Belarus	..	2.0	24.0	66.2
Georgia	..	1.7	18.9	29.1 ^a
Kazakhstan	..	4.1	33.7	40.5
Kyrgyzstan	..	0.1	1.8	2.9
Republic of Moldova	..	0.1	15.0	14.1
Russian Federation	..	61.9	577.7	835.5
Tajikistan	..	..	6.8	21.5
Ukraine	..	6.8	70.5	83.9
Uzbekistan	..	..	8.8	13.3

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat based on national and international statistics.

a September 1993.

Table VI.12.

Transition economies: unemployment rate, 1991-1993

(Percentage of active population,^a end of period)

Country	1991	1992	Mid-1993	End-1993
Eastern Europe				
Albania	9.4	26.7	..	32.5 ^b
Bulgaria	11.5	15.6	15.5	16.4
Former Czechoslovakia	6.6	5.5	5.1	..
Czech Republic	4.1	2.6	2.6	3.5
Slovakia	11.8	10.4	12.5	14.4
Hungary	7.4	12.3	12.6	12.1
Poland	11.8	13.6	14.8	15.7
Romania	3.1	8.4	9.3	10.1
Baltic States				
Estonia	0.1	1.9	2.7	2.6
Latvia	..	2.1	4.4	5.8
Lithuania	0.3	1.0	1.7	1.6
CIS and Georgia				
Armenia	..	3.5	5.0	6.2
Azerbaijan	0.1	0.2	0.3	0.7
Belarus	..	0.5	1.1	1.3
Georgia	..	1.0	1.5	1.6 ^c
Kazakhstan	..	0.5	0.5	0.6
Kyrgyzstan	..	0.1	0.1	0.2
Republic of Moldova	..	0.7	0.5	0.7
Russian Federation	0.1	0.8	1.0	1.1
Tajikistan	..	0.3	0.6	1.1
Ukraine	..	0.3	0.3	0.4
Uzbekistan	..	0.1	0.2	0.2

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a Individual country practices vary, however.

b June 1993.

c August 1993.

pensation or active assistance with the identification of a new employ, and the offices involved in encouraging workers to find new workplaces have only recently been established and are not readily accessible to all affected workers, particularly in the large territories.⁸⁵ Before the jettisoning of the planning systems, by and large there had been no need for such institutions.

SALIENT FEATURES OF RISING UNEMPLOYMENT IN TRANSITION ECONOMIES

After several years of struggling with the formulation of transition policies and strategies, it has become clear that unemployment problems are exhibiting a range of features that had not been counted on when the transitions were first inaugurated. Of special importance are seven observed characteristics.

First, those who are losing their jobs and are relatively unskilled tend to become chronically unemployed. Thus, rather than join a "churning pool" of unemployed, they exacerbate the condition reflected in a "low turnover" or "stable pool" of unemployed.⁸⁶ In Hungary and Poland, for example, the monthly exit rate from the pool is only 3 per cent, thus aggravating long-term unemployment; the comparable rate for the United States in 1992, for example, was 25 per cent.⁸⁷ This stems in part from the fact that most of the initial employment adjustment in the state sector was largely accommodated by direct flows to jobs in other sectors,⁸⁸ allowing for those who quit the labour force through early retirements, discouragement or "disabilities".

There is now sufficient evidence that particularly lower-skilled workers and women are finding it difficult to enter the labour force or to exit from the pool of unemployed.⁸⁹ Shares of women in total unemployment are given in table VI.13 while unemployment rates are tabulated separately for men and women in table VI.14. Except in Hungary, more than half of the unemployed are female and in some countries this group tends to be affected earlier as more traditional "female" jobs, such as administrative or secretarial posts in state firms, are excised before "production" workers, largely male in most heavy-industrial activities, are let go and the absorption process in the newly emerging private sector continues to be sluggish. The noticeable drop in the share of female unemployed in Bulgaria needs to be seen primarily in light of the expansion in the numbers of unemployed, with the proportion of men joining the pool rising, after an initial run-up in female unemployment;⁹⁰ but the percentage of female unemployment in terms of the female labour force remains slightly higher than that for men. In Romania, however, the rate of unemployment for women is almost double that for men, and the proportions have deteriorated over time.

The reverse situation exists in Hungary, with the rate

Table VI.13.

Transition economies: female unemployment, 1990-1993
(Percentage of total unemployment, end of period)

Country	1990	1991	1992	Mid-1993	End-1993
Eastern Europe					
Bulgaria	65.1	54.4	52.4	51.7	..
Former Czechoslovakia	..	..	53.9	..	..
Czech Republic	..	57.4	57.6	58.8	55.9
Slovakia	..	..	50.9 ^a	..	..
Hungary	40.2 ^b	41.6 ^b	41.3 ^b	..	..
			40.1 ^c	38.8 ^c	..
Poland	50.9	52.6	53.4	53.2	53.3
Romania	..	59.5	..	..	..
Soviet Union without Baltic States/CIS and Georgia (total)					
Russian Federation	..	..	72.0	68.0	..

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a October 1992.

b National labour centre data.

c Drawn from period-average labour force survey, which is not comparable with other data drawn from unemployment registers.

Table VI.14.

Transition economies: unemployment by gender,
1990-1993

(Percentage of total by gender, end of period)

Country		1990	1991	1992	Mid-1993	End-1993
Eastern Europe						
Bulgaria	F	..	..	17.3 ^a	..	..
	M	..	..	16.4 ^a	..	..
Czech Republic	F	0.8	4.8	3.0	3.2	3.9 ^b
	M	0.7	3.5	2.1	2.1	2.6 ^b
Slovakia	F	1.6	12.7	10.6	12.6	14.1 ^c
	M	1.4	11.0	10.2	12.4	13.5 ^c
Hungary	F	..	5.5 ^d	9.8 ^a	..	10.5 ^c
	M	..	6.6 ^d	12.9 ^a	..	15.1 ^c
Poland	F	7.1	13.5	15.9	..	13.0 ^c
	M	5.8	10.6	12.3	..	6.3 ^c
Romania	F	..	4.7	10.0 ^a	..	..
	M	..	2.5	5.6 ^a	..	..

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a September 1992.

b October 1993.

c September 1993.

d September 1991.

of female unemployment well below male unemployment. This stems to a large extent from the drop in industrial output in the eastern parts of the country, characterized by a chiefly male-dominated labour force in mines and heavy-manufacturing establishments, owing to the collapse of exports to CMEA markets, particularly to the Soviet Union. This suggests that industrial restructuring has been under way for some time, in contrast with the situation in most other transition economies. The booming private sector, particularly in service activities, on the other hand, has tended to absorb women at a faster rate than men in part because Hungary was well on its way to building a "normal" service sector before this trend took hold in other transition economies.

Second, new entrants into the labour force, particularly those with lower-level and vocational training as compared with those with advanced degrees, are finding it extraordinarily difficult to secure a workplace. Most register as unemployed only when some form of compensation for a certain period of time can be accessed⁹¹ and transaction costs are not forbidding. Those with advanced degrees are attracted to new private firms, often their own, or find employment in new firms established by foreigners. Linguistic skills and *savoir-faire*, both largely lacking in unskilled workers, may play an important role here. Table VI.15 illustrates the situation among the registered

unemployed that are school-leavers. Because recent graduates who fail to obtain a job and have no access to unemployment benefits simply do not register, the data listed therefore understate the magnitude of new entrants and youth unemployment. Casual information suggests that the problem is vastly larger than the data intimate. In Poland,⁹² for example, more than one third of those under age 24 cannot find a job.⁹³

Third, as earlier intimated, there has been much less labour-shedding from existing state-owned firms than had been anticipated, given the level of disguised unemployment through overstaffing as well as the contraction in output levels. These firms have generally taken the attitude that there exist favourable externalities in maintaining the present, somewhat redundant, labour force.

Fourth, the shedding of labour has had a differential impact on various social strata that used to be employed, including older workers, minorities, women (as noted earlier), and the functionally disabled. Youth has found it difficult to find entry into traditional manufacturing in these countries. Old prejudices and stereotypes appear to be re-emerging in several countries, notably as regards hiring practices for female applicants or some minorities.⁹⁴

Fifth, there has generally been a pronounced and worsening regional imbalance in the employment situation; at any rate, the degree of regional dispersion of unemployment rates in eastern Europe is large when judged against comparable magnitudes for OECD member countries.⁹⁵ As a rule, also in the other transition economies, urban centres, particularly centrally located cities such as state and provincial capitals, are faring much better than rural areas. Note that this is quite the opposite of the typical situation in developing and especially developed market economies, where urban blight is frequently associated with very high levels of unemployment. In some capitals, such as Prague, there appears to be an acute shortage of qualified labour resources, and the influx from elsewhere is inhibited by a host of obstacles to labour mobility. Regional imbalances have also been exacerbated by the collapse of trade among the transition economies and the buoyancy of trade and economic cooperation that has developed with Western Europe, particularly Austria and Germany.

Sixth, some short-term asymmetries in labour market adjustments seem to have been at work in the countries that have sought structural change in output and labour markets, and they may last longer than those observed for developed countries: when aggregate demand increases, real wages for the employed rise, but employment does not, or to a much smaller extent.

Finally, as shown in table VI.16, the ratio of the unemployed to vacancies in all transition economies has tended to worsen rapidly, after the first few months of

Table VI.15.
Transition economies: unemployment of school leavers,
1990-1993
(Percentage of total unemployed, end of period)

Country	1990	1991	1992	End-1993
Eastern Europe				
Former Czechoslovakia	9.8	12.1	13.7 ^a	..
Czech Republic	8.9	11.1	12.9	12.9
Slovakia	10.7	13.0	12.5 ^a	..
Hungary	..	..	9.2 ^b	47.4 ^c
Poland	14.6	10.3	21.7	20.1
Soviet Union without Baltic States/CIS and Georgia				
Armenia	..	..	35.2	32.4
Azerbaijan	..	..	..	..
Belarus	..	0.0	1.3	2.0
Kazakhstan	..	..	0.4	0.5
Kyrgyzstan	..	0.0	37.5	6.1
Republic of Moldova	..	0.1	1.9	1.4
Turkmenistan	..	..	0.6	0.4
Ukraine	..	..	0.4	0.5

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a October 1992.

b From labour force survey data.

c From labour force survey data, June 1993.

Table VI.16.
Transition economies: unemployment-to-vacancy ratios, end of period 1990-1993

Country	1990	1991	1992	Mid-1993	End-1993
Eastern Europe					
Bulgaria	..	41.9	80.1	69.1	63.0 ^a
Former Czechoslovakia	1.1	9.3	..	..	..
Czech Republic	0.7	4.6	1.7	1.9	3.4
Slovakia	2.6	36.8	16.1	29.3	43.0
Hungary	..	35.4	30.4	21.0	17.7
Poland	20.8	74.1	109.9	73.0	133.2
Baltic States					
Latvia	..	..	28.5	40.4	54.6
Lithuania	..	0.5	9.0	5.6	8.5
Soviet Union without Baltic States/CIS and Georgia					
Armenia	..	0.4	35.2	32.4	102.6
Azerbaijan	..	0.3	0.6	0.6	1.6
Belarus	..	0.0	1.3	2.0	5.3
Kazakhstan	..	0.1	0.8	0.6	1.2
Kyrgyzstan	..	0.0	0.4	0.5	0.9
Republic of Moldova	..	0.0	37.5	6.1	23.5
Russian Federation	..	0.1	1.9	1.4	2.4
Tajikistan	..	0.3	17.0	8.4	8.6
Ukraine	..	0.0	0.6	0.4	0.6
Uzbekistan	..	0.0	0.4	0.5	0.5

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat, based on national and international statistics.

a September 1993.

transition policies. In virtually all countries (except most members of the CIS), the number of vacancies is much smaller than the number of unemployed. Only more recently has there been an apparent improvement in this situation in some countries, notably those gradually emerging from their recession. As the data for Poland illustrate, however, this evolution is rather unstable, since an apparently sharp deterioration in the unemployment-to-vacancy ratio occurred during the fourth quarter of 1993, with little sign of a recovery in early 1994.⁹⁶ This simply provides one illustration of the less-than-robust nature of the Polish economic recovery, particularly on the job front.

Even if tentative, the slow improvement in the vacancy situation of several economies over the past two years, notably that of the Czech Republic and of Hungary, and more ambiguously that of Poland, suggests that the process of economic restructuring is finally beginning to generate new jobs. Elsewhere, there still reigns a delicately balanced high ratio of unemployed to vacancies. In this connection, one should recall the severe problem of counting vacancies, particularly in

countries (such as Hungary and Poland) where firms are not compelled to register vacancies or where compulsory rules cannot be enforced for lack of the requisite administrative infrastructure.⁹⁷ The data shown here probably partly reflect primarily a shift from informal to formal channels of vacancy notification, rather than a genuine rise in the number of vacancies.

POLICY MEASURES TO CONFRONT UNEMPLOYMENT

Because of the inherited structure of labour markets and traditional policy stances in the countries that used to be centrally planned, not only was the infrastructure for coping with and reporting on unemployment not in place, but very little experience was available for coming to grips with the problem as such. Policy responses during the transition have been rather rudimentarily structured. They can be categorized under three labels: unemployment benefit systems, active labour market policies and social welfare programmes.

The first reaction to the rapid decline in output and the incipient unemployment problem was to erect a social safety net, including a component for paying unemployment compensation. This was initially quite generous, allowing the unemployed access to benefits for one year (as in the former Czechoslovakia) or more (as in Hungary) with the amount of benefits adding up to nearly three fourths or more of the last earned wage. With the rapid rise in the numbers of unemployed and in the wake of the tightening budgetary constraints, however, it quickly became clear that the unemployment problem was going to be more obstinate than a mere transitory feature and that it could not possibly be resolved through temporary unemployment benefits. Components of the social safety net outside unemployment compensation were strengthened, but budgetary restraints made these efforts possible within at best highly confined limits.

More positive labour market policies have come along more slowly. Some have been designed to alleviate the shortage of skills that are in demand, to combat the lack of mobility of the labour force for regional reasons or because of housing problems, to restore some measure of growth, to identify a new "employment-intensive" growth path that can be endogenously sustained, and to foster the private sector.

As regards active labour market policies, only the former Czechoslovakia, and more recently the Czech Republic, seem to have embraced such a strategy from fairly early on during the transition, soon after it became apparent that the magnitude of the unemployment problem would be larger and much more costly than had earlier been appreciated. Thus, the share of resources devoted to positive labour market policies has in the past two years exceeded more than half the total expenditures for allevi-

ating or combating unemployment. Policy makers of the Czech Republic argue persuasively that their active labour market policies must be considered a major ingredient in explaining why the level of unemployment in that country

has remained at less than 4 per cent, in contrast with the situation in most other countries that have made significant progress with transformation policies; but there have obviously been other forces at work (see box VI.6).

BOX VI.6.

Is the employment situation in the Czech Republic special?

The level of unemployment in the Czech Republic has remained low, judging by the experiences of other transition economies and indeed in the European context as a whole. Indeed, it has at some points even decreased. Even though unemployment has recently resumed an upward path, the rate has not so far surpassed the 4 per cent level. Does this suggest that those in charge of transformation policies first in the former Czechoslovakia and now in the Czech Republic—given that unemployment levels in Slovakia have soared above the 15 per cent level and are expected to further deteriorate by perhaps two points in the coming year^a—have better managed the process of change than their counterparts in most other transition economies?

Among the positive factors, the starting conditions of transformation in the former Czechoslovakia, and subsequently the Czech Republic, were in several respects superior to those that confronted policy makers in most other transition economies. This was particularly true for the generating of monetary stabilization after price liberalization. The monetary overhang stemming from repressed inflation during administrative planning was moderate at best. Furthermore, most of it had been eroded as a result of the preparatory work accomplished in 1990, the year preceding the shifts in policies and outlook. Thus, in comparison with many other transition economies, the former Czechoslovakia embarked on its transformation with broad macroeconomic balance. Also, there was a low external debt, the labour force was well educated and comparatively inexpensive, and upward wage pressures were kept under strict control.

Macroeconomic stability regarding current expenditures and receipt was also reinforced. If anything, the stance may have been more strict than was warranted by the situation. As a result, inflationary pressures abated quickly. Furthermore, after an initial wait-and-see period, during which firms tended to hoard labour, gradually hardening budget constraints forced them to begin reallocating and shedding labour. As the estimate of labour-hoarding (see table VI.10) suggests, the Czech Republic has still quite some way to go in this regard.

From the very inception of the transformation, policy makers have stressed the crucial importance of new small- and medium-sized enterprises, particularly in the sectors that had been all but completely neglected under planning—virtually the entire range of “non-material” and many “material” service activities. Indeed, at the inception of reforms in the late 1980s, the private sector accounted for almost nothing in terms of employment and contribution to aggregate output. It has since boomed at a spectacular rate, if only to fill in the gaps that administrative planning had created. One estimate puts the number of jobs created in the private sector since the inception of the loosening of the economic reins in the former Czechoslovakia at 1.8 million.^b

In addition, the Czech Republic has benefited from a range of active labour market policies. From the very beginning of the surge in unemployment, policy makers have placed considerable emphasis on active labour market policies. They have stressed not just retraining, but actual placement of the unemployed, if necessary in public-works programmes and by the subsidizing of new private undertakings that promise to hire labour. By all evidence at hand, policy makers appear to have been quite successful in these endeavours to date.

However, unemployment levels have also been kept low as a result of largely enforced retirement of workers beyond retirement age and premature retirements, a reduction in unemployment benefits in terms of both eligibility and duration, a worsening of labour force participation rates, emigration of a sizeable number of workers (including border migrants to southern Germany and Austria), strict criteria for eligibility as a registered unemployed, and the way in which unemployment has traditionally been ascertained.^c Also, women dropped out of the labour force, largely ow-

ing to more individuals' taking longer maternity leave, in part because of disappearing nurseries, child-care facilities and kindergartens, traditionally provided by the state-owned firm.

Several features of the Czech strategy and the likely obstacles ahead point to serious difficulties in the years to come, when restructuring of the old large state-owned firms will get under way. This also suggests that before other countries contemplated transplanting the Czech strategy, it would be fruitful for them to fully ascertain that strategy's strengths and weaknesses.

In spite of the cited positive features, it should be noted that industrial restructuring in the Czech Republic has been accomplished largely through the booming private sector, not by reforming the large firms inherited from central planning. Although the first round of large-scale divestment of state-owned property to private owners or their voluntarily chosen representatives via the voucher method had been concluded, following the distribution of shares in May 1993, very little by way of restructuring discipline and accountability of management in place appears to have been imposed by the new management or the investment funds to which the vast bulk of the privatized property was entrusted. Similar observations apply to other forms of divestment, including to foreign owners. This stance was in part buttressed by the late introduction of a bankruptcy law in mid-1993, whose applicability was for a while suspended.

More than three fourths of Czechoslovakia's trade before 1990 had been conducted within the CMEA framework and many enterprises had been specialized for that market. This would make the restructuring effort more complex and larger, in relative terms, than in many other transition economies. Also, Czechoslovak policy makers, and subsequently those of the Czech Republic—in practice, if not quite in their political rhetoric—followed a rather cautious and modulated course of change, certainly when compared with the abrupt shock engineered in Poland in early 1990 or in Russia in early 1992. They succeeded in minimizing the drain on the central budget, albeit by taking some expenditures off-budget. They were also quite successful in bolstering exports to Western Europe at impressive rates, in spite of the latter's recession.

The quite substantial task of industrial restructuring in the Czech Republic is by and large still ahead and will have to be accomplished when opportunities for sustaining the private sector growth based on filling the inherited gaps might be rapidly declining. The first round of major changes is expected to take place at an accelerating pace after completion of the second and final round of mass privatization in 1994. Once this process is concluded, even in the unlikely case that rapid growth of new private firms can be maintained at the pace observed in 1991-1993, unemployment is expected to rise markedly. Government expectations are that the rate can be kept to the 5-6 per cent range by end-1994 (and some policy makers privately admit to 7 per cent as the "working" upper limit);^d but Central Bank forecasts suggest that this might be a rather optimistic scenario. The broader policy discussions see a 10 per cent rate of involuntary unemployment by early 1995, as measured by the statistical authorities, as within the realm of the possible.

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- a See Jozef Mihalik, "Labour market changes in Central Europe" (paper prepared for the Third Central European Forum on "Labour Market Changes in Central Europe: Lessons for Social Policy", organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 1.
 - b See Kamil Janáček, "The Czech labour market—recent trends and open issues" (paper prepared for the Third Central European Forum on "Labour Market Changes in Central Europe: Lessons for Social Policy", organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994).
 - c Some authors have argued that the computation of the unemployment rate leaves a lot to be desired (see Josef Pitner and Václav Toušek, "K vpotu míru nezaměstnanosti v české republice", *Statistika*, No. 11 (1993), pp. 439-447). However, even when corrected for such factors, the unemployment rate in the Czech Republic remains exceptionally low in comparison with other transition economies. Standardized labour surveys suggest that the "normalized" rate is perhaps at least a percentage point higher than the one reported, as suggested by the sample survey conducted by the Statistical Office at the end of the first half of 1993 (see British Broadcasting Corporation (BBC), *Summary of World Broadcasts*, EEW/0305, 28 October 1993), which placed the unemployment rate at 3.9 per cent as compared with 2.8 per cent, the figure reported by the Ministry of Labour.
 - d During the first two months of 1994, employment reportedly declined by 5.5 per cent relative to the comparable period of 1993 (*Hospodářské Noviny*, 13 April 1994, p. 3).
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POLICY CONCLUSIONS

The concern that present levels of unemployment are too high and entail a vast wastage of scarce resources throughout the world economy is widespread among policy makers and the populations at large in many countries. Whether remedial measures can be taken is a different matter, however. It depends first and foremost on political will, in particular in the conduct of macroeconomic policy to promote employment-intensive growth. The problem, on the other hand, is highly complex, its nature varying greatly between countries. In developed market economies traditional policy instruments appear to have lost their efficacy, and in many developing countries structural rigidities and external problems constrain growth of employment, while in the transition economies the room for policy makers is limited by the myriad of constraints on the conduct of the most desirable transformation policy.

The issues are greatly complicated by changes brought about by rapid technological developments which produce their own dilemmas. On the one hand, technology can be a major source of job destruction and dislocation. New production technologies frequently require less labour time and improved labour skills; they also can lead to a relocation of productive activities. Thus, new technologies can increase redundancies among segments of a labour force, even when their aggregate impact is slight. At the same time, technology is the primary source of increases in labour productivity, improvements in living standards and higher rates of economic growth. High rates of job creation have often accompanied high rates of economic growth in the long run.

Rapid technological changes are also among the primary forces behind increased international competition. Reductions in the costs of communications and transportation have stimulated trade, investment and growth of income. In many countries, however, pressures have arisen to seek protection from such changes. While such pressures should be resisted, positive adjustment policies should be undertaken to deal with the possible adverse employment effects on some social groups.

Indeed, the issues posed by positive adjustment policies are today a partial expression of the broader interest in policies to improve the performance of labour markets. Increasingly policies are being considered to reduce disincentives to work, to encourage hiring of additional workers, to enhance geographical mobility and flexibility in segments of the labour market, to improve information and to upgrade skills. While several countries have adopted a number of these measures only on a trial or temporary basis, others have maintained such policies for long periods. The key consideration is that while individual country experiences cannot easily be embraced, policies can be formulated that reduce market imperfections and the inci-

dence of market failures and thus improve the probability of labour markets' reaching outcomes involving higher levels of productive employment.

In developed countries, several policies that can assist countries in reversing the trend of the 1980s towards rising unemployment are being debated; but neither the more market-oriented approach—which basically entails reducing labour costs inside segments of the labour market—nor the more interventionist route is costless, and both involve political consideration. The former—at least in the short term—would raise the share of income accruing to capital, thus exacerbating income and wage inequalities. The more interventionist route suggests greater public expenditure on infrastructure, education, training and welfare services; reshaping of the various social security contributions to encourage employment of the less skilled; implementing of sensible minimum wages, possibly through subsidies such as in the form of wage- or income-tax policies, in an effort to stave off the phenomenon whereby low pay encourages labour market withdrawal; coordinated reductions of working time; and targeted measures for reintegrating into the labour market groups particularly afflicted by non-employment. Whether or not such measures would prove more effective than the free market route remains a matter of debate; but the distributional implications are very different. Taxes to pay for additional programmes of public spending imply lower take-home pay for those currently employed; even if additional taxes focus on the best-off, tax increases would inevitably extend into the middle of the income distribution scale. This would have to be supported by the exerting of bargaining restraint so that the acceptance of tax increases at the ballot box would not be repudiated by the outcome of pay negotiations.

While considerations of trade-offs are important, the potential benefits of a carefully designed, negotiated and monitored package are large and accrue, extending beyond those who find work through that package, to the rest of society in the form, for example, of better infrastructure, improved public services, education and training. Last but not least, such a package offers the chance of reversing the dangerous trend towards economic exclusion and the antisocial behaviour to which long-term unemployment and inactivity inevitably give rise.

A key aspect of any package based on a more activist government policy is its effects on long-term private investment. Expansion of investment is necessary on two counts: it adds to aggregate demand and provides room for non-inflationary growth while—generally—increasing employment opportunities. There is thus a crucial need for any package to take into account private investment implications and to be agreed upon by all the main actors.

The problem of underutilization of labour resources

in developing countries is no less endemic or pervasive than it is in the two other groups of countries; but any solution must recognize the considerable diversity among various groups of developing countries, the nature of unemployment in the vast majority of them, the impact of external factors in recent years and the fact that external circumstances continue to change.

In a few developing countries rapid growth has produced a situation of labour shortage, and labour market policies here might have to focus on labour supply measures, possibly including migration issues. In several countries, the continuation of comparatively rapid economic growth should go a long way towards solving unemployment problems. In others, notably in most countries of sub-Saharan Africa, problems of unemployment are deeply embedded in the issues of development itself. Any solution will necessarily have to be found in the context of endogenous, sustainable development over a considerable period of time. Finally, the fact that in many countries the pattern of skills generated and education imparted has not matched the pattern of demand for labour has led to unemployment and waste of skilled manpower. Often, highly skilled manpower, in which the country invested considerable resources, has sought employment opportunities abroad. Unless coherence of policies can be attained, such waste is likely to continue on a large scale.

In the transition economies, the infrastructure of labour markets and positive labour market policy are at an early stage of development. A key question is the amount of labour-shedding in the state sectors that can be expected under various scenarios of divestment of state assets. Equally important is the speed of development of the private sector, especially in manufacturing activities. Interactions between the effects of transition on unemployment and those of other policy steps, notably in the fiscal and social policy support spheres, must also be addressed.

The strategy pursued until now in many countries, in the form either of disguising or hiding unemployment or simply putting in place unemployment compensation and social support programmes, raises serious questions in the medium-to-long term. The market, such as it exists in these countries, is too fragile and unintegrated for policy makers to predict confidently that the employment problem will be spontaneously solved. The experiences of developed market economies in this regard should be heeded: without positive policy intervention, the pool of unemployed could

quickly become crowded with the chronically unemployable, leading to economic and social ills that could aggravate an already unsettled sociopolitical and fiscal situation.

What appears to be required soonest is to impart a much greater transparency to the labour market. Rather than "muddling through" strategies, this needs a longer-term perspective that averts pushing masses of workers out of jobs through targeted temporary subsidies and that prepares them for more durable jobs. Creating judiciously chosen employment through some form of state support will relieve the state of the fiscal costs of unemployment and bring in some revenues, so that the net incremental cost to those supporting employment expansion will remain below the apparent wage cost of job creation. Muddling-through strategies are partly the result of the lack of actual incentives for those managing state enterprises to insist upon clear contracts or to behave according to predictable rules of trust, and partly the result of a lack of means to enforce restructuring, as through bankruptcy and liquidation procedures. The alternative is to restructure and streamline firms quickly, even if at the risk of aggravating the already sizeable unemployment problem, in combination with positive labour market policies. The latter should preferably be designed to encourage spatial mobility, promote the new small- and medium-sized firms, and operate work-fare programmes tied to some meaningful retraining, which raises the probability of finding a reasonably secure job in the near term.

In the longer term, more active and much more encompassing labour market policies will probably have to be embraced. Above all, they need to be combined with a strategy for regaining economic growth. Only in this way could all available resources in these countries be productively mobilized and the unemployment problem alleviated. In addition, all realistic efforts should be made to improve the access of these countries to export markets, including those of the European continent.

The Charter of the United Nations emphasizes full employment as one of the major conditions for stability and economic well-being, and employment has been chosen as a major theme of the first-ever World Summit for Social Development, to be held next year. Concern over unemployment and its large economic and social costs is therefore not new or muted. It has still, however, to be fully translated into action in many parts of the world.

NOTES

- 1 See G. David N. Worswick, "An overview of the evolution in western Europe since 1973", in *Structural Change, Employment and Unemployment in the Market and Transition Economies* (United Nations publication, Sales No. GV.E.94-0-2), pp. 4-9; and *The Scope for Macroeconomic Policy to Alleviate Unemployment in Western Europe* (United Nations publication, Sales No. GV.E.92-0-27).
- 2 In what follows, the category of transition economies is by design restricted to the countries of the eastern part of Europe that were earlier subject to some kind of centralized planning and single-party control.
- 3 Thus, double-digit unemployment rates in transition economies may well be considered not particularly high by international standards; but they are difficult to countenance in societies that had hoped for a substantial improvement in living conditions after the end of communism, but have instead got worse in many respects.
- 4 In what follows, the labour force is understood to equal employment plus unemployment, with the latter including those reported as inactive largely because of disappointment about job opportunities. It differs from the working-age population, which is defined in demographic terms according to age groups and statutory pension rules. Indeed, the labour force includes those who have passed out of the working-age population and are still actively employed, but excludes those unemployed not currently declaring themselves as actively looking for a job, hence not being considered unemployed, those engaged in home-making activities, often those engaged in military service and students. Note that actual data for employment and unemployment do not necessarily yield the measured concept of the labour force because of varying coverage of sectors, the informal sector and involuntary inactivity elsewhere.
- 5 The existence of seasonal and frictional unemployment in market economies means that unemployment can never be literally zero. It has also stimulated the wide utilization of one definition of full employment—as the level of employment at which job vacancies equal the number of persons without gainful employment but actively interested in obtaining a job. This is reflected in the so-called Beveridge curve. For an explanation of the underlying mechanisms, see "Explaining unemployment in the market economies: theories and evidence", in *Economic Survey of Europe in 1990-1991* (United Nations publication, Sales No. E.91.II.E.1), chap. V.
- 6 For a broad summary of NAIRU estimates and analyses, see Richard Layard, Stephen Nickell and Richard Jackman, *Unemployment: Macroeconomic Performance and the Labour Market* (Oxford, Oxford University Press, 1991); "Unemployment in developed market economies: the policy dilemmas" (chap. VII), *World Economic Survey, 1987* (United Nations publication, Sales No. E.87.II.C.1 and corrigendum).
- 7 See, for example, Stuart Weiner, "New estimates of the natural rate of unemployment", *Economic Review*, Federal Reserve Bank of Kansas City, vol. 78, No. 4 (1993), pp. 53-69.
- 8 For details, see Michael Bruno and Jeffrey D. Sachs, *The Economics of Worldwide Stagflation* (Oxford, Blackwell, 1985); Lars Calmfors, *Centralisation of Wage Bargaining and Macroeconomic Performance: a survey*, OECD Economics Department Working Papers, No. 131 (Paris, OECD, 1993); Lars Calmfors and John Driffil, "Bargaining structure, corporatism and macroeconomic policy", *Economic Policy*, No. 6 (1988), pp. 13-62; Richard Layard, Stephen Nickell and Richard Jackman, op. cit.; David Soskice, "Wage determination: the changing role of institutions in advanced industrialized countries", *Oxford Review of Economic Policy*, No. 4 (1990), pp. 36-61.
- 9 Alan B. Krueger, "How computers have changed the wage structure: evidence from microdata, 1984-1989", *Quarterly Journal of Economics*, vol. CVIII, No. 1 (1993), pp. 33-60.
- 10 Robert Lawrence and Paul Krugman, *Trade, Jobs, and Wages*, National Bureau of Economic Research (NBER) Working Paper, No. 4478, (Cambridge, Massachusetts, September 1993).
- 11 The term "hysteresis" refers to a physical property whereby the present status of an entity is heavily influenced by its own past. When applied to unemployment, hysteresis implies that people who become unemployed have a high probability of remaining unemployed. Thus, cyclical unemployment can become structural unemployment, and an economy's NAIRU can rise over time, if hysteresis effects are important. See, for example, Olivier J. Blanchard and Lawrence H. Summers, "Hysteresis and the European unemployment problem", in *NBER Macroeconomics Annual 1986*, Stanley Fischer, ed. (Cambridge, Massachusetts, The MIT Press, 1986) pp. 15-78, and "Unemployment in developed market economies: the policy dilemmas" (chap. VII), in *World Economic Survey, 1987* (United Nations publication, Sales No. E.87.II.C.1 and corrigendum), section on "Hysteresis".
- 12 Edmund S. Phelps, *Structural Slumps: The Modern Equilibrium Theory of Unemployment, Interest and Assets* (Cambridge, Massachusetts, Harvard University Press, 1994).
- 13 David Turnham, *Employment and Development: a New Review of Evidence* (Paris, OECD, 1993), p. 160-195.
- 14 In the Republic of Korea, for instance, unemployment in 1960 was estimated at 20 per cent of the total labour force, while it is now below 3 per cent.
- 15 For a perspective on the framework within which this "golden age" ran out of steam, see the various essays in *The Golden Age of Capitalism—Reinterpreting the Postwar Experience*, Stephen A. Marglin and Juliet B. Schor, eds. (Oxford, Clarendon Press, 1990).
- 16 This feature of Japanese labour markets did not extend to all workers or, for that matter, to all large firms. A very sizeable segment was always employed in fairly small firms that supplied and distributed the others' products.
- 17 For an explanation along those lines, see Bob Rowthorn and Andrew Glyn, "The diversity of unemployment experience since 1973", in *The Golden Age of Capitalism, Reinterpreting the Postwar Experience*, Stephen A. Marglin and Juliet B. Schor, eds. (Oxford, Clarendon Press, 1990), pp. 247-249.
- 18 Moreover, it is widely believed that these data understate the true state of involuntary unemployment (see Bob Rowthorn and Andrew Glyn, loc. cit., p. 248).

- 19 For a critique of the import-competition argument in the United States context, see Robert Z. Lawrence and Matthew J. Slaughter, "International trade and American wages in the 1980s: giant sucking sound or small hiccup?", *Brookings Papers on Economic Activity Microeconomics*, No. 2 (1993), pp. 161-210.
- 20 For evidence comparing the experiences of France, the Netherlands and the United Kingdom, see Gerard J. van den Berg and Jan C. van Ours, "Unemployment dynamics and duration dependence in France, the Netherlands and the United Kingdom", *The Economic Journal*, No. 423 (1994), pp. 432-443.
- 21 See David Card, Lawrence F. Katz and Alan B. Krueger, *An Evaluation of Recent Evidence on the Employment Effect of minimum and sub-minimum wages*, NBER Working Paper, No. 4528, (Cambridge, Massachusetts, November 1993).
- 22 See Paul Gregg and Stephen Machin, "Is the rise in UK inequality different?", in *The UK Labour Market: Comparative Aspects and Institutional Developments*, Ray Barrell, ed. (Cambridge and New York, Cambridge University Press, 1994), pp. 93-125.
- 23 See Katherine G. Abraham and Susan M. Houseman, *Earnings Inequality in Germany*, NBER Working Paper, No. 4544 (Cambridge, Massachusetts, November 1993).
- 24 See David G. Blanchflower and Richard B. Freeman, "Did the Thatcher reforms change British labour market performance?" in *The UK Labour Market: Comparative Aspects and Institutional Developments*, Ray Barrell, ed. (Cambridge and New York, Cambridge University Press, 1994), pp. 51-92.
- 25 For some measurement, see Chinui Juhn, Kevin M. Murphy and Robert H. Topel, "Why has the natural rate of unemployment increased over time?", *Brookings Papers on Economic Activity*, No. 2 (1991), pp. 75-126.
- 26 For details, see Paul Gregg and Alan Manning, "Some unpleasant Marxist arithmetic" (London, Centre for Economic Policy, January 1994), mimeographed.
- 27 See Richard Freeman, *Crime and the Employment of Disadvantaged Youth*, NBER Discussion Paper, No. 3875, (Cambridge, Massachusetts, July 1991).
- 28 See David Metcalf, "The transformation of British industrial relations", in *The UK Labour Market: Comparative Aspects and Institutional Developments*, Ray Barrell, ed. (Cambridge and New York, Cambridge University Press, 1994), pp. 125-157.
- 29 See Bob Rowthorn, "Social corporatism, wage dispersion and labour market performance", in *Social Corporatism: A Superior Economic System?*, edited by Jukka Pekkarinen, Matti Pohjola and Bob Rowthorn, eds. (Oxford, Clarendon Press, 1992), pp. 82-131.
- 30 See Lars Calmfors, "Lessons from the macroeconomic experience of Sweden", *European Journal of Political Economy*, No. 2 (1993), pp. 25-72; Assar Lindbeck, *Unemployment and Macroeconomics*, (Cambridge, Massachusetts, The MIT Press, 1993), pp. 145-149; Rudolph Meidner, "Why did the Swedish model fail?", *Socialist Register 1993* (London, Merlin Press, 1993), pp. 211-228; Philippe Bouyoux and André Sapir, "Emploi et chômage: vingt ans d'expérience suédoise", *Economie Internationale-La Revue du Centre d'études prospectives et d'informations internationales (CEPII)*, No. 56 (1993), pp. 91-114.
- 31 See Jacques H. Drèze and Charles R. Bean, "European unemployment: lessons from a multicountry econometric study", *Scandinavian Journal of Economics*, No. 2 (1990), pp. 135-165.
- 32 See Andrew Glyn, "The 'productivity miracle', profits and investment", *The Economic Legacy 1979-1982*, Jonathan Michie, ed. (London, Academic Press, 1992).
- 33 See Robert S. Chirinko, "Business fixed investment spending", *Journal of Economic Literature*, No. 4 (1993), pp. 875-911; Robert Ford and Pierre Poret, "Business investment in the OECD countries", *OECD Economic Studies*, No. 16 (1992), pp. 79-132.
- 34 See Lars Calmfors, *Centralisation of Wage Bargaining and Macroeconomic Performance: A Survey*, OECD Economics Department Working Papers, No. 131 (Paris, OECD, 1993).
- 35 See Ray Barrell, Guglielmo Maria Caporale and James Sefton, "Prospects for European unemployment", in *Unemployment in Europe*, Jonathan Michie and John Grieve Smith, eds. (London, Academic Press, 1994), pp. 32-44.
- 36 Stuart Weiner, loc. cit.
- 37 The argument is developed in Wendy Carlin and David Soskice, *Macroeconomics and the Wage Bargain* (Oxford, Oxford University Press, 1990). Evidence is provided in Richard Layard, Stephen Nickell and Richard Jackman, op. cit.
- 38 See Andrew Glyn, "The costs of stability", *New Left Review 1992*, No. 195 (1992), pp. 76-95.
- 39 See Adrian Wood, *North-South Trade-Inequality and Unemployment* (Oxford, Oxford University Press, 1994) pp. 132 and 133.
- 40 For some of the evidence, see Stephen Bazen and John P. Martin, "The impact of the minimum wage on earnings and employment in France", *OECD Economic Studies*, No. 16 (1991), pp. 199-221; David Card, Lawrence F. Katz and Alan B. Krueger, op. cit.; Stephen Machin and Alan Manning, *Minimum Wages, Wage Dispersion and Employment*, Discussion Paper, No. 80 (London, Centre for Economic Performance, 1992).
- 41 See Paul Gregg, "Share and share alike", *New Economy* (March 1994), pp. 13-19.
- 42 For some of the evidence, see Paul Gregg and Stephen Machin, loc. cit.
- 43 Equal opportunity in career development may be an important step together with provision of child-care support.
- 44 See Joan Payne, *Adult Off-the-Job Skills Training: An Evaluation Study* (London, Policy Studies Institute, 1990).
- 45 See Paul Gregg, "Is there a future for special employment measures in the 1990s?", *National Institute Economic Review*, No. 138 (1991), pp. 45-50.
- 46 David Turnham, op. cit.
- 47 Victor E. Tokman and Norberto E. Garcia, *Dinamica del Subempleo en America Latina* (Santiago de Chile, Programa Regional del Empleo para América Latina y el Caribe—Organización Internacional del Trabajo (PREALC-OIT), 1981).
- 48 Lynn Squire, *Labour Force, Employment and Labour Markets in the Course of Economic Development*, World Bank Staff Working Paper, No. 336 (Washington, D.C., World Bank, June 1979), p. 39.
- 49 International Labour Organisation, *World Employment Programme, Africa Employment Report, 1990* (Addis Ababa, Inter-

- national Labour Organisation, World Employment Programme, 1991), p. 43.
- 50 Bryan Roberts, "The changing nature of informal employment: the case of Mexico", in *Towards Social Adjustment*, Guy Standing and Victor Tokman, eds. (Geneva, International Labour Office, 1991).
- 51 International Labour Organisation, World Employment Programme, *Africa Employment Report, 1990* (Addis Ababa, International Labour Organisation, World Employment Programme, 1991), p. 43.
- 52 Ibid. Figures as high as 30 per cent in Botswana, around 20 per cent in Algeria, Lesotho, the United Republic of Tanzania, Zambia, around 14 per cent in Kenya and Morocco and near 10 per cent in Côte d'Ivoire, Egypt, Nigeria and Tunisia, in different years of the 1980s, are presented by David Turnham, *op. cit.*, pp. 76 and 77.
- 53 See PREALC, *Latin America: Economic Growth that Generates More jobs, of Inferior Quality*, PREALC Newsletter, No. 32 (Santiago de Chile, September 1993); Susan Horton, Ravi Kanbur and Dipak Mazumdar, "Labour markets in an era of adjustment: evidence from 12 developing countries", *International Labour Review*, Nos. 5 and 6 (1991), pp. 531-558.
- 54 See International Labour Office, *World Labour Report, 1993* (Geneva, International Labour Office, 1993), p. 4.
- 55 International Labour Office, *Eleventh Asian Regional Conference, Report of the Director-General* (Geneva, November-December 1991).
- 56 Non-farm activities absorb 20-50 per cent of the rural labour force in Asia, 10-40 per cent in Latin America, about 25 per cent in North Africa and West Asia and no more than 10 per cent in sub-Saharan Africa (see I. Jazairi and others, *The State of World Rural Poverty: An Inquiry into Its Causes and Consequences* (Rome, International Fund for Agricultural Development (IFAD), 1992). Larger estimates are in Gustav Ranis, "Asian and Latin American experience: lessons for Africa", *Journal of International Development*, No. 2 (1990), p. 168.
- 57 See David Turnham, *Employment Creation and Development Strategy*, Policy Brief, No. 7 (Paris, OECD Development Centre, 1993) p. 21.
- 58 See interview with Prime Minister P. V. Narasimha Rao in *Financial Times*, 11 March 1994.
- 59 See Susan Horton, Ravi Kanbur and Dipak Mazumdar, *loc. cit.*
- 60 Vietnamese official estimates put national unemployment at 6 per cent and urban unemployment at 9-12 per cent. The estimates of the Asian Development Bank indicate that national unemployment in mid-1993 was 20 per cent.
- 61 Over 20 per cent in Algeria, 14 per cent in Jordan and Tunisia, and between 10 and 12 per cent in Egypt, Morocco and Turkey (see International Labour Organisation, *Contribution of the International Labour Organisation to the First Substantive Session of the Preparatory Committee for the World Summit for Social Development* (New York, January 1994)).
- 62 See "Economic, social and environmental consequences of the situation between Iraq and Kuwait and its short-, medium- and long-term consequences: note by the Secretariat" (E/1991/102), 24 June 1991.
- 63 See Don Peretz, "Israel since the Persian Gulf War", *Current History*, No. 56 (1992), pp. 17-21.
- 64 See United Nations High Commissioner for Refugees, *The State of the World's Refugees: The Challenge of Protection* (New York, Penguin Books, 1993).
- 65 The transition economies are frequently discussed as a group for the sake of convenience. It should be clear that the structure and trends of labour-force developments, as well as the quantity and quality of labour statistics and types of labour market policies in these countries, differ considerably. Similar problems have arisen in other transition economies (notably China, the former German Democratic Republic, Mongolia and Viet Nam) that are not, however, dealt with in this chapter. At the same time, the countries discussed here are in transition from some type of central or administrative planning to a market-based system of decision-making and resource allocation. A number of important common elements can be identified with respect to labour markets. Individual country experiences are detailed in various recent issues of *Economic Survey of Europe and Economic Bulletin for Europe*, prepared under the auspices of the Economic Commission for Europe.
- 66 For details, see William E. Moore, *Economic Demography of Eastern and Southeastern Europe* (Geneva, League of Nations, 1945), pp. 26 and 197.
- 67 For some details, see Tito Boeri and Gyorgy Sziraczki, "Labour market developments and policies in central and eastern Europe; a comparative analysis", in *Structural Change in Central and Eastern Europe: Labour Market and Social Policy Implications*, Georg Fischer and Guy Standing, eds. (Paris, Organisation for Economic Co-operation and Development, 1993), pp. 241-261.
- 68 The designation "eastern Europe" was conventionally understood to embrace Albania, Bulgaria, the former Czechoslovakia (now the Czech Republic and Slovakia as successor States), the former German Democratic Republic until its absorption into Germany in October 1990, Hungary, Poland and Romania. This group together with the successor States of the former Soviet Union is identified here as eastern Europe.
- 69 See Tito Boeri and Gyorgy Sziraczki, *loc. cit.*, p. 244.
- 70 For a broad analysis of this phenomenon and its implications for resource allocation and political control, see Ken Jowitt, "The Leninist legacy", in *New World Disorder—The Leninist Extinction*, Ken Jowitt, ed. (Berkeley, California, and London, University of California Press, 1992), pp. 284-305. On the social role of the state-owned enterprise in Russia, see Cécile Lefèvre, "Le rôle social de l'entreprise industrielle en Russie", *Le courrier des pays de l'Est*, No. 383 (1993), pp. 33-39.
- 71 Migration abroad was either strictly forbidden or fully controlled by the Government through inter-State agreements.
- 72 Note that in all likelihood these loans will be further defaulted on and the Governments will have to continue to bail out existing commercial banks, the majority of which are still state-owned, for some time to come until credible disciplining criteria, such as bankruptcy or forced restructuring, can be put in place.
- 73 For a detailed analysis of the trade-offs between employment and productivity in Hungary, see Erzsébet Viszt, "A ter-

melékenység és foglalkoztatás konfliktusai a gazdasági átmenet idején Magyarországon”, *Közgazdasági Szemle*, No. 3 (1994), pp. 254-267.

74 This has invariably lasted for between two and four years into the transition.

75 Countries with restitution programmes have returned some real estate to owners dispossessed under communism. However, in most countries this does not mean that the owner who chooses not to occupy the returned dwelling may change rents according to whatever the market can bear.

76 Thus, employment in state firms and organizations in the Russian Federation in 1991 accounted for 75.4 per cent of employment. Another 10.7 per cent were employed in the agricultural cooperatives previously treated as “socialized”. About 7.6 per cent of employment was in leased firms. Purely private and individual undertakings accounted for only 2.6 per cent of those employed. See *Strany-chleny SNG—statisticheskii ezhegodnik* (Moscow, Statisticheskii komitet sodruzhestva nezavisimyykh gosudarstv, 1992), p. 332.

77 This computation implicitly assumes that any overstatement of the contraction in employment has been compensated by an overstatement in the fall of output. Inasmuch as virtually all transition economies count their employed as those having a job in enterprises of a certain size (or, even worse, only in the existing state or socialized sectors), the drop in registered employment levels is overstated. Also output declines are widely believed to overstate the real contraction, owing to the poor collection of even marginally accurate information on the private sector and the even worse coverage of the informal sector.

78 For the sake of comparison, the inflow rate in the United States is 35 per cent, suggesting a much more flexible labour market. See Olivier Blanchard, Simon Commander and Fabrizio Coricelli, “Unemployment and restructuring in Eastern Europe” (paper prepared for the conference on “Unemployment, Restructuring and the Labor Market in East Europe and Russia”, organized by the World Bank, Washington, D.C., 7 and 8 October 1993), p. 12.

79 Adverse credibility effects also influence the behaviour of private or privatized banks, but probably to a smaller degree than is the case in the still largely state-owned commercial banks.

80 However, a recent report for Russia (see Centre for Economic Analysis, *Russia—1993, Economic Situation*, No. 3 (August 1993)) claims that “latent” unemployment should be between 8 and 11 per cent of the total labour force, instead of the 0.8 per cent “recognized as unemployed” and the 1 per cent otherwise “registered” as unemployed.

81 For a perspective on the reform process in Armenia, see Milan Vodopivec and Wayne Vroman, *The Armenian Labor Market in Transition: Issues and Options*, World Bank Working Paper, No. 1193 (Washington, D.C., World Bank, September 1993).

82 A survey conducted in Poland in 1992 suggested, however, lower levels of unemployment, by up to half a percentage point, than had been officially reported (oral communication by Marek Góra at the Third Central European Forum on “Labour Market Changes in Central Europe: Lessons for Social Policy”, organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994).

83 For example, a very sizeable component of Albania’s labour force—over 20 per cent by some estimates—is currently working abroad, chiefly in Greece; the magnitude of this component is simply not caught in labour surveys either. Note that these migrant workers have brought into the country significant worker remittances, nearly \$0.5 billion in 1993 alone.

84 But “real” unemployment in these countries was probably much higher. The unemployment rates in Estonia and Latvia for 1993, including the underemployed, those on short-time working and on indefinite unpaid leave, would be some 10-12 and 8 per cent, respectively (see *Estonia Country Report*, Fourth Quarter 1993, p. 17; and *The Baltic Independent*, 24-30 September 1993).

85 Although over 1,500 labour offices have been established in the Russian Federation, the vast territory of this country as well as the poor means of transportation suggests that the incentive to register in many outlying areas must be strong before affected individuals will displace themselves. For an empirical perspective on the problems, see Annette N. Brown, “A note on industrial adjustment and regional labor markets in Russia”, *Comparative Economic Studies*, No. 4 (1993), pp. 147-157.

86 In Hungary, for example, even though the number of registered unemployed dropped, the number of those having been unemployed for more than 12 months doubled in 1993 (see István Kakuszi, “The impact of the changes of the labour market on the social policy” (paper prepared for the Third Central European Forum on “Labour Market Changes in Central Europe: Lessons for Social Policy”, organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 1); likewise in Poland, the number of long-term unemployed (over one year) increased from one fourth of total registered unemployed to over 40 per cent (see Irena Wóycicka, “Polish economy in the transformation process—a chance only for some people?” (paper prepared for the Third Central European Forum on “Labour Market Changes in Central Europe: Lessons for Social Policy”, organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 4); in the former Czechoslovakia and more recently in the Czech republic, the share of long-term unemployed in total unemployed is reported to range from 10 to 17 per cent, but it is growing (Kamil Janáček, “The Czech labour market—recent trends and open issues” (paper prepared for the Third Central European Forum on “Labour Market Changes in Central Europe: Lessons for Social Policy”, organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 3); by contrast, in Slovakia, the share of long-term unemployed now stands at nearly one third and has been growing (see Helena Woleková, “Reform of social security system is complicated by changes in labour market” (paper prepared for the Third Central European Forum on “Labour Market Changes in Central Europe: Lessons for Social Policy”, organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 2).

87 See Olivier Blanchard, Simon Commander and Fabrizio Coricelli, “Unemployment and restructuring in Eastern Europe” (paper prepared for the conference on

88 “Unemployment, Restructuring and the Labor Market in East Europe and Russia”, organized by the World Bank, Washington, D.C., 7 and 8 October 1993), p. 5. This has been particularly pronounced in the Czech Republic—some 40 per cent since the

start of the transition (see Kamil Janáček, "The Czech labour market—recent trends and open issues" (paper prepared for the Third Central European Forum on "Labour Market Changes in Central Europe: Lessons for Social Policy", organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994, p. 3).

89 For some early evidence see "Labour market reforms in central and eastern Europe and the rise of unemployment", in *Employment Outlook* (Paris, Organisation for Economic Co-operation and Development, 1992), pp. 239-269. For Poland, see Boena Leven, "Unemployment among Polish women", *Comparative Economic Studies*, No. 4 (1993), pp. 135-145.

90 See Iskra Beleva, "Transformatsiyata na trudoviya model v Blgariya i izpolzvaneto na trudovite resursi", *Ikonomicheska misl*, Nos. 9 and 10 (1993), pp. 62-73; Elka Dimitrova, "Ima li "zhenski pazar", no na truda?", *Ikonomika*, No. 11 (1993), pp. 28-39; Krasimira Kirova, "Bezrabortitsata i razkrivane na novi rabotni mesta", *Ikonomicheska misl*, Nos. 7 and 8 (1993), pp. 40-51.

91 János Köll ("Labour market developments and employment policy in Hungary" (paper prepared for the Third Central European Forum on "Labour Market Changes in Central Europe: Lessons for Social Policy", organized by the Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994), p. 3) contends that in Hungary nearly 95 per cent of new entrants do not register at unemployment offices.

92 See Irena Wóycicka, "Polish economy in the transformation process—a chance only for some people?" (paper prepared for the Third Central European Forum on "Labour Market Changes in Central Europe: Lessons for Social Policy", organized by the

Institut für die Wissenschaften vom Menschen, Vienna, 21-23 January 1994, p. 4.

93 In Bulgaria as of end-January 1993, 41.8 per cent of the registered unemployed were under 30 years of age. Particularly those between the ages of 16 and 24 appear to be despairing of emerging from unemployment (see Krasimira Kirova, loc. cit., p. 44).

94 For evidence in the case of Bulgaria and Hungary, see Gyorgy Sziracki and Jim Windell, *The Impact of Employment Restructuring on Disadvantaged Groups in Bulgaria and Hungary*, International Labour Office, Working Paper, No. 62 (Geneva, International Labour Office, 1993).

95 For a discussion of some early results, see "Labour market reforms in central and eastern Europe and the rise of unemployment", in *Employment Outlook* (Paris, OECD, 1992), pp. 256ff.

96 The situation showed improvement, with the figure dropping from 109.6 in December 1992 to 97.4 in March 1993, to 73 in June 1993 and to 67.7 in September 1993, followed by a rapid worsening, with the figure rising from 77.6 in October to 98.5 in November and to 133.2 in December 1993 (*Byulletin Statystyczny*, No. 12 (1993)). In the first two months of 1994, though some recovery in announced vacancies was evident (the number rising from 21,700 in December 1993 to 25,200 in January 1994 and to 26,100 in February 1994), the absolute level of vacancies was barely above what it had been a year earlier.

97 In the Russian Federation, for example, reported vacancies are said to account for less than one third of actual vacancies (see Government of the Russian Federation, *Russian Economic Trends*, No. 2 (1993), table 8-1).

VII

Economic and social implications of population dynamics

INTRODUCTION

THE EARLY EXAMINATION OF THE EFFECTS OF RAPID POPULATION GROWTH

Although the data are unreliable, the pattern of change in the world's population, until fairly recently in the course of human history, has not been one of consistently upward movement.¹ However, over at least the past two centuries, the world's population has been on an unmistakably upward course. The search for fresh land, raw materials and markets for this growing population has helped bring about changes in social institutions that have helped determine the recent course of human history. Although the causal connections are complex, total incomes have risen at a faster rate than population growth, and per capita incomes and living standards have increased over time.

Population growth in the world over the past two hundred years has not been uniform: the growth in population of some countries accelerated at a time when that of other countries was stagnant, and also slowed down before that of these other countries accelerated.

One of the first groups of people among whom a rapid growth in population was recorded was the European population in the then North American colonies. Their population doubled every 25 years. The fact that these colonists enjoyed a higher standard of living than the citizens of the motherland, the United Kingdom, made the early economists in Europe discuss the link between population growth and economic development. Adam Smith saw that this was a complex relationship—that just as an increase in population could spur economic growth by making possible the division of labour and giving rise to technical innovation,² wealth itself could lead to an increase in the number of children: more children could now be afforded and the gains from their labour could more than compensate for the costs.³ On the other hand, wealthy people tended to have fewer children, while poverty was often accompanied by high fertility, but also by much higher rates of infant and child mortality.⁴ Rising population, including that of the poorer sections of society, had

not depressed living standards: Smith observed that the real price of food had declined over time.⁵

After Smith's death, a different analysis was offered by Thomas Malthus which was based on a contrast between two powers: "the natural power of mankind to increase" and "the diminishing and limited power of increasing the produce of the soil".⁶ In his early work,⁷ Malthus stated that population growth, unless checked, tended to grow geometrically, while food supplies tended to grow only arithmetically.⁸

THE MALTHUSIAN TYPE TRAP

Since the time of Malthus, a Malthusian-type "trap" has often been introduced to show that population poses a problem for humanity—because of insufficiency of food, raw materials and environmental resources. According to these models, the central problem for humanity is how to escape from this trap.⁹

One difference between the time of Malthus and today is that he thought that the analysis applied to his own country—the United Kingdom—and that the limits of agricultural expansion were already being reached there. Some of his contemporaries, such as Ricardo, argued that, in the poorer countries, the limits of population growth had not been encountered as they were prevented by institutional constraints—"bad government ... the insecurity of property"—and a lack of education from exploiting their resources. People in these countries "require only to be better governed and instructed, as the augmentation of capital, beyond the augmentation of people, would be the inevitable result. No increase in the population can be too great as the powers of production are still greater".¹⁰

For a Malthusian-type trap to have any practical validity, the two important variables must bear some long-run relationship to each other,¹¹ which entails that something useful can be said about future population growth and also that something useful can be said about the future behaviour of other variables that will play a role in catering to

the demands of an increasing population. Malthus thought that something useful could be said: that the power of population was greater than that of the modern economic forces—the accumulation of capital, the division of labour and the invention of machinery—that Smith was analysing, and, therefore, that there would still be insufficient food.¹²

If future trends in population as well as the other variables can be predicted with a high degree of accuracy, and it is established that the expected ability of these variables to change is insufficient to enable humanity to cope with the projected population developments, the main focus of future economic decision-taking will be on avoiding a Malthusian-type trap.

If the two main sides of the Malthusian-type trap are in fact highly elastic, this would have different implications. These could be that, in the short to medium term, population changes will not prove an important variable; while, in the longer term, the other variables will change over time to accommodate whatever growth or decrease in population occurs. Action taken on a Malthusian-type belief that population is out-running food, or other resources, is likely to be different from action taken after rational

assessment of the effectiveness of alternative social and economic policies, but ultimately relying on voluntary, reasoned decision, rather than compulsion, in bringing about suitable revisions of behaviour patterns in the light of the effects of population growth on the well-being and freedom of women and men in society.¹³

Although it is important to identify the interrelationships between population and socio-economic variables, their complexity makes it difficult to identify the exact causal factors at work and to assess the stability of the interrelationships that are observed at one particular time or in a particular setting. The analysis of the relationship between population and socio-economic development is necessarily highly specific, but the issues themselves are of critical importance to the international community. One of the main themes of the International Conference on Population and Development, to be held at Cairo in September 1994, is to be the interrelationships between “population, sustained economic growth and sustainable development”.

The present chapter analyses key interrelationships as they appear to apply at the present time. It looks first at population and then at the other variables.

FUTURE POPULATION PROSPECTS

THE DEMOGRAPHIC TRANSITION

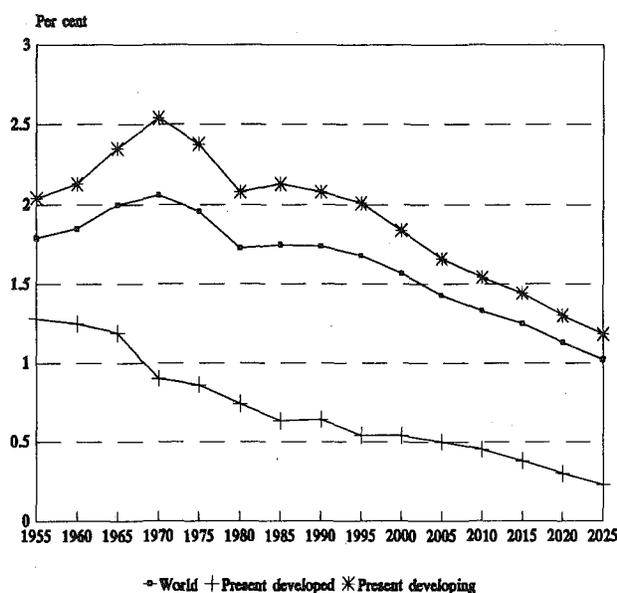
Subsequent history was not supportive of Malthus's food-based trap. Food more than kept up with the increase in population, largely as a result of technological advances. Also, the population variable changed. In particular, the colonies of North America, which had experienced a rapid growth in population and encouraged such growth by immigration,¹⁴ went through a demographic transition. They were among the first to experience a decline in fertility: the United States of America saw a decline in fertility even before Europe did.¹⁵ Rising living standards in the United States also helped produce a decline in mortality. It is this change from high fertility and mortality rates to low rates that marks the demographic transition. A decline in mortality, particularly among infants and children, has tended to take place before a decline in fertility and leads to an increase in the rate of population growth. With rising living standards, which can help explain the decline in mortality, and the diminished need to replace a dead child as infant and child mortality rates fall, the desired family size will tend to fall and fertility to decline. In the end, the fall in population growth as a result of the decline in fertility will more than compensate for the increase in population size as a result of the decline in mortality. Population growth will slow down, and could even turn negative.

PRESENT TRENDS IN THE WORLD POPULATION

Figure VII.1 gives the average annual increase in the world's population from 1950 to 1990 and the projections to 2025 according to the medium variant. It shows that the world as a whole has been going through a demographic transition since the 1950s. From 1950-1955 to 1965-1970, the growth in world population accelerated from 1.8 per cent a year to 2.1 per cent. It then decelerated to 1.73 per cent by 1975-1980. It remained fairly constant until it decelerated to 1.68 per cent in 1990-1995. By 2020-2025, the rate is forecast to decelerate to 1.02 per cent.

The growth in population is the difference between the crude birth and death rates, which are given in figure VII.2. This shows that much of the reason for the growth in population in the world in the recent past has been a substantial fall in mortality in the developing countries. In 1950-1955, the crude death rate¹⁶ was 24.3 per thousand and by 1990 it was reduced to 9.1 per thousand. It is projected to fall to 7.1 per thousand by 2020-2025. The prime determinant of this fall in crude mortality was improved living and health conditions. Life expectancy¹⁷ increased from 42.2 years to 62.4 years for both sexes, and infant mortality rates¹⁸ fell—from 180 per thousand to 69 per thousand. Total fertility rates (the number of births per woman)¹⁹ fell in the developing countries, from 6.19 per woman in 1950-1955 to 3.64 in 1990-1995, bringing down

Figure VII.1.
Average annual increases in population,
1950-1955 to 2020-2025



Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7.).

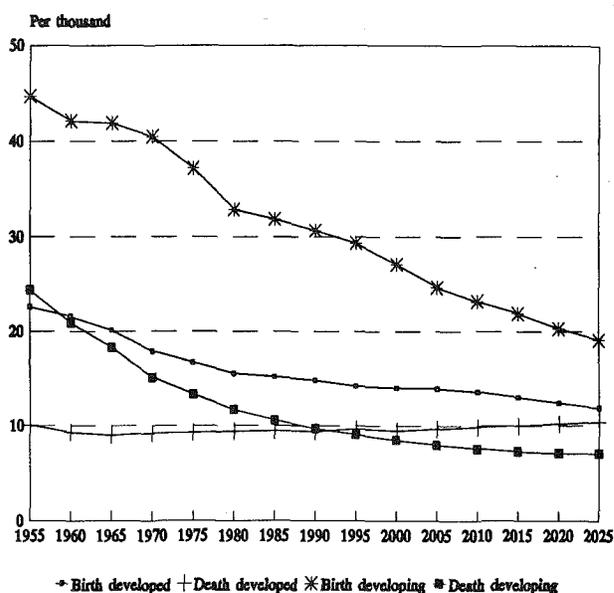
Note: 1955 = average of 1950-1955.

the crude birth rates. As the population was expanding not just through new births but also through lower infant and child mortality rates and increased longevity, population growth was still strong.

In the developed countries, the demographic transition had progressed much further by the 1950s. Total fertility rates—at 2.83—were lower in 1950 than in the developing countries—at 6.19. Improved living conditions led to longer life expectancy. However, the age structure of the population changed: as growth was slower, the number and share of the elderly in the population increased. As a consequence, the crude death rate did not fall as it had in the developing countries. Future increases in the crude mortality rate will not, then, reflect a deterioration in living standards but rather the larger share of the elderly in the population as a result of increased longevity and smaller, and sometimes negative, growth in the young population. By about 2025, it is estimated that crude birth rates and death rates should be about equal, implying a stationary population.

In most of the developed countries and in many developing countries that already enjoy high living standards, further increases in longevity and reductions in infant and child mortality will statistically play a less important role in determining the size of the population. This will primarily depend on the fertility of the average woman: on whether she has more or less than the number of children

Figure VII.2.
Crude birth and death rates,
1950-1955 to 2020-2025



Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7.).

Note: 1955 = average of 1950-1955.

sufficient for replacement. In many of the developing countries, further improvements in health and well-being which could lead to significant increases in life expectancy and reductions in infant and child mortality rates, will play a more important role statistically than in the developed countries in determining the growth and total size of the population.

The fertility of the average woman in the present developed market economies fell before the widespread introduction of modern methods of contraception.²⁰ The situation in many developing countries is different in that their Governments can now decide to place resources in the provision of reproductive health services, which could help speed up the fertility decline that is part of the demographic transition. The provision of reproductive health services is just one of the many uses of society's resources that will affect fertility. Education, employment opportunities, the extension of credit facilities for women, and, in general, the provision of those services that will reduce the desired family size will all help to reduce fertility. Meeting currently unmet demands for contraception will require considerable resources, both from countries themselves and from the international community.²¹ Whether, at the margin, extra investment should be devoted to reproductive health services, to women's education or to any of the other factors that affect fertility can only be determined at the level of the country. In general, though, it will not just

be overall economic advance, but also the volume of resources societies devote to women's empowerment, including the provision of reproductive health services, that will help determine the speed of the demographic transition in many of the present developing countries.

POPULATION POLICIES IN THE DEVELOPED AND DEVELOPING COUNTRIES

The stage that different countries have reached in their demographic transition is reflected in their Governments' policies towards fertility rates. Within the developed countries, most people live in countries that have no policy of intervention, and, if there is a policy of intervention, it is usually one to increase the rate of fertility. As shown in table VII.1, the policies of Governments that constitute 67 per cent of the population of the developed countries is not to intervene to achieve a particular rate of fertility. Of the ones that intervene, those that made up 21 per cent of the developed countries' total population did so to maintain the rate of fertility, and those that made up 11 per cent intervened to increase it. In Europe, where fertility, at 1.7, was below replacement rate, over a third of the population lived in countries that were intervening to increase fertility.

In the developing countries, which have not, on the whole, advanced so far in the demographic transition, the Governments of countries constituting 84 per cent of their total population intervene to lower the rate of fertility. In the least developed countries, about half the population was in countries whose Governments had no policy to intervene, and the other half in those whose Governments intervened to lower the rate of fertility.

There is no necessary connection between a Govern-

ment having a specific policy towards fertility or, more generally, demographic trends and its provision or encouragement of reproductive health services. Such services are widely available in the developed countries whose Governments, on the whole, have no population policies. Similarly, in developing countries that have gone through a demographic transition, the emphasis is not so much on reducing fertility as on other aspects of health, such as reducing further mortality and morbidity, on improving social services, particularly for the growing numbers of the elderly, and on raising the status of women.²²

LONG-RANGE POPULATION PROJECTIONS TO 2150

In 1992, the Population Division of the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat provided long-range projections of the world's population.²³ Three principal variants were used: "medium", "high" and "low", based upon assumptions about future fertility rates that were described as seeming "plausible to most readers".²⁴ The fertility rates used for these long-run projections are shown in table VII.2. Under the medium variant, the aggregate world total fertility rate for women, which was estimated at 4.46 in 1970-1975, would move from 3.45 in 1985-1990 to 2.27 in 2020-2025 and to 2.06 in 2100-2105. The replacement-level total fertility rate is between 2.04 and 2.07, depending on the major regions, and this variant implies that this rate will have been reached by the year 2100, and that the size of the world's population will have approximately stabilized by then, as can be seen from figure VII.3. The high variant assumes that the total fertility rate will have stabi-

Table VII.1.
Policies of Governments in regard to fertility rates
(Percentage of population of group)

	Number of countries	Fertility rate 1985-1990	None ^a	Maintain ^b	Increase ^c	Decrease ^d
World	190	3.4	26.0	4.9	4.3	64.8
Developing	134	3.9	14.0	0.2	2.3	83.5
Least developed	47	6.1	51.0	0.1	2.5	46.5
Developed	56	1.9	67.3	21.1	11.4	0.2
Africa	53	6.3	16.7	0.2	1.9	81.1
Asia	38	3.5	6.1	2.8	1.2	89.9
Latin America	33	3.4	54.8	0.1	0.7	44.4
Europe	39	1.7	55.5	8.3	35.8	0.4
North America	2	1.9	100.0	0.0	0.0	0.0
Former USSR	12	2.4	18.3	72.8	8.9	0.0
Oceania	13	2.8	94.1	0.0	0.0	5.9

Source: *World Population Monitoring, 1993* (to be issued as a United Nations publication), table III.7.

- a None indicates the Government has a policy of non-intervention.
- b Maintain indicates the Government intervenes to maintain the present level of fertility.
- c Increase indicates the Government intervenes to increase the present level of fertility.
- d Decrease indicates the Government intervenes to decrease the present rate of fertility.

Table VII.2.

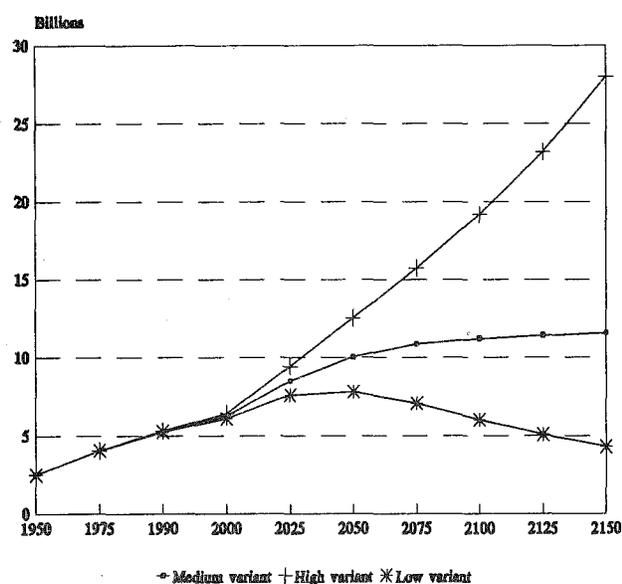
Long-range projections for fertility and the world's population, 1970-2150

	1970-1975	1985-1990	2020-2025	2100-2105
<i>Fertility rate (per woman)</i>				
Medium variant	4.46	3.45 (3.43)	2.27 (2.36)	2.06
High variant		3.63 (3.43)	2.78 (2.74)	2.50
Low variant		3.29 (3.43)	1.79 (1.96)	1.70
<i>Population (billions)</i>				
Medium variant	4.077	4.854	8.504 (8.472)	11.543
High variant			9.444 (9.080)	28.025
Low variant			7.591 (7.851)	4.299

Source: *Long-Range World Population Projections: Two Centuries of Population Growth, 1950-2150* (United Nations publication, Sales No. E.92.XIII.3).

Notes: The 1985-1990 and 2020-2025 estimates of total fertility rate are from *World Population Prospects, 1990* (United Nations publication, Sales No. E.91.XIII.4). Those shown in parentheses are from *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

Figure VIII.3.
World population, 1950-2150



Source: *Long-range World Population Projections: Two Centuries of Population Growth, 1950-2150* (United Nations publication, Sales No. E.92.XIII.3).

lized by the year 2100 above the replacement rate—at 2.5; and the low variant assumes that it will have stabilized at a rate below—at 1.7.

The total fertility assumptions are the operative ones as the mortality assumptions do not change across the variants. An ultimate life expectancy at birth of 87.5 years for women and 82.5 for men is assumed for each major area—84.9 for both sexes. As life expectancy is projected to increase most of the time under review in at least one

major region, total global population will tend to increase, even after the replacement rate has been met.

Table VII.2 shows that, under the high variant, population increases continuously from 5.3 billion in 1990 to 9.4 billion in 2025 to 28 billion in 2150, at which time it is still increasing. Under the medium variant, the increase is from 5.3 billion in 1990 to 8.5 billion in 2025 to 11.5 billion in 2150, at which time it is stabilizing. By about 2200, the world's population is expected to be stationary under this variant. Under the low variant, the population increases from 5.3 billion in 1990 to 7.6 billion in 2025, but reaches a maximum of about 7.8 billion in 2050, after which it falls off sharply and by 2150 is below the starting point of 1990.

Under all the scenarios, there is a fall over time in the total fertility rate; the principal difference is between whether or not the replacement rate is reached. The difference between annual growth in population of 0.5 per cent above this rate and 0.3 per cent below is, over the course of a century, translated into several times the present world's population. In 2150, the high variant yields a population 150 per cent greater than the medium variant, while the low variant yields one of less than half the medium variant.

MARGINS OF ERROR IN LONG-RANGE POPULATION PROJECTIONS

The three scenarios, whose assumptions are expected to be considered plausible to most readers, yielded different results owing to difficulties inherent in making projections.

One difficulty is that the current picture is not always clear. As data on population are not collected annually in most countries—a frequent interval between censuses is 10 years—estimates for the key variables have to be con-

tinually revised. The figures in parentheses in table VII.2 are those from the 1992 revision of the United Nations *World Population Prospects*, and differ, for the total fertility rate in 2020-2025, by as much as 0.2 percentage points from those prepared in 1990. The 1990 estimates for the total fertility rate for 1985-1990 were themselves revised in 1992.

Changes in fertility patterns: the example of Sweden

Another difficulty is that long-range population projections have to make assumptions about women's behaviour and their choices as to how many children they will have. It is relatively easy to project that in poor countries in the midst of a demographic transition, where, among other things, reproductive health services are not widely available, women's fertility will decline over time. It is more difficult to forecast whether, with higher standards of living and near universal availability of reproductive health services, the choices that couples make concerning the number of children they want will lead to an expanding or a contracting world population: to, for instance, an average of 10 women having a total of 22 (a fertility rate of 2.2) or 17 children (a fertility rate of 1.7).

In 1950-1955, the total fertility rates for women in Italy, Spain and Sweden were 2.32, 2.57 and 2.21, respectively (see table VII.3). A higher rate of fertility in the two countries of southern Europe could have been expected because of their religious similarities. In 1984, the estimates for fertility in the period 1980-1985 were 1.60, 2.07 and 1.64 for the same three countries. A lowering of fertility in the period since 1955 was readily explicable in the light of economic growth, rising living standards and the availability of better social services, including reproductive health services.

The medium variants for the fertility rates in 1995-2000 were estimated in 1984 at 1.75 for Italy, 2.00 for Spain and 1.45 for Sweden. The fertility rate in Italy was expected to rise slightly and that of Sweden to continue falling. The

population of Italy would have fallen from 57.3 million in 1985 to 57.2 million in 2025, that of Spain would have risen from 38.5 million to 46.0 million and that of Sweden would have fallen from 8.35 million to 7.71 million.

However, by 1992, a different pattern of behaviour had become evident, with the total fertility rates for Italy and Spain being lowered to 1.38 and 1.43, respectively, for the period 1995-2000. The population of Italy in 2025 was then estimated as falling to 56.2 million and that of Spain as rising to the lower figure of 40.6 million. However, the picture for Sweden was different: in this country, the total fertility rate for 1995-2000 was revised between 1984 and 1992 from 1.45, a rate considerably below replacement rate, to 2.17, a rate above the replacement rate. The result was that Sweden's population, rather than falling by 8 per cent between 1985 and 2025, is now estimated to rise by 14 per cent from 8.35 million to 9.53 million. The low variant also shows an increase—to 8.85 million. Sweden is one of the countries about which it would appear that the most reliable projections could be made—it has a small population and has extensive statistical services.

Sweden has a high ratio of female participation in the labour force—women made up 44 per cent of Sweden's labour force in 1990, as compared with 24.5 per cent for Spain and 32 per cent for Italy. This reflects Sweden's progressive legislation for maternal leave and for ensuring child support. Sweden also has different social customs from Italy and Spain, as shown by the much higher percentage of births outside marriage—over 50 per cent as compared with less than 10 per cent in Italy and Spain. It is possible that, as Swedish women no longer encounter the same difficulties as before in choosing between raising a family and pursuing a career, they are freer not just to limit but also to expand the size of their families. In time, and certainly over the next two centuries, women in many other countries, including many of the present developing countries, will come to enjoy similar socio-economic benefits as Swedish women do today. Whether they will

Table VII.3.

Fertility rates and population size for Italy, Spain and Sweden

	Fertility rates				Population (millions)		
	1950-1955	1980-1985 ^a	1995-2000 ^a	1995-2000 ^b	1985	2025 ^a	2025 ^b
Italy	2.32	1.60	1.75	1.38	57.3	57.2	56.2
Spain	2.57	2.07	2.00	1.43	38.5	46.0	40.6
Sweden	2.21	1.64	1.45	2.17	8.35	7.71	9.53

Source: *World Population Prospects: Estimates and Projections as Assessed in 1984* (United Nations publication, Sales No. E.86.XIII.3); *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a Estimates given in *World Population Prospects: Estimates and Projections as Assessed in 1984*.

b Estimates given in *World Population Prospects: The 1992 Revision*.

follow what appears to be the present Swedish pattern is difficult to determine.

Recent fertility patterns in the economies in transition

Another recent example of a country that exhibited an unanticipated demographic change is the former Soviet Union. The United Nations population projections in 1992 foresaw the crude death rate remaining at about 10 per 1,000 population from 1985 to 2025. The crude birth rate was expected to drop from 19 per 1,000 to about 14. Under all variants, the population was expected to increase between 1985 and 2025. However, recent figures for the Russian Federation show the crude birth rate falling to 9.2 per 1,000 in 1993 and the crude death rate rising to 14.6 per 1,000.²⁵ The resulting drop in population from the 1992 figure of about 149 million was 800,000. The decline in Russia's population began in 1991.

The demographic changes, not just in Russia, but also in many of the other former centrally planned economies,²⁶ illustrate the strong connection between rapid economic change and demographic factors, as was recognized by the United Nations in its projections.²⁷ Just as it has proved difficult to forecast the full consequences, including the short-term demographic consequences, of the transition from the centrally planned system, so also is it difficult to estimate when economic and social conditions and, in particular, health services will have improved so as to lead to an increase in the birth rate and a fall in death rates.

The impact of the AIDS virus

Similarly, in those countries where the AIDS virus is already prevalent, long-run projections of future population size are subject to wide margins of error because of the difficulty in assessing future innovations in the medical field and changes in behaviour that reduce the risk of infection.²⁸ In the case, in particular, of African countries, the impact of the virus is compounded by the adverse effect on all health variables, including especially infant, child and maternal mortality, of the breakdown in health services caused by the economic crisis and, in some countries, by war and civil strife. In many countries, the disease seems to have been more prevalent among the more educated parts of the population. Their countries will not, then, benefit from the contribution that they could have from a lifetime of economic activity. Moreover, other family members will be unable to enter the workforce as they must devote their attention to caring for sick members. Finally, AIDS is also striking children, and, according to one estimate, in some countries the disease could lead to a tripling of child mortality rates by the year 2010.²⁹ As with other instances of child mortality, the investment made in the nurturing and education of dying children will never be realized by their future entry into the labour force.

POPULATION PROJECTIONS TO THE YEAR 2025

The main results of the three variants

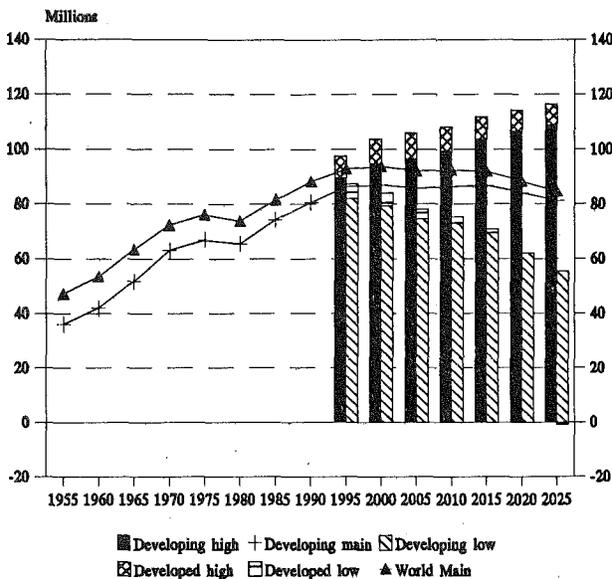
The difference between the 1990 and the 1992 revisions for population growth to 2020-2025, the furthest that the latter projections extend, however, shows a certain convergence around the medium variant. This variant is considered the "most likely"³⁰. In 1990, it was forecast that the world's population would rise from 5.3 billion in that year to reach 8,504 million in 2020-2025, with the high variant giving a figure of 9,444 million (11.1 per cent higher) and the low estimate a figure of 7,591 million (10.7 per cent lower). The 1992 revision put the world's population in 2020-2025, according to the medium variant, at the slightly lower figure of 8,472 million, the high estimate was reduced to 9,080 million (7 per cent higher) and the low estimate increased to 7,852 million (7.7 per cent lower).

As the variants differ because of their assumptions about future fertility trends rather than future mortality trends,³¹ the high and low estimates differ from the medium variant largely because of the number of children that will be born in the intervening period, rather than because of the number of adults that will survive.³²

Figure VII.1 showed the projections for the average annual increases in the world's population to the period 2020-2025 according to the medium variant. As previously mentioned, the deceleration in growth is expected to continue to 2020-2025 when annual growth should be 1.02 per cent. The other two variants also show a continuous deceleration to 2025. According to the low variant, the annual rate of increase in 2020-2025 should fall to 0.70 per cent and, according to the high variant, to 1.32. In all cases, the rates of growth of population in the present developing countries remain higher than those in the present developed countries. In the low variant, the population of these countries should start to decline in 2020-2025.

Figure VII.4 shows the average annual additions to the world's population between 1950-1955 and 1985-1990 and the projections to the period 2020-2025. In 1955, about 47 million people were being added to the world's population each year, with 11 million coming from the countries currently categorized as developed countries and 36 million from the countries currently categorized as developing.³³ By 1985-1990, 88 million people a year were being added to the world's population, with the developing countries contributing 80.5 million people and the developed countries 7.5 million. In the period 2020-2025, the low variant gives an increase of 54 million people a year, with the population of the present developing countries increasing by 55 million a year, and that of the present developed countries shrinking by 1 million. The high variant shows the world's population growing by twice as much—by 116 million, with 109 million people being added to the popu-

Figure VII.4.
Increase in population, 1950-1955 to 2020-2025



Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7.).

Note: 1955 = average of 1950-1955.

lation of the present developing countries and 7.5 million people being added to that of the present developed countries. According to the medium variant, the number of people being added to the world's population should decline from a peak of 93.8 million in 1995-2000 to 85 million in 2020-2025, at which time 3 million will be added in the developed countries. These figures illustrate

INTERRELATIONSHIPS BETWEEN POPULATION AND OTHER VARIABLES

In order to assess the possibilities of other relevant variables changing sufficiently to accommodate whatever changes in population structure take place, the changes that took place in the 35-year period 1955-1990 will be compared with the changes that are expected to take place between 1990 and 2025. The ability of the world to adapt to the changes in the population structure in the 35 years since 1955 can give an idea of its ability to adapt to the anticipated future changes.

STRUCTURAL CHANGES IN POPULATION BETWEEN 1955 AND 1990 AND BETWEEN 1990 AND 2025

The distribution of future population growth

The growth in population that took place since 1955 was essentially in the present developing countries. As table

that, if it is the additional people that are being added to the world's population, and not just the size of the world's population that is of importance, very much depends on future fertility trends, particularly in the present developing countries. They also show that, according to the medium variant, the peak of additions to the world's population is the present time.

SUMMARY: THE POPULATION VARIABLE

The long-run estimates for population show that there is little that can be said about the size of the population in the distant future, other than that it could vary widely. A world of 4 billion people will be very different from a world of 28 billion people. The absolute size of this future population can reveal almost nothing of living standards and, in particular, whether the average inhabitant of the world in 2150 would be enjoying a higher living standard under the low or high scenario. Much will happen in the mean time, in the same way as Malthus's world of 1 billion people was different from the present world of 5 billion people.

Even in the case of medium-term projections, to 2025, wide margins of error remain, both for the size of the population in individual countries and for that of the Earth. The errors are due to people changing their behaviour in an unforeseen way. Population projections are necessary in order to plan for and make investment decisions in such fields as school enrolment, the size of the labour force and the provision of hospitals.³⁴ However, such differences in behaviour can be monitored and modifications made to decisions based on population projections: a school or hospital construction programme can be slowed down or accelerated in the course of its implementation.

VII.4 shows, the present developing countries accounted for nearly 87 per cent of the growth of world population between 1955 and 1990. They are expected, according to the main variant, to account for 94 per cent of growth between 1990 and 2025. The low and high variants do not change the picture substantially. According to the first, the present developing countries will account for 97 per cent of the increase, and, according to the second, for 92 per cent. Asia is expected to account for over 50 per cent of the increase, with China and India together contributing nearly 30 per cent. Africa is also expected to account for about 30 per cent of the world's future population growth, whereas in the preceding 35 years, its contribution had been 15 per cent. Latin America is expected to contribute less than 8 per cent of the future increase. Europe's population is expected to be stagnant or even to decrease slightly between 1990 and 2025.

Table VII.4.

Percentage changes in population and percentage share of total increase, 1955-2025

	1955-1990	1990-2025		
		Low	Main	High
World (thousands)	2 543 619	2 556 616	2 177 136	3 784 387
World	92.4 (100.0)	48.3 (100.0)	60.0 (100.0)	71.5 (100.0)
Present developed	36.5 (12.7)	6.5 (3.1)	15.9 (6.0)	24.1 (7.7)
Present developing	119.1 (87.3)	60.7 (96.9)	73.1 (94.0)	85.5 (92.3)
Africa	158.4 (15.5)	129.7 (32.6)	146.3 (15.5)	162.4 (27.6)
Asia	106.0 (56.1)	45.4 (55.3)	57.2 (56.1)	68.3 (56.2)
China	89.4 (21.4)	22.9 (10.3)	33.5 (12.2)	42.4 (12.9)
India	114.2 (17.7)	52.5 (17.4)	64.7 (17.2)	77.1 (17.2)
Latin America	133.3 (9.9)	50.2 (8.7)	59.1 (8.2)	73.6 (8.7)
Northern America	52.3 (3.7)	20.9 (2.3)	30.3 (2.6)	40.7 (2.3)
Europe	22.9 (3.7)	-1.8 (-0.4)	6.4 (1.0)	13.7 (1.8)
Former USSR ^a	47.8 (3.6)	9.7 (1.1)	22.4 (2.0)	31.0 (2.3)
Oceania	88.9 (0.5)	42.3 (0.4)	54.9 (0.5)	66.4 (0.4)

Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

Notes: The percentage share of the total increase is given in parentheses.

a Excluding Estonia, Latvia and Lithuania, which are included in Europe.

In 1955, about two thirds of the world's population were living in areas that are currently classified as developing (table VII.5). This proportion increased to 77 per cent in 1990 and is expected to increase further to reach 84 per cent in 2025. These proportions do not differ significantly with the different variants. Such an increase in the proportion of the world's population in the present developing countries does not, of course, imply anything

as to whether the countries currently classified as developing will be so in 2025 or whether any particular percentage of the world's population will be living in "poor" countries in 2025.

It could also be misleading to contrast the large numbers being added to the world's population in the present developing countries and the small number being added in the present developed countries and to draw the implication that there is a demographic imbalance. The present developed countries, such as the United States mentioned earlier, have gone through a demographic transition that led first to a strong increase in the rate of their population growth—which would have increased their share of total world population—and then to slower growth—which decreased it. Many present developing countries are in the midst of the transition.

Certain areas of the world give cause for present concern, based on their recent economic performance—in particular many countries in the continent of Africa, whose population, in 2025, is expected to be about the same as that of China and to equal 18 per cent of the world's total. The figures do, though, illustrate that, if the inhabitants of the world in 2025 are to enjoy higher standards of living and well-being than those in 1990, it will be essentially a question of whether those born in Africa and Asia and, to a lesser extent, Latin America achieve a higher standard of well-being than their parents. It will also be a question of ensuring that income distribution patterns within countries do not change so as to place a larger number or percentage of the population in poverty.

Table VII.5.

Shares in world population, 1955, 1990, 2025 (Millions and percentage)

	1955	1990	2025
World (millions)	2 752	5 295	8 472
World	100.0	100.0	100.0
Present developed	32.3	22.9	16.6
Present developing	67.7	77.1	83.4
Africa	9.0	12.1	18.7
Asia	55.0	58.9	57.8
China	22.1	21.8	18.2
India	14.4	16.0	16.5
Latin America	6.9	8.3	8.3
North America	6.6	5.2	4.3
Europe	15.1	9.6	6.4
Former USSR ^a	6.9	5.3	4.1
Oceania	0.5	0.5	0.5

Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a Excluding Estonia, Latvia and Lithuania, which are included in Europe.

The world's population was nearly 2.5 billion people larger in 1990 than in 1955. The projected increase is almost the same in the low variant, but higher according to the medium variant (3.2 billion) and the high variant (3.8 billion). In percentage terms, though, the population is expected to grow by a smaller amount between 1990 and 2025 according to all the variants (table VII.4). The world's population almost doubled between 1955 and 1990—it might increase by between 50 to 75 per cent by 2025. Only in the case of the high variant for Africa, which has not advanced so far in its demographic transition, is any region expected to expand its population more rapidly in the next 35 years than in the previous 35.

By the medium variant, Asia and Latin America should see percentage increases in population between 1990 and 2025 of about half that of the previous period, while in Africa the reduction is only 10 percentage points from 160 per cent. African women are expected to exhibit a substantial drop in fertility rates—from 6.25 in 1985-1990 to 3.44 in 2020-2025. At the same time, the number of African women reaching child-bearing age will increase.

As previously mentioned, one of the causes of the continued expansion of population has been the lowering of infant and child mortality and increases in longevity. This lowering in mortality has been far more rapid than the lowering in mortality that took place in the present developed countries during their demographic transition, and so the differences between the levels of fertility and mortality, and therefore the growth rates of population, have been greater in the present developing countries than they were in the developed countries. In the poorer developing countries, particularly in Africa, these mortality trends, apart from being a positive development in their own right, also have a potentially positive effect on economic growth. The wastage of the investment that is made in children who will never join the labour force, or in those whose working lives are cut short by premature death, and in mothers who die in childbirth will be reduced.

The age structure of population in the future

As the number of the elderly does not vary significantly under the different assumptions, under the high variant estimates, the proportion of the elderly in the total population, and therefore the ratio of the elderly to those of and below working age, is smaller than under the medium and low variants. However, as each of the three scenarios assumes a future decline in fertility, the broad overall patterns of change are the same under each. The medium variant will, then, be given to show the main directions of change expected over the 35-year period 1990 to 2025.

Table VII.6 shows the structure of the population in 1955, 1990 and 2025 for the world, the currently categorized developed and developing countries and the main

geographic regions, as well as for several countries. The broad pattern between 1955 and 1990 was for the share of the elderly (those above 65) in the total population to increase at the same time as the share of the young (those below 15) fell. As the fall in the share of the young was greater than the rise in the share of the elderly, the share of those aged between 15 and 65, which is generally used as the share of those of working age, tended to increase.

During this period, as mentioned earlier, the dynamics of world population growth changed from acceleration to deceleration. The average annual population growth rates for the periods 1950-1955, 1985-1990 and 2020-2025 are also given in the table and show that the significant exception to this pattern of overall deceleration over the period was Africa, where the share of the young in the total population increased and the share of those of working age, which was already lower than in any other region, fell further. In the countries shown, where there was a sharp deceleration in population growth—China, Japan, Brazil and the United States of America—the fall in the share of those below 15 was particularly marked, as was the rise in the share of those of working age.

In the present developed countries, and especially in Europe, where the share of the young in total population and population growth itself were already quite low in 1955, the slowing down in the rate of population growth meant that the increase in the share of the elderly in the population balanced the decrease in the young population and that the share of the population of working age changed relatively little.

In the next 35 years after 1990, as deceleration in the rate of population growth continues, the share of the young should continue falling and that of the elderly increasing. For the world as a whole, the share of those of working age is set to increase because of a rise in the present developing countries. However, in the present developed countries this share is set to fall.

Japan, which provided the most dramatic example for the 1955-1990 period of how the age distribution of the population changes as a result of the slow-down in population growth coming from the demographic transition, illustrates the reason for this. Further slow population growth from the already low starting point cannot reduce the share of the young beyond a certain point, while it will tend to increase sharply the share of the elderly in the population. Another factor making for an increase in their share is medical advance, which should further increase the already high longevity of the Japanese. The result is that, between 1990 and 2025, the share of those over 65 in Japan's population should rise by over 13 percentage points, while the share of those under 15 should fall by less than 3 percentage points. The result is a fall in the share of those of working age of about 10 percentage points—bringing this share back to its levels of 1955. A similar

Table VII.6.
Age distribution of population, 1955-1990
(Percentage)

		Average annual increase	Under 15 years	15-65	65 and over	80 and over
World	1955	(1.79)	35.6	59.2	5.2	0.6
	1990	(1.74)	32.3	61.5	6.2	1.0
	2025	(1.02)	24.9	65.3	9.7	1.6
Present developed	1955	(1.28)	27.7	64.2	8.1	1.1
	1990	(0.64)	21.5	66.5	12.0	2.6
	2025	(0.23)	18.2	63.5	18.3	4.1
Present developing	1955	(2.04)	39.4	56.7	3.8	0.3
	1990	(2.08)	35.5	60.0	4.5	0.5
	2025	(1.18)	26.3	65.7	8.0	1.1
Africa	1955	(2.22)	43.1	53.9	3.0	0.3
	1990	(2.95)	45.0	51.9	3.0	0.3
	2025	(2.15)	36.3	59.7	4.0	0.5
Asia	1955	(1.89)	38.2	57.7	4.1	0.3
	1990	(1.85)	32.9	62.1	5.0	0.6
	2025	(0.88)	23.1	67.3	9.6	1.5
China	1955	(1.87)	37.1	58.3	4.6	0.3
	1990	(1.49)	27.4	66.9	5.7	0.7
	2025	(0.47)	19.0	68.4	12.6	1.8
India	1955	(2.00)	39.0	57.6	3.4	0.3
	1990	(1.97)	36.0	59.5	4.5	0.4
	2025	(0.96)	23.0	68.5	8.5	1.2
Japan	1955	(1.43)	33.6	61.1	5.3	0.6
	1990	(0.44)	18.5	69.8	11.7	2.2
	2025	(-0.26)	15.1	60.5	24.4	7.2
Latin America	1955	(2.70)	41.4	55.0	3.6	0.4
	1990	(1.96)	35.7	59.5	4.8	0.7
	2025	(0.90)	23.8	67.0	9.2	1.5
Brazil	1955	(3.15)	42.6	54.7	2.7	0.3
	1990	(1.90)	34.7	60.6	4.7	0.7
	2025	(0.68)	21.7	67.9	10.4	1.7
North America	1955	(1.80)	29.7	61.6	8.7	1.3
	1990	(0.96)	21.5	66.1	12.5	2.8
	2025	(0.49)	17.8	63.7	18.5	3.9
United States	1955	(1.72)	29.5	61.7	8.8	1.3
	1990	(0.94)	21.5	65.9	12.6	2.8
	2025	(0.47)	17.8	63.7	18.5	3.9
Europe	1955	(0.79)	25.3	65.4	9.2	1.3
	1990	(0.38)	19.8	66.8	13.4	3.0
	2025	(-0.00)	16.9	63.6	19.4	4.6
Former USSR ^a	1955	(1.74)	27.9	65.7	6.4	0.8
	1990	(0.84)	25.8	65.0	9.3	1.8
	1025	(0.47)	21.8	64.1	14.1	2.5
Oceania	1955	(2.26)	31.8	60.7	7.5	1.0
	1990	(1.64)	26.4	64.5	9.2	1.7
	2025	(0.91)	21.9	64.8	13.3	2.7

Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a Excluding Estonia, Latvia and Lithuania, which are included in Europe.

phenomenon—of the share of those of below working age shrinking by less than the increase of the share of the elderly, resulting in a decline in the share of those of working age—is also expected for North America and Europe.

By 2025, the age structure in the present developing regions should resemble that of the present developed countries in 1955—about 66 per cent of the population will be of working age, 26 per cent will be below 15 years of age and 8 per cent above 65 years of age.

The percentage of those over 80 in the population is also given in table VII.6. By and large, this sector of the population does not undertake productive work. For the present developed countries as a whole, over 2.5 per cent of the population is currently over 80 years old, and this percentage is expected to rise to over 4 per cent in 2025. In Japan, the sharp deceleration in population growth and increasing longevity will raise this proportion to over 7 per cent in 2025. In the present developing countries, the proportion of those over 80 was 0.5 per cent in 1990 and should rise to just over 1 per cent in 2025. In no major region of the present developing countries is it expected to surpass 2 per cent in that year.

In the developed countries, medical expenditures are usually heavily concentrated in the last years of life, with often expensive interventions being necessary to maintain life. It is not unambiguous that the large increase in the proportion of those over 80 in the population will increase overall medical expenditures. Medical advances might lead to a substantial reduction in the real costs of the provision of medical attention to someone over 80 in 2025 as compared to the present time. Moreover, as medical costs are incurred in the last years of life, over time these costs are being incurred by progressively older people—in the developed countries, those in their late 60s in the 1950s, those in their late 70s at the present time and those in their late 80s in 2025.

Changes in dependency ratios

These changes in age structures are often shown in terms of dependency ratios—the ratio of those under 15 and over 65 to those between those years. The changes in the dependency ratios are given in table VII.7. For the present developing countries and, therefore, for the world as a whole, the overall dependency ratio fell between 1955 and 1990, and is expected to continue falling to the year 2025 because of the fall in the number of those under 15 relative to those aged between 15 and 65. In 1990, for every 100 people of working age there were 53 people under 15 and 10 over 65, while, in 2025, for every 100 people there will be 38 people under 15 and 15 over 65. In those present developing countries where the population has decelerated most rapidly, the dependency ratios in 2025 are expected to be even lower. In China, which has the lowest depend-

Table VII.7.
Dependency ratios,^a 1955, 1990, 2025
(Percentages)

		1955	1990	2025
World total	Total	69.1	62.6	53.0
	Under 15	60.3	52.6	38.1
	Over 65	8.8	10.1	14.9
Present developed	Total	55.7	50.4	57.5
	Under 15	43.1	32.3	28.7
	Over 65	12.6	18.1	28.8
Present developing	Total	76.3	66.7	52.2
	Under 15	69.3	59.3	39.9
	Over 65	6.8	7.4	12.2
Africa	Total	85.5	92.5	67.4
	Under 15	79.9	86.7	60.7
	Over 65	5.6	5.9	6.7
Asia	Total	73.4	61.0	48.5
	Under 15	66.3	52.9	34.3
	Over 65	7.1	8.0	14.3
China	Total	71.6	49.5	46.2
	Under 15	63.7	41.0	27.8
	Over 65	7.9	8.6	18.4
India	Total	73.6	68.1	46.1
	Under 15	67.7	60.5	33.6
	Over 65	5.8	7.6	12.5
Japan	Total	63.6	43.2	65.2
	Under 15	54.9	26.4	25.0
	Over 65	8.7	16.8	40.3
Latin America	Total	81.9	68.0	49.3
	Under 15	75.3	59.9	35.6
	Over 65	6.5	8.1	13.8
Brazil	Total	82.8	64.9	47.3
	Under 15	77.8	57.1	32.0
	Over 65	4.9	7.7	15.3
North America	Total	62.3	51.4	57.1
	Under 15	48.3	32.5	28.0
	Over 65	14.1	18.9	19.1
United States	Total	62.0	51.7	57.0
	Under 15	47.8	32.7	28.0
	Over 65	14.2	19.1	29.0
Europe	Total	52.8	49.7	57.2
	Under 15	38.7	29.6	26.6
	Over 65	14.1	20.1	30.6
Former USSR ^b	Total	52.2	54.0	56.0
	Under 15	42.5	39.7	34.0
	Over 65	9.7	14.2	22.0
Oceania	Total	64.7	55.1	54.4
	Under 15	52.3	40.9	33.8
	Over 65	12.4	14.2	20.5

Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a The dependency ratios are as follows:
Total indicates population under 15 plus population over 65, divided by population aged 15-65;
Under 15 indicates population under 15 divided by population aged 15-65;
Over 65 indicates population over 65 divided by population aged 15-65.

b Excluding Estonia, Latvia and Lithuania, which are included in Europe.

ency ratio shown in the table, it is predicted that for every 100 people of working age there will be 28 children under 15 and 18 elderly people over 65.

In the present developed economies, the fall in the dependency ratios that took place between 1955 and 1990, as the share of the young in the population shrank by considerably more than that of the elderly increased, is expected to be reversed. The share of the young should still fall but that of the elderly should increase by even more and actually surpass that of the young. In Europe and Japan, the dependency ratio in 2025 should be higher than it was in 1955 as the shares of the elderly will be greater than those of the young. In 2025, for every 100 people in Japan there will be 40 people over 65 and 25 under 15.

Changes in the absolute size of different population groups

Dependency ratios can change because the size of one section of the population grows faster than that of another or because the size of one sector falls while that of another expands moderately. The actual infrastructure demands of the future—new roads and housing for a growing population, new schools for the young and new hospitals for the elderly—can be expected to depend on the absolute and not just the relative increases in the size of the different population groups.

Table VII.8 shows the changes in the absolute sizes of the population groups between 1955 and 1990 and between 1990 and 2025. In 2025, there should be 60 per cent more people on the face of the Earth than in 1990, whereas between 1955 and 1990, the increase had been over 90 per cent. In the present developing countries, the total population more than doubled between 1955 and 1990, with the size of the working age population increasing by more than that of those under 15 and less than that of those over 65. The number of those over 80 years old nearly quadrupled. Between 1990 and 2025, the number of those under 15 is expected to increase by less than 30 per cent—a third of the increase between 1955 and 2025—that of the working age population is expected to grow by 90 per cent—a third less than the growth in the previous 35 years—between 1955 and 1990. The size of the population over 65 is expected to more than triple, whereas it had grown by over 150 per cent in the previous period. The number of those aged over 80 is again expected to nearly quadruple. Only in Africa is there expected to be a larger increase in the size of those of working age than in the previous 35 years.

In the present developed countries, the absolute numbers of all age groups should grow less in the future than in the past, and there should be fewer people below the age of 15 in 2025 than in 1990. The size of the young population in Japan shrank by a quarter between 1955 and 1990 and is scheduled to fall by a further 10 per cent over the

next 35 years. The size of its population of working age is expected to shrink by 10 per cent, while that of the population over 65 should double. In Europe, the size of the population of working age should hardly change.

The rising dependency ratios in the present developed economies are, then, accompanied by a smaller expansion in the numbers of dependants than in the previous period. Schools and hospitals were provided for a more rapidly growing young and elderly population in the previous 35 years. The implication of present trends is that the infrastructure investment will be concentrated more on upgrading existing facilities than on the construction of new facilities.

In the present developing countries, the numbers of those aged over 65 should increase more rapidly than in the past. For these poorer countries to provide for the expanding numbers of their ageing citizens would appear to present a much greater challenge than for the wealthier developed countries. Many of the elderly will be widows, some of whom had not participated in formal economic activity. Many of them will be living in the expanding urban areas where they might not be able to rely on the strong family structures that could support them in the rural areas. On the other hand, the concentration of the elderly in cities could facilitate the delivery to them of community services, and enable them to organize their own support systems. Also, many elderly follow their sons or daughters from rural to urban areas and could receive support from them there.³⁵ The growing number of poor widows will be a major social problem in the coming years.

DEPENDENCY RATIOS AND THEIR EFFECTS ON ECONOMIC GROWTH

The dependency ratios have been considered important because of the argument, first formalized in 1958,³⁶ that population growth had three adverse consequences: (a) capital shallowing—lowering the ratio of capital to labour; (b) investment diversion—spending is shifted from supposedly productive investment into such sectors as health and education; and (c) lowering the savings rate—by increasing household consumption, including that on youth, at the expense of saving.

At least until the mid-1980s, empirical testing of this model for the adverse effects of population growth did not yield the strong results expected.³⁷ It was found that “even small changes in the parameters [savings and the efficiency of capital] would make it possible to meet the needs of man-made capital for a growing population and somehow that seemed to be happening in many places”.³⁸ The capital shallowing effect was found to be modest.³⁹ There was little evidence of a diversion of capital away from “productive” investment to “non-productive” investment such as education and also for any connection between dependency rates and savings.⁴⁰

The apparently weak empirical results showed how the effects of population growth on economic growth are complex and, in particular, how it is difficult to draw general conclusions. For instance, population growth is thought to have two effects on saving: a positive effect from there being a higher proportion of young workers in the population who will be saving compared to a relatively smaller number of retired people who, it is argued, will be dissaving, and a negative effect of having to support an increasing number of children. Theory

cannot predict which effect will dominate.

Theory would also indicate that the idea of the elderly necessarily dissaving is dubious. For them to dissave would entail their running down their assets in order to allow them to consume more than their current incomes—pensions, transfer payments, investment income etc. To do this, they would have to know how long they are going to live. Moreover, the asset of most importance to the elderly is frequently their home, and it is difficult to show how it would be rational for them to convert this into an income

Table VII.8.

Percentage changes in the size of different age groups, 1955-1990, 1990-2025

		Total population	Under 15 years	15-65 years	Over 65 years	Over 80 years
World	1955-1990	92.4	74.6	100.00	128.5	243.8
	1990-2025	60.0	23.4	70.1	151.5	162.1
Present developed	1955-1990	36.5	6.0	41.3	102.4	222.1
	1990-2025	15.9	-1.6	10.6	76.2	85.9
Present developing	1955-1990	119.1	97.5	131.7	154.8	280.8
	1990-2025	73.1	27.8	89.6	211.7	272.4
Africa	1955-1990	158.4	170.1	149.0	160.7	227.9
	1990-2025	146.3	98.4	183.3	222.1	276.0
Asia	1955-1990	106.0	77.2	121.8	151.8	294.0
	1990-2025	57.2	10.2	70.4	202.0	274.4
China	1955-1990	89.4	39.8	117.3	135.8	324.1
	1990-2025	33.5	-7.4	36.6	192.5	245.8
India	1955-1990	114.2	97.5	121.1	188.8	270.0
	1990-2025	64.7	5.3	89.6	209.6	350.0
Japan	1955-1990	37.5	-24.4	57.1	204.9	421.3
	1990-2025	2.8	-15.9	-10.0	113.7	238.0
Latin America	1955-1990	133.3	100.0	152.6	211.3	342.3
	1990-2025	59.1	6.2	78.9	206.2	229.4
Brazil	1955-1990	138.2	93.8	164.1	314.3	487.3
	1990-2025	47.4	-7.7	65.0	226.5	276.6
North America	1955-1990	52.3	10.0	63.3	118.9	232.3
	1990-2025	30.3	8.1	25.6	93.5	83.7
United States	1955-1990	50.6	10.0	60.8	116.2	229.9
	1990-2025	28.8	6.5	24.5	89.6	77.8
Europe	1955-1990	22.9	-3.8	25.4	78.2	194.0
	1990-2025	6.4	-8.9	1.3	54.4	63.0
Former USSR ^a	1955-1990	47.8	36.5	46.1	114.8	234.3
	190-2025	22.4	3.5	20.9	86.3	73.5
Oceania	1955-1990	88.9	56.8	100.5	130.5	219.4
	1990-2025	54.9	28.8	55.6	124.9	139.6

Source: *World Population Prospects: The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

a Excluding Estonia, Latvia and Lithuania, which are included in Europe.

stream. Research for the United States shows that the elderly on the whole save out of their income, although, the poorer they are, the less they save.⁴¹

Similarly, the diversion of investment from "productive" to "non-productive" uses is based upon a model that sees spending on education as unproductive. This goes against the centrality accorded to human development in the new development paradigm.⁴² Investment in education is investment in human capital, which has a high return, in fact often higher than the return on physical capital. On the other hand, the argument about the adverse effects of population growth on development could be modified, along the lines of that contained in the *World Development Report, 1984*, to show that the resources devoted to education in a more rapidly expanding population have to be spread thinner, resulting in the provision of lower-quality education to each child.⁴³

Table VII.9 gives figures for educational spending in the 1980s that show a strong negative correlation between the growth in educational spending per child of school-age (5-15 years) and the growth of the population aged 5 to 15 years.⁴⁴ The regions with the greatest expansions in the youth population—sub-Saharan Africa and the Arab States—saw the lowest rates of expansion in educational spending per potential pupil. This would support the argument that educational expenses have to be spread thinner with an expanding youth population.

Educational spending per pupil was also related to

economic performance. Economic difficulties can cause a slow-down or fall in educational spending per child. In the former Soviet Union, an increase in the share of GNP going to education could not prevent spending being 28 per cent lower in 1990 than in 1980, with the result that spending per potential pupil declined by over 35 per cent.

The causal relationship is not unidirectional. In the longer run, spending on education leads to economic growth. The economic success of the Asian countries has often been partly attributed to their concern for education. This region saw the greatest expansion in educational spending per child of any region. However, economic growth, combined with a fall in the size of the young population, enabled this to occur while the share of GNP going to education fell.

In the developed countries, the share of education in GNP was higher than in the developing countries. Based upon the results shown in table VII.9, there is little reason to expect it to fall over time—rather the quality of education will expand⁴⁵ and greater access will be provided to currently disadvantaged groups in society. In the developing countries, especially the poorer ones that saw a decline in expenditures per pupil, much will depend upon whether their economic growth will revive and thereby provide the resources to finance growing expenditures on education.

The future causal relationship between population growth and education will not run from a growing population demanding an extra share of investment resources

Table VII.9.
Population growth and educational spending, 1980-1990
(Percentages)

	Change in youth population ^a	Change in education spending ^b	Change per inhabitant ^c	Change per child ^d	Share of GNP ^e		Per inhabitant ^f	
					1980	1990	1980	1990
World	5.5	82.4	53.4	72.8	5.1	5.0	133	204
Present developing countries	6.9	60.4	30.0	50.0	3.9	4.1	30	39
Present developed countries	-1.0	9.0	75.6	10.1	5.4	5.2	430	755
Africa (excluding Arab States)	36.7	-26.5	-45.2	-46.2	5.3	4.9	31	17
Asia (excluding Arab States)	-0.8	126.3	86.8	128.1	4.6	4.2	38	71
Arab States	33.9	39.1	14.3	3.8	4.5	5.7	117	122
Latin America and Caribbean	13.1	34.9	10.5	19.2	4.1	4.2	95	105
Europe	-9.3	85.4	80.0	104.4	5.1	5.1	416	749
Oceania	2.0	80.3	54.3	76.8	5.6	5.6	464	716
North America	1.2	110.6	91.8	108.0	5.2	5.5	620	1 189
Former USSR	13.9	-28.0	-34.0	-36.8	7.3	8.2	194	128

Source: UNESCO, *Statistical Yearbook 1993* (Paris, 1994).

a Change in size of youth population (5-15 years), 1980-1990.

b Change in spending on education, in United States dollars, 1980-1990.

c Change in spending on education per inhabitant, 1980-1990.

d Change in total spending on education/change in population of children, 5-15 years, 1980-1990.

e Public expenditure on education as percentage of GNP.

f Spending on education per inhabitant, in United States dollars.

for "unproductive" education, thereby depressing future growth. Rather, if there is slow or negative economic growth, combined with an increase in the size of the young population, this would lead to stagnation or falls in educational spending per pupil, and thereby to smaller potential economic growth in the future. As shown in table VII.8, the numbers of pupils should expand less rapidly in the future than in the past. Further reductions in fertility in those regions that still have strong population growth should help increase educational spending per pupil, but the main variable will be growth in the rest of the economy. In some countries, there is also room to expand the resources going to education by reducing other items of government spending, especially military spending.

Changes in family structures

A development that could be of considerable long-run importance for the nurturing of children has been the increasing dissociation of fertility from marriage. In many countries, the ratio of births outside marriage to total births has been increasing.⁴⁶ In some countries of the Caribbean, there was very little previous connection—the ratios could vary from 50 to 80 per cent. In other countries, such as Norway and Sweden, with slowly growing populations, the number of children born outside marriage has risen, while that of children born to married couples has fallen. In the United States, it has been noted that, among whites, the fertility rate inside marriage has been falling, while it has increased outside marriage.⁴⁷

As a result of these changes, the number of children living in arrangements other than that of cohabiting married persons is increasing. The Swedish experience is that these arrangements have proved less durable than marriage,⁴⁸ although this does not necessarily imply that a child will experience instability in his or her domestic arrangements—frequently a consensual union precedes marriage. Another trend that has been observed in some countries has been for both parents, and not just the mother, to register the child.⁴⁹ This is also part of the general policy pursued by Governments to ensure that a child born outside marriage is supported by his or her biological father.

The net effect of changes in family structure on the quality of children's nurturing and development to adulthood, and therefore their potential contribution to the economy, is difficult to assess. The differences in economic attainment by different ethnic groups in the United States economy indicate that family arrangements are strongly correlated to future economic achievements.⁵⁰ The low and even decreasing rates of children born outside marriage among some of the most successful Asian economies—Hong Kong, Japan and the Republic of Korea—as well as the comparatively low divorce rates in these countries or regions are an indication of their strong family structures, which have fostered the nurturing of children

and have been advanced as one of the reasons for their economic success. In looking at fertility patterns, those institutional factors that determine a child's nurturing could prove to be much better indicators of future human development and resultant economic growth than aggregated fertility rates.

THE SIZE OF THE LABOUR FORCE

One positive recent development, which can be considered a good in itself but is also helping to reduce family sizes, is that young children are ceasing to be economic assets to their parents. Table VII.10 shows how the percentage of children in the labour force has declined in recent years. In Africa, between 1970 and 1990, the percentage of those aged between 10 and 14 in the labour force fell from 29 to 23 per cent. China made a considerable advance in reducing the percentage of its 10-14 year olds in the labour force from 39 per cent to 23 per cent. By 1990, there were virtually no children under 14 in the labour force in any present developed country. By the year 2025, it is projected that under-14 child labour will have been virtually eliminated.

In those countries where child labour has already been eliminated, economic conditions will make little difference to the future picture. However, in those present developing countries where it is still high, adverse economic conditions could prevent or slow down the expected decline. Parents will want their children to work to contribute to the family budget, and the extension of educational opportunities will be retarded.

The fall in the figures for labour force participation in the age-bracket 15-19 reflects the general extension of education beyond the primary stage. In the next age bracket shown, the 20-24 year olds, the results are not so clear as two tendencies are at work—the increased participation of women in the labour force, which would tend to increase the figures for participation, and greater attendance at institutes of higher education, which would tend to lower it. In some countries, such as Sweden, the increased participation of the 20-24 year olds in the labour force between 1970 and 1990 is expected to be reversed. In that country, between 1970 and 1990, labour force participation rates among males in this age group rose from 82.5 per cent to 84.4 per cent and among females from 64.1 per cent to 77.9 per cent, showing advances towards equality. By 2025, equality in labour force participation by this age group will have been reached at much lower participation rates—nearly 70 per cent for both men and women—reflecting the expected increase in attendance at educational establishments.

The increase in female participation can also be seen by looking at the rates of participation in the labour force among those aged 45 to 59, as shown in table VII.11. Considerable increases in participation among women

were registered in North America, Europe and Australia. In Japan, the relatively high rate of female participation in the labour force for this age group in 1970 was not increased by 1990. Sweden saw a substantial advance from less than 50 per cent to over 75 per cent.

These figures also show another clear pattern between 1970 and 1990—of participation rates among older men falling over time. Even before retirement, many men choose to exercise their preference for leisure over work. Studies in the United States have shown that the increasing generosity of income-transfer programmes to the elderly may be a contributing factor.⁵¹ This broad trend of decreasing

participation by elderly men can be expected to continue until 2025.

The figures for male participation in the labour force do not vary substantially among the regions, and range from 88 to 95 per cent in 1990. By 2025 they should be reduced to a range of 84 to 92 per cent.

On the other hand, the range for women is considerably higher as a result of cultural factors as well as problems in counting female employment. The projections until 2025 are based on past trends and show continuing declines in Asia and Africa and only modest changes in the present developed countries. However, one of the major

Table VII.10.

Participation rates of young people in the labour force, 1970, 1990, 2025
(Percentages)

	1970			1990			2025		
	10-14	15-19	20-24	10-14	15-19	20-24	10-14	15-19	20-24
Africa	29.4	56.1	69.1	22.9	50.9	66.5	5.8	43.0	68.4
North Africa	13.7	33.7	48.5	7.7	28.5	51.6	1.2	21.1	52.2
Asia	27.4	60.7	75.4	14.5	52.0	74.6	2.3	34.6	63.0
West Asia	19.2	48.4	61.8	16.6	38.6	74.6	0.8	28.0	60.7
China	39.0	77.9	91.8	23.1	71.6	93.4	4.1	58.4	93.8
India	23.4	47.4	63.6	12.3	39.0	59.1	1.1	22.3	42.7
Japan	1.9	35.8	77.1	0.0	18.3	73.2	0.0	20.1	82.0
Latin America and Carribean	10.9	42.0	59.5	4.7	36.9	61.7	0.5	32.2	70.4
North America	1.8	40.9	72.2	0.0	45.2	78.8	0.0	50.7	90.6
Europe	2.4	52.1	74.9	0.2	40.5	75.5	0.0	40.4	83.5
Sweden	0.6	45.6	73.5	0.0	37.8	81.3	0.0	31.7	68.8
Australia/New Zealand	1.0	59.1	75.6	0.0	52.7	80.3	0.0	51.4	84.9
Former USSR	0.0	38.5	83.2	0.0	34.0	81.1	0.0	33.8	87.5

Source: Calculations based on International Labour Office statistical database.

Table VII.11.

Participation rates for the population aged 45-59 years
(Percentages)

	1970			1990			2025		
	Both	Male	Female	Both	Male	Female	Both	Male	Female
Africa	72.0	95.6	50.1	69.4	95.0	45.6	65.0	91.6	40.7
North Africa	52.3	95.5	9.7	51.0	93.1	12.2	54.3	90.8	16.7
Asia	70.7	94.7	45.9	67.8	92.2	42.3	65.5	87.9	40.3
West Asia	63.4	92.7	33.4	60.9	88.4	31.3	59.6	84.9	31.5
China	73.1	93.7	51.8	71.8	91.1	50.2	72.2	86.5	54.6
India	68.7	95.4	39.7	63.2	94.1	31.5	59.6	91.1	24.6
Japan	76.7	96.7	60.0	77.0	95.9	58.5	77.0	93.1	58.4
Latin America and Carribean	55.0	91.3	19.8	56.1	88.3	25.2	57.2	87.9	28.9
North America	70.1	92.5	51.0	72.0	88.3	56.6	70.5	84.7	55.7
Europe	66.1	91.6	43.8	68.0	88.2	48.4	67.1	83.9	48.5
Sweden	71.6	93.2	49.9	83.7	90.5	76.9	83.8	88.1	76.0
Australia/New Zealand	64.7	93.4	35.8	68.4	88.6	47.6	66.4	84.8	45.5
Former USSR	72.4	87.8	63.1	77.2	89.5	66.4	76.5	84.2	68.6

Source: Calculations based on International Labour Office statistical database.

factors in the world economy over the next 35 years that could completely alter these projections will be the extension of job opportunities to women who are decreasing their fertility and wishing to engage in paid economic activity (which would mean that they would be counted as economically active), not only for their family's sake, but also to ensure for themselves an income in their old age.

Many factors will affect female participation in the labour force over the next 35 years—female fertility patterns, which themselves are related to the spread of reproductive health facilities, changes in social legislation that would encourage participation, increasing flexibility in the workplace, greater sharing between men and women of household tasks and the rearing of children, and growth in the overall economy. Increasing the relatively low rates of female labour force participation in many countries could go some, or even all, of the way to compensating for the drop in labour supply as the population of working age contracts and as men leave work earlier. Greater female participation in the labour force would itself change the structure of demand as working women would often be paying for those services that they provided without payment as housewives, such as child care and the provision of meals.

The possibility of the labour force expanding owing to increased rates of participation by women diminishes the importance of the expected increase in the dependency ratio in those countries where the relative size of the elderly population is expected to grow. It is, then, doubtful whether a shortage of skilled labour will slow down their economic growth. At the present time, as examined more fully in chapter VI, the employment situation in many present developed countries is not characterized by a scarcity of labour, but rather by a lack of jobs for entrants to the labour force and an increase in long-term unemployment.

The experience of the developed market economies illustrates the tenuous connection between population growth and unemployment. A model that is based upon there being a problem in finding work for the growing number of new entrants to the labour force, or sufficient investment funds to equip them with the necessary capital, clearly does not apply to these countries. Similarly, many developing countries have combined rapid population growth with growing incomes and employment opportunities, although these both tend to reduce desired fertility rates and so to slow population growth.

FINANCIAL PROVISION FOR THE ELDERLY

As mentioned earlier, one explanation for why elderly men are withdrawing from the labour force before retirement is that their retirement benefits have improved over time. Research findings in the United States indicate that on average the elderly are as well off as the non-elderly and

possibly much better off.⁵² Earlier retirement, together with greater longevity, has meant that the time a person will be retired, and therefore needing resources to finance his or her consumption, has increased sharply—in the United States, for example, by over 30 per cent between 1970 and 1986.⁵³ The manner in which these pensions should be provided is a matter of considerable discussion in the present developed countries. Some countries, such as the United Kingdom, are expecting the private sector to play a greater role in the provision of pensions. People were allowed to opt out of the supplementary state system in 1988, and 5.5 million have taken advantage of tax rebates to set up personal pension plans. Slightly less than 50 per cent of workers in the United Kingdom had some kind of non-government pension plan.⁵⁴ For Governments, another advantage of promoting private sector pension funds was that their domestic capital markets would expand. Corporate pension funds in the United Kingdom have assets of \$670 billion and pension assets per capita were \$11,700. In Switzerland, which had the highest participation in private pension plans in Europe, pension assets per capita were \$22,300. However, the tax breaks that are given to encourage participation in private schemes can be a deterrent in countries with large budget deficits.

In many cases, state or private pension plans are supplemented by savings for retirement, but it is difficult to distinguish these savings from savings for other purposes. The growth in savings for retirement would appear to be strong: for instance, in the United States the total assets of individual annuities grew from \$6 billion to \$60 billion over 10 years. One reason for the increase in private savings could be growing concern about the adequacy of state pensions. Another reason could be that, as workers in the developed countries know they have an increasing number of years to live after retirement, they are devoting a growing amount of their present income to savings for retirement.

As a result of the need to provide social security and health care to the relatively larger elderly population, tax rates have tended to increase over time. It was estimated that social security taxes in Germany would have to rise to 30 per cent of wages to keep pensions at the promised levels.⁵⁵ In March 1994, Germany introduced compulsory state insurance for the nursing of old or handicapped people, which would be financed by an extra 1 per cent of social security contributions to be paid half and half by employers and employees.⁵⁶ Many German businessmen feel that high social charges are already deterring employment. The United Kingdom has similarly argued that high levels of spending on social security and health care is resulting in higher taxes, lower competitiveness and fewer new jobs.⁵⁷

Over the coming years, the size of the benefits that the

elderly can expect and the means to finance these benefits will continue to engage the attention of policy makers and to be a matter of public debate. As the elderly can vote, and their relative numbers will increase over time, they are in a good position to protect the real value of their entitlements. However, there is a possibility of a clash at the political level between them and present-day taxpayers. In the United States, this clash can already be seen in those parts of the country where there are concentrations of elderly people who object to paying high levels of local property taxes to finance schooling—a service they do not need, and from which their children or grandchildren do not benefit if they live in another region.

It is important to put the problems of financing the retirement benefits of those in the developed countries in perspective. The income that retirees receive can, across countries, be expected to be related to their earnings from employment. Developed countries are comparatively wealthy. In the end, their political processes will tend to produce schemes that can be expected to satisfy most groups in society. The real problem is not so much the number of the elderly as the fact that in many cases the developed market economies are not operating at full capacity and generating the jobs and incomes that would make it easier to transfer income to the elderly. It is not unambiguous that the cost of providing such an income flow is one of the factors accounting for their economic difficulties: rather, the reason for the present difficulties in many social security systems is that they were based not just on incorrect assumptions about future population structures but also on overly optimistic projections of economic growth. It is premature to extrapolate into the future economic difficulties arising as a result of a return of the dependency ratios to their levels of about 1955.

Changes in the demographic structure can be expected to affect the structure of taxation, even if the volume at the national level remains the same. The ageing make a contribution to government revenues: sometimes their benefits are taxed, and they pay property and sales taxes. In cases where there is political resistance to taxing or increasing taxes on their benefits, a need to increase the tax revenue from the aged could lead to increases in property and sales taxes.

The increasing wealth and ageing of the populations of many developing countries, especially the higher-income countries in Asia and Latin America, will foster the enactment or extension of state-run or private pension schemes. This could require changes in the tax codes and development of domestic savings institutions. On the basis of the present developed countries providing pensions for their ageing populations, there is no reason to believe that the provision of such pensions should present these countries with insurmountable difficulties. Yet, in the end, in both the developed and the developing countries, the pro-

vision of adequate retirement incomes in the future will depend upon healthy economic growth.

THE BEHAVIOUR OF SAVINGS

With the growing liberalization of capital flows, pension funds can be expected to diversify their investments among countries, as is happening, for instance, with Japanese pension funds investing in the United States and other countries. To this extent, given the relationship to monies mobilized by pension funds and other savings for old age, demographic factors might play an increasingly important role in international financial flows in future years.

A different question can be raised as to whether changing demographic patterns between groups of countries affect the supply of global savings and could become a major determinant of current account positions. The level of savings in a country has many determinants—the level and distribution of income, the existence of adequate financial intermediaries, the amount of assets people hold and their distribution, the tax structure, perceptions about the future, rates of economic growth, and the provisions for care of the aged in the case of a catastrophic illness. However, a relationship has been posited between the age structure of the population and the country's current-account position: that increasing dependency ratios would lower the savings of the developed market economies and tend to make them run current account deficits, which would complicate the financing of investment in developing countries.⁵⁸ This argument is based upon extending to the national level microeconomic considerations: the life-cycle hypothesis, according to which individuals' savings patterns change during their lifetime. The hypothesis is that people save for their retirement during their working years and could even decumulate their wealth as they age, thereby enabling them to spend on consumption more than their current income from all sources.

This is a very different argument from the one that a negative consequence of population growth is a reduction in savings.⁵⁹ If an ageing population were a main factor determining the current-account position, the developed countries could expect to experience an increasing current-account deficit over a long period of time, as their population structure cannot change rapidly and life expectancy should continue to increase gradually. In these circumstances, it is difficult to envisage who will lend them funds to finance a permanent and likely increasing deficit.

As with many cases of what, *a priori*, might seem a plausible relationship between a particular demographic trend and an economic variable (such as that posited by Malthus between population growth and food supply), on examination the situation is found to be so complex, because of other socio-economic or technological factors that are often far more powerful, that the expected relationship might simply not hold. An examination of the particular

posited relationship can reveal the importance of the other relationships.

As mentioned earlier, the rising percentage of the elderly in the populations of the developed market economies has been accompanied by a fall in the percentage of those under 15 years of age. If extra children require that a greater share of their parents' current income be spent on consumption rather than saved, the fall in average family size could be expected to add to savings.⁶⁰ The life-cycle hypothesis would indicate that, as individuals see that their life expectancy is increasing, they should increase their savings during their working years—which themselves might be subject to change—in order to finance a longer retirement.

Even people with the same life expectancies and incomes have different preferences and therefore savings patterns. Some would like to run down their assets relatively quickly in the first years after retirement to finance leisure activities while they continue to enjoy good health. Others would continue to spend less than their incomes after retirement in order to increase their savings for emergencies, particularly for medical treatment, at the end of their lives. Some people save not only for their own retirement but also to pass on their wealth to their children or to make a bequest to a deserving cause. They would not then decumulate their assets. Moreover, as mentioned earlier, one asset that elderly people do not often turn into an income stream is their house. Finally, individuals' expectations concerning life expectancy are often proved wrong: the date of death is always uncertain.

At the group level, if a population ages through increases in life expectancy, the managers of funds for retirement or medical benefits should revise their actuarial estimates and increase contributions from the present working population so as to preserve the solvency of these funds in future years. The financial problems that social security funds in many countries are currently encountering shows how difficult it is to make such calculations accurately. Similarly, as mentioned earlier, individuals should revise upwards their individual savings for retirement.

For the above reasons, it is hazardous to generalize the life-cycle hypothesis to the level of the household savings of a nation, and then to the current-account position. In 1980, the percentages of the total population aged over 60 years in Germany, Japan and the United States were 19.3, 12.9 and 15.7, respectively. By 1990, these percentages had changed to 19.9, 17.2 and 16.8, respectively. Germany had the highest percentage of elderly people in the population, but Japan's elderly population was growing faster. Yet, it was the United States that was in persistent current-account deficit over the period 1980 to 1990, and Germany and Japan that ran substantial current account surpluses (see table VII.12).⁶¹

Japan saved a greater percentage of GNP than either Germany or the United States, as shown in table VII.12, which gives figures for the percentages of the main savings and capital formation variables in relation to GNP for the years 1980 to 1990 and the unweighted averages for the period. Moreover, the gross savings of Japan and Germany were actually increasing over time, whereas those of the United States were falling. In Japan, also, households saved considerably more than in Germany and the United States. This percentage decreased over time, which would appear to lend weight to the argument that savings decrease with ageing. However, in Germany, it tended to increase over time.

The table shows that household savings are only one component of savings—enterprises and the Government can also save or dissave. The savings of enterprises can be used to finance their investment. In the United States, enterprises saved a smaller percentage of GNP than did those in Germany or Japan. Enterprises can also mobilize the savings of households to finance their investment by, in particular, the issuance of shares. In the United States, as the household sector also saved less than in Germany and Japan, the sum total of the savings of the private sector was smaller, as also was gross investment, as shown in table VII.12 and also in table A.5.

As many shareholders hold shares in enterprises to provide an income from dividends for their retirement, the growth in the productive assets (wealth) and in the earnings of the corporate sector is an important determinant of eventual retirement income and therefore of individual savings, both before and after retirement. Thus, in the long term, decisions of households on their savings are not unrelated to the expected performance, and hence investible surpluses, of enterprises.

The largest difference in savings patterns between the countries was, however, in the behaviour of the government sector, which was dissaving in the United States and adding to net savings in both Germany and Japan. Government savings in Japan increased over time, and fluctuated more widely in Germany. Over the period, United States Social Security Funds went from adding to net dissaving to adding to net savings and so the need to support the elderly by dissaving does not seem to be a significant factor in explaining the United States deficit.⁶²

There is a further link between the government's financial position and household savings. As mentioned earlier, decisions that an individual takes on his private savings for retirement can depend on the generosity of state-provided pension funds. If the government's scheme is not generous, this might help its own budgetary position, but would serve to encourage household savings.

As the amount that had to be devoted to maintaining the capital stock, capital consumption, amounted to a similar percentage of GNP in each country (about

Table VII.12.
Financing net capital formation, Germany, Japan and United States
 (Percentage of GNP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Average
United States												
Current account												
surplus (billions of dollars)	8.4	14.1	-3.1	-35.0	-87.9	-108.4	-133.5	-150.9	-113.7	-87.9	-69.9	-69.8
Total net savings	6.3	7.0	4.0	3.0	5.7	4.6	3.1	3.3	4.0	3.9	3.0	4.3
Government	-1.6	-1.4	-4.2	-4.8	-3.7	-3.8	-4.1	-3.2	-3.0	-2.2	-3.1	-3.2
Corporate	1.0	0.9	0.4	1.5	2.3	2.3	1.4	2.0	2.4	1.8	1.5	1.6
Others	6.9	7.5	7.7	6.3	7.2	6.0	5.8	4.5	4.5	4.3	4.6	5.9
Surplus on current account ^a	-0.4	-0.3	0.1	1.0	2.5	2.9	3.3	3.4	2.4	1.7	1.4	1.6
Statistical discrepancy	0.5	0.4	-0.2	0.3	-0.2	-0.3	0.0	-0.6	-0.6	0.0	0.1	-0.1
Net capital formation	6.4	7.0	3.8	4.3	8.0	7.2	6.5	6.2	5.8	5.6	4.5	5.9
Gross capital formation	19.7	20.7	18.2	18.3	21.1	20.1	19.4	19.0	18.4	18.3	17.0	19.1
Capital consumption	13.3	13.6	14.4	14.0	13.1	12.9	12.9	12.7	12.5	12.7	12.5	13.2
Gross savings	19.6	20.6	18.3	17.0	18.8	17.5	16.0	16.1	16.5	16.5	15.5	17.5
Government	-0.1	0.0	-2.8	-3.5	-2.4	-2.5	-2.9	-2.0	-1.8	-1.1	-2.0	-1.9
Corporate	8.2	8.4	8.5	9.4	9.7	9.6	8.7	9.2	9.5	8.9	8.6	9.0
Others	11.5	12.1	12.6	11.0	11.6	10.4	10.2	8.9	8.8	8.7	8.9	10.4
Germany												
Current account												
surplus (billions of dollars)	-7.0	2.7	11.1	10.8	15.9	23.3	47.7	56.9	62.3	69.8	62.1	32.3
Total net savings	9.8	7.9	7.3	8.3	8.7	9.0	11.1	10.7	11.7	13.4	12.6	10.0
Government	1.8	0.4	0.3	0.7	1.3	1.9	1.7	1.0	0.6	2.9	0.8	1.2
Corporate	2.2	2.4	2.0	3.0	3.1	2.6	2.6	3.1	3.3	2.9	3.1	2.8
Others	5.7	5.1	5.0	4.6	4.4	4.5	6.9	6.6	7.9	7.5	8.7	6.1
Surplus on current account ^a	1.7	0.6	-0.8	-0.9	-1.4	-2.4	-4.2	-4.1	-4.2	-4.8	-3.1	-2.2
Net capital formation	11.4	8.5	6.5	7.4	7.4	6.6	6.9	6.6	7.5	8.6	9.5	7.9
Gross capital formation	23.3	20.8	19.3	20.2	20.2	19.5	19.4	19.2	19.9	21.0	21.8	20.4
Capital consumption	11.8	12.4	12.8	12.8	12.8	12.8	12.6	12.6	12.5	12.4	12.4	12.5
Gross savings	21.6	20.2	20.2	21.1	21.6	21.9	23.7	23.3	24.2	25.8	25.0	22.6
Government	2.4	1.1	1.1	1.4	2.0	2.6	2.4	1.7	1.3	3.6	1.5	1.9
Corporate	13.3	13.9	13.9	14.9	15.0	14.5	14.3	14.8	14.9	14.5	14.6	14.4
Others	5.9	5.3	5.2	4.8	4.6	4.7	7.1	6.8	8.0	7.7	8.9	6.3
Japan												
Current account												
surplus (billions of dollars)	-9.5	6.2	8.1	22.2	36.4	50.5	87.3	89.7	82.6	60.3	40.4	43.1
Total net savings	18.3	18.3	17.2	16.2	17.2	18.1	18.1	18.5	19.7	19.6	19.7	18.3
Government	2.6	3.1	2.8	2.3	3.2	4.2	4.1	5.7	6.8	7.8	8.4	4.6
Corporate	2.8	2.1	2.4	2.3	2.8	3.0	2.9	2.8	3.3	2.0	1.9	2.6
Others	12.9	13.2	12.0	11.5	11.2	10.8	11.1	10.0	9.6	9.8	9.5	11.1
Surplus on current account ^a	1.0	-0.5	-0.7	-1.8	-2.8	-3.6	-4.3	-3.6	-2.8	-2.0	-1.3	-2.0
Statistical discrepancy	0.1	0.1	0.0	0.0	0.0	0.1	0.0	-0.3	-0.5	-0.5	-0.5	-0.1
Net capital formation	19.5	18.0	16.5	14.4	14.4	14.5	13.9	14.5	16.4	17.0	17.9	16.1
Gross capital formation	32.3	31.2	29.9	28.0	28.0	28.1	27.7	28.5	30.4	31.5	32.6	29.8
Capital consumption	12.8	13.2	13.4	13.6	13.5	13.6	13.7	13.9	14.0	14.5	14.7	13.7
Gross savings	31.1	31.5	30.6	29.8	30.8	31.6	31.9	32.4	33.7	34.1	34.4	32.0
Government	3.2	3.7	3.4	3.0	3.9	4.9	4.7	6.3	7.4	8.4	9.0	5.3
Corporate	10.6	10.2	10.6	10.7	11.3	11.5	11.7	11.7	12.3	11.6	11.6	11.3
Others	17.3	17.7	16.5	16.1	15.6	15.2	15.5	14.4	13.9	14.1	13.8	15.5

Source: National Accounts Statistics: Main Aggregates and Detailed Tables 1990 (Parts I and II), 1991 (Part II) (United Nations publications, Sales Nos. E.93.XIII.3 and E.94.XVII.5).

a A positive figure implies a current-account deficit.

13 per cent), differences in gross savings were translated into much larger differences in net savings. From 1980 to 1990, the total of net savings in the United States varied between 3 and 7 per cent of GNP (average 4.3 per cent), in Germany between 8 and 13 per cent (average 10 per cent) and in Japan between 16 and 20 per cent (average 18 per cent). Net capital formation in the United States was 6 per cent of GNP and so it had to incur a current-account deficit of about 2 per cent of GNP to finance this deficit. Germany's net capital formation was 8 per cent of GNP and so it was able to lend 2 per cent of its GNP to the rest of the world, and Japan's was 16 per cent of GNP, which allowed it to lend 2 per cent of its GNP to the rest of the world. The ageing of populations has not resulted in a potential shortage of capital for investment.⁶³

The Japanese experience shows how the connection between savings, investment and the population structure is not simple. A slowly growing labour force did not lead to Japan's devoting a relatively small amount of its GNP to net investment. Instead, Japanese enterprises invested heavily to, in effect, substitute capital for labour, thereby avoiding future labour shortages and any reductions in potential future output. The pattern that applied in education appeared to be repeating itself—that a slow-down in population growth leaves the volume of resources devoted to the formation of human capital unchanged.

This capital deepening by Japan lends support to an argument concerning the negative effects of population growth given above—that the investment available from savings has to be spread over a much wider population. However, these three countries show how particular sets of institutions result in different savings patterns—by the Government, depending on its budget position—but also by enterprises and households. One of the challenges that some developing countries are currently facing is that of mobilizing from available domestic resources the savings to finance current investment. The high and even expanding rates of gross savings in Germany and Japan should indicate that, even with an expanding ageing population, but with advanced systems of financial intermediation, more than sufficient domestic savings can be mobilized to finance investment.

In some developing countries, children are a form of "savings" for old age, as they are expected to look after their parents. With the modernization of their economies, rising education and income levels, the desired family size should decrease. The introduction of new financial systems would help generate more formal savings for old age.

MOVEMENTS IN THE URBAN AND RURAL POPULATIONS

The question of the availability of capital at the international level is especially appropriate because of the urbanization of the developing countries. Historically, the

distinction between borrowing and lending countries has not depended on the level of income: in the past century, Argentina, Australia and the United States were borrowers and had higher levels of per capita income than the lending countries—France, Germany and the United Kingdom. Rather, "the distinction between the European lenders and the rich borrowers turned on differences in rates of urbanization, with those whose urban populations were growing faster borrowing and those with low rates of urbanization lending".⁶⁴ Urbanization was so costly because of the need to provide infrastructure—housing, hospitals, schools, water supplies and transport. The European countries had higher levels of urbanization than the other countries, but lower rates of urbanization.

Table VII.13 illustrates the changes in the urban populations between 1955 and 1990 and the expected changes from 1990 to 2025. In the first period, all regions saw an increase in the percentage of the population that was urban—from 57 to 73 per cent in the present developed countries and from 31 to 43 per cent in the present developing countries—as the growth of the urban population exceeded that of the rural population. In all cases, urbanization implied a migration from rural areas to urban areas—sometimes, as in the present developed countries and some of the more urban developing countries such as Brazil, this resulted in a fall in the rural population. In countries with initial low levels of urbanization, such as in Africa and Asia, the cities did not absorb all the increase in population and there was still a substantial increase in rural populations.

In the present developing countries, fast rates of urbanization were seen—their urban populations as a whole were four times greater in 1990 than in 1955; those of Africa were five times larger. With the slow-down in the overall population growth rates projected for the period to 2025, the rates of growth of their urban, and also rural, populations should also decrease. In some cases, such as China and Latin America, the size of the rural populations should fall. By 2025, the degree of urbanization in the present developing countries, at about 57 per cent, should be the same as that of the more developed countries in 1955.

Although the infrastructure to be provided in urban areas is expensive, the unit costs of providing the required services—piped water, sanitation, garbage collection, paved roads, electricity and drains—in an urban area are reduced by the concentration of population. So also is the cost of delivering health services, including reproductive health services, and the provision of schools, pre-school centres and child development centres.⁶⁵ In these respects, urbanization can be viewed as potentially a positive development.

Furthermore, the net migration of people from rural areas to the cities does not necessarily imply a drain on the countryside or insuperable problems for the cities to cope

Table VII.13.

The size of and percentage change increases in urban and rural populations, 1955, 1990, 2025

(Thousands and percentages)

		1955	1990	2025	Percentage change		
						1955-1990	1990-2025
World total	Urban	864 102	2 282 367	5 187 134	Urban	164.1	127.3
	Rural	1 887 578	3 012 933	3 285 312	Rural	59.6	9.0
	Urban ^a	31.4	43.1	61.2	Total	92.4	60.0
Present developed	Urban	508 887	880 947	1 176 609	Urban	73.1	33.6
	Rural	378 536	330 191	226 666	Rural	-12.8	-31.4
	Urban ^a	57.3	72.7	83.8	Total	36.5	15.9
Present developing	Urban	355 215	1 401 420	4 010 525	Urban	294.5	186.2
	Rural	1 509 042	2 682 742	3 058 646	Rural	77.8	14.0
	Urban ^a	19.1	34.3	56.7	Total	119.1	73.1
Africa	Urban	40 556	205 502	856 690	Urban	406.7	316.9
	Rural	208 081	437 078	725 849	Rural	110.1	66.1
	Urban ^a	16.3	32.0	54.1	Total	158.4	146.3
Asia	Urban	278 258	974 262	2 665 195	Urban	250.1	173.6
	Rural	1 235 370	2 143 580	2 235 061	Rural	73.5	4.3
	Urban ^a	18.4	31.2	54.4	Total	106.0	57.2
China	Urban	82 825	302 209	839 322	Urban	264.9	177.7
	Rural	526 180	851 261	700 436	Rural	61.8	-17.7
	Urban ^a	13.6	26.2	54.5	Total	89.4	33.5
India	Urban	69 540	216 081	630 564	Urban	210.7	191.8
	Rural	325 556	630 111	763 307	Rural	93.5	21.1
	Urban ^a	17.6	25.5	45.2	Total	114.2	64.7
Japan	Urban	49 850	95 332	109 041	Urban	91.2	14.4
	Rural	39 965	28 206	17 994	Rural	-29.4	-36.2
	Urban ^a	55.5	77.2	85.8	Total	37.5	2.8
Latin America	Urban	85 997	315 478	592 332	Urban	266.8	87.8
	Rural	103 060	125 588	109 225	Rural	21.9	-13.0
	Urban ^a	45.5	71.5	84.4	Total	133.3	59.1
Brazil	Urban	25 258	112 116	194 740	Urban	343.9	73.7
	Rural	37 310	36 926	24 933	Rural	-1.0	-32.5
	Urban ^a	40.4	75.2	88.6	Total	138.2	47.4
North America	Urban	121 739	208 733	306 607	Urban	71.5	46.9
	Rural	60 003	68 004	53 905	Rural	13.3	-20.7
	Urban ^a	67.0	75.4	85.0	Total	52.3	30.3
United States	Urban	111 448	188 073	273 414	Urban	68.8	45.4
	Rural	54 484	61 902	48 593	Rural	13.6	-21.5
	Urban ^a	67.2	75.2	84.9	Total	50.6	28.8
Europe	Urban	242 422	373 438	457 568	Urban	54.0	22.5
	Rural	171 713	135 604	84 216	Rural	-21.0	-37.9
	Urban ^a	58.5	73.4	84.5	Total	22.9	6.4
Former USSR ^b	Urban	86 099	186 049	276,887	Urban	116.1	48.8
	Rural	114 257	95 294	67,569	Rural	-8.6	-29.1
	Urban ^a	43.2	66.1	80.4	Total	47.8	22.4
Oceania	Urban	9 035	18 905	31 855	Urban	109.2	68.5
	Rural	5 095	7 785	9 487	Rural	52.8	21.9
	Urban ^a	63.9	70.8	77.1	Total	88.9	54.9

Source: World Urbanization Prospects: The 1992 Revision (United Nations publication, Sales No. E.93.XIII.11).

a Urban as percentage of total population.

b Excluding Estonia, Latvia and Lithuania, which are included in Europe.

with. Rather the countries that had the fastest net rural to urban migration have also had the fastest growth in GNP. Some of the most rapidly growing cities in the present developing countries have coped relatively well with the influx and have much better social and environmental indicators than urban centres that have grown more slowly: one of the fastest growing conurbations in the present developing world, which grew faster than such cities as Cairo, Calcutta and Mexico City in the period 1970-1990, was Seoul. The quality of city government and not just the rate of urban expansion was a crucial determinant of the quality of urban growth.⁶⁶

In some cases, the advantages that a city can provide of economies of scale are being overwhelmed by their sheer size, leading to congestion and rises in pollution levels. In these cases, solutions are being attempted through the development of middle-sized urban conurbations. Other attempts to stem the out-migration from rural areas include rural development. While the latter is a policy that is justified in its own right, in raising living standards in rural areas, neither this strategy nor that of urban decentralization appears to have had a considerable effect on the problems arising from urbanization. Little reversal is anticipated in the overall trend to urbanization.⁶⁷

The adverse environmental consequences of urbanization require urgent action. Much will depend on the ability of city governments to mobilize resources to supply the infrastructure needed, especially to the urban poor, who, because their settlements are often "illegal", do not receive such services as water and sewerage, and to put in place effective environmental monitoring and enforcement mechanisms. Much of the environmental pollution is a result of urban poverty and here the challenge is to provide employment opportunities to the urban poor.

A projection of future increases in environmental pollution and urban poverty in line with past increases is probably unduly pessimistic in view of the consensus that action should be taken to address these problems. Considerable resources, both domestic and foreign, will be required to provide the infrastructure needed in the cities. Much will depend on whether city governments will have the will and the managerial ability to fulfil their tasks. It would be pessimistic to assume that they do not have the means: as discussed earlier, on a global level there is little reason to believe that there is an absolute shortage of finance for urban investments.

The alleviation of urban poverty will greatly depend on the creation of urban employment. This can be facilitated by the municipalities providing the urban infrastructure and the monitoring and enforcement mechanisms concerning industrial pollution that would attract environmentally sound industrial enterprises, both domestic and foreign, to invest in urban locations. However, there are limits to the success of urban policies in the face of

economic policy mistakes at the national level. The economic system itself⁶⁸ and the quality of governance at the national level are crucially important.

Poverty in both rural and urban areas gives rise to pollution. At the national level, the degree of total pollution will depend upon the efforts made to alleviate poverty and eliminate environmentally unsafe practices in both urban and rural areas.

FUTURE TRENDS IN THE PRICES OF FOOD AND RAW MATERIALS

In spite of large population growth and overall increases in living standards between 1955 and 1990, there was no global scarcity of food and natural resources. Many raw materials are now at their lowest prices in real terms, as shown in chapter III, and the Earth is able to provide adequate supplies of food for the present population. Problems of distribution and inadequate purchasing power rather than any global shortage of food account for the hunger in the world.⁶⁹

Neo-Malthusian predictions of global shortages which were made over the period demonstrated the fundamental shortcomings of the Malthusian model in the face of the power of technology. Technology determines the price of a raw material in several ways. It affects demand by reducing its use in a particular product through miniaturization, through substitution for another material or through opening up new possibilities for recycling. It also affects the costs of production by, for instance, finding a way to increase recoveries of the metal from the ore. A rising population should, other things being equal, serve to increase demand. It was sometimes thought, particularly in the early 1960s when the price of many metals was at historically high levels, that population growth would lead to higher real prices: there would not only be more people, but also rising living standards in the present developing countries would lead to patterns of increasing per capita consumption of minerals, to approach the per capita levels already existing in the present developed countries.

In the event, technology and productivity increases proved a more important factor in determining the price of raw materials than did population. Unless this historic pattern of the real price of food and raw materials falling over time is to be reversed, future population growth will not, in general, lead to increases in real prices. In this connection, it is important to observe that, for many primary commodities, such as tropical beverages, with low income elasticities of demand, increases in demand are largely determined by population growth. Declining population growth would, other things being equal, lead to a slow-down in the growth of demand.

The future trend in the production of food and raw materials will be partly, and in some cases, mainly determined by the ability of producers to react to price signals

and to develop appropriate and environmentally sound technologies. One of the reasons for the misuse of resources at the global and national levels has been that prices have not reflected the real costs of production. This is the case when a polluting industry is not made to clean up its environmental degradation. Also, subsidies can lead to the destruction of resources. In the case of the fishing industry, for instance, it is estimated that harvesting the maximum sustainable yield from the sea might take only a fifth of the present fishing fleet. Yet, as yields have fallen through overfishing, Governments have subsidized their fishing fleets, further encouraging overfishing.⁷⁰ The fishing industry is particularly important as the poorest two thirds of the world's people obtain about 40 per cent of their protein from fish.

Any optimistic scenario concerning future supplies of food and raw materials must be based upon an assumption that Governments and the international community will act to remove distortions in the market, including, in particular, subsidies. It would appear that the consequences of population growth on food and raw material prices will be small, and that technological developments, environment-related regulatory policies and other policies enacted by Governments will be more important determinants.

The experience since 1955 would also indicate that the costs of environmental compliance will not raise the real price of commodities above present levels. During that period, increasingly stringent environmental standards were enacted in many of the producing countries, controlling the emission of pollutants and requiring, in the case of a mine, that the land be returned to its original contours after use. In spite of the costs involved, the real price of minerals continued to fall, although some out-dated facilities, such as smelters, had to be shut down.

One resource that gives particular concern is water. Like fish, water has often been treated as costless and with no finite limits to its supply. Over the next 35 years, considerable efforts will have to be made to reduce the wasteful use of this essential resource. One way to do this will be to charge for its use. How to divide up the water resources that are shared by several countries is likely to become an increasingly important subject of bilateral and even regional negotiations.

ENVIRONMENTAL CONSEQUENCES OF FUTURE POPULATION GROWTH

The ability of the world to satisfy the demands for food and raw materials of the expanding population between 1955 and 1990 gives grounds for believing that satisfying the demands of a slower-growing world population, which is considerably wealthier than that of 1955, would be relatively easy. However, it is argued that the incremental increase in human numbers is more important than the rate of population growth—even though the two are closely

related.⁷¹ This is based upon an analysis that human numbers are outpacing the resources—water, land, minerals—necessary to sustain them.⁷² The analysis has an immediacy in that it is felt that the “choices made during the next 10 years will determine, to a large extent, the future habitability of the planet. The collision between human numbers and the resources needed to sustain them will become more acute in the remaining years of this century and beyond”.⁷³

The speed with which the environmental crisis is developing has been documented in many studies.⁷⁴ However, the variable that is, in the short to medium term, the one that can be expected to vary relatively little under alternative scenarios and, in this sense, to play a relatively small role in determining changes in the volume of global environmental degradation is population. As previously discussed, the difference between the medium and low estimates for the size of the world's population in 2025 was 7.7 per cent, and between the low and high estimates 15.6 per cent.

Estimates for reductions in pollution as a result of changes in the future population yield modest results. In 1988, the total of world fossil fuel carbon emissions was estimated at 5.9 million metric tons, of which 52 per cent originated in the present developed market economies, 28 per cent in the former Soviet Union and the eastern European countries, including the eastern German States, and 20 per cent in the present developing countries.⁷⁵ At the present time, emissions from the present developing countries are estimated at about 1.3 million tons. According to one estimate, by the Intergovernmental Panel on Climate Change, emissions in the year 2000 would rise to 2.35 million tons if the standard population projections obtained, and to 2.3 million tons if there was a steeper decline in fertility. According to another estimate, by the United States Environmental Protection Agency, the rise would be to 2.3 million tons in 2000 and to 8.7 million tons in 2050, with the standard population projections, and to 2.25 million tons in 2000 and to 7.37 million tons in 2050, with a rapid fertility decline. It was concluded that “policies to reduce population growth in developing countries and thus reduce world population size would contribute relatively little to reductions in fossil fuel emissions”.⁷⁶

Deforestation currently accounts for carbon emissions on the order of 1.4 million tons, and 95 per cent takes place in the present developing countries. Rapid fertility decline was estimated to reduce forest loss by a total of 315,000 square kilometres over the period 1992 to 2025, as compared to an annual loss at the present time of 140,000 square kilometres.⁷⁷

More significant results obtain when the extrapolations are made into the much more distant future—to the year 2100. In this case, the population variable becomes important, and contributes something like 35 per cent to

the increase in emissions.⁷⁸ Because of their population growth, the present developing countries will by then be contributing more than the present developed countries to global pollution. Such projections confront the same problems as the original Malthusian model, that is, they do not account for the overwhelming importance of technological change and simply project existing trends into the future, even though it is recognized that "significant remedial action will be taken in the near future".⁷⁹

The rather modest results in the medium-term future in terms of reductions in expected pollution as a result of further reductions in fertility do not diminish the importance of extending reproductive health services. Rather, they reflect the fact that most of the world's pollution is generated in the present developed market economies and the economies in transition, where population is, on the whole, expected to increase by a relatively small amount between 1990 and 2025 (see table VII.4), and also that fertility has already declined in many of the present developing countries with large populations.

As previously mentioned, one of the most effective actions that can be taken in the immediate future to achieve a pattern of sustainable development is to get the price right by ensuring that the prices for raw materials and products properly reflect the social costs and that prices are assigned for the use of air, water and land resources that currently serve as cost-free receptacles for the waste products of society.⁸⁰ The transition to a new pricing structure will be difficult in many countries and will require special interventions, in which the international community has a major role to play, to protect those who are adversely affected in the process. In the economies in transition, energy use was stimulated by low prices and so energy use per unit of output was several times higher than in the market economies. The resultant environmental degradation and health problems are considered one of the reasons for low birth rates and high mortality. Yet, to actually close down polluting factories is proving difficult at a time of declining economic performance and inadequate social safety nets.

The relative lack of importance, in the medium term, of variations in population reducing global pollution highlights the importance of the technology variable. Historical evidence would suggest the overwhelming power of technology in determining the outcome, as happened when the predictions of Malthus were proved incorrect.⁸¹ Much of environmental pollution is caused in the developed countries, but these have the research facilities and the investment capability to come up with solutions that could be rapidly marketed to other countries. As these countries have already enacted comparatively stringent pollution-control measures, the increase, as a share of GNP, of future measures can be expected to be less sharp than in those countries whose environmental controls are not yet so

strict.⁸² Moreover, the increasing numbers of people, including scientific personnel, in the developing countries would indicate that technological advances, especially those relevant to the solution of the present developing countries' environmental problems, will originate there.

DEMOGRAPHIC FACTORS AND INTERNATIONAL MIGRATION

By one estimate, the number of people living in a country in which they were not born is 50 million, which is fewer than 1 per cent of the world's population.⁸³ Another estimate put the number at 77 million.⁸⁴

Demographic indicators would show that the supply of potential migrants is increasing for several reasons. One is that the number of people is increasing. In this regard, the contrast between the small growth in the size of the total population in some of the wealthier countries, such as the United States, Australia and the southern European countries of France, Greece, Italy, Portugal and Spain, and the considerably greater growth in their poorer neighbours—Mexico, Indonesia and North Africa—is often cited,⁸⁵ although most migration actually takes place between developing countries and not between developing and developed countries. The difference in income levels, which cannot be expected to be eliminated in the near future, is thought to be a factor making for migration. Another factor is urbanization, which brings greater knowledge of and resources for migration.⁸⁶

Poverty and environmental degradation will give rise to "environmental refugees". Wars and other civil disturbances will also result in flows of refugees. The future numbers of all refugees will depend on many factors—on economic growth and the alleviation of poverty, on the spread of respect for human rights and democratization. Based upon future demographic patterns, there is little that can be said about the future numbers of such refugees.

Demographic developments do not appear to indicate an increase in demand for migrant labour in the present developed countries that would go any of the way to meeting some estimates, in the "tens of millions", of the potential increase in migrants and refugees resulting from what has been described as the "demographic tilt".⁸⁷ As outlined earlier, there is considerable flexibility in the labour forces of the present developed market economies, and, in particular, labour supply can be expanded by higher participation rates for women. Also, expansions in output can be achieved by substituting capital for labour. Finally, the economies of many present developed countries are characterized by high levels of unemployment, and any liberalization of immigration policy, at least in western Europe, appears unlikely.⁸⁸ There are, though, shortages of labour in specific sectors, especially unskilled labour, which are already being satisfied by migrant, and sometimes undocumented, workers. These specific needs can similarly be expected to be filled by migrants in future years.

Any long-run assessment of migration patterns must take into account the continued modernization of the present developing countries and resulting needs for skilled labour. In this context, several countries in South America, including Argentina, Chile and Venezuela, have recently instituted schemes to recruit skilled labour from central and eastern Europe and the former USSR. Argentina wanted to attract immigration to Patagonia and other underpopulated regions of the country, and Venezuela's plan was based upon detailed requests from potential private-sector employers.⁸⁹ As the South American countries had faster rates of population growth than the eastern European countries, models based on a "demographic tilt" giving rise to the movement of millions of poor people from countries with fast-growing populations into the ageing richer countries would appear to have weak predictive power com-

pared to ones based upon unmet demands for labour.⁹⁰

The eagerness of these South American countries to attract immigrants reflects a growing international awareness of the mutual economic benefits of international migration for both sending and receiving countries. The sending countries receive flows of remittances and can also benefit from the expertise of returning migrants. The receiving countries benefit from the skills and enthusiasm of the migrants. The negative effect, particularly among the poorer countries, is the loss of skilled and highly educated members of the workforce whose countries of origin do not receive the benefits of the educational and other expenditures they invested in their human development. The future scale of this loss will very much depend on whether these countries are able to offer satisfying employment opportunities to their more skilled members.

CONCLUSION: IMPLICATIONS OF FUTURE POPULATION TRENDS

In the preceding sections, some of the implications of the medium variant of the United Nations population projections to the year 2025 were given, and they were contrasted with the developments that had taken place since 1955. It is perhaps appropriate, before discussing the likely implications, to compare the world of 1955 with that of 1990—and with what a reasonable person in 1955 might have thought the world of 1990 would look like. If totally unexpected changes took place in the 35 years since 1955, it is not unreasonable to expect such changes to take place in the 35 years from 1990 to 2025.

THE WORLD OF 1955

In 1955, India had only recently achieved independence, and China was about to embark on a great leap forward, which resulted in one of the greatest man-made famines in history. The Republic of Korea was still devastated by war. The first steps to European union were being built on the basis of cooperation in coal and steel—at present two decaying industries. The leaders of the then Soviet Union had not yet made the decisive break with Stalinism. Under Soviet central planning, prices were not allowed to reflect the relative costs of production, which, in the case of energy and raw materials, led to massive misuse and rising levels of pollution. The collectivization of agriculture, achieved at the cost of millions of human lives, resulted in the Soviet Union being a net importer of food. South Africa was erecting the machinery of apartheid. There was considerable optimism about the rest of Africa's future, once the constraints of colonial rule had been removed. This mineral-rich continent seemed to have a bright future at a time when it was thought that minerals would soon be in short supply. Similarly, there was optimism about the economic future of the food-rich countries of Latin

America. In general, many countries thought that their natural resource base could be used to build up domestic industries to substitute for imports from the present developed countries.

In 1955, the largest city in the world was New York, with a population of 13.2 million. No other city in the world had a population over 10 million. The second largest city was London, with a population of 8.9 million. Only 10 other cities had populations of over 5 million.

There was great concern about Asia, and in particular whether China and India would be able to feed themselves. In the present developed countries, large sections of the labour force were engaged in the coal, steel, textile and clothing and railway industries. A computer had been used in the construction of the atomic bomb, but the wide-scale use of computers was not imagined. The first Sputnik had not yet been launched.

Life expectancy at birth was 68 years in the present developed countries (only three years more than the normal retirement age) and 45 in the present developing countries. This measure of the standard of living, as indeed almost all other measures, improved over the next 35 years: for instance, infant mortality rates in the developing countries fell from 180 per 1,000 births in 1950-1955 to 76 in 1985-1990. This improvement in living standards occurred at a time of considerable global population growth. It would have been easy in 1955 to predict disaster in the shape of famines in Asia—in fact, many analysts did—as a result of rapid population growth. Indeed, almost all predictions that a reasonable person could have made in 1955 as to developments in Asia and Africa would have been proved wrong. The lack of any clear connection between economic prosperity and a natural resource base, as shown by the economic success of Japan, the Republic

of Korea and Taiwan Province of China, was not something that was envisaged. The real asset that these countries or regions contained was their people.

GREATER INTERNATIONAL AGREEMENT IN THE 1990s

By 1990, the international community had some advantages in confronting the future. The ideological rift between the Soviet Union and its allies and the market economies had ended. This has allowed for greater cooperation not only at the political level, but also at the level of addressing economic issues. The centrally planned model for economic advance has been abandoned and countries are in broad agreement about the basic principles for economic advance—reliance, where possible, on market forces, fiscal and current account balance sustainability and the importance of developing human resources. People are increasingly seen as a pool of “human ingenuity, talent and will to survive”.⁹¹ There is global concern about the pollution of the environment and a recognition that a global partnership is needed for sustainable development.⁹² The basis for action was determined by the United Nations Conference on Environment and Development.⁹³

In all major areas of the world, population growth should be slower in the next 35 years than it was in the previous 35. Dependency ratios in the present developing countries should be coming down, largely as a result of a fall in the size of the young population.

In the present developed countries, dependency ratios are set to rise. Yet the small rise, and in some cases fall, in the young population should be accompanied by more resources being devoted to each person's education and training, which should result in a more productive labour force. Moreover, the greater number of elderly people will itself result in a change in demand patterns—for leisure activities, for travel and for nursing care—that could generate employment not just in their own country but also in others, both indirectly by means of supplying their demands by exports, and directly by providing tourism services and perhaps even a retirement home with the accompanying care. There is also room for an expansion in labour supply in the present developed market economies if female participation rates rise.

By 1990, Tokyo and Sao Paulo were both larger than New York, with populations of 25 million and 18 million, respectively. Ten other cities had populations of over 10 million. London's population had shrunk to 7.3 million and was the twenty-third largest urban agglomeration. Urbanization will continue but at a slower pace. Urbanization is itself often a result of rapid economic growth. In the Republic of Korea, the urban population increased from 24.4 per cent of the total population in 1955 to 72.1 per cent in 1990. Comparable figures for Japan are

55.5 per cent and 77.2 per cent. With rapid economic growth, birth rates tend to fall and so, in many countries, the increase in the urban population should be considerably smaller between 1990 and 2025. Moreover, given the high degrees of urbanization already reached in many countries, the size of the pool of potential migrants in rural areas is expected to fall, sometimes in absolute terms, and in almost all cases as a percentage of the total population. This future slow-down in the pace of urbanization will facilitate the upgrading and provision of urban services that are absent in many cities in the present developing countries.

This construction of infrastructure would itself lead to a demand for labour. Other new jobs will be created over the next 35 years to supply demands that were hardly envisaged in 1995—for the monitoring of environmental pollution and the enforcement of increasingly strict environmental regulations, for the production and distribution of environmentally sound goods, for the caring—and entertaining—of the aged, and for the clean-up of degraded areas.

In many cases, such as in the provision of services in cities, one of the factors has been managerial constraints. The relatively slower growth expected in many urban conurbations in the next decades should make it easier for city governments to organize the provision of these services. In general, improvements in governance at all levels—of the enterprise, the municipality and the central government—should enable resources to be mobilized and directed more rapidly to meet unmet demands. The large size of unmet demands in all societies, but especially in the present developing countries, makes it difficult to be pessimistic about the chances of employment creation over the longer term. If countries continue to emphasize the importance of human resources development, this would help employment creation.

The available evidence does not support the existence of a Malthusian-type trap in which an accurately forecast growth of future population can be contrasted with a similarly accurate forecast of the future development of other variables, in order to yield an unsatisfactory result. Rather, the one certain forecast is that the next 35 years, as the previous 35, will be marked by considerable change—in population sizes, structures and distribution, in social institutions and in lifestyles, resulting in changes in the demand for goods and services, in the relative cost of different products, including food and natural resources, in the technologies used to produce goods and in jobs. The changes in technology from the wasteful and polluting pattern of the present to one fostering sustainable development will probably be one of the greatest—and the eventual outcome the least predictable and most surprising.

NOTES

- 1 For example, the Black Death is estimated to have resulted in a loss of life in Europe of at least 40 per cent between 1348 and 1377. Demographic recovery was visible a hundred years later. The introduction of European diseases into the Americas had disastrous demographic consequences for the indigenous population. Some observers have seen population changes as playing a major role throughout world history. For instance, Thomas Malthus attributed the fall of Imperial Rome to population pressures: "An Alaric (King of the Visigoths who sacked Rome in 410), an Attila (King of the Huns) ... and the chiefs around them might fight for glory, but the true cause that set in motion the great tide of northern emigration ... was a scarcity of food, a population extended beyond the means of supporting it" (see *An Essay on the Principle of Population* (first published: London, 1798, chap. III; reprinted: London, Penguin Books, 1976), pp. 84-85).
- 2 "The greater their number [of people in a great society], the more they naturally divide themselves into different classes and sub-divisions of employment. More heads are occupied in inventing the most proper machinery for executing the work of each, and it is, therefore, more likely to be invented" (Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first published: London, 1777, book 1, chap. 8). This type of analysis, based upon economies of scale, is also given in the works of Julian Simon (see, for instance, *The Economics of Population Growth* (Princeton, Princeton University Press, 1977)).
- 3 "Labour is there [in North America] so well rewarded that a numerous family of children, instead of being a burden, is a source of opulence and prosperity to the parents... The labour of each child, before it can leave their house, is computed to be worth a hundred pounds clear gain to them" (Smith, op. cit.).
- 4 "Poverty seems even to be favourable to generation. A half-starved Highland woman frequently bears more than twenty children, while a pampered fine lady is often incapable of bearing any, and is generally exhausted by two or three... But poverty is extremely unfavourable to the rearing of children... It is not uncommon in the Highlands of Scotland for a mother who has borne twenty children not to have two alive" (Smith, op. cit.).
- 5 "Not only has grain become somewhat cheaper, but many other things, from which the industrious poor derive an agreeable and wholesome variety of food, have become a great deal cheaper" (Smith, op. cit.).
- 6 Thomas Malthus, *A Summary View of the Principle of Population* (first published: London, 1830; reprinted by Penguin Books in *An Essay on the Principle of Population*, p. 225).
- 7 The work of Malthus that is invariably referred to is his first *Essay*, which was published anonymously in 1798. He continued to work in the field of population and to modify and refine his ideas until his death in 1834.
- 8 Food was postulated by Malthus to be necessary to the existence of man, yet "population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio. A slight acquaintance with numbers will shew the immensity of the first power in comparison of the second" (Thomas Malthus, *An Essay on the Principle of Population*, p. 71).
- 9 Many modern analyses also start with an attempt to explain this escape (see Paul Kennedy, *Preparing for the Twenty-first Century* (New York, Random House, 1993), pp. 6-13).
- 10 David Ricardo, *The Principles of Political Economy and Taxation* (first published; London, 1817; reprinted: London, Dent, 1974), p. 56.
- 11 Cf. Philip Appleman, "Introduction", in Thomas Malthus, *An Essay on the Principle of Population* (New York, Norton, 1976), p. xvii.
- 12 "It may be expected, indeed, that in civilized and improved countries, the accumulation of capital, the division of labour, and the invention of machinery, will extend the bounds of production; but we know from experience that the effect of these causes, which are quite astonishing in reference to some of the conveniences and luxuries of life, are very much less efficient in producing an increase in food" (Malthus, *A Summary View ...*, p. 244); see also his critique of Smith in *An Essay ...*, pp. 183-186.
- 13 See Amartya Sen, "Population and reasoned agency: food, fertility and economic development", in Kerstin Lindahl-Kiessling and Hans Landberg, eds. *Population, Economic Development and the Environment* (Oxford, Oxford University Press 1994), p. 70.
- 14 One of their grievances against King George III was that "he has endeavoured to prevent the population of these States, for that purpose obstructing the Laws for Naturalization of Foreigners; refusing to pass others to encourage their migration hither" (Declaration of Independence).
- 15 World Bank, *World Development Report, 1984* (Oxford, Oxford University Press, 1984), p. 60.
- 16 The crude death rate is defined as the number of deaths in a year per 1,000 mid-year population.
- 17 Life expectancy is a life-table function that indicates the expected average number of years to be lived by a newly born baby, assuming a fixed schedule of age-specific mortality rates.
- 18 The infant mortality rate is the probability of dying between birth and age 1 multiplied by 1,000, and is commonly calculated as the number of deaths of infants under one year of age in any given calendar year divided by the number of births in that year and multiplied by 1,000.
- 19 The total fertility rate is the sum of the age-specific fertility rates over all the ages of the child-bearing period. This measure gives the approximate magnitude of "completed family size", that is, the total number of children an average woman will bear in her lifetime, assuming no mortality.
- 20 Fertility started to decline in France as early as 1790 and in England, for married couples, in the 1870s (World Bank, *World Development Report, 1984* (Oxford, Oxford University Press, 1984), pp. 60-61. However, the chart on p. 57 shows the total fertility rate in England falling from about 1810.
- 21 For an estimate of the financial implications of the extension of reproductive health services to satisfy unmet demands, see Nafis Sadik, "Population and development: investment in the future" (New York, United Nations Population Fund, 1994).
- 22 For instance, the total fertility rate of women in the Republic

of Korea fell from 6 in 1960 to 1.6 in 1988. The Government's population policy now puts reproduction and population growth fifth in importance of priority—following morbidity and mortality, population distribution, population structure, family formation and the status of women. Similarly, Governments of South American countries mainly perceive economic and social development as the major way of influencing demographic phenomena, and have adopted policies to improve the economic situation of the country that they believe will, in turn, influence population trends (*World Population Monitoring, 1993* (to be issued as a United Nations publication), pp. 94, 105).

23 *Long-range World Population Projections: Two Centuries of Population Growth, 1950-2150* (United Nations publication, Sales No. E.92.XIII.3).

24 *Ibid.*, p. 19.

25 *New York Times*, 6 March 1994, pp. 1, 18. Environmental pollution, alcohol abuse resulting in industrial accidents, suicide and a breakdown in the already poor health-care delivery system can help account for the sharp increase in the death rate. Similarly, such manifestations of a society in temporary economic crisis can help explain why families put off having children.

26 In the first half of 1993, the birth rate in the eastern States of Germany was 60 per cent lower than in the same period of 1989. Between 1989 and 1993, the birth rate fell by over 20 per cent in Poland, about 25 per cent in Bulgaria and 30 per cent in Estonia and Romania (*The Economist*, 23 April 1994, p. 54).

27 "The assumed target period at which fertility will stabilize is determined by taking into account a range of socio-economic factors, such as population policies and programmes, adult literacy, school enrolment levels, economic conditions ..., infant mortality and nuptiality, as well as historical, cultural and political factors" (*World Population Prospects: The 1992 Revision*, United Nations publication, Sales No. E.93.XIII.7), p. 87).

28 An assessment of the demographic impact of AIDS in 15 African countries was given in *World Population Prospects: The 1992 Revision ...*; see also, *United Nations AIDS and the demography of Africa* (United Nations publication, Sales No. E.94.XIII.11).

29 United States Bureau of the Census, *World Population Profile: 1994* (Washington, D.C., 1994), as reported in *The New York Times*, 29 April 1994.

30 *World Population Prospects: The 1992 Revision ...*, p.7.

31 The "main" variant forecast of life expectancy for both sexes was 72.5 years in 2020-2525 (an increase from 64.7 years in 1990-1995). The low variant forecast a life expectancy of 72.4 years in 2020-2025, and the high variant one of 72.6 years.

32 Over 98 per cent of each of the differences between the high and medium estimates for the world as a whole for the year 2025 and also between the low and medium estimates for 2025 are accounted for by those who, in 2025, will be less than 34 years old. Over 60 per cent of the differences are made up of those who are under 15.

33 Over the long periods of time that population projections are made, the relative positions of countries can be expected to change considerably. The countries that will be considered developed or developing in 2025 and, even more so, in 2150, will be different from those considered so in 1990. To show that the

discussion is concerned with a fixed group of countries and that no implications are being made as to the number of developed or developing countries in the future, the expressions "present developed" and "present developing" countries are often used in the text.

34 The Population Division of the Department of Economic and Social Information and Policy Analysis of the United Nations Secretariat, whose projections have proved very accurate at the global and regional levels, is producing a manual on projection methods for integrating population variables into development planning, the second module of which deals with methods for preparing school enrolment, labour force and employment projections.

35 For a full discussion of ageing urban populations, see *Ageing and Urbanization* (United Nations publication, Sales No. E.91.XIII.12)

36 Ansley J. Coale and Edgar M. Hoover, *Population Growth and Economic Development in Low-income Countries* (Princeton, Princeton University Press, 1958).

37 For a review of the literature, see Allen C. Kelley, "Economic consequences of population change in the third world", *Journal of Economic Literature* (December 1988).

38 Göran Ohlin, "The population concern", paper presented at the Royal Swedish Academy of Sciences, Conference on Population, Natural Resources and Development, 30 September—3 October 1991.

39 Kelley, *op. cit.*, pp. 1705, 1709.

40 Kelley, *op. cit.*, p. 1707; and World Bank, *World Development Report 1984 ...*, p. 82.

41 See Michael D. Hurd, "Research on the elderly: economic status, retirement, and consumption and saving", *Journal of Economic Literature* (June 1990), p. 615, table 23.

42 See reports of the Secretary-General on developing human resources for development (A/46/461 and A/48/364), introductions.

43 *World Development Report, 1984 ...*, pp. 84-85.

44 These figures can only approximate educational spending per child, as the 15-20 age group is not included. In this age group, higher costs per pupil are incurred in the provision of higher education.

45 "Higher incomes and improved health conditions lead parents to desire and produce few births, with a greater fraction of births surviving and greater educational investments being made in those children" (Randall J. Olsen, "Fertility and the size of the U.S. labor force", *Journal of Economic Literature* (March 1994), p. 62).

46 See *Demographic Yearbook, 1986* (United Nations publication, Sales No. E/F.87.XIII.1), table 32.

47 Olsen, *loc. cit.*, pp. 96-97.

48 See *Statistical Yearbook of Sweden, 1993*, table 42. The percentage of marriages ending in divorce fell in Sweden between 1981 and 1986, from 1.23 to 1.20, while the percentage of consensual unions dissolved fell from 8.68 to 7.96.

49 In the United Kingdom, the proportion of births outside marriage that were registered rose from 3.4 per cent of all births

in 1971 to 20 per cent in 1990 (Her Majesty's Stationery Office, *Social Trends 22*, 1992 edition, p. 48).

50 In the United States, between 1985 and 1990, the ratio of births to unmarried mothers to total births rose for black Americans from 60.1 to 66.7 per cent, for Hispanic Americans from 29.5 to 36.7 per cent, and for white Americans from 14.5 to 16.9 per cent. In 1992, the unemployment rate for black Americans was 14.1 per cent (39.8 for youths 16 to 19 years old); for Hispanic Americans 11.4 per cent (27.5 per cent for youths); and for white Americans 6.5 per cent (17.1 per cent for youths). In 1992, there were 5,188,000 black families with earners, of which 2,079,000 were headed by women, 3,755,000 Hispanic families with earners, of which 720,000 were maintained by women, and 37,378,000 white families with earners, of which 5,226,000 were maintained by women. The median weekly earnings of the black married-couple family was \$646 and of the black family maintained by women \$328; of the Hispanic married-couple family \$552 and of the Hispanic family maintained by women \$341; and of the white married-couple family \$791 and of the white family maintained by women \$409 (all figures are from United States Department of Commerce, *Statistical Abstract of the United States, 1993* (Washington, D.C., 1993).

51 Olsen, loc. cit., p. 95; and Hurd, loc. cit., p. 606.

52 Hurd, loc. cit., p. 588.

53 In 1970, half of the elderly men had retired at the age of 65 and were expected to live another 13.1 years. In 1986, half of the elderly men retired at 62 and were expected to live another 17 years: a 31 per cent increase in post-retirement years (ibid., p. 629).

54 *Institutional Investor* (October 1993).

55 Gary S. Becker "Cut the graybeards a smaller slice of the pie", *Business Week* (28 March 1994), p. 20.

56 *The Economist* (19 March 1994), p. 66.

57 Ibid. (12 March 1994), p. 57. However, the Commission of the European Union argued that no discernible association can be identified between either the level or the growth of social spending in member States, on the one hand, and their trade performance, employment or unemployment, on the other.

58 For the developed market economy countries, increasing dependency ratios may adversely affect national—and, therefore, global—savings. At the microeconomic level, the life-cycle hypothesis emphasizes the declining need for further savings with increasing ageing. Accordingly, in an ageing population, consumption can be expected to rise faster than current income. Increases in the dependency ratio may also mean a smaller labour force, and thus a lower potential output. In addition, there will be obvious changes in the composition of government expenditure (as well as its total share in GNP) with respect to education and medical care, as well as changes in the extent of transfer payments such as pensions. Since a country's current-account position can be expressed as the difference between national saving and national investment, it is likely that countries where population ageing is most pronounced will tend to run current account deficits. In that event, the difference in the increase in the dependency ratio among the major industrialized countries in the years to come could have important implications for global payments balance (see report of the Committee for Development Planning

on its twenty-ninth session, 12-14 January 1994, Official Records of the Economic and Social Council, 1994, Supplement No. 2 (E/1994/22); see, also, *Trade and Development Report, 1992* (United Nations publication, Sales No. E.92.II.D.7), pp. 36-37).

59 "Rapid population growth in the past, a high ratio of dependents to workers and declining real incomes mean both less consumption and less ability to save—and therefore fewer jobs" (United Nations Population Fund, *The State of World Population, 1993* (New York, 1993), p. 10).

60 For a recent discussion of this issue, see *World Economic Survey, 1990* (United Nations publication, Sales No. E.90.II.C.1), especially pp. 174-175, in which it was concluded that "the net effect of demographic changes on savings is ambiguous *a priori* and while there is some econometric evidence that changes in the structure of the population have thus far tended to raise savings rates, the question does not yet seem to be fully resolved".

61 Table VII.12 presents the variables as percentages of GNP and not GDP. This helps account for why the figures are slightly different from those in table A.5.

62 The Social Security Funds went from a net borrowing position of \$12,734 million in 1980 to a net lending position of \$31,253 million in 1991 (see *National Accounts Statistics: Main Aggregates and Detailed Tables, 1991* (United Nations publication, Sales No. E.94.XVII.5), Part II, pp.1989-1995, table 3.12). A government deficit can be financed by borrowing from the domestic private sector or from abroad. In both cases, the effects on long-term growth are thought to be harmful—in the first case, the savings that could have been used for productive investment by enterprises are used to finance the government expenditures, and in the second case, income will have to be transferred in the future to foreigners.

63 This conclusion is reinforced if a comparison is made between Japan and Germany. In Japan, the potential working population grew slightly slower than that of Germany between 1980 and 1990: the size of the total population aged between 20 and 60 expanded by 8.2 per cent in Japan and 9.4 per cent in Germany. If Japan had committed to net investment the same proportion of GNP as had Germany, 8 per cent rather than 16 per cent, its current-account surplus would have risen six times—to 12 per cent of GNP.

64 Arthur Lewis, *The Evolution of the International Economic Order* (Princeton, Princeton University Press, 1978), p. 39.

65 David Satterwaite, "The social and environmental problems associated with rapid urbanization", International Conference on Population and Development, 1994, Expert Group Meeting on Population Distribution and Migration, Santa Cruz, Bolivia, 18-22 January 1993 (ESD/P/ICPD.1994/EG.VI/8).

66 "The rapid growth of the urban population has overwhelmed the capacity of city and municipal governments to provide basic infrastructure and services and to take the steps to ensure a rapid expansion in affordable, good-quality housing" (ibid., p. 5).

67 Cf. George Benneh "Environmental consequences of different patterns of urbanization", *Population, Environment and Development* (United Nations publication, Sales No. E.94.XIII.7).

68 "Economic development, quick or slow, good or bad, is ultimately determined by the economic system itself... If China

- wants to adjust and improve the relations between population, development, resources and the environment, the economic reforms must continue in order to improve the system. Without improvement in that system, it will be difficult to reinforce the initiatives of workers, to raise productivity and efficiency and to remove environmental stress and population pressure" (Jing Neng Li "Significant impacts of population growth on economic development and the environment in China", *Population, Environment and Development* ..., pp. 94-95).
- 69 For a fuller discussion of the availability of food at the global level, see "Undernourishment and famine in developing countries", *World Economic Survey, 1993* (United Nations publication, Sales No. E.93.II.C.1).
- 70 *The Economist* (19 March 1994), pp. 13, 21.
- 71 A forceful exposition of this argument is given in United Nations Population Fund, *Population, Resources and the Environment: The Critical Challenges* (New York, 1991).
- 72 "A good part of the struggle to balance population with available natural resources will be concentrated in the developing world where human numbers, in many instances, have already exceeded the red line of resource use. As pressures intensify, some experts even envision the outbreak of resource wars in the developing world with worldwide repercussions... It is widely recognized that the current economic order does not promote sustainable development... We are using up the Earth's store of natural resources at demonstrably non-sustainable rates and triggering extensive damage to the biosphere" (ibid., p. 5).
- 73 Ibid. This work also gives the equation $I = PAT$, which is often used to describe the connection between the main variables (pp. 16-17). I is the environmental impact, P is the size of the population, A is the per capita consumption of environmental resources (determined by income and lifestyle) and T is the environmentally harmful technology that supplies A. This equation has, however, been criticized by some as simplistic ("Report of the Expert Group Meeting", *Population, Environment and Development* ..., pp. 5-6).
- 74 For instance, Paul Harrison, *The Third Revolution: Environment, Population and a Sustainable World* (London, I.B. Tauris, 1992).
- 75 Nancy Birdsall, "Another look at population and global warming", *Population, Environment and Development* ..., p.41, table 1.
- 76 Ibid., p. 44. The author also estimated future emissions by an econometrically based model, which yielded far higher volumes of emissions but also relatively small differences owing to population change.
- 77 Ibid., p. 48.
- 78 The Population Council, "Future population growth and global warming", *Population, Environment and Development* ..., p. 282.
- 79 Ibid., p. 284.
- 80 United Nations Secretariat, "Population and the environment: an overview", *Population, Environment and Development* ..., p. 34.
- 81 "Malthus missed the power of science and technology to create improvements in the transportation of people, goods and services, to enhance agricultural output, and to stimulate breakthroughs in the manufacture of wares, so that fresh resources were harnessed and invented to meet the growing demands of a vigorous population" (Kennedy, op. cit., pp. 7-8).
- 82 An early estimate of the cost of reducing pollution is contained in United Nations study by Wasilly Leontief and others, *The Future of the World Economy* (New York, Oxford University Press, 1977).
- 83 *Population, Environment and Development* ..., p. 26.
- 84 United Nations Secretariat "Population distribution and migration: the emerging issues", International Conference on Population and Development, 1994, Expert Group Meeting on Population Distribution and Migration, Santa Cruz, Bolivia, 18-22 January 1993 (ESD/P/ICPD.1994/EG.VI/3), p. 3.
- 85 Cf. Kennedy, op.cit., p. 44.
- 86 However, a detailed study for Egypt found no statistical difference in educational levels of migrants and non-migrants (see Richard H. Adams, Jr., "The economic and demographic determinants of international migration in rural Egypt", *Journal of Development Studies* (October 1993), pp. 156-157).
- 87 Professor Kennedy noted that "enhanced efforts to control migration, therefore, are unlikely to succeed in the face of the momentous tilt in the global demographic balances...If the developing world remains caught in its poverty trap, the more developed countries will come under siege from tens of millions of migrants and refugees eager to reside among the prosperous but aging population of the democracies...The issue of global demographic imbalances between richer and poorer societies form the backdrop to all of the other important forces for change that are taking place" (Kennedy, op.cit., pp. 45-46).
- 88 John Salt, *Migration and Population Change in Europe*, UNIDIR Research Paper No. 19 (United Nations publication, Sales No. GV.E.93.O.14), pp. 20-22; and report of the Secretary-General entitled "Concise report on the monitoring of world population trends and policies, with special emphasis on refugees" (E/CN.9/1994/2), para. 118.
- 89 "Concise report ...", paras. 122 and 123.
- 90 "Population growth per se is an important but not decisive determinant of international migration. Other factors, like economic development, historic ties with countries in the North, and geographical proximity to the North, might cause emigration from countries with a less than maximal population growth" (see Philip Muus, "The future of South to North migration", International Conference on Population and Development, 1994, Expert Group Meeting on Population Distribution and Migration, Santa Cruz, Bolivia, 18-22 January 1993 (ESD/P/ICPD.1994/EG.VI/16), p. 18.
- 91 Ohlin, op.cit., p. 15.
- 92 See statement by Maurice Strong, Secretary-General of the United Nations Conference on Environment and Development reported in "Press summary of Agenda 21" (DPI/1298), November 1992.
- 93 See Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992 (A/CONF.151/26/Rev.1 (Vol. I and Vol. I/Corr.1, Vol. II, Vol. III and Vol. III/Corr.1)) (United Nations publication, Sales No. E.93.I.8 and corrigenda).

Technical note

Alternative measures of gross world product and its distribution

INTRODUCTION

Among the most important indicators of global development trends are those relating to the growth of gross world product (GWP) and its distribution among countries and regions. Their central importance lies in the fact that they form the basis on which assessments of recent world economic performance are made, and consequently they affect discussions on the current economic situation and the immediate outlook for economic growth in all countries and regions. In addition to influencing expectations about the likely course of world and national economic activity, these indicators are key inputs into discussions of important macroeconomic problems such as inflation, unemployment and balance-of-payments positions. Estimates of gross world product and its distribution by country, and estimates of per capita income, also underlie the distribution of concessional assistance and the implementation of measures undertaken to promote development in the world's poorest countries. Finally, these estimates are used to evaluate the probable impact of alternative national and international policy measures on the short-, medium- and longer-term possibilities for world growth and distribution and hence affect the debate about appropriate policies for overcoming present world economic problems and fostering more balanced and equitable world economic development.

For these reasons, the question of the meaning and

reliability of indicators of world economic activity and country contributions to it is a particularly important one. This note presents some alternative estimates of gross world product and its distribution by country for the period 1970-1991 based on a recent study by the United Nations Statistical Division.¹ That study assessed changes in the level and distribution of gross domestic product (GDP) of 178 countries during the period 1970-1989 with the use of alternative conversion factors when weighting each country's domestic economic activity as it is entered into a composite world total.

The present note updates the previous study by incorporating more recent data for 183 countries. Given the diversity and complexity of economic activity carried out at the national level, and given known areas of statistical weakness,² summary measurements of domestic economic activity are not perfect and are subject to revision over the course of time. Notwithstanding these deficiencies, it is generally recognized that for most countries the reporting system for the national accounts, which is based on the standard concepts of the *System of National Accounts*, is sufficiently accurate when dealing with distribution and changes over time. While perhaps less accurate when measuring levels, the picture presented of the national economic landscape and changes in its profile over time do reflect actual changes taking place in the country.

ALTERNATIVE METHODS OF CONVERTING LOCAL CURRENCY DATA TO A COMMON CURRENCY

One limitation in presenting estimates of the distribution and level of gross world product is that market exchange rates used to translate national currency data into any one common currency do not provide reliable and stable estimates of the relative purchasing power of national currencies. Even when determined directly by the market, exchange rates reflect only the relative prices of interna-

tionally traded goods and services and are frequently affected by other kinds of international transactions, such as foreign investment and loans and transfers of incomes and remittances; interest rate movements, expectations in financial markets and other factors may also cause large short-term fluctuations in exchange rates, even when no real underlying change in economic circumstances has

occurred. Significant short-term deviations in market exchange rates from long-term averages and large fluctuations in their relative values in the short term reduce their usefulness as conversion factors when estimating levels of world output and its distribution since marked year-to-year variations in exchange rate relationships lead to correspondingly large variations in the distribution and estimated value of gross world product.

Moreover, when comparing gross product between countries, market exchange rate conversions of country GDPs to a common currency such as the United States dollar may understate the dollar value of output produced in low-income economies relative to that produced in high-income economies because of differences in the size of the tradable and non-tradable sectors. As a result, they might misrepresent the actual value of output produced when aggregating individual country estimates of domestic product into regional and world totals. Studies undertaken as part of the United Nations International Comparison Project (ICP) have shown that in low per capita GDP countries, the market exchange rate may understate purchasing power parity by a factor of three or more.³ As such, there is a tendency for the volume of goods and services produced in developing countries to be understated relative to that produced in economically more developed countries, and for the share of the developing countries in the world total to be correspondingly underestimated. Consequently, estimates of world economic growth are affected because the time-series for the growth of GDP in the developing countries enters with a smaller weight in the composite world series when using market exchange rates.

In response to the need for more satisfactory comparisons of output levels produced in different countries, the present analysis makes use of a comprehensive national accounts database for 183 individual countries and areas which has been compiled on the basis of submissions by national statistical offices to the annual questionnaire on national accounts issued jointly by the United Nations and the Organisation for Economic Co-operation and Development.⁴

For such comparison, four types of conversion rates have been used to translate the national currency estimates of GDP into a common currency: Market exchange rates (MERs), as published by the International Monetary Fund;⁵ price-adjusted rates of exchange (PAREs), developed by the United Nations Statistical Division; *World Bank Atlas* (WA) conversion rates, used by the World Bank;⁶ and purchasing power parity (PPP) estimates from the Penn World Tables data bank, developed by the University of Pennsylvania.⁷ These alternative methods of weighting individual country GDPs yield alternative estimates of the level, growth and distribution of gross world product.

MARKET EXCHANGE RATES

MERs are the conversion factors most frequently used to translate national currency estimates of gross domestic product to a common unit of account. The rates used in the study are annual averages communicated to the International Monetary Fund by the monetary authority of each member country and agreed to by the Fund. As used by the IMF, the term "market rate" refers to the principal exchange rate used for the majority of current transactions. Where market rates were not available from the IMF conversion factors, use was made of the averages of United Nations operational rates of exchange, which were primarily established for accounting purposes and which are applied to all official transactions of the United Nations with those countries. These rates may take the form of official, commercial or tourist rates of exchange. Applying the annual market exchange rates for each country to its corresponding annual current price national currency estimates for GDP yields 183 country time-series of nominal United States dollar GDP, which are then aggregated into world and regional totals for the period 1970-1991. This estimate for gross world product corresponds broadly to the level of world output measured at market prices and exchange rates.

PRICE ADJUSTED RATES OF EXCHANGE

The purpose of the PARE method is to derive a conversion rate for analytical use which reflects with sufficient accuracy the relative price changes over time. The Statistical Division developed the PARE methodology principally for administrative application by United Nations organs on an ad hoc basis, with the original intention of applying exchange rate adjustments to a limited number of countries beset by severe inflation and changes in domestic prices that diverge considerably from exchange rate movements. PARE rates are obtained by extrapolating the average exchange rate of a fixed "representative" base year or base period by price movements based on GDP-implicit price deflators.

The application of the PARE methodology eliminates most of the distorting effects mentioned when discussing market exchange rates and other conversion rates. PARE rates are likewise applicable to a larger number of transactions as its use of GDP-implicit price deflators reflects not only internationally tradeable goods and services, as do MERs, but also all goods and services produced in the economy. PARE calculations are also mostly free of the speculation and other effects of the international capital markets.

Two types of price-adjusted rates of exchange have been developed by the Statistical Division. Absolute PARE rates are derived by extrapolating the average exchange rates computed over a base period with the use of price indices of each country. The result yields a series for each country of its gross product expressed at constant prices and

period-average exchange rates. Aggregating all country data yields a time-series in constant United States dollars which reflects the real increase in world production over time.

Relative PARE rates, on the other hand, adjust the absolute PARE rates for the rate of inflation in the United States. The use of relative PARE rates provides a nominal estimate of a country's output for aggregation into a total for gross world product as it simulates exchange rates that should reflect changes in relative price levels. Using this method, there is no difference between absolute and relative PAREs when computing the distribution of gross world product in any one year. However, only relative PAREs—which reflect nominal GDP levels—will be included in later discussions on the distribution of total and per capita gross world product.

WORLD BANK ATLAS CONVERSION RATES

Each annual WA conversion rate is based on a moving average of three conversion rates, each linked to a different year. For any year, the WA rate is calculated as a simple average of the exchange rate of the present year, a PARE rate for the present year using the previous year as a base, and a PARE rate for the present year using the exchange rate of two years ago as a base. The method assumes that exchange rates largely adjust themselves to price changes within a period of three years. In cases where the basic methodology yields shifts that do not reflect underlying economic conditions, the World Bank applies different variants of its conversion method. These variants adjust for differences in fiscal years, multiple exchange rates and unrealistic United States dollar conversion factors.⁸

PURCHASING POWER PARITIES

The United Nations International Comparison Project has developed a methodology to enable conversion of national currency output levels into a common unit of measurement.⁹ This approach is based on purchasing power parity coefficients derived from price relatives of common bas-

kets of goods and services expressed in the currencies of each of the participating countries instead of a set of common prices. The average PPPs applied to the GDP for each country are obtained as weighted averages of the price relatives of individual baskets of goods and services, using as weights the total expenditures on those goods and services in GDP. Unlike the PARE and *Atlas* rates, PPPs are not derived from actual exchange rates; they are obtained as independent measures based on information from price surveys and represent a common set of international prices reflecting purchasing power parity in the year. This approach provides estimates of gross world product measured in "international dollars" rather than the conventional United States dollars of the exchange rate methods.

The methodology of the ICP has been applied to detailed data for a sample of countries for the years 1970 (16 countries), 1975 (34 countries), 1980 (60 countries) and 1985 (64 countries). Because the number of direct estimates of PPPs is limited in terms of countries and years, the Penn World Tables data bank developed at the University of Pennsylvania has supplemented these direct estimates with information based on less comprehensive price and expenditure surveys which allow for extending ICP results to other countries. Annual inter-temporal interpolations and extensions to non-benchmark years were performed on the basis of price indices for GDP components of individual countries relative to the corresponding price indices of the United States. Since no information later than the 1990 PPPs was available and coverage of years for some countries was uneven, PPP rates for missing years and 1991 were derived by applying the trend of relative PARE rates based on 1970-1991 to the available levels of PPPs. Application of the annual PPP conversion factors to the current price national currency estimates of GDP for the 149 countries for which relevant data have been estimated and their aggregation provides nominal estimates of gross world product measured at PPPs for each year.

ANALYSIS OF GROSS WORLD PRODUCT, ITS DISTRIBUTION AND CHANGES OVER TIME

Applying the four alternative sets of conversion factors to the national currency estimates for gross domestic product yields four sets of estimates of gross world product and its distribution among countries and regions for the period 1970-1991.

THE LEVEL OF GROSS WORLD PRODUCT, 1970 AND 1991

Table 1 presents, for the world as a whole in selected years, estimates of the level of gross world product in billions of

United States dollars calculated on the basis of the four alternative conversion rates discussed above. These estimates summarize the level of economic activity carried out in 183 individual countries (149 countries in the case of the PPP estimates) during the period 1970-1991. Corresponding estimates of average per capita gross world product expressed in these United States dollar units have been obtained by dividing the totals for gross world product by the corresponding population totals.

Table 1 shows that the method used to convert national currency estimates of gross domestic product to a common

Table 1.

Gross world product, total and per capita, based on alternative conversion rates, selected years 1970-1991

Conversion factor	Number of countries	1970	1975	1980	1985	1991
Total gross world product^a						
Market exchange rates	183	3 205	6 232	11 660	12 701	22 892
PPPs	149	4 081	7 053	12 633	18 679	27 533
Relative 70-91 PARE	183	3 449	5 922	10 400	15 537	22 062
World Bank Atlas rates	183	3 219	6 194	11 605	12 704	22 199
<i>Memo item:</i>						
Absolute 70-91 PARE	183	7 651	9 312	11 241	12 905	14 789
Per capita gross world product^b						
Market exchange rates	183	871	1 535	2 635	2 630	4 271
PPPs	149	1 138	1 784	2 932	3 969	5 275
Relative 70-91 PARE	183	937	1 459	2 351	3 217	4 116
World Bank Atlas rates	183	875	1 526	2 623	2 630	4 142
<i>Memo item:</i>						
Absolute 70-91 PARE	183	2 079	2 294	2 541	2 672	2 759

Source: Statistical Division, UN/DESIPA.

a Billions of United States dollars measured at alternative conversion rates.

b United States dollars per capita measured at alternative conversion rates.

currency can have a significant impact on the resulting estimate for gross world product. In 1970, for example, the estimated value of gross world product derived from the sample of 183 countries ranges from a high of about \$3449 billion based on the relative PARE conversion method to a low of \$3205 billion in nominal values when computed on the basis of market exchange rates. Similarly, differences in estimates of average per capita gross world product are significant. It is important to note that although estimates for total and per capita gross world product computed using the *Atlas* method and the market exchange rate method are close, marked differences in estimates occur at the country level.

Results using the PPP methodology indicate that when a common set of weights representing internationally consistent and comparable prices are applied to the varied kinds of output produced in different countries, a substantial increase is recorded in the estimated level of gross world product. For example, in the case of the estimates presented in table 1, the estimated level of gross world product in 1970, 4081 billion "international dollars", is higher than the estimates produced by conventional market exchange rate and relative PARE conversions, even though it is based on a smaller sample of only 149 countries.¹⁰

As might be expected, over time the market exchange

rate and *Atlas* rate methods of national currency conversion yield a similar growth trend, approximately a seven-fold increase in the estimated value of gross world product over the period 1970-1991, while based on relative PAREs, the increase is slightly less. Most of this increase is attributable to a rising United States dollar denominated world price level, which rose at an especially rapid rate during those periods when the dollar was depreciating with respect to most other convertible currencies. Measured at absolute PARE rates, by way of comparison, the real volume of world output produced during these years only rose by a factor of somewhat less than two. The significant difference between the growth of gross world product based on absolute PARE and the other conversion rates reflects inflation in the United States, which is incorporated in the latter rates. Adjusting for world population growth, real per capita gross world product measured in absolute PARE increased by about a third, compared with a more than four-fold increase in nominal terms.¹¹

Relative PARE and purchasing power parity measures of gross world product abstract from changes in the relative value of the United States dollar with respect to other currencies. In the former case, the relative PARE method eliminates the effects of appreciations and depreciations of the currencies of all countries relative to the United States

dollar through adjustments to the exchange rates for differential rates of inflation. In the latter case, a common set of international prices is used to value transactions at the national level, eliminating exchange rates and their influences from the calculation of gross world product. Because the increase over time in the value of gross world product using these two measures is less than when conventional exchange rates are applied, the calculations indicate that the value of the United States dollar, despite its short-term rise in the mid-1980s, tended to depreciate relative to other key currencies over the entire period from 1970 to 1991.

The contrasting estimates of gross world product produced using these alternative methods point out that there is no single indicator that can summarize the diverse kinds of economic activity taking place in the different countries comprising the global economy. The appropriateness of each method depends on the purpose the analysis is designed to serve. Conventional exchange rate conversions of national currency estimates of GDP provide information useful when assessing transactions, such as international trade flows, capital movements among countries and external debt levels and payments, which are frequently undertaken on the basis of market exchange rates. PARE estimates abstract from relative movements in market exchange rates and prices, and for this reason provide more stable estimates of a country's contribution to gross world product. Purchasing power parity estimates, on the other hand, differ from PARE calculations in that they estimate price relatives for a particular base period instead of using market exchange rates. PPPs are based on weights that apply the same set of prices to a particular kind of good or service, regardless of where it is produced in the world and, on this basis, may serve as more realistic indicators of the distribution of world production. Both rates, however, measure changes over time in the same way since they use similar kinds of extrapolators. As such, if PARE were to start from the same price relatives in the base period, the resulting PARE estimates would tend to equal the PPPs.

THE REGIONAL DISTRIBUTION OF GROSS WORLD PRODUCT, 1970 AND 1991

When disaggregated by geographic region, estimates of gross world product show the size of the contribution of the different countries and areas in the region to the total value of all final goods and services produced in the world. Measured per capita, the gross regional product is a reflection of the productivity of the region's labour force and the quantity of goods and services available to meet the consumption needs and investment requirements of its households and investors. It should be noted however, that measures of the geographic distribution of gross world product allow only for assessing the relative economic size of different regions and their relative economic productivity at different points in time but may not be used as independent indicators of specific kinds

of production potential, levels of technology, or the economic welfare of individuals.

It is clear from tables 2 and 3 that in 1970 and 1991, whether measured in conventional exchange rates, price adjusted rates of exchange or a common set of international prices, the preponderant amount of marketed goods and services produced in the world are generated in the more economically advanced countries of North America, Western Europe, and Japan and Oceania. Measured in MERs, these three areas accounted for about 68 per cent of the value of world final product in 1970 and almost 75 per cent in 1991. This increase in relative share was centred in Western Europe and Japan and Oceania as the relative contribution of North America to gross world product declined over this period from over 34 per cent in 1970 to about 27 per cent in 1991; a more substantial decline was registered for the transition economies of Eastern Europe and the former Soviet Union, from about 16 per cent of gross world product in 1970 to less than 7 per cent in 1991. Within the groups of developing countries comprising the regions of Latin America and the Caribbean, Africa and Asia, only Western Asia significantly increased its share in the world total by more than three-fold. Despite its rapid rate of real economic growth, the nominal share of South and East Asia in the world total declines between 1970 and 1991 when measured in market exchange rates or World Bank Atlas conversion rates because, in most cases, currencies of this group of countries depreciated with respect to the United States dollar.

While the overall pattern of gross world product is quite similar in terms of the broad distribution of gross world product when measured by PARE, changes in this distribution over time none the less differ from those calculated on the basis of MERs. According to PARE calculations, the proportion of world output produced in both North America and Western Europe declined significantly between 1970 and 1991, whereas when measured in MERs an increase in share was recorded in the case of Western Europe. In the case of developing country regions, a growing proportion of world output is registered in South and East Asia using PARE methods, with smaller increases in the case of Latin America and the Caribbean and North Africa. Using MERs, only small declines or little change were found in the proportion of world output generated in these regions. These contrasting results emphasize different conclusions that can be drawn using alternative methods for estimating gross world product. In the case of calculations of gross world product using conventional exchange rates, the locus of world production is increasingly centred in the more economically advanced countries of Western Europe and Japan and Oceania, whereas in the case of PARE calculations it is shifting to the developing countries, especially South and East Asia.

These different conclusions point to the problems

Table 2.

Distribution of alternative estimates of gross world product by geographic region, 1970 and 1991

	1970			1991		
	Gross product	Per capita product	Population	Gross product	Per capita product	Population
Market exchange rates						
North America	1 096	4 843	226	6 193	22 155	280
Western Europe	820	2 335	351	7 227	19 103	378
Transition Economies	504	1 434	351	1 473	3 549	415
Japan and Oceania	251	2 035	124	3 702	24 538	151
Latin America & Caribbean	180	636	283	1 203	2 678	449
North Africa	22	311	69	142	1 208	118
Sub-Saharan Africa ^a	58	197	294	289	535	540
Western Asia ^b	50	495	102	1 141	5 855	195
South and East Asia ^c	223	119	1 880	1 522	537	2 834
World	3 205	871	3 681	22 892	4 271	5 360
Purchasing Power Parities (PPPs)						
North America	1 092	4 826	226	6 167	22 064	280
Western Europe	1 106	3 150	351	5 913	15 635	378
Transition Economies	356	1 021	349	2 322	5 639	412
Japan and Oceania	374	3 035	123	2 729	18 164	150
Latin America & Caribbean	318	1 163	274	2 172	4 967	437
North Africa	32	477	67	291	2 574	113
Sub-Saharan Africa ^a	97	331	294	536	992	540
Western Asia ^b	136	1 370	99	773	4 024	192
South and East Asia ^c	569	316	1 802	6 630	2 440	2 717
World	4 081	1 138	3 585	27 533	5 275	5 219
Relative 1970-1991 PARE						
North America	1 095	4 837	226	6 172	22 081	280
Western Europe	1 045	2 977	351	5 906	15 612	378
Transition Economies	312	889	351	1 920	4 627	415
Japan and Oceania	412	3 410	124	3 283	21 763	151
Latin America & Caribbean	188	664	283	1 277	2 843	449
North Africa	26	375	69	246	2 086	118
Sub-Saharan Africa ^a	67	229	294	375	694	540
Western Asia ^b	119	1 166	102	779	4 000	195
South and East Asia ^c	175	93	1 880	2 102	742	2 834
World	3 449	937	3 681	22 062	4 116	5 360
World Bank Atlas						
North America	1 096	4 842	226	6 150	22 001	280
Western Europe	820	2 335	351	6 708	17 733	378
Transition Economies	502	1 430	351	1 862	4 486	415
Japan and Oceania	251	2 034	124	3 733	24 745	151
Latin America & Caribbean	175	619	283	1 250	2 783	449
North Africa	22	320	69	144	1 225	118
Sub-Saharan Africa ^a	76	259	294	289	535	540
Western Asia ^b	50	496	102	563	2 889	195
South and East Asia ^c	225	120	1 880	1 500	529	2 834
World	3 219	875	3 681	22 199	4 142	5 360

Source : Statistical Division, UN/DESIPA.

a Including Nigeria and South Africa.

b Including Turkey and Cyprus.

c Including China.

Table 3.
Percentage distribution of geographic regions in gross world product, 1970 and 1991

	1970			1991		
	Gross product	Per capita product	Population	Gross product	Per capita product	Population
Market exchange rates						
North America	34.2	5.6	6.2	27.1	5.2	5.2
Western Europe	25.6	2.7	9.5	31.6	4.5	7.1
Transition Economies	15.7	1.6	9.5	6.4	0.8	7.7
Japan and Oceania	7.8	2.3	3.4	16.2	5.7	2.8
Latin America & Caribbean	5.6	0.7	7.7	5.3	0.6	8.4
North Africa	0.7	0.4	1.9	0.6	0.3	2.2
Sub-Saharan Africa ^a	1.8	0.2	8.0	1.3	0.1	10.1
Western Asia ^b	1.6	0.6	2.8	5.0	1.4	3.6
South and East Asia ^c	7.0	0.1	51.1	6.6	0.1	52.9
World	100.0	1.0	100.0	100.0	1.0	100.0
Purchasing Power Parities (PPPs)						
North America	26.8	4.2	6.3	22.4	4.2	5.4
Western Europe	27.1	2.8	9.8	21.5	3.0	7.2
Transition Economies	8.7	0.9	9.7	8.4	1.1	7.9
Japan and Oceania	9.2	2.7	3.4	9.9	3.4	2.9
Latin America & Caribbean	7.8	1.0	7.6	7.9	0.9	8.4
North Africa	0.8	0.4	1.9	1.1	0.5	2.2
Sub-Saharan Africa ^a	2.4	0.3	8.2	1.9	0.2	10.3
Western Asia ^b	3.3	1.2	2.8	2.8	0.8	3.7
South and East Asia ^c	13.9	0.3	50.3	24.1	0.5	52.1
World	100.0	1.0	100.0	100.0	1.0	100.0
Relative 1970-1991 PARE						
North America	31.7	5.2	6.2	28.0	5.4	5.2
Western Europe	30.3	3.2	9.5	26.8	3.8	7.1
Transition Economies	9.1	0.9	9.5	8.7	1.1	7.7
Japan and Oceania	12.2	3.6	3.4	14.9	5.3	2.8
Latin America & Caribbean	5.4	0.7	7.7	5.8	0.7	8.4
North Africa	0.8	0.4	1.9	1.1	0.5	2.2
Sub-Saharan Africa ^a	1.9	0.2	8.0	1.7	0.2	10.1
Western Asia ^b	3.4	1.2	2.8	3.5	1.0	3.6
South and East Asia ^c	5.1	0.1	51.1	9.5	0.2	52.9
World	100.0	1.0	100.0	100.0	1.0	100.0
World Bank Atlas						
North America	34.0	5.5	6.2	27.7	5.3	5.2
Western Europe	25.5	2.7	9.5	30.2	4.3	7.1
Transition Economies	15.6	1.6	9.5	8.4	1.1	7.7
Japan and Oceania	7.8	2.3	3.4	16.8	6.0	2.8
Latin America & Caribbean	5.4	0.7	7.7	5.6	0.7	8.4
North Africa	0.7	0.4	1.9	0.7	0.3	2.2
Sub-Saharan Africa ^a	2.4	0.3	8.0	1.3	0.1	10.1
Western Asia ^b	1.6	0.6	2.8	2.5	0.7	3.6
South and East Asia ^c	7.0	0.1	51.1	6.8	0.1	52.9
World	100.0	1.0	100.0	100.0	1.0	100.0

Source : Statistical Division, UN/DESIPA.

- a Including Nigeria and South Africa.
- b Including Turkey and Cyprus.
- c Including China.

involved in appraising changes in the distribution of world production among countries and regions and over time. More fundamentally, as noted above, both MER and PARE methods of currency conversion may significantly misstate the purchasing power of currencies used to compile national statistics on GDP and its detail. Consequently, estimates of the distribution of gross world product over countries and regions, not merely its change over time, may be distorted. Some idea of the extent and pattern of this distortion may be gained from table 2.

In the case of those developing regions for which data are available for a large sample of countries, levels of output in 1970 and 1991 are substantially higher when estimated using the PPP method than when using exchange rate or PARE methods—indeed, in some regions by a factor or two or more. On the one hand, in the case of North America, the estimated level of gross regional product is approximately the same in both years whether calculated using MERs or the PPP approach. Adjustments for Western Europe and for Japan and Oceania differ in the two years. Using PPP methods, levels of output in these two broad regions are revised upward somewhat in 1970 but a substantial reduction is recorded in the value of their output for 1991. The full extent of the adjustment made using PPPs cannot, however, be fully assessed because of different country coverage in the two samples.

It therefore follows that the conversion of national products using exchange rates substantially understates the contribution of the developing countries to gross world product and their impact on its rate of growth. On the other hand, all conversion methods indicate that the level of aggregate production in the more economically advanced countries is substantially greater than that generated in the developing countries.

DIFFERENCES IN PER CAPITA GROSS REGIONAL PRODUCTS, 1970 AND 1991

While the preponderance of world output is produced in the more economically advanced areas of North America, Western Europe and Japan and Oceania, most of the world's population resides in the developing country areas of Latin America and the Caribbean, Africa and Asia. Wide differences therefore result in estimated levels of per capita product between these different regions, regardless of the method of conversion used to translate national measures of economic activity into a common unit of account. In examining these differences it should be borne constantly in mind that summary statistics such as those presented here indicate nothing about the distribution of income among individuals or even groups of individuals. Per capita GDP estimates are, however, relevant for assessing differences which exist among countries and regions in the average amount of goods and services available per person, and they shed light on the contrasting circumstances

within which different countries must deal with the problems involved in meeting present needs while augmenting their capacity to satisfy material demands in the future.

In addition to the figures discussed above on levels of total product in each main region, table 2 presents data on population and on product per capita as calculated using the four alternative conversion methods—MERs, PPPs, WA and relative PARE. As may be expected, a great diversity in levels of per capita product prevails among these world regions in both 1970 and 1991, with average per capita GDP levels in the economically developed areas a large multiple of those in developing areas. Moreover, given this contrast, in either of these years there are cases of substantial differences in the estimated level of per capita product calculated for the same region using alternative conversion methods.

For example, the highest average level of per capita product recorded in 1970 was for North America, which is estimated to be in the range of \$4800 in that year using all four conversion methods. In contrast, the average GDP per capita in South and East Asia in 1970, the area with the lowest average per capita product in that year, was estimated to be about \$120 when measured in either MERs or WAs, and lower still when based on relative PARE. Using these three estimation techniques, the relative difference between the highest and lowest per capita product regions is on the order of approximately 40 to 1. When expressed in purchasing power parity, however, the relative difference between these highest and lowest per capita product areas is estimated to be in the range of 15 to 1, still a wide gap between the most affluent and least affluent areas of the world but considerably less than that calculated using conventional exchange rate methods.

It may also be seen from this table that levels of per capita product of other developing country areas in 1970 and 1991 are also raised substantially when expressed in purchasing power parity, while those for some of the more economically developed areas are raised somewhat in 1970 but reduced in 1991. The downward adjustment for the year 1991 in the case of Japan and Oceania is on the order of one fourth and for Western Europe less than one fifth, indicating that even among the group of more developed economies prevailing exchange rates may substantially diverge from PPP equivalents. Finally, although some relative change takes place between 1970 and 1991 in terms of relative per capita gross regional product, with the average for South and East Asia exceeding the average for sub-Saharan Africa in 1991, the regional distribution of gross world product in 1991 is broadly similar to that of 1970. Similar but less extensive upward and downward adjustments and changes in relative positions can be seen in the calculations made using the PARE method.

While PPP calculations indicate that market exchange rate methods may considerably understate the average

amount of goods and services available per capita in developing areas of the world (and considerably overstate them in the case of some developed areas), disparities between the highest and lowest per capita product regions none the less remain wide in PPP calculations and, however measured, are persistent over the two decades studied here. Among the developing areas, there was little tendency to catch up to the economically advanced countries in terms of per capita product during this period, although some progress can be seen in the case of South and East Asia when measured in PPP or PARE.

In assessing the reliability of indicators of per capita gross world product, several conclusions emerge. The regional distribution of per capita gross world product is very similar in terms of the relative ranking of regions and independent of the conversion method applied. The conclusions that emerge are thus that, for any one year, each regional distribution of per capita product reflects almost the same relative ranking of regions, indicating that present measures of gross world product provide a reliable description of the relative position of regions in the broad distribution of gross world product; and, for any one type of conversion method, each of the annual distributions in 1970 and 1991 reflects almost the same relative ranking of distributions, indicating that the relative ranking of regions by per capita product, despite significant differences in rates of economic growth, changes only slowly over time.

DISTRIBUTION OF GROSS WORLD PRODUCT BETWEEN COUNTRIES

When examining the distribution of gross world product, one key question is the size distribution of GWP over countries and changes in the profile of the size distribution over time. A size distribution over countries attempts to measure the disparities in average levels of income or product per capita between individual countries and is directly relevant for measuring the relative incidence of poverty in the world and the degree of success or failure in efforts to overcome it. Although the present study did not address the question of an appropriate standard for measuring absolute poverty, levels of per capita GDP provide a first approximation to the level of living; extremely low levels of GDP per capita are indicative of pervasive poverty. Moreover, continuing wide differences among countries in their levels of per capita GDP point to a need to reassess economic and social policies promoting growth and development at the national and international levels.

While there is no single generally accepted procedure for summarizing the full extent and pattern of differences in per capita product across countries, useful techniques which provide graphic presentation of the distribution of gross world product include a chart of its Lorenz curve, one based on Gini coefficients and the measure of share of population quartiles in GWP.

Lorenz curves

As used in this study, a Lorenz curve traces out the cumulative percentage of GWP contributed by each country in relation to its cumulative percentage contribution to world population, after the country data for GDP per capita have been ranked from lowest to highest. In the Lorenz curves presented here, the cumulative percentage of world population is shown on the horizontal axis while the cumulative percentage of gross world product is shown on the vertical axis. Lorenz curves have the property that, if per capita GDP of all countries were identical, it would lie directly on the 45 degree line linking the point of origin of the curve at the bottom left of the chart to its termination at the upper right of the chart. Unequal levels of gross product per capita across countries, in contrast, trace out Lorenz curves which are skewed to the right, because at first the percentage contribution of low per capita GDP countries adds more to population than to gross world product, but as increasingly higher per capita GDP countries are plotted, eventually more is added to the product axis than to population axis. Using this technique, the closer the Lorenz curve is to the 45 degree line of equal distribution, the more uniformly gross world product is distributed among the world's population as reflected by the average GDP per capita for each country.

As in the case of regional averages, assessments of the distribution of gross world product and changes to its structure over time are affected by the particular method used to translate national measures of gross domestic product to a common currency. Lorenz curves for 1970 and 1991 based on market exchange rates and World Atlas rates are shown in figures 1 and 4. Those for the PPP calculations, presented in figure 2, show a more equal distribution of GWP than do other calculations, albeit with less coverage of sample countries.¹² The fact that the curve for 1991 lies outside the curve for 1970 indicates that the distribution of gross world product became more unequal over the entire range of per capita product levels during the years studied here when measured either in market exchange rates or at purchasing power parity.

When measured using PARE conversion methods, the distribution of gross world product shown in figure 3 was more stable and did not exhibit the unambiguous deterioration found with the MER and PPP methods. Rather, some small improvement is indicated at the lower end of the product per capita scale—reflecting the rapid growth of a number of countries in South and East Asia—and some worsening is indicated in the middle of the scale—reflecting slow growth in Latin America and the Caribbean. Since PARE methods abstract from changes in exchange rates and relative prices, the increase in inequality shown by the curves based on MER reflect mainly the impact of appreciations and depreciations of market exchange rates and movements in relative price levels rather than necessarily

Figure 1.
Lorenz curve presentations of world population and gross world product shares of countries, based on market exchange rate conversion

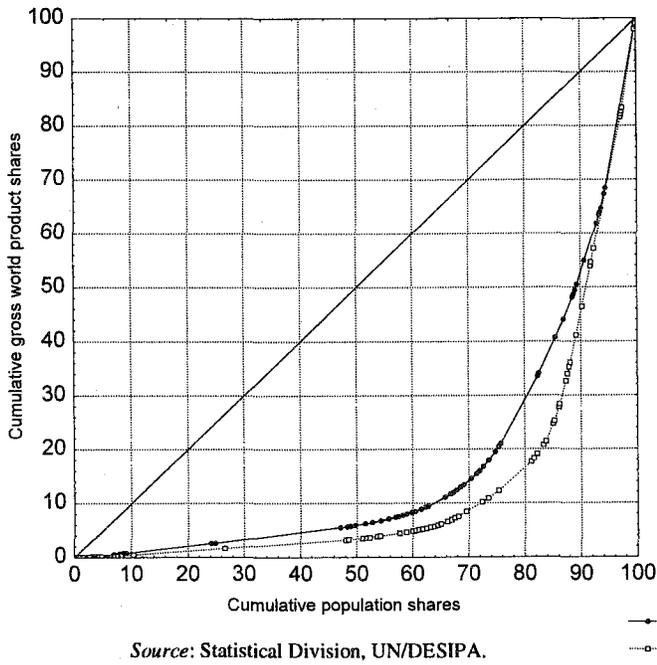


Figure 2.
Lorenz curve presentations of world population and gross world product shares of countries, based on PPP conversion

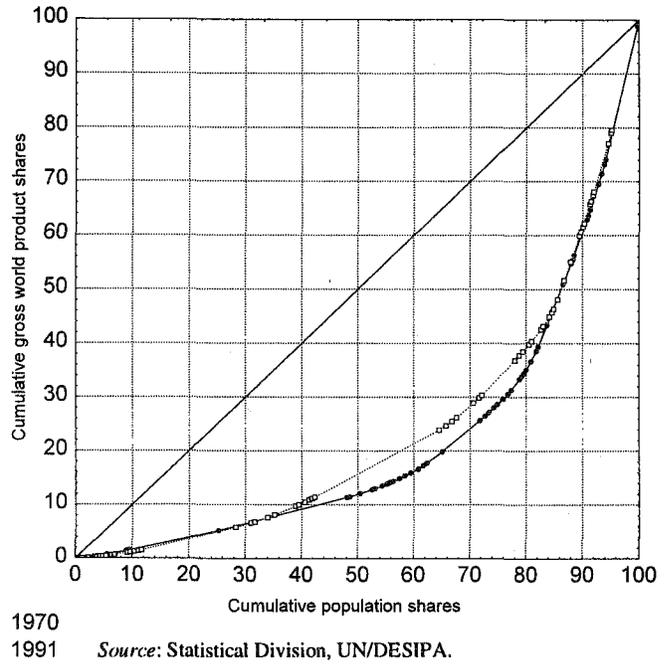


Figure 3.
Lorenz curve presentations of world population and gross world product shares of countries, based on 1970-1991 PARE conversion

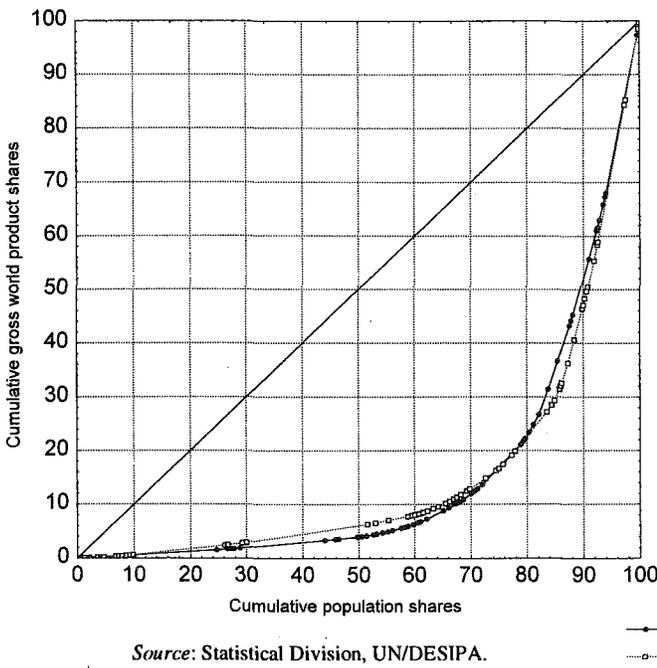
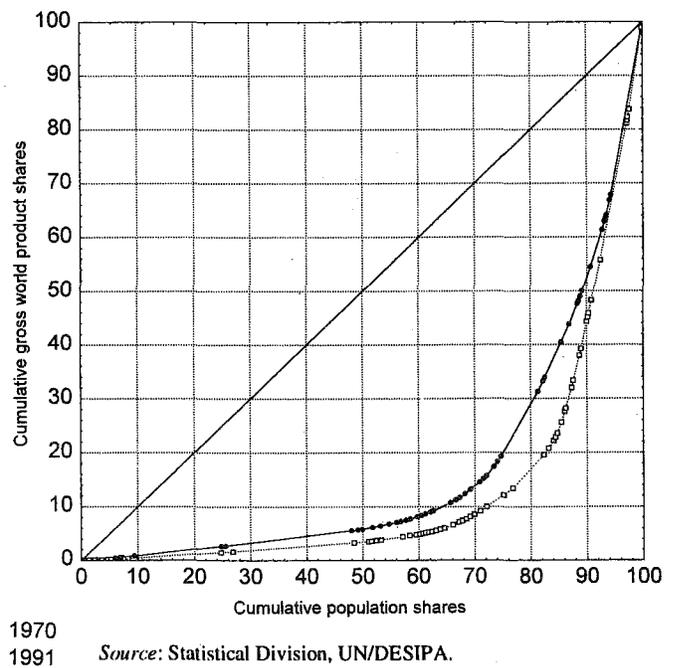


Figure 4.
Lorenz curve presentations of world population and gross world product shares of countries, based on World Bank Atlas conversion



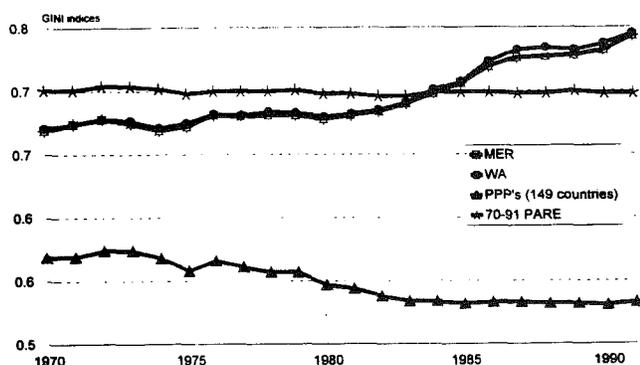
an increase in inequality due to changes in the relative per capita volume of goods and services.

Gini indices

The Gini index is a numerical measure of inequality. It is the ratio of the area between the Lorenz curve and the complete equality line (45 degree line), to the entire area between the complete equality line and the complete inequality line (which runs along the vertical and horizontal coordinates). In this study, it is used to measure the inequality of the distribution of gross world product based on the application of alternative conversion rates. Gini indices were first calculated for data based on each conversion rate in each year; their average values represent the general level of inequality for the whole period. Figure 5 plots these indices and graphically shows the differences between and changes over time of the Gini coefficients representing the distribution of GWP based on the four alternative conversion rates.

Like the Lorenz curves, the Gini indices indicate that GWP based on PPPs show the most equal distribution. Not surprisingly, as found in earlier analysis, there appears to be close correlation between the time series of GWP according to the MERs and WAs but less with the PARE calculations, implying that changes in exchange rates in real terms affected the distribution of GWP. The graph

Figure 5.
GINI indices measuring inequality of gross world product distribution, based on alternative conversion rates, 1970-1991



Source: Statistical Division, UN/DESIPA.

shows that, during the early 1970s until around 1975, inequalities in the distribution of gross world product decreased in terms of all conversion methods used. After 1980, however, greater inequality was apparent with the use of MERs and WAs, witnessed by the continuing increase in their Gini indices up to 1991. PARE calculations demonstrate no substantial change in the Gini coefficients during the period, much like the trend shown in its Lorenz curve, resulting in an almost constant line of inequality during the period. In contrast, the Gini indices corresponding to PPPs present a sustained decrease in inequality in the GWP distribution between 1970 and 1991, with the drop starting at the time that the inequality level rises with the use of MERs and WAs.

Shares of population: quartiles

A third way of analysing the structure of GWP distribution between countries is through the percentage share of gross world product contributed by countries with the first (poorest), second, third and fourth (richest) quartiles of the population. These are constructed by ranking countries on the basis of per capita GDP and measuring their percentage share of GWP by population quartiles according to the country ranks in a particular year. Table 4 and figures 6 and 7 illustrate changes in GWP shares by quartiles of population classified by per capita GDP when using MER and PARE conversion methods.

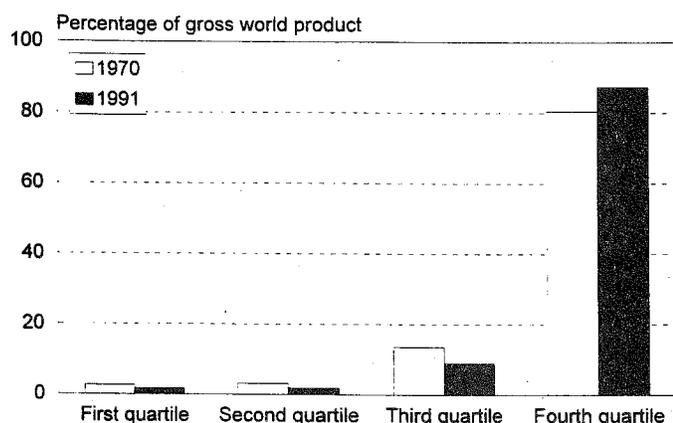
The above presentations show that based on MER conversions, the inequality in GWP distribution increased, as evidenced by decreased shares in GWP for the first three population quartiles and a relatively large increase in the share of the richest group (4th quartile) during the two-decade period 1970-1991. Of the three declining shares, however, the group which registered the biggest loss in GWP

Table 4.
Changes in share of gross world product by quartiles of the population, ranked by per capita gross domestic product

	Population groups (quartiles)			
	1st (poorest)	2nd	3rd	4th (richest)
Market exchange rate				
1970 (share)	2.7	3.2	13.6	80.5
1991 (share)	1.7	1.9	9.0	87.4
1991-1970	-1.0	-1.3	-4.6	6.9
Relative 1970-1991 PARE				
1970 (share)	1.6	2.4	9.9	86.1
1991 (share)	2.4	3.9	11.5	82.2
1991-1970	0.8	1.5	1.6	-3.9

Source: Statistical Division of UN/DESIPA.

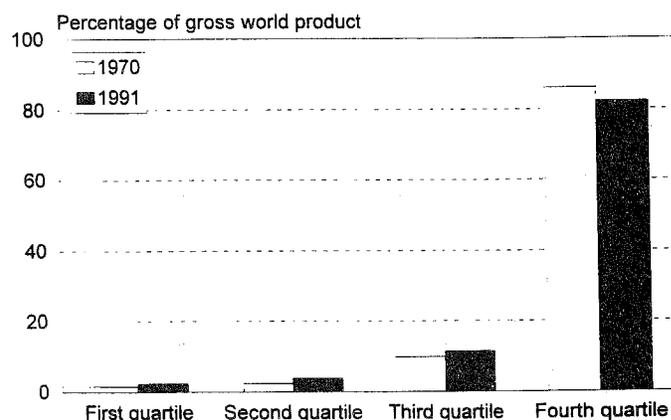
Figure 6.
Shares of gross world product by quartiles of the population in 1970 and 1991 based on market exchange rate conversion



Source: Statistical Division, UN/DESIPA.

share (about 5 percentage points) was the 3rd quartile, which is the second richest group, and not, as might normally be expected, the 1st (poorest) quartile of population, which had a 1 per cent decrease in share. The proportional share of the richest quartile gained almost 7 percentage points during the period, from about an

Figure 7.
Shares of gross world product by quartiles of the population in 1970 and 1991 based on relative 1970-1991 PARE conversion



Source: Statistical Division, UN/DESIPA.

81 per cent share in 1970 to more than 87 per cent in 1991. Based on relative 1970-1991 PARE, this trend was completely reversed, with increases of between 1 and 1.6 percentage points in the GWP share of each of the first three quartiles and a drop of almost 4 percentage points in the share of the richest population quartile.

CONCLUSION

Measures of the level and distribution of world economic activity and its change over time are among the most important indicators of economic performance. When summarizing the diverse array of goods and services produced in different countries, however, market exchange rates normally used to convert national currency estimates of production into a common currency do not provide sufficiently reliable and stable measures of the dollar value of output produced in these countries; moreover, they may understate the level of output produced in countries with low per capita income relative to that of higher-income countries, with the result that the level of gross world product tends to be underestimated and its relative distribution among countries distorted.

Calculations shown here using different types of conversion rates indicate that the method used for conversion of gross domestic product into a common currency can

have a significant impact on the resulting GWP estimate. For instance, calculations based on a common system of weights representing internationally consistent and comparable prices yielded a substantial increase in the estimated level of GWP and a significant change in its distribution among countries, with the share of developing countries in GWP rising significantly. Similar changes were noted in the level and relative ratios of per capita estimates of gross product of countries and regions using this method of conversion.

Furthermore, the study points out that the distribution of GWP and its change over time are also affected by the particular method used for conversion. Given the conversion methods used in the study, the results are ambiguous with regard to the size distribution of GWP between 1970 and 1991. Some, but not all, indicated an increase in inequality whether measured using a Lorenz curve, Gini coefficients

or as percentage shares of gross product contributed by quartiles of world population ranked by per capita GDP.

In evaluating the results of the study, it is important to bear in mind that it deals only with changes in the distribution of gross world product among, and not within, countries.¹³ The factors which lie behind these changes are beyond the scope of this study. These calculations illustrate not only the effects of using alternative conversion rates in

measuring the distribution of gross world product between countries and regions and its changes over time but also the difficulties entailed in measuring the changing pattern of gross world product over countries and the contrasting results that can be generated in assessing these trends when different conversion methods are used to translate the basic data into a common currency for purposes of international comparison.

NOTES

1 *Trends in International Distribution of Gross World Product* (United Nations publication, Sales No. E.93.XVII.7).

2 It is well known, for example, that data relating to the flow of net factor income from abroad (measuring the value of investment income such as net rent, interest and dividends and profits of direct investment enterprises, earning of residents working abroad and other income earned abroad by normal residents less the corresponding factor income payments made to the rest of the world) is underestimated in many cases and that private final consumption expenditure is often computed as the difference between domestic production and other estimated expenditure components.

3 For further information on problems of comparing gross products across countries, see I. B. Kravis and others, *A System of International Comparisons of Gross Product and Purchasing Power* (Baltimore, Maryland, The Johns Hopkins University Press, 1975).

4 This questionnaire is based on concepts and recommendations approved by the United Nations Statistical Commission and set forth in *A System of National Accounts*, Studies in Methods, Series F, No. 2, Revision 3 (United Nations publication, Sales No. E.69.XVII.3), often referred to as the 1968 SNA. Basic data obtained from replies to the questionnaire have been supplemented where necessary by information from national statistical services and publications and from estimates prepared by United Nations regional commissions and specialized agencies so as to arrive at annual estimates of gross domestic product and its detail covering the period 1970-1991. For further information on the database, see *National Accounts Statistics: Analysis of Main Aggregates, 1988-1989* (United Nations publication, Sales No. E.91.XVII.17) and *National Accounts Statistics: Main Aggregates and Detailed Tables, 1991* (United Nations publication, Sales No. E.94.XVII.5, Parts I and II).

5 IMF, *International Financial Statistics* (Washington D.C., various issues).

6 World Bank, *The World Bank Atlas* (Washington D.C., various issues).

7 Robert Summers and Alan Heston, "A new set of international comparisons of real products and prices: estimates for 130 countries", *The Review of Income and Wealth*, March 1988, pp. 1-25.

8 R. Summers and A. Heston, *op. cit.* Because WA conversion rates were not directly available from the World Bank for all

countries and years included in the study, the Statistical Division estimated rates for approximately 40 countries using the *Atlas* methodology. As in the case of exchange rate conversions, for each country the WA rate for each year was applied to the nominal national currency value of GDP in that year, providing 183 country time-series of GDP measured in prevailing prices and moving average exchange rates.

9 R. Summers and A. Heston, *op. cit.*

10 The total population of the PPP sample of 149 countries corresponds to about 97 per cent of the population of the sample of 183 countries used in the case of the other conversion methods. In the previous study, the PPP sample of 117 countries represented only about two thirds of the total sample covered by the other conversion factors. This would largely explain the substantial increase in the PPP estimates of total and per capita gross world product.

11 These results point out that when measured in a depreciating currency, the value of gross world product in nominal terms tends to increase at an accelerated pace because a given number of national currency units in one year translates into a greater number of units of the common numeraire currency in the next year. For example, when the United States dollar is used as the yardstick for valuing the economic activity of other countries, the nominal value of gross world product increased from around \$12,700 billion to about \$23,000 billion during the six years between 1985 and 1991, a rise of about 80 per cent. This extraordinary growth in the nominal value of world output reflects the declining value of the United States dollar on world currency markets during this period rather than an increase in the real volume of production or a rapid domestic rate of inflation in the United States.

12 Although not shown, curves for years between 1970 and 1991 in the MER, WA and PPP sets of calculations are located between those for the end years.

13 It must be pointed out that there may exist situations in which a significant increase in the per capita gross domestic product of a low-income country may improve the measured GWP distribution without actually improving the distribution among the world's households. This would happen if in such a country the increase in the per capita gross domestic product is the result of a large increase in the incomes of the high-income strata that leaves unaffected the majority of the population in the country.

Annex

Statistical tables

This annex contains the main sets of data on which the analysis provided in the *World Economic and Social Survey, 1994* is based. The data are presented in greater detail than in the text and for longer time periods, and incorporate information available as of 15 April 1994.

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 United Nations regional commissions, the International Monetary Fund, the World Bank, the Organisation for Economic Co-operation and Development, 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 models assume that existing or officially announced macroeconomic policies are in effect. 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 \$14 per barrel for the average of the OPEC basket of seven crudes in 1994. It is assumed that in 1995, the price of oil will rise by an amount equal to the increase in the average dollar price of manufactured exports of developed market economies, which is an endogenous variable.

COUNTRY CLASSIFICATION

The country classification in the *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 are currently under review in the light of the major geopolitical changes that have taken place.

The group of developed market economies, comprising 23 countries, is further subdivided for analytical purposes into the following overlapping classifications: the major industrialized 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; Western Europe; the European Union; and North America. Data cover the 12 current members of the European Union 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, Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia) and the successor States of the Union of Soviet Socialist Republics. The 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 will be included in the annex as they become available.

Developing countries are grouped mainly by region, according to their geographical location (see the explanatory notes). For analytical purposes, a distinction is also made between capital-surplus countries and capital-importing countries (for country composition, see the explanatory notes). The capital-surplus countries comprise a group of oil exporters whose very heavy dependence on oil revenues warrants maintaining them as a separate ana-

lytical grouping even though in aggregate they have become substantial net importers of financial capital. All other developing countries are included in the group of capital-importing developing countries. 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 (My-

anmar, Yemen and Zaire meet these two criteria, but are not included in the group because they are least developed countries).

Energy-importing developing countries are further differentiated as belonging either to the group of four exporters of manufactures, that is, the four Asian economies 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 individual countries.

OUTPUT

The growth of output in each group of countries is calculated from the sum of the GDP of individual countries measured at 1988 prices and exchange rates.

Developed market economies

Up to and including the *World Economic Survey, 1992*,¹ 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 developed market economies. However, as a result of the improved availability of GDP data, as of the *World Economic Survey, 1993*,² the *Survey* has switched to GDP as its measure 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 measure of 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

A general caveat is warranted as to the overall reliability and comparability of the data for the economies in transition, which has been validated by the important revisions in several data series for countries in the region. It therefore bears repeating more than ever that the statistical information provided, especially for many of the successor states of the Soviet Union, as well as for other countries in transition, must be treated as tentative estimates subject to revision.⁴

Developing countries

Beginning with the *World Economic Survey, 1993*, estimates of the growth of output in developing countries are based on the data of 93 countries, accounting for an estimated 99 per cent of the population of all developing countries. GDP expressed in national currency in 1988 is converted 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 countries. Data for the countries in Asia and Europe as well as in Africa in which civil strife and war exist should be interpreted as indicating only rough orders of magnitude.

International trade

The main source of data for tables A.15 to 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 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*. These data are supplemented by balance-of-payments data in certain cases. Estimates of dollar values of trade for the years up to 1990 in the case of the economies in transition were based on the research undertaken in the Economic Commission for Europe (ECE). Data for the most recent years 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.

As of 1 January 1993, customs offices at the borders between States members of the European Union (EU), which used to collect and check customs declarations on national exports and imports, were abolished as the Single Market went into effect. A new system of data collection for intra-EU trade, called INTRASTAT, has been put in place. INTRASTAT relies on information collected directly from enterprises and is linked with the system of value-added-tax (VAT) declarations relating to intra-EU trade, to allow for quality control of statistical data. However, difficulties in the implementation of the new system, especially the initial less-than-complete rate of response of enterprises, have delayed the release of EU intra-trade statistics. The 1993 EU trade data are less complete than usual and not fully comparable with previous years, with a bias to under-recording of intra-European trade, particularly imports. Figures for global trade in 1993 should be interpreted with caution because of the high share of the

EU in world merchandise trade.

Concerning the economies in transition, two factors preclude the presentation of estimates for trade values and volumes as other than tentative: first, the switch, which occurred mainly in 1991, from intraregional trade at rather arbitrarily set 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. These largely affect the reliability of calculations of changes in unit values.

Unit values of exports for groupings of developing countries are estimated 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

The present *Survey* includes standardized tables on the 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 contained in the *World Economic Survey, 1986*.⁵

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. Algebraically, 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 investment⁶ 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. 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 United Nations publication, Sales No. E.92.II.C.1 and corrigenda.

2 United Nations publication, Sales No. E.93.II.C.1.

3 For further details, see *World Economic Survey*, 1992, pp. 181-182.

4 See, for example, "Economic data in the new States of the former Soviet Union", box II.2, *World Economic Survey*, 1993 (United Nations publication, Sales No. E.93.II.C.1), pp. 32-33.

5 United Nations publication, Sales No. E.86.II.C.1, pp. 163-164.

6 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 in the derivation of net transfer of financial resources).

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I. GLOBAL OUTPUT AND MACROECONOMIC INDICATORS

Table A.1. World population, output and per capita GDP, 1974-1993

	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)	
	1983	1993	1974- 1983	1984- 1993	1983	1993	1983	1993	1974- 1983	1984- 1993
Developed market economies of which:	765	812	0.7	0.6	11 774	15 419	15 393	18 995	2.3	2.1
United States	234	258	1.0	1.0	4 057	5 291	17 322	20 521	1.3	1.7
European Union ^a	337	347	0.3	0.3	4 158	5 230	12 346	15 063	2.7	2.0
Japan	119	125	0.9	0.5	2 333	3 357	19 544	26 864	3.2	3.2
Economies in transition	370	394	0.8	0.6	1 895	1 501	5 126	3 807	..	-2.9
Eastern Europe	94	97	0.7	0.3	575	436	6 108	4 488	..	-3.0
Former Soviet Union	275	297	0.9	0.8	1 320	1 065	4 790	3 584	..	-2.9
Developing countries ^b	3 494	4 295	2.2	2.1	2 667	3 943	763	918	1.8	1.9
By region										
Latin America	378	460	2.3	2.0	743	946	1 967	2 058	0.9	0.5
Africa	495	666	3.0	3.0	359	434	725	652	0.7	-1.1
West Asia	101	142	3.7	3.5	470	494	4 650	3 469	-1.8	-2.9
South and East Asia	1 412	1 737	2.2	2.1	720	1 281	510	737	3.5	3.8
China ^c	1 040	1 205	1.5	1.5	253	658	243	546	4.9	8.4
Mediterranean	72	85	1.8	1.7	122	131	1 694	1 541	2.2	-0.9
By analytical grouping										
Capital-surplus countries	77	109	4.0	3.5	426	414	5 520	3 802	-2.2	-3.7
Capital-importing countries	3 420	4 186	2.1	2.0	2 241	3 529	655	843	2.3	2.6
Four exporters of manufactures	66	74	1.7	1.1	233	487	3 515	6 583	5.9	6.5
Other	3 354	4 112	2.1	2.1	2 008	3 042	599	740	2.0	2.1
<i>Memo items</i>										
Sub-Saharan Africa	276	375	2.9	3.1	103	119	373	317	-0.7	-1.6
Fifteen heavily indebted countries	516	644	2.5	2.2	847	1 043	1 641	1 620	0.9	-0.1

Source: UN/DESIPA.

a The former German Democratic Republic is included in Germany and thus in the European Union, beginning in 1991.

b Covers 93 countries that account for 99 per cent of the population of all developing countries.

c Net material product until 1988.

Table A.2. Developed market economies: rates of growth of real GDP, 1984-1994
(Annual percentage change^a)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b	1994 ^c
All developed market economies	4.3	3.4	2.8	3.3	4.5	3.3	2.4	♦ 0.7	1.6	1.0	2 ¼
Major industrialized countries	4.5	3.4	2.9	3.3	4.6	3.3	2.3	♦ 0.7	1.7	1.2	2 ½
Canada	6.3	4.8	3.3	4.3	4.9	2.5	-0.2	-1.7	0.7	2.4	4
France	1.3	1.9	2.5	2.3	4.5	4.3	2.5	0.7	1.2	-0.9	1 ½
Germany	2.8	1.9	2.2	1.4	3.7	3.3	4.7	♦ 1.2	2.1	-1.2	1 ¼
Italy	2.7	2.6	2.9	3.1	4.1	2.9	2.1	1.3	0.9	-0.7	2
Japan	4.3	5.0	2.6	4.1	6.2	4.7	4.8	4.3	1.1	0.1	1
United Kingdom	2.3	3.8	4.3	4.8	5.0	2.2	0.4	-2.2	-0.5	1.9	2 ½
United States	6.2	3.2	2.9	3.1	3.9	2.5	0.8	-1.2	2.6	3.0	3 ½
Other industrialized countries	3.3	3.0	2.5	3.2	3.5	3.8	2.5	0.7	0.9	0.1	2
<i>Memo items</i>											
Western Europe	2.4	2.6	2.8	2.8	4.0	3.4	2.7	♦ 0.6	1.0	-0.5	1 ¾
European Union	2.3	2.5	2.9	2.9	4.2	3.4	2.8	♦ 0.7	1.1	-0.4	1 ½
Other	3.0	3.2	2.5	2.5	2.9	3.3	2.0	-0.8	-0.3	-0.9	2

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 real GDP, 1984-1994
(Annual percentage change^a)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b	1994 ^c
Economies in transition ^d	3.5	2.0	3.5	2.6	4.5	2.1	-6.2	♦ -8.8	-15.2	-8.6	-6
Eastern Europe ^d	4.6	2.6	3.1	2.3	2.7	0.0	-11.6	♦ -11.2	-5.2	0.8	2 ¼
Albania							-9.0	-29.4	-6.0	11.0	6
Bulgaria	3.4	2.7	4.2	6.1	2.6	-1.4	-9.1	-11.7	-7.7	-4.2	-½
Former Czechoslovakia	2.1	2.2	1.8	0.8	2.6	1.3	-4.7	-14.4	-7.1		
Czech Republic										-0.5	2
Slovakia										-4.7	0
Hungary	2.7	-0.3	1.5	3.8	2.7	3.8	-3.3	-11.9	-4.5	-2.0	0
Poland	5.6	3.6	4.2	2.0	4.4	0.2	-11.6	-7.6	1.5	4.0	4 ¼
Romania	5.9	-0.1	2.3	0.8	-0.5	-5.8	-7.3	-13.7	-15.4	1.0	1 ¼
Former Soviet Union and successor States	3.0	1.7	3.6	2.8	5.3	3.0	-4.0	-8.0		-18.3	-12.0
											-9 ¼

Sources: UN/DESIPA and ECE.

♦ Indicates discontinuity in the series.

a Country group aggregates are averages weighted by GDP in 1988 dollars (for methodology, see *World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 181-182).

b Partly estimated.

c Forecast.

d Excluding Albania; including the former German Democratic Republic until 1990.

Table A.4. Developing countries: rates of growth of real GDP, by country group, 1984-1994
(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
All developing countries	4.2	3.3	3.8	4.1	4.5	3.5	3.0	3.4	4.9	5.2	5 ¼
By region											
Latin America	3.8	3.6	4.2	3.0	0.7	1.1	-0.1	2.8	2.1	3.3	2 ¾
Africa	1.7	3.6	1.5	0.6	2.7	2.8	2.2	1.6	0.8	1.6	2 ¼
West Asia	-1.3	-3.6	-3.1	-0.8	0.0	3.2	1.9	-0.2	5.7	3.5	3 ½
South and East Asia	5.7	3.6	6.2	6.9	8.5	6.1	6.4	5.3	5.2	5.4	6 ¼
China ^c	14.5	12.9	8.5	11.1	11.3	4.3	3.9	8.0	13.2	13.4	10
Mediterranean	3.7	2.8	5.5	1.1	0.8	0.4	1.1	-5.6	-1.9	-0.3	4
By analytical grouping											
Capital-surplus countries	-2.2	-4.8	-4.5	-1.8	-1.1	3.6	1.4	-1.4	5.3	3.2	3
Capital-importing countries	5.4	4.7	5.1	5.0	5.2	3.5	3.2	4.0	4.8	5.5	5 ½
Net energy exporters	3.2	3.5	1.0	1.7	3.5	2.9	5.1	4.7	4.2	2.6	3 ½
Net energy importers	6.1	5.1	6.4	6.0	5.7	3.7	2.7	3.8	5.0	6.3	6
Four exporters of manufactures	8.9	3.8	11.0	11.7	9.6	6.2	6.9	7.3	5.4	6.0	7
Other	5.6	5.3	5.7	5.0	5.0	3.2	1.9	3.1	4.9	6.4	6
Memo items											
Sub-Saharan Africa	1.2	1.9	2.6	0.6	2.9	1.6	1.2	0.4	0.3	1.8	2 ¼
Fifteen heavily indebted countries	2.7	3.4	4.1	2.4	1.2	1.4	-0.2	2.2	1.3	2.5	2 ¾

Source: UN/DESIPA.

a Preliminary estimates.

b Forecast, based in part on Project LINK.

c Net material product until 1984; data for 1983-1989 are government estimates.

**Table A.5. Developed market economies: investment, saving and net transfers, 1980-1991
(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	21.0	-0.6	21.7	0.4
	1988	22.4	22.4	1.3	21.1	0.0
	1989	22.8	22.7	1.9	20.7	0.1
	1990	23.4	23.5	1.2	22.3	-0.1
	1991	21.1	21.2	0.5	20.6	-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
	1988	22.3	22.2	1.1	21.0	0.1
	1989	22.6	22.4	1.9	20.6	0.1
	1990	23.4	23.4	1.2	22.2	-0.1
	1991	20.9	21.8	0.7	21.1	-0.8
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
	1988	20.0	25.3	1.3	24.0	-5.2
	1989	20.9	26.3	3.6	22.6	-5.4
	1990	21.1	27.0	1.3	25.6	-5.9
	1991	21.3	27.7	0.9	26.8	-6.4
Japan	1980	32.2	31.3	3.2	28.2	0.9
	1985	28.2	31.5	4.9	26.6	-3.4
	1988	30.6	32.9	7.5	25.4	-2.3
	1989	31.8	33.2	8.5	24.7	-1.4
	1990	32.8	33.5	9.0	24.5	-0.7
	1991	32.2	34.0	9.5	24.6	-1.8
United States	1980	19.9	19.3	-0.1	19.5	0.6
	1985	20.2	17.2	-2.5	19.7	3.0
	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
	1991	15.2	14.7	-3.0	17.7	0.5

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, 1984-1994^a
(Percentage of total labour force)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b	1994 ^c
All developed market economies	7.8	7.7	7.6	7.2	6.6	6.1	6.0	6.6	7.3	7.7	8
Major industrialized countries	7.3	7.2	7.1	6.7	6.1	5.7	5.6	6.2	6.7	6.9	7
Canada	11.2	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.2	11.1	11
France	9.7	10.2	10.4	10.5	10.0	9.4	8.9	9.4	10.4	11.6	12 ½
Germany	7.1	7.2	6.4	6.2	6.2	5.6	4.9	4.2	4.6	5.8	6 ½
Italy	9.4	9.6	10.5	10.9	11.0	10.9	10.3	9.9	9.8	10.2	10 ½
Japan	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.1	2.5	3
United Kingdom	11.7	11.2	11.2	10.3	8.5	7.1	6.8	8.7	9.9	10.3	10 ½
United States	7.4	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.3	6.7	6 ½
Other industrialized countries	10.2	10.3	9.9	9.6	9.1	8.1	7.9	8.6	9.9	11.7	12 ¼
<i>Memo items</i>											
Western Europe	9.8	9.9	9.8	9.6	9.0	8.2	7.6	7.9	8.7	10.0	10 ½
European Union	10.5	10.6	10.6	10.3	9.7	8.8	8.1	8.3	9.0	10.2	10 ¾
Other	3.3	3.2	3.2	3.0	2.9	2.6	2.8	4.0	5.8	8.0	8 ¾

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, 1984-1994^a
(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b	1994 ^c
All developed market economies	4.7	4.1	2.4	3.0	3.3	4.6	5.1	4.4	3.1	2.8	2 ½
Major industrialized countries	4.4	3.8	1.9	2.7	3.1	4.4	4.8	4.2	2.9	2.6	2 ½
Canada	4.3	4.0	4.2	4.3	4.1	5.0	4.8	5.6	1.5	1.8	1 ½
France	7.5	5.7	2.5	3.3	2.7	3.5	3.4	3.2	2.4	2.1	2
Germany	2.4	2.2	-0.1	0.2	1.3	2.8	2.7	3.5	4.1	4.1	3
Italy	10.9	9.2	5.8	4.7	5.1	6.3	6.4	6.3	5.2	4.3	4 ¼
Japan	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	1.3	1
United Kingdom	5.0	6.0	3.4	4.2	4.9	7.8	9.5	5.9	3.7	1.6	3 ¾
United States	4.3	3.5	1.9	3.7	4.0	4.8	5.4	4.3	3.0	3.0	2 ½
Other industrialized countries	7.1	6.5	5.5	4.9	4.7	5.8	6.6	5.7	4.4	4.0	3 ½
<i>Memo items</i>											
Western Europe	6.5	5.7	3.3	3.3	3.7	5.2	5.7	5.1	4.3	3.5	3 ½
European Union	6.6	5.8	3.3	3.2	3.6	5.3	5.7	5.1	4.4	3.5	3 ½
Other	5.7	5.0	3.0	3.5	4.0	4.6	6.2	5.6	3.1	3.4	2 ¼

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, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>Growth of real money^a (percentage change)</i>											
Canada	-5.6	2.8	2.7	5.4	3.9	5.6	8.3	4.3	2.3	8.4	10.0
France	1.1	1.1	1.0	2.3	3.5	2.7	-0.6	-0.6	-3.7	-0.2	-1.6
Germany	2.2	3.4	5.7	3.1	4.0	4.2	2.4	14.2	1.7	4.4	8.6
Italy	-1.6	0.0	1.7	0.6	1.3	1.0	4.8	1.0	2.0	-0.8	6.5
Japan	5.4	4.5	7.2	7.4	11.1	9.4	9.7	5.8	0.6	-2.0	2.1
United Kingdom	4.8	6.6	5.3	18.7	15.3	11.3	11.9	4.2	-4.6	1.8	4.4
United States	6.5	6.3	5.0	7.7	0.2	2.2	1.5	0.4	-1.5	-0.9	-2.2
<i>Short-term interest rates^b (percentage)</i>											
Canada	9.1	10.1	9.8	8.2	8.5	10.4	12.1	11.6	7.4	6.8	3.8
France	12.5	11.7	9.9	7.7	8.0	7.5	9.1	9.9	9.5	10.4	8.8
Germany	5.4	5.5	5.2	4.6	3.7	4.0	6.6	7.9	8.8	9.4	7.5
Italy	18.4	17.3	15.3	13.4	11.5	11.3	12.7	12.4	12.2	14.0	10.2
Japan	6.4	6.1	6.5	4.8	3.5	3.6	4.9	7.2	7.5	4.6	3.1
United Kingdom	9.1	7.6	10.8	10.7	9.7	10.3	13.9	14.7	11.7	9.6	5.6
United States	9.1	10.2	8.1	6.8	6.7	7.6	9.2	8.1	5.7	3.5	3.0
<i>Long-term interest rates^c (percentage)</i>											
Canada	11.8	12.8	11.0	9.5	10.0	10.2	9.9	10.9	9.8	8.8	7.8
France	13.6	12.5	10.9	8.6	9.4	9.1	8.8	10.0	9.1	8.6	6.9
Germany	7.9	7.8	6.9	5.9	5.8	6.1	7.1	8.9	8.6	8.0	6.3
Italy	18.3	15.6	13.7	11.5	10.6	10.5	11.6	11.9	11.4	11.9	9.6
Japan	7.4	6.8	6.3	4.9	4.2	4.3	5.1	7.4	6.5	4.9	3.7
United Kingdom	10.8	10.7	10.6	9.9	9.5	9.4	9.6	11.1	9.9	9.2	7.9
United States	11.1	12.5	10.6	7.7	8.4	8.9	8.5	8.6	7.9	7.0	5.8
<i>General government financial balances^d (percentage)</i>											
Canada	-6.9	-6.5	-6.8	-5.4	-3.8	-2.5	-2.9	-4.1	-6.3	-6.6	-7.0
France	-3.2	-2.8	-2.9	-2.7	-1.9	-1.7	-1.3	-1.5	-2.1	-3.9	-6.0
Germany ^e	-2.5	-1.9	-1.1	-1.3	-1.9	-2.2	0.1	-2.1	-3.2	-2.6	-4.0
Italy	-10.7	-11.6	-12.6	-11.6	-11.0	-10.7	-9.9	-10.9	-10.2	-9.5	-9.7
Japan	-3.6	-2.1	-0.8	-0.9	0.5	1.5	2.5	2.9	3.0	0.7	-1.0
United Kingdom	-3.3	-3.9	-2.9	-2.4	-1.3	1.0	0.9	-1.3	-2.7	-6.2	-8.2
United States	-4.1	-2.9	-3.1	-3.4	-2.5	-2.0	-1.5	-2.5	-3.4	-4.5	-3.6

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 (1993 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; 1993 data are OECD estimates.

e Data up to end-1990 are for western Germany only.

**Table A.9. Major developed market economies: effective exchange rates, 1983-1993
(1985=100)**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>Nominal effective exchange rates: global^{a, b}</i>											
Canada	108.5	104.5	100.0	93.5	93.3	100.1	105.4	106.0	107.9	100.5	95.0
France	100.7	98.1	100.0	104.6	103.9	103.0	102.2	107.4	107.1	110.1	113.3
Germany	98.8	98.4	100.0	110.8	115.9	116.2	114.8	122.5	123.0	128.0	133.0
Italy	109.2	104.9	100.0	102.9	101.5	99.2	99.9	103.4	102.5	99.7	84.3
Japan	93.4	97.0	100.0	130.1	138.9	152.3	146.6	135.9	142.9	151.7	182.3
United Kingdom	104.0	99.6	100.0	93.7	89.9	95.7	93.2	92.2	94.1	90.9	83.2
United States	92.4	97.4	100.0	84.2	72.7	69.2	71.9	69.8	69.4	67.6	69.1
<i>Real effective exchange rates: industrialized country partners^c</i>											
Canada	106.5	104.3	100.0	92.7	95.5	104.3	113.1	115.6	119.0	111.6	103.3
France	99.2	97.4	100.0	102.3	101.1	98.7	96.3	98.6	94.5	95.6	98.2
Germany	101.7	99.9	100.0	109.8	118.1	118.7	116.1	122.9	121.2	125.3	132.8
Italy	102.4	103.2	100.0	100.1	101.3	99.0	103.6	110.4	111.2	109.4	89.7
Japan	97.2	100.8	100.0	123.5	127.6	135.0	127.7	113.5	121.9	126.8	154.9
United Kingdom	103.6	99.0	100.0	91.4	92.9	98.2	102.2	97.9	101.5	99.1	90.0
United States	91.8	97.6	100.0	79.7	68.5	64.8	66.8	62.3	61.4	59.7	62.8

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 The data for 1993 are based on the technical assumption that exchange rates remain at their level on 2 November 1993.

c Based on relative normalized unit labour costs in 16 industrialized countries.

Table A.10. Economies in transition: output and demand indicators, 1983-1993
(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Industry, gross product</i>											
Eastern Europe ^b	4.4	4.9	3.9	4.6	3.2	3.3	-0.1	-15.7	♦-17.9	-7.8	0.9
Albania								-7.5	-30.0	..	..
Bulgaria	4.3	4.2	3.2	4.7	6.0	3.2	2.2	-17.2	-22.2	-16.2	-9.3
Former Czechoslovakia	2.8	3.9	3.5	3.2	2.5	2.1	0.8	-3.5	-24.7	-11.5	-
Czech Republic								-3.3	-24.4	-10.6	-7.1
Slovakia								-4.0	-25.4	-12.9	-15.4
Hungary	1.2	3.2	0.7	1.9	3.5	-0.3	-2.5	-4.5	-19.1	-9.8	3.8
Poland	6.4	5.2	4.5	4.7	3.4	5.3	-0.5	-24.2	-11.9	4.2	7.4
Romania	4.7	6.7	3.9	7.3	2.4	3.1	-2.1	-19.0	-18.7	-22.1	1.3
Former Soviet Union and successor States	4.2	4.1	3.4	4.4	3.8	3.9	1.7	-1.2	-7.8	-18.0	-14.6
<i>Agriculture, gross product</i>											
Eastern Europe ^b	1.2	6.8	-0.9	1.8	-2.8	2.0	0.1	-3.2	♦-3.5	-13.6	0.2
Albania								-6.9	-24.0	..	15.0
Bulgaria	-6.6	7.2	-11.9	11.7	-3.5	0.9	1.2	-6.0	-6.4	-12.9	-18.8
Former Czechoslovakia	4.2	4.4	-1.6	0.6	0.9	2.9	1.7	-3.9	-8.4	-11.8	-
Czech Republic								-2.3	-8.9	-11.8	-0.5
Slovakia								-7.2	-7.4	-11.9	-4.0
Hungary	-2.7	2.9	-5.5	2.4	-2.0	4.3	-1.3	-3.8	-5.0	-22.7	-6.0
Poland	3.3	5.7	0.7	5.0	-2.3	1.2	1.5	-2.2	-2.0	-11.9	2.2
Romania	0.0	13.3	0.7	-5.5	-8.9	5.8	-5.0	-2.9	1.2	-13.3	11.0
Former Soviet Union and successor States	6.3	-0.2	0.1	5.3	-0.5	1.7	1.3	-2.8	-7.0	-9.0	-2.0
<i>Gross investment</i>											
Eastern Europe ^b	2.2	2.4	3.6	4.5	3.2	2.4	-1.4	12.6	♦ 16.0	0.7	-2.0
Albania								-14.8	..	..	..
Bulgaria	0.0	1.7	6.2	13.7	0.3	4.5	-10.1	-18.5	-19.9	-1.5	-9.0
Former Czechoslovakia	0.6	-4.2	5.4	1.4	4.4	4.1	1.6	6.1	-27.2	4.7	-
Czech Republic								6.5	-17.7	3.8	-10.6
Slovakia								5.3	-20.0	6.4	-4.7
Hungary	-3.4	-3.7	-3.0	6.5	9.8	-9.1	7.0	-7.1	-11.9	-1.6	0.2
Poland	9.4	11.4	6.0	5.1	4.2	5.4	-2.4	-10.1	-4.1	0.7	1.2
Romania	2.4	6.0	1.6	1.1	-1.4	-2.2	-1.6	-38.3	-25.8	-1.1	0.7
Former Soviet Union and successor States	5.6	1.9	3.0	8.3	5.7	6.2	4.7	1.0	-12.0	-39.0	-14.0

Sources: UN/DESIPA and ECE, based on national data.

♦ Indicates discontinuity in the series.

a Preliminary estimate.

b Excluding Albania; including the former German Democratic Republic until 1990.

Table A.11. Developing countries: investment, saving and net transfers, 1980-1992
(Percentage of GDP)

	<u>Gross domestic investment</u>				<u>Gross domestic saving</u>				<u>Net transfer of resources</u>			
	1980	1985	1990	1992	1980	1985	1990	1992	1980	1985	1990	1992
All developing countries	26.1	23.4	25.5	25.5	27.1	23.9	26.5	24.4	-1.0	-0.5	-1.0	1.0
By region												
Latin America	24.2	18.2	19.7	19.6	22.8	23.0	22.0	18.3	1.4	-4.8	-2.3	1.3
Africa	26.4	20.7	20.8	18.7	26.2	20.2	19.9	16.7	0.2	0.5	1.0	2.0
West Asia	25.4	20.0	21.5	26.2	42.1	18.9	26.2	23.9	-16.8	1.1	-4.7	2.2
South and East Asia ^a	26.2	24.4	30.1	29.9	23.9	24.5	29.4	29.4	2.3	-0.1	0.8	0.5
Mediterranean	22.5	21.5	23.5	22.8	14.4	17.8	18.7	19.8	8.2	3.7	4.8	2.9
By analytical grouping												
Capital-surplus countries	24.5	19.2	23.0	28.3	44.5	17.5	28.2	27.1	-20.1	1.8	-5.1	1.2
Capital-importing countries ^a	26.3	23.9	25.7	25.3	25.2	24.8	26.3	24.3	1.1	-0.9	-0.7	1.0
Energy exporters	26.6	22.3	23.5	25.1	28.8	24.9	25.2	22.7	-2.3	-2.6	-1.7	2.4
Energy importers	26.2	24.7	26.2	25.3	23.6	24.8	26.6	24.7	2.5	-0.1	-0.4	0.6
Four exporters of manufactures	34.4	26.2	31.4	31.5	29.2	31.7	34.0	32.6	5.2	-5.4	-2.6	-1.1
Other countries	25.3	24.4	25.0	23.4	23.1	23.6	24.8	22.4	2.2	0.8	0.2	1.1
<i>Memo items</i>												
Sub-Saharan Africa	19.5	18.0	17.8	16.4	12.4	15.3	11.9	8.9	7.0	2.7	5.9	7.6
Fifteen heavily indebted countries	24.4	17.3	19.8	19.7	23.3	22.2	22.2	18.5	1.1	-4.9	-2.5	1.1
Selected developing countries												
Argentina	22.2	8.5	14.0	16.7	20.0	15.2	19.5	15.1	2.2	-6.6	-5.5	1.6
Bangladesh	14.9	12.8	12.8	12.1	2.1	1.9	2.9	6.2	12.8	10.9	9.9	5.9
Brazil	23.3	19.2	21.5	17.5	21.1	24.4	23.2	20.8	2.3	-5.2	-1.7	-3.4
China	32.2	40.5	37.2	34.1	32.2	36.5	39.9	35.1	0.0	4.1	-2.8	-1.0
Côte d'Ivoire	28.2	14.6	9.3	8.9	22.2	27.8	14.6	13.9	6.1	-13.2	-5.4	-5.0
Egypt	27.5	26.7	21.9	18.2	15.2	14.5	4.8	6.7	12.4	12.1	17.1	11.6
India	20.9	24.0	26.5	23.2	17.4	20.9	23.5	21.6	3.6	3.1	2.9	1.6
Indonesia	24.3	28.0	36.1	34.6	37.1	29.8	36.7	37.3	-12.8	-1.8	-0.5	-2.7
Kenya	29.2	26.0	24.3	16.8	18.1	24.9	19.1	15.3	11.1	1.1	5.2	1.5
Mexico	27.2	21.2	21.9	23.7	24.9	26.3	20.7	17.2	2.3	-5.1	1.2	6.5
Nigeria	23.9	9.0	14.6	18.2	27.3	12.6	29.5	22.7	-3.4	-3.6	-14.9	-4.5
Peru	29.0	18.4	16.2	16.3	31.4	24.9	15.7	13.1	-2.4	-6.5	0.5	3.2
Republic of Korea	31.7	29.3	36.9	35.9	24.3	30.5	36.4	35.2	7.4	-1.3	0.6	0.7
South Africa	30.8	20.3	19.1	15.1	39.1	29.7	25.4	19.0	-8.3	-9.4	-6.3	-3.9
Thailand	26.4	24.0	41.2	40.2	20.1	21.2	33.7	35.0	6.3	2.8	7.5	5.2
Tunisia	29.4	26.6	25.5	26.1	24.0	20.4	19.1	21.0	5.4	6.1	6.4	5.1
Turkey	21.9	21.0	23.1	22.5	14.1	17.8	18.3	19.7	7.8	3.2	4.8	2.9
United Republic of Tanzania	23.0	15.7	41.2	40.3	9.8	7.4	7.6	4.5	13.2	8.3	33.6	35.8
Zambia	23.3	14.9	15.3	15.6	19.3	15.4	14.6	13.8	4.0	-0.5	0.7	1.9

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, 1980-1991
(Percentage)

	Share in total exports of goods and services											
	Manufactures			Non-fuel primary commodities			Travel receipts and remittances			Fuels trade balance		
	1980	1985	1991	1980	1985	1991	1980	1985	1991	1980	1985	1991
All developing countries ^a	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 ^a	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 ^b	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 ^b	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 ^a	39.7	47.6	51.0	28.2	22.0	16.2	10.0	9.0	8.9	-19.8	-12.3	-6.4
Four exporters of manufactures	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 ^a	28.9	35.6	43.9	38.4	32.1	28.0	14.3	13.6	13.8	-22.4	-13.8	-8.0
<i>Memo items</i>												
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 South Africa.

b Excluding China.

Table A.13. Developing countries: inflation, 1984-1994^a
(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b	1994 ^c
All developing countries ^d	62.2	83.3	34.1	50.5	116.7	291.1	498.6	77.5	136.6	268.8	190
By region											
Latin America	170.6	249.2	96.7	145.4	376	1 002.5	1 746.8	228.9	427.1	904.5	700
Africa	16.3	12.1	14.8	14.5	18.0	19.9	16.3	50.2	84.0	63.8	60
West Asia	56.6	43.1	17.2	19.8	18.9	15.5	8.0	13.4	14.8	12.1	12
South and East Asia	8.5	5.1	4.7	6.2	7.2	6.5	8.2	10.6	8.2	5.9	6
China	2.8	11.9	7.0	8.8	20.7	16.3	1.4	5.1	4.0	13.0	13
Mediterranean ^d	44.9	41.7	32.0	36.0	68.1	58.5	55.9	61.1	65.0	61.3	60
By analytical grouping											
Capital-surplus countries	7.6	2.0	10.8	17.8	18.5	14.7	5.6	13.0	15.1	13.1	..
Capital-importing countries ^d	80.6	107.3	42.0	62.7	146.2	375.1	649.7	98.7	175.8	346.7	..
Energy exporters	33.6	109.7	34.7	48.8	46.4	25.0	20.0	19.6	19.7	20.0	25
Energy importers ^d	98.9	106.4	44.7	68.1	182.9	503.7	880.2	127.7	233.0	466.4	350
Four exporters of manufactures	3.7	2.5	2.0	3.3	5.3	5.6	7.3	8.2	6.0	4.6	5
Other ^d	117.4	126.6	56.3	80.7	231.2	639.1	1 116.7	160.1	294.5	591.4	..
<i>Memo items</i>											
Sub-Saharan Africa	15.7	12.4	14.4	19.7	20.4	23.0	26.1	166.0	298.6	199.6	..
Fifteen heavily indebted countries ^d	162.1	232.0	88.9	135.1	349.4	927.5	1 620.9	212.6	398.3	842.0	..

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.
d Excluding the former Yugoslavia.

Table A.14. Selected developing countries or areas: real effective exchange rates, 1983-1993^a
(1990 average = 100)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Argentina	124.9	139.9	123.8	106.5	93.8	104.0	85.1	100.0	119.0	116.4	118.4
Brazil	72.9	72.7	71.8	63.0	62.6	69.3	83.2	100.0	75.8	71.0	79.6
Chile	143.5	144.9	127.6	110.4	105.4	98.3	101.6	100.0	106.6	114.0	114.2
Mexico	110.1	128.4	125.6	89.9	92.6	112.2	107.5	100.0	106.2	107.7	116.7
Venezuela	225.8	165.6	178.2	171.0	124.5	139.3	120.4	100.0	98.2	97.2	100.8
Hong Kong	93.6	98.3	101.8	92.0	88.3	89.7	96.0	100.0	105.1	110.6	117.7
Indonesia	179.9	179.7	176.4	135.7	104.7	101.7	102.7	100.0	100.5	99.2	101.2
Malaysia	151.1	159.0	153.7	125.6	118.1	105.4	103.0	100.0	98.4	106.2	108.2
Philippines	108.1	121.5	128.4	101.4	98.1	100.2	106.2	100.0	96.9	105.5	96.7
Republic of Korea	115.0	113.5	104.5	89.1	88.4	96.2	107.8	100.0	97.3	88.1	85.6
Singapore	124.4	125.4	116.5	98.3	90.7	90.1	95.5	100.0	102.4	104.9	105.9
Taiwan Province of China	100.5	103.2	99.9	91.1	96.9	100.5	107.1	100.0	97.2	95.9	92.9
Thailand	137.2	135.2	120.6	102.5	96.8	97.3	100.3	100.0	102.1	98.3	100.0
Turkey	86.9	78.1	77.8	80.0	83.9	86.8	95.0	100.0	97.4	89.2	92.4

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 1990 bilateral trade patterns of the corresponding countries.

a Measured against a broad currency basket of 22 OECD currencies and 23 developing country currencies (mostly Asian and Latin American).

II. INTERNATIONAL TRADE

Table A.15. Direction of trade: exports, 1980-1992

Origin		Destination								
		World	Developed market economies ^a	Economies in transition	Developing countries (total)	Latin America	Africa	West Asia	South and East Asia	Other Asia ^b
		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
	1992	3 667.6	70.4	2.8	25.4	4.8	2.3	3.6	12.7	2.3
Developed market economies ^a	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
	1992	2 667.3	74.9	2.4	21.8	4.9	2.3	3.3	9.8	1.2
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
	1992	92.9	61.6	19.1	17.6	1.5	1.8	3.8	3.2	5.2
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
	1992	907.4	58.1	2.3	38.9	4.9	2.6	4.0	22.1	5.1
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
	1992	138.6	68.0	2.8	27.6	19.5	1.3	1.7	4.1	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
	1992	68.7	82.1	2.8	14.4	1.5	6.9	2.6	2.5	0.3
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
	1992	114.5	56.6	3.1	39.0	2.5	5.8	12.5	17.6	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
	1992	490.2	56.2	1.1	42.3	2.5	1.8	3.2	25.6	8.9
Other Asia ^b	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
	1992	88.3	34.6	6.2	59.1	1.2	1.5	2.0	53.2	1.0

Source: UNCTAD secretariat computations, based on data from the Statistical Division/DESIPA.

a Including South Africa.

b Including China, Democratic People's Republic of Korea, Mongolia and Viet Nam.

Table A.16. Direction of trade: imports (f.o.b.), 1980-1992

Origin		Destination								
		World	Developed market economies ^a	Economies in transition	Developing countries (total)	Latin America	Africa	West Asia	South and East Asia	Other Asia ^b
<i>Billions of dollars</i>										
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
	1992	3 667.6	2 581.8	103.0	951.2	176.0	85.4	128.7	465.2	83.5
<i>Percentage</i>										
Developed market economies ^a	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
	1992	72.7	77.4	62.3	61.2	74.1	70.8	69.2	56.3	38.7
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
	1992	2.5	2.2	17.2	1.7	0.8	1.9	2.7	0.6	5.8
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
	1992	24.7	20.4	20.4	37.1	25.1	27.3	28.1	43.1	55.5
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
	1992	3.8	3.6	3.8	4.0	15.3	2.1	1.9	1.2	1.4
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
	1992	1.9	2.2	1.8	1.0	0.6	5.6	1.4	0.4	0.3
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
	1992	3.1	2.5	3.4	4.7	1.6	7.8	11.1	4.3	0.3
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
	1992	13.4	10.7	5.3	21.8	7.0	10.2	12.2	26.9	52.4
Other Asia ^b	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
	1992	2.4	1.2	5.3	5.5	0.6	1.5	1.4	10.1	1.1

Source: UNCTAD secretariat computations, based on data from the Statistical Division/DESIPA.

a Including South Africa.

b Including data for China, Democratic People's Republic of Korea, Mongolia and Viet Nam.

Table A.19. World trade: changes in value and volume of exports and imports, by major country group, 1984-1994
(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
<i>Dollar value of exports</i>											
World	5.9	1.1	9.5	16.8	13.3	8.3	14.3	2.2	6.1	-1.8	4.7
Developed market economies of which:	6.7	3.5	16.0	16.7	14.5	7.2	15.2	2.0	5.7	-4.7	3.9
North America	11.3	-1.0	2.2	11.1	25.5	10.6	6.8	5.4	5.6	4.7	7.7
Western Europe	2.8	5.4	21.5	20.1	10.8	6.7	20.7	-0.5	5.5	-10.4	2.2
Japan	15.4	4.4	19.0	9.7	14.5	3.4	5.0	9.4	8.0	6.6	4.9
Economies in transition	-0.1	-2.6	5.2	4.1	-0.8	-1.5	-4.1	♦-15.3	-13.5	..	..
Eastern Europe	1.9	2.9	5.6	2.7	0.5	-3.3	-3.2	♦-8.7	-1.0	-4.4	..
Former Soviet Union	-1.9	-8.1	4.7	5.7	-2.2	0.4	-5.1	-24.6	-25.2	..	..
Developing countries	5.3	-3.3	-6.1	20.5	13.3	14.1	14.4	5.4	9.5	5.9	10.3
Latin America	10.9	-4.6	-16.3	11.3	14.1	10.2	8.7	-1.1	2.5	3.6	6.2
Africa	-1.2	-2.2	-16.0	15.9	-3.0	11.3	26.3	-5.1	-1.1	-2.5	2.2
West Asia	-10.9	-8.0	-21.0	8.5	-7.0	35.9	23.6	-9.8	12.7	-5.7	8.0
South and East Asia	15.1	-2.4	8.8	29.7	23.4	12.0	10.5	14.1	12.6	11.3	12.6
China	17.6	4.6	13.1	27.5	20.5	10.6	18.2	15.8	18.1	8.0	14.9
Mediterranean	11.2	6.4	-3.9	21.5	12.9	3.8	9.9	1.4	-7.1	-0.8	9.0
<i>Memo items</i>											
Net energy exporters	-3.1	-7.4	-28.4	11.5	-4.6	27.2	28.0	-6.4	6.9	-4.0	8.9
Net energy importers	13.4	-0.2	8.0	24.2	21.8	10.5	9.8	10.5	14.6	9.6	10.7
<i>Dollar value of imports</i>											
World	6.5	0.8	9.7	16.3	14.1	8.5	13.9	2.7	6.6	-2.8	3.8
Developed market economies of which:	8.3	2.5	12.9	18.2	13.3	8.2	14.8	0.8	4.4	-6.2	3.9
North America	22.9	2.1	8.4	10.7	11.4	6.6	4.0	-0.9	8.1	9.4	7.2
Western Europe	1.4	4.2	18.3	22.1	12.5	7.8	20.8	1.5	3.8	-13.7	2.5
Japan	7.7	-4.3	-2.2	18.4	24.0	11.9	12.3	0.7	-1.6	3.6	1.6
Economies in transition	-1.1	4.0	7.0	-0.6	2.0	4.5	1.5	♦-14.1	-5.5	..	..
Eastern Europe	0.5	6.4	13.2	0.7	-2.6	-2.2	3.1	♦ 1.7	5.4	1.5	..
Former Soviet Union	-2.6	1.5	0.5	-2.2	7.9	12.0	0.0	-30.1	-21.3	..	..
Developing countries	0.9	-4.4	0.3	14.0	20.4	9.9	12.8	11.5	13.9	9.4	10.3
Latin America	5.5	0.1	1.4	9.6	11.0	6.1	11.3	17.0	21.4	7.5	7.4
Africa	-6.4	-15.9	2.4	1.9	13.7	0.0	14.0	1.2	4.5	-1.2	1.0
West Asia	-10.3	-15.7	-10.8	1.3	9.5	5.0	6.5	11.4	18.7	1.3	3.0
South and East Asia	5.8	-4.8	4.5	28.1	29.7	15.2	16.3	13.9	11.6	10.9	13.4
China	28.1	54.1	1.5	0.7	27.9	7.0	-9.8	19.6	26.3	29.0	14.5
Mediterranean	6.3	3.0	-2.2	18.0	4.4	11.9	32.9	-11.2	5.4	6.9	10.9
<i>Memo items</i>											
Net energy exporters	-7.9	-12.6	-12.2	-0.4	15.8	6.5	11.7	17.0	15.5	3.8	8.0
Net energy importers	5.5	-0.6	5.3	18.8	21.7	10.8	13.1	10.1	13.5	10.9	10.8

Table A.19 (continued)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
<i>Volume of exports</i>											
World	8.3	3.0	5.9	4.7	7.3	8.0	5.6	4.6	5.5	2.7	6.4
Developed market economies of which:	9.6	4.7	2.5	4.4	8.5	7.3	5.1	3.8	4.2	1.3	5.0
North America	9.4	2.7	5.8	6.6	17.9	8.7	6.9	6.3	7.4	6.4	6.7
Western Europe	8.1	5.2	2.0	4.2	5.9	7.5	4.2	2.4	3.4	-1.1	4.3
Japan	15.8	5.6	-0.6	0.3	5.2	3.8	5.5	3.0	1.5	-1.7	4.8
Economies in transition	4.9	-0.6	4.3	2.6	4.5	-1.5	-9.5	-18.8	-11.3	..	..
Eastern Europe	7.3	2.0	-0.6	1.7	4.3	-2.9	-6.2	-9.3	-0.1	-5.0	..
Former Soviet Union	2.5	-4.3	10.0	3.4	4.9	0.1	-13.0	-31.0	-22.7	..	..
Developing countries	5.9	-0.1	15.2	6.6	4.4	11.8	8.7	8.7	8.5	8.3	7.4
Latin America	11.7	-0.2	-1.2	4.9	5.9	7.4	3.5	5.8	3.9	7.6	3.2
Africa	-0.8	1.1	30.5	4.1	-0.4	2.3	10.4	6.3	1.2	4.8	-1.1
West Asia	-8.9	-5.5	48.2	-14.4	3.4	18.9	1.2	4.6	12.5	5.0	5.0
South and East Asia	15.3	0.8	19.8	17.5	13.1	10.7	7.5	16.2	11.4	13.6	10.6
China	18.6	7.6	17.9	11.8	10.2	8.4	14.4	18.3	16.9	10.2	13.0
Mediterranean	13.0	9.0	-4.1	10.8	0.9	2.5	8.3	2.9	-7.7	2.1	7.0
<i>Memo items</i>											
Net energy exporters	-1.7	-4.6	20.3	-5.7	-0.6	15.0	7.6	4.9	7.9	1.3	5.9
Net energy importers	13.4	3.9	14.8	13.9	10.3	9.2	7.1	13.0	14.3	12.0	8.3
<i>Volume of imports</i>											
World	7.9	3.2	4.5	6.2	9.2	7.2	4.5	4.6	6.3	2.4	6.9
Developed market economies of which:	10.8	5.4	7.3	6.9	8.2	7.3	4.7	2.9	4.6	0.9	4.4
North America	24.6	6.6	9.6	3.6	6.3	4.4	1.5	1.2	10.1	12.3	7.6
Western Europe	5.5	5.6	6.3	8.2	7.7	8.1	6.2	3.7	3.3	-4.5	3.2
Japan	10.5	1.0	9.5	9.3	16.7	7.8	5.8	2.9	-0.9	4.2	0.9
Economies in transition	4.1	5.0	-0.8	1.1	3.8	4.3	-5.1	-18.6	-8.5	..	..
Eastern Europe	3.9	5.6	4.6	3.6	3.3	0.2	-8.9	2.3	3.5	1.7	..
Former Soviet Union	1.8	5.7	5.5	-4.3	15.7	11.6	-8.4	-36.1	-18.7	..	..
Developing countries	2.2	-3.2	-3.7	2.4	13.6	8.3	5.5	13.3	11.9	11.1	8.5
Latin America	6.0	3.0	0.9	0.8	4.9	4.3	5.9	19.2	21.5	9.4	6.1
Africa	-3.3	-15.1	-5.9	-10.1	8.7	-0.8	1.4	4.4	3.3	2.5	0.2
West Asia	-8.0	-14.6	-16.3	-10.3	4.3	3.3	-3.5	14.0	16.6	4.0	1.8
South and East Asia	6.8	-2.7	2.3	14.8	21.9	13.4	9.9	15.1	9.4	12.5	11.4
China	27.2	57.0	-6.0	-8.6	19.1	6.2	-14.0	20.4	23.7	30.0	12.5
Mediterranean	9.4	4.4	-4.5	2.9	1.6	9.8	17.6	-8.2	4.0	11.5	10.1
<i>Memo items</i>											
Net energy exporters	-6.2	-11.1	-17.0	-10.2	9.5	5.1	4.2	18.7	14.6	5.8	6.8
Net energy importers	6.8	1.3	2.4	6.4	14.6	9.0	5.7	11.9	11.6	13.6	8.6

Source: UN/DESIPA, based on data of United Nations and estimates of ECE from national data.

♦ Indicates break in the series.

a Preliminary estimates.

b Forecast.

Table A.20. World trade: changes in prices of exports and imports and terms of trade, by major country group, 1984-1994
(Annual percentage change in dollar-based indices)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
<i>Unit value of exports</i>											
World	-2.1	-1.8	4.5	12.9	5.5	0.4	8.3	-1.5	1.1	-7.1	-0.8
Developed market economies of which:	-2.5	-1.3	13.2	11.8	5.6	-0.2	9.6	-1.7	1.4	-5.9	-1.0
North America	1.7	-3.7	-3.4	4.2	6.5	1.7	-0.2	-0.8	-1.7	-1.6	0.8
Western Europe	-4.8	0.2	19.1	15.3	4.6	-0.8	15.9	-2.8	1.9	-9.4	-2.0
Japan	-0.3	-1.1	19.7	9.4	8.9	-0.4	-0.5	6.3	6.4	8.4	0.1
Economies in transition	-4.8	-2.0	0.8	1.5	-5.1	0.0	6.0	♦ 4.2	-2.5	..	..
Eastern Europe	-5.0	0.9	6.4	0.9	-3.6	-0.2	3.2	♦ 0.7	-0.9	0.7	..
Former Soviet Union	-4.3	-4.0	-4.8	2.2	-6.7	0.4	9.1	9.3	-3.2	..	..
Developing countries	-0.6	-3.2	-18.5	13.1	8.4	2.1	5.3	-3.1	0.9	-2.3	2.7
Latin America	-0.7	-4.4	-15.2	6.1	7.7	2.7	5.1	-6.5	-1.3	-3.7	2.9
Africa	-0.4	-3.3	-35.6	11.3	-2.6	8.8	14.4	-10.7	-2.3	-7.0	3.4
West Asia	-2.2	-2.6	-46.7	26.8	-10.1	14.3	22.2	-13.7	0.2	-10.2	2.9
South and East Asia	-0.2	-3.2	-9.2	10.4	9.2	1.2	2.8	-1.9	1.1	-2.0	1.8
China	-0.8	-2.8	-4.0	14.0	9.3	2.0	3.3	-2.1	1.0	-2.0	1.7
Mediterranean	-1.6	-2.4	0.2	9.7	11.9	1.3	1.4	-1.4	0.6	-2.8	1.8
<i>Memo items</i>											
Net energy exporters	-1.4	-2.9	-40.5	18.3	-4.1	10.6	18.9	-10.8	-0.9	-5.3	2.9
Net energy importers	0.0	-3.9	-5.9	9.0	10.4	1.2	2.5	-2.2	0.2	-2.2	2.2
<i>Unit value of imports</i>											
World	-2.2	-2.3	4.9	10.1	4.9	1.0	9.0	-1.5	0.5	-6.5	2.4
Developed market economies of which:	-2.3	-2.7	5.1	10.6	4.7	0.8	9.7	-2.1	-0.3	-6.9	-0.5
North America	-1.3	-4.2	-1.1	6.7	4.9	2.0	2.5	-2.0	-1.8	-2.6	-0.4
Western Europe	-4.0	-1.3	11.2	13.0	4.4	-0.3	13.8	-2.1	0.5	-9.7	-0.7
Japan	-2.5	-5.1	-10.7	8.3	6.3	3.8	6.1	-2.2	-0.6	-0.5	0.7
Economies in transition	-4.9	-1.0	7.9	-1.7	-1.7	0.1	7.0	♦ 5.5	3.3	..	..
Eastern Europe	-3.3	0.8	8.1	-2.7	-5.8	-2.3	13.2	♦ -0.5	1.8	-0.2	..
Former Soviet Union	-6.6	-3.2	7.0	-0.6	3.8	2.4	1.3	13.7	7.7	..	..
Developing countries	-1.3	-1.2	4.1	11.3	6.0	1.4	6.9	-1.6	1.7	-1.6	1.6
Latin America	-0.5	-2.7	0.5	8.7	5.8	1.7	5.2	-1.9	-0.1	-1.7	1.3
Africa	-3.2	-1.0	8.9	13.4	4.7	0.9	12.4	-3.0	1.2	-3.6	0.8
West Asia	-2.4	-1.3	6.5	13.0	5.0	1.6	10.4	-2.3	1.8	-2.6	1.2
South and East Asia	-1.0	-2.1	2.1	11.5	6.5	1.6	5.8	-1.1	2.0	-1.4	1.8
China	0.8	-1.8	8.1	10.1	7.4	0.8	4.8	-0.7	2.1	-0.8	1.8
Mediterranean	-2.9	-1.3	2.4	14.7	2.8	1.9	13.0	-3.3	1.4	-4.1	0.7
<i>Memo items</i>											
Net energy exporters	-1.8	-1.7	5.7	10.8	5.8	1.3	7.2	-1.4	0.8	-1.9	1.2
Net energy importers	-1.2	-1.9	2.8	11.7	6.1	1.7	7.0	-1.6	1.7	-2.3	2.1

Table A.20 (continued)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a	1994 ^b
<i>Terms of trade</i>											
Developed market economies of which:	-0.3	1.5	7.8	1.1	0.9	-0.9	-0.1	0.4	1.7	1.1	-0.5
North America	3.0	0.6	-2.2	-2.4	1.4	-0.3	-2.6	1.2	0.1	1.0	1.2
Western Europe	-0.9	1.5	7.1	2.0	0.2	-0.5	1.8	-0.7	1.5	0.4	-1.3
Japan	2.3	4.2	34.1	1.0	2.5	-4.0	-6.2	8.7	7.1	9.0	-0.6
Economies in transition	0.2	-1.0	-6.6	3.3	-3.5	-0.1	-1.0	♦-1.2	-5.6	..	..
Eastern Europe	-1.8	0.0	-1.6	3.7	2.4	2.2	-8.8	♦ 1.2	-2.7	0.9	..
Former Soviet Union	2.5	-0.8	-11.0	2.8	-10.2	-2.0	7.7	-3.9	-10.1	..	..
Developing countries	0.7	-2.0	-21.8	1.6	2.3	0.6	-1.5	-1.6	-0.8	-0.7	1.1
Latin America	-0.2	-1.7	-15.7	-2.4	1.9	1.0	-0.1	-4.8	-1.2	-2.1	1.6
Africa	2.9	-2.3	-40.9	-1.8	-7.0	7.9	1.8	-7.9	-3.4	-3.5	2.5
West Asia	0.3	-1.3	-50.0	12.2	-14.3	12.5	10.7	-11.7	-1.6	-7.8	1.7
South and East Asia	0.8	-1.1	-11.1	-1.0	2.5	-0.4	-2.9	-0.8	-1.0	-0.6	0.0
China	-1.6	-0.9	-11.2	3.5	1.8	1.2	-1.5	-1.4	-1.1	-1.3	-0.1
Mediterranean	1.3	-1.1	-2.1	-4.4	8.8	-0.7	-10.2	2.0	-0.8	1.4	1.1
<i>Memo items</i>											
Net energy exporters	0.4	-1.2	-43.7	6.7	-9.3	9.2	11.0	-9.6	-1.7	-3.4	1.7
Net energy importers	1.3	-2.1	-8.5	-2.4	4.0	-0.5	-4.2	-0.6	-1.4	0.2	0.1

Source: UN/DESIPA, based on data of United Nations and IMF.

♦ Indicates break in the series.

a Preliminary estimates.

b Forecast.

Table A.21. Indices of prices of non-fuel primary commodities exported by developing countries, 1983-1993 (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				
1983	138	96	107	110	113	118	112	103	114	105	
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	47	
1987	117	81	73	119	113	107	84	135	79	62	
1988	152	82	96	129	164	135	102	144	94	52	
1989	161	70	85	129	164	135	107	143	94	63	
1990	151	62	74	135	148	127	95	158	80	81	
1991	141	57	80	127	134	118	88	157	75	68	
1992	138	49	86	124	129	115	83	162	71	67	
1993	139	52	85	120	110	111	81	159	70	59	
1992	I	141	50	88	120	127	115	84	159	72	58
	II	138	46	88	122	130	115	83	160	71	66
	III	143	46	83	127	136	118	82	170	70	68
	IV	130	52	83	125	123	111	80	160	69	65
1993	I	139	51	84	124	120	113	83	156	73	60
	II	138	46	82	120	110	109	79	160	68	61
	III	133	54	86	118	108	108	78	165	66	56
	IV	146	58	90	119	102	113	82	160	70	57

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, 1983-1993^a
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>Developed market economies</i>	-1.5	-27.8	-31.8	2.1	-21.8	-14.2	-35.3	-52.3	-1.4	21.1	48.6
Major developed market economies of which:	6.3	-31.0	-30.7	6.3	-16.2	-8.2	-13.5	-28.5	10.5	30.9	36.5
Germany ^c	10.9	15.9	23.3	47.7	56.9	62.4	70.0	62.4	9.8	-1.2	1.0
Japan	22.2	36.4	50.5	87.3	89.7	82.6	60.3	40.4	84.7	120.9	135.2
United States	-35.0	-87.9	-108.3	-133.4	-150.9	-113.7	-87.9	-69.9	-28.9	-47.9	-90.9
Other industrialized countries	-7.8	3.3	-1.1	-4.3	-5.6	-6.0	-21.8	-23.8	-11.8	-9.8	12.1
<i>Economies in transition^d</i>	7.6	10.0	2.6	2.5	7.4	3.7	-2.9	♦-10.5	-3.0	..	..
Eastern Europe	1.8	3.3	2.5	-0.2	0.1	0.8	-2.1	♦ -5.7	-2.2	-0.7	-6.4
Former Soviet Union	5.8	6.7	0.1	2.7	7.3	2.9	-0.8	♦ -4.8	-0.8	..	..
<i>Developing countries</i>	-54.2	-23.5	-30.0	-41.8	-8.2	-22.0	-14.8	-7.6	-70.2	-81.6	-96.0
Capital-surplus countries	-2.4	6.8	2.9	-3.4	1.2	1.2	7.7	21.2	-22.6	-14.9	-5.4
Capital-importing countries	-51.8	-30.3	-33.0	-38.4	-9.4	-23.2	-22.5	-28.8	-47.6	-66.7	-90.6
Energy exporters	-13.4	-2.7	-4.2	-19.6	-2.0	-16.8	-7.0	2.7	-18.3	-31.1	-33.4
Energy importers	-38.4	-27.6	-28.8	-18.8	-7.4	-6.4	-15.5	-31.5	-29.3	-35.6	-57.2
Four exporters of manufactures	2.1	7.2	11.0	23.2	30.9	28.3	24.5	14.5	10.1	10.3	13.2
Other	-40.4	-34.8	-39.8	-42.0	-38.3	-34.8	-40.0	-45.9	-39.4	-45.9	-70.3
World residual ^e of which:	48.1	41.3	59.2	37.2	22.6	32.5	53.0	70.4	74.6	61.2	53.8
Trade residual (imports, f.o.b.)	-19.6	-29.9	-16.4	-15.4	-32.3	-37.1	-17.4	-20.5	-34.2	-53.7	-69.1
Services and private transfers	67.8	71.2	75.5	52.7	54.8	69.6	70.4	90.9	108.8	115.0	122.9

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, 1983-1993^a
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>All developed market economies</i>											
Merchandise exports	1 126.7	1 204.1	1 243.1	1 447.2	1 692.7	1 950.6	2 088.7	2 398.2	2 437.1	2 593.5	2 491.0
Merchandise imports (f.o.b.)	-1 153.8	-1 253.6	-1 287.2	-1 458.6	-1 722.7	-1 959.0	-2 123.0	-2 435.8	-2 426.9	-2 549.3	-2 405.1
Trade balance	-27.1	-49.5	-44.0	-11.4	-30.0	-8.4	-34.3	-37.6	10.2	44.3	85.9
Net services and private transfers	25.6	21.7	12.3	13.5	8.2	-5.8	-1.0	-14.7	-11.5	-23.2	-37.3
of which:											
investment income	16.6	17.6	7.7	3.6	4.4	7.5	9.4	-2.9	-9.8	-16.5	-19.3
Current account balance	-1.5	-27.8	-31.8	2.1	-21.8	-14.2	-35.3	-52.3	-1.4	21.1	48.6
<i>Major developed market economies</i>											
Merchandise exports	836.6	897.8	926.1	1 071.5	1 239.0	1 434.7	1 540.8	1 747.3	1 787.5	1 902.0	1 839.0
Merchandise imports (f.o.b.)	-849.5	-945.4	-966.5	-1 071.9	-1 251.0	-1 426.8	-1 549.2	-1 757.9	-1 758.4	-1 844.6	-1 765.6
Trade balance	-12.9	-47.7	-40.4	-0.4	-12.0	7.9	-8.4	-10.6	29.1	57.4	73.4
Net services and private transfers	19.2	16.7	9.7	6.8	-4.2	-16.1	-5.1	-17.8	-18.6	-26.5	-36.9
of which:											
investment income	27.0	28.8	20.6	17.3	18.2	24.1	29.1	26.0	18.3	15.6	9.2
Current account balance	6.3	-31.0	-30.7	6.3	-16.2	-8.2	-13.5	-28.5	10.5	30.9	36.5
of which:											
Germany ^c											
Merchandise exports	159.9	161.4	173.6	231.0	278.5	308.6	326.0	391.3	378.6	406.9	339.6
Merchandise imports (f.o.b.)	-138.5	-139.2	-145.1	-175.3	-208.3	-228.9	-247.2	-319.6	-354.6	-374.0	-299.6
Trade balance	21.4	22.2	28.6	55.8	70.2	79.8	78.7	71.6	24.0	32.9	40.0
Net services and private transfers	-10.6	-6.3	-5.3	-8.1	-13.3	-17.3	-8.7	-9.2	-14.1	-34.1	-38.9
of which:											
investment income	1.6	3.6	3.3	4.2	4.0	5.2	11.8	17.3	18.4	10.7	4.3
Current account balance	10.9	15.9	23.3	47.7	56.9	62.4	70.0	62.4	9.8	-1.2	1.0
<i>Japan</i>											
Merchandise exports	145.5	168.3	174.0	205.6	224.6	259.8	269.6	280.4	306.6	330.9	351.3
Merchandise imports (f.o.b.)	-114.0	-124.0	-118.0	-112.8	-128.2	-164.8	-192.7	-216.8	-203.5	-198.5	-209.9
Trade balance	31.5	44.3	56.0	92.8	96.4	95.0	76.9	63.6	103.1	132.4	141.4
Net services and private transfers	-9.3	-7.9	-5.5	-5.5	-6.7	-12.4	-16.6	-23.2	-18.4	-11.5	-6.2
of which:											
investment income	3.1	4.2	6.8	9.5	16.7	21.0	23.4	23.2	26.7	36.2	41.3
Current account balance	22.2	36.4	50.5	87.3	89.7	82.6	60.3	40.4	84.7	120.9	135.2

Table A.23 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
United States											
Merchandise exports	201.8	219.9	215.9	223.4	250.2	320.2	361.7	388.7	416.9	440.1	456.8
Merchandise imports (f.o.b.)	-268.9	-332.4	-338.1	-368.4	-409.8	-447.2	-477.4	-497.5	-490.7	-536.3	-589.2
Trade balance	-67.1	-112.5	-122.2	-145.1	-159.6	-127.0	-115.7	-108.8	-73.8	-96.1	-132.5
Net services and private transfers	32.1	24.6	13.9	11.6	8.7	13.3	27.8	38.9	44.9	48.2	41.6
of which:											
investment income	31.9	30.9	23.2	15.3	10.9	12.4	14.4	19.3	13.0	6.2	0.1
Current account balance	-35.0	-87.9	-108.3	-133.4	-150.9	-113.7	-87.9	-69.9	-28.9	-47.9	-90.9
Other industrialized countries											
Merchandise exports	290.1	306.3	317.0	375.7	453.7	515.9	547.9	650.9	649.6	691.5	652.0
Merchandise imports (f.o.b.)	-304.3	-308.1	-320.7	-386.7	-471.7	-532.2	-573.8	-677.9	-668.5	-704.7	-639.5
Trade balance	-14.2	-1.8	-3.7	-11.0	-18.0	-16.3	-25.9	-27.0	-18.9	-13.2	12.5
Net services and private transfers	6.4	5.0	2.6	6.7	12.4	10.3	4.1	3.2	7.1	3.4	-0.4
of which:											
investment income	-10.4	-11.2	-12.9	-13.8	-13.8	-16.6	-19.7	-28.9	-28.1	-32.2	-28.5
Current account balance	-7.8	3.3	-1.1	-4.3	-5.6	-6.0	-21.8	-23.8	-11.8	-9.8	12.1

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 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
Hungary											
Merchandise exports	4.8	4.9	4.2	4.2	5.0	5.5	6.4	6.3	9.3	10.1	8.4
Merchandise imports (f.o.b.)	-4.1	-4.0	-4.1	-4.7	-5.0	-5.0	-5.9	-6.0	-9.1	-10.1	-11.4
Trade balance	0.7	0.9	0.1	-0.5	0.0	0.5	0.5	0.3	0.2	0.0	-3.0
Net services and private transfers	-0.8	-1.0	-1.3	-1.2	-1.2	-1.3	-1.9	-0.2	0.1	0.3	-0.5
Current account balance	-0.1	-0.1	-1.2	-1.7	-1.2	-0.8	-1.4	0.1	0.3	0.3	-3.5
Poland											
Merchandise exports	4.8	5.3	5.1	5.3	6.2	7.2	7.6	10.9	12.8	14.0	13.6
Merchandise imports (f.o.b.)	-3.9	-3.9	-4.0	-4.3	-5.1	-6.3	-7.3	-8.6	-12.7	-13.5	-15.7
Trade balance	0.9	1.4	1.1	1.0	1.1	0.9	0.3	2.3	0.1	0.5	-2.1
Net services and private transfers	-2.3	-2.2	-1.7	-1.7	-1.5	-1.5	-2.1	-1.6	-1.4	-0.8	-0.1
Current account balance	-1.4	-0.8	-0.6	-0.7	-0.4	-0.6	-1.8	0.7	-1.4	-0.3	-2.2
Former Soviet Union^d											
Merchandise exports	44.2	43.3	36.9	26.8	31.3	33.4	35.2	33.6	37.7	52.3	50.7
Merchandise imports (f.o.b.)	-38.0	-36.6	-36.2	-23.2	-23.1	-28.7	-35.4	-35.3	-35.3	-41.3	-30.6
Trade balance	6.2	6.7	0.7	3.6	8.2	4.7	-0.2	-1.7	2.4	11.0	20.1
Net services and private transfers	-0.4	0.0	-0.6	-0.9	-0.9	-1.8	-0.6	-3.1	-3.2	..	..
Current account balance	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, ECE and national sources.

♦ 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.
- d From 1992, data for the Commonwealth of Independent States.

Table A.25. Current account transactions: developing countries, 1983-1993^a
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>All developing countries</i> (129 economies)											
Merchandise exports	493.0	526.5	500.2	448.4	554.1	637.2	712.8	817.6	867.5	938.2	999.5
Merchandise imports (f.o.b.)	-457.8	-460.5	-446.2	-427.9	-502.0	-599.2	-662.5	-754.1	-844.2	-927.2	-1009.5
Trade balance	35.2	66.0	54.0	20.5	52.1	38.0	50.3	63.5	23.2	11.0	-10.0
Net services and private transfers	-89.4	-89.5	-84.0	-62.3	-60.3	-60.0	-65.1	-71.1	-93.4	-92.6	-86.0
of which:											
investment income	-40.8	-49.5	-48.6	-41.1	-46.8	-48.0	-49.6	-47.3	-47.1	-47.5	-52.6
Current account balance	-54.2	-23.5	-30.0	-41.8	-8.2	-22.0	-14.8	-7.6	-70.2	-81.6	-96.0
<i>Totals by region</i>											
<i>Latin America</i>											
Merchandise exports	97.6	107.0	99.2	82.2	93.6	106.6	116.6	128.3	127.1	133.3	140.5
Merchandise imports (f.o.b.)	-68.1	-69.4	-67.1	-66.9	-74.9	-84.6	-90.5	-103.8	-121.2	-146.1	-157.0
Trade balance	29.5	37.6	32.0	15.3	18.8	22.0	26.1	24.5	6.0	-12.8	-16.5
Net services and private transfers	-38.3	-39.9	-36.9	-35.8	-32.2	-34.0	-34.8	-32.3	-27.8	-25.1	-29.7
of which:											
investment income	-35.0	-37.9	-36.1	-33.2	-32.4	-35.0	-38.7	-35.8	-32.0	-30.1	-31.6
Current account balance	-8.8	-2.3	-4.9	-20.5	-13.4	-12.0	-8.7	-7.8	-21.9	-37.9	-46.2
<i>Africa</i>											
Merchandise exports	81.8	83.1	82.8	67.8	76.3	77.1	83.6	102.5	98.1	95.8	92.5
Merchandise imports (f.o.b.)	-79.1	-77.8	-67.7	-62.8	-69.2	-77.1	-80.1	-89.4	-89.2	-92.6	-90.0
Trade balance	2.7	5.3	15.1	5.0	7.0	0.0	3.4	13.1	8.9	3.1	2.5
Net services and private transfers	-20.7	-18.8	-18.6	-17.5	-17.2	-17.7	-18.8	-18.8	-18.1	-14.8	-18.1
of which:											
investment income	-11.0	-10.9	-11.8	-11.8	-14.4	-14.9	-15.7	-17.3	-17.2	-17.4	-17.2
Current account balance	-18.0	-13.5	-3.6	-12.5	-10.1	-17.6	-15.4	-5.7	-9.2	-11.7	-15.6
<i>West Asia</i>											
Merchandise exports	122.7	113.8	99.8	69.2	87.1	88.1	108.4	132.5	118.0	122.2	120.2
Merchandise imports (f.o.b.)	-99.7	-89.1	-77.0	-69.2	-75.6	-77.9	-82.5	-89.8	-100.7	-114.1	-107.9
Trade balance	23.0	24.7	22.8	0.1	11.5	10.2	25.9	42.6	17.3	8.1	12.2
Net services and private transfers	-31.8	-23.9	-28.7	-9.5	-15.7	-13.9	-19.5	-25.8	-47.8	-31.2	-24.9
of which:											
investment income	21.2	13.6	13.5	16.5	13.2	14.3	15.3	13.3	9.8	7.4	6.4
Current account balance	-8.7	0.8	-5.9	-9.5	-4.1	-3.7	6.4	16.9	-30.5	-23.1	-12.6
<i>South and East Asia</i>											
Merchandise exports	172.6	199.9	196.7	216.3	284.3	350.0	390.5	433.0	492.6	558.3	619.3
Merchandise imports (f.o.b.)	-188.2	-199.0	-206.1	-213.5	-263.8	-339.0	-384.7	-432.5	-493.3	-558.5	-629.7
Trade balance	-15.6	0.9	-9.4	2.8	20.5	11.0	5.9	0.4	-0.8	-0.3	-10.4
Net services and private transfers	-1.0	-8.0	-5.6	-1.5	-1.1	-3.4	-5.8	-5.2	-4.6	-7.5	-8.1
of which:											
investment income	-11.3	-12.0	-11.5	-11.5	-12.3	-11.3	-10.4	-8.4	-9.3	-11.3	-13.5
Current account balance	-16.5	-7.2	-15.0	1.3	19.3	7.6	0.1	-4.8	-5.3	-7.8	-18.5

Table A.25 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
Totals by trade grouping											
<i>Surplus energy exporters</i> (8 economies)											
Merchandise exports	121.1	112.5	94.9	53.9	65.4	64.1	79.6	108.5	104.7	106.6	102.4
Merchandise imports (f.o.b.)	-86.4	-76.9	-63.9	-45.2	-49.3	-51.8	-57.4	-65.2	-80.0	-85.5	-77.7
Trade balance	34.7	35.7	31.0	8.8	16.1	12.3	22.2	43.3	24.7	21.1	24.7
Net services and private transfers	-37.2	-28.9	-28.1	-12.2	-14.9	-11.1	-14.5	-22.1	-47.3	-36.0	-30.1
of which:											
investment income	19.7	15.4	15.8	20.5	18.3	20.0	20.8	19.4	16.3	16.3	13.4
Current account balance	-2.4	6.8	2.9	-3.4	1.2	1.2	7.7	21.2	-22.6	-14.9	-5.4
<i>Deficit energy exporters</i> (19 economies)											
Merchandise exports	121.3	133.5	127.3	91.7	111.2	113.7	134.5	168.7	169.7	177.9	186.6
Merchandise imports (f.o.b.)	-99.6	-98.9	-93.8	-80.9	-85.1	-102.0	-110.9	-135.1	-156.8	-177.4	-188.5
Trade balance	21.7	34.6	33.5	10.8	26.1	11.7	23.6	33.7	12.8	0.5	-1.9
Net services and private transfers	-35.2	-37.3	-37.7	-30.4	-28.2	-28.5	-30.6	-31.0	-31.2	-31.6	-31.5
of which:											
investment income	-23.7	-26.2	-25.8	-22.4	-25.1	-26.2	-29.3	-29.7	-29.6	-31.7	-31.6
Current account balance	-13.4	-2.7	-4.2	-19.6	-2.0	-16.8	-7.0	2.7	-18.3	-31.1	-33.4
<i>Energy-importing countries</i> (102 economies)											
Merchandise exports	250.6	280.4	278.0	302.8	377.5	459.4	498.7	540.3	593.1	653.8	710.5
Merchandise imports (f.o.b.)	-271.8	-284.7	-288.5	-301.8	-367.7	-445.4	-494.2	-553.8	-607.4	-664.4	-743.3
Trade balance	-21.2	-4.3	-10.5	1.0	9.9	14.0	4.5	-13.5	-14.3	-10.6	-32.8
Net services and private transfers	-17.1	-23.3	-18.3	-19.8	-17.2	-20.4	-19.9	-18.0	-15.0	-25.0	-24.4
of which:											
investment income	-36.8	-38.7	-38.6	-39.2	-40.0	-41.8	-41.1	-36.9	-33.8	-32.0	-34.3
Current account balance	38.4	-27.6	-28.8	-18.8	-7.4	-6.4	-15.5	-31.5	-29.3	-35.6	-57.2
of which:											
<i>Four exporters of manufactures</i> (4 economies)											
Merchandise exports	90.7	107.6	108.6	130.2	175.5	221.1	243.7	262.8	300.1	338.3	373.7
Merchandise imports (f.o.b.)	-93.2	-101.0	-99.8	-111.1	-150.0	-198.9	-224.3	-255.6	-297.6	-337.1	-371.8
Trade balance	-2.5	6.5	8.8	19.1	25.5	22.2	19.4	7.2	2.5	1.2	1.9
Net services and private transfers	4.6	0.6	2.2	4.1	5.4	6.1	5.2	7.3	7.5	9.1	11.2
of which:											
investment income	-2.9	-2.2	-1.4	-0.7	-0.4	1.8	3.5	4.1	4.8	4.6	3.8
Current account balance	2.1	7.2	11.0	23.2	30.9	28.3	24.5	14.5	10.1	10.3	13.2

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

a Balance on goods, services and private transfers.

b Preliminary estimate.

Table A.26 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
Net dividends and interest	1.7	2.3	2.1	2.2	3.8	4.2	11.1	12.8	16.3	10.7	0.7
Net transfer of resources (financial basis)	-12.4	-13.6	-18.8	-39.5	-33.1	-74.9	-57.1	-40.2	-0.1	45.2	-14.9
Use of official reserves ^d	1.9	0.4	-2.2	-5.4	-21.5	15.4	-2.8	-7.3	6.0	-36.5	15.3
Net transfer of resources (expenditure basis)	-10.4	-13.3	-21.0	-44.9	-54.6	-59.4	-59.9	-47.5	5.9	8.7	0.4
<i>Japan</i>											
Net capital flow	-20.8	-34.4	-51.4	-73.1	-52.8	-67.2	-74.0	-48.0	-92.0	-121.6	-110.8
Private grants ^b	-0.2	-0.1	-0.3	-0.6	-1.0	-1.1	-1.0	-1.0	-0.7	-1.3	-2.3
Official grants	-1.4	-1.4	-1.4	-1.5	-2.7	-3.0	-3.3	-4.5	-11.8	-3.3	-3.9
Direct investment ^c	-3.2	-6.0	-5.8	-14.3	-18.4	-34.7	-45.2	-46.3	-29.4	-14.5	-13.5
Portfolio	-2.9	-24.0	-41.8	-102.0	-91.3	-52.8	-32.5	-14.5	35.5	-28.4	-65.6
Medium- and long-term loans	-12.6	-20.1	-15.7	-15.8	-24.3	-29.6	-16.0	7.7	25.3	12.2	-1.9
Short-term capital	-2.6	13.4	9.7	58.6	88.6	50.9	45.8	31.5	-103.2	-75.8	-23.5
Errors and omissions	2.1	3.7	3.8	2.5	-3.7	3.1	-21.8	-20.9	-7.7	-10.5	-0.2
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	3.1	4.2	6.8	9.5	16.7	21.0	23.4	23.2	26.7	36.2	41.4
Net transfer of resources (financial basis)	-17.7	-30.2	-44.6	-63.6	-36.1	-46.2	-50.6	-24.8	-65.3	-85.4	-69.4
Use of official reserves ^d	-1.6	-2.1	0.6	-14.8	-37.9	-16.5	12.8	6.6	6.6	-0.6	-26.8
Net transfer of resources (expenditure basis)	-19.3	-32.3	-44.0	-78.4	-74.0	-62.7	-37.8	-18.2	-58.7	-86.0	-96.1
<i>Other industrialized countries</i>											
Net capital flow	21.9	14.3	3.9	4.4	55.8	56.4	72.1	113.9	53.0	-2.6	3.0
Private grants ^b	-0.6	0.1	0.1	-0.8	-0.5	0.2	-0.7	-2.9	-4.7	-5.0	-3.5
Official grants	-3.8	-3.5	-3.0	-7.1	-7.0	-7.5	-10.0	-13.5	-7.2	-7.8	-5.4
Direct investment ^c	-1.4	-4.3	-10.3	-9.5	-10.6	-7.5	-16.7	-17.0	-12.7	-8.8	..
Portfolio	4.8	9.7	17.2	16.4	21.0	28.0	55.0	49.9	43.1	30.9	..
Medium- and long-term loans	18.3	11.9	5.5	5.5	29.3	14.5	34.5	49.4	49.2	35.0	..
Short-term capital	5.7	4.2	6.4	9.9	26.2	37.4	21.8	74.7	-4.5	-35.0	..
Errors and omissions	-1.3	-3.8	-12.0	-10.0	-2.3	-8.0	-11.9	-26.9	-10.2	-11.8	..
Use of IMF credit	0.3	0.2	0.0	0.0	-0.3	-0.5	0.0	0.0	0.0	0.0	0.0
Net dividends and interest	-25.5	-28.2	-27.7	-32.1	-35.8	-44.6	-50.9	-66.6	-68.9	-80.1	-70.4
Net transfer of resources (financial basis)	-3.6	-13.9	-23.8	-27.7	20.0	11.8	21.1	47.4	-15.8	-82.7	-67.4
Use of official reserves ^d	-13.5	-16.0	0.4	-3.9	-39.3	-28.6	-19.8	-54.3	-2.0	41.3	-16.4
Net transfer of resources (expenditure basis)	-17.1	-29.9	-23.5	-31.6	-19.2	-16.9	1.3	-6.9	-17.9	-41.4	-83.8

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

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, 1983-1993^a
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>All countries</i>											
Transfer through direct investment											
Net investment flow	6.2	6.2	7.5	6.0	9.5	14.5	16.8	16.8	22.5	30.6	37.9
Net dividends and other income	-9.3	-8.6	-8.0	-7.1	-8.1	-8.4	-10.0	-10.7	-10.1	-11.1	-10.9
Net transfer	-3.2	-2.4	-0.5	-1.1	1.3	6.1	6.7	6.1	12.4	19.5	27.1
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	27.7	17.3	12.0	7.4	2.5	9.3	-0.3	-0.8	13.2	23.4	25.9
Interest paid	-35.5	-40.4	-39.2	-34.7	-33.8	-39.6	-32.6	-29.1	-28.3	-27.3	-28.7
Net transfer	-7.8	-23.0	-27.2	-27.3	-31.4	-30.3	-32.9	-29.9	-15.1	-3.8	-2.8
Transfer through net stock transactions, short-term borrowing and domestic outflows ^c											
Net transfer	-22.9	-14.1	-10.3	-3.1	-6.9	-14.4	-4.5	2.3	25.6	27.0	42.9
Transfer through private grants (net)	2.1	2.6	3.0	3.8	4.1	4.8	3.5	4.6	5.9	8.2	8.6
Transfer through official flows											
Official transfers (grants)	10.2	10.9	11.6	11.2	12.5	13.4	14.3	29.4	20.1	17.2	17.2
Net official credits	30.0	25.1	19.0	19.1	16.4	15.2	19.8	22.4	18.6	15.8	21.3
Interest paid	-9.6	-11.1	-12.8	-15.6	-16.7	-18.2	-18.5	-20.3	-21.7	-21.4	-23.6
Net transfer	30.6	24.8	17.9	14.6	12.2	10.5	15.6	31.5	17.0	11.6	14.8
Total net transfer (financial basis)	-1.2	-12.1	-17.2	-13.1	-20.6	-23.3	-11.6	14.6	45.9	62.4	90.6
Use of official reserves ^d	-5.7	-16.8	-0.1	8.9	-13.1	-8.2	-18.4	-36.6	-46.3	-43.5	-46.4
Total net transfer (expenditure basis)	-6.9	-28.9	-17.3	-4.2	-33.7	-31.6	-29.9	-22.0	-0.5	18.9	44.2
<i>Latin America</i>											
Grants											
Private	0.5	0.7	1.0	0.9	1.1	1.5	1.4	2.2	3.0	4.3	4.0
Official	0.9	1.2	2.1	1.4	2.0	2.1	2.2	3.3	2.9	2.7	2.4
Net direct investment	-0.4	-0.5	0.1	-1.8	0.8	2.0	-0.6	0.5	5.1	7.5	10.6
Foreign official credit	4.7	6.1	2.2	1.5	-1.6	-1.8	-2.0	0.1	-7.5	-9.3	-6.2
Foreign private credit ^e	-11.6	-19.1	-23.3	-22.2	-19.0	-24.5	-23.2	-11.3	-7.6	-6.4	-4.0
Other ^c	-18.9	-11.5	-12.2	-1.8	0.7	-8.0	-4.4	-6.3	13.5	34.4	29.2
Total net transfer (financial basis)	-24.8	-22.9	-30.2	-22.0	-16.0	-28.7	-26.5	-11.4	9.5	33.2	36.0
of which:											
Net capital flow ^f	8.7	13.7	4.2	9.3	14.1	4.2	10.1	23.0	39.5	61.3	63.9
Use of official reserves ^d	-0.7	-12.2	-0.6	7.9	-3.5	6.5	-3.1	-15.4	-17.8	-22.0	-16.6
Total net transfer (expenditure basis)	-25.5	-35.2	-30.8	-14.1	-19.5	-22.2	-29.6	-26.9	-8.4	11.2	19.4

Table A.27 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>Africa</i>											
Grants											
Private	0.3	0.5	0.9	1.1	1.0	0.9	1.0	0.9	1.0	1.1	1.1
Official	3.9	4.2	4.8	5.1	5.9	6.4	7.7	20.8	10.5	9.5	10.0
Net direct investment	-0.2	-0.2	0.6	0.1	-0.2	0.2	2.6	0.5	0.0	0.9	1.2
Foreign official credit	6.3	4.5	2.2	1.8	2.5	1.3	2.1	1.2	1.4	1.7	1.6
Foreign private credit ^e	-0.4	-3.0	-3.7	-1.4	-0.7	-0.2	-2.9	-4.9	-5.6	-5.9	-3.1
Other ^c	-1.7	-3.0	-3.0	-0.9	-6.2	-4.0	-6.2	-15.7	-3.3	-3.2	-4.6
Total net transfer (financial basis)	8.3	3.3	2.0	5.6	2.3	4.6	4.2	2.9	4.2	4.0	5.1
of which:											
Net capital flow ^f	15.9	11.0	10.9	14.1	13.7	16.6	16.4	16.5	18.0	18.0	17.2
Use of official reserves ^d	0.3	-0.3	-2.3	0.9	-1.6	-0.2	-0.8	-6.8	-6.0	-5.6	-3.0
Total net transfer (expenditure basis)	8.7	3.0	-0.3	6.5	0.8	4.4	3.4	-3.9	-1.9	-1.6	2.1
<i>Sub-Saharan Africa</i>											
Grants											
Private	0.2	0.5	0.7	0.6	0.8	0.8	0.7	0.9	0.9	1.1	1.1
Official	2.9	3.0	3.5	3.9	4.7	5.3	6.2	6.4	6.5	6.9	6.9
Net direct investment	-0.3	-0.6	-0.5	-0.7	-0.6	-0.5	-0.6	-0.8	-0.7	-0.8	-0.7
Foreign official credit	4.0	2.5	1.5	1.7	2.6	2.4	2.6	2.8	2.1	2.4	2.3
Foreign private credit ^e	-0.5	-0.8	-1.3	-0.8	-0.9	-0.2	-0.3	-0.6	-0.8	-0.5	1.1
Other ^c	-0.6	-2.1	0.1	1.1	0.2	0.2	-2.3	-0.6	0.2	-0.5	-1.7
Total net transfer (financial basis)	5.8	2.6	3.9	5.8	6.9	8.0	6.3	8.1	8.2	8.5	9.0
of which:											
Net capital flow ^f	9.2	6.0	8.0	10.0	11.8	13.4	11.8	14.1	14.2	14.7	15.1
Use of official reserves ^d	-0.4	-0.3	-0.8	-0.6	-0.8	-0.8	-0.2	-0.4	-0.2	0.7	-0.5
Total net transfer (expenditure basis)	5.4	2.3	3.1	5.2	6.1	7.2	6.1	7.7	8.0	9.2	8.5

Table A.27 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^b
<i>Asia</i>											
Grants											
Private	1.0	1.0	0.9	1.5	1.7	2.0	0.6	0.8	1.7	2.5	2.2
Official	5.2	5.3	4.6	4.6	4.3	4.6	4.3	4.1	4.5	4.2	4.4
Net direct investment	-2.6	-1.8	-1.4	0.1	0.3	3.1	3.5	3.8	6.0	9.6	13.3
Foreign official credit	10.4	3.7	3.2	1.4	1.0	0.4	4.8	2.8	5.3	5.1	6.3
Foreign private credit ^e	5.4	1.3	1.9	-2.3	-11.7	-8.0	-7.0	-2.2	0.6	8.8	9.9
Other ^c	-3.5	-0.2	4.8	-0.4	0.7	3.6	5.3	7.4	18.4	13.8	12.1
Total net transfer (financial basis)	15.9	9.3	13.8	4.8	-3.6	5.8	11.5	16.7	36.6	44.0	48.2
of which:											
Net capital flow ^f	28.7	22.6	27.6	19.1	11.7	21.9	27.7	31.3	53.2	62.7	68.5
Use of official reserves ^d	-5.2	-4.1	2.5	0.8	-8.3	-12.3	-9.5	-12.1	-27.5	-35.9	-37.6
Total net transfer (expenditure basis)	10.7	5.2	16.3	5.6	-11.9	-6.6	2.0	4.5	9.1	8.1	10.7
<i>Fifteen heavily indebted countries</i>											
Grants											
Private	0.7	0.9	1.1	1.0	1.3	1.4	1.6	2.6	3.1	4.1	4.0
Official	0.7	0.8	1.3	0.9	1.2	1.4	1.7	2.9	2.6	2.8	2.6
Net direct investment	-0.5	-0.5	0.3	-1.6	0.7	2.5	1.5	1.2	6.0	8.1	11.7
Foreign official credit	5.4	5.5	0.2	0.0	-2.6	-4.1	-3.8	-2.1	-9.7	-8.5	-7.9
Foreign private credit ^e	-12.2	-23.1	-26.5	-25.6	-21.5	-27.6	-26.5	-15.0	-11.4	-8.9	-9.0
Other ^c	-18.9	-10.9	-15.5	-2.5	-3.8	-9.1	-6.6	-1.6	14.4	28.7	27.9
Total net transfer (financial basis)	-24.7	-27.4	-39.1	-27.8	-24.7	-35.5	-32.1	-12.0	4.8	26.3	29.3
of which:											
Net capital flow ^f	12.7	13.4	0.2	7.5	11.3	3.1	10.4	27.7	39.8	58.3	62.9
Use of official reserves ^d	1.0	-13.2	-1.5	5.8	-3.7	4.6	-5.7	-19.7	-16.8	-22.5	-16.1
Total net transfer (expenditure basis)	-23.8	-40.6	-40.6	-22.0	-28.4	-30.9	-37.8	-31.8	-12.0	3.8	13.2

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 Sample of 93 countries.

b Preliminary estimate.

c Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears of interest due, stock transactions 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.

f Total net capital flow before the payment of interest and dividends.

Table A.28. Official reserves and coverage of current expenditures of capital-importing developing countries, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Level of reserves^b (billions of dollars)</i>											
All countries	104.8	119.1	129.8	148.9	195.5	195.5	217.7	260.9	320.8	362.3	422.5
Energy exporters	32.0	36.2	38.6	34.3	44.5	31.8	37.3	53.8	73.0	81.8	99.3
Energy importers	72.8	82.9	91.2	114.6	151.0	163.7	180.5	207.1	247.8	280.6	323.2
Four exporters of manufactures	23.6	29.0	38.5	62.8	96.0	104.0	109.4	115.7	130.9	140.0	153.1
Other	49.2	53.9	52.8	51.8	55.1	59.8	71.1	91.4	116.9	140.6	170.1
<i>Memo items</i>											
Latin America	29.3	40.3	41.2	33.4	38.2	31.1	33.4	48.6	66.2	88.9	107.3
Sub-Saharan Africa	2.9	3.0	4.0	5.0	5.8	6.3	6.9	8.2	9.5	9.5	10.0
Fifteen heavily indebted countries	27.5	39.6	40.9	34.4	38.7	33.5	38.1	57.2	74.5	92.4	108.2
<i>Coverage of current expenditures^c (months of import coverage)</i>											
All countries	2.3	2.7	2.7	2.5	2.7	2.5	2.5	3.0	3.6	3.6	3.9
Energy exporters	2.3	2.6	2.8	2.9	3.7	2.2	2.4	3.0	3.6	3.7	4.2
Energy importers	2.3	2.7	2.5	2.4	2.3	2.6	2.6	3.0	3.5	3.5	3.7
<i>Memo items</i>											
Latin America	2.6	3.5	3.7	3.1	3.4	2.5	2.4	3.2	4.0	4.8	5.3
Sub-Saharan Africa	1.0	1.1	1.4	1.6	1.7	1.7	1.9	2.0	2.5	2.5	2.5
Fifteen heavily indebted countries	2.1	3.0	3.2	2.8	2.9	2.2	2.3	3.0	3.9	4.5	5.0

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, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Regular facilities	8.3	4.4	1.1	0.0	-3.9	-4.0	-3.0	-1.6	-1.2	-0.1	-0.3
Repayment terms:											
3-5 years (Credit tranche)	0.8	0.2	0.6	1.3	-0.6	-0.4	-0.2	-1.7	0.2	1.4	-0.3
3.5-7 yrs (SFF/EAP) ^a	5.2	2.6	0.6	-1.0	-2.7	-2.7	-2.8	-0.7	-0.8	-1.5	-1.6
4-10 years (Extended Facility)	2.3	1.6	-0.0	-0.2	-0.5	-0.9	0.1	0.7	-0.7	-0.0	1.5
Concessional facilities	-0.1	-0.2	-0.3	-0.5	-0.2	-0.3	0.9	0.2	1.1	0.8	0.2
In order created:											
Trust Fund ^b	-0.1	-0.2	-0.3	-0.6	-0.7	-0.7	-0.5	-0.4	-0.1	0.0	-0.1
SAF ^c	-	-	-	0.1	0.5	0.3	0.7	0.1	0.2	0.0	-0.1
ESAF ^c	-	-	-	-	-	-	0.8	0.5	0.9	0.7	0.4
Additional facilities ^d	2.3	0.0	-0.5	-1.9	-1.1	-0.4	0.2	-0.8	1.2	-0.9	-0.2
In order created:											
Compensatory financing ^e	2.1	0.0	-0.4	-1.8	-1.1	-0.4	0.2	-0.8	1.2	-0.9	-0.2
Buffer stock ^f	0.3	..	-0.2	-0.2	-0.1	..	..	..	..	..	..
Total	10.6	4.3	0.3	-2.4	-5.2	-4.7	-1.9	-2.3	1.0	-0.2	-0.4
<i>Memo items</i>											
Selected characteristics of higher conditionality-lending agreements											
Number initiated during year	33	20	26	31	25	28	23	13	24	17	13
Average length (months)	18	14	16	22	26	25	25	19	22	26	24
Total amount committed (billions of dollars)	15.7	4.0	3.4	4.0	4.4	5.4	13.8	1.9	6.4	7.1	3.0

Source: Data of IMF, *International Financial Statistics* and *IMF Survey*.

a The Supplementary Financing Facility (SFF) (1979-1981) and the 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 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.

c 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.

d All having final maturity of 7 years and repayments beginning in 3.5 years.

e Compensatory Financing Facility from 1963 to 1988; Compensatory and Contingency Financing Facility from August 1988.

f Helps to finance buffer stock purchases under approved international buffer stock arrangements; established June 1969.

Table A.30. Funds raised on international credit markets, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
World total	157.8	228.8	279.1	321.4	303.7	371.9	385.3	361.4	432.5	458.3	620.0
Grouped by borrower											
Developed market economies	112.5	181.2	230.5	285.2	260.2	330.3	345.0	312.4	374.0	398.4	521.7
Economies in transition	1.1	3.4	5.3	3.9	3.7	4.3	4.7	4.7	1.7	1.5	6.3
Developing countries	36.6	34.4	30.1	22.2	27.8	26.9	22.7	28.9	42.2	37.5	71.3
Multilateral institutions	7.7	9.8	13.2	10.1	11.9	10.5	12.9	15.4	14.7	20.9	20.7
Grouped by instrument											
Bonds	77.1	111.5	169.1	228.1	180.8	229.7	255.8	229.9	308.7	333.7	481.0
International bonds	50.1	81.4	136.5	187.7	140.5	178.9	212.9	180.1	258.2	276.1	394.6
Foreign and special placements	27.0	30.1	32.5	40.4	40.3	50.8	42.9	49.8	50.6	57.6	86.4
Loans	80.7	117.3	110.1	93.3	122.9	142.2	129.5	131.5	123.8	124.6	139.0
Bank loans	67.2	62.0	61.1	63.2	91.7	125.6	121.2	124.5	116.0	117.9	130.8
Other facilities	13.5	55.3	48.9	30.0	31.2	16.6	8.4	7.0	7.7	6.7	8.2

Source: OECD, *Financial Statistics Monthly*.

Table A.31. Net ODA from major sources, by type, 1981-1992

Donor group or country	Growth rate of ODA ^a (1991 prices and exchange rates)		ODA as percentage of GNP ^a	Total ODA ^a (millions of dollars)	Percentage distribution of ODA by type, 1992					
	1981- 1986	1986- 1992			1992	Bilateral			Multilateral	
			Grants ^b	Technical cooperation		Loans	United Nations	IDA	Other	
Total ODA	..	..	..	61 874		67.6 ^c			32.3 ^d	
Total DAC countries	3.1	2.6	0.33	60 420	56.5	21.8	14.9	7.8	10.5	14.0
Total EC	3.1	3.1	..	30 116	50.1	22.9	17.1	6.1	8.2	18.5
of which:										
France ^e	-0.3	3.3	0.63	8 270	53.8	27.4	22.3	2.3	5.6	15.9
Germany	1.8	1.3	0.39	7 572	50.0	26.0	19.0	4.7	8.6	17.6
Italy	19.8	5.4	0.34	4 122	30.7	6.1	28.3	7.8	14.4	18.8
United Kingdom	0.7	0.0	0.31	3 217	58.7	25.0	-5.9	9.7	11.2	26.3
Netherlands	1.5	2.2	0.86	2 753	72.1	38.6	-3.9	10.6	7.4	13.7
Denmark	5.9	5.0	1.02	1 392	55.5	11.6	-1.1	20.8	5.7	16.1
Spain	-	32.8	0.26	1 518	16.5	7.8	55.9	2.3	0.9	24.4
Belgium	0.6	-2.4	0.39	865	61.2	21.5	1.6	3.8	11.1	22.2
Portugal	-	41.5	0.36	302	32.1	29.8	48.3	0.7	0.7	18.5
Ireland	3.9	-1.9	0.16	69	40.6	18.8	0.0	5.8	8.7	44.9
Luxembourg			0.26	36	55.6	2.8	0.0	5.6	8.3	30.5
Australia	2.9	-2.3	0.35	973	76.0	26.0	0.0	8.2	11.9	3.9
Austria	0.4	-1.4	0.30	556	63.3	14.7	12.4	5.2	8.6	10.8
Canada	5.0	1.2	0.46	2 515	68.6	22.0	-0.7	11.9	9.1	11.2
Finland	17.9	7.1	0.62	644	69.6	13.5	-4.2	22.5	8.9	3.2
Japan	2.2	5.1	0.30	11 151	33.7	13.9	41.4	5.4	10.2	9.2
New Zealand	0.2	0.0	0.26	97	76.3	33.0	0.0	6.2	5.2	12.3
Norway	8.8	4.2	1.16	1 273	63.7	10.8	0.2	22.9	6.2	7.2
Sweden	4.8	3.6	1.03	2 460	71.8	21.4	0.4	17.4	5.9	4.5
Switzerland	5.8	7.6	0.46	1 139	59.6	31.5	-0.2	10.1	5.8	24.7
United States	2.4	-0.2	0.20	11 709	74.2	26.3	-7.1	7.7	16.8	8.4
Arab countries	..	..	..	1 054		60.4 ^c			39.6 ^d	
of which:										
Saudi Arabia	..	..	1.44	783		60.3 ^c			39.7 ^d	
Kuwait	..	..	0.93	202		61.8 ^c			38.2 ^d	
United Arab Emirates	..	..	1.66	34		90.2 ^c			1.0 ^d	
Other developing countries	..	..	..	400		..			..
China	..	..	..	..		..			..
India	..	..	..	..		..			..
Republic of Korea	..	..	0.04	110		45.5 ^c			54.5 ^d	
Taiwan Province of China	..	..	0.05	107		78.5 ^c			21.5 ^d	
Venezuela	..	..	..	..		..			..

Source: UN/DESIPA, based on OECD, *Development Co-operation*, various issues.

a Including debt forgiveness of non-ODA claims as of 1990, except for total DAC countries.

b Including technical cooperation.

c Total bilateral: grants and loans.

d Total multilateral: United Nations, IDA and "other".

e Excluding flows from France to the *Départements d'outre-mer*, namely Guadeloupe, French Guiana, Martinique and Réunion.

Table A.32. Regional distribution of ODA from major sources, 1981-1992

Donor group or country	All developing countries		Latin America		Africa		West Asia		South and East Asia		Mediterranean	
	1981-1982	1991-1992	1981-1982	1991-1992	1981-1982	1991-1992	1981-1982	1991-1992	1981-1982	1991-1992	1981-1982	1991-1992
<i>Total ODA (billions of dollars)</i>	54.1	105.8	5.1	10.9	21.0	49.2	9.0	9.0	17.5	33.0	1.5	3.7
<i>Percentage share</i>												
DAC countries, bilateral	56.8	67.3	68.3	77.3	61.0	65.0	26.3	73.4	62.7	66.4	74.0	62.3
Australia	2.0	1.3	0.0	0.0	0.5	0.3	0.0	0.1	5.5	3.7	0.0	0.0
Austria	0.7	0.8	0.4	0.4	1.0	0.3	0.7	0.9	0.4	0.9	2.6	5.6
Belgium	1.1	0.8	0.7	1.0	2.3	1.2	0.1	0.1	0.5	0.3	0.5	0.2
Canada	2.4	2.0	3.3	3.4	2.8	2.1	0.1	0.7	2.9	2.1	1.6	0.0
Denmark	0.7	1.0	0.1	0.7	1.4	1.4	0.1	0.2	0.8	0.8	0.0	0.0
Finland	0.3	0.8	0.2	0.6	0.5	1.0	0.0	0.3	0.2	0.6	0.0	1.3
France ^a	7.8	10.3	7.2	4.7	13.0	15.4	0.8	2.5	5.7	7.6	3.1	3.2
Germany	7.5	8.5	12.0	9.7	7.8	7.8	2.7	14.1	6.8	5.9	25.6	24.3
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	0.8	3.4	0.7	7.7	1.3	4.3	0.2	0.9	0.1	1.3	4.7	4.6
Japan	8.3	14.9	7.0	14.9	3.3	5.4	1.1	9.2	18.7	30.9	4.9	12.2
Netherlands	3.6	2.6	10.2	6.2	3.2	2.3	0.5	1.5	4.2	2.2	0.3	1.3
New Zealand	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.3	0.0	0.0
Norway	0.9	1.2	0.3	1.2	1.5	1.8	0.1	0.1	1.0	0.9	0.0	0.1
Sweden	1.9	2.4	1.1	3.0	2.7	3.1	0.1	0.7	2.2	1.6	0.0	3.3
Switzerland	0.5	1.1	0.7	1.6	0.7	1.1	0.1	0.7	0.5	0.9	0.7	0.7
United Kingdom	3.5	2.6	3.9	2.1	3.9	3.1	0.4	1.1	4.5	2.6	4.9	0.7
United States	14.6	13.6	20.5	20.1	15.7	14.4	19.5	40.3	8.3	3.8	25.0	4.8
DAC countries, multilateral	25.0	29.0	30.9	22.7	24.5	31.0	9.1	19.3	33.7	31.7	6.9	19.2
Arab countries, bilateral ^b	16.8	3.3	0.0	0.0	12.8	3.3	63.1	6.7	2.7	1.9	18.1	18.5
Arab countries, multilateral	1.3	0.4	0.8	0.0	1.7	0.8	1.5	0.6	1.0	0.0	1.0	0.0
<i>Total ODA</i>	100	100	100	100	100	100	100	100	100	100	100	100

Source: UNCTAD calculations, based on data supplied by OECD.

a Excluding flows from France to the *Départements d'outre-mer*, namely Guadeloupe, French Guiana, Martinique and Réunion.

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, 1983-1993^a
(Millions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>Financial institutions</i>	22 036	20 300	23 809	24 960	26 640	27 636	32 410	34 766	39 793	38 700	37 605
African Development Bank	899	897	1 154	1 640	2 140	2 194	2 841	3 191	3 445	2 982	2 518
Asian Development Bank	1 922	2 257	1 845	2 044	2 508	3 220	3 760	4 095	4 914	5 226	5 426
Caribbean Development Bank	48	65	50	67	41	58	73	109	111	71	71
Inter-American Development Bank	3 099	3 615	3 102	3 057	2 408	1 738	2 694	4 005	5 661	6 246	6 191
of which:											
Inter-American Investment Corporation							15	67	102	158	124
International Fund for Agricultural Development	282	211	131	147	233	244	277	323	281	331	383
World Bank group	15 786	13 255	17 527	18 005	19 310	20 182	22 765	23 043	25 381	23 844	23 016
International Bank for Reconstruction and Development	11 721	9 448	12 952	13 593	14 066	14 411	16 251	15 176	17 021	15 551	15 098
International Development Association	3 112	3 222	3 541	3 373	3 841	4 350	4 924	6 300	7 160	6 310	5 345
International Finance Corporation	953	585	1 034	1 039	1 403	1 421	1 590	1 567	1 200	1 983	2 573
<i>Operational agencies of the United Nations system</i>	1722	2028	2032	1933	2 064	2 602	2 708	2 823	3 653	3 616	3 177
United Nations Development Programme ^b	527	531	567	656	809	942	1063	1 111	1159	960	834
United Nations Population Fund	117	134	141	116	134	169	194	211	212	164	206
United Nations Children's Fund	182	204	452	248	330	454	498	545	947	917	655
World Food Programme	896	1 159	872	913	791	1 037	953	956	1 335	1 575	1 482
Total commitments	23 758	22 328	25 841	26 893	28 704	30 238	35 118	37 589	43 446	42 316	40 782
<i>Memo item</i>											
Commitments in units of 1980 purchasing power ^c	26 694	25 963	30 048	26 110	24 745	24 385	28 551	27 639	32 182	30 443	29 768

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, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>External debt (billions of dollars)</i>											
<i>Former Soviet Union</i>											
Total external debt	4.1	18.8	28.3	30.7	38.3	42.2	53.9	59.8	67.5	78.7	86.1
Long-term debt	4.1	18.8	21.4	23.3	29.7	31.0	35.7	48.0	54.9	65.7	77.1
Concessional	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
of which: bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Official, non-concessional	0.1	0.1	0.1	0.2	0.3	0.3	0.3	6.2	12.3	13.4	29.5
Bilateral	0.1	0.1	0.1	0.2	0.2	0.2	0.2	6.0	12.2	12.3	26.3
Multilateral	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.6
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.5
Private creditors	4.0	18.7	21.3	23.2	29.5	30.7	35.4	41.8	42.6	52.3	46.9
Bonds	0.0	0.0	0.0	0.0	0.0	0.3	1.4	1.9	1.9	1.7	1.6
Commercial banks	2.6	11.5	13.5	14.9	17.3	20.0	24.6	19.4	18.7	18.1	..
Other private	1.4	7.2	7.8	8.3	12.2	10.3	9.4	20.5	22.0	32.5	..
Short-term debt	0.0	0.0	6.9	7.4	8.6	11.2	18.2	11.8	12.6	13.0	9.0
<i>Eastern Europe</i>											
Total external debt	44.2	47.0	62.8	72.0	83.7	80.9	82.6	91.1	99.5	95.4	95.6
Long-term debt	33.3	36.8	53.7	60.4	69.9	64.3	65.4	73.7	84.6	83.6	86.2
Concessional	3.1	3.0	3.4	3.4	3.1	2.9	1.9	1.9	1.8	10.0	10.2
of which: bilateral	3.1	3.0	3.4	3.3	3.0	2.8	1.9	1.9	1.8	9.9	9.8
Official, non-concessional	8.0	8.2	21.6	24.3	27.7	24.9	26.2	31.7	42.9	36.9	36.2
Bilateral	4.6	4.7	17.2	18.7	21.6	20.1	22.6	26.9	32.5	24.5	22.9
Multilateral	1.9	1.7	2.8	3.8	4.8	3.9	3.1	3.9	5.8	7.2	8.7
IMF	1.5	1.9	1.6	1.7	1.3	0.8	0.5	0.8	4.6	5.2	4.5
Private creditors	22.2	25.5	28.6	32.7	39.1	36.6	37.3	40.1	39.5	36.0	39.0
Bonds	0.0	0.1	0.6	1.0	1.8	2.6	3.8	5.6	7.3	8.0	11.7
Commercial banks	15.3	18.6	20.8	24.2	28.5	26.1	27.2	28.5	27.4	24.5	..
Other private	6.9	6.9	7.2	7.5	8.8	7.9	6.3	5.9	4.8	3.5	..
Short-term debt	10.9	10.2	9.1	11.6	13.8	16.6	17.2	17.4	14.9	11.8	9.4
of which:											
Hungary											
Total external debt	10.7	11.0	14.0	16.9	19.6	19.6	20.4	21.3	22.8	21.9	24.1
Long-term debt	6.8	8.0	10.9	13.4	16.5	16.2	17.1	18.3	20.6	19.6	21.6
Concessional	0.9	0.8	0.8	0.7	0.2	0.1	0.1	0.1	0.1	0.1	0.2
of which: bilateral	0.9	0.8	0.8	0.6	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Official, non-concessional	0.7	1.2	1.5	2.0	2.1	2.3	2.4	3.0	5.0	4.9	5.0
Bilateral	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.5
Multilateral	0.1	0.2	0.4	0.8	1.2	1.6	1.8	2.5	3.3	3.2	3.2
IMF	0.6	1.0	1.0	1.0	0.8	0.6	0.5	0.3	1.3	1.2	1.2
Private creditors	5.2	6.0	8.6	10.8	14.2	13.8	14.6	15.3	15.2	14.0	15.8
Bonds	0.0	0.1	0.6	1.0	1.8	2.5	3.4	4.7	6.0	6.8	9.5
Commercial banks	4.3	5.0	6.4	8.2	10.7	9.9	10.2	9.6	8.1	6.4	..
Other private	0.9	1.0	1.6	1.5	1.7	1.4	1.0	1.0	1.1	0.8	..
Short-term debt	3.9	3.0	3.0	3.5	3.1	3.4	3.3	2.9	2.2	2.3	2.5

Table A.34 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
Poland											
Total external debt	20.2	21.2	33.3	36.7	42.6	42.1	43.1	49.4	52.8	48.5	44.9
Long-term debt	16.0	16.4	29.8	31.9	36.1	33.7	34.5	39.8	45.2	44.0	43.0
Concessional	2.1	2.1	2.5	2.5	2.7	2.6	1.7	1.6	1.5	9.5	9.3
of which: bilateral	2.1	2.1	2.5	2.5	2.7	2.6	1.7	1.6	1.5	9.5	9.3
Official, non-concessional	3.5	3.5	16.5	18.3	20.8	19.3	21.9	26.7	32.4	24.2	23.5
Bilateral	3.5	3.4	15.9	17.3	19.9	18.6	21.4	25.6	30.7	22.2	20.5
Multilateral	0.1	0.1	0.6	0.9	0.9	0.7	0.5	0.5	0.9	1.2	2.1
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.9	0.8	0.8
Private creditors	10.3	10.7	10.8	11.1	12.6	11.7	10.9	11.5	11.2	10.1	10.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commerical banks	6.1	6.9	7.7	8.8	9.9	9.2	9.0	10.0	9.9	9.3	..
Other private	4.3	3.7	3.1	2.4	2.8	2.6	2.0	1.6	1.3	0.8	..
Short-term debt	4.2	4.8	3.6	4.7	6.6	8.5	8.6	9.6	7.6	4.5	2.0
<i>Debt indicators (Percentage)</i>											
<i>Ratio of external debt to GNP</i>											
Former Soviet Union	..	..	5.2	5.4	6.5	7.2	9.7	10.0	11.8	15.0	16.5
Eastern Europe	22.4	25.2	32.7	34.0	41.1	39.0	37.6	46.9	55.4	50.6	45.8
of which:											
Bulgaria	10.3	14.9	22.1	29.2	29.4	39.6	47.9	52.4	106.6	110.7	118.7
Former Czechoslovakia	5.5	11.6	11.7	12.1	12.8	14.2	15.7	18.4	29.7	28.8	30.6
Hungary	53.0	56.3	70.6	74.3	78.1	70.7	73.1	67.6	73.8	64.5	70.4
Poland	27.7	28.9	48.7	51.5	69.9	64.0	54.6	83.9	68.9	54.4	42.1
Romania	20.7	20.6	14.9	13.6	17.5	7.4	2.6	3.1	7.8	15.9	16.6
<i>Ratio of external debt to exports</i>											
Former Soviet Union ^{b, c}	5.5	25.8	41.9	45.9	52.3	57.8	72.7	89.2	161.2	196.6	215.3
Eastern Europe	73.1	75.1	105.7	117.4	124.9	117.0	123.0	150.4	182.7	173.0	165.2
of which:											
Bulgaria	17.3	23.2	33.4	58.9	71.4	84.7	105.3	153.7	285.5	203.2	234.9
Former Czechoslovakia	16.4	31.8	32.4	33.8	36.2	39.7	45.0	55.9	69.4	65.0	71.0
Hungary	110.8	111.9	148.5	166.0	174.9	173.8	169.7	172.7	181.7	157.3	171.6
Poland	146.3	152.6	252.1	259.5	294.8	254.0	261.7	251.5	282.9	300.7	225.5
Romania	74.0	57.0	63.5	66.1	57.7	23.8	9.4	17.9	44.2	74.0	88.3
<i>Ratio of debt service to exports</i>											
Former Soviet Union ^{b, c}	0.6	0.8	8.1	11.8	11.9	11.3	12.2	17.7	32.3	4.0	4.7
Eastern Europe	9.5	10.7	17.2	17.7	17.5	19.3	16.7	13.1	12.7	17.0	15.2
of which:											
Bulgaria	3.0	4.1	10.2	15.6	17.2	22.2	26.8	19.5	6.5	6.9	8.5
Former Czechoslovakia	1.7	1.5	8.6	8.2	7.8	8.8	9.6	9.1	10.8	14.1	11.5
Hungary	24.3	27.6	39.3	41.0	33.5	31.1	29.7	34.3	31.9	35.6	32.4
Poland	7.1	8.6	15.5	12.8	14.3	10.6	9.4	4.9	5.4	9.5	8.7
Romania	15.2	15.6	18.7	18.7	21.9	33.3	16.3	0.1	2.2	9.3	10.1

Source: UN/DESIPA, based on data of IMF and World Bank.

a Estimate.

b Data for the 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, 1983-1993
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>All countries^b</i>											
Total external debt	926.1	950.4	1 045.2	1 147.5	1 301.5	1 289.5	1 309.3	1 394.9	1 463.3	1 509.9	1 601.3
Long-term debt	750.9	783.5	875.4	980.3	1 113.1	1 095.7	1 098.3	1 145.7	1 191.0	1 214.3	1 293.2
Concessional	135.4	136.8	159.9	186.2	221.6	228.5	240.2	266.4	283.4	294.6	361.4
Bilateral	101.4	99.9	117.6	138.2	165.1	168.8	174.7	191.8	200.3	205.9	264.7
Multilateral ^c	34.0	37.0	42.3	48.0	56.5	59.7	65.5	74.6	83.1	88.7	96.7
Official, non-concessional	179.3	185.0	220.1	263.4	320.8	312.9	316.6	342.5	363.3	363.0	328.5
Bilateral	102.5	104.3	117.1	135.7	165.1	165.8	168.7	175.1	188.8	191.2	146.9
Multilateral	47.1	49.1	66.8	90.0	117.3	115.0	119.4	137.2	145.7	145.1	155.8
IMF	29.8	31.7	36.2	37.7	38.4	32.2	28.5	30.3	28.8	26.7	25.8
Private creditors ^d	436.2	461.7	495.4	530.7	570.7	554.3	541.5	536.8	544.3	556.8	603.4
Bonds	27.7	27.2	36.3	39.2	42.6	45.8	49.5	108.2	117.3	129.6	169.1
Commercial banks	210.0	238.5	253.7	279.5	304.5	301.7	290.0	212.0	204.7	196.3	..
Other private	74.6	76.0	93.5	107.7	125.6	118.7	120.6	126.7	118.7	111.4	..
Short-term debt	175.2	166.9	169.8	167.2	188.4	193.8	211.0	249.1	272.3	290.4	302.6
<i>Memo items</i>											
Principal arrears on long-term debt	5.7	11.7	16.2	23.7	30.9	37.1	40.3	52.0	54.0	58.2	53.9
Interest arrears on long-term debt	3.2	5.8	6.3	9.0	15.5	18.5	28.9	39.2	41.5	37.6	32.6
<i>Latin America</i>											
Total external debt	383.7	395.6	409.3	431.2	470.9	452.1	447.3	469.8	485.4	493.1	509.8
Long-term debt	321.2	344.3	363.5	394.7	425.9	402.9	387.6	392.4	397.6	400.6	419.4
Concessional	12.3	12.9	15.5	18.9	19.8	19.5	20.8	22.9	25.0	26.0	52.7
Bilateral	8.4	8.8	11.0	14.0	14.6	14.2	15.2	16.9	18.8	19.6	46.0
Multilateral ^c	3.9	4.2	4.5	4.9	5.2	5.3	5.6	6.0	6.3	6.4	6.7
Official, non-concessional	63.5	66.2	80.1	95.3	119.1	119.5	121.3	136.9	142.3	141.1	120.4
Bilateral	37.6	36.3	40.4	44.3	55.9	59.2	60.7	66.3	70.6	72.7	48.9
Multilateral	17.3	18.6	25.5	34.8	45.2	44.1	45.1	52.6	54.7	53.8	57.7
IMF	8.6	11.3	14.3	16.2	18.0	16.3	15.6	18.0	17.0	14.6	13.8
Private creditors ^d	245.4	265.2	267.9	280.5	287.0	263.9	245.5	232.6	230.3	233.5	246.3
Bonds	16.2	15.6	17.8	17.5	16.7	18.0	19.1	76.0	78.9	81.2	110.2
Commercial banks	139.8	164.5	173.3	188.6	200.7	190.1	178.5	104.1	99.2	96.7	..
Other private	21.1	20.1	22.1	25.5	27.8	26.5	26.2	27.5	23.5	17.3	..
Short-term debt	62.4	51.2	45.7	36.5	45.0	49.3	59.7	77.4	87.8	92.5	90.4
<i>Memo items</i>											
Principal arrears on long-term debt	2.5	6.6	6.7	9.3	12.1	14.7	18.1	25.7	26.3	25.4	23.6
Interest arrears on long-term debt	1.4	3.3	2.8	3.6	8.4	8.9	16.9	25.9	27.7	21.6	14.9

Table A.35 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Africa</i>											
Total external debt	177.9	182.7	208.7	235.2	274.0	278.1	286.7	296.7	300.4	297.5	304.5
Long-term debt	144.3	146.6	170.9	195.8	239.1	243.7	250.8	260.1	264.1	258.3	261.3
Concessional	43.5	45.4	52.3	60.3	72.2	75.3	80.4	88.9	92.7	96.5	95.2
Bilateral	31.9	32.9	37.9	43.1	50.8	52.3	54.5	59.7	59.9	61.5	58.4
Multilateral ^c	11.6	12.5	14.5	17.1	21.4	23.0	26.0	29.2	32.8	35.0	36.8
Official, non-concessional	37.2	41.4	51.2	64.6	81.6	80.3	83.4	84.6	92.1	90.3	97.1
Bilateral	22.5	26.3	32.0	41.8	53.2	53.2	56.0	54.9	61.1	59.9	65.0
Multilateral	7.8	8.0	11.0	15.2	20.2	19.7	20.8	23.6	25.3	25.5	27.4
IMF	6.9	7.1	8.1	7.6	8.2	7.4	6.6	6.1	5.7	5.0	4.7
Private creditors ^d	63.6	59.9	67.4	71.0	85.4	88.1	87.0	86.6	79.3	71.4	69.0
Bonds	6.7	5.4	5.6	5.0	5.3	4.7	4.5	3.6	3.1	5.1	4.6
Commercial banks	22.1	20.1	20.5	22.3	29.4	32.5	32.5	30.8	29.2	23.5	..
Other private	28.4	27.8	34.7	37.7	44.3	44.6	43.5	45.6	40.2	36.6	..
Short-term debt	33.6	36.1	37.8	39.4	34.8	34.4	35.9	36.6	36.3	39.2	43.2
<i>Memo items</i>											
Principal arrears on long-term debt	3.0	4.5	8.2	13.5	16.9	20.8	20.8	24.1	23.8	28.4	29.4
Interest arrears on long-term debt	1.7	2.4	3.3	5.2	6.9	9.2	11.5	12.4	12.6	14.9	16.6
<i>Sub-Saharan Africa</i>											
Total external debt	62.5	66.4	79.4	92.5	111.9	113.9	121.2	137.9	144.0	146.9	151.5
Long-term debt	56.2	58.9	70.1	82.6	99.7	100.3	104.7	117.9	122.2	122.6	124.2
Concessional	21.3	23.2	27.5	33.0	41.2	43.5	47.6	56.4	61.3	64.4	67.5
Bilateral	13.3	14.3	17.1	20.1	24.6	25.3	26.7	31.2	32.9	34.0	34.5
Multilateral ^c	8.0	8.8	10.4	12.9	16.6	18.3	20.9	25.1	28.4	30.4	33.0
Official, non-concessional	17.8	18.9	23.4	28.5	35.3	34.4	34.8	38.6	38.4	36.9	36.3
Bilateral	8.7	9.6	11.9	15.1	19.3	19.5	21.0	23.8	23.7	22.9	22.5
Multilateral	4.0	4.1	5.4	6.9	9.0	8.6	8.7	9.7	10.0	9.9	9.8
IMF	5.1	5.3	6.1	6.5	6.9	6.3	5.1	5.1	4.6	4.1	4.0
Private creditors ^d	17.1	16.8	19.2	21.1	23.2	22.4	22.3	23.0	22.5	21.3	20.4
Bonds	0.3	0.4	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Commercial banks	6.3	6.1	6.5	7.3	8.2	7.8	7.7	8.4	7.9	7.5	..
Other private	6.4	6.1	8.4	9.2	10.3	9.9	9.7	9.5	9.2	8.8	..
Short-term debt	6.3	7.5	9.3	9.9	12.3	13.6	16.6	20.0	21.9	24.3	27.3
<i>Memo items</i>											
Principal arrears on long-term debt	2.2	2.6	3.9	5.2	7.9	10.3	12.8	15.8	20.0	23.2	25.3
Interest arrears on long-term debt	0.9	1.2	1.8	2.5	3.8	5.4	7.4	8.9	11.2	12.9	14.4

Table A.35 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Asia</i>											
Total external debt	236.2	240.9	274.7	311.9	360.2	365.5	374.3	416.5	460.2	496.5	557.6
Long-term debt	192.1	195.9	228.8	266.0	304.3	307.0	313.8	344.8	375.3	402.6	454.7
Concessional	62.5	61.8	72.4	84.2	102.4	106.3	110.9	125.4	136.1	143.2	182.5
Bilateral	45.3	43.0	50.7	60.1	74.8	77.3	79.3	88.6	95.0	98.7	132.9
Multilateral ^c	17.1	18.8	21.7	24.1	27.6	29.0	31.5	36.8	41.1	44.5	49.6
Official, non-concessional	48.7	47.0	54.4	62.8	72.0	70.9	72.2	80.5	87.4	92.4	73.4
Bilateral	23.4	22.0	24.2	26.5	30.1	31.2	31.5	33.5	36.2	39.1	13.8
Multilateral	14.9	15.2	20.1	25.7	32.5	32.9	35.2	41.4	45.6	46.7	52.5
IMF	10.4	9.7	10.1	10.6	9.4	6.8	5.5	5.5	5.6	6.7	7.0
Private creditors ^d	81.0	87.1	102.1	119.0	129.9	129.8	130.7	139.0	151.8	167.0	198.8
Bonds	4.6	5.5	11.1	14.9	17.9	17.4	17.3	18.3	21.9	25.2	33.9
Commercial banks	28.8	32.2	34.4	40.5	42.9	44.1	42.5	41.7	42.1	40.4	..
Other private	17.6	18.8	23.9	30.5	35.3	35.6	36.3	39.7	40.9	45.7	..
Short-term debt	44.1	45.0	45.9	45.9	55.9	58.5	60.5	71.7	84.9	93.9	102.9
<i>Memo items</i>											
Principal arrears on long-term debt	0.07	0.40	0.84	0.16	0.83	0.47	0.30	0.58	0.81	1.03	0.83
Interest arrears on long-term debt	0.02	0.06	0.07	0.01	0.04	0.20	0.12	0.27	0.39	0.46	0.43
<i>Fifteen heavily indebted countries</i>											
Total external debt	409.7	423.4	440.7	463.1	507.3	485.5	478.9	504.5	517.3	523.4	542.9
Long-term debt	335.3	359.7	384.5	423.4	464.0	439.3	423.1	431.0	431.8	430.4	450.4
Concessional	15.1	15.1	18.0	21.9	23.8	23.9	24.5	28.1	27.7	29.5	32.6
Bilateral	12.0	11.9	14.6	18.3	20.0	20.2	20.6	23.6	22.9	24.4	27.1
Multilateral ^c	3.1	3.2	3.4	3.6	3.8	3.8	3.9	4.5	4.8	5.1	5.5
Official, non-concessional	45.5	53.0	68.4	90.9	116.6	114.7	121.2	141.5	146.7	144.2	147.5
Bilateral	13.6	17.4	21.0	30.3	41.5	44.0	49.8	58.6	62.0	63.0	64.0
Multilateral	20.9	22.1	30.3	41.7	54.5	52.5	54.3	63.9	67.1	66.1	69.6
IMF	11.0	13.5	17.1	18.9	20.6	18.2	17.0	19.0	17.6	15.1	14.0
Private creditors ^d	274.7	291.6	298.0	310.6	323.6	300.7	277.5	261.3	257.4	256.8	270.3
Bonds	16.9	15.7	17.8	17.5	16.7	17.9	18.9	75.6	78.2	85.8	115.0
Commercial banks	147.9	172.3	182.6	201.6	218.4	208.1	195.7	118.7	112.4	101.5	..
Other private	26.6	25.4	29.7	32.9	38.3	37.4	34.8	35.0	30.9	24.5	..
Short-term debt	74.4	63.6	56.2	39.8	43.4	46.2	55.8	73.6	85.5	92.9	92.5
<i>Memo items</i>											
Principal arrears on long-term debt	2.1	5.7	5.9	6.7	7.8	9.5	9.9	17.0	19.8	21.2	22.2
Interest arrears on long-term debt	1.2	2.7	1.8	1.5	5.8	5.7	12.5	21.6	24.9	20.0	14.6

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, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Debt indicators (percentage)</i>											
<i>Ratio of external debt to GNP</i>											
All countries	42.9	42.4	47.5	51.5	54.0	44.1	45.1	43.9	44.6	42.8	45.5
of which:											
Latin America	62.7	62.7	64.4	66.5	68.6	43.3	50.7	46.4	44.7	41.5	40.6
Africa	49.3	51.2	59.6	67.9	76.3	77.0	79.0	74.3	77.4	72.6	71.4
Asia	25.9	23.9	28.1	30.7	31.1	27.0	25.2	26.8	28.3	28.4	29.4
<i>Memo items</i>											
Sub-Saharan Africa	60.5	66.9	78.8	78.4	90.8	92.9	97.4	103.9	107.1	105.4	107.3
Fifteen heavily indebted countries	56.7	57.1	58.7	62.3	66.1	56.0	48.4	44.3	43.4	40.7	41.9
<i>Ratio of external debt to exports</i>											
All countries	184.9	182.2	207.0	248.1	239.9	211.9	195.1	184.3	183.8	190.9	194.5
of which:											
Latin America	311.0	292.9	322.4	394.0	386.2	328.4	292.6	279.4	280.8	277.5	268.3
Africa	204.0	204.9	234.1	295.3	309.4	297.0	283.9	249.4	239.7	231.5	233.6
Asia	108.5	97.8	112.9	116.4	104.1	86.0	78.4	78.1	75.0	75.0	80.9
<i>Memo items</i>											
Sub-Saharan Africa	223.6	222.9	269.1	308.7	343.7	335.4	330.5	337.9	360.2	368.4	362.5
Fifteen heavily indebted countries	294.8	276.9	295.3	357.1	350.8	299.0	267.0	245.4	248.4	249.8	248.0
<i>Ratio of debt-service to exports</i>											
All countries	24.4	25.3	26.8	30.4	27.6	26.5	23.3	20.8	19.5	21.2	20.9
of which:											
Latin America	41.1	38.7	38.0	44.0	38.3	40.0	33.5	27.2	26.3	30.3	30.0
Africa	23.8	28.7	28.3	32.1	26.3	28.6	26.6	25.8	23.3	22.8	21.6
Asia	13.2	13.0	16.2	16.0	15.8	12.1	10.6	9.9	8.6	8.5	8.6
<i>Memo items</i>											
Sub-Saharan Africa	20.0	19.7	22.2	25.4	23.4	22.9	19.5	18.0	17.4	14.9	12.7
Fifteen heavily indebted countries	41.8	40.3	37.9	42.9	37.1	39.0	33.5	26.9	26.0	29.6	28.0

Table A.36 (continued)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 ^a
<i>Debt-service payments (billions of dollars)</i>											
<i>All countries</i>											
Total debt service	122.3	131.8	135.0	140.4	150.0	161.0	156.7	157.6	154.9	167.6	171.8
Interest payments of which:	70.9	74.8	74.4	69.6	69.1	79.6	74.3	71.9	74.0	71.3	74.4
non-concessional	65.3	69.4	68.6	63.4	62.2	71.6	66.2	64.1	65.7	62.8	64.9
<i>Latin America</i>											
Total debt service	50.7	52.2	48.2	48.1	46.7	55.1	51.2	45.7	45.5	53.9	57.0
Interest payments of which:	34.9	35.4	35.0	30.2	28.7	33.7	26.2	22.6	23.9	22.7	23.8
non-concessional	34.6	35.1	34.7	29.9	28.4	33.4	25.9	22.3	23.5	22.3	22.9
<i>Africa</i>											
Total debt service	20.7	25.6	25.3	25.6	23.2	26.8	26.9	30.7	29.2	29.4	28.2
Interest payments of which:	10.5	11.5	11.1	11.0	9.9	11.8	12.2	12.5	12.1	11.8	11.4
non-concessional	10.0	11.0	10.6	10.3	9.3	11.1	11.4	11.7	11.2	11.0	10.6
<i>Asia</i>											
Total debt service	28.7	32.0	39.5	43.0	54.8	51.4	50.7	52.6	52.7	56.5	59.4
Interest payments of which:	15.1	16.8	17.3	17.4	19.2	20.9	22.9	23.1	24.9	23.8	26.5
non-concessional	12.5	14.2	14.7	14.5	15.6	16.7	18.1	18.2	19.7	18.3	20.6
<i>Memo items</i>											
<i>Sub-Saharan Africa</i>											
Total debt service	5.6	5.9	6.6	7.6	7.6	7.8	7.1	7.4	7.0	5.9	5.3
Interest payments of which:	2.7	2.9	3.0	3.3	3.0	3.2	3.1	3.1	3.2	2.6	2.3
non-concessional	2.5	2.7	2.8	2.9	2.7	2.8	2.7	2.7	2.7	2.2	1.9
<i>Fifteen heavily indebted countries</i>											
Total debt service	58.1	61.6	56.6	55.7	53.7	63.4	60.1	55.3	54.2	61.9	61.2
Interest payments of which:	39.1	41.3	39.5	34.1	32.4	38.6	31.3	27.2	28.2	25.8	26.8
non-concessional	38.8	41.0	39.2	33.8	32.1	38.2	30.9	26.7	27.6	25.2	26.0

Source: UN/DESIPA, based on data of IMF, OECD and World Bank.

a Preliminary estimate.

Table A.37. Debt restructuring with official creditors, 1983-1993

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<i>Number of agreements</i>											
Developing countries, total	15	14	22	19	17	15	24	17	14	16	10
Middle-income countries	4	2	9	3	4	3	5	1	2	4	1
Lower-middle-income countries ^a	3	5	4	6	5	3	5	6	8	4	3
Low-income countries	8	7	9	10	7	8	12	9	3	8	6
Sub-Saharan Africa	9	9	10	15	9	9	16	9	6	9	4
<i>Amounts rescheduled^b (millions of dollars)</i>											
Developing countries, total	8 644	3 764	6 457	12 183	19 969	9 362	18 600	6 075	44 308	12 522	3 394
Middle-income countries	4 172	704	3 789	2 201	6 670	6 721	6 016	200	1 825	7 287	57
Lower-middle-income countries	1 635	1 939	1 692	7 502	10 962	1 342	9 312	3 320	34 150	2 628	2 615
Low-income countries	2 837	1 121	976	2 480	1 987	973	2 518	2 445	390	2 607	722
Sub-Saharan Africa	2 854	1 494	1 192	9 466	2 904	1 299	10 330	3 374	1 810	3 687	633
<i>Average consolidation period (years)</i>											
Developing countries, total	1.1	1.2	1.2	1.2	1.2	1.3	1.4 ^c	1.5	.. ^d	1.9	2.3
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	3.1
Low-income countries	1.0	1.1	1.3	1.2	1.2	1.2	1.3 ^c	1.7	1.2	2.1	2.1
Sub-Saharan Africa	1.0	1.1	1.2	1.2	1.2	1.2	1.3 ^c	1.6	1.2	2.0	2.3
<i>Average maturity on consolidated debt (years)</i>											
Developing countries, total	8.7	10.7	9.9	10.3	13.1	16.1	13.7	15.3	.. ^d	.. ^f	.. ^f
Middle-income countries	..	8.8	9.1	9.9	8.1	9.4	9.4	9.3	9.8	9.5	4.5
Lower-middle-income countries	..	10.0	10.1	10.1	10.4	9.0	10.1	14.0	.. ^d	.. ^f	.. ^f
Low-income countries	..	11.8	10.6	10.5	17.6	22.0	17.6	17.4	17.4 ^e	.. ^f	.. ^f
Sub-Saharan Africa	9.8	11.4	10.5	10.3	15.9	20.7	15.2	17.1	15.2 ^e	.. ^f	.. ^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, or for 1993 for Benin, Burkina Faso, Guyana, Mauritania, Mozambique and Viet Nam.

Table A.38. Debt-restructuring agreements with commercial banks: all developing countries, 1983-1994

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Number of agreements	27	26	14	12	19	10	4	5	0	1	1
Amounts rescheduled ^a (billions of dollars)	91.3	23.2	72.7	89.7	79.7	6.8	5.4	-	-	0.2	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	..

Continued debt and debt-service reduction agreements (billions of dollars)

	1990				1991	1992		1993		1994
	Mexico	Philippines	Costa Rica	Venezuela	Uruguay	Philippines	Nigeria	Argentina	Jordan	Brazil
Debt reduction										
Debt buyback	-	1.3	1.0	1.4	0.5	1.3	3.3	-	..	
Discount bonds	20.6	-	-	1.8	-	-	-	6.6	..	4.0
Debt-service reduction	22.4	-	0.5	10.3	0.4	2.6	2.0	12.2	..	4.0
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	0.9	49.0
Total financing required	7.0	0.7	0.2	2.4	0.5	1.2	1.7	4.0 ^e	..	4.6
of which: own resources	1.2	0.05	0.04	0.4	0.3	1.0	1.7	0.8 ^e	..	4.6

Sources: *World Debt Tables, 1993-1994* and IMF.

a Including previously rescheduled debt.

b Including portion (\$693 million) not committed to any option.

c Overdue interest amounting to \$114 million was converted into bonds by those banks that chose the buyback option.

d Total including \$8.3 billion past-due interest.

IV. THE INTERNATIONAL OIL MARKET

Table A.39. Value of oil exports of OPEC member countries, 1970-1993^a
(Millions of dollars)

	1970	1980	1985	1988	1989	1990	1991	1992	1993 ^b
Algeria	681	12 647	9 170	4 988	7 000	8 854	9 590	8 167	6 000
Gabon	62	1 745	1 629	779	1 200	1 967	1 740	1 712	1 700
Indonesia	446	12 850	7 670	5 189	6 059	6 481	5 745	6 200	4 200
Iran (Islamic Republic of)	2 358	13 286	15 590	9 210	10 809	16 700	15 280	15 700	15 000
Iraq	788	26 296	10 685	10 952	14 500	9 463	380	326	240
Kuwait	1 596	17 678	9 817	6 391	9 306	5 536	1 400	6 220	10 600
Libyan Arab Jamahiriya	2 356	21 378	9 962	5 169	7 500	9 800	10 025	9 200	7 700
Nigeria	716	25 290	12 353	6 267	7 470	13 200	12 150	11 690	10 800
Qatar	227	5 406	3 068	1 709	1 955	2 960	2 187	3 200	26 000
Saudi Arabia	2 418	105 813	24 180	20 206	24 096	40 128	43 656	47 560	41 000
United Arab Emirates	523	19 558	11 842	7 352	11 300	15 600	14 765	14 490	12 500
Venezuela	2 371	17 562	12 956	8 158	10 001	13 953	12 305	11 782	10 500
Total	14 541	279 309	128 922	86 366	111 196	144 642	129 223	136 247	122 640

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 Preliminary estimate.

Table A.40. World oil demand, 1986-1994^a

	1986	1987	1988	1989	1990	1991	1992	1993	1994 ^b	Percentage change between 1986 and 1993
<i>(Millions of barrels per day)</i>										
Developed market economies	35.4	36.0	37.5	37.8	38.0	38.2	38.9	39.0	39.5	10.2
North America	18.0	18.5	19.2	19.3	18.9	18.6	18.9	19.2	19.5	6.7
Western Europe	12.2	12.3	12.8	12.8	13.0	13.4	13.7	13.6	13.7	11.5
Pacific ^c	5.2	5.2	5.5	5.7	6.1	6.2	6.3	6.2	6.3	19.2
Economies in transition	11.0	11.1	10.8	10.6	10.1	9.7	8.1	6.8	6.2	-38.2
Eastern Europe	2.0	2.1	1.9	1.8	1.6	1.4	1.2	1.2	1.2	-40.0
Former Soviet Union ^d	9.0	9.0	8.9	8.8	8.5	8.3	6.9	5.6	5.0	-37.8
Developing countries	15.2	15.8	16.6	17.6	18.4	19.1	20.1	21.2	21.9	39.5
Latin America	4.7	4.8	4.9	5.0	5.1	5.3	5.4	5.6	5.7	19.1
Africa	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.1	2.1	16.7
West Asia	2.9	3.0	3.0	3.3	3.5	3.4	3.6	3.8	3.9	31.0
South and East Asia	3.8	4.0	4.5	4.9	5.5	5.9	6.4	6.8	7.1	78.9
China ^d	2.0	2.1	2.2	2.4	2.3	2.5	2.7	2.9	3.1	45.0
World total ^e	61.6	62.9	64.9	66.0	66.5	66.9	67.1	67.0	67.6	8.8

Source: UN/DESIPA, based on International Energy Agency, *Monthly Oil Market Report*, April 1991, January 1993 and January 1994.

- 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, 1970-1993

	1970	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	Percentage change between 1985 and 1993
<i>(Millions of barrels per day)</i>												
Developed market economies	11.24	12.60	14.36	14.25	14.20	14.12	13.50	13.27	13.63	13.75	13.72	-4.5
Economies in transition	7.42	12.40	12.24	12.62	12.79	12.81	12.54	11.74	10.52	9.18	8.10	-33.8
Developing countries	26.84	34.58	26.60	29.12	28.76	31.47	33.35	35.3	35.77	37.10	37.80	42.1
OPEC member countries	23.31	26.60	15.79	18.11	17.41	19.72	21.42	22.92	23.04	24.08	24.69	56.4
Other oil-exporting countries ^a	3.06	7.39	9.35	9.48	9.86	10.27	10.44	10.78	11.08	11.39	11.67	24.8
Remaining countries	0.47	0.59	1.46	1.49	1.49	1.49	1.50	1.59	1.65	1.64	1.44	-1.4
World total	45.50	59.58	53.20	55.99	55.75	58.40	59.39	60.31	59.92	60.03	59.62	12.1

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, 1993

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<i>(Thousands of barrels per day)</i>												
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 1994.

a Including share of the Neutral Zone.

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