ECONOMIC PROSPECTS FOR THE THIRD WORLD

The 1988 Forecasts

Strategies for Industrialisation in the 1990s

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1. THE STARTING POINT

The world economy has been doing better than expected for the last two years. Most of the forecasts assume that it is too good to last, but they do not fully explain either the success or the warning signals, such as high interest rates. Several reports have extensive discussions of the structural changes which are taking place in output and trade. In a world where old relationships seem to be breaking down, whether looked at in terms of macroeconomic relationships or the details of industrial composition, it is essential to examine critically the driving forces of the forecasts, and how forecasters explain the divergences they observe and the turning points which they expect.

The unexpected robustness of world output is even greater than a comparison of forecasts with what was expected a year ago would suggest. Less than a week after last year's conference, the world stock markets collapsed. This should have meant that the forecasts were already too high, if they reflected the same wrong expectations embodied in the pre-fall share price levels, and that expectations should be lowered even further because of the effects of the fall on wealth and confidence. At the time such effects worried many observers, and the UN[1] for example includes a special section requested at the time by its members. The outturn for 1987 and, as it now appears, 1988 suggests that these worries exaggerated the effect of such forces. It is too early to know how badly more long-term factors such as confidence may have been damaged, but the forecasters' medium term forecasts do not suggest that they see large effects.

The rise in real interest rates has not been incorporated into this year's forecasts; this directly affects later years because there appears to be a worrying tendency for forecasters to project current interest rates forward, as some do oil prices or exchange rates, as effectively exogenous forces, rather than economic variables which reflect, and inform the observer about, economic pressures and expectations. The good performance of primary prices in 1987 and the first half of 1988 and the implications of this for the future are analysed.

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[1]The publications used in the comparisons of forecasts are listed in the appendix, with definitions of the groups and assumptions used.

In 1988, as in 1987, the most obvious difference among the forecasts considered here is the higher figures for 1988 in the later forecasts, but, once again, most consider these revisions merely a deferral of the downturn, not evidence against it. The persistent optimism in the face of 'temporary' setbacks found in short-term forecasting in the early 1980s appears to have been reversed.

Given the real growth that has occurred, and up to the most recent figures available in early September, is continuing, and the resilience to a major shock in 1987, the question is why should it turn down, in 1989 and the medium term, as most of the forecasters expect. UNIDO does not share this pessimism, and indeed stresses the reverse: that growth is continuing, and structural change and industrialisation spreading to and among the developing countries. In the short term, as discussed in chapter 2, fiscal policies could restrain it, but the longer term pessimism seems to derive from the absence of perceived sources of demand growth. These prospects imply a poor outlook for developing countries' output and the growth of trade, chapters 3-5. The conflict between this way of formulating expectations and studies of how industrialisation can happen are discussed both in chapter 8, on how far the developing countries' prospects depend on the external environment and how far on themselves, and in chapter 9 on structural changes.

Another reason for pessimism could be derived from the expectations in the reports for the financial system. For all countries, the uncertainties about inter-country balances, the monetary and exchange rate policies which might be taken to correct them, and the quite specific problem of unprecedentedly high real interest rates could create concern. High interest rates could indicate a serious concern by economic decision-makers about either real or price prospects, which cannot be explained by the type of expectations embodied in the rest of these forecasts. Growth at the rates seen here is not enough to provoke a demand for resources that would lead to these real interest rates, or expected inflation would need to be much higher than forecast to justify the expected nominal rates. If real interest rates really remain above 4% for the next 5 years, this makes any form of traditional investment or trading pattern difficult; but if this results in slow growth, it is difficult to see why they should remain at that level. If the explanation lies in exchange-rate intervention, this raises questions about the role of such policy. These questions are examined in chapters 6 on financing and 10 on policy.

Debt is now a different kind of problem. In a world where debt conferences now deal with how to make money from dealing in the various new instruments rather than how to manage 'the crisis', the immediacy of 'finding a solution' has clearly gone, and only one report (UNCTAD) gives this as much weight as in the past. As discussed in chapter 7, the view may be that the mechanisms for the least developed countries' official debt are coming into place, and those for commercial debt for middle income are operating, even if less than perfectly. The more long term problems raised by the permanent burden of existing debt should therefore receive more attention.

The underlying pessimism of most observers is reflected in the bias of the policy prescriptions offered to countries perceived to be in structural imbalance, whether industrial (the US) or developing. Most do not expect the balances to be corrected by mechanisms already in place, in spite of the adjustments on trade volumes that have occurred, and consider 'better policies' synonymous with fiscal restraint. UNIDO is again the exception, warning against using 'bleeding' an economy as a cure. The UN warns against the social and political dangers of slow growth.

2. PROSPECTS FOR OUTPUT AND IMPORTS IN DEVELOPED COUNTRIES

A year ago, the growth of output in industrial countries in 1987 was expected to be about the same as in 1986, at about 2.5%. It is now estimated to have been at least 3% (and 1986 has itself been revised up by at least a quarter of a percent). The transmission of this growth to the rest of the world, through raised import demand and commodity prices was also greater than expected. The main errors were for the US and Japan, which are most important as markets for the developing countries. The earliest forecasts published this year, the IMF and UN in the spring (table 1) expected a deceleration in 1988, to under 3%. The later forecasts (in order of publication they are OECD, World Bank, NIER, UNCTAD, UNIDO, but the World Bank is probably prepared earlier than OECD, and UNCTAD before NIER) show higher figures, and some more recent national forecasts are even higher. In 1989, all expect lower rates, with a further slowing or at best little change in the medium term. Only UNIDO expects present levels to be maintained. In contrast to past years, the World Bank is among the most pessimistic. It does not have a short-term forecast, but its medium term forecast is 2.3% on unchanged policies; it says this implies an acceleration at the end of the period; if it includes a 1988 similar to the early forecasts, this implies very low figures for 1989-92

The recessionary tendency, whenever it comes, is expected to be general, because forecasters do not see any strong sources of increased demand. (Most, including national forecasters, remain slightly puzzled by the 1987 results, looking for special factors; they are looking for when, not whether, the downturn in trend will come.) In addition, in both the US and Europe, restrictive fiscal policy is an important assumption behind the forecasts. Most forecasters now expect Japan to grow strongly at least this year and next (although the UN expected a recession there in 1989), while the European countries grow relatively slowly throughout. The major change is expected to come in US growth, to less than the reduced European level in 1989, and in the early 1990s on some forecasts. There are several doubts behind this average view. For 1988, the latest national forecasts for the US and Germany are above 3%, with national forecasters revising upwards lower previous forecasts. If these prove correct, the forecasts given here will be wrong not only in level, but in the direction of change between 1987 and 1988: the deceleration will not yet have begun. Other European countries are also growing more than expected, and Japan, on the latest forecasts given here, is likely to grow at nearer to 5% than 4%, suggesting that the average industrial country growth rate could be higher than the 1987 figure.

In 1989 and the medium term, there are clear divergences in expectations for what is sustainable growth in Japan, although all agree that it is likely to be faster than the average. The differences for the US arise from differences in views on policy, while Europe is expected to remain slowest growing, with the forecasters agreeing that they will be constrained by structural rigidities and policy.

The UNIDO forecasts are an exception to all these generalisations (except that the European countries are expected to be slowest). This is the

Table 1
Industrial countries

percentages

	IMF	UN	UNCTAD	UNIDO	OECD	NIER
			1988			
World Output (GNP/GDP)	3.0	3.2	3.1	3.9		
Industrial countries	2.8	2.4	2.7	3.5	3.0	3.8
United States	2.9	2.4	2.8	3.4	2.8	3.2
Japan	4.1	4.1	4.2	5.3	4.3	6.0
Germany	1.7	1.7		2.4	2.3	2.6
European countries	2.0	1.9	2.1	2.9	2.5	
Unemployment rate	7.4	7.9			7.5	
Import volume	6.0	4.2	5.8		7.0	
US import volume	5.9				5.8	3.0
Export volume	4.6	4.5	5.4		7.0	
World Trade	5.5	4.3	5.3		6.8	4.8
Trade in manufactures		>4.3			8.3	6.0
			1989			
World Output (GNP/GDP)	3.0	2.8	2.9	3.8		
Industrial countries	2.6	1.8	2.4	3.4	2.5	2.3
United States	2.7	1.3	2.5	3.2	2.5	1.4
Japan	3.8	2.7	3.8	5.0	3.8	4.5
Germany	1.7	2.3		3.3	1.8	1.7
European countries	2.0	2.0	1.8	3.0	2.0	
Unemployment rate	7.4	8.0			7.5	
Import volume	3.9		4.6		5.3	
US import volume	3.1				5.0	-1.5
Export volume	3.9		4.5		6.0	
World Trade	4.3	4.3	4.5		6.0	4.8
Trade in manufactures		>4.3			7.0	4.6

Medium term

	IMF 1990-92	UNIDO, 1990-92 Optimistic	UNIDO, 1990-92 Recession	World Bank 1987-95 Base	World Bank 1987-95 High	NIER 1990-92
World Output(GNP/GDP)		4.2	1.3			
Industrial countries	2.8	3.7	0.8	2.3	3.0	2.4
United States		3.3	-0.4			1.8
Japan		7.6	1.3			4.2
Germany		3.0	1.1			2.2
European Countries		2.7	0.6			
World Trade						6.0
Trade in manufactures						5.7

first time that UNIDO has given a quantified medium-term forecast: it is based on its view of the possible increases in output, but with an assumption that growth in the developing countries (excluding the NICs) will remain constrained (less than 6%), and that there will be a continuing tendency for countries to form regional blocs for trading. Its authors hope that policies will not be restrictive (if they are, the 'recession scenario' is expected to prevail, with recession transmitted from Europe to the US by political pressure, and then back to Europe and the rest of the world through normal economic mechanisms), and do not expect structural constraints to be as serious in Europe or Japan. The report takes the view that deliberate action by Japan explains its faster growth, and similar action, particularly to increase investment and thus expand capacity, will permit continued rapid growth in the US. Given that the problem is low capacity to meet present demand, increasing the rate of investment, not restraining demand must be the medium-term solution. An additional reason that their medium term projections are higher than the 'better policies' forecasts of either the IMF or World Bank is that these include initial restraint by the US to correct imbalances. The European countries are assumed to be unwilling to eliminate these by additional reflation, because of their own structural constraints.

The higher growth in 1987 and (probably) 1988 means that unemployment levels are now lower than they were expected to be last year, but the sharp falls in growth now expected in 1989, especially in Europe, lead several forecasters (notably the UN) to warn that it may turn back upwards. The OECD still expects little change, but some national forecasters which have increased 1988 growth rates, but expect a correspondingly larger deceleration in 1989 also expect it to rise. Whether this puts pressure on the assumption of no reflation must depend on whether the level or changes in it are more important.

Inflation has remained lower than expected in the industrial countries, although some forecasters now expect a small upturn for 1989, perhaps to nearly 4%. For the medium term, there is a divergence (perhaps helping to explain the apparent divergence in real interest rate forecasts) between the IMF, at about 3% and the World Bank at 4% (with the US implicitly at about 5.5%). The difference is important because the World Bank forecast implies an increasing rate, and therefore could explain a continuing tightness of monetary and fiscal policy, while the IMF expects a flat or falling rate.

The forecasts for demand from the industrial countries to the rest of the world are no more promising than the output forecasts. Up to 1986, a rapid growth in imports was sustained by demand in the US. In 1987, Japanese demand became important, particularly for manufactures and for the Asian countries, as the yen rose (the World Bank notes that Japanese demand for NICs' manufactures rose 50% in a year). European import demand also rose rapidly, because of exchange rate changes. The two changes rather more than offset the slowing of US demand, so total OECD import volume rose more than 7%. Most forecasters expect a similar rate in 1988, with increased Japanese demand (OECD: 14.5%, IMF: 12.7%) offsetting slower European, but this exceptional adjustment to the higher yen is expected to end by 1989 (with further exchange rate changes assumed not to occur) so that in 1989 and the medium term a more normal, and therefore lower, ratio to output is expected, probably implying rates around 5%. The past (including 1988) thus shows a very uneven impact on different trade flows, but, if the forecasts for reduced divergence in growth rates and flat exchange rates are true, and if the full effects have already come through, this implies a more even distribution of smaller trade gains in the future.

3. GROWTH IN THE DEVELOPING COUNTRIES

Growth in the developing countries was similar to that in industrial in 1987, at about 3%, although for them this was a fall relative to 1986. The forecasters expect a recovery in 1988 and 1989, to about 4% and then perhaps 4.5%, with the medium term approaching 5% (table 2). This is higher than the highest individual years in the 1980s so far, although still well below the average for the 1970s (5½%) or old targets of 6%. It implies that from 1988, developing countries return to their traditional pattern of growing faster than the industrial, which was sharply broken in the first half of the 1980s. UNIDO expects the same pattern, with higher than average forecasts for both, and the World Bank, with lower. As will be discussed later, this is not the result of increased financial flows to the developing (as in the 1970s). Nor is there a continuing stimulus from net trade. Industrial countries' imports grew 1-2% faster than their exports in 1987, but only the IMF expects this to continue in 1988, and no forecasters do beyond this. In 1987, developing countries' terms of trade did improve slightly. In 1988, a fall was forecast, although the picture, as discussed in chapter 5, remains clouded. Little further change is forecast, in line with the stable exchange rates, low inflation, and unspectacular demand growth.

The forecasts are not greatly altered in the various alternative scenarios (except the UNIDO recession). The IMF base forecast assumes that the growth in the developing countries stems from better domestic policies, in particular increasing investment and its efficiency. Improving policies in the industrial countries, which gives them an extra .5% on output results in only .3% extra for developing.[2] It has a 'market reactions' scenario which models the effect of a loss of confidence in the US economy. This has a similar pass-through (a loss of 1.3 points for the industrial reducing developing by .6%). The details are not quantified, although by assumption the dollar and interest rates are lower. The effects (IMF, pp. 33-36) are quite different, although the effects on developed country imports are symmetric. Latin America is much less affected than the average and Asia much more, in both directions. This is not simply because its higher share of manufactured exports makes it more vulnerable to changes in external growth rates (Africa is about equal to the average in both directions, and should be least exposed), but may be the result of the policy assumptions: Latin America is already as constrained as possible, limiting downward adjustments, and would use better conditions to improve its debt or fiscal position, rather than to grow, but the exact explanations can only be speculation in the absence of full details in the report. All areas are most badly affected by the second scenario, an increase in protectionism (a rise in tariffs of 10% on manufactures); a reduction in industrial country output of .5% is associated with one of 3.3% in developing countries. The largest effect is on Asia (-4.3% is associated with Latin America at -2.4%).

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[2]Although the discussion is ambiguous, referring to negative numbers as 'declines in output', it appears that the numbers quoted by the IMF on pp. 33-36 as the 'differences from the baseline' forecast for its various scenarios are to be regarded not as differences from the rates quoted for the base, but as differences from the levels implied by those rates. The rates for the later years are thus cumulative totals of the effects of earlier years.

Table 2
Output in developing countries percentages

	IMF	UN	UNCTAD	UNIDO
1988				
All developing countries	3.7	3.2	3.1	4.4
Oil exporting	1.6	-2.4	1.0	
Non-oil exporting	4.6	4.7		
Exporters of manufactures	6.1		4.1	
Exporters of primary	3.0		4.3	
Highly indebted	2.2		2.3	
Western Hemisphere	2.1	1.5	2.2	3.6
Africa	3.1	2.0	2.5	
Sub-Saharan Africa	4.1	3.5	2.7	2.4
Asia	6.9			
South		)	5.2	5.8
East		)5.5	6.3	7.7
China		8.0		8.3
1989				
All developing countries	3.2	3.5	3.3	4.6
Oil exporting	2.2	1.8	1.4	
Non-oil exporting	4.6	4.1		
Exporters of manufactures	5.4		4.1	
Exporters of primary	4.0		4.4	
Highly indebted	3.5		2.6	
Western Hemisphere	3.5	1.6	2.5	4.1
Africa	3.1	2.5	2.6	
Sub-Saharan Africa	3.9	3.5	2.6	3.5
Asia	6.1			
South		)	5.4	4.3
East		)5.2	6.3	7.4
China		7.5		8.6

Medium Term

	IMF	UNIDO, 1990-92		World Bank 1987-95	
	1990-92	Optimistic	Recession	Base	High
All developing countries	4.8	5.0	1.6	4.2	5.6
Oil producers				2.7	3.7
Exporters of manufactures				5.0	6.5
Highly indebted	4.3			3.2	4.8
Western Hemisphere	4.5	4.3	1.0		
Africa	3.4				
Sub-Saharan Africa				3.2	3.9
Asia	6.2				
South		5.1	4.0		
East		8.0	5.0		
China		9.6	8.6		

All the forecasts show Asia growing fastest, although slower than in the past, followed by Latin America, and Africa at 3.4%. Even on the base medium term, per capita income would only grow marginally in Africa, and it would fall on the loss of confidence or protectionist scenarios.

The World Bank forecasts are on the whole less optimistic than the IMF, with lower exports, and output. The only exception is Africa, which is expected to grow at a rate much closer to the developing country average than in the past or than in the IMF and other forecasts. (If it were lower, it would imply a fall in income per capita throughout the forecast period.) The main countries to gain from better industrial country policies are again the middle income countries (including some debtors) because of their exports of manufactures. As in the IMF, the increase in developing country exports from improved output in industrial countries is about twice the assumed rise in industrial country GDP, but, in sharp contrast, this permits an increase in developing country output of 1.4% for an export rise of 1.6% (the IMF was .3% for 1.2%).

The UN forecasts are also rather lower than those of the IMF, with Africa and Latin America particularly low (both would probably show continuing falls in GDP per capita). The constraint is believed to come from policy within the developing countries, as well as its expectation of rising real interest rates (particularly for Latin America).

UNCTAD has similar short-term forecasts of around 3% for all developing countries, but the spread among different areas is smaller: Africa and Latin America are expected to grow more rapidly than in the UN forecast, and Asia more slowly (because they are less optimistic for exporters of manufactures relative to the rest than are the other forecasters), although all are lower than the IMF forecasts. Only Asia has a significant growth in per capita income. For the medium term, UNCTAD expects a growth of about 2.6% for the most highly indebted countries, below other forecasts. Their exports are assumed to be constrained (to under 3%) by supply difficulties, because of low investment in the past, and imports by lack of foreign exchange from either exports or capital inflows. The existence of the supply constraint in turn limits the amount of debt relief that could be profitably used so that its alternative scenarios are still relatively low. It analyses the possibility of an alternative scenario which would 'eliminate the foreign exchange constraint', but it appears that the past investment deficiencies would still constrain output to only 5.7%. (pp. 113-120). There is an initial acceleration to over 7%, for a year, in order to raise investment to a new level, but it is surprising that the long run growth path appears to be so low. Under these assumptions, there are still net transfers abroad from the developing countries (new inflows cover only one quarter of interest payments under the base scenario, and half under the better one).

UNIDO's growth rate is higher than that of the IMF, at over 4% for all developing countries this year and next, and slightly higher in the medium term. It is more pessimistic for Africa (expecting a fall in per capita income this year), and slightly higher for Latin America.

A forecast for the Andean countries in June agrees with the slowing of Latin America in 1988, but also showed an increase on a previous forecast the quarter before. The Asian Development Bank expected the external environment to be poorer than in 1987, but nevertheless expected improved performance for the region: the East Asian countries would be able to maintain exports, while South Asian countries would benefit from recovery from the poor harvests of the preceding year. Other Asian forecasters are rather less optimistic for the East Asian countries, because the old NICs are likely to be affected by protection, and eventually by appreciation of their currencies and slowing of growth of exports to Japan. This will be offset, but only in part, by gains for the new exporters such as Thailand. These arguments would tend to support a deceleration in the Asian countries in the medium term.

As all these forecasts assumed lower than present interest rates (table 4), and only the UN included some rise, the more pessimistic forecasts, of small falls relative to 1987 figures, may now be realistic. The figures for Africa are probably most dependent on domestic policy changes as these are least exposed by the pattern of their exports to changes in demand in the industrial countries. In the absence of such changes, their recent performance does not seem to support a major relative change in their growth rates.

The forecasts for domestic inflation in the developing countries are so dominated by changes in a few countries that overall, or even area, averages are difficult to interpret. The IMF gives median estimates as well, and these show that the differences for the middle country of each area are not normally as large as for the averages. The BIS notes that inflation increased in most countries in 1987. The IMF, however, expects a fall in the median rate in 1988, and a further fall in 1989. The pressure on per capita incomes in Africa and Latin America and the difficulties of restructuring industry in the absence of strong growth probably help to explain the past rises in Africa and Latin America, in the early 1980s, so that the continued decline forecast by the IMF may not be consistent with the rest of the forecast which implies continuing pressure from these sources. The very high figures for the average, for all developing countries and for Latin America in particular, however, are the result of the difficulty of bringing inflation down from figures in the hundreds of percent in a few countries. Using medians, the 1987 rate was 8.4% for all developing countries, with Africa equal to the average, Asia slightly below at 6.3% and Latin America 14.7%. The IMF forecast for 1989 is a fall to 6%, with a range of 6-6.5%.

4. TRADE AND TRADE POLICY

All the reports warn of the dangers of protection and note that it is continuing to increase in spite of the GATT Uruguay round commitments for 'standstill' and 'rollback' on trade barriers. UNCTAD includes a description of common types of non-tariff trade barriers, while the UN uses the GATT series on developments in the trading system to show the increase in their use. The BIS also uses this measure, and joins those attempting to measure the total impact of 'grey-area' measures with an estimate that 50% of trade was managed in 1987. The World Bank, which devoted its 1987 special report to trade, uses the evidence from that for a note on the costs of protection, both the direct current costs to industrial and developing countries' trade of the former's barriers and the costs to the international system in terms of slower adjustment and weakened response to market signals. The most damaging of the three IMF medium-term alternatives to its base forecast is the protectionist. UNIDO warns against the dangers not only of protectionism but of growing 'regionalisation' of trade. It accepts that it may be a way of reconciling the conflict between the advantages of free trade and those of an independent macroeconomic policy if it involves creating full economic blocs (it cites the example of Europe in 1992), but trading blocs also introduce rigidities which it considered sufficiently important that it takes them into account in making its medium term forecast.

Although the 'medium term' goes beyond the intended end of the current GATT round, none of the forecasts appears to expect a fall in protection, sufficient to affect trade. On the contrary, most agree that the round has not even changed the trend increase in protection.

In spite of this universal pessimism on past and future policy, the performance of trade has been surprisingly good. In 1987, it was expected to grow more slowly than in 1986, only slightly above output in the industrial countries, with some recovery in 1988. According to the latest GATT estimates, it grew 5%, instead of the forecast 2.3-3.3%, and appears to be reaching the same rate in 1988. As expected, manufactures grew faster than the average, and are continuing to do so. GATT notes that the difference between trade and output growth (2 points) had increased in 1986 and 1987, returning to the level of the 1960s (an unusual way of expressing a relation more usually seen as a ratio), but does not forecast beyond this year. Most forecasts for 1988 are 4.5 to 5.5 % and for 1989 are for about 4.5% (which would fit this relation), but the OECD expects 6.8% followed by 6%, with manufactures remaining higher. These figures would approach the 1960s averages of 7-8%. The NIER forecasts are exceptional, compared to the others here or the past, in expecting slower growth of manufactures, although both are at a high level in the medium term. Trade growth increases compared to 1989, although output does not. The reasons for the changes are not given.

GATT points out that there was a recovery in 1987 in intra-developing country trade. There has not, however, been a return to the rising share of the early 1980s, and the major part of the recovery appears to have been accounted for by Asia, which also had the highest overall increase in exports.

The World Bank does not give a total forecast for world trade, but it expects relatively slow growth of developing country exports (table 3) (even its 'high' forecast is lower than the IMF base forecast, although it has a slightly higher industrial country output). Within the average of 4%, exporters of manufactures are expected to suffer a particularly steep fall from an average of 9.3% in 1980-87 to 5.1 (or at best 7.1%) in 1987-95. In contrast, sub-Saharan Africa is expected to be able to increase exports at 2.7% (or 3.4%), faster than the rate of growth of output growth in industrial countries, in spite of their high share of primary products, and the past stagnation (from 1973-80) or falls (-1.6% p.a. between 1980 and 1987). This expectation must help account for their relatively better performance on output in the future, but it is not explained. Part is an increase in their exports of manufactures (against the trend for other developing countries), but exports of primary goods by all developing countries are expected to rise at least in line with industrial country GDP, which represents a change in trend. The increase, however, does not apply to oil where the price has fallen and the cartel weakened. Imports are expected to increase more than exports, but this is mainly true of the middle income exporters of manufactures. This tends to confirm that no major stimulus is expected from a greater increase in imports than exports on the part of the industrial countries.

In the medium term, the IMF expects only the Asian countries to increase their share of trade, with the African share continuing to fall, and probably little change for Latin America.

The UN does not expect a major change in rates for world trade or manufactures between 1987 and 1988-9 (and has low forecasts for both based on early 1988 estimates for 1987) because of the similar growth in output, but does note that the 1987 levels already were a major improvement on averages for the early 1980s. UNCTAD expects a small reduction in world trade growth in 1989.

The forecasts do not in general expect a large improvement in the share of developing countries in world trade, with at best some increase in share of trade in manufactures, offset by relatively slow growth in oil exports. In 1987, expectations were for a small fall in share in 1987, followed by recovery in 1988. In the event, they appear to have increased their share, with double digit increases in exports of manufactures, reflecting the large increase in imports by Japan from the Asian NICs and new NICs. The slowing is now expected in 1988, although

Table 3
Export volume by developing countries

percentages

	IMF	UN	UNCTAD	OECD	NIER
1988					
All developing counries	6.4	5.5	5.3		
Oil exporting	4.6	2.1	3.7	4.0	
Non-oil exporting	6.9	7.6		7.0	
Exporters of manufactures	8.1		7.0	9.0	
Exporters of primary	4.2		5.0	4.0	
Highly indebted	5.2				
Western Hemisphere	5.2				4.4
Africa	3.6				-1.1
Sub-Saharan Africa	4.3				
Asia	8.6				6.4
South					
East					
China					
1989					
All developing countries	5.7		4.5		
Oil exporting	2.2		2.7	5.0	
Non-oil exporting	6.8			7.0	
Exporters of manufactures	7.9		6.3	8.0	
Exporters of primary	4.9		4.4	4.0	
Highly indebted	3.8				
Western Hemisphere	3.8				1.7
Africa	2.5				1.4
Sub-Saharan Africa	3.2				
Asia	8.3				12.7
South					
East					
China					

Medium Term

	IMF	World Bank 1987-95		NIER
	1990-92	Base	High	1990-92
All developing countries	6.4	4.0	5.6	
Oil exporting		2.2	3.2	
Exporters of manufactures		5.1	7.1	
Highly indebted	3.9	3.2	4.3	
Western Hemisphere	4.4			5.6
Africa	2.3			-0.3
Sub-Saharan Africa		2.7	3.4	
Asia	8.3			1.8

Asian exports of manufactures are still expected to grow at 6-8% a year, comfortably faster than world trade in manufactures. Part of this increase is now feeding on the growth of trade among Asian countries; GATT notes the increase in Asian importance as importer as well as exporter of manufactures.

In contrast to the early 1980s, all the Asian NICs now seem to be increasing their rate of growth of exports of manufactures, not merely the newer ones, although this could be adjustment to the new relationship of their currencies to the yen. As well as increasing exports to Japan, they could also be replacing Japanese exports in third country markets. Japanese exports fell in 1986 and have shown little change since then. There have also been large rises in US exports during this period which the markets have been able to absorb. The OECD (for the first year it gives trade forecasts for the four Asian NICs individually) does not expect a further large gain in their share to individual markets, but combined with the relatively rapid growth of Japanese imports, this nevertheless implies a continued growth in their share of aggregate trade in manufactures.

The increases in exports were not accompanied by an immediate rise in imports; in 1987, only Asia had a large rise, while Africa and oil exporters in general had falls, and Latin America only a small rise. A larger rise is expected in 1988, but those forecasters who give a breakdown expect this again to be mainly from the Asian countries, with this continuing in 1989. Although the IMF expects some revival in Latin American imports in the medium term (to a rate of 5%), African imports remain depressed. In the potential Asian trading bloc, both Japan and the NICs support rapidly growing trade while the two areas with the most severe foreign exchange difficulties from existing debts remain constrained by their own foreign exchange earnings, indirectly by those of their principal trading partners, and by slower growth in US and European imports.

5. WORLD TRADE PRICES

The rises look smaller comparing yearly averages than calculating changes through 1987, and for developing countries than for industrial, and there has been a fall since the peak in early summer 1988, and coffee producers saw a severe fall in 1987, but all cautious provisos cannot conceal the fact that commodity prices for most developing countries rose in 1987 and, if anything like present levels are maintained, are likely to do so again in 1988 (table 4). (The UN gives a full description of the different indices, p. 38.) Although manufactured export prices also rose in 1987, and are expected to in 1988, there was a significant improvement in developing countries' terms of trade in 1987, which will be at most partially offset in 1988. Prior to the rise, forecasters had stressed the importance of actual and anticipated changes in terms of trade to the trading position and credit-worthiness of developing countries, but these events do not appear to have changed forecasts of behaviour, because they are not expected to endure. There are some differences in timing and distribution, but most expect a levelling off (in dollar terms) in 1989, and at best little change relative to manufactures thereafter, with a downward tendency.

It is important not to exaggerate the importance of this for all developing countries: since 1980, the major losers have been poor producers of primary products, predominantly sub-Saharan African countries. The IMF stresses this, and the UN considers the implications of different prices for different countries. The World Bank notes the effect of different composition of exports, but also stresses the differences in supply response (p. 27), although it does not note the second-round effects on world supply and therefore prices of the large quantity increases by the Asian countries. Both the UN and UNIDO blame 'international lending agencies' for part of the excess supply.

But it is also important not to underestimate it: all areas have done worse than in the 1970s, and the principal moral they have drawn is that it is better to move away from a pattern of primary exports and manufactured imports. Attempts to explain the movements in recent years, within the IMF and World Bank as well as by independent researchers suggest that there was a definite structural shift downwards in the price level, because of overexpansion in supply, but also find that under present conditions of technological change economic growth in industrial countries must be in the range of 3-3.5% simply to counteract the trend downwards of prices. The medium term trend on the output forecasts given here would therefore be for no rises in the relative price. Relatively faster demand growth in the developing countries could have a more than proportional effect on some products because primary products' share in their demand has fallen less.

The sharp rise in 1987-88 can, however, be considered a result of the reversal of the 'overhang' of supply and stocks and therefore not the rising portion of a temporary fluctuation; the base on which a medium term outlook should build may be higher than was assumed by medium term forecasts a year ago. Investment in some minerals was low in the early 1980s, and since then there have been some reductions in agricultural subsidies and poor harvests, for example in the US in 1988. GATT also notes pressures in 1987 from increased demand for food imports in Asia and the oil exporting countries, and reduced production in the USSR in that year.

The forecasts for oil, like those by oil companies and independent observers, generally expect no important change in the forecast period, although UNIDO thinks a supply crisis is possible later in the 1990s, and there are doubts about the way in which non-OPEC production will move. (Only the NIER appears to expect a return to a rising real price.) The large fall in both the dollar price and the dollar exchange rate had more than balanced the recovery in price in 1987, even before the prospects for settlement of the Iran-Iraq war suggested an increase in supply (and, perhaps, a reduction in long-term perceptions of risk). The potential effects of the 1986 oil price fall remain relevant in looking at medium-term prospects for investment and growth.

6. BALANCES, INTEREST PAYMENTS, AND FINANCING

Interest payments do not appear to have fallen from most areas in 1987, and, by IMF estimates, have remained roughly constant at $90 billion a year since 1982. Even with the flat interest rate forecast, little change was expected in 1988-9, with the total reaching $94 billion from

Table 4

Prices, Interest rates, and Exchange rates

percentages

	IMF	UN	UNCTAD	NIER	OECD
1988					
GNP deflator industrial countries	3.0	4			3.5
Change US$ effective rate	-7.4	-5	-7.5	-6.5	-8.5
6 month LIBOR	7.5			7.7	7.9
6 month LIBOR, deflated by US GNP deflator	4.2	>4.5		3.4	4.5
Prices US$					
World exports	6.9	7.0			7.8
Manufactured exports	8.0	8.0		5.6	7.5
Oil	-7.8	0.0	-7.8	-12.4	-8.3
Oil, real	-14.6	-7.5		-17.0	-14.7
Primary products	9.4	0.0	>0		15.3
Food	11.8			12.2	16.1
Tropical beverages	8.8				3.4
Agricultural Raw Materials	8.1			12.1	9.5
Minerals, ores, metals	9.2			36.8	29.7
1989					
GNP deflator industrial countries	3.1	4.3			3.8
Change US$ effective rate	-0.1	-2.5	0	-4.9	0.0
6 month LIBOR	7.5			8.1	8.9
6 month LIBOR, deflated	3.9			3.1	4.7
Prices US$					
World exports	4.3				3.0
Manufactured exports	3.4			6.8	2.5
Oil	5.1		0	8.4	3.2
Oil, real	1.6	0		1.5	0.7
Primary products	1.0	<0			1.0
Food	4.6			14.5	1.9
Tropical beverages	3.9				3.3
Agricultural Raw Materials	1.5			16.3	1.6
Minerals, ores, metals	-7.2			-11.5	-0.8

Medium Term

	IMF	World Bank 1987-95		NIER
	1990-92	Base	High	1990-92
GNP deflator industrial countries	3.0	4.0	3.2	
6 month LIBOR	6.7	8.1	7.7	7.3
6 month LIBOR deflated	4.3	2.6	2.1	3.9
Price US$				
Manufactured exports	3.5			3.6
Oil	3.5			6.7
Oil, real	0			
Primary products	2.5			3.0

$87 billion in 1987. The current balance of developing countries in total remains approximately in equilibrium, after a small surplus in 1987. Even including OPEC's deficit, the large rise in exports and terms of trade and lagged response of imports had given a substantial increase in the trade surplus.

On the forecasts summarised here, with little change in the relative volume growth, terms of trade, or interest rates (table 4) from now on (the interest and exchange rate forecasts are discussed in the policy chapter 10), balances also remain substantially unchanged. By areas, the relatively large surplus of Asia ($23 billion in 1987) will fall slightly (because of the rise in imports noted above), while the deficits (of $6-9 billion of Africa and Latin America) will be little changed. All the areas remain in surplus on trade account. The present (early September) interest rate, other things remaining equal, would add 20% to interest payments, or $18 billion to the total if all interest payments were linked to market rates. As even official rates are linked indirectly, although with a longer lag, this is a reasonable approximation for the major debtors. It may be more so for Africa (with predominantly official debt) and Latin America than for Asia, which has a relatively high proportion at fixed interest rates. For both Africa and Latin America, a rise of 20% would be almost exactly equal to the improvement in the current balance estimated for 1987 (of $2 billion and $7 billion, respectively). (This would also be true for the category of 'heavily indebted countries.)

It is not clear whether this would alter the other parts of the forecasts for the areas. The improvement in balances was not apparently expected to be used to finance a large increase in the volume of imports (except in Asia, with relatively sustainable debts), and the simulations and forecasts suggest that forecasters expect the debtors to use any improvements in the external situation to make earlier or stronger improvements to their internal and external balances rather than to increase imports and output. This is in line with the target explicitly assumed by the World Bank of reducing net transfers abroad. Even for the still creditworthy countries, there appears to be no expectation that a substantial number will move back into persistent deficit, with the exception of such sub-groups as 'small low-income countries'. Even sub-Saharan Africa is expected to have a trade deficit of only about $2.5

billion, with its receipts of grants only just balancing its payments of interest.

The forecasts for external financing, public and private, explain why the forecasters must assume that this exceptional situation of outflow of capital from capital-scarce to capital-abundant areas continues. (The IMF notes that the 1987 current surplus was the first recorded for 'at least' 20 years.) The IMF says that the areas that maintained 'comparative stability' did so because of financial constraints; that is, the balances do not indicate an underlying equilibrium (p. 17). All areas are affected. The World Bank considers that low-income Africa has been worse affected by the shortage of external finance than the middle-income debtors because of dependence on 'erratic' public sector finance (p. 6). Although there are fluctuations for individual donors and countries, in practice official flows have not fluctuated greatly, and on the World Bank's forecast, they will be increasing for Africa because Africa is expected to receive a much higher proportion of the static total. Some of the change represents a shift from lending to grants but more financing in total is now expected, helping to explain Africa's relatively better growth forecast.

The major problem for countries which rely on official flows has been that in aggregate they have not risen, as all the forecasters stress. On OECD estimates, official aid fell in real terms, and as a share of its member countries' GDP, in 1987; this followed a fall in 1986, so the level was below that of 1984. The forecasters do not expect major changes in total official financing in the short or medium term, and there are no significant differences among them. Transfers are expected to remain flat, or possibly continue to fall, roughly offset by small rises in official lending to give growth of at best 1% in the medium term. Although the IMF has recently announced a new form of more general compensatory finance, agreed in principle last April, it does not expect a net increase in its own credits, although the net repayments to it, which reduced total official payments in 1987, are not expected to continue beyond a small amount in 1988. With the shift in official financing to Africa, this suggests falling official as well as private financing for the other indebted countries (this is particularly clear in the World Bank forecast). This could imply that higher interest payments would feed back quickly onto the forecasts for imports.

The UN notes that net official flows have fallen 60% since 1980, because of the lack of growth of transfers and increase in repayments on loans. By 1986 and again in 1987, interest repayments exceeded new lending on official as well as private loans, so only countries receiving high levels of grants could avoid net transfers abroad. This is consistent with the surpluses forecast for all except the lowest income countries.

Private inflows are expected to continue to fall (except on the World Bank's high forecast, under which private lending revives). The only growth is expected to come from direct investment, with loan finance continuing to fall in real terms. Forecasts for rises in direct investment, however, have in general been lowered since earlier optimistic estimates, with the World Bank expecting about 2% in real terms to 1995. There appears to have been a small rise for 1987. The UN notes this rise, but comments that the profits remitted also rose, so that it made little difference to net payments abroad. If it is confirmed (investment data are subject to large revisions, and an April publication could have had only preliminary estimates) it could, however, be considered an encouraging change in a trend that has been down or flat since the early 1980s. Such inflows are, however, very limited in the countries to which they go. UNIDO stresses the large increase in investment, especially by Japanese companies, to Asia which began in 1986, while the amount going to the traditional leading recipients in Latin America fell. Investment does appear to be going to some new recipients within Asia, including the Philippines and Indonesia, as well as the traditional Malaysia, Singapore and (increasingly) Thailand. UNIDO also notes the growing importance of intra-Asian private investment, which could further increase that region's relative growth.

The IMF suggests that for a recovery of private financing to occur, lenders must receive a positive return: on past evidence, depending on conditions in industrial countries, this could over or under-estimate the debtors' problem. They must receive a return which is at least equal to that from alternative lending. At present interest rates, this is a great deal more than just greater than 0, while in the 1970s, it was less.

The World Bank has changed the repayment terms for some of its loans, to give longer grace periods for middle income countries, and longer repayment periods for the low income, thus increasing its net disbursements up to 1995 (or 2000 for the low income). This improves the current position of the debtors, but the basic problem of ultimately being able to finance high real interest payments remains.

7. DEBT

The forecasts do not assume any relief in the level or terms of existing debt. They note that in 1987, payments were reduced on some commercial debts because of a combination of rescheduling and non-payment, of capital or interest, but this does not carry over into the forecast period (except for agreed reschedulings). The IMF, UN, and UNCTAD all note the high share of official creditors in the debt of the poorest countries, and describe the measures, proposed in 1987, for conversion of bilateral loans to the poorest to grants. These were confirmed by the June 1988 summit, subject to finding a 'framework of comparability' suitable for different creditors, among concessional interest rates, write-offs, longer repayment terms. (The 'menu' approach is thus now being applied to creditors as well as debtors.) Although this may delay implementation to beyond the end of 1988, the forecasters implicitly accept that a long-term solution has been found for the bilateral debt of the poorest.

This leaves two major sources of debt: multilateral official and bank (as well as bilateral debt owed by poor, non-African countries). The IMF explicitly suggests that the purely African initiatives be extended to 'similarly situated countries'. The IMF and UN note the proposal of the Nordic countries for a new fund to repay the poorest countries' World Bank debt. The UN opens its discussion of debt to official creditors with the comment that 'It might appear paradoxical that the unusual Bolivian restructuring of bank debt was arranged for a country that has paid and is scheduled to pay more interest to official bilateral and multilateral agencies than to commercial banks on public and publicly guaranteed medium-term debt'(p. 66). The IMF's proposal to extend present bilateral plans could meet the difficulty that Bolivia faces through not being in Africa. On multilateral official debt the most even

UNCTAD or the UN will say is that the problem exists and something must be done (UN, p. x). The World Bank is increasing its provisioning against bad debts (starting as soon as interest payments are in arrears, not after two years as before), with eight countries' debt subject to such provisions.

On commercial debt, UNCTAD gives an extensive special section (pp. 91-131) to suggesting that a 30% reduction in payments, equivalent to $10 billion p.a. additional foreign exchange would lead to an immediate increase of 7% in income and eventually of 2.5% p.a. in the growth rate. The results are presented only at aggregate level, but the discussion indicates that this would be allocated in accordance with current inability to meet payments so that the entire effect would go to alleviating foreign-exchange constrained countries. It also presents a scenario showing that although $16 billion p.a. in new lending could have the same immediate effect on income growth, it would leave debt-output ratios unchanged. These scenarios may be a comment on the IMF.

The IMF had estimated the implications of an extra $10 billion a year in new lending for the indebted countries (p. 35-8). In the UNCTAD and IMF scenarios the additional finance is used to increase investment, through financing additional imports. Under the IMF scenario, this does not therefore raise their GDP immediately, and even by 1992, it is only about half a percent higher. $10 billion financing is only equal to developing countries' current balance (at forecast interest rates) in 1988 (or slightly in excess of their loss from a one fifth rise in the interest rate), and would still require them to be in substantial surplus on trade account (the IMF's base forecast is $30 billion in 1989). The IMF scenario, like the debt relief proposed by UNCTAD and like the World Bank target, still implies net transfers abroad. As the IMF notes, it would also be necessary to ensure that the return on the investment was at least equal to the interest rate if the lending were not to increase the future debt burden. The UNCTAD considers its own 'new lending' scenario impractical for this reason because the risk would be unacceptable to the countries or the banks.

The IMF and UNCTAD do not suggest how their proposals could be achieved. (And as UNCTAD points out, the practicability would also depend on such quite specific factors as whether the banks best able to afford debt

Table 5
Ratios of interest payments to GDP and exports

	interest/gdp ratios				interest/exports,goods and services			
	1970	1975	1980	1985	1970	1975	1980	1985
Newly industrialising countries								
Argentina	.6	.7	1.6	5.7	5.6	7.4	7.5	33.6
Brazil	.3	.7	1.7	3.0	4.3	8.6	18.0	21.5
Hong Kong	.0	.0	.2	.1	.0	.0	.1	.1
India	.3	.3	.2	.4	8.9	4.4	3.0	5.6
Mexico	.6	1.0	2.2	4.5	7.4	13.0	15.8	25.2
Singapore	.3	.5	.9	.9	.3	.3	.4	.5
South Korea	1.0	1.4	2.2	2.6	5.1	4.8	5.8	6.5
Taiwan								
Average	.4	.7	1.3	2.5	4.5	5.5	7.2	13.3
New NICs								
Colombia	.6	.9	.8	2.3	4.3	5.2	4.8	15.7
Malaysia	.6	.7	1.0	3.9	1.2	1.4	1.7	6.3
Peru	.6	1.2	2.9	.9	3.5	10.9	11.2	3.9
Thailand	.2	.2	.8	1.6	1.4	1.2	3.1	5.9
Zimbabwe	.3	.1	.2	2.4	1.1	.2	.6	7.0
Average	.5	.6	1.1	2.2	2.3	3.8	4.3	7.8
Other middle income countries								
Chile	1.0	2.3	1.8	7.1	6.1	8.5	7.7	21.4
Costa Rica	.7	1.2	2.8	10.1	2.5	3.9	10.6	26.3
Egypt	.7	1.4	1.6	1.8	5.6	6.9	6.0	8.5
Ivory Coast	.8	1.5	3.8	7.2	2.0	3.7	9.7	13.0
Kenya	.8	.7	1.9	2.5	2.3	2.2	6.4	9.4
Morocco	.6	.5	3.4	4.1	3.3	2.5	18.8	15.3
Pakistan	.8	.9	1.0	.9	9.5	7.6	7.5	8.4
Philippines	.3	.4	1.1	2.6	1.8	2.2	4.6	10.5
Senegal	.2	1.0	2.0	1.8	.8	2.7	6.4	6.0
Sri Lanka	.6	.7	.8	1.9	3.1	3.2	2.5	6.6
Tunisia	2.6	.8	2.5	3.0	5.4	2.6	6.4	8.8
Uruguay	.6	1.3	1.0	6.0	5.4	8.3	6.6	21.2
Venezuela	.3	.4	2.1	2.8	1.4	1.0	5.5	8.2
Average	.8	1.0	2.0	4.0	3.8	4.3	7.6	12.6
Area averages								
Africa	.9	.9	2.2	3.3	2.9	3.0	7.8	9.7
Asia	.5	.7	1.0	1.8	4.5	3.6	4.0	6.5
Latin America	.6	1.1	1.9	4.7	4.5	7.4	9.7	19.7
Average	.6	.8	1.5	2.9	3.5	4.5	6.4	11.2
Interest rate on private finance	7.5	8.6	12.6	9.1				
Real: deflated by:								
US CPI	1.5	-.5	-.8	4.7				
Non-oil ldc exp.P.	3.5	1.8	-6.5	15.9				

Source: World Bank, World Debt Tables

relief or new finance were those holding debt of the most constrained and largest debtors.) UNCTAD still favours a joint solution because of the difficulty of persuading one bank to give assistance which will benefit other banks at its cost: the countries which it relieves will become more creditworthy to their other creditors. The IMF scheme implicitly avoids this problem by assuming that a country can offer (and indeed guarantee) a high enough return to satisfy a bank without joint force or persuasion.

In practice, some debt relief for commercial debtors appears to be coming from the variety of swap, buy-back, and refinancing schemes that have come to be called the menu approach, but which (as the forecasters agree) do not seem likely to have a significant effect on interest payments. Like the forecasters, the debtors and creditors appear to be treating the existing obligations as a semi-permanent payment, although one subject to 'political risk' of non-payment.

The fact that this justifies treating the payments as fixed in the forecasts does not mean that their importance to the forecasts should be neglected. The interest payments now being paid by middle-income countries (table 5) are three or four times higher than would have been considered acceptable 15 years ago, even for those not conventionally considered to be 'most heavily indebted'. Even if (as in the forecasts) no further debt is incurred and interest rates do not rise, these represent an additional and fixed payment to be subtracted from the external finance available from exports or capital inflows. The ratios must be seen in the context of ratios of investment to GDP of around 20%. They would thus significantly reduce the potential for development even without the lower levels of external financing, as discussed in the last section. Their present high level, and the fact that they rose, for most countries within a short (about five year) period of borrowing also deter countries from further increasing their indebtedness, justifying the forecasts that few countries even among those apparently creditworthy, will want to borrow. This is an obstacle to proposals such as the IMF's which depend on willingness to incur new debt.

8. EXTERNAL FORCES OR DOMESTIC POLICY

The reports continue the trend towards greater emphasis on behaviour and policy in the developing countries as a determinant of their performance. It is in some cases difficult to know how far this is because forecasters consider that this is the major explanation of variations in developing country growth and how far it is because it is considered the easiest to alter. The continued criticism of US policy, however, suggests that the institutions do not consider a limited ability to influence behaviour a reason for not trying, and the stress on differences among developing countries' achievements, rather than between their results in the 1980s and in earlier periods with more rapid international growth also indicates that looking at specific rather than general explanations is considered more fruitful. In 1987, a swing to such a bias was understandable because developing countries' growth in 1986 had been much 'too good' to be explained by the not exceptionally strong performance by industrial countries. In 1988, there is no similar puzzle in the 1987 figures. There is a risk that the correct perceptions of any individual country, that external factors are only one among many forces affecting its performance, will lead to underestimation of their aggregate effect unless those forecasters which take an international starting part take a particular responsibility for looking for general factors.

UNIDO has always stressed the importance of structural and industrial factors, and, particularly after its success in forecasting good growth in 1987, it remains confident that growth in 1988 and beyond can be sustained by the processes of structural change. It argues that the nature of dependence on external forces is more complex than in the past, with smaller industrial countries and, within regions, some developing countries becoming important influences. It also stresses the efforts by many developing countries deliberately to alter the structures of their economies to reduce external dependence. Even where they have not been successful, the nature and the timing of dependence may have changed, and it prefers to talk of interdependence. There is growing evidence, touched on in some of the forecasts, that within their own regions, the largest countries of Latin America and Asia are becoming as important as some industrial countries as markets and suppliers of external capital.

The IMF now places greater emphasis than in the past on mobilising increased domestic saving, and increasing the domestic productivity of investment, and discusses the differences between the Asian and Latin American countries. In a useful table (p. 31) it compares the contributions of capital, labour, and productivity to potential output growth, between the 1970s and the 1980s, and across the different regions. It suggests various domestic policy changes to improve the efficiency of Latin American savings and investment. (By contrast, in its 1985 report, it put more emphasis on the change in the contribution of external savings and the effect of this on total investment and therefore on potential growth.) 'A favorable external environment is very important...but not in itself sufficient to permit a resumption of growth.'

The UN considers both important, but its analysis (pp. 143 et seq.) looks mainly at determinants of differences in current performance, after it has noted that the average is lower than in the 1970s or 1960s. It finds significant results for differences among developing countries. In its medium-term simulation of faster growth of industrial countries it finds only a small effect (one sixth of the increase in output growth is transmitted to them). The explanation (p. 24) which it gives is that this is because of the 'continuation of stringent adjustment policies'. Imports therefore rise much less than exports in response to the changed external environment. This suggests that the adjustment policies are assumed to be based on domestic targets, and therefore that the external situation is not binding by policy hypothesis, rather than by the nature of the economies. It makes the important distinction between large and small-to-medium size countries.

The World Bank's special subject for this year is 'Public Finance in Development', but the discussion goes well beyond questions of efficiency in mobilising and spending public resources into attempting to establish criteria for the proper role of the public sector, and the allocation of tasks between central and local government. It discusses the functions of government in terms of the conventional considerations of public goods, external economies and diseconomies, and regulating imperfect markets, but treats all these, and the more developmental extensions of them, to including infrastructure and distributional goals as 'public goods', as part of a 'public interest' view of government. It contrasts this with the more recently developed 'private interest' approach of looking at the behaviour and goals of individuals 'whether in or out of government' (p. 49). There is an apparent confusion here of two types of criterion. The first approach defines what is 'appropriate' for the public and what for the private sector. The second analyses how individual behaviour can create practical difficulties for achieving organisational goals, and can be used to decide what is done better in practice by the public or private sector. In its summary, it suggests that the latter is the correct way of choosing (p. 7), but it does not explain why it should be assumed the behaviour of individuals necessarily implies worse distortions within public than within private organisations.

Most of its detailed treatment relates to practical reforms to what is done, not to moving the boundaries. The stress it puts on this sector suggests that it considers domestic policy of critical importance: 'The Report's main concern is how appropriate public finance policies can improve the quality of government' (p. 1). In the forecast chapter, 'the outlook for developing countries depends critically on their own domestic policies' (p. 39). The medium-term analysis, however, is summarised as 'The best way to avoid these risks [of poor economic performance in developing countries feeding back on the developed, and thus to a 'severe setback for the global economy'] is for the industrial economies to adopt the economic policies that lead to the "high-case" scenario. ' (p. 38).

It is interesting that it strongly advocates local government and decentralisation of public sector decision-making. The UN (particularly when looking at the USSR and Chinese reforms) and UNIDO (in industrial structure) also suggest that there are advantages to smaller units. It is not clear why small units are now considered better apparently for countries of all sizes and traditions. The UN again stresses that larger countries have had more successful growth in recent years.

The World Bank's 140 pages of special topic to 30 of forecast is exceptional (since 1978, the first WDR, the expansion has been entirely in the treatment of the special topic) but most of the reports are giving increasing attention to discussion of particular issues rather than to deriving and analysing forecasts. From the point of view of the user, a division appears to be emerging between the reports which emphasise how the forecasts are derived, and analyse structural tendencies and trends which could affect them, and those which are placing increasing stress on policy recommendations, with the forecasts treated more as background necessities. The numbers in the World Bank forecast are nearer to those of other forecasters, so that they appear less in need of explanation than in recent years, but the lack of discussion or of an explanation of how the 'High' case actually works[3] is frustrating for a user trying to judge the probability of different outcomes.

The IMF has substantially reduced the space given to explaining its forecasts and scenarios, especially exactly how developing countries respond to the different scenarios for the industrial countries (and it should be noted that under all the scenarios, the developing countries are assumed to strengthen current adjustment efforts; they are not 'unchanged policy' forecasts[4]). There are more 'Notes' on special subjects, but these tend to be historical, rather than contributing to the analysis.

The UN has special sections on women, the October 1987 crash, and the oil market, responding to current interests of its members, rather than specifically to the analysis behind its forecast. UNCTAD follows the World Bank's example not only in devoting increased attention to advocating policy reform (in its case, to debt management) rather than to forecasting, but in giving half its space to a special topic: it has a section on 'Services in the World Economy'.

The UNIDO sections on 'Structural Change and Technical Complexity in Industrial Growth and Accumulation' and on individual manufacturing

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[3]The explanations given for different reports' alternative 'scenarios' are given in the appendix.

[4]The IMF also 'breaks' the usual forecasting rules by comparing its current views on 1987 and 1988 with its October 1987 forecasts, not with its year earlier, April 1987 views. As UNCTAD (1988) is already sufficiently later than IMF (April 1988) to be quoting it, the concept of a comparable set of summer forecasts is breaking down more generally. There are some puzzling differences between the text and appendix tables in the IMF forecast which suggest that these were done at different times.

sectors are more closely related to its supply-oriented view of how developing countries relate to the rest of the world.

The OECD has greatly expanded its forecasting for developing countries, including country forecasts for individual NICs[5]. The BIS has also expanded its discussion of developing countries, in all chapters, partly no doubt because of their growing weight in and significance for financial markets and capital movements, but the new section on manufacturing productivity in the industrial countries and the discussion of the equity implications of structural adjustment[6] suggest a broadening of its scope. GATT gives increased attention to different types of trade, including a special section on agriculture, and the report is expected to include more emphasis on factors affecting trade in the medium term, including technology and demography, although there are still no forecasts beyond the current year.

The move beyond forecasting into discussions of individual topics may reflect a dissatisfaction with the prospects which the conventional forecasting models, which still place strong weight on the external environment, imply, as well as with the models themselves. The result is a much more complex and diffuse view of what is happening to developing countries, and what they can do to affect it, which does not correspond precisely to the differences in the forecasts themselves.[7]

9. STRUCTURAL CHANGES

The forecasts offer changes in economic structure, usually based on deliberate structural planning, as the explanation of better performance in the past, for example in Asia, and as the way out of the unchanged policies impasse for the future. There are differences in emphasis, as

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[5]NIEs, the terminology approved by the 1988 Summit, is gaining on NICs, but there is no consensus among the forecasters.

[6]It makes the interesting parallel between micro-economic structure reform and reducing trade protection: both may offer wide-spread benefits, but impose concentrated costs on a narrow group (pp. 36-7).

[7]As a Bank of England official recently said of the fact that its model showed that a rise in interest rates worsened the trade deficit: 'It doesn't necessarily show what we believe.'

is clear from the medium term forecasts, between redirecting, and improving the quality of investment, and increasing its quantity. The IMF emphasises the former, describing the greater efficiency of investment in Asia than in Latin America or Africa, and the greater orientation of some Asian countries towards exports. The BIS looks at both, and emphasises the problem of restructuring when growth is slow and the harmful effects of adjusting to the debt crisis where this has meant cutting investment as well as increasing domestic saving (as in Latin America and Asia) (pp. 40-45). The slow growth assumed by UNCTAD, even if debt write-offs remove the external constraint, must imply a substantial reduction in capacity because of past low investment, and more constraints than the other forecasters suggest on recovering from this.

It is noteworthy that all these forecasters assume that government action must mobilise investment and increase its efficiency. If exports cannot be the engine of growth, and past and present growth are not themselves sufficient incentive for domestic or foreign investors (and the former may be hampered by lack of capital as well as of experience), there is no other obvious mechanism. The World Bank, with its more limited view of the potential and propriety of government intervention, does not assume any improvement in developing countries' policies between its base and high cases, and is therefore faced with a low forecast for developing countries (mitigated in its High case by their greater responsiveness to changed growth in the industrial).

The problem with discussing and basing a forecast on structural change and investment efficiency in the context of these reports is the traditional methodological one of making medium term forecasts which are extensions of short term ones. The problems and analysis do not fall within conventional economic analysis, of producing more of the same, or doing the same thing differently or for different markets, or even transferring production from one country to another. The forecasters who argue that they do not expect strong medium-term growth because they do not see where it will come from in terms of the short-term determinants may be making a correct, but irrelevant, point. Sustained growth, as analysis of the NICs' performance and successful attempts to imitate them shows, comes from creating and promoting new industries, new exports, and new markets, and not from only responding to external influences. The reconciling link between this view, strongly taken by UNIDO in this and previous years' reports, that development comes from within and the more conventional one that countries are dependent on the world situation (which justifies the existence of world economic forecasts and analysis) is the point, emphasised for example by the BIS and UNCTAD for the developing countries (and feared by UNIDO for the United States), that the external situation can constrain action within an economy sufficiently to make internal growth or development impossible.

If this external constraint is binding, and either so severe that no investment is possible (as in the early 1980s) or less tight, but the potential points for development so many and so obvious that analysis seems superfluous (effectively the position assumed for developing countries in pre-1973 world economic analysis and arguably still for poorer countries), conventional demand analysis is sufficient. If some choice is possible, industrial analysis of the type attempted by UNIDO in its report is necessary, although it means going beyond (or perhaps between) conventional macro-economics or micro-economic efficiency criteria.

The UNIDO report suggests that the US and Europe need a Japanese-style effort to restructure industry towards exports and high-technology goods. Latin America also requires a shift to higher value added goods, and new more diversified production to follow the Asian success. For Africa, the principal need identified, however, is of more foreign exchange to pursue existing efforts to raise productivity and investment: all efforts to increase efficiency hit a shortage of imports at an early stage.

The successful growth in Asian countries, in India and China, as well as the South East Asian exporters, is explained by shifts into manufactures and into higher technology. The exception is Indonesia which has moved to more resource-based industries. The report looks particularly at the importance of balancing production of capital and consumer goods. One reason is to avoid excessive vulnerability to external fluctuations, a contrast to GATT's emphasis on the advantages of external exposure to encourage efficiency, but looking for technological rather than demand-based criteria for production is more efficiency-related than import substitution based on domestic demand. UNIDO suggests that most countries have wrongly followed a sequence of consumer goods before capital goods, which leaves them seriously exposed to external influences because reduction in foreign exchange puts an immediate limit on investment. It contrasts this with analysing the 'technological complexity of a product' (i.e. looking at how it is produced, not whether it is simple or cheap to use). It develops measures of the complexity of producing 586 engineering products, and shows how countries' distribution of production can be related to this. Although the size of market also remains an important consideration, the measure does separate countries into plausible categories of more and less developed.

Its industry-by-industry analysis is used to derive some general prospects for future structural changes in developing countries. The principal ones are evidence of the beginning of transfer not merely of technology but R&D activities to the most advanced of the developing (South Korea, Taiwan, Brazil, and India, of which all except Taiwan are also most advanced by its number of complex industries measure), and support for the growing concern that changes in technology are tending to reduce labour intensity, and hence the advantage of those developing countries which can offer labour supply as a source of comparative advantage.

10. THE ROLE OF POLICY INTERVENTION

All the reports, not just the World Bank's, show an increased interest in the possible contribution of policy. With the 'unchanged policy' outlook still mediocre, the October crash and discussions of the contribution to it of increasingly 'efficient' use of information and international transmission of shocks and funds have probably strengthened the movement of the general climate of opinion away from efficiency/market solutions towards interventionist/managed reactions. The BIS warns of the risk of jumping from extreme belief in the efficiency of markets to an equally extreme advocacy of regulation, but moves in that direction include the increasing stress on avoiding large fluctuations in exchange rates, as well as the growth of protectionism.

The reaction to the October crash has brought an additional element to the discussion of intervention: it is now advocated not only because some believe that policy may do better, and certainly cannot do worse, than markets to improve medium-term performance. There is a view that 'excessively' efficient markets may be actually damaging in themselves, not just that they do not necessarily lead as quickly as intervention might to an observer's desired objective. The risks from overshooting, from instability because of instant incorporation of expectations into behaviour, from loss of the room for manoeuvre given by lagged responses to policy or other shocks, which have been extensively discussed in terms of domestic financial and foreign exchange markets (and more generally, as limits on the effectiveness of government intervention), are now receiving increased attention at the international and real level. There is a spreading belief that over-efficiency in some markets can put undue strains on others (for example, from capital markets to trading markets, and therefore encourage protection). This has given an additional impulse towards acceptance of intervention even by the organisations, such as the World Bank, which do not accept the view that governments should use policy for an objective, such as growth or development.

The remedies proposed, however, in particular the idea that forbidding certain financial mechanisms because they operate too rapidly will return the world to the situation which existed before the mechanisms were introduced, do not deal with the real problems in attitudes and perceptions of which the new mechanisms are merely instruments. If an intellectually mistaken view exists that financial markets can eliminate real risks of investment or lending (in industrial or developing countries, whether through floating interest rates, portfolio management, or rapid or automatic response to new information), it cannot be solved by requiring participants to find less efficient mechanisms to attempt the impossible.[8]

At the international level, acceptance of intervention reached its strongest expression in the endorsement of policy coordination at the December 1987 summit (cited approvingly by the IMF). The results of this

[8]Luddite damaging of machinery is not the most effective way to prevent the social problem of unemployment, nor banning fertilisers an efficient way of countering agricultural over-production resulting from subsidies.

may have affected the 1987-88 outcome for interest rates (discussed below), but such an effect does not seem to have been incorporated into the forecasts for the medium term. More generally, the forecasts do not appear to allow either for any increased rigidities if this new interventionism is embodied in policy or for improved performance if reduced fluctuations do have the intended effect.

The IMF appears to support policy coordination, and to expect significant direct effects from it, embodying it as one of its medium-term scenarios. The UN also supports exchange rate coordination and intervention, although noting that the dollar's fall caused 'less disruption than many had feared', and even suggests that more rigid intervention in the form of an 'anchor' warrants examination. UNCTAD also stresses the risks of unpredictability in exchange rates, and supports intervention, and includes an extensive of review of whether variability has increased in a variety of economic variables, and what the costs of protection against it are, to an individual, in terms of such instruments as futures contracts, or to an economy or the world, if the response is trade protection. It suggests that the effect of variability is asymmetric, because the defences are not removed when, for example, an over-valued currency returns to normal. This implies that waiting for a market solution may impose permanent as well as temporary costs. Its advocacy of coordinated debt relief is also based on the damage from waiting for a market solution. The whole thrust of UNIDO's discussion is that good domestic policies can improve prospects for growth, in industrial or developing economies.

The argument of the World Bank's discussion of the criteria for government action would seem to go against intervention, but its recommendations for action to move from its base to its high forecast are in terms of better fiscal policy, as well as improving the efficiency of economies. It accepts poverty as 'the ultimate challenge of development policy', although the immediate goals are all what would normally be considered intermediate objectives (reducing imbalances among industrial countries, restructuring economic policies in developing countries, and reducing, not eliminating, the net transfer of financial resources from developing countries (p. 3).

The most obvious practical effects of the change in the climate of international economic opinion towards intervention have been on exchange rates, interest rates, and foreign exchange reserves. The major currencies (now taken by all the forecasters to be the dollar, yen, and DM/ECU blocs) have remained stable (roughly within the pre-1971 2% range) since the end of 1987, and while most of the forecasters would always by convention 'project' (as opposed to forecast) constant rates, most appear to accept this as both realistic and desirable, and to regard an alternative path (for example, a market loss of confidence in the dollar under the IMF's first alternative scenario for the medium term) as a sign of failure, and likely to be damaging to economic prospects. As large imbalances among the industrial countries remain, and differences in inflation are expected, this implies that they are forecasting continued intervention to hold exchange rates at present levels, and accepting that exchange rates will not be used or allowed to help to correct the imbalances. The UN is the exception in forecasting a continued slow depreciation of the dollar (by 2-3% a year). The IMF does state that its base forecast is not 'desirable' or 'sustainable' because of the imbalances, but considers the only 'desirable' alternative to be its third 'alternative scenario', of changed policies to increase fiscal restraint in the US and permit greater supply response in Europe.

One result of intervention in 1987 was a massive rise in total world reserves, but, as discussed by the BIS, pp. 189-92, the uneven spread of the increase and the unequal importance to different countries of reserves as a measure of international liquidity, meant that this might not either put the world economy on 'an unduly expansionary path' or remove the foreign exchange constraint on many developing countries. Most of the increase went to a few industrial countries (Japan, Germany, and the UK), and one developing (Taiwan). In general, Asian countries, which were less constrained, had larger increases than the Latin American debtors (except Mexico). Continued intervention by strong currency, surplus countries must tend to preserve this pattern of surpluses and reserve rises going to countries that will not allow a relaxed monetary policy to increase demand. The forecasts must therefore implicitly assume a continuing rise in reserves going to countries which will not use them to increase international inflation or demand, and no increase in the rate at which imbalances are resolved through exchange rate mechanisms. Any attempt to correct present imbalances, or any new ones which may appear, could therefore rely neither on the classic fixed exchange rate forces, flows of capital and demand, nor on those of floating exchange rates. This leaves either domestic policy, to reduce demand and prices in deficit countries relative to surplus (as the reports advocate), in a return to the asymmetric adjustment criticised in international monetary reform efforts of the early 1970s) or direct intervention in other markets (protection, as the reports fear). The countries with a weak trade position and currency must keep high interest rates for exchange rate reasons.

This set of expectations gives the combination of continuing imbalances and high interest rates embodied in the forecasts. But up to the present, this set of policies has led not to stable high interest rates, but to rising interest rates (so that most 1988 interest rates in table 4 are already lower than present (early September) rates. The IMF, UN, OECD and NIER forecasts assume that a rise will continue into the medium term, although the levels forecast for 1990-2 have been reached since the forecasts were made. The World Bank states as an assumption that 'the major industrial countries will avoid increases in real interest rates' (p. 35) and, by implication, that this will be possible and consistent with constant exchange rates because both the US and the surplus countries will restrict demand through fiscal policies, but the forecast actually given implies a considerable fall in real interest rates even on the base case.

There must therefore be considerable doubts over the actual numbers forecast for the interest rate, but more fundamentally over the sustainability of a set of policies which preserves one element of stability, the exchange rate, at the cost of large changes in interest rates and reserves and slowing correction of international imbalances. It may also be necessary to look more carefully at what is meant by the real interest rate. In this discussion and in the forecasts it is taken to be the nominal rate (a dollar rate, usually 6-month LIBOR) deflated by the forecaster's expectation for an appropriate inflation rate (usually the US GDP deflator). The possibility exists that the present nominal rate embodies others' expectations (or worst fears) of a higher inflation rate. The implications for future behaviour of borrowers, lenders, and investors are quite different for different combinations of accurate or inaccurate expectations of different inflation rates with present nominal interest rates. If the exchange rate policy is not expected to hold, and inflation rates, measured in dollars, are expected to be higher than in these forecasts, the real rate may be lower than implied here, and therefore less of a constraint on real activity, although the consequences could be serious if the forecasters' expectations then proved to be the more accurate. A more damaging set of implications could follow from borrowers taking a cautious view that inflation could be at least as low as forecast here, and lenders, that it could be so high as to require the interest rates forecast here. Although the financial and exchange rate policy explanations used by the forecasters explain why interest rates should continue to rise, they do not explore the reasons for or implications of their level, except that the UN notes the damaging effect on investment.

In terms of recent trends and expectations for 1988 of traded good prices, manufactures and primary, present nominal rates do not imply high (or even positive) real rates for many developing country borrowers, but this is a very temporary phenomenon on the forecasts.

11. PROBLEMS FOR THE INTERNATIONAL ECONOMY AND FOR THE AGENCIES

A fundamental weakness is that none of the institutions or their forecasts offers a realistic way of financing deficits in the medium (or even quite short) term in a period of high interest rates, except for the countries at the two extremes, the low income, receiving grants, and the Asian NICs, obtaining foreign investment. This is a serious limitation on growth.

As a general disincentive to investment, high interest rates are already an obstacle to growth in industrial and developing countries. The cost of borrowing is a direct limit, as reflected in the forecasts, for countries that are dependent on imported inputs and machinery even to produce those goods which they can export because of the cost of financing the necessary lag between investment and output. It constrains any effort to shift the composition of output or investment into the more efficient directions, emphasised in general terms by the IMF, World Bank and BIS, and on a sectoral basis by UNIDO. The medium term forecasts for roughly parallel growth for imports and exports by the developing countries, and the difficulties for those whose income and investment are at present low in breaking out of that cycle, illustrate the problem.

Short-term finance for temporary difficulties (the type which IMF compensatory finance for low income countries or short-term bank finance for the middle or higher could be intended to meet) also incurs higher interest rates than in the past. This is an additional constraint on growth (perhaps more difficult to forecast in a traditional 'no-shock' projection): countries may be less willing to take the risk of temporary negative balances. At the domestic policy level, this restricts their ability to take more risky policies, for example finding new markets or moving into new products, which were identified as the principal sources of medium term growth (this is in addition to the direct costs of higher interest rates on investment). At the international policy level, it may help to explain the growing preference for 'managed' solutions rather than more efficient ones. The costs of meeting fluctuations in external influences have been increased, even before allowing for any increase in their variability. The policies which lead to high interest rates may thus reduce the efficiency of both domestic and international decisions.

The base forecasts of the institutions do not expect this problem to be met by additional finance, and even the 'high', 'optimistic', or 'additional financing' scenarios do not reduce the cost of finance, or increase net inflows sufficiently to meet new needs. Even in the absence of additional protection, the trade forecasts do not offer higher terms of trade or the prospects for growth in demand which would make higher borrowing costs acceptable.

The problem of the deflationary bias of a fixed exchange rate system with inadequate short to medium term financing for temporary imbalances is not a new one, but some of the old escape routes have been closed. Using access to bank finance as a substitute for official reserves has been closed on the supply side to an increasing number of countries, and on the demand side by the high level of real interest rates. Provision of official transfers or direct foreign investment to developing countries to enable them to 'delink' themselves from the foreign exchange constraint is reduced by the smaller supply of the former and the effect of high interest and low growth expectations on the latter. The need to use a large tranche of the remaining inflows to finance the cost of existing debt is a further new burden.

An awkward question about their own position which the agencies' 1988 reports are ready to mention, but leave unresolved, is how they should behave when faced with their own position as creditors, that is as a major part of the financing problem which they identify. The World Bank notes (p. 14) that in 1979 it forecast growth of 4.2% for the industrial countries in the 1980s, and now expects 2.5%, but does not appear to connect such forecasts, and the general 'cautious optimism' in the world economy which it believes prevailed at the time, with the developing countries' willingness to incur debts which 'left [them] vulnerable to new external shocks', or to connect its own lending with the fact that they were able to incur debt. The agencies limit their response to recommending concessions on the part of other lenders.

It is unclear what the role of official lending at commercial interest rates can be, when interest rates are as forbidding as they are at present. At concessional, IDA, terms, or as a grant, the finance does meet a need not available from private sources, and one which is, as discussed above, even more urgent than in the past. But if a project can afford a World Bank loan, which carries the additional cost of being less easily renegotiated or repudiated than a private one, it is difficult to see why private finance should not be available, except to the extent that private investors 'irrationally' will not lend to certain countries or certain types of projects. (But a role for official action to counter private irrationality does not fit easily into the World Bank's discussion of the public sector in part II of the _World Development Report_.)

The fact that a large and growing share of flows from industrial to developing countries is directly from, or subject to significant influence from, the official multilateral agencies alters the general nature of international relations, increasing the role of policy relative to market relationships. The damage done by mistaken policies in some developing countries in the past and the change towards acceptance of international intervention reinforce the shift towards a regulatory role for the international agencies. But this fits awkwardly with the commitment of these agencies in principle to a reduced role for governments and for official management of economies and choice of objectives and strategies.

The role of technical advice, or general studies, including all these reports, is clearly useful, but not a special one for an international institution. The difficulties rise when the advice is linked to providing finance. This is particularly so when the institutions are seen as representing one group of countries dealing with another. This position was less stark in the 1970s when the major borrowers from the IMF were the industrial countries, and some developing countries became significant new creditors. It is surprising that the old relationships have been reestablishing themselves at a time when the borderlines in terms of income or industrial structure among countries are becoming increasingly blurred and non-traditional.

The exchange rate and adjustment 'coordination' among the major industrial countries, with strong support from some international institutions, must contribute to such perceptions, especially when at least some of the results, such as high interest rates, seem to be clearly to the detriment of the non-participants. These could be considered at least as much a derogation from multilateral settlement of international economic questions as protection or trading blocs, with the same risks as in any cartel that what appears to the participants to be 'coordination' may be perceived as 'collusion' from outside.

This is part of the growing complexity of interdependence among countries, which appears throughout the discussion of the forecasts. The relationships between trade and capital flows (and domestic investment and structural policy) and also the relationships among different countries, for example the growing regionalisation of trade, and especially within Asia, the emergence of some developing countries into the roles of major market or foreign investor to the rest of the region complicates not only forecasts and calculations of terms of trade or capital flows, but international economic policies. In terms of income levels, some NICs are catching up with some 'industrial countries'.[9] Beside these trends, the changes in markets for primary products or unskilled labour continue to impose the need for constant structural

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[9] ODI Briefing Paper, 'The Rich and the Poor', June 1988, discusses and gives estimates for these changes.

change, while the conditions for making such changes become more difficult.

The international institutions and the trade and capital structures which they attempt to regulate may face changes from another source, the increased participation by the centrally planned economies. This requires a rethinking of what types of domestic measure affecting international trade are acceptable, and how other countries should treat those that do not behave 'normally' which could affect how concepts like conditionality or reciprocity are applied to countries which are already members.

The prospect of making these institutional changes as well as some of the problems identified in the forecasts could reinforce the pessimism of the conclusions reached by the forecasters. But in 1987 and 1988 these forecasts have reminded us that one of the most important elements of forecasting is to identify correctly the starting point, and the current direction of changes. On interest rates, altering the base must make prospects worse, especially if the change is from flat to rising from a higher point. As this change seems to be the result of operating a set of policies that the forecasts assume (and in some cases support) for the medium term, it is difficult to dismiss it as a temporary aberration. On output and trade, and perhaps the terms of trade, special factors are available as an explanation for better performance, so increased pessimism must be a valid response. But it is not the only one. The evidence is more consistent with the higher forecasts than with the lower, and it is at least as valid to assume that unexplained deviations from what is expected will continue as that they will disappear in the forecast period.

APPENDIX: DOCUMENTS DISCUSSED AND DEFINITIONS

Forecasts

International Monetary Fund, World Economic Outlook.

NIESR, National Institute Economic Review.

Organisation for Economic Co-operation and Development, OECD Economic Outlook, (June issue).

UN, World Economic Survey.

UNCTAD, Trade and Development Report.

UNIDO, Industry and Development Global Report.

World Bank, World Development Report.

Other reports used

Andean Pact, Economia Andina, June issue.

Asian Development Bank, Annual Report.

Bank for International Settlements, Annual Report.

GATT International Trade.

Definitions

For full definitions see individual reports; the tables have used the nearest available category.

Developed countries: differences among forecasters not significant in relation to developing countries.

Oil price: average OPEC official export price; 'real': deflated by price of manufactured exports.

Price of manufactured exports: UN index for developed countries.

Price of primary exports: UNCTAD or IMF index of market prices of developing country exports.

Developing countries (and area sub-totals): as defined by IMF but excluding South Africa, with minor differences for some reports.

Oil exporters: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, Venezuela; World Bank also includes Bahrain, Brunei, Cameroon, Congo, Ecuador, Egypt, Gabon, Mexico, Syria and Trinidad and Tobago.

Exporters of manufactures: China, Hong Kong, India, South Korea, Singapore and Taiwan; World Bank excludes Taiwan but includes Brazil.

Highly indebted: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia; World Bank also includes Costa Rica and Jamaica.

Notes

The World Bank has two medium term scenarios.

Base: More restrictive fiscal policy in US.
Only offsetting changes in fiscal policy in Japan, Germany.
No rise in real interest rates.
No structural reforms in industrial countries.
No change in protection.
No shocks.
Developing countries will maintain current pace of adjustment.

High: Changes in industrial country policies to give High Scenario.
Steps 'to reduce payments imbalances'
'higher and more efficient private investment'
'elimination of bottlenecks in labor markets'
'reduction of protectionism and agricultural subsidies'
EC 1992 integration and internal liberalisation.

UNIDO has two medium term scenarios.

Optimistic: This includes 'some basic trends in the global economy today'
Regional trade.
Globalised production by major world manufacturing firms.
Commodity market trends.
Emergence and changing role of NICs.
'Dawning of reason in the world financial markets'.
Acceleration in debt-equity swaps.
Gradual reduction in US fiscal deficit.

Recession: A recession triggered by the United States.