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Prospects

ECONOMIC PROSPECTS FOR DEVELOPING COUNTRIES

Investment, Trade and Development in the 1990s

Sheila Page

Overseas Development Institute

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CONTENTS

1. Developing countries within the international economy **1**

2. Forecasts for 1993 and beyond **2**
Output in the industrial countries 2
Trade 5
World prices and interest rates 6
Output in the developing countries 10

3. Capital flows to and from developing countries **14**
Investment 14
Official flows 19

4. Issues raised by the 1992 Reports **19**
Forecasting 19
Improving developing countries' domestic performance 20
Policy questions and prescriptions 22
Regional problems 23
Unresolved questions 25

Appendix **26**

TABLES

Table 1: Industrial Countries 3
Table 2: Export and Import Volume, Developing Countries 7
Table 3: Prices and Interest Rates 9
Table 4: Output in Developing Countries 11
Table 5: Principal Investment Flows 1975–91 (US $Billion) 15
Table 6: Capital Flows to Developing Countries 17
Table 7: Estimated Share of Industrial Value Added of Developing Countries in World Total in 1975, Projected Shares for 1990 and 1993 21

1. Developing countries within the international economy

1992 was the third year in which the industrial countries grew well below expectations, with the forecasts or estimates being revised down throughout the year (the IMF and the UN issued third sets of forecasts in the last week of December, IMF* and UN** in the tables). The consensus has come to rest around 1.5%, after about 0.5% in 1991 (and 2.5% in 1990).[1] The contrasts of their performance with world trade and with performance in the developing countries remain stark: these are now both estimated to have grown by about 4.5% in 1992, not far off estimates made in 1990–1, and with some upward revisions during the year.

The relationships which these numbers imply are even more surprising than the extent of the individual errors of forecasters:

• **Trade and output** 1992 is now the second year in which the ratio of trade growth to output growth has substantially exceeded the normal range of about 2: in past recessions the ratio has tended to fall (because of destocking, sometimes reinforced by protection).

• **Industrial countries and developing** It is true that the developing countries were able to maintain growth during the mid–1970s recession in the developed countries (by securing external financing). It is, however, less easy to explain how they have been able to improve their performance in the face of falling industrial country demand.

The special factors are operating in the wrong directions: their growth rates would be higher without the depressing effect of drought on the African figures, and it is those with the highest dependence on trade (the South East Asian economies), along with the one major surviving centrally-planned economy (China), which have grown most, and which have outperformed expectations.

The relatively good trade performance[2] has been achieved in the face of continuing lack of progress (and one major crisis) in the Uruguay Round of GATT trade negotiations. These are now more than two years past their 'deadline', so that the stimulation to world trade that earlier forecasts might have expected has not occurred, and the loss of confidence which forecasters expect would follow a breakdown should already be affecting expectations. The most affected should be the weakest countries and those most vulnerable to trade: in most cases the developing countries. One consequence of the failure to make progress in the talks has already appeared. This is the growing interest in alternative trade negotiations, principally in regional groups, and not usually (NAFTA is in exception) between developed and developing countries.

The forecasters are again not transparent in indicating what their quantitative estimates are

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[1] The publications used in the comparisons of forecasts are listed in the Appendix. References to the World Bank are to *Global Economic Prospects*. Other publications by the UN, World Bank, and IMF are referred to by short title or year of publication.

[2] It is always necessary to remind oneself that 4.5% was not always considered 'good' performance for either developing country output or world trade. It is the implied elasticities of 4.5 with respect to industrial country output which are good.

for the effects of a GATT settlement, or failure to reach one. The assumption appears to be that the equations on which their forecasts were based were estimated in periods in which previous Rounds were being negotiated or implemented. Therefore, they implicitly incorporate a regular GATT stimulus. But by this reasoning, trade should now be underperforming (because of the lengthening interval since the Tokyo Round). It should do so by more if there is no settlement (the NIER explicitly warns that a trade war would 'make our forecast much more pessimistic', p. 34), but the fact that it is greatly over-performing must cast some doubts on this reasoning.

Clearly it is necessary to reexamine the nature of relationships between the industrial countries and the developing, and especially any regional forces which may be operating. This report will therefore look particularly at the expectations and analyses of the various international forecasting groups on the prospects for capital flows, which could help to explain how the former links between countries and between output and trade have been weakened. It will also look more briefly at some of the regional trading blocs, negotiated or proposed, which could permit further divergences among areas.

This report will not look in detail at the performance of the Eastern European countries, or the countries of the former USSR. Although some of the latter are developing countries, they are not yet separately forecast as such by any of the agencies, and the forecasts for all these areas are still very uncertain, and based on inadequate data. The available forecasts are shown in the tables, however, and growth and trade in these countries, in the medium term at least, will be significant for other countries within their regions, and for some commodity prices. The data and expectations which are available will therefore be described.

2. Forecasts for 1993 and beyond

Output in the industrial countries

Until the last quarter of 1992, most forecasters still expected the industrial countries to be growing at normal rates of 3% in 1993, although with no rapid recovery, either this year or in the medium term. The continuing recession, especially in the EC and Japan, has damaged both the arithmetic and the confidence of these forecasts. (The collapse of expectations well after information on the first half of 1992 was available suggests very poor performance in the second, so even modest annual rates would now require substantial changes by the end of the 1993.) As Table 1 shows, the forecasts for both Japan and the EC are now substantially lowered, and have come down to below the US figures. Average growth is expected to be only 2% in the three most recent forecasts (IMF*, UN** and OECD), even with Japan recovering a little from the 1.6% official estimate for 1992. Germany is expected to be at best 1%, even lower than 1992; the reduction in expectations for Germany (the spring IMF forecast was 3%) is extraordinary for a major country. Although the reductions for most other countries are smaller, the consistency with which both the international and other forecasters have reduced their forecasts during the year for all major industrial countries, for 1992 and 1993, is also exceptional. A reduction because of new data or for a one-off reason would be more usually reflected in at worst no change for the following year, and possibly an offsetting rise. The 1992 forecasting history indicates a more fundamental loss of confidence, and must

Table 1: Industrial Countries

percentages

1992	IMF	IMF* (23 Dec)	UNCTAD	UNIDO	UN	UN* (Oct)	UN** (Dec)	WB	OECD	AsDB	LINK	NIER
World Output	1.1		1.5	1.4	1.0	0.7	0.4	2.0		1.8	0.6	1.6
Industrial Countries	1.7		1.5	2.0	1.7	1.6	1.6	1.8	1.5	1.8	1.4	
United States	1.9	2.0	1.7	1.9	1.6	1.6	1.8		1.8	1.6	1.3	2.0
Japan	2.0	1.6		2.8	1.9	1.9	1.8		1.8	2.5	1.8	2.0
European Community	1.4		1.1	1.5	1.8	1.6	1.3		1.1		1.3	
Germany	1.8	1.6			2.0		2.1		1.4		1.7	1.1
W Germany	1.4			1.5	1.7					1.8	1.1	
UK	–0.8			1.0	2.0		–1.0		–1.0		–0.9	–0.7
Former Centrally Planned	–16.8		–10.3	–14.0	–12.0	–14.7				–9.5	–16.1	
Eastern Europe	–9.7				–3.0		–4.2	–1.5	–6.0		–2.9	
Former USSR	–18.2			–15.0	–15.0		–23.0		–18.0		–17.8	
Import Volume	4.1		4.5				4.7		4.3			
US Import Volume	5.8						4.0		9.9		6.7	10.0
Export Volume	3.8		5.0						3.7		3.9	3.2
World Trade Volume	4.5		5.2		4.5		4.5	5.0	4.7	4.5	4.0	4.4
Trade in Manufactures									4.7			

1993	IMF	IMF* (23 Dec)	UNCTAD	UNIDO	UN	UN* (Oct)	UN** (Dec)	WB	OECD	AsDB	LINK	NIER
World Output	3.1	2.3	3.0	3.0	3.0	3.0	2.0	3.2		3.1	2.7	2.4
Industrial Countries	2.9	2.0	3.0	3.2	3.2	3.0	2.0	3.0	1.9	3.0	2.6	
United States	3.1	3.0	2.9	3.7		3.0	2.6		2.4	3.0	2.5	3.2
Japan	3.8	2.4		3.5	3.9	3.7	2.3		2.3	3.5	3.3	2.3
European Community	2.3	1.0	2.8	2.5	3.2	2.5	1.2		1.2		2.2	
Germany	2.6	0.6			2.4		0.8		1.2		2.3	0.7
W Germany	1.9			2.4						2.5	1.4	
UK	2.1			3.2	2.5		1.3		1.3		1.4	2.0
Former Centrally Planned	–4.5		–5.0	–7.4	–4.1	–4.0				–4.0	–4.4	
Eastern Europe	2.4								0.0		1.2	
Former USSR	–6.5			–8.0							–5.3	
Import Volume	5.1		6.4						3.9			
US Import Volume	6.4								6.0		8.0	8.7
Export Volume	5.7		6.4						4.1		5.6	5.2
World Trade Volume	6.7		6.7		6.5			6.0	4.9	6.5	5.6	6.2
Trade in Manufactures									4.0			

Medium term	LINK 1994	LINK 1995	LINK 1996	LINK 1996–99	OECD 1994	IMF Base 1994–97	NIER 1994	NIER 1995	NIER 1996–99	UNIDO 1992–97	UNCTAD 1990–95	UNCTAD 1995–2000
World Output	3.2	3.2	3.4							3.4	2.2	3.4
Industrial Countries	2.8	2.7	2.9		2.9	3.0				3.2	2.1	2.8
United States	2.7	2.5	2.8	2.4	3.1	2.9	2.5	2.1	2.4	3.2	1.8	–2.5
Japan	3.0	2.9	3.2	4.2	3.1	3.5	4.1	4.9	4.2	4.2	1.9	–2.8
European Community	2.4	2.6	2.6		2.5					2.6		
Germany	2.1	2.4	2.3	2.4	2.9	3.1	2.9	2.2	2.4			
UK	2.5	2.9	2.8		2.4	2.8	2.5	2.0	1.6			
Former Centrally Planned	0.6	1.4	2.3		2.0					–2.1	–5.5	3.0
World Trade Volume	2.5	3.5	4.1	6.7	6.1		7.6	7.7	6.7			
Trade in Manufactures	5.5–6.0	5.5–6.0	5.5–6.0	5.5			6.9	6.9	5.5			

itself contribute to it.

The EC figures are in line with the latest EC forecast for the EC of 1–1.5%, and the most recent forecasts for the UK are in line with UK forecasts (except for the NIER). The US figures reflect a belief that recovery there has now begun. The prospects beyond 1993 are little better, especially for the EC which is expected to remain between 2.5% and 3%.

The reasons offered by the forecasters are mainly cyclical or circular, and thus seem increasingly unsatisfactory as the recession is prolonged, both in fact, into 1993, and in the forecasts, to 1996–2000. The IMF, OECD, and UNCTAD all stress the importance of the level of debt and the reduction of asset values, along with the closely related one of high interest rates. The recoveries forecast (and perhaps now seen in the US and Japan[3]), although slow, are plausible on the basis of recent performance. Any European adjustment required as a consequence of debt accumulation and speculation in assets in the 1980s should, however, now be reaching equilibrium, so that the continuing pessimism can only be based on high real interest rates, and the causes and consequences of these. But the forecasters do not indicate by how much debt ratios were too high, or how out of line asset prices may have been. They do not suggest a criterion for estimating these points or what will happen at the turning point: the forecasts do not show, for example, a step resumption in rapid growth, of the type which in the past might have been associated with a stock cycle or a return to 'normal' in savings ratios. This suggests considerable uncertainty about how these explanatory forces are operating, and therefore about how long they will continue to do so. The third factor identified by the OECD could be one of these consequences: the general unemployment (rather than industrially or regionally concentrated), leading in turn to an unusually widespread loss of confidence by consumers and investors.

One reason for expecting high interest rates and other deflationary policies to continue into the medium term could be the forecasters' judgement about the constraint on the EC economies which convergence into monetary union would require. The IMF spring forecast, in particular, calculated the adjustments required under this, and apparently assumed in its medium-term forecast that these would be made: the constrained growth in all the other forecasts suggests that they also assumed this. As discussed below, the expected interest rates, even for dollars, remain high. It is questionable whether even before September 1992 the IMF was wise to take as literally as it did apparent commitments (which, as it pointed out, were to be supplemented by ministerial 'judgement' when the testing point was reached). The medium-term prospects have not been reconsidered since September. It is possible that the high interest rate, high unemployment, low growth prospect presented in the 1992 medium-term forecasts should have been recognised as an unsustainable projection, and that events since then have shown its unreality. It is possible, therefore, that they should now be reconsidered.

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[3] After the forecasts in Table 1 were compiled, some observers suggested there could be an 'engagement' effect for Japan of an additional 0.8% for GNP. This would bring forward to 1993 its medium-term recovery to rates above 3%. Some Japanese forecasts were still above 3% even before this. It is, of course, possible that these, unlike the less well-informed international forecasts, already reflected expectations of such an effect.

The forecasters generally believe that the contraction in output in the Eastern European countries has come to an end: the fall in 1992 was substantially smaller than in 1991 (when it was more than 10%), and a small rise is expected in the medium term. Among non-official forecasters, the consensus appears to be similar. A similar turning point is expected for the countries of the former USSR (still forecast as a single block by all the forecasters), but not until 1994; 1993 still shows a fall, although substantially smaller than the 20% estimated for 1992. The BIS has introduced the three way classification of countries at an advanced stage of transition (Hungary, Poland, and [at the time they wrote] Czechoslovakia; in the early stages of transition (Bulgaria and Romania); and in various stages of disintegration (the former USSR countries. The improved performance (or the less bad, for the last) should be benefiting the European countries, directly through trade and indirectly through requiring lower needs for assistance. It should also benefit some developing countries by increasing demand, at least for primary goods, both metals and tropical agricultural crops.

Trade

Whatever the explanation, the general pessimism about economic prospects reflected in forecasts for the industrial countries may help explain lack of progress in areas like trade negotiations, especially those involving the EC. As indicated above, so far trade itself does not seem to have been affected. The data are, however, more than usually variable from the different organisations, so that it is difficult to assess properly the explanations for the growth (and the discrepancy between output and trade). UNCTAD's estimates and forecasts in particular tend to be lower for all areas.

Imports by the industrial countries have not been as depressed in 1992 (or 1991) as might be expected from their output (Table 1). This high level is mainly accounted for by the US. In 1993, US import volume is expected to grow more slowly, and therefore much less relative to the growth of US output. Other industrial countries have not shown a similar divergence between output and trade growth. In total, developing countries have increased their exports much faster than the average growth in world trade, but their imports have grown equally rapidly (according to all the forecasters except UNCTAD). Although this indicates that a growing share of their trade must be among themselves, it also suggests increasing competitiveness relative to developed countries. This is in spite of a fall in competitiveness in Latin America. This was noted by the IMF and attributed to inflows of foreign capital (p. 17). The major country which had the highest rise in its real exchange rate was Brazil (IDB, p. 12). There was a levelling off in the Asian countries, at least in 1991–early 1992 (indicated by both IMF and OECD, p. 51). (This may have been reversed for some Asian countries with the fall in the dollar, which is still the currency they use in trade, in the second half of 1992.)

For the Asian countries, both 1991 and 1992 saw a very rapid growth in both imports and exports, with most forecasters estimating a small slowing in 1992 (the World Bank has a small acceleration) (Table 2). This growth continues for all Asia into the future for the IMF forecast, but only for the East Asian countries or the NICs for the World Bank and UNCTAD. The performance of the Latin American countries is more doubtful. According to the forecasts shown here, they also had rapid growth in 1992 (except on UNCTAD forecasts), in both imports and exports, but the early ECLAC estimates are for 4% to the US, i.e. a loss of share in that market, and the medium-term forecasts are less confident that the export growth will continue than they are for Asia. This could reflect both loss of competitiveness and the slower growth expected for US imports. In contrast, the ECLAC estimates confirm the very rapid growth of imports: some of this may be financed by and closely tied to the increase in investment, but the high share of portfolio investment in the total (see section 3), and the effect on competitiveness of the capital inflows suggests that some of the import rise may be less self-correcting: it reflects higher consumption or switches to foreign suppliers, or simply higher domestic investment in the countries which are growing rapidly. Among Asian countries, such growth helps the neighbours' export performance. But Latin America's trade within the continent is only 14% of its total exports and falling. 70% is with industrial countries (compared to South East Asia's 60%). The result was a trade deficit (the IMF had expected bare balance). The forecast of a deficit in 1993, therefore, looks even more likely.

Latin America has long tried to reduce its dependence on primary exports, but these remain over 50%: diversification has occurred, but to other primary goods, not into more advanced goods, or even into more processed forms of the traditional exports. The pattern in 1991 confirmed all these trends, with successful exports including the old, oil, and among the new: shrimp. Commodities and a few semi-processed goods did well. Manufactures from most countries did not. The exception was Mexico, with its *maquila* exports to the US rising rapidly.

The African countries did not show particularly rapid growth in either exports or imports, probably (on these estimates) continuing to lose share in world trade. Dependence on EC markets and on primary exports could both be explanations.

The distribution among areas strongly suggests that there are increasing shares of trade within the western hemisphere, among Latin American countries and between them and the US and among the Asian countries, not always including Japan. The pattern of area gains in exports, and normal expectations that firms reduce stocks of primary goods in a recession would both suggest that the gains have been primarily in manufactured exports. Only the OECD forecasts this variable,[4] and it does not show a rise in share. The area changes might not require a reconsideration of trade-output relationships in the medium term, because it could be as easily explained by relative growth rates (discussed below) as by any more deliberate 'regionalisation'. The increasing share of manufactures, however, which tend to have a higher elasticity relative to output, suggests that average elasticities could remain high or rising (by the simple arithmetic of averaging as they increase their weight), but also that if foreign investment is an increasingly important force in the international economy (as discussed in section 3) its trade creating effects may still be outweighing any trade-replacing ones.

World prices and interest rates

Lower inflation in the developed and developing countries, low growth in demand, with recovery only just starting (at best), and the shifts in trade toward manufactures have had the not surprising result of depressing all prices, but especially the prices of primary commodities,

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[4] The NIER forecast for manufactures is only for the major industrial countries, and therefore would not show a rise when it stems from the developing countries gaining share.

Table 2: Export and Import Volume, Developing Countries

percentages

1992	IMF	WB	UNCTAD	OECD	UN**
Exports	8.1	9.4	6.4	6.5	10.6
Oil exporters	4.7				7.1
Non–fuel exporters	9.2				14.5
Africa	2.9		1.7		3.9
Sub-Saharan	2.9	3.9			
Asia	10.2	11.0	8.8		
NICs	9.9			11.2	
Western Hemisphere	6.1	8.3	–0.9		7.3
Imports	8.5	9.9	8.4	6.8	9.6
Oil exporters	3.6				9.3
Non-fuel exporters	9.8				9.7
Africa	5.8		1.1		4.9
Sub-Saharan	3.8	2.2			
Asia	10.9	11.1	9.9		
NICs	10.1			9.3	
Western Hemisphere	10.6	11.3	5.3		11.1
1993					
Exports	9.3	7.9	5.3	6.6	
Oil exporters	5.2				
Non-fuel exporters	10.6				
Africa	5.0		1.2		
Sub-Saharan	6.1	3.7			
Asia	11.7	10.2	5.5		
NICs	12.7			11.0	
Western Hemisphere	6.4	7.4	6.4		
Imports	9.6	7.5	7.8	7.8	
Oil exporters	5.1				
Non-fuel exporters	10.7				
Africa	2.6		2.6		
Sub-Saharan	1.1	2.5			
Asia	11.9	9.7	9.1		
NICs	11.2			9.5	
Western Hemisphere	8.1	6.1	4.4		

Medium term	IMF Base 1994–97	WB 1990–2000	OECD 1994
Exports	9.2	7.5	6.3
Africa	4.0		
Sub-Saharan		3.6	
Asia	11.8		
South		7.8	
East		9.8	
NICs			10.6
Western Hemisphere	7.0	6.8	
Imports	9.1	7.8	7.7
Africa	4.6		
Sub-Saharan		3.5	
Asia	11.2		
South		5.0	
East		10.0	
NICs			9.3
Western Hemisphere	6.6	8.7	

and also both real and nominal interest rates (Table 3). In contrast to 1991, when the prices of those primary goods produced by industrial countries fell more, 1992 saw a steadying of the export prices of their primary products, and a rise for prices of manufactures. The prices of primary goods produced by developing countries continued to fall, probably by 2%, with little change for all non-oil primary exports. On average, the price of crude oil was probably unchanged, remaining at about $18 (IMF average crude).

At the end of the year, price indices for all the categories except agricultural raw materials were below their averages for the year. The forecasters expect a rise in 1993 (as they did in 1992), but no longer expect this to become faster than the rise in manufactured prices. They do, however, expect commodity prices to rise faster in the medium term. The IMF expected any rise to be mainly in metals (relatively important for the industrial country exporters). A strong recovery should bring this, although the US is less likely to revive demand for commodities than either the EC or Japan would, and the low forecasts for demand for African exports do not suggest that a great increase is expected. In early 1993, even metal producers were not expecting a rise in the average price for the year. Even this would require a very rapid rise, at a time of high stocks, and still sluggish recovery, because of the low level at the end of the year. Such turnarounds can happen in that market, but would not necessarily feed through into developing country export prices immediately.

In its May forecast, the IMF discussed the medium-term prospects for the oil price. By convention it assumes no change in the price relative to manufactures in its quantitative forecasts, but in this case it considered that this was the realistic forecast. It expected the demand for oil to be depressed in 1992 by the falling demand in Eastern Europe and the former USSR, while the return of Kuwaiti oil would replace any short-fall from lower Russian output. It correctly forecast a fall in its relative price in 1992 and expected this to continue in 1993 (the pre-13 January price was below the 1992 average). In the medium term, it expected a slow growth in demand, but a recovery in Russian output, giving a flat real price. Mexico, however, has recently stated that it now expects that Latin America will once again become oil-importing because of the rapid growth in demand there.

The interest rate as used in the forecasts (LIBOR dollar six-months) averaged about 3.8% in 1992, below most forecasts made early in the year, with only the UN correctly foreseeing the fall during the year (the AsDB and WB forecasts for the year were above the early 1992 level, and thus expected a rise by the end of the year). This suggests a real rate of around 1% (whether measured against actual 1992 inflation or expectations for 1993), a major change from the level of most of the 1980s, and from previous expectations for 1992 onwards. With the rate now around 3.5% (mid-January 1993), the increases expected for 1993 especially by the WB and ASDB (even if the levels are adjusted down to take account of their 1992 errors) would require a significant change in direction. This could come because of policy or pressure from increased demand. The latter would not be consistent with the rest of the forecast, and all the forecasters explicitly or implicitly assume 'unchanged policies'. All the forecasters expect a return to real rates of 3% or higher in the medium term (as the US economy revives). Although this is lower than the medium-term forecasts published in the 1991 reports by the international institutions (these averaged over 3%; even then the non-official forecasts by LINK and NIER were lower), it still seems more consistent with a strong recovery than if it is to be interpreted as a result of the restrained growth actually forecast. Such expectations for real interest rates could, however, help to explain low growth if they are

Table 3: Prices and Interest Rates

percentages

1992	IMF	UNCTAD	UN	UN**	WB	OECD	AsDB	LINK	NIER
Consumer prices	3.3		3.8	3.4	3.2	3.5	3.2	3.0	3.2
6 Months LIBOR	3.9		3.1		5.0	4.1	6.5		3.8
6 Months LIBOR Deflated	1.2				1.7	1.4	3.5		0.9
Prices US$:									
Manufactured Exports	4.6	3.0	4.3		2.8	4.0	2.0		5.9
Oil	0.0	0.0	–14.3		–7.5	–4.9	5.8		0.4
Oil (real)	–4.4	–2.9	–16.6		–10.0	–8.6	3.7		–5.2
Primary Commodities	1.4	1.4			–0.2	–1.9	3.3		
Food	1.1	4.1			1.6	0.3			0.0
Tropical Beverages	–13.3		2.5			–14.9			
Agricultural Raw Materials	2.7	0.2				–3.4			–3.0
Minerals, Ores, Metals	0.5	–4.1	0.9		–4.5	–0.7			1.3
Developing Country Exports	0.6								
Developing Country Imports	2.4								
1993									
Consumer prices	3.2			3.4	3.3	3.2	3.5	2.9	3.0
6 Months LIBOR	4.2				6.5	3.8	7.0		3.8
6 Months LIBOR Deflated	1.2				2.8	1.5	4.5		1.0
Prices US$:									
Manufactured Exports	3.5	3.0	2.4			0.8	2.4		–0.2
Oil	–0.6	8.5	0.0		3.9	4.6	6.0		4.3
Oil (real)	–4.1		–2.3			3.8	3.6		
Primary Commodities	2.8	6.9			–0.7	3.7	4.0		
Food	0.7	4.5			3.2	1.7			0.7
Tropical Beverages	10.1		2.0		4.0	16.7			
Agricultural Raw Materials	5.9	7.8				4.8			5.7
Minerals, Ores, Metals	2.7	0.4	4.7			1.7			8.4
Developing Country Exports	2.9	0.4			2.4				
Developing Country Imports	2.7								

Medium term	World Bank			IMF Base	OECD	NIER		
	1990–95	1995–2000	1990–2000	1994–97	1994	1994	1995	1996–99
GNP Deflator					1.9			
6 Months LIBOR					4.7	4.8	5.9	6.8
6 Months LIBOR Deflated	2.8	3.2	3.0	3.0	2.7	2.0	3.0	4.0
Prices US$:								
Manufactured Exports	3.3	3.8	3.5	2.5		1.6	2.3	2.8
Oil		8.9	3.7	2.5		4.7	5.4	3.7
Oil (real)	–4.4	4.9	0.2	0.0		3.1	3.0	0.9
Primary Commodities	2.3	6.0	4.5	3.7				

shared by investors and governments. The forecasters do not in general consider the structure of interest rates in other industrial countries, but if they assume that European interest rates will remain above, and rise with, those of the US, this could help to explain pessimism about EC growth prospects.

The high interest rates are not because of any expectation of accelerated inflation; price rises for traded manufactures are expected to remain around 3%, or less. The large movements in exchange rates, particularly in the last four months of 1992, make the dates of the different forecasts particularly important because most of the international institutions assume, for their short-term forecasts at least, that rates will be unchanged from the date of the forecast. The figures for domestic inflation, of around 3%, should thus probably be given more attention than usual. German and Japanese effective exchange rates began 1993 at levels 3% and 6% above their averages for 1992, and dollar rates were above their average rate against the dollar, so it is likely that export prices of manufactures of the industrial countries measured in dollars (the cost most relevant to developing country importers) will rise more than the domestic inflation rates. Against this argument would be any pressure downwards from low demand. The estimates and forecasts in Table 3 for 1992 do not suggest that such pressure has been effective, although the actual figures available for the first part of 1992 do show much smaller increases.[5]

Output in the developing countries

The increase in growth in all three continents (and in both the poorest and the richest developing countries) in 1991 was accompanied by a large increase in their trade deficits (or fall in surpluses for some). Nevertheless, all areas were apparently able to maintain their 1991 growth rates in 1992, in spite of the fall in their terms of trade and probable further deterioration in their trade balances (Table 4).[6] The highest growth was, of course, in Asia, with China probably particularly high. In Latin America, in contrast, the major country dragged down the average: Brazil's slow growth again brought down the total, although the other countries may have averaged 4%. The IMF and UN lowered their forecasts for sub-Saharan Africa by 0.8% and 1.2% during the year because of the continuing loss of agricultural output in the drought-affected countries. The growth is therefore estimated to have been only slightly better than in 1991.

The 1993 forecasts in general expect similar performance to 1992, except for the ending of

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[5] If prices are being over-estimated, however, this would suggest that volumes were being under-estimated, and these, as noted above, already look high. In looking at the performance in 1992 as a guide to expectations about 1993 and beyond, however, it is particularly necessary to be aware of the uncertainties caused by the difficulty of estimating the division between price and volume increases when exchange rates and the shares of different areas in world trade are changing as sharply as they did in 1992. The uncertainties will be compounded in early 1993 by the unreliability of trade data for EC countries' trade among themselves in 1993 as new procedures for collecting the information are adopted. Although data for trade with the rest of the world will be available, these are not sufficient on their own. EC countries compete with other exporters of manufactures within each others' markets, and most models and analysis are based on total trade.

[6] The WB and IMF averages have had the Eastern Europe and former USSR figures removed.

Table 4: Output in Developing Countries

percentages

1992	OECD	IMF	UNCTAD	UNIDO	WB	AsDB	LINK	UN	UN*	UN**
All		4.9	4.7	3.8	4.3	5.2	4.5	4.5	4.8	4.5
Oil exporters		8.7		4.5			6.3	4.0	4.1	3.9
Non–fuel exporters		5.0					3.4			
Africa		1.9	3.8			3.4	1.7	3.5	2.6	2.3
Sub–Saharan		1.6		2.2	3.4		1.5	2.0	0.8	0.2
Asia		6.9	6.1		5.7	6.5	5.5	5.5	5.6	5.5
South				4.3	2.8					
East				6.7	7.1					
NICs	6.5	6.2				7.1				
Western Hemisphere	3.0	2.8	3.2	3.1	2.6	3.5	2.4	3.0	2.9	2.0
China			8.0	8.3	7.5		12.1		10.0	10.0
1993										
All		5.2	4.9	4.6	4.7	5.6	5.6			5.0
Oil exporters		7.9		4.4			7.2			1.6
Non–fuel exporters		5.3					4.7			
Africa		3.3	3.8			3.5	3.1			3.0
Sub–Saharan		3.5		2.7	3.2		3.0			
Asia		6.6	6.1		6.3	6.7	6.2	6.5		6.0
South				4.8	4.2					
East				6.9	7.2					
NICs	6.8	6.7				7.1				
Western Hemisphere	>3.0	3.9	3.4	4.0	3.7	4.2	3.0	4.0	2.0	2.5
China			7.5	7.8	7.5		11.8			10.0

Medium term	LINK 1994	LINK 1995	LINK 1996	World Bank 1990–2000	IMF Base 1994–97	UNIDO 1992–97	UNCTAD 1990–95	UNCTAD 1995–2000
All	5.7	5.8	5.7	5.2	5.8	4.3	4.1	4.3
Africa	3.0	3.3	3.3		3.9	2.7	3.1	3.7
Sub–Saharan	3.1	3.2	3.2	3.5				
Asia	6.7	6.8	6.8	6.5	6.4		4.8	5.0
South				5.1		5.0		
East				7.1		7.5		
NICs								
Western Hemisphere	3.9	4.6	4.4	4.2	4.9	3.1	3.2	3.3
China	9.6	8.7	8.5	7.4		8.0	7.2	6.5

drought effects in Africa, giving a small improvement for the total. Some also expect Latin America to do better than in 1993, and most assume further small recoveries in both Africa and Latin America in the medium term. The most striking points about the forecasts are the almost unchanging rates, and therefore rankings among different areas, over the short and medium term, and thus the continuing divergence among areas.

In Asia, China is a major point of difference: the UNIDO and WB forecasts did not expect as good a performance as the estimated 12% in 1992, and this carries over into 1993 and the medium term. Perhaps surprisingly, given its potential size as a market, especially if it does continue to grow rapidly through the medium term, these differences do not appear to be reflected in the forecasts for the East Asian countries. Here, medium-term forecasts have tended to be adjusted upwards, with others apparently sharing UNIDO's view that these countries will be able to maintain their exceptional performance because of continuing technological innovation and training (p. 103). The slowing in 1989–1991 is no longer taken as an indication that the effects of these may be diminishing, as it was in forecasts made in earlier years. The only country for which there are some doubts in 1993 is Malaysia, but even here the international forecasters do not seem as pessimistic as some Malaysian forecasters about the apparent slowing at the end of 1992. UNIDO does have a small continuing fall in South Korea's growth, but this leaves it with the other NICs at about 7% in 1993. Other forecasters also now appear confident that the NICs will not see a slowing of growth. One reason apparent in the IMF forecast, and some private forecasts, is a further increase in the contribution from export growth (Table 2). This is clearly mainly from intra-Asian trade (perhaps including some demand resulting from the recovery in Japan), and may reflect not only the increase corresponding to sustained growth in the region, but an improvement in the NICs' competitiveness because of their link to the dollar.

Forecasts for South Asia are also now more optimistic (except for the WB in the short term), reflecting higher expectations for India. UNIDO is more cautious about this in the medium term: although the new economic policy liberalisation there will permit more rapid increase, it expects India, Pakistan, and Bangladesh all to be constrained by their low levels of literacy.

Africa has now had three years of very low growth. It is surprising that forecasts for Africa took so long to reflect the drought effects, and it is possible that the 1993 forecasts will prove to be over-optimistic in their implicit assumption that agricultural output growth will be normal (or above normal because of a recovery in agriculture, as in the IMF forecast). The IMF, after allowing for the drought effects, suggests that the countries that have adjusted their economic policies are starting to do better, and this helps to explain its higher expectations for the medium term. The World Bank's forecasts do not appear to assume either a drought effect or that the explanation of recent poor performance (whatever that is) will have any further effect. It keeps a steady 3.5% forecast, once again avoiding forecasting falling per capita income. The UN apparently attributes all the poor performance to special factors, including the drought. The implied recovery in Africa's terms of trade in the medium term when primary prices rise would traditionally have been a reason for expecting improved performance, but the lack of link between changes downwards in forecasts either for these or for demand in industrial countries and forecasts for Africa makes it unlikely that this can now be taken as an explanation. The African Development Bank also forecast 3–3.5% for output in 1992 (based on a recovery in agriculture) .

UNIDO, although not allowing for the drought, takes a very pessimistic view of both the past performance and the prospects of Africa in its text, suggesting that it has not kept pace with the growth of the rest of the developing countries. It identifies this as one of the major issues for the 1990s: 'Sub-Saharan Africa constitutes the last but most serious challenge to development policy makers' (p. i). It is the only area not now growing. It has seen more countries dropping back into the group of poorest countries than other areas, in particular Latin America, and the gap with the rest of the world is narrowing. It should, however, be noted that UNIDO's own forecasts do not reflect this pessimism: they are little below those of other forecasters or its own for other areas, and on an individual country basis follow the logic of its argument on manufactures, with better performance for the more advanced.

While its analysis of different areas' potential for rapid rises in technology would support a view that Africa has particular problems because of its low starting point for the share of manufactures in output and low levels of education and training, the evidence it gives in the discussion of its forecasts does not. Africa has in fact had a similar average growth to Latin America since 1980; the income gap between Africa and the rest of the world as indicated by UNIDO charts (p. 30) does not seem to be widening more than that for South Asia; and the larger number of poorly performing countries is at least partly because there are more African countries than Latin American or South Asian. Although its rapid population growth inevitably leads to a worse performance in per capita income, this now appears to be slowing (as it did in Latin America after the 1960s), and cannot be used as evidence of a unique production problem for development. Its recent performance has also, of course, been much better than the falls in output in Eastern Europe or the former USSR countries, so that it is not clear that it is losing ground relative to the rest of the world as a whole.

It is clearly important to examine whether Africa is a qualitatively different problem in development, or an exceptionally serious one. The analysis of the role of industry and of training (discussed in section 4) seems more fruitful than the attempt to show uniquely poor growth.

Latin America's traditional recovery to 4% 'next year' reappears in some of the 1992 forecasts for 1993 (the IMF lowered its forecast from 4.2% to 3.9% between May and October, and the UN from 4% to 2%), but medium-term forecasts are more divergent, and some are more cautious. The first ECLAC estimate for 1992 is 2.4%, or 4.3% excluding Brazil's decline (but not, presumably, the effects of Brazil on its neighbours). The main factor in the UNIDO recovery in 1993 is better performance in Brazil.

The IMF assumes that structural adjustment programmes will be implemented and that they will be successful. Although UNIDO has a low forecast for the first half of the 1990s (as shown in the table), the text indicates much greater growth in the later years of the decade because of new industrial growth, giving an average of 5% for 1993–2000. In particular it notes that the productivity levels are still higher than those in Asia (p. 69), and that this gives it the base for rapid growth. It cites forecasts by the Inter-American Development Bank which rise from 4% in 1993 to 4.4% by 1995, 4.7% in 1996–7, and 4.9% in the last three years of the decade.

3. Capital flows to and from developing countries

Investment

One of the most important changes for the more advanced developing countries in the early 1980s, aggravating the effects of the debt crisis on bank debt, was the decline, then stagnation, of direct foreign investment in them. This occurred at a time when investment among the industrial countries was increasing rapidly. The fall was concentrated on Latin America, and the recovery began later there (Table 5). 1990–1 saw the reversal of all these changes. Investment in the developed countries fell in both years; investment in developing countries rose sharply, to Asia in 1990 and 1991, and to Latin America in 1991. The rise to Latin America was proportionately greater than that to Asia, and was accompanied by a surge of portfolio investment. These rises occurred at a time when developing countries were voicing fears of diversion of investment from them to the EC (because of the Single European Market) and to Eastern Europe (because of the freeing of markets). The UN at that time feared a shortage of world savings (cf UN, report on financing). It now believes that this did not occur because the recession in the developed countries reduced their demand for finance (consistent with the figures given here). In the five years from 1986 to 1991, direct investment in developing countries tripled. Direct and portfolio investment provided finance of about $30 billion to both Asia and Latin America in 1991. The prospects for those areas must depend crucially on expectations for these flows.

The estimates for 1992 and forecasts for 1993 and the medium term do not suggest that most parts of the industrial countries will be seeing a strong demand for investment, so if the UN conclusion about recession effects was correct for the last two years, it may also hold for the future. One difference, however, is in the improved prospects for Eastern Europe, and later the other formerly centrally-planned countries, and another is in the more widespread growth among the developing countries, in particular the performance of China. Both these may lead to increased demands for funds. UNCTAD (p. 36) continues to stress the risks of diversion to Eastern Europe. The WB estimates for 1992 an increase in portfolio investment in Eastern Europe (from about $1 to $4 billion, although this includes the developing countries of western Europe). The Hungarian *Economic Trends in Eastern Europe* suggests a strong rise in outside investors' interest during 1991; most investment is in Hungary. In 1992 it suggests a large increase in interest in Russia, but believes that major investment was principally in Hungary and Czechoslovakia.

As Table 5 suggests, an increasing proportion of investment comes from the developing countries themselves, especially Asia. Although some of this (perhaps $4 billion in 1990) goes to developed countries, an increasing proportion of investment in the Asian new NICs is financed by the old NICs, and there are signs of Asian investment beginning also to look at Latin America (Mexico post-NAFTA, for example). As with the growth in Asian trade, it is possible to expect flows within the region to increase at rates well above world averages.

The size of the increases in 1991, however, makes them unlikely to be repeatable, and it is questionable whether the forecasters are right to assume even that the levels were maintained in 1992. The IMF and WB (Table 6) expected rises in both 1992 and 1993, with Latin America's share continuing to rise in 1992. For portfolio investment, the WB (debt) also

Table 5: Principal Investment Flows 1975–91
US$ billion

	1975	1980	1984	1985	1986	1987	1988	1989	1990	1991
Outflows of investment										
Developing	0.2	0.6	2.3	2.7	3.2	5.1	7.6	11.1	10.5	11.8
Asia	0.1	0.2	2.2	2.6	2.6	4.9	7.4	10.7	10.2	10.3
Latin America	0.1	0.3	0.1	0.1	0.6	0.2	0.2	0.4	0.4	1.1
Developed	27.0	57.0	43.0	59.0	86.0	135.0	161.0	201.0	209.5	165.5
US	14.0	22.0	6.0	15.0					33.4	29.5
Japan	2.0	3.0	6.0	6.0					48.0	30.7
EC	9.3	26.1	22.3	23.9					97.5	80.5
Total	27.2	57.6	45.3	61.7	89.2	140.1	168.6	212.1	220.0	177.3
Inflows of investment										
Developing	6.3	10.1	10.5	11.5	14.0	25.0	30.0	30.0	30.9	42.7
Asia	1.6	3.2	4.8	4.5	6.7	11.6	15.0	16.2	19.9	25.7
Latin America	3.3	6.2	3.4	4.5	5.4	10.8	11.4	8.4	7.8	12.0
Developed	15.2	42.1	38.5	37.8	64.1	107.9	128.6	165.4	148.7	115.2
US	2.6	16.9	25.3	19.2	34.1	58.1	59.4	70.6	37.2	22.2
Japan	0.2	0.3	0.0	0.6	0.2	1.2	–0.5	–1.1	1.8	1.7
EC	9.7	21.0	8.8	14.7	20.0	36.4	54.3	75.5	85.9	67.7
Total	21.5	52.2	49.0	49.3	78.1	132.9	158.6	195.4	179.6	157.9
Net Investment in Developing	6.1	9.5	8.2	8.8	10.8	19.9	22.4	18.9	20.4	30.9
Portfolio investment in Developing										
Asia								3.6	3.5	4.2
Latin America								1.4	3.8	15.0
Africa								0.2	0.1	0.0
Total								5.2	7.4	19.2

Total investment by developing countries in developed countries (estimated from tables 1, 2, and other country data) 3.8

Source: BIS; UNCTC (1992, Engines); UNCTC (1988); IMF (1990); WB Debt Tables.

expected a rise, but going more to Asia. It suggested flows to Latin America were 'slowing' in the second half of 1992. Asian data suggest that portfolio investment there did rise, but also that some countries may have seen a fall in direct investment (both Thai and Japanese data, for example, suggest a fall in Japanese investment in the region). The ECLAC estimates for 1992 for Latin America suggest that there was a further large increase in capital inflows there in 1992, but support the view that these slowed in the second half of the year.

The quantitative forecasts do not go beyond the very short term, but there appears to be an expectation that the flows will continue. The growth forecasts obviously both provide an incentive for higher total investment in the fast-growing economies and assume it, and foreign investment is likely to continue to have a share in this. But the increasing outflows from the Asian countries (and the beginning of outflows from the Latin American) not only to the lower-cost countries within their regions but to developed countries, and the perceptions in some Asian countries that they are becoming higher cost and less attractive suggest that there should be some caution, at least in accepting the more optimistic forecasts for continuing growth in net inflows. All the factors attracting investment in the 1980s remain there, but are potentially slightly weaker: wages are higher; the internal economies are less protected; their trading partners are more protected; their growth industries (electronics for the more advanced; clothing for the less) may offer fewer opportunities. Their own restrictions on outward investment have been relaxed. The apparent reversal in 1990-1 of the trend to higher investment in the developed countries may have been a temporary response to the industrial countries' recession, while the growth since the mid-1980s of developing countries' investment in developed countries may prove to be the new trend. The high portfolio investment since 1990 must include an element of adjustment to a new higher share of developing countries in investors' stock of investments. Once this is complete, flows are unlikely to remain as high (the pattern seen, for example, when the UK removed controls on outflows in 1979).

In the 1991 forecasts, the portfolio flows to Latin America were strongly welcomed as a source of finance, but the 1992 documents are more cautious. UN** warns Latin America of the dangers of over-reliance on short-term flows, and WB (debt) also noted their inherent volatility. The IMF suggests (p. 37) that the inflow in 1991 may have been at least in part because of external factors (the low returns in the US), although the causes were 'largely domestic and reflect developments in the economies' of Latin America and Asia. This suggests that improvements in US growth (or the forecast rise in its interest rates) could draw some funds back. Although it takes a more 'bullish' (p. 19) view because it expects continuing better returns in Latin America than in the industrial countries, the IDB implicitly accepts that it is the contrast between performance in the two areas which is stimulating new investment.

The IMF (pp. 37–40) was also concerned by the potential implications for inflation and for upward pressure on the exchange rate; both could damage the competitiveness and real performance of the economies. UNCTAD (pp. 95–9) mentioned similar fears, that the flows

Table 6: Capital Flows to Developing Countries
$ billion

1991	Table 5	IMF	WB (debt)	UNCTAD
Net DFI	30.9	31.4	30.7	22.1
Asia	15.4		13.0	
Latin America	10.9		12.8	
Net Long-Term Debt			33.0	
Asia			23.1	
Latin America			3.3	
Africa			3.5	
1992		IMF	WB (debt)	UNCTAD
Net DFI		36.5	35.6	23.0
Asia			15.1	
Latin America			13.8	
Portfolio			22.9	
Asia			7.6	
Latin America			15.3	
Net Long-Term Debt			37.0	
Asia			23.9	
Latin America			2.2	
Africa			3.9	
1993				
Net DFI		38.4		24.2

might be short-term, and might have negative effects.[7] The WB (debt, p. 20) also stressed that the flows would give rise to future dividend payments, with a consequent cost to the balance of payments. This very simplified presentation needs to be qualified. Direct investment flows may be accompanied by increased imports (of associated capital equipment), which will not continue for the life of the investment. They are then likely to lead to either higher exports or substitution for imports if they go into the manufactures or services sectors. There is thus no reason to believe that the transition from an inward investment period (with possible offsetting imports) to an outflow of dividends (with possible offsetting exports) will necessarily strain the balance of payments). Again, it is the portfolio flows which are more likely to be an unstable source of finance. The extreme concern in the 1992 reports about the inflows may be as misplaced as the unalloyed enthusiasm for them of 1991. After the serious damage caused by short-term and volatile capital flight away from Latin America (and, to a much lesser extent, Asia) in the early 1980s, inflows cannot be wholly unwelcome.

UNCTAD and the IMF also agree in their concern over the potential structural weaknesses of the international financial system, and the long-term risk which this poses. UNCTAD has persistently been the organisation which stresses the institutional side of financing problems. Its special section in the 1992 report is on finance, although most is backward looking, on the problems up to 1991. It stresses the role of high interest rates, the weaknesses of the banking system, and asset-price distortions in the recessions of the 1980s. It does not, however, explain why the expectations which caused the distortions arose, or, therefore, why they ended, or, most important, whether and when we should expect them to be repeated. History and calculations of economic cycles, of course, suggest answers to the last question, but this is of little use in analysing and attempting to find policies to avoid the risks. The IMF also notes the need to 'strengthen oversight and pay greater attention to developments in asset markets' (p. 2), and the AsDB cites the 'weak regulatory framework' as a problem in the developed countries with a potential indirect risk for developing countries (p. 29).

Unlike direct and portfolio investment, bank borrowing has not revived, to any part of the developing countries, and it is not expected to do so by the IMF or UNCTAD in their forecasts. The WB forecast (debt) does suggest a large increase, but this appears to go largely to Eastern Europe.[8]

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[7] Surprisingly, while the IMF suggested removing restrictions on trade and outward capital flows as a way of lessening any pressure on the exchange rate (some of the inflationary demand would be diverted onto imports or into a country's own capital outflows), UNCTAD suggests that tariff reduction could make revaluation worse. It is not clear how this would happen, except perhaps through confidence effects. Neither analysis seems to give much attention to actively using the inflows to permit higher spending on measures (one-off or temporary if the flows are believed to be short-term) to promote development or even long-term growth.

[8] The summary chart of aggregate net resource flows in the text p. 17 is difficult to reconcile with the data in the tables for Latin America and East Asia and the Pacific. The comment in the text that 'East Asia and the Pacific is projected to show a strong growth of capital inflows in 1992' is not supported by the table (p. 168) which shows a rise from $31.8 to 34.7 billion. Table 6 uses the data in the tables.

Official flows

For the aid-dependent countries, there was no corresponding revival of funds, and none is expected, although the international organisations, notably IDA and the IMF, saw approval of replenishment of their funds during 1992. After growth at about trend level of 3% (real terms) in OECD countries' aid in 1991, the IMF appears to expect a smaller or no increase to Africa in 1992, and the WB expresses fears that on official assistance (in contrast to nonconcessional funds) there are grounds for fearing diversion to Eastern Europe, given the size of countries' commitments to those countries and constraints on aid budgets (p. 8). It does not, however, appear to see this as a constraint on growth in the 1990s. The OECD DAC report stresses that although aid from the OECD countries is continuing on trend, OPEC and Russian flows have now been greatly reduced, from about \$6 and \$2 billion respectively in 1990 to estimates of \$2.7 billion and \$1 billion in 1991. This was sufficient to give a net fall in 1991 of about a billion dollars (from \$58 to \$57 billion). If Russian aid ends, OECD aid would need to increase by 5% in real terms to give a 3% real rise in aggregate flows. If it rises by only 3%, this would do little more than offset the fall in other regions' flows.

In 1991, Africa received more than half the total, and both North Africa and sub-Saharan Africa saw falls in the value of inflows. These are equivalent to 11% of sub-Saharan Africa GNP, compared to 1% for Asia, the Middle East and North Africa and 0.5% for Latin America. The polarisation between the aid and the private capital receiving countries has always existed, but is becoming increasingly sharp: in the 1970s some of the major Latin American and Asian investment host countries were also receiving aid, and some of the Africans, investment.

4. Issues raised by the 1992 Reports

Forecasting

All the forecasts appear to be less tied to analysis of the prospects for the international economy and numerical assessment in the past, continuing a trend of recent years. Fewer variables are given, and the presentation is more descriptive in terms of the relationships between the different elements. The latter is particularly unfortunate as it makes it difficult to understand the interactions assumed, and the degree of dependence of different parts of the forecast. The OECD admits that 'model-based analyses may be of limited reliability . . . if the forces shaping this weak recovery differ from those of the past which are captured in the model' (p. 17), but does not then describe the nature of the 'OECD Secretariat judgements about the behaviour of private-sector agents and the possible policy responses of national authorities' which it has used instead.

The IMF has assumed throughout that its programme-countries follow their programmes and that the programmes are successful: this provides an interesting base, but only if it is presented with an alternative in which the countries do not follow them or the programmes are not successful. This confusion appears explicitly in its discussion of an assessment of the performance of its forecasts from 1971 to 1991: it claims that 'The deviations between the conditional projections and outcome are therefore partly a measure of the extent to which the policies specified . . . were not fully implemented, or partly a reflection of the fact that the assumptions about the global economic environment . . . have not always been realized.' (p. 79). The deviations could be entirely the result of modelling the effects of each of these wrongly. Their analysis in fact shows that their forecasts for non-programme countries were more accurate, suggesting that it could be the effects of the programmes which were wrongly modelled. They also show a persistent bias to over-forecasting Africa (forecast average: 3.1% growth; actual: 2.3%) and Latin America (4% and 2.3%), with a small error for Asia (5.9% and 6.1%). For Africa and Latin America, 'same-as-last-year' forecasts would have performed better. For industrial countries, the errors were smaller (3.3% and 2.9%), also suggesting that it may be the relationships rather than the external environment that accounts for the errors in developing countries. It may also be that the actuals are wrong: the first estimate, as reported in May of the following year, is used, which is frequently little more than a guess especially for developing countries which report data late.

The WB report, which was introduced in 1991 to give more attention to forecasts when they were crowded out of the *World Development Report*, has in its turn greatly reduced their share. The discussion of international trade policy and competitiveness is intended to provide background for the need identified in the forecast to increase exports significantly in the 1990s if developing countries are to achieve the forecast growth rates. It does give a good history and description of the barriers which they face, and of the changing structure of trade in manufactures, although its analysis of causation remains impressionistic.

Improving developing countries' domestic performance

UNIDO has extensive sections on the background to improving economic performance, and specifically manufacturing. One is devoted to speculation on whether the world has reached the steady state of under-consumption and over-production feared 60 years ago (p. 14). It also attempts to show that there is a plateau within the developing country classification which is difficult to cross (at about $6000 a year), but the approach is descriptive and concentrates on presenting differences existing now among developing countries to 'prove' the gap between those above and below, not examining evidence of how and when previous countries crossed it. The evidence that some countries are permanently left behind is not strong because on the numbers presented the composition of the 'bottom 50' has changed. It is more valid to look at where the bottom 50 of some past period are now than where the present were then, as the latter procedure necessarily excludes all those who have successfully left the bottom. It also does not take account of the size of the countries, although it is *a priori* likely that small countries will be found at the extremes and larger in the middle, and there are fewer middle-size countries than small ones.

The other section on performance is much more closely related to the forecasts (and some of its results were discussed in section 2). UNIDO's forecasts for output in 1993 are accompanied by forecasts for its manufacturing growth, and for the share of all developing countries in world output of the principal manufacturing industries (p. 8). As a result of the much more rapid growth forecast for the developing countries, especially those with the largest industrial sectors already, their share in total manufacturing output is expected to rise from 14.5% in 1990 to 16.9% in 1993, almost as great as the rise from 1975 (when it was 11.6%). The main rises are in textiles and clothing and in leather including shoes; in these they will account for about a third of output. Most of the others in which they will have a

Table 7: Estimated Share of Industrial Value Added of Developing Countries in World Total in 1975, Projected Shares for 1990 and 1993

percentage

ISIC	Branch of industry	Share of developing countries in world total[a]			Average annual growth rates			
			Projected		Developed countries[b]		Developing countries	
		1975	1990	1993	1975–85	1985–93	1975–85	1985–93
3	Manufacturing	11.6	14.5	16.9	2.3	1.1	4.9	4.9
311	Food manufacturing	14.5	16.6	19.2	1.9	0.4	3.6	2.9
313	Beverages	19.2	23.5	26.3	0.8	0.1	2.8	3.6
314	Tobacco manufactures	32.4	34.7	35.6	2.1	2.7	4.3	3.7
321	Textiles	18.6	26.1	31.6	0.2	–1.9	2.7	3.6
322	Wearing apparel	11.7	20.4	25.9	0.8	–2.1	4.4	5.9
323	Leather & fur products	18.0	32.1	39.2	–0.4	–3.1	4.5	4.1
324	Footwear, excl. rubber or plastic	18.7	30.8	39.9	0.5	–3.6	5.3	4.1
331	Wood & cork products	12.4	14.0	16.6	0.3	–0.1	2.0	3.7
332	Furniture & fixtures	9.9	10.1	11.0	1.7	1.3	3.0	3.0
341	Paper & paper products	10.0	11.2	12.3	1.7	3.5	4.7	5.3
342	Printing & publishing	8.7	6.5	6.8	4.0	3.3	2.9	4.4
351	Industrial chemicals	8.9	13.2	15.1	1.5	2.5	6.4	5.5
352	Other chemical rpoducts	15.5	16.3	17.2	3.6	3.6	5.0	5.7
353	Petroleum refineries	31.0	45.6	52.5	0.7	0.8	7.2	5.2
354	Misc. petroleum & coal products	6.5	13.1	19.0	2.0	–1.3	8.6	4.3
355	Rubber products	13.0	21.9	26.5	1.2	–0.6	5.9	6.0
356	Plastic products n.e.c.	14.6	14.2	15.7	5.8	4.1	7.4	5.7
361	Pottery, china & earthenware	14.0	17.2	21.9	0.9	–0.8	2.5	4.7
362	Glass & glass products	11.3	14.1	16.7	1.5	1.4	4.5	4.4
369	Other non-metallic mineral products	13.9	19.3	23.5	1.0	–	4.5	4.4
371	Iron & steel	9.7	11.4	13.5	1.5	0.7	4.2	4.7
372	Non-ferrous metals	9.7	17.8	21.4	0.8	1.8	7.1	7.8
381	Metal products, excl. machinery	9.6	11.5	13.5	1.5	0.7	4.2	4.6
382	Non-electrical machinery	5.0	5.2	6.3	3.7	0.4	4.7	4.2
383	Electrical machinery	7.9	12.7	14.8	5.0	1.1	7.6	8.8
384	Transport equipment	7.7	9.0	10.2	3.2	1.3	5.6	4.5
385	Professional & scientific goods	2.6	4.1	4.8	3.7	4.6	8.8	8.5
390	Other manufactures	10.4	16.1	20.5	2.8	0.3	6.6	7.6

Sources: UNIDO statistical database, estimates and forecasts by UNIDO/PPD/IPP/GLO.

[a] Excluding China
[b] Including Eastern Europe

Notes: Projections and growth rates are based on deflated national currencies converted to 1985 US$. Growth rates are derived from 117 sample countries—32 'developed' and 85 'developing' (Industrial Statistics consoldiated by UNIDO). China and other centrally planned Asian economies are not included in the sample. (The share in world is estimated to amount to 2.4% in 1990 for total manufacturing.) ISIC=International Standard Industrial Classification of all Economic Activities (Revision 2).

major share are closely tied to natural resources (rubber, petroleum refining, etc.), but the highest growth rates, and greatest contrasts with the developed countries, are in the more advanced products, in machinery, etc. (reproduced as Table 7). This indicates the structural changes in world production, but also gives strong support to the UNIDO report's emphasis on technology and training as explanations of relative performance among the developing countries.[9]

Policy questions and prescriptions

In general, the supply-side policy prescriptions of the other organisations are more macro-economic, or deal with the structure of the economy. These are combined with efforts to identify how to increase demand, in the developed and developing countries. UNIDO does stress the importance of a failure of demand as well as supply (p. 27). The discussion in the other reports tends to be rather general, and even timid, as the difficulties in getting the recent forecasts right have probably sapped the confidence of the forecasters as much as of economic actors. The UN suggests that action will be needed if the recovery fails yet again, while the OECD suggests that 'co-operation among OECD governments, through peer support can help to maintain the momentum of necessary structural reforms'. This may be true, but support to prevent back-sliding seems an even weaker hope than the 'locomotives' to move all forward together of the 1970s, and it does not explain how to prevent peer support failing as catastrophically as it did in September 1992. The IMF helpfully suggests that if some policies fail, so will those which depend on them,[10] and more specifically criticises the tight money policy in Europe, and thus implicitly the path toward monetary union which it has assumed will require tight policy until 1996. For developing countries, its prescriptions continue to be at macro-economic, rather than sectoral or industrial level: 'comprehensive and consistent financial policies' and the 'crucial importance of credibility' (p. 35).

Both the IMF and UNCTAD have special sections on reforming the trade policies of developing countries and on the reform (or privatisation) of public sector enterprises, and these are also suggested as policies in the WB report. UNIDO also has a section on privatisation policies. UNCTAD has some more specific, but still macroeconomic, suggestions: to lower interest rates in Europe, and increase capital flows to the developing countries in order to increase industrial country exports, although the recent increases in the share of Asian exports suggest that increased import demand might not be met from the industrial countries. All again cite the successful completion of the Uruguay Round as essential.

It is clear that much of the IMF, UNCTAD, and UN analysis amounts to a judgement that confidence in the economy and in policy-makers has collapsed, on each side and between the

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[9] It is notable both here and in the other section questioning the possibility of development that the models for development and success seem to have an Asian emphasis, although the forecast section correctly notes the higher productivity in Latin America, and the opportunity for further growth which this gives.

[10] 'Deficiencies in achieving medium-term policy objectives constitute critical barriers to additional policy measures to support more robust recovery' (p. 2).

two groups, and that it is crucial to revive this. Institutional remedies, to the financial and world trading systems, are one avenue. A concerted effort to revive expectations is clearly another, but although a recent effort has been made to show that commitments at summits have some positive credibility (Furstenberg and Daniels), this does not seem to be working well at present (or alternatively, the commitment to monetary union worked too well).

Regional problems

Some of the issues already discussed have much more important implications for some areas than others, notably those on finance: direct investment for Asia, portfolio for Latin America, and aid flows for Africa, while as noted above UNIDO has suggested that Africa faces a range of exceptional difficulties in starting to develop which the other areas have either not faced or already overcome. There are two other regional issues which are raised: changes in the major economy of a region and regional trade links.

For Africa, the AfDB discusses the potential effects of South Africa on the rest of the African economies, as it changes its political system and its relations with the rest of the world (pp. 97–9). There are two types of effect. First the legal structure of South Africa's relations with the other African countries may change leading to more favourable trading access to the African countries and the possibility of greater investment links and more extensive linkages of transport and energy infrastructure. Secondly, any economic changes within what will be the major economy in the region will affect the prospects for trade and demand for labour in the neighbouring countries. In the immediate future, little change is expected: progress within South Africa has been slower than expected, and South Africa will need to make internal adjustments to its economy before it becomes a regional force. The change in political power, however, may bring more immediate effects on the demand for external labour if the new regime prefers to substitute South African workers for migrants.[11]

Although the other reports do not have explicit sections on the subject, in Latin America and Asia as well the political and economic transformations of the largest country in each region (Brazil and China) also pervade the assessments of the prospects for the continent. Good analysis of their prospects may therefore be more crucial to making a forecast for the region, and thus in the aggregate forecasts for developing countries as a group, than detailed analysis of some of the less important industrial countries, even if on a global scale these appear to be larger. Except for occasionally removing them from the area totals (to avoid 'distortions') there has been remarkably little recognition of the key role which these area leaders may have. But they influence the prospects for the other countries as well as the calculations of area averages. (Arguably the role of Germany in Europe similarly needs greater emphasis.)

For Latin America, regional trading links have been an important issue in 1992, and are expected to remain so. The failure to increase its exports as rapidly as its imports or as rapidly as the exports of the Asian countries remains a serious problem, in spite of temporary relief from the capital inflows discussed above. In the 1980s, the Latin Americans tried a

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[11] The potential effects of South Africa's trading relationships with other regions have been discussed in an ODI report (Page and Stevens).

remedy which went against 50 years of protective policy, to improve competitiveness by reducing their own barriers to imports. Since the mid-1980s, they have brought their tariff levels down from over 50% on average to around 15%, while non-tariff barriers which covered more than half their imports have been virtually eliminated. These changes have not yet made them more competitive, whether measured directly or by results. The apparent failure of this policy was probably one factor which led the Latin Americans to their remedy for the 1990s: towards special trading relationships, among themselves and with their principal industrial country trading partner.

Given the small share of trade among themselves, and the now very low tariffs on which to offer preferences, it is not clear that any intra-regional groups will have a major effect. Experienced EC observers have also been quick to point out that low tariffs mean a lower 'pool' of customs revenue to compensate any losers. Some large and/or traditional groups, the Andean Pact, the Caribbean countries, Central America, and the largest of all: Mercosur with Argentina, Brazil, Paraguay and Uruguay, now have new organisations and target dates for tariff cuts. Other cross groups have been formed: Mexico and Chile, Mexico, Colombia and Venezuela; Argentina, Chile and Venezuela . . . with less explicit aims or organisation. Those with real obligations have already faced withdrawals or difficulties from at least one member (Brazil's and Peru's political difficulties led to problems for the Mercosur and Andean groups respectively). It is difficult to see any major effect on trade prospects, and although the forecasters note, and largely welcome the groups, it is not apparent that they are allowing their existence to influence medium-term forecasts.

The share of Latin America's trade with the US is clearly large enough for improved trade prospects there to have a more significant effect, but, aside from bilateral 'framework' agreements which have now been signed between most of the major Latin American countries, and the US, only the proposed admission of Mexico to NAFTA has been negotiated. This would be at most a free trade agreement, not a common customs area or common market. As it has a 15 year transition period, and the immediate commitments amount to little more than provided by present arrangements (50% instead of 45% of Mexico's exports will enter the US duty-free), the direct effects on Mexico's exports can probably be safely ignored by forecasters. The effect on its imports is expected to be greater and faster, as its tariffs are higher and immediate concessions greater. US estimates are for an effect of 20% on Mexico's exports by 1995 and twice this on imports, thus an intensification of Latin America's problem of faster-growing imports than exports. The beneficial effect on Mexico (including some of the export growth) is derived from higher investment in Mexico for re-export to the US or for the growing Mexican market (growing because of the investment and the expected exports, so that the assumptions are highly inter-dependent). It is not clear why improved direct access to the Mexican market and little change in Mexican access to the US will attract either type of investment; the increasing investment by Mexico in the US, which has already begun, may be the more plausible response (and Canada, the earlier NAFTA member, has seen this result).

For Latin America as a whole, it is the net effect on the area which is important, and some of any increase in investment in Mexico or in its exports to the US will be diversion from countries without this new access. The Caribbean countries, notably Jamaica, have been vocal complainants, and some South East Asian countries have suggested that there could be diversion of Japanese investment to Mexico; the reverse could also happen because the stricter rules of origin to count as 'Mexican' goods may discriminate against Japanese-owned factories. None of the forecasts presented here has attempted to measure the direct effects on Mexico or the total effects on the continent, although, unlike the case of the Uruguay Round, it is clearly not possible to argue that all the equations embody an assumption of such arrangements. (Unless forecasters believe that their models do embody the negligible effects of all the failed regional arrangements of the last 30 years . . .)

There is also an initiative for an Asian Free Trade Area, launched on 1 January 1993, but its effects are not expected to be important. This is the last of the developing areas to adopt the policy of regional trading areas (Africa's groups date from the early 1980s, with as little effect as Latin America's past attempts). This alone suggests that such groups are not essential either to economic success or to relatively high intra-regional trade and investment (Asia is higher already on both counts than the other areas). As the potential member countries have further reduced tariffs which were already lower than in the other areas, the potential gains are small, and the calculations which have been done (not by the international forecasters) tend to find very limited effects.[12]

There appear to be no general rules for the nature of intra-regional trade: among the Latin American and African countries, it has been less concentrated on primary goods than trade with the industrial; in Asia: more. The recent revived fashion seems to owe more to fear of potential consequences from being left out of other arrangements, or to desire to use economic power as a bargaining weapon with the others, than to even informal assessment of their likely benefits and costs. (This is even more true of the more nebulous groups like the Pacific or Black Sea Rims, which are little more than recognitions of the advantages of low-cost transport.)

Unresolved questions

It is traditional for forecasters to assert that it has never been more difficult to forecast than at present. A report on forecasts at the beginning of 1993 is unusually difficult because the preferred solution to forecasters' problems has been a retreat from explicit forecasts. The reports have all raised serious questions both about individual areas or variables and about more general problems like the formation and influencing of expectations, confidence in economies and credibility of policy intentions. Some of these illustrate the value of forecasting, because it is the need to make the forecasts or to explain past failures which has led to the identification of the unanswered questions. Some of the general discussions of themes are excellent reports on their subjects (although these should probably have been presented elsewhere because they will not be seen by the specialists in the topics if these potential users are not also followers of forecasts). But most of the forecasts remain incredible when pursued into the medium term because the combination of collapsing economic relationships and contrasting economic performance does not look sustainable. Either the explanations or the expected outcomes are likely to be wrong, and probably both.

[12] See Tow and Low for a recent summary of the evidence.

Appendix

Reports Discussed

Forecasts by international institutions

African Development Bank, *African Development Report.*
Asian Development Bank, *Asian Development Outlook.*
Inter-American Development Bank, *Economic and Social Progress in Latin America 1992 Report.*
International Monetary Fund, *World Economic Outlook* (October issue).
LINK, *Project LINK World Outlook* (October issue), 'World Economic Situation and Prospects 1992–1996: report on the meeting of the expert group on short- and medium-term projections of the World Economy (Project LINK)'. University of Pennsylvania and UN.[13]
NIESR, *National Institute Economic Review* (November issue).
Organisation for Economic Co-operation and Development, *OECD Economic Outlook* (December issue).
UN, *World Economic Survey 1992.*
UN, *The World Economy in 1992: an update* (October), mimeo.
UN, *The World Economy at the End of 1992* (December), mimeo.
UNCTAD, *Trade and Development Survey.*
UNIDO, *Industry and Development Global Report.*
World Bank, *Global Economic Prospects and the Developing Countries*; *World Development Report.*

Other reports used

Bank for International Settlements, *Annual Report.*
von Furstenberg, George M. and Joseph Daniels 'Can You Trust G-7 Promises', *International Economic Insights*, September/October 1992.
Institute for Economic and Market Research and Informatics, Hungary, *Economic Trends in Eastern Europe.*
GATT, *International Trade.*
IMF, *Balance of Payments Yearbook, 1990.*
Japan Center for Economic Research, *JCER Report.*
OECD, *Development Co-operation: efforts and policies of the Development Assistance Committee Report 1992.*
Page, Sheila and Christopher Stevens (1992) *Trading with South Africa: the policy options for the EC*, ODI Special Report.
Toh Mun Heng and Linda Low (1992) *Is the ASEAN Free Trade Area a second best option?*, National University of Singapore, mimeo.

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[13] The LINK forecasts are derived from those made by forecasting groups in each of a large number of industrial and developing countries, coordinated by a model run by the UN. They are available to the UN and UNCTAD, but these organisations' forecasts do not necessarily follow the LINK results. We are grateful to LINK for making them available for this comparison.

UN *International Conference on the Financing of Development: report of the Secretary-General* (November 1992).
UNCTC (1988) *Transnational Corporations in World Development.*
UNCTAD (1992) *World Investment Report 1992: Transnational Corporations as Engines of Growth.*
World Bank, *Debt Tables 1992–93.*

Definitions and Country Groups

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

Note: The data in all the reports are difficult to compare to earlier years, and in some cases among each other, because of major changes in definition. The IMF and the World Bank now include Eastern Europe and the USSR as developing countries in all the tables; but as far as possible the 'developing countries' totals in the tables given here exclude them; the UN and OECD do not include them. Eastern Europe sometimes includes the USSR. Germany is normally West Germany up to 1990; West and East for 1991 and the future.