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PROSPECTS FOR DEVELOPING COUNTRIES: TRADE AND CAPITAL

The International Economic System after the Uruguay Round

Sheila Page

Overseas Development Institute

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Overseas Development Institute
Regent's College
Inner Circle
Regent's Park
London NW1 4NS

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TABLES

1. New challenges for forecasters

The international economy and the international economic system face major changes, some in trade and investment flows; others from policy. The rapid growth in the Asian economies has been accompanied by a large increase in the trade and investment flows within the region. Other areas have also seen some increase in regional flows, and Latin America in particular has increasingly attracted private capital from outside the region. The volume, direction and sources of aid funds for the poorer developing countries are changing. The Uruguay Round of GATT trade negotiations was finally completed in 1993, and a variety of other trading groups have emerged, or been strengthened, at regional level.

These changes in the structural conditions pose challenges for forecasters, and do so at a time when for four years the developed countries, especially in Europe, have failed to grow as fast as expected in the preceding year, while developing countries, especially the Asian, have done better. Until 1992, this was accompanied by a faster than expected growth in world trade. In 1993, in contrast, the forecasts for trade were high, but early estimates are for a considerable slowing. This suggests that the structural changes which are already occurring are not fully understood, for individual countries or at international level. Uncertainty was particularly evident at the end of 1993 with the end of the Uruguay Round of GATT trade negotiations, with strong expressions of concern that failure to complete them would lead to a loss of (varying) numbers of 'hundreds' of billions of dollars of benefits and equally that success would lead to serious consequences for some or all developing countries.

The OECD in its June *Outlook*[1] published a short section on the accuracy of its and the IMF's forecasts since 1971, and found that, except for the period since 1990, although the direction of error was to over-forecast, the average error was insignificant, with some improvement between the first and second halves of the period. It does not give its views on the reasons for the errors since 1990 (except that forecasting is always difficult at turning points), and does not explore the difference between developed and developing countries.

Other analysis in some of the reports considered here does look at possible changes, especially in financial flows and regional linkages, but these do not seem to be systematically tested as explanations for the errors in the past or, in particular, for the contrast between the forecasts of the performance of developed and developing countries. One of the themes of this report is how clear a relationship can be seen between the analysis in the documents reviewed here of the new forces in the world economy and their quantified medium-term outlooks.

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1. The publications used in the comparisons of forecasts are listed in the Appendix. References to the UN are to the *Survey*; to UN Dec. are to the end-year supplement. (Other publications by the forecasting organisations are referred to by short titles.)

2. Regional trade and regional groups

Regional trade

Several reports draw attention to the increase in intra-regional trade, particularly in Asia. The UN in particular gives the data for all the major regional trading organisations (table 1), and the UN, World Bank, and especially the Asian Development Bank suggest this trend as one reason for the better performance of trade than output and of the Asian countries than their industrial country trading partners. 'The dynamism of intraregional trade played a key role in helping to shelter the economies of the region from slow growth in the world economy in 1992.' (Asian Development Bank, p. 10). What is apparent from this table, and perhaps clearer from table 2, is that for developing countries this change is almost entirely confined to Asia, and that it in fact has been accompanied by an increase in other areas' trade with Asia. Trade within Africa, for example, has increased less than African trade with Asia. This suggests that neither the existence of trading groups nor a general trend towards regionalism is the explanation.

The changes detailed in tables 1 and 2 took place against a background of slow import growth in some industrial countries, a reasonable reason to seek markets elsewhere, and some of the changes, notably the recent increase in Latin American intra-trade, are (table 1) a (still incomplete) reversal of the reduction of the early 1980s.

The possibility that it is because Asia has been growing rapidly that the trade is rising, not that causality goes the other way, is explored in a table taken from a report published by economists at GATT (table 3). While the first panel shows the same results as table 2, of an increase in regional trade, the longer time perspective indicates that this is not a new phenomenon. When compared to the second panel, each area's share in world trade, what emerges is that the increase in intra-Asian trade is actually less than might be expected from the area's growing importance in total world trade. On this basis, it is Africa and Latin America which show the disproportionate rises in the shares of intra-regional trade.

The increase that has occurred in Asian intra-trade is a reversal of the trend (and apparent policy) of the period before 1980 when the NICs' exports first expanded rapidly. Then, the most successful exporters had concentrated on increasing trade with the industrial countries. It is interesting, therefore, that manufactures, which previously explained most of the increase to the industrial countries, are now showing the largest increases in regional share. In its special section on Asian trade, UNCTAD shows the results by commodity groups (table 4). It also shows that it is the Newly Industrialising Economies and China which explain most of the rise. For the former, therefore, there seems to have been simply a shift from a more slowly growing industrial area (the old industrial countries) to one now growing rapidly (themselves). For China, much, if not all, of the increase can be explained by Chinese shipments to Hong Kong for reexport. The regionalisation of trade does not, therefore, appear to be a new trend, but rather a normal result of seeking appropriate and growing markets. The growing share of Asian countries in the world economy and of manufactures, which tend to grow faster than primary products, in their exports meant that for purely accounting reasons, good performance by their exports has a growing weight in any world forecast.

Table 1: Intra-block trade of some major trading blocks percentages

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

Source: United Nations

[a] European Community: Belgium, Denmark (from 1973), France, Germany, Greece (1986), Ireland (1973), Italy, Luxembourg, Netherlands, Portugal (1986), Spain (1986) and United Kingdom (1973).

[b] European Free Trade Association: Austria, Finland (1961), Iceland (1970), Liechtenstein (1991), Norway, Sweden and Switzerland.

[c] Central American Common Market: Costa Rica (1962), El Salvador, Guatemala, Honduras and Nicaragua.

[d] Latin American Integration Association: Mexico and all South American countries, except Guyana, French Guiana and Suriname.

[e] Andean Subregional Integration Agreement: Bolivia, Colombia, Ecuador, Peru and Venezuela (Chile withdrew in 1976).

[f] Caribbean Community: Antigua and Barbuda, Bahamas (1983), Barbados, Belize (1974), Dominica (1974), Grenada (1979), Guyana, Jamaica, Montserrat (1974), Saint Kitts and Nevis, Saint Lucia (1974), Saint Vincent and the Grenadines (1974) and Trinidad and Tobago.

[g] Association of South-East Asian Nations: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

[h] Southern African Customs Union: Botswana, Lesotho, South Africa and Swaziland.

[i] Arab Common Market: Egypt, Iraq, Jordan, Libya, Mauritania, Syrian Arab Republic and Yemen.

[j] Australia-New Zealand Closer Economic Relations Trade Agreement.

[k] The UN records intratrade as 0. This is inaccurate because members normally publish one trade series excluding SACU trade, and the UN has apparently used this.

Table 2: Intra-regional trade
percentage shares of markets in total exports

to	Developing Countries		Developing Asia		Own Region	
by	1985	1990	1985	1990	1985	1990
Developing Countries	30.1	33.0	10.8	21.0		
Asia	36.7	40.1	27.6	33.4	27.6	33.4
Latin America	23.5	25.2	4.3	5.0	12.7	15.9
Africa	14.8	15.0	3.3	4.2	4.9	5.4
	Industrial Countries					
Industrial	72.7	76.3	9.2	9.9		
EC	77.8	81.7	4.2	4.5		
North America	72.9	72.7	10.5	12.8		
US	61.4	63.9	13.4	15.5		
Japan	58.0	58.6	26.4	31.3		

Source: IMF, *Direction of Trade*

Regional trade among the developed countries offers equally mixed support for the view that this is a major new phenomenon. Intra-European trade rose from the 1960s to the 1980s, a period coinciding with the expansion of membership of the EC, each stage bringing a step increase in the new members' trade with the old, and also with the emergence of two new producers of primary products which substitute for extra-regional imports: the UK and Norway for oil. It has stabilised since then (tables 2 and 3). Intra-North American trade has increased more recently, although it is too early to observe NAFTA effects, and again it seems more a return to previous levels.

It is possible that the growing and consistent disparity of different regions' economic performance has highlighted a need for forecasters to take more systematic account of the role of regional proximity as an explanation for trade, in addition to general factors, and therefore of the growth of regional markets relative to a world average. Some analyses (notably the OECD) have always done this explicitly, calculating countries' performance relative to their markets, rather than to a world average.

The forecasters do show awareness of the growing importance in a regional context of individual developing countries, notably China. The Asian Development Bank, UNCTAD, and the World Bank all emphasise the present or potential force of China in trade. The World Bank notes that if China continues to grow at 12% a year, with its imports rising

Table 3: Trade shares and the intensity of intra-regional trade, 1928-1990

percentages

	1928	1938	1948	1958	1968	1979	1983	1990
A Intra-regional trade share								
Western Europe	51	49	43	53	63	66	65	72
Eastern Europe	19	14	47	61	64	54	58	46
TOTAL, Europe	**61**	**61**	**52**	**61**	**71**	**72**	**72**	**76**
North America	25	23	29	32	37	30	32	31
Latin America	11	18	20	17	19	20	18	14
TOTAL, America	**45**	**44**	**59**	**56**	**52**	**47**	**47**	**45**
Asia	46	52	39	41	37	41	43	48
Japan	63	68	60	36	32	31	31	35
Developing Asia	27	28	37	35	22	25	27	34
Africa	10	9	8	8	9	6	4	6
Middle East	5	4	21	12	8	7	8	6
TOTAL, WORLD	**39**	**37**	**33**	**40**	**47**	**46**	**45**	**52**
B Share of world trade								
Western Europe	47	45	36	40	43	44	39	46
Eastern Europe	5	6	5	9	10	8	9	5
TOTAL, Europe	**52**	**51**	**42**	**49**	**53**	**51**	**48**	**51**
North America	18	14	22	19	19	15	16	16
Latin America	9	8	12	9	5	6	5	4
TOTAL, America	**26**	**22**	**34**	**28**	**24**	**21**	**21**	**21**
Asia	18	16	12	13	13	15	18	21
Developing Asia	12	9	11	9	6	8	10	12
Africa	4	5	7	6	5	5	4	3
Middle East	1	1	2	3	3	7	6	3
Intensity of intra-regional trade index (defined as share A/share B)								
Western Europe	1.13	1.14	1.21	1.38	1.51	1.57	1.63	1.60
Eastern Europe	4.36	2.61	10.22	7.62	7.30	7.88	7.28	10.88
TOTAL, Europe	**1.20**	**1.21**	**1.27**	**1.27**	**1.35**	**1.43**	**1.53**	**1.51**
North America	2.59	2.91	2.39	3.07	3.57	3.63	3.63	3.50
Latin America	1.37	2.30	1.71	1.95	3.55	3.80	3.47	3.53
TOTAL, America	**1.76**	**2.00**	**1.77**	**2.07**	**2.21**	**2.29**	**2.23**	**2.26**
Asia	2.61	3.33	2.74	3.15	2.84	2.77	2.41	2.31
Japan	4.17	4.65	4.29	3.28	3.81	3.08	2.62	2.33
Developing Asia	2.40	3.42	3.56	4.13	3.44	3.21	2.95	2.83
Africa	2.37	1.73	1.27	1.38	1.91	1.24	1.03	2.48
Middle East	7.56	3.47	9.55	4.25	3.00	1.17	1.38	2.23
TOTAL, WORLD	**1.85**	**1.92**	**2.43**	**2.65**	**2.81**	**2.64**	**2.68**	**2.62**

Source: Anderson, K. and Blackhurst, R. (eds) (1993) *Regional Integration and the Global Trading System.*

proportionately, its imports will be larger than Japan's by 2002, while the Asian Development Bank already stresses that 'it is evident...that the dynamism of the Chinese economy was a major source of intraregional trade growth' (p. 10). UNCTAD notes that the role of China in regional integration has been particularly important because of the 'complementary character of its trade structure...which has accounted in no small part for the fast pace of expansion of intraregional trade and investment' (p. 133), but it does not give its actual estimate of 'no small part'; its special section on China is not related to these comments on its role in regional integration.

As will be seen later, a growing number of forecasters are now giving separate forecasts for China (or the Chinese Economic Area, in the case of the World Bank: China, Hong Kong, and Taiwan). This and the emphasis on analysing intra-regional trade separately from total trade should permit an improvement in forecasting methods for trade, although it is not clear whether it is now being incorporated formally into the general forecasts.

Regional organisations

These are mentioned as emerging phenomena by several of the forecasters, and as a potential influence on trade performance and the economic system in the medium term, in particular by the World Bank (p. 55). It noted their benefits in promoting trade, but also noted the risk that their proliferation could erode the value of preferences of each of them and increase transaction costs (because of a multiplicity of different regulations and rules about the origin of products within each region): they 'may not mesh easily with existing agreements'. They were also perceived during 1993 by many individual countries, developed and developing, as an actual or potential threat to the Uruguay Round negotiations or to the multilateral GATT system, so it is appropriate to look at them in some detail (even if the preceding section suggested that except for the EC their influence on trade may still be limited).

Regional organisations among developing countries have a long history of enthusiastic formation followed by dissent and either dissolution or lapsing into purely formal existence. The question to consider is whether what is happening now is different in kind from the past. The evidence on trade suggests that whether they are a response to a genuine increase in regional economic integration remains an open question. Other explanations to examine are:

1. While trade integration may not be exceptional, the growing integration in other ways (what Oman, 1994, has called 'deep international policy integration') may now require a more contractual response to any degree of regional economic integration than in the past. The EC offers the most striking example of a region which began with trading objectives and found that the elimination of trading barriers made other differences in market conditions more apparent, both as barriers to trade and as 'unfair' differences between firms in different countries. The 1992 Single European Market (SEM) exercise was the response. The inclusion of what were called the 'new areas', investment, intellectual property, non-trade subsidies, in the Uruguay Round offers evidence that countries not linked in a trading organisation also now find these non-trade barriers to trade more important than in the past. This could explain why a smaller increase in regional trade than before could be enough to trigger a policy response. If the level of sensitivity has changed sufficiently, it might explain why what appears to be no change in trend could do so.

Table 4: Exports of selected Asian countries and country groups to the Asian region, 1970-1989, by commodity groups

Percentage of exports to world

SITC	Category	Year	Japan	NIEs	ASEAN-4	South Asia	China	Total[a]
0 + 1	Foods, beverages, tobacco	1970	37.1	42.3	40.3	10.8	60.1	37.3
		1975	22.4	48.3	52.2	12.9	56.2	40.2
		1980	37.6	62.8	39.3	16.8	60.9	45.5
		1985	37.2	66.4	41.9	16.9	54.3	45.6
		1989	60.3	73.6	49.0	20.6	59.5	53.5
2 + 4	Crude materials	1970	43.6	34.7	52.9	39.4	33.4	46.1
		1975	48.4	36.2	54.8	51.5	38.9	50.0
		1980	60.4	45.0	63.3	58.7	40.9	57.2
		1985	64.4	54.2	57.8	53.2	45.4	55.2
		1989	71.0	71.3	63.8	60.8	52.3	63.5
3	Fuels	1970	72.1	69.6	69.9	27.0	78.9	69.0
		1975	58.3	58.6	59.2	56.0	98.5	61.5
		1980	46.8	75.7	68.9	49.8	93.4	72.1
		1985	47.2	74.4	80.8	19.3	91.8	79.2
		1989	61.5	88.8	84.5	26.8	89.8	85.0
	Machinery and transport equipment	1970	20.9	15.4	77.3	19.2	36.7	20.5
		1975	19.5	19.7	52.0	29.8	33.6	20.0
		1980	22.6	27.1	42.1	31.2	43.5	24.0
		1985	22.2	26.5	39.1	34.3	52.9	23.9
		1989	26.7	32.8	43.9	30.0	59.6	30.0
5-9 (less 7)	Other manufactures	1970	26.0	11.6	28.5	11.7	32.5	20.5
		1975	29.3	19.0	30.0	12.2	34.9	25.7
		1980	33.3	25.5	35.1	12.6	38.0	30.1
		1985	32.8	26.5	41.5	14.9	50.0	32.1
		1989	40.9	36.8	48.0	19.9	56.4	40.7
0-9	Total	1970	25.4	24.1	54.6	18.1	41.8	30.9
		1975	25.0	26.6	53.4	20.3	48.7	31.8
		1980	27.8	32.5	57.1	23.0	52.0	35.5
		1985	26.9	32.5	58.6	21.7	58.3	35.6
		1909	32.7	41.6	61.1	25.9	61.6	43.4

Source: UNCTAD

[a] Total of countries or country groups shown

2. The reduction in average external barriers means that the economic and political costs (in terms of loss of tax revenue, meeting any producer interests, etc.) of offering one's neighbours an elimination or reduction of the remaining MFN (Most Favoured Nation) tariffs are lower.

3. The groups may be emerging now for reasons other than promoting trade or other regional integration. The difficulties of the Uruguay Round of trade negotiations led both to a search for alternative ways of lowering barriers and to a desire to create groups with greater negotiating power than any one country, particularly a developing country, would have. The increased integration of the EC under the SEM initiative also was itself in part an attempt to increase economic power (as well as competitiveness). It in turn inspired other groups to form in order to negotiate with it. Clearly, as in more traditional forms of protectionism, there is a risk of spiralling retaliation.

A full list of trading groups would include some which are now relics of the past and would require almost daily updating for the new alliances which are forming (particularly those linking and cross-linking the Latin American countries). But it may be useful to classify the major ones, old, newly active, and new by type to indicate how extensive the network now is. A two-way classification divides them (with considerable arbitrariness) into those which are (almost) entirely trading groups and those which go beyond this and into those which are made up of only industrial, only developing, or a mixture of countries. This excludes purely concessional, non-contractual arrangements like the Generalised System of Preferences, and purely protectionist, non-negotiated schemes, like the Multi-Fibre Arrangement.

Industrial country trading groups. The relations, at least until recently, between the EC and EFTA (European Free Trade Agreement); in principle, those now being formed between the EC and Eastern European countries: these are not fully reciprocal, so that in content they offer 'concessions', but they are not concessional in the sense that they can be withdrawn at the discretion of the EC: they are signed agreements. The US-Canada agreements pre-NAFTA (North American Free Trade Agreement): certainly the agreement on car trade (which pre-dated NAFTA by 20 years), but arguably also the US-Canada agreement of 1989 before it was renegotiated to include Mexico. The latter was so limited that it did not even include a clause requiring either party to consult/obtain the consent of the other before entering into an agreement with another. (It was only by request and agreement that Canada entered the US-Mexico free trade negotiations.)

Industrial country groups which go beyond trade. The EC is the most important example. This is not only since the SEM changes: even in its origin it was a vehicle for state industrial planning (the European Coal and Steel Community). The recent changes, however, arise more directly from the perceived need to support trade integration with other aspects of a common market. The current European Economic Area arrangements with EFTA are now approaching this. Other examples which raise more interesting possible problems would be arrangements like the effective tying of the Austrian Schilling to the DM or continuing Danish links to the other Scandinavian countries under which countries with more limited trading arrangements (Austria, Sweden and Norway are not yet members of the EC) move further on non-trade arrangements than some with full trade links, and a subset of members of one organisation have links with one or a group from another.

Developing country trading groups. Here the problem is to identify those which are currently effective, distinguishing them from the debris of such efforts as the Latin American Free Trade Association, which retains a shadow as the LAIA (Latin American Integration Agreement), or the various West African federations, and from the intentions of others which have signed, but gone little further (Peru in the current Andean Pact; Mexico with Colombia and Venezuela). The current candidates for serious groups are MERCOSUR (Argentina, Brazil, Uruguay and Paraguay); the new Andean group as far as Colombia, Venezuela, and Ecuador, are concerned; probably Mexico-Chile; the Central American Common Market; and CARICOM (the agreement among Caribbean countries). If an Asian group (AFTA, Asian Free Trade Agreement), scheduled for 1 January 1993, but not yet implemented, appears, it will be in this class.

Developing country groups which go beyond trade. Again many in the past, when industrial and investment coordination were hoped for (most notably the Andean Group as it was founded in 1969), but of the present: the Preferential Trade Area in East, Central and Southern Africa, which has a payments union element. There are also groups which have little or no trading element, such as the CFA (Communauté Financière Africaine) franc area of francophone West Africa, assuming it survives the devaluation, or the original ASEAN (Association of South East Asian Nations), which primarily had a security focus, only later diverted to at least some intentions on trade.

Industrial-developing country trading groups. The US-Israel Free Trade agreement, the EC-Mediterranean and EC-Maghreb agreements (the latter have limited non-trade elements but not of an extent parallel to Lomé).

Industrial-developing country groups which go beyond trade. The Southern African Customs Union, SACU (if South Africa is considered an industrial country); the EC's arrangements under the Lomé Agreements (now in the fourth Agreement) with the ACP (African, Caribbean, Pacific) countries, assuming that survives the current questioning by GATT. This is contractual, not concessional, although it is non-reciprocal. It requires its members to consult before offering trading concessions to others. NAFTA, unusual in having more industrial country (US and Canada) members than developing (Mexico). All the industrial-developing country agreements have non-reciprocal elements. Only in NAFTA is this purely temporary, i.e. it applies to the length of transition, but not to the final outcome when the treaty comes fully into effect in 15 years. NAFTA is also exceptional in not limiting the members' right to negotiate new agreements with non members. The others normally require consultation, if not agreed amendment of the treaty. This is a logical protection of the members' interests, but it is also a potential further complication in future bilateral and multi-lateral negotiating as an increasing number of countries find themselves with one or more additional stages of consultation.

An important point is that the groups that are now emerging do not follow a continuum: most reduce or eliminate tariffs among themselves as a first step, but, as in GATT, sometimes with special provisions for non-reciprocity by the less advanced. Some preserve special traditional ties, giving two levels of membership or even ties to non-members: in the EC to Scandinavia; in the PTA (African Preferential Trading Area) for SACU members, and implicitly probably in any Asian group including any one of the Chinas, to the others. Some may have moved towards a common external tariff (some of the Latin American and

Caribbean), while others have gone further on internal common standards (NAFTA), on labour and the environment or financial arrangements (PTA) without a common external tariff. As all countries lower their average tariffs, because of changes in domestic policies (Latin America; perhaps in the long run the EC through reforms of the Common Agricultural Policy) or because of the Uruguay Round or other multilateral settlements, the common external tariff criterion for either identifying a regional group or looking at trade diversion and creation effects may become less important than looking at a range of common standards.

In considering how these groups should affect a forecast, if they are considered significant at all, it would be necessary to look at the effects on both members and those excluded. The World Bank makes this point, and the Asian Development Bank includes a short section on the potential threat from NAFTA to its area's exports to the US. Its conclusion is that it is not an immediate threat, because the US tariffs against Mexico which will be removed are low, and the transition period is long.

The EBRD has a special section on the effects 'on the South of the East's integration into the world economy', and in particular of its integration into the European trading systems. This provides useful evidence of the types of effects which need to be examined when a region changes its regime and its relation with the rest of the world economy. The effects are not restricted to the conventional ones of text books or GATT treaty provisions. On trade, it suggests that it is not yet, but is potentially a competitor in the EC market; on the basis of present patterns this would be with middle-income countries. It may have stimulated a protectionist response in the EC to its own products, and the EBRD warns that there is a risk that this will in turn affect policy towards developing country products. It also suggests that it is more important to look ahead, to the types of goods on which the East may be competitive when its structural changes are complete: in broad terms this means the exports of the NICs, not of the middle-income countries. The immediate effects, however, have not been on either of these, but on primary products: the reduction of the ex-USSR stockpiles of goods like nickel and aluminium have contributed to a collapse of their prices, with serious effects on developing countries exporting these (Jamaica and Zimbabwe, for example). Other immediate effects have been on countries with which Eastern Europe or the USSR had special trading arrangements (a special case of not merely 'erosion' but abrupt removal of preferences), notably Cuba, Viet Nam, and also India. The EBRD could have added that these effects have also stimulated a policy response. They have encouraged a growing distrust on the part of the developing countries affected of all preferential arrangements because of the vulnerability they create.

On capital flows (discussed in more detail in the next section), it does not see any evidence of private investment diversion yet (if anything falling income and high uncertainty in the former centrally planned economies may have had the opposite effect) but it does think (again the data and arguments in the next section support this) that official finance has been diverted, given that there is an overall budget constraint in industrial countries. It seems to be the only one of the reports to treat migration in a serious fashion, as an economic flow.[2]

2. In contrast, the UNDP, although like all international organisations it is staffed almost entirely with migrants and immigrants, treats it purely as a threat: 'The real threat in the next few decades is that global poverty will begin to travel, without a passport, in many unpleasant forms: drugs, diseases, terrorism, migration' (p. 8).

It notes that migrant earnings are a significant source of individual and country earnings for many countries dependent on the EC, and that Eastern Europeans are competing for these jobs. As with goods, it sees both a diversion of earnings from developing countries to the East and a threat to both areas from a protectionist policy response (p. 95) in Western Europe. It seems to suggest that the dominant factor in migration is pessimism about expected changes in income in the home country, rather than the actual size of an income gap. Given the importance of migrant earnings in many countries' balances of payments, changes in the levels of these seem an important point in looking at medium term prospects.

3. New directions for investment and aid

Direct foreign investment

The data (table 5) support the emphasis in all the reports on investment as a major and growing source of capital flows to the developing countries. But they also show that it is a very unequal rise, with most of the increase in the last two years (1993 is only estimated at this stage) going to China, and some to Latin America. Even in 1992, China was the largest recipient (double the flows to Mexico, Malaysia and Argentina, all around $4-5 billion), and if the Chinese estimate for 1993 is accurate it will be in a very exceptional position. Africa is still a minor recipient.

Flows to the rest of Asia have changed little. Evidence from individual countries in East and South East Asia confirms this view, with even traditional major recipients like Malaysia and Thailand seeing stagnation or small falls. By 1993 flows to Latin America appeared on some estimates, e.g. by the UN Economic Commission for Latin America, to be levelling off.

As some of the reports note, some of the rise to China is spurious, as the foreign investment incentives in China provide a strong inducement for Chinese investors to invest in their own country through exporting and reimporting capital, so it is probable that the true picture for foreign investment in developing countries as a group is at best a levelling, and possibly some fall in 1993. This is a very different picture from the one of increasing flows assumed in the World Bank discussion (the importance of this will be apparent in the discussion of medium term forecasts for the developing), although the other agencies were noting the risk of such a fall. The IMF (pp. 72-75) in particular noted the risks of a temporary inflow, leading to overvaluation of the currency, and pressed the need to use any such flow to increase investment, not consumption.

It is important to reach an assessment of whether the increase of the last few years has been the beginning of a trend of increased flows or a temporary phenomenon because of the implications for financing growth in the medium term. For this reason, several of the reports look for the reasons behind what has already happened. The IMF stresses the importance of policy changes in developing countries, both those directly affecting foreign investment, on convertibility and security of remittances, and general reform of macroeconomic policies (p. 75). The UN, in contrast emphasises the importance (p. 110) of the 'overall economic situation and the economic growth experience'. It is the countries where 'incomes per capita have already been rising significantly over a period of years [to which] private capital is mainly attracted'. It therefore concludes that in Africa, such inflows can only be expected once growth has been started by other means; they cannot drive such growth.

Public sector capital flows

These have been stagnant in total, as most of the reports note, and are expected to remain so. Some OECD countries have cut their aid programmes, and few have increased them, while those of the Eastern European countries have effectively ended. There is no suggestion that this stagnation or reduction can be reversed, but the World Bank points out that tying aid probably costs about $4 billion, or 9-10%, p.a. in extra costs through higher prices and administrative costs (other estimates are as high as 20%). It indicates (by juxtaposition) that this is similar to the cost of the support which has been extended to new recipients. This is estimated at $5.5 billion, with an additional temporary $4.5 billion needed for ex-USSR adjustment programmes. It suggests ending tying and especially reducing the share of technical cooperation in aid budgets.

The multilateral organisations (and bilateral donors) differ in how they treat the Eastern European countries in their data. The Development Assistance Committee of the OECD has now issued a list of those countries, including some of the ex-USSR republics, which are 'developing' and those which are not. The World Bank includes all in its 'developing countries' totals in its forecasts. All agree that there has been *de facto* diversion of funds from the traditional to the new recipients. The World Bank (in both its forecast and its debt volumes) draws particular attention to this. As there had been in the 1980s a shift in the distribution towards the poorest countries, and to Africa in particular, this means from them. Table 5 gives the figures for grants up to 1993; the World Bank figures in table 6 only go to 1991. It notes that the Eastern European and ex-USSR countries are now receiving as much per capita as the developing countries (World Bank *Debt* p. 13). It points out that this area is only one of three new groups competing with traditional recipients for a fixed or falling quantum of aid: there are also the countries which have fallen from higher income into the category of those that can only support concessional borrowing (it cites Angola and Mongolia), and those which are seeking aid after a period of war or other ineligibility (Afghanistan, Cambodia, Viet Nam).

Several of the agencies suggest that the nature, size, and administration of aid will be under question in the medium term, partly because of the need to cut and reallocate, but also because of its changing role in a system where (as the UNDP puts it most bluntly) 'The old motive of fighting the cold war is dead' (p. 8). The World Bank suggests that this could mean more to the poorest because of an increased share going through the multilateral agencies, not to countries with special bilateral arrangements with individual donors. Although the allocations by the multilaterals to Eastern Europe in the last three years seem to contradict this, there are signs that support it (the devaluation of the CFA franc in former French West Africa, signalling the reduction of French commitment to support these countries).

It is possible that the shift of share towards Africa in the last decade has a role in this reappraisal, but one that tends to go in the opposite direction from that suggested by the World Bank. For many developing countries outside Africa, a significant quantity of aid has

Table 5: Capital flows to developing countries

$ billion

	1991	1992	1993
Net DFI			
1. Africa	1.8	1.6	1.8
2. Latin America	12.4	14.5	17.5
3. Asia	14.5	21.1	26.1
4. China	4.4	11.2	27.0
5. Asia (excluding China)	10.1	9.9	n.a.
6. 1 + 2 + 3	28.7	37.2	45.4
7. E. Europe and Central Asia	7.0	8.5	9.0
Portfolio			
1. Africa	0	0.1	0.2
2. Latin America	6.2	7.9	6.0
3. Asia	1.1	4.7	4.5
4. China	0.7	1.2	
5. Asia (excluding China)	0.4	3.5	
6. 1 + 2 + 3	7.3	12.7	10.7
7. E. Europe and Central Asia	0.0	0.2	0.0
Net Long Term Debt			
1. Africa	2.6	2.1	2.8
2. Latin America	6.2	5.3	11.1
3. Asia	24.3	29.3	34.7
4. China	5.7	10.0	
5. Asia (excluding China)	18.6	19.3	
6. 1 + 2 + 3	33.1	36.7	48.6
7. E. Europe and Central Asia	9.8	20.8	19.5
Grants			
1. Africa	12.9	13.4	13.9
2. Latin America	4.0	3.1	2.9
3. Asia	5.7	6.7	7.0
4. China	0.2	0.3	
5. Asia (excluding China)	5.5	6.4	
6. 1 + 2 + 3	22.6	23.2	23.8
7. E. Europe and Central Asia	4.6	5.7	5.8

Source: World Bank (Debt); Chinese data for 1993 (the Chinese figure for 1992 was the same as the World Bank)

Table 6: Regional allocation of net ODA to developing countries

percentages

	1970[a]	1980[a]	1991
Sub-Saharan Africa	16.9	23.4	37.7
Latin America	13.8	4.4	10.2
East Asia	22.0	7.0	12.1
South Asia	26.8	20.0	14.2
Middle East and N.Africa	11.7	30.7	16.4
Europe and Central Asia	6.1	6.7	9.3

Source: World Bank

[a] Figures do not sum to 100 in source.

ceased to be a major part of their income, or of their relationships with developed countries. Although there are still major recipients among the poorest Asian countries (aid exceeds exports for Bangladesh, for example), this means that the major focus for donors is on Africa, and the test applied for the success of aid seems to be African response and performance. This is not entirely logical. Any form of income support targeted at the poorest will necessarily find that its targets tend to be poor; that some former recipients no longer need support should also be taken into account in any such analysis. Combined with the persistent underestimation of Africa's recent economic performance[3], this focus on Africa may contribute to a feeling of pessimism about aid.

Portfolio investment

Most of the reports are cautious about the recent rapid growth in this. There is a risk that it could be reversed if (or when) the conditions in industrial countries which have helped to promote it (in particular low US interest rates) change. Some agencies think that some at least of the increase is a one-off portfolio adjustment. The UN does not see it in most cases as an

3. UNIDO (p. 101) claims that 'The last decade was a lost decade for sub-Saharan Africa in every sense. Both exports and imports shrank by 3 per cent per year..., real per capita GDP dropped by 2.5 per cent a year, and gross domestic investment declined by 4.3 per cent per year over the 1980s'. This is true for trade only if it is measured at current values and if it includes the oil producers of northern Africa, and thus the drop in oil prices from the level of the early 1980s. It is not true for volume. It is not true for African real GDP per capita, and this in turn is not the appropriate measure of efficient economic performance when comparing it to the rest of the world (as opposed to a welfare objective). On IMF figures, taking 1985-92, real GDP rose 2.1% per year, not very different from Latin America (now cited as the successful reformer attracting foreign investment) at 2.4%, or indeed the EC at 2.6%. Per capita GDP did fall, by 0.5% a year, which can be compared to Latin America's rise of 0.5%. All these areas look like failures beside Asia, with an average above 7% for growth and no year below 5.5%. Africa's performance was inadequate for its needs, and the lowest of the conventional areas, but it was not of a different order from other developing or developed areas.

important source of investment finance (p. 111), and UNCTAD also notes its risks. Table 5 suggests that it is levelling, but press reports of more recent data remain contradictory, again with a contrast between some observers who caution about the volatility, while others note how far inflows could rise given the supply of funds and the current low weighting of these emerging areas in portfolios. The recent experience of the consequences of overdependence on other forms of external finance (both direct, by the debtors, and as observed from outside, by the non-debtor countries) could act as a deterrent to the recipients, although it does not seem to deter some investors.

The World Bank now seems alone among the agencies in taking a very strong pro-portfolio investment point of view. Developing countries should attempt to attract it by legislative reform. It also suggests that industrial countries' 'regulatory authorities should examine the scope for relaxing regulations without jeopardizing prudential standards, as well as easing access to securities market flotations' (pp. 43-4).

The general picture that emerges from the recent data and the reports' comments on capital inflows is that there are risks of reductions or reallocations in the medium term for all of them. Those which have increased in recent years may have done so for temporary reasons, and those which have not risen are unlikely to do so in the future. This suggests that any new stimulus to permit accelerated growth, or growth at a rate faster than in the developed countries, will have to come from other sources.

4. Potential effects from the GATT settlement

This lack of other reasons for optimism may be one reason for the unusual attention which was given by donors and developing countries to the trade negotiations.

These will have two types of effect. Lowering tariffs and non-tariff barriers and the efficiency-enhancing effects of the other reforms will lead to general increase in world income, and potentially in future growth rates. There will be structural changes in the distribution of output and trade, especially in the two most affected sectors, temperate-zone agriculture and clothing. It will only be possible to use normal economic estimation procedures to measure the effects of the general tariff changes which are mostly of a few percent. In contrast, cuts of over 30% in subsidised EC and US food exports will allow other suppliers to become major traders. Dismantling the quota system of the Multi-Fibre Arrangement will allow the industry to concentrate in the most efficient suppliers. The normal rapid move of this industry from one generation of industrialising countries to the next means that the efficient suppliers by 2005 will rarely be the present quota-holders.

Necessarily, calculations of only the easily measurable effects give small answers. Most of the estimates which have been made by the official international organisations or specialist researchers go a few steps beyond this, to estimate some of the income, and therefore investment, effects of the tariff changes and to guess how much present exporters and importers will respond to the large changes in quotas for agricultural and clothing products. The latter effects use assumptions based on experience in non-controlled markets, changes in relative prices within countries, etc. Ranges from 25% to over 100% for the assumed increase in clothing trade when MFA is removed indicate the uncertainties. Such studies have only tackled the other non-tariff parts of the settlement (for example, on strengthened trade dispute and investment rules, patents and copyright) by analysing for whom they will be positive or negative. Two looked at services (but before banking and shipping were excluded). The results, reported briefly below, probably give a plausible indication of the order of magnitude and distribution of the gains in the next 5-10 years, the period during which the agreement will be implemented. They will not hold beyond that.

After 10 years, there will have been time for the structural changes to have created a new pattern of importers and exporters, and there will have been further changes through the normal reallocation of industries in the course of development and through the different skills of producers in reacting to new opportunities. The section on gains and losses indicates how the settlement will act on different flows before suggesting what the results for different areas might be in the longer term.

Current estimates

Estimates for all developing countries are $30 to $70 billion dollars extra on exports by the end of 10 years, with a further (smaller) effect on total income, derived from cheaper import prices, partially offset by the extra costs of producing the extra exports. This is about 3-6% of the value of their exports (the equivalent of a poor to moderate year's trade growth), or 1% on income. Most goes to Asia (especially if measured in dollars rather than percent): $25 to $60 billion or 4% to 8%. Latin America gains $3 to $8 billion, or around 2% to 4%, and Africa, especially sub-Saharan Africa, sees statistically insignificant gains or losses. The unquantifiable, non-tariff, elements tend to be more positive than negative for all groups, but again with a bias toward the Asian, and least to offer the African. Services could add 1.5% to 3% to exports.

Gains and losses

Purchasers of goods whose tariffs or other barriers to imports are cut are the obvious first gainers. Among developing countries, the relatively high income (i.e. mainly the Asian countries, excluding those like Singapore and Hong Kong whose markets were relatively free already) were specifically targeted both in general and on controversial goods like rice (South Korea), clothing and shoes to open their own markets in 'reciprocity' for changes in the Multi-Fibre Arrangement. Countries which had already cut their own tariffs unilaterally during the Round (Latin American countries had come down from averages well over 50% to typically 10-20%) or the least developed which remain largely exempt from requirements to change (Africa and South Asia) are less affected.

The other important beneficiaries are the potential exporters in the two sectors which saw major reform. Most exporters of foods, especially 'temperate', rather than 'tropical' will see their markets improved. Although the percentage cuts in tariffs on tropical crops look impressive, the levels on coffee and tea were already low, and the volume of trade in most fruits is trivial (although in places it is expanding rapidly). The final settlement required the EC and US to cut their subsidised exports of temperate products by 36% in value and 21% in volume. This is unlikely to open the US or EC markets greatly, but will constrain US and EC competition in third markets, and raise world prices, helping southern temperate countries like Argentina, Brazil, and Chile, and potentially some southern African. The Japanese and Korean rice markets will be less closed, helping Thailand (as well as the US). Middle-income developing countries are permitted to cut their agricultural supports by only two thirds the amount required of developed, over a period of 10 years instead of 6, with least developed countries exempted from any change. They may therefore have an advantage in securing new exports.

Some exporters of clothing will gain. Clothing tariffs will remain among the highest of the peaks (over 30% for some), but the system of garment by garment and country by country quotas under the MFA will be phased out by the end of 2004. While it is easy to identify the countries which now export clothing, and only slightly more difficult to find those among them currently pushing the limits of their quotas, in the absence of natural limits like those on temperate agriculture, this is a poor guide to those who will be exporting in 2005. Present exporters are determined partly by stage of economic development: it is a supremely mobile industry, requiring very low and rapidly made investment and training, that typically comes to a country with the lowest labour costs, subject to adequate productive and transport infrastructure, and then moves on as labour costs rise, and the next generation acquires the minimum infrastructure. But the MFA has meant that it has become artificially dispersed. Countries have reached the limit of their quotas before reaching the normal development cut-off point. As new exporters in the 1980s were able to move from no exports to being major suppliers, with clothing accounting to up to 50% of their export income within 5-7 years, the 10-year transition is ample time for new low labour cost countries to substitute for the present producers, and among these, for the industry to become more concentrated than it is now in what will be the most competitive suppliers. The only certainty, therefore, is that many, if not most, present exporters will not be the long-term gainers (unless their economies regress). It seems probable, at present labour costs, that China and Viet Nam, perhaps other Eastern Asian countries, will be competitive and that the industry will continue to be managed by the Asian companies which have organised production and distribution during its spread in the last 20 years.

Exporters of other manufactures will gain. Tariffs on these have fallen by about the same amount in percentage terms as on primary goods. Trade in manufactures will continue to outpace the growth in output or other trade for normal demand reasons. Developing country suppliers may benefit less, however, as some cuts in general (MFN) tariffs may leave these above the preferential rates which they pay, and thus not benefit them directly. On most electrical, electronic, and other machinery, the current exporters are Asian suppliers; as the NICs are excluded from preference schemes, they will gain. On cars and car parts, Asian and Latin American exporters potentially gain. The cuts are not, however, large. Some exporters (mainly among the South East Asian) might also gain from the slight limitations introduced on anti-dumping actions, including time limits, if these are effective.

Exporters of non-food primary goods will have some of the smallest gains because most were already virtually tariff-free. In relative terms, they will lose because shares of trade, income, and output will shift further to producers of manufactures. This is a loss for some Latin American and African countries.

Although some of the most important services, including financial, were left to one side at the last minute, some exporters may gain. The settlement did achieve the incorporation of services into the international system of registration of national controls and supervision of how these are administered and changed. This was the original achievement of GATT for goods. Although the Latin American countries have been the major recorded exporters of services, this is principally because of tourism, which does not face barriers. The major exporters of services facing intervention are the South East Asian countries (especially financial and air), and some of the other Asian (construction and shipping).

All exporters and other producers can gain because of the positive effect on income, and therefore imports and other purchases, of the world as a whole which result from the direct effects and more efficient allocation of production and the certainty of having a settlement. The principal objective of governments in industrial and developing countries in launching the Uruguay Round was to find an anchor against further moves into protection by the US and EC, directly and by protecting their governments against lobbyists. Developing countries (for many of whom more than half their exports are subject to special trading arrangements) will gain certainty from a more rule-bound international system and therefore potentially offer a higher return to investors. The size of these gains depends on the type of export: producers of more advanced goods will gain more than those of basic goods with a low response to income changes; and on the share of exports in a country's economy: open economies gain most (many Asian countries, but not the large countries like China and India). Those still highly dependent on aid, rather than trade, for external income gain least (Africa and the poorest Asian, like Bangladesh).

The losers are mainly those which have had special benefits from the distortions of protection or privileged access in the face of general controls. The losses are real, in an economic sense, but it is difficult to argue that the international economy should maintain distortions and inefficiencies in order to provide disadvantages from which favoured countries can be exempted. Importers of subsidised food from the over-producers will face higher prices. The present regular importers are largely in sub-Saharan Africa, especially in the tropical countries of West and East Africa, but there are also temporary recipients in southern Africa (because of the drought) or elsewhere because of other natural disasters or poor local production policies. In principle, almost any other form of aid (including buying food from more efficient producers to supply food importers) would be cheaper for the donor countries, and producing more food locally is likely to alter many of the present importers into non-importers. These losses explain the negative numbers calculated for Africa. The GATT settlement has specific provision to monitor any 'negative effects with respect to supplies of food imports on reasonable terms' (GATT p. 12) and to encourage assistance in dealing with them. This may be a useful model for smoothing other adjustments.

Beneficiaries of preferential access schemes will lose because lowering tariffs or removing quotas necessarily reduces or removes the benefit of any special exemptions from these. All developing countries (except OPEC and a few NICs in the US scheme) have reduced (or 0) tariffs on some goods in all industrial country markets because of the GSP (Generalised System of Preferences). Most of the former EC colonies in sub-Saharan Africa (not northern Africa or South Africa), the Caribbean, and the Pacific (not Indonesia or south Asia) (the ACP countries) have virtually control-free entry for most goods into the EC (the Lomé arrangements). Most of the Caribbean Basin countries face reduced barriers into the US (the CBI). Mexico has NAFTA. Only a few of the GATT cuts in MFN tariffs are likely to be large enough to offer these countries better access than they have now under the GSP. These countries will therefore not gain from tariff cuts, and will face increased competition from the non-preferred countries. Other countries which will lose will be those with special quotas, guaranteeing access and pre-settlement, high, US or EC price levels on some foods (mainly holders of sugar quotas; potentially some of the southern African with EC beef quotas). The sugar countries' estimates are for the sugar quota price to fall by perhaps 20%; there could also be volume effects.

Net importers of technology face uncertain effects. Tighter international regulation requiring all countries to provide minimum levels of payment for patents or copyright could raise the costs of industrialisation or improvements in agriculture. The counterargument is that it will increase the supply of innovations made available.

Effects by area

In the short term, Africa gains little or loses from almost all the changes, and most countries are likely to be still at too early a stage to benefit in 10 years. Its metal, petroleum and tropical agricultural products enter most markets with few barriers, and its principal market (the EC) has virtually none to any of its manufactured products. The temperate products which it does export (sugar and beef to the EC) have gained from EC agricultural protection. Reduction of general tariffs reduces its advantages from these preferences. It offers low labour costs to the clothing industry, but not as low or as good shipping access as the potential Asian exporters. Phasing out the MFA removes the incentive to disperse production in order to avoid quotas. Even the often-cited success of the 1980s, Mauritius, was only a valuable site because of its quota-free access to the EC and intially to the US. Its exports to the US have fallen in the last two years below quota; it is already losing to new lower cost producers. It and exporters of new horticultural products (Kenya and Zimbabwe) will need to find a more durable advantage than ACP status as the tariffs paid and controls incurred by their Latin American and Asian competitors come down. The cut in subsidised food exports from the US and EC will hurt West and East African countries until they increase their own production. These losses may not be quickly countered by steps to change their production and trade because the still-high share of aid in their external revenue and the low share of exports in their total output will reduce the strength of the incentive from the GATT settlement to change.

South East and Eastern Asia gain most immediately. They have fewest preferences to lose, and have probably passed the stage at which they need cheap access to technology. Exports are highly important to these economies and most companies: they will need and are mature enough to exploit the new market access. The poorer countries will gain less. Those with the cheapest labour will probably become the new centres for the clothing trade, but those which only offered the advantages of quota dispersion (e.g. Bangladesh) may lose.

In the long run, the least industrialised countries of Africa and Asia will find two new obstacles, but also some new advantages, compared to their predecessors. With fewer and lower barriers to trade, it will be more difficult to engineer special temporary advantages in export markets, while the combination of slightly increased GATT restraints on their subsidies to trade and countries' own retreat from their use makes national promotion of infant industries more difficult. On the other hand, the lower barriers and improved international discipline should increase the incentive to incur the costs of entering new markets.

Latin America as a whole is like Asia in having little to lose on preferences, and one sector which should make significant gains, but for it this is food exports. Its medium- and long-term gains are likely therefore to be smaller because the opening of agricultural markets is less complete, and food exports are less likely to increase with rising income, after the initial market gain. Its major exports still include metals and fuels, which have nothing to gain on tariffs. Its lower exports of machinery, electrical, and electronic goods limit its gains from general reductions (and unlike the NICs it still has preferences under the GSP on these). Cars and parts might gain. For most countries (and for individual companies) exports are a much smaller proportion of total output (typically 20% for the middle sized; under 10% for Argentina or Brazil). Producers have less incentive to find and exploit the new opportunities than do the export-oriented Asian officials and companies.

The problem for forecasters is that the short-term changes are quite small. This makes it difficult to justify the strong statements about the benefits which all have made. For this reason, throughout the Round there have been no (exclusively) with and without GATT alternative projections. 1993 was no exception with the World Bank alternative being without GATT, but also with a variety of other negative assumptions (detailed in the section on forecasts). For the medium term, the structural changes present problems which are the essence of how medium and longer term forecasts should differ in scope and method from short term ones, but it is not clear that any of the projections which are reported here do so.

A forecast to 2000 reaches to the ends of most of the transition periods under the GATT settlement and covers an interval equivalent to that which has been frequently observed for the complete introduction and maturing of a clothing industry in an individual country. It also could encompass the beginnings of action on what are likely to be the 'new issues' of the next Round of GATT talks, including the environment, and perhaps greater regulation of labour conditions on an international basis.

UNCTAD does have a section this year on non-tariff barriers in general, confirming other research on individual countries which shows that they are still important. They tend to be most serious for middle level exports and countries: primary goods (except in agriculture) are largely exempt and the more advanced manufactures, with some sensitive exceptions, are not yet subject to pressure from senescent industries. The barriers in agriculture and textiles are discussed above. If growth in the industrial countries remains depressed, existing NTBs in other industries and the threat of their extension to new exports will remain a constraining force on international trade. If there is not a significant change in developed countries' trade growth, and retaliation by developing countries does not increase, these barriers should not affect trends in the growth or direction of trade. They probably are depressing trade below its potential level, and will continue to do so. There have been some examples of continuing unilateral intervention in trade since the GATT settlement on 15 December 1993, but mainly in textiles or clothing, so there is no evidence yet of either a retreat from intervention or an extension in its product coverage.

5. The forecasts

Industrial countries

The mid-1993 forecasts for 1994 expected some recovery in the growth of output in the industrial countries, to around 3% the figure which had been expected at this time last year for 1993 (the first UN, World Bank, Asian Development Bank) (table 7), but by the end of the year, the consensus had fallen to 2-2.5%. As in 1993, growth is expected to be strongest (or perhaps better least weak) in the US, at up to 3%, with the EC and Japan at around 2%. The UN, OECD, and UNCTAD all see either little scope or little interest in fiscal reflation, while supporting some easing of monetary policy, especially in the European countries. So by implication, does the EC. The unlikely combination of the IMF and UNCTAD support 'global cooperative effort to bolster confidence and strengthen prospects' (IMF p. 1), but it is not clear whether this also would be monetary relaxation or merely an expression of hope.

In the medium term, there is still considerable pessimism, with forecasts usually below 3%. Japan is expected to be the fastest growing, at least after 1995, except by LINK. The World Bank attributes the relatively poor forecast for the industrial countries in part to uncertainty about the outcome of GATT, although its base forecast explicitly assumed a successful outcome (its low assumed failure, and a circle of continuing recession and high real interest rates in Germany and Japan, as well as poorer policy in the developing countries). The ECE thinks that attempts to implement the Maastricht agreement by the EC could constrain EC growth: the countries are unlikely to converge sufficiently, so they will deflate. 'The absence of labour market indicators among the convergence criteria will not encourage initiatives by individual countries to stimulate growth' (p. 3). This would also help to explain the constraints on reflationary policy in the short term. It draws a 'sharp contrast with the optimism prevailing at the end of the 1980s in anticipation of the single European market which entered into force at the beginning of 1992' (p. 4). It is notable that disappointment has followed many of the growth- or confidence-inducing events whose effects were much calculated in advance. While the effects were never expected to be instantaneous[4], whether the disappointments with North Sea oil, the EC single market, NAFTA, Uruguay... are justified or not, the succession of anticlimaxes may be blunting the initial confidence-raising effect of each new one. It suggests that over-selling, to increase pressure for a successful outcome, may not be appropriate for international institutions.

These moderate forecasts mean that there is unlikely to be a large reduction in unemployment (now about 8.4% on average in industrial countries, compared to 6-7% in the mid-1980s). This suggests at best little change in present pressures from shortages directly on imports or from protection on trade policies; therefore the growth of these countries' imports may remain depressed in absolute terms and relative to output. The World Bank explicitly expects high unemployment to lead to more protection in its low forecast, but not (presumably) in its high.

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4. And we may be seeing a macroeconomic version of the well-known advice to buy on the rumour, sell on the news.

The forecasts now include the former Eastern European and former USSR countries classified under a variety of headings, normally separate from developing, with the exception of the World Bank.[5] Their performance continues to be worse than expected: the turning point to low growth in the former and significantly moderated falls in output in the latter did not occur in 1993, and is now forecast for 1994 instead. Only slow growth is expected for them in the medium term, suggesting that they will continue to have a depressing influence on trade. This would affect some European countries, South Asia, and Cuba.

Trade

Unlike 1980-1 (or 1974-5) when recession in the OECD countries brought a rapid response of their imports (from 7.8% growth in 1979 to -0.6% in 1980 and -2.2% in 1981), the recession of 1991-2 saw imports sustained at a relatively high level (2.7%, 4.3%). The fall in 1993, probably to at best 1% (table 7) with the OECD estimating -4% for the European countries, could therefore be a delayed response to the slow growth in the previous years. Some of the fall, as the IMF and NIESR point out, could be the spurious result of the change in data collection methods in the EC. If it is the data, then the recovery in 1994 and 1995 which is forecast could be reasonable (or even low, if some of the 'lost' imports are found). If, however, there was real stagnation because of the recession, then the early 1980s pattern suggests that 1994 at least could also be low. By 1995, the OECD forecast suggests a very full recovery (to a rate more than twice that of output growth in the industrial countries).

The growing importance of other areas' shares in world trade makes it increasingly inappropriate to draw deductions about total world trade using only the industrial countries.[6] The performance in 1993 offers a striking example, a contrast between stagnant trade in the developed countries and probably 9% growth in the developing (table 8). On OECD figures (p. 167), the share of non-OECD countries in world trade moved slowly up from 27% to 28% between the late 1980s and 1992, but then rose to 30%. In earlier recessions, faster growth in exports from the industrial to developing countries would have accompanied such a discrepancy, but, as discussed above in the section on the growth of Asian trade, the developing countries are now sufficiently good markets for each other to sustain their own trade, giving an estimated average of just above 3% for world trade.

With the assumed recovery in industrial country trade in 1994 and beyond, and little change in developing country trade, the forecasts for world trade (except in the World Bank low scenario, which includes increased protection) remain strong throughout the medium term, but with no apparent change in trend because of GATT or other structural factors. The developing countries' exports have been rising faster than world trade in most years in the last 20 (OECD p. 166), particularly at the expense of the Japanese. This does not change; if anything, it slows slightly from the recent very rapid changes.

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5. The EBRD does not give its own forecast, but presents a useful review of the forecasting methods used by others to analyse these countries.

6. The estimate for a 1993 fall in trade in manufactures by NIER (-0.7 %) suffers from this method; unfortunately the other forecasters do not publish separate estimates or forecasts for manufactures.

Table 7: Industrial countries

percentages

1993	IMF	UNCTAD	UNIDO	UN	UN (Dec)	WB	OECD	AsDB	LINK	EC	NIER
World Output	2.2	1.4	1.2	1.5	1.0	2.1		1.5	0.9	1.5	0.9
Industrial Countries	1.1	0.8	1.0	1.5	1.1	1.9	1.1	1.9	1.0	1.0	0.9
United States	2.7	2.0	2.3		2.8	3.0	2.8	3.2	2.8	2.7	2.9
Japan	-0.1	1.0	1.1		0.0	1.8	-0.5	2.1	0.2	-0.1	0.1
European Community	-0.2	-0.5	-0.3		-0.3		-0.3		-0.3	-0.4	-0.5
Germany	-1.6	-1.7	-1.7		-1.0	-0.3	-1.5	0.0	-1.0	-1.6	-2.1
UK	1.8	1.3	2.0		1.9	0.9	2.0		1.8	1.9	2.0
Former Centrally Planned	-10.2	-12.0	-10.7	-10.0	-10.4	-1.4		-10.0	-10.5	-9.7	
Eastern Europe	-1.8				-0.5	2.6	0.0		-1.0		
Former USSR	-13.7		-12.0		-14.0	-8.6	-11.0		-14.1		
Import Volume	1.2						0.3		0.1	2.6	
US Import Volume	8.8						10.3		8.2	9.5	10.7
Export Volume	0.0						1.0		0.1		
World Trade Volume	3.0	5.6		5.8	3.4	5.6	2.6	5.6	4.2		3.2
1994											
World Output	3.2		3.1	3.0	2.5	3.2		3.5	2.5	2.4	2.5
Industrial Countries	2.2		2.5	3.0	2.2	2.9	2.1	2.7	2.2	1.9	2.5
United States	2.6		3.0		3.1	2.9	3.1	3.3	2.8	2.6	2.7
Japan	2.0		2.5		1.5	3.3	0.5	2.5	1.6	1.3	2.7
European Community	1.6		1.9		1.6		1.4		1.9	1.3	2.2
Germany	1.2		1.3		1.5	2.2	0.8	2.7	1.8	0.5	1.1
UK	2.8		3.1		2.6	2.3	2.9		2.7	2.5	2.8
Former Centrally Planned	-1.1		1.0		-0.8	1.3		5.5	-0.7	-2.8	
Eastern Europe	1.9			0.0	1.3	4.2	2.0		1.4		
Former USSR	-2.4		1.0		-1.7	-0.1	-9.0		-1.6		
Import Volume	3.4						4.3		4.9	5.5	
US Import Volume	4.9						7.7		8.7	7.0	8.1
Export Volume	2.8						4.4		5.0		
World Trade Volume	5.0			6.4	5.9	6.2	5.4	6.1	5.9		6.9

Medium Term	LINK			IMF	OECD	World Bank			EC	NIER			
	1995	1996	1997 -2002	1995 -98	1995	1995	1992-2002 Base	Low	1995	1995	1996	1995-99	1997-2001
World Output	3.1	3.3	3.1			3.6			2.9				
Industrial Countries	2.9	2.9	2.5	3.0	2.7	3.2	2.7	2.0	2.4	2.8	3.1		2.8
United States	2.9	2.9	2.8	2.4	2.7				2.4	1.9	2.2	2.3	2.5
Japan	2.9	2.5	2.1	4.5	2.3				2.8	4.3	4.2	3.7	3.4
European Community	2.8	2.9	2.5	3.2	2.5				2.1	2.8	3.3		2.8
Germany	2.4	2.8	2.1	3.2	2.2				1.6	2.5	3.8	3.3	3.1
UK	2.8	3.0	2.3	2.7	2.9				2.7	2.5	2.2		
Former Centrally Planned	1.0	2.3	4.2	5.2		2.4	2.1		1.3				
Eastern Europe						4.3							
Former USSR						1.3							
Import Volume	6.6	9.7	8.0		5.8								
Export Volume	6.6	9.3	7.9		5.8								
World Trade Volume	6.3	6.0	5.2		6.4	6.2	5.8	3.0		6.2	5.6		5.1

World Bank (extended)	1996	1997	1992 -7	1998- 2002
World Output	3.6	3.0	2.8	3.3
Industrial Countries	3.1	2.5	2.5	2.7
Former Centrally Planned	2.7	2.8	-2.3	2.8
World Trade	6.8			

The distribution of growth in trade by area among the developing countries (table 8) continues to give the Asian countries a faster growth in exports, but the differential is forecast to become smaller, with Africa and especially Latin America growing more rapidly in relation to the total. As all simulations suggest that Asia has most to gain from the GATT changes and has gained most in the past from regionalisation moves, this might suggest that such changes are not considered as important for the future, but it is more likely that they are not fully incorporated into the forecasts. The improvement in Latin America's export performance could be attributed to its potential gains on agricultural trade, but this is not suggested in the texts. It is true that the main part of the GATT effects on Asia may come towards the end of the 1995-2005 transition for the MFA, and therefore be outside the range of most of these forecasts. The UN, however, explicitly states (p. 85, following a long discussion of the details of GATT and regional integration) that 'there is no simple way of judging the impact of actual trade blocs on trade creation and trade diversion, particularly when their dynamic effects on the income of bloc members are taken into account'. This is certainly true, but it is not clear that it is a reason for not attempting it, if only by projecting past trends, or a systematic allowance for residual errors.

The distribution of the influences on trade both past and forecast suggests that trade in manufactures is expected to continue to grow faster than the average. This is traditional (table 9), and the large differential between exports by developed countries and by developing dates from the initial rapid expansion of the NICs' exports at the end of the 1970s. UNCTAD does emphasise the importance of manufactures in explaining developing countries' export growth in the 1980s, noting that their prices have risen against those of primary products as well as their volumes (p. 25). Africa lost position in world trade because of its continued dependence on primary goods for both reasons. As the income and substitution effects which have made this a long-term trend are likely to continue, the implied forecast that Africa will continue to lose trade share seems more plausible than the recovery forecast in some of the table 8 numbers, unless these are based on a rapid shift into manufactures; only the World Bank suggests this is possible, in its price forecasts, but it does not quantify it. The World Bank attributes much of Africa's recent failure to increase its exports to its failure to diversify into manufactures. UNCTAD also mentions (p. 100) that it has failed to diversify into an increased number of primary goods: 'four out of five African countries still depend on only two commodities for over half their export earnings'.

World prices, interest rates and exchange rates

In dollar terms, all traded good prices fell in 1993, with oil falling most (giving an average of about $15 a barrel for the average crude), and manufactures least. Non-oil primary prices fell for the sixth consecutive year; at the end of the year the level was probably below the average for the year as a whole. Not only is Africa more dependent on commodities than Asia or Latin America, but the IMF suggests (p. 162) that those which it exports have had considerably larger falls than Asia's in the last few years, and than Latin America's in 1993.

Although the forecasters are divided on the oil price (table 10), most expect at least a small recovery in other primary commodities relative to manufactures, and some, notably the World Bank, expected a considerably stronger rise in the medium term. The World Bank forecast for oil in the medium term was for a slow rise, but from the early 1993 level; the fall in 1993 was much greater than it expected. A year ago most of the forecasts were for a rise

Table 8: Export and import volumes, developing countries

percentages

1993	IMF	UN (Dec)	LINK
Exports	9.4	10.6	7.3
Oil exporters	5.0		2.6
Non-fuel exporters	10.8		10.4
Africa	0.1	8.4	2.5
Sub-Saharan	3.6		2.2
Asia	12.7	11.7	
NICs	13.6		11.9
Western Hemisphere	4.1	8.1	4.5
Imports	9.3		9.6
Oil exporters	2.4		10.8
Non-fuel exporters	11.1		9.0
Africa	-0.5		6.5
Sub-Saharan	1.0		5.4
Asia	13.5		
NICS	12.4		11.1
Western Hemisphere	4.5		5.1
1994			
Exports	9.2		11.5
Oil exporters	7.5		10.7
Non-fuel exporters	9.7		12.0
Africa	0.0		5.9
Sub-Saharan	2.2		5.8
Asia	11.5		
NICs	11.4		13.3
Western Hemisphere	6.7		8.4
Imports	9.1		11.4
Oil exporters	4.8		10.9
Non-fuel exporters	10.2		11.7
Africa	-2.5		6.8
Sub-Saharan	3.0		6.8
Asia	12.3		
NICS	11.2		13.3
Western Hemisphere	5.8		7.5

Medium Term	IMF 1995-98			LINK		
	1st Base	2nd Base[a]	Alt	1995	1996	1997-2002
Exports	9.0	8.0	6.3	11.3	11.1	10.1
Africa	2.4	3.8	3.4	5.7	5.2	5.7
Sub-Saharan				5.6	5.2	6.2
Asia	11.7	10.0	9.1			
NICS				12.4	12.2	10.9
Western Hemisphere	6.8	7.4	5.1	9.5	9.9	9.6
Imports	8.5			11.5	10.8	10.3
Africa	2.7			6.9	7.4	7.0
Sub-Saharan				7.0	7.7	7.2
Asia	10.9					
NICS				12.8	11.9	11.1
Western Hemisphere	6.0			7.0	9.5	9.2

[a] The IMF (pp 118-120) gives different 'base' figures in its main medium-term tables (1st Base) from those in its comparison with an alternative (2nd Base).

Table 9: Trade in manufactures

percentage growth rates

	Total world trade	Trade in manufactures		
		Total	Developed exporters	Developing exporters
1965-70	8.3	n.a.	10.9	n.a.
1970-75	4.8	6.8	6.6	10.2
1975-80	5.4	6.8	6.4	13.5
1980-85	2.3	4.1	3.7	9.4
1985-90	4.5	6.0	5.4	15.8
1987	6.1	7.8	4.9	23.2
1988	9.0	8.6	7.8	12.8
1989	6.7	8.6	7.2	13.4
1990	4.5	6.1	5.4	10.0
1991	2.4	5.7	3.8	12.1
1992	4.6		3.1	
1993[a]	3.0		1.0	

[a] Estimate

Source: IMF; UN, *Monthly Bulletin of Statistics.*

in the dollar and probably the relative price of oil in 1993, although the IMF and the UN were more cautious.

It is not clear where the improvement in either oil or non-oil commodity prices is coming from. Although the forecast for the industrial countries is not (as the World Bank describes it) 'the slowest growth of the past three decades' (p. 12), it is not strong. The World Bank attributes the stabilisation of commodity prices, 'a sharp break from their 20-year declining trend' (p. 8), a shift out of primary production and into manufactures by the developing countries, i.e. supply, not demand reasons. It seems surprising that this could have a sharp effect, and it is not obvious that the Uruguay settlement offers an inducement for accelerating any such process, if it is happening.

It is possible that the Asian countries have higher propensities to import primary goods than the developed because they have not yet reached the extent of substitution of services for goods and of light for heavy commodity-using manufactures which is seen in the industrial countries. If this is true, although world output is forecast to grow slowly, its distribution favours demand for commodities. The evidence of the 1991-3 price falls does not, however, support this. There are positive effects on some agricultural goods prices expected from the Uruguay Round settlement, but these are not immediate, and if anything the rises

Table 10: Prices and interest rates

percentages

1993	IMF	UN (Dec)	WB	AsDB	LINK	EC	NIER	Estimates
Consumer prices	3.0	2.8	3.1		2.6		2.7	
6 Months LIBOR	3.5		4.4	3.9				3.4
6 Months LIBOR Deflated	0.7		1.3					
Prices US$			-0.8	3.5		-4.8	-4.3	-2.0
Manufactured Exports	-2.6			-1.7		-11.0	-13.0	-12.5
Oil	-8.4		-3.2	-5.0		-6.3	-8.7	-10.5
Oil(real)	-6.0		-4.5	1.5		-6.1		-5.0
Primary Commodities	-2.7		3.3					-2.7
Food	-2.3		5.4				0.5	
Tropical Beverages	1.1		16.7					0.3
Agricultural Raw Materials	5.0		4.1				-8.6	-16.2
Minerals, Ores, Metals	-13.0		-0.3				-16.0	
Developing Country Exports	-1.1							
Developing Country Imports	-0.1							
1994								
Consumer prices	2.7	2.8	3.1		8.0		2.7	
6 Months LIBOR	4.1		5.8	4.3				
6 Months LIBOR Deflated	1.4		2.4					
Prices US$								
Manufactured Exports	2.0		0.2	4.0		0.3	0.9	
Oil	3.3		0.6	0.6		-4.0	-3.8	
Oil(real)	1.3		0.4	-3.3		-4.3	-4.7	
Primary Commodities	5.0		2.4	3.0		1.4		
Food	1.6		3.4				-4.7	
Tropical Beverages	11.3		5.0					
Agricultural Raw Materials	6.5		5.5				3.2	
Minerals, Ores, Metals	3.8		-0.8				-1.6	
Developing Country Exports	2.3							
Developing Country Imports	2.3							

Medium Term	IMF	World Bank				EC	NIER		
	1995-98	1995	1996	1992-2002 Base	Low		1995	1996	1997 -2001
6 Months LIBOR	2.7	6.7	6.8			3.4			
6 Months LIBOR Deflated		3.0	3.3	3.0	3.5				
Prices US$									
Manufactured Exports		2.2	3.1	2.8	2.0	1.3	3.0	4.0	4.3
Oil		4.2	7.1	4.0	0.0	3.9	6.5		5.7
Oil (real)	0.0	2.0		1.2	0.0	2.6	3.4		1.3
Primary Commodities	4.3	6.2	4.7	4.0	1.0	3.2	-12.9		
Food				3.5					-1.2
Tropical Beverages									
Agricultural Raw Materials				4.0			0.5		1.5
Minerals, Ores, Metals				4.0			11.1		2.9

forecast are more in metals. The continuing sales from Russian and other ex-USSR countries' stocks of minerals, and the possibility that recovery from drought will reduce pressure on demand for traded agricultural products in Africa could also militate against any price rise.

By January 1994, the interest rate most frequently quoted in the forecasts, the 6-month dollar LIBOR rate, was 3.375%. It had been unusually stable over 1993, averaging about 3.4%, little below its end-1992 level, although the 1992 average was 3.9%. These rates are well below the 7-9% level more often seen in the previous years. Last year forecasters expected some rise, at least to 5-6 %, if not in 1993, certainly in the medium term, giving, even on low inflation forecasts a real rate of around 3%. German rates have remained above the US, although by less than in 1992.

The World Bank still expects this rise in the medium term, again from the current year, because of the indications from the yield curve (for the short term) and because it still considers 3% a reasonable level for the medium term. Other forecasts also suggest more or less explicitly that rates will rise towards a real 3%. This would be high by historical standards, especially in a slow growth, low inflation world, as forecast here, and one with practical and policy constraints on using fiscal policy to encourage faster growth. Getting the level right is now extremely important in the forecasting of external capital flows to the developing countries.

The forecasters have all retreated from forecasting exchange rates, assuming constant rates from a convenient date before publication, but this means that all had implicitly too low a rate for the dollar for 1993, when the effective rate rose 4.5%, and a lower rate than the early January level for 1994, as the rate then was 2-3% higher than the 1993 average.

Developing countries

Output in 1993 on the latest estimates grew about 5%, roughly as forecast, but as usual with Asia slightly better than expected, and Africa worse (table 11). The recovery from the drought seems to be taking longer than expected in southern Africa, perhaps because the effects on energy generation which accompanied those on agriculture were underestimated. Latin America is estimated to have grown at 3% or slightly higher, as forecast: strong recoveries in Brazil and Peru balanced poorer performance in some of the oil producers, notably Venezuela.

Forecasts for 1994 are cautious for all areas, although the negative factors of the oil price and drought should be less important this year. For the Asian Development Bank at least this slowing is in part because of the poor demand prospects in the developed countries (although the forecasts are for an improvement, especially on imports). The Inter-American Bank, although it does not give a quantitative forecast, also sees continuing recessionary forces and consequent trade protection, but on the other hand expects extra trade from regional agreements and from the effects of increased foreign investment.

China is now separately forecast in many of the reports, correctly reflecting its strong effect on the trade of other Asian economies, but the 1993 outturn of probably 12-13% was much higher than most forecasts (around 8%, except for LINK which has Chinese participation). For 1994, forecasts again expect some success for the government's efforts to

Table 11: Output in developing countries

percentages

1993		IMF	UNCTAD	UNIDO	UN (Dec)	WB	OECD	AsDB	LINK	EC
All		6.1	4.6	4.0	5.3	2.8		5.5	5.2	5.0
	Oil exporters	2.9							7.0	
	Non-fuel	7.0							3.8	
	exporters	1.6	3.0		1.9			3.0	1.9	2.4
Africa		2.7		2.0	1.7	3.6			2.3	
	Sub-Saharan	8.7	6.2			6.5		7.2		7.4
Asia						4.2		5.3		
	South					7.5		6.5		
	East	6.0					5.7	6.2	4.9	6.3
	NICs	3.4	2.7	3.1	3.1	2.3		2.5	3.4	2.7
Western Hemisphere			11.0	10.0	10.0			11.0	13.2	
China										
1994										
All		5.5		4.4	5.3	4.4		5.8	4.8	5.0
	Oil exporters	4.4							5.5	
	Non-fuel	5.8							4.3	
	exporters	2.6			2.5			3.2	2.4	2.9
Africa		3.3		2.4	2.2	3.8			2.5	
	Sub-Saharan	7.1				6.7		7.4		6.8
Asia						4.7		6.0		
	South					7.6		7.1		
	East	6.2						6.7	5.6	6.5
	NICs	3.5		3.5	3.0	3.1		3.0	3.0	3.0
Western Hemisphere				8.2	5.5			10.0	8.9	
China										

Medium Term		LINK			IMF 1995-98		World Bank 1992-2002				EC
		1995	1996	1997 -2002	Base	Alt	1995	1996	Base	Low	1995
All		4.8	5.7	5.6	6.0	4.3	4.8	5.0	4.7	3.1	5.3
Africa		2.7	2.8	3.3	4.7	3.6					3.1
	Sub-Saharan	2.6	2.2	2.9			3.6	3.7	3.7	1.6	
Asia					6.9	5.6	6.5	6.9			6.9
	South						4.8	5.2	5.3	4.0	
	East						7.2	7.6	7.3	6.2	
	NICs	6.2	6.4	6.3							6.7
Western Hemisphere		2.0	5.1	5.0	4.4	3.0	4.2		3.9	1.8	3.5
China		8.4	8.2	8.0					12.0		

World Bank (extended)		1997	1992 -7	1998 -2002
All		4.9	3.6	5.0
	Sub-Saharan Africa	3.5	3.5	3.7
Asia				
	South	6.8	6.7	6.7
	East	5.3	4.6	5.5
Western Hemisphere		7.3	7.6	7.2

slow the economy (the official forecast is 9%). Even in the forecast range of 8-10%, however, it remains a powerful addition to Asian demand.

The forecasts for the medium term remain at about the 1993-4 growth of 5-6%, with few changes except the usual expectation that Asia will finally slow and (for the IMF and World Bank) that African growth will at least be high enough to give small rises in per capita income. Both attribute these improvements to policy reforms in the African countries. For the IMF, these are presented as an assumption and for the World Bank as a forecast. For both, the low forecast assumes that the reforms are not made. (Both assume that if the reforms are made, growth will follow.) The World Bank text only suggests that the 'Chinese economic area' (China, Taiwan and Hong Kong) could grow at least 7% a year, but in a medium term projection of the size of the Chinese economy to indicate its growing importance in the world economy it assumes 12% growth a year; if this is what the quantified forecasts use, it may explain its higher forecast for the East Asian countries as a group.

The World Bank justifies its optimism for sub-Saharan Africa from the recovery which it forecasts for commodity prices, although the assumption behind the price is that the African countries are shifting into manufactures, in spite of the fact that manufactures prices are rising less. It is unclear whether it is assuming an increase in external flows of capital to Africa. As indicated earlier, it does not expect improved public capital flows, and it stressed the demands from new areas which could threaten Africa's share. Nevertheless, its forecast for Africa assumes that the level does not fall. It argues (p. 4) that 'foreign direct investment is arguably the one source of private capital that any developing country can hope to tap...both middle- and low-income countries, both big and small', but apparently excludes sub-Saharan Africa from all these categories: 'the prospects for attracting foreign investment are limited to a few of the large countries associated with natural resources' (p. 65). As Africa's growth is expected to exceed that in its major markets, the industrial countries by a substantial margin (3.6% compared to 2.7%), some increase in external flows must be assumed. It is not clear whether the World Bank advocates encouraging private capital through policy and legislation (pp. 2-4) or by acquiring a minimum level of infrastructure (p. 65).

Its position on whether and how developing countries can attract foreign investment is important beyond the African forecast, as high flows appear to be behind much of its optimism that developing countries in all three continents may do better than in the 1970s or 1980s, in the face of continuing weak growth in the industrial countries. It notes the importance of 'a growing gulf between developing countries that can have access to the private capital markets for bank loans, bonds, and stocks and those that cannot' (p. 1). Two important questions are raised, which are also considered by many of the other forecasters, although most are more hesitant to back their views with quantified medium-term forecasts.

The first is the distribution of capital flows. In its detailed discussion (pp. 27-9), the World Bank follows the line indicated in its early discussion that this is relatively even, with (among the major recipients at least), only a small variance in external capital's contribution to GDP or total investment. Even among the top 10 in 1991, however, it finds three major exceptions, the high inflows to Venezuela, Argentina and Malaysia. Mexico, the largest recipient that year (with external flows financing 7.4% of total investment, compared to an average of 4.5%) or South Korea, with only 1% would also seem to be candidates to be called exceptions. By 1993, the high figures for China would certainly add it to the list. Taking a much broader number of countries over a longer period (table 12) shows not only great unevenness, but, more important, the persistence of some countries as major recipients (countries with negligible amounts were omitted).

The second question is whether the flows are temporary, or a one-off portfolio adjustment, as discussed earlier. The World Bank discussion takes these factors into account, and also cites other possible negative influences (including the disincentives for non-US investors in Mexico posed by NAFTA rules of origin), but nevertheless it concludes that external finance will be 'in good supply'. The 1992-3 estimates in its *World Debt Tables* (in table 5; these were published about 8 months later) may have altered this optimism.

Although it does not give its own forecast, UNCTAD criticises the World Bank's optimism about Africa, questioning the terms of trade improvement from the rise in commodity prices and the assumption (which it takes to be stagnation) about capital inflows. But it points out that even with the World Bank growth rate, Africa would end the decade with output per capita below the level of 20 years ago (p. 94). Its own views seem to be closer to the World Bank low forecast, and with these prospects and a relatively poor regional market it argues that increased aid is necessary. The World Bank accepts that Africa is the area where risks to the base forecast are biggest, especially of 'a continuation of the deterioration in the terms of trade and continuation of political unrest' (p. 65). It also points out that it has assumed no effects from weather or AIDS.

UNIDO, which does not take its forecasts beyond 1994, is also pessimistic about Africa's medium term prospects because of its dependence on primary exports, and has a useful extended comparison between Africa and other areas in terms of manufactured exports and production. It blames the failure to industrialise partly on lack of import capacity, itself in part the result of external pressures to compress imports because of high debts, but also blames lack of education and training, 'an overriding bottleneck for industrialization and export promotion in sub-Saharan Africa' (p. 113). For the immediate future, it recommends higher exports of primary goods, to meet the funding bottleneck, and import-substitution of light manufactures. It cautions against too early movement into processing of countries' own natural resources, particularly minerals, because of the capital and technology demands.

For areas other than Africa, UNIDO is optimistic about developing countries' ability to continue to out-perform the developed. UNCTAD like the World Bank expects Latin America to be able to rely on a continued inflow of capital, although (rightly by the recent evidence, table 5) it suggests that the rate could slow as countries reach limits of capital repatriation, privatisation, and portfolio diversification. It does not accept that the inflow so far has been only because of low US interest rates, and that it would be vulnerable to the forecast rise, but nor does it accept the World Bank-IMF view that it was the policies of the countries that inspired it. 'There can be little doubt that the surge in these flows has been triggered by a favourable shift in market sentiment about Latin American economies and sustained by a bandwagon effect, or a speculative bubble' (p. 114). In sharp contrast to the World Bank, it considers the evidence that it 'has been flowing into almost every country, including those with serous macroeconomic imbalances' as a reason to fear a risk of reversal.

All the forecasters see fewer risks to Asian growth, although the World Bank cites for South Asia a possible decline in earnings from migrant labour, because of changes in the Middle East. It expects, however, that the investment of past earnings will strengthen domestic growth in the South Asian countries likely to be affected. A surprising feature of the World Bank 'low' forecast is that Asia is less seriously affected than Africa and Latin America. In the past, it has been treated as more vulnerable because its (manufactured) exports are more income-elastic than those of other areas. Although the Bank only gives differences between the two forecasts for trade (not levels) (p. 72), it suggests that while the average reduction in exports in the low forecast for developing countries is 2.7%, for Latin America and Africa it is 3.3% and 3%, respectively, while for East Asia it is only 2.5%. This helps to explain the greater reduction in output shown in table 11. The reason appears to be the greater dependence of Africa and Latin America on external finance, and an assumption that lower growth will bring larger changes in this than in demand for exports. It is not clear why this should be true if the inflows themselves depend on expected growth in demand, including exports, in the destination country. (Industrial countries' interest rates are higher under the 'low' forecast, but a difference of 0.5% seems unlikely to have a strong effect on the 'push' factor.)

The IMF 'alternative' medium term seems to depend more on policies in the developing countries, and shows Latin America, followed by Asia, most affected on exports, but Asia most affected on output. As the countries without debt-servicing difficulties are those most affected (p. 120), it is possible that external finance, which presumably goes mainly to these, could be playing a role, but there is no explanation and there are various inconsistencies in the figures.

6. Special topics

As has become increasingly common in recent years, the reports offer analyses of other topics which do not fit easily into a review of this type, and which risk being neglected by potential users because of their publication in this form. The UNIDO special section on trade and industrialisation, in particular the industrialisation of Africa, will be presented at the Conference. UNCTAD has useful background sections on each area, giving a more historical perspective, and the reports by the area banks give individual country reports.

The ECE report has an important analysis of the policies which have been followed in the 'Economies in Transition', making a strong criticism of the 'siren call of shock therapy', on both analytical and historical grounds. It contrasts it with the phasing out of controls in western Europe after World War II and the gradual liberalisation of their trade 'which began in 1947 and is still not complete'. 'What does not seem to be widely appreciated is that in democratic societies "big bang" policies are the rare exceptions rather than the rule' (p. 8).

7. Conventional forecasts and structural changes

In special sections and in the discussion of the forecasts, the forecasters point to important structural changes in trade and capital movements, and to the policy changes which will affect future trends, but it is not clear how these are being interpreted into the forecast numbers themselves. Some of the most interesting discussions of the changes expected in the medium term go beyond the periods forecast (or are in reports which do not include medium term forecasts). This leaves the user without guidance on how important the new factors are

Table 12: The share of foreign-direct-investment inflows in gross domestic capital formation (percentages)

Region/Economy	1971-75	1976-1980	1981-1985	1986-1991
Developed Countries				
EC				
Belgium/Luxembourg	7.1	5.8	7.6	16.0
Denmark	3.0	0.3	0.9	3.7
Germany, Federal Republic of	2.1	0.8	0.6	1.8
France	1.8	1.9	2.0	4.4
Greece	1.0	5.4	6.0	8.0
Ireland	3.8	6.7	4.0	1.0
Italy	1.8	0.8	1.1	2.0
Netherlands	6.1	4.5	6.1	12.3
Portugal	3.1	1.5	3.0	10.7
Spain	1.9	2.8	5.3	9.2
United Kingdom	7.3	8.4	5.4	14.4
United States	0.9	2.0	3.0	5.6
Japan	0.1	0.05	0.1	0.1
Developing Countries				
Asia and the Pacific				
Bangladesh	0	0	0	0.1
Malaysia	15.2	11.9	10.8	9.7
Thailand	3.0	1.5	3.1	6.3
Hong Kong	5.9	4.2	6.9	12.1
India	0.3	0.1	0.1	0.3
South Korea	1.9	0.4	0.5	1.1
Philippines	1.0	0.9	0.7	3.7
Singapore	15.0	16.6	17.4	29.4
Taiwan	1.4	1.2	1.5	3.5
Latin America and the Caribbean				
Colombia	1.7	2.2	7.7	6.1
Jamaica	12.9	-1.6	-1.4	6.6
Mexico	3.5	3.6	2.7	7.0
Argentina	0.1	2.1	5.0	14.5
Brazil	4.2	3.9	4.3	1.7
Chile	-7.3	4.2	6.3	5.7
Africa				
Mauritius	1.1	1.2	1.8	4.0
Zimbabwe	..	0.02	0.02	-0.8
Botswana	-24.3	24.1	16.1	15.9
Egypt	..	7.1	6.9	7.8

Source: UNCTAD (1993) *World Investment Report: Transnational Corporations and Integrated International Production.* United Nations. New York.

believed to be relative to established relationships, or how far the errors in past forecasts should lead us to question whether these relationships are breaking down.

The three questions which were discussed in some detail in the first part of this report, the changes in regional trade, new capital flows, and the consequences of the Uruguay Round settlement, are identified as significant in most of the reports, but there is little evidence of their effects in the numbers quoted. Surprisingly, it seems to be the capital flows which are most often explicitly incorporated into the forecasts, and this is done in their most variable role, as balance of payments support. These are, on past experience, the most difficult of the three to forecast on a year-to-year basis, even for developed countries under non-crisis conditions, or to estimate for the past. The relationships of capital flows to home country conditions (US interest rates or the value of the yen, for example); to policies in the host countries, specific or 'good macroeconomic'; to growth in the host countries (or in the hosts' export markets); all these do not yet seem to be rigorously modeled in terms of their size relative to each other or to the traditionally projected variables. If investment is flowing because of low returns in the source and high in the host, then an improvement in the source may raise returns there, and reverse the flow, but there may be an offset if this in turn raises demand for imports from the host...It is this type of interdependent effects which international models should be able to clarify (even if not forecast accurately), but the alternative projections and explanations of forecasts do not do this.

The apparent growth in regional trade may help to explain the continued high forecasts for Asian trade, relative to total trade or their output as several forecasters suggest, but the size of the effect is not stated. None of the forecasts appears to have either a short or a medium term GATT effect, raising the level or changing the structure of trade. The contrast between primary and manufactures exporters is forcing itself on the attention of all forecasters, but the potential effects of the GATT settlement on this are not discussed, and they are not reflected in forecasts (the disappearance of separate forecasts for trade in manufactures, oil, and other primary goods is unfortunate), and GATT's short and medium term effects seem unclear. The UNIDO formula for African development, more primary exports to finance imports of capital goods and import substitution of light manufactures, follows the experience of previous successful countries, but it does not give the short-term shift away from primary exporting on which the World Bank's forecast of a rise in commodity prices is based.

Only two forecasters now offer alternative medium terms. This is a powerful method of suggesting which are the most vulnerable points of a forecast, to which variables and by how much. That both the IMF and the World Bank base their alternatives principally on different domestic macro-economic policy assumptions for the developing countries suggests that they consider these crucial. On the other hand, although the IMF suggests that it now has greater understanding of how these affect the prospects, its evidence is given only by reference, not spelled out for the published forecast, and neither indicates how strong the effect of different assumptions about other uncertain variables (notably capital movements) would be.

The next ten years will see significant changes in the role of trade and investment, and in their direction, if the trends identified in recent years continue. These will be augmented if the dynamic and structural effects of the reduction in trade barriers are as great (and as rapid, for clothing) as those of the imposition of the barriers have been in the last 20 years.

If the policy recommendations and assumptions about the industrialisation of Africa are followed, there will be significant changes in its imports, exports, and structure of production. This is the background against which the rather cautious forecasts presented here must be judged.

Appendix

Reports Discussed

Forecasts by international institutions

Asian Development Bank, *Asian Development Outlook 1993*
Economic Commission for Europe, *Economic Survey of Europe in 1992-1993*
European Bank for Reconstruction and Development, *Annual Economic Outlook* (September, 1993)
European Communities Commission, *European Economy* (November/December 1993)
Inter-American Development Bank, *Economic and Social Progress in Latin America 1993 Report.*
International Monetary Fund, *World Economic Outlook* (October 1993).
LINK, *Project LINK World Outlook* (November 1993 issue).[7]
NIESR, *National Institute Economic Review* (November issue).
Organisation for Economic Co-operation and Development, *OECD Economic Outlook* (December and June issues).
UN, *World Economic Survey 1993.*
UN, *The World Economy at the End of 1993* (December)
UNCTAD, *Trade and Development Report 1993.*
UN Development Programme, *Human Development Report 1993.*
UNIDO, *Industry and Development Global Report 1993/4.*
World Bank, *Global Economic Prospects and the Developing Countries 1993*

Other reports used

Anderson, K. and Blackhurst, R.(eds) *Regional Integration and the Global Trading System.* London: Harvester Wheatsheaf.
Bank for International Settlements, *Annual Report 1993.*
GATT (1993) *The Final Act of the Uruguay Round: Press Summary*
Oman, C. (1994), *Globalisation and Regionalisation: the Challenge for Developing Countries,* Paris: OECD
Park, Se-Hark (1993) 'Major Issues in the Design of Trade and Industrial Policies in Sub-Saharan Africa.' Conference Paper based on Chapter III of UNIDO *Report.*
UNCTAD (1993) *World Investment Report 1993: Transnational Corporations and Integrated International Production.*
World Bank, *Debt Tables 1993–94.*

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7. 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.

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 ex-USSR. Germany is normally West Germany up to 1990, then West and East.