PROSPECTS FOR DEVELOPING COUNTRIES

TRADE AND FINANCE FOR THE LEAST DEVELOPED

Policy Questions for the UK, EU, and Commonwealth

Sheila Page

Overseas Development Institute

PROSPECTS FOR DEVELOPING COUNTRIES

TRADE AND FINANCE FOR THE LEAST DEVELOPED

Policy Questions for the UK, EU, and Commonwealth

Sheila Page
Overseas Development Institute

Report prepared for discussion
Not to be quoted without permission

18 November 1997

Overseas Development Institute
Portland House
Stag Place
London SW1E 5DP

ISBN 0 85003 337 3

Printed by Chameleon Press Ltd, London

CONTENTS

TABLES

1 Poverty and Growth

There was substantial agreement that relatively good rates of growth were to be expected for most developing countries in the short term. Very different interpretations were put on this, but the apparent lack of major worries on growth allowed the forecasters to put less stress on the forecasts, and more on special sections analysing aspects of developing country performance. The limited discussion of the forecasts means that the assumptions behind them (and even the basis for the data used) are not always clear, making comparison occasionally difficult.[1] The details of the forecasts are discussed in the next section. Globalisation (interpreted usually in terms of increasing investment across borders more than trade) is a frequent theme. The section on capital flows examines the globalisation arguments.

Poverty, income distribution, and the growing gap between developed and the least developed countries are major themes for the annual outlooks by most of the international organisations. Both UNCTAD's *Trade and Development Report*[2] and the IMF *World Economic Outlook* give particular attention to the question of whether developing countries are converging to the same levels of development as the developed. In a demonstration that some are, the IMF has changed its definition of advanced countries to include Hong Kong, South Korea, Taiwan, Singapore, and Israel, although it notes that while developing countries have shown 'substantial gains in living standards, and real per capita incomes on average have roughly doubled over the past thirty years'...'there has been no convergence of per capita income levels' between the developed and the developing because they have not grown faster than the developed. In contrast, the World Bank takes a more optimistic approach in *Global Economic Prospects*, arguing that the major developing countries are likely to catch up to the developed in the next 20 years, and emphasising that 'five large developing and transition economies- China, India, Indonesia, Brazil, and Russia- are likely to emerge as key players in the world economy over the next quarter century' (p. 1). UNCTAD is more pessimistic, citing continued slow growth, partly because of marginally lower forecasts, but more because of its analysis of the growing gaps. 'Since the early 1980s the world economy has been characterized by rising inequality and slow growth' (p. iv). The *Human Development Report* focuses on the reason for concern about the divergence of trends, the level and nature of poverty. Poverty and income distribution are treated in the third section of this report.

Proposals for changing the treatment of developing countries in the trading system are emerging in parallel to this new identification of the poorest countries as the major problem in development. In the 1960s, GATT's original equal (Most Favoured Nation) treatment for all trading partners was modified to allow special treatment for developing countries and to allow them more freedom from strict compliance with GATT obligations, so that they could restrict their own imports, for development (infant industry) or balance of payments reasons. This

---

[1]The UN and UNDP stand out for their detailed technical analysis; they also help explain differences in other forecasts. One important point to note is that the IMF output forecasts use purchasing power parity, 'international' dollars, for their data, which has a significant effect in increasing the weight of poor countries and reducing that of the richer. For this reason, its area and world averages are not strictly comparable to those of the other organisations.

[2]For full details of all publications, see references at end.

permitted the development of the Generalised System of Preferences for all developing countries, and allowed developing countries to pursue more interventionist policies in trade. In the 1980s, the terms of the trade-offs between policy freedom and rules and between concessional entry and GATT-bound MFN entry altered. The more successful developing countries became important competitors, in export and home markets, for the developed countries. There was a revival of protection in the industrial countries, in which the preferences enjoyed by the developing countries were used as an argument for not giving them equal treatment in the goods in which they were competitive. The climate of opinion moved against preferences because of more market-oriented approaches to trade in the developed countries. In the developing countries as well, there was less demand for special treatment, partly because of pressure from structural adjustment programmes, but also because of their own changing approaches to policy. The example of the Asian NICs suggested that export strategies could be successful. The reduction in MFN tariffs in the Uruguay Round, completed in 1994, reduced the advantages of preferential schemes, and the most successful countries found themselves increasingly excluded from these. But the Uruguay Round introduced special trade concessions for the least developed countries for the first time at the multilateral level, although some preferential schemes, such as the European GSP, had already offered them better access. This has been followed by the WTO's initiative of a Plan of Action for the Least Developed countries[3]. These questions are discussed in the fourth part.

The coming together of the new analysis of the continuing poverty in the least developed countries and the new trade policy proposals makes it necessary to ask again how effective trade measures are in reducing poverty and assisting the poorest countries to develop.

2 The Forecasts

Output in the industrial countries

World output in 1997 was expected to continue to grow at about the same rate as in 1996, which, at 3%, was higher than the depressed years of the early 1990s and 1980s, but is not exceptionally high (table 1). The increase in 1996 was mainly because the industrial countries grew more rapidly.[4] The forecasts for the industrial countries diverge slightly this year, with the UN and UNCTAD forecasts more pessimistic than the others. This is not a question of timing as the UN is among the earliest and UNCTAD among the latest; all were before the stock market falls. The IMF increased its forecast both between last year and May, and from May to September. Forecasts of about 2.5% are the current average, which is below the pre-depression average. These leave them growing significantly more slowly than the developing. The IMF is an exception. It expects the industrial countries to maintain 3% growth, with the US now increased

[3]Least Developed Countries are a UN-defined class of country (see part 4).

[4]The category industrial economies used here is still the traditional definition of the US, Canada, Europe, Japan, Australia and New Zealand, (with the addition of Mexico for the OECD as it is now a member), not including the advanced NICs.

Table 1: Industrial countries (percentages)

	IMF (May)	IMF (Sept)	WTO	UN	UNCTAD	OECD	NIER	Nat West
1997								
World Output	4.4	4.2			3			
Industrial Economies	2.7	3		2.25	2.3	3	2.8	2.7
United States	3	3.7		2.5	2.9	3.6	3.3	3.6
Japan	2.2	1.1		1.75	1.9	2.3	2.3	0.7
European Union	2.4	2.5		2.5	2	2.3	2.4	2.5
Germany	2.3	2.3		2.25	2.2	2.2	2.5	2.4
UK	3.3	3.3		3.5	2.5	3	3.2	3.7
Countries in transition	3	1.8		2				
Central and Eastern Europe	3	2.1		3	0.7			2.5
Russia and Central Asia	3	1.5		0.5		2		- 0.2
Import Volume	5.9			5.5		6		
US Import Volume	8.2			8		11.9	11.8	
EU Import Volume	5.6			4.5		6		
Export Volume	6.6			6.5		8.9		
World Trade Volume	7.3		4.5	7.88		8.1	9.2	7
1998								
World Output	4.4	4.3						
Industrial Economies	2.7	2.9				2.7	2.4	2.5
United States	2.2	2.6				2	2	2.4
Japan	2.9	2.1				2.9	2.6	1.9
European Union	2.9	2.8				2.7	2.6	2.8
Germany	3	2.8				2.8	2.6	2.9
UK	2.8	2.6				2.7	2.1	2.5
Countries in transition	4.8	4.1						
Central and Eastern Europe	4.7	3.6						3.4
Russia and Central Asia	4.9	4.9				5		2.0
Import Volume	5.8					7		
US Import Volume	6.9					7.4	8.4	
EU Import Volume	6.3					7		
Export Volume	6.3					7.9		
World Trade Volume	6.8					8	7.2	7

Medium Term	IMF 1999-2002	OECD	EC	AfDB 1996-2000	NIER 2000-2004	WB 1997-2006	Nat West 1998-2002
World Output	4.5			3.6		3.4	
Advanced Economies	2.9			2.7	2.3	2.7	2.5
United States				2.5	2		2.6
Japan				3.4	2.2		
European Union				3.3	2.4		
Germany					2.4		
UK					1.9		2.6
Countries in transition	5.4					4.6	
Central and Eastern Europe							4.2
Russia and Central Asia							3.9
Import Volume	6.3					6.2	
Export Volume	6.5					6.3	
World Trade Volume	6.7					6.4	7

to 3.7%. Where the forecasters differ strongly is in the tone in which they present the cautious forecasts. For the World Bank, the external prospects and the environment for development are good, and are cited as helpful factors in its forecasts for all developing areas. The OECD says prospects 'are their best for nearly a decade' (p. 5). UNCTAD, in contrast, points out that the present rate is 'some 2 percentage points lower than that achieved during 1950-1973' (p. v).

Both UNCTAD and the NIESR consider monetary policy an explanation for the past slow growth in the industrial countries, and NIESR considers its relaxation a reason for expecting less constrained growth in the future. The forecasts, however, remain low. This is perhaps partly because interest rates do not change in the forecast (see table 3), and, as inflation also remains the same, there is little variation in the real interest rate. The end-September actual rate suggests that the 1997 forecasts are on target. Again, the IMF is a partial exception, with a lower forecast for the medium term. But none of the forecasters suggests that the real rate is surprisingly high in a period of slow growth and apparently well-controlled inflation. One explanation may be the need by the European countries to meet the Maastricht criteria of convergence, but the rates are expected to remain high well beyond the introduction of a common currency. Balance of payments disequilibria in the developed countries, and large movements in exchange rates, may have provoked interventions, with a net raising effect on the interest rates, but this is not discussed in detail or projected into the future. With the developing countries still vulnerable to high interest rates because of their past borrowing and continuing reliance on private capital flows, this variable is crucial to them directly and as an influence on growth in the developed countries. It is possible that by projecting an unchanging rate, the forecasters are taking the most pessimistic end of the forecast.

All the forecasters agree that the US is growing faster this year, but that the divergence will end or be reversed next year and in the medium term. As rapid growth by the US is normally considered more important for exports by the developing countries, this should imply a good, but deteriorating, prospect. The forecasts need to be reassessed following stock market falls. The forecasts for 1996 a year ago tended to be rather optimistic for the European countries, but pessimistic for Japan and the US, so this year's forecasts for the US are a reversal of previous expectations. The recent Japanese figures, indicating a sharp fall in output in the second quarter, already suggested that performance there might be less than expected, and the IMF had reduced its forecast. An increasing share of its exports is going to the south east Asian countries which, at least in the short run, may grow more slowly than expected, while their devaluations may increase their exports into Japan; both could further reduce Japan's GDP growth.

It is perhaps time to reconsider the Asian effect. In the period when first Japan, than the East and Southeast Asian countries were among the fastest growing economies, they had a reinforcing effect on each other. With Japan slowing and the problems of confidence in south east Asia, the reinforcing effect may be downwards.

The countries of eastern Europe were growing more strongly in 1995 and 1996, although estimates continue to differ sharply, and they are expected by most forecasters to grow about 3% this year, then perhaps increasing next year and in the medium term (but the recent reduction by the IMF could indicate a change in expectations)[5]. Forecasts for Russia and central Asia were optimistic last year, and yet again the turning point to growth was expected in the current year, although forecasters are becoming more cautious. By 1998, however, the forecasters again expect rapid growth.

World trade

1996 saw a sharp ('intriguing' according to the World Bank, p. 10) drop in the growth of world trade. It was largely unexpected in the forecasts, which were for 7-8%. In spite of the improvement in world and industrial country output growth rates, trade grew only half as fast as in 1995, at around 5%. It is important to discuss the pattern in 1996 in some detail because the reduction in world trade growth was so large and unexpected and because its pattern was very different from the past. It cannot be easily explained by output changes, and the apparently favourable position of primary commodities is surprising. How it is interpreted will therefore have important implications for the future, but no agreed picture emerges from the reports.[6] Most forecasters attribute the fall to one-off changes, in particular in stock accumulation, and therefore forecast growth to resume at about the average of the two years, offering forecasts of 7%, continuing into the medium term. In 1996, rates of growth of volume for imports and exports fell for both developed and developing countries, with the falls in exports in Europe and Japan slightly greater than in the US. On the import side, the pattern was similar.

The interpretation of the fall and its effect on different groups of developing countries varies among the forecasters. Developing countries which mainly export manufactures saw their growth rate fall much more sharply than that of primary goods exporters (from 15% to 1%, compared to 10% to 9%, on IMF figures). The WTO confirms this, noting that 'the limited number of African least-developed countries for which data are available increased their exports between 5 and 12% in dollar terms last year...*Overall, for the least developed countries as a group it is estimated that in 1996 their merchandise export value expanded somewhat faster than world trade*'[italics in original] This is extremely unusual, and reflects two unusual changes. Trade in manufactures normally grows faster than in primary goods, and it is primary goods which in the past have been considered to be vulnerable to large stock movements. In 1996, trade in manufactures grew slightly less than the total. But the other break in trend may have been

---

[5] For forecasters like the World Bank whose main figure for developing countries includes this group, this gives a strong increase in growth rates; the figures used here exclude the former centrally planned economies from developing countries.

[6] In the last 10 years, all the organisations have moved increasingly away from detailed discussion of their estimates for the past and forecasts for the future, in favour of special reports on topics of current interest. In the case of the World Bank, this process has happened twice, with the *World Development Report* becoming entirely a book on an single topic, and its forecast side replaced by *Global Economic Prospects*, while GEP now itself is increasingly devoted to special sections, with detail on forecasts for the developing countries relegated to an appendix. This has produced some important studies, including this year's of divergence and poverty in UNCTAD's report, but it has weakened the identification and discussion of unexpected macroeconomic changes.

more important: exports of manufactures by developing countries appear to have grown more slowly than those by developed. According to the WTO, the good performance of primary products was because the drop in imports was mainly by the European countries, while the traditional customers of the developing countries, the US and Japan, increased their trade. But this is not an entirely satisfactory explanation, because US imports would be expected to have a higher share of manufactures.

The volume figures for different developing regions are, of course, also largely estimates at this time, but are consistent with this picture of better primary performance and poor manufactures. The IMF and UNCTAD agree on a large fall for Asian exporters (which unusually saw the slowest growth of the regions), and little change or an increase for African exporters (reaching around 10% on some estimates: again an unprecedented figure, particularly surprising against a background of slower imports by both industrial and developing countries). Commodity prices were sluggish or falling, not apparently responding to a demand surge, although perhaps helping to explain it. The growth of Latin American exports was also affected, but by much less than the Asian, with a drop in growth from 12 to 8%, consistent with an explanation either of composition (they fall between Asia and Africa in share of manufactures) or of direction (they depend more on the US).

The decline in growth of imports by developing countries was greatest for Asia (from 17% to 5%), suggesting that some of the fall in exports by that region may be for regional reasons. Latin America saw no change, and Africa only a small decline, from 8% to 5%.

The UNCTAD summary concentrates on changes in trade values, noting that the percentage growth in value of Latin American exports halved, although the detailed discussion recognises that volume growth was maintained. It attributes Latin America's growth to increases in intra-regional trade; this is because of Latin America's general trade liberalisation as well as the growth of trading groups. Surprisingly it mentions the older ones, the Andean, the Latin American Integration Association (LAIA) and CARICOM, as well as MERCOSUR, although of these only MERCOSUR is new and shows rapid intra-regional growth on country data; and it omits NAFTA and the Group of Three[7], which are also showing rapid increases in intra-regional trade. It attributes an estimated increase in the growth rate of imports to recovery in the major economies. UNCTAD argues that an important element of the fall in trade was the fall in exports of electronic products from South East Asia. It suggests the fall in the yen as one reason for this, reducing demand from Japan, while demand for computers and related products fell sharply in the US. In contrast, the World Bank mentions falls in European demand and imports (p. 10), and the WTO also emphasises the European fall. As UNCTAD notes, the price of electronic goods fell sharply. The average price of manufactures in world trade fell 2% in 1996. It had also risen more slowly than industrial countries' prices generally in 1995. Some of the difference may be the result of the yen devaluation, and incomplete adjustment of prices to exchange rate changes (although this explanation must be becoming increasingly unlikely as experience with both trade and exchange rate movements has increased in the last quarter century), but part may reflect falls in demand for electronic and other products that are highly traded. It would, of course, be consistent with a stock-based explanation for the fall in trade growth.

---

[7]Colombia, Mexico and Venezuela.

Table 2: Export and import volumes, Developing Countries (percentages)

	IMF (May)	UN	World Bank	OECD	Asian
1997					
Exports	11.3	11			
Manufactures	10.2				
Non-fuel primary exports	8.5				
Asia	11.1	10.25			9.7
NICs					9.8
South Asia					17.1
Africa	7.1	6.25			
Sub-Saharan	6.2				
Western Hemisphere	10.2	11			
Imports	11.3	14			
Manufactures	9.3				
Non-fuel primary products	3.6				
Asia	10.8	13.75			9.9
NICs				6.8	9.3
South Asia				10.9	15.6
Africa	6.7	7.5		6.8	
Sub-Saharan	6.1				
Western Hemisphere	10.1	18.25		7.6	
1998					
Exports	8				
Manufactures	10.1				
Non-fuel primary exports	8.6				
Asia	11.2				13
NICs					12.5
South Asia					19
Africa	6.5				
Sub-Saharan	6.5				
Western Hemisphere	8.4				
Imports	9.1				
Manufactures	10.8				
Non-fuel primary products	6				
Asia	12				12.1
NICs				9	11.2
South Asia				11.9	15.6
Africa	5.6			6	
Sub-Saharan	6.6				
Western Hemisphere	7.8			7.2	

Medium Term	**IMF (May)** 1999-2002	**World Bank** 1997-2006
Exports	7.9	
Africa	4.6	
Sub-Saharan		5.6
Asia	10.6	
East Asia		9.6
South Asia		10.4
Western Hemishpere	7.9	6.5
Imports	7.8	

UNCTAD, however, also estimates value figures for exports by South Asia compared to the NICs and South East Asia, and finds a substantial fall in growth there (from 21% to 12%, or from 21% to 13% for India alone). As these are also exporters of manufactures, but not specialising in electronics, this suggests a broader explanation is needed (Table 10 gives the composition of individual countries' exports).

The Asian Development Bank's discussion agrees that the fall in exports was more general. It also cites 'short-term oversupply and inventory accumulation' in electronic products as an explanation, but thinks that a slowing in demand may persist. Some of the change can be attributed to one-off factors, for example Chinese incentives to export were ended; again this could suggest slower growth in the future. On UNCTAD estimates, while the value of NIC exports grew 5% in 1996, after 21% in 1995 (the volume equivalents might be 7% and 15%), the decline for China was from 25% to 1%, which would tend to support a special effect from China. It rejects the rise in the value of the dollar (in which most Asian exports are priced) as an explanation, because it expects lags in this effect to be too long for the result to be reflected in the 1996 figures, and comments that the region has been able to adjust to losses of comparative advantage in the past. It is, however, perhaps the case that reactions have become more rapid and that adjusting becomes increasingly difficult as economies become more mature (the decreasing flexibility, and growth rates, of Japan in the 1970s, for example). The Bank for International Settlements (BIS) took the loss of competitiveness more seriously: 'the effective value of many currencies has risen with the dollar and as a result of continuing capital inflows. Competitiveness has thus suffered at the same time as both the volume and prices of exports of electronic goods have been falling sharply' (p. 7). The recent currency falls could reverse this.

The World Bank suggests that the slowing of intra- Asian exports in 1996 reflected the ending of 'relocation of production of labour-intensive goods from Japan and the newly industrialized economies to China'; (p. 11), but it is not clear why this trend should be coming to an end, especially given the further changes in competitiveness noted by the Asian Development Bank.

The forecasts (table 2) expected Asian export growth to recover in 1997, to a 'normal' 10% and that this would remain into the medium term. The World Bank's analysis is not reflected in its forecast, which is that East Asian exports will continue to grow at 10% a year into the medium term to 2006 (this must be intra-Asian trade as its forecasts for OECD country imports is only 5%). Latin American exports are expected to continue to do well in 1997, but with a slowing in the medium term, while African are expected to grow at less than the rate of growth of world trade. Asian imports are expected to recover, but with a particularly strong performance by South Asia, confirming the fall in relative position of the traditionally leading east and southeast Asian economies. All the forecasts, therefore, implicitly assume that all aspects of the unusual pattern in 1996 were the result of special factors which do not affect the future. The IMF suggests that African exports are being improved by reforms, including the devaluation of the CFA franc.

The WTO and the World Bank, among others, mention the growth in services trade, although data remain very poor. The WTO estimates that it rose slightly faster than trade in goods in 1996 (5% compared to 4% on their estimates), but its value grew substantially less than that of goods in 1995, by 14% compared to 19.5%, so the often-presented view that it is increasing its share in the total is not supported. The slowdown in services, according to the WTO and UNCTAD, was largely in Western Europe and Asia..UNCTAD attributes this to stagnation generally in Europe. The World Bank is optimistic for the future because of liberalisation, such as the telecom agreement in December 1996.

Prices and interest rates

As was noted in the last section, the prices[8] of manufactures in trade fell in 1996, a year of low inflation in the developed countries (about 2%). The prices of most primary commodities were also depressed (table 3). The major exception was oil, where the price rose about 20%, while food prices also outstripped those of manufactures. The oil price change, which appears to have been because of falls in production by non-OPEC countries, meant that the terms of trade of developing countries probably deteriorated slightly.

The WTO notes particularly the decline for the least developed countries, especially prices of cotton, coffee and copper. 'These sharp price declines were only partly offset by price increases for tea and jute' (p. 5). The National Institute comments that the low inflation forecasts for commodity prices will help keep inflation in the developed down, and therefore promote growth, and the Asian Development Bank extends this view to developing countries, seeing 'generally stable commodity prices' as a benefit. It is not clear, however, if the pattern of sharp changes of individual components of the indices can be interpreted as stability for individual countries or sectors.

The forecasts (reflecting past exchange rate changes, not the most recent) suggested a continuing fall in the prices of manufactures; the later forecasts suggested a deeper fall. This was in spite of some increase in expected inflation within the industrial countries.

Primary export prices, other than oil were expected to recover slightly in 1997, then fall back, but were being driven by a cycle in the prices of tropical beverages (which had fallen sharply in 1996). These have risen even more than expected in the first half of the year, so in spite of lower rises in some of the other components, this forecast looks plausible for the year. A further fall is expected by the World Bank next year, although others expect a levelling. Although it does not give a quantitative forecast, UNCTAD expected non-oil commodity prices to increase 'modestly', but gives no explanation, and shares the view that oil prices will fall.

The price of oil has fallen back this year, but on the basis of September prices, the fall is likely to be in line with the smaller estimates, at about 2%. The international organisations, unlike some other forecasters, expect the fall in real terms to continue into the medium term. The forecasts for oil and other commodity prices suggest that all the forecasters consider their forecasts for industrial country growth to be moderate, and unlikely to put pressure on supplies or stocks.

Presumably in line with their inflation forecasts, the forecasters expect little change in

---

[8]All these indices are in US dollars.

interest rates this year, and perhaps a very small rise in 1998. In the medium term, the World Bank and the National Institute expect a rise, but the IMF a fall. The rate has remained at 6 or just below this year. The combination of an interest rate of about 6 and inflation just over 2 implies a continuation of the historically very high real interest rates, and therefore could help to explain the subdued growth in the developed countries. The World Bank expects rates to rise in the medium term because growth will put pressure on savings (p. 10), but not that a rise will be necessary to curb inflation. It is not clear if the high interest rate forecasts are intended to reflect the exchange rate and imbalance pressures feared by UNCTAD.

Output in the Developing Countries

The analysis of growth in output in the developing countries differs sharply between UNCTAD and the UN on the one hand and the World Bank and IMF publications on the other. The UNCTAD description looks at changes in weather, and particularly crop conditions as a major explanation of the improvement of the primary producers, along with better prices for their commodities and greater peace, although it also sees 'improved governance' as an explanation. (p. ii). The UN notes weather, and also external and domestic economic conditions, including 'higher commodity prices, particularly during 1994 and 1995, and higher oil prices in 1996' (p. 30). It was the agricultural and mining sectors that grew in Africa in 1996. The others put the emphasis on policy reforms.

Growth in all regions was substantially faster than UNCTAD expected in 1996, and about in line with IMF expectations. It increased from about 5% in 1995 to 6% (the IMF figures are higher because of the weights used, but show the same change) (table 4). Most of this was because of the recovery (to 3.5%) of Latin America from the Mexican crisis, which had affected the 1995 figures, for other countries as well as Mexico. There was also a significant increase in African growth, to about 4%. For developing countries on average to reach the traditional target of 6% was an important achievement, but both Africa and Latin America remained well below it. The least developed countries grew about 5%. UNCTAD, however, comments that 11 of the African countries were above 6%. The UN, taking a more modest target, uses the number of countries maintaining an average of 3% since 1990 to indicate the improving performance of the least developed countries (especially in 1996) (p. 3). It notes that the reason average growth rates were higher than in the past 'is due more to a broadening of the numbers of growing countries than to faster rates of growth in a limited number of countries' (p. 4).

Except for a further improvement for Latin America to 4.5% (which hardly affects the average), no change in this pattern was expected this year, or next (yet another improvement for Latin America) (tables 4 and 5). The medium term remains the same. The slowing in African growth expected by the IMF and the UN comes because of slower growth in South Africa. The IMF's forecasts all reduced from May to September; that for Africa had already been reduced in May. The UN mentions the ending of the effects of recovery from drought and the stimulus from commodity price rises in 1995 (p. 30). In Asia, Indonesia, Hong Kong, Taiwan and Thailand were expected to do well, with slight slowing for the others, including the south /Asian and Malaysia and Singapore. The Asian Development Bank was more optimistic for both south and eastern Asia. OECD was similar, in the contrast between continuing rapid growth in the east, but expected Thailand to share the slowdown of Malaysia and Singapore. UNCTAD expected south east Asia to be constrained by 'current deficits and financial instability' (p. 21). The

Table 3: Prices and interest rates
(percentages)

	IMF (May)	UN	World Bank	OECD	NIER
1997					
Consumer prices developed	2.5	2.5		3.7	2.1
6 months LIBOR on US$ deposits	6			6	5.9
6 months LIBOR deflated	3.5			3.8	3.8
Prices US$					
Manufactured exports	-2.1		-4.0	-7.5	-6.0
Oil	-3.6		-9.4	-7.8	-4.6
Oil (real)	-1.5		-5.4	-0.3	1.5
Primary Commodities	0		2.1	4.0	
Food	-12		-4.5	1.6	-4.5
Tropical beverages	12.1		16.9	18.4	
Agricultural raw materials	8.7		-0.4	4.4	-1.1
Minerals, ores, metals	1.9		2.2	4.1	0.5
Developing Country Exports	-0.6	-0.75			
Developing Country Imports	-0.4	-3.75			
1998					
Consumer prices developed	2.5			3.4	2.2
6 months LIBOR	6.1			6.3	6.5
6 months LIBOR deflated	3.6			3.9	4.3
Prices US$					
Manufactured exports	1.4		4.6	1.0	2.5
Oil	-6.7		0	-4.2	-1.6
Oil (real)	-8.0		-4.6	-5.2	-4.0
Primary Commodities	-0.3		-3.8	0.8	
Food	-1.4		-4.8	0.7	-14.7
Tropical beverages	-11.0		-13.9	1.9	
Agricultural raw materials	2.6		4.4	0.9	-3.3
Minerals, ores, metals	0.4		-1.4	2.0	-2.2
Developing Country Exports	0.5				
Developing Country Imports	0.6				

Medium Term	**IMF (May)** 1999-2002	**World Bank** 1997-2006	**NIER**
Consumer prices developed	2.3	2.5	2.3
6 months LIBOR	5.7	6.2	6.5
6 months LIBOR deflated	3.4	3.1	4.2
Prices US$			
Manufactured exports	1.4	2.2	3
Oil	1.1	-0.5	4
Oil (real)	-1.2	-3.8	1
Primary Commodities	1.8	1.1	
Food		0.3	-2.5
Tropical beverages		0.8	
Agricultural raw materials		2.4	0.2
Minerals, ores, metals		1.2	
Developing Country Exports	7.9		
Developing Country Imports	7.8		

forecasts were all prepared (although not, in the case of the World Bank and UNCTAD, published) before the financial pressures and devaluations in the Asian economies of July-October. Except for UNCTAD, they did not anticipate these, and more surprisingly there was no discussion of the possible decline in impulse from regional growth that appeared in the 1996 figures. UNCTAD suggested that the return of Hong Kong to China changed the balance of power within the 'Chinese Economic Area', with possible implications for trade and investment and interdependence in East Asia (p. 23), but it is not clear how this influenced the forecasts. No-one expected the loss of confidence that did occur. By September, UNCTAD would have lowered its forecast to 0 for Thailand, with some effect on the Philippines and Malaysia, but did not expect a serious drop in growth rates like that seen in Latin America after the Mexican crisis of 1994. Indonesia and Malaysia will be affected by the weather conditions and fires as well as the financial crisis; some forecasters would expect a reduction of a percentage point. Singapore could also be affected indirectly. The IMF expected a total loss of 8 points' growth for Thailand in 1997-1998. The NatWest forecasts (published in October) indicate the effects. Exporters are not expected to be able to respond immediately to the devaluations, and they will therefore suffer the traditional **J** curve effect (of a deterioration in the trade balance, followed by an improvement). The growth in South Asia was stronger than the World Bank had expected in 1996, which it attributed to policy reforms. It expects the area to benefit in the medium term from expanded exports because of the phase out of controls on clothing exports under the Multi-Fibre Arrangement (due to be completed by 2004, within the World Bank forecast period).

It is traditional for the forecasters to project a narrowing of the gap among the growth rates of Asia, Latin America and Africa. This actually occurred in 1996, so the forecasts this year carry that forward, with the customary rounding up of Latin America's forecast to 4%. This, however, probably takes no account of the possible impact on agriculture of El Niňo, or of possible lower US growth. The IMF had already reduced its forecast for Brazil for this year (lowering the Latin American average in spite of higher numbers for Argentina and Mexico). Thus only Latin America seemed likely to grow as rapidly in 1997 as in 1996, and in both Latin America and Asia prospects have worsened since the forecasts were prepared.

The World Bank argued that the world environment is good for developing countries, offering 'broadly stable world macroeconomic conditions, expanding flows of private capital to countries maintaining sound policies, and world trade growth at a solid 6-7 percent a year, underpinned by consolidation of the multilateral trading system and continued policy liberalisation' (p. 3). The contrary interpretation was that there is a risk of instability because of the industrial country imbalances (UNCTAD); public capital flows to developing countries are stagnant or falling (UN and Asian Development Bank); world trade and output growth are not high by the standards of growth periods in the past (UNCTAD); natural conditions are unlikely to be as favourable as in 1996. Lack of understanding of why world trade growth fell in 1996 increases the uncertainties for the future, and there were already risks to the self-reinforcing growth that has sustained the Asian countries, even before recent market falls.

The World Bank attributes Latin America's better-than-expected performance to policy reform, but also to regional trading arrangements, and implies that it expects these to continue to be a favourable influence on growth. For East Asia, it saw greater risks than in the past, but did not lower its forecast. In contrast, the OECD (which now includes Mexico in its country analyses) mentions 'enhanced confidence, lower interest rates and a mild fiscal stimulus' (p. 99)

Table 4: Output in Developing Countries
(percentages)

	IMF (May)	IMF (Sept)	UN	UNCTAD	OECD	Asian	Nat West
1997							
All	6.6	6.2	6	5.6			
Manufactures exporters	7.9						
Non-fuel primary exporters	5.4						
Africa	4.7	3.7	4	3.9			
Sub-Saharan	4.4		4.75				
Asia	8.3	7.6	6.7	6.7		7.3	7.4
South						6.6	
NICs	5.7				6.2	6.3	
China	9.5		10	9		9	9.9
Western Hemisphere	4.4	4.1	4.25	4	4.7	>1996	4.8
Least Developed	5.4		4.75				
1998							
All	6.5	6.2					
Manufactures exporters	7.6						
Non-fuel primary exporters	5.8						
Africa	4.8	5					
Sub-Saharan	5						
Asia	7.7	7.4				7.2	7.2
South						6.8	
NICs	6.1				6.4	6.6	
China						8	9.4
Western Hemisphere	5.1	4.4			4.3		4.7
Least Developed	5.3						

Medium Term	IMF (May) 1999-2002	World Bank 1997-2006	Asian 1996-2001	Nat West 1998-2002
All	6.5	5.5	6.5	
Africa	4.7		4.6	
Sub-Saharan		4.1		
Asia	7.7		7	6.9
South		5.9		
East		7.6		
China				8.5
Western Hemisphere	5	4.2	4.9	4.7

as reasons for expecting growth, but does not mention any impact from NAFTA, although recent US official analyses show a significant effect on trade. None of the forecasts for Asia or Africa mentions any of the regional groups in those areas as a potential influence (even in the medium term forecasts).

In spite of the favourable environment, the World Bank's forecast for developing countries is for growth even slower than world trade, and for no improvement on the 1996 performance. It points out that for Africa it 'would only represent the recovery of ground lost over 20 years' (p. 87), with even the forecast rates depending not only on continuing reforms but on avoidance of conflict. The IMF has a more optimistic description of African growth (the 'strongest growth rate in 20 years', p. 13). The African Development Bank's forecasts at end-1996 (the most recent available) shared the general optimism, with 4.6% expected in the medium term, but identified the crucial factors as 'domestic policies, net capital inflow and debt relief' (p. 35), and the other forecasts suggest little progress on the last two. Although slightly more optimistic on South Africa than the UN or IMF (at 3.4%), it noted that it needs 5-6% to absorb unemployment. None of the forecasters suggests the political consequences if South Africa falls even further behind. Like the IMF, the African Bank sees benefits from the CFA devaluation.

UNCTAD stresses that countries heavily dependent on primary exports are particularly unlikely to be able to grow rapidly, and to be vulnerable to external influences; this is a particular risk for Africa. But the experience of 1996 needs to be explained, as it went in the opposite direction, as noted by the UN in its analysis of production in 1996. A traditional theory could be a partial explanation: that primary exporters do less well in high growth periods because of the lower elasticity of demand for their exports, but less badly in poor periods, for the same reason. The performance in 1996, however, seems too good to be explained by this. This does, however, suggest that the general optimism about Africa on the basis of the 1996 results ('at long last African economic recovery is at hand', Asian Development Bank, p. 9) may require some caution. UNCTAD sees overreliance on primary exports as a problem for Latin America as well as Africa, even for relatively successful countries like Chile.

The World Bank includes a simulation of growth to 2020. It is surprising that world trade growth slows to only 5.5%, with very low import elasticities for the developed countries and the NICs (output grows 4.9% and their imports 6.3%). Even for developing countries imports grow only 7.3 with 5.4% growth of GDP although it expects large structural changes and continuing trade liberalisation. The principal conclusions are unsurprising, of greater specialisation on services in the advanced countries and unskilled labour in China and India. It argues against the vie that there will be food shortages or declines in the wages of unskilled labour with continuing globalisation.

Capital flows and globalisation

The reports discuss the effects of greater international investment and deeper global integration in special sections, but these do not seem to have come into the analysis on which the forecasts are based. One question that might have been asked is why the claimed increase in the share of intra-multinational trade has not had the expected stabilising effect on world trade growth. The normal assumption is that companies are less affected by changes in relative prices when their trade reflects a long-term division of production facilities, not short-term choices among

Table 5: Output growth in selected Developing Countries (percentages)

	IMF (May)	IMF (Sept)	UN	OECD	Asian	WB	UNCTAD	Nat West
1996								
Developing Countries	6.5	6.5	5.7			5.6	5.6	
Africa	5	5.2	4.3				3.9	
Sub-Saharan			4.8			3.8		
Cameroon	5						4	
Cote d'Ivoire	6.5						5.2	
Ghana	5						5	
Kenya	4.2						3.9	
Nigeria	2.1					2.1	3.8	
South Africa	3.1		3.1			3.5	2.5	
Sudan	4						4	
Tanzania	4.5						4.6	
Uganda	7						6	
Zimbabwe	8.1						6.6	
Asia	8.2	8.2	6.7			7.9	6.9	
South Asia					6.5	6.5		
Bangladesh	5				4.7			
India	6.9		6.4		6.8	6.8		5.8
Pakistan	6				6.1			
Sri Lanka	3.5				3.8			
South East and East Asia			6.5		7.4	8.6		
China	9.7		9.7	9.7	9.7	9.7	9.7	9.7
Hong Kong	4.5			4.7	4.7		4.7	4.7
Indonesia	7.8		7.8		7.8	7.8	7.8	7.8
South Korea	7.1		7.1		7		7	7.1
Malaysia	8.4			8.2	8.8		8.8	8.3
Singapore	7			7	7		7	7
Taiwan	5.6		5.7		5.7		5.7	5.7
Thailand	6.7		6.7	6.7	6.7		6.7	6.7
Western Hemisphere	3.5	3.4	3.5	3.2		3.4	3.3	
Argentina	4.4	4.4	4.4	4.4		4.3	3.5	
Brazil	3	2.9	3	2.9		2.9	3	2.9
Chile	7.2	7.2		7.2			6.5	
Mexico	5.1	5.1	5.1	5.1		5.1	4.5	5.1
1997								
Developing Countries	6.6	6.2	6				5.6	
Africa	4.7	3.7	4				3.9	
Sub-Saharan								
Cameroon	5.1							
Cote d'Ivoire	6							
Ghana	5							
Nigeria	4.7							
South Africa	2.2		2.75					
Sudan	4							
Tanzania	5							
Uganda	7							
Zimbabwe								
Asia	8.3	7.6					6.7	
South Asia					6.6			
Bangladesh	5				5.4			
India	6.6		6.5		7			5.7
Pakistan	5				5.2			
Sri Lanka					5.7			

Table 5: Output growth in selected Developing Countries (cont.) (percentages)

	IMF (May)	IMF (Sept)	UN	OECD	Asian	WB 1997-2006	UNCTAD	Nat West
1997 cont								
South East and East Asia			6.25		7.3			
China	4.5		10	10	9		9	8.7
Hong Kong	5			5.3	5.5			5.0
Indonesia	8		7.5		8			6.0
South Korea	5.6		5.5		6.3			5.9
Malaysia	8			7.7	8.5			7.2
Singapore	6.6			6.5	7.5			6.5
Taiwan	6		6.25		6.2			6.2
Thailand	6.8		6.5	6	6.1			2.0
Western Hemisphere	4.4	4.1	4.25	4.7			4	
Argentina	5	7.5	5.25	5.5				
Brazil	4.5	3.5	3.75	4.5				4.4
Chile	5.8	5.5		6				
Mexico	4.5	4.5	4	5.4				4.5
1998								
Developing Countries	6.5	6.2				5.5		
Africa	7.7	5						
Sub-Saharan						4.1		
Asia	7.7	7.4				7.1		
South Asia					6.8	5.9		
Bangladesh					6			
India					7			5.7
Pakistan					6.5			
Sri Lanka					5.9			
South East and East Asia					7.5	7.6		
China				10.2	8			8.6
Hong Kong	5			5.6	5.3			4.5
Indonesia					7.9			5.8
South Korea	6.3				6.9			5.7
Malaysia				8	8.5			5.0
Singapore	6.1			6.8	8			8
Taiwan	6.3				6.3			5.9
Thailand				6.3	6.6			3.5
Western Hemisphere	5.1	4.4		4.3		4.2		
Argentina				4.5				
Brazil				4				4.7
Chile				6				
Mexico				4.7				5

suppliers. The discussion of globalisation appears to have become synonymous with increases in capital flows, with little discussion of the parallel effects of trade penetration on the structure of production (except for the World Bank's discussion of the possible effects on labour returns).

The UNDP's *Human Development Report* extends the concept of globalisation, and suggests that it should not be 'applied selectively. If this were not so, the global market for unskilled labour would be as free as the market for industrial country exports or capital' (p. 82). It discusses the tariff and other barriers that still obstruct globalisation, a useful reminder of how incomplete it is, in the context of the strong benefits or costs of globalisation discussed by the others.

UNCTAD explicitly contrasts the association of capital with trade in the nineteenth century with their separation now. The contrast is not really substantiated. Clearly the forms are different, but much capital was separated from trade then, as well. UNCTAD criticises the assumption that the increase in private capital flows represents a feasible strategy for developing countries on the scale on which it has been used into the Asian countries, like Malaysia, calculating the necessary flows to give other countries the same relative contribution, and finding these are impossible (p. 93), and gives a general survey of capital flows. It cites the fact that in recent years investment flows have increased more rapidly than trade.

UNCTAD and UNIDO both stress that using foreign capital to promote development is not an automatic process, and use the word 'manage' to describe how to do this. This is a significant return to a less market-dominated view of capital flows, and it may be reinforced by reactions to Asia's financial crises of 1997. But it is not clear from either report what exactly is implied; managing capital is not an option open to the poorest countries, which UNCTAD has identified as most in need of assistance, because most have no flows to manage.

Although UNIDO also sees a difference in the intensity of integration between the 19th century and the present, it is still seeing globalisation in terms of trade-related flows. The causes are 'changes in the forms of corporate activity, organization and relationships, improvements in transport and communications which have reduced the economic distance between countries; technological advances in production and processing methods; and the adoption of market liberalization and deregulation policies'. It has been and will be encouraged by global and regional trading arrangements (which frequently have an investment component). (p. 2).

The IMF gives a history of globalisation. The World Bank joins in the comparisons, stressing that now it 'has gone on longer, is more widespread, and has firmer institutional foundations' (p. 31), but does not attempt to analyse why it has these characteristics, which would give confidence to its forecast that it will continue. It does suggest a trade relationship, that manufactures 'require more specialised components' and are more complex than primary goods (p. 31), and therefore require more institutional relationships. The wide variety of relationships that actually exist, however, suggests that the reasons may be more complex. And it is not clear if institutionalised integration through companies is a more or less firm basis for relationships than the parallel institutionalisation which is being seen in official regulation. This is increasing, multilaterally and in regions, affecting trade and the conditions of doing business, through standard setting, intellectual property laws, health and other requirements, labour, environment: the whole agenda of the WTO and other international bodies. A second

Table 6: Long-term net resource flows to Developing Countries, 1995

	Pref. Group	Total (US$ million)	% of GDP	Private (% of total)				Official (% of total)		
				Total	Net debt flows	FDI	Portfolio equity flows	Total	Offical development assistance	Other
All developing		196627	4.80	78.39	23.67	39.81	14.91	21.61	17.84	3.77
Sub-Saharan Africa		23154	7.91	39.42	9.08	9.32	21.02	60.58	65.18	-4.60
Arab		2420	0.52	58.43	64.42	-14.34	8.39	41.57	212.77	-171.20
South Asia		8405	1.93	61.76	12.61	21.31	27.84	38.24	39.67	-1.43
East Asia		95764	7.55	87.86	18.43	54.07	15.37	12.14	6.76	5.39
East Asia ex China		43894	0.12	90.67	27.25	36.29	27.13	9.33	10.79	-1.46
Latin America and Caribbean		66884	4.10	81.13	36.14	34.23	10.75	18.87	7.52	11.35
Least Developed (total of those listed)		3702	7.16	15.78	0.89	13.60	1.32	84.22	86.95	-2.78
Ethiopia	ACP	627	10.57	-6.70	-7.81	1.12	0	106.70	103.99	2.71
Sudan	ACP	184	2.82	0	0	0	0	100	89.67	9.78
Angola	ACP	891	14.40	58.70	13.80	44.89	0	41.30	43.21	-1.91
Nepal		287	6.52	-0.70	-3.48	2.79	0	100.70	100.70	0
Madagascar	ACP	230	7.18	1.74	-2.61	4.35	0	98.26	101.30	-3.48
Bangladesh	CWTH	906	3.11	1.10	-2.76	0.22	3.64	98.90	100.66	-1.77
Zambia	ACP/CWTH	482	11.74	6.22	-7.47	13.69	0	93.78	113.69	-19.92
Myanmar		95	0.95	64.21	37.90	10.53	16.84	35.79	36.84	-1.05
Low Income										
Senegal	ACP	394	8.10	-6.09	-6.35	0.25	0	106.35	116.75	-10.41
Cote d'Ivoire	ACP	680	6.75	5.29	2.06	2.79	0.44	94.71	142.50	-47.79
Nigeria	ACP/CWTH	312	1.30	145.19	-65.06	208.33	1.92	-45.19	-4.81	-40.38
Pakistan	CWTH	2511	4.14	57.47	12.15	16.29	29.03	42.53	43.49	-0.96
India	CWTH	3282	1.00	109.45	23.61	39.61	46.22	-9.48	-7.22	-2.25
Kenya	ACP/CWTH	500	5.50	-8.40	-14.80	6.40	0	108.40	140.60	-32.20
Cameroon	ACP/CWTH	206	2.59	23.79	-25.73	49.51	0	76.21	134.95	-58.74
Ghana	ACP/CWTH	1078	17.44	48.70	2.69	21.34	24.77	51.30	53.71	-2.50
Zimbabwe	ACP/CWTH	450	6.82	22.00	9.11	8.89	4.00	78.00	81.56	-3.56
Tajikstan		106	5.80	14.15	0	14.15	0	85.85	51.89	34.91
China		51870	7.43	85.48	10.96	69.11	5.41	14.52	3.34	11.18
Kyrgyzstan		187	5.90	8.02	0	8.02	0	91.98	103.74	-12.30

Table 6: Long-term net resource flows to Developing Countries, 1995 (cont.)

	Pref. Group	Total (US$ million)	% of GDP	Private (% of total)				Official (% of total)		
				Total	Net debt flows	FDI %	Portfolio equity flows	Total	Official development assistance	Other
Low Income (cont.)										
Azerbaijan		270	7.18	40.74	0	40.74	0	59.26	32.59	26.67
Georgia		169	3.93	0	0	0	0	100	100	0
Armenia		200	7.05	4.00	0	4.00	0	96.00	95.00	1.50
Sri Lanka	CWTH	631	4.89	22.19	2.38	9.98	9.67	77.81	78.61	-0.79
Lower Middle Income countries in ACP or CWTH										
Papua New Guinea	ACP/CWTH	931	18.99	62.08	-34.91	48.66	48.34	37.92	35.34	2.47
Botswana	ACP/CWTH	100	2.31	64.00	-6.00	70.00	0	36.00	76.00	-40.00
Dominican Republic	ACP	281	2.34	84.34	-12.10	96.44	0	15.66	4.27	11.39
Jamaica	ACP/CWTH	188	3.82	100	-11.17	88.83	0	0	43.62	-44.15
Upper Middle Income countries in ACP or CWTH										
Gabon	ACP	170	3.62	-73.53	-44.12	-29.41	0	173.53	130.00	43.53
Malaysia	CWTH	11856	13.90	100.57	32.26	48.92	19.39	-0.58	-0.32	-0.26
Trinidad and Tobago	ACP/CWTH	330	6.39	82.12	-8.48	90.61	0	17.88	6.06	11.82
Other Major recipients	*Income*									
Argentina	UMIC	8650	3.08	83.28	65.60	15.25	2.45	16.73	6.96	9.77
Chile	LMIC	2481	3.69	170.50	91.13	68.32	11.04	-70.50	2.54	-73.04
Brazil	UMIC	17783	2.58	107.39	55.26	27.32	24.80	-7.39	2.50	-9.88
Mexico	LMIC	23443	9.38	55.74	23.83	29.70	2.22	44.25	-0.28	44.53
Indonesia	LMIC	12999	6.46	89.61	18.68	33.45	37.49	10.39	8.26	2.12
Philippines	LMIC	4234	5.71	108.76	27.54	34.91	46.32	-8.76	8.10	-16.86
Thailand	LMIC	9753	4.35	93.75	50.46	21.20	22.09	6.25	7.34	-1.10

Source: World Bank, 1997.

unanswered question is why companies should find it more necessary to have ownership relationships at the international level, when they are frequently breaking up into functional parts and contracting-in services previously performed within the company at the national level.

The World Bank's forecast that interest rates will remain high because of capital shortage suggests that it does not expect large supplies of capital to be available for the developing countries. In spite of its lower forecast, the IMF explicitly warns that 'caution is warranted since both the global availability of these flows and their costs are vulnerable to higher global interest rates and to adverse developments systemically affecting important capital-importing countries (p. 2). Its forecast is that the level will be maintained or 'perhaps' increased.

The BIS, unlike the other institutions, suggests that 1996 capital flows were exceptional, and implies strongly that they could be reversed (p. 4):

> Financial markets may also bear the lingering imprint of a period of high inflation...when nominal rates decline in response to lower inflation, as in 1995 and 1996, a misconception arises that "real" rates have fallen as well. A second and complementary possibility is that market participants become habituated to the high real rates of return associated with the early stages of disinflation. In contrast, the rates which can emerge as central banks try to revive stagnant economies can seem unacceptably low.
>
> 'Whatever the reason, the upshot in 1996 seems to have been a determined effort on the part of market participants to reconstitute yields by taking on higher levels of both credit risk and market risk. There were record inflows of capital into emerging markets, generally at declining risk spreads'

What the BIS does not suggest is how long it will take for investors to adjust to lower interest rates, and therefore to be willing to accept the lower returns, with lower risks, in their home markets. This has obvious implications for the developing countries which might lose their inflows, but also for the developed, where a parallel argument might suggest that interest rates have been maintained at higher than necessary levels because of this same illusion.

Table 6 indicates the different degrees of dependence on capital flows of developing countries, and the division between public and private. While the Least Developed countries and the East Asian economies are the most dependent on capital inflows, which are 7-8% of GDP, compared to only 4% for Latin America and 2% for South Asia, the division between private and public is reversed between Asia and the Least Developed. Least developed receive 84% from official sources; the East Asian, 90% from private. Although one year's pictures could be misleading [9], this is not. For the Least Developed, the principal private flows are direct investment. For other areas, portfolio flows are also important, but normally less than direct

---

[9]For a long-term view, see ODI Briefing Paper 'Foreign Direct Investment Flows to Low-income Countries: A Review of the Evidence', September 1997.

Table 7: Foreign investment flows

	Pref. Group	1995 (US$ million)	1996 (US $ million)	1995 % of gross investment
World		316524	349227	5.2
Industrial		205876	208226	4.4
All Developing		96330	128741	8.2
Least Developed		2852	3553	1.2
Africa		4699	4949	6.9
Asia		65249	84283	7.5
Latin America and Caribbean		25424	38563	11.0
Central and Eastern Europe		14317	12261	
Least Developed				
Sierra Leone	ACP/CWTH	2		4.2
Rwanda	ACP			0.1
Niger	ACP			0.1
Burkina Faso	ACP	2	3	0.4
Mali	ACP	17	23	2.9
Ethiopia	ACP	8	5	1.1
Burundi	ACP	2		1.9
Guinea	ACP	1	1	0.2
Mozambique	ACP/CWTH	33	29	3.6
Gambia	ACP/CWTH	8	12	12.5
Chad	ACP	13	18	11.5
Guinea-Bissau	ACP			0.3
Djibouti	ACP	3	4	2.5
Malawi	ACP/CWTH	13	17	6.1
Uganda	ACP/CWTH	121	135	21.1
Angola	ACP	300	290	47.6
Haiti	ACP	2	3	0.6
Nepal		5	5	0.9
Cambodia		151	350	
Madagascar	ACP	10	12	2.9
Central African Republic	ACP	4	2	4
Mauritania	ACP	7	5	2.9
Yemen		-218	100	-8.7
Togo	ACP		1	0.2
Benin	ACP	1	1	0.3
Bangladesh	CWTH	2	9	
Zambia	ACP/CWTH	67	58	19
Comoros	ACP	3	2	5.4
Lesotho	ACP/CWTH	23	28	4
Laos		88	104	
Equatorial Guinea	ACP	3	4	6.5
Myanmar		115	100	.5.3
Vanuatu	ACP/CWTH	31	36	62.6
Cape Verde	ACP	10	8	7.8
Solomon Islands	ACP	18	21	
Viet Nam		2000	2156	
Maldives	ACP	5	7	
Western Samoa	ACP	2	4	
Low Income				
Senegal	ACP	57	53	7.8
Cote d'Ivoire	ACP	19	21	1.5
Nigeria	ACP/CWTH	1830	1720	50

Table 7: Foreign investment inflows (cont.)

	Pref. Group	1995 (US$ million)	1996 (US $ million)	1995 % of gross investment
Low Income (cont.)				
Pakistan	CWTH	639	690	6.7
India	CWTH	1929	2587	3.6
Kenya	ACP/CWTH	33	37	1.7
Cameroon	ACP/CWTH	52	35	4.8
Ghana	ACP/CWTH	240	255	22.2
Congo	ACP	8	9	2.2
Zimbabwe	ACP/CWTH	43	47	3.1
Nicaragua		70	45	15.2
Honduras		50	35	5.2
Tajikistan		13	13	
China		35849	42300	25.7
Kyrgyzstan		30	16	
Azerbaijan		275	600	
Georgia		6	40	
Guyana	ACP/CWTH	74	81	31.9
Armenia		12	34	
Albania		70	72	
Mongolia		10	5	
Sri Lanka	CWTH	63	170	2
Lower Middle Income countries in ACP or Commonwealth				
Papua New Guinea	ACP/CWTH	453	230	45.5
Namibia	ACP/CWTH	47	52	6.7
Swaziland	ACP/CWTH	58	67	29.5
Botswana	ACP/CWTH	70	23	4.9
Dominican Republic	ACP	271	160	9.8
Jamaica	ACP/CWTH	167	175	13.5
Suriname	ACP	19	7	2
St. Vincent	ACP/CWTH	31	45	53.6
Grenada	ACP/CWTH	16	19	20.8
Fiji	ACP/CWTH	67	47	33.2
Dominica	ACP/CWTH	25	19	35.1
Tonga	ACP/CWTH	1	23	
Upper Middle Income countries in ACP or Commonwealth				
Gabon	ACP	95	62	8.1
South Africa	CWTH	327	330	0.1
Mauritius	ACP/CWTH	19	21	1.9
Malaysia	CWTH	4132	5300	17.9
St. Lucia	ACP/CWTH	35	39	
St. Kitt and Nevis	ACP/CWTH	20	17	27.2
Trinidad and Tobago	ACP/CWTH	299	320	43.6
High Income countries in ACP or Commonwealth				
Seychelles	ACP/CWTH	40	47	
Antigua and Barbuda	ACP/CWTH	27	31	
Barbados	ACP/CWTH	12	22	6

Table 7: Foreign investment inflows (cont.)

	Pref. Group	1995 (US$ million)	1996 (US $ million)	1995 % of gross investment
More Advanced countries in ACP or Commonwealth				
Brunei	CWTH	7	9	
Bahamas	ACP/CWTH	171	210	25.9
Singapore	CWTH	6912	9440	24.6
Other Major Recipients	*Income*			
Argentina	UMIC	1319	4285	11.7
Chile	UMIC	1695	3140	10.8
Brazil	UMIC	4859	9500	4.7
Mexico	UMIC	6963	7535	17.1
Hong Kong		2100	2500	8.4
Indonesia	LMIC	4348	7960	6.5
Philippines	LMIC	1478	1408	9.0
South Korea	UMIC	1776	2308	1.1
Taiwan		2003	2426	2.7
Thailand	LMIC	2000	2156	2.9

Source: UNCTAD, *World Investment Report 1997.* New York and Geneva: UN, 1997.

investment.[10] This does not support UNCTAD's view of a strong move away from trade- and production-related investment in most developing countries.

Table 7 shows the contribution of foreign investment to total investment, by level of income and region. While for most least developed countries, it is of little importance, for a few, including Uganda, Vietnam and Angola, it is a significant share of investment. What is clear is the position of Africa as a very low recipient of investment, in absolute terms and in relation to its total investment, while the revival of interest in Latin America had already put it ahead of Asia by 1995 in share (although this may be partly because of lack of national income data for major recipients like China). For all developing countries, the ratio to total investment has almost doubled since 1991 (from 4.4% to 8.2% by 1995, and 1996 was higher).

The World Bank looks at relationships among companies, as a way of integrating developing countries into markets. This is associated with technological changes in transport and communications (p. 37). and the measurements the Bank uses are in terms of firms' relationships and output by firms. (In contrast to UNCTAD, it emphasises investment in manufacturing affiliates, not services.) As it finds overseas production increasingly orientated to exports, its analysis also contradicts the UNCTAD view of investment replacing trade.[11] In analysing the effects, it also looks beyond shares in investment to effects on technology, training and marketing. It finds an association between high foreign investment and per capita GDP growth, but does not offer evidence that the causality is in that direction. It emphasises that foreign investment is still relevant to fewer than 50% of all developing countries, with the explanations partly in civil strife and partly in slow growth or instability. (p. 50).

UNCTAD discusses the differing types of finance available to different countries, but notes that some countries have issued bonds for the first time in the last year, mainly among the Eastern European and former Soviet Union, but also Jordan, Tunisia, and Panama (p. 27).

3 Poverty and Falling Behind

The plethora of sections on poverty and whether growth paths are diverging probably reflected confidence in the continuing growth in all developing areas. This permitted a concern for distribution, with the problem of growth apparently solved. Since the reports were written, the financial crises in Asia and elsewhere and the revisions downward in forecasts for other areas (discussed above) have challenged such complacency. UNCTAD, however, had already argued

[10]For Africa, the principal flows as shown in the table are portfolio, and the flows are not to one of the countries shown by the World Bank in the table. The omitted country is probably South Africa. For the countries shown, the only countries receiving portfolio flows are Ghana, \$267 million, and Zimbabwe, \$18 million.

[11]Like UNCTAD in its report on investment (UNCTAD, 1997), it relies heavily on US figures for intra-company trade; the limited evidence from other countries suggests that this may not be typical, and the declining share of the US in total investment makes using these increasingly questionable.

that 'there is a real threat of a political backlash that may wipe out several of the benefits of recent economic reforms in developed and developing countries alike, and perhaps even roll back some of the achievements of economic integration. The 1920s and 1930s provide a stark and disturbing reminder of just how quickly faith in markets and openness can be overwhelmed by political events' (p. vi).

UNCTAD looks at divergence among and within countries: 'Polarization among countries has been accompanied by increasing income inequality within countries' (p. iv). Within countries, it sees not only growing inequality between skilled and unskilled workers, but between those receiving income from labour and those receiving profits or rents. It argues that the returns to capital have been increased world wide because of liberalisation of capital markers. It takes a historical approach, looking at how countries diverged or converged during the earlier period of industrialisation, 1870-1913, finding convergence only among a limited 'core'. But in that period, migration was an important element in income and wage convergence (p. 74).

It points out that the divergence between the rapid growth in East Asia since 1965 and the lagging growth of Africa and Latin America has meant that only Asian economies have begun to converge on the levels of the industrial countries. It sees industrialisation as part of the explanation (p. 80). Analysing the distribution of world income by country, it finds that the ratio of income per capita in the highest quintile to that in the lowest has almost doubled. The dispersion of income is greater, with polarisation at the top and bottom. While most developing countries have not moved places in the world distribution, some Asian countries have moved higher, notably among the NICs. Within developing countries, it shows distribution data that indicate that inequality, particularly a high share of income for the richest fifth of the population, is greater among the developing countries (especially in Africa and Latin America). Their chart, however, shows that the two most unequal countries (Brazil and South Africa) are among the closest to being developed, while least developed countries are scattered among the most unequal, intermediate, and average categories, undermining any simple model of how inequality changes with development. The only clear conclusion from the countries given here is that no developed country is among the most unequal (Australia, about a third from the bottom, is the most unequal), while no developing country is among the most equal 20%. The most equal developing country, however, is Rwanda, with Nepal, Pakistan and Laos close behind.

Given the difficulties of data and the structural differences among the societies, it is probably changes over time, not absolute differences, which should be compared with development, if there is any common pattern to be found. Inequality is increasing not only in Latin America, but in some of the fast growing Asian economies, including Hong Kong, Singapore (during its period of most rapid growth in the early 1980s), Taiwan, South Korea, and Thailand. But over the period as a whole, as far as data are available, UNCTAD finds no relationship between the level of income and inequality. There were, however, more episodes of increasing income associated with increased inequality in the second half than the first half of the period. It attributes this to a change in the 'growth-inequality relationship...in ways which imply that growth is now more unequalizing' (p. 111), but the small number of cases and the differences in the countries which were growing in the two periods mean that this conclusion can be only tentative.

In a country-by-country analysis, UNCTAD finds an increase in the share of the richest at the expense of the middle income earners. In two more analytical sections it attempts to explain the changes in distribution in the course of development on the basis of patterns of development. The process of raising productivity introduces greater inequalities and industrialisation can produce a more unequal pattern. Similarly, improving average levels of education may initially widen differentials and therefore education-related earnings. It suggests that these different influences on income mean that there is no single model of how distribution will change during development (p. 119). It compares the experience of different Asian economies to show how the pattern of production, differences in the share of industry and agriculture, can affect the distribution of income over time. These case studies lead it to the conclusion that 'none of the countries that successfully closed the income gap with the advanced industrial countries in the post-war period, namely Japan and the first-tier NIEs, has a very high degree of inequality' (p. 123). But many unsuccessful countries also have low inequality, and inequality can increase in the successful countries.

What it does not analyse is how the perceived relationships between relative equality and successful development works. Is it the implied relationship in its initial posing of the problem, that income inequality reduces acceptance of policies that promote growth? Or is inequality to be seen as a symptom of an inappropriate pattern of development? Or perhaps (land distribution is mentioned) inequality results from a wealth distribution not conducive to development.

The IMF agrees that there has been no convergence, although expressing this more positively. It emphasises the 'substantial gains in living standards', although these have been no larger than in developed countries (p. 72). It interprets the 'apparent polarization between successful countries and those that are falling behind' (p. 3) differently from UNCTAD. It suggests that this is because globalisation 'increases the costs of economic distortions and imbalances...[and] enhances the rewards of sound policies'. It expresses the results about movements among income quintiles even more strongly than UNCTAD, pointing out not only that countries have tended either to stay in the same one, or fall, but, by breaking the period from 1965 to 1995 into three decades, it finds that 'there are now fewer middle-income developing countries, and upward mobility of countries seems to have fallen over time. While there was some tendency for countries to move to higher brackets and to progress relative to the advanced economies over the 1965-75 period, the forces of polarization seem to have become stronger since the early 1980s.' (p. 78). But it also gives some weight to the economic structure argument, suggesting that the NICs will see slower growth as they complete the process of catching up (p. 10). Its discussion of inequalities implies that gaps in technology and in capital-labour ratios should both suggest a higher growth in the less developed countries. Therefore, if this is not happening, the explanation must be countries' own policies (p. 80). This requires a growth model that depends only on policy and the size of the difference from the leaders, and with a simple relationship between growth and the gap. In other contexts, for example more micro-economic analysis of technology transfer, a 'too-large' gap is considered a handicap, implying a more complex function. Given the importance of natural conditions, particularly for countries which are mainly primary producers, and external conditions, with countries dependent on demand and trade policy in their markets, this seems to attribute a remarkably large weight to policy. The IMF describes all those which have not grown at the rate of the Asian NIEs as 'not realizing their potential' (p. 77).

It examines a range of policies, including macroeconomic stability, openness, public ownership, financial liberalisation, governance, and education. The conclusion 'is that no policy by itself is sufficient for fast growth, and that at least a moderate degree of policy success is necessary in several areas to support fast growth' (p. 90), pointing out that this does not support those who find trade openness and protection of private property sufficient for success. The emphasis is therefore on 'policy complementarities'. This might suggest that considering the conditions necessary to adopt and maintain a good set of policies, which is inherently more difficult than targeting one instrument, should be the next step. In principle, the UNCTAD arguments on income inequality could be one link to be analysed. The IMF does note that some African countries and Vietnam were able to restore growth, and this shows that it is possible to avoid being stopped by the obstacles.

The IMF looks at migration now (UNCTAD only considered it as a influence in the nineteenth century), and points out that the rate has increased since 1965 (p. 75). It argues, however, that migration tends to decrease with a falling income differential (or perhaps an inverted **U** with migration increasing as information about opportunities increases, then falling. It is not clear that the experience of areas where migration is permitted or tolerated fully supports this (within the EU or individual countries, for example), although the increase since 1965 would be consistent with an increase in inequality.[12] The assertion that 'over the longer term...trade substitutes for the physical movement of capital and labor' seems inconsistent with recent years when capital movements have risen more than trade, which UNCTAD and other reports identify as investment replacing trade.

The IMF argues that the increasing inequality within developed countries is not the result of trade or capital mobility (p. 74), but technological conditions of development. In developing countries, however, it seems to see a stronger impact of trade, in attracting skilled workers to new traded sectors. The question of the impact of trade on relative incomes within developing countries has been attracting increasing study, and it is now being recognised that the effect needs to be decomposed, looking at different levels of exporter and different directions for their exports. Wood (1997) finds evidence that differentials in several advanced Latin American countries widened after they opened their economies. There were frequently other forces at work, notably curtailment of union activities, which could explain higher differentials, but another explanation is the advent of large scale exports from much lower income countries (notably from China). Compared to China these Latin American countries were high-skilled, developed countries. This leads to the conclusion that

> 'the effect on relative wages in a middle-income country of opening to trade is thus likely to have changed over time. In the 1960s, increased openness would have raised the relative wage of unskilled workers, because it would have caused sectors of above-average skill intensity to shrink and sectors of below-average skill intensity to expand. In the 1980s, however, greater openness had conflicting effects on relative wages. Greater openness caused the contraction of sectors both of high skill intensity (replaced by imports from developed countries) and lf low skill intensity (replaced by imports from low income countries). The net effect might be in either direction, but greater openness could widen the wage gap between skilled and unskilled workers' (p. 49).

---

[12]The analysis is not fully developed in the text, which is taken from other work.

A second effect suggested is that 'technical progress between the 1960s and 1980s was biased against unskilled workers' (p. 55). The implications of openness for income distribution, however, in the end depend on how countries raise their skill levels, and take internal measures to improve income distribution, including special targeting of the poorest.

This is the focus of the *Human Development Report* in 1997. It introduces an additional measure based on literacy, low life expectancy, and lack of access to water and health facilities (p. 18). This is intended to distinguish more precisely among countries at the poorer end of the human development measure (which includes income, education, and life expectancy, without the cut-off points of the poverty index), and to separate material deprivation from lack of income (table 8). Whether by income or deprivation measures, South Asia has the largest numbers in poverty, but Africa has the highest proportions, including all but one of the countries with more than 50% suffering material deprivation. Latin America still has a high share of income poverty, but has made more progress on material deprivation. Three quarters of those in poverty on this measure are in rural areas (again this is probably an Asian and African, not Latin American characteristic, as urban poverty is more characteristic there.) It found a low correlation between the deprivation index and income levels, so it would not be sufficient to use the income level as a substitute in measuring poverty.[13] It interprets differences between countries' rankings on the poverty index and their rankings on the human development index as indicating whether countries have concentrated resources on reducing poverty (the construction of the index could also indicate different historical conditions or different structures of education or health provision).

There appear to be too few countries for which historical data are available to make comparisons in convergence or divergence, but the report does look at trends in income poverty over the period since 1965 or 1970. It finds reductions in the principal Asian countries, but little change in the major Latin American.

Unlike both UNCTAD and the IMF, the UNDP sees poverty and reductions in poverty as the result of chance, rather than identifiable causes, whether external factors or policy, referring to globalisation 'without map or compass' whose benefits 'have been garnered by a fortunate few' (p. 9). The recommended action to reduce poverty, therefore, concentrates on policies specifically directed at poor people and their immediate environment. What is needed to ensure this is 'political momentum' (p. 10). Rather oddly, it includes low commodity prices, poor terms of trade, and high tariffs and non-tariff barriers in developed countries as four separate explanations for developing countries' poor performance, although these are clearly closely related; the fifth is lack of foreign direct investment (p. 9).

It strongly criticises the move to integrating national markets into a global market: first because it is selective, excluding labour, but also because of the remaining barriers to agricultural and clothing exports by the developing countries. Its evidence is taken principally from the outcome of the Uruguay Round of trade negotiations, which offered least to the Least Developed countries.

---

[13]Although the charts suggest that it is a four part index, including income, they are misleading. Some countries are excluded from the analysis because of lack of data; it is not explained why Brazil is in some tables but not others.

Table 8: Measures of welfare: income, human development and poverty

HDI rank	Country	Pref. Group	GDP per capita (PPP$)	HDI	HPI
	All Developing		2904	0.576	
	Least Developed		965	0.336	
	Sub-Saharan Africa		1377	0.380	
	Arab		4450	0.636	
	South Asia		1686	0.459	
	East Asia		3001	0.652	
	East Asia ex China		9429	0.881	
	SE Asia, Pacific		3638	0.672	
	Latin American and Caribbean		5873	0.829	
	Eastern Europe and CIS		4203	0.760	
	Industrial		15986	0.911	
	World		5798	0.764	
	Least Developed				
175	Sierra Leone	ACP/CWTH	643	0.176	59.2
174	Rwanda	ACP	352	0.187	37.9
173	Niger	ACP	787	0.206	66.0
172	Burkina Faso	ACP	796	0.221	58.3
171	Mali	ACP	543	0.229	54.7
170	Ethiopia	ACP	427	0.244	56.2
169	Burundi	ACP	698	0.247	49.0
168	Eritrea	ACP	960	0.269	
167	Guinea	ACP	1103	0.271	50.0
166	Mozambique	ACP/CWTH	986	0.281	50.1
165	Gambia	ACP/CWTH	939	0.281	
164	Chad	ACP	700	0.288	
163	Guinea-Bissau	ACP	793	0.291	43.6
162	Djibouti	ACP	1270	0.319	
161	Malawi	ACP/CWTH	694	0.320	45.8
159	Uganda	ACP/CWTH	1370	0.328	41.3
158	Sudan	ACP	1084	0.333	42.2
157	Angola	ACP	1600	0.335	
156	Haiti	ACP	896	0.338	46.2
155	Bhutan		1289	0.338	46.3
154	Nepal		1137	0.347	
153	Cambodia		1084	0.348	52.5
152	Madagascar	ACP	694	0.350	49.5
151	Central African Republic	ACP	1130	0.355	41.7
150	Mauritania	ACP	1593	0.355	47.1
149	Tanzania	ACP/CWTH	656	0.357	39.7
148	Yemen		805	0.361	47.6
147	Togo	ACP	1109	0.365	39.3
146	Benin	ACP	1696	0.368	
144	Bangladesh	CWTH	1331	0.368	48.3
143	Zambia	ACP/CWTH	962	0.369	35.1
142	Zaire	ACP	429	0.381	41.2
140	Comoros	ACP	1366	0.412	
137	Lesotho	ACP/CWTH	1109	0.457	27.5
136	Laos		2484	0.459	40.1
135	Equatorial Guinea	ACP	1673	0.462	
131	Myanmar		1051	0.475	31.2

Table 8: Measures of welfare: income, human development and poverty (cont.)

HDI rank	Country	Pref. Group	GDP per capita (PPP$)	HDI	HPI
	Least Developd (cont.)				
125	Sao Tome and Principe	ACP	1704	0.534	
124	Vanuatu	ACP/CWTH	2276	0.547	
123	Cape Verde	ACP	1862	0.547	
122	Solomon Islands	ACP	2118	0.556	
121	Viet Nam		1208	0.557	26.2
111	Maldives	ACP	2200	0.611	
96	Western Samoa	ACP	2726	0.684	
	Low Income				
160	Senegal	ACP	1596	0.326	48.7
145	Cote d'Ivoire	ACP	1668	0.368	46.3
141	Nigeria	ACP/CWTH	1351	0.393	
139	Pakistan	CWTH	2154	0.445	46.8
138	India	CWTH	1348	0.446	36.7
134	Kenya	ACP/CWTH	1404	0.463	26.1
133	Cameroon	ACP/CWTH	2120	0.468	31.4
132	Ghana	ACP/CWTH	1960	0.468	32.6
130	Congo	ACP	2410	0.500	29.1
129	Zimbabwe	ACP/CWTH	2196	0.513	17.3
127	Nicaragua		1580	0.530	27.2
116	Honduras		2050	0.575	
115	Tajikistan		1117	0.580	
108	China		2604	0.626	17.5
107	Kyrgyzstan		1930	0.635	
106	Azerbaijan		1670	0.636	
105	Georgia		1585	0.637	
104	Guyana	ACP/CWTH	2729	0.649	
103	Armenia		1737	0.651	
102	Albania		2788	0.655	
101	Mongolia		3766	0.661	15.7
91	Sri Lanka	CWTH	3277	0.711	20.7
	Lower Middle Income, ACP and Commonwealth				
128	Papua New Guinea	ACP/CWTH	2821	0.525	32
118	Namibia	ACP/CWTH	4027	0.570	45.1
114	Swaziland	ACP/CWTH	2821	0.582	
97	Botswana	ACP/CWTH	5367	0.673	22.9
87	Dominican Republic	ACP	3933	0.718	18.3
83	Jamaica	ACP/CWTH	3816	0.736	12.1
66	Suriname	ACP	4711	0.792	
63	Belize	ACP/CWTH	5590	0.806	
57	St. Vincent	ACP/CWTH	5650	0.836	
54	Grenada	ACP/CWTH	5137	0.843	
46	Fiji	ACP/CWTH	5763	0.863	
41	Dominica	ACP/CWTH	6118	0.873	
	Tonga	ACP/CWTH			

Table 8: Measures of welfare: income, human development and poverty (cont.)

HDI rank	Country	Pref. Group	GDP per capita (PPP$)	HDI	HPI
	Upper Middle Income, ACP and Commomwealth				
120	Gabon	ACP	3641	0.562	
90	South Africa	CWTH	4291	0.716	
61	Mauritius	ACP/CWTH	13172	0.831	12.5
60	Malaysia	CWTH	8865	0.832	
56	St. Lucia	ACP/CWTH	6182	0.838	
49	St. Kitt and Nevis	ACP/CWTH	9436	0.853	
40	Trinidad and Tobago	ACP/CWTH	9124	0.888	4.1
	High Income, ACP and Commonwealth				
52	Seychelles	ACP/CWTH	7891	0.845	
34	Malta	CWTH	130009	0.887	
29	Antigua and Barbuda	ACP/CWTH	8977	0.892	
25	Barbados	ACP/CWTH	11050	0.907	
	More Advanced, ACP and Commonwealth				
38	Brunei	CWTH	30447	0.882	
28	Bahamas	ACP/CWTH	15875	0.894	
26	Singapore	CWTH	20987	0.900	6.6
24	Cyprus	CWTH	13071	0.907	
14	Australia	CWTH	19285	0.931	
9	New Zealand	CWTH	16851	0.937	
5	United Kingdom	CWTH	18620	0.931	
1	Canada	CWTH	21459	0.960	
	Major Developing Countries	*Income*			
36	Argentina	UMIC	8937	0.884	
30	Chile	UMIC	9129	0.891	5.4
68	Brazil	UMIC	5362	0.783	
50	Mexico	UMIC	7384	0.853	10.9
22	Hong Kong		22310	0.914	
99	Indonesia	LMIC	3740	0.668	20.8
32	South Korea	UMIC	10656	0.890	
59	Thailand	LMIC	7104	0.833	11.7

For explanation see UNDP, *Human Development Report,* 1997.

The Asian Development Bank has a perfunctory box on poverty, contrasting South and East Asia, but only describing the different aspects of poverty, and without recent data on incidence. The African report had a section on poverty which suggested that a combination of catching up and policy was necessary. Like UNCTAD, it suggests that relative equality, 'shared growth', is an important element in permitting growth (p. 56). Its policy response, however, is more like that of the HDR, looking at very specific measures, especially to reduce rural poverty. It also looks at health and education services, and the failures in their supply. UNIDO's analysis emphasises the low technological base of Africa, and dependence on primary commodities, with its policies designed to change these conditions.

Appendix to part 3

As well as the special sections already discussed on globalisation and poverty, the reports have a variety of other special reports which can only be mentioned here.

The World Bank reviews how countries adjust to trade liberalisation. Both the IMF and World Bank discuss the controversy over the effect of trade on wages in developed countries, and the IMF also considers the question of the sources of Asian productivity growth.[14]

The Asian Development Bank has a full description of the Uruguay Round of trade negotiations which ended in 1993 and the possible implications for trade in clothing, although this is based only on the Round, not on the implementation since. It also discusses the ministerial meeting of the WTO in Singapore in December 1996 and future WTO policies. It criticises the slow progress on textiles and clothing and on agriculture, and the delays in admitting China and other applicants in the region, including those in Central Asia. It reviews the positions of Asian countries in the WTO and dispute procedures involving them. It has a useful special section on migration. The UNDP also gives a review of the Uruguay Round. In annual publications, these sections on events completed in 1993 seem rather surprising.

UNCTAD discusses the background to some of the trade issues that have given rise to trade disputes, going beyond simply reporting what has happened. It also discusses recent trends in private financing, including the changing forms of debt issues, and gives useful detail on the types and cost of export cover available to different countries.

The African report (in 1996) had a section on changing perceptions of development policy, including a condemnation of high military spending.

[14]The IMF has also published (Boughton, 1997) a useful analysis of how forecasting developed at the IMF.

4 Trade Policies to help the Least Developed

Two trends have been identified in the organisation of trade policy in recent years: an increasing differentiation of treatment for different levels of developing country and a growing number of 'regional' agreements among countries, both developed and developing, which give preferential treatment on trade and other international relations among the members. At the same time, the multilateral system, under the World Trade Organization, has tightened the rules regulating the conditions under which countries can deviate from Most Favoured Nation Treatment, and started to enforce old and new rules against preferential areas. The increasing discussion of focussing help to the developing countries on reducing or alleviating poverty, reflected in the special sections of this year's reports, has probably been one reason for the increasing proposals to focus trade preferences on the Least Developed countries, although the official international definition excludes countries in which many of those identified as poor by income or other definitions live (for example India). This section will examine the present system of preferential arrangements, and how it developed, and then look at the new elements in this: the regional groups, the WTO rules, and the new proposals.

Present trade arrangements and their history

The present preferences[15] for developing countries stem from two sources: special arrangements for countries with historical ties or of current political or security interest to particular developed countries and a development-focused initiative in the 1960s, which arose out of economic analysis of the difficulties of developing, primary product exporting countries, in competing with developed countries.

Some colonies had always had special trading arrangements with their colonial power, and other developing (and developed) countries have had special relationships that have given privileged access. As the colonies became independent, some wanted to keep these special arrangements. In the European Community, the common external tariff meant that this had to become a more formal joint commitment, embodied in a series of conventions, most recently the Fourth Lomé Convention (1990-2000). This does not cover all ex-colonies of all members; in particular, the late entrants, the UK, Spain, and Portugal, only brought in some of the countries with which they had had special arrangements. Some of the largest developing Commonwealth countries, including India, Pakistan, and Bangladesh, were excluded, and all the developed members lost their special access. The Lomé Convention, therefore, is now applied to a collection of some of the countries with a special relationship to one or more of the EU members, and with income levels that vary widely (see table 8). It covers all manufactured goods, including exemption from controls under the Multi-Fibre Arrangement, although the strict rules of origin limit foreign input and therefore particularly limit its usefulness for the smaller or less developed countries. Joint production is normally permitted only with other ACP countries (the group covered by Lomé) and the EU. (In a few regions, inputs from additional countries are allowed on a case-by-case basis.) It covers most primary goods, but offers limited access on goods covered by the CAP, with special arrangements for 'sensitive' goods like beef, bananas,

[15]'Preferences' is used here for agreements which are not intended to be fully reciprocal.

rum and sugar.[16] It is joined by different special arrangements between the EU and the Mediterranean countries (some now approach reciprocal free trade, or in the case of Turkey, a Customs Union); with the Andean countries (to promote alternative exports to drugs); and with potential members in Eastern Europe (these will eventually be reciprocal). The US and Canada have (separate) special arrangements for the Caribbean, and the US for the Andean, as well as other arrangements. In all these cases, the principal criterion for special trade access is a political or historical relationship, not the developmental need or poverty of the developing countries, and the goods and countries excluded suggest an additional criterion of being not too competitive with the developed.

In the 1960s developing countries pressed for a right to differential treatment to be recognised as a legitimate modification of the MFN treatment under GATT. The initiative was led by the Latin American which did not have traditional forms of special access and whose economists had participated in the theoretical analysis which supported it. This was incorporated as Part 4 of GATT, in 1971, and permitted developed countries to give more favourable treatment to developing country exports, as well as giving the developing countries more freedom to restrict their own imports for development (infant industry) or balance of payments reasons. The resulting Generalised System of Preferences allowed developed countries complete discretion on what products were included and the degree of preference, and to alter their schemes. In the last decade, the system has been modified by graduating countries which became competitive with developed countries (wholly or for particular products), by adding new groups of countries, notably South Africa and the former centrally planned, and by introducing criteria on labour or human rights standards. Some developed countries have also offered greater preferences for the Least Developed countries, and for other developing. The EU scheme now has three levels of preference for manufactured goods and four for agricultural and fishery products, as well as special provisions for the Least Developed countries . (These do not apply to the Lomé countries, in their more generous scheme.) It currently offers free access to Least Developed countries for most manufactured exports (including MFA goods, but with exclusions in leather, an important export for the Least Developed, table 9) and most agricultural goods (with slightly more exclusions than under Lomé).

The Uruguay Round of GATT incorporated different requirements on the extent and timing of liberalisation on a three group basis: developed, developing, and Least Developed, formalising this emerging distinction. But it also reinforced the rules about other types of groups, in its reforms of the Article dealing with Free Trade Areas and Customs Unions.

The 1980s and early 1990s saw a large number of new regional groups, and some revived from the previous surge in the 1960s. Many of those announced and discussed have (so far) had little substance in terms of formal provisions on trade or investment, and it is notable that none

---

[16]About '97 %' of agricultural imports from the ACP are covered (EU Least Developed, 1997), but this figure must be treated with caution as those not included are subject to high tariffs and/or quotas, so their value is necessarily restricted.

of the forecasters appears to include any effects from them in their forecasts.[17] The 'real' agreements, however, are having two effects. The first is on trade: large increases in the share of member countries' trade going within the region have been observed in the EU (and its association agreements with Eastern Europe), NAFTA, MERCOSUR (Argentina, Brazil, Paraguay, Uruguay), the Group of Three (Mexico with two members of the old Andean Pact, Colombia and Venezuela), Central America, the Caribbean, and SAARC (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka). Other agreements with preferences, and therefore potential effects, but where none has yet been observed include ASEAN (in South East Asia). Trade is already increasing in the SADC (Southern Africa) region, although its Trade Protocol is still being negotiated.

The second effect, however, has been on attitudes toward regions and their regulation within the multilateral system. It is arguable that areas like NAFTA were at least in part a reaction to the existing EU, and fears for its competitiveness as it moved towards a single market, and these reactions in turn provoked other regions to form, and the EU itself to go further. But a second response was to strengthen the regulation of regions in the GATT. This was partly by rewording the relevant Article (XXIV), to emphasise that regions had to cover substantially all trade, and could not remain forever in transition to this, and by providing a more consistent way of examining new and existing regions. This was further strengthened by a new tool for examining all countries' trade policies, the Trade Policy Review Mechanism. There was also, however, a change in attitude: countries have been more ready to require new groups to be examined carefully; the large number of regions means a larger number of countries feel themselves potentially affected by any region, because of the precedent-setting and example effects; and finally the EU itself has drawn back from its enthusiasm for regions, putting more emphasis on preserving those that exist and requiring any new agreements to be WTO-compatible.

These three trends: greater concern to differentiate among developing countries by level of development; new regions joining the existing regions and preferential arrangements; and more precise and enforceable conditions both for helping developing countries and for forming regions, are not consistent. The old preferential agreements do not fit either the clearer definitions of eligible Least Developed or developing countries or the requirements of a reciprocal agreement, covering substantially all trade, that would bring them under the regime for regional agreements. The EU's Lomé agreement has finally needed to seek a waiver, as a discriminatory preferential agreement, from the normal WTO rules.[18] This will cover it until the current Convention expires in 2000. Reflecting a combination of the greater discipline under WTO rules and the EU's own more cautious attitude toward special arrangements, the EU's

---

[17]The World Bank cites ASEAN, APEC, the EU Association Agreements, MERCOSUR, and NAFTA as having contributed 'to lower trade and investment barriers in developing countries' (p. 36). This is surprising, both for the implication that the effects are in the past (all have full implementation dates well in the future) and for the inclusion of APEC, which has taken no measures to reduce trade or investment controls.

[18] It, like all but six other regions, including the EU itself, had been in a limbo of neither approval nor disapproval under the informal procedures of the GATT.

Green Paper and other documents explicitly assume that any replacement must be WTO compatible. This does not, of course, rule out seeking another waiver; a majority can exempt any member from any obligation. But the possible future of Lomé and other existing agreements must be considered against a number of new proposals for special assistance or privileges for different groups of developing countries.

New proposals

Any proposal to have a system of preferences based on internationally determined criteria of level of development will cut across preferential and regional agreements. All the agreements mentioned above include countries at different levels of development (including some classified as high income or developed) and most include at last one Least Developed or low income country (see table 8 for the classification by income and membership in ACP or the Commonwealth). Any system of preferences based on economic criteria would be in practice difficult to operate alongside effective trade regions among developing countries, although legally allowable. Different preferences for members of a region at different levels of development would require rules of origin and limits on joint production within the region which would have potentially severe costs, and reduce the benefits of the region.

The differentiation among developing countries (like the analysis of their poverty discussed in part three above) has normally been on the basis of their needs, and intended primarily for use in choices about aid. This means that it is not necessarily a good measure of countries' potential to benefit from improved trade access. The category Least Developed is a partial exception, because it is not a purely income-based definition; it includes literacy levels and industrialisation. As can be seen from table 8, it includes countries which would not be at the lowest end of the Human Development Report's Poverty Index (a high number indicates greater poverty), while the Low Income category (which would not be eligible for any special treatment reserved for the Least Developed) includes some of the poorest.

An examination of the principal exports of the Least Developed and other developing countries may be a better indication of whether they can benefit from improved trade access, and of the forms of access most likely to be helpful. Table 9 gives the principal products exported by the Least Developed Countries in 1995 (and was prepared as background for the WTO's initiative on concessions for them). About a quarter is in petroleum, and probably about another quarter is made up by other nonsensitive primary goods, on which trade barriers are likely to be small or zero. Very few manufactures fall among their principal exports, with the most important being clothing, where they face barriers in some countries (as indicated, the EU already exempts them from MFA controls). Table 10 (based on more complete data, but for 1992) confirms this structure. It also shows that the normal pattern is a high share for food; then there are specialised exporters in fuel and textiles and clothing. Their pattern is very different from the average for all developing countries (table 11), although similar to that for Africa.

The EU proposals for what follows the Fourth Lomé Convention

The EU issued a Green Paper in 1996, which proposed four possible successors: a continuation of the present arrangements; complete removal of special trade provisions, and incorporation of the member countries into the appropriate levels of the EU GSP arrangements; new

Table 9: Principal exports by Least Developed Countries, 1995

Product	Value (US$ million)	% of total
Petroleum	5064	23.62
Coffee	1087	5.07
Cocoa	54	0.25
Tea	64	0.30
Sugar	75	0.35
Beef	11	0.05
Bananas	6	0.03
Wine	0.4	0
Precious Stones	1609	7.50
Yarn etc.	798	3.72
Textiles	213	0.99
Clothing	1585	7.40
Shoes	11	0.05
Leather	78	0.36
Wood	994	4.63
Tobacco	318	1.48
Fish	1005	4.69
Rubber	54	0.25
Horticultural	279	1.30
Other Primary	560	2.61
Other Manufactures	73	0.34
Metal	2142	9.99

Source: WTO, Preparations for the High Level Meeting on Least Developed Countries, 1997.

arrangements, on a reciprocal basis, with different regions within the ACP countries; a range of different provisions, depending on the level of development of the countries.

Continuing Lomé would require a WTO waiver, and the wide range of incomes and trade pattern now represented by the ACP countries (see tables 8 and 10) would make this difficult to defend in the WTO. There are also countries now excluded or in reciprocal Free Trade Agreements with the EU (South Africa and the Mediterranean countries, for example) which would find Lomé discriminatory. Renewing Lomé would mean the continued exclusion of other low income countries from equally favourable access to EU markets. Table 8 shows that these include some of the poorest on income or material deprivation measures. The announcement that the EU will continue its special access for the Least Developed not in Lomé and improve it to an equivalent level removes part of one of the reasons for opposition to Lomé at international level, but keeps the other: the better-than-normal treatment for the more advanced members. It could cause practical problems if the proposed region in South Asia becomes effective, as it includes Least Developed and other developing. Renewing Lomé would create difficulties in other regions, including Southern Africa and the Caribbean which include Lomé and non-Lomé countries, raising difficulties for cumulation.

The effects of merging Lomé into GSP are not clear; GSP itself has an uncertain future because the current GSP expires in 1999. GSP offers worse access on many agricultural goods, and this could be a problem for the low income countries in Lomé (table 10). It might mean the removal of exemption from the MFA (important until 2004, when the final stage is removed), a problem for a few of the low and middle income, notably Mauritius and some Caribbean countries.

It is difficult to see how a regional Lomé could work. It would depend first on the current regional groups becoming real trade areas (only the Caribbean could be considered ready), and the countries now not in groups forming them. Because the EU is a developed member of the WTO (as are some of the potential members of regions, in the Caribbean and South Africa in SADC), any arrangements would have to meet the new WTO rules and procedures (perhaps strengthened as now proposed by the EU), and therefore cover 'substantially all trade'. This leaves little room for variation among the regions (which was given as the purpose of the differential treatment) or for exclusion of the sensitive agricultural products now excluded from Lomé on the EU side and of competitive EU products by the developing country members. It would implicitly encourage greater regionalisation among the developing countries, which could be inconsistent with any multilateral proposal for special treatment for countries at different levels of development. It would, like the continuance of Lomé, retain the exclusion of the South Asian countries.

The proposals for special treatment for Least Developed Countries

In 1996, the Director-General of the WTO proposed that developed countries give the Least Developed duty-free trade access, 'bound' by commitment to the WTO. At the Singapore Ministerial meeting of the WTO in December 1996, a Plan of Action was adopted, and the meeting to implement this took place on 27-28 October, jointly with the UN, UNCTAD, the ITC, the World Bank and the IMF. It has become more modest in its goals for trade access and much more orientated to technical assistance. The Plan has three parts: to improve the implementation

Table 10: Composition of exports

Country	Pref. Group	Total value (US$ m), 1992	All food items	Agric. raw material	Fuels	Ores and metals	Manufactured Goods: Total Machinery and transport equipment	Manufactured Goods: Chemical	Manufactured Goods: Others		Cereals	Crude and manu. fertilizers	Crude oil	Oil products	Fibres, textiles and clothing	Metal and metal manufac tures	Elect. machinery	Transport
			Export Structure (%)								Selected Commodity Groups (%)							
Least		**12675**	**19.0**	**11.5**	**28.8**	**15.9**	**23.7**	**2.4**	**20.6**	**0.7**	**2.3**	**1.3**	**24.9**	**1.2**	**26.6**	**9.5**	**0.3**	**0.1**
Developed	ACP/C	149	24.2	3.4	3.4	40.3	28.2		28.2		0.8				0.1	0.2		
Sierra Leone	ACP	68	66.2	13.2		4.4	2.9		2.9						0.1		0.1	0.1
Rwanda	ACP	416	16.6	1.2	0.7	17.1	55.5	52.2	2.6	0.7				1.1	1.1	0.1		0.6
Niger	ACP	169	14.8	71.5		0.1	6.4	0.1	5.7	0.6	0.1			0.1	45.7	1.4	0.4	
Burkina Faso	ACP	317	16.7	70.0		0.9	7.3		5.4	1.9	0.6				62.0		0.3	
Mali	ACP	181	63.8	14.2	1.7	0.1	20.1	1.4	15.1	3.5				6.2	2.8			
Ethiopia	ACP	76	88.3	0.8		0.8	10.0	0.5	9.2	0.3					3.0	1.1	0.1	0.1
Burundi	ACP/C	69	63.8				36.2		36.2						1.3	1.7	0.6	
Gambia	ACP	261	32.6	55.6			11.9	6.5	2.3	3.1					87.9		0.2	0.1
Chad	ACP/C	377	87.8	4.0			6.4		6.1	0.3	1.5				7.0	0.1		
Malawi	ACP/C	143	89.5	9.8			0.7			0.7					2.1	0.3		0.1
Uganda	ACP	565	41.8	56.3			1.4		0.4	1.1	14.4			1.0	41.4			
Sudan	ACP	3623	0.3		94.7	5.0							87.0	2.0				
Angola	ACP	121	12.4	1.7			84.3	1.7	68.6	14.0					36.6	1.8	21.0	0.1
Haiti	ACP	355	11.3	1.0		0.1	84.3	0.6	83.6		0.1				81.0	0.8		
Nepal	ACP	262	66.3	3.8	3.3	6.2	18.6	1.7	13.4	3.5	1.5				7.0	0.1		
Madagascar	ACP	79	20.3	26.6		6.3	45.6		44.3	1.3					7.5		0.1	
CAR	ACP	471	45.2	3.0	1.9	48.6	0.2			0.2					0.5	0.2	0.1	0.1
Mauritania	ACP	113	5.3	2.7	87.4	0.8	3.6	0.4	0.5	2.7	18.5			0.1	6.2	5.0	1.2	4.0
Yemen	ACP	261	24.1	23.4		43.3	7.7	0.4	6.5	0.8	6.5	44.5			23.6	1.5	0.2	0.2
Togo	ACP	45	17.8	42.2	24.4	4.4	11.1		11.1		0.3			4.2	25.4	0.4	0.6	0.2
Benin	CWTH	2138	12.3	3.6	0.9	0.1	83.0	2.4	80.5	0.1		2.2		0.9	76.3		0.1	
Bangladesh	ACP/C	1168	3.6	0.9		86.5	9.0		8.6	0.3	0.2	0.1		0.3	0.4	99.0		
Zambia	ACP	506	9.7	3.4	11.1	58.5	14.4	0.2	13.0	1.2	0.2	0.1		0.3	99.0	0.1		6.0
Zaire	ACP	22	70.6				21.3	21.3							0.5		0.5	
Comoros		91	4.8	54.7	0.1	3.5	36.5	0.1	35.8	0.7	0.1				3.3	0.3	0.1	
Laos		533	37.9	48.7	0.4	2.6	10.0	0.3	8.2	1.5	27.9		0.3	5.4	2.4	1.5		
Myanmar	ACP/C	22	66.5	12.1	3.1		12.9		12.1	0.9	0.2				1.1		1.8	
Vanuatu	ACP	5	77.1	2.1			20.8	2.1	16.7	2.1	2.8				2.7			0.1
Cape Verde	ACP	70	50.4	43.8							2.5							
Solomon Islands																		

Table 10: Composition of exports (cont.)

Country	Pref. Group	Total value (US$ m), 1992	All food items	Agric. raw material	Fuels	Ores and metals	Manufactured Goods: Total	Machinery and transport equipment	Chemical	Others	Cereals	Crude and manu. fertilizers	Crude oil	Oil products	Fibres, textiles and clothing	Metal and metal manufac tures	Elect. machinery	Transport
			Export Structure (%)								Selected Commodity Groups (%)							
Low Income		**14527**	**14.9**	**4.0**	**75.8**	**2.8**	**70.4**	**4.9**	**54.2**	**11.3**	**1.7**	**0.1**	**75.7**	**2.2**	**28.4**	**4.6**	**6.5**	**1.6**
Senegal	ACP	**6**	54.5	2.6	12.1	8.9	22	14.6	5.4	2		10.9		12.3	2.5	1.1	0.9	0.9
Cote d'Ivoire	ACP	705	50.9	17.3	15.4	0.3	15.9	3.3	10.7	2				2.5	3.4	0.2	0.1	0.3
Nigeria	ACP/C	3105	1.8	1.9	93	0.9	2.0	0.4	1.5	0.1			95.4	1.4		0.2		
Pakistan	CWTH	11887	9.5	4.4	1.0	0.2	84.6	0.5	83.8	0.4	4.0	0.1	0.8	0.1	78.1	0.4	0.1	0.1
India	CWTH	6842	16.8	2.0	2.2	3.7	73.8	7.4	59.6	6.8	2.0			1.8	27.6	6.3	1.4	2.6
Kenya	ACP/C	22207	57.0	8.5	15.9	1.2	16.6	2.5	12.8	1.3	0.4			11.0	2.3	3.1	0.1	0.2
Ghana	ACP/C	1380	41.1	10.1	3.3	20.7	14.6	0.1	14.3	0.2				2.0	0.1	4.6	0.1	0.1
Congo	ACP	1152	5.4	12.7	66.0	2.1	13.6		13.4	0.2			89.6	0.4	0.2	0.1		0.1
Zimbabwe	ACP/C	910	42.4	6.2	0.6	12.4	37.9	2.9	32.0	3.0	3.3	0.8		0.9	10.4	20.0	1.2	1.0
Nicaragua		1320	79.6	2.0	1.8	5.9	10.5	1.9	7.7	0.9	0.7	0.1			1.2	5.8	0.1	0.1
Honduras		239	82.0	4.0		1.1	12.9	1.8	10.5	0.6	0.1	0.1			2.0	1.0	0.4	1.8
China		663	10.8	2.0	4.5	1.7	80.6	5.0	59.8	15.8	1.8	0.1	2.6	0.9	30.5	5.0	9.8	
Guyana	ACP/C	91744	33.8	9.2		27.3	25.6	3.4	15.0	7.2	9.9			0.1	1.5	0.3	1.1	
Sri Lanka	CWTH	293	22.0	3.4		0.8	71.8	1.7	67.9	2.1	0.1				**52.0**	0.4	**1.0**	0.1
		2829																
Lower Middle Income, ACP or C		**3716**	**13.5**	**4.4**	**0.1**	**15.3**	**5.7**	**0.6**	**2.1**	**3.1**	**0.2**	**0.03**	**0**	**0.1**	**0.5**	**0.7**	**0.2**	**1.3**
Papua New Guinea	ACP/C	1699	14.0	9.4	0.1	32.5	7.0		0.9	6.1				0.1	0.1	1.0	0.3	2.7
Dominican Rep.	ACP	562	40.5	0.6		7.2	48.0	1.2	43.9	2.9	0.1	2.8				14.8	0.2	0.1
Jamaica	ACP/C	1053	23.3	5.2	1	48.7	22.0	2.5	17.6	1.9	0.4			1.5	7.6	0.5	0.3	0.5
St. Vincent	ACP/C	73	76.9				23.1		12.4	10.7	8.2			1.6	3.6	1.8	3.2	
Grenada	ACP/C	34	77.6				22.4	4.4	15.9	2.1	2.4				6.2	0.3	0.1	
Fiji	ACP/C	227	58.0	2.5		0.4	38.8	1.1	37.0	0.7								
Dominica	ACP/C	56	69.6	0.9		0.4	29.0	24.9	14.1						4.0	0.2		0.2
Tonga	ACP/C	12	86.7	0.2		0.1	12.9	0.2	12.5	0.2	0.1				4.2	0.2		

Table 10: Composition of exports (cont.)

Country	Pref. Group	Total value (US$ m), 1992	All food items	Agric. raw material	Fuels	Ores and metals	Manufactured Goods: Total Machinery and transport equipment	Chemical	Others		Cereals	Crude and manufactured fertilizers	Crude oil	Oil products	Fibres, textiles and clothing	Metal and metal manufactures	Elect. machinery	Transport
			Export Structure (%)								Selected Commodity Groups (%)							
Upper Middle Income, ACP or C		**73818**	**9.0**	**6.9**	**12.6**	**3.4**	**54.8**	**3.3**	**20.8**	**30.6**	**0.4**	**0.3**	**12.1**	**1.5**	**5.7**	**4.9**	**20.2**	**3.1**
Gabon	ACP	2474	1.0	11.6	74.1	10	3.2	1.6	1.5	0.2			87.9					
South Africa	CWTH	21002	7.5	3.2	7.9	8	28.1	5.3	14.8	8.0	0.5	0.4		0.2	2.7	9.9	1.2	3.9
Mauritius	ACP/C	1467	29.1	0.6		0.1	70.0	1.0	67.8	1.2	0.3	0.5			59.1	0.2	0.3	0.2
Malaysia	CWTH	47055	9.4	8.7	10.3	1.2	69.7	2.1	23.3	44.2	0.3	0.2	6.7	1.1	5.8	2.9	31.1	3.0
St. Lucia	ACP/C	123	65.5	0.5			26.8	0.3	23.0	3.5					22.5	0.1		
St. Kitt & Nevis	ACP/C	35	37.6				59.3		26.0	33.3				33.8	30.5	0.4	11.8	0.1
Trinidad & Tobago	ACP/C	1662	7.8	0.1	57.6	0.1	34.3	16.8	14.7	2.8	0.9	3.6	21.8	33.6	0.8	9.1	1.1	1.1
High Income, ACP or C		**1397**	**6.7**	**0.1**	**0.01**	**0.5**	**92.5**	**3.3**	**34.7**	**54.5**	**0.3**	**0**	**0.01**	**0.1**	**13.1**	**0.9**	**48.9**	**0.1**
Seychelles	ACP/C	15	98.8	0.2		0.2	0.8		0.8									
Malta	CWTH	1247	2.3	0.1		0.5	97.0	2.0	36.1	58.8	0.1				13.4	0.8	54.7	0.1
Barbados	ACP/C	135	37.1	0.4	0.1	0.4	61.7	15.4	25.6	20.7	2.5		0.1	1.2	12.2	2.1	0.5	
More Advanced, ACP or C		**26951 7**	**25.8**	**0.7**	**25.7**	**1.1**	**46.6**	10.6	**29.0**	**7.0**	**0.4**	**0.02**	**16.4**	**18**	**16.8**	**1.03**	**1.8**	**0.8**
Brunei	CWTH		0.6		96.9	0.1	2.4	0.1	1.0	1.3			41.2	4.5				
Bahamas	ACP/C	2370	3.5	0.1	71.7	0.8	23.5	15.4	1.4	6.7			52.6	56.4		0.1		
Singapore	CWTH	2785	5.0	1.4	12.2	1.5	78.5	6.4	17.3	54.8	0.2			12.1	3.8	2.9	23.8	2.6
Cyprus	CWTH	73876	38.3	0.6	2.4	1.0	57.7	9.4	43.6	4.8	0.6			2.4	26.2	1.2	1.9	0.3
Australia	CWTH	415	16.9	7.1	19.5	14.5	21.4	3.3	8.9	9.2	1.0		2.8	2.5	7.1	10.0	1.9	2.8
New Zealand	CWTH	37583	47.7	18.2	2.6	4.3	26.0	5.9	14.6	5.6	0.4				23.4	2.2	0.2	
Canada	CWTH	10058	8.2	8.6	10.7	6.1	62.0	5.2	16.8	40.0	2.2	0.9	3.8	1.4	1.3	7.0	4.8	26.5
		14242 8																
Other Latin America		**11269 4**	**26.3**	**9.3**	**1.6**	**38.7**	**22.3**	**4.1**	**10.9**	**7.3**	**0.8**	**0.7**	**1.3**	**0.4**	**2.0**	**28.5**	**2.9**	**2.9**
Argentina			55.3	2.1	9.5	1.2	31.9	5.3	15.6	11.0	11.7		4.0	4.9	3.1	5.3	1.2	5.5
Chile		13114	28.0	10.3	0.2	43.1	16.5	4.0	9.8	2.7	0.7	0.8		0.2	1.7	31.2	0.4	1.7
Brazil		9069	25.3	3.1	1.7	10.6	58.9	6.2	31.9	20.8	0.1	0.1		1.6	3.7	16.4	3.7	8.7
Mexico		38679	7.3	1.2	14.0	2.5	74.6	4.5	20.9	49.2	0.1	0.1	12.5	1.2	4.3	5.9	25.7	14.0
		51832																

Source: UNCTAD, *Handbook of International Trade and Development Statistics*. New York and Geneva: UN, 1995.

Table 11: Composition and direction of exports by major areas

Country	Total value 1995 $USm	Export Structure (% of total value): All food items	Crude materials (ex fuels)	Fuels	Ores and metals	Manufactured Goods: Total	Chemical	Others	Machinery and transport	Selected Commodity Groups (%): Cereals	Crude and manufactured fertilizers	Textile yarn and fabrics	Textile fibres	Clothing	Iron and steel
Total	4985049	8.20	4.84	7.21	0.98	77.08	9.50	28.97	38.62	0.75	0.28	3.23	0.67	3.26	3.14
Developed Countries	3412683	8.06	4.27	3.38	0.81	81.15	11.16	26.66	43.33	0.89	0.26	2.33	0.52	1.69	3.06
Developing Countries	1391321	8.71	5.80	14.51	1.21	69.36	5.40	33.79	30.17	0.48	0.32	5.59	1.00	7.00	2.43
Africa	82413	15.32	9.04	53.45	1.82	21.70	3.87	15.96	1.87	0.35	0.99	1.61	2.34	5.30	0.93
America	231872	20.20	10.37	14.84	3.93	52.91	5.35	23.48	24.08	1.08	0.29	1.55	0.96	2.59	3.83
Europe	14694	7.41	3.56	3.89	0.44	84.94	12.15	48.52	24.27	0.37	0.19	3.69	0.12	12.78	3.50
Asia (ex Middle East)	940321	5.69	4.71	4.38	0.54	83.41	5.66	40.02	37.73	0.37	0.22	7.34	0.99	8.32	2.20
Asia (ex China and Middle East)	791542	5.33	4.99	4.53	0.62	83.07	5.58	36.62	40.86	0.43	0.14	6.96	1.08	6.84	1.96
China	148779	7.61	3.24	3.58	0.11	85.23	6.07	58.07	21.08	0.05	0.66	9.35	0.51	16.16	3.47
						Exports by Developing Countries to Developed Countries									
Developing Countries	762724	9.39	5.28	14.06	1.40	69.62	3.00	35.32	31.30	0.12	0.32	3.01	0.58	9.96	1.67
Africa	61181	14.99	7.35	56.56	1.99	20.64	2.39	16.72	1.52	0.11	0.72	1.59	0.98	6.88	0.68
America	160134	19.60	8.97	14.66	3.72	54.92	3.57	22.70	28.65	0.23	0.31	1.21	0.57	3.34	2.98
Europe	9828	4.24	3.70	1.91	0.36	90.06	8.59	55.77	25.70	0.06	0.12	4.09	0.10	15.69	3.49
Asia (ex Middle East)	480194	5.68	3.91	3.74	0.57	84.86	2.88	42.93	39.06	0.10	0.23	3.62	0.56	12.30	1.31
Asia (ex China and Middle East)	402997	5.36	4.05	3.75	0.66	84.71	2.33	39.70	42.67	0.11	0.11	3.31	0.57	11.15	1.07
China	77197	7.36	3.19	3.67	0.11	85.68	5.71	59.75	20.22	0.04	0.85	5.21	0.51	18.29	2.54
						Exports by Developing Countries to the EU									
Developing Countries	258469	11.93	7.17	15.72	1.50	63.60	3.70	34.93	24.97	0.16	0.36	3.97	1.09	10.90	1.23
Africa	40836	17.39	8.58	47.08	2.25	26.43	3.26	21.23	1.94	0.10	0.55	1.94	1.12	9.69	0.70
America	37834	40.40	17.10	7.31	5.89	32.41	4.24	20.81	7.36	0.58	0.28	1.23	1.14	0.88	3.16
Europe	8957	3.58	3.89	1.91	0.37	90.54	8.18	55.86	26.50	0.07	0.13	4.16	0.11	16.31	3.08
Asia (ex Middle East)	139375	3.98	5.04	0.67	0.30	88.08	3.76	43.37	40.95	0.09	0.26	4.91	1.29	12.69	0.65
Asia (ex China and Middle East)	120248	3.89	5.12	0.46	0.32	87.96	2.66	41.33	43.96	0.10	0.15	4.83	1.32	12.60	0.35
China	19127	4.61	4.51	1.98	0.13	88.84	10.67	59.19	21.98	0.02	0.94	5.40	1.08	13.26	2.53

Table 11: Composition and direction of exports by major areas (cont.)

Country	Total value	All food items	Crude materials (ex fuels)	Fuels	Ores and metals	Manufactured Goods				Cereals	Crude and manufactured fertilizers	Textile yarn and fabrics	Textile fibres	Clothing	**Iron and steel**
						Total	Chemical	Others	Machinery and transport						
Share of Exports to Developed Countries in Total Developing Country Exports															
Developing Countries	**0.55**	**0.59**	**0.50**	**0.53**	**0.63**	**0.55**	**0.30**	**0.57**	**0.57**	**0.14**	**0.54**	**0.29**	**0.32**	**0.78**	**0.38**
Africa	**0.74**	**0.73**	**0.60**	**0.79**	**0.81**	**0.71**	**0.46**	**0.78**	**0.61**	**0.24**	**0.54**	**0.73**	**0.31**	**0.97**	**0.54**
America	**0.69**	**0.67**	**0.60**	**0.68**	**0.66**	**0.72**	**0.46**	**0.67**	**0.82**	**0.15**	**0.75**	**0.54**	**0.41**	**0.89**	**0.54**
Europe	**0.67**	**0.38**	**0.70**	**0.33**	**0.54**	**0.71**	**0.47**	**0.77**	**0.71**	**0.11**	**0.43**	**0.74**	**0.56**	**0.82**	**0.67**
Asia (ex Middle East)	**0.51**	**0.51**	**0.42**	**0.44**	**0.54**	**0.52**	**0.26**	**0.55**	**0.53**	**0.14**	**0.53**	**0.25**	**0.29**	**0.76**	**0.30**
Asia (ex China and Middle East)	**0.51**	**0.51**	**0.41**	**0.42**	**0.54**	**0.52**	**0.21**	**0.55**	**0.53**	**0.13**	**0.40**	**0.24**	**0.27**	**0.83**	**0.28**
China	**0.52**	**0.50**	**0.51**	**0.53**	**0.50**	**0.52**	**0.49**	**0.53**	**0.50**	**0.39**	**0.67**	**0.29**	**0.52**	**0.59**	**0.38**
Share of Exports to EU Countries in Total Developing Country Exports															
Developing Countries	**0.19**	**0.25**	**0.23**	**0.20**	**0.23**	**0.17**	**0.13**	**0.19**	**0.15**	**0.06**	**0.21**	**0.13**	**0.20**	**0.29**	**0.09**
Africa	**0.50**	**0.56**	**0.47**	**0.44**	**0.61**	**0.60**	**0.42**	**0.66**	**0.52**	**0.13**	**0.28**	**0.60**	**0.24**	**0.91**	**0.37**
America	**0.16**	**0.33**	**0.27**	**0.08**	**0.24**	**0.10**	**0.13**	**0.14**	**0.05**	**0.09**	**0.16**	**0.13**	**0.20**	**0.06**	**0.13**
Europe	**0.61**	**0.29**	**0.67**	**0.30**	**0.51**	**0.65**	**0.41**	**0.70**	**0.67**	**0.11**	**0.43**	**0.69**	**0.56**	**0.78**	**0.54**
Asia (ex Middle East)	**0.15**	**0.10**	**0.16**	**0.02**	**0.08**	**0.16**	**0.10**	**0.16**	**0.16**	**0.04**	**0.17**	**0.10**	**0.19**	**0.23**	**0.04**
Asia (ex China and Middle East)	**0.15**	**0.11**	**0.16**	**0.02**	**0.08**	**0.16**	**0.07**	**0.17**	**0.16**	**0.04**	**0.16**	**0.10**	**0.18**	**0.28**	**0.03**
China	**0.13**	**0.08**	**0.18**	**0.07**	**0.15**	**0.13**	**0.23**	**0.12**	**0.13**	**0.05**	**0.18**	**0.07**	**0.27**	**0.11**	**0.09**

Source: UN, *Monthly Bulletin of Statistics*, May 1997

of the measures for Least Developed in the Uruguay Round settlement; to assist in 'capacity-building in the area of trade', which seems to be interpreted broadly to include assistance in export diversification, as well as in taking advantage of existing markets; and finally market access, proposing preferential access, but now with exceptions allowed. Both the technical assistance and the access sections expect more advanced developing countries also to participate in helping the Least Developed.

At the Conference, most developed countries and some of the more advanced developing agreed to offer increased duty-free access to the Least Developed. The EU confirmed its offer of April 1997, made in response to the WTO proposal (EC, April 1997). The proposal is to give them the same access as Lomé countries.[19] As it pointed out, this will add little to their present access to the EU, except on a few goods like leather. It noted the problems caused by the limitations on cumulation; this has recently been a problem for Bangladesh, one of the principal Least Developed exporters to the EU. The paper raised the possibility of cumulation within South Asia. The proposal would exclude them from the special Lomé protocols on the sensitive products, beef, sugar, rum and bananas. The US agreed to add 1700 products to the duty-free list of its GSP, restricted to the Least Developed, and has also proposed additional concessions for Africa. Morocco, South Korea, Thailand, Turkey, and Egypt, among others, offered limited concessions on some goods. As the EU measures add little to existing policies, the trade effects will come from the concessions by other countries, which have not yet been quantified.

Table 11 shows that the share of developing countries', and particularly Africa's, exports going to the EU is disproportionate to the EU's share in trade. Almost three quarters of Africa's exports go to developed countries, and half its exports go to the EU. Its exports to other developing countries and to developed countries other than the EU are about a quarter each. For Latin America, a third of its exports go to developing countries, and half to developed countries other than the EU. For Asia, the shares are higher still: for developing markets, at 50% (and many of these will be more developed developing countries in the region), and 35% to developed countries other than the EU. There are no major least developed countries in the Western Hemisphere (only Haiti), but in Asia, countries which could gain from improved access to the US, Japan and the advanced developing countries include Bangladesh, Cambodia, and Vietnam. According to EU figures, in 1995 58% of Least Developed countries' exports to the EU, US, Japan, and Canada went to the EU, 31% to the US, and 10% to Japan (EU Least Developed, 1997). But this may be a poor indication of potential exports because access to the EU has been better than to the other areas, suggesting that there may have been diversion. This would be particularly true in clothing and textile exports which are controlled into the US.

The EU paper raised doubts about the feasibility of binding special concessions for the least developed, and there has been no explanation yet of how this could be done to give a firm, but temporary basis, or what criteria or procedures for graduation from least developed status

---

[19]The EU list of Least Developed countries includes Botswana and Tonga as well as the normal UN list. This would make no difference at present, as they receive Lomé access already. If Lomé were replaced by special arrangements based on the Least Developed distinction, it would clearly be necessary for all countries to agree definitions of Least Developed, Other Developing, and any other categories.

would be adopted. Preliminary reports on the Conference suggest that the concessions will not be bound, but will be made on an autonomous and reversible basis, like the GSP.

The programme for the Conference on the Least Developed was more detailed on the technical assistance part of the Plan. Each eligible country has been encouraged, and assisted by one of the relevant agencies, to carry out a 'needs assessment'.

The 1997 Commonwealth Heads of Government Meeting on 25-26 October in its statements on trade reflected the inconsistency between traditional and regulated preferences. It supported the initiative for the Least Developed, but also supported preserving special treatment for the ACP, in particular the banana producers, and for small states. It also advocated strengthening the multilateral trading system against regional arrangements and continued regional arrangements. Like the Least Developed Conference initiative, it was more specific on technical assistance for trade and meeting WTO obligations.

5 Final Questions

The targeting of trade preferences is only superficially connected to the concern for the poorest. Some of the countries where poverty is most extensive and deepest would be excluded from either preferential arrangements based on Lomé or special arrangements for the Least Developed, and both these categories include some countries with relatively high income. It would be necessary to examine which groups, by location or sector, would be most likely to benefit by improved access, and to compare this with the distribution of low incomes or material de privation. The data on capital flows indicate that public flows are more precisely targeted on the poorest than trade concessions could be.

A prior question to analysing these initiatives to give special treatment to different groups of countries should be whether there is evidence that they are effective. The long-running debate over whether preferences are beneficial for developing countries remains unresolved. It is not difficult to find examples of countries with preferences which have lost share (most of Africa), of countries which have gained share based on the products in which they have preferences (Mauritius; several Caribbean countries with preferences and gains to both the EU and the US), and of countries which have gained share without special preferences beyond very limited GSP (China). More sophisticated arguments using statistical tests find little effect on an aggregate level, but important effects, for specific products where there was a high degree of preference (clothing for countries not restrained by the MFA) or at an early stage of development (the initial exports from electrical and electronic industries in South East Asia). Any analysis of where increasing preferences would be most beneficial would therefore need to look at the circumstances of particular countries, and their readiness to use them. A shift in WTO and others' emphasis from helping Least Developed by improving access to helping them by technical assistance cannot, however, be justified by such arguments. The evidence on whether and in what circumstances technical assistance helps countries to export is at least as mixed as that for trade access. The actual explanation probably lies more in the strong opposition by developed countries other than the EU, in particular the US, to any trade concessions.

The principal exporters with an interest in improving their trade access, which are also the principal countries for which improved access would be 'sensitive' for developed country importers, are among the low income countries, not the Least Developed. The general reduction in tariffs has lowered the benefit of general preferences, especially once the cost of fulfilling requirements on certification of origin, etc., is offset against the benefit. The problems now are the peaks, in tariffs and in the remaining non-tariff barriers. The allowance for exceptions in the WTO Plan, taken up in all the responses, keeps the peaks. It may encourage the elimination of small tariffs, now of little importance to the importers.

An improvement in access for the Least Developed could help some exports to developed countries other than the EU (and possibly lower their exports to the EU), and increase exports to the participating advanced developing countries. If, however, it was accompanied by an increase in regional arrangements, whether among developing countries or between them and the EU in a revised version of Lomé, the effects would be at least partially offset by the cost and complexity of different trade access rules for members of the same group. The WTO, EU, and Commonwealth proposals fail to take account of the difficulties of using two very different types of criterion, non-economic and economic, to determine preferences (perhaps understandably in the case of the WTO which takes a cautious view of regions).

The area development banks have long added a regional dimension to lending by the World Bank, but the crisis in the South East Asian countries in August has started discussion of whether a 'regional IMF' would be helpful. The arguments for both types of regional fund are analogous to the preferential strand of trade policy, not the poverty or developmental objectives, but that regional funds can have different priorities and criteria from the international. The doubts about the desirability of this from the World Bank and the IMF mirror those of the WTO about regional trading groups.

The Commonwealth provides another group around which recommendations are made for special arrangements. Any Commonwealth initiative on trade access would be difficult given the obligations of many of the members to other regions and to the WTO. On investment, it has proposed improving regulation and procedures. The CDC has set up three regional investment funds, for Africa, for the Pacific Islands, and for South Asia, and plans one eventually for the Caribbean. These potentially cover countries of all levels of development (Africa includes South Africa, which is developed). As they are not offering an official preference in an area governed by international rules, this approach is of course not subject to the same legal complications as the trade preference regimes.

This may suggest the way forward for other non-economically based preference areas: to advance in areas not (yet) covered by WTO or other international rules (as was arguably true for Lomé Conventions, and their predecessor, Yaoundé, when they began, before rules for preferences were established under GATT). It also implies that they should retreat from those where multilateral concessions and therefore multilateral regulation are emerging. The history of the Commonwealth as an intergovernmental consultative group and its more specific initiatives on debt and private finance, suggests that there is a place for this type of 'spring-board' (Anyaoku, 1997). The trade-based regions offer even more examples, with the progress on services and harmonisation of standards in the EU offering precedents that are being taken up at the multilateral level. This implies a focus on finding new areas, not revisiting old ones, like preferences.

The financial (and environmental) crises in East Asia have not yet been fully incorporated into the forecasts. They have also not yet been incorporated into thinking about development. Some limitations of these countries' models of development have now become obvious, and this will need to be incorporated into advice for other countries. In particular the relative roles of domestic policy and trade, different types of domestic policy, and vulnerability to capital flows will need to be reconsidered. The hints about the potential effects of income distribution on the conditions for development which can be drawn from the UNCTAD and other special sections in the reports could inform this reconsideration.

One theme of the trade policy section of this report has been the changing and increasing role of multilateral regulation. The events in Asia may suggest needs for regulation in other areas, financial and environmental. UNCTAD argues that 'The big story of the world economy since the early 1980s has been the unleashing of market forces' (p. iv). It is at least equally arguable that it has been the increase in the degree of regulation, national and international. This may be the necessary sequel, not the reverse, of the liberation of market forces.

References

Reports discussed

Forecasts by international institutions

African Development Bank, *African Development Report 1996*
Asian Development Bank, *Asian Development Outlook 1996 and 1997*
Asian Development Bank, *Asian Development Outlook 1997 and 1998*
Bank for International Settlements, *67th Annual Report* (June 1997)
International Monetary Fund, *World Economic Outlook* 1996 (May)
International Monetary Fund, *World Economic Outlook* 1997 (May)
International Monetary Fund, *World Economic Outlook* 1997 (September)
National Institute of Economic and Social Research, *National Institute Economic Review* (July 1996)
National Institute of Economic and Social Research, *National Institute Economic Review* (July 1997)
Natwest Group, *Economic and Financial Outlook* (October 1997)
OECD, *OECD Economic Outlook* 1997 (June)
UN, *World Economic and Social Survey 1996*
UN, *World Economic and Social Survey 1997*
UNCTAD, *Trade and Development Report 1996*
UNCTAD, *Trade and Development Report 1997*
UNDP, *Human Development Report 1997*
UNIDO, *Industrial Development Global Report 1996*
World Bank, *Global Economic Prospects and the Developing Countries 1996*
World Bank, *Global Economic Prospects and the Developing Countries 1997*
World Trade Organization, *Focus* (April 1997)

Other publications

Anyaoku, Emeka, 'Speech to Commonwealth Finance Ministers Meeting', Commonwealth Secretariat, *Commonwealth Information* (September 1997).

Boughton, James M. (1997) *Modeling the World Economic Outlook at the IMF: A Historical Review*, IMF Working Paper.

Commonwealth Heads of Government Meeting, *Communiqué*, Edinburgh (27 October 1997).

EC, Communication from the Commission 'Improving Market Access for Least Developed Countries' (April 1997).

EC, *Green Paper on the EU-ACP Relations - A New Partnership for the 21st Century*. Brussels, 1997.

ODI Briefing Paper, 'Foreign Direct Investment Flows to Low-income Countries: A Review of the Evidence' (September 1997).

UNCTAD, *World Investment Report 1997*. Geneva: UN.

Wood, Adrian (1997) 'Openness and Wage Inequality in Developing Countries: The Latin American Challenge to East Asian Conventional Wisdom'. *World Bank Economic Review*.

WTO, 'Update on Preparations for the High-level Meeting on Least-Developed Countries' (July 1997).

WTO, 'Singapore Ministerial Declaration' (December 1996).

WTO, 'Comprehensive and Integrated WTO Plan of Action for the Least-Developed Countries' (December 1996).