ECONOMIC PROSPECTS FOR DEVELOPING COUNTRIES

Changing Patterns of Industrial Production and Developing Country Trade

The 1991 Forecasts

Sheila Page

odi Overseas Development Institute

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Report prepared for discussion
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ISBN 0 85003 161 3

22 October 1991

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1. What has changed since last year?

The performance of both developed and developing countries was poorer in 1990 than seemed likely a year ago, and contrary to last year's expectations that recovery would begin in 1991, this year has seen a recession in all parts of the world. All the forecasts reflect this, although some reports emphasise the differences among different industrial countries, attributing these to a dispersion of 'business cycles'. For the future, most still expect a recovery, although perhaps weaker in the short run than was previously expected. There are, however, a number of major changes in the national and international environments, most of which are mentioned by most forecasters, but whose effects are sometimes difficult to trace either in their analysis or in the changes which they have made since last year in their forecasts. The difficulty of predicting the effects of these new influences or quantifying them in terms which can be integrated into the forecasting process is not only a problem for forecasters: the uncertainties could in themselves help to explain the poor performance of economies in the last year, and the hesitancy now over recovery. But on others, it is possible that the uncertainties are now much less than they were in late 1990 or early 1991; even where the outcomes have been worse than the mid-point of expectations, at least the negative effects from uncertainty itself will be less. One of the disappointments of the reports is again that the discussion which many present of risk-factors does not appear to be fully reflected in the quantified outlooks.

Section 2 will examine some of the influences which could change the nature of the international economic relationships discussed here. These include:

- The effects of the Gulf War and its aftermath, although these now seem much less than the most extreme forecasts expected, and possible changes in military spending more generally;

- The changes in the international trading system; stemming from the Uruguay Round of GATT talks, from the possible regionalisation of trade or trading policy, from changes in the trade policies of developing countries, or from changes in the pattern of industrial production;

- The fall in inflation-adjusted interest rates which began last year, and the changes in relative international rates.

Other changes will be discussed in the review of the main elements of the forecasts in section 3, in particular:

- The performance of the Eastern European economies and their effect on the world economy;

- The supply, demand, and price of oil;

- The prices of other primary commodities;

- How and whether the performance of the rapidly growing Asian economies will be sustained.

As a background to these discussions, however, it is necessary first to review briefly the outcome for 1990 and present expectations for 1991, and how these differ from earlier expectations. The questions raised by these about their understanding and interpretation of the world economy should influence the forecasters' analysis.

Summary of estimates and forecasts for 1990-91

In 1990, the outcome for **developed countries** was, unusually, substantially worse than expected. This was not because of unanticipated events, like the Gulf War and consequent rise in the oil prices. United States growth fell back more than expected, and output in the Eastern European countries was not merely stagnant: it fell significantly; estimates now range from 5% to 10%. For 1991, the alteration is greater and more general, to little or no growth for any industrial area, and an even larger fall in output for Eastern Europe. The recovery is postponed to 1992, and is expected to be more sluggish than last year's analysis indicated. Eastern Europe continues to decline.

World trade also slowed, although apparently less than proportionately to output, at least for the total: estimates remain at about 5%, more than twice the estimates of output growth (which now range from 2 to 2.5%). According to the most recent UN estimates, trade in manufactures grew even less, at 4%; all the forecasters, however, include higher (presumably earlier) figures, of 5-6%. The data would give a more reasonable relationship of trade to output; the forecasters' estimates, to total world trade. Either the relationship of trade to output or the alternative question of why manufactures should have grown more slowly than the average is puzzling. Neither is discussed by the forecasters. Forecasts for world trade in 1992 are lowered, although the elasticity with respect to output apparently is expected to stay high.

The **prices** of non-oil primary products fell in 1990, and by more than most expected, but, as described in section 3, there remains considerable divergence and uncertainty among different series. (This is not discussed in the forecasts.) In 1991, further falls are now expected, and the data for the first half of the year strongly suggest that the forecasts may still not be low enough. Primary product prices are expected to stop falling, and rise slightly less than the rate of inflation, with the performance in 1990-91 apparently not leading to expectations of either a greater rebound or a permanent shift to a lower path.

The price of oil rose precipitately in the third quarter of 1990, but returned to the pre-shock level in early 1991. There has been a rethinking by all the forecasters of how it is determined, in the short and medium term, and there is wide divergence, discussed below. The larger than expected dollar exchange rate fall in 1990 appears to have been associated with a higher than expected rise in manufactures prices in dollars, but there is considerable variation in expectations for these for this year.

Although the **interest rate** forecasts were only slightly high for 1990 (about half a point above the outcome of a dollar rate of 8.35 for 6-month LIBOR), higher US inflation meant that in real terms this was lower than expectations, or recent years. The forecasts for 1991 implicitly start from the 1990 number, although the 1991 data are lower; the medium-term projections and discussion do not appear to take account of the lower levels.

Preliminary estimates for **export volume** by the developing countries in 1990 seem to confirm the odd pattern shown in the world trade data: in total, these rose less than expected, but Africa appears to have done relatively well, and Latin America relatively badly: this could reflect the difference between their markets (in Europe and the US, respectively), but would be consistent with a relatively good performance by primary products.

Such a change has been suggested by projections of the effects of the Single European Market (and, in the longer run, of the effects of greater participation in world trade by Eastern Europe). It is likely that US demand and other factors were more important in 1990, but the effects observed reinforced the need to consider the implications of a possible change in the 1990s. This is not reflected in the forecasts, or in the discussion of them.

Output in the developing countries as a group probably grew about 2.5%, as usual more slowly than forecast, but not markedly so, with performance in Latin America again disappointing with a small fall in output. Africa remained at about 3%. As usual, this has brought increased caution for the current year, but there has also been a revision down in medium term expectations, notably for the Asian countries, both low and middle income. These changes are discussed in section 3.

Current estimates for 1990 and 1991 forecasts suggest a considerably worse current, and immediate past, performance than was expected a year ago. The most recent data support this, although in Asia there are signs of upward revision. For the developing countries, the poorer performance now expected for the developed countries and the negative influences among the factors discussed in the next section could justify greater pessimism, but their own results have been less disappointing. Their resilience to the recession in the last year could alternatively lead to questioning of the strength and nature of their ties to developed country performance.

2. What could change the international environment?

The Gulf War and military spending

The invasion of Kuwait, the war, the rise and fall of the oil price, and the widespread effects on other countries of the disruption to the economy of the Middle East clearly destroyed any confidence arising from the perceived 'risk-free' world which the forecasters writing before August in 1990 had explicitly assumed. But it is arguable that the relatively small permanent effects on the international economy as a whole may have justified a more firmly based confidence: in the ability of that system to sustain shocks.

The earlier forecasts published, notably the UN and the IMF[1], give a mixed view of the effect of the Gulf War. The UN emphasises the confidence-destroying effect, and also suggests that it led to a precautionary tightening of monetary policy in the US which helped

[1] The publications used in the comparisons of forecasts are listed in the Appendix. Unless indicated by WDR, references to the World Bank are to *Global Economic Prospects*.

to explain its recession (and slower growth in other areas). The IMF gives an extensive discussion of its effects, although its conclusions (pp. 23-4) are that the long-term effects on industrial countries and most developing countries outside the Middle East would be of the order of 0.1% of GDP by 1992, and at most 0.2% in 1991.

It now seems to be agreed that the aggregate effects were not significant to international economic prospects, although effects on individual countries, and on particular groups within them, were severe. The UN discussion and the analysis in the later reports therefore concentrate on the most seriously affected countries. To orientate the discussion and identify those affected, several forecasters have adopted the analogy with a natural disaster and the criterion for seriously affected of damage equivalent to least 1% of GDP.[2] The effects were particularly serious for those sub-Saharan African countries which faced an increase in their import costs at a time when their balances of payments were under strain and their ability to obtain new credit constrained, but, as has been seen, their growth was not and is not expected to be much lower than previously forecast. The South Asian countries were also affected, with the loss of migrants' remittances and in some cases of exports to Kuwait and Iraq additional costs.

Unlike the developed countries, the developing may, as noted by the BIS, have been more vulnerable in 1990 than in 1973 and 1979-80 to the price of oil because they have increased their dependence on it, and more generally on imported energy. But again, the evidence on their actual growth in 1990 does not suggest a major effect at regional level.

The EC's conclusion that the Gulf crisis had 'smaller and probably more transitory effects on confidence, inflation and growth than initially feared' seems to represent the consensus. The reaction to individual countries' difficulties, however, and in particular the possible problems in rapidly finding suitable finance and allocating this may have implications for other financial flows, as discussed in the section on official capital below.

That the effects compared to the 1970s oil price shocks were small, however, was not wholly because of the temporary nature of the crisis. One reason was partly political, the willingness of other suppliers, notably Saudi Arabia, to replace the lost exports of Kuwait and Iraq, but this was also an economic change: world oil production, under normal conditions, is well below capacity production. Other possible explanations suggest that the international system may now be more resilient to this type of shock: the better developed futures market for oil supplies apparently reduced short-term panic buying, and thus both the extent and the duration of the oil price rise. Both official oil reserves (notably the US strategic reserve) and commercial stocks were higher relative to consumption. It may be over-optimistic, but it is possible that experience is finally leading to more rational responses by government and commercial participants in the oil markets.

In spite of a year which probably saw more new armed conflicts both international and internal than in any recent year, the forecasters suggest that because of reduced tension between the most important consumers of arms it will be possible to divert resources from

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[2] ODI Briefing Paper, *The Impact of the Gulf Crisis on Developing Countries*, March 1991, suggested and discussed the basis for this criterion.

military spending to development, within and in favour of developing countries. Several of the forecasters suggest this, without quantifying or allocating by country the possible savings or benefits. A full analysis would need to consider income from military exports (important to both debt-affected countries like Brazil and some low-income countries) as well as the cost in terms of budgetary expenditure and imports (and would also need to consider national security as well as econometric determinants of demand), but the IMF[3] has published a useful set of estimates of different areas' spending, and how this is changing.

Military spending has contracted in the last decade in debt-constrained developing countries. In the poorer developing countries (whether these are classified as the heavily indebted and the small low-income groups, at 2.8% of GDP, and 3.6%, respectively, or as Sub-Saharan Africa and Latin America, 3.7% and 2.3%), it is already lower than in the industrial countries (3.8%). (All figures are 1982-88 averages, and therefore likely now to be lower. Sub-Saharan Africa's average is raised by Mozambique and Ethiopia.) The highest figures not surprisingly are found for the Middle East and North Africa. These ratios can be compared to Africa's debt service at 6% of GDP or Latin America's, at 4%. It is perhaps not surprising that if debt relief seems increasingly difficult to obtain, the forecasters, especially those from the creditors who are least willing to write off or reschedule debt, should seek other types of expenditure which might be reduced.

The International Trading System

Some of the forecasters put strong emphasis on the need for the current trade round to succeed: the IMF (p.41): the 'outcome of the Uruguay Round of Multilateral Trade Negotiations is of major importance to the evolution of the world trading system and the global economy in general and in particular to the continuing efforts underway to resolve debt problems in developing countries and to transform Eastern European and other economies to market-based systems.', while the World Bank (p.2) considers the 'outcome ... critical to the future of the multilateral trading system and the welfare of the world community' to counter protection in industrial countries, regionalism, and 'even a retrogression into trade war'. Neither, however, attempts to quantify its effects in its forecasts, or to explain who would expect to benefit from 'trade war'. The World Bank does have a high scenario which includes Uruguay Round success, but on trade, its assumptions go beyond current hopes for the Round, and add on a new international trade organisation; they also include global financial reform, low real interest rates, debt reform, peace in the Middle East, policy coordination in the industrial countries, and internal reforms in developed and developing countries (see appendix table). Even with all this world trade grows only 7.6% p.a., compared to 5.8% in the base scenario. As industrial country output is increased by 1.1 points, so that the elasticity of world trade relative to world output actually falls, from 2 to 1.9, it is not evident that the effects from trade policy are a major part of this. (The arithmetic difference between the growth rates of trade and output does increase, and this is shown in their table, p.53.) Among different groups of developing countries, the largest increase in output comes for East and South Asia (2.1 and 1.8 points), with 1.5, about the average, for Latin America, and only .8 for Sub-Saharan Africa. 'About one-half' (p.49) of

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[3] Daniel P. Hewitt, 'Military Expenditure in The Developing World', *Finance and Development*, September 1991, pp.22-25.

these changes is attributed to trade, but much of this is clearly the result of the increase in income in the developed countries, not of the liberalisation of the trading system.

Other reports all support a successful outcome, and want to prevent a move away from the multilateral system, but suggest that the benefits will be small. The BIS (p.70) thinks that failure 'would not immediately undermine the international trading system. But ... trading blocs - which have become more prominent in recent years - may be tempted to take matters into their own hands, exposing world trade to serious protectionist dangers.' The UN expresses concern about the growth of '"managed trade" or "result-oriented" trade policy and the tendency to substitute unilateral action for multilateral approaches' (p.49, pp.59-60), but does not quantify the benefits, or losses avoided, from completion of the Round. UNCTAD, like the IMF, offers a review of the current position, and is mildly supportive, 'to regain momentum for trade liberalization and trade expansion', p.145. 'However, the current status of negotiations in different areas suggests that the real benefits that developing countries could derive from the Round are still somewhat limited.' It suggests that small gains could come from agricultural liberalisation, especially for countries for which tropical products are the only feasible exports to expand in the near future, while the UN emphasises rather the need to move countries from agricultural dependency.[4]

The African Development Bank (p.43) notes the possible ill-effects of higher food prices on food importers, but in the long run 'price increases provide opportunities for expansion in domestic production' of temperate food or of other products, and therefore it supports the round.

The Asian Development Bank (p.17) suggests that an extra 2% p.a. (whose derivation is unexplained) on world trade is too high as an estimate of the effect (this would be much greater than the World Bank results suggest), but 'even more modest gains are certainly worth pursuing aggressively' especially on agricultural protection. This is of particular concern to some Asian developing countries, which include five members of the Cairns Group, which is a major pressure group for reform of agricultural trade: Fiji, Indonesia, Malaysia, the Philippines, and Thailand. It considers trying to improve access to developed markets more likely to yield gains in present conditions than trying to increase aid flows.

UNCTAD also has a useful discussion of the other 'new' areas, which could emerge from a GATT settlement, especially intellectual property protection, TRIPs. It points out that previous industrialising countries did not accept restraints on their use of other countries' technological developments (p.179). (It cites a US account of the US history of borrowing technological innovations in the nineteenth century, although it would not be difficult to find similar examples from earlier industrialisers, dating over several centuries.) It makes the point that what is demanded is not simply MFN treatment, the traditional GATT standard, or even national treatment, but common and enforceable international standards; this goes well beyond normal trade agreements outside common markets. It also points out (p.191) that it

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[4] A forthcoming ODI working paper on the effects of the Uruguay Round on developing countries reports efforts to quantify the effects by product and major country group; this supports the view that the effects will on balance be favourable, but small. The major quantifiable positive effects go to textile and clothing producers; there are some benefits to tropical product exporters. The most potentially important systemic effects are unquantifiable.

is the fastest growing countries (South Korea, Brazil, Singapore, Taiwan) which have had the most cases of copyright abuse. It does not expect a TRIPs settlement, if one emerges, to benefit investment or growth. In the absence of trained personnel, other constraints on and motives for foreign investment are more important. On the contrary, it expects that it would 'make it harder to follow the "catch-up" practices used in the past, and will entail better devised strategies for technological development.'

All the publications mention the trade liberalisation by developing countries which is occurring outside the GATT framework, either on their own initiative or because of outside pressure. Several (e.g. UNCTAD p.57) contrast the liberalisation by developing countries with increased protection by industrial. UNCTAD sees the latter as more of an increase in discrimination than a net increase in protection, with protection against Japan or the developing countries balanced, for example, by relaxation of controls on the Eastern European, The contrast is made not just with liberalisation in developing, but with a simplification of their tariff and other controls. Here again, however, although the reports' discussions offer interesting approaches, and UNCTAD (pp.70, 75) has a useful collection of data on non-tariff barriers against developing countries and new liberalisation by them, the forecasters do not appear to have altered their forecasts in any way to take account of either trend.

The Asian DB discusses the tariff reductions by the NICs, and by Indonesia and Malaysia (pp.21, 23), but does not see this as an effective contribution to growth in itself: it must be 'accompanied by reforms to industrial policy,... increasing... competition, improving productivity, removing ... restrictions like price controls, and providing ... infrastructure.' It looks in detail at different industrial structures: changes in the structure of manufacturing in South Korea and Taiwan towards 'more technology and skill-intensive areas'. The Asian DB analysis and the extended survey of industrial structure in the UNIDO report (Chapter II) approach identifying and improving the future prospects of the developing countries in a much more structural way in terms of both industrial sectors and national institutions, than the other reports. This is not properly reflected here by presenting only their output growth forecasts.

The forecasters, particularly the UN and UNCTAD, give considerable space to the possible new division of world trade into different regions (UNCTAD and the IMF give a useful summary of the large number of intersecting groups in North and South America), without always distinguishing clearly between trade which takes place between neighbouring countries, because of normal economies of transport or complementary economies, and trade which occurs within policy-defined regions, whether free trade areas or more integrated areas, like the EC. Most do not go beyond pointing to the potential efficiency gains of reducing any trade barriers and the potential risks of erecting new ones against non-members, or *de facto* trade diversion through discriminatory liberalisation. UNCTAD appears to put most emphasis on the risks of selectivity, but all stress as one of their arguments for the GATT round the protection which it offers against greater 'regionalisation'. They do not, however, indicate why they expect countries other than the EC, with its completion of the Single European Market, to perceive and pursue benefits from regional groups. The EC's move beyond a customs union area to a common market, in order to obtain efficiency advantages that go beyond those from a trading arrangement alone and also for political reasons, is not a precedent in its motives or its probable results for the other trading arrangements which have been either made, in North and South America, or proposed. It may have been a spur to them because it is seen as a potentially protectionist threat.

The UN gives some data on intra- and inter-regional trade (p.60); these demonstrate how different the EC scale of intra-regional trade is. It is, indeed, difficult to define regions for other parts of the world. Most countries belong to a variety of plausible groups. It would be possible to attempt to define (through analysis of existing or changing trade patterns or of industrial structures) which were economic regions or to assess which had the political and economic potential to form an official, treaty-bound one. (Mexico, while negotiating to be part of North America, is not neglecting ties to Central America, northern South America, or even the Pacific Rim.) The descriptive approach of the forecasts does not do this, or analyse how trade patterns have changed to indicate whether there has been a tendency for countries to trade more within defined regions, i.e. groups with clear borders, not just their neighbours. 1970s and early 1980s data certainly did not show such a trend. UNCTAD (p.IX) states that 'most developing countries are already associated with one of the main trading groups or are actively seeking to become so'; this is arithmetically true because of the large number of small countries in the ACP group tied to the EC, but it is not clear that it is a helpful way to look at trading relationships. Among the exceptions are the largest, India and China; the fastest growing, the NICs and South East Asia; and much of OPEC. The forecasts do not, except in a few cases in considering the relationship between the new NICs and the old NICs, appear to take account of different potential regional opportunities for trade, and there are apparently no allowances for new official regional groupings in the forecasts, even those like North America which are already 'present policies', or estimates of their effect on trade, at world or country level. The disregard of trading areas may be justified in the light of the likely degree of success and strength of effect of the current regional policy initiatives. The clear growth of some regional flows, particularly among rapidly growing countries in Asia, and even the contrast between relatively good performance of Africa and poor for Latin America in 1990 suggest that a more regional approach to trade forecasting might be helpful.

The forecasts do not analyse at what stage countries have formed regional pacts in the past: the 1950s for Europe and 1980s for the US and Canada do not suggest that it is normally at an early stage of development; or whether there are particular difficulties for developing countries in forming such groups which could explain the limited success of those which have been attempted, for example in Latin America. The difficulties which even Europe and North America have had with countries or sectors which are particularly underdeveloped or different in rates of change may suggest one reason.

There do appear to be fewer fears now than a year ago of trade diversion from middle-income countries to Eastern Europe. In spite of the continuing trade concessions to them, and the UN's apparent expectation (p.61) that they will have 'freedom of movement of goods, services, labour and capital in the single market, as well as an option on full EC membership', the supply problems which they face in the short-term make them unlikely competitors.

The UNIDO and Asian DB discussion of structural changes in industry brings in some consideration of a different process affecting trade, the so-called 'globalisation' of production, which can involve either greater division of labour among countries with different relative supplies of factors of production or more standardisation and spread of common techniques of production (or, of course, both). One manifestation is mentioned by some of the forecasts, the increase in intra-Asian direct foreign investment, especially by the NICs in the new NICs and in China. The UN Centre for Transnational Corporations has argued that foreign investment is growing three times faster than trade. Although this number is based on 1980s figures which start from a small base, the implications of such a trend for output or trade growth or the relationship between them are potentially large: depending on the nature of the subsidiaries, it could lead to trade creation, especially in intermediate products: trade destruction, through export substitution, substituting capital flows for exports; or changes in the direction of trade, as investing companies supply their traditional markets from their subsidiaries, changing both the investing and the recipient countries' trade patterns. It could make trade more sensitive to costs, as investors choose where to establish new production, or less sensitive, as purchasers are tied by common ownership to their sources of supply. The fact that Japan is becoming much more important as a source of foreign investment, while the US remains the more important importer of manufactures suggests potential changes if their relative growth rates differ systematically, as the medium-term forecasts continue to expect. Combined with the shift to higher shares of public funds in capital flows to and from the debtors and poorest countries, this increase in private, direct investment flows to the more advanced, and in private, developing country flows among some of the developing, suggests interesting alternative regional or other groupings of countries with common interests based on source of investment or type of external finance, rather than trade.

It is possible that whatever influences any of these factors may be having: they have existed, will exist, and can be assumed not to change in their trend influence on trade, and therefore do not need to be taken into account in the forecasts. This is probably true on an 18-month horizon. For medium-term forecasts, especially as some of the relationships could be affected by multilateral or regional trading relationships, or by the changes in foreign investment flows which the forecasts implicitly or explicitly assume, this is less easy to assume.

Interest rates

Several of the forecasts, especially the World Bank, UN, and UNCTAD stress the dangers of continuing high real interest rates; the IMF and BIS implicitly assume them in their fears for 'fragile financial sectors', over-burdened with possibly unsound debt, and therefore vulnerable to severe recession. (The African DB's fears for African financial systems appear to stem from more domestic concerns.) The World Bank stresses the shortage of world saving and new demands on it. UNCTAD, in a special section on savings, suggests that interest rates are high because of changes in the structure of markets, giving rise to uncertainties about asset prices. Others also fear that risks could hold nominal rates high even as inflation rates fall. High real interest rates would clearly remain a major constraint on growth, and on the composition of investment and demand as they have been in the 1980s, and it would be an additional problem if falls in inflation were not reflected in the nominal rate, at least improving cash flows if not long-term investment.

The World Bank is particularly pessimistic, expecting real rates in the 1990s to 'remain near their high levels of the 1980s' (p.2). Their 'base' forecast (table 3) is for 3.7%, but their actual 'most likely' forecast gives 4.5%, and their really pessimistic one almost 8% (unprecedented for an average over a period of 10 years). Only under their too-good-to-be-true high one, does the rate average 2%. The IMF is less pessimistic, at 3% in 1992 (OECD agrees) rising to 3.3% over the medium term. A rise in 1992 or the medium term seems generally agreed. There are, however, three difficulties with these forecasts. The first is that none takes full account of the present level of dollar real rates, which is certainly under 2%, for a reasonable estimate of current inflation, with nominal at between 5% and 6%. The second is the change in the international structure as the German interest rate now enters its second year above the dollar rate. The third, arising since these reports were published, is that there are two indications that there were special factors holding the US rate above levels explicable in terms of economic factors during the 1980s.

The first is the most important point for the forecasts to answer: although their discussion suggests reasons that could make governments cautious about reducing rates, and for the US perhaps motives for increasing them slightly in 1992 or later because of inflation, the large rise which most imply from the present rate is not justified in their presentations. If the rates have fallen, as conventional considerations might suggest, during the recession, even if there is a rise with recovery, the limited recovery expected is unlikely to justify a 2 point rise to the consensus 3-3½%, much less one to 4-5% or the unprecedented 8%.

The second, combined with evidence presented in earlier years' reports that substantially different interest rates face different regions' borrowers, suggests that a single rate may no longer give a sufficient forecast for the world. It is the dollar rate that is most significant for most developing country debtors and their potential foreign investors, even if there are forces tending to raise the German.

The finding[5] that competition from the effectively guaranteed savings and loans institutions in the US could have accounted for as much as one fifth of the rise in real rates in the 1980s (i.e. 0.9 points) could, now that the regulatory framework is changed, suggest a 'normal' level one point below what forecasts based on 1980s levels would otherwise give. (Current rates are about a point below the forecasters' 1991 estimates.) This would imply lowering forecasts by about a point. Secondly, while it is still not clear to what extent the market for Treasury Bills was actually affected by the questionable behaviour of some of the bidders, if there was any effect at all from activities by a single bank or a cartel, it would have been to lower prices, and thus raise interest rates.

It is surprising that after a year in which real interest rates have been falling the forecasts do not at least consider the possibility that they will be significantly lower, on average, in the 1990s than in the 1980s. If there is, in some sense, a shortage of savings, or reason to believe that effective demand for saving will rise significantly (for example, that the requests for additional finance from Eastern Europe and the USSR will be met), then it is appropriate to consider how to increase saving. The Asian DB (p.25 and p.29) considers the structural implications, and detailed ways of implementing financial and fiscal reform. These sections, however, are a sharp contrast to the other reports, most of which prescribe 'increasing government saving' without indicating how this should be done, or the structural implications for the rest of the economy.

With the exception of the Asian DB and UNIDO, which do use their discussions of structural changes in the international economy in their discussions of prospects which go beyond their

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[5] *NBER Digest*, 'S & L Borrowing Raised Interest Rates', September 1991.

macro-economic forecasts, the forecasters do not present quantified estimates of the effects which they expect from these changes, and do not seem to have embodied them in the forecasts which they do present. With the exception of the financial effects, the probability that the effects will be small might be a justification but this is inconsistent with the weight which the verbal presentation gives to the military and trade policy effects.

The reports have little to say about exchange rates this year. This is partly because official forecasters traditionally avoid forecasting them, but there is no implication this year that they are uncomfortable with the implications of this. Although the fall in the dollar last year was unexpected, the possibility that it is now undervalued is not discussed, and most expect little change in the rate. The evidence so far in 1991 supports this. The UN (pp.72-3) considers a further fall possible, and desirable, to reduce financial transfers to the US. Among the non-official forecasters, the NIER does expect a small rise next year, but the EIU explicitly assumes that interest rates will be managed to avoid a change. If these forecasts and policy assumptions are correct, developing countries now face much less prospect of variation in exchange rates than in the 1980s.

3. The Detailed Forecasts

Output in the industrial countries

Many of the forecasters argue that 1991 is exceptional because the industrial countries' 'cycles' are 'out of phase' in 1991 (an odd concept given the types of models which underlie their forecasts), but this is not strongly reflected in the forecasts. All the major industrial areas are expected to grow more slowly this year than last, although it is only the US and UK which are expected to have 0 or negative changes, and most expect there to be a quite general improvement in 1992 (table 1). By then, all areas are expected to be growing at normal-to-slow rates. (The most recent revisions by the IMF were published after this was printed, but were expected to show a deeper US and world trade recession this year, but still a recovery in 1992.) The exceptions are Japan, principally because the forecasts for this year have been revised up during the year, and those for 1992 have not (the October IMF figures are expected to continue this, with 4.2% for 1991 and 3.8% for 1992), and Germany. Here, a major uncertainty is how soon, and then how quickly the former East German area will start to grow. As in the other countries of Eastern Europe, its 1991 performance was worse than expected, but recent expectations for 1992 seem to be higher than in the spring (a growth of perhaps 7-10%), and may not yet be embodied in forecasts for 1992 for Germany as a whole. It is the unexpectedly costly effect of reunification, rather than the cyclical patterns now being mentioned, which explains the extent of Germany's 1991 slowing.

The major differences among the forecasts are for Japan. Poor export prospects and poor expectations for domestic demand explain the lower than normal forecasts, but the performance has continued to be better than was expected in early 1991, (although in line with what was expected a year ago). The continuing expectations of a slower 1992 are based at least in part on deliberate restraint; without this, the external factors at least would support the higher numbers.

All agree that the US and UK are at or near the lowest point of their recessions. The recovery in the US is expected to be weak; UNIDO explicitly explains this by the relatively small recession: it was not sufficient to have the conventionally expected beneficial effect of squeezing out inefficiencies. The forecasters do not explain why the performance of the US in particular in 1991 has been so far below last year's expectations of growth of 2-3% (in apparent inconsistency with its findings of small effects of the Gulf War, the May IMF discussion implies that that was a significant factor, p.3), and this must add to the uncertainties of the 1992 forecasts. The IMF does point out that, unlike in other recessions, interest rates have fallen, and that this may help to encourage recovery. The IMF expected that because the recession is 'shallow and short' (p.4), it will have little impact on the rest of the world, but as US imports are expected to be at best constant, after a rise of 3.5% in 1990, there must be some effect on its major trading partners (as was discussed in relation to Latin America for 1990 in the last section), although the IMF correctly notes that the fall in imports has been less drastic than in previous recessions.

The World Bank takes a pessimistic view of the medium term outlook for industrial countries, with its 'most likely' forecast for their output at 2.6%. The NIER is slightly higher, while both LINK[6] and the IMF are above 3%, about the conventional level for medium-term forecasts. What is unusual is that the different forecasts show a wide range for the individual industrial countries. LINK is particularly optimistic for the US and Japan, but rather less so for Europe, because of a low figure for Germany; both LINK and the NIER are more optimistic than the IMF or World Bank for Japan. In general, it is expectations for relatively slow growth in Europe which seem to hold the forecasts below previous medium-term projections, with the US and Japan only slightly below.

The full definitions of the World Bank scenarios are given in the Appendix; the alternative IMF forecasts are based on a fear that world saving may be inadequate; this fear is part of the World Bank's 'Downside' scenario. The IMF discusses what types of incentives need to be changed to encourage increased private or public saving, but does not work through their implications or effects in detail (p.49, footnote). As mentioned above, the World Bank scenarios assume continuing high, and possibly rising, real interest rates, which helps to explain their low outcomes for growth. The definition of the scenarios and the allocation of probabilities among them is presented entirely descriptively.

The three UN agencies do not give medium term forecasts, although UNIDO appears to be pessimistic, arguing for removal of 'the basic deflationary bias' in current macroeconomic adjustment among the industrial countries. Given the mildness of the recent US recession, and UNIDO's relatively high expectations for 1991 and 1992, it is not clear what changes are expected, or what their effect would be expected to be.

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

Table 1: Industrial Countries
percentages

1991	OECD	WB	IMF	UN	AsDB	UNCTAD	LINK	UNIDO	NIER	EC	EIU
World Output			1.2	0.0	1.0	0.7	-0.3	2.0			
Industrial Countries	1.1	1.4	1.3	1.4	1.4	0.9	1.3		1.2		1.2
United States	-0.2	0.0	0.2	1.0	0.5		-0.2	0.6	0.0	0.1	-0.2
Japan	3.5	3.7	3.6	3.1	3.1		4.8	5.0	4.0	7.5	4.0
European Countries (West)	1.4		1.4	1.2	1.4		2.4	2.1	1.2		
W Germany	2.8	2.8	2.8		2.8		2.4	4.9	3.1	2.75	2.6
UK	-1.8		-2.1				-2.0	0.0	-1.9	-2.25	-1.9
Eastern Europe	-9.1		-4.1	-9.5	-5.3	-8.9	-7.7	-3.1			
Import Volume	3.0		3.6			3.0					2.0
US Import Volume	-0.8		1.5			-1.0				-2.0	
Export Volume	2.7		4.0			3.0					
World Trade Volume Total	3.1	2	2.4	<4	5.3	3.0	3.3		2.6		3.8
Trade in Manufactures	3.8			6.0					3.3		
1992											
World Output			2.9	2.1	2.7	2.3	2.6	3.0			
Industrial Countries	2.9	2.8	2.8	3.0	2.8	2.7	3.1		2.9		2.9
United States	3.1	2.3	2.7	3.1	2.3		3.8	2.9	2.8	1.6	2.9
Japan	3.5	3.9	3.9	4.1	4.0		3.8	5.6	3.6	4.0	3.5
European Countries (West)	2.4		2.2	2.3	2.6		2.1	2.9	2.9		
W Germany	2.2	3.4	1.9		2.6		1.2	3.5	2.5	1.75	2.9
UK	1.6		1.9				1.8	2.4	1.7	2.25	2.1
Eastern Europe	-5		-2.2	-4.5	-0.7	-8.5	-2.2	-4.4			
Import Volume	5.8		4.3			6					8
US Imports	7.6		3.1			7			7.6		
Export Volume	6.0		5.2			6					
World Trade Volume Total	5.8		5.5	>5	6	6	5.8		6		6
Trade in Manufactures	6.2			6					6		

Medium Term		World Bank 1990-2000				IMF 1993-6	LINK	NIER	
	Base	Downside	Low	High	Weighted Mean	Base	1993-95	1993-95	1996-99
World						3.2	3.4		
Output Industrial	2.9	2.2	1.2	4	2.6		3.0		
United States	2.5					2.4	3.2	2.0	2.4
Japan	3.7					<4.2	4.3	4.2	4.4
European Countries (West)							2.5	2.8	
W Germany						>2.1	1.9	3.2	3.1
UK						<2.1	2.7	2.8	3.1
World Trade (volume)	5.8	4.5	2.7	7.6	5.4	6	5.7	6.1	5.3

For World Bank scenarios, see Appendix

Eastern Europe (or 'the economies in transition' to use the term increasingly promoted by the international agencies, not yet abbreviated to ET) is expected to repeat the large falls in output observed in 1990, although the IMF and World Bank forecasts seem surprisingly moderate. (Their estimates for 1990 also show smaller falls than the current consensus, suggesting that their forecasts were made too early to take full account of the evidence from that year.) The falls were in industrial and agricultural production, and ranged up to 20% in the former. Although the data (past and present) remain uncertain, the basic picture of a seriously contracting industrial base seems clear. Most expect a further fall in 1992. These falls are not only because of the 'transition' to new economic systems. They are in part more conventionally explicable: the result of severe contraction of export demand, from the USSR and intra-region, and the adjustment from low to high energy costs which Western Europe made in the mid-1970s.

This combination of very short-term (trade), medium-term (the energy adjustment) and basic structural reform factors makes it difficult to know how soon growth will resume, and at what rate. UNIDO expects them eventually to grow rapidly, and the scope for better performance during a 'catching up' period, reinforced by the completion of adjustment to the short and medium term factors, would support this. The fact that expectations for eastern Germany appear already to be swinging back to greater optimism, after considerable pessimism in early 1991, is another indicator in this direction, although the funding and technical assistance available there are clearly very much greater than those for the other countries. The forecasters do not give explicit medium term forecasts for this area. Table 2 shows how quickly some countries completed their adjustment after the War, and that they tended to have periods of very rapid growth once recovery began. The IMF and World Bank forecasts for their categories of all European developing countries, including also North Africa and the Middle East for the latter, suggest that the Eastern Europeans are expected to cease to fall, but not rise exceptionally rapidly.

Table 2: Recovery Rates

(Annual growth rates, percentages)

	France	UK	US	Germany	Italy	Japan
1945	8.4	-4.4	-1.9	-30.0	-21.7	-50.0
1946	52.1	-4.3	-19.1	-42.9	31.0	8.7
1947	8.4	-1.5	-2.9	22.8	17.5	8.0
1948	7.3	3.2	3.8	18.5	5.7	14.9
1949	13.6	3.7	0.1	16.5	7.4	6.7
1950	7.5	3.2	8.5	14.4	8.2	10.3
1951	6.2	3.6	10.3	10.4	7.6	12.5
1952	2.7	-0.2	3.9	8.8	4.4	11.6
1953	2.9	4.6	4.1	8.3	7.3	7.4
1954	4.9	3.8	-1.4	7.7	3.8	5.7
1955	5.7	3.3	5.5	12.1	6.6	8.6

Source: Angus Maddison, *The World Economy in the 20th Century*, Paris: OECD, 1989.

World trade

The 1990 estimates and the forecasts suggest that trade is expanding very rapidly relative to output, especially after taking into account the large contraction in Eastern European trade. The UN notes that it was particularly Western European imports, as well as those of the NICs, which remained high in 1990, and the 1991 forecasts assume this will continue. Perhaps partly because of the uncertainty over elasticities after the 1990 performance, but also because of different forecasts for the different areas, forecasts for trade are unusually disparate this year, in particular import volume forecasts for the industrial countries vary much more than output forecasts for them. (Revised forecasts since these reports were published continue to diverge. The EIU had argued that the data available for early 1991 led it to revise its forecasts up to 3.8%, but IMF and World Bank forecasts published after this survey was written were expected to be lowered, perhaps to 1-2%.) The diversity also characterises forecasts for industrial countries' exports, and continues in 1992. With forecasts for developing country imports also varying widely (table 5), especially for the NICs, and the apparent disagreement over the relationship between manufactured trade and total trade last year mentioned in the previous section, the uncertainty for export prospects of the developing countries is much greater than that about the output of the developed countries.

The high growth of trade could be consistent with some of the structural changes discussed earlier, in particular greater globalisation and greater liberalisation of trade by the developing countries. If these are the explanations, then it is likely that elasticities will remain higher in the medium term, at least until the adjustments are completed. This would tend to lift trade in manufactures. If, however, the data on the composition in 1990 and the good performance of African trade are confirmed and repeated, then it may be the higher weight of Europe and Japan (with their higher shares of primary goods), and low growth for the US, perhaps combined with increased demand from Eastern Europe (in total and through redirection to suppliers other than other centrally planned economies) which is important. UNCTAD notes that Japanese imports of manufactures from the Asian countries, although they expanded during the 1980s, fell sharply in 1990 (p.31). The different implications for different groups of developing countries of these two possible explanations for 1990-1 performance are obviously significant.

The low recorded volume figures for developed countries' exports of manufactures in 1990 cannot be easily explained.[7] It is possible that after slowing in the late 1980s the increase in the NICs' share has resumed. The OECD's estimates for market shares, for both manufactures and total trade (pp.150-1) suggest that this is what happened in 1990, and that it will continue in 1991. In 1990, it was the non-NIC developing countries whose shares rose, but in 1991 OECD expects the NICs' increase in exports to be twice as rapid as that in their markets, at the expense of other developing countries and the OECD countries. In 1992, however, OECD expects this to be reversed. There are thus major uncertainties about how much trade will grow, which markets will grow, and whether it will be primary or manufactures exporters who will benefit most.

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[7] It could be that the high estimate for the dollar unit value of manufactures is wrong, and the volume was actually higher.

Contrary to expectations, inflation has not fallen, and may have risen in the industrial countries, and this is reflected in some of the price forecasts for international trade (table 3). OECD and NIER, however, have sharply lower forecasts, probably because of the effect of the dollar revaluation in the first part of the year. The divergence remains in 1992. This creates an unusual degree of uncertainty for importers of manufactures (and for the industrial countries' competitors in the NICs).

The different indices used by different forecasters for primary commodities have diverged seriously in 1990, making any comparison of the forecasts extremely difficult. Table 4 shows the variations. In general, the foods of interest to developing countries and tropical beverages have fallen in price, by all the measures, while other agricultural products performed less badly, perhaps remaining roughly static in price. Minerals and metals, excluding petroleum, probably fell strongly (although one of the UN indices does not confirm this for minerals). The result was a fall for those commodities of interest to developing countries of at least 6%,[8] and possibly more (according to the IMF). For 1991, the most recent data for both the UN and IMF indices agree that everything was falling, especially beverages. The forecasts (table 3) are for a further fall this year, but only a moderate one, 2-4%. This is less than had happened by the second quarter, and thus implies a substantial rebound in the second half of the year. This would be difficult to explain with the present output and trade demand forecasts. The 1992 forecasts are all for a cautious 3% rise. Only the IMF ventures into the medium term, but it expects a recovery in primary prices relative to other goods, with a growth of 6%. This would still not, however, recover the ground lost in 1990-1. The World Bank (giving a picture, not numbers) expects a rise in the real price from this year through the medium term, although not a recovery beyond the mid-1980s level.

Oil prices and the influences on them are discussed in detail by the major forecasters. The World Bank gives a range of $15-25 for the short term, and lists some uncertainties for the medium term, before settling on a rise of 3% in real prices for its base forecast. (Its forecast a year ago was 2% for the most similar scenario.) The Asian DB expected the price to hold at $20 this year, by means of OPEC restraint on production. This has already been proved wrong. Other early forecasters also failed to expect the observed weakness of the price during 1991.

The most extensive discussion of medium-term prospects for the oil price is in the UN forecast, although it does not have a complete medium-term projection. It devotes a chapter to recent changes in production and in supplier in order to give a structurally-based forecast for the price in the 1990s. It is pessimistic about the prospects for supply relative to demand, and therefore supports (as it has in the past) managing oil trade, in contrast with its liberal position on all other trade, and in spite of the fall back in prices after the Gulf Crisis. Like USSR economists, it places much weight on the fall in USSR production, which it describes as 'drastic', although on the numbers it quotes it was only 2.4% in 1989 and 5.3% in 1990 (p.100). (It does not use similar language to describe a change in UK production of 5% in 1990.) It estimates that exports fell 10% in 1989 and 5% in 1990, but as price rises in dollars

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[8] The exception is the erratic UN index which neither the UN nor UNCTAD appears to believe: the UN ignores it; UNCTAD quotes an even higher result 'based on' it on p.6 in its table of forecasts, giving a rise of 2.5%, but gives -6% in the text 20 pages later.

Table 3: Prices and interest rates
percentages

1991	OECD	WB	IMF	UN	AsDB	UNCTAD	LINK	NIER	EIU
Consumer Prices	4.5		4.8	5.5	4.4		3.5	4.3	5.4
6 Months LIBOR	6.75		6.7	7	7.8				6.5
6 Months LIBOR Deflated	2.6	4.3	3.0	2					
Prices US$									
Manufactured Exports	0.4	8.2	8.3	-6	4.0	5.4	1.8	-0.9	2.0
Oil	-13.6	-32 to +14	-22.1		-9.3			-16.3	-14
Oil (real)	-13.9	-37 to +5	-28		-12.8			-15.5	-16
Primary Commodities	-2.6		-2.7		-0.4	-3.7			-4.3
Food	-3.3		-1.4			-5.7		-6.3	
Tropical Beverages	2.2		3.1						
Agricultural Raw Minerals	1.9		0.7			-1.6		-5.0	
Minerals, Ores, Metals	-1.1		-6.0			-0.2		-11.1	
Developing Countries Exports	-2		1.4	1.2					
Developing Countries Imports	1		4.1	6.3					
1992									
Consumer Prices	4.0		3.9	4.5	4.2		3.4	3.8	4.8
6 Months LIBOR	6.75		7.0	7.4	8.2				7.5
6 Months LIBOR Deflated	3.0		3.0						
Prices US$									
Manufactured Exports	1.1		3.6		1.1	4.5		-0.6	4.0
Oil	-0.5	0	4.1	6	2			5.9	2.6
Oil Price (real)	-1.6		0.5		0.9			6.5	-1.3
Primary Commodities	2.7		3.2		3.0	3.5			
Food	3.3		5.2			4.4		0	
Tropical Beverages	2.6		6.0						
Agricultural Raw Minerals	2.6		5.5			1.7		1.1	
Minerals, Ores, Metals	1.5		-2.2			3.8		0.8	
Developing Countries Exports	2		3.6						
Developing Countries Imports	2		3.2						

Medium Term	World Bank 1990-2000					IMF		LINK	NIER	
	Base	Downside	Low	High	Weighted Mean	Base	A	1993-5	1992-5	1996-9
GNP Deflator	3.6	4.3	5.0	3.8	4.1			3.2	3.7	3.5
6 Months LIBOR	7.5	9.5	13.3	6.0	8.7					
6 Months LIBOR Deflated	3.7	5.1	7.9	2.1	4.5	3.3	2.3			
Prices US$										
Manufactured Exports	3.9				4.6	4.0			3.5	4.3
Oil	7.0					4.0			5.7	6.1
Oil (real)	3.0	0.9				0.0			2.1	1.7
Primary Commodities						5.9				

A: Lower saving

For World Bank scenarios see Appendix

Table 4: Data on Primary Commodity Prices
(% changes)

UN, Monthly Bulletin of Statistics, 1988 = 100		1989	1990	1991 Q1/ 1990	Average April and May/1990	1991, 1st half/1990	June 1991/1990
PRIMARY INCL OIL	TOTAL	2.9	9.7	-10.1	-14.6		
	INDUSTRIAL COUNTRIES	2.2	5.4	-2.1	-7.2		
	DEVELOPING COUNTRIES	3.3	11.1	-14.3	-17.9		
PRIMARY EXCL OIL	TOTAL	0.0	4.4	0.0	-5.3		
	INDUSTRIAL COUNTRIES	2.1	4.2	0.0	-5.0		
	DEVELOPING COUNTRIES	-2.5	0.0	1.3	-3.8		
FOOD	TOTAL	0.0	1.1	0.0	-6.3		
	INDUSTRIAL COUNTRIES	1.1	4.3	0.0	-6.1		
	DEVELOPING COUNTRIES	-4.0	-4.2	-2.9	-6.5		
BEVERAGE CROPS		-13.9	-11.3	-1.8	-6.4		
AGRI NON FOOD	TOTAL	-2.0	2.0	-2.0	-5.0		
	INDUSTRIAL COUNTRIES	0.0	1.0	-2.8	-5.7		
	DEVELOPING COUNTRIES	-5.4	1.1	1.1	-4.5		
OIL SEEDS		-8.8	-6.0	0.0	-1.9		
MINERALS	TOTAL	5.1	14.5	-15.5	-19.0		
	INDUSTRIAL COUNTRIES	5.7	14.9	-3.5	-7.6		
	DEVELOPING COUNTRIES	3.5	16.9	-17.4	-21.7		
MINERALS EXCL PTRLM	TOTAL	8.8	13.8	6.1	1.0		
	INDUSTRIAL COUNTRIES	7.4	12.6	6.1	0.5		
	DEVELOPING COUNTRIES	14.1	14.6	6.9	2.9		
NON-FERROUS METALS	TOTAL	-4.6	-9.7	-8.0	-12.9		
	INDUSTRIAL COUNTRIES	-7.3	-8.7	-7.8	-12.9		
	DEVELOPING COUNTRIES	0.0	-11.4	-8.9	-12.9		
IMF, International financial statistics, 1985=100							
PRIMARY EXCL OIL	TOTAL	-0.5	-7.9	-4.1	-5.0	-4.6	-5.2
	INDUSTRIAL COUNTRIES	0.7	-8.3	-6.2	-6.3	-6.3	-6.4
	DEVELOPING COUNTRIES	-2.2	-7.3	-1.1	-3.3	-2.2	-3.5
FOOD		3.0	-8.6	-1.8	-2.0	-1.8	-1.2
BEVERAGES		-16.8	-12.5	-1.2	-6.9	-5.0	-12.4
AGRI RAW MATERIALS		-2.8	-4.3	-5.1	-4.9	-4.3	-0.8
METALS		2.4	-9.3	-7.1	-9.0	-8.8	-13.4
UN, World Economic Survey, 1985=100							
PRIMARY EXCL OIL		0.0	-5.9				
FOOD		5.9	-6.2				
TROPICAL BEV		-14.6	-11.4				
VEG OILSEEDS AND OILS		-11.5	-12.9				
AGRI RAW MATERIALS		0.0	6.2				
MINERALS AND METALS		0.0	-9.1				
UNCTAD, Trade and Development Report							
ALL PRIMARY			15.1				
NON-FUEL PRIMARY			2.5				
FOOD			1.1				
AGRI NON-FOOD			2.0				
MINERALS EXCL FUELS			20.4				
FUELS			26.4				

were 17% and 22% in those years, and its 1991 price forecast remains (at $18) 30% above the 1988 level, the concern for USSR export revenue seems surprising. It is not clear why it expects 50% cuts in exports in the future, particularly if higher domestic prices (as the USSR adjusts to world prices) reduce domestic demand. As it is possible that foreign technical assistance and investment could improve supply, even if the increased price does not, the export forecast could prove low.

The UN forecast of a growth of 2% for world consumption, with 3-4% outside the industrial countries, in the 1990s does not seem to allow for any fall in USSR or Eastern European consumption, which is not consistent with what happened in other industrial countries during their adjustment to higher prices in the 1970s. On its figures for the 1980s, it appears that there was very little change in world production, combined with an increase of more than 50% in proved reserves, which might suggest less pressure for price rises in the immediate future either because of fears of shortage or to stimulate exploration.

The IMF (p.21), rather than treating its numbers for oil as 'assumptions', claims to be making its first 'forecast' for the oil price (although its shift from forecasting flat dollar prices to flat real prices in the early 1980s presumably reflected some element of judgement). For the short-term, 12 months, it uses the futures market price, giving $17.87 for 1991 in the forecast made in March and published in May. Beyond that it goes back to a constant real price forecast. In a recent write up of its forecasting model, it suggested that it assumed that the price was set by OPEC, but here it does discuss demand and supply conditions in the medium term to justify its forecast. It expects (p.84) consumption to rise less than the 2.5% p.a. observed in the past, because of conservation in industrial countries and increasingly in developing, with only slow growth in Eastern Europe, giving only 1.5% for the world. It describes USSR production as 'uncertain', and suggests that the fall could be halted, at least in the short-term. It sees considerable scope for increased OPEC production. In the light of all this, price rises could be restrained.

Thus, neither the restructuring of Eastern Europe, with its consequences for the demand and supply of fuels there and in the Soviet Union, nor the demonstration of Middle East political risks seen in 1990, has significantly changed expectations for the oil price in the medium to long term from those in last year's pre-invasion forecasts (except possibly for the World Bank).

Trade by the developing countries

UNCTAD (p.37) is pessimistic about the prospects for their manufactures: 'the era of double-digit growth of exports of manufactures, which reached its peak in 1988, has seemingly come to an end. Exports of food and beverages, on the other hand, grew dynamically.' (Table 6, reproduced from the UNCTAD report, shows the data which support this.) The change is affecting the traditional NICs particularly strongly, because, it argues, importers are transferring sourcing to the new NICs. In contrast, the UN emphasises that the Asian countries as a whole, now including the South Asian, are becoming increasingly dependent on manufactured exports (p.40), and suggests that the NICs are deliberately reorienting more to domestic demand, with the new NICs of South East Asia following them along this route.

The uncertainty over manufactured trade in 1990 and the apparent revival of the NIC exports in the first part of this year make both what is happening, and the explanations for it very uncertain. The UNCTAD table, however, does support earlier evidence from the mid-1980s that the exceptionally rapid growth of developing country exports of manufactures relative to the total, which only began in the mid-1970s, appears to have ended. It is apparently agricultural exports which are coming up as leading sectors.

UNCTAD notes the increase in the share of manufactures in Africa's non-fuel exports, but it is still small, and largely concentrated in a few products (p.39). The African DB points to one good result of this: the low elasticity of demand for African exports should mean that they suffer relatively little during the recession (p.39), so that it expects only a small slowing of demand in 1991. UNCTAD, in contrast, in spite of its arguments, expects growth to fall from 7.5% to 2.5%, while demand for both Asian and Latin American exports rises. The fall for Africa is much greater than the fall in world trade, and African exports rise only slightly when trade revives in 1992. There is no explanation of this contrast between the forecast and the discussion of trends.

The Asian DB expects a slowing in Asian export growth in 1991,[9] but only in line with the change in world trade (p.48). It does expect some fall in the trend rise in exports to industrial countries in the 1990s because of increased protection, but believes that this will lead to increased intra-Asian trade.

The World Bank expects Asian exports to remain the fastest growing in the medium term, and African the slowest, still at well below the growth of world trade. The IMF has a similar pattern, but higher numbers, in line with its higher expectations for world output.

Latin American exports are expected to continue to do badly relative to world trade: this can be explained by poor demand in the US or lower shares of manufactures than in the NICs; the poor 1990 performance is not expected to continue.

Because of the greater pessimism on their immediate prospects this year, most forecasters do not consider the effect of Eastern European countries on the trade prospects of developing countries. If, however, they do grow unusually rapidly, this could have implications for demand and later as competitors. The UN also points out (p.121) that their shift to market systems, and potential changes in their trading systems will make trade with them administratively easier. This could be an impulse to developing country exports. It plays down their potential risk as competitors.

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[9] The Asian DB forecasts for trade only give value changes not volumes, and are therefore not in the table.

Table 5: Export and Import Volume, Developing Countries

percentages

	OECD	IMF	UN	UNCTAD
1991				
Exports	3	1.8	3.2	4.5
Oil exporters	-1	-1.7		-2.5
Non-fuel exporters		3.5		
Africa	3	2.8		3.5
Sub-Saharan		4.9		2.5
Asia	7	3.2		7.5
NICs	5	1.5		7.0
Western Hemisphere	3	7.1		4.0
Imports	5	6.5	4.0	7.0
Oil exporters	6	6.2		8.0
Non-fuel exporters		6.6		
Africa	3	-1.4		3.0
Sub-Saharan		-0.9		2.0
Asia	6	6.0		9.0
NICs	8	3.5		9.0
Western Hemisphere	2	3.6		3.0
1992				
Exports	5	5.9		7.0
Oil exporters	5	6.0		8.0
Non-fuel exporters		5.8		
Africa	4	3.2		3.5
Sub-Saharan		4.4		3.0
Asia	7	6.3		8.0
NICs	6	5.8		7.5
Western Hemisphere	4	4.3		4.0
Imports	6	6.4		8.5
Oil exporters	9	11.0		13.0
Non-fuel exporters		5.3		
Africa	4	3.4		3.5
Sub-Saharan		2.6		2.5
Asia	8	5.8		9.0
NICs	7	5.9		9.5
Western Hemisphere	3	7.5		6.0

Medium Term	World Bank 1990-2000				IMF 1993-5
	Base	Downside	Low	High	Base
Exports	6.1	4.7	2.4	8.3	6.9
Africa					3.4
Sub-Saharan	3.0	4.1	2.1	6.9	
Asia					7.7
South	6.6	5.0	2.6	9.0	
East	7.7	6.1	3.3	10.1	
Western Hemisphere	5.0	3.8	2.1	6.9	4.9
Imports	5.9	8.2	1.8	8.2	6.4
Africa					5.3
Sub-Saharan	3.2	2.4	1.8	8.2	
Asia					7.1
South	4.4	2.8	0.0	7.0	
East	7.1	5.5	2.5	9.5	
Western Hemisphere	5.6	3.8	1.0	8.4	4.8

For World Bank scenarios see Appendix

Table 6: World Exports and Exports from developing countries, by major product group, 1980-1990

Percentage change in volume

	1980-1990 (Average)	1988	1989	1990[a]
World exports				
All products	4.0	8.5	7.0	4.3
Manufactures[b]	5.5	9.5	7.5	5.0
Food and beverages	5.7	3.0	3.5	6.0
Agricultural raw materials	4.0	1.5	6.0	3.5
Minerals, ores and metals	0.5	-13.0	11.0	8.0
Mineral fuels	0.6	6.0	3.0	0.5
Exports from developing countries				
All products	4.3	11.3	7.2	5.0
Manufactures[b]	12.0	16.4	7.5	5.5
Food and beverages	5.8	3.0	2.0	8.0
Agricultural raw materials	3.2	5.7	8.0	6.5
Minerals, ores and metals	1.5	-7.0	5.0	3.0
Mineral fuels	0.0	12.0	11.0	4.0

Source: UNCTAD secretariat, based on data from UNCTAD, *Commodity Yearbook*, and United Nations Statistical Office, *Monthly Bulletin of Statistics*, various issues.

a Estimates, partly based on import data of developed market economies.
b SITC 5 to 8 less 68.

Output of developing countries

The forecasts for both this year and next (table 7) are very cautious, with most around 3-3.5%, and some lower. A recovery to 4.5 to 5% is expected next year, but the medium term forecasts remain under 5%, except for those derived from developing countries' own forecasts under the LINK system. This is not, however, very different from the medium term expectations of a year ago, The slowest growing area in the current year is again expected to be Latin America, with the UN (and others) suggesting that inflation remains the major obstacle there to a more growth-orientated strategy, and the long-forecast recovery postponed to 1992. This has now been reduced; it is expected to be only to about 3%. UNIDO is now more cautious for next year as well, with the need to restructure expected to continue. In the medium term, both the IMF and the World Bank now expect it to grow only slightly faster than Africa.

Table 7: Output in Developing Countries
percentages

1991	WB	IMF	UN	AsDB	UNCTAD	LINK	UNIDO
All	3.1	2.2	3.5	3.4	2.9	3.5	3.4
Oil Exporters		-1.5	3.0	-1.0		5.1	3.5
Non-fuel exporters		3.3	3.0			1.9	
Africa		2.0	3.0	2.9	3.8	2.7	
Sub-Saharan	2.3	2.3	3.0			3.1	2.9
Asia	5.0	5.0	5.5	5.7	4.1	5.8	5
NICs	5.7	5.7		6.3			6
Western Hemisphere	1.1	1.0	1.5	1.4	1.6	2.2	2.3
1992							
All	4.3	4.8	5.0	4.7	4.6	5.4	4.1
Oil Exporters		7.9	7.0	4		6.1	3.2
Non-fuel exporters		4.0				4.7	
Africa		4.8	3.0	2.5	2.8	3.2	
Sub-Saharan	3.0	3.7				3.4	
Asia	5.5	5.2	6	6.0	5.9	6.4	6
NICs	6.2	5.8	6	6.2			7.4
Western Hemisphere	2.8	3.3	3.0	3.8	3.7	3.5	2.6

Medium Term	World Bank 1990-2000				IMF			LINK
	Base	Downside	Low	High	Base	A	B	1993-5
All	4.9	4.1	2.9	6.5	4.9			5.7
Africa					4.1	3.4	3.2	3.0
Sub-Saharan	3.6	3.5	2.8	4.4				3.1
Asia					5.3	5.1	5.0	6.7
South	4.7	4.2	3.3	6.5				
East	6.7	5.6	3.9	8.8				
Western Hemisphere	3.8	3.1	1.9	5.3	4.4	3.7	2.7	4.5

For World Bank Scenarios see Appendix

A: Lower saving B: Lower saving and lower productivity

Africa is still expected to continue to grow at about 3%, the rate of population growth, perhaps slightly below this year and above next; the IMF has a much higher forecast for next year and the medium term. It suggests that the poor performance this year and last was for a variety of special factors, including the temporary rise in oil prices. This was not only an additional cost for the oil importers, but the disruption also damaged the planning and adjustment process, (p.41); the inflationary effects are still passing through the system because of rigidities; it also cites the loss of migrant income and the need to accommodate the returning migrants. Other difficulties were the decline in non-oil prices and poor agricultural production. It is apparently because it expects these influences not to continue (and perhaps in particular because of the rise which it expects in the real price of primary commodities beginning this year) that it has a higher forecast for next year and the medium term than it had in the past or than other forecasters have now. UNIDO also expects more stable prices and in consequence a better performance, but not a strong recovery. It argues that Africa cannot have 'sustained economic growth' until 'it acquires a much broader economic base than the traditional agriculture and a few primary commodity exporting industries'. It needs to renew the impulse towards industrialisation of the 1970s and 1980s.

UNCTAD and the UN also implicitly take this view in their forecasts, in spite of their discussion of changing composition of exports, and growing role of agricultural exports. In the recently published UN document on the *Economic Situation in Africa*, it is argued that internal reform is not sufficient without increased resources.[10]

The possible removal or alleviation of South Africa's destabilising effect could improve Africa's prospects, although it could also of course emerge as a potential competitor.

Asian growth, although falling, remains much higher than that in other areas, and is expected to continue to do so This applies to all of the areas into which the forecasters divide it: the NICs, the South Eastern new NICs, South Asia (centred on India), and China. Whether by choice or necessity, most forecasters agree that the NICs are shifting to greater dependence on domestic demand than on exports. South Korea, according to the Asian DB, UNIDO, and also Korean forecasters, has been worst hit by low external demand, but its exports are now recovering, and its performance in 1991 has been better than expected. Taiwan, however, which UNIDO expects to need to make the same transition as South Korea, had very poor exports in the first part of the year; this may be because of 'export-substitution', investment abroad replacing exports: the type of restructuring of trade and investment discussed in the section on globalisation in section 2. As the investment has been apparently mainly to produce goods for export from there, the effect on total world trade is not necessarily to lower it (particularly if Taiwan exports the inputs or machinery with which to produce the exports), but it does require a restructuring of the domestic economy. Although Singapore has also been temporarily hit by low world demand, it is not expected to make the same shifts as Korea or Taiwan.

Slower growth during a period of transition to a new structure of demand could be one justification for the slowing of growth expected for the NICs in the medium term. At least in the recent past, and at present, it has been accompanied by high import demand, again suggesting that domestic demand is picking up. What is a shift to domestic demand for the NICs may therefore represent a trading opportunity for other Asian countries, and thus possibly a counter-influence for them to a slower growing world demand.

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[10] The continuing poor performance of both Africa and Latin America poses presentational problems for those agencies which are lenders and mobilisers of donors as well as analysts. The World Bank Vice Presidents for Africa and Latin America, in the same week in September, criticised commentators on their respective areas (the UN report on Africa) for not presenting a positive view of those countries which had followed good policies and used assistance effectively: they were causing an 'image problem'. Clearly, if assistance is to be justified by results, not need, and the policy conditions attached to it are to be considered appropriate, there is a temptation to consider stressing lack of success unhelpful. And the type of generalisation about African and Latin American failure which World Bank officials were themselves making a year ago was criticised then for creating an image of continuing failure. But apparent reluctance to allow other agencies to cite failure could lead to suspicions of the Bank's own published forecasts.

The forecasters which give separate figures for the South Asian countries, notably UNIDO and the Asian DB, expect some slowing, because of restrictive policies in India to counter its balance of payments and fiscal deficits, but with recovery by next year. China is expected to continue its recovery from the 1989 restraint and low growth this year and next. The Asian DB points out that both industrial and agricultural production are recovering, and its export prospects, intra-area and in substitution for NIC exports, are clearly favourable.

The IMF view of the direction of change of Asian output is unclear because it refers to an increase in growth to 5% in 1991-2 (p.16), while its estimate for 1990 was 5.3%; it expects the 'recovery' to be derived from better export demand. This must be the result of high growth by the non-NICs, and imply growing trade demand from within Asia, not at world level; it expects high import demand to continue in the medium term. UNCTAD also expects intra-Asian trade to remain strong, and this is one of the explanations of its optimism about the new NICs.

Although the IMF explains the failure of Africa or Latin America to achieve the 5-year medium-term forecasts it made in 1986 as the result of failure to achieve the assumed adjustments on policies, its forecasts for Asia were consistently too pessimistic, and this is not explained. The World Bank also expects the divergent performance of the developing countries to continue into the 1990s in its medium term forecast, without any particular explanation for the continuing good Asian performance.

Although the forecasters do not emphasise the point, the Asian economy does seem to be evolving increasingly independently of either trading or investment impulses from the rest of the world. As its output expands, in particular in the countries which are now middle-income, it may itself affect the rest of the world. One route, perhaps especially in the near term, is through demand for primary products as the next generation industrialises. But this semi-independent expansion is happening not because of either deliberate policies within the region to exclude other trade or, so far, because it is itself being excluded from other regions (although the Asian DB sees increasing risk of this). It is more what earlier development language called a case of a growth pole (or more than one), but without the rigidity or permanence implied by 'regionalism'. It may be more useful to look at it as being in the tradition of earlier trading areas which have often centred on an ocean or sea because by offering low and constant transport costs it can make the simplest link in the absence of stronger ones. Like the North Atlantic in the nineteenth century (or the Mediterranean or even Aegean going further back) it need not rely on formal exclusion of other participants, although this can develop. Because it is based only on a weak link, it is unlikely to be permanent if other groupings among some of its participants or between some Pacific countries and others with which they have non-geographical links emerge.

Official capital flows

The diversion of funds to Eastern Europe, which was greatly feared in 1990, has not yet been significant on the part of multilateral agencies, although the UN notes that it could become a major problem in the event of a more serious political or economic crisis. Commitments, however, particularly bilateral ones by the European countries, are potentially high, estimated by the UN at about $86 billion (p.118) over the period to 1993, even if flows are much less. The UN argues (p.126) that even if there has not been formal diversion, and even if some of the resources allocated so far to Eastern Europe would not have been made available by bilateral donors to increase their aid to developing countries, over the medium term, any unexpected demands would have to come from finite aid budgets, and the multilateral agencies in particular could not (except through World Bank fund-raising in the markets) raise additional funds. There still tends to be a more demand-orientated approach to official estimates of what flows of funds are 'required' by Eastern Europe and the USSR than developing countries now expect to be able to use, although the recent UN document on Africa giving the requirements to achieve 6% growth was in the traditional line. Although some commentators, even within the multilateral agencies, seem more tolerant to such an approach from Eastern Europe, it would probably be a mistake to assume that the numbers derived from such exercises will be treated as realistic targets.

In 1991, it is likely that assistance to Gulf-affected countries caused more significant diversion of other funds, notably from the US and other countries to Egypt and in emergency aid to the poorest countries. The UN also notes (p.76) that the IMF disbursements to support countries hit by the Gulf Crisis were treated as part of Fund adjustment programmes, not as unconditional finance for countries in temporary difficulties: 'it is a reminder of how far the Fund has come from the original concept since abandoned, of support to countries caught in a temporary terms-of-trade squeeze through low-conditionality, rapidly disbursed resources.' (p.76). The World Bank was not able, as has proved true also in natural disasters, to provide a substitute quick disbursing funding. Its 'quick' aid to Yemen was apparently made available in June, although Jordan had received funds earlier.

It is noteworthy that the UN has joined even more openly than last year both bilateral donors and bank creditors as a critic of Fund lending policies. The Fund has not only lost the traditional functions of securing short-term adjustment, whether through simple finance, or short-term adjustment policies. The refusal to accept rescheduling or debt forgiveness for its own credits meant that first the banks, now bilateral agencies, through the accumulation of credits programme (under which bilateral lenders lend more money until a country is deemed to have re-earned the right to borrow from the Fund) effectively see themselves as being required to use their funds to repay the Fund. With the Fund expected to provide no new net finance over the medium term, it is not clear what motive either other lenders or the borrowing countries now have to carry on supporting it.

Total official flows are expected to grow slowly in the medium term, by less than developing countries' export earnings as the World Bank notes (p.38-9). The comparison can be made in a different way. Official flows are expected to grow more slowly than the average, as are both the volume and prices of the exports of the African and other primary producing, low income countries, to which most such flows go. Thus the divergence between low and middle income developing countries will be reinforced on the capital side. UNCTAD (p.50) also points out that many of the most indebted or low income countries in Africa and Asia can still obtain official export credits only on restrictive terms.

The World Bank forecast is for a 5.3% value growth in official flows, with the growth depressed by the absence of new net growth in IMF lending. This is less than 1% in real terms. In 1990, official aid rose 1%.[11] Bilateral aid fell slightly. Bilateral flows are not expected to grow faster than output in the industrial countries. Some multilateral agencies, notably the IFC and some of the area development banks have seen their capital increased in the last year. The World Bank does not expect itself to be able to increase its funding significantly on IBRD or IDA terms. The UN notes that OPEC and Eastern Europe will no longer be significant donors, particularly with diversion of OPEC funds to the reconstruction of the Middle East economies damaged by the Gulf War. The USSR is indeed now trying to secure repayment of previously disbursed funds.

Two other influences could alter the distribution of public sector funds in the medium term. Tying aid to the type of regime or to environmental conditions could alter inter- or intra-distribution of aid.

Private capital flows

These may grow more rapidly than official: the World Bank forecasts that both loans and foreign direct investment will do so, at 42 [*sic*] and 10% p.a. 1990-5, although it estimates that both fell in 1990. With lower growth for grants, this gives an average of 14% or about 10% in real terms. BIS data do suggest that new lending to non-OPEC developing countries has exceeded repayments since mid-1990, although high repayments in the first quarter kept the total figure for 1990 negative. This was not diversion to Eastern Europe: it and the USSR continued to repay until the end of 1990, with only the USSR starting to receive funds in early 1991, or to the Middle East, which was making deposits from the temporary increase in oil revenues. The growth and export revenue forecasts given here do not, however, offer evidence on the basis of which to expect substantially increased private investment, even with official support.[12]

At a more aggregate level, the concern of the World Bank in particular about the aggregate supply of global savings is an additional reason for caution about the supply and cost of funds to all areas, but to developing countries in particular. UNCTAD, however, stresses in a special section on finance the fragility of the data, rather than the financial system, and the need to improve the functioning of markets and the financial system (points supported by analyses in the Asian and African DB reports).

UNCTAD expects only a small increase in private direct investment, and although it has noted the increase in lending to some countries, doubts if this will be of major importance. It stresses rather the still restrictive terms of lending to most developing countries. Again, this low lending is not because of any increase, actual or expected, to Eastern European economies, given their present economic condition. The only exception is German investment

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[11] OECD Press Release 1 October 1991. This figure excludes the $1.2 billion of write-offs of military debt which the US asked OECD to include as aid.

[12] The World Bank encouragingly reports a 44% increase in applications to its MIGA investment guarantee facility. It actually guaranteed almost three times as many contracts as in the previous year, but in real numbers this was an increase from 4 to 11. with a total value of $59 million dollars, 0.3% of its estimate of 1990 direct foreign investment.

to eastern Germany. If, however, as suggested in the section on their expected output, their economies do rebound rapidly at some point, then diversion could happen.

Asian countries are an exception to all of this: not only are their current surpluses expected to grow, because they have not been affected by the fall in terms of trade which has hurt the primary producers, but they are continuing to attract, as well as increasingly to supply, foreign investment, and they are able to borrow through the banks or bond markets. This reinforces the divergent performance expected on trade. If they invest in Eastern Europe, as some Korean companies at least are considering, this would not have same income effect as a diversion of foreign investment from them, assuming that the investment was efficient, although like the 'export-substituting' investment already causing problems within Asia, it could have output effects.

In the 1980s, there was a shift in the composition of capital flows to the developing countries from private to public, because private flows diminished much more. Forecasts such as the World Bank's would imply a reversal of this shift. If this does happen, however, it would create a new situation, not a restoration of the earlier position, because the division of countries between credit- and investment-worthy recipients of private funds and those which are poor enough to attract public funds is now much sharper. The longer this continues, and the more conditions about non-economic policy, macro-economic policy and the type of projects considered acceptable are imposed on the latter group, the greater the contrast between the effective international positions of the two classes of countries may become.

Debt relief

This is no longer the major preoccupation of the reports or the forecasts. This is not because there has been further relief. Lower real interest rates and a lower dollar have reduced the burden on most developing countries, even in Africa, in spite of the fall in commodity prices. But the reason for reduced attention is that it is now a long-term part of normal conditions, which does not change, is not expected to be changed, and therefore which does not affect the discussion of the forecasts. If, of course, there are major changes up or down in real interest rates this could cease to be true.

Both the UN and UNCTAD note the debt forgiveness offered to Poland in the spring as 'pathbreaking' and a 'precedent', although the creditors did not want it to be treated as such. The increasingly open criticism of the World Bank and the IMF for not accepting renegotiation of their own debts suggests a continuing perception that the question should not be neglected. The BIS continues to support more flexible treatment of official debt: creditors should offer better concessions if conditions deteriorate unexpectedly (p.149), especially if debtors are expected to pay more when they improve. It argues (p.152) that the evidence now is strongly that debt reduction does not impair debt servicing or the availability of future capital flows.

4. Conclusions

Both in their special sections and in making their forecasts, the forecasters identify a range of structural questions important for the prospects for developing countries. The most significant concern the nature and strength of the linkage between different areas' performance. Although the 1991 results are showing that the developing countries are not uninfluenced by the output and demand in the industrial countries, the recent good performance of trade by the developing countries suggests weaker links, while financial flows continue to be a serious constraint. But for one area, Asia, both types of link are clearly weak and weakening, while for Africa, both are, apparently, immutably so unfavourable that there is little effect from a recession in reducing trade or capital flows further. This leaves Latin America as the only area seriously vulnerable to changes, in both trade and the cost and supply of capital. Is this (only slightly caricatured) interpretation of the analysis of 1990 and the forecasts realistic?

There are serious uncertainties about the relationships which are the framework of all these forecasts, about the trade elasticities, in particular. The relative performance of manufactures and primary products may be changing. The terms of trade between them may be, in either direction. Real interest rates are clearly a point of contention. All these raise uncertainties which are not adequately analysed in these reports. The Eastern European effects, on demand, trade policy, and capital flows, are probably even more uncertain now than a year ago, although this seems to be less of a preoccupation of the forecasters. More because of the Reports' omissions and divergences than because of the arguments they present, the prospects for the developing countries which emerge from these reports appear much more uncertain than normal.

5. The Other Parts of the International Reports

The UN starts by identifying some key uncertainties. These include: whether slow growth in the industrial countries is deliberate, imposed in continuing caution about inflation, or unavoidable; the costs of Gulf and Eastern European reconstruction; the level of interest rates. It also raises the question of the need to reform the international system. Although its trade analysis remains basically favourable to a liberal policy, it takes a much more interventionist approach to oil prices and also to the need for the IMF to bring the 'transitional economies under the Fund's current account discipline' (p.127) to secure currency convertibility, although it also appears to support managed exchange rates. It also wants a broader power for a reformed international system in aid and the environment. The proposals are not fully thought out, or perhaps mutually consistent, but illustrate how the new problems raised by Eastern Europe are provoking new thought about existing relationships as well. But as in the other reports, these special sections are increasingly appearing as almost unrelated essays, not part of the central thrust of the analysis of the world economic situation, and not always of the same standard.[13]

The UN report now has a much more extensive data appendix than in the past. UNCTAD has special sections on the current state of the Uruguay Round, changes in the financial system, and on the supply and mobilisation of saving. The IMF also tabulates the current position of the Uruguay Round, and has sections on financial markets, financial fragility, the US deficit, and the Single European Market. The UN and the Asian DB consider environmental questions. The IMF has its usual large number of classifications for each forecast which are superficially useful for very specific users; as they are not analysed in detail in the text they seem, even if they are not, to be mechanically produced variants. The UNDP report on Human Development has modified its index of human development to give more differentiation among developed countries and to allow for income distribution.

The major change from the past is the introduction of a new separate report by the World Bank, on *Global Economic Prospects*, leaving the old *World Development Report* entirely as an essay on development. Unlike the UN, which asks as one of its questions whether there is now a consensus on what is sound development policy (p.2), the WDR offers the answers to what 'must developing countries do if the productivity and well-being of their people are to increase rapidly during the next decade? What can the international community do to spur development and alleviate poverty?' (p.1). At the end it claims that there is now agreement on policy, but its conclusions about developing country policy are basically little summaries of individual country experience. At the international level, the solutions are found in the Uruguay Round, lower real interest rates, debt relief (by all creditors except the World Bank), and stable oil markets, but the analysis does not indicate how any of these are to be achieved, economically or politically.

The problem with all these special sections and the WDR as a separate publication is to know to whom or for what purpose they are intended. Further analysis as background to particularly controversial or difficult parts of a forecast is clearly important, but views not directly tied to the forecast, and presented as neither an institutional nor a signed individual view are unsatisfactory. When the analysis is good, as much is in some of the reports, it is a pity to put it in publications with unilluminating general titles which will not be read by the appropriate specialists or policy-makers, unless by accident. The subjects and discussion are often not directed particularly at the planners or other forecasters who would read the forecast sections of the publications. The level of reader knowledge is also uncertain: some of the WDR statements of positions on development raise important arguments about the effectiveness of external or internal policy or about the degree and form of government intervention which require careful consideration, but the language and some explanations of simple terms suggest that a much more non-specialist reader is being targeted. The suggestion that the three volumes of the 1990-92 WDRs, on poverty, development, and the environment will 'provide a comprehensive overview of the development agenda' could only

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[13] It is particularly unfortunate that the UN as an official international agency allowed its section on women to include two seriously discriminatory assumptions: that all families with both a male and female adult are headed by the man (p.189) and that it is necessary, rather than traditional, for girls' education to be neglected rather than boys': 'economic realities in the developing countries often require sending boys to school while girls stay at home to care for younger children and to help their mothers in the field' (p.192).

be appropriate if they were genuine surveys of the conflicting views on the subjects discussed; the two published so far have in fact presented one set of views, without full presentation or discussion of other positions.

The special analyses also appear to divert attention from the careful forecasting which should be the structural framework of these publications. There are a variety of descriptive assumptions, and some clear inconsistencies, in this year's forecasts which suggest that too much attention was given to the much more interesting task of writing special analyses, and too little to the forecasts. Bringing them together might improve both.

Appendix

Reports Discussed

Forecasts by international institutions

African Development Bank, *African Development Report.*
Asian Development Bank, *Asian Development Outlook.*
Economist Intelligence Unit, *World Trade Forecast*, September.
European Communities, 'Annual Economic Report', *European Economy*
International Monetary Fund, *World Economic Outlook*, (April issue)
LINK, *Project LINK World Outlook*, University of Pennsylvania and UN.
NIESR, *National Institute Economic Review*, (August issue)
Organisation for Economic Co-operation and Development, *OECD Economic Outlook*, (June issue)
UN, *World Economic Survey.*
UNCTAD, *Trade and Development Report.*
UNIDO, *Industry and Development Global Report.*
World Bank, *Global Economic Prospects and the Developing Countries; World Development Report.*

Other reports used

Andean Pact, *Economia Andina.*
Bank for International Settlements, *Annual Report.*
Institute for Economic, Market Research and Informatics, Hungary, *Economic Trends in Eastern Europe and the World Economy.*
GATT, *International Trade.*
Japan Center for Economic Research, *JCER Report.*
Korea Development Institute, *Quarterly Economic Outlook.*
UN Development Programme, *Human Development Report.*

Definitions and Country Groups

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

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

The definitions of the World Bank Scenarios are given on p.33, copied from World Bank, *Global Economic Prospects*.

Table 4.1 Characteristics of four scenarios of global economic conditions for the 1990s

Clusters of characteristics	*Low case* (15 percent)	*Downside* (30 percent)	*Baseline* (40 percent)	*High case* (15 percent)
Finance	Serious financial crisis in the United States and Japan with "contagion" effects worldwide and long-term ramifications (Box 4.1); widespread defaults by highly indebted developing countries; very little net inflow of capital to developing countries; very high real interest rates reflecting extreme uncertainties.	Continued financial stress in the United States and Japan, with unchanged policies; many bank failures; lack of further progress of Brady Plan; high real interest rates continue mainly because of the perception of serious risks by markets and a growing shortage of global savings relative to investment needs; little growth of foreign direct investment worldwide.	Gradual reduction in financial stress in the United States and Japan as reforms are introduced to revitalize investment and banking institutions; Brady Plan makes progress as remaining major debtor countries are included; real interest rates fall somewhat despite high demand for capital in Europe and Japan, and productivity improves gradually; foreign direct investment flows grow more rapidly but some developing regions are bypassed.	Global financial reforms make the system much more robust; financial integration continues unabated while systemic risks are reduced through regulatory changes; real interest rates decline to pre-1980s levels as risk premia are reduced and as a lengthening of time horizons creates ample savings; a new, more comprehensive debt initiative combined with a sharp increase in foreign direct investment brings about a significant rise in net resource flows to developing countries.
Trade	Trade "war" among major trading blocs (Europe, North America, and East Asia); GATT framework collapses as high barriers bring a much-reduced growth in the volume of world trade.	Failure of GATT trade negotiations leads to increased protectionism worldwide; growth of world trade slows relative to that of the late 1980s, particularly interbloc trade. Now new free-trade initiatives.	GATT negotiations achieve modest success; tariffs and nontariff barriers are lowered; both inter and intrabloc trade grow relatively rapidly, reflecting fundamental trends; but agricultural trade remains protected. New free-trade initiatives lack force and are symbolic only.	GATT negotiations succeed in bringing about a new and more liberal trading system covering goods, services, and agricultural commodities; regional trade arrangements reinforce the global trade-creating forces under a new world trade organization.
Energy	Big swings in oil prices around a high level, because of continued political and social instability in the Middle East, while the region becomes a more predominant supplier of oil. Relative decline in the monopoly power of conservative forces in OPEC.	Persistence of high oil prices in the early 1990s because of political uncertainty in the Middle East, but relatively flat and stable path (compared with low case).	Oil prices rapidly return to prewar levels and then rise at a steady pace reflecting market fundamentals; moderate fuel conservation measures gradually exert downward pressure on international oil prices.	New political arrangements in the Middle East combined with cooperation between producers and consumers and bold new environmental initiatives lead to persistently lower international oil prices.
Policy	The G-3 countries fail to agree on macroeconomic policy goals; the policy dialogue established in the 1980s collapses; extreme uncertainty about global inflation and exchange rates among G-3; large number of developing countries fail to implement extended reforms; only a small fraction of developing countries continue with intended policies.	The G-3 countries cooperate only to avert crisis but fail to stabilize excessive volatility in financial prices; U.S. fiscal deficit becomes major source of uncertainty; payments imbalances within the OECD persist or reemerge; OECD remains a net capital importer; many developing countries attempt to stabilize macroeconomic conditions and introduce reforms but the pace of progress is slow, with many setbacks.	Improved cooperation among the G-3 countries; gradual but steady decline of balance of payments imbalances and less volatility in financial prices; low G-3 inflation remains an anchor; improved exchange rate stability; most developing countries manage to implement intended policies, particularly countries that experienced little or no growth in the 1980s.	Policy coordination among the G-3 countries on fundamental monetary reform leads to far less volatility in financial prices, especially exchange rates and interest rates; pace of supply-side reforms in both industrial and developing countries accelerates; most developing countries implement intended policies or initiatie new programs for development.

Note: The percentage in parentheses associated with each scenario refers to the subjective probability of occurrence.