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GLOBAL ECONOMIC TRENDS AND PROSPECTS

A note by the UNCTAD secretariat

Unedited version

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A. Introduction

The performance of the world economy in 2002 has fallen short of expectations at the beginning of the year. Hopes of a rapid recovery in major industrial economies have proved over-optimistic, and the current outlook is again dominated by downside risks (table 1). The period since the publication of *TDR 2002* has been notable for further sharp declines in stock prices, reflecting not only uncertain economic prospects but also scandals involving accounting and corporate governance in the United States. Increased political instability in the Middle East with an unpredictable impact on oil prices has added to uncertainty about prospects for the world economy.

At a global level after three quarters of sluggish growth in 2002 and diminished expectations for 2003, many observers now believe that new policy stimuli will be needed in industrial countries to overcome the current sluggishness in economic activity and to avoid a second recessionary dip. Developing countries as a whole have done slightly better, with growth holding up in Asia and in transition economies. Many countries in Latin America, however, are facing recession. Despite a few bright spots, growth in Africa generally remains well below the levels needed to attain the internationally agreed targets for poverty reduction.

However, beyond these conjunctural issues lie some longer-term imbalances and structural weaknesses which, experience shows, faster global growth can alleviate up to a point but does not solve. Outstanding amongst these problems are systemic financial instability and vulnerability to financial crises which have been accentuated by progressive financial liberalization unaccompanied by the development of appropriate institutions and rules for global governance. Other longer-term imbalances and structural problems that affect developing countries include the chronically unequal distribution of private capital flows; the stagnation of ODA; cumbersome and inadequate arrangements for reducing the debt of low- and middle-income countries; continuing low prices for most primary commodities; restrictions on access to markets in developed countries for goods of export interest to developing countries; and excessive dependence on capital inflows for certain countries whose economic policies are in consequence often excessively focussed on ensuring the continuation of such inflows at the expense of broader development objectives.

B. Developed countries

The expectation that the recovery in the United States would be rapid was based on the idea that the downturn had been shallow, and was reinforced by the strong rebound in inventory investment in the first quarter. However, recent statistical revisions show that the United States recession in 2001 was deeper than originally reported, and the inventory bounce-back has not fed into a broader profit-led investment recovery. Indeed, the evidence suggests that the United States economy may in fact be experiencing a W-shaped cycle.

Growth in the United States economy continues to be supported by consumer spending despite the sharp drop in household wealth resulting from declines in equity prices and the increased uncertainty created by falling employment levels. Tax cuts temporarily boosted the disposable income of private households, and special incentives have given a stimulus to spending on some big consumer items such as cars. But with the growth of real labour compensation sluggish, the savings rate still very low and consumer indebtedness high, growth of consumption substantially in excess of that of wages witnessed in the last years of the boom cannot be expected in the near future. Much of the remaining strength of private consumption is based on rising house prices which may prove precarious. Falling mortgage rates are still freeing resources for increased private consumption but, with long-term interest rates now low, not much additional stimulus to demand can be expected from this source. Were consumers to succumb to the recent signs of a further worsening of the job market and political uncertainties, the increased government spending might not be sufficient to keep the economy from dipping back into recession for the second time in the new millennium.

The business sector in the United States also labours under conflicting pressures. The economy is burdened with idle capacity, mainly in manufacturing and, as a result, overall investment is unlikely to fully recover quickly. Much of the accounting fraud and corporate mis-governance took place in the telecommunications sector that had already suffered from the collapse in equity prices during 2000. Since this sector played a prominent role in the expansion in private investment that sustained the decade-long expansion in the 1990s, these events have undermined prospects for a near-term recovery in investment spending in this sector. On the other hand, with the annual growth of labour productivity still at 4 per cent and the growth of hourly wage rates slowing, unit labour costs have been falling for the second consecutive year in non-farm businesses, improving the profit outlook. If there are no further disruptions stemming from exogenous shocks such as a sustained rise in oil prices or further declines in equity prices, a turnaround for business capital expenditures could follow, and recent increases in expenditures on equipment and software may be a harbinger of such a recovery. Spending on non-residential structures, however, remains subdued, and may not rebound as long as capacity utilisation remains low. Spending on housing could also be depressed by an ending of the bubble in house prices, and the recent declines in house rents relative to house prices suggests that this may indeed be happening.

The continued import demand associated with the expansion of consumer spending, together with sluggish growth in other major industrial countries, has kept the United States' external deficit from improving as might have been expected in a slowdown. With the room for manoeuvre in monetary policy limited, rising oil prices and falling stock prices, domestic spending may be more constrained than expected until recently. Moreover the depreciation of the dollar will also limit the country's potential to serve as a global economic locomotive. The overall growth rate of the United States economy is unlikely to greatly exceed 2 per cent in 2002 and in 2003.

The jerky progress of the United States economy in recent months highlights limits on its ability to continue to act as the locomotive for the world economy. But prospects for a vigorous recovery in the Euro area are bleak. The improvement in business and consumer sentiment has come to an early end and even a turnaround on the scale witnessed in the United States has failed to materialise. In some big countries, notably Germany, growth in private consumption and overall domestic demand are still on a downward trend. The only dynamic component of demand, exports, has been hit by the appreciation of the euro. In 2002 the European growth rate is likely to remain below 1 per cent, which is less than the 2 per cent expected at the same time last year. Next year's growth performance is forecast to be around 2 per cent but the uncertainties surrounding even this figure are numerous. The unwillingness in Europe to deploy counter-cyclical policy may prove to be expensive in terms of lost real income so long as the expected stimuli from the rest of the world are missing.

The underlying weakness of private consumption goes a long way to explaining the vulnerability of the Euro-area to external shocks during the last decade. It is estimated that growth of domestic demand between 1996 and 2000 was 4.8 per cent in the United States, 3.9 per cent in the United Kingdom, but only 2.5 per cent in the Euro-area (the figures being 1.5 per cent in Germany and 2.3 per cent in France and Italy). Both employment and real wages have been more stable in the United States and in the United Kingdom than in most of continental Europe. This suggests that the role of labour market inflexibility in explaining slow growth and the limited success in fighting unemployment has been exaggerated, while the role of domestic demand management has been underestimated.

Europe's ability to insulate itself from external shocks because of a low export share has proved illusory. As described in *TDR 2000* and *TDR 2001*, there are many channels of contagion for such shocks if domestic demand is not sufficiently stable, and these channels are becoming more and more difficult to block. The only way to avoid such an outcome is to make active use of macroeconomic policy to stabilise real disposable income and to offset the consequences of external shocks. Suggestions that the Euro area implement far-reaching and more aggressive structural reform in areas that have been holding down its potential growth rate seem to miss this point. A region or country characterized by frequent recessions or downswings in the utilization of labour and capital, as Europe has been three times since the major recession of 1993, is constrained by the demand side rather than by the supply side. The Euro-area's problem has been not the potential but the actual growth rate, reflected in underutilisation of existing capacities. In this context, the postponement of the fiscal targets of the Stability and Growth Pact is a welcome step.

Since the beginning of the year the Japanese economy has been showing signs of a turnaround after a long and deep recession. Industrial production has started to rise, and the labour shake-out has slowed down. However, the country suffers from some of the same problems as the Euro area. Whereas exports have responded to the global recovery, domestic demand and investment both remain weak. Indeed, domestic demand growth in Japan between 1996 and 2000 was the lowest of all the major industrial economies at only 1.2 per cent and the country is still finding it difficult to shake off its legacy of domestic deflation. Nominal wages are falling in absolute terms. Although falling prices have helped to prevent real wages from falling, consumers in conditions of uncertainty are still tending to postpone purchases, thereby further fuelling deflation. Nevertheless, there are indications at last of improving consumer confidence, and there are also patchy improvements in non-manufacturing sectors’ business sentiment. Moreover, in response to better profit expectations firms’ investment plans have been revised upwards, though to an extent that still points to only a moderate recovery.

As in the Euro-area, the macroeconomic policy response to the slump has been slow. The Bank of Japan has recently started to buy equities to stabilise the stock market and to prevent concomitant worsening of the banks’ balance sheets which might lead them to add to downside pressure on stock prices through sales of their holdings. It remains to be seen whether such purchases will do much to simulate an economy where liquidity is abundant and nominal interest rates are already very low. Overall the Japanese economy will probably shrink by about 0.5 per cent in 2002. But in 2003 the country could report its first positive growth performance since the beginning of the global slowdown.

C. International trade, capital flows and developing economies

Economic conditions in developed countries have continued to exert a large influence on the pattern and pace of developing countries’ growth performance through trade and capital flows. Stabilization of the United States economy has led to a turnaround in global trade, but unfavourable conditions in the country’s financial markets have slowed international lending and investment. This has in turn had a dual impact on developing countries: Asian exporters, particularly of consumer electronics and IT goods, have benefited from the recovery in global trade, but most Latin American economies dependent on external financing have faced higher risk premia on their borrowing. As a result, growth in Asia has been maintained as external demand has complemented domestic fiscal expansion, while the tighter external constraints in Latin America have led to more restrictive fiscal policies that reinforce the decline in external investment flows and falling earnings from exports of primary commodities to produce contractions in national income.

Despite its efforts to attract direct investment flows, Africa remains generally unaffected by changes in international capital market conditions. The major external impact on the performance of countries in this region is through the prices of Africa's major commodity exports. Absent supply-side or meteorological shocks, these prices usually move in response to global demand conditions so that indirectly they will be affected by the slowdown in global capital flows and growth. The transition economies of Eastern Europe are more closely linked to the European Union than to the United States. The absence of a more vigorous expansion in the EU may moderate these countries' export performance and GDP growth.

1. Trade

Preliminary estimates suggest that after a sharp fall in 2001 global export growth has revived in 2002, though at nowhere near the double-digit rates of expansion widespread in 2000 (table 2). Both import and export volumes are expected to expand at 2-3 per cent in 2002. However, this expansion has been concentrated in economies that have little impact on global demand expansion, including particularly in Japan which is expected to increase its trade surplus. For developing countries the increase in exports will be no more than 4 per cent and is largely due to the turnaround of above 5 per cent in United States imports. The main beneficiaries of this increase will be primarily in economies in East and South Asia that are already in trade surplus. Exports from Africa, Latin America and West Asia, on the other hand, are expected at best to grow slowly in 2002. Trade surpluses are none the less expected to increase in Latin America to offset the decline in external capital flows, but this is likely to be achieved through contractions in GDP and cuts in imports. This scenario resembles the experience during the 1980s debt crisis when declining incomes led to large current-account surpluses that produced the negative net resource flows that dominated the "lost decade" of the 1980s.

The recovery in commodity prices that started at the turn of the millennium after two successive years of large drops has been reversed with the downturn in world economic activity (table 3). The price decline is particularly pronounced for tropical beverages (except cocoa), and for most categories of minerals, ores and metals and agricultural raw materials. Oil prices continue to be highly volatile, registering sizeable increases in recent months with the deepening of political uncertainties in the Middle East. Some estimates suggest that a $10 rise in oil prices may reduce global growth by as much as 0.3 per cent. However, the outcome would depend very much on the policy response in oil-importing countries since price rises can provide a major source of expansion in oil-exporters, boosting their imports from non-oil countries, particularly in the industrial world.

2. Capital flows

Net private capital inflows to developing countries in 2002 are expected to fall further from the already depressed levels of the previous year (table 4). According to IMF estimates, net FDI flows to developing countries will decline by around $20 billion in 2002, while flows to the Western Hemisphere will decline by as much as $26 billion. Estimates of the Institute of International Finance point to a decline of the same magnitude. This outcome recalls the situation in the 1980s when developing countries in Latin America also suffered from negative net resource flows. Asia by contrast has remained relatively isolated from the swings in international lending. Available data on net debt flows to developing countries suggest that they have been negative so far in 2002. In the period January-July 2002 gross market-based debt flows have averaged $10.7 billion per month, down about 22 per cent from the average monthly flow of 2001. Of this total, approximately equal amounts have come from banks and from bond issuance.

Credit losses in Argentina and in the major markets compounded by weak performance in bank stock prices have made bank behaviour far more cautious than last year. Data from the BIS on changes in cross-border bank exposure to developing countries show that net claims fell by about $29 billion, or 3.4 per cent during the first quarter. The greatest decline was in claims on Latin American borrowers which fell by $24.5 billion, or 9 per cent. Gross flow data suggests that net claims probably continued to contract during the second quarter at a similar pace, and more recently banks have acted vigorously to cut back their Latin American exposure, especially to Brazil. Despite Argentina's default, bond market conditions remained favourable for creditworthy borrowers early in the year and gross flows in the first five months of the year averaged at $6.2 billion, higher than the monthly average for 2001. However, since mid-May flows have ebbed considerably, averaging just $3.25 billion per month in June and July. Again, the drop to Latin America has been especially pronounced. This shift in conditions is also evident in bond spreads, those of Brazil reaching levels similar to those of Argentina before its default.

Net FDI inflows to developing countries were about $170 billion in 2001. Available information for 2002, gleaned from monthly and quarterly balance-of-payments reports from a sample of major recipients of FDI[1] suggests that net flows have held up fairly well so far in 2002, being estimated at $56 billion in the first half of 2002, down 11.3 per cent from the same period a year earlier. This is a reasonably strong performance in view of weakness in global mergers and acquisition activity and the problems of major corporations in developed countries in sectors such as telecoms and energy. Net flows of FDI to developing countries are expected to reach about $150 billion in 2002 in contrast to net outflows of debt.

As already mentioned, net FDI flows to Latin America are down sharply so far in 2002, to a large extent owing to the virtual drying-up of flows to Argentina. For Brazil they remained at about the same level in the first half of the year as in 2001, at slightly less than $10 billion. They were also down sharply in Eastern Europe, a decline that was broad-based and probably reflects the generalized weakness of capital spending by companies in Western Europe. Partly as a result of this reduction in net equity-capital flows, the economies of Eastern Europe have become more dependent on net debt financing. Net FDI flows to Asia, mostly to China, were up quite sharply.

Major multilateral lenders made substantial increases in their lending to developing countries in the first half of 2002. Fund credit outstanding rose from SDR53.5 billion at the end of 2001 to SDR59.6 billion at the end of June 2002, reflecting partly the effects of programmes for Brazil and Turkey.[2] The World Bank's net lending in the first half of the fiscal year was a modest $418 million and

[1] These are Argentina, Mexico, Colombia, Czech Republic, Russia, Venezuela, Brazil, Republic of Korea, Philippines, Bulgaria, China, Chile, Hungary, Poland, Malaysia and Thailand, accounting for about 80 per cent of net inward FDI to developing countries.

[2] The $/SDR exchange rate was $1.2567/SDR at the end of 2001 and $1.3305/SDR at the end of June 2002.

IDA flows were $3 billion. Less timely information is available on bilateral aid flows, making it difficult to track whether recent commitments made at a series of United Nations conferences to increase aid have in fact been honoured. ODA to developing countries from members of the DAC fell from $53.7 billion in 2000 to $51.5 billion in 2001. This decline was caused in part by dollar appreciation which reduces the dollar value of ODA flows recorded in other currencies. The decline in dollar terms was due principally to an almost $4 billion fall in ODA from Japan due to the depreciation of the yen, the timing of disbursements to multilateral organizations, and loan repayments from Asian countries affected by the 1997-98 financial crisis. By contrast, ODA from the United States rose by $900 million primarily the result of $600 million disbursement to Pakistan for economic support in the aftermath of the 11 September, and ODA from the EU rose by $700 million. Net ODA fell by 1.4 per cent in 2001 at constant prices and remained at the 2000 level of 0.22 per cent of DAC members' combined gross national income.

3. Patterns of integration and growth

As already noted, the economic performance of developing countries has shown considerable diversity during the current global downturn. This diversity is closely related to differences in their pattern of integration into the world economy. The contrast is particularly pronounced between East Asia and Latin America. Many countries in the former region have benefited from the ability to use macroeconomic policy in a counter-cyclical manner due to relatively low levels of external indebtedness and low dependence on external financing. They have also been able to raise their exports to the United States and expand intra-regional trade to underpin growth. By contrast, while recent reforms in Latin America have brought inflation under control, export performance of the region has been disappointing and growth has relied heavily on capital inflows. Consequently, the current slowdown in the world economy and the worsening of global financial conditions have laid bare the vulnerability of Latin America's pattern of integration into the global economy.

a. Sustained growth in Asia

Most of the Asian economies acted to offset the decline in global exports and growth in 2001 with more active fiscal policies to increase domestic demand. But just as the decline in global export growth caused by the United States recession in 2001 was felt most strongly in Asia, the recovery in the United States and the associated rebuilding of inventories has had the greatest positive impact in the same region. In 2002 rising exports to the United States as well as increased trade within the region, in particular with China, produced a more balanced composition of demand between internal and external sources and a sharp improvement in growth prospects at the beginning of the year. These developments on the trade front have been accompanied by mostly stable or appreciating nominal exchange rates and short-term interest rates in the range of 2-5 per cent, the most important exception being Indonesia where the one-month interbank rate has considerably exceeded 14 per cent.

In Republic of Korea exports to China grew at a sharply higher rate in the second quarter compared to a year earlier, and growth in exports to the United States was also positive in the second half of the year. Recovery continued in IT-related products, with semiconductors, wireless communications equipment and computers expanding by over 20 per cent in the second quarter of the year. The strong export performance led to an improved balance on current account that should show a substantial surplus. Republic of Korea’s reserves are in excess of $110 billion so that the country has little need to borrow abroad although it has once again been assigned an A rating by the major credit agencies. Growth at mid-year was in the range of 6 per cent on an annual basis, approximately double the figure attained in 2001. However, business surveys taken at the end of August for the manufacturing and non-manufacturing sector showed that sales, production, profitability and facilities investment were all slowing.

Taiwan Province of China has been feeling the impact of slowing exports to the United States and manufacturing production was down for the third consecutive month in August. As a result GDP growth is likely to decline sharply in the second half of 2002. Singapore experienced a sharp recession in 2001 due to a collapse in external demand, but positive growth in the first half of 2002 has been led by both external demand and investment. However, since mid-year there has been a slowing of output growth, in particular in the electronics sector.

Export performance in Thailand was similar, with manufacturing production growing most rapidly in those firms exporting over 60 per cent of their sales. A marked improvement in external demand in the second half has pushed up GDP growth to about 4 per cent. The external sector has also started to play a more important role in Malaysia, with exports increasing after a period of negative growth. This has contributed to the recovery of Malaysia's growth in GDP from stagnation in 2001 to as much as 5 per cent in mid-2002. Indonesia has also experienced improved growth performance but, unlike the rest of the region, this was not due to exports which have declined since 2000. Domestic consumption remains the major force for expansion. The current-account surplus is none the less likely to remain at about 3 per cent of GDP as a whole. In the Philippines, where export performance has remained stronger over the cycle than in the rest of the region, exports started to decline in August.

A decline in GDP growth came later in China than in the rest of the region, but state-enterprise investment, industrial production and exports continue to sustain activity in the second half of 2002. China should again lead the region in GDP growth with a rate for the year as a whole well above 7 per cent. India too recently experienced an acceleration in exports. This has led to GDP growth at an annual rate of more than 5 per cent so far in 2002.

Since expansion in Asia remains dependent on performance in the United States, a return to recession in the United States will bring a slowing of growth in this region, already visible in declining export growth in Taiwan Province of China and Singapore. Recent reports of a decline in United States manufacturing output for the first time since January along with indications of declining consumer confidence, dock strike in ports on the Western seaboard and the likelihood of armed conflict in the Middle East point to the possible drag on Asia's recovery from this source. The expansion in intra-regional trade in East Asia can provide only a partial offset.

b. Recession in Latin America

The recovery in global exports has had a much less beneficial impact on Latin America, where manufactured exports to the United States have suffered from strong competition from Asia. Many Latin American countries have also suffered from declines in export prices for primary products that have continued unabated in 2002. For most countries in the region primary commodities still make up the bulk of their export earnings with the result that they are facing crisis conditions. Exporters of coffee, sugar, copper, tin and zinc have faced price declines during 2001-2002 in the range of 10 to 30 per cent. Agricultural raw materials, which make up a substantial proportion of several middle-income countries in the region, also fell by about 10 per cent during the period. These declines in export earnings increased the vulnerability of economies in the region to the decline in capital inflows described above. The recessionary impulses from export performance and capital inflows have been reinforced by pro-cyclical fiscal policies and high real interest rates, the latter being particularly evident in Argentina and Brazil.

At the beginning of 2002 it was generally accepted that such a policy stance was necessary to reassure international investors and ensure continued capital flows. It was also assumed that international investors had become sufficiently rational to discern differences between conditions in Argentina and the rest of the region so that the sovereign default of the former would not produce contagion in other developing-country markets. However, problems quickly spread to Uruguay and Paraguay, given the close sub-regional linkages. And as a result of election uncertainty international banks stated to reduce their exposure to Brazil and borrowers have found increasing difficulty in rolling over their external commitments. By the end of the summer international capital markets were effectively closed to non-Andean Latin American economies.

Argentina’s national income is expected to decline by around 15 per cent this year despite a strong current-account surplus in the absence of debt servicing. The difficulties in designing an efficient exit strategy from its currency-board regime and the associated large depreciation from parity have produced large losses for financial institutions as well as for private individuals, and there is currently no financing available to the business or consumer sectors. Without IMF support the government has not been able to articulate an effective policy to reverse the decline in national income, although conditions seem to have stabilized in the third quarter and the exchange rate has been kept in a range below 4 pesos to the dollar for several months.

Brazil has experienced two quarters of declining income growth in 2002, and the expected date of recovery has been postponed owing to the lack of external financing. The exchange rate has been highly volatile as the Central Bank has chosen to pursue its inflation target with increasing determination, keeping interest rates high and allowing the exchange rate to move in a range from 2.30 reais per dollar to a peak of 4. However, much of the inflation in the current year is the result of changes in administered prices such as energy costs. On average, the depreciation of the currency and weak internal demand has led to a sharp improvement in the trade balance which is now expected to close the year with a surplus of some $10 billion, partially offsetting the decline in capital flows.

The Andean Group has recently shown a better growth performance than the rest of the region. However, these countries have not experienced any increase in exports and growth rates have began to fall back. Peru has also begun to experience declining expansion in the second half of 2002 as questions arise over the overall coherence of its economic policy in the light of popular resistance to privatization plans and the subsequent political difficulties. Even Chile, which has in general been considered as the most stable economy in the region, has not been able to achieve growth above 2 per cent largely because of the need to ensure a current-account surplus.

In Mexico the maquiladora sector has been hard hit by the downturn in the United States and by competition from Asian producers. Mexico has been losing non-NAFTA maquiladora plants at a rapid rate in 2002. The turbulence caused by events in Argentina and Brazil has led to a weakening of the exchange rate and higher policy interest rates, and reductions in government expenditure. Thus GDP in the first half of 2002 was stagnant despite the positive performance of the United States economy in this period, and more vigorous growth in the second half of the year will be difficult to achieve if the United States economy slows.

D. Policy issues highlighted by recent events

While each region of the world is facing its own specific problems and challenges, the world economy as a whole is facing the threat of deflation despite strong positive policy responses in some major industrial countries. At the heart of the current difficulties lie financial excesses. The fallout from the ending of speculative booms in the industrialised world has led to questions concerning the appropriate policy response by central banks, in particular whether, and if so at what point, they should tighten monetary policy to restrain rises in asset prices. Although consensus on these questions has not yet been attained, there is increasing agreement that as the effects of equity and some other assets prices on activity levels and the allocation of resources have increased, large movements in these prices can no longer be ignored in the formulation of monetary policy. There can be no doubt that the end of new-economy euphoria in the United States has left in its wake several obstacles to rapid and sustainable recovery. Amongst these are an overhang of excess investment, often accompanied by high debt levels for the firms involved, which is leading to widespread and prolonged financial restructuring and rationalization as well as in some cases to significant increases in industrial concentration. At the same time the large falls in stock prices and rises in the risk premia on debt instruments have increased firms' costs of financing. Moreover the wealth effects of these falls on private households are adversely affecting consumption levels at a time when the other components of aggregate demands also lack dynamism.

Recent events in the United States corporate sector and financial markets have not only shaken international equity markets but have also posed questions concerning appropriate systems of financial markets and corporate governance. The contribution of stock markets to allocative efficiency and growth depends on the observance and enforcement of standards of transparency and on the rational use of information by investors. Investor behaviour during the recent boom in the United States and recent revelations of corporate misconduct point to the difficulty of fulfilling these conditions even in a country frequently held up as a model to the rest of the world. Moreover weaknesses in regulation of complex corporate structures and financial operations exemplified by recent scandals provide arguments for restrictive policies in developing countries regarding market access and the commercial presence in the case of foreign firms whose activities such countries are unable to regulate.

The bubbles in domestic asset prices have been accompanied by large swings in exchange rates in international financial markets. These movements also are capable of adversely affecting resource allocation as well as of provoking protectionist pressures. Moreover, they are also capable of posing difficult problems for exchange-rate and interest-rate policy in developing countries.

Unilateral intervention in response to unwanted swings in the exchange rates of major currencies risk being ineffective. As in the mid-1980s, when the real exchange rate of the dollar was perceived as too high, only co-ordinated multilateral action can succeed in bringing the exchange rates back into sustainable ranges. After the intervention undertaken as a result of the Plaza and Louvre Agreements for nearly a decade the real rate for the dollar moved in a narrow unofficial band of plus or minus 5 per cent, and the United States current-account deficit did not exceed 2 per cent of the country's GDP. An orderly depreciation of the dollar, if accompanied by co-ordinated macroeconomic policy changes designed to achieve a better distribution of global demand among the major economic regions, would be capable of contributing to a more stable pattern of global economic growth. It would also help reduce movements in macroeconomic indicators in developed countries which are an important determinant of fluctuations in capital flows to developing countries and of their vulnerability to financial crises. Such a policy response would also point to greater coherence in global policy making based on a recognition not only of the need for macroeconomic balance among the major economic regions but also of the links between macroeconomic policy and a healthy trading system.

At present there is still widespread concern that a correction of the dollar could take place in a disorderly way with consequences which could threaten economic recovery in the United States and destabilise trading relations. Fears concerning disorderly dollar depreciation have recently been heightened by growing political and military tensions in the Middle East. Such a depreciation is widely thought to be more probable in the event of a generalised increase in risk aversion in response to a heightening of such tensions, since this might take the form of an increased propensity on the part of investors and lenders to repatriate their funds. It is therefore all the more important that a better balance be attained among the contribution of major industrial countries and regions to global demand growth so that imbalances are corrected in the context of expansion.

Table 1

WORLD OUTPUT GROWTH, 1997–2003

(Percentage change over previous year)

								2003[a]		
Region/economy	*1990–2000 average*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002[a]*	*FUGI model*	*EIU*	*IMF[b]*
World	2.7	3.4	2.2	2.9	3.9	1.1	1.7	2.7	3.0	3.7
Developed economies	2.4	3.1	2.5	2.8	3.4	0.7	1.3	2.2	2.6	2.3
of which:										
United States	3.5	4.5	4.4	4.3	4.2	0.3	2.4	3.1	2.8	2.6
Japan	1.3	1.8	-1.1	0.8	2.4	-0.4	-0.7	1.2	1.2	1.1
European Union	2.0	2.5	2.8	2.5	3.3	1.6	1.1	1.8	2.3	2.3
of which:										
Euro area	1.9	2.3	2.8	2.5	3.4	1.5	0.9	1.8	2.3	2.3
Germany	1.5	1.4	2.1	1.6	3.0	0.6	0.4	1.5	2.0	2.0
France	1.7	1.9	3.4	2.9	3.1	2.0	1.1	1.7	2.1	2.3
Italy	1.6	2.0	1.8	1.6	2.9	1.8	0.5	1.0	1.8	2.3
United Kingdom	2.5	3.5	2.6	2.3	3.1	2.2	1.6	1.9	2.0	2.4
Transition economies	-2.3	2.0	-0.6	3.6	6.3	4.6	3.6	3.8	.	4.5
Developing economies	4.9	5.2	1.2	3.5	5.6	2.3	3.0	4.1	.	5.2
Developing economies, excluding China	4.2	4.7	0.2	2.9	5.2	1.4	2.1	3.5	.	.

Source: World Bank, *World Development Indicators*; IMF, *World Economic Outlook*, September 2002; EIU, *Country Forecast* (various issues), and FUGI Global Modelling System, Japan.

a Forecast.

b Based on country weights in terms of PPP.

Table 2

EXPORT AND IMPORT VOLUMES, BY REGION AND ECONOMIC GROUPING, 2000–2002

(Percentage change over previous year)

	United Nations				IMF					
	Export volume		Import volume		Export volume			Import volume		
Region/economy	*2000*	*2001*	*2000*	*2001*	*2000*	*2001*	*2002[a]*	*2000*	*2001*	*2002[a]*
World	11.5	0.8	11.3	0.9	12.9[b]	-0.6[b]	2.2[b]	12.9[b]	-0.6[b]	2.2[b]
Developed economies	10.3	0.4	9.1	0.3	12.0[c]	-1.1[c]	1.2[c]	11.8[c]	-1.3[c]	1.7[c]
of which:										
Japan	9.4	-5.0	10.9	0.3	12.6[c]	-7.0[c]	7.1[c]	9.2[c]	-0.8[c]	0.3[c]
United States	9.5	-3.0	13.4	-1.8	9.7[c]	-5.4[c]	-2.7[c]	13.2[c]	-2.9[c]	2.6[c]
European Union	11.6	2.8	10.6	2.7	11.9[c]	2.4[c]	0.8[c]	11.3[c]	1.3[c]	0.3[c]
Transition economies	16.1	8.4	15.0	11.3	14.7[c]	5.9[c]	5.3[c]	13.4[c]	11.7[c]	6.9[c]
Developing countries	13.7	0.5	16.8	0.8	15.3	2.4	3.8	16.8	1.9	4.9
of which:										
Africa	7.3	2.5	7.5	4.6	6.5	1.0	0.1	4.2	4.6	4.6
Latin America	11.0	2.5	14.0	3.0	11.3	3.3	2.2	12.6	1.2	-4.2
West Asia	-19.9	-4.0	20.2	0.3	7.0	3.8	-0.3	14.7	-	7.5
East and South Asia	21.5	0.3	18.3	-0.4	22.7	1.6	7.2	23.3	2.5	9.1
China	31.0	5.0	31.0	11.3	.	.	.	.	.	.

Source: UNCTAD secretariat calculations, based on United Nations data; and IMF, *World Economic Outlook*, September 2002.

a Forecast.

b Average of annual percentage change for world exports and imports.

c Including services.

Table 3

WORLD PRIMARY COMMODITY PRICES, 1997–2002

(Percentage change over previous year)

Commodity group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*[a]
All commodities[b]	**0.0**	**-13.0**	**-14.2**	**2.0**	**-2.9**	**-3.0**
Food and tropical beverages	**2.8**	**-14.3**	**-18.3**	**1.0**	**0.0**	**-4.0**
Tropical beverages	33.3	-17.3	-20.9	-13.2	-22.0	4.3
Coffee	54.7	-28.5	-23.2	-16.2	-28.5	-2.8
Cocoa	11.2	3.7	-32.1	-22.2	22.7	50.7
Tea	35.1	4.3	-7.0	6.8	-20.2	-10.8
Food	-3.5	-13.8	-18.1	-2.0	0.0	-3.1
Sugar	-4.9	-21.2	-30.0	30.5	5.6	-24.2
Beef	4.0	-7.0	6.1	5.7	10.0	3.5
Maize	-25.3	-13.4	-5.5	-1.0	4.2	0.3
Wheat	-22.6	-19.9	-10.9	3.5	9.2	3.8
Rice	-10.7	1.3	-18.6	-18.1	-15.2	12.1
Bananas	4.3	-3.1	-9.9	-2.3	38.8	-7.4
Vegetable oilseeds and oils	**-0.9**	**7.1**	**-23.3**	**-22.8**	**-8.5**	**20.0**
Agricultural raw materials	**-10.3**	**-10.8**	**-10.3**	**1.9**	**-1.9**	**-7.7**
Hides and skins	-19.8	-22.7	-27.6	73.8	41.1	-9.2
Cotton	-8.9	-8.3	-22.9	3.5	-20.9	-8.4
Tobacco	15.6	-5.5	-7.0	-3.3	-0.3	-7.2
Rubber	-28.3	-29.8	-12.6	7.9	-14.1	25.6
Tropical logs	-5.5	-1.2	-7.2	3.8	6.3	-12.3
Minerals, ores and metals	**0.0**	**-16.0**	**-1.8**	**12.0**	**-9.9**	**-1.8**
Aluminium	6.2	-15.1	0.3	13.8	-6.8	-6.1
Phosphate rock	7.9	2.4	4.6	-0.4	-4.5	-1.8
Iron ore	1.1	2.8	-9.2	2.6	4.5	-1.0
Tin	-8.4	-1.9	-2.5	0.6	-17.5	-10.6
Copper	-0.8	-27.3	-4.9	15.3	-13.0	-0.4
Nickel	-7.6	-33.2	29.8	43.7	-31.2	12.1
Tungsten ore	-9.3	-6.4	-9.3	12.1	45.5	-42.1
Lead	-19.4	-15.3	-5.0	-9.7	4.9	-2.7
Zinc	28.4	-22.2	5.1	4.8	-21.5	-11.5
Crude petroleum	**-6.0**	**-31.8**	**38.7**	**55.6**	**-13.3**	**-2.3**

Source: UNCTAD, *Monthly Commodity Price Bulletin*, various issues.

a Forecast.

b Excluding crude petroleum.

Table 4

NET CAPITAL FLOWS TO DEVELOPING AND TRANSITION ECONOMIES, 1998–2002: ESTIMATES OF THE INSTITUTE FOR INTERNATIONAL FINANCE AND THE IMF

(Billions of dollars)

Type of flow/region	*1998*	*1999*	*2000*	*2001*	*2002*[a]
	Estimates of the Institute for International Finance				
Net private capital inflows					
Total	139.1	153.2	187.6	126.0	122.9
by category:					
Private creditors					
Commercial banks	-54.7	-51.5	-0.3	-26.4	-10.7
Non-bank private creditors	60.9	36.4	38.2	6.7	9.9
Equity investment					
Direct equity	120.6	148.9	135.3	134.6	113.2
Portfolio equity	12.3	19.4	14.4	11.1	10.5
by region:					
Africa/Middle East	6.8	10.3	5.0	10.6	9.2
Asia/Pacific	-1.0	34.3	76.3	53.4	60.7
Europe	35.5	37.9	41.4	16.4	23.9
Latin America	97.8	70.7	64.9	45.6	29.1
Memo item:[b]					
Resident lending/other, net					
Total	-141.6	-140.3	-161.1	-84.1	-41.8
Africa/Middle East	1.0	-6.3	-7.3	-2.8	-6.6
Asia/Pacific	-76.5	-67.7	-97.2	-32.0	-5.3
Europe	-24.7	-27.1	-40.5	-26.5	-7.5
Latin America	-41.3	-39.2	-16.1	-22.8	-22.4
	Estimates of the International Monetary Fund				
Net private capital inflows					
Total	62.1	84.8	29.4	24.9	62.4
Net direct investment	153.6	164.0	158.0	172.1	151.3
Net portfolio investment	-0.1	34.3	-4.3	-42.6	-3.0
Other net flows[c]	-91.5	-113.4	-124.3	-104.6	-85.9
Africa	11.6	15.1	6.1	6.9	8.8
Net direct investment	6.4	9.3	7.7	22.3	11.8
Net portfolio investment	3.7	8.2	-2.2	-9.0	-1.0
Other net flows[c]	1.5	-2.5	0.6	-6.4	-2.0
Asia	-54.4	7.8	-8.7	11.6	21.2
Net direct investment	59.7	61.2	54.2	47.1	58.7
Net portfolio investment	-17.9	14.4	4.3	-13.5	0.7
Other net flows[c]	-87.7	-68.8	-71.4	-16.8	-27.8
Middle East and Europe	9.1	0.2	-22.4	-48.4	-19.6
Net direct investment	6.5	5.5	7.9	10.8	8.8
Net portfolio investment	-13.2	-3.2	-13.7	-22.0	-9.8
Other net flows[c]	15.8	-2.1	-16.7	-37.1	-18.6
Western Hemisphere	72.7	49.7	48.6	22.8	10.3
Net direct investment	60.1	64.1	64.7	66.9	40.4
Net portfolio investment	22.3	11.9	4.7	-2.2	1.0
Other net flows[c]	-9.8	-26.3	-20.8	-41.9	-31.1
Transition economies	14.6	13.0	10.0	26.8	31.2
Net direct investment	20.9	23.9	23.4	25.1	31.5
Net portfolio investment	5.0	2.9	2.6	4.2	6.1
Other net flows[c]	-11.3	-13.8	-16.0	-2.5	-6.4

Source: IIF, *Capital Flows to Emerging Market Economies*, 18 Sept. 2002; IMF, *World Economic Outlook*, Sept. 2002.

a Forecast.

b For explanation of this term, see TDR 2001, Part One, chap. II, note 10.

c Other net flows comprises other long-term net investment flows, including official and private borrowing.