Chapter III

INTERNATIONAL MARKETS

A. Recent developments in international trade

The deep recession and rapid recovery in emerging markets, together with the diverse movements of commodity prices, including oil, have given rise to sharp swings in international trade flows over the past few years as well as to considerable shifts in the commodity terms of trade. The widespread decline in economic activity during 1997–1998 was accompanied by a sharp slowdown in the growth of world trade volumes and, because of falling prices, an absolute decline in the value of world trade. The decline in trade in 1998 was discernible in varying degrees in all developing regions and in the transition economies, but it was especially sharp for African exports and Asian imports.

The revival in world trade in 1999 in the wake of the economic recovery in East Asia followed a similar pattern. The improvement in trade growth was more evident in value than in volume on account of disparate movements in the prices of internationally traded goods and services in 1998 and 1999. With the major exception of the transition economies, there was a sharp turnaround in all regions, particularly in value terms, as price declines levelled off. As in 1998, Japan experienced particularly sharp swings in both exports and imports, which rose considerably over the previous year. At the same time, the return of financial stability and improved growth prospects in the crisis-stricken Asian economies led to a modest recovery in certain non-oil commodity prices of interest to developing countries.

The expectation for 2000 is for a moderate acceleration in the growth of the volume of world trade, mainly as a result of a somewhat faster growth of the EU economies and economic recovery in Latin America and the transition economies. However, prospects are crucially dependent on developments in the pace and pattern of demand generation, notably in industrial countries, as well as on movements in exchange rates, and hence on international capital flows. While short-term prospects for demand have improved, as noted above, there are serious downside risks due to imbalances on both the real and the financial sides of the global economy, which could induce sharp swings in trade flows, exchange parities and competitiveness and provoke protectionist reactions.

1. *Trends in imports and exports*

The volume of world imports grew by some 5 per cent in 1999, a modest improvement over 1998, when it slowed sharply as the combined effects of the emerging-market financial crises resulted in massive cuts in imports in East Asia, Latin America and the transition economies (table 3.1). The improvement in 1999 was due mainly to a recovery in developing countries and also to sustained growth in developed countries, albeit at a relatively lower rate than in the previous year; import volumes in the transition economies contracted by 10 per cent.

Table 3.1

EXPORTS AND IMPORTS BY MAJOR REGIONS AND ECONOMIC GROUPINGS, 1996–1999

(Percentage change over previous year)

	Export value				Export volume			
	1996	*1997*	*1998*	*1999*	*1996*	*1997*	*1998*	*1999*
World [a]	5.3	3.5	-1.6	3.5	6.1	10.7	4.7	3.9
Developed market-economy countries	2.9	2.0	0.7	1.7	4.9	10.0	4.3	4.3
of which:								
Japan	-7.3	2.4	-7.8	8.0	1.0	12.0	-1.5	2.0
United States	6.9	10.2	-0.9	1.8	6.3	11.9	2.3	3.2
European Union	3.4	-0.5	3.8	-0.5	5.5	9.5	6.0	3.5
Transition economies	33.9	4.1	-4.6	-1.5	6.5	10.5	5.0	-3.0
Developing countries	7.9	6.9	-6.9	8.3	6.9	12.4	5.6	5.3
of which:								
Africa	14.8	1.9	-15.5	8.0	8.9	6.5	-1.2	3.3
Latin America	12.2	10.2	-1.2	6.0	11.0	11.5	7.5	7.0
Asia	4.5	6.7	-5.1	6.7	5.4	12.5	3.8	7.2
of which:								
Newly industrializing economies [b]	4.3	3.5	-7.5	5.2	9.1	11.6	3.8	5.9
ASEAN-4 [c]	5.7	5.0	-3.9	9.9	4.8	12.1	11.0	11.2
China	1.5	21.0	0.6	6.0	-0.8	20.5	3.7	8.3
Memo item:								
ASEAN-4 plus Republic of Korea	4.9	5.0	-3.5	9.5	10.9	17.7	13.7	11.2

	Import value				Import volume			
	1996	*1997*	*1998*	*1999*	*1996*	*1997*	*1998*	*1999*
World [a]	5.8	3.5	-0.8	4.0	6.9	10.0	4.5	5.3
Developed market-economy countries	3.9	2.2	3.3	4.8	5.3	9.3	8.0	6.5
of which:								
Japan	4.0	-3.0	-17.2	11.0	5.5	1.5	-5.5	9.5
United States	6.6	9.4	4.9	12.4	5.6	12.1	11.7	11.5
European Union	2.8	-0.5	6.3	1.0	5.0	8.5	8.5	4.0
Transition economies	48.0	6.5	-1.8	-13.0	16.0	13.5	5.0	-10.0
Developing countries	6.0	6.1	-10.3	4.3	6.4	10.8	-3.8	4.2
of which:								
Africa	-1.1	5.5	1.2	0.5	1.0	9.7	5.3	0.3
Latin America	11.8	18.5	4.8	-4.0	8.5	22.5	8.5	-2.0
Asia	5.1	2.2	-17.3	9.0	5.5	6.7	-9.7	7.3
of which:								
Newly industrializing economies [b]	4.4	3.4	-19.5	7.6	6.6	7.4	-10.0	6.9
ASEAN-4 [c]	4.8	-2.5	-27.9	7.8	2.0	5.0	-22.7	9.8
China	5.1	2.5	-1.5	18.0	7.5	5.5	2.3	13.1
Memo item:								
ASEAN-4 plus Republic of Korea	7.3	-3.0	-30.9	15.4	6.3	3.5	-22.0	18.1

Source: WTO Press Release 175, 6 April 2000, tables II.2 and II.3; UNCTAD secretariat calculations, based on data available from WTO.

a For the (growing) statistical discrepancy between world imports and world exports see text, note 1.
b Hong Kong (China), Republic of Korea, Singapore and Taiwan Province of China.
c Indonesia, Malaysia, Philippines and Thailand.

Among the developed countries, the United States economy maintained for the third successive year a double-digit growth in import volumes. There was also a surge in Japan following a decline in 1998. By contrast, there was a significant deceleration in EU. In the developing world performance was also mixed. In Latin America the volume of imports contracted after a relatively rapid expansion in the previous year. In Africa it stagnated, following moderate growth in 1998. For developing Asia, however, there was a sharp upturn from a contraction of almost 10 per cent in 1998 to an increase of some 7 per cent, in large part due to the impressive rebound in East Asia.

Owing to statistical discrepancies, the rebound in world trade in 1999 is not reflected to the same extent in terms of the volume of exports.[1] Indeed, unlike imports, the volume of world exports is estimated to have risen less than in 1998. The slowdown is accounted for by a contraction of exports in the transition economies as well as somewhat slower export growth in developing countries. For developed countries as a whole the export volume growth rate was maintained at the previous year's level. The sharp rebound in Japan, together with continued expansion in the United States, compensated for the deceleration in EU. Among the developing regions, there was a notable rebound in Africa and Asia, in contrast to a moderate slowdown in Latin America.

The dollar value of both world imports and world exports increased in 1999 after contracting in the previous year. The increase was broad-based, with the exception of the transition economies, where both imports and exports fell. There was a relatively rapid increase in the value of imports in the United States and a marked rebound for Japan and for developing Asia. Export earnings increased in all major economic regions except EU and the transition economies.

Differential growth in trade volumes and values reflects changes in unit values. Both world imports and world exports show smaller increases in 1999 in value than in volume terms, on account of price declines. However, the discrepancy between volume and value figures is much narrower for 1999 than for 1998, suggesting that the downward trend in world prices has moderated. In both the United States and Japan, import value growth was higher than volume growth, reflecting in part the impact of rising oil prices. For EU, however, the data show a fall in import unit values despite the decline of the euro, the increase in oil prices and the concern of ECB over their inflationary consequences. For developing countries as a whole changes in import unit values were small on balance. However, while Asia, and to a lesser extent Africa, had rising import prices, in Latin America they fell.

While export prices appear to have risen for the developed countries in general, there are considerable disparities among regions. Japanese export unit values in dollar terms show a significant increase, reflecting in part the appreciation of the yen. By contrast, export unit values in the United States, and even more so in EU, declined. The increase in the unit values of exports of developing countries reflects mainly the impact of sharp increases in oil prices, particularly for Africa; in Asia and Latin America export unit values declined.

Table 3.2 shows changes since 1997 in unit values, volumes and values of exports and imports for selected developing countries in Asia and Latin America, together with the corresponding changes in the terms of trade.[2] After a sharp contraction in 1998, as already noted, import volumes rose considerably in East Asia in 1999, except in Indonesia and Hong Kong (China). The rebound in ASEAN-4, the NIEs and China was particularly impressive. For the crisis-stricken countries taken together (ASEAN-4 and the Republic of Korea), import volumes rose by 18 per cent in 1999, after dropping by more than 20 per cent in 1998. All of these countries managed to raise the volume of their exports in 1998. However, with the exception of the Philippines, their export earnings fell because of falling prices. In 1999, growth in export volumes accelerated in Malaysia and Thailand, and more favourable export prices contributed to sizeable increases in export revenues in all countries affected by the crisis, except Indonesia. Over the past three years the terms of trade have been stable or moving against most Asian countries included in table 3.2. Overall, Indonesia suffered the largest terms-of-trade losses, followed by the Republic of Korea, Malaysia and India.

Although exports from Latin America as a whole increased by 6–7 per cent in 1999, this outcome was due primarily to Mexico, where the increase was some 16 per cent in value and 13 per cent in volume. Indeed, export earnings for the rest of the region were lower than the previous year. The failure of most Latin American coun-

Table 3.2

FOREIGN TRADE AND THE TERMS OF TRADE OF SELECTED DEVELOPING ECONOMIES, 1998–1999

(Percentage change over previous year)

	Exports						*Imports*						*Terms of trade*		
	Volume		*Unit value*		*Value*		*Volume*		*Unit value*		*Value*				
Economy	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1997*	*1998*	*1999*
Asia															
Hong Kong, China	-4.3	2.6	-2.9	-2.6	-7.1	-0.1	-7.1	-1.2	-5.8	-1.5	-12.4	-2.7	-0.8	3.0	-1.1
Republic of Korea	16.9	11.3	-16.9	-2.1	-2.8	9.0	-21.0	29.3	-18.4	-0.7	-35.5	28.3	-11.3	1.8	-1.4
Singapore	-0.7	3.5	-11.4	0.8	-12.1	4.3	-12.7	2.0	-12.3	7.2	-23.4	9.4	0.4	0.9	-6.0
Taiwan Province of China	1.1	3.3	-9.7	6.5	-8.7	10.1	4.1	1.2	-11.5	4.6	-7.9	5.8	0.9	2.0	1.9
Indonesia	17.2	-1.7	-22.0	1.0	-8.6	-0.7	-30.8	-11.7	-5.2	-1.0	-34.4	-12.5	1.6	-17.7	2.0
Malaysia	3.9	20.0	-10.4	-3.9	-6.9	15.3	-21.2	14.4	-6.3	-1.8	-26.2	12.3	-0.2	-4.4	-2.1
Philippines	24.8	18.7	-5.3	0.1	18.2	18.8	-13.9	3.5	-5.3	0.1	-18.4	3.6	0.0	0.0	0.0
Thailand	7.9	9.8	-12.1	-2.3	-5.1	7.3	-25.7	24.4	-8.0	-5.4	-31.6	17.6	-1.5	-4.4	3.3
India	-0.5	12.0	-3.4	-3.0	-3.9	8.7	12.2	0.2	-8.0	4.1	3.2	4.3	-3.6	5.0	-6.8
China	3.7	8.3	-3.0	-2.1	0.6	6.0	2.3	13.1	-3.7	4.5	-1.5	18.2	3.3	0.7	-6.3
Latin America[a]															
Argentina	9.9	-5.0	-9.0	-8.0	0.0	-12.6	8.1	-14.4	-4.6	-5.0	3.1	-18.6	0.4	-4.6	-3.2
Brazil	4.6	2.9	-8.0	-10.0	-3.8	-7.5	2.7	-13.0	-6.0	-2.0	-3.5	-14.7	5.7	-2.1	-8.2
Chile	8.0	11.3	-17.6	-7.0	-11.1	3.6	-0.2	-13.0	-4.6	-2.5	-4.7	-15.3	3.8	-13.6	-4.5
Colombia	7.1	6.3	-12.0	2.4	-5.8	9.0	-0.7	-28.0	-4.5	-2.5	-5.2	-29.8	9.8	-8.0	5.1
Ecuador	-5.5	0.4	-15.5	2.0	-20.1	2.4	17.2	-50.6	-5.0	-2.5	11.4	-51.8	2.1	-11.0	4.5
Mexico	10.8	13.1	-4.0	2.5	6.4	16.0	16.0	14.2	-1.6	-1.5	14.1	12.6	-0.8	-2.5	4.0
Peru	1.3	17.2	-17.1	-10.0	-16.0	5.6	0.4	-17.4	-4.6	-1.0	-4.1	-18.2	6.9	-13.1	-9.1
Venezuela	1.4	-5.7	-27.1	24.0	-26.0	16.9	9.5	-11.7	-1.5	-2.5	7.8	-14.0	-3.1	-25.9	27.1

Source: UNCTAD secretariat calculations, based on statistics of WTO and national sources.

a Figures for 1999 are preliminary, based on ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 1999*, United Nations publication, sales no. E.99.II.G.58, Santiago, Chile, 1999, tables A-8, A-9 and A-10.

Table 3.3

INTRA-ASIAN TRADE, 1996–1998

		Exports				*Imports*			
				Percentage of				*Percentage of*	
Regional sub-group[a]	*Year*	*Value ($ billion)*	*Percentage change*	*Group exports*	*World exports*	*Value ($ billion)*	*Percentage change*	*Group imports*	*World imports*
Asia-8	1996	198.7	6.1	33.0	4.0	180.6	6.1	22.2	3.5
	1997	205.8	3.6	32.9	4.0	184.2	2.0	22.3	3.4
	1998	175.3	-14.8	30.0	3.5	148.4	-19.5	23.0	2.8
Asia-9	1996	280.2	4.5	37.2	5.7	323.5	6.6	34.0	6.2
	1997	305.7	9.1	37.8	5.9	339.4	4.9	35.0	6.3
	1998	263.3	-13.9	34.3	5.2	293.8	-13.4	37.4	5.5
Asia-10	1996	563.1	1.0	48.4	11.4	641.2	2.7	49.3	12.3
	1997	582.9	3.5	47.4	11.3	646.2	0.8	49.4	11.9
	1998	484.3	-16.9	41.9	9.5	538.3	-16.7	50.5	10.1

Source: UNCTAD secretariat calculations, based on data from the United Nations Compressed International Commodity Trade Data Base (COMTRADE).

a Asia-8: the four Asian NIEs (Hong Kong, China; Republic of Korea; Singapore and Taiwan Province of China) and ASEAN-4 (Indonesia, Malaysia, Philippines, Thailand); Asia-9: Asia-8 plus China; Asia-10: Asia-9 plus Japan.

tries to generate higher export earnings, in spite of competitive gains from currency devaluation, is attributable in part to weak world commodity markets, inasmuch as countries in the region continue to be major commodity exporters, and in part to the collapse in intraregional trade by some 25 per cent during the first three quarters of 1999, following its first contraction for 12 years in 1998. The decline in export unit values either more than offset the increase in volume (e.g. Brazil and Guatemala) or was accompanied by a fall in export volume (e.g. Argentina, Bolivia, Honduras, Panama, Paraguay and Uruguay). The decline in export earnings largely explains why the overall value of merchandise imports of Latin America declined in 1999 for the first time in 15 years, despite the substantial increase for Mexico.

2. Intraregional trade in East Asia

Trade played an important role in the build-up of external fragility and the outbreak of the financial crisis, as well as in the subsequent recovery, in East Asia. From the mid-1990s declines in export prices and slower growth in export earnings resulted in a widening of trade deficits and contributed to the loss of investor confidence.[3] Strong intraregional trade linkages[4] were an important factor in regional contagion, particularly since exchange-rate stability was an essential ingredient of regional integration. However, the same interdependence has also worked to reinforce the growth impulses during the current recovery. While strong growth of the United States economy, the region's most important export market, together with increased competitiveness brought about by currency devaluations, provided an independent export stimulus, intraregional trade linkages have acted to amplify the growth impulses through a multiplier effect.

Table 3.3 shows intra-Asian trade in 1996–1998 for three alternative country groupings: "Asia-8" comprising the four Asian NIEs and ASEAN-4; "Asia-9" (Asia-8 plus China) and "Asia-10" (Asia-9 plus Japan). The relative importance of intraregional exports and imports in each group is indicated by its share in total exports and imports of the group as well as by its share in the corresponding world aggregate.

Table 3.4

GEOGRAPHICAL DISTRIBUTION OF EXPORTS OF SELECTED ASIAN COUNTRIES AND COUNTRY GROUPS, 1995–1998

(Percentage share in total exports)

		Destination of exports					
Exports from		*United States*	*European Union*	*Japan*	*NIEs*	*ASEAN-4*	*China*
Japan	1995	27.5	15.9	-	25.0	12.1	5.0
	1996	27.5	15.4	-	24.7	12.4	5.3
	1997	28.1	15.6	-	24.0	11.4	5.2
	1998	30.9	18.5	-	20.2	7.8	5.2
NIEs	1995	20.9	13.5	10.6	19.6	13.5	5.3
	1996	19.8	13.1	10.3	19.6	13.8	5.9
	1997	19.6	13.6	9.6	19.9	13.3	6.5
	1998	20.6	14.7	8.8	18.3	11.4	6.3
Republic of Korea	1995	19.5	13.0	13.6	17.0	7.9	7.3
	1996	16.9	11.9	12.2	16.6	9.3	8.8
	1997	16.0	12.4	10.8	16.3	9.4	10.0
	1998	17.4	13.8	9.2	14.0	7.3	9.0
ASEAN-4	1995	19.7	14.9	17.5	25.5	5.6	2.9
	1996	18.6	15.2	17.9	25.9	6.5	3.0
	1997	19.5	15.5	16.3	25.7	6.7	2.8
	1998	21.2	16.7	14.2	24.0	6.6	2.8
China	1995	16.6	12.9	19.1	33.1	3.7	-
	1996	17.7	13.1	20.4	31.1	3.4	-
	1997	17.9	13.1	17.4	33.2	3.6	-
	1998	20.7	15.3	16.1	28.7	3.0	-

Source: See table 3.3.

The intraregional trade of Asia-10 accounted for almost 50 per cent of the group's total trade and around 12 per cent of total world trade prior to the Asian crisis. Both intraregional exports and intraregional imports fell by some 17 per cent in 1998 as the crisis deepened, and their shares in total world exports and imports dropped to some 10 per cent. Indeed, the collapse in intra-Asian trade in 1998 was a major cause of the slump in world trade.[5] Much of the decline was due to contraction in the dollar value of Japanese imports and exports, as noted above. However, the group including only the developing countries and China (Asia-9) also suffered from a significant loss of intraregional exports and imports during 1998.

Table 3.4 compares the distribution of exports of selected Asian countries and country groupings among various destinations within and outside the region. Clearly, outside the region, the United States is the most important market for the exports of East Asian countries, including both China and Japan. Dependence on the United States market is similar for NIEs, ASEAN-4 and China, but somewhat greater for Japan. Before the outbreak of the crisis, the importance of East Asian developing countries for Japanese exports was similar to that of the United States and EU taken together, while the NIEs have always been significantly more important than EU. Similarly, for China the importance of the NIEs outweighs that of Japan, the United States or EU. Among the developing countries, intraregional exports are more important for the NIEs than for ASEAN-4. For the NIEs, the share of intra-group trade in its total exports is almost the same as the share of its exports to the United States, and significantly greater than that of its exports to EU or ASEAN-4. For ASEAN-4, the NIEs are more important as export markets than the United States or EU.

For all the East Asian countries in table 3.4, the share of exports to destinations outside the region rose with the deepening of the crisis in 1998. Since, as already noted, total export earnings of the developing countries of the region (except China) fell, this reflects the sharp drop in intraregional trade rather than an absolute increase in exports to the United States or Europe. Although comparable figures are not available for the more recent period of recovery, it appears that intraregional trade has been reviving as much as trade with countries outside the region.

B. Non-oil commodity markets

In 1999, world commodity markets continued to suffer from the lingering effects of the economic slowdown of the previous year, which reduced demand and exerted a downward pressure on the prices of most commodities. There was some recovery in world demand, but commodity prices failed to pick up strongly owing to a large stock overhang. The downward trend in most prices levelled off by mid-1999 and prices have since increased moderately. However, they are yet to recover from the marked slump in the aftermath of the Asian and Brazilian crises, which lasted for over two years and resulted in a decline in the commodity price index (excluding crude petroleum) of about 30 per cent. The persistent and precipitous fall in prices in 1998 and 1999 affected all major commodity groups, including food and tropical beverages, agricultural raw materials, and minerals, ores and metals. The only exceptions are vegetable oilseeds and oils, the prices of which had increased by 7 per cent in 1998, but fell sharply in 1999 (table 3.5).

The pronounced widespread decline in non-oil commodity prices in both 1998 and 1999 reflects a combination of sluggish demand and ample supplies in almost all markets. It also reflects the continued effects of currency devaluations for important commodity exporters and importers, most notably Brazil and the Russian Federation. The large devaluations in Brazil led to a marked increase in exports of sugar and coffee, whereas the devaluation of the Russian rouble reduced the demand for many imported commodities. The decline in world demand for many non-oil commodities has been brought about mainly by the sharp economic downturn experienced in most East Asian countries. At the same time, technological advances have enhanced productivity and reduced production costs in many cases, leading to an oversupply in commodity markets. Furthermore, novel applications of genetic engineering and biotechnology in agriculture, combined with favourable weather conditions, have resulted in significantly higher output of most agricultural products.

Notwithstanding the improvement in the global economy, which boosted commodity demand in the second half of 1999, prices of non-oil primary commodities for the year as a whole were on average well below the 1998 level. The fall of over 14 per cent was the largest since 1982 (over 21 per cent) and pushed the index of non-oil primary commodities to its lowest level since 1985. The fall was widespread among commodities, but the collapse in sugar and cocoa prices by 30 per cent and 32 per cent, respectively, was particularly acute. Coffee and cotton prices dropped by more than 20 per cent, those of wheat, rice and rubber by more than 10 per cent, and tea, maize, bananas, tobacco, tropical logs and ores by more than 5 per cent.

With cyclical lows now past for most commodities, the outlook for the current year is for some price revival, particularly for industrial materials and metals, but food prices are expected to

Table 3.5

WORLD PRIMARY COMMODITY PRICES, 1996–2000

(Percentage change over previous year)

Commodity group	*1996*	*1997*	*1998*	*1999*	*April 2000*[a]
All commodities[b]	**-4.2**	**0.0**	**-13.0**	**-14.2**	**-1.0**
Food and tropical beverages	**2.1**	**2.8**	**-14.3**	**-18.3**	**-1.0**
Tropical beverages	-15.2	33.3	-17.3	-20.9	-16.2
Coffee	-19.1	54.7	-28.5	-23.2	-24.0
Cocoa	1.2	11.2	3.7	-32.1	-0.8
Tea[c]	...	35.1	4.3	-7.0	9.1
Food	6.8	-3.5	-13.8	-18.1	3.5
Sugar	-9.9	-4.9	-21.2	-30.0	0.2
Beef	-6.4	4.0	-7.0	6.1	1.3
Maize	25.0	-25.3	-13.4	-5.5	7.6
Wheat	16.2	-22.6	-19.9	-10.9	4.7
Rice	5.0	-10.7	1.3	-18.6	-6.1
Bananas	7.5	4.3	-3.1	-9.9	24.3
Vegetable oilseeds and oils	**-4.2**	**-0.9**	**7.1**	**-23.3**	**0.0**
Agricultural raw materials	**-9.9**	**-10.3**	**-10.8**	**-10.3**	**1.0**
Hides and skins	-23.7	-19.8	-22.7	-27.6	-0.9
Cotton	-14.8	-8.9	-8.3	-22.9	36.7
Tobacco	15.6	15.6	-5.5	-7.0	-3.4
Rubber	-11.9	-28.3	-29.8	-12.6	7.8
Tropical logs	-20.1	-5.5	-1.2	-7.2	-6.4
Minerals, ores and metals	**-12.1**	**0.0**	**-16.0**	**-1.8**	**-0.8**
Aluminium	-16.6	6.2	-15.1	0.3	-6.3
Phosphate rock	8.6	7.9	2.4	4.6	0.0
Iron ore	6.0	1.1	2.8	-9.2	2.6
Tin	-0.8	-8.4	-1.9	-2.5	-5.9
Copper	-21.8	-0.8	-27.3	-4.9	-4.9
Nickel	-8.8	-7.6	-33.2	29.8	20.3
Tungsten ore	-17.9	-9.3	-6.4	-9.3	2.3
Lead	22.7	-19.4	-15.3	-5.0	-12.1
Zinc	-0.6	28.4	-22.2	5.1	-4.7

Source: UNCTAD, *Monthly Commodity Price Bulletin,* various issues.
a Change from December 1999.
b Excluding crude petroleum.
c New series, with data starting in 1996.

remain low. In April 2000 average prices of non-oil commodities were only 1 per cent lower than in December 1999. However, there was variation among commodities. For example, prices for cotton, bananas and nickel rose by about 37 per cent, 24 per cent and 20 per cent, respectively, during those four months, but those of coffee and lead fell by 24 per cent and 12 per cent, respectively. Price variations for agricultural commodities, reflecting changes in stock levels, have been particularly pronounced and are expected to continue for the remainder of the year. Overall, prices of food and tropical beverages are expected to remain depressed as production continues to outstrip demand for coffee, sugar and vegetable oilseeds. However, prices of some agricultural raw materials and minerals, ores and metals are expected to continue to increase, owing to the impact of renewed economic growth in Asia and strong housing demand in the United States.

C. Recent developments and emerging trends in oil markets

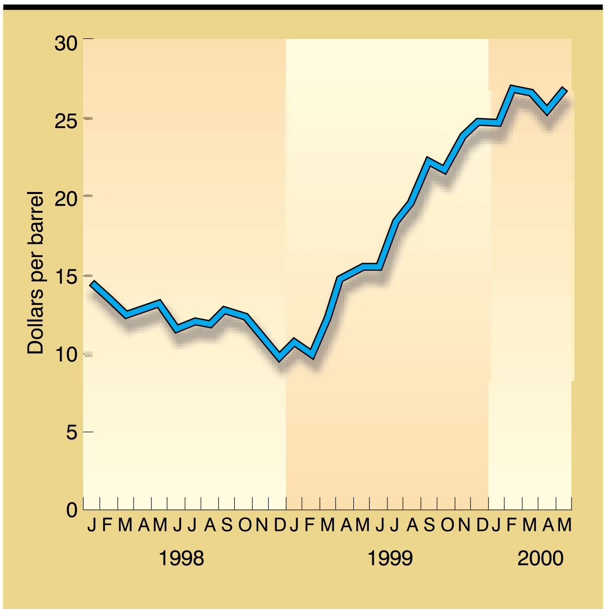
1. Prices, production and demand

The key feature of the oil market in 1999 was the sharp rise in crude oil prices to unexpectedly high levels (chart 3.1). After falling almost continuously throughout 1998 and dropping below $10 a barrel in early 1999, crude oil prices[6] rebounded steadily throughout the year, so that prices averaged $17.5 a barrel for the year as a whole. The increase is more remarkable when the price at the beginning of 1999 ($10.5) is compared with that at the end of the year ($25). The rally in oil prices in 1999 accounted for about $75 billion (some 40 per cent) of the increase in world merchandise exports.

Chart 3.1

MONTHLY AVERAGE SPOT PRICES OF OPEC CRUDE OILS,[a] JANUARY 1998 TO MAY 2000

(Dollars per barrel)



Source: OPEC.

a Average spot prices of the basket of seven OPEC crude oils.

Oil prices rose sharply after OPEC and non-OPEC producers (Mexico, Norway, Oman and the Russian Federation) had jointly decided to cut output by 2.1 million barrels per day (bpd) as of 1 April 1999. These production cuts, in addition to those pledged by OPEC in 1998, amounted to an overall reduction of 4.7 million bpd, or 6 per cent of world oil supply. They coincided with strengthening demand for oil associated with the economic recovery in Asia, one of the world's most important sources of incremental demand prior to 1998. They also came at a time of continued strong growth in the United States economy and when supply from non-OPEC producers was rising much less rapidly than demand. The combination of all these factors has led to a depletion of world oil stockpiles to a very low level.

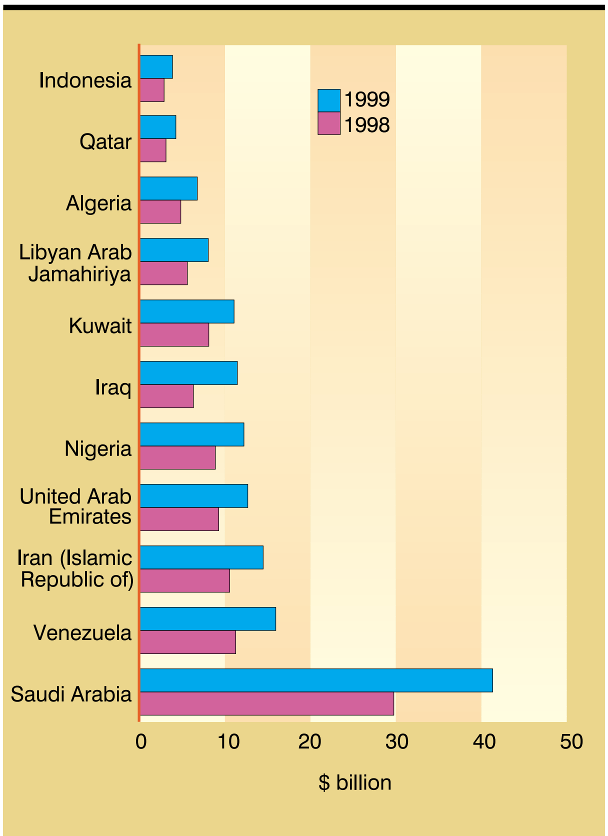
The most notable feature of the agreement was not so much the level of the announced cuts as the unusually firm commitment to production quotas, compliance with which has averaged about 85 per cent.[7] Unlike in past years, and in spite of improved market conditions, OPEC members have resisted the temptation to produce more oil in the face of rising demand and prices. The reason for this unusually high level of compliance was a disturbing and painful earlier episode of very low oil prices and revenues. For about 15 months, during January 1998–March 1999, oil-exporting countries had seen their oil revenues drop by over one third to their lowest level since 1972, despite a marked increase in the volume exported. Many of them suffered seriously, as their infrastructure, manufacturing and social services bore the consequences of severe budgetary cuts.

Following OPEC's decision in September 1999 to maintain supply limits until March 2000,

Chart 3.2

OIL EXPORT REVENUES OF OPEC PRODUCERS IN 1998 AND 1999

(Billions of dollars)



Source: 1998: OPEC; 1999: UNCTAD secretariat estimates.

prices continued to rise, reaching $27 a barrel in February, before falling slightly in anticipation of a decision to allow some increases in output at the OPEC meeting scheduled for the end of March. At that meeting, OPEC agreed to raise output by 1.45 million bpd, starting on 1 April 2000. An additional aggregate production increase of about 0.5 million bpd was later announced by the Islamic Republic of Iran, Mexico and Norway. At the same meeting, OPEC members informally endorsed an output-varying scheme aimed at preventing oil prices from emerging from the range $22–$28 a barrel, raising output if prices rose above $28 and reducing it if they fell below $22. After the meeting prices fell temporarily and then bounced back to about $27 a barrel in May 2000. The view of markets was that the extra output was not enough to rebuild oil stocks sufficiently to keep prices at more moderate levels. The rise in prices was also helped by anxiety about the availability of reformulated gasoline supplies in the United States in the run-up to the summer driving season.

The sudden increase in prices has been a boon for the major oil exporters and significantly improved their terms of trade. For example, OPEC oil revenues in 1999 are estimated to have risen to about $138 billion, an increase of 36 per cent over 1998 (see chart 3.2 for country detail). Other major oil exporters, such as Mexico, Norway, Oman and the Russian Federation, also benefited considerably. While oil-exporting countries have thus recovered much of the revenues lost in 1998, the major consuming countries have expressed concern over the potentially adverse effects on growth and inflation of the price hikes. However, the impact on inflation has remained relatively small: in the United States, for example, the $5.2 per barrel increase in the annual average price in 1999 is estimated to have contributed to an increase of some 0.3 per cent in inflation.[8] Similarly, various simulations undertaken in UNCTAD and other international organizations suggest that the impact of rising oil prices on global growth will be limited, and confined mostly to oil-importing developing countries (see box 3.1). However, little attention has been given to the plea of financially strained, low-income, oil-importing developing countries, whose balance of payments have deteriorated significantly on account of oil.

Despite the sharp increase in prices, world oil demand rose by 1.5 per cent in 1999 (table 3.6). While this is a modest rate, compared to the more than 2 per cent average attained during 1995–1997, it has been accompanied by a large depletion of oil inventories. Oil consumption in OECD countries was led by North America, where demand rose by 3.0 per cent. In the developed Pacific countries it grew by 2.3 per cent. The increase in demand in developing countries (excluding Mexico and the Republic of Korea) was also above the world average, owing mainly to a strong recovery in consumption in East Asia. By contrast, demand in Western Europe contracted slightly in spite of relatively strong economic growth.

The growth in demand in 1999 was not matched by an increase in world supply, which fell by 1.4 million bpd (1.9 per cent) because of the agreements on output cutbacks referred to above (table 3.7). The shortfall was met from oil stocks, which are estimated to have declined by

Box 3.1

IMPACT OF OIL PRICES ON WORLD OUTPUT

The continued rise in oil prices since March 1999 has given rise to growing concern that the world economy could undergo another oil shock similar to that of the 1970s. To provide some indications of the impact of an increase in oil prices on output growth in the immediate and longer term, a simulation exercise has been carried out which assumes an increase in the price of oil from a baseline level of $26 per barrel in 2000 to $31 in the future.[1] In the system, the equation for the price of oil is specified to be dependent on the export prices of industrialized countries as well as on the ratio of oil consumption to energy requirements at the global level, with a one-year lag for both variables. At the same time, the increase in oil prices induces greater energy conservation and greater utilization of alternative energy sources, thus reducing the oil intensity of output, as experienced in the United States in recent years. As a consequence, the price of oil, instead of remaining at this higher level during the entire simulation period, is projected to decline gradually to less than $29 per barrel by 2015.

Simulation results associated with the specified increase in oil prices in 2000 are expressed as changes in the rates of GDP growth over those of the baseline for the years 2000–2015. Because of the specification of a one-year lag in the explanatory variables in the equation for both oil prices and oil requirements at the country and subregional levels, the immediate impact of the price increase in oil is generally marginal in 2000, with the notable exceptions of the Philippines and Thailand (-0.3 of a percentage point).

Over the longer term, the impact on growth is much more significant in the five years starting in 2010 than in earlier periods, and will be felt more in developing countries than in developed countries. In the immediate future (2000–2005), the impact is greatest in the Middle East (1.0 percentage point), but is also significant for Indonesia, the Philippines and Thailand (-0.3 to -0.4 of a percentage point), and least for Singapore and the Republic of Korea (-0.2 of a percentage point). For oil exporters, especially those in the Middle East, the longer-term impact of higher oil prices on growth is expected to be negative because sustaining higher prices will necessitate reductions in oil output.

Similar simulations have been carried out by other institutions. Although comparisons cannot always be made because of differences in assumptions underlying the baseline scenarios and the use of different global modelling systems, in general they reach similar conclusions. OECD, for example, assumes an increase in oil prices of $10 per barrel (presumably over the baseline, based on an average of $22 per barrel for the first half of 2000).[2] The outcome relative to the baseline is a loss of 0.2 of a percentage point in GDP growth for both the United States and EU, and a greater loss (0.4 of a percentage point) for Japan because of its greater dependence on oil imports. In the IMF simulation, which assumes a 10 per cent increase in the price of oil from a baseline level of $18 per barrel in 2000, the loss in output is 0.1 of a percentage point individually for the United States, Japan and the euro area.[3] In the World Bank scenario, which assumes an oil price of $30 per barrel in 2000 and $25 per barrel in 2001, as compared respectively to $23 per barrel and $19 per barrel in the baseline, the loss in world output amounts to 0.2 of a percentage point in 2000 and 0.4 of a percentage point in 2001.[4]

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1 The UNCTAD secretariat is grateful to Akira Onishi, Vice-President of Soka University, for carrying out both the baseline projections and the oil price scenario using the FUGI Global Model 9.0 M200. For a detailed description of the FUGI global model, including its historical background, methodology, scope and structure, see Onishi A, *FUGI Global Model 9.0 M200/80: Integrated Global Model for Sustainable Development*, Soka University, Institute of Systems Science, Tokyo, 31 March 1999.

2 *OECD Economic Outlook*, Dec. 1999.

3 IMF, *World Economic Outlook*, Oct. 1999.

4 World Bank, *Global Development Finance 2000*, Washington, DC, World Bank, May 2000, box 1.2.

Table 3.6

WORLD OIL DEMAND BY REGION, 1996–1999[a]

(Millions of barrels per day)

	1996	1997	1998	1999
OECD	45.9	46.7	46.8	47.5
North America	22.2	22.7	23.1	23.8
Europe	14.9	15.0	15.3	15.1
Pacific[b]	8.8	9.0	8.4	8.6
Other countries	25.7	26.8	27.1	27.5
Central and Eastern Europe[c]	0.8	0.8	0.8	0.8
Former Soviet Union[d]	4.3	4.3	4.1	4.0
Developing countries[e]	20.6	21.7	22.3	22.7
Latin America	4.3	4.4	4.6	4.6
Africa	2.2	2.3	2.4	2.4
West Asia	4.0	4.2	4.3	4.2
South and East Asia	6.4	6.7	6.8	7.1
China[d]	3.7	4.1	4.2	4.4
World total	71.6	73.4	73.9	75.0

Source: International Energy Agency, *Monthly Oil Market Report*, various issues.
a Including deliveries from refineries/primary stocks and marine bunkers, and refinery fuel and non-conventional oils.
b Australia, Japan, New Zealand and Republic of Korea.
c Excluding the Czech Republic and Hungary.
d Based on estimates of apparent domestic demand derived from official production figures and quarterly trade data.
e Excluding Mexico and Republic of Korea.

nearly 1 million bpd after having been replenished at a rate of 1.6 million bpd in 1998. A much higher rate of stock depletion (about 1.7 million bpd) occurred in the first quarter of 2000 as a result of increased demand brought about by the cold winter in North America.

2. The uncertain outlook

The outlook for oil prices is highly uncertain. The key factors responsible for strong price increases in 1999 – greater harmony among most OPEC members, rising oil demand brought about by the rapid economic recovery in East Asia and continued expansion in the United States – still prevail. Prices have resumed a sharp rise, pulling the market into “backwardation”[9] as oil stockpiles continued to be depleted.

Should OPEC members opt to maintain their production ceiling at its current level, oil prices will remain well above $20 a barrel. However, it is not certain that prices at that level can be sustained for long. Most oil-exporting countries recognize that a prolonged period of excessively high prices is prejudicial to their own interests, since it reduces demand for oil, stimulates investment in high-cost oil fields, brings additional non-OPEC

Table 3.7

WORLD OIL PRODUCTION BY REGION, 1990–1999[a]

(Millions of barrels per day)

Country/region	1990	1995	1996	1997	1998	1999
Developed countries	15.9	18.0	18.7	19.1	18.8	18.1
Transition economies	11.8	7.4	7.5	7.4	7.5	7.5
Developing countries	38.0	43.1	44.4	46.4	47.4	46.7
OPEC[b]	25.1	27.7	28.5	30.0	30.7	29.5
Other[c]	12.9	15.3	15.9	16.4	16.7	17.2
Processing gains[d]	1.3	1.5	1.5	1.6	1.6	1.7
World total	67.0	70.0	72.0	74.1	75.4	74.0

Source: UNCTAD secretariat estimates, based on International Energy Agency, *Monthly Oil Market Report*, various issues.
a Crude oil, condensates, natural gas liquids, oil from non-conventional sources and other sources of supply.
b Including Ecuador up to 1992 and Gabon up to 1994.
c Including Ecuador from 1993 and Gabon from 1995.
d Net volumetric gains and losses in refining process (excludes net gain/loss in the economies in transition and China) and marine transportation losses.

supply on stream, and encourages substitution of alternative sources of energy.

With demand and supply tightly balanced and inventories low, the oil market remains potentially volatile. In order to prevent prices from rising further, an increase in output from OPEC in 2000 will be needed. At its meeting in June, OPEC unanimously agreed to raise output by about 0.7 million bpd, and Mexico and Norway are expected to contribute another 0.2 million bpd. These increments, amounting to just over 1 per cent of world oil consumption, were not enough to impress the market and relieve the pressure on prices. There are accordingly expectations that at its meeting in September OPEC will decide to raise the production ceiling further in order to avoid the substantial negative repercussions described above. Thus, OPEC output is expected to rise gradually in the coming months, whether through increased quotas or through weaker quota compliance by member countries. Already, oil prices fell slightly in early July following the announcement of the unilateral decision of Saudi Arabia to increase production by 0.5 million bpd. Largely for these reasons, oil prices in the second half of the year are expected to decline moderately and thus to average $24 a barrel for the year as a whole.

D. Currency markets and policy responses in major emerging markets

1999 was a less turbulent year than 1998 for the currencies of major emerging-market economies. The currency regimes of these economies continued to span the spectrum from rigid pegs (Argentina and Hong Kong, China) through various forms of managed floating to full flexibility. The period was marked by widespread easing of monetary conditions in these economies. Substantial movements in exchange rates were rare in East Asian countries but more frequent elsewhere.

Outside East and South Asia, 1999 and the early part of 2000 witnessed some movement towards greater flexibility of exchange rates. In Latin America, Brazil relinquished the band for the real/dollar exchange rate for free floating in January 1999 as part of the response to its currency crisis. Subsequently Chile and Colombia also shifted from currency-band regimes to floating.[10] In Central and Eastern Europe, Poland abandoned in April 2000 a broad band for the zloty in favour of a freer float, but the new currency regime is likely still to be characterized by official intervention to influence the exchange rate in certain circumstances.[11] In East Asia, by contrast, the Republic of Korea has moved away from the free-floating regime introduced during the region's financial crisis towards "dirtier" floating, in which the central bank intervenes in the foreign-exchange market at the direction of the Ministry of Finance.[12] Malaysia maintained the exchange rate for the ringgit at the level established in September 1998, in conjunction with a programme of capital controls designed to eliminate off-shore speculative trading in the ringgit (see box 4.1 below). In February 1999 the restrictions on capital repatriation by non-resident portfolio investors were relaxed, being replaced for existing investors by a tax varying according to the length of the period during which the assets were held and for new investors by a tax on capital gains, also varying with the holding period. Between the beginning of September 1999, the earliest date on which investments by non-residents could be repatriated without incurring the exit tax, and the end of the year the net outflow of portfolio investment from Malaysia has been moderate.[13]

In East Asia the trend in monetary conditions in 1999 was towards greater ease, with the principal exceptions of Singapore and Taiwan Province of China, two economies which had been less affected by the region's financial crisis, as well as Hong Kong (China), where the rigid link of the currency to the United States dollar leaves its economy more exposed to changes in external monetary conditions (see chart 3.3). The easing of conditions was associated for the most part with

Chart 3.3

EXCHANGE RATES AND MONEY-MARKET RATES IN SELECTED EMERGING-MARKET ECONOMIES, JANUARY 1998 TO APRIL 2000

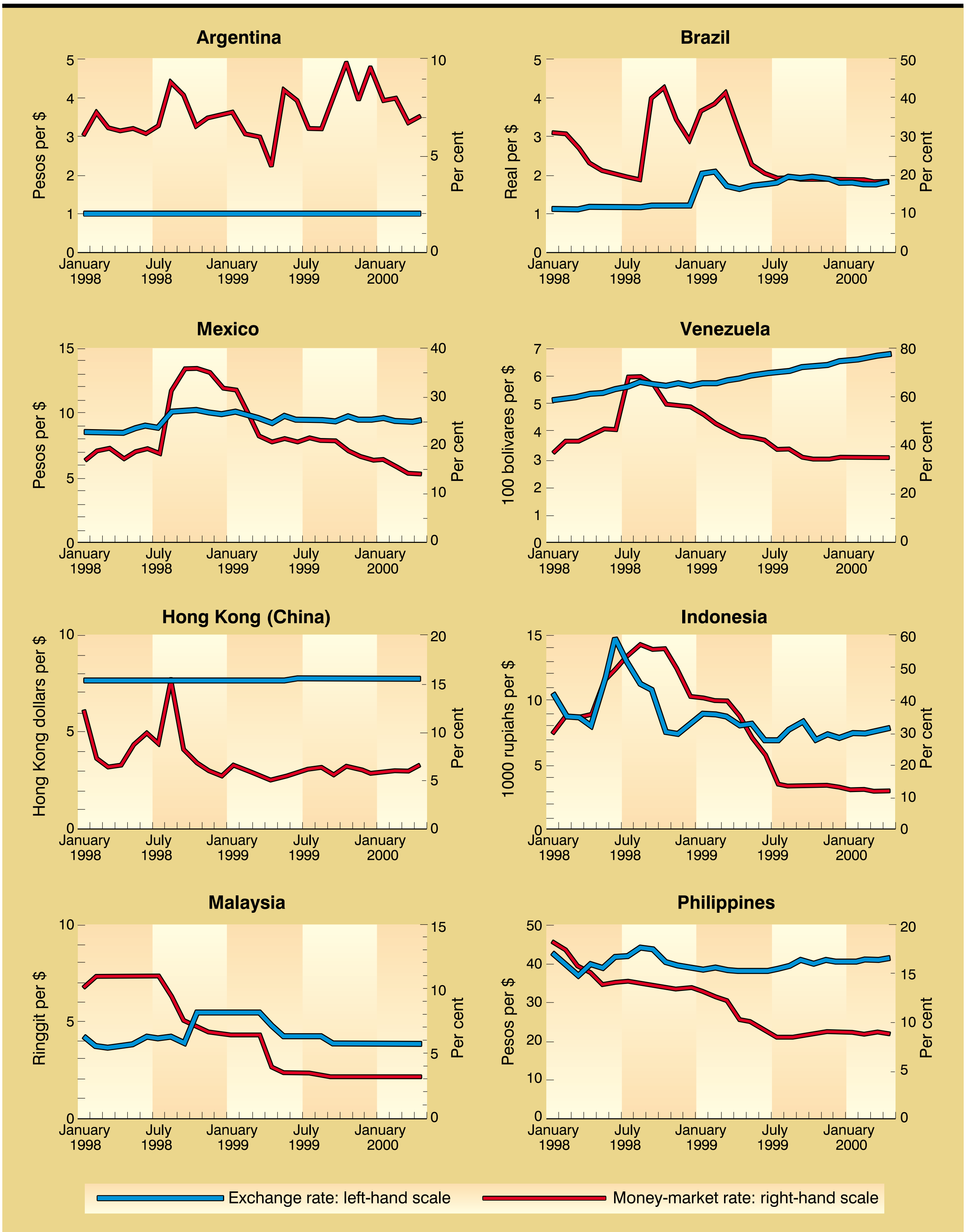

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Chart 3.3 (concluded)

EXCHANGE RATES AND MONEY-MARKET RATES IN SELECTED EMERGING-MARKET ECONOMIES, JANUARY 1998 TO APRIL 2000

Source: Primark Datastream; JP Morgan, *Global Data Watch*, various issues.

Note: Argentina, Brazil, Mexico, Indonesia, Malaysia, Philippines, Republic of Korea, Thailand, Czech Republic, Hungary and Poland: three-month domestic money-market rates or nearest equivalent; Venezuela: average lending middle rate; South Africa: discount three-month middle rate; Taiwan Province of China: money-market 90-day-middle rate; Hong Kong (China) and Singapore: interbank three-month middle rate.

greater stability in nominal exchange rates than during the previous two years, but with significant currency appreciation in Indonesia and the Republic of Korea (see chart 3.3). The stability of nominal rates was accompanied by similar tendencies for real effective exchange rates, though here the appreciation of the Indonesian rupiah was larger.[14] There have been no marked changes in this picture during the first quarter of 2000, with the exception of some periods of downward pressure on the currency in Indonesia.

The experience of major Latin American emerging markets has been more varied. There was a substantial deficit on current account in 1999, financed by larger capital inflows than those of East Asia. Monetary conditions eased during the year in several countries, the main exception being Argentina, where the currency regime leaves the economy more directly exposed to changes in external monetary conditions. The nominal exchange rates for domestic currencies vis-à-vis the dollar in most of these countries remained fairly stable in 1999, the most important exceptions being Brazil and Colombia, though the Chilean peso and the Venezuelan bolivar also depreciated more than 10 per cent during the year. The depreciation of the Brazilian currency was concentrated in early 1999, after which it first recovered some of its losses and then stabilized (a process aided by large inflows of FDI). Depreciation in Colombia was more extended in time, and culminated in late September in the abandonment of the currency band for the peso/dollar rate after the loss of $400 million in international reserves during the preceding few days. Chile's abandonment of its currency band followed a sustained period of downward pressure on the peso (which was reversed in early 2000). Depreciation in Venezuela continued to take place within a band around a central rate for the currency vis-à-vis the dollar adjusted on a monthly basis. Argentina's currency regime was subjected during 1999 to pressures linked, *inter alia*, to a severe recession and shifting external perceptions of creditworthiness; maintenance of the currency peg was facilitated by a sharp increase in FDI and, as in other recent years, required management of external debt issuance that exploited favourable changes in access to international financial markets, as well as arrangement or continuation of international financial facilities from both banks and multilateral lenders which would serve as a safety net in the event of large capital outflows.

These changes in nominal exchange rates were mostly accompanied by similar movements in real effective exchange rates, though the latter were not always of the same magnitude as the former. In Chile, for example, the real rate depreciated in 1999 less than the nominal rate, and the real rate in Mexico rose significantly, while the nominal rate moved within a narrow range.

The South African economy experienced looser monetary conditions in 1999.[15] The gradual depreciation of the rand vis-à-vis the dollar accelerated in early 2000, but the real effective exchange rate has remained within narrow limits since the beginning of 1999. In Hungary and the Czech Republic, monetary conditions have eased since that date, whilst in Poland monetary policy has been tightened since the second half of 1999. Nominal exchange rates of the currencies of these countries in relation to the dollar have tended towards depreciation, but movements in trade-weighted exchange rates have been less uniform. Poland's exit from its currency band in April 2000 was preceded by periods of pressure in both directions on its exchange rate linked, *inter alia*, to volatile flows of portfolio investment; the latest pressures led to an appreciation of the zloty in the first quarter of 2000, a period in which, on an annualized basis, net foreign portfolio investment amounted to 5.5. per cent of GDP.[16]

In *TDR 1999* attention was drawn to the large swings in exchange rates which took place between the outbreak of the financial crisis in Asia in 1997 and the end of 1998, and to their potential implications for countries' competitiveness.[17] Such swings have been less frequent subsequently, and hence also changes in competitiveness, as indicated by real effective exchange rates. In East Asia, Indonesia has experienced a large appreciation linked to the recovery of the rupiah from the depths plumbed in early 1998, whereas in Latin America there have been a number of shifts in competitiveness, but on a lower scale than those recorded by some developing countries during the previous two years.

E. Private capital flows to emerging markets

Net private capital flows to developing and transition economies increased in 1999, but at most only marginally from the levels recorded in 1998, which themselves represented a fall of more than 50 per cent from those of 1997 and reflected the aftermath of the financial crises in East Asia and the Russian Federation. This outcome was accompanied by a more stable environment for major financial indicators than that of the preceding two years. For the year 2000 forecasts range from at most limited change to a significant increase in flows, but one which would still leave private financing well short of its previous peak. Such forecasts are nonetheless tentative: those responsible for them emphasize especially their dependence on the avoidance of a return of turbulence to global financial markets.

1. Developments in 1999

The two sets of estimates in table 3.8 both show a small increase in net private capital flows to developing and transition economies from 1998 to 1999.[18] These estimates for 1999 display regional divergences. Recovery was recorded for inflows into Asia, whilst in Latin America the inflow was substantially reduced. By contrast, the changes for economies in both Europe and Africa were much more limited. There was also significant variation in the volatility of different categories of inflow: as in other recent years, estimates of FDI mostly showed either little change or rises in 1999, whilst those of debt securities and bank-lending were subject to greater variation.

The more limited impact of recent financial crises on FDI than on other major categories of private financial flow to developing and transition economies has been widely remarked upon. Once determined primarily by relatively long-term economic prospects and structural factors, FDI in recent years has come to be significantly influenced by privatization (which can have lumpy effects on a particular year's figures) and by the growing importance of cross-border merger and acquisition transactions (and thus by conditions in, and regulations regarding access to, national equity markets).[19] The rise in FDI in 1999 was associated with substantial receipts from privatization in Latin America (the especially large increase for Argentina, reflecting the sale of the petroleum conglomerate YPF to a Spanish company) and with asset sales in East Asia associated with bank and non-bank corporate restructuring and facilitated by the recent relaxation of restrictions on foreign investment.

Net private capital inflows in the form of debt declined sharply in 1999. The exposure of BIS-reporting banks in 1999 was 7 per cent lower than a year earlier, the decline affecting all regions containing major borrowers (see table 3.9). Well over 50 per cent of the total decline was due to the change in exposure to East and South Asian countries, though the absolute amount of this change for the region was considerably less than 1998. The severe contraction in 1998 reflected the widespread withdrawal of lending facilities to countries in the region in the aftermath of its financial crisis, including for a while those linked to the financing of trade flows. The 1999 contraction was influenced by continuing repayments of existing debt by some countries, but also in Asia by a reduced need for borrowing due to the accumulation of foreign-exchange reserves resulting from trade surpluses. Net outflows from the Russian Federation more than accounted for the decline in exposure to Eastern Europe, and much of the net outflow from Latin America was accounted for by Brazil, which nonetheless began to borrow substantial amounts late in the year. The declines in exposure have been accompanied by a widespread lengthening of maturities: in East and South Asia, for example, for the majority of countries with large borrowings from banks the proportion of their exposure with a residual ma-

Table 3.8

NET CAPITAL FLOWS TO DEVELOPING AND TRANSITION ECONOMIES, 1997–2000: ESTIMATES BY IMF AND THE INSTITUTE FOR INTERNATIONAL FINANCE

(Billions of dollars)

Type of flow/region	*1997*	*1998*	*1999*	*2000*[a]
	Estimates of the Institute for International Finance			
Net private capital inflows				
Total	266	137	151	199
Private creditors	125	5	-12	26
Commercial banks	36	-59	-41	-11
Non-bank private creditors	89	63	29	37
Equity investment	142	133	162	172
Direct equity	116	119	141	130
Portfolio equity	26	14	21	42
Africa/Middle East	15	8	10	12
Asia/Pacific	67	4	40	59
Europe	76	37	34	35
Latin America	108	88	67	92
	Estimates of the International Monetary Fund			
Net private capital inflows[b]				
Total	148	75	81	71
Net direct investment	139	143	150	153
Net portfolio investment	53	9	23	30
Other net investment	-44	-77	-93	-113
Africa	17	12	15	16
Net direct investment	7	5	10	9
Net portfolio investment	4	4	4	3
Other net investment	6	2	1	4
Asia	-1	-43	-27	-30
Net direct investment	55	58	50	53
Net portfolio investment	4	-18	-5	6
Other net investment	-60	-83	-71	-90
Middle East and Europe	24	22	27	0
Net direct investment	3	3	3	9
Net portfolio investment	5	0	10	0
Other net investment	16	19	14	-9
Western hemisphere	86	70	54	70
Net direct investment	53	56	64	57
Net portfolio investment	19	15	11	13
Other net investment	13	-1	-20	0
Transition economies	23	14	12	15
New direct investment	20	21	24	25
Net portfolio investment	22	7	4	9
Other net investment	-18	-14	-16	-19

Source: Institute for International Finance, *Capital Flows to Emerging Market Economies,* 13 April 2000; IMF, *World Economic Outlook*, May 2000, table 2.2.

a Forecast.

b Other net investment comprises trade credits, loans, currency and deposits, and other assets and liabilities.

Table 3.9

EXTERNAL ASSETS OF BANKS IN THE BIS REPORTING[a] AREA VIS-À-VIS DEVELOPING AND TRANSITION ECONOMIES, 1997–1999

	1997	1998	1999	Stock in 1999
	(Percentage increase[b])			($ billion)
Total[c]	8.6	-7.7	-6.7	887
of which in:				
Latin America	11.3	-2.8	-5.5	280
Africa	19.6	0.3	8.1	45
West Asia	19.8	23.5	3.0	137
East and South Asia	1.1	-21.7	-14.5	315
Central Asia	35.5	17.6	26.7	3
Eastern Europe	19.4	-0.4	-4.6	96
Other Europe[d]	28.7	12.1	10.6	11
All borrowers[e]	15.4	3.0	2.6	9824

Source: BIS, *International Banking and Financial Market Developments*, various issues.

a Including certain offshore branches of United States banks.
b Based on data for end-December after adjustment for movements of exchange rates.
c Excluding offshore banking centres, i.e. in Latin America: Bahamas, Barbados, Bermuda, Cayman Islands, Netherlands Antilles and Panama; in Africa: Liberia; in West Asia: Bahrain and Lebanon; and in East Asia: Hong Kong (China), Singapore and Vanuatu.
d Malta, Bosnia and Herzegovina, Croatia, Slovenia, The former Yugoslav Republic of Macedonia, and Yugoslavia.
e Including multilateral institutions.

turity of less than one year was at least 60 per cent at the end of 1997, but by the end of 1999 it had fallen to 50 per cent or less, except in the Republic of Korea and Taiwan Province of China.[20] During the same period there were (mostly smaller) movements in the same direction in the maturity structure of BIS-reporting banks' exposure to countries with large borrowing in Latin America and Eastern Europe.

Net issues of international debt instruments (money-market instruments and bonds) by developing and transition economies fell slightly in 1999 (table 3.10). Once again issues were heavily concentrated among Latin American borrowers, and among governments and state agencies. Much of new bond issuance in 1999 took place in the second quarter; this bunching reflected partly the bringing to the markets of bonds whose issuance had been postponed during the turbulence in international financial markets at the time of the Brazilian crisis. During the remainder of 1999 net issues continued at lower levels, but issuance accelerated in the first quarter of 2000. Gross issues by Latin American borrowers continued at much higher levels than net issues owing to substantial refinancing throughout the year. Elsewhere net issuance in 1999 was low: in East and South Asia the figure was depressed by substantial repayments; and for Eastern European countries the fall from 1998 to 1999 reflected the exclusion from the international securities markets of the Russian Federation, which had been a large borrower in the first half of 1998. The yield spreads in secondary markets on the bonds of borrowers from emerging markets began the year 1999 at levels still reflecting the aftermath of the turbulence which followed the preceding summer (see chart 3.4). For most of these economies the rest of the year was marked by a fall in such spreads (which for most non-Latin American borrowers represented a continuation of trends already begun in the autumn of 1998), but this movement tended to peter out in the first quarter of 2000.

Estimates of the Institute for International Finance (IIF) indicate a rise of net cross-border flows of equity investment into developing and transition economies, though to a level still below that of 1997.[21] This rise was accompanied by

Table 3.10

INTERNATIONAL ISSUANCE OF DEBT SECURITIES[a] BY DEVELOPING AND TRANSITION ECONOMIES, 1997–2000

(Billions of dollars)

	Gross issues				*Net issues*			
	1997	*1998*	*1999*	*2000 (First quarter)*	*1997*	*1998*	*1999*	*2000 (First quarter)*
Total	148.0	89.5	79.7	33.0	82.1	36.3	33.6	20.5
of which in:								
Latin America	75.5	43.4	48.0	17.6	41.1	22.5	26.4	13.7
East and South Asia	49.3	11.7	16.3	7.8	25.4	-0.7	-1.1	4.3
Eastern Europe	11.7	21.3	5.2	2.3	9.0	14.6	1.6	0.0
Memo item:								
World	1508.6	1657.2	2305.0	688.1	560.4	681.5	1225.2	266.0

Source: UNCTAD secretariat calculations, based on BIS, *International Banking and Financial Market Developments*, various issues.
a International money market instruments and international bonds and notes, classified by residence of issuer.

a boom in equity prices in these markets (of more than 80 per cent in dollar terms in East and South Asia and of more than 50 per cent in Latin America).[22] Most of these equity flows involved shares issued in the stock markets of the recipient countries, but part also consisted of new shares issued in external markets in the form of primary and secondary placements. The latter rose from about $9 billion in 1998 to more than $20 billion in 1999, a rise which reflected mainly an increase by issuers from East and South Asia, from about $5 billion to almost $17 billion.[23]

2. Outlook

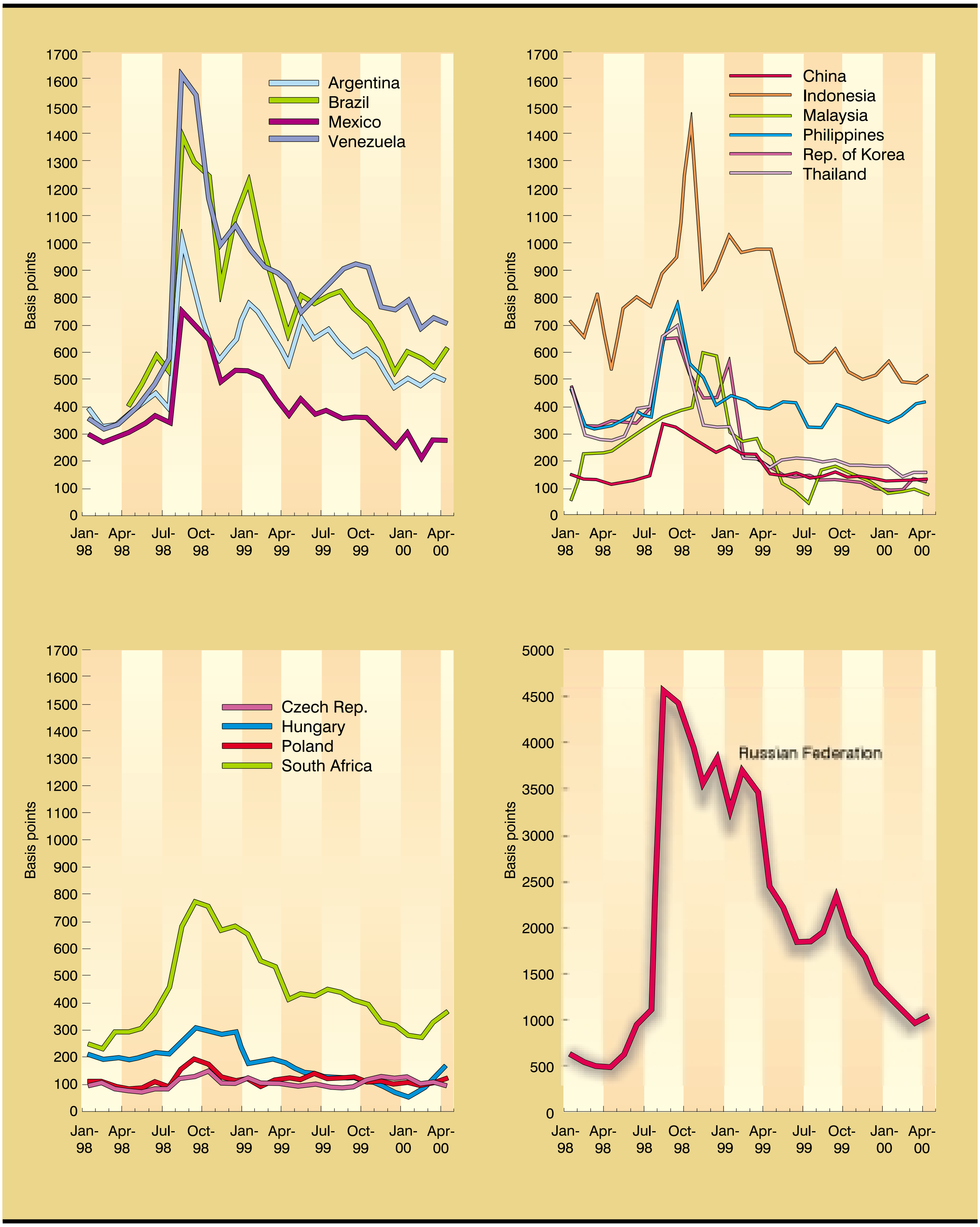
There is considerable uncertainty regarding the outlook for private capital flows to developing and transition economies in 2000. This uncertainty is reflected in differences in the direction of change forecast for such flows by major institutions. Thus, as shown in table 3.8, IIF forecasts a rise in net inflows over 1999 but still to a level only 75 per cent of that attained in 1997, while IMF (using a larger sample of countries) forecasts some small contraction.[24] The rise forecast by IIF is largely due to a turnaround of about $40 billion in net debt inflows, whilst the contraction forecast by IMF is strongly influenced by the change in net flows of non-securitized debt (after deduction of outflow on the part of residents which are not allowed for in the IIF figures). The IIF's expectation of a turnaround reflects a forecast increase in issuance of international bonds and a continuing reduction in the contraction of net bank-lending, associated, *inter alia*, with a decrease in repayments, particularly by some Asian borrowers.[25] Both institutions forecast rises in net equity flows for 2000, though for IIF the increase reflects a fall in FDI which is more than counterbalanced by an increase in net portfolio equity flows.[26]

Forecasts for 2000 are qualified by those responsible by references to elements of considerable uncertainty in the present outlook. Some of the uncertainty is associated with recent volatility in major equity markets and with the effects of a probable tightening of monetary policy in major industrialized countries. The periods of turbulence of 1997–1998 serve as a reminder that the channels of global transmission of the effects of shifts in exchange rates and asset prices are not yet fully understood, and thus increase the hazardousness of financial forecasts. Such effects, through their impact on investors' preferences and perceptions of creditworthiness, may manifest

Chart 3.4

YIELD SPREAD OF SELECTED INTERNATIONALLY ISSUED EMERGING-MARKETS BONDS,[a] JANUARY 1998 TO APRIL 2000

(Basis points[b])



Source: Primark Datastream.

a Differential between the yield of a representative bond issued by the borrowing country and that of the same maturity issued by the government of the country in whose currency the borrower's bonds are denominated.

b One basis point equals 0.01 per cent.

themselves in any or all of the major categories of private capital flows to developing and transition economies. Other uncertainties involve particular categories of flows. For example, new announced bond issues in the first quarter of 2000 exceeded $25 billion, which is more than 40 per cent of that for 1999 as a whole (much of the amount raised being due to Latin American entities but some also to entities from other countries, such as Turkey and those of Eastern Europe). However, such buoyancy will be difficult to sustain as rates of interest increase for major currencies. Other unpredictable elements involve portfolio equity flows. During the early months of 2000 there was some pulling back by international investors in portfolio equities from emerging markets, particularly in respect of East and South Asia. Yet this movement could be reversed if, for example, early signs of increasing investment interest in Asian internet-related stocks prove to be a harbinger of a speculative boom.[27] ■

Notes

1 The discrepancy between world exports and imports appears to have been widening in recent years. It is also increasingly reflected in global current-account balances, which are expected to show a total deficit of some $245 billion in 2000, compared to a small surplus in 1997. Three possible reasons for these discrepancies have been suggested: (i) increased liberalization, which has made it more difficult for governments to measure trade accurately; (ii) the surge in e-commerce; and (iii) greater instability in exchange rates as the basis for evaluation. See JP Morgan, The case of the missing global exports, *Global Data Watch*, 28 April 2000; and War of the world, *The Economist*, 27 May 2000.

2 The data on Latin American countries, based on ECLAC sources, are not always consistent with the WTO data given in table 3.1, although the direction of change is identical.

3 For an analysis of the role of trade in the Asian crisis see *TDR 1998*, Part One, chap. III; and Akyüz Y, Causes and sources of the Asian financial crisis, paper presented to the Symposium on Economic and Financial Recovery in Asia, UNCTAD X, Host Country Event, Bangkok, 17 February 2000.

4 See *TDR 1996*, Part Two, chaps. I and II, and *TDR 1993*, Part Two, chap. IV, for a detailed analysis of regional integration in East Asia.

5 For further details, see *TDR 1999*, Part One, chap. II.

6 The average spot price of the basket of seven crude oils produced by members of OPEC.

7 The ratio of actual production to agreed quotas.

8 In the United States, every $1 change in the barrel price of oil translates into a 1 per cent change in the consumer price index (CPI) for energy. Energy has a weight of about 6.3 per cent; hence, the estimated 0.3 per cent for a price rise of $5.2.

9 An instance of "backwardation" is where futures prices of oil for delivery in the nearest months are higher than those for later months.

10 In the spring of 2000 Chile relaxed some of its regulations concerning the minimum holding period for foreign equity investment.

11 These circumstances are likely to include pressures for currency depreciation or appreciation judged excessive by the central bank. See JP Morgan, *Global Data Watch*, 12 May 2000: 53.

12 See JP Morgan, *Guide to Central Bank Watching*, Morgan Guaranty Trust Company Economic Research, New York, 2000: 38. So far intervention has largely consisted of operations intended to prevent too rapid an appreciation of the won against the United States dollar. See Lee C, Not out of the Daewoo yet, *The Banker*, April 2000: 63.

13 See JP Morgan, *Global Data Watch*, 28 January 2000: 75. At the end of May 2000 Malaysian investments were reinstated as a component of the Morgan Stanley Capital International Indices, a major benchmark for the performance measurement of portfolio managers of investment institutions. See also box 4.1 below.

14 The estimates of real effective exchange rates to which reference is made at various points in this section are those in JP Morgan, *Emerging Markets: Economic Indicators*.

15 Concerning the effects of financial turbulence in 1998 on South Africa and the relaxation of monetary policy in 1999, see address of Mboweni T, Governor, at the South African Reserve Bank's 79th ordinary general meeting, 24 August 1999 (reprinted in *BIS Review*, 31 August 1999).

16 Net FDI on an annualized basis during the same period amounted to 3.5 per cent of GDP. In 1999

net foreign portfolio investment in annualized dollar terms varied from minus $0.8 billion in the first half of the year to a positive $2.9 billion in the second half. See JP Morgan, *Global Data Watch*, 4 February 2000 (p. 47), 3 March 2000 (p. 16), and 5 May 2000 (p. 11).

17 *TDR 1999*, Part One, chap. III, sect. C.2.

18 Figures of some other institutions, estimated on different bases, actually show declines during this period. For example, estimates of JP Morgan show net private capital flows to developing and transition economies declining from $182 billion in 1998 to $153 billion in 1999 (JP Morgan, *World Financial Markets*, 14 April 2000: 34). Those of the World Bank show a decline from $268 billion to $239 billion (World Bank, *Global Development Finance 2000*, Washington, DC, World Bank, 2000, table 2.1). Such differences, especially in the estimated size of the flows, reflect partly different coverage and methods of estimation. Thus, the estimates of IIF are before substraction of net lending by residents and changes in monetary gold and errors and omissions in the balance of payments (which typically represent a substantial proportion of its figures for net private flows) and comprise a sample of 29 “emerging-market economies”. Those of IMF are on a balance-of-payments basis and are thus net of outflows by residents. Moreover, they cover the great majority of IMF member countries. The World Bank’s estimates also cover a large number of countries, but are limited to long-term transactions and do not include outflows by residents. The figures of JP Morgan can be assumed to be estimated on a basis closer to that of IIF than of IMF.

19 Cross-border merger and acquisition transactions involving sales by developing economies (a substantial part of which are financed by FDI) tended to accelerate in the 1990s. See *TDR 1999*, chap. V; and *World Investment Report 1999,* United Nations publication, sales no. E.99.II.D.3, New York and Geneva, 1999, annex tables B.1 and B.7.

20 The exposure of BIS-reporting banks to the Republic of Korea with a residual maturity of one year or less fell from levels well over 60 per cent in 1997 to as low as 45 per cent in 1998, but subsequently rose to 58 per cent at the end of 1999, an increase due more to reductions in the residual maturity of loans initially made at longer maturities than to short-term borrowing. See Basel Committee on Banking Supervision, Supervisory lessons to be drawn from the Asian crisis, *Basel Committee on Banking Supervision Working Paper No. 2,* Bale, BIS, June 1999, tables 2 and 5, and BIS press release of 11 May 2000 (“BIS consolidated international banking statistics for end-December 1999”). The statistics used here are based on a BIS-reporting system different from that used for table 3.9.

21 The 1999 figure was depressed by the technical factors associated with estimation of the balance-of-payments impact on Argentina of the sale referred to above of the oil company YPF to a Spanish company, which resulted in negative flows of portfolio equity investment reflecting continuing minority holdings by residents of Argentina. See IIF, *Capital Flows to Emerging Market Economies,* 13 April 2000: 9.

22 IIF, *Capital Flows to Emerging Market Economies,* 24 January 2000: 8–9.

23 BIS, *International Banking and Financial Market Developments,* June 2000, table 17.

24 Like IIF, JP Morgan also forecasts a rise in net private capital flows to “emerging economies”, from $153 billion in 1999 to $179 billion in 2000. See JP Morgan, *World Financial Markets,* 14 April 2000: 34.

25 Substantial repayments are forecast, nevertheless, for Indonesia and Thailand. See IIF, *Capital Flows to Emerging Market Economies,* 13 April 2000: 5.

26 Most of the decline forecast by IIF is due to Argentina, whose total for 1998 was boosted by the sale of YPF referred to earlier (see note 21 above). JP Morgan forecasts a small contraction in net equity flows to “emerging economies”, reflecting declines in both portfolio and direct investment. See JP Morgan, *World Financial Markets,* 14 April 2000: 34.

27 An example of the spreading to East Asia of speculative investment interest in this sector of a kind more familiar in certain major industrialized countries is provided by a Malaysian conglomerate with interests in construction and telecommunications. Reversing a decision to sell its telecommunications subsidiaries as part of efforts to reduce its debt in January 2000, the company instead changed its name to one including dotcom. In a matter of weeks its stock price increased by more than 150 per cent. See Hamlin K, Is corporate Asia getting the message?, *Institutional Investor (International Edition),* March 2000.