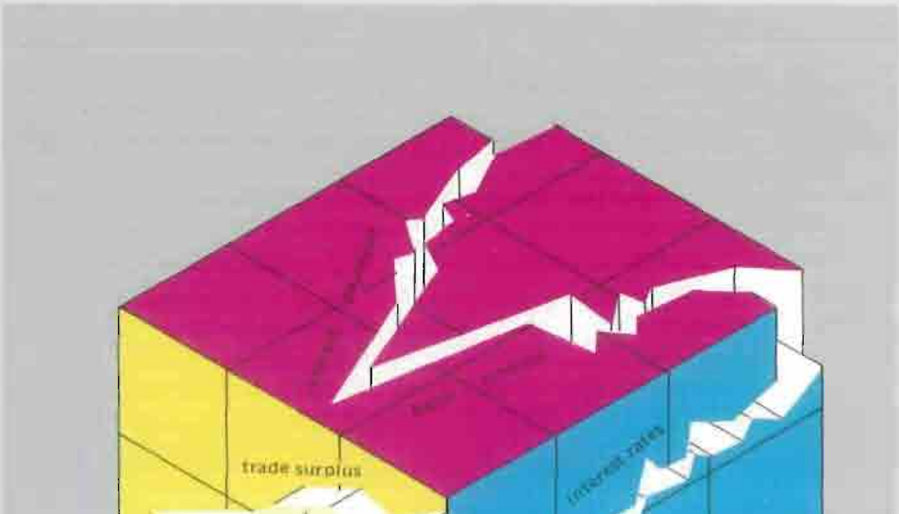
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT REPORT, 1985



UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Geneva

Trade and Development Report, 1985

Report by the secretariat

of the

United Nations Conference on Trade and Development

UNITED NATIONS

New York, 1985

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

*
* *

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

*
* *

Material in this publication may be freely quoted or reprinted, but acknowledgement is requested, together with a reference to the document number. A copy of the publication containing the quotation or reprint should be sent to the UNCTAD secretariat.

UNCTAD/TDR/5

UNITED NATIONS PUBLICATION

Sales No. E.85.II.D.16

ISBN 92-1-112203-1

02100P

Contents

OVERVIEW

PART ONE

The current situation and short-term prospects for the world economy

PART TWO

Debt, development and the world economy

ANNEXES

List of text tables

List of Charts

Chart

Abbreviations

BIS	- Bank for International Settlements
CCCN	- Customs Co-operation Council Nomenclature
CFF	- Compensatory Financing Facility (of IMF)
c.i.f.	- cost, insurance and freight
CMEA	- Council for Mutual Economic Assistance
DAC	- Development Assistance Committee (of OECD)
ECA	- Export credit agencies
ECDC	- economic co-operation among developing countries
ECE	- Economic Commission for Europe
ECU	- European Currency Unit
EEC	- European Economic Community
EFF	- Extended Fund Facility (of IMF)
EFTA	- European Free Trade Association
FAO	- Food and Agriculture Organization of the United Nations
f.o.b.	- free on board
GAB	- General Arrangements to Borrow
GATT	- General Agreement on Tariffs and Trade
GDP	- gross domestic product
GNP	- gross national product
GSP	- generalized system of preferences
IBRD	- International Bank for Reconstruction and Development (World Bank)
ICO	- International Coffee Organization
IDA	- International Development Association
IECGF	- international export credit guarantee facility
ILO	- International Labour Office
IMF	- International Monetary Fund
LIBOR	- London Inter-Bank Offered Rate
MFA	- Multifibre Arrangement
MFN	- most-favoured-nation
MTNs	- multilateral trade negotiations
NMP	- net material product
NTBs	- non-tariff barriers
NTMs	- non-tariff measures
ODA	- official development assistance
OECD	- Organisation for Economic Co-operation and Development
OF	- Oil Facility (of IMF)
OPEC	- Organization of the Petroleum Exporting Countries
QRs	- quantitative restrictions
SAL	- Structural Adjustment Lending (of the World Bank)
SDRs	- special drawing rights
SFF	- Supplementary Financing Facility (of IMF)
SITC	- Standard International Trade Classification (revision 1)
TCDC	- technical co-operation among developing countries
TF	- Trust Fund (of IMF)
UNCTAD	- United Nations Conference on Trade and Development
UNDP	- United Nations Development Programme
VERs	- voluntary export restraints

Explanatory notes

The term "dollars" ($) refers to United States dollars unless otherwise stated.
The term "billion" signifies 1,000 million.
Annual rates of growth and change refer to compound rates.
Exports are valued f.o.b. and imports c.i.f. unless otherwise specified.
Use of a hyphen (-) between dates representing years, e.g. 1965-1966, signifies the full period involved, including the initial and final years.
An oblique stroke (/) between two years, e.g. 1980/81, signifies a fiscal or crop year.

In the tables:

One dot (.) indicates that the data are not applicable.
Two dots (..) indicate that the data are not available, or are not separately reported.
A dash (-) indicates that the amount is nil or negligible.
A plus (+) before a figure indicates an increase; a minus sign (-) before a figure indicates a decrease. Details and percentages do not necessarily add up to totals, because of rounding.
Except where otherwise specified, figures in brackets are estimates.

Notes and references

In part one, notes and references relating to individual paragraphs in the various chapters appears at the end of this part. In part two these references appear at the end of each chapter.

The designations employed and the presentation of material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. The classifications used are intended for statistical convenience and do not necessarily imply any judgement regarding the stage of development of any particular country.

References in tables and in the text to "countries" are to countries, territories or areas as appropriate.

Blank page

Page blanche

FOREWORD

Two inter-connected problems are currently at the centre of international concern. First, the sustainability of the process of recovery in the industrialized countries. And second, the ability of developing countries simultaneously to service their debt normally and to develop at an acceptable pace. Both are subject to an extraordinarily high degree of uncertainty and controversy.

This issue of the *Trade and Development Report* addresses both these problems which together are shaping the evolution of the international trading and financial system. As in previous issues of the Report, Part One examines recent and prospective trends in the world economy. Part Two focusses on the debt problems of developing countries, and by placing them in the context of world economic forces and of the development process, underlines their global and historic dimension.

Alister McIntyre
Deputy Secretary-General
Officer-in-Charge of UNCTAD

Blank page

Page blanche

OVERVIEW

1. The recovery that has been underway in parts of the world economy has achieved some notable successes: unemployment has fallen in North America and the deterioration in the employment situation in Western Europe has been mitigated; considerable success has been achieved in lowering inflation in the developed market-economy countries; and interest rates have moderated in recent months. The debt problems of developing countries have also become more manageable as a result of recovery.

2. However, weaknesses and shortcomings in the process of expansion are becoming increasingly evident. The recovery has spread unevenly, and has by-passed entirely a large part of the developing world; unemployment remains unacceptably high in almost all of the developed market-economy and developing countries; real interest rates remain at unusually high levels; and the growth and development of most developing countries remain severely impaired. In many of the latter progress has been halted altogether. Moreover, there are now increasing signs of a faltering of growth in North America, without any clear expectation that this will be compensated by more vigorous expansion elsewhere. A significant slackening of growth in the developed world, however, would in all probability translate quickly into a severe and perhaps unmanageable crisis of debt and development in many developing countries. Thus, without major policy changes, which will have to be co-ordinated and planned carefully by developed and developing countries, the world economy remains on a course that is unsustainable and financially perilous in the long run.

The pace and pattern of output growth

3. After dropping steeply, to register nil in 1982 and 2.0 per cent in 1983, the rate of growth of world output rose to 4.3 per cent in 1984 and is expected to average 3 per cent in 1985. This recovery has been extremely uneven in its geographic incidence. Output has grown at the very high rate of 6.8 per cent in the United States, and at the reasonably high rates of 3.6 per cent in the socialist countries of Eastern Europe, 5.8 per cent in Japan and 4.3 per cent in Canada. But it has been a sluggish 2.4 per cent in Western Europe where unemployment, already at an extraordinarily high level, increased further. In the developing countries as a whole, output has picked up at a rate of 2.6 per cent after contracting in 1983. But here again the disparities in growth rates are striking. Sub-Saharan Africa and West Asia have continued to suffer economic contraction, albeit at a somewhat reduced pace, while East Asian developing countries expanded at 5.6 per cent. Growth in the developing countries of the Western Hemisphere has turned from a negative rate of 2.4 per cent to a positive rate of 2.6 per cent.

4. The pattern of recovery has also been characterized by a number of other imbalances, in particular a large and fast-growing trade deficit in the United States and surplus in Japan. There has also been a sharp decline in financial flows to developing countries, from some $19 billion in 1983 to nil in 1984, and an increase in their surplus of exports over imports from around $22 billion to almost $50 billion in 1984. Both these phenomena were concentrated on the developing countries of the Western Hemisphere, where the net resource outflow reached over $27 billion in 1984.

5. The behaviour of prices was also sharply divergent among country groupings. Inflation in the developed market-economy countries has fallen from 10.5 per cent in 1981 and 7.8 per cent in 1982 to 5.3 per cent in 1983 and in 1984. However, it has on average accelerated in developing countries, particularly in Latin America.

6. The uneven and unbalanced character of the recovery process has also been evident in key international markets. Commodity prices have failed to respond to higher growth in the industrialized countries as strongly as might have been expected by historical standards. Interest rates have remained extremely high in real terms, and the dollar has strengthened further notwithstanding

the sharp deterioration in the trade balance of the United States. Much of the lending by banks to developing countries has been "involuntary".

The growth and distribution of aggregate demand

7. The various features of the recovery process outlined above may be explained in large part by the monetary and fiscal policies pursued by Governments since 1981. These may be characterized roughly in the following terms. The United States has chosen to pursue stimulative fiscal policies and tight monetary policies and accumulated internal and external debt at a rapid pace. By contrast, other developed market-economy countries have chosen to pursue tight fiscal policies and slowed down the growth of public debt and of the public sector, while the developing countries have been forced to pursue contractionary macro-economic policies in an effort to reduce external deficits and slow down the growth of external indebtedness. The inter-action of policies in the United States and other developed countries has yielded payments imbalances which have thus far been accommodated by spontaneous capital flows, but which cannot cumulate indefinitely. Moreover, the combination of tight United States monetary policies and tight fiscal policies in Western Europe and Japan has increased the burden of the external debt on developing countries.

8. The most important single stimulant to the world economy has been the United States budget deficit which, on a cyclically adjusted basis, moved sharply into deficit between early 1981 and end-1982 and has remained in a decidedly expansionary stance thereafter. Despite some easing of monetary policy from the second half of 1982 onwards, real interest rates have remained extraordinarily high, although there have been significant reductions in recent months. High interest rates, combined with increased profitability in the United States corporate sector, have raised the demand for dollar-denominated assets, causing the dollar to appreciate. This in turn has increased the propensity of the United States to import, accentuating the strong expansion of import demand stemming from higher activity. As a result, United States imports have grown from $248 billion in 1982 to $328 billion in 1984, while its trade deficit widened to reach an annual rate of $120 billion in the first quarter of 1985.

9. Growth performance in the rest of the world has been determined by a pattern of increased external demand emanating from the United States, on the one hand, and the weakness of domestic demand, on the other. The incidence of United States demand has varied greatly, depending upon traditional trade relations with the United States and the capacity of countries to supply current demand: the growth of United States import demand had a stronger impact on Canada and Japan than on Europe and this explains in part why the former have registered better growth performances.

10. The rough correspondence between the pattern of growth in Western Europe and Japan with the impact of United States demand reflects the tightness of the macro-economic policies pursued by most developed countries. West European macro-economic policies moved in a direction opposite to that in the United States: cyclically adjusted budget deficits have moved towards surplus in almost all of the Western European countries, reflecting the view that high budget deficits and government expenditure themselves constituted an impediment to higher growth in the long run. As regards Japan, too, only a relatively small expansion has taken place in home demand since the high propensity of the private sector to save relative to its propensity to invest was not offset by more stimulative fiscal policies. In other words, the United States' trading partners in the OECD area have by their own policy stances failed to contribute significantly to demand growth, and have even dampened the demand expansion initiated by the United States; at the same time, they have captured a sizeable share of the demand generated by the United States.

11. Among the developing countries, there have been wide differences, both in the incidence of the growth of United States import demand, and in their ability to translate increased exports into increased output. Three broad types of experience can be discerned.

12. A relatively small group of developing countries, mainly in the Pacific

Basin, have not experienced debt-servicing crises and have seen their exports to the United States rise sharply. While a part of this increase has been used to raise reserve holdings and/or reduce borrowing, imports have also expanded, allowing the growth impulses received from the United States to be retransmitted to the rest of the world.

13. At the other extreme, a large number of developing countries, many of them with low levels of per capita income, failed to register any appreciable increase in export earnings in 1984 largely because of the weakness of commodity markets, which stemmed largely from the slow rate of growth of demand in Western Europe. These countries were thus unable to increase imports and world demand to any significant degree.

14. A third group consists of those developing countries that have experienced difficulty in servicing their debt - mainly countries in Latin America - and that have increased sharply their exports to the United States in both 1983 and 1984. In these countries, improvement in the trade balance necessitated by the external financial situation could be achieved in 1983 only at the cost of massive cuts in imports, partly because external markets other than the United States remained depressed. In 1984 the large increase in these countries' exports to the United States did translate into an overall rise in export earnings, but since further improvements in trade balances were required imports rose only slightly. The preemption of export earnings by debt service has thus prevented these countries from retransmitting to the rest of the world the demand impulses received from the United States.

External obstacles to development

15. A variety of factors underlie the current economic difficulties of developing countries. For some, events unrelated to the behaviour of the world economy have been predominant. Natural disasters have exerted a powerful influence on output in sub-Saharan Africa, and climatic factors have been significant in a number of other countries. Civil strife and other armed conflicts have been disruptive factors in parts of the developing world. Deficiencies in domestic policy formulation also played a role in a number of countries in increasing their vulnerability to external shocks and in limiting the speed and extent of corrective action.

16. By far the most important factor underlying present difficulties, however, has been the evolution of the external environment and the intimate connection between this environment and the debt problem. The late 1970s and early 1980s saw a sharp and prolonged recession in the OECD countries, a rise of interest rates to unprecedented levels, a further substantial increase in the price of petroleum and a steep drop in the prices of primary commodities in real terms to levels which had not been experienced for decades. The changes had a devastating impact on the external accounts of the developing countries. For example, the fall in commodity prices from levels that had been reached in 1981 cost developing countries a cumulative amount of $38 billion for the period 1982-1984. In addition almost one half of the total interest bill of developing countries during the period 1980-1982 could be directly attributed to the increase in interest rates in that period over the levels of 1976-1979. In many countries the foreign exchange losses due to the combined effects of recession and interest rates amounted to 10 per cent of GNP. In some, for example Jamaica and Sri Lanka, the depressive effect amounted to one-third or more of GNP.

17. Since these phenomena were generally expected to reverse themselves soon, many developing countries with access to capital markets borrowed on a substantial scale. Indeed, a large part of the total existing outstanding indebtedness of developing countries was accumulated after 1978 and did not lead to a commensurate increase in productive capacity.

18. However, such a rapid pace of lending could not be sustained, for it implied a very rapid rise in the exposure of the creditors and in the indebtedness of the borrowers. As debt-servicing difficulties mounted, banks became unwilling to continue lending on the previous scale and attempted to halt lending altogether to many of their customers, thus accen-

tuating their payments difficulties. Other sources of financing also tended to dry up. There followed a period of intense crisis requiring extensive *ad hoc* rearrangement of debt-servicing obligations together with highly restrictive domestic policies. For developing countries that lacked access to financing, the crisis had arrived earlier.

19. In contrast to 1974-1975, official opinion in the developed world did not view financing as a significant part of the appropriate response to external deficits, nor did it attach prime importance to the avoidance of declines in economic activity. Consequently, finance to developing countries from official sources was not expanded on a large scale and such financing as was available was made highly conditional upon the pursuit of rigorous balance-of-payments adjustment policies. Thus, not only did it become impossible for developing countries to accommodate trade deficits by borrowing, but also it became necessary to generate large improvements in the trade balance, and very quickly, in order to make up for the higher interest payments and reduced level of net capital inflow. Moreover, a reduction of indebtedness relative to exports became for many countries the prime goal of policy to which all other objectives were subordinated.

20. Given the speed with which the reduction needed to be brought about and its size, there was little choice but to slash imports relentlessly, and this was almost universally the route followed initially. In many countries, these reductions were so drastic as to depress output sharply. The rate of growth of GDP of developing countries declined continuously from 1979 onwards, to register a negative figure in 1983. Per capita incomes declined even more sharply. Whereas in 1978-1979 only one country in nine had experienced a fall in the level of output, one in four did so in 1978-1981, and one in two in 1982-1983. The phenomenon of "import strangulation" was particularly noticeable in sub-Saharan Africa, where the import cuts reduced supplies of spare parts and raw materials.

21. The import cuts affected not only living standards and output, but also investment. One country in four had experienced a fall in the level of investment in 1976-1978; but this figure rose to two out of five in 1979-1981 and three out of five in 1982-1983. Thus, future growth potential was also severely impaired.

22. More recently, a number of developing countries have improved their trade balance through export expansion. This has, in particular, been the case for those countries with relatively advanced manufacturing sectors, where domestic markets have been depressed and price incentives to export increased through currency devaluation. Even so, investment continues to be depressed.

23. For the vast majority of developing countries, however, the structure of their economies and composition of output did not allow for a rapid increase in exports. The possibilities in this regard are particularly constrained in the case of developing countries exporting mainly primary commodities which face inelastic demand for their traditional products and have limited room in the short run for diversification. Devaluation and other "switching" policies designed to improve relative prices in favour of exports and import substitution have helped to lessen the degree of output reduction, and in certain cases, greater stress on such policies, rather than on expenditure reduction, might have been useful. However, the size and speed of the turnaround required in the trade balance has generally outstripped by a wide margin the capacity to switch. Tailoring the adjustment path to the capacity to switch would have entailed phasing the correction of the payments imbalance over a longer period, and basing it on a restructuring of the size and composition of the capital stock, in particular the flow of new investment. Such an approach would have required not only changes in the pattern of incentives designed to change the composition of demand to ensure an efficient allocation of resources, but also financial support of various kinds from abroad, including longer-term balance-of-payments finance and programme assistance. Such support was not in practice forthcoming on the necessary scale.

24. The cost of the strenuous adjustment, in terms of income forgone, of inflationary pressure, and of social instability has been unconscionably high. Currency depreciation has added

to inflation, rendering it even more difficult to reconcile balance-of-payments adjustment with price stability, and attempts to maintain "realistic" exchange rates in the face of widespread misalignments among the floating currencies of developed countries have sometimes added to this pressure. Rises in real interest rates, though unavoidable in financially open economies in order to discourage capital flight and create an atmosphere conducive to the return of capital, have increased the pressure on prices and, when combined with currency depreciation and reduced home demand, given rise to financial difficulties for companies with significant domestic and/or external debt. Governments have therefore found themselves having to engage in financial rescue operations, diverting resources from social and capital spending. Removal of subsidies on basic foodstuffs and public utilities in order to reduce deficit financing has often simply resulted in a change in the mechanism through which inflationary pressure is generated, rather than in a reduction in the rate of inflation, and has tended to do so in a way which endangers social stability. Moreover, cuts in spending designed to reduce such inflationary pressures have often entailed further reductions in employment and production.

25. Efforts to tackle the external deficits resulting from the various shocks and, in particular, from the drying-up of financial inflows, have thus involved inordinately large sacrifices. The sacrifices have been only partly reflected in improved debt positions, but have endangered development potential. In some countries, therefore, there is a real danger of a downward spiral of rising debt and declining investment and export capabilities. This, if it should it occur, would constrain growth at unacceptably low levels for the foreseeable future, or even result in a prolonged contraction. To avoid such an eventuality, with its attendant political, social and financial consequences, will require appropriate domestic policies to be accompanied by a helpful external environment.

Debt and developed countries

26. The adjustments made by developing countries to their trade balances in response to the worsening of the external environment and the associated debt-servicing and financing difficulties have resulted in the transmission of deflationary impulses to developed market-economy countries. So far this has primarily taken the form of declines in exports from these countries. During the first three quarters of 1984 total OECD exports to developing countries were $46 billion, at an annual rate, below their 1980-1981 level, with almost three-quarters of the reduction occurring in respect of OECD Europe. Examination of the regional trade statistics shows that the European trade decline is in large part due to the severe curtailment of exports to African developing countries but exports to Latin America and the Middle East were also running below the 1980-1981 levels. In the case of North America, contraction of the Latin American market has accounted for practically all of the reduction in exports. Overall, the contraction of exports to developing countries has resulted in a loss of close to 7 million work years of employment in OECD Europe and close to one million work years in North America during the three-year period - i.e., two to three million jobs have been lost in the developed world.

Debt and the banking system

27. The international banking system has been strained by the need to achieve simultaneously a reduction in its own exposure to risk because of past loans to developing countries and the need to ensure that its debtors remain solvent and able to meet current interest payments. The first objective requires a decrease in the banking system's exposure to developing countries, while the second has called for an increase in such exposure. Tensions created by these contradictory requirements have shaped the recent evolution of banking practices.

28. The most notable development has been the emergence of "involuntary" lending vis-a-vis many of the major debtor countries. This has also

involved a significant break with past practice as regards the role of the IMF, which has now actively sought undertakings by banks on the pace of their new lending to debtor countries. "Involuntary" lending has also amounted to a form of cartelization of the banking industry. It initially facilitated practices such as the raising of spreads and fees paid by borrowing countries that have had to reschedule, although, more recently, multi-year rescheduling arrangements have included reductions of spreads and fees. On the other hand, it has also served to prevent withdrawal of lending by individual banks, in particular those with low exposure to troubled debtors. But attempts to maintain cohesion among banks have not been easy, partly owing to differences in the tax, accounting and regulatory regimes of banks from different developed market-economy countries.

29. In practice, involuntary lending has yielded only a modest additional net financial flow to developing countries, and the brunt of the adjustment to higher interest rates and other shocks has fallen on the trade balances of the debtors. For certain countries of Latin America, interest payments now lie between 2 and 5 1/2 times the total of new borrowings, reflecting the wide disparity between the rate of interest and the rate of increase in bank exposure to the countries. For Latin America as a whole, the net transfer to the banks has been of the order of $30 billion in 1983 and $27 billion in 1984, equivalent to one quarter of the region's exports. For the biggest debtors, the proportion was in a few cases much greater, reaching levels of 40 to 50 per cent.

30. Alongside of "involuntary" lending there has recently been a number of other changes in practices and policies in the banking sector intended to strengthen the banking system against default by borrowers. In particular, measures have been taken to improve the quality of balance sheets rather than enlarge the size of portfolios, and to reduce bank exposure to developing countries, especially those to which bank exposure is already high. For that reason, the growth of bank lending to developing countries is likely to be not more than around 5 - 6 per cent over the next decade. Over the past two years, the growth of bank exposure to such countries in dollar terms has fallen almost to zero.

31. As long as the rate of growth of debt from banks due to net new lending is less than the rate of interest, negative net transfers will arise. For example, if new bank lending takes place at a rate of 6 per cent per annum of the outstanding stock of bank debt, and the interest rate (including spreads) is at 11 per cent, negative net transfers from developing countries as a group might grow from about $20 billion in 1985 to about $30 billion in 1990 and $40 billion in 1995. A long series of large negative net transfers from developing countries to banks is not likely to be sustainable. In most cases, such transfers would be associated with continued austerity, which might eventually lead to social and political disruptions. They would also require trade surpluses of a magnitude that might prompt an intensification of protectionism in the developed countries.

32. One possible way of preventing negative net transfers would be to increase official financial flows by offsetting amounts. However, the scale of such additional flows and the associated accumulation of additional debt is too large to be a realistic prospect. Yet insuperable difficulties are likely to confront attempts to avert continuing negative net transfers by raising the rate of new lending. The alternative is to focus efforts on lowering interest rates. This could be expected only as a result of changes in policy on the part of major developed countries.

Export credits

33. The fall in new lending to developing countries after 1981 was accompanied by widespread reductions in export credits, particularly to the least developed countries. Since export credits are linked to trade transactions, an important part of the contraction can be imputed to lower demand due to the reduction of developing countries' imports in 1982-1983. Factors on the supply side in the form of the policies followed by export credit agencies (ECAs) have also contributed to this movement. Some of these policies are a response to the deterioration in developing countries' creditworthiness and

the disruptions of their debt-service payments since 1982. These disruptions have caused large rises in claims in relation to income for export insurance programmes, with result that such programmes are now showing losses in most developed market-economy countries. Owing to the increased risks of non-payments in trade transactions ECAs have tightened the terms on which their support for exports is made available and have widely withdrawn insurance cover for additional lending to countries which undertake reschedulings of their debts. These actions involving ECA's insurance operations have been accompanied by the continuation of earlier efforts to reduce the subsidising of interest rates on export credits. Thus a tightening of the terms of such credits and a reduction in their availability, partly triggered by the world depression and the debt crisis, has combined with rises in their interest rates to aggravate financial pressures on developing countries.

34. As in the case of bank lending, prospects for export credits are clouded owing to the pursuit of conflicting objectives by creditors. Governments in most developed market-economy countries are currently concerned to decrease expenditures due to subsidies and to the losses of public-sector enterprises and agencies. However, this objective is in conflict with that of export promotion so that, for example, the attempts among developed market-economy countries to secure more orderly competition in export financing are beset by continuing friction and disagreements. Moreover it is not yet clear whether the current rescheduling process will lead to viable paths for developing countries' external payments and financing. Thus a return to more normal conditions with respect to the availability of export credits remains uncertain, and the service of such credits (like that of bank loans) is vulnerable to further disruptions.

Trade finance and payments arrangements

35. The movements of different types of external financing for developing countries from private sources have recently tended to follow a similar pattern. As a developing country's external accounts come under pressure, availability of foreign financing is further reduced and the squeeze on the country's payments position is aggravated. Attempts to offset the impact of such squeezes through "involuntary" lending by banks and increases in official flows other than export credits have not been sufficient to compensate for the breakdown of normal types of financing for many developing countries.

36. Many of the phenomena which have followed the outbreak of the debt crisis - such as arrears, reschedulings, tightening of lending terms, and suspension of insurance cover for export credits - are normal consequences of serious discontinuities in debt servicing. What differentiates the current crisis from previous post-war experiences of such phenomena is the enormous increase in scale. For example, during 1975-1980 the value of official debt rescheduled at the Paris Club was $9 billion, and that of bank debt rescheduled in multilateral negotiations $5 1/2 billion. By contrast, the figures for 1983-1984 were $14 billion for official debt and $154 billion for bank debt. The arrears of Fund members were in the range of SDR 5-6 billion in 1977-1981 but had risen to SDR 23 billion by the end of 1982 and SDR 26 billion by the end of 1983.

37. Disruptions of external financing have been an important cause of the proliferation of bilateral countertrade agreements between exporters and importers. Until recently, countertrade was mainly confined to trade with socialist countries, but it is now also widely used between developing and developed market-economy countries as well as in the mutual trade of developing countries. Today, it takes place in a wide variety of manufactures, primary commodities and oil. It and has been used by developing countries for many purposes, including the penetration of new markets in pursuit of export growth and diversification. Among the major reasons for increased recourse to countertrade have been the shortages of foreign exchange, the difficulties of arranging trade financing and the objective of securing stable purchasing commitments. Since a return to more normal conditions in international trade and finance may well be long delayed, there is a possibility that countertrade will become an increasingly permanent feature of

international economic relations. This would amount to a serious setback for the steady progress since World War II, towards a liberal multilateral trade regime.

The trade regime

38. The emergence of severe debt-servicing difficulties has created unprecedented pressure on debtor countries to increase their exports. This has had to occur, however, in an environment that was largely unfavourable. The growth of markets in developed market-economy countries has been weak so that a vigorous rise in exports by developing countries has implied substantial import penetration by them of these markets, displacing domestic producers or other exporters.

39. The worldwide trade regime has also been a source of difficulty on two counts. First, existing trade impediments have hampered the export efforts of developing countries. Over one-third of developing-country exports to developed market-economy countries are subject to one or more kinds of measures which constrain export volumes. In some sectors where developing countries are generally acknowledged to have a comparative advantage, the value of trade subject to such measures is far higher. Moreover, non-tariff measures are applied with particular force to goods originating in developing countries. For example, in the European Economic Community over 80 per cent on average of tariff measures facing textiles, apparel and footwear products apply solely to goods originating in developing countries. Similar patterns of discriminatory application can be found in other markets.

40. Secondly, there has been a tendency for impediments to increase in markets where developing countries have been particularly successful. The more dynamic exporters in the developing world have seen the emergence of new trade restrictions on their exports. Recent years have seen a rapid acceleration in the use by developed market-economy countries of anti-dumping and countervailing duty actions, a much larger share of which have been brought against developing countries. In a number of cases the activities which triggered the anti-dumping and countervailing duty actions have undoubtedly resulted directly from the severe pressure to export engendered by debt-servicing difficulties.

41. The tremendous pressure to expand export volume may also inflict lasting damage on commodity producing countries, via another mechanism. Because of sharp currency devaluations and other factors, the real domestic prices received by commodity producers have risen in many producing countries. For that reason, and as a result of deliberate governmental programmes to increase output, there appears to have been an expansion between 1980 and 1983 in productive capacity for those agricultural commodities for which real domestic prices rose substantially. Although increases in export volumes are often coming from countries that are not major producers of the products in question, such simultaneous increases in large numbers of producing countries can be expected to raise aggregate supplies. Given stagnant or slow-growing demand, this must eventually result in lower commodity prices and, given low price-elasticities of demand, in lower earnings for exporters as a whole. Such an "adjustment" by commodity producers to balance-of-payments deficits and excessive debt could ultimately aggravate both their deficits and their debt burdens.

The medium-term outlook on present trends

42. The preceding paragraphs have underscored the impact on development prospects of three major influences in the present economic conjuncture - the policies of developed countries, the overhang of debt and the operation of the trade and financial system. Questions naturally arise about the quantitative effects of possible changes in these factors on developing countries. With the aid of an UNCTAD econometric model, medium-term scenarios have been used to explore the relationship between major macro-economic variables and the prospects for developing countries during the next decade.

43. A first scenario has been constructed on the assumption that recent experience of OECD growth, interest rates, commodity prices and exchange rates will continue during the period

ahead. For the major variables, the assumptions are that GNP in the OECD area will grow at almost 3 per cent; LIBOR will remain throughout the period at 11 per cent; the dollar will depreciate moderately; commodity prices will firm only modestly; inflation in the developed market-economy countries will follow recent trends; ODA flows will remain unchanged as a proportion of developed country GNP; and bank exposure to developing countries will rise by no more than 6 per cent per annum.

44. The outcome of this scenario indicates that debtor developing countries could only grow at around 3 1/4 per cent per annum during the next decade. This would leave per capita GDP in 1990 barely above the 1980 level, for developing countries as a whole, and below that level for many among them. The major capital market borrowers would be making a substantial outward net transfer of resources, alongside very slow growth (3 1/3 per cent) and continued debt accumulation. The ratios of debt and interest payments to exports do improve, however, suggesting that a return to creditworthiness could be achieved over time. The growth performance of the least developed countries is particularly poor, with output rising at about 2 3/4 per cent.

45. It is, of course, not possible to gauge the likelihood that the future might broadly resemble this scenario. The outlook for the months ahead is for somewhat higher growth in the developed market-economy countries than assumed in the scenario, and possibly lower interest rates, thus suggesting a climate that may be somewhat more favorable than that assumed in the scenario. What requires emphasis, however, is how uncomfortably close the present and prospective economic situation is to that sketched by the scenario: any significant backsliding with respect to growth performance in industrial countries or interest rates, should it persist, would bring the world economy perilously close to the situation roughly depicted by the scenario.

46. Developments along these lines, should they occur, would be extremely grave for developing countries, which would find it increasingly difficult to service their debts, as they have done hitherto, by holding down domestic consumption and investment. Countries for which the burden of interest payments will become unbearable might have no alternative but to slide further and further behind in making such payments; indeed, some of the smaller capital-market borrowers may at present be headed in this direction. The debt problem would increasingly be one of a disparity between interest payments and charges, on the one hand, and the capacity to pay, on the other, which a stretching of maturities could do little to correct. Moreover, the lack of any clear prospect of enhanced debt-servicing capacity in the future would render inappropriate various procedures that capitalize interest payments.

47. In the context of a chronic crisis of solvency for many countries, the question would naturally arise as to how conflagrations could best be anticipated and thereby avoided, or at least greatly mitigated. How to apportion the burden of dealing with debt problems more evenly between creditors and debtors is a highly complex question, in view of the considerable differences that exist in the individual circumstances of debtor countries and in the institutional characteristics of creditors.

48. As regards countries for which official credits account for a large proportion of external debt, direct action on the part of creditor Governments to provide relief, conceived within the framework of aid programmes and designed to support programmes of policy reform as necessary, must have an important role to play. Proposals to relieve ODA debt are currently under discussion in UNCTAD.

49. For countries whose external debt is owed primarily to private creditors, measures designed to relieve debt must be assessed in a different light. Interest payments constitute the means through which commercial banks generate profits for their shareholders after meeting interest payments due to their depositors. These could not be cut unless losses were imposed on shareholders. A number of schemes have sought to avoid this difficulty by involving official entities in financing part or all of the necessary debt restructuring, for example, through exchanges of non-performing loans for assets issued by these official institutions (though in some proposals banks are also expected to accept some loss on the face value of their loans).

Such schemes, however, have the disadvantages of appearing to bail out banks and would therefore probably encounter serious political resistance. Moreover, it would be difficult, if not impossible, for governments to assist banks in overcoming difficulties with external loans without simultaneously dealing with losses arising from domestic loans, which are also substantial in some developed market-economy countries.

50. It is unlikely that banks would continue to lend to countries that had imposed financial losses on them. But equally, they would also be unwilling to lend on a significant scale to countries that they expect to be in continuous difficulty. Banks have already begun to make provision against losses to such countries. However, the benefits of this process have not yet accrued to the countries concerned, who have been under continuing pressure to restore normal service on the loans. It will prove increasingly difficult to sustain this anomaly and it will need to be removed in part by devices such as the writing down of debt. The need for some writing down of debt would also apply to official and officially guaranteed export credits; here, however, the bulk of the losses would need to be absorbed by public entities.

51. Giving such relief in a deliberate and planned manner might run the risk of increasing "moral hazard"; that is, the risk that governments might inadvertently foster less prudent behaviour by banks in the future. However, it would serve to avoid the occurrence of ruptures whose consequences, domestic and international, are unpredictable and possibly irreversible. It might therefore be on the whole much less damaging to the interests of creditors and creditor governments over the long term to make an orderly retreat than to persist with efforts to restore normalcy in debt service in the context of an abnormally inclement external climate.

A positive alternative

52. A recovery scenario has also been constructed, in which the global macro-economic variables are assumed to move in a positive direction, creating a much more favourable environment for debt services and development. It is assumed that the underlying growth rate of the developed market economies rises to average about 4 per cent over the same period, and that there is a more favourable environment regarding aid performance, trade policies, interest rates, exchange rates and prices of internationally traded goods. The postulated improvements over current performance are substantial, but well within the range of feasibility suggested by past experience. The results of this package of assumptions are striking. The growth rate of developing countries rises to reach 7 per cent by 1995, and is distributed more or less evenly among the main analytical groupings. Both interest payments and debt outstanding as percentages of GDP show a progressive decline.

53. In this scenario, the major capital-market borrowers are able, because of the more favourable trade and price environment to reduce progressively their stock of debt. Consequently, while they experience sizeable negative net transfers, their interest bill eventually declines, even in absolute terms. Alternatively, the countries in question might regard debt-retirement as premature given their stage of development, and consequently prefer to use their improved credit standing to continue borrowing and attain higher rates of growth; this would imply lower trade balances and higher debt-service payments at each point in time. However, for such a course to be viable in the long term, export growth would need to be stepped up also. The feasibility of this would depend partly on the trade policies of the developed countries. The same is true with regard to the feasibility of a debt-retirement path. If developed countries perceived the trade surpluses sought by debtors as a drain on profits and employment in their own economies, or as evidence of unfair trading policies, import restrictions might be tightened, making it impossible for the big capital-market borrowers in particular, to lessen indebtedness without also reducing growth. For capital market borrowers, therefore, much would depend on their access to the export markets in developed countries being sufficiently wide.

54. For the least developed countries, the dramatically improved growth rate of 7.2 per cent by 1995 in the recovery

scenario largely reflects the assumption made that the availability of aid improves substantially, specifically that total ODA as a percentage of the GNP of developed market-economy countries doubles by 1990. For the least developed countries, debt as a proportion of GDP and exports rises markedly over the period, as do current-account deficits in proportion of GDP, and trade deficits in proportion to exports. Nevertheless, like the other deficit developing countries, the LDCs lower their indebtedness relative to other aggregates, though not in absolute terms.

55. Given the vastly different implications for developing countries and the international financial system of the two scenarios, the question arises as to whether the present policy approach will bring the world economy closer to the first or the second of these outcomes. With regard to some dimensions of policy, the answer is clear: present policies with regard to official development finance, for example, would lead to the first, low-growth scenario.

56. As regards the major international macro-variables, the situation is more complex. These variables are presently on a course that cannot be sustained, and it is the manner in which this unsustainability is dealt with that will determine whether the world economy approaches the first or second scenario in the years ahead.

The unsustainability of the present course

57. The disparities in demand expansion and the misalignment of exchange rates which have resulted from the monetary and fiscal policies of the major developed countries have created a situation that is increasingly untenable for the world economy at large. It is highly unlikely that the present trends in trade imbalances can continue for long; sooner or later financial markets will become reluctant to accumulate dollar-denominated assets at the present pace, and currency holders will eventually be prompted by mounting trade imbalances to switch out of the dollar. It has been estimated that on current trends the net foreign indebtedness of the United States would reach one trillion dollars by 1990 raising its external debt to a level roughly equal that of all other countries put together.

58. Moreover, the outcome is increasingly unacceptable to Governments. The strength of the dollar was not unwelcome in the past to the United States, since by lowering import prices it reduced inflationary pressures. However, it has now become very costly in terms of output, increasingly causing United States demand to leak abroad: by early 1985 the United States was experiencing a serious slackening of output growth, despite the fact that demand continued to grow quite rapidly. The erosion of competitiveness resulting from an over-valued dollar has not been confined to the traditional manufacturing industries - for example during 1980-1984 the United States switched from being a net exporter to a net importer of electronic equipment and components. In other words, the behaviour of exchange markets is causing a large part of the output growth resulting from expansionary United States fiscal policies to accrue to other countries, while the costs in terms of reduced competitiveness and increased public sector debt are borne by the United States. The longer this persists, the more the risk of a run on the dollar will become a source of concern.

59. The question thus arises whether the imbalances resulting from disparities in demand-creation and in interest-rate differentials can be corrected solely by unilateral policy changes on the part of the United States; or solely by policy changes on the part of Western Europe and Japan; or through the operation of private currency and capital markets.

60. A unilateral shift by the United States towards a less expansionary fiscal stance would reduce the trade imbalance by reducing the disparity in demand-creation; it may also lead to lower interest rates and a cheaper dollar, thereby improving United States competitiveness. This could bring some benefits to developing countries but would most likely reduce output growth in other developed market-economy countries. It could also reduce output growth in the United States, if the fiscal tightening were not fully

matched by a monetary loosening. In other words, bringing United States policies into line with those of the other major developed market-economy countries could remove trade imbalances, but at the cost of deflating the world economy.

61. An alternative approach would be for Western Europe and Japan to change their fiscal and monetary policies to accord with those presently in force in the United States, specifically, to cut taxes and tighten monetary policy in such a way as to increase aggregate demand and induce a fall in the dollar. This would reduce trade imbalances by raising the rate of growth of output and demand. It would also raise commodity prices. However, it would involve a further hardening of interest rates and could on that account accentuate the debt problem.

62. If the dollar were to depreciate as a result of an erosion of confidence in that currency, it would have the effect of reducing the demand leakage from the United States thereby helping to correct the trade imbalances. However, there is no assurance that such a depreciation brought about by a shift in the mood of the market, would be appropriate in either magnitude or timing. If it were to involve a run on the dollar, interest rates might be raised sharply, as they were in 1978, in an effort to limit the decline. This would add further pressure on debtor developing countries. Moreover, it might offset the expansionary impact of the dollar depreciation on the United States economy. Consequently, the net result could be to reduce worldwide demand.

63. In short, the disparities in interest rates and exchange rates, and in rates of growth of demand and output, cannot be readily resolved through market processes alone or by unilateral policy adjustments. Yet, unless government policies change in order to remove the disparities, markets are bound eventually to seek to bring about certain corrections, in their own way and at their own pace, with adverse repercussions. Adjustments through this route are likely to involve further recession and increased debt-servicing difficulties.

Policy co-ordination for expansion in industrial countries: the stake of the developing world

64. The preceding analysis suggests that major shifts need to be made in a co-ordinated manner in the monetary and fiscal policies of the major developed market-economy countries in order to put recovery on a surer footing. The extent and nature of the shifts would depend on the scope of their objectives.

65. If the objective were limited to lessening imbalances within the OECD area, two broad changes would be necessary, and sufficient. First, the share of the United States in the creation of demand would have to be reduced, and that of Western Europe and in particular Japan, increased. Second, the proportion of United States demand accruing to its producers must be raised and the proportion accruing to producers in other countries, particularly Japan, reduced.

66. These objectives could be attained, while leaving overall rates of growth and unemployment unchanged, by means of co-ordinated shifts in monetary and fiscal policies. For example, fiscal tightening in the United States could be combined with fiscal relaxation in Europe and Japan, in such a way as to leave the growth of world demand unchanged; and monetary relaxation in the United States combined with monetary tightening in Europe and Japan, in such a way as to realign the dollar and strengthen the competitiveness of the United States. As a result, growth would be more evenly distributed and trade imbalances lessened. At the same time, unemployment in the foreign-trade industries of the United States and the associated protectionist pressures would be reduced. Cost pressures would increase in the United States and lessen elsewhere on account of the exchange-rate realignment; but commodity prices would probably be pulled up somewhat. The growth of employment would probably slow in the United States and increase in Western Europe (depending on the net effect on aggregate demand of changes in fiscal balances and net exports). Co-ordination designed solely to lessen imbalances among OECD countries would, however, fall short of what is required

by considerations of global balance. For example, co-ordination that lessened interest rate differentials by raising West European and Japanese rates, rather than by lowering United States rates, would benefit developing countries only inasmuch as it lowered the dollar, thereby raising the dollar prices of internationally traded goods and reducing the real burden of debt.

67. However, if the objective were to include a significant reduction in the overall level of unemployment in the developed market-economy countries, the redistribution of the stimulus would need to be accompanied by a strengthening of demand. This could be secured through a combination of fiscal and monetary relaxation. The precise balance struck between the two would have important implications for developing countries, for in order to make a significant impact on the debt problem it would be necessary both to strengthen the overall stimulus and to reduce the level of interest rates by a considerable margin. If the first condition were not met, commodity and other export earnings would not be improved sufficiently. If the second were not, the cost of debt and of borrowing would remain excessive. From the wider standpoint of the world economy, therefore, it would be necessary for policies to be realigned around a major relaxation of United States monetary policy and reduction of interest rates. United States fiscal policies and the monetary and fiscal policies of the other major countries would need to be adjusted to provide a stronger (though not excessively) overall stimulus, and a re-apportionement of the impact of that stimulus via a realignment of exchange rates.

68. However, in order for such an approach to contribute significantly to reducing the overhang of debt, and foster an expansion of new lending, markets would need to be convinced that the improvements in interest rates and the external trading environment were of an enduring nature. If creditors perceived these to be temporary, they would naturally retain the expectation that developing countries would continue to be subject to periodic interest-rate and trade shocks, and would therefore continue to delay a resumption of voluntary lending until the stock of debt relative to export earnings had been substantially reduced. This is a process which would involve future heavy sacrifices for both developing countries and their trading partners. In other words, it would be necessary for the major developed market-economy countries to engage in policy co-ordination not on an *ad hoc* but on a continuing basis.

The need for an international strategy on debt, growth and development

69. A strategy of sorts guiding the approach to the debt problem can be said to have emerged from the *ad hoc* actions taken during the past several years. One of the implicit assumptions underlying this strategy was that a relatively brief period of adjustment in debtor countries would lead to the consolidation of the external financial position and the resumption of normal external financing and growth. It is true that as the debt problem progressed it was increasingly recognized that the process of adjustment might be more lengthy, but the general contour of the strategy has been modified little by this recognition.

70. There can be little doubt that no strategy on debt can be viable unless it contains a commitment to restore growth and development. The fact that output in some debtor countries in Latin America is now growing again is being taken by some as a demonstration that the current strategy is working. But this experience marks only the halt of economic decline in these countries. It would be entirely satisfactory as a transition to higher growth and a sound financial position. This same outcome would be untenable, however, if it were to be representative of the most likely experience for many years ahead. Without significant, and concerted, policy reform, this unacceptable prospect is all too likely to be realized.

71. Better growth performance in debtor countries requires policy improvements in three fronts. In the first instance, as mentioned above, policies in developed market-economy countries need to be shifted in a co-ordinated manner so as to produce higher growth of demand and lower real interest rates for debtors.

72. Secondly, trade and financial policies need to be made more supportive of development by fostering the spread

of growth from developed to developing countries and meeting the needs of those parts of the developing world - for example sub-Saharan Africa - that would not be touched by faster growth in developed countries. Such policies would include increasing the resources and lending by the multilateral institutions; strengthening commodity export earnings beyond what would occur from more rapid growth in industrial countries; moving decisively toward meeting the ODA targets; ensuring greater and more secure access to markets in developed countries within the framework of a more transparent, stable and predictable trading regime; and improving the functioning of the international monetary system.

73. Finally, policies in the developing countries themselves also require constant attention and improvement. There can be no general formula for improvements: these need to be identified on a case-by-case basis. Nonetheless, the following general comments seem in order.

(a) Few debtor developing countries have scope for further reductions in domestic consumption and investment. For most of these countries, policies will need to be framed so as to allow expansion of these variables in the period immediately ahead.

(b) Domestic price inflation remains a preoccupying problem in some developing countries. In a few of these, inflation has become so acute that mastering it must inevitably be one of the central concerns of policy-makers in the period ahead.

(c) Highest priority must be given to ensuring that investment is efficient. In allocating investment, priority must be given to non-traditional exports and import substitutes. To the greatest extent possible, exchange rates should reflect the true scarcity of additional foreign exchange, and where this is not feasible, equivalent measures should be taken.

(d) The necessary domestic policy measures will be easier to implement, and their success more assured, in an international climate that is characterized by growth of demand and stability in exchange rates and conditions of market access.

74. Thus the problems of debt, growth and development must be tackled through a strategy that is much broader than hitherto. It is doubtful whether such a broad strategy could be worked out without the full participation of the developed and developing countries and outside a framework which gave due weight to development objectives. The formulation of such a strategy is certainly not easy and could not be accomplished quickly. It is, however, necessary if the dangers of financial collapse are to be safely skirted, and growth restored to all parts of the world economy.

PART ONE

THE CURRENT SITUATION AND SHORT-TERM PROSPECTS FOR THE WORLD ECONOMY

Introduction

1. The influence on the developing countries of the revival of economic activity in the industrialized countries has been weak and uneven; and the recovery in the latter is now losing momentum. In sub-Saharan Africa, where many countries are suffering from drought and starvation, economic conditions continued to deteriorate in 1984. In the developing countries of the Western Hemisphere, the revival has been modest, and the real resources available for consumption and investment are still well below their pre-recession levels. In West Asia, which is composed mainly of major petroleum-exporting countries, total output declined again in 1984. A vigorous pace of economic expansion has been confined very largely to the countries of South and East Asia (see table 1). Thus, a recovery that began in industrialized countries some two and a half years ago leaves many parts of the developing world still in straitened economic circumstances; and estimates of their likely economic performance in 1985 indicate that no significant acceleration in economic growth can be expected.

2. Disparities in performance among the industrialized countries partly account for the recent pattern of economic trends in developing countries. The expansionary fiscal policy pursued in the United States gave rise to an upsurge of economic activity there, as well as to a substantial acceleration in Japan, while restrictive fiscal policies in Western Europe have restrained its pace of recovery. This favoured developing countries having close trade links with the former areas, especially those which are substantial exporters of manufactures. The more sluggish economic performance of Western Europe has not only meant less buoyant export markets for its trading partners; it has also been a major reason for the weakness in prices of primary commodities used as industrial raw materials. Numerous other primary commodity markets, including that for petroleum, have also been weak and have made only a limited contribution to an improvement in the performance of primary commodity exporting countries.

3. While numerous countries have benefitted, in some degree, from an expansion in demand for their exports, the recovery in their imports has commonly been much more modest. The consequent improvement in their trade balances accounted entirely for the substantial reduction in the current-account deficit of developing countries which again took place in 1984. Moreover, as the terms of trade were virtually unchanged during the year, the improvement in the trade balance was effected through expansion in the volume of exports and through restraint on the volume of imports.

4. The restraint on imports has been exercised mainly by countries with debt-servicing difficulties. These countries have not found themselves able to relax the contractionary macro-economic policies which they have had to pursue since the onset of the debt-servicing crisis. It is true that these policies have enabled them to accomodate a rising level of interest payments within a current-account balance whose deficit has been greatly reduced. However, the cost to the countries of the contractionary policies has proven very onerous. Real domestic expenditure was reduced absolutely in both 1982 and 1983 by significant amounts, and the reversal in 1984 fell well short of restoring these losses. Investment expenditure, in particular, has taken much of the burden of contraction. Further, the difficulties of restoring internal balance at lower levels of aggregate demand and supply, and the related intensification of conflicts among social groups to protect their incomes, has led to the acceleration of inflation in several countries.

5. In numerous countries of sub-Saharan Africa, debt-servicing diffi-

Table 1

World output by major countries and country groups, *a/*
average 1975-1980 and 1983 to 1986
(Percentage change)

	1975-1980	1983	1984	1985	1986
Country or country group	Annual average	Actual	Esti-mated	Forecast *b/*	
World *c/*	3.8	2.0	4.3	3.0	3.0
Developed market-economy countries *d/*	3.6	2.3	4.8	3.0	2.8
North America	3.9	3.6	6.7	3.0	2.8
Western Europe	3.0	1.2	2.4	2.5	2.4
Japan	5.1	3.0	5.8	4.6	4.0
Others	2.5	-0.1	3.8	1.9	2.4
Developing countries and territories *e/*	4.5	-0.1	2.6	2.8	3.7
Western Hemisphere	4.9	-2.4	2.6	2.4	3.4
North Africa	6.4	3.2	2.0	1.6	2.4
Other Africa	4.4	-2.1	-0.3	1.3	2.3
Oth. Afr. excl. Nigeria	3.0	0.7	0.1	2.3	2.8
West Asia	0.8	-4.8	-0.7	-1.5	2.5
South Asia	4.8	5.7	4.3	4.9	4.9
East Asia	7.9	5.5	5.6	5.5	5.6
China *f/*	6.9	9.0	12.0	7.0	7.0
Socialist countries of Eastern Europe *g/*	4.1	4.2	3.6	4.2	3.7

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ For definition of country groupings, see the note to annex table A.1.
b/ See note *c/* to annex table A.1.
c/ Excluding China and the socialist countries of Eastern Europe.
d/ Gross domestic product/gross national product.
e/ Gross domestic product.
f/ National income.
g/ Net material product.

culties are overshadowed by the immediate need to deal with the mass starvation engendered by the extended droughts. A situation of abnormal food shortage prevailed in 21 of these countries in 1984; and the urgency of adequate humanitarian assistance by the international community is manifest. But it is also widely appreciated that longer-term development assistance is needed to support national policies designed to raise agricultural production and to overcome internal structural weaknesses.

6. The prospects for developing countries in the near future are not for any marked improvement in performance. The external environment is unlikely to bring significant relief to the pressures on their balance of payments on current account. Economic growth in the industrialized countries as a group has been slowing down and on the basis of present policies, is expected to continue at a lower rate. Accordingly, the growth in demand for the exports of developing countries will probably decelerate, and primary commodity prices may weaken further. Interest rates have been declining in recent months but they remain high and their course in the immediate future is very uncertain. The rate of increase in

gross borrowing on the international capital market continues to decline, and no appreciable change is expected in official development assistance. However, some further increase in imports is likely to occur, but the improvement in rates of growth in total output in 1985 is expected to be marginal, though it should be modestly better in 1986.

7. Among the developed market-economy countries, it is expected that, with the cyclical slowing down in the United States, and a related deceleration in Japan, rates of expansion in economic activity are likely to converge, approaching the lower pace of growth in Western Europe. But some large uncertainties overhang the short-term outlook. In the United States, the combination of an expansionary fiscal policy with a stringent monetary policy was instrumental in bringing about a strong recovery in conditions of moderating inflation; but it has also given rise to high interest rates and a misalignment of the dollar exchange rate. The latter has substantially worsened the deterioration of the United States balance of payments initially brought about by the relatively high growth of domestic demand. The deficit, however, is financed by large capital inflows which are attracted mainly by the high interest rates and the strong dollar. Moreover, the persistence of the deficit intensifies calls for protection as domestic demand is diverted from domestic production to imports. It is widely agreed that these circumstances do not make for a stable situation.

8. While Western Europe and Japan have also been pursuing tight monetary policies, their fiscal policies have been, and remain, restrictive. They are guided by the broad policy objectives to contract the size of the public sector, to reduce the rate of growth in public spending, and to restrict further borrowing. But the absence of a strong stimulus to aggregate domestic demand has disadvantageous consequences. Among the close trading partners of the United States, most especially Japan, the foreign demand for exports has outpaced the domestic demand for imports, and large surpluses on current account have accumulated. For Western Europe generally, the current pace of economic growth is insufficient to prevent further increases in the high rate of unemployment. While numerous specific measures have been introduced to alleviate unemployment, it is widely recognised that greater investment and a higher rate of economic growth are fundamental to a solution. Actions on the supply side can contribute to the promotion of investment, but the maintenance of a high level of aggregate demand, both within Western Europe and elsewhere, is an essential prerequisite.

9. The remainder of part one takes up these issues. Chapter I is devoted to an analysis of selected issues related to the mechanism of transmission of economic activity from developed to developing countries through international trade, and commodity and financial markets. Chapter II deals with the current situation and prospects of developing countries and China, while chapter III is concerned with the developed market-economy countries and the socialist countries of Eastern Europe.

Chapter I

THE TRANSMISSION OF RECOVERY TO DEVELOPING COUNTRIES

A. Introduction

10. There are diverse trends currently at work in international trade and capital markets, and their consequences for developing countries are far from uniform. While most countries have benefitted in some degree from the recently vigorous expansion of world trade, the gains have been substantially greater for exporters of manufactures. Markets for most primary commodities have been weak and prices have, in fact, been slipping for many months. Greater gains have also gone to countries having close trading links with North America and Japan than to those supplying markets in Western Europe. These divergences in the strength of different markets have their sources very largely in the contrasting performance of the industrial regions. North American import demand for manufactures has grown at an exceptionally fast rate while world import demand for primary commodities has been dampened by the very modest pace of recovery in Western Europe. The buoyancy of markets, and their divergent performance, are likely to lessen in the course of 1985 as the pace of economic expansion in North America and Japan slackens while the rate of growth in Western Europe remains limited.

11. The international capital market continues to be dominated by the heavy borrowing of the United States and the high interest rates which prevail there. While the market has acted in several ways to alleviate immediate external debt difficulties, the net flow of private capital to developing countries has continued to contract. A more positive development has been the softening of interest rates which began in the latter part of 1984 and which has persisted into early 1985.

12. With the improvement in export markets and some weakening of interest rates, the intense pressure on the current account balances of the more heavily indebted countries has been lessened to some degree. Nevertheless, it has not been possible for these countries to permit a comparable relaxation of the severe constraints on imports. The demand for imports of developing countries as a group, has accordingly been expanding only at a very modest pace.

B. Implications of the recovery of trade for developing countries

13. Most developing countries participated in the significant improvement in world trade which took place in 1984. Despite the increasing resort to restrictive trade measures, the volume of world exports grew by close to 9 per cent in 1984, substantially outpacing the expansion in world output. This represented a very marked acceleration over an annual rate of increase in 1983 of less than 2 per cent; but it is not expected to continue at such a pace in 1985. Much of the gain in trade has reflected the strong performance of the United States economy though it has been supported by recovery in other industrial countries. While it has been instrumental in transmitting a measure of export-led expansion to economic activity in several parts of the developing world, the expansion in demand for traded goods has been very unevenly distributed among the developing countries.

14. The uneven distribution of the expansion has its origin in disparities in the evolution of demand, both as among major importing areas and as among the major categories of products. Accordingly, for the exporting countries, their market orientation and the composition of their exports have been of central importance in shaping their recent export performance. Trading links with North America have, for instance, been especially advantageous because of the strong growth of domestic demand there. In product markets, a significant feature of the current world recovery from recession has been the persisting weakness of markets for

primary commodities. In addition, the world energy market has continued to stagnate. The gains in exports of developing countries have, in fact, been quite heavily concentrated in manufactures. Countries with a relatively advanced manufacturing sector able to produce for export have accordingly been distinctly more favoured by recent developments in trade than those countries which rely more heavily on primary commodities, and which, incidently, constitute the majority of developing countries.

15. It is these diverse trends in external demand which underline the varied export performance of the different groups of developing countries shown in table 2. The value of exports of Latin American countries with debt-servicing difficulties, which are substantial exporters of manufactures, increased strongly in 1984. So too, did those of other major exporters of manufactures. And both of these groups of countries have major trading links with the United States. The performance of most other groups of developing countries, however, has been much weaker. Exports of the least developed countries increased in value by less than 8 per cent in 1984; and for the large group of other developing countries relying mainly on non-oil primary commodities, the increase was smaller. The major petroleum exporting countries experienced a further decline in the value of their exports; in fact, as a consequence of the structural changes taking place in the international energy market, the earnings of the major petroleum exporting countries were some $100 billion less in 1984 than they had been in 1980.

16. The influence on export performance of market orientation and product specialization is brought out in table 3. The table provides hypothetical figures to indicate the increase in exports which could have been expected in each developing region as a consequence of the gains in income in its principal export markets and of the growth in world demand for the products in which it specializes. The export performance of the Southeast Asian countries has clearly benefitted from both their market links and the composition of their exports. Compared with the export markets for other developing regions, the evolution of economic activity in their principal markets tended to be less depressed in 1983 and to advance more strongly in 1984. The composition of their exports, in which manufactures account for more than half, also placed them in a relatively strong export position. So, it is not surprising that the actual growth of their exports in both 1983 and 1984 was greater than that of other regions.

17. It is particularly interesting to compare the influence of market links on the performance of the developing countries in the Western Hemisphere with that of the South and East Asian countries. Both groups of countries clearly benefitted from the strong growth of economic activity in their principal export market, namely, the United States. But, although the share of the United States actually bulks larger in the exports of the Western Hemisphere countries, the influence of market growth on the exports of these countries in 1983 was decidedly negative, and considerably worse than for the South and East Asian countries. The reason is to be found in the fact that the two groups also have relatively large shares of their exports destined for trade within their regions (in both cases amounting to about one-fifth of total trade). But, whereas the Asian market has been steadily expanding, imports into developing countries in the Western Hemisphere actually declined in 1983. While Asian intra-trade increased in value by 9.7 per cent in 1983, trade among the developing countries in the Western Hemisphere actually fell by more than 7 per cent during the same year. This was an indirect consequence of the contractionary demand policies being pursued by these countries to improve their balance of payments and contain their debt-servicing difficulties. However, as can be seen from table 3, there was a subsequent improvement in market conditions in 1984 as imports into the developing countries in the Western Hemisphere resumed their growth.

18. The principal market links of the developing countries are nevertheless with the different industrial areas. For numerous exporters, most especially of primary commodities, Western Europe is the main market. Indeed, for developing countries as a group, it is a larger market than North America, even if oil exports are excluded. Japan, though also a significant importer from developing countries, particularly of primary commodities,

Table 2

Developing countries exports and imports, 1983-1984
(Annual percentage increases, based on values in current dollars)

	Exports								Imports	
			Of which to:							
	Total		United States		EEC		Japan			
	1983	1984	1983	1984	1983	1984g/	1983	1984	1983	1984
Countries with debt-servicing difficulties:										
Latin America a/	0.0	13.1	9.2	18.9	1.7	1.1	5.3	10.6	-28.4	0.6
Africa b/	-11.0	21.2	-40.5	-17.5	3.2	8.3	-21.6	18.0	-20.4	-25.5
Africa excluding Nigeria	-3.8	12.0	-4.1	33.8	-2.7	10.0	-21.7	18.3	-6.1	-4.4
Others c/	-0.3	5.9	10.1	22.4	10.3	9.0	-14.1	9.4	-3.3	-20.1
Other countries:										
Major exporters of manufactures d/	7.7	19.0	24.3	32.6	4.8	7.9	-0.3	23.4	2.6	8.5
Major petroleum exporters e/	-19.5	-2.2	-16.5	8.5	-5.1	-10.9	23.1	34.5	-5.1	-10.9
Least developed countries f/	1.7	7.9	-24.7	-4.6	-4.5	-1.3	-16.5	8.5	-4.5	-1.3
All other developing countries	2.6	5.4	12.4	9.9	-5.9	7.8	2.2	18.3	0.2	6.0

Source: United Nations trade tapes.

a/ Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guyana, Jamaica, Mexico, Nicaragua, Peru, Venezuela.

b/ Central African Republic, Ivory Coast, Liberia, Madagascar, Malawi, Nigeria, Senegal, Sierra Leone, Sudan, Togo, Uganda, Zaire, Zambia.

c/ Philippines, Yugoslavia.

d/ Hong Kong, Republic of Korea, Singapore, Taiwan Province of China.

e/ Algeria, Angola, Bahrain, Brunei, Congo, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates.

f/ Excluding Central African Republic, Malawi, Sierra Leone, Sudan, Togo, and Uganda for which no data are available.

g/ Estimated on the basis of partial data.

Table 3

Export performance of developing countries, 1983-1984
(Annual percentage changes)

	Hypothetical *a/*				Actual *b/*	
	Market growth *b/*		Product composition *c/*			
	1983	1984	1983	1984	1983	1984
Developing countries in:						
Africa	-2.6	5.9	-2.6	5.1	-13.1	4.4
America	-3.4	9.5	-0.8	5.7	-1.2	7.7
West Asia	-3.2	3.4	-3.4	5.4	-21.3	-4.0
South and East Asia	-0.3	8.6	1.8	8.7	5.8	15.0

Source: UNCTAD secretariat calculations.

a/ The hypothetical growth rates are calculated as follows.

Market growth. For each group of countries (i) the hypothetical market growth (M^t_i) in year t is given by:

$$M^t_i = \Sigma_j S_{ij}.I^t_j$$

where S_{ij} is the share of import market (j) in i's total exports in 1982 and I^t_i is the growth rate of j's total imports in year t.

Product composition. The hypothetical growth rate implied by the product composition of the country group (i) in year t, (P^t_i) is given by:

$$P^t_i = \Sigma_k C_{ik}.X^t_k$$

where C_{ik} is the share of product (k) in i's exports in 1982 and X^t_k is the growth rate of world exports of k in year t.

b/ In current dollars.

c/ Volumes.

provides a considerably smaller overall market than either of the other two areas. It can be seen from table 2, however, that in the export performance of the different groups of developing countries, the highest rates of expansion were recorded in exports to the United States. Exports of several groups to Japan also advanced strongly. No group of countries realized comparable rates of expansion in exports to Western Europe.

19. United States import demand has clearly played a dominant role in the recent recovery of world trade. Indeed, it has been estimated that up to four-fifths of the increase in world imports in 1984 was accounted for by imports into the United States; its exceptional influence has been no less evident in the trade of developing countries (see table 4). In both 1983 and 1984, however, the increase in imports into the United States from developing regions consisted mainly of

Table 4

Imports into the United States, 1983-1984
(Percentage changes and shares, current dollars)

	Annual percentage changes				Percentage shares of changes in total imports			
	1983		1984		1983		1984	
	A	B	A	B	A	B	A	B
From developing countries in:								
America	9.9	24.7	14.3	35.4	22.2	10.9	8.3	6.2
North Africa	5.1	-12.3	-4.1	63.2	1.2	-0.0	-0.2	0.1
Other Africa	-28.8	0.9	-6.1	37.0	-20.4	0.0	-0.7	0.1
West Asia	-43.2	45.9	10.6	17.9	-28.5	0.4	0.9	0.1
South Asia	29.0	26.8	30.9	33.4	19.3	13.6	6.2	6.8
East Asia	19.8	22.0	25.8	33.1	27.2	18.4	10.0	10.7
Others	31.6	34.6	2.9	14.3	0.1	0.0	0.0	0.0
Developed market economies								
Europe	2.7	4.0	32.4	38.8	8.3	7.6	24.2	24.3
Japan	9.1	8.8	38.7	38.9	20.7	16.8	22.7	25.3
Others	11.6	12.0	26.4	33.6	33.3	18.6	19.9	18.4
Socialist countries								
Asia	-1.1	13.5	36.6	38.3	-0.2	1.0	1.2	1.0
Europe	18.3	2.8	50.1	54.5	0.8	0.1	0.6	0.4
World	6.7	12.8	26.5	36.0	100.0	100.0	100.0	100.0

Source: United Nations trade tapes.

(A) Total trade
(B) Manufactures

Totals do not add up because of unallocated flows.

manufactured products: in 1983, the expansion of imports of manufactures actually exceeded the increase in total imports by as much as 30 per cent on account of the absolute decline in the value of imports of fuels. In 1984, the contribution of manufactures to the total increase in imports amounted to almost 90 per cent. For reasons given above, this pattern of import demand has particularly favoured the developing countries in Asia, especially those in East Asia.

20. However, developing countries failed to share fully in the marked acceleration which took place in 1984 in the growth of total United States import demand. Shipments of manufactures from the developed market-economy countries of Western Europe and Japan expanded very sharply, and the share of developing countries in total United States imports consequently declined. Thus, whereas European market-economy countries accounted for only 8 per cent of the increase in imports into the United States in 1983, their share rose to about one-quarter in 1984. This is true of total imports as well as of imports of manufactures in both years. A major counterpart of this increase was the decline in the share going to the South and East Asian

developing countries which fell from as much as 27 per cent in 1983 to only about 10 per cent in 1984 for total trade and from 18 per cent to 10 per cent in terms of manufactures during the same years. The share of the increase in imports into the United States also declined for the developing countries in the Western Hemisphere. One contributory factor was the change in United States domestic demand from an essentially consumption dominated one in 1983 to a more investment oriented pattern in 1984 to cater for which the more advanced countries in Europe were in a better position. Available data show that imports of machinery and equipment into the United States, for example, expanded by about 38 per cent in 1984 compared with a rate of 32 per cent for other manufactures during the same year.

21. While the improvement in export performance of developing countries has varied widely, it has generally been achieved through an increase in the volume of exports rather than through favourable price developments. Thus, the larger earnings have by no means been a costless windfall which, as sometimes implied, more than offset the increased interest charges on external debt, which were also a characteristic of the international situation in 1984. In fact, the terms of trade of the developing countries, taken together, showed almost no change in 1984 after deteriorating by about 3 per cent in 1983.[1]

22. Table 2 shows that for many developing countries, especially those with a debt problem, the increases in the export proceeds proved insufficient to allow a comparable expansion in the value of their imports during the year. The advance in their imports was much more restrained because of the restrictive demand-management policies being pursued in the more heavily indebted countries to accomodate debt-service payments, the need of many countries to replenish reserves, and the diminishing net inflow of capital. To be sure, the situation has improved for some groups of countries, especially the debtor countries in the Western Hemisphere. Imports into these countries showed a very marginal increase in 1984 after having dropped by almost one-third in 1983. Imports of the major exporters of petroleum, however, continued to decline in 1984 at a rate even higher than in 1983. Thus, the import demand of developing countries has continued to be the weakest element in the expansion of world demand for traded goods and services.

C. The behaviour of commodity markets

1. Recent developments

23. In the course of previous economic cycles, fluctuations in the volume and price of non-energy primary commodities have been an important channel for the transmission of economic activity from developed to developing countries. An upsurge in aggregate demand in developed countries has led to an expansion in the volume of internationally traded primary commodities and, as demand presses on supply, to an increase in their price. The price increases have usually been substantial, as have their subsequent falls. In the recent recovery, however, although the volume of primary commodities exported by developing countries has risen, the gain in prices has been weak and confined only to the earlier part of the upswing. The recovery in prices started towards the end of 1982,

[1] This misunderstanding about the welfare economics of changes in interest rate and in export earnings has been explained by Rudiger Dornbusch: "...finding that an extra percentage point OECD growth generates in export revenues significantly more than it costs in extra debt service gives us assurance on the debt-service ability to a country. But it does not show that a debtor country as a result is better off. The debtor country is better off only if terms of trade improvements, not export volume, more than paid for the extra interest ... Unfortunately, the boom was primarily one of volume (hard work) and very little by way of terms-of-trade gains. That means debt-service burdens were in fact aggravated even though, in financial terms, cyclical developments made it possible to meet the increased debt service by extra export volume or import compression." R. Dornbusch, "The effects of OECD macroeconomic policies on non-oil LDCs: a review", *mimeo*, October 1984.

Table 5

World market prices of primary commodities exported by developing countries

	Peak in 1980		1982	1983				1984				1985
	Quarter	Index	IV	I	II	III	IV	I	II	III	IV	I
Food and tropical beverages	IV	157	100	101	108	114	116	118	115	107	104	103
Vegetable oilseed and oils	I	159	100	102	117	159	172	198	214	170	163	152
Agricultural raw materials	IV	141	100	104	114	115	114	117	113	104	101	97
Minerals, ores and metals	I	141	100	101	106	104	99	99	99	94	93	91
Total primary commodities (excluding petroleum):												
Denominated in US dollars	IV	147	100	102	109	115	116	119	117	108	105	103
Denominated in SDRs	IV	123	100	101	109	116	118	122	120	115	114	114
Denominated in ECU	IV-1981	106	100	101	112	124	128	133	133	131	134	140

Source: UNCTAD, Monthly Commodity Price Bulletin, April 1985; UNCTAD secretariat calculations.

but reached a peak in the first quarter of 1984 (see table 5). The subsequent decline has taken place despite the continued expansion of economic activity in industrial countries and the fact that even the earlier gain in prices had failed to restore them to their previous peak in 1980. This has diminished the gains from the present recovery for the countries exporting primary commodities.

24. The weakness of the recovery in prices has been striking when their movement is measured in prices quoted in dollars. However, as exchange rates among the countries which form the principal markets for primary commodities have diverged markedly in recent years, the behaviour of prices for internationally traded commodities is not fully described by quotations in one currency. Measured in European Currency Units (ECUs), commodity prices have shown a greater upswing (see chart 1). But what is most relevant is the behaviour of commodity prices in relation to prices in other markets. When commodity prices are deflated by the export unit value of manufactures, the resulting "real" price again reveals weakness in the recent recovery (see chart 1). This latter measure is of the most general economic significance for developing countries since it indicates the terms on which the greater part of their exports are being exchanged for imports. But it should not be forgotten that, for countries with external debt denominated in dollars, the slippage of commodity prices quoted in dollars is of direct concern since it adds to the real cost of servicing their debt.

25. The pattern of recent price behaviour of the main commodity groups has tended to be very similar, although it has not been in response to changes of the same nature in demand and supply. For a range of agricultural primary commodities, mainly the food, beverages and oils, demand tends to be relatively stable and prices fluctuate more in response to changes in output or to measures affecting supplies, either national measures or international measures under commodity agreements. The dollar price indices for food and tropical beverages and for vegetable oilseeds and oils, both reached a peak in the first half of 1984 and later declined, but these movements bear no particular relation to the cyclical behaviour of demand in industrial countries. For agricultural raw materials, where the influence of cyclical demand factors and short-term supply factors is more mixed, it is of greater interest that the dollar index also turned down after the first quarter of 1984. It is an even clearer instance of the cyclically weak behaviour of commodity prices that the dollar price of minerals, ores and metals, which are normally least influenced by short-term supply disturbances, began to sag after the middle of 1983. These developments are reviewed by major, individual markets in the following paragraphs. A discussion of the more general causes of the recent weakness of price behaviour is contained in section 2.

(a) Agricultural products

Sugar

26. The weakening of food prices started in September 1983 and was mainly reflected in the price of sugar. Constantly declining since September 1983, the price of sugar became deeply depressed in mid-1984, when good crop prospects of 1984 and a huge carryover stock coincided with the failure of the negotiations to renew the International Sugar Agreement. In December 1984, the price of sugar stood at its lowest level for 14 years, and remained very low throughout the first quarter of 1985. With world sugar production in 1984-1985 exceeding consumption, the global end-of-season stocks for 1984-1985 are estimated to increase further and might represent 40 per cent of annual world consumption. Consequently, world market prices of sugar, which are well below the production costs of even the most efficient producers, are likely to remain depressed in 1985.

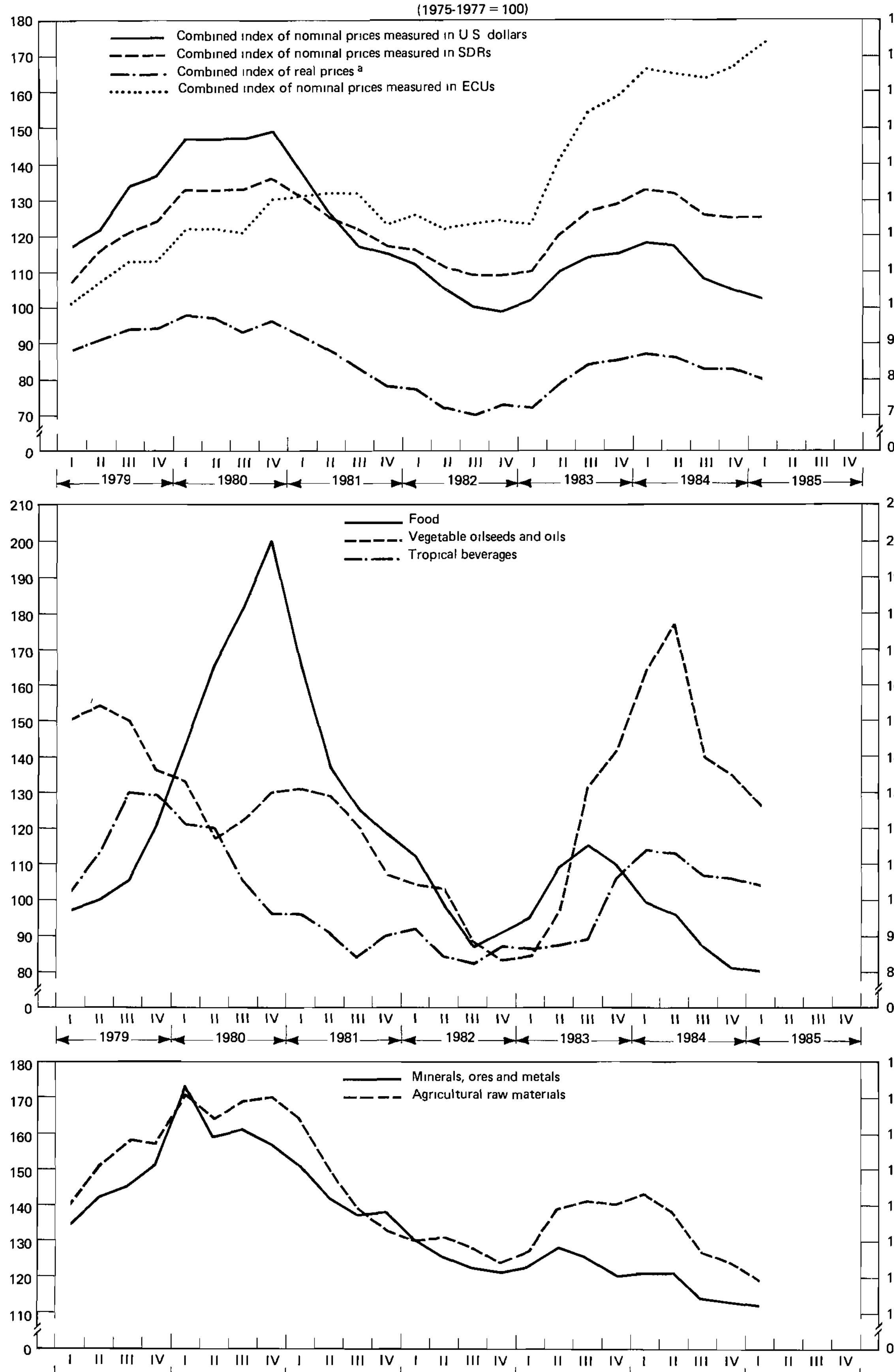
Cereals

27. Developments on the cereals market reflect ample available supplies for export. According to FAO estimates, world cereal production increased by 9 per cent in 1984 compared to 1983; within this overall total wheat rose by 5.3 per cent, coarse grains by 16 per cent and rice, by 2.7 per cent. Due to

Chart 1

Quarterly indices of free market prices of selected primary commodities exported by developing countries

(1975-1977 = 100)



Source UNCTAD, *Monthly Commodity Price Bulletin*

[a] Combined index U S dollars divided by the United Nations index of export unit values of manufactured goods

the higher output, world stocks are estimated to increase by about 10 per cent by the end of the 1984-1985 season. Prices of cereals reacted to the good crop prospects in the middle of 1984, and the process of weakening has continued since then. In the first quarter of 1985, the price of maize was on average 11 per cent lower than in the previous year, the price of rice, 12 per cent lower and that of wheat, 3 per cent lower. The supply-demand balance suggests that the downward price pressure will continue until mid-summer 1985, when the new crop will become available. A generally good outlook for 1985 crops is likely to keep the downward price pressure throughout the year.

Tropical beverages

28. The recent recovery on the market for tropical beverages started in the middle of 1983 and lasted for one year. Supply factors predominantly influenced prices of tropical beverages. Poor crops, in the case of cocoa, and export restrictions in the cases of coffee and tea, contributed to the decrease in available export supply.

Coffee

29. Despite world production of coffee running well above world consumption,and huge carry-over stocks, prices of coffee continued to rise in the first half of 1984. A relaxation of the export quotas under the International Coffee Organization (ICO) brought this upward trend to an end, and some decline occurred in the fourth quarter of 1984, when the ICO established a new International Coffee Agreement with bigger basic export quotas, but unchanged support prices. An overall decline in the price of coffee conceals divergent movements in the prices of robusta and arabica coffees. While robusta prices continued to decline, prices of arabica increased. This divergence reflects different crop prospects. While a sharp recovery in production in the Ivory Coast and the Cameroons (main producers of robusta) led to a doubling of their output in 1984-1985, the adverse weather reduced production of arabica in Colombia and Brazil.

30. Prices of arabicas are expected to remain firm, while those of robustas might weaken throughout the year. Good prospects for the next season are likely to enforce a downward pressure on prices.

Cocoa

31. Cocoa prices recovered as a consequence of the current supply deficit in the middle of 1983, and continued to rise in the first half of 1984; they have been volatile since then. The market seems to be dominated by two major developments: uncertainty stemming from the disagreement concerning the renewal of the International Cocoa Agreement and the expected significant recovery in the production of the Ivory Coast and Brazil - the two main producers. The existing Cocoa Agreement expires in September 1985. An effort to negotiate a new and more effective package did not yield any positive results.

32. Recent estimates of 1984-1985 crops indicate a significant increase of about 15 per cent over the previous season, which would bring about a supply surplus. Thus, the price will come under pressure and it will depend on the operation of the new Agreement whether it can be defended.

Tea

33. Between 1980 and 1983, world consumption of tea exceeded its production. This coincided with the restrictive export policy adopted by India, thus boosting the price of tea towards the end of 1983 and in 1984. Tea prices were almost 50 per cent higher in 1984 than in 1983. After three years of tight supply, a rise in tea production of about 9 per cent is estimated during 1984. The substantially increased production of tea brought about an increase of supplies on the market. In March 1985, the price of tea was on average about 23 per cent lower than in January 1985. The price prospects depend on the Indian export policy. Since it has been reported that India is planning to restrict once again its tea exports, it is uncertain whether supplies will become more abundant. In the near future, without such restrictions,

prices may settle at a lower level. The medium-term outlook indicates a fairly strong underlying global demand growing about 3.5 per cent. An important factor which can affect the medium-term price outlook is production growth in India and Sri Lanka. Although both countries responded very well to high prices in 1984, uncertainties exist about their capability to increase production in the medium term.

Vegetable oilseeds and oils

34. Prices of soybeans and other vegetable oilseeds recovered last year following the failure of the United States soybean crop. Since their recent peak in May 1984, prices of oilseeds and oils have reacted negatively to the expectation of a good crop in the United States and reduced participation in the 1984 area-reduction programmes. This process has continued and in the first quarter of 1985, prices stood at a level 18.5 per cent lower than in 1984. In addition to increased supplies from the United States, exports have also been raised in Brazil, Argentina and China.

35. The downward price trend was encouraged by an unexpected recovery in Malaysian palm-oil production from the setback it suffered in 1983. In the past, movements in soybean oil prices have generally set the pattern for all vegetable oils. However, with the increase in the share of palm-oil, the major direction of prices of the world vegetable oil trade will be determined by both soybeans and palm-oils.

36. A moderate decline in vegetable oil prices is possible up to the end of the season. The anticipated reduction in the area under soya in the United States is likely to improve the supply/demand balance, thereby possibly increasing prices somewhat next season. The establishment of a new Palm-Oil Development Association by African producers has been reported; the members are Benin, Cameroon, Ghana, Guinea, Ivory Coast, Liberia, Nigeria, Sierra Leone, Togo and Zaire. Since the palm-oil market is dominated by the Far Eastern producers, it is unlikely that the new association will have any great influence on the market.

Agricultural raw materials

37. The prices of agricultural raw materials were on aggregate 17 per cent lower in January 1985 than their peak in March 1984. This conceals contrary movements in individual markets. While prices of rubber and tropical timber dropped significantly, reflecting the weakening demand, prices of jute and cattle hides continued at a high level.

Cotton

38. A significant increase in world production of cotton by about 14 per cent in the 1984-1985 season turned the world cotton market from a situation of scarcity and rising prices into one of a surplus accompanied by falling prices. A near-record level of cotton production in the United States and China, which turned the latter country from a big net importer into a net exporter, contributed to the change.

39. At the same time, despite a moderate stimulus from economic expansion, cotton consumption has remained at a relatively low level. As a consequence, end-of-season stocks are expected to increase to a level equivalent to over six months' consumption, thus depressing prices. In the first quarter of 1985, the price of cotton was on average about 20 per cent lower than the May 1984 peak. With the expectation of another large crop in the United States and stagnant consumption, the price prospects are not bright.

Rubber

40. The disappointing performance of the rubber market was attributed to the weakening economic recovery in the industrialized countries and considerable increase in production (which, together with the high level of buffer stocks, prevents prices from rising). Prospects for 1985 are for probable price fluctuations around the present level mainly due to the intervention of the International Natural Rubber Agreement.

(b) Minerals and metals

41. By any standards, the minerals and metals markets have demonstrated a break with tradition and have not responded to the recovery in a manner that historical experience would suggest. Indeed, an upsurge in demand for minerals and metals reflected, *inter alia,* in the increase in world trade volume of this group of commodities (estimated at 5 per cent)[2] has led to a huge reduction in stocks, but has failed to trigger off any significant rise in prices.

42. In the aggregate, the prices of minerals and metals reached their peak in the second quarter of 1983 - only 6 per cent higher than the rock bottom price during the fourth quarter of 1982 - and have continued to weaken since then. The unexpected and continued strength of the United States dollar and the relatively high real interest rates may have contributed to the depressed state of the metals market.

Copper

43. In the copper market, there was a significant increase in consumption of copper, by 9.5 per cent in 1984 and a decline in production by 3.3 per cent. This supply-demand balance resulted in a significant decrease in stocks, yet, despite a marked improvement in market balance, the copper price in the first quarter of 1985 was on average about 13 per cent lower than in 1984, and about 7 per cent lower than in 1982.

Zinc

44. Zinc and lead performed relatively well in 1984. With production increasing to a lesser degree than demand, zinc prices have risen by about 17 per cent in 1984 as compared to 1983. Prices of zinc fell towards the end of the year and increased again in March 1985 as a result of the strike in Peru.

Lead

45. The recovery in lead prices was stimulated by the higher winter demand for batteries. Environmental considerations are responsible for a less favourable outlook for lead. The proposal to reduce the lead content of petrol and its total removal from paint coincides with the restriction imposed on output in developed countries - thus, the price is likely to stabilize at a relatively low level.

(c) Crude petroleum

46. The oil market continued to weaken throughout 1984. The source of weakness was that the Organization of Petroleum Exporting Countries (OPEC) maintained its production slightly above its 17.5 million barrels-a-day (b/d) quota. It also had difficulties with a pricing structure which overpriced light crudes in relation to heavy crudes. Despite the fall in OPEC production in August-September, the supply/demand balance has not been brought into equilibrium and, as a consequence, the official prices of North Sea and Nigerian light crudes dropped in October 1984. In order to defend their present pricing structure, OPEC decided to cut production by 1.5 million b/d. However, this was not enough to protect the pricing structure. In January 1985, the price of light crudes dropped by about 5 per cent and a quota of 16 million b/d has been introduced.

2. Price changes in a longer-term perspective

47. The weakness in the behaviour of commodity prices over the recent recovery becomes more apparent when comparisons are made with their peformance in earlier years (see table 6). A sequence of large and prolonged increases of prices in 1973-1974, 1976-1977 and 1979-1980, followed by relatively smaller decreases of shorter duration in 1975 and 1978, was suc-

[2] In some instances, in 1984 the increases of non-ferrous metals were significant. The main importers: the Federal Republic of Germany, Japan and the United States, increased their imports of copper by 15, 4 and 150 per cent respectively and of zinc by 54, 24 and 46 per cent respectively.

Table 6

Commodity prices and main factors underlying their behaviour (Cumulative changes over the same periods of price fluctuation)
(Percentage)

	1973-1974	1975	1976-1977	1978	1979-1980	1981-1982	1983-1984
Commodity prices *a/*							
US$	90	-20	35	-7	30	-31	6
SDR	76	-21	40	-13	27	-18	14
ECU	82	-23	45	-16	20	1	29
Real terms *b/*	42	-9	2	-19	5	-25	15
Industrial production *c/*	12	0	13	4	4	-3	9
World trade (volume)	17	-4	15	5	17	-3	11
Inflation in OECD							
Consumer price index *d/*	21	11	17	8	23	18	10
Unit value of manufactures *e/*	40	12	9	15	25	-8	-8
Price of oil in US$	265	0	16	0	119	6	-14
Interest rate *f/*	89	-37	-13	46	57	6	-14
Exchange rate *g/*	-6	-1	5	-9	-2	24	14

Sources: UNCTAD secretariat calculations based on the following international sources: UNCTAD, *Monthly Commodity Price Bulletin*; United Nations, *Monthly Bulletin of Statistics*; GATT, *International Trade OECD, Main Economic Indicators*; IMF, *International Financial Statistics* (various issues); Commission of the European Communities, *Annual Economic Report 1983-1984*, No. 18, November 1983 and *Eurostatistics Monthly*, No. 4, 1985.

a/ UNCTAD index of non-oil primary commodities exported by developing countries.
b/ UNCTAD index in US$ divided by the United Nations index of unit values of manufactured goods exported by developed market economies.
c/ United Nations index of World Industrial Production in constant US$.
d/ OECD consumer price index in national currencies.
e/ United Nations index of unit values of manufactured goods exported by developed market-economy countries.
f/ Three-month London Inter-bank Offer Rates on US$ deposits.
g/ Effective exchange rate US$.

ceeded by a long and severe recession in 1981-1982 and a short and weak recovery in 1983-1984.

48. A number of studies have been undertaken in order to analyze the reasons for changes in commodity prices over time. A consensus has emerged that commodity price fluctuations can be quite satisfactorily explained by the variations in a relatively small number of factors, namely, world industrial production, supply shocks, and inflation, exchange rates and interest rates in the major markets. Apart from supply shocks, which are both random and specific to individual commodities, the data presented in table 6 provide measures of these variables: and these data suggest clearly enough that the relative importance of the different variables has varied from

one period to another.

49. Studies have been carried out which attempt to evaluate the relative importance of these different variables over various time periods. While the studies have generally not been conclusive, they do indicate that, as between the monetary factors and the supply/demand factors, the former have assumed somewhat greater causal importance in the years since the early 1970s than they did in the 1960s. During the 1970s, the dominant monetary factor appears to have been inflation while, in the early 1980s, it has probably been exchange rates.

50. There are several causal paths along which monetary factors may have been exerting greater influence on commodity prices. Over the last few years, there has been a continuing appreciation of the dollar. By raising the prices of primary commodities in other currencies, this may tend over time to bring about reductions in demand and increases in supply which will exert a downward pressure on prices in dollars. In the recent recovery, this could have had some effect on those commodities whose demand or supply can be fairly quickly adjusted through substitution of synthetics or greater capacity utilization.

51. A quite separate exchange rate effect derives from the depreciation of exchange rates in producing countries. Being under severe balance-of-payments pressure, numerous primary producers have devalued their currencies in order to stimulate domestic production for export. As discussed in part two, chapter III, section F of the present report, there is empirical evidence that, for a number of agricultural commodities, production has responded positively to the higher domestic prices, thus bringing a downward pressure to bear on international prices.

52. Monetary factors may also have been tending to dampen down speculative activity in the early 1980s as compared with the 1970s. The 1970s was a period of accelerating inflation and low or negative real interest rates, when switching from financial to "real" assets, such as certain primary commodities, took place. Hence, cyclical upswings in demand may have been strengthened by increased speculative activity. The opposite appears to have been happened in 1983-1984. A significant decline in inflation associated with high real interest rates may have discouraged speculative activity. Again, apart from their effect on speculative activity, the high real interest rates are likely to have induced manufacturers and others to hold smaller stocks.

53. But, at least for industrial raw materials, the main reason for the recent weakness of commodity prices probably lies on the side of demand. While industrial production of the member countries of the Organization for Economic Co-operation and Development (OECD) as a group, rose fairly steadily and strongly from end 1982 at least until mid-1984, it drew its strength mostly from Japan and the United States. In Western Europe, which accounts for some half of the demand of industrial countries for internationally traded primary commodities, the expansion in industrial output has been modest; and indeed, by the last quarter of 1984, total industrial output had barely passed the level attained at the end of 1979. Even for North America, industrial production in 1984 as a whole was only some 7 per cent above the output of 1979. It is a characteristic of the upswing in both regions that manufacturing production has tended to advance only slightly or even stagnate in the last 12 to 18 months. The shift of total production to services output has been particularly strong in the United States. It is further possible that after a protracted recession there may have been some bunching of technological innovations economising on the use of raw materials. These developments in the pattern of recent economic growth, both as among regions and in the composition of output, are probably the major reason for the weakness of raw materials markets.

3. Prospects

54. On the basis of present forecasts for economic activity in the industrial countries, the overall outlook for commodities in the near future is not very encouraging. With the deceleration of economic growth foreseen in the United States and Japan, and good crop prospects in many agricultural commodities, prices are expected to decline in 1985. The rate of the

decline is likely to depend on the change in the exchange rate of the United States dollar. However, the evidence that monetary factors have become more pronounced in influencing the markets of primary commodities does not necessarily mean that short-term reversals in trends of exchange rates and inflation will generate a considerable improvement in prices.[3]

D. International capital markets

55. The influence of international capital markets on developing countries as a whole, has continued to be contractionary. It is true that there have been some positive responses of creditors to debt-servicing difficulties, brought about mainly by the substantial improvement in the current-account balances of the major debtor developing countries. The reduction in net capital flows to developing countries has nonetheless continued. The high interest rates prevailing in the United States, moreover, continued to dominate the international market, although rates began to decline in the latter part of the year and continued to do so in early 1985. The higher average level of interest rates in 1984 than in 1983 was not only limited to interest payments on loans at variable interest rates, but also applied to interest payments associated with officially-guaranteed export credits, (see part two, chapter II, section B). Thus, the higher interest payments, in combination with declining, or, at most, stagnating, capital flows, meant greater negative net transfers from many developing countries.

56. Recent developments in international capital markets and their impact on developing countries can be described by the evolution in the gross amounts of medium-term and long-term funds raised in the international capital markets as compiled by OECD.[4] After two years of unprecedented slowdown, gross borrowing in these markets in 1984 increased by 26.5 per cent to reach $194.5 billion. OECD member countries accounted almost entirely for this growth. The total funds raised by non-oil developing countries increased by only 3 per cent, while those raised by oil-exporting countries decreased by 45 per cent. Thus, developing countries as a whole, saw their share in total borrowing in capital markets drop further in 1984 to 16.9 per cent from 23.1 per cent in 1983. Borrowing by the socialist countries of Eastern Europe, in reversal to past trends, picked up significantly, although at the level of $3.3 billion it still accounted for only a marginal share of total funds raised in international capital markets.

57. The uneven growth of borrowing among the different groups of countries is also reflected in the diverse trends in activity in the different market instruments. Thus, syndicated bank lending has continued to decline, while the market for international bonds and for the different types of "back-up" facilities have experienced explosive growth (see part two, chapter II). This shift is being caused partly by the growth in demand for capital from corporations and sovereign borrowers in developed market-economy countries which seek instruments best suited to their particular needs; it is also partly occasioned by the change in the source of funds, as flows from oil exporting countries, which traditionally favoured bank deposits, have declined, while flows from developed market-economy countries, like Japan, have increased. The repeal by the United States of the 30 per cent withholding tax levied on interest payments to foreigners holders of United States bonds, and the possibility for United States corporations to issue directly debt obligations on the Eurodollar mar-

[3] Although both monetary and real factors affect the prices of primary commodities, it is not possible to make precise estimates of their separate influences.

[4] These figures include bank loans, wholly or partly out of Eurocurrency funds, traditional foreign and international bond issues and other international medium-term bank facilities, such as stand-by facilities to back up the issue of other financial instruments. Precautionary credit lines arranged in the context of takeover bids, which in 1984 reached $26.5 billion, are not included in the above figures, because they constitute a one-time phenomenon and it is expected that they will never be drawn.

ket in bearer form, have also contributed to the growth in international bonds. An additional factor contributing to this shift has been the increased participation during 1984 of banks themselves as borrowers, investors, intermediaries or traders in the security markets.

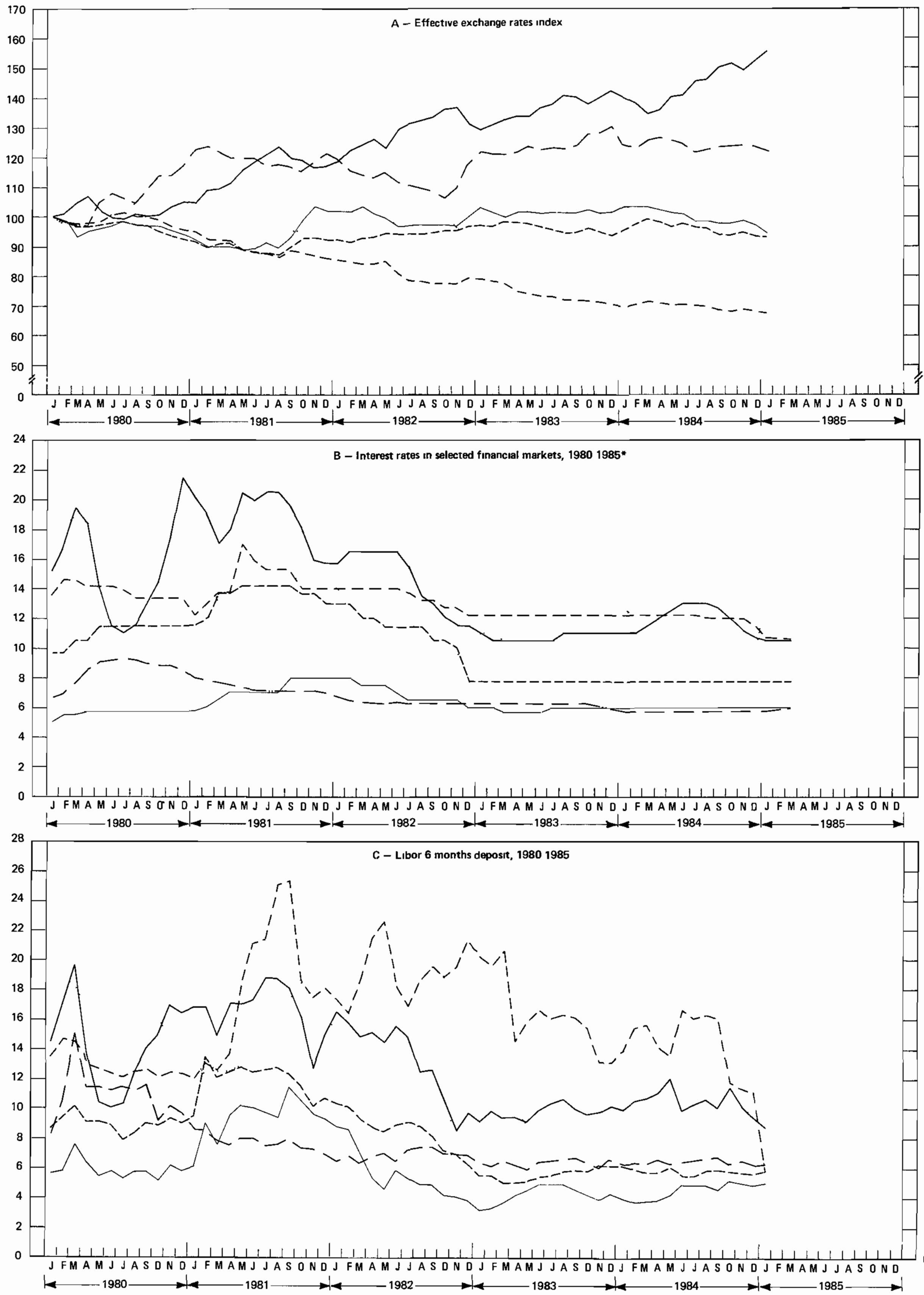
58. For developing countries, access to these markets has been limited despite some increase in the amount of funds raised in 1984. Thus, developing countries, as a whole, accounted for only 3.2 per cent of the issue of international bonds and 5.8 per cent of funds raised through "back-up" facilities.[5] Syndicated loans have thus continued to account for the largest share of gross borrowing in international capital markets by developing countries. However, the funds raised in these markets by both oil-exporting and oil-importing countries declined by 30 per cent to $22.9 billion in 1984. Half of this amount has represented "involuntary" lending extended to developing countries in conjunction with the various debt-restructuring agreements. Thus, new medium-term flows, apart from rescheduled amounts and refinancing have continued to decline even faster than total gross borrowing from banks.

59. In addition to the continued contraction in bank loans, developing countries were faced in 1984 with higher interest payments, despite an improvement in the contractual spreads, because of the rise of most interest rates used as reference in syndicated lending. During 1984, these rates were on average, 1 to 1.2 percentage points higher than in 1983. It is estimated that this increase must have added more than $3 billion to the interest payments due by the non-oil exporting countries on their bank loans alone, or about $1.0 billion to their net interest transfers. Furthermore, interest rates applicable on officially-guaranteed export credits increased, on average, for the whole year up to 0.6 percentage points (see table 25 in part two). However, interest rates started declining in the latter part of 1984, and have continued to fall (see chart 2). Though remaining below their peak levels of 1981 and 1982, they are nonetheless still relatively high.

60. The increase in reference interest rates during the first part of 1984 was dampened by an improvement in the terms and conditions on new bank loans. During 1984, the fall-off in demand for syndicated loans, as well as the improved financial situation of some borrowers led, on the whole, to a moderate easing in borrowing terms and conditions. In fact, a number of countries were able to refinance old bank loans with new credit on improved terms. Non-oil exporting developing countries, however, continued to face much stiffer conditions than those prevailing in the markets, because of the "managed loans" (i.e. new loans extended within the context of debt restructuring agreements). During 1984, in contrast to 1983, conditions on these loans were eased, reflecting mainly the response of the banks to the improvement in the external positions of some of the major debtor countries. However, they have remained significantly stiffer than prevailing market conditions. Thus, the average spread for loans to residents of developing countries was 1.44 percentage points as compared to 0.57 percentage points for loans to residents of developed market-economy countries, giving a difference of 0.87 percentage points. If "managed loans" are excluded, the spread for loans to non-oil exporting developing countries was 0.67 percentage points, or only 0.10 percentage points above that carried by loans to residents of the developed market-economy countries. This convergence of spreads reflects, on the one hand, the fact that, among the developing countries, only countries with high credit rating have had access to voluntary lending by banks and, on the other hand, the shift of top quality borrowers among the developed market-economy countries to the other instruments in the capital markets.

[5] The percentage of funds raised through "back-up" facilities is about 20 per cent, if a $4.3 billion amount of credit lines for PEMEX of Mexico is included. This amount concerns renewal of credit lines which had been suspended when Mexico experienced debt-service difficulties and have been renewed under the recent debt-restructuring agreement reached with the banks.

Chart 2



USA
France
Germany, Federal Republic of
United Kingdom
Japan
Switzerland

* Estimations for February and March 1985

Sources A IMF
B Morgan Guaranty Trust Company of New York World Financial Statistics
C 1980 1982 Morgan Guaranty Trust Company of New York
1983 1985 IFS/IMF

61. The developments during the first months of 1985 point to a continuation of the 1984 trends as regards the relative importance of the financing instruments used and to continuing overall growth. During the first two months of 1985, gross borrowing in international capital markets has been growing at the annual rate of 18.5 per cent and the increase has been accounted for entirely by the issue of bonds: these have increased, on an annual basis, by 45 per cent. Bank lending has continued to decline. However, the share of non-oil developing countries' borrowing in total borrowing was reduced to only 3 per cent, as gross borrowing by these countries dropped to $7.2 billion, on an annual basis. While it is expected that gross borrowing over the whole of 1985 will be higher than this figure, it is still likely to be lower than in 1984 since borrowing continues to be severely constrained by levels of outstanding debt and high interest rates.

Chapter II

DEVELOPING COUNTRIES AND CHINA

A. Developing countries

1. Overall progress

62. With the continuation and spread of recovery, the stagnation or decline which characterized the production of many developing countries in 1982 and 1983, has given way in a number of countries to some restoration of growth. For developing countries as a group, however, the increase in output in 1984 was only some 2.6 per cent, just marginally faster than the growth of population. While the pace of expansion was well below that in world output during 1984, and might have been expected to accelerate in 1985, this appears unlikely to happen. On the basis of present estimates, the rate of growth in output of the developing countries as a group is expected to rise only slightly to 2.8 per cent.

63. Several reasons account for the failure of recovery to be translated into a restoration of vigorous growth throughout the developing regions. As discussed in chapter I, the transmission of recovery to developing countries through international trade has been partial and selective. For many developing countries, the expansionary impulses received through trade have been weak; and the international capital market has, on balance, continued to exert a contractionary influence. But it is not only short-term changes in these markets which have been shaping domestic performance. In numerous countries, both economic policies and economic activity remain severely constrained by acute debt-servicing difficulties. And countries of sub-Saharan Africa suffer greviously from protracted drought and mass starvation while they simultaneously contend with both external payments difficulties and internal structural weaknesses.

64. In the developing countries of sub-Saharan Africa, economic conditions in 1984 actually continued to deteriorate. Abnormal food shortages were registered in 21 sub-Saharan African countries. Agricultural output generally failed to increase significantly in 1984 and, in some countries, it actually fell. The stagnation or decline in agricultural output has also led to reduced export revenues in some countries. Further, in view of the financing constraints facing many countries, the increased needs for commercial food imports have implied reduced imports for productive purposes. Thus, efforts to bring production closer to capacity levels in the industrial sectors have also been constrained. As a consequence, many African countries have had to re-evaluate and redirect their development policies and, in particular, their food strategies. To succeed, however, these efforts will continue to depend critically on sustained international support, since the economies of the African countries will remain extremely vulnerable to erratic weather conditions for sometime to come.

65. In West Asia, which comprises principally the major oil-exporting countries, levels of total output also continued to decline in 1984 as oil production was further curtailed in the face of the weak international market.

66. Among the countries of South and East Asia, substantial economic growth continues to be maintained. Some countries, particularly in East Asia, have benefitted greatly from their external market links and their specialization in manufactures; sustained agricultural development has supported growth in the large countries of South Asia; and hardly any countries in the region have had to deal with critical debt-servicing difficulties.

67. For the developing countries with debt-servicing difficulties, the increase in total output which took place in 1984, was some 2.8 per cent (see table 7). Though it marked a significant turnaround from the absolute reductions of the two preceding years, it was not sufficient to restore eco-

Table 7

Developing countries with debt-servicing difficulties *a/*
GDP and domestic absorption, 1982-1984
(Annual percentage changes)

	1982	1983	1984
Real GDP	-1.1	-2.1	2.8
Real absorption *b/*	-4.7	-5.8	1.7
Contribution of real exports to real GDP *c/*	0.6	1.0	1.6
Memo items:			
Real exports	4.1	6.5	9.6
Real imports	-19.3	-20.1	3.6

Source: UNCTAD secretariat calculations.

a/ See table 2 for definition.
b/ Equals to GDP plus imports minus exports.
c/ Changes in real exports expressed as per cent of previous year's GDP.

nomic activity to the level prevailing before the onset of the debt crisis. In face of the severity of debt-servicing difficulties, most countries have been obliged to maintain a vigorously contractionary stance in their macroeconomic policies. In fact, much of the gain in total output in 1984 was increased production for export and not production for domestic absorption. The increase in exports was equivalent to more than half of the additional total output produced in the year (see table 7).

68. The effects of the contractionary policies pursued by the countries with debt-servicing difficulties have been very severe. It is a measure of the intensity of contraction that domestic absorption - the supply of goods and services available for domestic consumption and investment - fell by nearly 5 per cent in 1982 and close to 6 per cent in 1983. The small reversal in 1984 falls far short of making up for the losses of the preceding years. Domestic consumption and investment are accordingly running well below their pre-debt crisis levels. The compression has fallen with particular severity on investment since restrictive fiscal policies have usually entailed large cuts in public investment expenditure, private investment has been depressed by the high levels of capacity under-utilization and low profits, and imported capital goods have been restricted or costly. Although devaluations have strengthened the incentive to invest in the export and import-substituting sectors, the restoration of aggregate investment to former levels still appears a distant prospect in view of reduced domestic demand and lower levels of income and profits from which savings can be made.

69. A related cost of the large and abrupt adjustment which has had to be effected by the countries with debt-servicing difficulties, has been the acceleration of price inflation. As just noted, the real reductions in the supplies of goods and services available for domestic consumption and investment which took place in 1982 and

1983, were large. The cuts in domestic expenditure required to balance demand with the lower levels of supplies at prevailing prices were not only drastic but presumed an exceptional flexibility in the reorientation of fiscal as well as monetary policies. In the event, some part of the demand-supply balance was restored through the upward movement of prices. The devaluation of currencies which has formed part of the adjustment measures also added rising import costs to the upward spiral of prices. Further, the actual cuts in expenditure, both public and private, made by governments, together with the price inflation, have brought about reductions in real income which has intensified the conflict among competing income groups and given new impetus to the wage-price inflation endemic to most countries.

70. The much greater contraction, or smaller increase, in domestic absorption than in total output over recent years in the countries with debt-servicing difficulties, has had its counterpart in substantially improving trade balances. The gain in the trade balance was not confined to the group of countries with debt-servicing difficulties. For the developing countries as a whole, 1984 saw a considerable improvement in trade balances. With virtually unchanged terms of trade, the improvement was almost entirely due to changes in the volume of export and imports. In East Asian countries, imports did not keep pace with the very rapid expansion in exports. In South Asia, however, there was some deterioration in the balance owing to the effects of weather conditions on foreign trade.

71. Taking developing countries together, the improvement in the trade balance more than offset the increase in net interest payments. The aggregate deficit in the balance of payments on current account was again reduced in 1984 by about as much as in 1983. Standing at $48.2 billion, it was almost half the peak level reached in 1982 during the depth of the recession.

(a) Western Hemisphere

72. The performance of the countries in the Western Hemisphere, has been primarily influenced by efforts to cope with their debt problems. The rescheduling of debt service has avoided a widespread financial crisis while allowing additional time for seeking a more permanent solution to their debt problem. The drying up of new private financial flows, which followed and partly precipitated the debt-servicing difficulties, obliged most countries to reduce substantially their current-account deficits. In view of the large amount of outstanding debt at variable, but high, interest rates, the reduction in the current-account deficits concurrently with the accommodation of large interest rate payments has given rise to a significant slowdown in the development process in the region.

73. In both 1983 and 1984, current-account balances improved dramatically. The combined deficit for the region fell to $6.3 billion in 1984 from $40 billion in 1982. This reduction, however, was accounted for very largely by Brazil, Mexico and Venezuela whose combined deficit of $26.4 billion in 1982 turned into a surplus of $7.6 billion in 1984. Argentina, the other large indebted country, has not been able to reduce its deficit significantly. Most of the remaining countries in the region have reduced their deficits in at least one of the two years. With continued high or increasing interest payments, the reduction in the combined deficit has come from improvements in the trade balance. Most of the improvement in 1983 was the result of sharp reductions in the volume of imports, since the rise in export volumes and in terms of trade was very limited. In 1984, the rapid expansion of exports by 11.7 per cent permitted another significant improvement in the trade balance despite a slight deterioration in the terms of trade, as well as some resumption of growth in the volume of imports.

74. Exports from the region, which have been growing at rates higher than the average for developing countries as a whole, reflect mainly the performance of the larger countries which have been able to benefit from the recovery in the United States. Their flexible productive structures have allowed them to respond rapidly to the expansion in the import-demand in that country. The volume of exports from Brazil and Argentina, both major exporters of manufactures, increased by 32 and 22 per cent respectively over the two-year

Table 8

Current-account balances: *a/*
major countries and country groups, 1983-1986
(Billions of dollars)

Country or country group	1983	1984 (Estimated)	1985 (Forecast)	1986 (Forecast)
Developed market-economy countries *b/*	-3.3	-42.5	-49.5	-64.2
Canada	1.5	1.8	2.0	0.5
France	-2.9	1.9	3.0	4.0
Germany, Fed. Rep. of	10.4	13.0	17.0	15.0
Italy	1.5	-2.0	-4.0	-5.5
Japan	22.2	36.4	50.0	55.0
United Kingdom	6.5	3.0	4.0	3.5
United States	-33.3	-95.0	-120.0	-134.0
Other countries	-9.2	-1.6	-1.5	-2.7
Developing countries *c/*	-72.3	-48.2	-47.3	-47.6
Western Hemisphere	-11.5	-6.3	-13.0	-17.4
North Africa	-4.3	-6.1	-5.8	-5.1
Other Africa	-15.4	-8.9	-8.3	-8.6
West Asia	-20.7	-20.5	-17.6	-14.4
South Asia	-4.2	-4.2	-3.9	-4.3
East Asia	-14.5	-1.0	-0.2	-2.0
China	4.5	4.2	2.0	2.0
Socialist countries of Eastern Europe	8.2	11.2	7.0	3.0
Statistical discrepancy *d/*	62.9	75.3	87.8	106.8

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ Goods, services and private transfers.

b/ As defined in the UNCTAD *Handbook of International Trade and Development Statistics,* but excluding Yugoslavia.

c/ All countries, territories and areas not included in other groups.

d/ The statistical discrepancy is composed of a (usually negative) discrepancy on merchandise trade mainly due to timing asymmetries and a positive discrepancy on services reflecting, in the main, under-reporting of interest income, receipts from sales of transportation services, and remittances. The increase in the absolute discrepancy on merchandise trade in 1983 and 1984 has been responsible for an overall decrease in the statistical discrepancy in these two years (see *IMF World Economic Outlook,* p. 236).

period. The movements in export prices in Brazil led to similar results with regard to the value of exports. Conversely, in Argentina a 5 per cent decrease in export prices offset partly the growth in the volume of exports. Similarly, in Mexico, the 20 per cent increase in the volume of exports has been largely offset by reductions in export prices. The remaining countries experienced smaller increases in the value of exports. Import growth resumed in 1984, but remained rather weak. Furthermore, it has been concentrated in a small number of countries, all of which experienced large reductions in imports in the previous two years. For the remaining countries, the volume of imports continued to decline, or has increased only slightly. In the case of imports, the same pattern has characterized both the large and the small economies in the region. In Mexico, the import volume growth rose to 37 per cent, after a 64 per cent decrease in 1982 and 1983.

Import volume continued to decline in Brazil and Argentina. In Brazil, the decline was partly due to progress in import substitution, as, for example, in the energy field.

75. With the trade account in surplus, the deficit on current account has been almost entirely attributable to the deficit on investment income. Thus, despite some increase in net capital inflows, the countries in the Western Hemisphere have continued to be net suppliers of resources to the rest of the world.

76. The impressive adjustment in the current-account balance has, however, been accompanied by only a weak recovery in the economies of almost all countries in the region. This has reflected the continued weakness of domestic demand resulting from the restrictive economic policies adopted in the course of adjustment. Thus the recovery has, to a large extent, ensued from the increase in the volume of exports of the larger countries. It has been based on the utilization of idle capacity released by the reduction in domestic demand. Internal investment for instance declined by 25 per cent in 1982-1983. In particular, there was a fall of 50 per cent in investment in machinery and equipment.

77. Aggregate output increased by 2.6 per cent, barely exceeding the rate of population growth. In fact, the recovery has been so weak that, in most countries, per capita output has continued to fall. Moreover, the gain in economic activity has been mainly concentrated in the region's larger economies; it has been weaker in most of the smaller ones. For Brazil and Mexico, the stimulus has been provided mainly by exports. In Argentina, Chile and Colombia, the growth in economic activity was linked more to domestic factors than to the expansion of exports. In the first two countries, however, reversal of policies tended to slow economic activity towards the end of the year. Recovery in the primary sectors, whose production in 1983 had suffered from severely adverse conditions, was mainly responsible for growth in some of the remaining countries. Unfavourable movements in international prices of their export commodities have limited the growth in others. The only two countries to experience a decline in output were Venezuela and Uruguay, due mainly to an unfavourable evolution in exports and the low levels of domestic demand.

78. The weak recovery has not sufficed to reverse the rising trend in unemployment in most countries of the region. Contraction in public and/or private construction has been one of the factors contributing to increased unemployment in some of the countries, reflecting the reduction in public and private investment. Moreover, reduction in government employment has probably offset the rise of employment in the private sector in those countries where industrial activity has experienced some growth.

79. Another disturbing feature of the recent recovery in the Western Hemisphere has been the acceleration of inflation in most countries. In one or two of these, it has reached rates which threaten the day-to-day functioning of the monetary economy. Among the larger countries, consumer prices rose by almost 680 per cent in Argentina in 1984, and in Brazil, they increased by nearly 200 per cent. In Mexico, however, the rate of inflation declined significantly although it remained around 60 per cent. As noted earlier, the acceleration of inflation has generally been a conseqeuence of the difficulties encountered in the process of adjustment to the debt-servicing crisis. The reductions in real income effected to improve the external balance, have been drastic; and these have inescapably intensified the conflict among the different social groups, each seeking to protect its level of living, which has found expression in the income-price spiral. Governments too, in their budgetary policies, have not all been equally successful in making the needed cuts in monetary expenditure.

80. The prospects for the countries in the Western Hemisphere are for a deterioration in the current-acccount balance. First, the growth in the volume of exports is expected to be lower due to the slowdown of growth in the United States, while that of the volume of imports is expected to be higher after several years of constraint. Second, the movement in the terms of trade is expected to intensify the deterioration in the volume trade balance. With continued stagnation in net capital flows and increasing interest payments, the pressure on the countries in the Western Hemisphere for the contin-

uation of austerity measures is not expected to ease. Thus, the recovery in overall economic activity is expected to remain weak.

(b) Asia

(i) East Asia:

81. The strong impact of the expansion in the import demand for manufactured goods in the United States, and to a lesser extent in Japan, reinforced by the absence of debt-servicing difficulties, has been a critical factor for the buoyant recovery in the countries of East Asia.

82. With the exception of the Philippines, countries with large debts, as measured by the ratios of total external debt to GDP, have not faced debt-servicing difficulties on account of both the adoption of adjustment policies at an earlier stage during the recession and their greater capacity to service debt, which derives from the larger share of exports in their GDP. Thus, for these countries, the burden of debt-service has not been a constraint, and the impulse given to their economies by the recovery in the United States has been translated into accelerated growth. While the activity of the region has been dominated by the exceptional performance of the major exporters of manufactures, recovery in most of the other countries has also been above the average for developing countries as a whole.

83. In 1984, countries in East Asia reduced the deficit in their current account by \$14.5 billion to only \$1 billion, thereby accounting for more than half of the reduction of the deficit of developing countries as a whole. This reduction was led by an impressive increase in exports and a much smaller increase in imports. Since the terms of trade have not changed significantly, the developments in the value of exports and imports have reflected the evolution in their volumes. During 1984, the volume of exports increased by 18.3 per cent. This rate was more than double that of 1983 and over 50 per cent greater than the average for the period 1975-1980. Conversely, the volume of imports has been growing at 8.2 per cent, slightly faster than the historical rate, reflecting partly lower absorptive capacity in some countries. This pattern in the relative growth of exports and imports has been quite widespread, although in countries where imports constitute important inputs in the production process, their growth has followed more closely the rate of export growth.

84. The developments in their trade and current-account position permitted most countries in the region to enjoy a buoyant growth in output of 5.6 per cent. An exception was the Philippines, whose output declined by 5 per cent, due partly to adverse weather conditions, but more importantly to the debt-servicing difficulties which have led to the adoption of a severe austerity programme. In 1984, growth rates for the remaining countries ranged between 5.0 and 11.0 percent, the highest among the developing countries. Although performance still remained below the levels achieved before the recession, it continued to accelerate in all of these countries, with the exception of the Republic of Korea. In that country, contraction in the growth of exports to the United States towards the second half of the year and extensive flooding in September slowed the high rate of expansion of economic activity to 7.5 per cent in 1984 from 9.5 per cent in 1983.

85. The prospects for the countries in East Asia for 1985 are for a considerable slowdown in the growth of exports, particularly from the major exporters of manufactures, mainly reflecting the slowdown in the United States economy. Buoyant domestic demand and investment are expected to offset the effects on economic activity of the slower growth in exports. However, with the growth of imports remaining more or less stable, the current-account balance is expected to continue to improve, albeit only slightly. Thus, growth in these countries is expected to remain healthy, at around the same levels of the previous two years.

(ii) South Asia:

86. South Asia has been the region most insulated from the recession. Economic activity also remained remarkably stable through the recession. Developments in the region reflect, among other things, the suc-

cess of past policies in the development of the agricultural and energy sectors, the importance of agriculture, the low external indebtedness and a greater dependence on concessional flows (the share of concessional debt in total debt was 84 per cent in 1983). While India, with its large weight, necessarily influences the average performance for the region, economic developments in most countries have followed similar patterns.

87. In 1984, the deficit on the current account remained unchanged, as the deterioration in their trade balance offset the slight improvement in the other components of the current-account balance. The deterioration in the trade balance was largely due to adverse weather conditions in some countries which resulted in a reduction in the volume of exports as well as in a significant increase in the volume of imports. The negative impact of the developments in the volume of trade were, however, partly compensated for by a significant improvement in their terms of trade, leading thus to a smaller overall deterioration in the trade balance. As financial flows have also declined, this deficit was financed partly by a rundown on reserves. In recent years, adjustment to external imbalances in the region has been facilitated by the increase in domestic oil production in India and by the fact that external financing has been mainly in the form of concessional long-term flows. Changes in both these factors are expected to affect unfavourably India's external payments position in the years ahead and consequently that of the region as a whole.

88. In 1984, the growth in agriculture in the region, which accounts for the largest share of total final product as well as for a large share of inputs in the industrial sector, declined to 4.3 per cent. This reflects the return of India's growth to a more normal level, after a year of exceptional advance in agriculture, as well as adverse weather conditions in a number of other countries in the region.

89. The economic performance of South Asia is not expected to experience any significant change in the near future.

(iii) West Asia:

90. Developments in West Asia, which comprises principally major oil-exporting countries members of OPEC, have been dominated by the continued weakness in oil markets. Because of substantial energy conservation and energy substitution in developed market-economy countries, the resumption of growth in the demand for oil has been, in general, very slow during the present recovery. Moreover, the relatively slower recovery in the Western European economies and in many developing countries, as well as the increases in the production capacity of other countries, have also reinforced the negative effect on the demand for oil from countries in West Asia. Finally, the decision of OPEC, in 1984, to adopt oil production ceilings in order to stabilize prices has resulted in relatively larger cuts in the production of some of the countries in the region with large production capacity.

91. In 1984, the countries in West Asia succeeded in checking the downward trend in their current-account balance, which started in 1982. With the value of imports declining faster than those of exports, the surplus on their trade balance increased slightly in 1984. The deficit on their non-factor services and private transfers has also continued to decline. On the other hand, their surplus on investment income declined as the increase in interest rates during 1984 was more than offset by the loss of income resulting from the contraction in their assets, which have been used in the financing of their deficits.

92. Since the oil sector has continued to account for the largest share of these countries' output, economic activity has continued to decline. With the slowdown in the world recovery, economic activity in the countries of West Asia is expected to fall further in 1985 before some growth resumes in 1986. Continued declines in imports of goods and services will, however, lead to some improvement in their current-account balances in the next two years.

(c) Africa

93. Developments in Africa have been dominated by the prolonged recession in countries of sub-Saharan Africa which have continued to be unfavourably affected by both external and domestic factors. Given the small size and the narrow basis of their economies, as well as their dependence on trade, these countries were seriously affected by the recession in the international economy. Conversely, during the present recovery, the demand for, and therefore the prices of, primary commodities have remained relatively weak with debilitating effects on many of the sub-Saharan countries. As regards countries exporting agricultural commodities, the weakness in the international markets was further aggravated by the continued drought in many countries which curtailed production. For the exporters of minerals and metals, the weaker recovery of activity in Western Europe, with which they have closer trade links, has intensified these negative effects. Furthermore, since the latter countries had undertaken large borrowing on non-concessional terms,[6] they have been among the countries that have faced serious debt-servicing difficulties. In spite of these conditions, however, the countries in Africa (excluding Nigeria) improved their trade balances slightly. Part of this improvement, however, was offset by increased interest payments. Thus, the deficit in the current-account declined by only $1 billion. Since, however, financial flows have also decreased, the countries of sub-Saharan Africa (excluding Nigeria) have not been able to start rebuilding their reserves. In general, financial flows to these countries, largely accounted for by official flows, have not experienced sharp declines. While official flows, have stagnated overall, the flows to sub-Saharan African countries, as well as to other low-income countries, have declined, this was occasioned by the debt crisis which caused official creditors to step up disbursements to countries with larger shares of private debt which faced liquidity pressures. Moreover, imports into many African countries have been constrained by difficulties in trade financing, partly because official export guarantee agencies have downgraded their credit-rating following debt-servicing difficulties. Since, in addition, many countries have had to increase food imports due to the drought, they have had to limit imports for productive uses, thus constraining output in those sectors dependent upon them.

94. Output in sub-Saharan Africa (excluding Nigeria) has thus stagnated for a second year running. Outside the countries affected seriously by the drought, growth has also been particularly low in countries exporting mainly mineral resources. In general, performance has been weakened among countries facing debt difficulties, even when developments in export volumes and terms of trade were more favourable. For the countries not facing debt-servicing difficulties, changes in supplies and in the terms of trade have tended to offset each other, thereby leading to similar patterns of growth in most of them. The above pattern of growth has thus led to either negative or very low growth in most countries. With rare exceptions, it has been lower than population growth.

95. The prospects for sub-Saharan African countries are for slightly higher growth in 1985, reflecting mainly better weather conditions in early 1985. Improvements reflecting recent reorientation in development policies will be felt only gradually and in the years to come. These, however, will be contingent on continued support from the international community in the form of loans and aid flows.

96. Developments in the oil-exporting countries of Africa have also been dominated by the prevailing conditions in the oil markets. These countries, some of which face continuing financial problems and having large outstanding debts, have undergone similar adjustment in their current-account balances, as have the countries in West Asia. They have cut imports in line with their reduced export earnings. Growth, however, resumed in those countries with large non-oil sectors. On the other hand, oil-exporting coun-

[6] The non-concessional debt of countries, for which minerals and metals constituted more than 50 per cent of their exports in 1980-1982, accounted for more than 50 per cent of their outstanding debt at the end of 1983.

tries facing debt-servicing difficulties, like Nigeria, have continued to experience declining output. The net oil-importing countries in North Africa have, on the whole, faced some of the same problems as those of sub-Saharan Africa. The prospects for countries in North Africa are for a slower growth in 1985, while in Nigeria, growth will not resume before 1986 due largely to the intensive adjustment at present underway.

2. Financing of the current account of developing countries

97. In 1984, for the second year in succession, developing countries reduced their deficit on current account by about $24 billion. While net financial inflows also declined, the reduction in the deficit allowed these countries to start rebuilding their reserves. Reserves were increased by about $3.6 billion, (see table 9).

98. Private flows, whose sharp decline in 1982 had precipitated the debt-servicing crisis dropped further in 1984. With further improvement in the payments position of developing countries and progress in debt-service restructuring, it is expected that these flows will stabilize by 1986. Medium-term and long-term bank lending, despite its contraction, has continued to be the major source of private flows to developing countries. The stagnation, or fall, in export credits in recent years has been related to the contraction of imports in developing countries associated with the curtailment of investment and other domestic economic activity; export credits are expected to increase *pari passu* with the resumption of import growth in developing countries. The expansion of direct investment is expected to be slow, as it is tied, *inter alia*, to progress on adjustment and to restoration of high levels of economic activity.

99. Official flows, on the whole, have also remained unchanged. Bilateral assistance in the form of grants or concessional loans from all donors stagnated in 1984. Flows from the Development Assistance Committee (DAC) may have increased slightly in real terms, though, because of appreciation of the dollar, not when expressed in current United States dollars. For this group of donors, future flows are expected to grow at the rate of around 2 per cent, in real terms, implying a further reduction in ODA as a percentage of their GNP. Moreover, because of continued current-account deficits in many OPEC countries, no further increase is expected in their net flows to other developing countries.

100. Multilateral flows stagnated in 1984 after a decline in 1983. Lending by the International Development Association (IDA) has been expected to slow down as a consequence of the reduction of the seventh replenishment of IDA at the level of $9 billion. There were hopes that disbursements on loans from the World Bank could be accelerated significantly with the introduction of the new instruments on co-financing and of the Special Assistance Programme designed to provide priority lending for structural and sectoral adjustment. Nevertheless, whether or not an acceleration in disbursements has been taking place, there has been a decline in new commitments during the financial year 1984/1985.[7] There is preliminary evidence that new lending for that year has been running about $2 billion short of lending targets and $1 billion below the level of the year 1983/1984. The slowdown in the pace of new commitments is another sign of the impact of the recent crisis on developing countries, since it is partly due to the postponement of the initiation of new projects by large borrowers such as Nigeria and Brazil which have been facing debt-servicing difficulties.

101. An important development in the evolution of financial flows in 1984 has been the decline in the use of IMF credit. Net drawings by developing countries dropped to $4.4 billion from their peak of $10.7 billion in 1983, thus reversing the trend towards increased Fund use which began in 1978. The slowdown in the use of Fund facilities has resulted partly from the improvement of the external position of developing countries and partly from previously heavy drawings in relation to total access. The reduction in the overall use of Fund credit has been

[7] The financial year in the World Bank runs from 1 July to 30 June.

Table 9

Deficit of developing countries: sources of financing, 1983-1986
(Billions of dollars)

		Estimated	Forecast	
	1983	1984	1985	1986
Current-account deficit	72.3	48.2	47.3	47.6
Increase in official reserves	-10.3	3.6	-5.0	-1.0
Total net capital flows	62.0	51.8	42.3	46.6
Official bilateral flows on concessional terms	16.7	16.7	17.4	17.4
Grants *a/*	10.8	10.8	11.5	11.5
Medium- and long-term loans	5.9	5.9	5.9	5.9
Other medium- and long-term official bilateral loans	3.6	3.6	3.6	3.6
Multilateral institutions	11.3	11.3	10.5	10.0
Private flows	31.5	24.0	21.4	20.3
Direct investment	8.6	7.7	7.7	7.7
Export credits	6.7	6.7	7.0	7.2
Bilateral portfolio investment	0.6	1.7	1.0	1.0
Other international bank lending	15.6	7.9	5.7	4.4
Medium- and long-term	33.4	18.9	26.7	4.4
Short-term	-17.8	-11.0	-21.0	0.0
IMF lending	10.7	4.6	1.5	-4.7
Other capital, unrecorded flows, errors and omissions	-11.8	-8.4	-12.1	0.0
Memo item:				
Total interest *b/* and profit remittances (sign reversed)	42.9	52.0	59.0	62.6
Net transfer	19.1	-0.2	-16.7	-16.0

Source: UNCTAD secretariat calculations, based on international sources.

a/ Excluding technical assistance.
b/ Balance-of-payments basis; excludes interest on short-term debt or on IMF drawings.

accompanied by an acceleration in the trend toward a larger proportion of drawings under highly conditional facilities. Net low conditionality flows to developing countries declined to almost zero in 1984, from $2.3 billion in 1983. On the other hand, an increasing proportion of the reduced net drawings has come from the Extended Fund Facility.

102. As private flows continued to decline in 1984, the balance between those flows and official flows in financing the current-account deficit of developing countries has moved slightly in favour of official flows. No significant changes, however, are expected for 1985.

3. Debt and debt service

103. The evolution of debt in developing countries during 1984 continued to be characterized by their effort to resolve their debt-servicing difficulties. Recourse to debt-service rescheduling, which had traditionally been considered as a temporary response to meet acute shortages of liquidity, has evolved as a major means for dealing with the present longer-term debt-servicing problems. Thirty-two countries either signed or reached agreement in principle to reschedule their debt-service payments in 1983 and/or in 1984. Thirteen of these

countries had either rescheduled, or had reached agreement to reschedule, payments in both 1983 and 1984, reflecting the continuing and longer-term nature of the debt-servicing difficulties facing a number of developing countries.

104. The approach to the debt-servicing problems of most developing countries has continued to be on a year-to-year basis. For some of the major debtors, however, with a large share of their debt originating in the international capital markets, the dramatic improvement in their current-account balances and their better overall economic outlook was seen to open the way to a longer-term approach to debt-servicing difficulties. For those debtors, recent agreements or negotiations with commercial banks have involved multi-year debt reorganization with long repayment periods, in addition to arrangements which allow the banks to diversify the currencies in which their claims are denominated, and which permit the monitoring of the country's economic performance (see part two, chapter II).

105. In 1984, the growth of total external debt of net debtor developing countries[8] fell to 5.5 per cent from 9.1 per cent in 1983. This deceleration was partly due to the continued contraction in short-term debt. Thus, in 1984, the growth in medium-term and long-term debt was 8.7 per cent (see table 10). The growth in the latter, however, is not an accurate reflection of the declining trend in medium-term and long-term flows. This growth has been affected in offsetting directions by two factors. First, the consolidation of short-term debt into medium-term and long-term debt had the effect of increasing the rate. Second, the strengthening of the United States dollar has had the effect of reducing the growth of outstanding debt not denominated in United States dollars when measured in terms of United States dollars. The growth of medium-term and long-term debt is expected to slow down in 1985, and fall further in 1986 under the assumption of continued slow growth in new financial flows.

106. Interest payments in 1984 increased only slightly above the rate of growth of outstanding debt since part of the increase in payments was offset by arrears and reschedulings. In view of expected trends in export earnings, the ratio of interest payments to earnings is not expected to change significantly in 1985 or 1986.

107. Amortization payments increased by 15.5 per cent in 1984. However, under the assumption of no additional rescheduling beyond 1984, these payments would rise by 20 per cent in 1985 and by nearly one-third in 1986. As a consequence, the ratio of total debt-service payments to exports would rise from about 29 per cent in 1984 to nearly 31 per cent in 1985 and as much as 34 per cent in 1986. It is evident that, despite the reschedulings which have already taken place, the flow of amortization payments in the near term has not yet been reduced to a feasible level.

B. China

108. Having achieved most output targets originally set for 1985, the Chinese economy has continued to experience a significant upsurge in growth. In 1984, national income grew by 12 per cent, considerably faster than the 9 per cent growth achieved the previous year. This growth has been led by the exceedingly good performance of agriculture, reflecting partly the absence of unfavourable weather conditions, but more importantly, the impact of the on-going agricultural reforms implemented since 1979. Thus, agricultural output expanded by 14.5 per cent, giving an average real growth of 9.2 per cent over the period 1980-1984, in contrast to the 4 per cent annual target implied by the sixth five-year Plan. By 1984, China became the world's largest wheat producer. In addition, as the output of most other grains also increased, import of grains declined significantly. Conversely, the emergence of storage and distribution problems may have led to a great-

[8] For the purpose of the present analysis, those countries have been excluded for which the level of debt is closely matched or exceeded by official reserves and other external assets. No such distinction was made for the analyses of the financing of current-account deficits, since most of these countries have exhibited current-account deficits during the past two years.

Table 10

Net debtor developing countries: *a/*
net capital flows, debt service and debt-service ratios, 1983-1986
(Billions of dollars)

		Estimated	Forecast	
	1983	1984	1985	1986
Debt outstanding, end of year b/	588.8	640.1	694.0	726.0
Debt service c/				
Medium- and long-term loans	78.4	88.5	96.6	114.3
IMF lending	3.9	4.9	5.7	7.2
Total	82.3	93.4	102.6	121.5
of which:				
Debt amortization	38.7	44.7	53.6	68.7
Ratios (percentages)				
Medium- and long-term loans outstanding to exports *d/*	200.6	201.2	209.0	205.1
Interest on medium- and long-term loans to exports	14.9	15.3	14.8	14.9
Debt service to exports	28.0	29.4	30.9	34.3

Source: UNCTAD secretariat calculations, based on international sources.

a/ Excluding developing countries, territories or areas with net foreign assets greater than $1 billion in 1982. Those were Brunei, Hong Kong, Iraq, Iran (Islamic Republic of), Kuwait, Lebanon, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, Singapore, Taiwan Province of China, Trinidad and Tobago and United Arab Emirates.

b/ Medium- and long-term only, including IMF drawings outstanding.

c/ Estimates on debt amortization for the period including 1983 reflect actual payments. The estimates for 1984, 1985 and 1986 have been adjusted to take into account restructuring agreements that had been agreed in principal up to the end of 1984.

d/ Goods and services.

er number of provinces seeking export outlets.

109. Industrial output which, over the period 1980-1984, had grown at a slower pace than agricultural output, also expanded significantly in 1984. Overall industrial output grew by 14 per cent. In a reversal to 1983, growth in light and heavy industry converged, in accordance with the Plan's aim, to improve the balance among the different sectors. Over the period 1980-1984, heavy industry grew at the annual rate of 4.8 per cent and light industry at 5.8 per cent. Since, however, per capita incomes have been growing faster, the growth in the production of consumer goods has not been sufficient to meet demand. Furthermore, problems of quality have continued to plague the consumer goods industry. As a result, imports rose rapidly in 1984. Shortages in energy supply whose growth has been trailing that of industry as a whole, have been among the factors constraining industrial growth. Transportation and, in general, infrastructure services, have also continued to be problem areas.

110. Thus, energy and infrastructure projects have continued to be priority areas for investment. During 1984, capital construction increased by 23.8 per cent. Investment in energy projects increased by 25.1 per cent and in transportation and communications by 34.2 per cent. The two sectors together accounted for 35.8 per cent of all capital construction investment. These two sectors will continue to be given priority in the seventh Five-year Plan for the period 1986-1990, which

otherwise is expected to put more emphasis on modernizing and expanding existing capacity than on new major heavy industry projects.

111. Over the medium term, further progress in industrial development is envisaged through the implementation of the comprehensive industrial reform announced in October 1984. While the scope, the modalities and the precise timing of this reform have not yet been worked out, certain managerial reforms, such as replacing the profit turnover with taxation and the granting of greater autonomy for enterprises in the field of investment, production and trade decisions, have been in place since the beginning of 1985. Wage and price reforms are also to be implemented in 1985. Under these reforms, wages are to be more closely related to the work performed and price movements are to reflect changes in production costs or in conditions governing supply and demand. Their implementation, however, is expected to be gradual in order to avoid a resumption of inflation, which has been around 2 per cent and to protect real purchasing power and living standards.

112. On the external front, China has continued to run a current-account surplus of around $4 billion, despite a deterioration in its trade balance. The growth in the value of imports, which had resumed in 1983 after three years of restraint, accelerated further in 1984 to reach 28.7 per cent. Thus, while imports of foodstuffs declined by more than 35 per cent, those of manufactured goods increased by a similar amount. While the trend towards increasing imports has been the result of deliberate policy to increase imports of technology and vital inputs to industry and agriculture, the sudden jump observed towards the end of 1984 was fuelled by the excessive liquidity created by the large increases in bank lending and wages during the same period in anticipation of the implementation of the financial and wage reforms mentioned above. The growth in the value of exports, which in 1984 was 15.3 per cent, has continued to trail that of imports, thereby accounting for the narrowing of the surplus in the trade balance. Thus, the continued surplus in the current-account balance has been sustained by increasing net receipts from tourism and other services.

113. In 1985, as the Chinese Government tries to consolidate the gains of the past few years in order to prepare the economy for the envisaged industrial reform, growth is expected to remain strong, but lower than that of the previous years. Thus, national income is expected to grow at around 7 per cent, with continued greater emphasis on the industrial sectors.

Chapter III

INDUSTRIALIZED COUNTRIES

A. Developed market-economy countries

114. As the upswing in economic activity of the United States approaches its cyclical peak, the pace of economic growth of the developed market-economy countries as a group has begun to decelerate. The slowdown in growth of the United States is not currently being offset by acceleration in other countries; indeed, while Western Europe is expected to maintain its modest rate of expansion in 1985, some deceleration is projected for Japan. There are several reasons for concern too, arising out of the present economic situation, about the prospects for sustaining a vigorous, if still cyclical, upward momentum in the years beyond 1985. Besides the evolution of demand and output within individual countries, there is the question of whether the distribution of aggregate demand among countries will allow sustainable, external surpluses or deficits which are consistent with adequate growth. There are fears that distortions in financial markets may persist, with high real interest rates continuing to aggravate the debt problem and dampening long-term investment everywhere, and with currency misalignment intensifying protectionist pressures. And in Western Europe, there are doubts whether the return to a higher, medium-term growth path, accepted as necessary to reduce the high levels of unemployment, will materialize.

115. The current deceleration in the pace of expansion of output follows on a year of high growth; for the developed market-economy countries as a group, real output rose by 4.8 per cent in 1984. It was the strong performance of the United States economy in the first half of 1984 and its subsequent moderation, which primarily accounts for these changes. Indeed, it has been estimated that somewhat more than two-thirds of the increase in aggregate demand of OECD countries in 1984 was accounted for by the United States.

116. After a protracted recession, recovery in the United States began to take shape in late 1982 and reached an annual rate of close to 7 per cent in 1984, the strongest recovery since the mid-1950s. Indications for the first half of 1985 are that the cyclical upswing has been flattening out and that growth has slowed to an annual rate of less than 2 per cent. Only Japan, because of its strong trading links with the United States, experienced a comparable acceleration in growth of real output in 1984, when it rose by 5.8 per cent. By contrast, the improvement in performance of the Western European economies was much more modest, rising from 1.3 per cent in 1983 to 2.4 per cent in 1984. Among the larger European economies, the improvement derived largely from the experiences of the Federal Republic of Germany and the United Kingdom. Weak as it was, the economic performance in 1984 nevertheless represented a marked gain over that recorded in the previous three years when the real GNP of the countries in the European Economic Community rose by as little as 1 per cent per annum.

117. Fiscal policy played a major role in the reversal and subsequent acceleration of growth in the United States. Cuts in personal income-tax enacted in 1981, took effect in 1983 and 1984; and public consumption expenditure also continued to rise. As recovery got underway and employment began to increase sharply, cumulative gains in real disposable income were generated, and private consumption expenditure accordingly continued to advance very strongly in 1984. In Western Europe, by contrast, fiscal policies have not been instrumental in enlarging private consumption expenditure. While restrictive fiscal policies have not prevented continued increases in real public consumption expenditure, they generally excluded any reductions in personal income-tax. That rising private consumption expenditure helped to induce recovery, was less because of gains in real income than because of

declines in household saving. Real disposable income in the countries of the European Economic Community, in fact, declined by 0.4 per cent in 1983 and advanced by only 1.2 per cent in 1984. The average saving rate, however, fell in 1983 and thereafter to 14.6 per cent from 15.9 per cent in 1982. The decision to save less appears to be a consequence of the much reduced pace of inflation since this diminished uncertainties, particularly about the real value of the monetary assets of households.

118. In Japan, it was even more evident that the stimulus to the recent acceleration in economic growth did not come through fiscal policy and its effects on consumption. While Japan maintained a relatively high rate of growth in domestic consumption throughout the world recession, the pace of expansion in private consumption expenditure declined in 1983 and slipped further in 1984. Some reversal, however, appears to be taking place currently; and public consumption expenditure has been increasing at a very modest pace.

119. In both Japan and Western Europe, the foreign demand for exports, in fact, played a dynamic role in total demand in 1984. In Japan, the export sector, which accounted for about one-third of the increase in GNP in 1983, was the source of more than half of the much faster growth of GNP in 1984. For the countries of the European Economic Community, the growth of real exports of goods and services accelerated sharply from 2.3 per cent in 1983 to 6.4 per cent in 1984, a higher pace which is still being maintained. Exports of the Federal Republic of Germany have benefitted particularly from the boom in United States import demand: exports to the United States increased by 28 per cent in 1984 after rising by 10 per cent in 1983. But for the Western European countries generally, the recovery in demand has derived more from Western Europe itself and developing countries.

120. The vigour of the United States upswing has clearly contributed significantly to the expansion in other developed market-economy countries. The real income of the United States has been rising at a faster pace than that of many other industrialized countries as well as of numerous developing countries which are also its trading partners. This alone would have generated a more vigorous United States domestic demand for imports than foreign demand for its exports. At the same time, however, the dollar has been appreciating. Imported goods in the United States market have enjoyed an added price advantage while United States exports have faced stiffer price competition. Thus, the relative changes in domestic and foreign prices and in domestic and foreign incomes have reinforced each other to draw in imports and limit exports.

121. It was the very source of aggregate demand growth in the United States economy, namely, the large budget deficit of the Federal Government which has led to the overvaluation of the dollar. Within the framework set by investment demand, savings behaviour and monetary policy, the deficit exerted an upward pressure on real interest rates, and these have played the main role in attracting a large inflow of foreign capital into the United States. Changes in tax regulations have also attracted capital in search of higher returns on financial assets. As pointed out in the *Trade and Development Report, 1984*, United States tax regulations had been modified in such a way as to make the high interest rates tolerable to United States borrowers and at the same time attractive to foreign investors through measures such as the Accelerated Cost Recovery System, the treatment of interest expenses as tax deductable and changes in the withholding tax treatment of foreign holders of United States bonds. The new tax rules enabled United States corporations to issue securities directly to foreign holders without having to resort to the costly procedure of indirect issuance through an offshore subsidiary. Dollar holdings, especially financial holdings, became attractive to foreign investors and the growing demand for dollar denominated assets helped to boost the dollar exchange rate to levels which have rendered some sectors of United States industry non-competitive with foreign suppliers. And as long as the dollar exchange rate remains at the high levels reached during recent months, a heavy volume of imports can be expected to continue to flow into the United States while the competitive position abroad of United States exporters will continue to come under pressure. In these circumstances, the calls for protection can only be expected to become more insistent.

122. It is a mark of the influence of both the price and income effects that domestic demand in the United States has risen more than total domestic output. In other words, some part of rising domestic demand has spilled over into a growing demand for net imports. Domestic demand, in fact, increased by 5 per cent in 1983 whereas GNP rose by no more than 3.8 per cent; and in 1984, domestic demand advanced by 8.8 per cent while the increase of GNP was 7 per cent.

123. There has necessarily been a counterpart elsewhere to the excess of demand over output in the United States. In substantial part, the mirror has been Japan, a principal trading partner of the United States. Because of a high saving propensity not fully offset by increasing investment or a larger budget deficit, the effect of the rising export income in Japan on domestic demand and, hence, on imports has been constrained. The growth of real output has, as a consequence, substantially exceeded the growth of domestic demand. While Japanese real GNP grew by 3 per cent in 1983, domestic demand increased by only 1.5 per cent; and in 1984, when GNP advanced by 5.8 per cent, domestic demand lagged behind at 4.3 per cent. The discrepancy between output growth and domestic demand growth has been less marked in the Western European countries taken together: GNP rose by 1 per cent to 2.3 per cent in 1983 and 1984 while domestic demand increased by 1 and 2 per cent respectively.

124. The differences among developed market-economy countries in the recent evolution of their income and expenditure, together with the movement of the dollar exchange rate, have been reflected in disparate changes in their external balances. For the developed market-economy countries as a group, the current account deteriorated by some $15 billion in 1984, yielding a deficit of some $61 billion. But this was more than fully accounted for by the continued deterioration in the current-account deficit of the United States; it reached $95 billion in 1984 and is expected to widen further. The deterioration is attributable very largely to the trade account although the traditional surplus on investment income has also diminished due to a net increase in payments to non-residents holders of United States assets.

125. The worsening current account balance of the United States has had its counterpart in improvements in the balances of other countries. Thus, it has contributed towards the lessening of the current account deficits of developing countries. But the largest single improvement has been concentrated in Japan where the surplus on current account in 1984 reached $30 billion. In Western Europe, performance has shown wide differences. In countries where restrictive policies have been pursued and where exports have increased, significant improvements in the external account have been registered. This was especially the case with France and some Southern European countries. The external sectors of the Federal Republic of Germany and of the United Kingdom, however, were adversely affected by labour disputes in the metal industry in the first case and coal mining in the second. Both countries recorded deteriorations in their current accounts in 1984. However, the Federal Republic's trade surplus has remained significant - around $22 billion in 1984 - and is expected to improve further as demand for its exports remains very strong.

1. Fiscal and monetary policies, prices and employment

126. The fiscal and monetary policies adopted by different countries, which have gone far to shape the evolution of their recent and current economic performance, have clearly been divergent. While monetary policy has continued to be tight in most countries, the large and fast-growing 'structural' government deficit in the United States has been, and remains, in sharp contrast to the generally contractionary fiscal stances of other countries. The disparity can be dated back to 1981, when measures were taken by the United States to reduce both personal and corporate income taxes. The policy package put in place by the United States Government consisted primarily of the Economic Recovery Tax Act of 1981, which reduced personal income taxes and the Accelerated Cost Recovery System, which reduced corporate income taxes, mainly through liberalized business depreciation allowances and increased tax investment credits. The impact of these fiscal measures, together with changes in monetary policy, has had an

important bearing on the timing and character of the recent recovery in the United States. In Western European countries and in Japan, on the other hand, governments have been preoccupied with public deficits and, in some cases, with debt burdens which are considered to be unsustainably high. Further, it has been the prevailing view - voiced in the United States no less than in most Western European countries - that taxation, social security contributions and social transfer payments had been growing too fast relative to the rate of expansion of the economy. Public expenditure as a share of GNP in the European Economic Community countries increased steadily in the post-war period from 32.5 per cent in the late 1950s to 47.8 per cent in 1983. Some have also argued, though it is widely disputed, that the incidence of taxation on the incentives to work, save and invest has been adverse. It is true, however, that from 1970 to 1984, the increase in the total tax burden fell on incomes and social security contributions while the indirect tax burden remained unchanged. Thus, in the medium term, the policy aim in the Federal Republic of Germany is to reduce the share of public expenditure from the current level of 47 per cent of GDP to 43 per cent; likewise, the share in the United Kingdom is to be reduced from 44.5 per cent to 40.5 per cent.[9]

127. The Commission of the European Communities has expressed the view that the years 1984 and 1985 may see the reversing of the upward trend of public sector receipts and expenditure. The fall in government revenues can be attributed to a decline in indirect tax receipts in many countries which was due to the shift in private consumption toward items subject to relatively lower tax rates. On the expenditure side, current transfers and public consumption, expressed as a percentage of GDP, also showed some decline in 1984 inspite of mounting unemployment in member countries. Tax payments and social security contributions have been stabilized since 1983 and government revenue remained constant at about 46 per cent of GDP in both 1983 and 1984. Current expenditure, on the other hand, has steadied at about 47.5 per cent of GDP in the EEC countries taken together during both these years. It should be noted that the consolidation of government budgets was made somewhat easier by the recovery. Although net borrowing by government as a share of GNP was still large and exceeded levels obtained during the late 1970s, this ratio may be expected to show some decline in the near future.

128. The medium-term aim of consolidation of budgets, which most governments in Western Europe and Japan have adopted, has generally been the dominant consideration in the shaping of recent and current budgets despite sluggish economic performance and mounting unemployment. The consequence can be seen in the behaviour of the structural deficit, the changes of which provide an indication of the discretionary impact of fiscal policies. While this deficit increased slightly in the major developed market-economy countries in 1984 and can be expected to do so again in 1985, the increase is due very largely to an expected expansionary change in the United States. In the other countries the expected trends are towards a surplus or a reduced deficit over the same years. In fact, since 1982 there has been a very significant movement towards a surplus or a reduced deficit in the cyclically-adjusted balances of Japan and the European countries which are members of the EEC, except in the cases of Greece and Italy in 1984 and the United Kingdom in 1983-1984.

[9] The differences in the fiscal stance, of the United States on the one hand and of the other major Western European countries on the other, are most apparent on the revenue side of the government account. There has been a decline, on a cyclically adjusted basis, in the United States government revenue as a per cent of GNP whereas in the other countries, there has been a sizeable increase. Although many countries had aimed at containing the growth of public expenditure as such, this task has been made difficult because of the large increases in interest payments on public debt. In the United States the cyclically adjusted share of public expenditure in GNP has been rising steadily. In the other countries the corresponding share has been more or less stable, with declining shares in the United Kingdom and the Federal Republic of Germany offsetting rising shares in other countries.

129. If levels of interest rates are used as a measure of monetary policy in the developed market-economy countries, then most countries have continued during recent months to pursue a restrictive course similar to that of previous years. In the United States, rates rose during the first half of 1984 but have fallen subsequently in response to lowering inflationary expectations and a cut in the discount rate. However, the prime rate, for example, was only slightly lower in January 1985 than the level one year earlier. During the first half of 1984 interest rates remained stable in most other major developed market-economy countries except Italy, where there was a fall in rates. In the second half of 1984, while rates remained stable in Japan, European rates followed more or less the movements in United States rates. The consequence of relative interest rate movements during 1984 and early 1985 has been a narrowing of differentials between rates in the major countries. But the rates still remain at high levels in real terms.

130. It is notable that, whether tight monetary policies have been associated with restrictive or expansionary fiscal policies, the restoration of economic growth has generally been accomplished so far without any significant reversal of the downward trend in the pace of inflation. In the United States, as measured by the GNP deflator, the rate of inflation fell to about 3.8 per cent in both 1983 and 1984, a sharp decline from the 6 per cent recorded in 1982 and the 9.6 per cent in 1981. In the member countries of the EEC, inflation declined to 5.6 per cent in 1984 from 7.4 per cent in 1983 and above 9 per cent in 1982; However, it ranged in 1984 from over 10 per cent in Italy to less than 2 per cent in the Federal Republic of Germany. In Japan, the rate of inflation has been very low for several years, averaging less than 2 per cent since 1980 and falling to no more than 0.6 per cent in 1984. In the first few months of 1985, some acceleration has taken place in a few countries, but it has been slight.

131. For the United States, the appreciation of the dollar has contributed to the lessening of inflation by reducing the domestic prices of imported inputs and intensifying price competition from imports. A more general influence is that international markets for primary commodities, whether for energy or for non-energy products, have failed to generate any strong recovery in prices. Further, labour costs have been moderated by the gain in labour productivity which normally accompanies a cyclical upswing in output.

132. The most important factor in progressively dampening down the pace of inflation, however, has been the changed behaviour of enterprises and workers in wage determination and, though probably of less general significance, of enterprises in price setting. While these changes were much influenced by the higher rates of unemployment and bankruptcy which ensued from the protracted recession, they have persisted into recovery even where unemployment has dropped very markedly. Both labour and product markets have, in fact, been undergoing a number of institutional changes in such areas as wage indexation, price regulation and degree of unionization, which have altered price and wage setting behaviour and which are likely to be of a more lasting character. Such changes, incidentally, render suspect any claim that, on the basis of past experience, there is an identifiable level of unemployment below which the rate of wage-generated inflation will accelerate.

133. In the United States, the lessening of inflation has proved consistent with strong growth in employment and a rapidly declining rate of unemployment. From the beginning of recovery in the last quarter of 1982 to the end of 1984, the unemployment rate declined by 3.5 percentage points, the largest decline since the recovery of the mid-1950s. In sharp contrast, employment has been stagnating in Western Europe despite the modest growth of real output. With continued increases in the labour force, the rate of unemployment in the Western European countries grew steadily and reached almost 11 per cent in 1984. There are thus more than 18 million unemployed people in Western Europe. Moreover, the number of people out of work is particularly high among the younger group. On average, it is estimated that more than 40 per cent of the unemployed in Western Europe are accounted for by persons less than 24 years of age. In Japan, the unemployment rate has remained very low, at an estimated 2.7

per cent of the work force.

134. Several governments have introduced measures intended to promote employment by improving the match between the supply of labour skills and demand or by lowering labour costs relative to other productive factors. These have included professional and vocational training programmes, better housing conditions to facilitate geographical mobility and reductions in employers' social security contributions. Shortening of the work week has also been utilized to spread the demand for labour. But it is widely understood that, in order to make some inroads into the high levels of unemployment in Western Europe, several years of higher economic growth and greater investment are necessary. Over the past decade or so, the volume of new investment in Western Europe has been increasing very slowly. In the member countries of the EEC, for instance, the net capital stock in industry increased by 2.2 per cent per annum between 1973 and 1981 compared with 4.4 per cent per annum between 1961 and 1973. Taken together with rising labour productivity and some increase in the labour force, the consequence has been a growing imbalance between productive capital stock and the available labour force.

135. Some part of the answer to greater, and sustained, investment is recognized to lie in measures to improve the opportunities for innovation or the balance between risks and returns of new investments. Governments generally have been seeking to revamp or discard regulations or administrative practises which unduly impede the establishment of new enterprises or their entry into existing industries. Within the EEC, the reduction of barriers to competition among member countries is part of this task. On the side of costs, some measures have been directed towards reducing the financial risks and costs of more flexible employment practices. Profit margins have, in fact, improved substantially in the last year or so, although rates of return on capital still seem low by standards of the earlier post-war period.

136. But no less important for the acceleration of investment is the maintenance of a high, and growing, level of aggregate demand. In this regard, the recent experience of the United States is highly germaine. In that country, the volume of business fixed investment rose very vigorously in 1984 - by 20 per cent over the preceding year. The influence of factors on the side of supply or costs is not to be discounted. Changes in business tax policy enacted in 1981 and 1982, for example, lowered the cost of investing and made it viable for firms to borrow at higher interest rates to finance investment. The softening of interest rates in 1982 may also have contributed in some small degree to the stimulation of investment. However, the most striking feature of the recent business investment in the United States is that its behaviour has been very similar to that displayed in previous upswings of the business cycle; its acceleration has been particularly strong in the recent recovery because the rise in private consumption expenditure has also been particularly strong. By the same token, the more modest gains in business fixed investment in Western Europe and Japan are related, first and foremost, to the sluggish behaviour of consumption expenditure in their economies.

137. It is true that in some countries of Western Europe, levels of capacity utilization are already quite high and there are concerns that a relaxation of macro-economic policies might recreate conditions strengthening the upward push of prices and wages. While caution would need to be exercised whenever capacity levels are near their peak, there is little evidence at present of renewed upward pressure on prices or wages. While some modest acceleration of prices is taking place in some countries, at least partly because of a cyclical decline in the growth of labour productivity, there are no signs that the underlying changes in product and labour markets have been reversed.

138. A separate concern is that a relaxation of macro-economic policies might bring about a rapid deterioration in the balance of payments. While some countries have favourable external balances at present, it is feared that their scope for independent action is limited. Views have been expressed that whereas independent action to reflate an economy can be undertaken by a large economy such as Japan with a very large balance-of-payments surplus, or by the United States as the principal reserve currency country and international financial centre, the same poli-

cy would be self-defeating in a country with a smaller economy. It has, for example, been argued that when a small country decides to expand on its own, an inevitable consequence of such action would be pressure to depreciate its currency and a concomitant rise in the rate of inflation. Alternatively, it may resist the pressures to depreciate but then would have to accept higher interest rates which would adversely affect investment patterns. The second alternative is also considered to be undesirable since a large portion of the employment created by the policy measure would accrue to other countries. Such considerations argue for a reflation of Western European economies which, if not concurrently attempted by the various countries because of differences in circumstances, is at least phased to limit the inter-country balance-of-payments surpluses or deficits that may arise. This would complement possible action by Japan to raise the level of its domestic demand. At the same time, if progress were also made in the United States to limit or reduce over time the structural budget deficit, with the consequent benefit of a further relaxation in monetary restraints, distortions in financial or currency markets would be lessened. Taken together, these measures would improve the prospects for sustained economic growth.

2. Prospects

139. For the very near future, the overall fiscal stance of the major developed market-economy countries appear likely to remain more or less unchanged. Government deficits, however, may decline slightly on account of the more buoyant economic activity. Budget deficits of the member countries of the European Economic Community, expressed as a per cent of GDP, are expected to decline in 1985 for the second successive year. Budgetary consolidation policies have been maintained in place. The main targets are to contain the growth in tax revenues and social security contributions on the one hand and public expenditure on the other. However, in view of the prospects for a deceleration in economic growth some relaxation of the restrictive fiscal stance in Japan may be expected. The United States Government has proposed a number of deficit reducing measures but these will not take effect until 1986 and thereafter.

140. The Commission of the European Communities has taken the view that as the economic recovery in Western Europe strengthened, efforts to reduce public deficits as a proportion of GDP, to contain public expenditure and to restructure public spending in favour of the most productive expenditure would remain valid for 1985.[10] It was felt that adjustments were needed in view of the steady increases in debt servicing as a proportion of GDP in the member-countries. Indeed, it was pointed out that debt payments had become as large as net government borrowing in the Community. The Commission, however, has also considered the need, should it arise, for flexibility in the adoption of counter-cyclical measures.

141. In the management of the supply of money as such, the Federal Reserve System of the United States may have more leeway if inflationary expectations continue to be low and the upward pressure on the dollar remains strong. Nevertheless, some reductions in the target growth ranges for main monetary aggregates were tentatively fixed for 1985, though there is particular uncertainty about the behaviour of the velocity of money in the period ahead because of the recent institutional and regulatory changes. In Japan, some cautious relaxation of monetary growth is being pursued and if the yen strengthens against the dollar it may lead to a cut in the discount rate. Generally, there are some indications of greater flexibility in the management of money supply, with more attention being given to interest rates and exchange rates. However, monetary target growth rates have been reduced, especially in the larger countries.

142. Besides the effects of changing foreign balances, the influences of other factors which have been instrumental in the recent upturn in economic

---

[10] Commission communication to the Council of 28 June 1984 (COM(84)365 final). Commission of the European Communities, "Annual Economic Review", p.120, reprinted in *European Economy*, no. 22, November 1984.

activity may also be expected to diminish gradually. The marked influence of the easing of inflation on consumers' behaviour in inducing them to lower their savings rates, is likely to diminish. The opportunity costs of high interest rates may be increasingly felt in the housing sector as the pent-up demand accumulated during the recession has been more or less satisfied. In the United States, in fact, there was already a downward trend in housing starts throughout 1984: starts numbered only 1.6 million in the fourth quarter compared with the peak of 2 million in the first. The stimulus of government deficits can also be expected to diminish as growing interest transfers tend to accrue to savings rather than to consumption. The negative influence on business investment of an expected slowing down of world trade may also constitute a drag on activity in the months to come.

143. Contributing to the uncertainty surrounding the overall economic climate has been the less than clear developments in individual countries during the closing months of 1984 and the early part of 1985. In the United States, in particular, there was a sharp deceleration in consumption spending during the third quarter of 1984. Subsequently, however, with increases in purchasing power, reflecting rises in both income and employment, retail sales and new orders for manufactures responded briskly. Likewise, while housing showed increasing weakness in 1984, it recovered in the first quarter of 1985. There are, nevertheless, negative elements which will tend to dampen the buoyancy of the economy. Although business fixed investment can be expected to remain an element of strength, it may be eroded by the persistence of the high real interest rates and the continued decline of the competitiveness of United States industry due to the overvaluation of the dollar. If the dollar continues to remain strong, increases in domestic demand may be substantially directed into imports, intensifying import competition and dampening domestic production; this was very much in evidence in the first quarter of 1985 when real GNP increased by only 0.7 per cent although real consumer spending and purchases for inventories rose strongly.

144. In Western Europe, there will probably be a continuation of the relatively sluggish rate of growth already observed in 1984. It will be accompanied by increasing unemployment. Domestic demand in the European Economic Community can be expected to be sustained by both private consumption and business investment. Consumption, however, may not increase any faster than real disposable income - rising probably by 1 per cent - since savings ratios may not fall any further. Construction may show only modest growth as it can be expected to be restrained by continued high interest costs and cuts in public investment. An offsetting factor may be business fixed investment, especially in the manufacturing sector, as it responds to higher capacity utilization and profits. Exports, however, may not be any more buoyant than world trade which can be expected to slow down considerably from the fast rate of 9 per cent observed in 1984.

145. Although the rate of growth of real GNP in Japan can be expected to remain relatively high, it may decelerate in the coming months as prospects for exports will probably weaken. This may also induce a slackening in the pace of equipment investment. It should be noted, however, that industry surveys have shown that capital spending on "high-tech" equipment was expected to continue to increase even if its growth rate may decline in the coming months. Responding to increases in real income, real consumption may become more supportive of economic activity in the near future. However, the contribution of stockbuilding, which was particularly substantial in 1984, may be much reduced.

146. Barring unexpected developments, economic growth in both Japan and the United States during the coming months is likely to decelerate and it may be very marked in the latter case. Developed market-economy countries in Europe may continue to expand, albeit at a rather sluggish pace. It can be expected that there will be a convergence of rates of growth of real GNP of developed market-economy countries toward an overall average which could be considerably lower than the 1984 average but somewhat higher than in 1983. While the pace of the deterioration in external imbalances will diminish, current-account surpluses and deficits will nonetheless increase

in 1985. In particular, import flows into the United States can be expected to continue to rise thereby amplifying further its trade deficit. The major counterpart of this deterioration is an expected increase in the already large trade surplus of Japan. These imbalances will contribute to the aggravation of frictions in world trade.

B. The socialist countries of Eastern Europe

147. Recovery in the socialist countries of Eastern Europe, which started in 1982, and was confirmed in 1983, continued in 1984, although at a slower rate. Individual countries of the region, however, experienced varying patterns of growth.

148. The recovery was clearly evident in the socialist countries of Eastern Europe other than the Soviet Union. For this group, the annual rate of growth of net material product (NMP) reached 5.1 per cent in 1984 against 3.9 per cent in 1983. In fact, in 1984, the annual rates of growth of net material product in almost all socialist countries of Eastern Europe exceeded not only the previous year's level, but also the 1984 annual plans' targets. Since the early 1980s, the German Democratic Republic, Hungary and Romania recorded the highest rates of growth. 1984 also marked the further recovery of the Polish economy, which grew in NMP terms by 5.1 per cent, although a rate of only 2.6 per cent had been planned. The economy of the Soviet Union, for its part, continued to expand in accordance with the targets of the five-year and annual plans, although at a slower pace than in the previous year. The annual NMP rate of growth reached 3.0 per cent in 1984 (3.1 per cent was planned), against 4.2 per cent in 1983 and 3.9 per cent in 1982. annual plans' projections for 1985 indicate the expected path of further growth. In the economies of all seven socialist countries of Eastern Europe, aggregate NMP should grow at 4.2 per cent - the fastest pace since the beginning of the quinquennium. It may be assumed that the majority of these countries do not plan any marked increase in growth rates for the next five-year period: it is likely that the aggregate NMP rate of annual growth will remain at the level of 3 to 4 per cent.

1. Industrial production

149. Industrial growth in the socialist countries of Eastern Europe in 1984, as well as in 1983, was directed towards implementing a pattern of growth which emphasized the introduction of scientific and technological achievements into major branches of industry, the application of resource and energy-saving technology, and the use of new material and other measures aimed at an overall rise in productivity of labour. The 1984 industrial performance was the best in the current quinquennium for the group of seven countries as a whole. Gross industrial output was higher than the average annual growth rate in 1981-1983. The 1984 results exceeded 1984 targets. In 1984, as compared with 1983, gross industrial output of the socialist countries of Eastern Europe, other than the Soviet Union, increased by 4.9 per cent, including 4.5 per cent in Bulgaria, 3.9 per cent in Czechoslovakia, 4.2 per cent in the German Democratic Republic, 3 per cent in Hungary, 5.3 per cent in Poland and 7 per cent in Romania. In the Soviet Union, the stricter economy measures and better production and management discipline brought about significant positive results; the rate of growth of industrial production accelerated considerably in 1983-1984 as compared to the two preceding years. Prospects for further development of aggregate gross industrial output for the socialist countries of Eastern Europe as a whole remain reasonably good.

2. Agricultural production

150. The socialist countries of Eastern Europe, other than the Soviet Union, in spite of the adverse weather conditions of the previous year, managed to increase their agricultural production in 1984 to record levels. Among the most successful were Bulgaria with a 6.8 per cent growth and the German Democratic Republic. In the Soviet Union, agricultural output did not grow between 1983 and 1984, due mainly to the poor grain harvest. Nevertheless, gross agricultural output in 1984 sur-

passed the average annual figures for 1981-1983. Barring poor climatic conditions, agricultural production in the Soviet Union is expected to resume its planned growth rates of 5.8 per cent in 1985 and.4.5 per cent in 1986. Agricultural sectors of the socialist countries of Eastern Europe, other than the Soviet Union, appear to be set for moderate and stable growth for the 1985-1986 period.

3. The external sector

151. The pattern of development in the external sector of the socialist countries of Eastern Europe in 1984 was very close to that of 1983: the volume of foreign trade in the whole region grew at practically the same rate as that of the previous year and further improvements in trade balances were observed (see table 11 below). The terms of trade of the socialist countries of Eastern Europe as a whole remained at the 1983 level; there was a small improvement for the Soviet Union and a slight deterioration for the other countries. Although the volume of export growth rate was similar to the 1983 level, the import volume grew from 3.7 per cent to 4.5 per cent. Mainly because of an appreciation of the dollar prices of foreign trade over 1982-1984, there are considerable divergences in the value of socialist countries' trade measured in dollars and roubles. Thus, the Soviet Union's exports recorded a modest decline in current dollar terms in 1984 despite a further growth in rouble terms (9.6 per cent).

152. Some shifts in the regional structure of trade flows, appeared in 1984. An important feature was the increase of CMEA countries' mutual trade. Both Soviet exports to and imports from socialist countries underwent a pronounced acceleration in 1984. Before 1983 the deterioration in the environment for business relations with the developed market-economy countries had contributed to a period of stagnation in trade with these countries. In 1983, however, some expansion occurred in the trade of the socialist countries of Eastern Europe with the developed market-economy countries. In 1984, the volume of East-West trade continued to grow but with some deceleration of growth between the Soviet Union and the West.

153. Prospects for the developments of the external sector of the socialist countries of Eastern Europe are linked with the CMEA member countries economic conference, held in June 1984, where decisions were taken, especially in the field of expansion and strengthening of trade among CMEA countries, with special reference to high technology products. It is expected that foreign trade volume will grow at a substantially faster rate than the NMP. The 1985 plans' targets project increases in both the export and import volumes of the socialist countries of Eastern Europe as a whole (6.7 per cent and 5.6 per cent, respectively).

154. The generation of current-account surpluses, due mainly to the further improvement of trade balances and the decrease of deficits in the invisibles balance, continued in the socialist countries of Eastern Europe in 1984. Gains in overall trade surplus were registered both by the six countries of Eastern Europe in the aggregate and by the Soviet Union. As in preceding years, the rise in the surplus was based mainly on trade with the developed market-economy countries. Reflecting this movement the current-account surplus of these countries, taken as a whole, which was estimated to be in deficit throughout the 1970s and the early 1980s, moved into surplus after 1982 and is estimated to have increased from $8 billion in 1983 to $11 billion in 1984. According to estimates, all countries of this group, excluding Poland, achieved surpluses from 1981 to 1984.

155. A sizeable reduction in the net international financial liabilities of the socialist countries of Eastern Europe has occurred in the last three years and the net debt at the end of 1984 was about 20 per cent below the level of its 1981 peak. It is estimated that the net indebtedness of the entire group of these countries fell by $14 billion between the end of 1982 and the end of 1984. However, it should be indicated that, as in previous years, the decline in debt has been accelerated by exchange rate movements, in particular, the appreciation of the United States dollar (a large part of the indebtedness of the socialist countries of Eastern Europe is denominated in currencies other than that of the dollar). As a result a considerable

Table 11

Socialist countries of Eastern Europe: growth rates of exports and imports (f.o.b.) by major areas of destination and origin, 1983 and 1984
(Percentage increase over previous year, based on values in dollars)

Country	Exports		Imports	
	1983	1984	1983	1984
Bulgaria				
World	6.1	5.8	6.5	3.1
Developed market-economy countries	-2.5	-8.1	-10.8	1.5
Developing countries	-17.5	20.8	11.6	7.1
Socialist countries *a/*	14.5	4.6	9.7	2.9
Czechoslovakia				
World	5.5	4.5	5.9	4.7
Developed market-economy countries	-2.6	2.9	-6.5	-5.4
Developing countries	9.6	-5.0	-1.9	-0.6
Socialist countries *a/*	6.8	6.9	10.3	7.6
German Democratic Republic c/				
World	9.4	4.4	6.6	6.6
Developed market-economy countries	12.8	1.5	12.9	4.5
Developing countries	-2.4	-0.3	12.6	14.8
Socialist countries *a/*	9.8	6.5	3.3	6.5
Hungary b/				
World	-1.0	-1.7	-3.5	-5.0
Developed market-economy countries	8.8	4.8	-8.6	-4.1
Developing countries	-1.8	-10.5	14.0	-7.7
Socialist countries *a/*	-6.2	-2.9	-4.9	-4.6
Poland				
World	3.2	1.4	3.4	0.6
Developed market-economy countries	2.5	8.1	-3.7	3.2
Developing countries	-2.9	0.9	25.4	12.7
Socialist countries *a/*	5.7	-2.6	4.0	-2.7
Romania c/				
World	0.4	5.5	-8.2	-1.2
Developed market-economy countries	7.8	33.5	-30.3	6.3
Developing countries	-9.1	-2.8	-9.2	9.3
Socialist countries *a/*	1.9	-14.3	4.8	-11.6
USSR				
World	5.1	-0.2	3.3	-0.1
Developed market-economy countries	1.9	-1.1	-3.1	-4.8
Developing countries	2.7	-2.6	-2.4	2.7
Socialist countries *a/*	8.5	1.6	10.8	1.6
Total b/				
World	5.0	1.6	3.2	1.3
Developed market-economy countries	3.9	3.0	-3.3	-2.3
Developing countries	0.1	-1.5	0.0	4.0
Socialist countries *a/*	7.7	2.2	7.8	2.2

Source: Data provided by the secretariat of the United Nations Economic Commission for Europe and estimates by the UNCTAD secretariat.

a/ Socialist countries of Eastern Europe and Asia.
b/ Imports c.i.f. for Hungary only.
c/ Data for Romania and German Democratic Republic are preliminary based largely on partner data.

decline in interest payments and the ratio of interest payments to exports has been recorded during the period 1981-1983. These developments changed the international creditors' assessment of the financial position of the socialist countries of Eastern Europe and resulted in considerable cuts in spreads charged by commercial banks on institutional borrowers from these countries. New lending to the socialist countries of Eastern Europe in the form of medium-term and long-term loans, which started to recover in 1983, accelerated in 1984.

Part One

NOTES AND REFERENCES

Paragraph

48 Among studies of reasons for changes in commodity prices over time see, for example, Ke-Young Chu and T. K. Morrison, "The 1981-1982 recession and non-oil primary prices", *IMF Staff Papers*, March 1984; C. A. Enoch and M. Panic, "Commodity prices in the 1970s", *Bank of England Quarterly Bulletin*, March 1981; and G. F. Ray, "The exchange rate of the US dollar and commodity prices", *mimeo*, August 1984.

49 Concerning the influence of exchange rates on commodity markets see, for example, G. F. Ray, "The exchange rate of the U. S. dollar and commodity prices", *op. cit.*

126 On the economic recovery and policies in the United States see UNCTAD, *Trade and Development Report, 1984* (UNCTAD/TDR/4/Rev.1), United Nations publication, Sales No. E.84.II.D.23, Part I, paras. 176-191.

126 For trends in government expenditure and taxation in the United States and six other developed market-economy countries see OECD, *Economic Outlook*, December 1984, table 4.

136 For an analysis of the behaviour of investment during the recovery in the United States see L. Sahling and M. A. Akhtar, "What is behind the capital spending boom?", *Federal Reserve Bank of New York Quarterly Review*, Winter 1984-85.

Part Two

DEBT, DEVELOPMENT AND THE WORLD ECONOMY

Introduction

156. The external indebtedness of developing countries is not a new issue - indeed, it has been under discussion in UNCTAD since 1964. In the past, however, acute debt-servicing problems and reschedulings were the exception rather than the rule and tended not to occur simultaneously; moreover they generally involved relatively small amounts of debt mostly to official creditors. By contrast, the contemporary debt problem affects very many countries, at the same time, and involves massive sums, much of it owed to banks. The change of the scale of the debt problem has been accompanied by a change in its qualitative dimension: it now impinges not only on particular debtor countries and their creditors, but also on the development process as a whole and on the trade and payments system.

157. Initially, the debt problem manifested itself as an external payments crisis, giving it the appearance of a purely financial phenomenon of concern only to the specialists in these matters - central banks, finance ministries, international monetary and financial agencies, banks, and other members of the "international financial community". But as it unfolded, the problem was transferred elsewhere: into prices, production, employment and investment in debtor countries; and into strains upon the international trading system, and unemployment generally. Debt, transfigured into a development crisis and a transfer problem, thus re-entered the scene, promising to return once more in the form of a financial crisis, social conflict and political disruption. The debt crisis has therefore come to thrust itself before the community of nations at large, an issue of concern in the factory and in the street. And it has passed from being a particular and self-contained facet of development and the world economy to command decisive influence on the international monetary, financial and trading system.

158. The essentials of the debt problem may be found in the scissor-like movements taken by key monetary and real variables: rising interest rates and falling commodity prices; rising debt service payments and falling capital inflows; rising trade balances and falling investments; etcetera. Asymmetries have also been evident in the approach that the international community has chosen to take thus far to the debt problem - asymmetries such as the deflationary bias of the international monetary and financial system, the greater strength and organizational ability of creditors compared to debtors, the imbalance of power between developed and developing countries, and the decision-making structure of the international monetary and financial institutions. These have placed the burden of adjustment on the shoulders of development. The international trading and financial systems have, in certain respects, served to magnify the debt problem and to impede its resolution; yet, they have themselves been impaired by it. Indeed, the ways in which debt, development and international finance and trade interact, now constitute the most significant dimension of interdependence among countries and groups of countries.

159. It is against that background that Part two of the Trade and Development Report addresses the main aspects of the debt problem. Chapter I sketches the genesis of the crisis, in particular the debt accumulation of the 1970s, the mounting role of bank credit, and the disturbances that shook the world economy at the end of that period. Chapter II examines the development crisis by taking a detailed look at the incidence of the various shocks on developing countries, their impact on economic performance and the implications of the shocks and adjustments on future development. Chapter III identifies the principal channels whereby the disarray of the trade and payments system has inter-acted with the debt problem, focussing in turn on bank lending, export credits, trade finance

and payments arrangements, trade between developed and developing countries, and commodities. Chapter IV assesses future prospects in the context of alternative scenarios for the external trading and financial environment of developing countries, and draws policy conclusions regarding macro-economic policies and the distribution of the burden of debt.

Chapter I

THE GENESIS OF THE DEBT CRISIS

A. Introduction

160. The debt crisis of the early 1980s is closely connected to changes in the pattern and pace of international lending to developing countries during the 1970s. Outstanding among these changes was the increase in the share of developing countries' medium-term and long-term external borrowing in the form of bank loans. The counterpart of this increase was a reduction in the share of official flows in such borrowing and the limited role of multilateral financial institutions in helping to finance the greatly-expanded deficits on current account after 1973. This shift in the relative importance of external financing from private and official sources reflected the influence of major developed market-economy countries' policies in this area as well as the interaction of factors on the demand and supply sides in the international capital markets. However, some of the changes in banking practices which contributed to the rapid growth of bank loans to developing countries in the 1970s also increased the vulnerability of the international financial system to shocks throughout the entire system such as the rises in international interest rates and the depressed export markets at the beginning of the 1980s. Especially important in this context was the predominance in banks' medium-term and long-term lending to developing countries of "roll-over" credits, whose rates of interest are varied at three- or six-month intervals in line with rates in the inter-bank market. Such credits enable banks to eliminate risks arising out of possible divergences between the cost of their borrowed funds and the return on their loans but only by transferring interest-rate risks to borrowers.

161. The increased levels of lending to developing countries during the 1970s were unequally distributed, the expansion of bank finance being especially highly concentrated on a small minority of borrowers. There was also considerable variation among such countries in economic performance and the pattern of adjustment to increased imbalances on current account. Nevertheless, at the end of the decade, despite the difficulties in meeting debt-service payments which had been experienced by some borrowers, overall the debt position of developing countries was widely viewed as sustainable, and likely to adjust fairly smoothly to evolving economic conditions. The rate of expansion of bank lending to such countries was tending to fall. This slow-down reflected factors affecting both the supply of, and the demand for, such financing. For example, the diversification of their assets by banks through increasing the share of loans to developing countries was to some extent a once-for-all phenomenon, and the fall in the growth of lending for this reason was only partly offset by the entry of new banks into this business. Henceforth the ceiling on the growth of banks' lending to developing countries seemed likely to expand more in line with that on the growth of their assets as a whole. Moreover, the limits to this process of portfolio diversification by banks were closely linked to their perceptions of the creditworthiness of different developing-country borrowers. Thus it seemed reasonable to anticipate that future lending would be increasingly influenced by changes in the relation of developing countries' debt and the associated debt-service payments to indicators of debt-service capacity such as exports and GDP. However, such views of developing countries' debt position were still based on the assumption of a reasonably favourable outlook for the world economy, and ignored the vulnerability of their debt-service capacity and the process of international financing to systemic shocks of the kind mentioned above.

162. The results of the external shocks after 1979 included a widespread deterioration of developing countries' creditworthiness and a new regime of "involuntary" lending to many of them (which involved substantial official

intervention to sustain the flow of funds albeit, at a reduced pace). The provision of external finance to developing countries is now powerfully affected by their stock of debt, which is exerting a major influence on perceptions of their creditworthiness. These perceptions also depend on the impact on debt-service capacity of factors such as the growth of export markets and levels of interest rates over which developing country borrowers have no control.

163. Section B of this chapter briefly reviews changes in the amount and pattern of developing countries' external debt in the 1970s. Section C takes up various aspects of the policy response in developing countries to the external shocks of the mid-1970s and of their economic performance from 1974 onwards. The discussion indicates the context of the rapid expansion of borrowing by developing countries. It also includes some analysis of the uses to which their borrowed funds were put. Sections D and E contain accounts first of the assumptions underlying the relatively optimistic assessment of developing countries' debt position at the end of the 1970s and then of the events leading to the debt crisis and of its sequel.

B. External debt and patterns of borrowing in the 1970s

164. At the outset of the 1970s the distribution of developing countries external debt reflected the major role of official sources in international lending during the earlier part of the post-war period. For developing countries as a whole borrowing in the form of official development assistance (ODA) and export credits from member countries of the Development Assistance Committee (DAC) of the OECD or of loans from multilateral financial institutions accounted for more than two-thirds of total medium-term and long-term external debt in 1971. Within these overall figures there was considerable variation in the positions of different groups of developing countries, in particular with respect to the relative importance of ODA debt and export credits. For example, while the relative shares of total debt represented by these two forms of borrowing were both approximately 30 per cent for all developing countries, the share of ODA debt was almost 60 per cent and that of export credits less than 15 per cent for a group of countries with low GNP per capita. The share of bank loans from DAC member countries in total debt was little more than 10 per cent in 1971, and this level was not greatly exceeded even by the group of developing countries with relatively high GNP per capita.

165. The pattern shown by these figures underwent considerable change as a result of the financing of the greatly increased imbalances in external payments from 1974 onwards. The outstanding change in the composition of the medium-term and long-term debt of developing countries as a whole was that in the relative importance of loans advanced or supported by official sources on the one hand and of finance from banks on the other. By 1979 ODA loans and export credits from DAC member countries and loans from multilateral financial institutions and from OPEC member countries had fallen to 55 per cent of developing countries total external medium-term and long-term debt, while the share of private bank loans from DAC member countries now accounted for almost one-third. The rise in the share of bank loans was especially marked for countries with relatively high levels of GNP per capita, amounting, for example, to 43 per cent for those with GNP per capita above $1200 in 1980. Much of the fall in the relative importance of debt resulting from official or officially-supported financing was due to the share of ODA loans. This fall applied to all income groups of developing countries, the reduction for countries with GNP per capita below $600 in 1980, for example, being from 57 per cent in 1971 to one-third in 1979. The fall in the share of ODA loans for developing countries as a group was accompanied by a much smaller decline in export credits from DAC member countries and by a rise in loans from OPEC member countries. For developing countries with GNP per capita below $1,200 in 1980 there were increases in the share of their medium-term and long-term debt in the form of export credits between 1971 and 1979.

166. The changing composition of developing countries' external debt during the 1970s reflected the interaction of the size of payments imbalances, policy decisions limiting the

role of official financing, and factors on the demand and supply sides leading to increased bank lending to developing countries. As indicated earlier, in 1971 dependence on external financing in the form of bilateral ODA was greatest for low-income developing countries. This continued to be true throughout the 1970s. Indeed, the bilateral ODA of OPEC member countries (which increased rapidly in the mid-1970s) tended to be concentrated on developing countries with relatively low levels of GNP per capita, and ODA flows from DAC member countries were redirected in a similar direction. Borrowing from official sources played a much smaller part in the external financing of higher-income developing countries during the 1970s. For example, the share of bilateral ODA in the medium-term and long-term external debt of developing countries with GNP per capita above $1,200 in 1980, which was already relatively low in 1971, fell further thereafter. Moreover, funds from multilateral financial institutions were not a major source of external financing for higher-income developing countries during this period. Efforts during the 1960s and early 1970s to expand the scope of the IMF left it in a position where it was able to play only a limited role in financing the large imbalances on current account widely experienced after 1973. Furthermore, among developing countries which could raise money from the private capital markets, there was also a reluctance to have recourse to types of IMF financing which were associated with strict conditionality, so that, for example, drawings from this source in 1974-1976 were mostly confined to reserve and first credit tranches and the Oil and Compensatory Financing Facilities. The lending activities of the World Bank and the regional development banks increased rapidly during the 1970s but remained fairly small in comparison to these imbalances. For higher-income developing countries much of their increased borrowing requirements was met by medium-term loans from private banks.

167. Such loans to developing countries, mostly in the form of Eurocurrencies, began to increase rapidly in the early 1970s. External debt in this form for developing countries grew at an average annual rate of 40 to 50 per cent in 1971-1975 and at one of almost 30 per cent in 1975-1979. A large part of this expansion was concentrated on a small number of borrowers. The expansion resulted partly from factors on the supply side of the capital markets. These factors included the increased liquidity of the international banking system resulting from the deposits of oil-exporting countries and various changes in banks' practices which made it easier for them to take advantage of the opportunities for profitable diversification of their assets presented by lending to developing countries. For example, the practice of syndication associated with most large-scale Eurocurrency lending made it possible to distribute the risks of particular loans among members of the syndicates and enabled smaller banks to enjoy the benefits of the expertise of bigger ones in such financing. In the course of normal business conditions funding risks were reduced by the development of the large international inter-bank market. Moreover, as was noted earlier, by using variable-rate credits, banks were able to eliminate interest-rate risk. The rapid growth of bank lending to developing countries was also due to factors on the demand side such as the convenience to borrowers of syndicated Eurocurrency loans, the main type of medium-term bank lending to developing countries. These loans could be quickly arranged, were subject to less stringent conditions than borrowing from the IMF, and had several advantages of flexibility compared with, for example, export credits.[11] Moreover, very large sums of money could be raised in this form.

168. However, although the evolution of practices in international banking just described reduced or eliminated the risks of certain operations in the capital markets, bank lending to developing countries remained vulnerable to risks resulting from unfavourable economic changes affecting several borrowers simultaneously (sometimes described as systemic risks). Indeed, certain banking practices which facilitated the expansion of lending to developing countries were capable of increasing pressures to contract such

---

[11] However, the rates of interest on official or officially-supported export credits were often lower than those on syndicated Eurocurrency credits. These rates were also more often fixed throughout the maturity of the loan.

financing in response to deteriorations of creditworthiness. For example, as a conduit for funds throughout the capital markets the international inter-bank market becomes a potential source of additional instability during periods of disturbance. Moreover, if the unfavourable changes in economic conditions include upward movements of interest rates, variable-rate credits lead to increased credits risks owing to the rise in borrowers' debt-service obligations.

C. Some aspects of performance, policies and adjustment in the 1970s

169. Among the outstanding features of the global economic environment of the 1970s were the increases in the instability of major economic variables and in the uncertainties facing policy makers. Some of the consequences of this changed environment for developing countries are evident in the behaviour of the series in annex table A.4. For example, the behaviour of the growth of GDP and gross investment in 1974-1975 reflects *inter alia* efforts in many developing countries to sustain the momentum of development in the face of severe recession in developed market-economy countries and depressed export markets. Owing to their expectations that the decline in export earnings would be temporary, governments of several developing countries took measures to stimulate investment, especially in construction. Indeed, an important feature of their policy responses to the pervasive external shocks of 1974-1975 was the widespread tendency to opt for continued expansion rather than austerity.[12] Such policies were associated with substantial rises in external borrowing and in some cases with large expenditures of foreign exchange reserves. As it became clear that expectations of a quick return to the more buoyant conditions of the early 1970s were over-optimistic, there was a widespread tendency to scale down investment plans. However, although the deficit on current account of non-oil exporting developing countries fell sharply in 1976-1977 from its peak of 1975, during the rest of the decade it remained at a level far above that prevailing before 1974. Furthermore, such countries' medium-term and long-term external financing continued to expand during most of this period.

170. The capacity of countries to service the external debt incurred during the rapid expansion of borrowing in the 1970s has depended, and will continue to depend, partly on the uses to which these funds were put. In so far as the funds helped to finance productive investments, debt-service capacity will have been enhanced. However, the question of the extent to which external borrowing by developing countries was used productively cannot be answered at all precisely. At most some approximate overall impression can be gleaned from data concerning savings, investment, capital inflows and other aspects of economic performance as well as consideration of the economic policies followed in certain fields.

171. For example, an analysis was conducted by the IMF of the relationship of changes in external balances (and thus in external indebtedness) to those in investment and savings between 1968-1972 and two later periods, 1974-1977 and 1978-1981, for a sample of 20 borrowing countries, mainly middle-income or high-income developing ones.[13] This examination was designed to throw light on the extent to which capital inflows were used to sustain consumption or alternatively invested in projects likely to increase the capacity to service debt. The analysis was restricted to borrowers at a relatively advanced stage of development on the assumption that investment projects in such countries are more likely than in less developed ones to have rates of return which contribute positively to debt-service capacity fairly

---

[12] There was agreement among member countries of the IMF at this time that every effort should be made to maintain levels of economic activity despite the potentially deflationary effects of the rise in oil prices.

[13] IMF, "World Economic Outlook 1983", *IMF Occasional Paper No.21* (Washington, D.C., 1983), pp. 140-144. The countries in the sample selected for analysis were Argentina, Brazil, Chile, Colombia, Ecuador, Greece, India, Republic of Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Portugal, Singapore, Sri Lanka, Thailand, Turkey, Yugoslavia and Zaire.

quickly. The findings did not support the proposition that increases in capital inflows were closely related to expansions in consumption. A large majority of borrowers in the sample increased their ratios of savings to GNP between 1968-1972 and both 1974-1977 and 1978-1981. Moreover, in the case of the analysis covering the years from 1968-1972 until 1978-1981 a majority increased their savings ratios by a higher percentage than their ratios of external imbalance to GNP. The pattern was similar for changes in the ratios of gross investment to GNP and in the relationship of such changes to those in the ratios of external imbalance to GNP.

172. Annex table A.5 shows the ratios of gross investment, gross domestic savings, net capital inflow (assumed to be measured by the balance on current account) and certain other macro-economic aggregates to national expenditure for various groupings of developing countries and for some major developed market-economy countries. It indicates that the gross investment ratios of developing countries were not very different from those of the developed market-economy countries included in the table (with the exception of Japan). As might be expected in view of the lower income levels of most developing countries, for the saving ratios divergences are often greater, although it is notable that the ratio for non-oil-exporting developing countries as a whole is not greatly below that of either the United States or the United Kingdom.

173. Among the less advanced developing countries the relationship of high investment and savings ratios to economic performance and debt-service capacity tends to be less close than for countries such as those in the IMF study described above. For example, among the countries of sub-Saharan Africa there were a number of cases during the 1970s where relatively high ratios of investment to GDP were accompanied by low economic growth. Indeed, there were a few countries in both 1971-1976 and 1976-1981 for which average ratios of investment to GDP of more than 20 per cent were accompanied by negative annual average growth of GDP. Moreover, there were other countries where average annual growth of GDP was positive but below 2 per cent in one or both of these periods, while average investment ratios were in the range of about 25 to 40 per cent. Such figures illustrate the caution necessary in the use of macro-economic indicators such as investment and savings ratios as a basis for generalizations about economic performance. It should also be noted that phenomena to which attention is drawn in discussions of unproductive uses of investable funds were not confined to developing countries in any particular income group.

174. In some latin American countries, external borrowing was part and parcel of monetarist policies that sought to ensure external competitiveness by increasing wage flexibility, freeing capital movements, and increasing the role of the private sector. In some cases, such borrowing was accompanied by a substantial increase in luxury consumptions, speculation and unemployment. Moreover, availability evidence indicates that capital inflows into certain countries of this region during the 1970s and early 1980s were accompanied by large outflows, mainly due to capital flight. Such outflows may have amounted to as much as 40 per cent of the accumulated increase in external debt of five Latin American countries during 1974-1982, and for a smaller number of these countries the figure appears to be considerably higher.

175. In examining the faltering performance of many economies in sub-Saharan Africa attention has been drawn to such phenomena as the low returns on much investment (evidenced, for example, by low incremental capital/output ratios) and to economic decline in agriculture. Major deficiencies in economic policy and management were no doubt responsible for a significant part of this performance. Nevertheless, it should be emphasised that, as in other developing countries, throughout most of the 1970s policy making in this region became more difficult as a result of the increased instability of the external economic environment (mentioned at the beginning of this section). Moreover, for some countries in sub-Saharan Africa adverse effects of the external environment during the 1970s were superimposed on disruptions stemming from periods of drought, civil wars, etc. Drought in particular was a recurring influence on agricultural production for particular African countries throughout the decade. It had an especially widespread and severe impact in

the early 1970s.

176. In the aftermath of the depression and the debt crisis of the early 1980s many investments in developing countries financed by external borrowing, which would have been profitable in more normal business conditions, are now showing losses. Moreover, many of the benefits resulting from widespread adjustment in these countries to the changes in the world economy after 1973 have been nullified. As noted in a recent report of the Bank for International Settlements, in current circumstances several of the micro-economic difficulties being experienced in developing countries are a reflection more of the deterioration in the macro-economic environment than of failures in management and resource allocation.[14] The severity of this deterioration was not anticipated either by borrowing countries or by their lenders. Indeed, as explained in the next section, at the end of the 1970s the external debt position of developing countries as a whole was widely regarded as sustainable.

D. Some factors influencing the evaluation of developing countries' debt-servicing capacity in the 1970s

177. During the 1970s a number of developing countries encountered such serious difficulties in servicing their external debts that rescheduling of their obligations became necessary. But only a small number of borrowers were involved in these reschedulings, and the discontinuities in their debt-service payments were not regarded as presenting a threat to the stability of the international financial system. As developing countries' external debt continued its rapid expansion, increased attention was given to the issue of their capacity to meet debt-service obligations. However, developing countries' debt position and the associated pattern of external financing was still widely accepted as sustainable.

178. By 1979, there had been rises since the early 1970s among developing countries in various ratios customarily used as part of the evaluation of debt-service capacity. For example, for net oil-importing developing countries as a whole the ratio of debt service to exports of goods and services increased from about 10 per cent in 1974 to almost 20 per cent in 1979, and the ratio of debt outstanding to GDP increased from 15 per cent to more than one-quarter. Rises in such ratios were also experienced by most of the various regional and other groupings of developing countries, the most notable exception being a group of low-income Asian countries.

179. Past experience, however, did not provide guidelines concerning the maximum levels of these ratios compatible with continued capacity to service debts. Moreover, the debt figures from which the ratios were estimated were incomplete, since information was often lacking concerning private debt not covered by official guarantees from borrowing countries, short-term debt, and debt which financed military purchases abroad. The risks associated with the deficiencies of the statistical coverage in this field were especially evident in cases where discontinuities in debt-service payments by developing-country borrowers led to rescheduling of their obligations. These discontinuities tended to be preceded by periods of relatively rapid expansion of external debt, typically including types (such as short-term debt) for which complete figures were not available either to authorities in the borrowing country or to creditors.

[14] "To put this view into perspective, it may be useful to imagine what would happen in a national context if during a recession banks were suddenly to cut off the flow of new credits to the corporate sector and to begin closing off existing short-term credit lines. The inevitable result would be a financial collapse which would threaten to engulf even soundly managed firms, including banks ...Such a financial collapse would ... not permit any easy inference with respect to the quality of the pattern of bank lending and of corporate investment before the outbreak of the crisis, whereas the conclusion could safely be drawn that something had gone seriously wrong with the macro-economic management of the economy". Bank for International Settlements, *Fifty-Third Annual Report 1st April 1982-31st March 1983* (Basle, 1983), p. 130.

180. Among the developing countries which had to reschedule external debts during 1974-1979 there were borrowers at various levels of development (although a substantial number had levels of GDP per capita below $500 in 1978). The difficulties of the rescheduling countries were the result of factors particular to each case, usually some combination of phenomena such as unfavourable external developments (for example, adverse shifts in the terms of trade), disruptions of internal production (due, for instance, to bad weather), and inappropriate internal economic policies. During this period there was no experience of more generalized failures to service debts resulting from the coincidence of adverse conditions in the markets for money and goods, severely affecting several borrowers simultaneously.

181. Debtors and creditors were thus ill prepared for the consequences for debt-service capacity and financial stability of such adverse conditions in the early 1980s. There was widespread failure to forecast the duration and severity of the depression and the course of interest rates during this period. Moreover, even after the depression was under way, there was initially little anticipation of the extent and degree of the strains which the international financial system was eventually to undergo. For example, in answers to a questionnaire organized by the Group of Thirty (a high-level consultative group on international economic and monetary affairs) in 1982, 72 per cent of a sample of banks expressed the view that a generalized debt problem affecting developing countries was not likely to occur.[15]

E. The interaction of post-1979 external shocks and developing countries' external debt position

182. The external shocks which accompanied the onset of global depression beginning in 1979 had a major impact on export markets, import prices, and interest payments for developing countries. The world economic situation in 1979 and early 1980 was dominated by an acceleration of inflation, a large rise in the price of oil, the adoption by major developed market-economy countries of more deflationary policies, and a slow-down in output growth in these countries which was exacerbated by the new direction of policy.

183. Two features of the changed thrust of policy in developed market-economy countries were of special significance for the evolution of the world economy generally and for developing countries' debt-service capacity in particular during the period which followed. The first was the overriding priority now given to the reduction of inflation, if necessary at a high cost in terms of lost output and greater unemployment. The second was the shift in the stance and basis of monetary policy in the United States, which led to sharply increased as well as more unstable interest rates in international capital markets. Closely related to these policy shifts in developed market-economy countries was a greater emphasis than during the mid-1970s on the reduction, as opposed to the financing, of imbalances on current account. This emphasis was evident in the approach of the IMF to its lending to developing countries in the early 1980s. In contrast to that of the mid-1970s this approach did not include the establishment of special facilities to provide external payments assistance on terms involving low degrees of conditionality. Instead IMF lending tended to be associated with rigorous programmes of external payments adjustment.

184. The depression led to a sharp fall in the growth of developing countries' GDP from 1980 onwards and a marked deterioration of conditions in world export markets. Among the manifestations of the latter was a fall in the annual growth of non-oil-exporting developing countries' exports from an average of more than 25 per cent in 1979-1980 to 2.5 per cent in 1981, followed by a contraction of 4 per cent in 1982. This slow-down was due to a large reduction in the unit values of such countries' exports, which amounted to about 15 per cent during the two years 1981-1982. Falls were particularly marked for several primary commodities, the value of developing countries' exports of agricultural

---

[15] Group of Thirty, *The Outlook for International Bank Lending* (New York, 1981), pp. 20-22.

commodities decreasing by 3.5 per cent in 1981 and by 11 per cent in 1982 and that of their exports of minerals, ores and metals by 11.5 per cent in 1981 and by 10.5 per cent in 1982. The average price of developing countries' primary commodity exports fell during this period by 15 per cent, if measured in Special Drawing Rights (SDRs), and by 28 per cent in terms of United States dollars. The reductions in price for individual commodities were sometimes much larger. For example, the free-market price of sugar fell from an average of 28.7 United States cents per lb. in 1980 to one of 8.4 cents in 1982. The average price of manufactured goods exported by developed market-economy countries was also falling during this period but more slowly than that of primary commodities, so that the real or deflated price of the latter still decreased by substantial amounts.

185. The rise in international interest rates from October 1979 onwards resulted in a steep upward movement in the cost of servicing external debt for developing countries. For example, gross interest payments of non-OPEC developing countries increased from about $4.75 billion in 1979 to about $7 billion in 1980, and average interest payments increased from 12.3 per cent of the medium-term and long-term floating-interest debt of developing countries as a whole in 1979 to 17.4 per cent in 1981. Floating-interest debt was denominated mainly in terms of United States dollars, so that the greater burden of debt service was particularly severe for countries with substantial shares of their export receipts denominated in other currencies.

186. Available estimates indicate that external shocks were responsible for most of the deterioration in developing countries' current accounts in 1979-1981.[16] Although this deterioration also reflected the influence of inappropriate internal policies in some cases, this influence cannot, in general, be evaluated separately from that of external conditions. As already noted, widespread optimism as to the debt-service capacity of developing countries at the end of the 1970s was associated with a failure on the part of both creditors and debtors to anticipate the extent and duration of world depression in the early 1980s. Similarly evaluation of policies in developing countries with regard to such matters as the financing of government expenditure and levels of the exchange rate cannot be divorced from policy makers' over-optimistic expectations concerning world markets, interest rates and the availability of external financing. The incidence of these external shocks after 1979 differed considerably among such countries. In some cases, certain oil-exporting countries, their net impact on the current account was favourable. For the remainder, however, adverse effects were frequently severe. There is a more detailed account in chapter II below of the ways in which different categories of developing countries were affected by these shocks.

187. As in the mid-1970s, policy responses to the deterioration in the current account included both domestic retrenchment and external borrowing. Indeed, there were substantial increases in certain types of such borrowing in 1980-1981. For example, there was a large rise in gross commitments of Eurocurrency credits to developing countries in 1981. Moreover, there was a much greater expansion in the use of IMF credit than in the mid-1970s, a substantial part of it due to drawings by developing countries with relatively low levels of GNP per capita. The rise in commercial borrowing took place despite the increase in interest rates and the deterioration in world economic conditions. Part of the explanation of this phenomenon no doubt lies in misplaced optimism as to the severity of the depression and the duration of higher interest rates. Hence, as in the mid-1970s, there was initially resort by a number of developing countries to counter-cyclical financing. However, the circumstances of borrowing this time were different in crucial respects from those of the earlier period. As already noted, the world depression was to prove more pro-

[16] See, for example, G.K. Helleiner, "Balance of Payments Experience and Growth Prospects of Developing Countries: a Synthesis", UNDP/UNCTAD Project INT/84/021, chapters 2 and 3 and appendix table 3.

longed than the downturn of 1974-1975. Furthermore, developing countries were already encumbered with large amounts of external debt. Thus their vulnerability to adverse changes in monetary conditions was much greater, and there was more danger that their existing stocks of debt would interact with other variables affecting creditworthiness to reduce their access to additional financing.

188. By 1982, there were several indications of the growing precariousness of the external debt position of many developing countries. During 1981 there had already been an outbreak of debt-service difficulties for certain socialist countries of Eastern Europe and for some large private companies in developed market-economy countries. In early 1982, a number of developing countries were facing a squeeze on their external liquidity. For example, in some cases medium-term bank debt was being refinanced by means of short-term credits in excess of countries' normal requirements for their international trade. Moreover, for some borrowers outflows due to interest on loans from banks began to exceed new monies from this source. From mid-1982 onwards there was a series of failures on the part of countries with substantial borrowings from banks to meet their debt-service obligations. These failures initially involved certain Latin American countries but subsequently spread also to various countries in Asia and Africa.

189. The response to these debt crises typically involved emergency financial support (part of it, for example, provided directly by the Government of the United States and some of it taking the form of bridging loans arranged through the Bank for International Settlements (BIS)), followed by negotiations over the rescheduling of outstanding debts and the amounts of external financing which was to be provided on a longer-term basis. In consequence of these developments there were profound changes in the relationship of the private capital markets to developing countries (some of which are discussed in more detail in chapter III, section B). Bank lending to developing countries was now segmented into two separate markets. In one of these markets lending continued to take place in accordance with processes similar to those prevalent before the debt crisis. In the other, these processes no longer applied and were replaced by "involuntary" lending at a much reduced pace. Under "involuntary" lending countries faced organized groups of creditors formed for the purpose coordinating their actions with respect to the terms of debt restructuring, the amount of new lending, etc. Moreover, official intervention played a key role in sustaining the flow of financing. An outstanding feature of this intervention was the more active role played by the IMF. Previously the programmes of external payments adjustment which accompanied IMF loans tended to have the effect of seals of approval leading to revived private foreign lending. Under "involuntary" lending the IMF made it clear that the availability of its resources was conditional on parallel commitments of funds by banks.

190. There were also widespread breakdowns of debt service and consequent reschedulings among developing countries whose external financing was not so heavily dependent on medium-term bank loans. For these countries a large part of external financing was in forms such as ODA and export credits. However, the fall in medium-term bank lending to developing countries after 1982 was accompanied by stagnation or reductions in most other types of financial flows as well as rises in the rate of interest on export credits. Thus, additional financing was not forthcoming to offset the impact on the availability of foreign exchange of the external shocks of the period from 1979 onwards. This situation has entailed serious consequences for many lower-income developing countries. For example, countries of sub-Saharan Africa have been particularly heavily represented among borrowers rescheduling official debts since the beginning of 1980. For many of these countries arrears now amount to about one-quarter of outstanding commercial debts. The process of economic development in these countries tends to be especially vulnerable to discontinuities in imports owing to the undiversified nature of their productive bases and the dependence of much of their capital stock and infrastructure on inputs not manufactured domestically. However, countries with arrears are not only compelled to reduce their purchases abroad but also face higher costs in connection with their compressed lev-

els of imports as a result of such phenomena as the removal of insurance cover by export credit agencies, higher interest rates due to the loss of access to normal commercial credits, and additional mark-ups by suppliers designed to compensate for increased risks of non-payment.

Chapter I

NOTES AND REFERENCES

The figures for the medium-term and long-term external debt of developing countries to which reference is made in this chapter were based mainly on OECD, *External Debt of Developing Countries 1983 Survey* (Paris, 1984). The totals were adjusted where necessary so that the coverage of developing countries should coincide with the definition adopted by UNCTAD.

Paragraph

168 On the procyclical nature of international bank lending during the 1970s and early 1980s and the widely noted follow-the-leader behaviour among banks which was associated with it see UNCTAD, *Trade and Development Report, 1984* (UNCTAD/TDR/4/Rev.1), United Nations publication. Sales No. E.84.II.D.23, paras. 311-316 and 321-324.

173 The statistics for countries of sub-Saharan Africa were taken from World Bank, *Toward Sustained Development in sub-Saharan Africa. A Joint Programme of Action* (Washington, D.C., 1984), table 2.2.

174 The estimates of capital outflows are taken from an unpublished paper of M. Dooley, W. Helkie, R. Tryon and J. Underwood of the United States Federal Reserve, in which capital outflows are taken as the cumulative increase in external debt and inflows due to direct investment minus the sum of the cumulative deficit on current account and of the cumulative increase in official exchange reserves.

175 Concerning the aspects of the performance of countries in sub-Saharan Africa to which reference is made here see World Bank, *Accelerated Development in sub-Saharan Africa. An Agenda for Action* (Washington, D.C., 1981), pp. 3, 36 and 45-49).

178 For the ratios of debt service to exports of goods and services see UNCTAD, *Trade and Development Report, 1981* (TD/B/863/Rev.1), United Nations publication, Sales No. E.81.II.D.9, table 15.

190 The figure for arrears in many countries of sub-Saharan Africa is taken from S. Griffith-Jones and R.H. Green, *African External Debt and Development: a Review and Analysis*, mimeo, n.d., p. 21.

Chapter II

DEBT AND THE DEVELOPMENT CRISIS

A. Introduction

191. The debt problem has come to assume a commanding role in the balance-of-payments adjustment process of most developing countries. Indeed, the most characteristic single feature of the balance-of-payments adjustment process presently under way is that the burden of debt is now itself an obstacle to the successful management of external payments and financing. For many developing countries at various stages of development, and with differing rates of indebtedness and composition of debt, including a number that have not required rescheduling, reduction of indebtedness relative to other aggregates has become the prime goal of policy, to which all other objectives are subordinated.

192. As noted in chapter I above, this situation has arisen in large part because the vast stock of debt, accumulated by developing countries in the 1970s and immediately following the recent round of external shocks, has served as a channel for transmitting higher interest rates in international financial markets onto the external accounts of debtor countries. Moreover, the combination of sharply increased debt-service obligations and substantially reduced servicing capacities has itself served to limit, and in a number of cases greatly to reduce, the flow of new lending particularly from private capital markets. As a result and in sharp contrast to the aftermath of the 1974-1975 disturbances in the world economy, debtor countries are in many cases unable to accommodate external shocks in such a way as to allow them to make needed adjustments in their economic structures in the context of sustained development. Instead, many of these countries are having to generate very large improvements in their trade balances at a forced pace. This process, while allowing the external accounts to be balanced in the short term, is damaging economic performance generally. In particular, it is depressing investment, thereby impairing both the pace of social and economic development and long-term debt-servicing capabilities.

193. This chapter examines the extent and character of the influence exerted by debt on the process of development. It begins with an analysis of the experience since 1979 regarding patterns of debt accumulation, the incidence of shocks and the balance between debt-servicing obligations and capacities. It then examines the impact of the payments adjustment on the output and investment performance of developing countries, and the policy options available for dealing with external imbalances. It goes on to discuss the conditions necessary for correcting the twin disequilibria of excessive indebtedness and inadequate development by examining the dynamic relationships among debt accumulation, capital accumulation and the penetration of foreign markets.

B. External shocks and the debt problem

1. Patterns of debt accumulation after 1979

194. As pointed out in section E of the previous chapter a large portion of the present stock of debt was accumulated in the period following 1978, on highly unfavourable conditions regard-

ing maturity and cost.[17] As can be seen in table 12 below, almost half of the total medium-term and long-term debt, and over one-half of total private debt of the developing countries outstanding at the end of 1983 were incurred after 1978. The debt accumulation was not, however, uniform and wide variations are observed among the different groupings, and more particularly, among individual developing countries, reflecting differences in both borrowing power and in policy responses. Annex table A.6 shows that many middle-income and high-income countries[18] accumulated as much as, or more than three-quarters of their outstanding debt to private lenders during this period. The proportions of both total and private debt accumulated are lower for the low-income developing countries than for developing countries taken as a whole, largely because official lending expanded little and private markets were not easily accessible to most low-income countries. Nevertheless, some countries in this group added substantially to their total and/or private debt.

195. The share of private debt stood between 16 and 26 per cent higher in 1983 than in 1979 for all groups of countries. Although the share of private debt is substantially higher for high-income, large-debt countries, in some middle-income countries (such as Colombia, Ecuador, the Ivory Coast, Nigeria, Philippines and Zimbabwe) it exceeded one-half of the outstanding debt in 1983. The "privatization" of developing country debt that had started in the early 1970s thus continued apace for most of the countries.

196. Another striking feature of developments after 1978 has been the increased resort to short-term borrowing. The data available show that short-term liabilities of developing countries vis-a-vis banks increased significantly for the majority of developing countries between mid-1979 and end-1983, in relation to both long-term liabilities and imports. In fact, short-term debt grew faster than medium-term and long-term debt during this period for both the high-income and low-income countries. On average, the ratio of short-term debt to medium-term and long-term debt rose from about 22 per cent to 32 per cent for the high-income group and from about 6 per cent to 10 per cent for the low-income group, indicating a marked deterioration in the maturity structure of total debt as well as a heavy addition to the interest burden. For the middle-income group, however, the ratio fell slightly reflecting the relatively steep increase in long-term borrowing between mid-1979 and end-1983. However, for a number of countries in this group such as Botswana, Ivory Coast, Jamaica, Jordan, Morocco, the Syrian Arab Republic and Zimbabwe, the relevant ratio was between 60 - 500 per cent higher in 1983 than in 1979.

197. The ratio of short-term borrowing to merchandise imports deteriorated sharply after 1979 for all country groupings, reflecting changes in the structure of trade financing. However, wide differences are observed among individual countries, both in their

[17] In general, neither the reduction in debt-service capacity nor the rise in interest rates slowed down the accumulation of debt. The explanation would seem to lie in the optimism concerning the economic situation, clearly reflected, for example, in the following quotations from the 1979-1983 issues of the *World Development Report* of the World Bank stated: "The outlook for the next decade is uncertain, but it seems reasonable to assume recovery to an average growth rate of 4.2 per cent a year" (1979, p.4). "World economic prospects have deteriorated since last year's World Development Report was published... The 1980s are thus off to a slower start than anticipated a year ago" (1980, p.3). "Their (the industrial countries') recession has probably now bottomed out, and recovery will begin in late 1981 or early 1982... This recession has not been ... as sharp as in the mid-1970s" (1981, p.10). "The recession these events induced has been unexpectedly prolonged" (1982, p.7). "The recession that has afflicted the world economy since 1980 seems at last to be easing" (1983, p.1).

[18] In this chapter, low-income, middle-income and high-income refer to developing countries belonging to groups with GDP per capita in 1980 below $500, between $500 and $1,500 and above $1,500 respectively, as shown in the 1984 supplement to the UNCTAD *Handbook of International Trade and Development Statistics*. United Nations Publication Sales No. E/F.84.II.D.12.

Table 12

Survey on debt indicators for
65 selected developing countries, by income groups *a/*
(Per cent)

		All selected countries	Low-income countries	Middle-income countries	High-income countries
Share of sample in debt of all developing countries (1983)	in total debt *b/*	83.3	17.6	21.2	44.2
	in debt to financial markets *c/*	97.2	4.8	19.1	73.4
Per cent of 1983 stock of debt accumulated during 1979-1983	of total debt	47.2	36.4	54.2	48.1
	of debt to financial markets	57.5	49.5	60.4	57.3
Share of debt to financial markets in total	1978	44.9	10.4	36.9	65.1
	1983	55.8	13.1	42.7	79.1
Debt/GNP	1978	23.8	24.0	21.1	25.0
	1983	34.8	25.9	34.3	40.7
Debt/Exports	1978	152.4	188.5	107.4	166.3
	1983	177.8	195.6	173.0	173.8
Short-term debt as per cent of medium-term and long-term debt *d/*	Mid-1979	18.4	6.2	22.9	22.3
	End-1983	24.4	10.0	20.2	32.1
Short-term debt as per cent of six-months imports *d/*	Mid-1979	61.0	22.5	55.3	84.6
	End-1983	108.9	36.9	67.4	191.7
Total debt-service/exports	1978	24.3	16.9	15.8	33.1
	1983	28.1	19.4	27.3	31.5
Implicit interest rate	1978/1979	7.0	3.3	6.5	9.2
	1981/1983	9.5	3.6	8.0	12.8
Interest payments/exports	1978	7.9	5.3	5.0	10.8
	1983	14.5	7.0	11.3	18.6
Interest payments/total debt service	1978	32.3	31.4	31.6	32.7
	1983	51.6	36.1	41.4	59.1
Total debt service/disbursements	1978/1979	58.3	47.6	47.3	65.9
	1983	87.6	67.3	72.1	103.7

For sources and notes, see annex table A.6.

a/ For individual country data see annex table A.6.
b/ Medium-term and long-term debt from all sources.
c/ Including debt to banks and bonds.
d/ Excluding offshore banking centres, which are included elsewhere in the sample.

level of short-term debt and the rate of increase of such borrowing between 1979 and 1983. An increasing number of countries accumulated short-term debt in excess of their trade financing requirements.[19] A serious worsening of this ratio was registered for the low-income group. For the middle-income group the ratio went up from slightly more than one-half to more than two-thirds, mainly due to the performance of the larger economies in this group, such as Colombia, Ecuador, Morocco, Nigeria and Philippines, but some smaller economies (such as the Ivory Coast, Jamaica and Zimbabwe) experienced an even sharper deterioration. The high-income countries, for which the short-term-debt-to-import ratio stood at almost 85 per cent in mid-1979, recorded the sharpest increase. The impact of the large economies with a high debt, led to the rise of the ratio for the total of all countries under consideration from around 60 per cent in June 1979 to almost 110 per cent by the end of 1983, suggesting that expensive short-term borrowing was increasingly used for purposes other than trade financing, such as servicing and refinancing medium-term and long-term debt.

198. Many countries also accumulated commercial arrears, particularly smaller countries which were affected by stagnant or even reduced export earnings in the presence of scarce official finance. It has been estimated that for many countries in Africa, commercial arrears were equivalent to 12 months export earnings, to one-quarter of the total debt outstanding, and to half of the total debt-service obligations.

2. The incidence of external shocks

199. As noted in the previous chapter the rise in oil prices and interest rates and the declines in export volumes and prices due to the recession together accounted for a very large proportion of the payments difficulties encountered by developing countries after 1979. While the impact of the oil price rise was positive for some developing countries and negative for others, the impact of the policy shift in the developed market-economy countries was unambiguously negative. According to one estimate, in 1982 the non-oil factors accounted for about 80 per cent of the current-account deficits of non-oil developing countries, and amounted to almost one-fourth of their total imports and to the entirety of their net capital inflow. One third of these were due to rises in interest rates which absorbed about a third of the increase in debt during the same year.

200. For a number of oil-exporting countries, the combination of reduced export volume and commodity prices on the one hand, and high interest rates on the other, more than offset the oil price change. While a few oil-exporting developing countries may have benefited from increased earnings from holdings of foreign assets, most did not. For the majority of oil-exporting developing countries, the current-account surpluses of 1979 and 1980 turned into deficits in 1981 and 1982.

201. While the incidence of the various shocks varied widely among developing countries, reflecting differences in the extent and nature of exposure to various external disturbances, their sum expressed as a percentage of GNP was broadly similar for the three income groupings. For many countries (such as Chile, the Ivory Coast, Kenya, Republic of Korea, Malaysia, Philippines, Thailand, the United Republic of Tanzania and Zambia) the figure was above 10 per cent. In some (such as Sri Lanka and Jamaica) the shocks totalled as much as one-third or more of GNP, particularly during 1981-1982.

202. The cumulative loss of export earnings due to the commodity price collapse over the period 1980-1983 amounted to about $28 billion for 48 commodity-exporting developing countries for which the relevant calculations can be made. The ratio of average loss per annum to 1980 imports

[19] See Annex table A.6, where short-term debt is related to imports over the preceding six months. Short-term debt greater than this figure is usually taken to be in excess of the normal requirements for trade finance and thus to indicate the onset of difficulties in obtaining medium-term financing. Such difficulties often precede breakdowns in debt service.

Table 13

Loss of export earnings due to commodity price changes *a/* **1981-1983**

	Cumulative loss/debt accumulation *b/*	Cumulative loss/current account deficits	Average loss/ 1980 imports
ALL COUNTRIES	47.8	28.7	8.1
Low-income countries	35.2	20.5	4.6
Bangladesh	30.0	11.8	3.5
Burma	21.3	14.3	15.6
Central African Rep.	127.5	60.0	20.8
Egypt	3.2	1.8	0.6
Ethiopia	60.6	51.1	14.5
Gambia	-17.3	-4.9	-1.9
India	49.1	27.0	5.0
Kenya	264.3	31.7	5.7
Madagascar	44.9	19.0	10.9
Malawi	-127.7	19.2	-4.5
Mali	-5.6	-3.3	-0.9
Mauritania	10.6	7.4	5.2
Pakistan	68.4	27.4	2.9
Rwanda	136.9	42.8	12.2
Somalia	-4.8	-4.6	-1.8
Sri Lanka	47.5	25.1	6.1
Sudan	12.2	20.6	4.8
Tanzania, United Republic of	49.4	25.2	5.9
Uganda	2142.9	57.5	34.1
Middle-income countries	51.9	24.7	7.7
Bolivia	100.1	137.9	39.0
Cameroon	2153.7	100.0	24.2
Colombia	59.8	25.7	13.8
Congo	-15.2	-11.5	-8.1
Dominican Republic	7.4	5.2	1.5
El Salvador	121.3	106.1	23.1
Guatemala	150.4	97.8	24.4
Guyana	94.9	15.3	6.2
Honduras	87.3	56.5	14.0
Ivory Coast	136.6	17.5	7.3
Jamaica	76.4	34.9	11.0
Jordan	0.0	0.0	0.0
Liberia	63.8	30.7	5.5
Morocco	6.7	3.6	1.3
Nicaragua	26.9	32.5	17.4
Paraguay	5.1	3.0	2.0
Peru	30.0	17.6	8.1
Philippines	17.5	8.5	2.8
Senegal	25.3	10.6	4.4
Syrian Arab Rep.	-35.7	-7.8	-0.9
Thailand	71.8	36.3	8.5
Tunisia	145.5	17.4	2.7
Zambia	189.7	52.9	27.7

For source and notes, see end of table.

Table 13 (continued)

Loss of export earnings due to commodity price changes *a/* 1981-1983

	Cumulative loss/debt accumulation *b/*	Cumulative loss/current account deficits	Average loss/ 1980 imports
High-income countries	51.3	50.8	15.6
Chile	37.2	33.4	17.6
Costa Rica	21.1	35.3	7.9
Malaysia	86.0	68.3	14.4
Panama	14.2	35.4	2.3
Uruguay	28.1	61.6	9.2

Source: UNCTAD secretariat calculations based on UNCTAD, *Monthly Commodity Price Bulletin* (various issues); United Nations, *Monthly Bulletin of Statistics*, December 1983 and December 1984; International Monetary Fund, *International Financial Statistics* (various issues) and the debt-figures referred to in Annex table A.6.

a/ Negative sign indicates gain.
b/ Medium and long-term debt.

exceeded 20 per cent in the case of some Latin American and African countries (such as Bolivia, Cameroon, El Salvador, Guatemala, Uganda and Zambia) (see table 13 below). Similarly, the cumulative loss also accounted for 29 per cent of their total current account deficits over 1981-1983, exceeding one-half in some cases (such as Central African Republic, Ethiopia, Honduras, Malaysia, Uganda, Uruguay, and Zambia) and even the entire deficit on current account in others (Bolivia, Cameroon and El Salvador). Finally, for the 48 countries taken together, the cumulative loss of export earnings during 1981-1983 due to the commodity price drop represented almost half the increase in their indebtedness during the same period. This ratio exceeded 100 per cent in the case of some countries of Africa and Latin America (such as Bolivia, Cameroon, Central African Republic, El Salvador, Guatemala, the Ivory Coast, Kenya, Rwanda, Tunisia, Uganda and Zambia) going up even further if the reduction in export earnings due to the contraction in export volume is taken into account.

203. UNCTAD estimates of cumulative excess interest payments in 1980-1982 indicate that in 1982, excess interest payments calculated by comparing the actual levels of interest payments with the levels that would have resulted had (a) nominal interest rates remained at their 1976-1979 average, or (b) had real interest rates remained at their 1953-1979 average, accounted for one-half or one-third of the total interest payments, depending on the yardstick. It is also estimated that 10 countries (Algeria, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Philippines, Republic of Korea, and Venezuela) account for 85 per cent of the total excess nominal interest payments by developing countries in 1982. However, the incidence of the burden of increased interest rates on countries is better captured by the ratio of the excess payments to GNP. On that measure, the rise in interest rate was as, or even more, burdensome for countries such as the Dominican Republic, the Ivory Coast, Morocco, Peru, Philippines and Thailand, (which hold a relatively small share in the total private debt of developing countries), than for Argentina, Brazil, Mexico, and the Republic of Korea which each hold a large portion of such debt, the interest rate shock being strongest for a country (Chile) that accounted for 4.5 per cent of total private debt.

204. While a considerable amount of new debt over and above the level required on the basis of long-term development needs was contracted, the volume of new borrowing was not sufficient to cover both the development

needs and the external shocks. According to one estimate,[20] for a number of countries the additional net external financing over and above that derived on the basis of import and export trends averaged about 40 per cent of the balance-of-payments effects of external shocks in 1979-1981. In particular, excess interest payments offset a large portion of the additional borrowing from the international financial markets. In many countries in the high-income group, excess interest payments exceeded half of the net additional financing (such as Argentina, Chile, Panama) while in the case of Brazil, such payments were well over the additional net inflow. But much the same was true of some low-income and middle-income and low-debt countries: for example, for the Ivory Coast, Morocco, Peru, Senegal and the United Republic of Tanzania, increased interest payments amount to at least half, or more than, the total of additional borrowing.

205. Wide variations are observed among countries in their ability to borrow to compensate for the worsened trading and financial environment. Available studies indicate that some countries were not only unable to receive additional finance, but also saw their inflow of capital fall below the requirements projected on the basis of long-term trends. For some countries reduced borrowing reflected self-restraint, but for most it reflected the restriction of supply, and the additional finance covered less than half the overall external shocks. Thus, much of the debt accumulation was used to compensate for the continuously worsened external environment rather than to make a corresponding addition to productive capacity. The increased burden of debt on productive capacity is reflected by rises in the ratio of the stock of debt to GNP, which more than doubled for a number of countries with widely different characteristics (such as Argentina, Burma, Ecuador, El Salvador, Gambia, Guatemala, the Ivory Coast, Malaysia, Mauritius, Mexico, Nigeria, Uruguay, and Venezuela).

3. Debt-servicing obligations and capacity

206. The simultaneous reduction in the capacity to service debt, and increase in the level of debt service obligations, were reflected in upward movements in the various debt-service indicators. The debt/exports ratio rose from around 1.5 in 1978 to 1.8 in 1983 for all developing countries taken together. The rise was most pronounced for countries (such as Colombia, El Salvador, Guatemala, Guyana, the Ivory Coast, Kenya, Liberia, Nicaragua, the United Republic of Tanzania, Uruguay and Zimbabwe) which were severely hit by the fall in commodity prices and export volumes for which the ratio more than doubled, primarily because of the decline in export receipts. However, the movements registered in the debt/exports ratio both understate the increased pressure of debt-service obligations against debt-servicing capacity, and obscure the source of the rise in the level of obligations. The ratio of interest payments to exports tells a clearer story. For all developing countries, for medium-term and long-term debt alone, this ratio almost doubled during 1978-1983, reaching almost 15 per cent in 1983. Since the debt/exports ratio rose only by less than one fifth during this period, it is evident that the increase in interest payments was due in greater part to the rise in interest rates rather than to the rise in the stock of debt. As table 12 shows, the average implicit interest rate on all developing-country debt was more than one-third higher in 1981-1983 as compared to 1978-1979. It should also be added that there was a build-up of interest arrears in 1982, and particularly in 1983, leading to an under-estimation of the interest/exports ratio and the implicit interest rates in these years.

207. Thus, the ratio of interest payments to exports rose markedly during 1978-1983 for both countries with a large stock of private debt and/or which suffered losses in export earnings. Some countries with a large stock of private debt (e.g. Malaysia, Republic of Korea) managed to restrict the increase in their interest payment/exports ratio by export expansion. For some Latin American coun-

[20] Balassa, "Adjustment policies in developing countries: a reassessment," *World Development*, Vol. 12, No. 9, 1984, p. 967.

tries, however, the ratio rose to reach one-to-three in 1983. Although the ratio for low-income and middle-income, low-debt countries in aggregate is lower, for some of these countries it reached 10 per cent, well above the figure for some large-debt East Asian countries. The rise in this ratio during 1979-1983 was mainly due to interest rates in the case of large-debt, high-income countries, whereas for low-income countries it was due to falls in export revenues. However, for some countries in each of the income groups (such as Bolivia, Central African Republic, Chile, Colombia, the Ivory Coast, Morocco, Philippines, Sri Lanka and Uruguay) this ratio rose very sharply because both the commodity-price and interest-rate shocks were each substantial.

208. The rise in interest rates also raised the share of interest payments in total debt service, which jumped from less than one-third in 1978 to more than half in 1983. Such a rise means that, even without an increase in the overall debt-service ratio, the debtor is using more of its export earnings for interest payments and less for repayment of principal. Moreover, the debt-service ratio itself rose significantly for a number of countries despite the roll-over of medium-term and long-term debt through rescheduling after 1982.[21] In 1983, in some large-debt countries (such as Argentina, Brazil and Chile), the total debt service on account of long-term debt alone amounted to half or more of export earnings, while for some countries in the low-income and middle-income groupings (such as Bolivia, Burma, Ecuador, Egypt, the Ivory Coast, Madagascar, Morocco, Nicaragua, Pakistan, Peru, Turkey, the United Republic of Tanzania and Zimbabwe), it reached between one-third and one-half.

209. As the slowdown in lending that started in late 1982 became more pronounced in the following two years, the rate of growth of long-term debt fell to under 10 per cent in 1983 and to about 8 per cent in 1984, from over 13.5 per cent per annum during 1979-1982. This deceleration is more pronounced for the total external liabilities of the developing countries, including the short-term debt, whose rate of expansion declined from 15 per cent in 1981 to 6 per cent in 1984. In most cases (including low-debt as well as large-debt countries), this was due to a contraction in the supply of official and/or private flows. But for some private market borrowers, it reflected voluntary restraints on borrowing, and for some least developed countries, the conversion of official debt into grants.[22] In all cases, however, as already explained, debt service increased. For example, recent estimates of the World Bank indicate that the net transfer to developing countries on account of long-term debt dropped to around zero in 1983; and in 1984, a $7 billion outflow was registered. In some countries, the net outflow was much greater than implied by the figures on disbursements and debt service because of capital flight. Moreover, rescheduling and involuntary lending depressed the ratio of debt service to disbursements. But, and the point warrants emphasis, the reversal of the net flow of financial resources is not peculiar to countries with a large stock of private debt.

C. Patterns of adjustment

1. Trade-balance adjustment

210. The external shocks discussed above led to a major shift in the trade balances of developing countries. As

---

[21] Despite its widespread use, changes in the debt-service ratio do not closely indicate, for the period under consideration, the increased burden of debt-service obligations relative to capacity, because of rescheduling of principals and arrears. On the other hand, when interest payments on short-term debt are included, the increase in the debt-service ratio during 1979-1983 was much higher.

[22] In some countries (particularly low-income or middle-income ones) where gross long-term disbursements fall short of the total debt service, the current account still shows a trade deficit. The net transfers and trade deficits are covered by grants, short-term borrowing and arrears, and reserve depletion.

Table 14

Growth rates of imports and exports of developing countries
(Per cent)

	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1981-1984 *a/*
All developing countries						
Import value	31.2	10.7	-5.7	-7.9	-3.6	-16.3
Import volume	5.3	11.9	-2.1	-3.5	-1.5	-7.0
Export value	35.4	-4.2	-14.8	-10.1	6.4	-18.5
Export volume	-10.2	-8.9	-8.6	-2.2	8.3	-3.1
Non-oil-exporting developing countries						
Import value	27.3	5.3	-9.1	-3.8	2.4	-10.4
Import volume	-3.8	2.9	-5.0	2.2	4.7	1.7
Export value	19.9	0.9	-5.6	3.3	10.9	8.1
Export volume	-1.0	7.5	3.5	3.0	12.9	20.3
Major petroleum-exporting countries						
Import value	36.3	17.2	-2.0	-12.0	-10.4	-22.7
Import volume	18.9	22.9	0.7	-9.0	-8.2	-15.8
Export value	43.4	-6.4	-19.1	-17.5	3.4	-31.0
Export volume	-13.6	-16.0	-15.3	-5.7	4.9	-16.2

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ Growth rates calculated for the three-year period.

table 14 below shows, export earnings fell each year from 1981 to 1983, and the increase registered in 1984 was not sufficient to restore the 1980 level. The value of imports, on the other hand, continued to rise until 1981 and declined in 1982 and 1983, but at a lower rate than the value of exports. Therefore, despite the decline in export revenues, sharp cuts in imports were initially avoided by means of debt accumulation. But as debt-servicing obligations continued to rise and external borrowing dried up, imports could no longer be maintained. In 1983, despite the fall in export earnings of major petroleum exporters and the rise in debt-service payments, the aggregate current-account deficit of all developing countries was reduced substantially. For non-oil exporting countries the improvement in their current account was accompanied by a continuing contraction of imports. In 1984, for the first time, higher export earnings could not be translated into higher imports for developing countries as a whole. For non-oil-exporting developing countries, export earnings rose by about 8 per cent during 1982-1984 while spending on imports fell by more than 10 per cent. The turn-around in the trade balance was no less dramatic in real terms: during 1982-1984, export volumes of non-oil countries rose by around one-fifth but their import volume increased only marginally.

211. However, export and import performance and policy responses differed widely. While the total for developing countries declined, some countries were able to maintain or even increase their export earnings. Similarly, while cuts in imports were widespread, the impact on development was by no means uniform.

2. The incidence of import cuts

212. Countries differed significantly in the timing and extent of their import cuts, depending largely on their ability to increase export volume, and their access to external finance. Countries with scant access to financial markets and limited ability to expand exports had no choice but to reduce imports before 1982. Such was the situation of many low-income and middle-income countries, in some of which (such as Ghana, Ivory Coast, Kenya, Madagascar, Malawi, Senegal, Sierra Leone and the United Republic of Tanzania) import volume declined between 1979-1981 by as much as 10 per cent per annum or more, notwithstanding the fact that the import bill rose or, at best, remained unchanged (see annex table A.7). In some others (such as El Salvador, Liberia and Togo) imports fell in both value and volume terms. Nevertheless, in an effort to avoid even more drastic cuts, some of these countries added substantially to their debt and depleted their reserves.

213. Most countries that initially succeeded in avoiding substantial cuts by accumulating debt were prevented from doing so after 1982 by the rise in their debt-servicing obligations and the drastic cut in lending. This was particularly true for high-income, large-debt Latin American countries, all of which suffered steep import cuts. It is notable that most of the cuts were concentrated into a single year (1982 or 1983) immediately following the drying-up of fresh bank lending: imports fell by over 40 per cent in one year for Argentina, Chile, Mexico and Venezuela; but for Brazil the cuts began earlier and were spread over a slightly longer time span. Many countries with relatively low debt (such as Bolivia, Burma, Congo, Nicaragua, Sudan and Syrian Arab Republic) which had been able to avoid substantial import reduction earlier also found themselves unable to continue, while a number of countries that had started cutting earlier were forced to carry on doing so.

214. In a number of cases, import cuts followed on the heels of an earlier jump in imports, typically the consequence of trade liberalization or a large scale investment programme or both. For example, some oil-exporting countries (such as Congo, Mexico, Nigeria and Peru) had used their strengthened credit-standing following the 1979-1980 price rise to step up their borrowing and boost imports; but as the demand for oil contracted and interest payments expanded, drastic cuts became unavoidable. But in those oil-exporting countries (such as Algeria, Gabon and Tunisia) that had seen in the rise of their oil revenues an opportunity to reduce borrowing both the initial import expansion and the subsequent cuts were much more moderate.

215. For a number of Latin American countries the burden of cuts fell mainly on capital goods. As may be seen from tables 15 and 16, while total imports fell by less than 15 per cent in value between 1979 and 1983, capital goods imports fell by over 30 per cent; the decline was most pronounced for Argentina, whose import total fell by less than 20 per cent and its capital goods by more than 70 per cent. In the case of oil-exporting Latin American countries too, capital goods imports were cut more sharply than total imports, after having expanded rapidly during 1979-1981. On the other hand, while consumption goods represented a slightly higher share of the total imports of the countries covered by the table in 1983 compared to 1979, most of the countries made substantial cuts in consumption goods imports: Argentina by over 70 per cent and Brazil by over 30 per cent between 1980 and 1983, and Mexico by about 80 per cent and Chile by nearly 70 per cent between 1981 and 1983. Finally, imports of intermediate goods plus oil for these countries as a whole were maintained during 1979-1983 in value terms (though not in volume terms), with the result that their share in total imports increased as that of capital goods declined. It would thus appear that in making cuts, countries sought to maintain the level of production at the expense of capital formation.

Table 15

Changes in the value of major categories of imports in selected Latin American countries
(Per cent)

	Capital goods			Intermediate goods			Consumption goods			Oil		
	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983
Argentina	-21.9	-63.6	-71.6	77.8	-18.6	44.8	209.7	-66.9	2.4	-14.0	-48.0	-55.3
Brazil	5.8	-36.7	-33.2	7.0	-14.5	-8.6	9.5	-21.4	-14.0	71.0	-28.2	22.8
Chile	52.3	-64.6	-46.1	59.4	-58.3	-33.5	110.2	-66.1	-28.7	-24.3	-67.8	-75.6
Colombia	75.7	-9.9	58.2	43.4	0.1	43.6	43.5	3.7	48.8	91.6	-14.2	64.4
Mexico	111.9	-77.9	-53.2	82.9	-58.4	-24.0	180.7	-78.5	-39.5	-	-	-
Peru	99.1	-30.1	39.3	40.3	-24.3	6.2	286.1	-19.3	211.6	-	-	-
Venezuela	6.5	-25.5	-20.7	47.4	-30.5	2.5	34.7	-28.0	-3.0	-	-	-
Total selected countries	35.2	-48.8	-30.7	57.9	-39.2	-4.0	77.7	-46.6	-5.1	58.5	-29.9	11.0

Source: Inter-American Development Bank, **External Debt and Economic Development in Latin America, Background and Prospects, 1984**, p. 43, table 12.1.

Table 16

Structure of merchandise imports of selected Latin American countries
(Per cent)

	Capital goods			Intermediate goods			Consumption goods			Oil		
	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983	1979-1981	1981-1983	1979-1983
Argentina	36.0	20.1	12.4	41.1	52.4	71.9	7.5	16.6	9.3	5.8	3.6	3.1
Brazil	23.5	20.1	17.6	19.8	17.2	20.3	5.5	4.9	5.3	35.9	49.8	49.4
Chile	20.1	19.5	18.9	33.0	33.6	38.2	28.2	37.8	35.0	18.8	9.1	8.0
Colombia	33.3	36.8	34.8	42.8	38.6	40.6	14.0	12.6	13.7	9.9	12.0	10.8
Mexico	29.8	31.7	21.1	61.8	56.6	71.2	8.4	11.8	7.7	-	-	-
Peru	39.3	42.9	39.9	51.0	39.2	39.5	8.3	17.6	18.8	-	-	-
Venezuela	46.4	39.9	40.9	17.3	20.6	19.7	36.2	39.4	39.0	-	-	-
Total selected countries	31.2	28.5	25.1	34.2	36.4	38.0	14.2	17.0	15.6	14.2	15.2	18.3

Source: Inter-American Development Bank, **External Debt and Economic Development in Latin America, Background and Prospects, 1984**, p. 43, table 12.1.

216. As shown in table 17, for the low-income and middle-income countries which undertook cuts in imports earlier in the period, the picture is less clear and the variations in country experience wider.[23] In general, cuts in machinery and equipment (used as a proxy for capital goods imports) relative to other categories of imports were less pronounced than for the countries covered in tables 15 and 16, possibly because they were already at very low levels. The fall was nevertheless steep in some cases (65 per cent for Honduras and around 40 per cent for Madagascar, Senegal and Sudan). Even countries which attempted to maintain investment necessary for adjustment had to cut substantially (e.g. Ivory Coast and Kenya). The share of food imports rose markedly in the case of some African countries (e.g. Madagascar, Togo and to a lesser extent Senegal), but not in most. Similarly, changes in the shares of industrial supplies and fuels were not uniform: while fuels kept up in general, the share of inputs rose, albeit moderately, in some cases (e.g. Cameroon, Ecuador, Malawi, Sudan and Togo), and fell in others (e.g. Madagascar, Nicaragua and the United Republic of Tanzania). However, except for a few countries, imports of industrial supplies fell, the decline in a one or two-year period being over 25 per cent in a number of countries. The inability of many low-income sub-Saharan African countries to maintain imports of basic inputs caused substantial reductions in the degree of capacity utilization ("import strangulation"), giving rise to suggestions that in Africa a revival of the rate at which existing capacity is utilized should receive priority over capacity expansion.

3. Export expansion

217. Just as the overall lack of buoyancy of the developed market-economy countries has exercised a generally depressive influence on the export earnings of developing countries as a whole, so the uneven distribution of OECD growth has been reflected in variations in export performance. Since Western European recovery has lagged behind the United States, which represents a less important market for commodities though a more significant market for manufactures, earnings from commodities have been weaker and those from manufactures stronger than if the same rate of growth of demand in OECD member countries had been more evenly distributed. The incidence of the impact of the growth of the United States demand and the strengthening of the dollar has depended on trading patterns previously established. The scope for stepping up exports is in any case wider for manufactures since developing countries generally have a much smaller share of the market in developed countries. As indicated in section F of chapter III, for many commodities, the demand elasticity facing developing countries as a whole is low, particularly in the short run; consequently, unless demand is expanding, individual countries can succeed in stepping up their export earnings substantially only at the expense of other developing countries.

218. The ability of developing countries to increase the supply of exports in the short run, while in general limited, also differs widely. Not all goods are tradeable nor all expenditures easily switchable. Where, as in many countries, non-traded goods are a large proportion of total output, the supply of exportables does not expand *pari passu* with cuts in domestic absorption. In such countries the reduction in domestic absorption necessary to achieve a targeted increase in the supply of exportables can be very substantial; and the sacrifice involved, in terms of employment in non-tradeable industries and the living standards of the poorer strata, will be even greater if the exportables are basic necessities. If, on the other hand, exportables are investment goods and if cuts in domestic absorption are required to release supplies for exports, then the required rise in savings relative to investment is attained by means of a cut in investment rather than an increase in savings. Finally, if exports consist

[23] Comprehensive up-to-date figures are not available on the composition of imports of developing countries by major commodity groups related to different types of activities. Hence, the import components reported in table 17 differ from those in tables 15 and 16.

Table 17

Changes in the merchandise imports of selected low-income and middle-income countries
(Per cent)

	Machinery and equipment			Industrial supplies			Food			Fuels		
	Growth rate	Shares in the total imports		Growth rate	Shares in the total imports		Growth rate	Shares in the total imports		Growth rate	Shares in the total imports	
	1980-1982	1980	1982	1980-1982	1980	1982	1980-1982	1980	1982	1980-1982	1980	1982
Low-income countries												
Kenya	-24.2	15.7	17.4	-44.6	26.9	24.3	2.2	4.3	5.9	-24.9	33.6	37.0
Madagascar	-45.1	21.3	17.9	-57.1	33.6	24.2	70.8	7.8	15.6	42.7	13.5	23.2
Malawi a/	-28.7	17.0	15.6	-6.5	36.6	41.7	-4.4	5.6	6.5	-9.5	14.6	16.2
Sudan a/	-38.6	20.4	12.5	16.4	27.0	31.4	-32.9	25.1	16.8	51.7	12.4	18.8
Tanzania, United Rebublic of a/	-12.4	23.0	20.4	-29.4	30.1	21.6	-32.4	8.0	5.5	48.1	20.3	30.3
Togo a/	-22.4	13.2	13.0	-1.7	28.1	33.5	23.5	14.4	20.8	-84.2	22.6	8.3
Middle-income countries												
Cameroon	-19.1	20.9	22.0	-10.2	35.3	40.3	-14.2	7.8	8.6	- c/	10.9	1.9
Dominican Republic	-28.2	14.9	13.1	-25.7	31.4	28.4	-23.6	13.5	12.5	19.2	24.9	33.7
Ecuador	1.0	28.3	29.4	13.3	34.6	40.2	-46.3	7.6	4.3	- c/	1.0	1.3
El Salvador	-18.4	9.3	8.6	-17.3	37.4	35.0	-14.2	15.3	14.8	27.7	17.6	24.4
Honduras	-65.1	18.6	12.1	-26.3	33.7	35.0	-19.7	7.7	8.5	7.0	15.6	21.4
Ivory Coast b/	-35.2	13.6	12.1	-24.9	26.1	25.9	-21.5	19.1	19.6	-40.1	22.0	18.5
Nicaragua	79.9	7.9	15.2	-28.4	37.2	31.3	-33.3	13.0	10.3	4.2	19.8	23.1
Philippines	5.7	16.1	17.1	1.3	28.3	28.8	30.4	5.5	7.2	-7.2	28.3	26.4
Senegal a/	-41.4	14.2	10.9	-19.3	18.2	18.0	-3.1	22.6	26.0	2.6	25.0	30.2

Source: Shares from the United Nations, 1983 Yearbook of International Trade Statistics (tape). Growth rates have been calculated on the basis of these shares and the growth rate of total import values given in the source for table 4.

a/ Figures are for 1980 and 1981.
b/ Figures are for 1981 and 1983.
c/ Not calculated (oil-exporting countries).

largely of goods made especially for foreign markets, for which there is little domestic demand, the scope for increasing exports by lowering domestic expenditure will tend to be extremely narrow.

219. Such supply-side difficulties can be avoided if the supply of exportables can be increased by utilizing existing capacity more fully and/or by shifting resources from non-traded to tradeable goods industries. These conditions tend to apply to a greater extent to the more industrialized developing countries especially where demand has already been cut; otherwise the currency depreciation and/or subsidies required to overcome high costs may be substantial. On the other hand, in the short run, resource mobility tends to be limited in any economy since plant and equipment in place cannot be easily adapted; it tends to be higher in technologically more advanced economies with extensive product and market diversification.

220. For these reasons export performance has depended both on the policy choices of developing countries, and, no less significant, on their internal structures and external market conditions. For instance, while the export volume of developing countries taken together declined during 1982-1984 (see table 14 above), all the high-income countries contained in annex table A.7 maintained or increased their export volumes while only about half of the low-income and middle-income countries avoided falls. On the other hand, in 1984, when the export volume of developing countries as a whole rose, many low-income countries remained unable to make tangible progress in their export performance.

221. Variations are also observed in export price movements. While a large number of countries that succeeded in increasing their export volumes during 1982-1984 were unable to gain commensurate increases in export earnings, the disparity between the two was particularly large in the case of some low-income and middle-income countries (such as Burma, Congo, Dominican Republic, Indonesia, Senegal, Sudan and Zaire). In 1984, when most of the export expansion took place, almost all high-income countries achieved increases in both export volume and earnings, whereas for many low-income and middle-income countries, export earnings continued to lag behind the volumes. This largely reflected the well-known differences in the response of prices of manufactures and commodities to increased supplies in the face of stagnant demand.

222. The widespread association of increased export volumes with decreased import volumes was unprecedented. As can be seen from table 18 below, prior to 1982, most of the countries - 13 out of a total of 15 - were in the low-income or middle-income groups, and the cause was a deterioration in the terms of trade. After 1981, both the number (which rose from 15 to 22) and the range of countries increased, the main cause being the cut-back in bank lending; the number of countries able to increase imports despite falls in export volumes and/or earnings also decreased. For many countries in each income group (such as Argentina, Bolivia, Brazil, Burma, Chile, Congo, Gambia, Ivory Coast, Mauritania, Mexico, Nigeria, Peru, Somalia, Sudan, Uruguay and Zaire), the import bill was cut while export earnings rose or fell proportionately less, so as to cover increased debt-servicing obligations and/or to compensate for the fall in capital inflow. Many high-income, large-debt countries in Latin America were obliged to generate substantial trade surpluses to service their debt. In 1982-1983, these surpluses came mainly from import cuts, but in a number of these countries exports expanded sharply in 1984 and imports, while rising, lagged substantially behind. According to the Economic Commission for Latin America and the Caribbean (ECLAC), the trade surplus for the region as a whole "reached the unprecedented figure of $37.6 billion, which was four times as high as the one recorded barely two years previously". This surplus amounted to 65 per cent of the value of imports and about 11 per cent of the total GDP of the region.

4. Impact on income and investment

223. In most developing countries, the relation between import levels and the levels of production and investment activities is direct, since imports are mainly capital goods and intermediate inputs. In some countries, however, basic foodstuffs account for a signif-

Table 18

Export and import volume changes
(Number of countries)

	1979-1981 Export volume		1982-1984 Export volume	
	Rose	Fell	Rose	Fell
Import volume rose	13	14	17	6
Low-income	5	5	8	4
Middle-income	4	6	6	2
High-income	4	3	3	0
Import volume fell	15	19	22	16
Low-income	8	6	7	5
Middle-income	5	11	7	11
High-income	2	2	8	0

Source: Annex table A.7.

icant share of imports. Moreover, in the short run, opportunities for import substitution are generally limited by technological factors. If import-competing industries are operating at low degrees of capacity utilization as a result of a previous spurt in imports, for instance in the context of liberalization, there is more scope for lowering imports without depressing domestic activity. However, that scope will not be sufficient to protect activity levels if the cut in imports required is very large. Thus, the margin for compressing imports substantially without severely depressing either the level of activity or basic consumption, or both, is therefore in many cases very narrow, the margin of dispensible imports being typically inversely related to per capita incomes. Consequently, a developing country having to cut imports confronts difficult social and economic choices regarding the incidence of the cuts. Increased export earnings can provide a way out, but not entirely since, as noted, export expansion in the short run may itself require a contraction in domestic activity.

224. The impact of the worsened external environment on domestic activity and the extent of the development crisis is clearly reflected in the evolution of the aggregate level of production of developing countries. The rate of growth of gross domestic product (GDP) declined continuously from 1979 onwards: from 5 per cent per annum in 1979 to below zero in 1983. During 1981-1983, GDP lagged behind population, and per capita GDP fell by more than 4 per cent.

225. While a few countries were able to maintain or step up their growth rates during this period, the number experiencing stagnation or declines in domestic production increased steadily as the crisis deepened; one country in nine experienced a decline in the absolute level of GDP during 1976-1978, this ratio went up to approximately one country in five in 1979-1981, and in the next two years to a little less than one in two (see annex table A.8). During 1979-1981, the decline in GDP was more common among the low-income and middle-income countries, reflecting their worsened international trading environment. However, after 1981, the list of countries with negative GDP growth rates expanded largely because of the worsening of the financial environment. The GDP growth rate turned from positive in 1979-1981 to negative in 1982-1983 in a number of countries (such as Argentina, Ecuador, Ivory Coast, Nigeria, Paraguay and Peru) whose debt-servicing obligations had risen drastically relative to export earnings.

226. Perhaps more significant from the development perspective was the decline in investment. An examination of annex table A.8 indicates that

investment has been more affected than domestic production: one country in four experienced a decline in the absolute level of investment during 1976-1978. This figure rose to two countries in five in 1979-1981, and to three countries in five in 1982-1983. While almost all countries that experienced reduction in GDP during the latter period also reduced the pace of capital accumulation, some countries (such as Colombia, Kenya, Malawi, Philippines, Panama and the United Republic of Tanzania) that managed to attain positive growth also cut fixed capital formation, and many countries with positive growth rates for both GDP and investment (such as Algeria, Dominican Republic, India, Pakistan, Republic of Korea, Syrian Arab Republic, Thailand and Tunisia) nevertheless experienced a decline in the share of capital spending in GDP, suggesting that the increases in GDP came partly from increases in capacity utilization.

227. For every five countries whose import volume fell during 1982-1983, four suffered from declines in domestic production or investment or both (see table 19), suggesting that such cuts were not, in general, compensated by import substitution; in most cases, the reductions registered in the import content of output was the outcome of reduction of the share of investment.[24] More significantly, during the same period, of the 29 countries which succeeded in increasing export volumes, 17 had to cut domestic production or investment or both. The number of such countries was only one out of five during 1976-1978 and one out of three during 1979-1981. It is notable that during 1979-1981, only one of the high-debt countries that had succeeded in expanding export volumes had already experienced declines in investment or income (Republic of Korea), whereas during 1982-1983, all but three such countries experienced falling investment and incomes as mounting debt-service payments absorbed increased export revenues.

5. Policy options

228. The preceding analysis suggests that while all developing countries encountering a tightening of their balance-of-payments constraints cut their imports and activity levels, there were three broad categories of experience. First, for some countries domestic structures and the state of foreign markets and financial availability were such as to make it extremely difficult, at best, to undertake a large and speedy balance-of-payments adjustment without suffering disruption. Many countries at the lower end of the income scale, including the least developed countries, underwent this experience. Second, some countries had reasonably flexible structures and were able to switch, but could not avoid drastic cuts in imports, output and investment because of the magnitude of the external shocks, including the withdrawal of bank credit, and the speed of the adjustment required. Such was the experience of many commodity-exporting countries, as well as some exporters of manufactures. Third, a few countries managed to avoid a collapse of bank lending and drastic cuts in activity, because the external shocks were not unduly large, or because their structures permitted swift export expansion and/or import compression. Domestic economic policies, however, played a significant role in certain cases. In particular, the experience of some of the more industrialized developing countries was of the second rather than the third type because of a failure to undertake retrenchment at an early stage, reflecting expectations regarding the recession and interest rates which, in the event, proved over-optimistic.

229. Devaluation and other "switching" policies designed to improve the relative prices in favour of exports and import substitution helped to lessen the degree of output reduction. In certain cases, greater stress on such policies, rather than on expenditure reduction, might have been more useful.

[24] Most exercises on import substitution concentrate on the income elasticity of imports. However, import requirements of investment and productive activities are often different, the former being usually higher. Hence, to the extent that the ratio of investment to GDP declines, the ratio of imports to GDP will decline without any change in the import requirements of these activities.

Table 19

Changes in import and export volumes and GDP and investment
(Number of countries)

	1979-1981				1982-1983 *a/*			
	Total	Low-income	Middle-income	High-income	Total	Low-income	Middle-income	High-income
Number of countries in which import volume fell	34	14	16	4	30	8	14	8
of which: GDP and/or investment fell	21	8	11	2	25	6	12	7
Number of countries in which export volume rose	28	13	9	6	29	8	10	11
of which: GDP and/or investment fell	10	6	3	1	17	3	6	8

Source: Annex table A.7 and annex table A.8.

a/ Includes only the countries for which data on GDP and investment growth is available.

However, the size and speed of the turnaround required in the trade balance generally outstripped by a wide margin the capacity to switch. Consequently, substantial cuts in total expenditure and output could generally not be avoided. This was true both of low-income countries, where production structures are particularly rigid, and of the more industrialized developing countries where the deterioration in the balance of financial inflows and outflows was vast.

230. Tailoring the adjustment path to the capacity to switch would have entailed phasing the correction of the payments imbalance over a longer period, and basing it on a restructuring of the size and composition of the capital stock, accompanied by changes in the pattern of incentives designed to change the composition of demand to ensure an efficient alocation of resources, in particular the flow of new investment. Such an approach would have required financial support of various kinds from abroad, including longer term balance-of-payments finances and programme assistance. Such support, however, was not in practice forthcoming on the scale necessary.

231. The cost of strenuous adjustment efforts in the short-run in terms of income distribution, price and social stability tends to be substantial. Currency depreciation exerts pressure on prices, rendering it even more difficult to reconcile the balance-of-payments adjustment with price stability, and attempts to maintain "realistic" exchange rates in the face of widespread misalignments among the floating-exchange-rate currencies often adds to this pressure. Rises in real interest rates, though unavoidable in financially open economies in order to discourage capital flight and create an atmosphere conducive to the return of capital, increase the pressure on prices, and, when combined with currency depreciation and reduced home demand, give rise to financial difficulties in the corporate sector with significant domestic and/or external debt. In such situations, governments find themselves having to engage in

financial rescue operations, diverting resources from social and capital spending. Removal of subsidies on basic foodstuff and public utilities in order to reduce deficit financing can simply result in a change in the mechanism through which inflationary pressure is generated,[25] rather than in a reduction in the rate of inflation, and tend to do so in a way which endangers social stability; moreover cuts in spending designed to reduce such inflationary pressures typically entail further reductions in employment and production.

232. The preceding discussion demonstrates that while domestic policies can be used to some extent and in certain circumstances to improve the external accounts without depressing output and investment, the scope for this varies widely. In general, it has not been sufficiently wide to allow the very large and very rapid upswing in trade balances necessitated by the deterioration of the payments positions and the paucity of external financial support to be accomodated without depressing output and employment, and inflating prices. For that reason, efforts to tackle the external deficits resulting from the various shocks, and in particular, from the drying-up of financial inflows, have involved inordinately large sacrifices. The sacrifices have been only partly reflected in improved debt positions, but have endangered the development potential. Indeed, the main casualty of "adjustment" appears to have been investment and price stability. Yet, capital accumulation is essential for strengthening the external position in the long term. Thus, developing countries enter into an uncertain future from an initial position of disequilibrium between their debt and their development.

D. The dynamics of debt, investment and exports

233. The disequilibria in the developing countries analyzed in the previous section of this chapter are important not merely from a static point of view, but also because of their consequences for development prospects in the long run. For the first time since development became accepted as a goal for the international community, developing countries taken together are having to make debt-service payments in excess of their net borrowing, owing to the disparity between the current growth rate of bank exposure and the rate of interest of bank debt.

234. This phenomenon of reverse transfer is heavily concentrated on a few countries holding a very large proportion of total bank debt. Many of these countries are regarded as being excessively indebted, and hence are subject to tight rationing and conditionality in the new finance they receive. Since interest rates are also externally determined, these countries have to generate trade surpluses in amounts that are, by and large, outside their own control. However, there has also been a general decline in lending to developing countries, from both official and private sources, relative to debt-servicing. If this trend were to continue, then the phenomenon of reverse transfers could easily become widespread, affecting even the poorest countries.

235. As already noted, countries having to switch from a negative to a positive trade balance have thus far done so largely through drastic deflation involving massive import cuts. Recently, their exports have expanded significantly, allowing them to avoid further import cuts, and their attendant consequences. In some cases they have permitted imports to rise to a certain degree, but not sufficiently to allow pre-crisis levels of imports, income and investment to be restored. But, although the trade surpluses required to accommodate the financial deficits have been attained, the problem has not been settled. For, as long as negative net transfers take place in the context of continued debt accumulation, trade surpluses will need to increase in size over time *pari passu* with the growth of debt. Consequently, even without any import growth, exports will have to expand continuously simply to cover the financial outflow.

[25] These factors, among others, have been operative in varying degrees in many countries in Latin America where the rate of increase of prices in the region as a whole reached a new all-time high in 1984.

236. For countries with a negative net transfer, therefore, the scope for continued export growth is a question of cardinal importance. Although such countries continue to have idle capacity, much of this is located in sectors that are not capable of producing for exports at any feasible level of exchange rate. It is thus becoming increasingly difficult to sustain export growth without stepping up investment. And yet, investment has been drastically cut in order to achieve a swift turnaround in the external accounts. Thus, a serious dilemma presents itself. In order to cover the growing level of debt-service payments over time, exports and investment need to expand: in the long run, unlike the short, debt cannot be serviced without growth. But investment has been cut in response to the increases that have taken place in the debt-service stream and the cuts in the flow of lending. An economy that finds itself unable to generate sufficient export growth will have to make cuts in investment and production. This is possible only up to a point - after that defaults become unavoidable. In short, when adjustment designed to maintain debt-servicing checks investment and growth, it can become self-defeating.

237. This feature makes the problem one which concerns both the international financial system, as well as the development process. Thus far, the normal channels of international finance have been impaired without seriously disrupting international financial markets. However, if that system becomes subject to mounting pressures over the long term, resulting from an inconsistency between debt and growth, then the crisis will only have been postponed, to return with even greater force at a later date.

238. Whether this eventuality actually occurs will depend on the extent to which the dynamics of investment and export expansion can be made to offset the dynamics of debt. This, as will be shown below, will depend on various factors including the extent and the character of the initial position of the economy. But many of the variables that govern the mutual consistency of debt-servicing and growth are beyond the control of the debtor countries concerned. Therefore, in order to avoid disruptions of development and the international financial system, adjustment will be necessary not only in the developing countries but also in the external financial and trading environment.

239. As noted above, when the rate of interest exceeds the rate of growth of debt, the financial outflow will be growing at a rate equal to the rate of growth of debt.[26] The required trade surpluses will have to be generated mainly by investment in export industries, since heavy resort to import substitution is rarely an efficient way of generating trade surpluses. The additional exports that can be generated at any level of investment, depend on the increase in production capacity resulting from the investment, and the extent to which that increased production capacity can be translated into increased export earnings: the latter may be termed the "export orientation" ratio. The former is determined by the incremental capital/output ratio, which tends to be higher when, as is often the case in an export-expansion strategy, investments are directed at altering substantially the existing product mix and utilizing modern technology. Secondly, investment has generally to be allocated in part to infrastructure to underpin export production, and to other complementary sectors which do not themselves generate exportable output. This factor tends both to raise the overall incremental capital/output ratio, and prevent the additional production from being fully translated into increased export earnings. The export-orientation ratio may also be depressed by external factors, for the extent to which any increase in exportable supplies can be translated into increased

[26] Denoting imports and exports at time t by M_t and X_t respectively, the initial stock of debt by D_o, the rate of growth of debt by p and the rate of interest by i, and adopting a continuous formulation, the balance-of-payments identity can be written as:

$$X_t - M_t = (i - p)\, D_o e^{pt}$$

so that the right-hand side (net financial outflow) grows at the rate p.

export earnings will depend on the growth of world demand, the ease of access to international markets, and the response of prices to increased export supplies. For these reasons, it will neither be possible to devote all the investment to export production, nor to translate increased supplies fully into increased earnings.[27]

240. Increased investment, however, generally requires imports to increase, in the first place because of the need to import machinery and equipment; secondly, in order to meet the demand generated by investment and exports, domestic production will need to rise, requiring imports of intermediate inputs. In other words, in order for the economy to grow, exports must rise over time by amounts that are sufficient to cover not only the increments in the financial outflow, but also the increased import requirements. Since exports are generated by investment, this requires investment to be rising over time.[28] If, therefore, at any point in time, investment is not high enough to generate sufficient net foreign exchange earnings through export growth to meet the financial outflow, import growth will be checked. This will, in turn, lower investment and check the increase in exports and imports further. When that occurs, the balance-of-payments constraint will be continuously tightened, requiring continuous cuts in investment and income. Default will be hard to avoid.

241. The upshot of this discussion is that when the debt-dynamics imply a continuously increasing financing drain, the economy must grow in order to avoid a continuous decline: i.e., stagnation is not a viable state. For this decline to be avoided, the level of investment permitted by the balance of payments constraint at any point in time must be high enough to generate, through export growth, sufficient additional foreign exchange earnings to meet the increased financial outflow; i.e., there is a critical minimum level that investment must reach at each point in time. This critical minimum level will be higher, the greater the initial stock of debt, and the higher the rate of interest in relation to the rate of growth of debt. Moreover, this minimum level will itself be rising through time, since debt and financial outflow will also be growing.

242. When the level of investment in an indebted country has been depressed below the critical point, the question arises as to what can be done to avoid the downward spiral. It may seem that when the rate of interest exceeds the rate of growth of debt, reducing the latter further would help by slowing the pace of expansion of the financial outflow. If, for instance, the net new borrowing can be reduced to zero, the entire net additional foreign exchange generated by investment and export growth could be used for imports and hence, for investment and production. However, the cut in borrowing could itself require a further deflation in the short term, perhaps by a substantial margin; any subsequent attempt to restore the momentum of development would then have to start from very low levels of income and investment which may not be feasible. On the other hand, accelerating borrowing is not likely to bring much improvement over the long term, if it does not raise the rate of growth of debt permanently above the rate of interest. A higher inflow of capital would permit higher production and investment in the short-run, but it would raise the trade surplus required in each year in the

[27] Formally, if the incremental capital-output ratio is denoted by v and the export orientation ratio by k, then export expansion associated with a certain level of investment (I) is given by: $x = (k/v)I$. Since I/v is the additional production capacity generated, then k can also be interpreted as incremental export/capacity output ratio. k is likely to be in excess of the observed exports/capacity output ratio, which is not presently very much greater than 10 per cent in many large-debt developing countries. Thus, if k is assumed to be 16 per cent and $v = 4$, then the increase in export earnings will amount only to 4 per cent of the aggregate level of investment.

[28] There is yet another problem. If the initial export expansion involves, as has been the case to a certain extent in some countries, switching capital goods and intermediate inputs to foreign markets by depressing domestic demand, a rise in domestic investment may reduce the supply of goods available for export with adverse effects on the balance of payments.

future.

243. A decline in the rate of interest would, however, have unambiguously favourable consequences in both the short and the long runs. It would allow the level of investment to be raised immediately, allowing export growth to be accelerated, and subsequently lower the amount of financial outflows associated with any given growth rate of debt.

244. An important issue for consideration with respect to debtor countries with negative net transfers is whether the level of investment is presently depressed below the critical point. No ready-made answer to this question is available. The critical point depends on the total stock of debt, the values of the parameters that govern the debt and investment/export dynamics, and on the scope that may exist to increase exports without investment and decrease imports without affecting the level of domestic activity. All these factors differ substantially across countries. Moreover, the critical point will be changing over time with the external trading and financial environment, since, as noted, these affect both the export-orientation ratio and the level and growth of reverse transfers. Therefore, what may look above the minimum today may cease to be so in the future and *vice versa*.

245. Nevertheless, plausible values of the parameters suggest that at present the critical investment/debt ratio may be quite high and extremely sensitive to changes in these parameters.[29] If, for instance, 18 per cent of the increased production capacity can be translated into export earnings, the critical investment/debt ratio will be around 20 per cent. Assuming an initial debt/GNP ratio of 60 per cent, this would require at least 12 per cent of GNP to be invested in order for debt-servicing and growth to be mutually compatible; and the initial required export growth rate would be over 4.5 per cent. If, on the other hand, the export-orientation ratio were lower, say 16 per cent, then the critical investment/debt ratio would rise to about 29 per cent and the investment/GNP ratio to over 17 per cent. In that case, the initial required rate of export growth would be over 5.5 per cent. In both cases, for growth and debt-servicing to be sustainable, investment will have to be rising at a rate of no less than 6 per cent.

246. This illustrative comparison points not only to the existence of a knife-edge balance between debt and investment/export dynamics, but also to the sensitivity of this balance to changes in external as well as internal conditions. Avoiding a debt explosion requires that each of these sets of conditions be right. Clearly, a developing country can, by means of various policy measures designed to give incentives for investing in export industries and switching to external markets, affect the rate at which the additional production capacity generates exportable supplies. However, as noted, the amount of the increased supply of exportables that can be translated into increased export earnings depends critically on the external market conditions. For that reason, in order for debtor countries to attain the export growth they will need to sustain development and debt-servicing, economic activity in the industrialized countries needs to expand at a rapid rate. Chapter IV shows that a rate of export growth of about 5 per cent is sustainable if developed market-economy countries are growing at a rate no less than 3 per cent. If this growth is not forthcoming, then the debtor countries can only achieve the required export growth by substantially increasing their market shares. However, considering the

[29] These calculations are based on the imported input requirements per unit of investment and production of 0.15 and 0.06 respectively; on a savings rate of 18 per cent; the incremental capital/output ratio of 4; the rate of interest of 11 per cent and the rate of growth of debt of 6 per cent. The values assigned to the technical coefficients and the savings rate are suggested by the data for the countries contained in tables 15 and 16 above, whereas the interest rate and the rate of growth of net lending correspond to recent bank behaviour (described in section B of chapter III). Consumption is related to both GNP and capital inflow, as suggested by the evidence that savings behaviour is affected by the inflow of capital. If consumption were related to GNP alone, then the critical ratios would be lower.

export expansion that has already taken place and the size and the number of countries in need of export growth, further persistent efforts to penetrate by many countries on a large scale may be frustrated by increased protectionist measures, particularly since protectionist pressures tend to mount with unemployment.

247. For many poorer countries where debt-dynamics do not involve a continuous financial drain, the long-term consequences of the present austerity are no less serious. A number of countries in sub-Saharan Africa presently encounter a very dramatic depression in the level of activity and the standard of living as a result of natural disasters and import strangulation. In these countries the room of adjustment in the short term permitted by production structures and low levels of income are not adequate to allow the external deficits to be corrected substantially through austerity. In particular, their margin of dispensible imports is almost non-existent and their scope for dealing with external imbalances by means of export expansion through devaluations and expenditure cuts is extremely narrow, except in traditional exports where, as noted in chapter III, section F, increases in supplies are apt to generate falls in revenues when undertaken by many countries at the same time.

248. For these poorer countries there is, accordingly, a pressing need to reduce the size of the current-account adjustment and slow its speed to a manageable level, and above all, for structural transformation in the context of a long-term development process. But, at this point, a serious dilemma presents itself: while even a moderate growth entails substantial import expansion, the very same structure that needs to be transformed cannot generate the required resources. On the other hand, external finance is not available in the required quantities, and servicing even the present level of external debt is proving extremely difficult.

249. In the face of rapidly growing population, the current situation may degenerate into a downward spiral. Unless the degree of capacity utilization is raised substantially from its presently depressed level and the production capacity is continuously expanded at a faster pace than the population, a further deterioration in the external balance could well ensue. Avoiding such a downward spiral will require, in the first place, provision of finance at terms and conditions compatible with the present capabilities of these economies and, in the second place, securing a steady market for their exports. However, these would certainly need to be accompanied by domestic policy measures, designed to affect an efficient allocation of resources, to increase the flexibility of the production structure and to reduce the vulnerability of these economies to various shocks, external or internal.

Chapter II

NOTES AND REFERENCES

Paragraph

194 Other relatively optimistic assessments of the evolution of the world economy at the beginning of the 1980s can be found in various issues of the IMF's *World Economic Outlook*, and the OECD's *Economic Outlook* as well as in the United Nations Department of International Economic and Social Affairs, *World Economic Survey 1980-1981* (E/1981/42, ST/ESA/115), and the UNCTAD, *Trade and Development Report 1981* (TD/B/863/Rev.1), United Nations publication, Sales No. E.81.II.D.9.

197 Concerning the accumulation of short-term debt in excess of the requirements of trade finance by various developing countries during the periods preceding breakdowns of debt service see "International debt: Banks and the LDCs", *Amex Bank Review, Special Paper No.12* (London: American Express International Banking Corporation, 1984), pp. 17-18.

198 The scale of arrears in African countries is described in S. Griffith-Jones and R.H. Green, *African External Debt and Development: A Review and Analysis*, mimeo, n.d., pp. 6 and 23.

199 The estimate of the impact on the current account of non-oil-exporting developing countries of external shocks other than the movement of the oil price is from A. Fishlow, "The debt crisis: round two ahead?" in ed. R.E. Feinberg and V. Kallab, *Adjustment Crisis in the Third World* (New Brunswick and London: Transaction Books for the Overseas Development Council, 1984). Other analyses of the impact of external shocks are to be found in G.K. Helleiner, *Balance of Payments Experience and Growth Prospects of Developing Countries, A Synthesis* (UNCTAD/MFD/TA/32), 1985; Thomas O. Enders and Richard P. Mattione, "Latin America: The Crisis of Debt and Growth", *Brookings Discussion Papers* in *International Economics*, No. 9, December 1983; William R. Cline, *International Debt and the Stability of the World Economy* (Washington, D.C.: Institute for International Economics, 1983); Bela Balassa, "Adjustment Policies in Developing Countries: A Reassessment", *World Development*, Vol. 12, No. 9, 1984; and Bela Balassa and F. Desmond McCarthy, "Adjustment Policies in Developing Countries, 1979-1983. An update:, *World Bank Staff Working Papers, No. 675* (Washington, D.C., 1984).

203 Concerning excess interest payments by developing countries, see *Report by the UNCTAD secretariat* "The international monetary system: recent developments and the policy challenge" (TD/B/C.3/194/Rev.1), paras. 27-29.

206 On interest arrears see, for example, OECD, *External Debt of Developing Countries 1983 Survey* (Paris, 1984), p. 13.

209 Estimates of net financial transfers for developing countries in 1983 and 1984 are given in World Bank, *World Debt Tables. External Debt of Developing Countries 1984-85 Edition* (Washington, D.C., 1984), p. xi.

214 Concerning increased investment in several developing countries in 1979-1981 see, for example, United Nations Department of International Economic and Social Affairs, *World Economic Survey 1984* (E/1984/82, ST/ESA/151), p. 70.

216 On the relationship between external debt and economic development in Africa see S. Griffith-Jones and R.H. Green, *op. cit.*, G.K. Helleiner, "The IMF and Africa", *Princeton University Essays in International Finance No. 152* (Princeton, 1983), J. Carlsson (ed.), *Recession in Africa* (Uppsala: Scandinavian Institute of African Studies, 1983); and World Bank, *Sub-Saharan Africa: Progress Report on Development Prospects and Programmes* (Washington, D.C., 1983).

217 The relationship between recovery in developed market-economy countries and demand for developing countries' exports is explored more fully in chapter I of Part One of this report and in UNCTAD, *Trade and Development Report, 1984* (UNCTAD/TDR/4/Rev.1), *op. cit.* Part I, chapter II.

222 For the trade surpluses of Latin American countries see Economic Commission for Latin America and the Caribbean, "Preliminary overview of the Latin American economy during 1984" (LC/G.1336), p. 6 and table 1.

224 For trends in the growth of output for different parts of the world economy see *World Economic Survey 1984 (op. cit.)*, table 1.1, and chapter I of Part One of this report.

233 On the consequences of the disparity between the growth of banks' exposure to developing countries and the rate of interest see section E of chapter III of Part Two of this report.

245 Evidence concerning the relationship between saving behaviour and capital inflows is discussed in D.C. McDonald, "Debt capacity and developing country borrowing: a survey of the literature", *IMF Staff Papers*, Vol. 29, No. 4, December 1982.

Chapter III

DEBT AND THE DISARRAY OF THE TRADE AND PAYMENTS SYSTEMS

A. Introduction

250. The debt crisis has had a major impact on various actors in the world economy besides the debtor countries. For the banks, it has presented a two-fold challenge: how to avoid default by major debtors and the precipitation of an international financial crisis; and how to reduce the underlying potential for such a crisis. These two goals have exerted contradictory pressures on the level of new lending, which have thus far been reconciled by compressing the financing requirements of developing countries to the bare minimum, combined with debt rescheduling and "involuntary lending". The tension will nevertheless remain chronic as long as interest rates remain high, and the pace of development remains low. Debt servicing difficulties have also slowed the flow of official and officially-guaranteed export credit, as well as trade financing of other kinds. Debt servicing problems have thus had a tendency to gather a momentum of their own. Various measures have been taken by lenders, governments and international organizations to counteract this tendency, but these have not sufficed to prevent developing countries having to make sizeable and abrupt adjustments in their trade balances.

251. The debt problem has interacted with the international trading system at several points. The intense payments pressures upon developing countries to economize on scarce liquidity and credit, and the depressed state of their markets, has accelerated the resort to countertrade. The swing in the trade balance, has lowered employment in the developed market-economy countries; at the same time, developing countries' export efforts have run up against high and rising import barriers in developed countries, intended to protect home employment and profits. The escalation of protectionism, while part of a longer-term trend, has, like the debt problem, been intensified by the slow growth of the developed market economy countries, as well as by the speeding up of the pace of structural adjustment stemming from the intensified export drive of developing countries. Moreover, just as import contraction by developing countries has caused their exports to one another to contract, nullifying *pro tanto* their adjustment efforts, the danger arises that efforts to expand exports to developed countries will also be frustrated, for success by some countries in increasing the volume of exports of goods of which developing countries as a whole are the main suppliers could further depress prices and revenues. In short, the swing in trade balances, besides generating a reduction of payments deficits and the funds needed to cover interest due, has also served to transmit deflationary impulses across the world economy, to erode the trading system further, and to trigger perverse adjustments.

252. The subsequent sections of this chapter examine various linkages among debt, finance and trade, in particular private international financial markets; export credits; trade finance and countertrade; trade between developing and developed market-economy countries, and trade in primary commodities.

B. Banks

1. Introduction

253. Bank lending to developing countries is currently subject to pressures resulting from attempts to pursue various objectives which are either actually or potentially in conflict. As

described in chapter I, section E, in response to the crisis which began in 1982, actions were taken to contain the disruption of debt service by developing-country borrowers and thus to avert a breakdown of the international financial system which might have led to an outbreak of insolvencies among major banks in developed market-economy countries. The actions included the widespread adoption of austerity programmes in debtor countries, official intervention to maintain flows of external financing to such countries at a reduced pace, and restructurings of debt-service obligations.

254. Section 2 below reviews some of the conflicts among the different parties, creditors and debtors, associated with the resulting regime of "involuntary" lending, and various consequences for the terms on which such lending takes place. The period since 1982 has been marked by efforts on the part of banks to strengthen their longer-run position. These efforts, some of which are a response to changes in regulations affecting banks' operations, and their implications for the pace of new lending to developing countries are the subject of section 3. The debt crisis has also brought forth many proposals for helping to solve it. The general character of some of these proposals is discussed briefly in section 4. While the regime of "involuntary" lending has averted financial breakdown, a longer-run threat to financial stability remains. One of the manifestations of this threat is the phenomenon of negative net financial transfers from developing countries. Recent estimates indicate that such transfers, which were already evident on a significant scale for certain countries in 1982 (for example, in Latin America), are now being experienced by developing countries as a group. Negative net transfers are inevitable so long as the growth of net lending to developing countries is less than the rate of interest on outstanding debt. Section 5 examines the possible evolution of the magnitude of such transfers to the banks on the basis of assumptions about net additional lending and the rate of interest. It also reviews some of the ways in which the magnitude of negative net transfers might be reduced by increasing the growth of lending to developing countries or reducing the rate of interest (or both).

2. Crisis management, debt restructurings and the amount of bank lending

255. As noted in chapter I, section E, while banks continue to lend to developing countries with unimpaired creditworthiness in accordance with processes similar to those prevailing before 1982, this is no longer true for countries which have experienced discontinuities in the service of their debt from banks since the outbreak of the crisis. For the latter group of countries "involuntary" lending now takes place through markets organized by groups of creditor banks co-operating closely with the IMF. Such lending is linked to extended restructurings of external debts. Under "involuntary" lending there has been a significant break with past practice as regards the role of the IMF, which has actively sought undertakings by banks as to the pace of their new lending to debtor countries.

256. "Involuntary" lending is subject to many of the conflicting pressures to which reference was made above. The conflicts involve relations both between debtors and creditors on the one hand and among different groups of creditors on the other. They concern such matters as the terms of debt restructurings (for example, consolidation periods, maturities, interest rates and rescheduling fees), the obligations of different creditors and amounts of new lending. These conflicts have had important consequences for the shape of the new lending regime and the associated debt restructuring so far.

257. Sustaining a flow of "involuntary" new lending to developing countries has required considerable efforts by both official bodies and leading banks to preserve cohesion within groups of lenders. These groups have typically included institutions of different sizes, from different countries and thus subject to different regulatory systems, and with different exposures to borrowers facing difficulties in meeting debt-service obligations. Co-ordination of these groups has been organised through a form of "cartelization", which *inter alia*, has made possible the charging of high interest rates and fees on rescheduled

loans. Such returns have helped to prevent withdrawal from "involuntary" lending by banks (such as the smaller or "regional" United States banks) which, for reasons such as relatively low exposures to troubled debtors in relation to their capital, showed signs of wanting to curtail their involvement in this form of business. However, as a result there were also increases in the financial burden on the borrowers affected.

258. Debt restructurings under "involuntary" lending were initially characterized by a tight-fisted, "short-leash", approach, involving short consolidation periods (typically of one year), small amounts of new lending, and the high rescheduling costs already mentioned. This approach stemmed from such factors as the unwillingness of creditors to envisage more radical schemes of debt restructuring, the desire to force on debtors as quickly as possible an adjustment of their external accounts, and unwillingness to allow an increase in debtors' bargaining power which might be associated with the restoration of the level of their exchange reserves. However, the approach has not commanded unanimity amongst the different banks involved. Divergences in this area tend to be associated with differences in the tax, accounting and regulatory regimes of banks from different developed market-economy countries. For example, banks from West European countries and Japan, partly in response to pressure from their regulatory authorities and in some cases to tax advantages, have, by and large, established larger reserves against losses on their exposure to troubled debtors than have banks of the United States. The latter have less leeway in this respect, *inter alia* being under greater pressure from their shareholders to show strong earnings trends and to pay large dividends. Moreover, unlike some West European banks, those of the United States have resisted proposals for the capitalisation or deferment of interest since under the regulations in that country the loans in question would, in general, have to be classified as non-performing after 90 days.

259. The emergency financial support provided in 1982 and the subsequent regime of "involuntary" lending undoubtedly succeeded in containing the financial disruption associated with the debt crisis. Furthermore, during recent restructurings some of the unfavourable features of this regime from the point of view of debtor countries have been modified. For example, banks have begun to accept longer consolidation periods and more extended maturities for rescheduled loans. There have also been reductions in spreads and rescheduling fees.[30] However, even after these changes, "involuntary" lending remains a complex, time-consuming process for all the parties involved. Moreover, as is indicated in table 20, the growth of new lending by banks to developing countries has fallen to levels far below those prevailing before 1982. Available data indicate that new lending from this source has recently been considerably less than payments of interest on outstanding debt (a matter which is discussed further in section 5 below). Indeed, for certain countries in Latin America, which have depended heavily on banks for their external financing, ratios of interest payments on total external debt to total new borrowing in 1984 are now estimated to lie in a range from 2 to 5-1/2.

260. The evolution of this lending regime during the next few years will depend partly on overall economic prospects in the world economy for variables such as the export volumes and terms of trade of developing countries and international interest rates. But it will also be affected by the lending policies of banks and the consequences of recent regulatory changes. The interaction of different future scenarios for the world economy and the external debt position of developing countries are analysed in chapter IV of this part of the the report. Banks' policies and some factors likely to influence their lending to developing countries are discussed in section 3 which follows.

[30] For example, the recent restructuring of part of Mexico's external debts to banks included a consolidation period of 6 years, maturities of as long as 14 years for some of the obligations rescheduled, reductions in interest rates and no rescheduling fees.

Table 20

Rates of increase in the external assets of banks in the reporting area of the Bank for International Settlements and of certain offshore branches of United States banks a/, 1975-1984 vis-a-vis developing countries
(Percentage increase in dollar value)

Area	1975-1977 (Annual rate)	1978	1979	1980	1981	1982	1983	1984
Developing countries **b/**	33.4	23.7	23.8	20.4	14.7	8.0	5.4	0.2
America	23.2	16.7	31.3	24.6	20.0	6.1	3.1	-0.3
of which: Major oil exporters **c/**	58.1	30.9	35.3	26.1	24.6	4.7	3.8	-1.8
Africa **d/**	54.4	46.4	26.5	14.0	8.0	9.8	1.6	-3.1
of which: Major oil exporters **e/**	61.0	75.0	25.2	11.8	7.2	17.1	4.5	-4.8
West Asia	71.1	33.5	-3.6	7.2	-0.3	9.9	20.0	1.3
of which: Major oil exporters **f/**	94.7	63.0	-4.3	4.8	0.6	10.8	23.6	-0.6
South and South-East Asia **g/**	45.4	12.5	25.3	23.2	13.1	13.8	7.9	3.1
of which: Major oil exporters **h/**	56.1	10.3	-6.3	1.6	5.8	35.9	19.2	4.1
Major oil exporters (residual) **i/**	-	-	26.4	8.1	-14.7	-4.2	1.8	-27.0
Total major oil exporters	65.9	47.6	19.0	17.3	15.2	8.1	8.6	-1.6
Total non-oil exporting developing countries	22.2	8.6	27.9	22.8	14.2	7.9	3.0	1.6
Socialist countries of Asia	7.5	59.3	75.2	-0.0	-17.5	-24.8	19.1	30.4

Source: Based on data from Bank for International Settlements, **International Banking Statistics,** 1973-1983 (Basle, 1984) and **idem., International Banking Developments**, various quarterly issues.

a/ At the end of December. There are discontinuities in the time series of the Bank for International Settlements (BIS) in 1978, 1981 and 1983. For each date for which there is a discontinuity, the BIS provides revised and unrevised totals, which have been used as appropriate *in estimating* rates of growth.

b/ Excluding offshore banking centres, i.e., in Latin America: Barbados, Bahamas, Bermuda, Netherlands Antilles, Cayman Islands and Panama; in Africa: Liberia; in West Asia: Lebanon; in South and South-East Asia: Hong Kong and Singapore.

c/ Ecuador, Mexico, Trinidad and Tobago and Venezuela.

d/ Excluding Libyan Arab Jamahiriya, which is included in West Asia (since it could not be separated from this area in the BIS series). The number of countries included in this area is somewhat smaller in 1974 than in 1977-1983.

e/ Algeria, Angola, Congo, Gabon and Nigeria.

f/ Bahrain, Iran (Islamic Republic of), Iraq, Kuwait,Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Libyan Arab Jamahiriya.

g/ Including Oceania. The number of countries included in this area is somewhat smaller in 1974 than in 1977-1983.

h/ Indonesia and, from 1977 onwards, Brunei Darussalam.

i/ Positions of banks in the United States and of the offshore branches of US banks vis-a-vis African oil exporters and positions of Swiss banks vis-a-vis all oil-exporting countries. Not available separately before 1978.

3. Attempts to reduce the potential for crisis

261. The disruptions of debt service since the beginning of the 1980s, have caused banks in developed market-economy countries and their regulatory authorities to give greater attention to the objective of avoiding financial crisis. The pursuit of this objective has led to restraints on the growth of lending to troubled debtors, measures to strengthen banks' capital, efforts to increase banks' profitability and, in some cases, the establishment of increased prudential reserves against particular loans.

262. As can be seen from table 21, there was a substantial increase in the exposure of United States banks to developing countries as a percentage of their capital between the late 1970s and 1982. By the latter date their exposure to Latin American countries alone amounted to more than their capital, so that they were highly vulnerable to discontinuities in the debt service of borrowers in this region. Such ratios of exposure to capital were markedly higher for bigger banks. Indeed, for the 9 largest banks exposure to Mexico, Brazil, Venezuela and Argentina equalled about 140 per cent of their capital. Partly as a result of different historical, geographical and political links with developing countries (for example, with former colonial territories) the exposure of banks in other developed market-economy countries did not follow the same pattern. Nevertheless, in mid-1983 Mexico, Brazil, Argentina, Venezuela and Chile were among the largest developing-country borrowers for banks of the United Kingdom and the Federal Republic of Germany as well as of the United States. Loans to developing countries were not the only source of pressures on banks' profitability and capital at this time. The quality of banks' assets were also adversely affected by the impact of depressed business conditions in developed market-economy countries during the early 1980s, especially by the serious difficulties encountered by particular sectors such as energy and agriculture in the United States.

263. As a result of the developments of the early 1980s, in the evaluation of banks' performance less emphasis is now placed on the expansion of their total assets and more on the quality of their loan portfolios. This shift has led to a greater concentration by banks on loans to borrowers with good names, on trade financing, and on the issuance of short-term negotiable instruments. At the same time the attitudes of banks towards sovereign lending have become more selective. The fall in lending to developing countries, already mentioned, was partly a consequence of these new attitudes. Indeed, in the absence of the official pressures on banks under the regime of "involuntary" lending such attitudes would doubtless have contributed to a still sharper contraction.

264. The new trends in banks' policies with respect to asset management have been reinforced by the recent evolution of bank regulation. Although changes in this area have not been uniform among different countries, nevertheless, as noted above, they have shared the objective of strengthening banks' capital and, in a large number of cases, included stipulations that prudential reserves be established against doubtful loans. They have also included steps to tighten the scrutiny of banks' exposure, stricter accounting rules, and increased insistence on the principle of consolidation for the purposes of reporting and supervision for banks, their subsidiaries and affiliates.

265. Not all these changes directly affect lending to developing countries. Nevertheless their impact can be expected to strengthen the other restraints on lending already described. The required reductions in banks' assets-to-capital ratios are likely to be accompanied by lower growth in their total lending, since banks will find it difficult to increase their capital through share issues in the aftermath of the debt crisis. In a situation where banks are attempting to improve the quality of their portfolios, limits on the expansion of their assets associated with efforts to improve their capital bases will be reflected in a slower pace of sovereign lending to developing countries. Pressures for increased profitability and lower ratios of assets to capital are also leading banks to concentrate more on activities which earn

Table 21

The claims a/ of United States banks on developing countries as percentages of their capital, 1978-March 1984 b/

	All United States Banks							9 largest banks			15 next largest banks			All other reporting banks		
	1978	1979	1980	1981	1982	1983	March 1984	1982	1983	March 1984	1982	1983	March 1984	1982	1983	March 1984
Developing countries c/																
America	93.6	99.6	109.4	125.0	118.8	106.0	106.5	176.5	162.9	164.8	124.0	117.0	116.0	56.8	46.4	46.4
Africa	11.4	11.4	10.8	11.3	10.2	9.2	8.7	19.3	17.4	16.2	6.9	7.6	7.5	2.3	2.0	1.9
West Asia	15.3	12.5	11.1	12.0	9.8	10.3	9.3	16.7	18.4	17.6	10.8	9.3	8.4	2.6	3.1	1.7
South and South-East Asia	24.5	35.9	37.9	43.4	44.5	40.4	39.2	71.5	64.7	64.0	47.9	46.0	44.7	15.1	14.5	13.0
Total	144.9	159.4	169.2	191.7	183.3	165.9	163.7	284.0	263.4	262.6	189.6	179.9	176.7	76.8	66.0	63.0
Ten largest debtor countries																
Mexico	22.7	22.6	27.6	36.3	34.4	32.1	31.8	45.2	43.6	43.6	37.5	35.3	34.8	21.8	19.5	19.0
Brazil	28.4	27.9	28.7	30.3	31.0	27.3	28.7	48.8	43.6	46.4	31.8	31.5	32.2	12.3	9.5	10.2
Korea (Republic of)	8.5	11.8	13.3	14.9	17.6	15.6	15.1	25.8	21.3	20.7	20.0	21.7	20.4	7.7	7.4	7.2
Venezuela	15.9	16.6	16.4	16.8	15.9	13.7	13.5	26.2	23.8	23.4	15.2	13.4	13.8	5.5	4.1	4.0
Argentina	5.8	9.7	12.7	14.0	12.1	11.1	11.0	19.1	18.3	18.2	13.3	12.7	12.5	4.3	3.4	3.3
Philippines	5.7	7.2	7.7	8.3	7.8	7.0	6.8	13.1	11.5	12.1	8.1	6.7	7.2	1.9	2.6	1.6
Chile	3.2	4.8	6.5	9.5	8.3	7.4	7.4	11.0	10.3	10.5	9.5	8.4	7.9	4.9	4.2	4.2
Indonesia	4.3	3.6	3.1	3.5	3.8	4.1	4.1	7.5	8.4	8.5	2.9	2.7	3.3	0.4	0.4	0.4
Colombia	3.5	4.7	4.9	5.0	5.2	4.5	4.3	8.9	7.5	7.4	3.7	4.0	3.3	1.9	1.6	1.5
Peru	3.4	2.7	2.9	3.0	3.5	2.8	2.7	4.5	4.0	3.7	5.1	4.0	3.9	1.5	1.1	1.0

Source: Claims: Statistical Releases of the Federal Financial Institutions Examinations Council. Capital: 1982-1984, **ibid.**; 1978-1981, estimates based on H.S. Terrel, "Bank lending to developing countries: recent developments and some considerations for the future", **Federal Reserve Bulletin**, October 1984.

a/ Claims cover cross-border and non-local currency lending. The geographical distribution of claims is adjusted to reflect liabilities due to guarantees by non-residents of regions and countries.

b/ Unless otherwise specified, figures refer to December.

c/ Excludes offshore banking countries, namely Barbados, Bahamas, Bermuda, Cayman Islands, Hong Kong, Lebanon, Liberia, Netherlands Antilles, Panama and Singapore.

fees but do not involve the addition of new loans to their balance sheets. Among activities of this kind which have recently become prominent are the provision of "note issuance facilities",[31] participation (often as principals) in interest-rate swaps and diversification into new types of financial intermediation made possible by applications of micro-electronic technology and, in the United States, by ongoing financial deregulation.

266. The phenomena just described, namely the greater emphasis on quality as opposed to growth in the management of assets, the widespread tightening of banking regulations, and increased participation in fee-earning activities, are intended to strengthen the position of banks against further shocks. Yet they also tend to conflict with the objective of sustaining the flow of financing to developing countries at levels which are high enough to protect the service of existing loans to these borrowers and in this way to preserve financial stability. Indeed, recent efforts to improve balance sheets cannot eliminate the vulnerability of banks and thus of the international financial system to factors such as unfavourable conditions in world markets, the economic performance of developing-country borrowers and the net flow of external finance to them resulting from the balance between new lending and debt-service payments.

4. Some recent policy proposals regarding developing countries' debt and the capital markets

267. The outbreak of the crisis in 1982 stimulated a wide variety of proposals for the solution of different aspects of developing countries' debt problems. These proposals are not restricted to debts to banks but also cover other forms of lending from the capital markets such as export credits. Moreover, in some cases, their focus is the international financial system in general but they might nonetheless be expected to contribute to alleviating developing countries' debt problems.

268. Among the measures proposed whose main aim is an overall strengthening of the international financial system are a new SDR allocation and increases in the resources of the World Bank. Such measures would ease the pressures on developing countries' external liquidity positions and help to sustain the flow of financial resources to developing countries in the longer run. Proposals intended more specifically to improve the capacity of multilateral financial institutions to handle the effects of the debt crisis include the establishment of an interest-rate facility at the IMF and expanding the role of such institutions in the provision or insurance of loans to developing countries. While these proposals have many merits, international agreements on their implementation would, in most cases, require long and difficult negotiations. During these negotiations the resistance of major donor countries concerning such matters as increasing the resources of multilateral financial institutions would have to be overcome, and complex issues involving the distribution of the costs of various proposals among different parties would have to be settled. For example, two of the proposals would entail the establishment of a new multilateral mechanism for insuring loans with the backing of national export credit agencies. Such mechanisms would have to be negotiated at a time when, as is explained in section C below, the insurance operations of export credit programmes in most developed market-economy countries are showing losses, and there have been many instances in which developing countries' insurance cover under these programmes has been suspended owing to failures to service

[31] "Note issuance facilities" are medium-term loans funded by the sale of short-term paper, with respect to which the role of underwriting banks is to guarantee the availability to borrowers of the sums involved by purchasing any unsold notes at each roll-over date or providing a stand-by credit. In interest-rate swaps two parties agree to exchange interest obligations on loans of the same amount. Here banks' fees are for arranging the transactions and for guaranteeing that one or both parties will continue making interest payments for the duration of the swap. A bank may also be one of the parties in a swap.

debts.

269. Other proposals are intended to deal more directly with the relations between debtor developing countries and the banks. Among the features which are common to a number of these proposals are mechanisms enabling banks to exchange non-performing or doubtful loans for more secure assets, mostly combined with the provision of a measure of relief to developing countries on their debt-service payments. Banks are usually expected to write down some proportion of the face value of their non-performing loans, though this process may be phased over a period of several years. Some of the proposals would entail the capitalization of part of developing countries' interest payments. Such capitalization could be used to cap these payments if interest rates rose above a prescribed ceiling. It could also ensure continuing participation by banks in lending to developing countries. The proposals which focus on debtor-bank relations are usually concerned, in the first instance, with shoring up the position of banks. Developing countries are supposed to benefit from the removal of the danger to international financial stability posed by non-performing and doubtful bank loans.

270. Some of the measures contained in recent proposals concerning developing countries' debts, such as the acceptance of longer consolidation periods and more extended maturities in debt reschedulings, are already being adopted in certain cases. Moreover, there is growing acceptance of some other ideas in these proposals such as the abandonment of the automatic suspension of insurance cover by export credit agencies for countries which apply to the Paris Club for reschedulings of their external debts. However, many of the proposals are unlikely to be tried in the near future unless there is a new outbreak of financial emergencies. Moreover, although many of them might contribute to alleviating the debt crisis, they fail to address satisfactorily the medium-term financial difficulties of developing countries.

5. Interest rates, the growth of bank exposure and prospects for the restoration of normality

271. During the period since 1982 there has been a marked increase in the incidence among developing countries of negative net transfers (that is to say debt-service payments in excess of new lending). A recent estimate indicates that for developing countries as a whole there was a negative net transfer of $7 billion in 1984. The figures at more disaggregated levels are sometimes dramatic. For example, an indication of the extent of negative net transfers for certain Latin American borrowers was given in section 2 above. Furthermore, for Latin America as a whole such transfers are estimated to have amounted to $30 billion in 1983 and $27 billion in 1984. During these two years they were equivalent to more than one-quarter of the region's exports of goods and services.

272. The negative net transfers recently recorded for many developing countries are due to the interaction of the slow-down of net new lending to them and higher levels of international interest rates since the early 1980s. These phenomena have been especially marked with respect to developing countries' bank debt. Most of this debt carries variable rates interest, so that service payments on it are more responsive to changed conditions in the international capital markets than those on other types of borrowing. Moreover, as can be seen from table 20, there has been a sharp fall in new lending to developing countries from this source since 1981.

273. So long as the rate of growth of debt from the banks due to net new lending (r) is less than the rate of interest on it (i), negative net transfers will result. It is of some interest to illustrate the evolution of such transfers during the period 1985-1995 on the assumption that the international rate of interest exceeds the rate of growth of bank debt throughout this period. For this purpose it is assumed that new bank lending takes place at a rate of 6 per cent of the outstanding stock of bank debt, and that the rate of interest is 11 per

cent.[32] Developing countries' outstanding bank debt at the end of 1984 is assumed to be \$450 billion. It should be emphasised that figures are estimates chosen for illustrative purposes. Thus that for bank debt is intended only to indicate an appropriate order of magnitude for this variable and not to give the exact position in late 1984. In the case of r (net bank lending) and i (the rate of interest on net new lending) it is the difference between them which is crucial to the illustrative path for net transfers. So long as the difference remained the same, alternative levels would generate the same evolution for net transfers. As can be seen from table 22 below, on the assumptions chosen the negative net transfers grow at an annual rate of 6 per cent from about \$23 billion in 1985 to about \$30 billion in 1990 and about \$40 billion in 1995.[33]

274. Although the evolution of negative net transfers in table 22 is hypothetical, it serves to underline the longer-term consequences for developing countries of conditions in which interest rates continue to exceed the growth of bank exposure by a substantial margin. A long series of negative net transfers from developing countries to banks, especially one in which the transfers tended to increase, is not likely to be sustainable, unless offset by increased financial flows from other sources, an eventuality whose possible implications are discussed below. In most cases such a series would have to be associated with long-term programmes of austerity which might be expected eventually to lead to social and political disruptions.[34] The trade surpluses which would be required to effect such transfers would be a continuing source of inflationary pressures for debtor countries, many of which are already experiencing very high rates of increases of internal prices. Furthermore, such long-term trade surpluses have no precedents, and they could well

---

[32] It is reasonable to assume that the ceiling on the growth of banks' claims on developing countries will be given by the growth of their capital. However, any assumption as to the growth of their capital is necessarily arbitrary. For banks of United States a recent study by a staff member of the United States Federal Reserve used the assumption of annual capital growth of 9 per cent for the second half of the 1980s. (H. S. Terrell, "Bank lending to developing countries: recent developments and some considerations for the future", *Federal Reserve Bulletin,* October 1984, pp. 760-761.) This seems rather high when banks from other counties are included. The assumption in the text also allows for the effects of the efforts by many banks (described above) to reduce their ratios of assets to capital.

[33] If the rate of interest on, and the growth of, bank claims are assumed to be constant, it can be shown that transfers grow at the same rate as outstanding debts. If S_t represents bank claims at the end of the year t and T_t net transfers during year t, then the evolution of T_t is as follows:

Year	S_t	Net new bank lending	Interest	T_t
1	$S_1 = S_o(1+r)$	$S_o r$	$S_o i$	$T_1 = S_o(r-i)$
2	$S_2 = S_o(1+r)^2$	$S_o(1+r)r$	$S_o(1+r)i$	$T_2 = S_o(1+r)(r-i)$ $= T_1(1+r)$
*	*	*	*	*
(n+1)	$S_{n+1} = S_o(1+r)^{n+1}$	$S_o(1+r)^n r$	$S(1+r)^n i$	$T_{n+1} = S_o(1+r)^n(r-1)$ $= T_1(1+r)^n$

[34] As Dr. Fritz Leutwiler, former President of the Swiss National Bank and of the Bank for International Settlements, put it recently, "But quite a different bomb might explode, namely a political or social one. This will explode when these debtor developing countries have to conduct a policy of austerity over too long a period simply in order to service their debt. That is a bomb with a built-in time fuse". *Bank for International Settlements Press Review,* 12 October 1984.

Table 22

Possible scenario for net transfers between countries and banks, 1985-1995
($ billion)

Year	Outstanding bank debt at end of year (1)	Net bank lending a/ (2)	Interest payments (3)	Transfers (4)
1985	477.0	27.0	49.5	-22.5
1986	505.6	28.6	52.5	-23.9
1987	535.9	30.3	55.6	-25.3
1988	568.1	32.2	58.9	-26.7
1989	602.2	34.1	62.5	-28.4
1990	638.3	36.1	66.2	-30.1
1995	854.1	48.3	88.6	-40.3

a/ Calculated on the basis of debt outstanding at the end of the previous year.

be likely to cause an eventual intensification of protectionism.[35]

275. Current approaches to developing countries' debt difficulties seem unlikely to remove the danger to international financial stability which would result from continuing negative net transfers. For example, one way of avoiding negative net transfers which follows obviously from a scenario such as that in table 22 would be to increase the growth of bank exposure to developing countries until it were equal to the rate of interest. However, such an expansion of lending would be likely to lead to increases in banks' exposure to developing countries in relation to their capital, so long as the rate of interest remained higher than the growth of their capital. It thus seems unlikely during a period when, as is explained in section 3 above, banks are attempting to improve the quality of their assets and the prospects for acceptance of proposals (such as some of those discussed in section 4) for substantially increasing (r) through stimulating new bank lending or writing off existing debts (or both) remain remote.

276. Another way of preventing negative net transfers would be to increase official financial flows by offsetting amounts. A possible scenario of this kind is illustrated in table 23. Here additional official flows are made available to developing countries at a subsidised rate of interest of 5 1/2 per cent in amounts which exactly offset the negative net transfer to banks. The scale of such additional flows and the associated accumulation of additional debt is too large to be a realistic prospect.

277. The difficulties likely to confront attempts to avert continuing negative net transfers through raising r,

[35] As one observer has pointed out, "Such huge and permanent trade surpluses are unprecedented in economic history, and risk provoking protectionism on a globally damaging scale. Even Japan has never run trade surpluses of this magnitude for such extended periods. Developing countries such as the Republic of Korea and Singapore, which have been the main victims of protectionist forces in America and Europe in the past, have actually imported more from the industrialized world than they exported, conferring employment benefits on industrialized countries, which have helped to counter-balance the protectionist lobbies". A. Kaletsky, *The Cost of Default* (New York: Priority Press Publications, 1985) table 2.2.

Table 23

Possible scenario for subsidized official flows to developing countries
($ billion)

Year	Transfers to banks (1)	Cumulative additional official debt (2)	Additional interest payments on official debt (3)	Additional official flows (4)
1985	-22.5	22.5	0.0	22.5
1986	-23.9	47.6	1.2	25.1
1987	-25.3	75.5	2.6	27.9
1988	-26.7	106.4	4.2	30.9
1989	-28.4	140.7	5.9	34.3
1990	-30.1	178.5	7.7	37.8
1995	-40.3	432.8	20.5	60.8

Notes: Column (1) was taken from column (4) of table 22. Column (2) was estimated by adding figures in column (4) for the current and previous years specified in the table. Column (3) was estimated by multiplying figures in column (2) for the previous year by a rate of interest of 5.5 per cent. Column (4) is equal to the sum of column (1) and column (3).

point to the alternative of focussing efforts on i. Levels of international interest rates can be reduced only as a result of changes in policy on the part of major developed market-economy countries. Some of the proposals discussed in section 4 above, such as the establishment of an interest-rate facility at the IMF or an agreement on capping interest rates, could be used to bring i down to the level of r. However, capping might also impede a return to more normal conditions in the international capital markets, and the establishment of an interest-rate facility would result in a large drain on IMF resources if interest rates remained high. Thus, while such measures are capable of decreasing net transfers from developing countries, they merely postpone the need for actions leading to a more permanent fall in i.

C. Export credits[36]

1. Introduction

278. As was mentioned in section E of chapter II, the fall in new bank lending to developing countries after 1981 was accompanied by reductions in most other types of external financing. Table 24 shows that there were falls in gross and net flows of export credits to developing countries other than major exporters of petroleum, the downward movements being particularly sharp for least developed countries. The contraction of gross flows of export credits reflected the impact of factors on both the demand and supply sides. Since export credits are linked to trade transactions, an important part of the contraction can be imputed to lower demand due to the reduction of developing countries' imports in 1982-1983. Factors on the supply side in the form of the policies followed by

[36] The export credits discussed in this section are loans linked to trade transactions with a maturity of at least one year, where a proportion of the loan is either provided directly or covered by insurance or a guarantee under national programmes established for this purpose. Such programmes usually also provide official support for shorter-term trade financing.

export credit agencies (ECAs) have also contributed to this movement. Some of these policies are a response to the deterioration in developing countries' creditworthiness and the disruptions of their debt-service payments since 1982. These disruptions have caused large rises in claims in relation to income for export insurance programmes, with the result that such programmes are now showing losses in most developed market-economy countries. Owing to the increased risk of non-payments in trade transactions, ECAs have tightened the terms on which their support for exports is made available and have widely withdrawn insurance cover for additional lending to countries which undertake reschedulings of their debts. These actions involving ECA's insurance operations have been accompanied by the continuation of earlier efforts to reduce the subsidizing of interest rates on export credits. Thus a tightening of the terms of such credits and a reduction in their availability, partly triggered by the world depression and the debt crisis, has combined with rises in their interest rates to aggravate financial pressures on developing countries.

279. As in the case of bank lending, prospects for export credits are clouded owing to the pursuit of conflicting objectives by creditors. Governments in most developed market-economy countries are currently concerned to decrease expenditures due to subsidies and to the losses of public-sector enterprises and agencies. However, this objective is in conflict with that of export promotion so that, for example, the attempts among developed market-economy countries to secure more orderly competition in export financing are beset by continuing friction and disagreements. Moreover, it is not yet clear whether the current rescheduling process will lead to viable paths for developing countries' external payments and financing. Thus a return to more normal conditions with respect to the availability of export credits remains uncertain, and the service of such credits (like that of bank loans) is vulnerable to further disruptions.

280. Section 2 takes up briefly certain aspects of national export credit programmes and section 3 describes the longer-run evolution of the amount of export credits to developing countries and their distribution among such recipients. Section 4 reviews trends in the terms of export credits and the attempts to regulate them within a multilateral framework. Section 5 discusses the interaction of the debt crisis and depression with the level of export credits to developing countries. It also discusses briefly the implications for this form of financing of various conflicts among the policy objectives of governments in developed market-economy countries.

2. Export credit programmes

281. The primary objective of national export credit programmes is the promotion of exports. In the case of developed market-economy countries such programmes are administered through one or more organisations established for this purpose, in most cases ECAs. The programmes include the extension of official insurance and guarantees on private loans linked to international trade, direct official lending, refinancing facilities and various mechanisms for interest-rate subsidies. Governments in many of these countries use export credits not ony for export promotion but also in pursuit of other objectives at home and abroad (including those of foreign policy). Thus the provision of such credits is often connected to industrial policies and the provision of foreign financial assistance.

282. The modalities of export credit programmes vary considerably among developed market-economy countries, although they also have many analogous features. For example, the operations of ECAs are usually subject to an overall ceiling on their size, supplemented in some cases by additional annual limits. Their income consists of premia charged on their insurance business and guarantees, and of interest payments. Financing procedures differ considerably amongs ECAs. They include borrowing from the national capital markets, either directly or through the intermediation of other official agencies, as well as the provision of funds by governments. ECAs are generally expected to be financially self-supporting on their purely commercial operations, at least in the medium term.

283. There is also variation in the proportion of countries' exports cov-

Table 24

Official and private export credit flows from DAC member countries to developing countries (Gross and net, millions of US dollars, at current prices)

		1970	1973	1975	Average 1976-1978	1979	1980	1981	1982	1983
Developing countries and territories a/	Gross	5849.8	8580.7	13689.5	20844.7	25035.0	31559.8	30601.8	30967.2	30276.6
	Net	2401.4	2181.2	5047.8	9326.8	9063.0	12929.7	10806.9	9224.0	7290.8
By major export category										
Major petroleum exporters	Gross	1624.2	3081.8	6589.9	9672.7	10612.5	11437.7	12574.9	13206.4	15163.8
	Net	515.0	722.1	2689.6	4555.2	3996.7	4043.3	3564.3	2939.2	4419.0
Other developing countries and territories	Gross	3917.6	5163.0	7997.6	10791.5	13456.1	18352.1	16879.8	17194.8	14765.4
	Net	1895.2	1466.5	2495.8	4764.9	5933.5	9549.0	7271.2	6235.1	2941.9
of which:										
Major exporters of manufactures	Gross	1518.6	2278.7	3262.4	3887.5	5308.1	7825.3	5946.7	6132.4	4709.2
	Net	862.1	927.8	1142.2	1694.6	2532.2	4377.9	2542.9	2201.9	802.1
Least developed countries	Gross	101.6	205.5	430.3	573.4	774.8	1207.1	820.4	754.1	578.2
	Net	24.5	65.5	210.1	265.4	481.1	871.1	206.5	166.1	89.1
Remaining countries	Gross	2297.4	2678.9	4304.9	6330.6	7373.2	9319.8	10112.7	10308.3	9478.0
	Net	1008.6	462.5	1135.0	2804.7	2923.7	4301.7	4508.7	3867.1	2050.7
Memo item: total exports from DAC member countries to developing countries		39203.6	70721.9	133212.8	167798.8	224246.3	278913.0	303494.9	277324.3	246656.8
Export credits (gross) as a percentage of total exports		14.8	12.1	10.3	12.4	11.2	11.3	10.1	11.2	12.3

Source: OECD, **Geographical Distribution of Financial Flows to Developing Countries**, various issues, and other data provided by OECD; UNCTAD, **Handbook of International Trade and Development Statistics** and **Supplements**, various issues; UNCTAD secretariat estimates.

a/ Includes unspecified developing countries and territories.

ered by export credits. For example, if all such credits are taken into account, including those with maturities of less than a year, in 1980 official insurance was extended on about 45 per cent of Japan's exports, about one-third of those of the United Kingdom, but less than 10 per cent of those of the Federal Republic of Germany, while the cover provided by all the different activities of the Export-Import Bank of the United States has recently been below 10 per cent of its exports. Export credits to developing countries with long maturities are used mainly for the purchase of capital goods.

3. Some recent trends in export credits to developing countries

284. After rising sharply during the 1960s, the share in total net financial flows to developing countries of net export credits from DAC member countries decreased during the 1970s. However, net lending in this form, after contracting between 1970 and 1973, expanded rapidly during most of the rest of the decade (as shown in table 24). As noted in section B of chapter I, the fall in the share of net export credits during this period was associated with the rapid rise in that of bank lending, especially in the form of Eurocurrency credits. The fall has continued in the early 1980s.

285. These trends for developing countries as a whole were accompanied by considerable variation in the experience of different groups of such countries. The rise in the share of bank lending during the 1970s was largely due to a small number of borrowers, mainly developing countries with relatively high levels of GNP per capita. Thus less than 5 per cent of the total external debt of developing counties in the form of bank loans from DAC member countries had been incurred by countries with GNP per capita below $600 in 1980, while the corresponding figure for countries with GNP per capita above $1,200 was over three-quarters. By contrast about 18 per cent of external debt in the form of export credits was owed by countries with GNP per capita below $600 in 1980. Morever figures for 1981-1982 show that export credits accounted for one-third of net non-concessional flows, and were in many cases the most important type of such flows, for this group of countries.

4. The terms for export credits and the impact of multilateral efforts at regulation

286. The post-war expansion of export credits has been closely associated with competition in international trade in capital goods. Owing to the frequent subsidizing of such credits, as early as the 1960s efforts were initiated to achieve agreement on multilateral regulation of the terms of this form of lending. Early results of these efforts were agreements among a number of OECD countries concerning the terms of credits for the purchase of ships, certain kinds of aircraft and satellite ground stations. After 1973, there was an intensification of export competition among developed market-economy countries, including an increase in the use of subsidies in connection with export credits. The intensified competition was closely associated with the higher rates of unemployment and lower rates of capacity utilization widely prevalent in developed market-economy countries. Higher interest rates, which were also a common feature of this period, tended to raise the cost of subsidies on export credits. These trends led to attempts to achieve more comprehensive agreement concerning the terms of such credits, eventually culminating in April 1978 in an agreement among 22 OECD countries officially entitled the Arrangement on Guidelines for Officially Supported Export Credits. The Arrangement established three different categories of country (relatively rich, intermediate and relatively poor), and prescribed guidelines as to minimum down payments, minimum interest rates and maximum maturities on credits to countries in each of these categories.

287. This agreement was the first of a series incorporating a progressive tightening of terms. For example, the minimum interest rate under the Arrangement on export credits with a maturity greater than 5 years to countries in the intermediate category was increased from 7.75 per cent in April 1978 to 8.5 per cent in July 1980, 11 per cent in November 1981, and 11.35 per cent in March 1982. The tightening

reflected the influence of changes in the stance of economic policy in developed market-economy countries as well as certain aspects of export credit programmes themselves. Attitudes towards these programmes were affected by increasingly critical views regarding subsidies generally in most of these countries and by closely-related efforts to reduce government intervention in certain parts of the economy. These changes were accompanied by a sharp rise in the cost of interest-rate subsidies on export credits. According to some estimates, by 1978 the cost of such subsidies to the governments of OECD countries amounted to more than $2 billion a year, and thereafter it increased further to about $5.5 billion in 1981. Moreover, in the case of export credits to developing countries attention was often drawn to the way in which competition in this area could act as an incentive to the adoption of excessively costly or otherwise inappropriate investment projects.

288. Debate among the parties to the OECD Arrangement has been characterized by marked divergences of opinion as to the appropriate extent of government support for export promotion through subsidies to financing. Some countries have continued to favour interventionist approaches in this area and the granting of flexibility with respect to lending terms for national export credit programmes. Other countries, in some cases influenced by the impact on their programmes' costs of high interest rates in their national capital markets, have sought to reduce or eliminate subsidies. In this debate the views of the opponents of subsidies have tended to prevail. As a result, sharp rises were prescribed in November 1981 for minimum interest rates under the Arrangement, and further increases in July 1982. Furthermore, at the later date a number of countries were also moved between categories in such a way as to reduce the subsidies for which they were eligible. Since October 1983 the minimum interest rates under the Arrangement are adjusted automatically every six months in accordance with changes in a weighted average of selected representative interest rates (see table 25).

5. Export credits, the debt crisis and the external financial position of developing countries

289. As mentioned above, the fall in net flows of export credits since 1982 has reflected the effects of both the contraction of international trade in 1982-1983 and the response of ECAs to the debt crisis. The contraction of developing countries' total imports at this time was in many cases accompanied by especially sharp reductions for categories of goods which account for an important share of export credits. For example, as discussed in more detail above in chapter II, there have recently been widespread falls in investment in developing countries, in some instances by large amounts.[37] Part of the impact of these falls is reflected in the behaviour of imports of capital goods, which in the case of certain heavily-indebted Latin American countries decreased by more than 50 per cent between 1981 and 1983.

290. But downward movements in export credits due to factors on the demand side were in many cases aggravated by actions taken by ECAs.[38] This aggravation was due to the implementation by ECAs of procedures intended to handle increased risks on their insurance business in a situation characterized by a systemic deterioration of creditworthiness among developing countries.

---

[37] Preliminary estimates of the Inter-American Development Bank indicate that the volume of gross investment in Latin America fell by about one-quarter between 1981 and 1983. In only one of a group of 22 countries in this region (a Caribbean country) for which estimates are available did gross investment rise during this period. Inter-American Development Bank, *Economic and Social Progress in Latin America 1984 Report* (Washington, D. C., 1984), statistical appendix table 5.

[38] The financing packages put together for certain countries in the aftermath of the debt crisis included in some cases the provision of facilities under export credit programmes (for example, by the United States to Brazil and Mexico). However, there seems to have been no relationship between such facilities and the operation of the procedures described in the main text.

Table 25

Interest rates under OECD Arrangement on Officially-Supported Credits

	July 1982	October 1983	January 1984	July 1984	January 1985
Two to five years					
Group I	12.15	12.15	12.15	13.35	12.00
Group II	10.85	10.35	10.35	11.55	10.70
Group III	10.00	9.50	9.50	10.70	9.85
Five to eight-and-a-half years					
Group I	12.40	12.40	12.40	13.60	12.25
Group II	11.35	10.70	10.70	11.90	11.20
Group III	10.00	9.50	9.50	10.70	9.85
Eight-and-a-half to ten years					
Group I	N.A.*a/*	N.A.*a/*	N.A.*a/*	N.A.*a/*	N.A.*a/*
Group II	N.A.*a/*	N.A.*a/*	N.A.*a/*	N.A.*a/*	N.A.*a/*
Group III	10.00	9.50	9.50	10.70	9.85

Source: UNCTAD secretariat.

Note: Under the OECD Arrangement Group I consists of borrower countries with per capita GNP of more than $4000; Group II of borrower countries with per capita GNP of between $681 - $4000; Group III of borrower countries with per capita GNP of less than $681.

a/ Maximum repayment periods for Groups I and II under the OECD Arrangement are 8.5 years.

The procedures in question vary among ECAs but in most cases are influenced by the requirement mentioned above that they should aim to be financially self-supporting in the medium term. The procedures typically include more restrictive policies as to both the availability of insurance and its terms. Limits on availability may involve ceilings on outstanding commitments to particular borrowers-enterprises and countries, demands for additional security as a condition for the extension of insurance cover and the application of more stringent criteria in the evaluation of creditworthiness. Measures affecting terms comprise increases in premia, lengthening the periods before claims are approved, and reductions in the percentages of the value of transactions covered. Finally ECAs may suspend cover. The precise circumstances in which such action is taken differ among ECAs, but suspension can usually be expected to follow the opening of negotiations on the rescheduling of a borrower's debts. This suspension will not necessarily apply to all types of loan. Whereas medium-term and long-term loans will usually be affected, short-term cover may still be available if the borrower continues to meet debt-service obligations on its short-term debts.

291. Actions along these lines widely followed the outbreak of the debt crisis. ECAs in most developed market-economy countries have experienced deteriorations in financial balances on their insurance and guarantee business since the beginning of the 1980s. In 1982 claims exceeded premia and recoveries for the export credit insurance programmes of OECD countries by about $1 billion, and in 1983 the deficits rose to about $2-1/2 billion. In the latter year for ECAs in only three of a group of 19 OECD countries were premia and recoveries greater than claims. Complete information is not available concerning the reaction of ECAs to the circumstances causing such losses. However, it appears to have included widespread upward adjustments in the structures of premium rates as well as charging differentially high

rates on loans to countries undergoing debt reschedulings or assessed as bad credit risks. Moreover, ECAs have in some cases substantially reduced the proportions of the value of transactions eligible for cover. The position is also not completely clear with respect to the suspension of cover. However, this does appear to have been widely applied to at least some types of lending in the case of a large number of developing-country borrowers. For example, in early 1983 it was reported that export insurance had been suspended completely for 15 countries, and restricted in various ways for about 80, by one developed market-economy country. Suspensions of cover are likely to contribute to abrupt discontinuities in the availability of external financing for countries affected.

292. The restoration of cover and the return to more normal conditions with respect to insurance of export credits normally take place in connection with the successful conclusion of reschedulings involving debts in this form. Such reschedulings in recent years have entailed certain features similar to those of the "short-leash" approach which has characterized the restructurings of bank debts (and was described in section B, 2 above). For example, consolidation periods are usually short (varying between 1 and 2 1/3 years and averaging 1.2 years in 1981-1983). Interest rates are generally increased as a result of reschedulings, since subsidy elements in the rates on the original credits no longer apply and the new rates tend to be set with reference to market ones (to which a spread is usually added). Moreover, the rescheduling process has typically been more concerned with the limited objectives of re-establishing debt service and providing short-term balance-of-payments assistance than with the broader issue of the external financial requirements for reactivating economic development. Practice as regards the restoration of insurance cover varies, and procedures in this area have not been completely transparent. In most cases the restoration takes place after the signing of the bilateral agreements between debtor and creditor countries which implement the multilateral agreements reached at the Paris Club or another forum organized for the same purpose. In such cases the suspensions of cover may last for periods in excess of two years. However, there have also been instances where cover has not been promptly restored even after the bilateral agreements have been signed.

293. This analysis suggests that falls in the flow of export credits since 1982 were more a consequence than an autonomous cause of the outbreak of the debt crisis. Nevertheless, the rise in interest rates on export credits under the OECD Arrangement and the existing procedures for tightening the terms on, and eventually removing, insurance cover on such credits in response to increased risks have added to the external financial pressures on developing countries associated with this crisis. Indeed, there is some resemblance between the impact on developing countries of the procedures of ECAs in this context and the collective tendency of banks to contract lending as borrowers' net external cash inflows are squeezed, so that their creditworthiness deteriorates. However, while the reduction in the pace of bank lending has had its most severe impact on developing countries with relatively high levels of GNP per capita, the adverse consequences of contraction on the case of export credits has been more widely felt, in particular among lower-income countries for which, as noted in section 3 above, the share of external debt in the form of export credits has risen substantially in recent years.

294. Prospects for a revival of export credits to developing countries remain uncertain, affected as they are by conflicts among the policy objectives of governments in developed market-economy countries both with respect to this type of lending and in other areas. On the one hand, partly owing to persistently high rates of unemployment and low rates of capacity utilization in most developed market-economy countries, export promotion continues to be a priority. On the other, export credit programmes continue widely to experience the impact of attempts to reduce government intervention and to curtail subsidies. At the same time there continue to be disagreements among governments concerning multilateral efforts to place further restrictions on official support for export financing, in particular with respect to the provision of *credits*

mixtes or tied-aid credits, a form of financing in which export credits and ODA funds are combined.[39] Moreover, the objective of protecting the service of outstanding debt in the form of export credits is threatened by the failure to sustain adequate flows of net external financing to developing countries and the consequences of macro-economic policies in developed market-economy countries (such as high interest rates).

D. Trade financing and payments arrangements

295. A common pattern can be discerned in the accounts in sections B and C of this chapter concerning recent developments affecting bank lending and export credits to developing countries. According to this pattern, when a developing country's external cash flow comes under pressure, there follows a reduction in the availability of financing from private sources and a tightening of its terms, with the result that the squeeze on the country's payments position is increased and its ability to service its debts may be threatened. To some extent such contractions of private financing have been offset by "involuntary" lending, in which a crucial role has been played by official intervention on the part of both governments and multilateral financial institutions. However, such lending and flows from official sources (other than export credits) have not been large enough to prevent at least a partial breakdown of normal types of financing and payments for many developing countries. Among the symptoms of these breakdowns are the large payments arrears which have been a feature of the period since 1982, the continuing series of debt reschedulings, the closely-related suspensions of insurance cover for export credits, and the stimulus given to countertrade as an alternative to conventional methods for the settlement of international transactions. The breakdown shares some characteristics with the earlier one of the 1930s, when the system of trade and payments underwent far-reaching fragmentation that led to a proliferation of bilateral and other special arrangements in this sphere.

296. Many of the phenomena which have followed the outbreak of the debt crisis are normal sequels of serious discontinuities in borrowers' external debt service. These phenomena include some of those just mentioned such as arrears, reschedulings and the tightening of the terms, and eventual suspension, of insurance cover for export credits. What differentiates recent from earlier post-war experience as regards these phenomena is the enormous increase in scale. For example, during 1975-1980 the value of official debt rescheduled at the Paris Club was $8.2 billion, and that of bank debt rescheduled in multilateral negotiations $5.6 billion. By contrast the figures for 1983-1984 were $13.9 billion for official debt and $153.9 billion for bank debt. Information as to the size of external payments arrears is usually approximate. But according to IMF estimates the arrears of Fund members were in the range of SDR 5 to 6 billion in 1977-1981 but had risen to SDR 22.6 billion by the end of 1982 and SDR 25.8 billion by the end of 1983.

297. However, for other manifestations of the disruption of external financing recent historical precedents are lacking. Outstanding examples are the drastic contractions of certain types of lending for some regions. Reference was made earlier to the substitution of "involuntary" for "voluntary" lending by banks. In the case of Latin America "voluntary" lending has virtually dried up, being almost completely replaced by "involuntary" flows. Another instance is provided by the countries of low-income Africa, commitments to which, by private creditors, fell from more than $1.4 billion in 1979 and 1980 to $150 million in 1983.

298. Disruptions of external financing have been an important factor in the proliferation of bilateral agreements between exporters and importers for the purpose of countertrade. The unavailability or high cost of financing facilities for the main currencies used in international trade is generally thought to be only one of various rea-

[39] The use of such credits has recently been increasing, partly as a result of intensified competition to provide the exports associated with the reduced levels of investment now prevalent in most developing countries.

sons for this proliferation. Nevertheless, another of the causes cited in this context, the desire to secure markets for certain primary commodities, is a response to depressed and unstable levels of demand, which are themselves heavily influenced by shortages of finance. Until recently the techniques of countertrade were mainly a feature of trade with socialist countries. However, they are now also widely used in trade between developing and developed market-economy countries as well as the mutual trade of developing countries. Available data give only an uncertain idea of the extent of countertrade. However, there are indications that it has grown rapidly since the end of the 1970s. For example, in a survey of enterprises in the United States carried out for the National Foreign Trade Council Foundation it was found that the number of countries involved in countertrade had risen from 27 to 88 between 1979 and 1983, and that the annual average rate of increase in the number of countertrade transactions for the sample increased from 50 per cent in 1981 to 117 per cent in 1983. If a sufficiently inclusive definition of countertrade is used, its share of world trade probably exceeds 15 per cent.

299. Countertrade now takes place in a wide variety of manufactures and primary commodities. For developed market-economy countries, *inter alia*, it has been the vehicle for exports of capital goods to developing countries which might otherwise have been hindered by shortages of foreign exchange. For developing countries it has been used for many purposes including the penetration of new markets in the context of programmes of export diversification, avoiding the effects of certain measures of trade policy in both developing and developed market-economy countries, and as part of arrangements for servicing debts. However, in the case of recent increases in countertrade involving primary commodities, shortages of foreign exchange, the difficulties of arranging for trade financing and the objective of securing stable purchasing commitments and preserving market shares seem to have been major reasons for the recourse to such transactions. For example, these reasons have contributed to the recent growth of countertrade in oil. As much as 15 per cent of the oil production of OPEC member countries is now believed to be sold in this way, a significant part of it to other developing countries. Furthermore, countertrade is now widely used in connection with exports of other primary commodities for which markets have recently been depressed and prospects are uncertain.

300. The recent growth of countertrade has taken place during a period, much of which was characterized by strong contractionary forces in international trade. The impact of these forces was felt not only on the exports of most developing areas to developed market-economy countries but also on the mutual trade of developing countries.[40] Thus, to the extent that countertrade made possible international transactions which would not have occurred in its absence, it helped to offset the effects on economic activity in developing countries of downward pressures on their export markets resulting from depression in developed market-economy countries and the impact on their mutual trade of their own austerity policies. However, there are also additional costs associated with countertrade in comparison with more conventional methods of international payments. The distribution of the costs and benefits of countertrade will usually be the outcome of bargaining, so that the overall balance of advantage associated with it tends to be difficult to evaluate. It has been argued that owing to its extra costs the extent of countertrade will probably decrease, at any rate once there is a return to more normal conditions in international trade and finance. However, if such a return proves to be long delayed, there is a possibility that countertrade will affect long-run structures of prices and costs, and

---

[40] Estimates in *International Trade 1983/1984* (Geneva: GATT, 1984), table A29, show that trade between and within the four regions, Central and South America, South and East Asia, West Asia, and Africa, contracted in most cases in 1982-1983, the principal exception being the mutual trade of countries of South and East Asia. Africa's trade with the other three regions and its own mutual trade were especially severely affected. The causes of the slowdown in trade among developing countries are not yet fully understood, but undoubtedly include the impacts of their own austerity policies at this time.

that the channels associated with such transactions will become increasingly permanent.

E. Trade between developing countries and developed market-economy countries

1. The impact on unemployment in developed market-economy countries

301. The adjustments made by developing countries to their trade balances in response to the worsening of the external environment and the associated debt-servicing and financing difficulties have resulted in the retransmission of deflationary impulses to developed market-economy countries. So far this has primarily taken the form of declines in exports from developed market-economy countries. As may be seen from table 26, in the third quarter of 1984 total OECD exports to developing countries were running some \$3.9 billion monthly (more than \$46 billion annually) below their 1980-81 base level with almost three-quarters (\$2.8 billion) of the reduction occurring in respect of OECD Europe. Examination of the regional trade statistics shows that the European trade decline (measured in value terms) is in large part due to the severe curtailment of exports to African developing countries (a \$1.5 billion fall) with monthly exports to Latin America and the Middle East running between \$500 to \$700 million below the base year figures. In the case of the contraction of exports in North American OECD countries, the Latin American market has accounted for the bulk of the reduction in their exports, but there was also a significant reduction in exports to the Middle East. Table 26 also suggests that this contraction in exports has resulted in a loss of close to 7 million man years of employment in Europe and close to one million man years in the United States and Canada during the three-year period.[41] The considerably higher employment losses in OECD Europe are due to the markedly lower capital output ratios in these countries relative to the United States (i.e. higher labour inputs per unit of output). As one illustration, the ILO estimates that a \$1 million reduction in France's machinery exports would involve a loss of 105 jobs (measured on an annual basis) which is more than three times the corresponding figure for the United States.

302. These totals understate the overall impact on employment levels to the extent that the trade-balance adjustment has taken the form of export expansion to developed countries not matched by an expansion of imports from them. However, this effect is not easy to quantify since the exports of developing countries have been affected by shifts in both demand in industrial countries and in supply in developing countries, the latter stemming from their adjustment efforts.

2. Protectionism and debt servicing

303. It is widely recognized that in order to meet their debt service obligations to be able to borrow on commercial terms in the future, developing countries need rapid export growth, and that adequate access to the markets of the developed market-economy countries is essential to allow this to occur. However, import restrictions of various kinds have obstructed the efforts of developing countries to step up their export earnings. Investigations by the UNCTAD secretariat have demonstrated that over one-third of developing country exports (by value) are

[41] For details relating to trade-employment coefficients see H.F. Lydall, *Trade and Employment* (Geneva: International Labour Office, 1975). This study provided average employment coefficients measured in terms of man years of employment for various industrial countries based on a change of \$1 million in exports for individual industrial sectors like chemicals, machinery, agricultural, and raw materials. Multiplication of these coefficients by the incremental trade changes in OECD exports yielded the employment effect estimates shown in table 26. A separate analysis by the United States Department of Commerce places the employment losses due to the 1982-1983 contraction of exports to Latin America at 250,000 jobs in 1982 and about 350,000 in 1983.

Table 26

Analysis of the magnitude and effects of the contraction in North-South trade, 1982-1984

Year/ quarter	All OECD countries exports to: All deve-ping	Latin America	Africa	Middle East	Far East	OECD North America exports to: All deve-loping	Latin America	Africa	Middle East	Far East	OECD Europe exports to: All deve-loping	Latin America	Africa	Middle East	Far East
	(Actual trade flows in millions of United States dollars, monthly averages)														
1973	5,638	1,624	1,311	711	1,932	1,788	894	138	164	592	2,546	612	958	473	503
1975	10,685	3,666	2,634	2,593	2,792	3,207	1,411	325	590	881	4,999	1,023	1,023	1,344	731
1977	13,141	2,760	3,444	3,463	3,469	3,534	1,418	402	755	959	6,440	953	953	2,005	942
1978	16,296	3,625	3,762	4,271	4,638	4,396	1,832	432	918	1,214	7,951	1,277	1,277	2,491	1,311
1979	18,400	4,459	4,059	4,199	5,683	5,252	2,358	450	804	1,640	8,985	1,594	1,594	2,535	1,619
1980	23,139	5,789	5,315	5,221	6,814	6,874	3,251	613	875	2,135	11,008	1,846	1,846	3,175	1,827
1981	25,281	6,176	5,773	6,150	7,182	7,461	3,503	757	1,109	2,092	11,732	1,842	1,842	3,653	1,906
1982	23,362	4,855	4,816	6,517	7,174	6,892	2,697	745	1,213	2,237	10,936	1,465	1,465	3,909	1,953
1983	21,179	3,634	4,128	5,983	7,434	6,019	2,047	610	1,044	2,318	9,774	1,129	1,129	3,576	1,915
1984-I	21,054	8,870	4,018	5,555	7,611	5,929	2,148	612	851	2,318	9,568	1,110	1,110	3,389	2,030
1984-II	21,117	4,034	3,899	5,184	8,000	6,244	2,308	611	781	2,544	9,144	1,151	1,151	3,203	1,901
1984-III	20,355	4,202	3,844	4,636	7,653	6,306	2,420	707	782	2,397	8,562	1,117	1,117	2,862	1,852
	(Differences from the 1980-1981 base level in terms of United States dollars, monthly averages)														
1982	-847	-1,127	-728	832	176	-275	-680	60	221	124	-433	-379	-379	495	87
1983	-3,030	-1,348	-1,416	298	436	-1,148	-1,330	-75	52	205	-1,660	-715	-715	101	49
1984-I	-3,155	-2,112	-1,526	-130	613	-1,238	-1,229	-73	-141	205	-1,801	-734	-734	-25	164
1984-II	-3,092	-1,948	-1,645	-501	1,002	-923	-1,069	-74	-211	431	-2,225	-693	-693	-211	35
1984-III	-3,874	-1,780	-1,700	-1,049	655	-879	-975	22	-210	284	-2,807	-727	-727	-522	-14
	(Estimated cumulative employment losses in industrial countries, number of persons per year)														
1982	800.000					100.000					700.000				
1983	3,450.000					500.000					2,950.000				
1984	7,600.000					800.000					6,800.000				

Source: Trade data compiled from Organization for Economic Co-operation and Development, **Monthly Statistics of Foreign Trade**, (Paris: OECD), various issues. The estimated employment effects of trade contraction are based on trade-employment coefficients published in International Labour Office study. See H.F. Lydall, **Trade and Employment** (Geneva: International Labour Office: 1975).

subject to one or more kinds of measures in developed market-economy countries which can influence export volumes. In some sectors where developing countries are generally acknowledged to have a comparative advantage the value of trade subject to such measures is far higher. For example, with regard to the manufactured products that form part of the "core" of developing country exports (see annex table A.9 for a listing) it was found that 65 per cent were subject to non-tariff measures (NTMs). It should be noted that in contrast the corresponding figure for the same goods coming from other developed countries was only 23 per cent. Such empirical evidence shows the differential impact of non-tariff measures on exports from developing countries vis-a-vis developed countries, namely, such measures apply disporportionately to the products in which developing countries specialize.

304. Two other key aspects relating to the constraints arising from protectionism are the discriminatory application of many of the non-tariff measures (i.e. those used to a relatively greater extent against specific countries or country groups) on the exports of developing countries as well as the proliferation or spread of these measures over time. With regard to the first point, in the European Economic Community over 80 per cent on average of the existing restrictions facing textiles and wearing apparel under the Multifibre Arrangement (MFA), and footwear products (primarily voluntary export restraints (VERs)) apply solely to developing countries while a similar pattern of application occurs for the United States' textiles and apparel imports. These tabulations include trade subject to bilateral quotas, "voluntary" export restraints, anti-dumping and countervailing duties and the MFA taken as a ratio to the total trade subject to non-tariff measures.

305. In the iron and steel sector, where developing countries have steadily been acquiring an important production and export capacity, similar patterns of protection exist with over 90 per cent of the United States' restrictions being of a differential character. Apart from this issue, the incidence of trade barriers at different stages of processing is also acknowledged to pose major problems for developing countries' efforts to increase export earnings and the value added content. A particularly sensitive issue relates to the fact that both nominal and effective rates of protection in industrial markets have been shown to increase or "escalate" in general with the degree of product processing, thus establishing a trade bias against the export of semi-fabricated or processed goods. Such escalation clearly poses difficulties for export diversification and in particular industrialization in small countries, especially the least developed which do not have internal markets which can sustain most processing industries.

3. The impact of adjustment efforts on market access

306. There is a danger that as developing countries intensify their export drive to overcome balance-of-payments and debt servicing difficulties, barriers of various kinds will be placed in the way. Ample evidence exists that new trade restrictions are regularly placed on products where developing countries establish an export capability. As an illustration, annex table A.10 documents the continued application of new trade restrictions by industrial countries on exports from the Republic of Korea over the period 1975 to 1984. Taking the value of the affected products in the year the measure was introduced as a very rough gauge, the statistics in this annex indicate that over $900 million of this country's exports became subject to new trade restrictions over the decade, the United States accounting for roughly one-half.

307. Another way of documenting the growing trend towards trade restrictions particularly those on successful developing country exporters, is to make comparisons over time of the frequency of application of specific types of non-tariff measures. As an illustration table 27 shows the increased resort to anti-dumping and countervailing duty actions in selected developed market economy countries over the period 1979-1984. As can be seen, the number of such actions increased more than threefold (from 124 to 405 actions) from 1979 to 1982 while over 200 actions were taken

Table 27

Anti-dumping and countervailing actions in the developed market-economy countries by initiating country, type and year of initiation

Initiating country	Type of action	1979	1980	1981	1982	1983	1984*a/*
United States	Anti-dumping	23	46	14	69	21	103
	Countervailing	15	10	7	111	5	72
EEC	Anti-dumping	31	21	41	61	8	81
	Countervailing	1	-	1	3	1	2
Australia	Anti-dumping	36	55	42	81	39	142
	Countervailing	-	-	-	3	7	9
Canada	Anti-dumping	18	25	25	76	9	34
	Countervailing	-	3	-	1	1	6
Finland	Anti-dumping	-	2	-	-	-	1
Austria	Anti-dumping	-	-	1	-	-	-
Sweden	Anti-dumping	-	-	2	-	-	-
Japan	Countervailing	-	-	-	-	-	1
TOTAL	Anti-dumping	108	149	125	287	77	361
	Countervailing	16	13	8	118	14	90

Source: UNCTAD Data Base on Trade Measures.

a/ The figures reported for 1984 are based largely on actions taken in the first half of the year. The totals shown in parentheses are expressed on an annualized basis in order to facilitate comparisons with other information in the table.

by mid-1984. Furthermore, apart from the increase in the number of cases initiated, the share of these actions brought against developing countries has also been rising during this interval. Roughly one-fifth of all such actions were taken against developing countries in 1983-1984 which is almost a doubling of the corresponding share in 1979. Moreover, Brazil, the Republic of Korea, Taiwan Province of China and Mexico have been subject to close on 70 per cent of all actions taken against developing countries. It should also be noted that in the withdrawal or termination of the actions in question a large number resulted in the negotiation of "voluntary" export restraints, particularly with regard to steel, textiles and clothing.

308. Apart from the rising trend in anti-dumping and countervailing cases recently introduced trade legislation contains provisions for facilitating the initiation of such actions and for introducing new trade restraints. For example, the United States Trade and Tariff Act of 1984, signed in October 1984, contains, in addition to the amendments to the laws on anti-dumping, countervailing duty and escape clause actions, a variety of provisions dealing with different trade issues. Certain of these appear to facilitate the imposition of protective measures, notably Title VIII, the "Steel Import Stabilization Act", which authorizes the President to "carry out such actions as may be necessary or appropriate to enforce the quantitative limitations, restrictions and other terms agreed in bilateral arrangements"

(section 805). It is the "Sense of Congress" that the objective of such arrangements should be to result in a foreign share of the United States' market for steel of betwen 17.0 and 20.2 per cent.

309. Important legislative changes have also occurred recently in European countries that have potential adverse implications for developing countries. For example, the EEC adopted, in July, Regulation No. 2176/84 which introduced a number of technical changes in the EEC's anti-dumping and countervailing practices. Substantive changes include the modification of the provisions concerning the calculation of constructed values, the definition of the ordinary course of trade in terms of determination of normal value, the exemption from import charges or indirect taxes of material physically incorporated in a product, the deletion of the provisions concerning the value of loans or guarantee subsidies, and the addition of a provision regarding the calculation of fixed asset subsidies. The new Regulation also contains a number of procedural changes. A new provision sets a minimum period of six months for the investigation of dumping and subsidization. A time-limit is set for undertakings to be made, which must be not later than 15 days prior to the submission by the Commission of any proposal for final action. It would also appear that under the new legislation, it became easier to "trigger" investigations than was formerly the case. A positive amendment is the introduction of a sunset clause which provides that anti-dumping and countervailing duties and undertakings shall lapse automatically after five years from the date on which they enter into force if the domestic industry does not claim continuing injury.

4. The benefits of reduced protectionism

310. A question of key importance is the size of the likely export gains that would be associated with a removal of trade barriers in the developed market-economy countries.[42] The UNCTAD secretariat has compiled detailed empirical estimates of *ad valorem* equivalents for non-tariff measures facing developing countries' major export products as well as information on post-Tokyo Round tariffs applied to these products. These data were then employed in the UNCTAD Trade Policy Simulation Model in order to assess the likely magnitude of the trade gains that could be associated with various trade liberalization strategies. Table 28 indicates in summary form the trade gains in respect of the core products (see annex table A.9) from preferential trade liberalization in the EEC, Japan and the United States.[43] Under simulation I post-Tokyo tariffs would be eliminated while under simulation II both tariffs and NTMs would be removed in respect of developing country exports. To assist in evaluating the magnitudes involved the table also provides information on the actual value of imports into the three major industrial country markets. Overall, a preferential tariff removal is estimated to generate increased annual exports of approximately $14.5 billion while the removal of post-Tokyo tariffs and NTMs could generate increased export earnings $20 billion higher at $3408. Table 28 shows that the present value of such an annual increase in export earnings would be worth close to $700 billion which is approximately equal to 85 per

[42] Various studies have also documented the costs incurred by the developed market-economy countries as a result of these systems of protection. For example, the united Kingdom Consumers Association concluded that the MFA had increased prices of most clothing imports by between 15 to 40 per cent and had created shortages of many low priced items. Similarly, the Australian Industries Assistance Commission estimated that the total cost of protection in the clothing sector was equivalent to A$235 per household or close to A$1.1 billion in total at the retail level. The North-South Institute estimated that Canadian tariffs and quotas on clothing cost consumers about C$475 million in 1979, but had presevved only about 6,000 jobs. Finally, the United States Federal Trade Commission placed the cost of protection against clothing imports at between $2 to $3 billion over 1975-1979.

[43] Lack of available information on *ad valorem* equivalents precluded the extension of the simulations to other industrial markets.

Table 28

Simulation of the influence of preferential trade liberalization policies in the EEC, Japan and the United States

Value of imports	Exports from preference-receiving countries ($ million)			
		Selected preference-receiving countries *a/*		
	Total	Latin America	Asia	Africa
1980 actual values ($ million)				
EEC	167,652	16,765	14,419	9,207
Japan	76,777	4,167	3,001	608
United States	67,203	23,910	5,870	7,010
Total	311,632	44,842	23,290	16,825
Simulation I: Increase with a preferential tariff removal				
EEC	7,151	758	1,421	297
Japan	2,880	163	306	15
United States	4,493	832	996	36
Total	14,524	1,753	2,723	348
Simulation II: Increase with a preferential removal of tariffs and NTMs				
EEC	19,013	2,638	4,045	644
Japan	3,881	265	537	26
United States	11,869	1,909	2,782	51
Total	34,763	4,812	7,364	721
Memo item:				
Current value of increased trade from a preferential tariff and NTM removal *b/*	695,260	96,240	147,280	14,420
Value of existing debts	812,900	254,692	97,353	58,168
Ratio of increased trade to debts (per cent)	85.5	37.8	151.3	24.8

Source: UNCTAD secretariat estimates based on the UNCTAD Trade Policy Simulation Model.

a/ The selected Latin American countries include: Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Peru and Venezuela. Selected Asian countries include: Republic of Korea, Pakistan, Philippines, Turkey (and in this instance Yugoslavia), while the African countries include: Algeria, Egypt and Morocco.

b/ The current value figures are based on an assumed discount rate of 5 per cent which is the current spread between internationally competitive interest rates and the rate of inflation in OECD countries.

cent of developing countries' current external debts.[44]

311. The data in annex table A.11 underline the importance of the clothing group (SITC 8411). According to the projections, over 30 per cent of the estimated total increase in developing country export earnings could occur in this sector (a gain of about $10.8 billion), while footwear (SITC 8510) adds another five per cent or $1.7 billion. The importance of this empirical finding is that it establishes a direct tie or link between any trade policies aimed at alleviating the international debt crisis and the abolishment (or major modification of) the MFA. Annex table A.11 also shows that over 10 per cent of the total estimated increases are projected to occur for six four-digit SITC products in the food and live animals group with vegetable oil seeds and cake (SITC 0813) accounting for about one-fifth of the total increase.

5. Conclusions

312. Protectionist pressures in the aggregate may be expected to decline if recovery accelerates and becomes more balanced, thereby reducing unemployment and trade imbalances among the developed market-economy countries. However, this may not lessen protectionism vis-a-vis exporters in developing countries, for protectionist pressures against developing countries may be expected to mount as long as developing countries remain under acute financial strain obliging them to penetrate external markets at an exceptionally rapid pace. Yet, for reasons explained above, those financial strains will be intensified if the protectionist pressures are translated by political decisions into import controls. Thus, any effort to lessen the difficulties imposed on the trading system by the functioning of the monetary and financial system must include not only improved exchange-rate relationships but also a more balanced approach to the debt problem including a reduction of interest rates. At the same time, protectionism needs to be substantially reduced in order to facilitate normal debt servicing.

F. Commodity production

313. In the *Trade and Development Report, 1984*, it was pointed out that a currency devaluation can have a perverse reaction on the world markets for commodities with low price-elasticities of demand, if devaluation increases the profitability (in domestic currency) of production of such commodities and thereby stimulates increased supplies for export. If this occurs, the original market imbalance will be exacerbated, thus reducing still further the export earnings and hence worsening the debt burden of producing countries. It was shown in annex table C.6 thereof, that, over the period 1980 to 1983, out of 57 commodity/country situations, real commodity prices (i.e. world market prices converted to domestic prices at current exchange rates, and deflated by national consumer price indices)fell by more than 25 per cent in 17 cases, fell by less than 25 per cent in a further 25 cases, and rose in the remaining 15 cases. Thus, the potential appears to have existed for the operation of a perverse supply effect (even though only a minority of the commodities concerned would have been affected.) Although last year's analysis did not proceed to examine the actual impact of devaluation on the production and export of commodities, it seemed justifiable to assume that there may well have been such a per-

---

[44] These present value calculations are based on a discount rate of five per cent which approximates the current spread between internationally competitive interest rates and rates of inflation in the OECD countries. We have chosen this figure under the assumption that the future value of increased exports resulting from a liberalization will increase in line with the general rate of inflation. The present value figure is more useful as a gauge of debt relief associated with trade policy initiatives since it co rresponds to the (stock) measure of the level of current existing external debt. Our rationale for selecting the spread between interest and inflation rates is that the latter would be a factor working to increase the value of future developing country exports.

Indices of real domestic prices (1980=100)

Indices	1983	1984
	(No. of cases)	
under 75	19	14
75-100	23	17
over 100	15	25
Total	57	57

Main minerals and metals markets

		1980-1981 (av.)	1982-1983 (av.)	1984
			(million tons)	-
Mine production				
Copper:	Developed market-economy countries	2.86	2.51	2.64
	Developing countries	3.41	3.71	3.82
Iron ore: (Fe-content)	Developed market-economy countries	191	132	...
	Developing countries	137	137	...

verse effect for the commodities identified and that, in any event, "no automatic mechanism exists which would constrain the volume of commodity production in a period of over-supply on the world market when domestic prices are significantly influenced by monetary factors in addition to reflecting the supply/demand balance on the world market". The following paragraphs take this argument one stage further by relating changes in real domestic prices for individual commodities to changes in productive capacity, output and exports.

1. Real domestic prices

314. As may be seen from table 29 a number of new currency devaluations, vis-a-vis the United States dollar, took place in the course of 1984 - particularly marked for Argentina, Brazil, Ghana, Peru and Zaire, though many others also undertook further devaluations. Countries with relatively large currency devaluations were also those with relatively large domestic inflation though, in many cases (e.g. Argentina, Brazil, Ghana and Zaire) the rate of increase in domestic prices was less than the corresponding devaluations. At the same time, commodity prices on world markets remained generally depressed (in terms of United States dollars), apart from a number of vegetable oilseeds and oils, and raw jute, for which temporary shortages forced up prices in 1984. However, commodity prices expressed in national currency generally tended to rise between 1983 and 1984 as a result of the further currency devaluations.

315. Corresponding data on prices actually received by producers are available for only a few countries and commodities for 1983 and 1984. Generally speaking, these data - for cocoa, coffee, jute and sugar - which are shown in table 30, are consistent with the movements shown in table 29. However, in two cases where annex table A.12 shows a sharp decline in real domestic prices between 1980 and 1983 (Ghana/cocoa and Brazil/sugar), the farm price statistics in table 30 show either a moderate decline (Ghana) or a moderate increase (Brazil), reflecting the stabilizing influence of the operations of internal marketing boards.

2. Capacity, production and exports

Agricultural products

316. For agricultural products, an assessment of the impact of changes in the real domestic price on world markets can be made by relating these price changes to the corresponding changes in planted or harvested areas, in output, and in exports of the commodities concerned. For those products included in annex table A.12 for which data on planted or harvested areas are available, the relevant changes are summarized in table 31.[45] Of the 29 country/commodity cases covered, the planted/harvested area rose by more than 10 per cent between 1978-1980 and 1983 in nine cases, was much the same (changes being within + or - 10 per cent) in 13 cases, and fell by more than 10 per cent in the remaining seven cases. Changes in production and export of many individual commodities varied widely in relation to changes in cultivable areas, reflecting to a large extent variations in climatic conditions and productivity as well as, for export, changes in domestic consumption of food crops.

317. These changes are brought together with the corresponding changes in real domestic prices in table 32, which shows the harvested area in 1983 both in relation to 1980 and to the 1978-1980 average. On this test, there does appear to have been an expansion between 1980 and 1983, albeit a modest one, in agricultural productive capacity, in terms of the harvested area, for those commodities for which real domestic prices rose substantially. By contrast, the harvested area showed a marginal decline for the two other groups of commodities. If the comparison is with the 1978-1980 average, the differences between the commodities with substantially higher real domestic prices and the two other commodity groups is more marked, but some of these differences would probably reflect non-price factors also. It is assumed here that planting or harvesting decisions in any year are influenced by relative prices in the same year. A more sophisticated analysis would also take the effects of past prices into account.

318. Thus, the argument that higher real domestic prices for commodities in persistent over-supply on the world market are likely to result in increased production and export volume is generally substantiated. The relationship must however be taken as only a general tendency, since it may not necessarily apply in every case, as a result of the operation of various offsetting factors. Nonetheless, the tendency exists; though the magnitude to date is relatively a modest one. For the three years 1980 to 1983, the elasticity of harvested area with respect to price was 0.18, on average, for the eight commodities for which real prices rose by more than 10 per cent. But if the rise in real domestic prices for these commodities were to be sustained for a longer period, the response in terms of planted or harvested area could well be greater.

Minerals and metals

319. For minerals and metals a similar analysis is not possible, at least at the present time. Changes in real domestic prices in any one producing country may, or may not, have an influence on decisions to invest in new mining or smelting capacity but, even if such decisions were positive, the consequent capacity expansion could typically take 7 to 10 years before the additional output came on the world market.

320. A notable feature of the main minerals and metals markets in the period of low prices following the 1980 price peak has been, rather, the elimi-

[45] For this purpose, planted/harvested areas, production and exports data have been converted to indices based on the average of the years 1978 to 1980 to eliminate, in particular, variations in output and exports due to climatic or other special factors in individual years. For the same reason, current production and export data are shown as averages of two calendar years, but for the cultivated area, where year-to-year shifts are not generally such a major problem, separate figures are shown for 1982 and 1983. (Corresponding data for 1984 are not yet available.)

nation of high-cost producers (mainly mines in the United States and Canada) and the expansion of production in developing countries, as for copper, or decisions to proceed with large investments in new mines, as for iron ore in Brazil. The picture for these two important minerals is shown above.

321. By the end of the 1980s, new low-cost mines in Brazil (iron ore) and Chile (copper) are planned to come on stream, and this could eventually create major marketing problems not only for the remaining North American mines, but also for African producers - unless world demand recovers very substantially.

Table 29

Changes in exchange rates and in consumer price indices for selected countries, 1980-1984
(Indices, 1980=100)

	Exchange rate *a/*		Consumer prices	
	1983	1984	1983	1984
Africa				
Cameroon	180	207	146	162 *b/*
Ghana	125	1 285	590	837 *c/*
Ivory Coast	180	207	124	129
Kenya	179	194	150	165
Madagascar	204	273	205	220 *d/*
Morocco	181	224	132	149
Nigeria	133	140	156	191 *b/*
Sudan	260	260	205	250 *e/*
Togo	180	208	146	142
United Republic of Tanzania	137	187	206	267 *c/*
Zaire	490	1 290	326	496
Zambia	157	228	153	184
Asia				
Bangladesh	159	164	134	150
Burma	122	127	112	117
India	128	145	136	148
Indonesia	145	164	137	152
Jordan	122	129	122	126
Malaysia	107	108	120	125
Nepal	121	137	140	139 *d/*
Pakistan	132	142	127	136
Philippines	148	222	137	206
Sri Lanka	142	154	150	173
Thailand	112	115	123	124
Turkey	297	482	230	339 *c/*
Latin America				
Argentina	5 722	36 666	2 403	16 930
Brazil	1 095	3 507	985	2 923
Chile	202	253	167	201
Colombia	167	213	190	221
Peru	563	1 199	609	1 280

Source: IMF, *International Financial Statistics* (various issues).

a/ Change in national currency unit per United States dollar.
b/ January-October.
c/ January-September.
d/ January-June.
e/ Estimate.

Table 30

Changes in prices received by producers of selected agricultural crops in developing countries, 1980-1984
(Index numbers, 1980=100)

	Price in domestic currency				Deflated by Consumer Price index			
	1981	1982	1983	1984	1981	1982	1983	1984
Cocoa								
Ivory Coast	100	100	113	119	92	86	91	92
Ghana	133	300	450	635	61	113	76	76
Cameroon	103	108	123	130	93	86	84	80
Brazil	153	220	950	..	74	54	96	..
Nigeria	107	107	113	117	89	82	72	61
Coffee *a/*								
Brazil	134	282	646	2 042	65	69	66	70
Colombia	105	127	156	187	82	80	82	85
El Salvador *b/*	114	128	114	135	99	100	78	82
Indonesia	56	62	131	98	50	50	95	65
Ivory Coast	100	100	100	117	42	86	91	91
Sugar *c/*								
Brazil *d/*	..	..	453-540	..	..	..	108-129	..
Philippines	105	115	97	..	93	92	79	..
Argentina	258	..	914	..	126	..	117	..
Jute *c/ e/*								
Bangladesh	124	138	229	455	110	112	171	237
India	111	124	176	355	98	102	129	240
Nepal	122	164	239	454	110	132	171	327
Thailand	97	100	97	148	86	84	79	119

Source: *Trade and Development Report, 1984* (UNCTAD/TDR/4/Rev.1).

a/ Indices relate to September of each year.
b/ October 1980=100.
c/ Crop year beginning 1 July of year stated.
d/ Lower prices in north and north-east states, higher prices in other states.
e/ Indices for 1984 relate to July-December.

Table 31
Changes in planted or harvested area, production and exports of selected agricultural products, 1978-1980 to 1983
(Indices, 1978-1980=100)

		Planted/harvested area *a/*			Production		Exports	
		1980-1981 (av)	1982	1983	1980-1981 (av)	1982-1983 (av)	1980-1981 (av)	1982-1983 (av)
Argentina:	Wheat	120	154	144	101	168	117	198
	Maize	112	121	113	117	112	124	115
	Sugar	99	96	99	111	108	152	125
	Soyabeans	123	125	133	112	122	98	66
Bangladesh:	Jute	81	78	78	73	84	104	113
Brazil:	Cocoa	110	110	116	104	113	90	107
	Coffee	105	77	102	127	107	123	139
	Sugar	108	123	134	109	121	125	120
	Soyabeans	104	99	98	130	118	158	95
	Sisal	107	120	108	108	102	92	67
Burma:	Jute	85	58	75	59	40	130	12
Cameroon:	Cocoa	102	104	101	101	83	120	109
Colombia:	Coffee	97	97	97	108	116	97	86
Ghana:	Cocoa	100	92	83	95	61	98	102
Indonesia:	Coffee	120	120	121	107	87	100	104
Ivory Coast:	Cocoa	123	125	125	115	100	155	147
	Coffee	105	90	90	128	97	94	110
Kenya:	Sisal	98	89	89	116	131	123	129
Madagascar:	Sisal	63	63	63	100	88	100	87
Nepal:	Jute	94	60	62	80	63	79	67
Nigeria:	Cocoa	100	100	100	106	98	84	102
Pakistan:	Rice	101	97	102	102	107	121	97
	Cotton	106	111	111	114	105	213	180
Philippines:	Sugar	94	105	107	101	108	112	84
Sudan:	Cotton	96	87	94	71	118	66	105
Thailand:	Maize	94	88	114	112	114	116	134
	Rice	105	103	108	107	104	104	131
Turkey:	Cotton	102	92	94	102	102	96	124
United Republic of Tanzania:	Sisal	101	66	89	93	63	75	57

Source: FAO, *Production Yearbook, 1980* and *1983*, FAO, Rome.

a/ Figures for crops relate generally to harvested areas; for permanent crops the indices may refer to total planted areas.

Table 32

Changes in real domestic prices, harvested area, production and exports of selected agricultural products from developing countries, 1978 to 1983

	Number of cases	Indices for 1983 *a/*				
		Real domestic price	Harvested area		Produc-tion *b/*	Exports
		1980=100		1978-1980=100		
Real domestic prices in 1983 compared with 1980: *c/*						
1. Lower by more than 10 per cent	14	74	97	96	95	100
2. Changed by less than (+ or -) 10 per cent	7	97	96	100	99	102
3. Higher by more than 10 per cent	8	145	108	114	113	124
Total	29	99	100	102	101	107

Source: Annex table A.12 and table 31.

a/ Unweighted means of country/commodity indices.
b/ Average of 1982 and 1983.
c/ For Ghana/cocoa and Brazil/sugar, the indices relate to prices received by producers, as in table 30.

Chapter III

NOTES AND REFERENCES

Two recent reports of the UNCTAD secretariat provide additional discussion of the relationship of international bank lending to the debt crisis. Part II, Chapter IV of UNCTAD, *Trade and Development Report, 1984* (UNCTAD/TDR/Rev.1) reviews the growth of such lending to developing countries and the reasons for its pro-cyclical character. Chapter III of the *Report by the UNCTAD secretariat*, "The international monetary system and financial markets: recent developments and the policy challenge" (TD/B/C.3/194/Rev.1) discusses the segmented international capital market which has been one of the consequences of the debt crisis, the associated regime of "involuntary" lending to several debtor developing countries, and various policy proposals for alleviating or solving the crisis.

Paragraph

258 Concerning the "short-leash" approach of banks see, for example, P.N. Batista "International debt rescheduling since mid-1982; rescue operations and their implications for commercial banks and debtor countries" (Studies on International Monetary and Financial Issues for Developing Countries, UNDP/UNCTAD Project, UNCTAD/MFD/TA/30), September, 1984, paras. 19-23.

Differences in the response of banks in the United States and other developed market-economy countries to the impact of the debt crisis on their balance sheets, and the implications for their attitudes towards various aspects of "involuntary" lending are discussed in *Ibid.*, paras. 42-53: "How good are bad loan reserves?", *Institutional Investor*, April 1983; D. Delamaide, "LDC debts: European banks versus U.S. banks", *Institutional Investor*, September 1984; and R. Williams, P. Keller, J. Lipsky and D. Mathieson, "International capital markets developments and prospects, 1984", *IMF Occasional Paper No. 23* (Washington, D.C., 1983), pp. 15-17.

259 The ratios of interest payments to total new borrowing in 1984 for certain Latin American countries are given in A. Kaletsky, *The costs of default* (New York: Priority Press Publications, 1984), table 2.2.

262 For the largest developing country borrowers from banks in the United Kingdom and the Federal Republic of Germany as of mid-1983 see "International debt. Banks and the LDCs", *Amex Bank Review Special Paper No. 12* (London: American Express International Banking Corporation, 1984), pp. 36-37.

264 Various recent measures taken by banks with respect to their capital and reserves are reviewed in S. Andrews, "The desperate search for capital", *Institutional Investor*, January 1985; and M. Watson, P. Keller and D. Mathieson, "International capital markets developments and prospects, 1984", *IMF Occasional Paper No. 31* (Washington, D.C., 1984), pp. 14-20.

265 For illustrations from experience in the United States of the opportunities for fee-earning arising from applications of micro-electronic technology to banking and from financial deregulation see M. Mayer, *The Money Bazaars. Understanding the Banking Revolution Around Us* (New York: E.P. Dutton, 1984), chapters 2 and 10.

267 For itemized reviews of proposals concerning developing countries' debt problems see "LDC debt. The next phase", *Amex Bank Review*, Vol. II, No. 5, 19 June 1984; *The Debt Crisis and the World Economy. Report by a Commonwealth Group of Experts* (London: Commonwealth Secretariat, 1984), pp. 33-38 and appendix 2.2; and *The A to Z of Debt Relief Schemes* (New York: International Reports, Inc., 1984).

268 The two proposals for a new multilateral mechanism for insuring loans with the backing of national export credit agencies are contained in Lord Lever, "The international debt threat: a concerted way out", *Economist*, 9 July 1983 and W.H. Bolin and J. Del Canto, "LDC debt: beyond crisis management", *Foreign Affairs*, Vol. 61, No. 5, Summer 1983.

271 The estimate of the negative net transfer from developing countries as a group in 1984 is taken from World Bank, *World Debt Tables. External Debt of Developing Countries 1984-85 Edition* (Washington, D.C., 1985), table 1, and the estimates for Latin America in 1983 and 1984 from Economic Commision for Latin America and the Caribbean, "Preliminary overview of the Latin American economy during 1984" (LC/G. 1336), table 12.

273 The figure for developing countries' bank debt of $450 billion at the end of 1984 can be compared with total claims of about $435 billion for banks in the reporting area of the Bank for International Settlements at this date, given in its publication *International Banking Developments Fourth Quarter 1984* (Basle, April 1985), table 4.

282 For surveys of the export credit programmes of developed market-economy countries see OECD, *The Export Credit Financing Systems in OECD Member Countries* (Paris, 1982), and A. Dunn and M. Knight, *Export Finance* (London: Euromoney Publications, 1982), pp. 53-147.

283 Concerning the proportions of the exports of Japan, the United Kingdom, the Federal Republic of Germany and the United States which are covered by their export credit programmes see Dunn and Knight, *op. cit.*, pp. 72, 81, 96 and 128, and Commonwealth Expert Group on Developing Country Debt Problems, "Export credit guarantee schemes and the debt crisis" (CDG/6/Comm. Sec.), p.11.

285 For the shares of export credits and bank loans in the external debt of developing countries see OECD, *External Debt of Developing Countries 1983 Survey* (Paris, 1984), tables 1, 3 and 7.

For the share of export credits in the non-concessional flows of developing countries with GNP per capita below $600 in 1980 see OECD, *Development Co-operation 1984 Review* (Paris, 1984), annex table II.A.3.

287 The figures for the cost of interest rate subsidies to governments in developed market-economy countries are from Dunn and Knight, *op. cit.*, p.38.

289 For the decrease in imports of capital goods by certain Latin American countries between 1981 and 1983 see table 15 of chapter II.

291 For a review of the financial positions of ECAs in developed market-economy countries during recent years see D. Hellier, "Are the agencies bleeding to death" and "1983 results: the bad, the worse and the diabolical", *Euromoney Trade Finance Report*, November 1984.

For the number of developing countries affected by the suspension or restriction of export credit insurance cover by one developed market-economy country see C. Tyler, "When losing money can be fun for business", *Financial Times*, 26 April 1983.

292 Concerning the restoration of export credit insurance cover in connection with debt rescheduling see *Report by the UNCTAD secretariat*, "Review of the implementation of section B of Trade and Development Board resolution 222 (XXI)" (TD/B/980), paras. 55, 67 and 76.

293 The consequences for lower-income developing countries of disuptions in the availability of trade credit are described more fully in section E of chapter I of Part two of this report.

295 Concerning international payments arrangements of the 1930s, some of which bear a close resemblance to current techniques of countertrade, see M.S. Gordon, *Barriers to World Trade. A Study of Recent Commercial Policy* (New York: Macmillan, 1941), chapters VI and VII.

296 For increase in the value of debts rescheduled see World Bank, *World Debt Tables. External Debt of Developing Countries 1984-1985 Edition* (Washington, D.C., 1985), pp. xvi-xvii.

For the increase in arrears see IMF, *Exchange Arrangements and Exchange Restrictions Annual Report 1984*(Washington, D.C., 1984), p.36.

297 The figures for commitments to low-income Africa (which refer to the public and publicly-guaranteed debt of countries with GNP per capita not exceeding $400) are from World Bank, *World Debt Tables (op. cit.)*, p.6.

298 For the types of transaction covered by the term countertrade see, for example, UNCTAD, *Trade and Development Report, 1984* (*op. cit.*), Annex B, footnote 56, and the reference therein.

There is a survey of financial and other reasons for countertrade in G. Banks, "The economics and politics of countertrade", *The World Economy*, Vol. 6, No. 2, June 1983.

The results of the survey of enterprises in the United States are from *A View of Countrade*, a summary review of the "Survey of Problems in U.S. Countertrade" made in the fall of 1983 under the sponsorship of the National Foreign Trade Council Foundation.

299 For examples of countertrade agreements for the purpose of debt service see C. Cragg, "Damaging influence to the cohesion of OPEC", *Financial Times Survey of Countertrading*, 7 February 1985, and "Analysis - barter trade", *Seatrade*, April 1985.

The figures for the share of oil sales through countertrade by OPEC member countries is from Cragg, *op. cit.* (quoting *Petroleum Intelligence Weekly*).

Concerning the use of countertrade in connection with exports of primary commodities other than oil see, for example, A. Spence, "The barter game", *The Middle East*, December 1984, pp. 16 and 18-19 and United Nations Economic and Social Council. Committee on Natural Resources. "Trends and salient issues in the development of mineral resources", *Report of the Secretary-General*. (New York, United Nations, 8 March 1985) (E/C.7/1985/2), paras. 35-37.

301 Details concerning the analysis for the United States Department of Commerce of employment losses in the United States due to the contraction of imports by Latin American countries are given in G. Dhar, "United States trade with Latin America: Consequences of Financing Constraints", *Federal Reserve Bank of New York Quarterly Review*, Autumn 1983, p.17.

303 For empirical evidence on trade policy measures in developed market-economy countries which affect developing countries' exports, and a comparison of their extent with that of measures affecting exports from other developed market-economy countries see, *Report by the UNCTAD secretariat*, "Problems of protectionism and structural adjustment" (TD/B/1039 (Part I)), especially table 3.

The figure for the proportion of manufactured products forming the "core" of developing countries' exports which is subject to non-tariff measures (NTMs) in developed market-economy countries is estimated from the UNCTAD Data Base on trade control measures.

304 For details concerning the differential impact of trade policy measures affecting developing countries' exports of textiles, wearing apparel and footwear products see "Problems of protectionism..." (*op. cit.*), table 8.

307 Concerning the proportion of trade policy measures affecting developing countries which were directed at Brazil, Republic of Korea, Mexico and Taiwan Province of China see "Anti-dumping and countervailing duty practices: Note by the UNCTAD secretariat" (TD/B/979). (Geneva, 20 January 1984).

310 On the studies mentioned in footnote 42 to this paragraph see also the itemized accounts in *Report by the UNCTAD secretariat*, "Protectionism and structural adjustment in the world economy" (TD/B/981 (Part I)), table 16.

For full information on the sources of information employed in tabulating the NTM information, as well as a discussion of technical aspects of the UNCTAD Trade Simulation Model see "Problems of Protectionsim..." (*op. cit.*), particularly pp. 1-5 of the annex.

311 For detailed proposals aimed at phasing out protectionism in the textile and clothing sectors of industrial countries see Donald Keesing and Martin Wolf, "The Textile Quotas Against Developing Countries", *Thames Essay No. 23* (London: Trade Policy Research Centre, 1980), and Gerard Curzon *et. al.*, *MFA Forever? Future of the Arrangement for Trade in Textiles*. (London: Trade Policy Research Centre, 1981).

313 The analysis of the impact on world markets of devaluations by exporters of primary commodities to which reference is made is contained in UNCTAD, *Trade and Development Report, 1984* (UNCTAD/TDR/4/Rev.1), *op. cit.*, Annex C, paras. 22-48.

Chapter IV

PROSPECTS FOR THE FUTURE

Introduction

322. Earlier chapters of this report have underlined the role played by external factors in determining the debt positions and development performance of developing countries in the past. They have also pointed to the drastic narrowing of the room for manoeuvre arising from the reduced range of financing possibilities and the import compression and export expansion achieved by developing countries in the recent past through rigourous expenditure-reduction and expenditure-switching policies. These constraints have greatly heightened the sensitivity of developing countries to further changes in the world economic environment. It will now be much more costly and difficult to cut imports and boost exports by diminishing domestic absorption, and progress on these fronts will henceforth depend on how far investment at home is stepped up and how far markets abroad grow and become more easily accessible. Consequently, as long as the external trading and financial environment remain unfavourable, balance-of-payments constraints and financing constraints will make it difficult, at best, for developing countries to service their debts normally while attaining tolerable rates of growth. Moreover, even a slight deterioration in that environment will have disruptive effects on developing countries and hence, on their creditors as well.

323. The present chapter explores, through quantitative analysis, some of the possible implications of these constraints in the years ahead. It does so by using an econometric model designed to explore scenarios representing alternative patterns of the evolution of the world economy over the medium to longer term.[46] The model is organized as a series of interlinked sub-models, including seven regionally-based macro-economic growth models, a set of trade models, a complex arrangement of financial flow and debt models, and a model controlling international prices, interest rates and exchange rates. The model is not designed as a forecasting tool, but rather as an analytical framework for elaborating in an internally-consistent manner the consequences of assumptions and judgements relating to a limited set of key factors influencing the evolution of the world economy.

324. For the purposes of the current analysis, alternative assumptions are made relating to interest rates, the exchange rate of the dollar, international trade shares, import elasticities, international commodity prices, availability of international capital flows, and the rate of growth of the developed market-economy countries; their potential consequences are then explored. Two alternative scenarios are developed: the first explores the consequences of the continuation into the future of levels of the major macro-variables that have characterized the recent past; the second explores the extent to which the evolution of the world economy could be affected by a simultaneous improvement in a number of key factors influencing growth and development.

A. Low-growth scenarios

325. The first of the low-growth scenarios (scenario I (a)) is based on a presumption that the key factors influencing the international economic environment will behave broadly in line with recent trends, while allowing for such movements in the short term as can be projected with a reasonably high degree of confidence.[47] Specifically,

---

[46] For a more complete description of the model, see technical annex, section B.

[47] All scenarios take as given the short-term forecasts contained in Part One of the Report. Thus, 1986 is treated as the benchmark year.

it is assumed that the developed market-economy countries will grow at an average annual rate of about 2.8 per cent over the simulation period (1985-1995), compared with the 2.3 per cent average of the period 1980-1985, and the 3.0 per cent projected in Part One of this Report for the period 1985-1986. The socialist countries are assumed to grow at 4 per cent, essentially a continuation of recent and projected performance.

326. The following assumptions are also made: (a) inflation in the developed market-economy countries, and in the United States in particular, will follow recent trends; (b) the dollar will be higher, on average, in terms of the Special Drawing Right (SDR) in 1985 than in 1984, and will decline through 1988 at an average annual rate of 3 per cent, remaining unchanged thereafter; (c) one-year LIBOR (London Interbank Offer Rate), which reached unprecedented levels during the early 1980s, will remain unchanged throughout the period at a level of about 11 per cent; (d) total official development assistance (ODA) flows will remain unchanged as a proportion of the gross domestic product (GDP) of the developed market-economy countries, i.e., to grow at 2.8 per cent per annum after deflation by the GDP deflator of donor countries; (e) other official flows and direct private foreign investment will grow in line with past trends, although the former tend to follow the patterns of private bank lending; (f) private bank lending will continue to advance at a fairly cautious pace, with bank exposure to developing countries rising by about 6 per cent per annum over the simulation period.[48]

327. With respect to trade, the following assumptions are made: (a) current trends towards increased protectionism will be brought under control. Consequently, import elasticities of the developed market-economy countries, as well as the other regions, will remain broadly consistent with recent medium-term trends;[49] (b) by the same token, the gains in world trade shares achieved by developing countries over the past decade and a half will not be reversed and that further, albeit very modest, progress will be registered.

Scenario I (a)

328. As may be seen from table 33, scenario I (a), based on the configuration of the assumptions outlined above, results in average annual rates of growth for deficit developing countries as a group of approximately 3.25 per cent during the next decade. In these circumstances, the GDP per capita for deficit developing countries in 1990 as a whole would be barely above the levels reached in 1980. However, the experience of various groups of these countries would vary considerably. For the major Eurocurrency borrowers, per capita GDP in 1990 would still be below the levels achieved in 1980. Moreover, the continued net negative transfer of financial resources required from these countries in scenario I (a) would mean that per capita domestic absorption in 1990 would still remain less than their per capita GDP.

329. Under scenario I (a), there would be a gradual improvement in the major external financial variables with current-account deficits remaining constant or falling slightly relative to exports (except for the least developed countries). The ratio of interest payments to exports and debt to exports moves downward in the major Eurocurrency borrowers. This improvement in the external position of developing countries is a direct consequence of constraining the growth of nominal private debt outstanding to 6 per cent per annum and assuming that the resulting adjustment falls on growth rates of output. In this connection, it is important to note that, in consequence in part of assumptions relating to inflation and exchange rates, the rate of growth of international prices is higher than that of debt outstanding in the period 1985-1990, and about the same in 1990-1995: nominal exports of

[48] These assumptions are spelled out in greater detail in the technical annex of this report.

[49] Nevertheless, the shift in levels of imports of developing countries brought about by recent policies of import compression are assumed to be maintained.

Table 33

Scenario I (a)
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Total			
Average annual GDP growth rate *a/*	--- 3.38	--- 3.15	---
Interest payments to GDP	3.36	2.76	2.36
Debt to GDP	38.31	30.65	28.47
Interest payments to exports	11.34	8.91	7.21
Debt to exports	129.53	98.81	86.77
Current-account balance to exports	-10.47	-10.58	-10.47
of which:			
Major developing country Eurocurrency borrowers			
Average annual GDP growth rate *a/*	--- 3.34	--- 3.24	---
Interest payments to GDP	4.05	3.01	2.12
Debt to GDP	39.03	27.07	20.51
Interest payments to exports	15.39	10.81	7.15
Debt to exports	148.30	97.32	69.09
Current-account balance to exports	-7.09	-5.92	-4.81
Least developed countries			
Average annual GDP growth rate *a/*	--- 2.72	--- 2.90	---
Interest payments to GDP	1.81	2.77	4.80
Debt to GDP	61.86	73.12	101.84
Interest payments to exports	9.84	13.87	22.97
Debt to exports	335.38	366.35	486.86
Current-account balance to exports	-61.17	-73.66	-93.25

For source and note, see end of table.

Table 33 (continued)

Scenario I (a)
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Other deficit developing countries			
Average annual GDP growth rate *a/*	--- 3.50	--- 3.10	---
Interest payments to GDP	2.19	2.30	2.58
Debt to GDP	34.49	33.11	36.23
Interest payments to exports	5.94	6.02	6.46
Debt to exports	93.38	86.75	90.76
Current-account balance to exports	-12.40	-13.66	-14.12

Source: UNCTAD secretariat calculations.

Note: Deficit developing countries comprise all developing countries other than surplus developing countries which consists of those countries with current-account surpluses greater than $2 billion in four of the five years 1976-1980. Major eurocurrency developing countries are those countries with cumulative borrowings in the Eurocurrency markets of $1.5 billion over the period 1973-1978, but excluding major surplus countries. For the country composition, please see note to table II of section E of the technical annex.

a/ Period average.

deficit developing countries grow at nearly 12 per cent per annum over the simulation period as a whole.

330. Although all the key variables underlying scenario I (a) are subject to considerable uncertainty, particular attention attaches to the likely evolution of those relating to the future pace and structure of financial flows. In view of the central role played by the assumption of constrained private bank lending to developing countries, a second scenario (scenario I (b)) has been developed where private bank lending is not strictly constrained and developing countries are allowed to grow at a pace approximating that which would be dictated by domestic forces and the international trading environment. In this scenario bank exposure to developing countries rises at an average rate of 9 per cent during 1985-1990, and more rapidly thereafter.

Scenario I (b)

331. Scenario I (b) allows the major Eurocurrency borrowers to grow more rapidly throughout the period and also allows the growth of "other" deficit developing countries to improve. Moreover, the export elasticities of the deficit developing countries fall from the levels in scenario I (a) of 1.27 and 1.40 for 1985-1990 and 1990-1995, respectively, (levels which may not in fact, be tenable over such a long period) to 1.06 and 1.14 in scenario I (b). Nevertheless, while this scenario shows better results in terms of growth performance than the previous one, the outcome could scarcely be judged as satisfactory. The rates of growth of the least developed countries are virtually unaffected as compared with sce-

nario I (a). Further, although the growth rates of the major capital market borrowers are sufficient to allow per capita absorption and GDP to reach levels in 1990 that are higher than those achieved in 1980, the margin of advance is a narrow one and a number of these countries that have experienced debt-servicing difficulties would see their GDP and absorption per capita still falling short of levels reached in 1980. For many of them, it would also be questionable as to whether the growth of output was sufficient to absorb projected increments to their urban labour forces.

332. While under scenario I (b) real variables show modest improvement as compared to scenario I (a), the release of the constraint on private lending would result in a considerable deterioration in the external financial position of the deficit developing countries. Under scenario I (b), the ratio of the current-account deficit to exports of this group increases as would be expected (see table 34). However, the increase in the deficit relative to exports is quite large relative to the additional growth achieved, which is roughly one percentage point. Moreover, as a consequence of this, the ratios of debt and interest payments to exports begin deteriorating around 1990 and worsen noticeably thereafter. In short, acceleration of growth through an acceleration of bank borrowing is untenable given the rest of the external environment assumed in the scenario.

333. Thus, neither scenario I (b), built around the configuration of variables contained in scenario I (a), nor I (a) itself, appear to be viable. Such scenarios either result in rates of growth that remain unacceptably low for a prolonged period, or they produce minimal rates of growth for some countries but fail to provide a basis for an eventual return to external financial viability.

334. The relative likelihood of a future that would broadly resemble one or the other of these scenarios is difficult to assess. The outlook for the months immediately ahead is for somewhat higher growth in developed market-economy countries than assumed in these scenarios, and possibly somewhat lower interest rates, thus suggesting a climate that may be slightly more favourable than that assumed in the preceding scenarios. Beyond this immediate outlook, however, uncertainties prevail. The major variables are strongly influenced by the monetary, fiscal, trade and aid policies of the principal developed market-economy countries. These policies have undergone major shifts in recent years and there is no knowing whether substantial changes will continue to take place and if so, whether these would constitute a re-enforcement of past policies or a reversal of direction. For example, it is impossible to tell whether policies will (a) continue to be directed single-mindedly to combat inflation; or (b) whether employment and output objectives will regain importance; (c) whether monetary policies will be oriented primarily at controlling the rate of growth of monetary aggregates; or (d) whether interest rates will also become an important target; (e) whether national policies will continue to be guided solely by domestic objectives and their consequences; or (f) whether account will be taken in a co-ordinated manner of their external consequences; and (g) whether "aid fatigue" will continue or spread.

335. Thus, each of the major variables that determine the outcome of the scenarios could evolve in ways that are more or less favourable to growth and development than is assumed in the scenario. Differences from the scenario assumptions could offset each other with some variables moving along a path more favourable than those assumed in the scenario while others could take a course that is less favourable. On the other hand, it is also possible that the variables, on balance, move in a less favourable direction than those assumed in the exercise. Such a movement would obviously create grave dangers for the international financial system and threaten its continued existence in its present form. An illustrative exercise depicting such an eventuality is presented in the technical annex.[50] What is striking about this scenario is the rather substantial negative, collective impact of a set of slightly more pessimistic assumptions for a number of the key variables.

---

[50] See technical annex, section D 1 (c).

Table 34

Scenario I (b)
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Total			
Average annual GDP growth rate *a/*	--- 4.34	--- 4.32	---
Interest payments to GDP	3.36	2.87	3.74
Debt to GDP	38.31	33.00	44.80
Interest payments to exports	11.34	9.55	12.10
Debt to exports	129.53	109.73	145.09
Current-account balance to exports	-10.47	-16.50	-27.19
of which:			
Major developing country Eurocurrency borrowers			
Average annual GDP growth rate *a/*	--- 4.53	--- 4.55	---
Interest payments to GDP	4.05	3.10	3.83
Debt to GDP	39.03	29.80	41.09
Interest payments to exports	15.39	11.63	13.99
Debt to exports	148.30	111.71	150.06
Current-account balance to exports	-7.09	-14.09	-27.85
Least developed countries			
Average annual GDP growth rate *a/*	--- 2.72	--- 2.90	---
Interest payments to GDP	1.81	2.78	4.85
Debt to GDP	61.86	73.55	102.99
Interest payments to exports	9.84	13.89	22.92
Debt to exports	335.38	366.83	486.25
Current-account balance to exports	-61.17	-73.55	-92.63

For source and note, see end of table.

Table 34 (continued)

Scenario I (b)
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Other deficit developing countries			
Average annual GDP growth rate *a/*	--- 4.14	--- 4.01	---
Interest payments to GDP	2.19	2.44	3.45
Debt to GDP	34.49	35.24	46.83
Interest payments to exports	5.94	6.48	8.90
Debt to exports	93.38	93.66	120.93
Current-account balance to exports	-12.40	-16.84	-22.96

Source: UNCTAD secretariat calculations.

a/ Period average.

336. The annex also contains a full-fledged analysis of the sensitivity of scenario I (a) to changes in each of the major assumptions underlying the simulation.[51] The results of this analysis show the importance that changes in these assumptions would have on the results of scenario I (a). For example, a two percentage point decline in LIBOR maintained throughout the period would increase developing country growth by about one half of one percentage point. The same result could be accomplished if the share of developing countries in world trade were to increase by roughly two percentage points. On the other hand, a fall in GDP in developed market-economy countries of one half of one per cent would more than offset the improvement resulting from either of the above changes, taken singly.

337. Such a sensitivity analysis also suggests that relatively modest improvements in the main variables, were they to occur simultaneously and be sustained, could have a powerful positive impact on the problems of debt and development.

B. A scenario of accelerated growth

338. A measured, but decided across-the-board improvement in the external environment facing developing countries would have a decisive impact on the degree to which they could realize their growth potential while improving their external financial position. To explore these possibilities, a more favourable scenario has been constructed. In this scenario (scenario II) developed market-economy countries are assumed to grow at about 3.5 per cent during the period; LIBOR is assumed to decline gradually in nominal terms over most of the period, and to fall considerably in real terms because of some acceleration in the increase in prices of internationally traded goods; the terms of trade of commodities *vis-a-vis* manufactures are assumed to improve moderately; penetration by developing countries of their main export markets is assumed to continue at a moderate pace; and the 0.7 per cent target for ODA is assumed

[51] See section E, tables IX and X of the annex.

to be reached by developed countries by 1990.

339. The results of this change of assumptions are striking. As may be seen from table 35, the growth rate of developing countries rises to reach 7 per cent by 1995, and is distributed more or less evenly among the main analytical groupings. Both interest payments and debt outstanding as percentages of GDP show a progressive decline, from 3.4 per cent and 38 per cent in 1985 to 1.7 per cent and 25 per cent in 1990 and 0.9 per cent and 17 per cent in 1995. The current-account balance declines somewhat between 1985 and 1990, increasing slightly only over the period 1990-1995. Debt as a ratio of exports falls from 130 per cent in 1985 to 80 per cent in 1990 and 53 per cent in 1995.

340. Turning to individual country groups, scenario II results in the major capital-market borrowers being able, because of the more favourable trade and price environments, to reduce progressively their stock of debt. Consequently, while they run sizeable negative net transfers, their interest bill eventually declines, even in absolute terms. Alternatively, the countries in question might regard debt retirement as premature, given their stage of development, and consequently prefer to use their improved credit-standing to continue borrowing and attain higher rates of growth; this would imply lower trade balances and higher debt-service payments at each point in time. However, for such a course to be viable in the long term, export growth would need to be stepped-up also. The feasibility of this would depend partly on the trade policies of the developed market-economy countries. The same is true with regard to the feasibility of a debt-retirement path. If developed market-economy countries perceived the trade surpluses sought by debtors as a drain on profits and employment in their own economies, or as evidence of "unfair" trading policies, import restrictions might be tightened, making it impossible for countries, the capital-market borrowers in particular, to lessen indebtedness without also reducing growth. For capital-market borrowers, therefore, much would depend on a sufficiently wide access to the markets of developed market-economy countries.

341. For the least developed countries, the dramatically-improved growth rate of 7.2 per cent by 1995 in the recovery scenario largely reflects the assumption made that aid performance improves substantially, specifically that total ODA doubles as a percentage of the GDP of developed market-economy countries by 1990. It also assumes that no significant impediments to growth would emerge in domestic economies. For the least developed countries, debt as a proportion of GDP and exports rises markedly over the period, as do current-account balances as a proportion of GDP, and the trade deficit as a proportion of exports. As for the other deficit-developing countries, these lower their indebtedness relative to other aggregates, but not in absolute terms, and continue to run current-account and trade deficits.

342. Given the vastly different implications for developing countries and the international financial system of the two scenarios, the question arises as to whether the present policy approach will bring the world economy closer to the first or the second of these outcomes. With regard to some dimensions of policy, the answer to this question is clear: present policies with regard to official development finance, for example, would lead to the first, low-growth scenario.

343. As regards the major international macro-variables, the situation is more complex. These variables are presently on a course that cannot be sustained, and the manner in which this is dealt with will determine whether the world economy approaches the first or second scenario in the years ahead.

The sustainability of the present course

344. The disparities in demand expansion and the misalignment of exchange rates resulting from the monetary and fiscal policies of the major developed market-economy countries (discussed earlier) have resulted in a situation that is increasingly untenable for the world economy at large. It is highly unlikely that the present trends in trade imbalances can continue for long, for sooner or later financial markets will become reluctant to accumulate

Table 35

Scenario II
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Total			
Average annual GDP growth rate *a/*	--- 4.48	--- 6.08	---
Interest payments to GDP	3.36	1.67	0.92
Debt to GDP	38.31	24.64	17.18
Interest payments to exports	11.34	5.39	2.83
Debt to exports	129.53	79.71	53.06
Current-account balance to exports	-10.47	-8.07	-10.61
of which:			
Major developing country Eurocurrency borrowers			
Average annual GDP growth rate *a/*	--- 4.53	--- 6.10	---
Interest payments to GDP	4.05	1.86	0.90
Debt to GDP	39.03	22.29	11.36
Interest payments to exports	15.39	6.70	3.09
Debt to exports	148.30	80.47	38.81
Current-account balance to exports	-7.09	-3.45	-3.40
Least developed countries			
Average annual GDP growth rate *a/*	--- 4.00	--- 5.92	---
Interest payments to GDP	1.81	1.36	1.52
Debt to GDP	61.86	55.40	67.12
Interest payments to exports	9.84	6.90	7.40
Debt to exports	335.38	280.22	327.79
Current-account balance to exports	-61.17	-74.91	-106.88

For source and note, see end of table.

Table 35 (continued)

Scenario II
Deficit developing countries: selected results
(Per cent)

Variable/period	1985	1990	1995
Other deficit developing countries			
Average annual GDP growth rate *a/*	--- 4.43	--- 6.03	---
Interest payments to GDP	2.19	4.34	0.88
Debt to GDP	34.49	26.07	23.11
Interest payments to exports	5.94	3.50	2.22
Debt to exports	93.38	67.98	58.47
Current-account balance to exports	-12.40	-10.88	-15.64

Source: UNCTAD secretariat calculations.

a/ Period average.

dollar-denominated assets at the present pace, and currency holders will eventually be prompted by mounting trade imbalances to switch out of the dollar. It has been estimated that on current trends the net foreign indebtedness of the United States would reach one trillion dollars by 1990 raising its external debt to a level roughly equal to that of all other countries put together.

345. Moreover, the outcome is becoming increasingly unacceptable to governments. The strength of the dollar was in the past not unwelcome to the United States, since by lowering import prices it had reduced inflationary pressures. However, it is now very costly in terms of output, because it increasingly causes United States demand to leak abroad: by early 1985, output growth had slackened noticeably while demand growth continued to be relatively rapid. The erosion of competitiveness that results from an over-valued dollar is not confined to the traditional export sectors such as the "smoke-stack" industries; during 1980-1984 the United States switched from being a net exporter to a net importer of electronic equipment and components. In other words, the behaviour of exchange markets is causing a large part of the output growth resulting from expansionary fiscal policies to accrue to other countries, while the costs in terms of reduced competitiveness and increased public sector debt are borne by the United States. The increased risk of a run on the dollar is also a source of concern.

346. The question thus arises whether the imbalances resulting from disparities in demand-creation and in interest-rate differentials can be corrected solely by unilateral policy changes on the part of the United States; or solely by policy changes on the part of Western Europe and Japan; or through the operation of private currency and capital markets.

347. A unilateral shift by the United States towards a less expansionary fiscal stance would reduce the trade imbalance by reducing the disparity in demand-creation; it might also lead to lower interest rates and a cheaper dollar, thereby improving United States competitiveness. This could bring some benefits to developing countries but would most likely reduce output growth in other developed market-economy

countries. It could also reduce output growth in the United States, if the fiscal tightening were not fully matched by a monetary loosening. In other words, bringing United States policies into line with those of the other major developed market-economy countries could remove trade imbalances, but at the cost of deflating the world economy.

348. An alternative approach would be for Western Europe and Japan to change their fiscal and monetary policies to accord with those presently in force in the United States, specifically, to cut taxes to increase aggregate demand and tighten monetary policy in an attempt to induce a fall in the dollar. This would reduce trade imbalances by raising the rate of growth of output and demand. If successful it would tend to raise commodity prices. However, it would certainly involve a further hardening of interest rates and would, on that account, accentuate the debt problem.

349. If the dollar were to depreciate as a result of an erosion of confidence in that currency, it would have the effect of reducing the demand leakage from the United States thereby helping to correct the trade imbalances. However, there is no assurance that such a depreciation brought about by a shift in the mood of the market would be correct in either magnitude or timing. If it were to involve a "run" on the dollar, interest rates might be raised sharply, as in 1978, in an effort to limit the decline. This would add further pressure on debtor developing countries. Moreover, it might offset the expansionary impact of the dollar depreciation on the home economy. Consequently, the net result could be to reduce demand in the world economy.

350. In short, the disparities in interest rates and exchange rates, and in rates of growth of demand and output, cannot be readily resolved through market processes alone or by unilateral policy adjustments. Unless government policies change in order to remove the disparities, markets are bound eventually to seek to bring about certain corrections, in their own way and at their own pace, with adverse repercussions. Adjustments through this route are likely to involve further recession and increased debt servicing difficulties.

Policy co-ordination for global expansion

351. The preceding analysis suggests that major shifts need to be made in a co-ordinated manner in the monetary and fiscal policies of the major developed market-economy countries in order to put recovery on a surer footing. The extent and nature of the shifts would depend on the scope of their objectives.

352. If the objective were limited to lessening imbalances within the OECD area, two broad changes are necessary, and would be sufficient. First, the share of the United States in the creation of demand must be reduced, and that of Western Europe and in particular, Japan increased. Second, the proportion of United States demand accruing to producers in that country must be increased and the proportion accruing to producers in other countries, in particular Japan, reduced.

353. These objectives could be attained, while leaving overall rates of growth and unemployment unchanged, by means of co-ordinated shifts in monetary and fiscal policies. For example, fiscal tightening in the United States could be combined with fiscal relaxation in Europe and Japan, in such a way as to leave world demand unchanged; and monetary relaxation in the United States combined with monetary tightening in Europe and Japan, in such a way as to realign the dollar and strengthen the competitiveness of the United States. As a result, growth would be more evenly distributed and trade imbalances lessened. At the same time, unemployment in the foreign-trade industries of the United States and the associated protectionist pressures would be reduced. Cost pressures would increase in the United States and lessen elsewhere on account of the exchange rate realignment; but commodity prices would be pulled up to some extent. In spite of the improvement in the foreign trade sector it is probable that total employment would drop in the United States and increase in Western Europe. Co-ordination designed solely to lessen imbalances among OECD countries would however, fall short of that indicated by considerations of global balance. For example, co-ordination that lessened interest rate differen-

tials by raising West European and Japanese rates, rather than by lowering United States rates, would benefit developing countries only inasmuch as it lowered the dollar, thereby raising the prices of internationally trade goods and reducing the real burden of debt.

354. However, if the objective were to include a significant reduction in the overall level of unemployment in the developed market-economy countries, the redistribution of the stimulus would need to be accompanied by a strengthening of the stimulus. This could be secured through a combination of fiscal and monetary relaxation. The precise balance struck between the two would have important implications for developing countries, for in order to make a significant impact on the debt problem it would be necessary both to strengthen the overall stimulus and to reduce the level of interest rates by a considerable margin. If the first condition were not met, commodity and other export earnings would not be improved sufficiently. And if the second were not, the cost of debt and of borrowing would remain high. From the wider standpoint of the world economy, therefore, it would be necessary for policies to be realigned around a major relaxation of United States monetary policy and reduction of interest rates, with United States fiscal policies and the monetary and fiscal policies of the other major countries being adjusted in such a way as to provide a stronger (though not excessively strong) overall stimulus, and a re-apportionment of the impact of that stimulus via a realignment of exchange rates.

355. In order for such an approach to contribute significantly to reducing the overhang of debt, and foster an expansion of new lending, markets would need to be convinced that the improvements in the financial and the external trading environments were of an enduring nature. If creditors perceived these to be temporary, they would naturally retain the expectation that developing countries would continue to be subject to periodic interest-rate and trade shocks, and would therefore continue to delay a resumption of lending on a voluntary basis until the stock of debt relative to export earnings had been substantially reduced. This is a process which would involve future heavy sacrifices for both developing countries and their trading partners. In other words, it would be necessary for the major developed market-economy countries to engage in policy co-ordination not on an *ad hoc* but on a continuing basis, and to include among their traditional macro-economic concerns international growth and development objectives as central rather than peripheral goals. This requires, among other things, an increase in the resources and lending of multilateral financial institutions; direct action to strengthen commodity export earnings; and greater progress in implementing ODA targets. None of these measures are, however, likely to succeed to the extent required without the re-institution of an atmosphere of greater predictability and confidence in the world economy as a whole. That latter situation will itself depend upon whether significant and prompt progress can be made on a number of other policy fronts, of which a relaxation of trade barriers and improvement in the functioning of the international monetary system are the most important.

ANNEXES

Technical annex to Part Two, Chapter IV

MEDIUM-TERM SCENARIOS OF DEBT AND GROWTH PROSPECTS OF DEVELOPING COUNTRIES

CONTENTS

List of annex tables

List of statistical material

TECHNICAL ANNEX

A. Methodological considerations: The use of scenario analysis

1. The technical analysis presented in this annex is intended to provide a quantitative and forward-looking dimension to many of the issues raised in part two of this report. The analysis carried out is reported on briefly in chapter IV of part two. It aims to capture medium-term implications for the growth prospects of developing countries under assumptions relating to alternative configurations of the international economic environment. Scenario construction is to be seen not as an attempt to forecast future events but rather to test the inherent consistency of particular sets of assumptions regarding those factors held to be of key importance in the evolution of the world economy. The starting point which has been adopted is to explore the implications over the medium term of trends and to assess the likely viability of the growth paths and evolution of the external financial situations implied by those trends. The assumptions regarding the likely future magnitude of key variables are then changed and the implications for financial viability and growth explored in alternative scenarios.

2. Scenario analysis, as applied to the exercise presented in this annex, may be decomposed into three separate stages. The first step is to identify those factors which are felt to be of importance in determining the nature of the evolution of the international economic system over the medium term. Second, an analytical framework must be constructed which will encompass the interaction of those key factors and their net impact on the evolving situation. It should be noted that this requires the construction of a simulation system sufficiently flexible to allow the analysis of a number of different hypothetical scenarios in a manner which maximizes the clarity of the assumptions. Third, depending on the nature of the scenario under construction, judgements are formed as to the most likely trends in each of the key exogenous factors and the scenario is simulated over the relevant time horizon.

3. Having carried out the simulation exercise, the results need to be examined to ascertain the inherent consistency and reasonableness of the scenario as a whole. It should be noted that much of the usefulness of scenario analysis lies in the fact that the attachment of high probabilities to each of the individual factors making up a scenario does not necessarily imply that a high probability exists of that scenario actually coming to pass. The reasonableness of the scenario must be judged by the consistency of the assumption of unchanged policy trends and macro-economic behaviour with the evolution of other factors as simulated.

4. If, in fact, the outcome of the scenario seems implausible on the basis of the adopted criteria, there are three basic possibilities. First, the analytical framework underlying the simulation of the scenario may be incomplete or misspecified. Second, an incorrect judgement as to one or more of the key factors governing the scenario may have been made. Third, it may be that both the set of factors and the analytical framework are essentially valid but the implicit assumption of unchanged policies or behaviour is invalid. It is this last case which makes the exercise as a whole interesting from a policy perspective.

5. The following sections of this annex examine the question of the medium-term prospects of developing countries within the above methodological framework. Section B presents the simulation framework to be used in the analysis; section C briefly presents the broad outlines of a current trends scenario and the results produced by the simulation framework. Certain closely-related scenarios are then explored, with a view to determining the soundness of the central conclusions. Finally, in section D, as an alternative, a recovery scenario is constructed and a sensitivity analysis carried out to ascertain the relative importance of each of the key assumptions involved in the creation of that scenario.

B. Analytical framework

1. The System for Interlinked Global Modelling and Analysis (SIGMA)

6. In its present form, the model supported within SIGMA[1] consists of a system of seven regional macro-economic growth models linked together via a set of trade models, a price and exchange-rate sub-model and a system of financial flow models. The system as a whole is a mixture of econometric and parametric relations designed to facilitate the examination of the impact of altered assumptions and judgements on its behaviour. It is solved by means of a double iterative loop. Each module is iterated to convergence for a given year, relevant linked variables passed on to other parts of the system, and the next module is then picked up. The algorithm continues through the individual modules one by one until each individual module has required only one iteration to achieve solution. At that point, the procedure begins again for the next year of the simulation period.

2. The cross-country macro-economic growth models

7. The macro-economic growth models are based on seven country groupings, namely, (i) developed market-economy countries, (ii) socialist countries, (iii) major surplus developing countries, (iv) developing countries which are major borrowers in Eurocurrency markets, (v) African least developed countries, (vi) non-African least developed countries, and (vii) other developing countries.[2] In addition to the aggregate demand relations, each regional model contains an input-output structure broken down into five sectors and a set of import equations for the four trade categories.[3] At any point in time, the input-output model is driven in a standard manner by the components of final demand. Over time, the technical coefficients change with the level of per capita production in a manner governed by the results of a country-based cross-sectional econometric analysis. The models do not, at present, contain endogenously-determined domestic price structures. Thus, in order to generate nominal values for domestic production consistent with the finance and trade sub-systems, trade-weighted international prices are applied to the regional gross domestic product (GDP) series.

3. The trade flow framework

8. Trade flows are decomposed into three separate commodity groups (primary commodities, energy and manufactures) and non-factor services, with a

---

[1] The System for Interlinked Global Modelling and Analysis (SIGMA), which has been developed by the UNCTAD secretariat, consists of two broad elements. First, a sophisticated software package has been designed and constructed explicitly to handle interlinked global models consisting of a number of open-ended sectoral and regional models in a flexible and efficient manner. Second, the substantive economic content of the SIGMA system, consisting of the sum of the individual component models, together with their interlinkages, is essentially a set of regionally-based macro-economic models linked together by trade and financial flow models. The system is specified in a modular fashion which allows for a relatively easy expansion or modification of individual components. In this way, an interlinked global model is maintained which is continually in a state of evolution as new sectoral and regional models are added and as old models are replaced by expanded versions.

[2] Surplus developing countries consist of those countries with current-account surpluses greater than $2 billion in four of the five years 1976-1980. Deficit developing countries comprise all other developing countries. Major Eurocurrency developing countries are those countries with cumulative borrowings in the Eurocurrency markets of $1.5 billion over the period 1973-1978, but excluding major surplus countries. For the country composition, please see note to section E, table II of this annex.

[3] For the least developed regions, primary commodities are further disaggregated into food and non-food categories.

separate sub-model for each category. Export volumes and import prices for each of the commodity groups and regions are determined by passing the import volumes (as determined in the regional blocks) and the export prices (as determined in the international price block) through the relevant trade-share matrix.[4] Trade shares, in turn, are a function of historical trend, relative importance of the exporting region in global production, and instrumental variables intended as proxies for policy changes. Non-factor services are simply tied to trade in goods, with a normalization routine to ensure consistency at the global level.

4. International prices, exchange rates and interest rates

9. The international price sub-model is essentially a simple accounting framework designed to maintain consistency among levels of activity, international prices, exchange-rate assumptions and interest rates. First, the international dollar price of manufactured exports is determined by an econometrically-estimated function of United States domestic inflation and the change in the exchange rate of the dollar *vis-a-vis* the Special Drawing Right (SDR). In turn, the price index for primary commodities is determined as an econometrically-estimated function of the growth of demand, supply and the price index for manufactures. The price of energy is a parametric function of real growth and the manufactures price index. The nominal interest rate is assumed to be sensitive to United States inflation, real growth in the developed market-economy countries and a mark-up factor representing a notional discrepancy between actual real rates of interest and their theoretical long-term trend.[5] The mark-up factor may be considered as a proxy, reflecting the net result of forces of uncertainty and, in the short run, monetary policies.

5. The financial flow framework

10. The system of financial flow-cum-debt models keeps track of six types of international capital flows, namely, public grants, ODA loans, other official flows, private long-term financial flows, direct investment, and short-term flows. In addition, there is a small sub-model governing private transfers, the results of which are included in the current account. Separate sub-models control the terms structure of the flows and the level and distribution of new gross flows. In contrast to the comprehensive treatment of trade, these flow models, while fully elaborated conceptually, contain full details only for the developing regions.

11. For each of the flows requiring it, the modules keep account of debt outstanding, commitments, disbursements, amortization, interest payments, interest rates, grace period and repayment period. These variables are maintained in a seven-by-seven matrix format for those flows where bilateral information exists.[6] Short-term flows and direct investment flows are maintained only on a pooled basis.

12. The initial allocation of new flows in a given year depends upon the type of flow. ODA grants and loans are a function of the GDP of donor regions, broken down by the recipient region. Other official flows are tied to the imports of recipient regions, as are short-term flows. However, there is also an element of rolling-over in the case of short-term debt. Private lending is governed by historical patterns and direct investment by the export

[4] The trade matrices are six-by-six, with the least developed countries represented by a single row and column.

[5] For the purposes of this exercise, it is presumed that the long-term real rate should approximate the trend rates of growth of output of the developed market-economy countries.

[6] As in the case of trade flows, the least developed countries are represented by a single row and column. The seventh row and column represent multilateral and other pooled flows.

performance of the recipient region.

6. Mode of solution

13. While the system may be brought to a solution in a number of different ways, for the purposes of the current exercise, two methods were used: (a) the capital availabilities mode and (b) the capital requirements mode. Under the former, complete detailed constraints were placed on the supplies of all forms of external financing; given those constraints, the system determined growth rates of output compatible with financial availabilities. Under the capital requirements mode, growth rates of output were set according to other criteria relating to the specified scenario and other official and private lending flows adjusted themselves to fill any remaining financial gap. Additionally, it must be emphasized that, irrespective of the solution mode, a good deal of "man-machine" interaction is involved in the construction of an internally-consistent scenario.

C. Current trends: a constrained perspective

1. Key trends and constraints

14. The description of the methodology and analytical framework presented above shows that this exercise takes as its point of departure the presumption that the quality of the international economic environment will be crucial to the success or failure of the development effort over the next several years. In this connection, the most obvious determinant of the degree of support provided by the international economic environment to developing countries remains the pace of economic activity in the rest of the world. This, despite the substantial economic progress made by developing countries over the 1960s and the 1970s. However, the nature of the influence varies a great deal from country to country and sector to sector. Further, the trade and finance systems, in mediating that influence, can and do serve to reinforce or dampen the transmission of economic impulses, depending upon circumstances. For example, the period 1960 to 1970 was a period of relatively healthy growth on the part of both the developed and developing countries. Yet, the *ex post* elasticity of developing country growth relative to developed was only about 1.2. On the other hand, although the rate of expansion slackened slightly for both groups of countries during the 1970s, the elasticity of growth between them increased to about 1.8. Then, with the sharp reduction of growth of the world economy as a whole over the period 1980-1985, the elasticity fell to only 0.85 (see table 1). These rather simple relationships underline the fact that while the levels of economic activity in developed and developing countries tend to move together, other factors heavily influence the closeness of the relationship. In particular, the construction of a scenario based on current trends and constraints require that judgements be made regarding the future evolution of trade patterns, the complex of prices, exchange rates and interest rates, and financial flows, in addition to projections of developed market-economy country growth.

2. Trade patterns

15. The evolution of trading patterns is arguably the most important mechanism reconciling the interaction of growth rates in the developed and developing countries. A favourable international trading environment is of crucial importance to the developing countries if they are to speed up their pace of development. Essential imports for the expansion of production capacity need to be financed for the most part through export earnings. Formally speaking, the transmission mechanisms associated with the trading system may be summarized in terms of (a) degrees of market penetration, (b) overall trade policies of developed countries, including degree of openness and protectionist tendencies, and (c) the behaviour of the prices of internationally-traded goods.

16. In the first place, greater access to foreign markets is indispensable. The 1970s witnessed the successes of certain developing countries in penetrating the markets of the developed market-economy countries. Section E,

Table 1

Patterns of world growth, 1960-1985
(Per cent)

	1960-1970	1970-1980	1980-1985
Developing countries	5.9	5.7	1.95 *a/*
Developed market-economy countries	4.9	3.2	2.30
Socialist countries	6.7	5.2	4.44
Growth elasticity	1.2	1.8	0.85

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ Excludes major surplus developing countries.

table I, shows the changes in the import structure of various regions from developing countries as a whole. Between 1970 and 1981, the share of manufactured goods from developing countries in developed market-economy countries' imports of this category increased from 4.7 per cent to 9.9 per cent. For developing countries, the corresponding figures are 8.4 and 13.7 per cent, reflecting the increasing importance of trade among developing countries in manufactured goods. However, it appears to be most unlikely that these trends can be continued, given the sharply increased tide of protectionism in recent years. It seems more probable that developing countries will continue to expand their market shares in international trade relative to the developed market-economy countries, but at significantly reduced rates. In particular, it is assumed in Scenario I (a) below that trade shares of developing countries perform slightly better than indicated by their production shares.

17. While market penetration and trade barriers have relatively unambiguous effects on the export earnings potential of developing countries, the impact of changes in the commodity terms of trade is more complex, affecting different groups of countries in varying ways and with those effects changing substantially over time. Also, it is important to note that the behaviour of the nominal price level can be as significant as the behaviour of the terms of trade in cases where there is a substantial financial burden facing developing countries. Furthermore, the behaviour of the international price level is closely tied to patterns of inflation and exchange rates.

3. Prices, exchange rates and interest rates

18. The complex consisting of inflation, exchange rates, and interest rates is difficult to disentangle. The fact that each of these variables has a direct impact on the ability of developing countries to finance their deficits is clear. However, as elaborated below, the interrelationships among these variables are both intimate and difficult to predict. For example, a strengthening dollar exchange rate tends to depress international prices where these are expressed in dollars and thus increases the debt burden of developing countries. However, the converse argument that a declining value of the dollar will contribute to the easing of the debt burden may not be true if it is associated with rapidly increasing nominal dollar rates of interest.

19. Turning specifically to domestic inflation, as can be seen from section E, table IV, the major developed market-economy countries have had a notable

success in lowering their inflation rates in recent years. The estimated average rate for 1985 is only 4.75 per cent, a marked decline compared to the average rate of inflation of 8.3 per cent for the period 1970-1980. However, in making a judgement about future patterns of inflation, it needs to be observed that persistent high rates of unemployment and continuing sluggish rates of GDP growth may induce national authorities to ease monetary discipline to some extent.

20. In this connection, the paramount role of the dollar in international trade and finance gives special importance to the domestic price level of the United States. While the United States has been particularly successful in reducing its rate of inflation, as may be seen from section E, table IV, this is to some extent illusory from the point of view of the rest of the world. Adjusted for exchange-rate movements, price levels in the United States' economy look quite different. In the light of these considerations, the most prudent course would appear to assume some modest increase in inflation relative to the most recent experience, perhaps approaching those indicating longer-term trends. It is thus assumed in Scenario I (a) that United States domestic inflation will approximate 5 per cent for the duration of the simulated period.

21. Since it is the combination of inflation in the United States and the behaviour of the dollar exchange rate relative to other major currencies that virtually defines the international nominal price level, projected movements of the dollar exchange rate assume major importance in analyzing the likely evolution of the international economic environment over the next several years. Unfortunately, it is also a very volatile variable which is difficult to predict even over the longer term (see section E, table V). In particular, the dollar depreciated against the SDR by average annual rates of 3.8 and 1.4 per cent during 1971-1975 and 1976-1980, respectively, with large annual fluctuations. Since then the dollar has appreciated, most recently reaching levels which in the beginning of 1985 at times expanded parity with the SDR. While the causes of the recent appreciation of the dollar is a matter of some dispute, the very substantial inflows of investment funds from abroad are generally considered to have played a significant role.[7] Thus, the consequent widening of the United States trade deficit is often interpreted as an indication that the dollar is overvalued. The critical question relates to when and to what extent the dollar will depreciate. On balance it may be most in keeping with current trends and the concept of a financially-constrained scenario to assume a modest devaluation over the next few years.[8] It is thus assumed that the dollar will depreciate by 2.9 per cent per annum over the period 1986-1988 and remain constant thereafter.

22. Likely future movements in interest rates is another area of relative uncertainty. Exceedingly high interest rates have been registered in

---

[7] Section E, table VII, shows why exchange-rate movements could provide an added incentive for channelling investments funds to the United States. Considering only the appreciation of the dollar alone, investors in United States Government bonds could earn an average rate of return in terms of SDR of nearly 20 per cent for the period 1981-1984. Even when allowance is made for inflation in other major industrialized countries, the real rate of return still surpassed 12 per cent in three out of the four last years. The reinforcing effects of high interest rates in the United States and the appreciation of the dollar thus provide a good explanation of the continued inflow of foreign capital to the United States, notwithstanding its growing trade deficit.

[8] Having determined likely trends in inflation and in the evolution of the dollar, the likely trend in nominal international dollar prices is largely fixed. Thus, the combination of a small increase in United States domestic inflation, together with a devaluation of the dollar, would probably result in a significant increase in the price level of internationally-traded manufactures. On the other hand, given likely modest rates of growth of demand, together with the current low price levels of primary commodities, there is little evidence on which to base an expectation of other than relatively small changes in the commodity terms of trade.

recent years (see section E, table VII). Interest rates reached a post-war peak in 1981, when the one-year LIBOR rate amounted to 16 per cent and interest rates on long-term government bonds in the United States were as high as 13.7 per cent. Since then, interest rates have come down considerably and are expected to average about 10.5 per cent in 1985. The decline in nominal interest rates, however, has been at a slower pace than that of inflation in the developed market-economy countries. As a consequence, real interest rates have tended to increase rather than decrease in line with falls in nominal rates.

23. The recent movements of real interest rates have been ascribed in many quarters to the inability of governments to control fiscal deficits. Inasmuch as current polices are not generally expected to have dramatic effects on public deficits, medium-term real interest rates can only be assumed to decline by relatively small amounts, thus remaining quite high by historical standards. Therefore, it is assumed that the real rate of interest is 3.5 percentage points higher than the growth rate of output of the developed market-economy countries.

4. Financial flows

24. The severe contraction of international financial flows in recent years has been thoroughly documented earlier in this report. With respect to private finance, the current situation may almost be characterized as one of forced lending. It must be assumed, however, that the adjustment programmes in place are such that some voluntary lending from private sources will be forthcoming, although at very moderate rates by historical standards. As concerns the balance between short-term finance, on the one hand, and medium- and long-term finance, on the other, the presumption is that a significant percentage of short-term debt will be retired and replaced by medium-term financing, either through reschedulings or portfolio adjustments. For the purpose of this exercise an overall constraint on the growth of private debt of 6 per cent per annum is adopted.

25. While official development assistance has not been subjected to the same degree of contraction, it has been stagnant in recent years. Net flows of ODA to deficit developing countries expressed as a proportion of the aggregate GDP of the developed market-economy countries amounted to only 0.28 to 0.29 per cent during 1981-1984. Announced donor-country policies are such that the situation is not expected to change significantly over the near future. With regard to private overseas direct investment and other official flows, it would seem most in keeping with the scenario as a whole that they follow past patterns.

5. Developed market-economy growth

26. The past 25 years have witnessed a tendency on the part of developed market-economy countries towards increased growth instability, together with a marked diminution in the trend rate of growth (see section E, table VIII). This has been accompanied by a continuous slowdown in labour productivity growth in most developed market-economy countries; the estimated average annual growth rate for this group for 1980-1985 is less than half of what it was in the 1960s. The growth of the labour force which helped to sustain GDP growth in the past is now only around 1 per cent per year. The declining trend can be expected to continue in the medium term and also into the 1990s. In the short run, however, the importance of a growing labour force is overshadowed by the presence of significant rates of unemployment which current policies have so far failed to reduce. Furthermore, since the early 1970s, rising unemployment rates have been accompanied by declining rates of investment. The prospects for greater investment opportunities are likely to remain uncertain, given the present high levels of real interest rates. Taking into account trends in labour force growth and structure, productivity and investment, it seems likely that the developed market-economy countries will do somewhat better in the future than they did over the period 1980-1985, but will not fully regain historical rates of performance. For the period 1985-1995 they are assumed to grow at an average annual growth rate of about 2.8 per cent.

D. Exploring alternative paths

1. Variations on the present situation

a) Scenario I (a): financially constrained

27. The essential conclusion to be reached regarding the simulation of a scenario based on current trends and constraints is that the results do not indicate that a viable solution exists in this direction. Under Scenario I (a), the set of conservative assumptions discussed above results in a rate of growth of GDP for developing countries over the period 1985-1995 of approximately 3.3 per cent per annum on average (see table 2 and section E, table IX, for detailed assumptions and section E, table X for the results). Furthermore, there is a tendency for growth rates to erode as the simulation progresses, reflecting the nature of the constraint imposed on financial availabilities. On a per capita basis, the situation would be even worse with per capita GDP regaining its 1980 level only in the early 1990s.

28. Recalling that a major criterion for the acceptability of a given scenario is whether it appears reasonable to assume that the situation as simulated would not lead to major policy and behavioural changes, there are a number of factors which lead to the conclusion that the above scenario is not viable in this sense. First, the rate of growth of output is so low that employment growth would have lagged behind population growth for fully a decade and a half by the end of the simulation period, very nearly a generation.[9] Moreover, given that rates of growth of the economically-active population are significantly higher than population growth rates, rates of unemployment will increase even more rapidly. Finally, given that growth rates of population in urban areas have been more than twice that of rural areas, the distributional effects could be quite drastic.

29. Given that the scenario explored above is not considered viable and assuming that the analytical framework is basically sound, the question of alternative assumptions must be addressed. Very roughly, a hierarchy of assumptions leading to the above result may be established. In particular, in the scenario explored above, the growth rates of the developing countries were a direct function of the availability of external finance. As indicated above, a number of assumptions regarding capital flows are included in Scenario I (a), the net result of which is to constrain those flows to follow historical patterns. The single exception to this is in the case of commercial bank lending. Here, the growth of nominal bank lending is constrained to roughly 6 per cent per annum for the period of the simulation as a whole. Given the predominant role of private finance for many developing countries, such an assumption plays a crucial role in determining the results of Scenario I (a).

b) Scenario I (b): unconstrained private finance

30. A first alternative, then, is to lift the constraint on private lending. It is one of the financial flows not easily influenced by policy decisions and quite difficult to predict. Thus, an equally interesting scenario may be one which allows private financing to play a residual role in the sense that no explicit constraints are imposed in this area. In Scenario I (b), selected results of which are presented in section E, table XI, growth rates of developing countries are allowed to rise modestly in response to an assumed easing of financial constraints. Given the relative importance of private flows in total financing needs, the change in growth rates is more substantial in the case of the heavily-indebted Eurocurrency borrowers than in the other groups (see table 3). On the other hand, there is no reason to postulate any response on the part of the least developed countries to an increased availability of private flows. Their creditworthiness is, at best, tenuous.

---

[9] This assumes that rates of growth of productivity would not fall to zero. Historically, developing countries as a whole have maintained overall productivity growth rates in excess of 2 per cent per annum.

Table 2

Scenario I
Constrained finance
Key assumptions (1985-1995)

LIBOR	It is assumed that the real rate of interest exceeds the rate of growth of output of developed market-economy countries by 3.5 percentage points for the period. This results in LIBOR rates which fluctuate between 9.5 and 13.25 over the four-year business cycle.
Dollar price level	It is assumed that price inflation in dollars averages slightly under 5 per cent for the period.
Dollar exchange rates	It is assumed that the dollar depreciates against the SDR by 2.9 per cent per annum over 1986-1988 and remains constant thereafter.
Trade shares	Prior to normalization, additional increments of 0.5 and 0.75 per cent are added to the trade shares of deficit developing countries for energy and manufactures, respectively.
Developed market-economy country growth	It is assumed that the developed market-economy countries grow by 2.8 per cent over the period.
Finance availability	All financial flows are assumed to behave according to recent historical experience with the exception of private lending. Private debt is projected to grow by approximately 6 per cent per annum over the period.

Table 3

Deficit developing countries
Gross domestic product (1985-1995)
Constrained and unconstrained finance
(Percentage rate of growth)

	Scenario I(a)		Scenario I(b)	
	1985-1990	1990-1995	1985-1990	1990-1995
Major developing country Eurocurrency borrower	3.3	3.2	4.5	4.6
Least developed countries	2.7	2.9	2.7	2.9
Other deficit developing countries	3.5	3.1	4.1	4.0
Total	3.4	3.2	4.3	4.3

Source: UNCTAD secretariat calculations.

31. On balance, it must be noted that the overall rate of growth of the developing countries under this scenario is very modest, amounting to 4.3 per cent over the period 1985-1995. Such rates of growth over prolonged periods of time make very difficult the achievement of investment levels required to accomplish the longer term structural adjustments and infrastructure construction associated with progress in development. Furthermore, the increased growth rates serve only to slow a further deterioration in employment conditions.

32. A more disaggregated view reveals that the situation would be even worse for many individual developing countries. While some developing countries would do significantly better than the average, others would do worse. For example, there is little in Scenario I (b) which would tend to improve the lot of the least developed countries. It must be concluded that while such a scenario may produce minimally acceptable rates of growth for developing countries as a group, a significant number would face very difficult domestic situations.

33. In this connection, it is worth noting that the implicit growth elasticity of the developing countries relative to the developed market-economy countries in this scenario is approximately 1.5. Historically, growth elasticities of that order have only been sustainable if accompanied by a rapid expansion of exports of developing countries accompanied by adequate financing on relatively easy terms, as was the case during the 1970s. Indeed, the patterns of financial requirements emerging from Scenario I (b) would not be considered as sustainable by the financial community in such circumstances. Most importantly, under Scenario I (b), the rate of growth of commercial debt would average about 9 per cent for the period 1985-1990, accelerating to over 16 per cent in the period 1990-1995. Thus, while a rate of expansion of the order of 9 per cent might be considered feasible, the acceleration to 16 per cent would not.

c) Scenario I (c):

34. The two scenarios explored so far have served to illustrate that current trends, when projected forward, do not result in a realistic picture. Either the growth rates of GDP of developing countries are below viable limits or, in the case of slightly higher growth rates, the implication for commercial lending appears untenable. However, the analysis of the previous section has demonstrated that the simulation results are sensitive to the precise

assumptions made.

35. The design and execution of a scenario which is intended to reflect a probable outcome is an uncertain art at best. There is a greater or lesser margin of uncertainty surrounding each of the judgements and assumptions built into the exercise. However, errors of judgement in these key variables cannot be considered to be fully independent of one another. As a consequence it is not altogether clear whether the degree of uncertainty associated with the outcome of the scenario is greater than or less than the average uncertainty associated with each of the inputs.

36. Against this background it is of interest to consider the consequence of a scenario in which a number of key variables are assumed to evolve along less favourable paths (see table 4). Scenario I (c) has been constructed along these lines for illustrative purposes, selected results are contained in section E, table XIII. The most significant single result is that the combination of small changes made to underlying variables has a substantial impact on financial requirements. In Scenario I (c), private debt of developing countries would grow by about 7.7 per cent per annum in 1985-1990, accelerating to 14.6 per cent in 1990-1995.

37. It seems evident that such a scenario carries with it a rather low probability of actually unfolding as projected. The international financial system is unlikely to be able to generate the magnitude of financial flows which would be required in the type of international environment depicted in Scenario I (c). In any case, it would be difficult to argue that developing countries would be considered "creditworthy" under such circumstances. What would, in fact, happen in international trade and finance markets in a situation similar to Scenario I (c) is a matter for conjecture.

2. Implications of a recovery scenario

a) Scenario II: a policy-controlled recovery

38. Scenario II represents an attempt to quantify the magnitude of changes which would need to occur in macro-economic trends and policies for a substantial, broad-based, and prolonged recovery of world economic activity to take place.

39. Table 5 and section E, table XV contain the detailed assumption underlying the constrction of Scenario II. In addition to detailed assumptions regarding trade and finance variables, it has been assumed that the growth rates of the developing countries would react to the more favourable external environment and would reach approximately 7 per cent per annum by 1995. At the same time, it is assumed that the underlying growth rate of the developed market-economy countries would reach about 4 per cent over the same time period. The higher implicit growth elasticity of 1.75 between the developed market-economy countries and developing countries reflect the more favourable international trade and finance environment.

40. The results of the package of assumptions associated with the recovery scenario is quite striking. Both interest payments and debt outstanding as percentages of GDP show a decline in 1990 and 1995 over 1985. The current-account balance remains stable between 1985 and 1990, increasing significantly only over the period 1990-1995. In short the scenario is a good deal more plausible as far as the viability of the external position of the deficit developing countries is concerned and remains on a reasonably balanced path for a longer period of time.

b) The relative importance of key factors

Measurement

41. Given the striking results of Scenario II, it becomes important to isolate the relative importance of each element in its construction. Therefore, a series of sensitivity runs designed to identify the relative importance of key determining factors of the international environment were carried out using the assumptions and results of Scenario I as a base for comparison. The assumptions of Scenario II were introduced one at a time so as to isolate the importance of each

Table 4

Scenario I (c)
Constrained disorder
Summary of assumptions

LIBOR
The constant term of the LIBOR rate equation is increased by 0.5 for the duration of the simulation period. This results in the LIBOR rates fluctuating between 9.15 and 12.9 over the four year business cycles.
Dollar exchange rate
The dollar is assumed to remain unchanged for the duration of of the simulation period.
Trade shares
The trade shares of deficit developing countries for primary commodities, energy and manufactures, perform simply as indicated by their production share.
Import elasticity of developed market-economy countries
The *ex ante* elasticity of imports of manufactures relative to the GDP of developed market-economy countries is reduced from 1.7 to 1.5 for the duration of the simulation period.
ODA
The ratio of net flows of ODA to donor region GDP is held constant for the duration of the simulation period.
Commodity terms of trade
0.5 percentage points are subtracted from the price equation determining the rate of change in primary commodity prices relative to that of manufactures.
Developed market-economy country growth
The annual rates of GDP growth in developed market-economy countries are revised on a yearly basis to yield a period average growth rate of 2.38 per cent per annum during 1985-1990 and 2.25 per cent over the period 1990-1995.

Table 5

Scenario II
Policy-controlled recovery
Summary of assumptions

LIBOR

The constant term of the LIBOR rate equation is reduced in increments of 0.5 from 3.5 in 1985 to zero in 1992 and is fixed there for the remainder of the projection period. This results in LIBOR rates which fluctuate between 7.25 and 10.25 over the four-year business cycles.

Dollar exchange rate

The dollar is assumed to depreciate by 2.75 per cent per year over the period 1986-1995.

Trade shares

Prior to normalization, additional increments of 0.5, 1.25 and 1.50 per cent are added to the trade shares of deficit developing countries for primary commodities, energy and manufactures, respectively.

Import elasticities

The *ex ante* elasticity of imports of manufactures relative to the GDP of developed market-economy countries is increased from 1.7 to 1.9 for the simulation period while import elasticities of the developing countries are reduced in response to increased investment rates.

ODA

The ratio of net flows of ODA to donor region GDP is doubled over the period from 1985 to 1990 and held constant thereafter.

Commodity terms of trade

0.5 percentage points are added to the price equation determining the rate of change in primary commodity prices relative to that of manufactures.

Developed market-economy growth

The annual rates of GDP growth in developed market-economy countries are revised on a yearly basis to yield a period average growth rate of 3.26 per cent per annum during 1985-1990 and 3.70 per cent over the period 1990-1995.

factor in both the medium and longer runs. Selected key variables are used as quantitative indicators, using their values prior to the change of parameters as a norm. They include the trade balance of goods and services (TAB), the current-account balance (CAB), medium- and long-term debt outstanding (D), debt-service payments on medium- and long-term debt (DS), and interest payments on medium- and long-term debt (INT). In each case, they are expressed as a percentage of gross domestic product (GDP) and of exports of goods and services (X).

Alternative assumptions

42. The variables concerning which assumptions will be varied have been presented in table 5 and include the London Inter-bank Offer Rate (LIBOR), the dollar exchange rate, trade shares, import elasticity of the developed market economy countries, ODA performance, primary commodity prices and growth of the developed market-economy countries.

43. The importance of a particular assumption depends in large measure not only on the analytical framework within which it operates but also on the values of certain key variables within a given environment. In addition, the effects of a given increase or decrease in the parameter value of an assumption on related variables can be expected to be asymmetric due to the presence of non-linear relationships among variables in the system. In order to emphasize this point, the changes in assumptions to be examined here on a one-by-one basis are identical to the set of assumption which, taken together, defines Scenario II, the recovery scenario, presented below.

Results of sensitivity analysis

44. The results of the exercise, as reflected in the external accounts of developing deficit countries as a whole, are given in section E, table XII. The table shows the *change* in the ratio of selected variables (in percentage terms) only for the bench-mark years 1990 and 1995, since most of the parameter changes are introduced after 1985. Underlying the aggregate figures are substantial regional variations due to differences in their patterns of trade, import and export structures and the debt situation.

45. It is obvious from the nature of an assumption itself that in certain cases, some selected variables will not be affected by a change in its parameter value. The GDP of developing countries is kept unchanged in all the sensitivity runs. Accordingly, changes in the ratios where GDP is used as the denominator reflect changes only in the numerator. In contrast, changes in the ratios that relate to exports of goods and non-factor services could well reflect changes in both the numerator and the denominator.

46. Interpretation of the results presented in section E, table XII should be exercised with caution. In tracing the impact of a given assumption over time, for example, it is necessary to keep in mind that parameters are in most cases changed on a year-to-year basis rather than once-for-all, so that the outcome of a relevant variable in a given year represents the cumulative short and longer run effects of all the changes up to that year.

47. Similarly, in comparing the impact of alternative assumptions on a particular variable, it is necessary to keep in mind the specific parameter values involved. The use of alternative parameter values directly affect the prominence of one assumption relative to another. The difficulty arises from the fact that there is no appropriate concept similar to that of elasticity that can be used to interpret the impacts of alternative assumptions on a strictly comparable basis.

48. As can be seen from section E, table XII, the greatest impact of each assumption is on the ratio of debt to either GDP or exports in 1995. This is not so surprising because debt outstanding is a cumulative variable by definition, reflecting effects of all parameter changes in the longer run.

49. Assumptions relating to the LIBOR rate, the depreciation of the United States dollar and aid flows leave the trade balance of goods and non-factor services unaffected and influence factor income payments and the current-account balance only through their direct and indirect impacts on debt outstanding, amortization and interest payments. As

expected, of the three, the reduction in LIBOR is most prominent in affecting interest payments, with concomitant consequences on debt service and the current-account balance. The other two assumptions, by contrast, have the greatest impact on debt in 1995 and 1990 respectively. Between the two, the dollar rate has a greater impact on the current-account balance, whereas increased ODA is more important in terms of debt service and interest payments.

50. Of the other assumptions which affect the trade balance of goods and non-factor services of the deficit developing regions, the changes operate in different ways. Other things being constant, exports of a region in a given commodity group are directly affected by changes in the trade share matrix, or a change in the imports of one or more regions. Further, regional imports themselves are dependent on GDP and its elasticity as well as on the price ratio of a given commodity group to that of manufactures and its elasticity.

51. Evident from section E, table XII is the importance of assuming higher GDP growth of developed market-economy countries, and to a lesser extent, increasing trade shares as compared to either a higher import elasticity of developed market-economy countries in manufactures or higher prices of primary commodities. The impacts of the latter two assumptions are not particularly outstanding on any given variable and appear to be similar in terms of debt service and interest payments.

52. The overall picture which emerges is one where higher GDP growth in developed market-economy countries and increasing trade shares significantly reduce the current-account deficit, lower LIBOR rates significantly reduce the debt service and interest payments of deficit developing countries, and the depreciation of the dollar considerably reduces the debt to export ratio. This latter phenomenon is due to the influence of the dollar exchange rate on international price levels.

53. In carrying out the present simulation exercise, the assumptions are made to operate individually one at a time. In the real world, the factors which these assumptions attempt to capture operate together as a whole, interacting with each other and, depending on their parameter values, will reinforce or offset each other's impact, including the effects of feedbacks, on the system of international trade and finance.

c) Asymmetric uncertainty

54. While from a purely mathematical point of view there is a certain degree of symmetry as between the orders of magnitude of uncertainty associated with Scenarios I, in its three variants, and Scenario II, from an analytical point of view there are significant asymmetries. The uncertainties involved may be placed in one of two categories, namely, policy or behavioural. Uncertainties with respect to behavioural parameters may be considered as for the most part symmetrical. Ignoring the role of trade policies for the sake of argument, the error term in the prediction of import elasticities is generally considered to have a normal distribution. The same is generally presumed to be the case for most economic behavioural parameters subject to econometric estimation.

55. The prediction of policy trends cannot be considered in quite the same light. The nature of the policy package required to achieve something analogous to the recovery scenario would be quite different from that of a policy package resulting in a situation similar to Scenario I in any of its three variants. In Scenario I (c), in particular, the situation would be characterized by a further erosion in international economic co-operation resulting from increasing economic strains. The recovery scenario, on the other hand, would require very substantial new efforts to improve international co-operation and would be quite difficult to negotiate in current circumstances. In other words, very little would need to be actively done by governments for economic events over the remainder of the 1980s to evolve in directions considerably worse than that of the present situation. In contrast, a very considerable amount of systemic inertia would need to be overcome to achieve an outcome significantly better.

56. A final point to consider in evaluating the uncertainties and risks associated with the scenarios presented above is that policy formulation

does not take place in a vacuum, but is heavily influenced by economic conditions, particularly the perceived well-being of the various constituencies. For example, the probability that new protectionist measures will be enacted is negatively related to the pace of economic activity, the level of employment and related indices. The potential for negative feedback is obvious, particularly after prolonged periods of only modest economic expansion.

E. Statistical material

Table I

Structure of exports of developing countries
(Per cent)

Destination by group	Share by commodity group 1970	1975	1981	Share in world trade 1970	1975	1981
World						
Primary commodities	50.1	25.7	18.9	26.5	23.2	23.6
Fuel	33.4	59.5	60.5	63.5	74.1	69.4
Manufactures	16.3	14.4	19.7	5.2	6.7	10.6
Developed market-economy countries						
Primary commodities	51.5	24.0	16.8	26.6	23.1	22.9
Fuel	34.2	63.6	66.0	64.1	74.0	69.3
Manufactures	13.9	12.0	16.6	4.7	6.3	9.9
Developing countries						
Primary commdities	37.3	23.1	18.8	27.1	23.8	25.8
Fuel	34.6	53.5	52.3	82.4	89.7	85.4
Manufactures	27.3	22.9	28.0	8.4	9.6	13.7
Others						
Primary commodities	82.2	68.9	76.6	23.9	23.4	22.7
Fuel	2.8	19.4	14.4	4.8	23.3	10.5
Manufactures	14.7	11.7	8.5	2.6	2.3	1.7

Source: UNCTAD, *Handbook on International Trade and Development Statistics, 1984*, table 3.3.

Table II

·Import elasticities, 1970-1981
(All regions)

	Total commodities		Primary commodities		
	National accounts basis	Trade statistics	Raw materials	Energy	Manufactures
Region 1					
1970-1981	1.51	1.27	0.47	0.24	2.01
1970-1974	1.81	1.54	0.45	1.34	2.09
1974-1981	1.26	1.04	0.49	-0.69	1.94
1970-1976	1.63	1.53	0.63	0.92	2.21
1976-1981	1.34	0.88	0.24	-0.75	1.73
Region 2					
1970-1981	..	0.97	1.40	0.65	0.85
1970-1974	..	0.68	0.43	-1.12	1.07
1974-1981	..	1.19	2.17	2.12	0.68
1970-1976	..	1.13	0.68	0.79	1.34
1976-1981	..	0.71	2.58	0.42	0.11
Region 3					
1970-1981	6.52	7.66	4.94	5.77	8.47
1970-1974	4.44	5.21	3.58	2.28	5.95
1974-1981	10.17	11.98	7.34	11.99	12.94
1970-1976	5.23	6.79	3.97	3.90	7.75
1976-1981	12.35	11.95	9.32	14.09	12.31
Region 4					
1970-1981	1.72	1.71	1.54	1.18	1.88
1970-1974	1.73	1.57	0.98	1.66	1.71
1974-1981	1.71	1.85	2.10	0.71	2.05
1970-1976	1.73	1.57	0.67	1.27	1.85
1976-1981	1.70	2.04	3.55	0.98	1.94
Region 5					
1970-1981	1.33	2.21	2.54	0.92	2.38
1970-1974	2.53	3.63	5.75	0.93	3.58
1974-1981	0.92	1.73	1.47	0.92	1.97
1970-1976	1.05	2.06	1.75	1.11	2.38
1976-1981	1.74	2.43	3.71	0.65	2.39
Region 6					
1970-1981	1.32	1.03	1.00	-0.07	1.56
1970-1974	1.96	1.27	1.00	0.62	1.77
1974-1981	1.03	0.92	1.00	-0.38	1.47
1970-1976	1.45	1.28	0.63	0.98	1.66
1976-1981	1.19	0.78	1.39	-1.08	1.46

Note: For regional country groupings, see following page.

Table II (continued)

Import elasticities, 1970-1981
(All regions)

Region 1: OECD and other developed market economies

Andorra, Australia, Austria, Belgium, Canada, Cyprus, Denmark, Faeroe Islands, Finland, France, Germany, Fed. Rep. of, Gibraltar, Greece, Greenland, Holy See, Iceland, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, Ryukyu Is., San Marino, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States, and Yugoslavia.

Region 2: Socialist countries

Albania, Bulgaria, China, Czechoslovakia, German Democratic Republic, Hungary, Democratic Kampuchea, Democratic People's Republic of Korea, Mongolia, Poland, Romania, U.S.S.R., and Viet Nam.

Region 3: Major surplus developing countries

Iraq, Kuwait, Libyan Arab Jamahiriya, Saudi Arabia, and the United Arab Emirates.

Region 4: Major Eurocurrency borrowers among developing countries and territories

Algeria, Argentina, Brazil, Chile, Hong Kong, Indonesia, Iran (Islamic Republic of), Republic of Korea, Malaysia, Mexico, Morocco, Nigeria, Peru, Philippines, Sabah, Sarawak, Venezuela, West Irian, and West Malaysia.

Region 5: Least developed countries (Africa)

Benin, Botswana, Burkina Faso, Burundi, Cape Verde, Central African Rep., Chad, Comoros Is., Djibouti, Ethiopia, Equatorial Guinea, Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Togo, Uganda, and United Republic of Tanzania.

Region 5: Least developed countries (Others)

Afghanistan, Bangladesh, Bhutan, Democratic Yemen, Haiti, Lao People's Democratic Republic, Maldives, Nepal, Western Samoa, and Yemen.

Region 6: Other developing countries

American Samoa, Angola, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Bermuda, Bolivia, British Virgin Is., Brunei, Burma, Cameroon, Cayman Islands, Christmas Island, Cocos Is., Colombia, Congo, Cook Islands, Costa Rica, Cuba, Darussalam, Dominica, Dominican Republic, East Timor, Ecuador, Egypt, El Salvador, Falkland Islands (Malvinas), Fiji, French Guiana, French Polynesia, Gabon, Ghana, Grenada, Guadeloupe, Guam, Guatemala, Guyana, Honduras, India, Ivory Coast, Jamaica, Jordan, Kenya, Kiribati, Lebanon, Liberia, Macau, Madagascar, Martinique, Mauritania, Mauritius, Montserrat, Mozambique, Namibia, Nauru, Netherlands Antilles, New Caledonia, Vanuatu, Nicaragua, Niue, Oman, Pacific Islands, Pakistan, Panama, Papua New Guinea, Paraguay, Qatar, Reunion, Saint Helena, Saint Christopher and Nevis, Saint Lucia, St. Pierre/Miquelon, St.Vincent/Grenadine, Senegal, Seychelles, Singapore, Solomon Islands, Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Taiwan Province of China, Thailand, Tokelau, Tonga, Trinidad and Tobago, Tunisia, Turks and Caicos Is., Tuvalu, United States Virgin Islands, Uruguay, Wake Island, Wallis and Futuna Islands, Zaire, Zambia, and Zimbabwe.

Table III

Import elasticities
(Least developed countries)

	Total commodities		Primary commodities			
	National accounts basis	Trade statistics	Food	Non-food raw materials	Energy	Manufactures
Africa						
1970-1981	1.01	1.68	1.86	2.61	1.13	1.67
1970-1974	1.78	1.89	2.13	2.78	1.79	1.81
1974-1981	0.77	1.57	1.73	2.53	0.81	1.60
1970-1976	1.01	1.54	0.21	1.81	2.59	1.62
1976-1981	1.24	1.90	4.64	3.91	-1.07	1.76
Other						
1970-1981	2.03	3.28	3.00	5.21	0.70	4.27
1970-1974	5.61	10.58	15.73	24.86	-0.75	12.98
1974-1981	1.38	1.96	0.81	1.89	0.97	2.70
1970-1976	1.14	3.40	3.27	7.38	-0.90	5.02
1976-1981	3.12	3.13	2.67	2.81	2.70	3.41

Table IV

Trends in domestic inflation *a/*
(Per cent)

	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985
Developed market-economy countries	2.6	3.8	8.1	8.6	6.3
North America	1.5	3.6	6.4	7.6	5.2
Canada	1.3	3.6	7.0	8.8	7.3
United States	1.5	3.6	6.4	7.5	5.0
Western Europe	3.6	3.7	8.9	10.0	9.0
France	3.9	4.6	8.5	10.2	9.4
Germany, Fed. Rep. of	3.0	2.5	6.3	4.1	3.7
Italy	4.5	3.1	12.4	16.9	14.1
United Kingdom	3.4	4.5	12.7	13.9	6.9
Japan	6.0	5.5	11.0	6.2	2.8
Developing countries	4.6	6.1	14.4	25.7	31.1
Memo item:					
Adjusted for exchange rate changes against the SDR *b/*					
United States	1.5	3.6	2.3	6.0	12.0 *c/*
Western Europe	3.9	2.8	8.8	11.0	1.2 *c/*
Japan	5.9	5.7	10.9	10.5	7.9 *c/*

Sources: OECD, *Economic Outlook*, December 1984, OECD, *National Accounts*, 1960-1983, Paris 1984, IMF, *World Economic Outlook, 1985*, United Nations, DRPA, *National Accounts*, IMF, *International Financial Statistics* and *Eurostat: Money and Finance*, various issues.

a/ Private final consumption expenditure implicit price deflator.

b/ Computed as $((1+p)/(1+ex)-1)*100$, where p is the change in the consumer price deflator and ex is the change of the respective national currency against the SDR; for Western Europe the exchange rate of the ECU was used.

c/ 1981-1984.

Table V

Evolution of exchange-rate markets: Rate of change against the SDR, 1960-1984
(Per cent)

	Dollar	ECU	French franc	Deutsche mark	Lira	Pound	Yen	Swiss franc
1960	0.0	0.0	0.01	0.21	0.03	-0.04	0.01	0.05
1961	0.0	1.05	-0.03	3.78	-0.03	-0.19	-0.34	-0.00
1962	0.0	0.23	0.10	0.52	0.04	0.20	0.09	-0.11
1963	0.0	0.0	-0.00	0.29	-0.12	-0.27	-0.18	0.06
1964	0.0	0.0	-0.00	0.29	-0.46	-0.28	-0.14	0.06
1965	0.0	0.0	-0.01	-0.48	-0.07	0.13	0.13	-0.20
1966	0.0	0.0	-0.25	-0.11	0.07	-0.11	-0.24	0.03
1967	0.0	-0.47	-0.13	0.31	0.06	-1.84	0.06	-0.04
1968	0.0	-3.37	-0.63	-0.14	0.12	-12.69	0.44	0.28
1969	0.0	-0.65	-4.77	1.70	-0.62	-0.14	0.61	0.07
1970	0.0	0.00	-5.95	7.65	0.03	0.24	0.08	0.06
1971	-0.30	2.19	-0.00	4.41	1.12	1.68	2.63	4.43
1972	-7.62	-1.09	0.94	0.88	-2.05	-5.58	6.00	-0.46
1973	-8.93	-0.00	3.14	8.66	-8.89	-10.66	1.62	9.85
1974	-0.87	-4.01	-8.21	2.37	-11.14	-5.41	-7.79	5.35
1975	-0.95	3.04	11.15	4.19	-1.33	-6.27	-2.52	14.32
1976	5.16	-5.24	-5.69	2.76	-17.51	-14.58	5.25	8.60
1977	-1.11	0.93	-3.81	7.22	-6.73	-4.00	9.21	2.84
1978	-6.75	4.12	1.53	7.81	-3.04	2.51	18.98	25.35
1979	-3.10	4.25	2.79	6.19	-1.02	7.03	-6.94	4.21
1980	-0.73	0.84	-0.06	0.10	-3.70	8.93	-4.06	-1.50
1981	10.38	-11.49	-14.17	-11.22	-16.84	-4.56	13.48	-5.83
1982	6.81	-6.27	-11.68	-0.53	-10.23	-7.15	-5.42	3.33
1983	3.28	-6.16	-10.94	-1.85	-8.04	-10.39	8.29	-0.11
1984	4.29	-7.54	-9.06	-6.43	-9.84	-8.48	4.29	-6.83
1961-1965	0.00	0.26	0.01	0.87	-0.12	-0.08	-0.07	-0.04
1966-1970	0.00	-0.91	-2.38	1.84	-0.13	-3.04	0.14	0.08
1971-1975	-3.81	-0.01	1.22	4.07	-4.55	-5.33	-0.07	6.58
1976-1980	-1.38	0.92	-1.10	4.78	-6.51	-0.40	4.05	7.52
1981-1984	6.15	-7.89	-11.48	-5.10	-11.18	-7.67	4.93	-2.45
1966-1975	-1.92	-0.46	-0.60	2.95	-2.36	-4.19	0.04	3.28
1976-1984	1.90	-3.10	-5.86	0.26	-8.62	-3.70	4.44	2.97
1961-1984	-0.10	-1.31	-2.48	1.50	-4.30	-3.16	1.64	2.46

Sources: IMF, *International Financial Statistics*, various issues, and for the ECU, *Eurostat: Money and Finance*, various issues.

Table VI

Internationally-traded goods prices
(1980=100)

	Food and beverages *a/*	Agricultural non-food *a/*	Non-ferrous base metals *a/*	Fuels *a/*	Manufactures in terms of			
					US$	SDR	DM	FF
1960	86	115	94	20	29	38	67	34
1961	83	109	89	18	30	39	66	35
1962	85	103	87	18	30	39	65	35
1963	91	107	87	19	30	39	65	35
1964	93	106	101	19	30	40	66	35
1965	89	106	111	18	31	40	68	36
1966	91	106	128	18	31	40	68	36
1967	87	97	116	18	32	41	69	37
1968	86	97	121	18	32	41	70	37
1969	86	96	136	17	33	43	71	41
1970	87	95	135	18	34	45	69	45
1971	84	91	108	20	37	48	70	48
1972	91	95	101	21	39	47	69	47
1973	118	131	123	24	46	50	68	49
1974	124	128	125	61	56	61	80	64
1975	99	95	85	56	63	68	86	64
1976	104	106	93	59	63	71	88	72
1977	109	108	91	60	69	77	88	80
1978	96	100	86	53	79	82	87	85
1979	95	106	100	65	90	91	91	91
1980	100	100	100	100	100	100	100	100
1981	93	97	92	116	95	105	118	122
1982	85	88	82	114	93	110	124	145
1983	87	98	87	106	89	108	125	161
1984 *b/*	87	105	86	106	86	110	135	179
1985 *b/*	81	101	85	102	88	..	..	..
1961-1965	88	106	94	18	30	39	66	35
1966-1970	87	98	127	18	32	42	69	39
1971-1975	102	106	108	32	47	54	74	54
1976-1980	101	104	94	66	79	84	91	85
1981-1984	88	97	87	110	91	108	125	150

Sources: United Nations, *Monthly Bulletin of Statistics*, various issues, and IMF, *International Financial Statistics*, various issues.

a/ Reflated by the manufactures price index.
b/ UNCTAD secretariat estimates.

Table VII

Interest rate movements in the main developed market-economy countries
(Per cent)

	Nominal		Adjusted for					
			Inflation *b/*		Exchange-rate change *c/*		Inflation and exchange rate *d/*	
	USA	Others *a/*	USA	Others *a/*	USA	Others *a/*	USA	Others *a/*
1960	4.06	5.86	2.61	3.73	4.06	5.94	1.56	3.15
1961	3.92	5.77	2.77	3.18	3.92	7.39	0.76	4.50
1962	4.00	5.65	2.87	1.69	4.00	5.97	-0.49	3.51
1963	4.05	5.58	2.65	2.17	4.05	5.63	-0.26	2.92
1964	4.19	5.81	3.08	2.90	4.19	5.86	1.13	3.40
1965	4.27	6.42	2.63	2.89	4.27	6.23	0.07	3.22
1966	4.77	6.96	1.58	3.12	4.77	6.77	1.02	3.52
1967	5.01	6.63	2.16	3.96	5.01	6.28	2.38	3.40
1968	5.46	6.71	1.21	2.80	5.46	3.56	1.58	-0.61
1969	6.33	7.55	0.83	3.02	6.33	7.11	1.83	1.58
1970	6.86	8.20	0.96	2.52	6.86	9.55	1.23	3.50
1971	6.12	7.98	1.80	1.52	5.80	10.59	-0.54	6.08
1972	6.01	7.73	2.46	1.78	-2.07	8.34	-7.48	4.72
1973	7.12	8.92	0.96	0.31	-2.44	10.53	-10.19	4.17
1974	8.06	11.14	-2.60	-2.47	7.12	6.67	-6.29	-3.85
1975	8.19	10.20	-0.92	-1.98	7.16	12.20	-4.89	2.75
1976	7.87	9.80	1.94	0.41	13.44	6.92	3.67	1.04
1977	7.67	8.68	1.09	0.14	6.47	11.46	-1.96	4.65
1978	8.49	8.07	0.82	2.32	1.17	16.29	-4.21	8.07
1979	9.33	9.18	-1.71	1.55	5.95	12.15	-1.53	0.82
1980	11.39	10.85	-1.87	0.29	10.57	12.15	-0.06	-1.19
1981	13.72	12.16	3.01	3.08	25.52	6.54	15.35	-3.50
1982	12.92	11.13	6.46	3.98	20.61	4.79	12.84	-1.20
1983	11.34	9.72	7.84	4.84	14.99	5.70	9.87	2.38
1984	12.48	9.24	7.84	4.98	17.31	3.61	12.74	-0.66
1961-1965	4.09	5.85	2.80	2.56	4.09	6.21	0.24	3.51
1966-1970	5.68	7.21	1.35	3.08	5.68	6.64	1.61	2.27
1971-1975	7.10	9.19	0.32	-0.18	3.02	9.65	-5.93	2.71
1976-1980	8.94	9.31	0.04	0.94	7.44	11.75	-0.85	2.63
1981-1984	12.61	10.56	6.27	4.22	19.54	5.15	12.68	-0.77

Source: IMF, *International Financial Statistics*, various issues.

a/ Weighted average of the interest rates (long-term government bonds) of France, the Federal Republic of Germany, Japan and the United Kingdom. The respective weights are the same as those of the SDR valuation basket.

b/ Computed as ((1+i)/(1+p)-1)*100, where i is the nominal interest rate for long-term government bonds and p is the change in the domestic consumer price index. Both rates are period averages.

c/ Computed as in *b/*, with p being replaced by the change in the exchange rate(s) against the SDR.

d/ Computed as ((1+i)/((1+p')(1+ex))-1)*100, where i is the nominal interest rate, p' is the "foreign" inflation rate (for the United States we used the combined rate of the Others and the United States inflation rate was used to adjust the interest rates of the Others) and ex is the change in the exchange rate(s) against the SDR.

Table VIII

Economic performance of the developed market-economy countries, 1960-1985
(Per cent)

	Average rates of growth of				
	GDP	Labour productivity	Labour force	Average rate of unemployment	Rate of investment *a/*
North America					
1961-1965	4.8	3.1	1.4	5.5	18.2
1966-1970	3.2	1.1	2.2	3.9	18.4
1971-1975	2.7	1.0	2.5	6.0	18.6
1976-1980	3.4	0.5	2.6	6.8	19.0
1981-1985	2.6	1.1	1.6	8.4	17.4
of which					
Canada					
1961-1965	5.7	2.8	2.2	5.4	21.5
1966-1970	4.8	2.2	3.0	4.4	22.3
1971-1975	5.0	1.8	3.4	6.0	22.6
1976-1980	3.3	0.5	3.0	7.6	22.7
1981-1985	1.8	1.0	..	10.6	21.2
United States					
1961-1965	4.7	3.1	1.3	5.5	17.9
1966-1970	3.0	1.0	2.1	3.9	18.1
1971-1975	2.5	0.9	2.4	6.0	18.3
1976-1980	3.4	0.5	2.6	6.7	18.6
1981-1985	2.7	1.1	1.6	8.2	17.0
Western Europe					
1961-1965	5.0	4.5	0.4	2.7	22.4
1966-1970	4.6	4.4	0.3	3.1	22.5
1971-1975	3.0	2.7	0.7	3.9	22.9
1976-1980	2.9	2.6	0.8	6.1	21.2
1981-1985	1.3	1.7	0.7	10.1	19.9
of which					
France					
1961-1965	5.8	5.3	0.5	1.3	22.2
1966-1970	5.4	4.6	1.0	2.0	23.5
1971-1975	4.0	3.6	0.7	3.0	23.7
1976-1980	3.3	2.9	0.8	5.3	22.1
1981-1985	1.3	2.0	..	8.7	20.5

For sources and notes, see end of table

Table VIII (continued)

Economic performance of the developed market-economy countries, 1960-1985

(Per cent)

	Average rates of growth of			Average rate of unemployment	Rate of investment a/
	GDP	Labour productivity	Labour force		
Germany, F.R.					
1961-1965	5.0	4.5	0.4	0.7	25.8
1966-1970	4.2	4.3	-0.2	1.0	23.9
1971-1975	2.1	2.8	0.1	1.6	23.5
1976-1980	3.5	3.1	0.2	3.4	21.2
1981-1985	1.0	2.0	..	6.9	21.1
Italy					
1961-1965	5.2	6.1	-0.9	4.7	22.5
1966-1970	6.2	6.4	-0.2	5.6	20.2
1971-1975	2.4	2.1	0.4	5.8	20.8
1976-1980	3.8	2.9	1.3	7.1	19.4
1981-1985	0.8	0.8	..	9.5	19.1
United Kingdom					
1961-1965	3.2	2.3	0.8	1.4	17.6
1966-1970	2.5	2.9	-0.1	2.6	19.0
1971-1975	2.2	1.8	0.4	3.8	19.7
1976-1980	1.7	1.3	0.7	6.2	18.7
1981-1985	1.8	2.5	..	12.5	16.5
Japan					
1961-1965	10.0	8.6	1.2	1.1	31.7
1966-1970	11.2	9.6	1.5	1.2	33.1
1971-1975	4.6	4.1	0.6	1.4	34.4
1976-1980	5.1	3.9	1.2	2.1	31.3
1981-1985	4.2	3.1	1.2	2.5	29.8
Total					
1961-1965	5.3	4.3	0.9	3.1	20.7
1966-1970	4.7	3.6	1.1	3.0	21.3
1971-1975	3.1	2.2	1.3	4.1	22.4
1976-1980	3.4	2.0	1.5	5.6	22.0
1981-1985	2.3	1.8	1.1	8.3	20.3

Sources: OECD, *Economic Outlook*, *Main Economic Indicators* and *Labour Force Statistics*, *National Accounts*.

a/ The 1981-1985 average refers to the period 1981 to 1983 only.

Table IX

SCENARIO I (a)
Constrained finance: trade assumptions
(Per cent)

	Developed market-economy countries	Socialist countries	Major surplus developing countries	Major developing country Eurocurrency borrowers	Least developed countries	Other developing countries	Total developing countries	Deficit developing countries
Import elasticity								
SITC 0-2, 4								
1985-1990	0.57	2.22	2.32	1.60	1.64	1.41	1.64	1.52
1990-1995	0.47	2.22	2.09	1.51	1.60	1.40	1.55	1.46
SITC 3								
1985-1990	0.37	0.64	0.84	0.78	0.75	0.51	0.62	0.62
1990-1995	0.29	0.64	1.00	0.70	0.70	0.50	0.59	0.58
SITC 5-9								
1985-1990	1.85	0.68	1.49	1.91	1.96	1.48	1.70	1.72
1990-1995	1.74	0.68	1.72	1.82	1.86	1.47	1.68	1.67
Total								
1985-1990	1.40	1.24	1.59	1.73	1.76	1.30	1.55	1.53
1990-1995	1.36	1.35	1.76	1.66	1.69	1.30	1.54	1.49
Export shares								
SITC 0-2, 4								
1985	55.1	9.6	0.1	18.9	1.7	14.6	35.3	35.2
1990	52.3	10.7	0.1	20.1	1.7	15.1	37.0	36.9
1995	50.2	12.0	0.1	21.0	1.6	15.1	37.8	37.7
SITC 3								
1985	23.1	13.9	35.0	15.3	0.0	12.6	63.0	28.0
1990	22.9	14.1	34.6	15.5	0.0	12.9	63.0	28.4
1995	22.6	14.4	34.2	15.8	0.0	13.1	63.1	28.9
SITC 5-9								
1985	79.3	8.5	0.2	7.8	0.1	4.1	12.2	12.0
1990	79.3	8.1	0.2	8.1	0.1	4.2	12.6	12.4
1995	79.1	7.7	0.2	8.4	0.1	4.4	13.1	12.9
Total								
1985	65.6	9.6	6.2	11.0	0.4	7.3	24.8	18.6
1990	66.4	9.4	5.4	11.1	0.4	7.3	24.2	18.8
1995	67.1	9.3	4.7	11.4	0.4	7.3	23.7	19.0

Table X

SCENARIO I (a)
Constrained finance: selected results
(Per cent)

	GDP a/	TB/Y	CAB/Y	D/Y	DS/Y	INT/Y	TB/X	CAB/X	D/X	DS/X	INT/X
Major developing country Eurocurrency borrowers											
1985	..	-2.0	- 1.9	39.0	9.1	4.1	-7.6	- 7.1	148.3	34.6	15.4
1990	3.34	-1.8	- 1.7	27.1	6.7	3.0	-6.3	- 5.9	97.3	24.0	10.8
1995	3.24	-1.5	- 1.4	20.5	4.9	2.1	-5.2	- 4.8	69.1	16.6	7.2
Least developed countries											
1985	..	-16.4	-11.3	61.9	6.4	1.8	-89.1	-61.2	335.4	34.9	9.8
1990	2.72	-18.8	-14.7	73.1	6.6	2.8	-94.2	-73.7	366.4	32.9	13.9
1995	2.90	-23.4	-19.5	101.8	14.0	4.8	-111.9	-93.3	486.9	66.7	23.0
Other developing countries											
1985	..	-6.1	-4.6	34.5	5.8	2.2	-16.4	-12.4	93.4	15.6	5.9
1990	3.50	-6.5	-5.2	33.1	4.4	2.3	-17.1	-13.7	86.8	11.5	6.0
1995	3.10	-6.9	-5.6	36.2	4.8	2.6	-17.4	-14.1	90.8	12.1	6.5
Deficit developing countries											
1985	..	-3.9	-3.1	38.3	7.9	3.4	-13.0	-10.5	129.5	26.7	11.3
1990	3.38	-3.9	-3.3	30.7	5.9	2.8	-12.7	-10.6	98.8	19.0	8.9
1995	3.18	-4.1	-3.4	28.5	5.2	2.4	-12.4	-10.5	86.8	15.9	7.2

Note: TB = Trade balance
CAB = Current-account balance
D = Medium-term and long-term debt outstanding.
DS = Debt-service payments on medium-term and long-term debt.
INT = Interest payments on medium-term and long-term debt.

a/ Period average for 1985-1990 and 1990-1995, respectively.

Table XI

SCENARIO I (b)
Unconstrained finance: selected results
(Per cent)

	GDP	TB/Y	CAB/Y	D/Y	DS/Y	INT/Y	TB/X	CAB/X	D/X	DS/X	INT/X
Major developing country Eurocurrency borrowers											
1985	..	-2.0	-1.9	39.0	9.1	4.1	-7.6	-7.1	148.3	34.6	15.4
1990	4.5	-3.9	-3.8	29.8	6.6	3.1	-14.5	-14.1	111.7	24.7	11.6
1995	4.6	-7.7	-7.6	41.1	7.3	3.8	-28.2	-27.9	150.1	26.5	14.0
Least developed countries											
1985	..	-16.4	-11.3	61.9	6.4	1.8	-89.1	-61.2	335.4	34.9	9.8
1990	2.7	-18.9	-14.8	73.6	6.6	2.8	-94.1	-73.6	366.8	32.9	13.9
1995	2.9	-23.6	-19.6	103.0	14.1	4.9	-111.3	-92.6	486.3	66.6	22.9
Other developing countries											
1985	..	-6.1	-4.6	34.5	5.8	2.2	-16.4	-12.4	93.4	15.6	5.9
1990	4.1	-7.6	-6.3	35.2	4.5	2.4	-20.2	-16.8	93.7	11.9	6.5
1995	4.0	-10.1	-8.9	46.8	6.0	3.5	-26.1	-23.0	120.9	15.5	8.9
Deficit developing countries											
1985	..	-3.9	-3.1	38.3	7.9	3.4	-13.0	-10.5	129.5	26.7	11.3
1990	4.3	-5.6	-5.0	33.0	5.9	2.9	-18.6	-16.5	109.7	19.6	9.6
1995	4.3	-9.0	-8.4	44.8	7.1	3.7	-29.0	-27.2	145.1	22.9	12.1

Note: TB = Trade balance
CAB = Current-account balance
D = Medium-term and long-term debt outstanding.
DS = Debt-service payments on medium-term and long-term debt.
INT = Interest payments on medium-term and long-term debt.

Table XII

Impact of alternative assumptions on deficit developing countries a/

Parm b/	(TB/Y)		(CAB/Y)		(D/Y)		(DS/Y)		(INT/Y)		(TB/X)		(CAB/X)		(D/X)		(DS/X)		(INT/X)	
	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995	1990	1995
A.1	0.54	1.12	0.54	1.12	-1.44	-9.20	-0.62	-1.60	-0.60	-1.27	1.67	3.31	1.69	3.32	-4.05	-27.42	-1.88	-4.72	-1.89	-3.83
A.2	0.19	0.96	0.19	0.96	-1.54	-9.68	-0.29	-1.37	-0.13	-0.81	0.59	2.90	0.59	2.90	-4.91	-29.38	-0.92	-4.13	-0.43	-2.46
A.3	0.51	2.20	0.51	2.20	-0.96	-10.72	-0.06	-1.19	-0.05	-0.93	1.82	6.94	1.79	6.86	-4.54	-34.83	-0.46	-4.13	-0.31	-3.00
A.4	0.20	0.98	0.20	0.98	-0.44	-7.12	-0.04	-0.67	-0.03	-0.57	0.70	3.12	0.69	3.08	-1.94	-22.54	-0.20	-2.20	-0.14	-1.79
A.5	0.21	0.80	0.21	0.80	-2.33	-6.71	-0.32	-1.70	-0.22	-0.83	0.67	1.43	0.67	2.43	-7.51	-20.37	-1.00	-5.15	-0.70	-2.52
A.6	0.17	0.43	0.17	0.43	-0.58	-1.90	-0.07	-0.29	-0.55	-0.16	0.58	1.34	0.57	1.32	-2.07	-6.09	-0.26	-0.91	-0.17	-0.51
A.7	1.11	3.91	1.11	3.93	-4.77	-16.49	-0.42	-2.59	-0.34	-1.49	3.71	11.95	3.70	11.90	-16.77	-52.40	-1.63	-8.37	-1.23	-4.68

a/ Difference in ratio values (in percentages) between a given simulation and the constrained scenario.

b/ Briefly, the various assumptions are as follows:

A.1 : Decline in LIBOR rate
A.2 : Depreciation of the United States dollar
A.3 : Increase in trade shares
A.4 : Higher import elasticity of developed market-economy countries in manufactures
A.5 : More aid
A.6 : Greater increases in primary commodity prices.
A.7 : Higher rates of GDP growth in developed market-economy countries.

See text for a more detailed description of these assumptions.

Table XIII

SCENARIO I (c)
Constrained disorder: trade assumptions
(Per cent)

	Developed market-economy countries	Socialist countries	Major surplus developing countries	Major developing country Eurocurrency borrowers	Least developed countries	Other developing countries	Total developing countries	Deficit developing countries
Import elasticity								
SITC 0-2, 4								
1985-1990	0.62	2.22	2.33	1.60	1.63	1.41	1.65	1.52
1990-1995	0.47	2.22	2.09	1.51	1.59	1.40	1.55	1.45
SITC 3								
1985-1990	0.42	0.64	0.85	0.78	0.74	0.51	0.62	0.62
1990-1995	0.30	0.64	1.00	0.70	0.69	0.50	0.59	0.58
SITC 5-9								
1985-1990	1.67	0.68	1.49	1.91	1.96	1.48	1.70	1.72
1990-1995	1.51	0.68	1.72	1.82	1.85	1.47	1.68	1.67
Total								
1985-1990	1.29	1.24	1.59	1.73	1.76	1.30	1.55	1.53
1990-1995	1.17	1.35	1.76	1.66	1.68	1.30	1.54	1.49
Export shares								
SITC 0-2, 4								
1985	55.1	9.6	0.1	18.9	1.7	14.6	35.3	35.2
1990	52.2	10.7	0.1	20.2	1.7	15.1	37.1	37.0
1995	50.1	12.1	0.1	21.0	1.7	15.1	37.8	37.7
SITC 3								
1985	23.1	13.9	35.0	15.3	0.0	12.6	63.0	28.0
1990	23.0	14.2	34.7	15.4	0.0	12.7	62.9	28.1
1995	22.7	14.5	34.6	15.4	0.0	12.8	62.8	28.1
SITC 5-9								
1985	79.3	8.5	0.2	7.8	0.1	4.1	12.2	12.0
1990	79.3	8.3	0.2	7.9	0.1	4.2	12.4	12.2
1995	79.1	8.3	0.2	8.0	0.1	4.3	12.6	12.4
Total								
1985	65.6	9.6	6.2	11.0	0.4	7.3	24.8	18.6
1990	66.4	9.6	5.5	11.0	0.3	7.2	24.0	18.5
1995	67.2	9.7	4.9	10.9	0.3	7.0	23.2	18.2

Table XIV

SCENARIO I (c)
Constrained disorder: selected results
(Per cent)

	GDP	TB/Y	CAB/Y	D/Y	DS/Y	INT/Y	TB/X	CAB/X	D/X	DS/X	INT/X
Major developing country Eurocurrency borrowers											
1985	..	-2.0	-1.9	39.0	9.1	4.1	-7.6	-7.1	148.3	34.6	15.4
1990	3.3	-3.1	-3.0	34.4	7.2	3.0	-11.7	-11.3	128.9	27.0	11.4
1995	3.2	-6.7	-6.5	42.7	8.1	4.0	-24.6	-24.2	158.1	29.9	14.7
Least developed countries											
1985	..	-16.4	-11.3	61.9	6.4	1.8	-89.1	-61.2	335.4	34.9	9.8
1990	2.7	-20.7	-16.5	82.1	7.3	3.1	-108.7	-87.1	432.5	38.7	16.3
1995	2.9	-27.9	-24.0	125.5	18.6	6.0	-147.4	-126.8	662.7	98.0	31.6
Other developing countries											
1985	..	-6.1	-4.6	34.5	5.8	2.2	-16.4	-12.4	93.4	15.6	5.9
1990	3.5	-8.4	-7.1	39.5	4.7	2.4	-22.9	-19.3	107.5	12.8	6.4
1995	3.1	-12.7	-11.4	60.2	7.5	4.4	-34.3	-30.9	163.2	20.4	11.9
Deficit developing countries											
1985	..	-3.9	-3.1	38.3	7.9	3.4	-13.0	-10.5	129.5	26.7	11.3
1990	(3.4)	-5.5	-4.8	37.7	6.4	2.8	-18.4	-16.3	126.5	21.4	9.4
1995	(3.2)	-9.4	-8.7	51.3	8.3	4.2	-31.1	-29.0	170.6	27.4	13.9

Note:
TB = *Trade balance*
CAB = Current-account balance
D = Medium-term and long-term debt outstanding.
DS = Debt-service payments on medium-term and long-term debt.
INT = Interest payments on medium-term and long-term debt.

Table XV

SCENARIO II
Policy-controlled recovery: trade assumptions
(Per cent)

	Developed market-economy countries	Socialist countries	Major surplus developing countries	Major developing country Eurocurrency borrowers	Least developed countries	Other developing countries	Total developing countries	Deficit developing countries
Import elasticity								
SITC 0-2, 4								
1985-1990	0.53	2.22	2.34	1.58	1.66	1.41	1.60	1.50
1990-1995	0.47	2.23	2.11	1.31	1.60	1.40	1.41	1.37
SITC 3								
1985-1990	0.33	0.64	0.86	0.76	0.76	0.50	0.62	0.61
1990-1995	0.29	0.64	1.00	0.49	0.65	0.49	0.52	0.50
SITC 5-9								
1985-1990	2.00	0.68	1.50	1.90	1.96	1.48	1.67	1.71
1990-1995	1.93	0.68	1.72	1.52	1.83	1.48	1.50	1.52
Total								
1985-1990	1.50	1.24	1.60	1.72	1.77	1.30	1.53	1.52
1990-1995	1.52	1.36	1.77	1.40	1.69	1.32	1.39	1.37
Export shares								
SITC 0-2, 4								
1985	55.1	9.6	0.1	18.9	1.7	14.6	35.3	35.2
1990	52.0	10.6	0.1	20.3	1.7	15.3	37.4	37.3
1995	49.5	11.6	0.1	21.5	1.7	15.6	38.9	38.8
SITC 3								
1985	23.1	13.9	35.0	15.3	0.0	12.6	63.0	28.0
1990	22.7	14.0	34.3	15.8	0.0	13.1	63.3	29.0
1995	22.0	14.0	33.4	16.7	0.0	13.9	64.0	30.6
SITC 5-9								
1985	79.3	8.5	0.2	7.8	0.1	4.1	12.2	12.0
1990	79.3	7.8	0.2	8.2	0.1	4.3	12.9	12.7
1995	78.7	7.2	0.2	9.0	0.1	4.8	14.1	13.9
Total								
1985	65.6	9.6	6.2	11.0	0.4	7.3	24.8	18.6
1990	66.5	9.2	5.2	11.4	0.4	7.5	24.4	19.2
1995	66.9	8.8	4.2	12.0	0.4	7.7	24.3	20.1

Table XVI

SCENARIO II
Policy-controlled recovery: selected results
(Per cent)

	GDP	TB/Y	CAB/Y	D/Y	DS/Y	INT/Y	TB/X	CAB/X	D/X	DS/X	INT/X
Major developing country Eurocurrrency borrowers											
1985	...	-2.0	- 1.9	39.0	9.1	4.1	-7.6	- 7.1	148.3	34.6	15.4
1990	4.5	-1.1	- 1.0	22.3	5.1	1.9	-3.8	-3.5	80.5	18.3	6.7
1995	6.1	-1.0	- 1.0	11.4	2.5	0.9	-3.7	-3.4	38.8	8.6	3.1
Least developed countries											
1985	...	-16.4	-11.3	61.9	6.4	1.8	-89.1	-61.2	335.4	34.9	9.8
1990	4.0	-18.7	-14.8	55.4	3.9	1.4	-94.6	-74.9	280.2	19.5	6.9
1995	5.9	-25.2	-21.9	67.1	3.1	1.5	-122.8	-106.9	327.8	14.9	7.4
Other developing countries											
1985	...	-6.1	-4.6	34.5	5.8	2.2	-16.4	-12.4	93.4	15.6	5.9
1990	4.4	-5.4	-4.2	26.1	3.1	1.3	-14.2	-10.9	68.0	8.2	3.5
1995	6.0	-7.3	-6.2	23.1	1.8	0.9	-18.5	-15.6	58.5	4.5	2.2
Deficit developing countries											
1985	...	-3.9	-3.1	38.3	7.9	3.4	-13.0	-10.5	129.5	26.7	11.3
1990	4.5	-3.1	-2.5	24.7	4.4	1.7	-10.1	-8.1	79.7	14.5	5.4
1995	6.1	-4.0	-3.4	17.2	2.3	0.9	-12.3	-10.6	53.1	7.1	2.8

STATISTICAL ANNEX

Annex table A.1

World output *a/* summary: annual rates of change in volume, 1975-1986

(Percentage)

A. By main regions

Region	Actual				Forecast *b/*	
	1975-1980	1982	1983	1984*	1985	1986
World *c/*	3.8	0.1	2.0	4.3	3.0	3.0
Developed market-economy countries	3.6	-0.2	2.3	4.8	3.0	2.8
North America	3.9	-2.3	3.6	6.7	3.0	2.8
Canada	3.3	-4.4	3.3	4.3	2.6	3.1
United States	3.7	-2.1	3.7	6.8	3.0	2.8
Western Europe	3.0	0.6	1.2	2.4	2.5	2.4
France	3.3	2.0	0.7	1.4	1.5	2.1
Germany, Fed. Rep. of	3.5	-1.1	1.3	2.5	2.6	2.0
Italy	3.9	-0.4	-1.2	3.0	2.7	2.9
United Kingdom	1.7	1.9	3.4	2.0	3.4	2.8
Japan	5.1	3.3	3.0	5.8	4.6	4.0
Others	2.5	0.5	-0.1	3.8	1.9	2.4
Developing countries	4.5	0.5	-0.1	2.6	2.8	3.7
Western Hemisphere	4.9	-1.3	-2.4	2.6	2.4	3.4
North Africa	6.4	4.0	3.2	2.0	1.6	2.4
Other Africa	4.4	-0.3	-2.1	-0.3	1.3	2.3
Excluding Nigeria	3.0	0.6	0.7	0.1	2.3	2.8
West Asia	0.8	-0.7	-4.8	-0.7	-1.5	2.5
South Asia	4.8	3.2	5.7	4.3	4.9	4.9
East Asia	7.9	3.3	5.5	5.6	5.5	5.6
China *d/*	6.9	7.4	9.0	12.0	7.0	7.0
Socialist countries of Eastern Europe *e/*	4.1	3.0	4.2	3.6	4.2	3.7

For source and notes, see end of table.

Annex table A.1 (continued)

World output *a/* **summary: annual rates of change in volume, 1975-1986**
(Percentage)

B. Developing countries by major analytical groups

Region	Actual				Forecast *b/*	
	1975-1980	1982	1983	1984*	1985	1986
Major oil exporters	3.6	-0.4	-4.1	1.0	1.0	2.8
Oil sector	1.3	- 4.0	-10.0	1.0	-2.9	2.3
Non-oil sector	6.9	0.6	-1.5	1.0	2.4	3.0
Other oil exporters	5.7	2.7	1.2	2.6	1.9	3.3
Net oil-importing countries	5.0	0.9	2.4	3.7	3.9	4.3
Exporters of manufactures	5.8	0.3	1.4	4.8	4.0	4.7
Least developed countries	3.6	0.6	2.4	-1.1	3.1	3.2

Source: UNCTAD secretariat calculations, based on official national and international sources.

Note: Major oil-exporting developing countries are Algeria, Angola, Bahrain, Brunei, Congo, Ecuador, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Other oil-exporting developing countries are Bolivia, Egypt, Malaysia, Peru and Tunisia.

Net oil-importing developing countries are all developing countries, excluding the major oil exporters and other oil exporters.

Exporters of manufactures are Argentina, Brazil, Hong Kong, Republic of Korea, Singapore, and Taiwan Province of China.

a/ Gross domestic product/gross national product.

b/ The forecasts have been prepared by the UNCTAD secretariat on the basis of recent forecasts of Project LINK and the econometric models covering 60 developing countries, and of consultations with experts. For a brief description of Project LINK and the econometric models, see TD/B/C.3/134/Add.1, sect. II. The UNCTAD secretariat contributes to the LINK econometric modelling system with regional models of developing countries and price forecasts for their principal export commodities.

c/ Excluding China and the socialist countries of Eastern Europe.

d/ National income.

e/ Net material product.

* Estimated.

Annex table A.2

World trade summary: annual rates of change in volume and prices, 1975-1986
(Percentage)

A. Developed market-economy countries by main regions

Country, region or group	Actual				Forecast	
	1975-1980	1982	1983	1984*	1985	1986
World exports						
Volume	6.0	-3.0	-3.0	8.7	5.6	4.8
Unit value	11.5	-5.0	-5.3	-1.8	-0.4	3.0
Developed market-economy countries						
Export volume	6.5	-1.0	1.0	9.7	6.0	4.8
Terms of trade	-2.1	2.0	1.0	-1.0	0.0	0.5
Purchasing power of exports	4.4	-1.0	2.0	8.7	6.0	5.3
Import volume	5.7	0.0	2.1	11.1	6.0	4.9
North America						
Export volume	6.7	-7.0	-3.3	10.1	5.0	3.3
Terms of trade	-3.2	2.0	4.8	-0.2	1.0	1.5
Purchasing power of exports	3.5	-5.1	1.3	9.8	6.0	4.8
Import volume	5.7	-6.9	8.5	25.6	9.2	5.0
Western Europe						
Export volume	6.2	1.0	1.9	7.4	6.0	5.1
Terms of trade	-1.0	3.1	1.0	-0.5	-0.5	0.1
Purchasing power of exports	5.2	4.1	2.9	6.9	5.5	5.2
Import volume	6.0	3.2	0.0	6.3	4.6	4.8
Japan						
Export volume	9.3	-2.3	8.3	14.7	8.5	6.3
Terms of trade	-5.2	0.0	3.8	3.2	1.0	-1.2
Purchasing power of exports	4.1	-2.3	12.4	18.3	9.5	5.1
Import volume	4.5	0.0	0.8	12.5	6.9	6.2
Others						
Export volume	6.0	10.5	1.0	15.8	5.7	4.0
Terms of trade	-2.5	-3.7	-2.0	-1.8	-3.5	0.3
Purchasing power of exports	3.5	6.4	-1.0	13.6	2.0	4.3
Import volume	2.7	11.6	-12.0	14.7	7.1	4.4

For source and notes, see end of table.

Annex table A.2 (continued)

World trade summary: annual rates of change in volume and prices, 1975-1986
(Percentage)

B. Developing countries by main regions

Country, region or group	Actual				Forecast	
	1975-1980	1982	1983	1984*	1985	1986
All developing countries						
Export volume	2.1	-6.3	0.9	8.5	4.5	4.6
Terms of trade	4.8	-3.3	-3.8	0.4	-2.6	-0.5
Purchasing power of exports	7.0	-9.4	-2.9	8.9	1.8	4.0
Import volume	5.1	-2.0	-1.3	1.1	2.3	5.0
Western Hemisphere						
Export volume	5.9	-1.2	2.2	11.7	3.4	3.0
Terms of trade	-1.3	-5.1	1.9	-0.8	-3.9	-0.9
Purchasing power of exports	4.5	-6.3	4.1	10.8	-0.6	-2.1
Import volume	2.1	-15.1	-15.2	5.2	6.6	8.5
North Africa						
Export volume	1.0	0.4	1.7	0.4	3.8	1.8
Terms of trade	8.7	-5.4	-8.2	1.0	-2.6	-0.6
Purchasing power of exports	9.8	-5.1	-6.6	0.4	1.1	1.2
Import volume	0.0	-0.8	4.0	3.3	-1.3	1.3
Other Africa						
Export volume	0.8	-12.8	-2.4	15.4	4.6	4.3
Terms of trade	5.4	-5.9	-2.5	2.0	-3.6	-1.8
Purchasing power of exports	6.2	-18.0	-4.9	17.8	0.9	2.4
Import volume	3.3	-9.9	-11.0	-14.1	-4.0	4.4
West Asia						
Export volume	-2.6	-19.3	-10.6	-3.1	-0.5	2.0
Terms of trade	11.1	0.1	-10.9	0.9	-2.8	-2.9
Purchasing power of exports	8.2	-19.4	-20.3	-2.2	-3.3	-1.0
Import volume	10.8	8.3	-0.2	-8.6	-5.9	-2.7
South Asia						
Export volume	7.6	6.4	6.9	-1.2	5.0	4.4
Terms of trade	-6.9	-2.2	5.2	5.0	0.2	-0.5
Purchasing power of exports	0.2	4.0	12.4	3.8	5.1	3.9
Import volume	2.4	-0.4	2.2	8.5	4.7	4.7
East Asia						
Export volume	11.8	4.8	8.8	18.3	8.5	7.6
Terms of trade	-6.9	-2.9	2.9	1.2	-1.5	1.4
Purchasing power of exports	4.1	1.7	11.9	19.7	6.9	9.1
Import volume	7.8	3.7	9.3	8.2	7.2	8.6

For source and notes, see end of table.

Annex table A.2 (continued)

World trade summary: annual rates of change in volume and prices, 1975-1986
(Percentage)

C. Developing countries by major analytical groups *a/*

Country, region or group	Actual				Forecast	
	1975-1980	1982	1983	1984*	1985	1986
Major oil exporters						
Export volume	-0.6	-15.0	-5.4	1.6	-0.4	2.1
Terms of trade	10.8	-1.8	-9.5	0.9	-3.4	-2.4
Purchasing power of exports	10.1	-16.6	-14.4	2.5	-3.8	-0.3
Import volume	9.3	0.8	-8.8	-7.8	-3.8	0.5
Other oil exporters						
Export volume	9.3	12.2	10.6	10.3	10.8	8.5
Terms of trade	1.7	-6.0	3.2	3.2	-1.0	0.9
Purchasing power of exports	11.2	5.5	14.1	13.9	9.7	9.3
Import volume	3.7	6.5	7.4	7.0	5.6	5.6
Net oil-importing countries						
Export volume	11.4	4.2	3.1	16.2	8.6	6.6
Terms of trade	-6.1	-4.6	7.2	-0.1	-1.5	-0.1
Purchasing power of exports	4.6	-0.6	10.5	16.0	7.5	6.9
Import volume	3.1	-4.7	4.0	6.3	6.6	6.8
Exporters of manufactures						
Export volume	18.4	0.6	9.8	22.2	9.1	7.3
Terms of trade	-8.6	-0.9	5.3	0.8	-0.6	0.1
Purchasing power of exports	8.2	-0.3	15.6	23.1	9.0	7.9
Import volume	4.8	-5.1	5.7	9.1	9.6	8.8
Least developed countries						
Export volume	5.4	1.1	0.9	-0.1	4.6	3.7
Terms of trade	-1.2	-1.6	6.7	10.9	-4.7	-0.1
Purchasing power of exports	4.1	-0.5	7.6	10.8	-0.1	3.6
Import volume	6.2	0.6	-0.9	-1.1	4.5	5.0

Source: UNCTAD secretariat calculations, based on official national and international sources.

Note: The terms-of-trade calculations for groups of developing countries have been made by the UNCTAD secretariat using a methodology briefly described in the UNCTAD *Handbook of International Trade and Development Statistics, Supplement 1981* (United Nations publication, Sales No. E/F.82.II.D.11), p. 456.

a/ For definition of country groupings and description of forecasting techniques, see notes to table A.1.

* Estimated.

Annex table A.3

Balance of payments summary of developing countries, 1983-1986
(Billions of current dollars)

A. By main regions

Item / Region	Exports (f.o.b.)	Imports (f.o.b.)	Trade balance	Balance on non-factor services and private transfers	Investment income (net)	Current-account balance	Total capital flows (net)	Changes in reserves (minus equals increase)
Total								
1983	438.3	416.2	22.1	-51.6	-42.9	-72.3	62.0	10.3
1984	466.4	416.6	49.8	-46.0	-52.0	-48.2	51.8	-3.6
1985	483.1	429.6	53.5	-41.8	-59.0	-47.3	42.3	5.0
1986	514.2	461.8	52.4	-37.4	-62.6	-47.6	46.6	1.0
Western Hemisphere								
1983	91.7	62.2	29.6	-6.2	-34.9	-11.5	6.6	4.9
1984	101.2	64.9	36.3	-5.2	-37.4	-6.3	13.4	-7.1
1985	103.3	70.6	32.7	-5.1	-40.5	-13.0	12.0	1.0
1986	108.2	79.4	28.8	-4.9	-41.3	-17.4	16.9	0.5
North Africa								
1983	33.1	32.9	0.2	-1.1	-3.4	-4.3	2.0	2.3
1984	31.0	32.4	-1.4	-1.1	-3.5	-6.1	4.4	1.7
1985	30.9	31.6	-0.7	-1.3	-3.8	-5.8	4.7	1.1
1986	31.7	31.3	0.4	-1.4	-4.1	-5.1	5.0	0.1
Other Africa								
1983	29.4	31.7	-2.3	-8.9	-4.2	-15.4	14.9	0.6
1984	31.9	26.4	5.5	-8.2	-6.3	-8.9	9.1	-0.2
1985	32.5	25.7	6.8	-8.1	-7.0	-8.3	8.5	-0.1
1986	34.4	27.7	6.6	-7.7	-7.5	-8.6	9.0	-0.4
West Asia								
1983	122.1	111.2	10.9	-48.1	14.4	-22.8	13.5	9.3
1984	116.6	104.9	11.7	-45.3	11.0	-22.6	13.4	9.2
1985	115.0	101.3	13.7	-42.2	8.7	-19.8	16.2	3.6
1986	117.2	101.6	15.6	-38.9	7.8	-15.5	12.6	2.9
South Asia								
1983	13.7	22.9	-9.1	5.4	-0.5	-4.2	6.1	-1.9
1984	14.4	24.2	-9.8	5.9	-0.4	-4.2	4.1	0.1
1985	15.0	25.1	-10.1	6.5	-0.4	-3.9	2.6	1.2
1986	15.9	26.7	-10.8	7.1	-0.6	-4.3	3.8	0.6
East Asia								
1983	138.1	143.5	-5.5	3.3	-12.3	-14.5	18.8	4.3
1984	160.0	151.2	8.7	3.9	-13.7	-1.0	7.8	-6.8
1985	174.3	164.3	10.0	3.8	-14.0	-0.2	1.4	-1.2
1986	193.7	180.9	12.8	4.0	-14.9	-2.0	0.1	-2.1

For source and notes, see end of table.

Annex table A.3 (continued)

Balance of payments summary of developing countries, 1983-1986
(Billions of current dollars)

B. By major analytical groups a/

Item / Region	Exports (f.o.b.)	Imports (f.o.b.)	Trade balance	Balance on non-factor services and private transfers	Investment income (net)	Current-account balance	Total capital flows (net)	Changes in reserves (minus equals increase)
Major oil exporters								
1983	217.8	164.8	53.0	-70.5	-3.5	-21.0	13.7	7.4
1984	215.4	152.9	62.5	-66.5	-10.3	-14.3	10.8	3.5
1985	211.9	150.1	61.8	-62.6	-14.2	-15.0	9.7	5.3
1986	217.1	154.5	62.6	-59.9	-15.9	-13.2	9.8	3.3
Other oil exporters								
1983	23.0	26.8	-3.8	1.8	-3.6	-5.6	5.8	-0.1
1984	24.6	27.7	-3.1	1.5	-4.5	-6.1	6.1	0.1
1985	26.8	28.8	-2.0	1.0	-4.7	-5.8	5.1	0.7
1986	29.6	30.6	-1.0	0.8	-5.2	-5.4	5.5	-0.1
Net oil-importing countries								
1983	197.6	224.6	-27.0	17.1	-35.7	-45.6	42.5	3.1
1984	226.4	236.0	-9.5	19.0	-37.2	-27.7	35.0	-7.2
1985	244.4	250.6	-6.2	19.7	-40.0	-26.5	27.5	-1.0
1986	267.5	276.7	-9.2	21.8	-41.6	-29.1	31.2	-2.2
Exporters of manufactures								
1983	120.2	113.8	6.4	4.2	-20.9	-10.3	10.4	-0.1
1984	144.3	123.4	20.9	5.2	-22.0	4.0	5.6	-9.7
1985	158.0	136.2	21.9	4.0	-23.1	2.8	0.5	-3.3
1986	175.0	152.3	22.7	4.6	-23.3	4.1	-0.8	-3.3
Least developed countries								
1983	6.8	14.2	-7.5	1.9	-0.7	-6.3	7.2	-0.9
1984	7.2	13.8	-6.6	1.8	-0.9	-5.7	5.5	0.2
1985	7.2	14.5	-7.3	2.0	-1.1	-6.4	6.4	0.0
1986	7.7	15.7	-8.0	1.9	-1.2	-7.3	7.3	0.0
Other countries								
1983	70.6	96.5	-26.0	11.0	-14.1	-29.1	24.9	4.2
1984	74.9	98.7	-23.9	12.1	-14.3	-26.1	23.9	2.2
1985	79.1	99.9	-20.8	13.7	-15.8	-22.9	20.6	2.3
1986	84.7	108.7	-24.0	15.2	-17.1	-25.9	24.7	1.1

Source: UNCTAD secretariat calculations, based on IMF balance-of-payments tapes and official national and international sources. 1984 figures are preliminary; 1985-1986 figures are forecasts.

a/ For definition of country groupings, see notes to table A.1.

Annex table A.4

Developing countries:
rates of growth of real output and demand, by country groups
1961-1979
(Percentage)

Region or grouping	1961-1970	1971-1973	1974-1975	1976-1979
America				
Gross domestic product	5.8	6.9	4.3	4.9
Private consumption	5.7	6.7	5.7	6.0
Value added in manufacturing	7.1	9.3	3.7	5.3
Value added in agriculture	3.4	3.3	3.6	3.2
Gross investment	6.6	9.4	9.1	3.9
Export volume	3.3	0.9	-14.9	9.0
Import volume	4.6	4.6	6.0	1.3
North Africa				
Gross domestic product	8.5	1.4	3.0	8.2
Private consumption	4.0	6.6	9.0	5.8
Value added in manufacturing	7.0	5.6	3.0	8.7
Value added in agriculture	1.0	2.9	6.5	2.0
Gross investment	6.1	6.5	28.4	7.9
Export volume	15.8	-3.4	-20.1	5.8
Import volume	2.1	8.5	32.5	-1.8
Other Africa				
Gross domestic product	4.3	6.0	1.8	4.4
Private consumption	3.2	3.7	1.4	2.0
Value added in manufacturing	8.4	6.9	3.6	5.3
Value added in agriculture	1.3	1.2	0.6	1.0
Gross investment	6.7	10.9	9.5	0.2
Export volume	7.1	8.5	-13.7	2.5
Import volume	5.8	1.7	10.0	1.5
West Asia				
Gross domestic product	7.1	11.3	6.9	4.1
Private consumption	5.1	8.2	14.1	6.2
Value added in manufacturing	8.9	11.3	9.6	5.1
Value added in agriculture	2.4	2.2	8.6	3.8
Gross investment	7.6	11.7	37.0	7.9
Export volume	9.3	11.4	-14.2	1.8
Import volume	6.3	13.8	37.6	10.8
South and South-East Asia				
Gross domestic product	4.5	5.2	5.1	6.0
Private consumption	4.0	3.7	6.2	4.8
Value added in manufacturing	6.6	8.4	5.1	10.1
Value added in agriculture	2.4	2.0	3.8	1.5
Gross investment	7.0	6.9	8.0	10.0
Export volume	5.6	12.1	-9.4	13.4
Import volume	4.4	3.1	8.2	7.2

For sources, see end of table.

Annex table A.4 (continued)

Developing countries:
rates of growth of real output and demand, by country groups
1961-1979
(Percentage)

Region or grouping	1961-1970	1971-1973	1974-1975	1976-1979
Major petroleum exporters				
Gross domestic product	6.9	7.9	4.2	5.6
Private consumption	4.7	6.9	9.8	6.5
Value added in manufacturing	8.2	8.3	6.5	7.8
Value added in agriculture	1.7	3.0	2.5	2.7
Gross investment	7.7	12.1	22.8	7.0
Export volume	8.7	7.2	-15.5	3.4
Import volume	4.9	10.0	28.2	6.7
Non-oil exporting developing countries				
Gross domestic product	5.0	6.0	4.8	5.0
Private consumption	4.7	5.1	4.9	4.7
Value added in manufacturing	6.8	9.3	3.9	6.1
Value added in agriculture	2.6	2.0	4.2	1.9
Gross investment	6.5	7.2	9.0	5.5
Export volume	4.5	6.4	-10.2	10.9
Import volume	4.5	3.3	7.0	2.8
Major exporters of manufactures				
Gross domestic product	5.8	9.3	5.6	5.8
Private consumption	5.6	8.6	6.3	7.5
Value added in manufacturing	7.1	11.9	4.4	6.5
Value added in agriculture	3.1	3.6	4.6	3.5
Gross investment	7.3	13.4	8.3	5.5
Export volume	6.9	17.2	-6.9	18.3
Import volume	6.9	13.3	7.9	4.8
Least developed				
Gross domestic product	2.8	1.9	4.8	3.6
Private consumption	2.4	1.9	5.4	3.1
Value added in manufacturing	6.6	5.9	2.9	2.7
Value added in agriculture	1.3	-0.1	3.6	1.3
Gross investment	6.6	2.9	4.4	7.8
Export volume	5.5	-3.2	-12.1	4.2
Import volume	5.9	-3.0	5.5	2.3

For sources, see end of table.

Annex table A.4 (continued)

Developing countries:
rates of growth of real output and demand, by country groups
1961-1979
(Percentage)

Region or grouping	1976	1977	1978	1979
Memo item: Developing countries: rates of growth of total external debt, by country groups, 1976-1979 (Per cent)				
Developing countries and territories	22.6	24.3	26.7	17.8
By region				
America	24.7	24.1	29.2	17.7
North Africa	26.0	41.1	33.4	17.6
Other Africa	18.0	26.2	31.6	26.8
West Asia	21.9	31.9	31.3	24.1
South and South-East Asia	19.5	18.4	19.3	13.5
By major category				
Major petroleum exporters	28.9	28.8	29.0	15.9
Other developing countries and territories	20.0	22.3	25.6	18.7
Major exporters of manufactures	23.0	24.2	33.0	18.4
Least developed countries	17.6	22.9	23.9	19.2

Sources: Rates of growth of output, expenditure, exports and imports: United Nations Statistical Office, Development Research and Policy Analysis Data Bank (DRPA): National Accounts. Rates of growth of external debt: UNCTAD secretariat estimates based on OECD data.

Annex table A.5

Shares in national expenditure of major macro-economic aggregates for groups of developing countries and selected developed market-economy countries, 1971-1979
(Percentages)

Developing countries	1971	1972	1973	1974	1975	1976	1977	1978	1979
By region									
America									
Gross investment	22	22	24	26	25	24	24	23	22
Private consumption	67	67	65	64	67	66	66	66	67
Government consumption	11	11	11	10	11	11	11	11	11
Net capital inflow *a/*	3	3	2	3	4	3	3	4	3
Gross domestic savings *b/*	19	19	22	23	21	20	21	19	19
North Africa									
Gross investment	20	22	26	29	32	30	31	32	33
Private consumption	60	58	56	53	50	51	51	50	49
Government consumption	20	19	18	18	19	19	18	18	18
Net capital inflow *a/*	0	1	2	-4	8	2	4	5	1
Gross domestic savings *b/*	20	21	24	32	24	28	27	27	32
Other Africa									
Gross investment	18	18	19	20	22	23	22	19	19
Private consumption	70	70	68	68	65	64	65	68	68
Government consumption	12	13	13	12	13	13	13	13	14
Net capital inflow *a/*	5	4	3	3	5	4	4	7	3
Gross domestic savings *b/*	12	14	16	17	17	19	17	13	15
West Asia									
Gross investment	20	23	24	25	29	29	29	26	28
Private consumption	62	59	57	54	50	48	49	52	49
Government consumption	18	18	19	21	21	23	22	22	23
Net capital inflow *a/*	-6	-8	-11	-52	-25	-21	-14	-6	-18
Gross domestic savings *b/*	26	31	34	77	54	50	42	33	46
South and South-East Asia									
Gross investment	19	18	19	21	22	22	22	24	26
Private consumption	71	72	72	71	69	67	68	66	64
Government consumption	10	10	9	9	10	10	10	10	10
Net capital inflow *a/*	4	2	1	3	4	1	0	2	3
Gross domestic savings *b/*	15	16	18	17	18	22	22	22	23

For source and notes, see end of table.

Annex table A.5 (continued)

Shares in national expenditure of major macroeconomic aggregates for groups of developing countries and selected developed market-economy countries, 1971-1979

(Percentages)

Developing countries	1971	1972	1973	1974	1975	1976	1977	1978	1979
By major category									
Major petroleum exporters									
Gross investment	22	24	25	25	28	29	29	28	29
Private consumption	66	64	61	60	56	55	54	55	54
Government consumption	12	13	13	15	16	17	17	17	17
Net capital inflow *a/*	-1	-2	-3	-27	-10	-9	-7	0	-10
Gross domestic savings *b/*	23	25	28	52	39	38	36	28	39
Non-oil exporting									
Gross investment	20	19	21	23	23	22	22	22	22
Private consumption	68	69	68	66	66	66	67	67	66
Government consumption	12	12	11	11	11	12	11	11	11
Net capital inflow *a/*	4	3	2	5	6	3	3	3	4
Gross domestic savings *b/*	16	17	19	18	17	19	19	18	18
Major exporters of manufactures									
Gross investment	24	25	26	29	26	25	25	23	23
Private consumption	65	65	63	61	63	65	66	67	67
Government consumption	11	10	11	10	10	10	10	10	10
Net capital inflow *a/*	4	3	1	6	5	2	1	2	4
Gross domestic savings *b/*	20	22	25	23	21	23	23	22	19
Least developed									
Gross investment	11	12	11	11	13	13	12	13	14
Private consumption	79	79	79	81	77	76	77	76	75
Government consumption	10	10	9	8	10	10	11	11	11
Net capital inflow *a/*	4	4	5	6	9	5	5	8	8
Gross domestic savings *b/*	6	8	6	4	4	9	8	5	6

For source and notes, see end of table.

Annex table A.5 (continued)

Shares in national expenditure of major macroeconomic aggregates for groups of developing countries and selected developed market-economy countries, 1971-1979

(Percentages)

Developed market-economy countries	1971	1972	1973	1974	1975	1976	1977	1978	1979
Germany, Federal Republic of									
Gross investment	27	27	26	23	20	22	22	22	24
Private consumption	56	56	56	57	59	58	58	58	56
Government consumption	17	17	18	20	21	20	20	20	20
Net capital inflow *a/*	-1	-1	-2	-4	-2	-2	-2	-2	- 0
Gross domestic savings *b/*	28	28	28	27	22	24	23	24	24
France									
Gross investment	25	26	26	26	23	24	23	22	23
Private consumption	61	61	60	60	62	61	62	63	62
Government consumption	14	13	13	13	15	14	15	15	15
Net capital inflow *a/*	-1	-1	-1	1	-1	1	0	-2	-1
Gross domestic savings *b/*	26	26	27	25	24	24	24	24	24
Japan									
Gross investment	37	36	38	37	33	32	32	32	33
Private consumption	55	55	54	54	57	58	58	58	58
Government consumption	8	8	8	9	10	10	10	10	10
Net capital inflow *a/*	-3	-2	0	1	0	-1	-2	-2	1
Gross domestic savings *b/*	39	39	38	36	33	33	33	34	32
United Kingdom									
Gross investment	19	18	21	21	18	19	19	19	19
Private consumption	63	63	61	60	60	59	60	61	61
Government consumption	18	18	18	19	22	21	21	20	20
Net capital inflow *a/*	-2	-1	1	3	1	0	-1	-2	-1
Gross domestic savings *b/*	21	19	20	17	17	19	20	21	20
United States									
Gross investment	19	19	20	19	17	18	19	21	20
Private consumption	63	62	62	63	64	64	63	62	63
Government consumption	18	18	18	18	19	18	18	17	17
Net capital inflow *a/*	0	0	-1	-1	-1	0	1	1	0
Gross domestic savings *b/*	19	19	21	20	18	18	19	20	20

Source: United Nations Statistical Office: National Accounts.

a/ Deficit on current account. Negative figures represent surpluses.
b/ Gross investment minus net capital inflow.

Annex table A.6

Debt indicators of selected developing countries
(Per cent)

	Share in developing country debt 1983		% of 1983 debt stock accumulated during 1979-1983		Share of debt to financial markets in total		Debt/GNP		Debt/exports		Short-term debt as % of medium and long-term debt	
	Total	Fin. markets	Total	Fin. markets	1978	1983	1978	1983	1978	1983	Mid-1979	End-1983
TOTAL ALL COUNTRIES	83.26	97.17	47.2	57.5	44.9	55.8	23.8	34.8	152.4	177.8	18.4b/	24.4b/
Low-income countries	17.62	4.84	36.4	49.5	10.4	13.1	24.0	25.9	188.5	195.6	6.2	10.0
Bangladesh	0.71	0.02	35.1	51.2	0.9	1.2	31.8	40.0	407.9	441.2	0.3	2.0
Burma	0.37	0.08	61.1	77.5	5.8	9.9	18.9	37.2	285.3	507.6	1.0	0.3
Central African Rep.	0.04	0.00	42.4	-15.5	3.7	1.8	20.7	33.4	85.2	141.6	2.2	1.4
Egypt	2.75	0.28	37.4	5.7	7.4	4.9	63.1	60.9	285.5	229.8	10.4	20.6
Ethiopia	0.20	0.01	55.6	71.1	1.4	2.1	16.0	24.2	134.5	213.7	1.7	1.1
Gambia	0.03	0.01	71.3	97.1	1.4	13.5	30.4	83.4	84.8	247.2	9.6	9.8
Ghana	0.20	-	24.0	-	2.3	-	7.8	5.7	92.6	239.5	18.5	5.6
Haiti	0.07	0.02	47.7	65.7	9.7	12.1	26.1	41.1	87.1	147.1	1.0	22.4
India	3.70	0.54	29.7	92.8	0.7	7.0	13.5	12.0	185.2	180.8	0.9	4.4
Indonesia	3.88	2.45	38.2	58.7	20.2	30.2	29.0	30.7	128.2	118.1	11.3	16.9
Kenya	0.41	0.19	44.0	37.9	25.0	22.5	26.9	44.0	89.5	167.2	7.3	9.6
Madagascar	0.25	0.09	76.5	89.7	7.7	17.7	17.0	52.3	78.8	428.0	12.2	8.1
Malawi	0.13	0.05	36.4	17.9	22.6	17.5	53.1	65.8	242.2	286.1	10.5	6.9
Mali	0.15	0.00	42.8	-13.2	2.0	1.0	27.3	46.0	394.2	433.9	1.0	0.6
Mauritania	0.19	0.02	49.4	-32.0	11.8	4.5	122.2	171.4	381.1	318.0	2.5	6.2
Pakistan	1.63	0.11	21.5	49.7	2.1	3.3	37.8	28.0	422.4	259.8	2.8	4.3
Rwanda	0.04	0.00	55.3	100.0	-	0.4	11.9	14.3	77.5	140.7	3.5	0.9
Sierra Leone	0.06	0.01	18.8	-110.3	27.4	10.6	34.5	35.3	144.3	272.6	3.6	17.4
Somalia	0.19	0.02	52.2	95.0	0.5	5.2	45.9	127.5	361.4	680.4	1.0	2.2
Sri Lanka	0.36	0.15	52.9	99.8	0.1	20.1	40.7	42.3	107.0	157.1	0.4	13.9
Sudan	0.98	0.44	51.5	59.9	17.9	21.7	29.6	85.3	389.0	732.7	9.9	6.9
Tanzania, United Republic of	0.36	0.04	37.6	75.7	2.3	5.1	30.9	49.9	218.2	467.9	4.6	5.1
Togo	0.13	0.05	18.5	-91.2	43.4	18.4	68.3	98.8	214.9	262.3	4.7	3.5
Uganda	0.10	0.01	41.8	11.2	8.5	5.6	4.0	10.3	107.5	152.7	2.5	1.6
Zaire	0.69	0.24	14.6	-109.6	41.4	16.9	42.6	138.7	186.0	254.9	7.9	4.3

For sources and notes, see end of table.

Annex table A.6 (continued)

Debt indicators of selected developing countries
(Per cent)

	Short-term debt as % of imports		Total debt service/exports		Implicit interest rate		Interest payments/exports		Interest payments/total debt service		Total debt service/disbursements a/	
	Mid-1979	End-1983	1978	1983	1978/79	1981/83	1978	1983	1978	1983	1978/79	1983
TOTAL ALL COUNTRIES	61.0b/	108.9b/	24.3	28.1	7.0	9.5	7.9	14.5	32.3	51.6	58.3	87.6
Low-income countries	22.5	36.9	16.9	19.4	3.3	3.6	5.3	7.0	31.4	36.1	47.6	67.3
Bangladesh	1.3	9.4	14.9	17.9	1.7	1.3	6.1	6.7	41.2	37.2	17.4	30.7
Burma	2.6	2.0	17.8	40.6	3.9	3.4	6.9	14.5	38.5	35.8	19.6	46.8
Central African Rep.	5.1	4.3	4.8	11.3	0.9	2.6	1.1	4.4	22.0	39.1	26.3	53.9
Egypt	44.9	81.9	35.0	33.9	3.6	4.1	10.9	8.9	31.0	26.4	43.6	91.3
Ethiopia	3.8	3.7	7.9	12.9	2.7	2.3	3.3	4.2	41.3	32.4	30.2	30.5
Gambia	12.8	37.2	1.8	9.2	0.9	1.5	0.4	2.5	22.0	27.0	4.0	44.2
Ghana	52.6	17.6	6.5	17.5	3.3	2.5	2.5	6.5	38.0	37.2	41.4	123.6
Haiti	1.8	60.6	8.7	5.4	2.6	2.0	2.1	2.3	24.2	43.1	27.9	35.4
India	2.8	13.8	12.5	15.0	2.5	2.7	4.2	5.2	33.6	34.9	71.3	62.6
Indonesia	38.9	47.9	19.0	15.6	5.1	6.9	4.8	6.9	25.2	44.4	77.0	64.3
Kenya	15.9	32.1	11.0	22.7	5.5	5.7	3.9	8.9	35.5	39.3	40.5	130.0
Madagascar	25.7	62.0	6.5	40.5	4.4	2.5	1.8	18.4	27.6	45.3	13.5	65.3
Malawi	39.4	56.5	17.8	26.4	4.7	5.5	8.8	11.9	49.5	45.2	31.8	109.9
Mali	4.9	4.2	13.7	7.2	0.7	0.7	2.3	2.9	16.7	43.7	27.7	13.8
Mauritania	11.4	40.8	32.8	12.4	2.3	2.5	6.2	6.1	18.8	49.1	41.2	23.6
Pakistan	10.7	15.2	24.3	30.2	2.7	2.7	9.9	8.4	40.7	27.9	48.3	101.1
Rwanda	5.6	1.9	2.3	3.1	0.8	1.2	0.5	1.5	23.7	49.0	8.3	12.7
Sierra Leone	9.2	80.6	18.4	28.5	4.9	2.0	4.2	2.3	22.5	8.1	43.0	151.6
Somalia	4.4	13.8	5.3	21.3	0.3	0.8	0.9	5.6	17.5	26.4	6.0	37.0
Sri Lanka	0.6	33.2	9.3	12.1	3.0	4.1	2.7	6.1	28.9	50.7	33.5	45.6
Sudan	103.9	123.8	15.0	17.8	2.1	1.3	7.9	9.2	52.5	51.7	16.9	27.3
Tanzania, United Republic of	14.8	23.9	8.5	34.2	1.8	2.2	3.2	9.8	37.7	28.8	31.9	52.8
Togo	17.6	20.7	16.4	14.7	2.6	2.8	3.7	9.1	22.8	62.2	16.2	58.9
Uganda	8.4	3.6	4.1	20.1	0.9	1.7	0.9	4.2	20.7	20.7	12.5	87.8
Zaire	73.9	30.0	9.0	8.7	2.9	2.3	4.8	5.5	52.9	63.4	27.6	67.6

For sources and notes, see end of table.

Annex table A.6 (continued)

Debt indicators of selected developing countries
(Per cent)

	Share in developing country debt 1983		% of 1983 debt stock accumulated during 1979-1983		Share of debt to financial markets in total		Debt/GNP		Debt/exports		Short-term debt as % of medium and long-term debt	
	Total	Fin. markets	Total	Fin. markets	1978	1983	1978	1983	1978	1983	Mid-1979	End-1983
Middle-income countries	21.21	19.08	54.2	60.4	36.9	42.7	21.1	34.3	107.4	173.0	22.9c/	20.2c/
Bolivia	0.51	0.28	43.3	13.2	40.3	26.4	47.8	50.7	249.0	353.9	18.3	7.5
Botswana	0.07	0.04	31.1	59.0	17.5	29.4	42.9	49.2	85.9	50.6	5.9	9.6
Cameroon, Rep.	0.40	0.28	51.0	65.6	23.2	33.0	28.5	37.7	89.7	153.6	6.6	8.9
Colombia	1.35	1.60	59.0	77.8	27.8	51.2	13.6	21.9	81.1	192.2	33.0	35.2
Congo	0.25	0.20	41.1	84.9	9.8	38.4	106.4	76.2	230.4	128.2	17.0	8.3
Dominican Republic	0.40	0.33	55.3	39.0	54.1	39.6	22.8	29.1	126.5	194.3	13.7	16.1
Ecuador	1.03	1.51	63.2	71.3	54.7	70.2	29.1	61.6	132.3	232.5	41.0	31.6
El Salvador	0.19	0.03	62.2	31.3	12.4	6.8	14.2	29.6	46.1	128.8	63.1	7.9
Guatemala	0.26	0.10	66.6	83.3	9.5	19.0	8.4	17.6	38.8	130.3	26.4	7.7
Guyana	0.11	0.04	33.1	-24.5	30.4	16.3	94.9	170.3	143.7	299.3	10.6	9.1
Honduras	0.29	0.17	55.5	53.7	29.8	28.6	41.4	59.9	111.1	217.9	14.5	6.8
Ivory Coast	0.84	0.98	39.1	42.7	52.7	56.0	39.2	85.7	100.4	199.3	7.3	13.1
Jamaica	0.32	0.13	42.5	-39.9	47.5	19.5	42.2	61.9	95.9	146.4	4.7	28.6
Jordan	0.41	0.10	55.6	23.6	20.6	12.0	40.8	46.1	120.4	133.2	6.0	13.5
Liberia	0.12	0.06	50.4	52.4	.23.3	24.3	51.2	72.0	69.4	149.7	..	..
Mauritius	0.06	0.04	50.8	55.2	27.7	30.4	18.5	30.4	37.8	68.5	21.7	11.2
Morocco	1.66	1.16	44.4	30.3	41.9	33.5	42.9	77.5	258.3	342.9	3.7	9.4
Nicaragua	0.56	0.36	68.6	54.9	44.2	30.8	55.4	93.2	146.5	727.8	34.5	6.2
Nigeria	1.94	3.36	76.7	85.6	51.2	83.0	5.0	17.3	23.4	107.4	23.8	17.6
Paraguay	0.24	0.14	63.1	81.5	13.7	27.3	20.2	21.9	110.6	257.1	17.5	8.8
Peru	1.52	1.19	34.5	37.2	36.1	37.7	58.1	57.5	249.4	239.5	19.9	20.3
Philippines	2.38	2.93	55.9	51.3	65.0	58.9	23.3	35.1	131.1	177.0	36.3	48.5
Senegal	0.28	0.11	57.9	30.3	30.1	18.1	33.5	68.7	103.5	208.4	9.6	7.3
Syrian Arab Republic	0.45	0.00	24.4	-555.8	2.5	0.3	24.4	13.9	145.9	100.4	5.5	22.6
Thailand	1.60	1.54	71.7	55.8	39.2	45.9	11.9	26.7	54.8	116.1	85.9	32.9
Tunisia	0.61	0.36	27.0	-7.7	41.9	28.4	50.4	48.1	162.7	138.6	5.4	5.6
Turkey	2.62	1.53	53.6	76.5	14.8	27.9	14.6	32.2	261.5	199.9	23.6	6.2
Zambia	0.47	0.12	42.3	13.8	18.4	12.3	57.6	84.7	174.6	283.2	10.6	9.4
Zimbabwe	0.26	0.39	73.8	66.8	90.1	71.0	12.3	29.7	40.6	116.2	6.8	28.1

For sources and notes, see end of table.

Annex table A.6 (continued)

Debt indicators of selected developing countries
(Per cent)

	Short-term debt as % of imports		Total debt service/exports		Implicit interest rate		Interest payments/exports		Interest payments/total debt service		Total debt service/ disbursements a/	
	Mid-1979	End-1983	1978	1983	1978/79	1981/83	1978	1983	1978	1983	1978/79	1983
Middle-income countries	55.3c/	67.4c/	15.8	27.3	6.5	8.0	5.0	11.3	31.6	41.4	47.3	72.1
Bolivia	81.5	89.1	51.6	36.0	6.7	6.9	12.6	19.9	24.5	55.2	63.3	57.2
Botswana	8.2	12.2	20.1	5.7	3.7	5.5	2.3	2.9	11.5	50.2	137.0	93.3
Cameroon, Rep.	15.9	36.5	9.5	20.3	5.2	5.8	3.3	9.6	34.7	47.4	27.8	98.0
Colombia	83.3	117.6	13.7	29.6	7.9	10.9	4.8	15.1	35.1	51.0	80.2	82.5
Congo	87.7	37.1	27.3	21.2	3.2	5.5	3.0	6.6	11.1	31.1	44.6	101.6
Dominican Republic	30.0	57.3	19.7	28.8	7.2	8.8	7.3	13.3	37.2	46.2	73.8	52.3
Ecuador	113.0	284.0	17.5	32.5	9.1	12.0	7.2	13.7	41.1	42.1	54.7	31.1
El Salvador	67.7	19.7	5.8	10.1	6.4	4.8	2.1	4.5	35.7	44.6	39.3	29.7
Guatemala	22.5	22.6	5.0	19.9	7.3	6.9	1.8	7.1	36.0	35.7	40.3	57.4
Guyana	37.5	55.2	16.9	25.8	5.3	5.0	6.2	11.4	36.4	44.3	73.4	126.4
Honduras	33.7	28.2	16.7	22.1	8.1	7.2	7.0	11.6	42.2	52.7	54.6	56.5
Ivory Coast	23.3	79.5	17.5	38.4	8.6	8.3	5.9	17.6	33.5	45.8	46.1	140.8
Jamaica	13.4	89.5	16.9	15.4	8.3	7.0	6.4	7.6	37.9	49.2	93.9	91.5
Jordan	9.5	24.4	7.9	25.6	4.3	4.9	3.2	6.1	40.1	24.0	32.9	72.7
Liberia	..	..	5.6	7.5	5.8	2.8	2.6	4.5	46.4	60.6	39.2	48.7
Mauritius	22.4	20.5	3.5	16.7	9.2	9.0	1.9	5.4	55.1	32.6	21.7	241.1
Morocco	14.7	53.5	30.0	45.0	7.1	7.3	12.2	18.5	40.6	41.1	48.2	111.5
Nicaragua	215.7	45.7	14.8	40.5	4.9	4.0	7.6	7.8	51.3	19.3	40.3	17.8
Nigeria	19.2	31.9	5.7	18.6	6.6	12.7	0.8	8.9	14.4	47.8	41.4	51.6
Paraguay	48.9	44.2	11.4	28.9	4.6	4.7	3.3	9.2	28.4	31.9	30.2	47.5
Peru	149.6	135.1	33.9	50.8	7.4	10.7	14.5	24.7	42.7	48.7	80.0	107.3
Philippines	86.6	186.1	26.5	22.7	6.7	9.0	6.4	12.9	24.1	56.8	63.3	57.8
Senegal	15.0	28.7	14.4	14.8	6.9	3.5	5.1	4.4	35.3	29.8	45.4	25.8
Syrian Arab Republic	8.0	24.7	20.0	15.2	5.2	3.9	6.0	3.9	29.8	25.3	52.7	95.5
Thailand	95.1	65.5	16.0	21.5	9.8	8.9	3.4	6.3	21.0	29.5	51.8	72.5
Tunisia	14.4	13.8	16.2	26.1	6.0	6.0	6.7	7.9	41.1	30.3	41.9	126.2
Turkey	107.1	23.6	18.0	40.9	3.6	6.6	7.2	15.1	39.8	36.9	17.3	154.9
Zambia	59.2	67.2	28.3	13.8	5.5	4.0	8.5	8.9	30.2	64.6	53.6	46.7
Zimbabwe	7.5	88.6	0.8	33.4	2.3	7.7	0.4	7.7	50.6	23.1	6.1	63.7

For sources and notes, see end of table.

Annex table A.6 (continued)

Debt indicators of selected developing countries
(Per cent)

	Share in developing country debt 1983		% of 1983 debt stock accumulated during 1979-1983		Share of debt to financial markets in total		Debt/GNP		Debt/exports		Short-term debt as % of medium and long-term debt	
	Total	Fin. markets	Total	Fin. markets	1978	1983	1978	1983	1978	1983	Mid-1979	End-1983
High-income countries	44.22	73.39	48.1	57.3	65.1	79.1	25.0	40.7	166.3	173.8	22.3d/	32.1d/
Algeria	2.59	2.51	7.4	-9.8	54.9	46.4	57.9	34.0	216.0	115.3	4.2	3.8
Argentina	4.87	8.62	70.2	82.6	49.4	84.7	13.2	47.7	112.2	302.1	42.2	42.9
Brazil	13.30	22.25	42.5	46.0	75.2	80.1	21.1	40.4	319.9	331.1	14.1	16.7
Chile	2.47	4.54	60.4	76.0	53.2	88.0	42.1	81.5	198.6	309.8	16.7	25.6
Gabon	0.15	0.13	-74.5	-106.7	48.0	40.6	78.0	34.4	108.5	41.6	10.3	18.3
Korea, Republic of	3.89	4.14	45.9	72.4	26.0	51.0	22.8	28.9	74.2	77.5	34.4	56.5
Malaysia	1.78	2.75	71.7	82.7	45.3	73.9	18.7	37.8	36.4	66.4	18.3	16.6
Mexico	11.55	21.55	53.5	59.7	77.3	89.3	30.5	52.3	284.7	252.7	15.5	35.6
Panama	0.49	0.73	37.0	34.2	73.8	70.6	44.5	16.5	107.9	42.8	..	..
Uruguay	0.45	0.78	68.7	74.8	66.3	84.6	16.8	47.2	92.5	186.6	9.7	13.5
Venezuela	2.88	5.38	45.9	48.9	84.6	89.5	21.6	26.6	86.9	100.6	79.4	81.7

For sources and notes, see end of table.

Annex table A.6 (*continued*)

Debt indicators of selected developing countries
(Per cent)

	Short-term debt as % of imports		Total debt service/exports		Implicit interest rate		Interest payments/exports		Interest payments/total debt service		Total debt service/ disbursements a/	
	Mid-1979	End-1983	1978	1983	1978/79	1981/83	1978	1983	1978	1983	1978/79	1983
High-income countries	84.6d/	191.7d/	33.1	31.5	9.2	12.8	10.8	18.6	32.7	59.1	65.9	103.7
Algeria	17.0	11.9	29.9	36.3	8.0	10.1	10.4	12.9	34.8	35.4	51.8	143.4
Argentina	193.4	589.4	32.8	71.7	9.4	12.2	9.0	31.2	27.4	43.6	52.3	110.3
Brazil	91.5	169.6	57.8	53.8	9.6	13.4	21.6	35.5	37.3	66.0	69.6	109.0
Chile	64.8	257.0	49.3	49.7	9.0	14.0	12.9	33.6	26.1	67.5	63.5	117.5
Gabon	61.9	52.1	25.6	15.3	6.6	7.3	5.9	2.9	23.2	19.1	130.6	290.6
Korea, Republic of	53.0	102.0	11.6	14.2	7.8	10.0	4.3	6.4	36.7	45.0	53.7	106.3
Malaysia	16.9	26.1	10.0	7.6	7.1	9.0	2.2	4.2	22.3	54.6	77.1	38.8
Mexico	103.3	596.0	66.2	38.3	10.2	14.2	21.1	30.0	31.8	78.4	81.1	89.0
Panama	..	..	32.6	6.7	9.8	12.1	7.0	4.1	21.5	60.1	69.1	131.6
Uruguay	21.6	90.7	47.8	26.1	7.8	11.4	6.5	15.6	13.7	59.7	78.5	41.4
Venezuela	178.4	452.5	14.4	23.1	9.4	14.1	5.4	13.1	37.5	56.9	49.0	151.7

Sources: World Bank, World Debt Tables; OECD, The External Debt of Developing Countries 1984; International Monetary Fund, International Financial Statistics; Bank for International Settlements, The Maturity Structure of International Bank Lending; UNCTAD secretariat calculations.

Note: Figures refer to medium and long-term debt including private non-guaranteed, unless otherwise indicated. Debt to financial markets includes bonds and debt to banks. Exports include merchandise (f.o.b.) and services, imports include merchandise (f.o.b.), and are for the half-year period preceding the date indicated. The implicit interest rates are the arithmetic average for the years referred to; for each year the implicit interest rate has been derived by dividing total interest payments by the debt outstanding at the end of the previous year. Short-term debt includes only short-term liabilities vis-a-vis banks in the BIS reporting area.

a/ Figures on disbursements and repayments used for the estimation of this ratio do not always add up to the change in the stock of medium and long-term debt due to adjustments for debt cancellations, alterations in exchange rates, maturity conversions and inclusion of previously unreported debt. Such adjustments were of particular importance for Bangladesh, the Central African Republic, Ghana, Kenya, Madagascar, Togo, Zaire, Congo, Ivory Coast and Algeria.

b/ Excluding Liberia and Panama, which are off-shore banking centres and therefore have a large amount of short-term liabilities unrelated to trade.

c/ Excluding Liberia.

d/ Excluding Panama.

Annex table A.7

Average annual growth rates of imports and exports
(Per cent)

	1976-1978				1979-1981				1982-1984			
	Imports		Exports		Imports		Exports		Imports		Exports	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
Low-income countries												
Bangladesh	15.6	8.6	22.1	11.8	10.3	0.5	6.2	-4.3	3.3	8.3	6.5	9.4
Burma	9.4	1.5	10.8	0.4	4.5	-3.6	26.7	14.7	-14.9	-12.7	-4.1	7.5
Central African Rep.	-7.3	-13.9	14.5	3.0	20.0	11.8	3.1	-2.0	5.0	7.7	13.0	10.0
Egypt	19.6	12.3	7.4	7.0	9.5	-2.6	23.0	2.3	7.2	11.7	-3.0	3.3
Ethiopia	20.8	13.6	8.9	-6.3	12.2	-7.6	6.5	15.9	1.4	5.9	5.2	-2.2
Gambia	18.6	10.7	-6.7	-16.2	6.9	-4.7	-11.5	-17.4	-3.4	0.4	30.5	37.9
Ghana	8.5	2.1	10.1	-17.1	3.1	-14.1	-0.4	15.6	-21.7	-18.2	-27.2	-25.0
India	7.1	1.3	15.2	14.2	25.8	2.0	8.0	0.1	-3.4	1.5	2.8	4.7
Indonesia	11.9	4.3	17.9	14.4	25.7	13.1	29.3	-2.8	2.8	6.2	-4.4	0.4
Kenya	20.4	13.8	16.6	3.2	6.6	-15.8	5.1	-6.9	-12.4	-8.1	-5.6	-6.1
Madagascar	6.5	0.4	9.5	1.8	6.8	-13.2	-6.5	-15.4	-4.2	0.4	6.3	-1.0
Malawi	10.4	2.8	10.0	-0.7	1.2	-10.2	13.4	11.6	-5.0	-2.1	-5.2	-11.5
Mali	17.2	9.6	27.5	14.8	10.5	-2.1	11.2	1.8	-5.0	-1.8	3.3	1.1
Mauritania	0.7	-5.8	-10.9	-10.1	13.6	1.1	28.5	18.1	-10.5	-6.9	2.4	5.2
Pakistan	15.0	8.4	12.5	12.4	19.1	-1.3	25.0	12.9	2.1	6.7	3.6	9.9
Rwanda	23.1	15.0	18.6	-10.5	12.7	0.5	7.9	16.6	5.4	8.7	-7.3	-12.7
Sierra Leone	12.0	5.2	10.0	-2.3	6.3	-10.1	-1.7	-2.0	-21.7	-18.1	-6.5	-7.7
Somalia	15.8	8.2	6.3	-2.2	28.6	15.9	12.4	4.5	-30.8	-28.2	13.1	15.6
Sri Lanka	7.8	2.0	14.8	-5.6	25.3	3.8	7.3	8.2	-0.1	5.6	11.4	6.1
Sudan	5.1	-2.2	6.8	3.4	9.6	0.4	7.3	-2.1	-9.2	-6.2	3.5	9.0
Tanzania, United Republic of	13.9	6.9	8.6	-1.1	2.0	-12.9	6.7	1.9	-3.5	0.7	-12.4	-14.2
Togo	37.3	27.9	24.1	34.0	-1.1	-11.4	-4.2	-7.3	-4.4	-1.2	-1.9	-3.6
Uganda	8.4	0.6	9.4	-11.7	15.0	6.4	-11.1	-8.0	-3.4	-1.1	11.4	3.2
Zaire	-13.2	-18.8	3.2	-4.7	4.3	-9.0	-11.4	-16.4	-5.3	-1.6	2.4	19.4
Middle-income countries												
Bolivia	11.3	3.5	12.6	3.1	5.7	-2.4	15.6	-0.6	-18.1	-15.5	-6.2	-0.8
Cameroon	20.8	12.6	21.5	-5.3	10.5	-2.3	11.8	21.0	-6.2	-3.0	-3.8	-6.4
Colombia	23.8	15.0	27.0	8.4	22.4	13.6	-0.5	-1.2	-2.0	0.7	4.3	3.9
Congo	14.9	7.2	-13.0	-16.7	47.5	30.9	108.7	49.0	-16.6	-13.5	-5.7	1.8
Dominican Republic	3.7	-2.1	-8.9	20.4	19.0	-3.5	20.7	-6.3	-0.2	4.6	-7.8	17.0
Ecuador	19.9	11.4	18.5	10.7	11.3	2.3	19.4	-6.3	-10.7	-8.2	0.8	-1.6

For source, see end of table.

Annex table A.7 (continued)

Average annual growth rates of imports and exports
(Per cent)

	1976-1978				1979-1981				1982-1984			
	Imports		Exports		Imports		Exports		Imports		Exports	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
El Salvador	19.8	12.0	16.0	9.8	-1.4	-14.6	-0.2	-1.8	-1.2	2.8	0.1	0.6
Guatemala	21.4	13.8	19.4	11.4	8.5	-8.3	3.9	1.2	-9.3	-5.5	2.0	0.2
Guyana	-6.7	-12.9	-7.0	4.7	16.0	0.6	5.6	-4.0	-14.8	-11.7	-19.6	-17.4
Honduras	20.1	12.9	26.5	16.1	11.2	-8.3	7.1	-2.3	-7.9	-3.6	-3.9	0.8
Ivory Coast	27.3	19.6	25.3	4.7	0.8	-15.8	3.0	-2.1	-12.4	-8.4	-0.5	-0.2
Jamaica	-7.4	-12.9	1.5	8.1	18.2	-2.1	7.0	-0.1	-6.6	-2.3	-6.3	-0.5
Jordan	27.2	19.5	24.7	36.9	28.1	9.1	35.1	17.3	-8.7	-4.5	-4.9	-0.1
Liberia	13.2	6.4	8.6	5.7	-0.3	-17.1	1.8	-5.3	0.9	5.5	-3.3	-1.8
Mauritius	14.7	7.2	3.0	15.1	3.4	-8.2	-0.2	-2.3	-5.3	-1.7	2.6	2.8
Morocco	5.0	-1.3	-2.2	8.8	13.6	-2.7	15.4	0.9	-3.2	1.2	-3.3	3.1
Nicaragua	4.7	-1.7	19.9	10.3	18.9	-0.5	-8.2	-7.1	-13.8	-10.0	-7.9	-4.9
Nigeria	28.2	19.1	7.3	0.9	17.9	8.4	25.9	-8.9	-26.2	-24.1	-10.2	-2.4
Paraguay	21.3	14.4	13.2	4.5	16.7	-5.1	4.8	-3.4	-1.7	3.0	5.7	-0.6
Peru	-12.5	-18.0	14.6	19.2	33.4	14.0	18.8	5.3	-14.2	-10.7	-0.1	1.1
Philippines	10.8	4.7	14.3	32.0	15.6	-7.0	18.7	3.2	-7.1	-2.5	-1.3	-6.9
Senegal	9.0	2.5	-6.6	-5.0	4.4	-11.4	5.6	-1.9	-0.4	4.2	5.6	13.5
Syrian Arab Rep.	13.4	6.0	4.5	-1.4	27.0	13.3	25.7	-7.4	-7.4	-3.9	-0.0	4.7
Thailand	17.9	11.2	19.7	12.1	22.7	-0.9	20.0	10.9	-3.3	1.2	0.3	9.1
Tunisia	14.9	7.7	9.6	8.8	20.5	4.2	30.4	1.0	-5.0	-1.3	-12.1	-7.5
Zambia	-12.2	-17.7	2.4	0.2	19.1	0.2	7.3	-0.7	-7.2	-3.4	-5.7	5.2
High-income countries												
Algeria	13.1	5.3	10.5	4.4	9.1	1.4	28.0	-9.5	-3.9	-0.9	-2.0	5.3
Argentina	-1.0	-7.3	29.3	37.3	35.0	17.5	12.6	0.1	-27.5	-24.8	-0.5	6.2
Brazil	3.2	-2.6	13.4	15.7	16.9	-6.7	22.5	13.1	-15.6	-11.4	4.9	6.2
Chile	30.9	23.6	16.9	17.8	28.5	4.4	16.4	8.8	-19.3	-15.3	-2.3	0.2
Gabon	8.1	0.4	4.3	-1.0	12.3	4.3	27.2	-6.4	-6.0	-3.2	2.9	9.2
Korea, Rep. of	27.2	20.2	35.8	33.2	20.4	-1.8	18.7	7.5	5.2	10.1	10.9	14.0
Malaysia	18.5	11.2	24.6	14.9	25.0	6.7	16.7	-1.5	7.1	11.7	12.6	16.2
Mexico	7.0	-0.3	25.4	21.0	44.2	32.0	50.3	19.6	-23.3	-21.0	4.8	9.6
Panama	-2.1	-7.0	-4.1	-4.2	18.1	-9.3	8.9	-17.5	-1.8	3.6	-7.8	4.4
Uruguay	11.7	5.8	21.3	11.5	28.5	1.0	21.0	6.5	-24.7	-21.0	-6.3	0.9
Venezuela	25.9	16.9	3.6	-1.1	3.6	-3.3	27.2	-7.4	-14.8	-12.6	-7.4	0.0

Source: United Nations Statistical Office.

Annex table A.8.

Economic indicators: selected developing countries
(Per cent)

	Average annual growth rates						Shares in GNP					
	GDP			Investment			Investment			Savings		
	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983
Low-income countries												
Bangladesh	4.5	3.4	2.0	5.8	14.1	..	7.2	9.6	..	0.9	2.5	..
Burma	5.7	6.5	5.6	20.6	12.1	6.2	12.1	16.6	21.0b/	10.0	12.2	-4.7b/
Central African Rep.	4.0	-3.4	-2.3	9.0	-10.8	..	17.2	15.2	..	0.5	-2.6	..
Egypt	8.6	8.0	7.0	9.6	15.9	7.8	33.6	41.4	30.1	19.4	25.6	20.7
Ethiopia	0.3	5.8	3.0	-11.9	37.6	6.8	7.6	12.6	11.5	-3.2	5.0	3.4
Gambia	7.5	-10.9	7.5	27.9	-8.5	..	30.7	36.8	..	0.4	-18.9	..
Ghana	1.0	-3.1	-0.2	2.7	4.9	..	13.0	16.2	..	9.9	16.1	..
India	5.1	2.2	5.1	7.5	1.5	7.1	22.8	23.5	21.0	23.6	25.3	20.9
Indonesia	8.0	7.6	3.2	12.2	10.0	9.2	22.3	25.3	24.2	19.0	7.0	16.2
Kenya	5.7	3.0	1.9	23.5	-9.7	-7.8	26.0	21.6	20.4	10.6	7.9	15.6
Madagascar	2.2	-1.1	-0.5	-0.7	-5.3	..	11.7	12.0	..	9.7	10.0	..
Malawi	5.9	2.0	3.5	12.1	0.2	-1.7	23.8	30.0	15.5	16.3	20.2	13.3
Mali	5.3	4.9	..	14.4	-3.2	..	19.2	18.4	..	5.1	6.8	..
Mauritania	-1.6	3.6	1.9	-15.0	-6.3	..	44.1	25.5	..	2.2	3.0	..
Pakistan	3.6	8.3	5.3	3.5	6.3	7.0	16.7	14.2	13.6	10.8	14.0	13.8
Rwanda	5.0	3.9	..	7.8	3.4	..	13.3	15.3	..	7.7	9.9	..
Sierra Leone	0.6	3.5	-3.5	4.2	3.5	..	14.2	15.5	..	-1.4	-6.9	..
Somalia	2.7	3.3	..	9.7	-0.9	..	27.0	29.0	..	3.5	1.7	..
Sri Lanka	6.2	4.7	5.2	21.9	-16.2	8.1	22.0	14.7	30.4	6.4	-1.5	10.7
Sudan	8.5	3.1	-1.7	17.6	0.9	..	26.4	27.6	..	13.4	14.7	-1.4b/
Tanzania, United Republic of	4.6	-0.7	0.1	1.2	2.5	-12.8a/	19.4	19.6	18.7a/	12.4	17.7	10.5a/
Togo	-3.0	6.0	-5.9	24.8	-1.6	..	41.0	50.5	..	-8.1	-20.1	..
Uganda	0.1	4.6	7.5	-8.3	30.9	..	6.8	9.3	..	2.9	0.1	..
Zaire	-3.6	-1.5	0.1	-12.1	25.7	0.3a/	40.6	55.2	21.7	9.0	12.4	8.0
Middle-income countries												
Bolivia	4.8	0.8	-8.5	-1.5	-15.1	-20.4	20.6	15.2	10.4	13.9	8.9	-8.3
Cameroon	5.3	5.1	4.8	-0.7	5.8	..	16.4	15.7	28.4b/	10.6	12.3	34.4b/
Colombia	6.1	3.9	0.9	13.1	10.0	-0.1a/	22.4	22.8	25.7	18.0	19.0	15.4
Congo	-4.4	-0.8	8.8	-13.3	1.5	..	29.1	22.8	..	16.5	19.2	..
Dominican Republic	5.2	4.5	2.7	1.3	1.2	8.8	22.2	22.5	18.8b/	25.6	22.9	18.3b/
Ecuador	7.4	4.8	-0.8	8.8	1.3	-16.4	26.8	28.4	20.1	16.3	10.8	17.7
El Salvador	6.1	-6.4	-3.2	15.7	-27.4	-10.6	27.0	14.9	12.5	2.1	2.0	4.3

For sources and notes, see end of table.

Annex table A.8. (continued)

Economic indicators: selected developing countries
(Per cent)

	Average annual growth rates						Shares in GNP					
	GDP			Investment			Investment			Savings		
	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983	1976-1978	1979-1981	1982-1983
Guatemala	6.6	3.6	-2.8	19.6	-5.0	-13.7	22.0	17.3	10.5b/	13.3	14.0	16.8b/
Guyana	-0.2	-3.2	-11.7	-22.6	11.2	-18.8	24.2	21.4	30.0	27.4	32.0	-1.6
Honduras	8.3	3.6	-1.1	19.7	-3.2	-6.1	23.3	23.8	18.7	5.1	7.0	6.5
Ivory Coast	9.1	1.8	-3.9	27.4	-7.6	-9.4	33.3	32.0	22.5b/	16.0	15.3	14.7b/
Jamaica	-2.6	-1.3	1.2	-20.4	-1.3	12.9a/	16.4	16.4	21.6	13.3	11.7	4.6
Jordan	4.7	10.5	5.4	22.6	12.4	-3.7	28.9	32.4	33.6	7.2	7.0	7.0
Liberia	0.5	2.1	-0.1	-5.9	-4.2	6.5a/	41.0	38.2	22.7a/	25.3	37.5	18.6a/
Mauritius	10.4	-1.8	4.0	11.2	-10.0	..	29.1	24.1	17.9c/	32.0	32.6	15.3c/
Morocco	9.4	3.0	3.0	9.0	-1.7	2.9	26.6	22.0	22.5	21.4	23.7	11.9
Nicaragua	1.6	-5.3	1.9	-13.8	3.0	-11.4	19.9	13.7	15.6	14.8	-1.7	3.3
Nigeria	6.0	2.5	-3.8	5.7	4.1	-23.3a/	24.8	21.2	22.1a/	32.2	40.5	14.5b/
Paraguay	10.5	10.7	-1.9	22.7	15.8	-10.7	31.1	37.5	21.9	17.1	23.3	17.2
Peru	0.9	3.2	-4.0	-17.6	18.9	-12.4	13.7	17.6	18.9	7.2	15.1	16.3
Philippines	7.0	5.4	1.4	6.8	5.6	-3.9	30.4	32.1	25.4	27.7	29.2	21.3
Senegal	-0.7	0.2	4.7	-1.9	-2.6	..	17.1	17.7	..	5.9	1.7	7.2b/
Syrian Arab Rep.	4.6	7.7	3.1	8.8	1.1	4.1	33.2	26.9	23.0b/	20.2	7.7	11.2b/
Thailand	10.6	6.4	4.8	11.7	2.1	0.9	25.4	25.6	22.4	24.8	25.6	18.3
Tunisia	5.1	6.6	2.6	8.7	6.3	0.1	32.6	33.6	30.6	21.7	20.8	22.0
Zambia	0.8	-2.2	-0.2	-15.8	-17.0	-13.0	22.8	16.1	18.2	23.1	8.9	11.9
High-income countries												
Algeria	7.1	1.0	5.6	8.4	4.0	6.1	46.6	49.3	34.9c/	39.7	38.0	38.7c/
Argentina	0.4	0.6	-1.0	2.9	0.6	-12.3	28.6	22.9	18.5	32.9	17.1	13.5
Brazil	6.9	4.1	-1.1	0.4	0.7	-6.1	24.7	23.6	21.6	21.4	18.3	17.3
Chile	6.2	7.0	-7.9	20.7	20.6	-30.0	7.9	23.8	14.5	3.6	9.4	4.0
Gabon	1.9	4.1	-1.9	-10.6	-5.6	..	66.8	34.0	..	62.1	55.4	..
Korea, Rep. of	11.7	3.7	7.2	22.1	-2.1	12.3	32.6	36.2	31.1	24.6	23.2	23.6
Malaysia	8.4	7.5	5.6	13.9	10.0	6.6	27.0	30.5	36.2	21.5	16.1	24.6
Mexico	5.3	8.1	-2.9	2.9	17.2	-22.6	22.3	28.6	17.7	20.1	19.5	24.6
Panama	4.4	7.5	2.9	-4.9	9.9	-10.9	25.1	25.7	24.9	20.2	22.1	21.2
Uruguay	3.4	3.5	-7.5	17.8	5.2	-21.5	18.2	22.9	13.1	15.3	17.1	7.9
Venezuela	2.3	-0.2	-2.5	14.0	-3.7	-15.0	39.3	41.1	22.1	30.8	18.7	20.5

Sources: United Nations Statistical Office; International Monetary Fund; Inter-American Development Bank.

a/ 1982.
b/ Ratio to GDP.
c/ Footnote a/ + footnote b/.

Annex table A.9

Information relating to trade measures facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan and USA ($'000)	Poten-tial trade gains a/ ($'000)	Increase (Per cent	Types of NTM applied b/	Average tariff c/ (Per cent) USA	EEC	Japan
0011	Bovine cattle	103648	1978	1.9	hs tq I V id	3.2	0.0	0.0
0012	Sheep, lambs and goats	1194	115	9.6	hs tq I V id q	.	11.2	.
0111	Meat of bovine animals	45959	15595	33.9	hs tq I V id qq om	5.6	8.0	.
0112	Meat of sheep and goats	1799073	555159	30.9	hs tq I V id gq om	1.8	2.9	4.9
0114	Poultry, killed or dressed	153058	32673	21.3	hs V	1.8	0.0	15.0
0138	Other prepared or preserved meat	430013	171552	39.9	hs gq I V id dl	1.9	22.9	22.5
0311	Fish, fresh chilled or frozen	1657432	561042	33.9	hs tq I om sr	0.0	10.2	4.8
0313	Crustacea and mollusks, fr.chilled/frozen	1790720	610681	34.1	hs gq I	2.1	9.5	4.7
0320	Fish in airtight containers	1594379	556166	34.9	hs tq I om	0.7	13.5	12.6
0410	Wheat unmilled	367171	53862	14.7	hs gq I V st id bq	2.8	0.0	.
0422	Rice, glozed or polished	98408	42146	42.8	hs gq I V id	2.6	0.0	15.0
0430	Barley, unmilled	202	32	15.8	gq st V I id	.	0.0	.
0440	Maize, unmilled	1508847	235790	15.6	hs tq V I id	0.2	0.0	1.1
0459	Cereals, unmilled, n.e.s.	51612	4683	9.1	hs V I id	0.4	0.0	5.6
0511	Oranges, tangerines or mandarins	549486	34972	6.4	hs sr gq om	7.5	10.3	18.4
0513	Bananas	219228	557	0.3	hs sr	0.9	9.0	31.0
0514	Apples, fresh	295450	5237	1.8	hs sr om	0.4	4.7	8.0
0517	Edible nuts, fresh/dried, inc. coconuts	667655	12214	1.8	hs	0.7	3.4	23.6
0520	Dried fruit	1656011	147056	8.9	hs	0.3	11.8	16.0
0535	Fruit and vegetable juices	513971	168753	32.8	hs gq V I id om plr	33.1	13.2	23.1
0539	Fruit and nuts, prepared or preserved	838080	334727	39.9	hs gq V I tq id	1.9	20.2	27.1
0541	Fresh potatoes	129048	12943	10.0	hs om V I sr id	11.1	7.0	10.0
0542	Beans, peas and lentils	292283	18220	6.2	hs gq	2.6	2.3	6.3
0544	Fresh tomatoes	694291	83235	12.0	hs om V sr id	9.4	11.9	5.6
0548	Vegetable products, roots and tubers	1022259	126195	12.3	hs tq V I id	2.9	5.7	13.4
0554	Flour and flakes of potatoes	25947	6200	23.9	hs id V I	3.0	9.0	16.3
0555	Vegetables, prepared/preserved, n.e.s.	631921	166650	26.4	hs gq	14.2	19.5	21.5
0611	Raw sugar, beet and cane	91057	1954	2.1	hs id V I	0.4	0.0	.
0612	Refined sugar	2895162	878357	30.3	hs I	12.4	0.0	34.3
0615	Molasses	459157	244635	53.3	hs I V id	0.1	0.0	57.9
0711	Coffee, green or roasted	7568708	231789	3.1	hs I	0.0	5.0	0.0
0713	Coffee extracts	400501	76792	19.2	hs	0.0	15.6	17.6
0721	Cocoa beans, raw or roasted	658254	5610	0.9	hs	0.0	2.9	0.0
0723	Cocoa butter or paste	534463	19782	3.7		0.0	12.1	4.1
0741	Tea	781207	10332	1.3	hs	0.0	0.2	20.7
0752	Spices, exc. pepper and pimento	135876	7978	5.9	hs	0.0	9.0	6.3

For source and notes, see end of table.

Annex table A.9 (continued)

Information relating to trade measures facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan and USA ($'000)	Potential trade gains a/ ($'000)	Increase (Per cent)	Types of NTM applied b/	Average tariff c/ (Per cent)		
						USA	EEC	Japan
0813	Vegetable oil-seed cake and meal	1733571	761511	43.9	hs l V id	3.2	0.0	0.0
1210	Tobacco, unmanufactured	1072673	37627	3.5	hs st	11.5	0.0	355.0
2214	Soya beans	1086964	5581	0.5	hs gq bq	0.1	0.0	2.5
2433	Sawn lumber	4507258	28578	0.6		0.0	0.2	2.8
2517	Sulphate wood pulp	2347974	5454	0.2		0.0	0.0	2.2
2621	Sheep and lambs wool, greasy	95876	1980	2.1	mfa	4.5	0.0	0.0
2622	Sheep and lambs wool, degreased	123878	751	0.6	mfa	4.8	0.0	0.0
2631	Raw cotton	1135520	79793	7.0	mfa	0.4	0.0	0.0
2741	Sulphur	94353	125	0.1		0.0	1.1	.
2769	Crude minerals n.e.s.	236621	772	0.3		0.1	0.3	0.0
2813	Iron ore and concentrates	772487	442	0.1		0.2	.	0.0
2831	Copper ore and concentrates	610015	12325	2.0		0.0	0.0	0.0
2832	Nickel ores	248949	22910	9.2		0.0	0.0	4.1
2839	Non-ferrous ores n.e.s.	2259739	35	0.0		0.0	0.0	0.0
2927	Cut flowers	182495	19740	10.8	hs sr	7.4	16.0	0.3
2929	Materials of vegetable origin n.e.s.	278289	22594	8.1	hs gq l s	0.7	0.6	1.5
3214	Coal	191732	1132	0.6	gq	0.0	1.5	0.0
3218	Coke	62744	13	0.0		0.0	0.0	3.0
3310	Crude petroleum	139877206	1377445	1.0	tq s	0.3	0.0	1.1
3321	Motor spirits, inc. gasoline	451579	3306	0.7	tq s	0.3	7.0	.
3322	Lamp oil	991903	7878	0.8	tq s	0.4	7.0	.
3323	Distillate fuels	11413783	96376	0.8	tq s	0.4	7.0	.
3324	Residual oil fuels	22876183	1211953	5.3	tq s	0.8	4.7	2.5
3411	Natural gas	8857617	346144	3.9	tq s	0.0	1.3	2.3
4212	Soya bean oil	105738	17641	16.7	hs V l id	0.7	0.0	.
4216	Sunflower oil	280396	45474	16.2	hs V l id	0.0	0.0	.
4221	Linseed oil	41964	6873	16.4	hs V l id	0.0	.	6.4
4223	Coconut oil	1298832	574608	44.2	hs V l id	0.0	6.9	6.1
5121	Hydrocarbons	914037	18940	2.1	gq s q	0.2	1.1	3.1
5122	Alcohols and phenols	523166	97849	18.7	s	3.0	20.2	26.4
5133	Inorganic acids	132284	7261	5.5	s	0.0	6.6	3.0
5136	Other inorganic bases	319177	15924	5.0	s	0.0	5.8	3.7
5417	Medicaments	606623	56251	9.3	s gq	1.9	4.3	4.0
5619	Fertilizers n.e.s.	280098	16953	6.0	s	0.0	4.9	6.1

For source and notes, see end of table.

Annex table A.9 (continued)

Information relating to trade measures facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan and USA ($'000)	Potential trade gains a/ ($'000)	Increase (Per cent	Types of NTM applied b/	Average tariff c/ (Per cent) USA	EEC	Japan
5713	Pyrotechnical articles	38569	2842	7.4	s	5.3	4.9	3.6
5812	Products of polymerization	870091	142630	16.4	q	0.9	9.4	5.9
6114	Leather of other bovine cattle	349163	57224	16.4	gq	0.8	4.1	12.4
6119	Leather n.e.s.	544792	82110	15.1	gq	0.5	2.4	4.3
6313	Plywood	854842	95967	11.2	tq	7.0	5.7	17.8
6412	Other printing paper	7846433	592314	7.5	tq	0.0	5.6	4.3
6513	Cotton yarn and thread	782170	289708	37.0	tq mfa	6.5	4.5	3.4
6516	Yarn and thread of synthetic fibres	446234	208803	46.8	tq mfa l	9.4	6.8	6.0
6521	Cotton gauze	164761	79340	48.2	tq mfa l	7.7	7.5	.
6522	Cotton fabrics, woven	1175175	521239	44.4	tq mfa l	9.6	7.5	5.7
6531	Silk fabrics, woven	279073	33038	11.8	tq mfa l	0.6	5.1	10.0
6534	Jute fabrics, woven	172973	44420	25.7	tq mfa l	0.0	6.7	15.3
6535	Fabrics of synthetic fibre c/	818717	368356	45.0	tq mfa l	19.3	8.5	7.2
6540	Tulle and lace	212024	97898	46.2	tq mfa l	6.2	4.7	12.2
6556	Cordage	197707	86278	43.6	tq mfa	1.4	8.3	4.7
6561	Textile bags and sacks	65478	23669	36.1	l mfa	5.1	5.5	11.6
6562	Made-up canvas goods	59556	42002	70.5	l mfa	8.5	10.5	3.9
6569	Made-up articles of textiles n.e.s.	701420	306620	43.7	l mfa	6.0	9.5	8.3
6575	Carpets	1093257	490172	44.8	mfa	5.3	7.2	7.3
6672	Diamonds	1822	41	2.3	l	1.5	0.0	0.0
6673	Other precious stones	2308676	34884	1.5	l	0.0	0.0	1.7
6715	Other ferro alloys	944584	480165	50.8	l tq sv om	1.1	4.4	3.2
6727	Iron and steel coils	471292	290440	61.6	sv om	4.2	3.2	3.0
6732	Iron bars and rods	228515	137359	60.1	sv om	2.6	3.3	3.0
6734	Iron and steel shapes and angles	37976	20447	53.8	sv om	1.0	3.4	3.0
6741	Iron and steel plates	45167	18059	40.0	sv om	5.2	.	.
6743	Plates and sheets, less than 3mm.	1789310	668517	37.4	sv om	5.9	3.9	3.0
6782	Seamless tubes and pipes	25257	9051	35.8	sv	3.2	6.7	.
6783	Welded tubes and pipes	716316	379634	53.0	sv	2.2	7.5	3.0
6821	Copper and alloys unworked	2563383	40226	1.6		0.8	0.0	4.2
6822	Wrought copper	322479	15173	4.7		0.0	4.5	3.8
6831	Unwrought nickel	384330	1040	0.3	tq	0.0	0.0	0.5
6841	Unwrought aluminium	1648824	89284	5.4		0.1	4.5	6.7
6842	Wrought aluminium	450320	34730	7.7		0.8	7.4	6.8

For source and notes, see end of table.

Annex table A.9 (continued

Information relating to trade measures facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan and USA ($'000)	Poten-tial trade gains a/ ($'000)	Increase (Per cent	Types of NTM applied b/	Average tariff c/ (Per cent)		
						USA	EEC	Japan
6851	Unwrought lead	793758	11930	1.5		4.0	1.1	3.4
6871	Unwrought tin	1915886	11	0.0		0.0	0.0	0.0
6894	Tungsten and molybdenum	107298	7143	6.7		4.0	6.2	1.7
6911	Finished structural parts of iron	167270	6950	6.7		0.7	3.0	3.0
6931	Wire cables not insulated	1165254	170336	14.6		0.3	4.2	3.4
6960	Cutlery	209863	207871	99.1		12.9	10.9	3.1
6972	Domestic utensils of base metals	398624	62860	15.8	bq	1.6	4.2	3.1
7115	Internal combustion engines	2099146	172501	8.2		1.2	3.7	1.8
7125	Tractors	166126	20008	12.0		3.2	7.4	3.2
7143	Statistical machines	587686	102672	18.1		3.2	3.6	3.4
7151	Metal working machine tools	923946	87436	9.5	sv	1.0	3.3	2.2
7184	Construction machinery n.e.s.	289035	13013	4.5		0.9	4.0	2.3
7199	Machinery parts n.e.s.	679447	29039	4.3		0.8	3.4	2.4
7221	Electric power machinery	943490	35433	3.8	l	2.7	4.0	3.0
7222	Electrical apparatus	1125580	106879	9.5		4.8	3.5	2.2
7231	Insulating wire and cable	1078802	32478	3.0		1.7	4.9	4.4
7241	Televison broadcast receivers	277957	46532	16.7	sv	5.4	0.0	2.4
7242	Radio broadcast receivers	316711	47819	15.1	sv	4.7	.	2.4
7249	Telecommunications equipment n.e.s.	4025510	829315	20.6	sv	4.4	8.4	2.5
7250	Domestic electrical equipment	940489	55607	5.9		1.8	3.3	2.0
7291	Batteries and accumulators	203770	28416	13.9		3.4	5.1	3.3
7293	Thermionic valves	3673181	99152	2.7	sv l	4.2	9.7	2.6
7321	Passenger motor cars	794	94	11.8	sv	22.9	15.0	3.0
7322	Buses	138	11	8.0	sv	2.5	15.0	3.0
7323	Lorries and trucks	1176834	266767	22.7	sv	2.5	8.4	3.0
7328	Bodies of motor vehicles	1308493	139570	10.7		2.9	4.9	1.8
7353	Ships and boats	528531	3092	0.6	gq	1.0	0.4	0.1
8210	Furniture	1732250	1030056	59.5	s	1.9	4.2	3.2
8310	Travel goods	956451	579858	60.6		17.0	4.2	8.8
8411	Clothing of textile fabrics	8632882	10752369	124.6	mfa	18.0	10.3	10.8
8413	Leather clothing and apparel	669593	247556	37.0		7.4	6.2	12.3
8420	Fur clothing	604972	348282	57.6		4.2	4.5	14.3

For source and notes, see end of table.

Annex table A.9 (continued)

Information relating to trade measures facing 145 four-digit SITC core products in industrial markets

SITC	Description	Imports 1980 by EEC, Japan and USA ($'000)	Potential trade gains a/ ($'000)	Increase (Per cent	Types of NTM applied b/	Average tariff c/ (Per cent)		
						USA	EEC	Japan
8510	Footwear	2027632	1744492	86.0	sv gq	10.0	8.7	9.1
8641	Watches and watch movements	1348913	81511	6.0	sv	0.6	3.8	3.3
8911	Phonographs and sound recorders	625463	321851	51.5	sv	2.8	7.1	2.6
8930	Articles of artificial plastic material	1111062	233658	21.0		1.8	6.3	4.3
8942	Children's toys and indoor games	1801740	489413	27.2	hs	3.8	5.6	4.6
8944	Other sporting goods	589160	198943	33.8	bq	2.4	4.6	2.8
8960	Works of art and collector's pieces	729457	46	0.0	hs gq	0.0	0.0	0.0
8992	Basketwork etc., of plaiting materials	414525	27158	6.6	hs	0.8	4.8	6.6

Source: Tariff line import data (1980) from GATT tariff tapes, concorded with SITC classification by the UNCTAD secretariat.

Note: In establishing the "core" group of products, the first step was to analyze the recent export profiles of a representative selection of developing countries with every four-digit SITC item that constituted 1 per cent or more of a country's total exports retained for further examination. Next, the data contained in the UNCTAD Data Base was employed to determine which of these products, namely, the European Economic Community, Japan and the United States. Excluding those items which were trade freely, i.e. mostly crude materials classified in SITC 2 and unprocessed ores, a core group of 145 four-digit SITC products was identified which constituted approximately 85 per cent of all developing country exports. The following table provides information relating to the average statutory post-Tokyo tariff rates and the types of non-tariff measures facing these products in the three industrial markets in question.

a/ Estimates from the UNCTAD Trade projections Model (see Annex II), based on the assumption of a reduction to zero rate of tariff duty and the elimination of non-tariff barriers only for developing countries.

b/ Restrictions applied in whole or part to the SITC group. The key to symbols applied is applied is as follows:

PHS,HS = prohibitions due to health and sanitary reasons;
Q = quotas (method unspecified) or bilateral quotas;
TQ = tariff quotas;
GQ = global quotas;
OM = other price distorting measures;
SV = surveillance;
S = standards;
ID = imports deposits;
MFA = Multi-fibre Agreement.

SR = seasonal restrictions;
BQ = bilateral quota;
DL,L = import licensing (method unspecified);
V,MP = variable levy or minimum import price restrictions;
R = restrictions (method unspecified) or special seasonal restrictions;
PLR = special labelling requirements;
ST = state trading.

Annex table A.10

Illustration of the increased application of protective measures in industrial markets on Republic of Korea's exports, 1975-1984

Country	Products affected by new trade measures		Trade measures introduced during 1975-1984		Cumulative value of affected trade
	Type of product(s) affected	Value of trade a/ ($000)	Type of measure applied	Intro-duction date	
Australia	Footwear	5,109	Import quota	1976	5,109
	Tire cords and fabrics	1,834	Tariff quota	1977	6,943
	Electric insulations	0	Tariff quota	1977	6,943
	Passenger motor vehicles	142	Tariff quota	1977	7,085
	Fixed registers	103	Tariff quota	1977	7,188
	Sleeping bags	1,221	Tariff quota	1977	8,409
	Plywood and veneers	1,771	Tariff quota	1978	10,180
	Sheets and plates of iron and steel	13,916	Tariff quota	1978	24,096
	Razors	2,338	Tariff quota	1978	26,434
	Electric refrigerators	70	Tariff quota	1978	26,504
	Chain pully tackle and hoists	1	Tariff quota	1978	26,505
	Canned fruit	0	Tariff increase	1984	26,505
	Room airconditioners	0	Tariff quota	1984	26,505
Benelux	Knives, forks and spoons	1,787	Voluntary export restraints	1978	1,787
	Steel products	2,144	Basic price system	1978	3,931
	Textiles	644	Bilateral quota	1978	4,595
	Canned mushrooms	0	Unilateral quota	1978	4,595
	Table and stoneware	14	Voluntary export restraint	1983	4,609
France	Umbrellas and sunshades	20	Unilateral quota	1977	20
	Radios	4,762	Unilateral quota	1977	4,782
	Newsprint	0	Global quota	1978	4,782
	Televison sets	21	Unilateral quota	1978	4,803
	Tiles	170	Global quota	1978	4,973
	Semiconductors	13,190	Global quota	1978	18,163
	Microscopes	0	Global quota	1978	18,163
	Electric measuring instruments	90	Global quota	1978	18,253
	Steel products	7	Global quota	1978	18,260
	Textiles	3,618	Basic price system	1978	21,878
	Canned mushrooms	18	Bilateral quota	1978	21,896
	Table and stoneware	31	Voluntary export restraint	1983	21,927

For sources and note, see end of table.

Annex table A.10 (continued)

Illustration of the increased application of protective measures in industrial markets on Republic of Korea's exports, 1975-1984

Country	Products affected by new trade measures		Trade measures introduced during 1975-1984		Cumulative value of affected trade
	Type of product(s) affected	Value of trade a/ ($000)	Type of measure applied	Intro-duction date	
Japan	Baseball gloves	4,860	Administrative guidance	1975	4,860
	Silk yarn	63,122	Import quota	1976	67,982
	Silk fabric	8,560	Import quota	1976	76,542
	Fish	270,355	Import quota	1977	346,897
	Sea weed products	na	Import quota	1977	346,897
United Kingdom	Saccharin	153	Antidumping duties	1976	153
	Footwear	12,890	Voluntary export restraint	1976	13,043
	Monochrome television sets	100	Unilateral quota	1976	13,143
	Knives, forks and spoons	5,039	Voluntary export restraint	1977	18,182
	Steel products	12,055	Basic price system	1978	30.237
	Textiles	5,453	Bilateral quota	1978	35,690
	Canned mushrooms	5	Unilateral quota	1978	35,695
	Table and stoneware	134	Voluntary export restraint	1983	35,829
United States	Ginseng products	3,261	Import prohibition	1977	3,261
	Bicycle tubes and tires	71,490	Countervailing duties	1979	74,751
	Color television sets	152,596	Orderly marketing arrangement	1979	227,347
	Porcelains steel cookware	3,850	Tariff increase	1980	231,197
	Canned mushrooms	22,270	Tariff increase	1980	253,467
	Steel rod and bar	7,472	Import quota	1983	260,939
	Stainless steel sheet and plates	221,061	Tariff increase	1983	482,000

Sources: The tabulation of new trade measures applied over the 1975-1980 period was supplied by Korean authorities and published in S.J. Anjaria et. al., "Developments in International Trade Policy", IMF Occasional Paper Number 16 (Washington: IMF, November 1982), pp. 76-77. Actions taken after 1980 were extracted from the UNCTAD Data Base on Trade Measures. It should be noted that other restrictions, particularly those of a "voluntary" nature, may have also been introduced on Korean exports during the 1975-1984 period that are not reflected in the table.

a/ The trade values shown are those for the three or four-digit SITC products which contain the specific product(s) to which the new trade measures are applied. In some cases the trade measures may be applied only to a part of the SITC group with relevant statistics on trade directly covered by the new NTM not being available. However, due to the close complementarity of goods at the three and four-digit SITC level all trade may be judged to be "affected" in the sense that exporters may feel compelled to restrain trade for fear of new restrictions being applied.

Annex table A.11

Analysis of the simulated increase in developing country export earnings in terms of major SITC product groups

SITC	Description ($ million)	EEC, Japan and US 1980 imports from developed countries	Average tariff a/			Types of NTMs b/	Projected export expansion		
			US	EEC	Japan		Value	Increase	Percentage of total
0813	Vegetable oil-seed & cake	1,733.6	3.2	0.0	0.0	HS, L, V, ID,	761.5	43.9	2.2
0313	Crustacea and mollusks	1,790.7	2.1	9.5	4.7	HS, GQ, L	610.7	34.1	1.8
0311	Fresh or frozen fish	1,657.4	0.0	10.2	4.8	HS, TQ, L, OM, SR	561.0	33.9	2.6
0320	Preserved fish	1,594.4	0.7	13.5	12.6	HS, TQ, L, OM	556.2	34.9	1.6
0112	Meat from sheep and goats	1,799.1	1.8	2.9	4.9	HS, TQ, L, V, ID, GQ, OM	551.2	30.9	1.6
0539	Prepared fruits and nuts	838.1	1.9	20.2	27.1	HS, GQ, V, L, TQ, ID	334.7	39.9	1.0
3310	Crude petroleum	139,877.2	0.3	0.0	1.1	TQ, S,	1,377.5	1.0	4.0
3411	Natural gas	8,857.6	0.0	1.3	2.3	TQ, S,	346.1	3.9	1.0
4233	Coconut oil	1,298.8	0.0	6.9	6.1	HS, V, L, ID,	574.6	44.2	1.7
6412	Other printing paper	7,846.4	0.0	5.6	4.3	TQ	592.3	7.5	1.7
6575	Carpets	1,093.3	5.3	7.2	7.3	MFA	490.2	44.8	1.4
6715	Other ferro-alloys	944.6	1.1	4.4	3.2	L, TQ, SV, OM	480.2	50.8	1.4
6535	Fabrics of synthetic fibre	818.7	19.3	8.5	7.2	TQ, MFA, L	368.4	45.0	1.1
6569	Textile articles, n.e.s.	701.4	6.0	9.5	8.3	L, MFA	306.6	43.7	0.9
6727	Iron and steel coils	471.3	4.2	3.2	3.0	SV, OM	290.4	61.6	0.8
6513	Cotton yarn and thread	782.2	6.5	4.5	3.4	TQ, MFA	289.7	37.0	0.8
7249	Telecommunications equipment	4,025.5	4.4	8.4	2.5	SV	829.4	20.6	2.4
7232	Lorries and trucks	1,176.8	2.5	8.4	3.0	SV	266.8	22.7	0.8

For source and notes, see end of table

Annex table A.11 (continued)

Analysis of the simulated increase in developing country export earnings in terms of major SITC product groups

SITC	Description ($ million)	EEC, Japan and US 1980 imports from developed countries	Average tariff a/			Types of NTMs b/	Projected export expansion		
			US	EEC	Japan		Value	Increase	Percentage of total
8411	Clothing of textiles	8,632.9	18.0	10.3	10.8	MFA	10,752.4	124.6	30.9
8512	Footwear	2,027.6	10.0	8.7	9.1	SV, GQ	1,744.5	85.0	5.0
8213	Furniture	1,732.3	1.9	4.2	3.2	SV	1,030.1	59.5	3.0
8313	Travel goods	956.5	17.0	4.2	8.8		580.0	60.6	1.7
8942	Toys and games	1,801.7	3.8	5.6	4.6	HS	489.4	27.2	1.4
8423	Fur clothing	605.0	4.2	4.5	14.3		348.3	57.6	1.0
0 - 8	All core products	311.632.2	3.6	2.0	4.1		34,762.6	11.2	100.0

Source: UNCTAD secretariat estimates.

a/ The tariff figures shown in the annex table (and elsewhere in this report) were computed using data collected by the GATT secretariat on statutory or temporary MFN rates where were applied in 1978 at the conclusion of the Tokyo Round. In the case of certain countries, in particular Japan, current temporary rates from some product groups are well below those indicated. In consequence, in computing the four-digit SITC tariff averages shown in the annex, for certain products such as tobacco and fresh potatoes there is a substantial upward bias.

b/ Restrictions applied in whole or part to the SITC group.

PHS,HS = prohibitions due to health and sanitary reasons or health and sanitary regulations;
Q = quotas (method unspecified) or bilateral quotas;
TQ = tariff quotas;
GQ = global quotas;
OM = Other price distorting measures;
SV = surveillance
S = standards
ID = import deposits;
MFA = Multi-fibre Agreement.

The key to symbols applied is as follows:

SR = seasonal restrictions;
BQ = bilateral quota;
DL,L = import licensing (method unspecified);
V,MP = variable levy or minimum import price restriction;
R = restrictions (method unspecified) or special seasonal restrictions
PLR = special labelling requirements;
ST = state trading.

Annex table A.12

Changes in commodity prices and exchange rates in selected developing countries, 1980-1984

Commodity/exporting country *a/*	Proportion of world exports in 1980	World price in US dollars		Adjusted exchange rate *b/*		Real domestic price *c/*	
		1983	1984	1983	1984	1983	1984
	Per cent	Indices, 1980=100					
Wheat							
Argentina	10.2	68	66	238	217	162	143
Maize							
Argentina	6.4			238	217	183	173
Thailand	5.4	77	80	91	93	70	74
Rice							
Pakistan	16.3			104	104	67	60
Thailand	14.6	64	58	91	93	59	54
Cocoa							
Ivory Coast	27.5			145	160	118	147
Ghana	24.5			21	153*d/*	17	141
Brazil	10.1	81	92	111	120	90	110
Nigeria	8.4			85	74*e/*	69	68
Cameroon	7.3			123	127*e/*	100	117
Coffee							
Brazil	19.9	68	72	111	120	76	86
Colombia	18.9	79	82	88	96	69	79
Indonesia	5.3	84	94	106	108	89	101
Ivory Coast	5.2	84	94	145	160	122	151
Sugar *h/*							
Brazil	9.0	42	41*f/*	111	120	47	49
Philippines	4.3	84	70*g/*	108	108	91	75
Thailand	3.4	56	55	91	93	51	51
Argentina	2.2	31	40	238	217	74	87
Soyabeans							
Argentina	8.5			238	217	226	206
Brazil	5.5	95	95	111	120	106	114
Palm oil							
Malaysia	56.8			89	86	77	108
Indonesia	12.5	86	125	106	108	91	135
Ivory Coast	2.8			145	160	125	201
Palm kernel oil							
Malaysia	56.4			89	86	88	123
Nigeria	13.0	98	143	106	108*e/*	87	105
Ivory Coast	3.6			145	160	142	229
Linseed oil							
Argentina	61.5	70	82	238	217	167	178
Cotton							
Pakistan	4.3	90	85	104	104	94	89
Turkey	4.1	90	85	129	142*d/*	116	121
Sudan	3.0	69	83	127	104*i/*	88	86
Jute							
Bangladesh	75.7			119	109	113	199
Nepal	5.4	95	182	86	99*j/*	82	179
Burma	5.3			109	109	104	197

For sources and notes, see end of table.

Annex table A.12 (continued)

Changes in commodity prices and exchange rates in selected developing countries, 1980-1984

Commodity/exporting country *a/*	Proportion of world exports in 1980	World price in US dollars		Adjusted exchange rate *b/*		Real domestic price *c/*	
		1983	1984	1983	1984	1983	1984
	Per cent	Indices, 1980=100					
Sisal							
Brazil	43.3	75	76	111	120	83	91
Tanzania, (United Republic of)	22.2	83	83	67	70*d/*	55	58
Kenya	17.4	83	83	119	118	93	98
Madagascar	4.6	75	76	100	124*j/*	75	94
Natural rubber							
Malaysia	48.4			89	86	66	57
Indonesia	26.9			106	108	78	71
Thailand	13.8	74	66	91	93	67	61
Sri Lanka	3.6			95	89	70	59
Tropical timber							
Malaysia	17.8	70		89	86	63	68
Indonesia	16.5	70	79	106	108	74	86
Philippines	4.3	83		108	108	90	85
Iron ore							
Brazil	22.2			111	120	99	101
India	5.1	89	84	94	98	84	82
Chile	2.2			121	126	108	106
Copper							
Chile	44.8			121	126	88	79
Zaire	26.1			150	260	110	164
Zambia	14.3	73	63	103	124	75	78
Peru	12.4			92	94	67	59
Tin							
Malaysia	42.4			89	86	71	66
Thailand	20.4	79	76	91	93	72	70
Indonesia	15.6			106	108	84	82
Phosphate rock							
Morocco	34.5			137	150	102	111
Jordan	7.3	74	74	100	102	74	75
Togo	6.2			123	146	91	108

Sources: FAO, *Trade Yearbook, 1982* and *1983* (Rome, 1983 and 1984); IMF, *International Financial Statistics* (various issues); national trade statistics.

a/ Countries listed in order of export value in 1980.
b/ Change in national currency units per US dollar, deflated by change in national Consumer Price index.
c/ Change in world price in US dollars deflated by change in the adjusted exchange rate.
d/ January-September for Consumer Price index.
e/ January-October for Consumer Price index.
f/ January-October.
g/ January-September.
h/ World prices relate to export unit values.
i/ Based on estimated change in Consumer Price index.
j/ January-June for Consumer Price index.

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم · استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى · الامم المتحدة ،قسم البيع في نيويورك او في جنيف ·

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra

Printed in Switzerland – July 1985
Reprinted in Switzerland
GE 85-52394 – September 1985 – 1,500

02100P

United Nations publication
Sales No. E.85 II D [illegible]

ISBN 92-1-112-20[illegible]

UNCTAD/TDR/5