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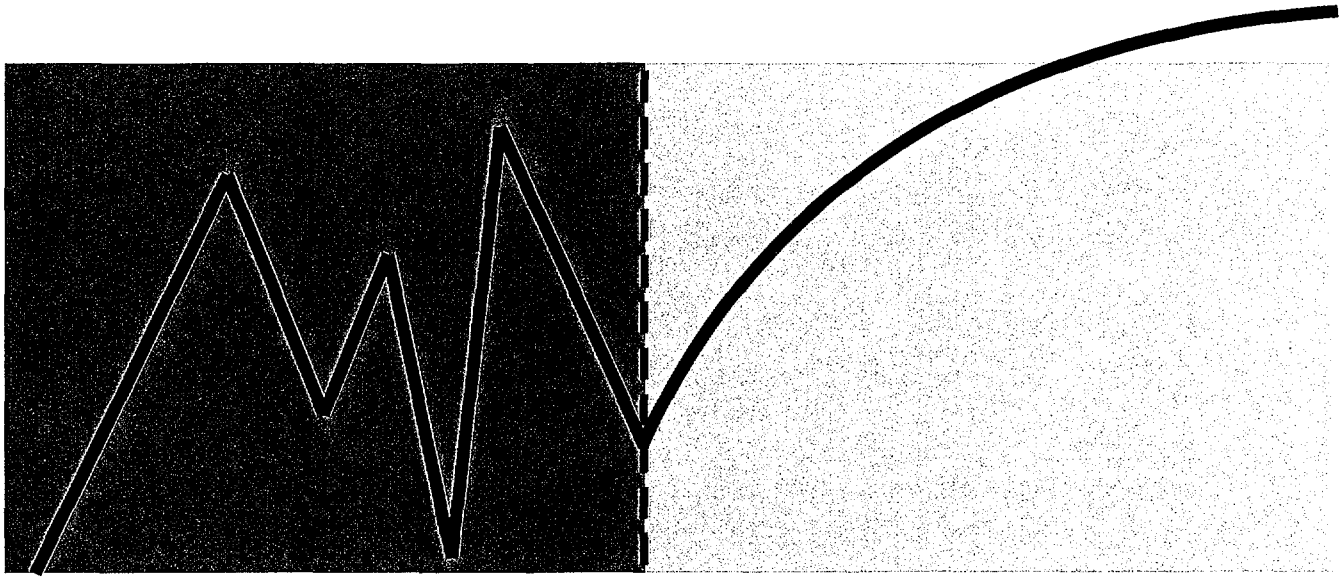
MARGINALIZATION VERSUS PROSPERITY

IMPROVING THE CREATION AND DISTRIBUTION OF GAINS BROUGHT BY THE PROCESS OF GLOBALIZATION



Reflections on the Development Agenda

By Carlos A. Magariños
Director-General

September 2000

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In this paper the term "billion" signifies a thousand million and "trillion" signifies a thousand billion.

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I. Introduction

Being at the helm of a United Nations development agency, I feel the need to ask myself two questions: Do we command the right set of policies to promote development; and, to what extent is the agency I lead making a relevant contribution?

Indeed, I believe that all those involved, in one way or another, in development cooperation and the multilateral system regularly have to ask themselves these and other questions, such as the extent to which we are cooperating with other United Nations agencies, Bretton Woods' institutions, bilateral agencies, civil society organizations and the private sector to achieve our common goals or whether we are listening enough to our clients and integrating their concerns into our diagnoses and forecasts.

Certainly, given the speed and characteristics of the globalization process that we are witnessing, any mistake in the diagnosis and development agenda can be costly, particularly to the poor. If the number of people falling into poverty is to serve as a yardstick for measuring our performance, then it would appear that the multilateral system is making mistakes or, at the very least, that some aspects of its architecture are wanting. Obviously, we are not the only relevant players.

The current paper is organized as follows. Chapter II presents a brief overview of the evolution of economic thought and how it has shaped the development debate and the Development Agenda during the last twenty years or so. Over the last thirty years this agenda has changed quite dramatically and in this evolutionary thought process, misguided policy advice has sometimes been given to developing countries. Chapter III will offer a brief summary on where we stand as the result of the policies and reforms applied during this period, identifying achievements and shortcomings. Chapter III concludes with the assertion that, although the Development Agenda is generally correct, there appear to be some missing elements. These missing elements translate into a stagnant role of most poor countries in global trade and investment flows.

There are several explanations for this, and in chapter IV it is stressed that the trade and financial rules of the multilateral system are weighted against developing countries. These imbalanced rules and market access opportunities not only represent a barrier to the development of a competitive private sector in these countries but also impose concrete costs. Underdevelopment itself leads to vicious circles of poverty that few countries have been able to avert. If, in addition, the multilateral rules and market access opportunities are stacked against developing countries, the challenge they face is huge and the barriers could well be insurmountable. Another barrier lies in inadequate flows of information, skills and knowledge. In chapter V it is argued that we have to reinforce these flows by strengthening the supply of public goods that markets do not deliver, as they often do in industrialized countries.

II. The changing Development Agenda and popular support

After a quarter of a century of economic expansion following the Second World War, the United States, the European countries and Japan entered the 1970s with inflation on the upswing. In addition, the world economy faced the first oil shocks of the 1970s. Finally, inflation was abated during the Reagan years through a combination of restrictive monetary policy and high interest rates. This was done at the cost of real output losses and record rates of unemployment (see figure 1 in the Annex).

In these circumstances, post-war Keynesianism gave way to monetarism. The war against inflation took center stage and it influenced the policy debate not only in industrial, but also in developing countries. The economic thinking of the 1980s pointed to developing countries requiring both stabilization and market-oriented structural reforms to prosper.

The new economic framework proposed for economic development was quite different from that of the 1970s. The early ideas can be encapsulated in the two-gap model of economic development, where investment and foreign exchange bottlenecks are the main restraints to development. This approach justified lending to import-substituting enterprises, generally highly protected, and to inefficient State-owned enterprises.

With the benefit of hindsight, the development agenda of the 1960s and 1970s seems misguided. How much it hurt developing countries we don't know, but we can guess that the cost was significant. It is paradoxical to recall that the loans supporting protection and parastatals were approved in boards whose majority representatives came from industrialized countries that, at the time, were following quite different economic strategies, including the trade liberalization initiated in the post-war years. In fact, some critical voices towards import-substitution strategies were heard as early as in the 1970s, but they were not taken note of fast enough in the development agenda of those days.

Stabilization and trade and investment liberalization became the recommendations of the multilateral system in the 1980s. The task of implementing the new ideas within the international organizations was not easy. Many staff still believed in the old approach and were reluctant to change their views. Though the new ideas were finally embraced, much tension was generated in the process of changing the development agenda.

In some ways the new agenda suggested that economic stagnation could be rapidly overcome with a set of policies which may be summed up as "cut spending and get prices right". These ideas developed into what became known as the "Washington consensus". Initially articulated to control the imbalances of Latin American economies, the consensus aimed to solve the debt crisis. The creditors, largely private financial institutions that recycled dollars from oil-producing countries, did not consider the problem as one of solvency but as one of liquidity. By applying the policies of the Washington consensus, countries could repay their debts without forgiveness.

This discussion of liquidity versus solvency occupied much of the 1980s in Latin America. In the end, however, the Brady arrangements included debt write-offs. The Washington consensus was not wrong, it was incomplete. Until this was realized, developing countries lost precious time. The international organizations command some of the best minds on development, but not even this has prevented them from having sometimes delivered second-best advice on development policy that has hurt some countries.

The "first generation" of reforms

The policy recommendations of the 1980s included stabilization to reduce fiscal deficits; privatization to reduce waste and improve resource allocation; deregulation to increase domestic competition; independent and prudent monetary policy to control inflation and defend currency values; an open trade regime to encourage foreign competition; and flexibility in labor markets.

Chile, followed by Mexico and Bolivia, showed the way in the Latin American region. Encouraged by the initial results, Argentina, Brazil and Peru also adopted this approach. The economic reforms spread over the region, initially with positive results. Gross domestic product (GDP), manufacturing value added (MVA) and exports grew as these economies stabilized and inflation fell (see tables 1 to 4 and figures 2 to 7 in the Annex).

These initial results generated optimism and the impression that the policy prescriptions had universal validity. The process of trade liberalization, rapid economic integration and the globalization of the financial markets imposed the need to adopt universal criteria for the evaluation of investments in these markets. From Asia to the Arab region, and from Central and Eastern Europe to Africa, the political and economic capacity and willingness of countries to pursue these prescriptions became the litmus test for evaluating decisions to invest there.

Indeed, at the beginning of the 1990s, the same policy recommendations were given to the former economies of the Soviet Union that were struggling to make the transition from centrally planned to market economies. The same approach was under implementation in Africa, in countries such as Ghana and the United Republic of Tanzania that were willing to abandon their centrally planned approaches. With minor adaptations, the same strategy was applied to all these cases.

What were the results? I think we can safely say today that this wave of reforms was initially effective and showed encouraging results, particularly once macro stability was restored. In most of the countries where they were applied, we witnessed an increase in GDP, MVA and trade (see tables 1, 2 and 4). Furthermore, these economies showed initial gains in productivity levels (see table 5). Employment levels however, behaved more erratically, as shown by unemployment rates (see table 6).

In the case of Latin America, the region for which the reforms were initially designed, the gains generated a lot of popular support as standards of living improved. Some Governments were re-elected mainly because of these positive results and this was an important argument to spread the policy recommendations to other regions. The

reforms could be implemented in a democratic environment – they could also reinforce the democratic process. For instance, a significant part of the legislation supporting the new economic policies had to be approved by parliament.

In Eastern Europe, the support for the reforms came basically from the enthusiasm generated among the population by the political changes that were taking place. A non-functional system was left behind and economic reforms were seen as a vehicle to consolidate radical political changes. After a few years of initial downturn, with a few exceptions such as Hungary and Poland, the response of these economies was on the whole less dynamic than in Latin America.

Finally, in Africa, the proposed policies were adopted to substitute for a system of widespread government intervention and also to attract foreign direct investments (FDI). During the 1990s FDI grew faster than the official development assistance (ODA) and, in some countries (Lesotho, Nigeria), even exceeded the funds provided by donor Governments. While some African economies were heavily dependent on ODA, others wanted to participate in the process of expansion of private investments (table 7 and figure 8).

The results of the reforms were very uneven, with interesting cases in Ghana, Kenya, the United Republic of Tanzania and Zimbabwe. Although GDP, MVA and exports rose, the populations of these countries did not necessarily enjoy the benefits of the productivity gains due to the rigidities and weaknesses of the economic structure of these countries (see tables 1, 2 and 4). Employment did rise at the beginning but also had an erratic behavior and eventually started to decline.

It is worth taking a brief pause here and see how the different response capacity shown by a given economy, was influenced by factors like the dynamism and structure of the private sector. Recent studies done by economists at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) (Katz, 2000) and at Oxford University (forthcoming) provide evidence on the importance of these factors.

According to these analyses, objective differences at the firm level, such as size, command over resources and pattern of specialization, cause economies to respond in different ways. In Africa, this is evident if we compare manufacturing industry, manufactured exports, and the technological response of firms exposed to trade liberalization in three economies, namely, Kenya, the United Republic of Tanzania and Zimbabwe.

In terms of MVA, Kenya and Zimbabwe did worse in the five years after liberalization than in the period before it. The United Republic of Tanzania did better. Liberalization typically forced manufacturing firms to shut down or move to products not facing import competition. The latter products were either resource-based or derived from simple, low-productivity operations making goods for low-income consumers. In other words, they were a poor basis for long-term manufacturing and export development.

The rising share of manufacturing exports in total exports is a positive development in all three countries (see table 8). This has to do with the more conducive export

environment that followed structural adjustment and trade liberalization. Primary production improved, export incentives were stronger and access to imported inputs and equipment was easier. Nevertheless, the evidence also points only to better use of existing export capabilities, existing manpower levels, skills and know-how rather than on improved technology and higher skill levels.

This comparison also reveals significant differences in technological response across countries, sectors and firms. Zimbabwe's firms, for example, are generally larger and more experienced, export-oriented and diverse than those in Kenya or the United Republic of Tanzania. They also proved far more able, after undergoing technological changes, to reap the benefits of trade liberalization. The fundamental difference between Zimbabwe, Kenya and the United Republic of Tanzania has been attributed to "technological dynamism", i.e. complex combinations of firm size, firm age, training efforts, entrepreneurial education, firm-level skill development and cluster arrangements.

Yet, although necessary, this does not suffice to attain sustained dynamic growth. More recently, many reforming economies have started to realize how difficult it is to maintain productivity and income gains. Starting around the mid 1990s, a slowing down of income growth and increasing unemployment and inequality began eroding public support for the reform programmes. Fifteen years after their conception, the policy recommendations widely applied since the mid 1980s are starting to show symptoms of fatigue in the eyes of the public. Partly because of this, attention has shifted towards the possible shortcomings of the "Washington Consensus". This rethinking has led to what is known as the "second generation" reforms.

In my view, the logic, relevance and usefulness of the policy recommendations of the 1980s were sound and provided economic gains to several countries. They were necessary but not always sufficient. The initial positive results are beyond dispute and the need to get the fundamentals right remains a prerequisite to access the global economy and re-launch a process that will eventually lead to sustainable growth. But there were missing elements.

The "second generation" of reforms

In retrospect, it was concluded that the "Washington Consensus" overlooked the importance of the institutional setting in the reforming countries. Privatization, deregulation, openness of the economy, flexible labor laws and the protection of property rights require the right set of institutions in order to work properly, and to allow the benefits derived from the "right prices" to spread (trickle down) to the population. This conclusion led to a second wave or generation of reforms, focusing on the institutions that were needed to complement first-generation policy prescriptions. Improving the educational system, retraining the labor force, reforming and expanding health and judicial systems, and fighting corruption were seen as key to support a strong and dynamic domestic private sector.

Second-generation reforms address multiple policy fronts. If implemented in an integrated manner, they should result in improved economic performance, thus enticing, at the political level, public support for market-oriented policies.

As pointed out earlier, the main source of popular support for first-generation reforms were the productivity and income gains that followed. However, such gains resulted essentially from obvious distortions and static advantages. Could second-generation reforms -- focused, as they are, on institutions -- result in another round of productivity gains, this time more dynamic and sustainable? I have no doubt that the right institutions, working properly, allow for, and even stimulate, positive economic responses and social attitudes.

The problem is not whether the institutional setting will be instrumental in generating productivity increases; it is, rather, *when* such gains will occur. The institutional setting is very much related to the cultural dimension of individual societies. This is why, in contrast to first-generation reforms, there is no simple set of policy prescriptions to be applied. As argued below (see chapter V), institutional reform also needs to be largely centered on the mobilization of domestic skills and capabilities. Because of resource scarcity, it also needs to be well focused and finely tuned.

Because of the intricacy of institutional development, productivity gains from a streamlined and competitive institutional setting will generally require long periods of time to become visible and sustainable. This observation is not intended to belittle the role of the institutional reforms. To repeat, institutional reforms are beneficial, but they can realize most of their full potential only in the long run. In my view, this is the reason why public support for this second-generation of reforms appears often to be more elusive than that given to the first-generation.

Conclusions on the changing Development Agenda

Let me now introduce our present Development Agenda in a very stylized manner. *First, get prices and the macroeconomic fundamentals right; second, ensure good governance through the right set of institutions. Only then will the benefits of the economic policies promoting free trade and private capital flows reach the majority of the population. The process will be led by the private sector of the economy.*

In hindsight, it is clear that getting prices and macroeconomic and institutional fundamentals right requires simultaneous action in order to prevent unduly dislocating existing capabilities and to build the additional ones that are required.

So far I have focused on the rationale behind the reforms and their bearing on popular support. In my view, this support is crucial to implementing reforms in a democratic environment. It also ensures that due attention is paid to the economic and social needs of the *bulk* of the population. As productivity improvements are a sine qua non for improved living standards, building up the ability to deliver such improvements is the most direct route to entice the necessary public support to reform.

To sum-up:

First, since the end of the Second World War, the development agenda has undergone quite radical changes. This has entailed costs to some developing countries. In contrast, for approximately the last twenty years, this agenda has been quite consistent, and missing parts have been filled in as our knowledge of the forces fostering development continues to be sharpened. I believe that this agenda is an appropriate one. The consensus brought about by it has reached levels not seen in the first three decades following the end of the Second World War.

Second, experience suggests that, by their very nature, productivity increases generated by the process of macroeconomic stabilization are difficult to sustain over time. In fact, we could safely say that some of these reforms, such as reducing the inflation rate and eliminating the regressive income tax that goes with it, generate *one-off* income gains.

Third, institutional reforms are a necessary complement of first-generation reforms.

Fourth, first- and second-generation reforms differ in their policy prescriptions. While those of the former are clear and simple, those of the latter are less universal. One important question here is: to what extent is the behavior of productivity growth over time influenced by the quality of policy prescriptions in the area of institutional reform?

Fifth, when we look at productivity gains *over time*, it becomes apparent that the beneficial effects of first-generation reforms mature quicker than those of second-generation reforms. The former produces relatively short-term and generally one-off productivity gains. Although first-generation reforms have lasting dynamic effects as a result of a higher degree of competition, second-generation reforms address the sustainability of such gains mainly over the medium and long-term.

Sixth, although first-generation reforms generally lead to productivity improvements, responses vary in nature according to country-specific factors, such as the morphology of the private sector and the structure of the economy.

Seventh, these specificities and the differential impact of first- and second-generation reforms on productivity in countries adopting them in Latin America, Eastern Europe and Africa affect the scope of public support. The popular and political support for the reform programmes depends on how far reforms are able to deliver productivity gains widely and evenly which, in turn, is influenced by the economic structure. As soon as the productivity dynamism of the programmes wanes, popular support weakens.

This is what we witness today.

III. The development challenges

The present chapter addresses some key current development problems after a brief review of some success stories.

Let me start with the progress in fighting inflation. The average annual percentage change of consumer prices in the industrialized economies fell from 4.9 (1982-1991) to 2.3 per cent from 1992 onwards (the fall has been particularly noticeable since 1995). The developing economies and economies in transition also show progress in inflation control. In the first case, the annual rate of increase in consumer prices went from 45.7 per cent (1982-1991) to 20.3 per cent from 1992 onwards. They also display a rather steadily declining trend. In Latin America for example, the average inflation rate has come down from 166.9 per cent (1982-1991) to 47.4 percent from 1992 onwards (8.8 per cent in 1999). Finally, the countries in transition started making progress in price stability in 1992, when the rate of consumer price increases was 788.9 per cent, falling to an average of 118.4 per cent since 1992. The fall was particularly remarkable from 1996 onwards, staying below 45 per cent (table 9).

GDP in the industrialized economies had a real average annual growth rate of 3 per cent during 1974-1990 and 2.5 per cent during the 1990s. Corresponding figures for the developing countries are 3.8 and 3.2 per cent, respectively (see table 10). However, growth disparities across regions observed during the last few decades remain a cause of concern (see figure 9).

World trade (exports plus imports) has grown very fast: its share of global output has jumped from 23.1 in 1970 to over 44 per cent 1999 (IMF, April 2000) . Business now trades to invest and invests to trade, since trade within transnational corporations or related partners now accounts for about two-thirds of world trade (UNCTAD, 1999). Nevertheless, trade performance has varied across country and regional divides (table 11). The developing countries and transition economies produce over 30 per cent of the total world merchandise exports. World merchandise exports grew in the industrialized world at a rate of 7.0 per cent per year during the 1980s and 5.01 per cent during the 1990s while the developing countries and economies in transition grew at 3.52 per cent in the 1980s and 8.41 per cent in the 1990s (World Bank, 2000a).

Investment has also been growing rapidly, but this time financial institutions are not recycling petrodollars as they did after the previous oil shocks. Today what is recycled is savings. There is a general shift of the burden of financing retirement during old age from the State to individuals. This has brought a vast amount of personal savings to capital markets and, accordingly, there has been a rapid growth in the flow of funds into financial instruments. This is particularly the case for global pension fund assets, which soared dramatically during the 1990s (they are projected to rise to $14 trillion in 2002 from $ 6 trillion in 1992. Needless to say, these resources will be seeking high returns throughout the world, including in the emerging markets.

Investment has also become a powerful force for integration. The value of inward foreign direct investment (FDI) stock, for instance, has experienced a five-fold increase from $ 782 billion in 1985 to over $ 4 trillion in 1998. The annual sales this generates have overtaken the value of the world trade (UNCTAD, *ibid.*).

Developing countries generate over 25 per cent of world MVA, and they account for 30 per cent of the total stock of inward ($ 1.2 trillion), 90 per cent of which is generated by industrialized countries (*ibid.)*.

Clearly, developing countries have achieved considerable progress in a relatively short period of time. Trade and investment liberalization made this possible.

These are undeniable successes of the last decades.

Nevertheless, as said, progress has not been uniform but concentrated in a relatively small group of countries, most of them from the east Asian region. The great majority of developing countries remain removed from the globalization process. The IMF estimates that over the period 1970-1998, "...75 per cent of developing countries recorded slower per capita income growth than in the industrialized countries..." (IMF, May 2000). One reason may be incomplete trade and investment liberalization, but there are other constraints.

The development challenges we face today may not be new but they are more pressing. They include poverty and inequality, environmental degradation and volatility in financial markets. These are, of course, problems common to all countries and they require common efforts.

Inequality

Inequality is growing. It encompasses a number of problems ranging from poverty to unequal income distribution and unemployment.

Poverty

Today 1.2 billion people live on less than one dollar per day, and 2.8 billion on less than two dollars a day. People living on less than two dollars per day account for 75.6 per cent of the total population in Sub-Saharan Africa and 84.0 per cent in South Asia. The average for developing and transition economies is 56 per cent (World Bank, 2000b).

The collapse of the economies of Eastern Europe and Central Asia by itself plunged some 93 million people below the poverty line of two dollars per day in the last 10 years (*ibid.*).

Income distribution

Equally disturbing and discouraging, inequality is not only growing but also accelerating. According to an unpublished study by the University of Sussex, the relation between the richest and poorer fifth of the world's population increased from 30 to 1 in 1960; to 60 to 1 in 1990; and to 74 to 1 in 1997. The income gap increased one point a year between 1960 and 1990 and 2 points a year since then.

Contrary to expectations, the long awaited convergence of average productivity among economies does not appear to occur automatically, despite progress towards

market opening and deregulation, largely because the ability to take advantage of innovation and technical change and spread best practices differs across countries. The gap in per capita income between the poorest and the richest sectors of the world's population is widening (Sercovich, F. et al., 1999).

Poverty and inequality mean that a large part of the world's population has no access to the opportunities offered by the global economy. This phenomenon is observed not just when comparing developing with developed countries: the increase in inequality also occurs within countries, including the more advanced ones. Inequality also gives rise to internal and international migrations in search for opportunities of economic and social improvement.

Research done by economic historians at Harvard University indicates that the overall net worth held by the wealthiest 1 per cent of American households jumped from below 20 per cent in 1979 to 36 per cent in 1989. In addition, although the national net worth of the United States expanded by $5 trillion between 1983 and 1989, New York University economic professors found that 54 per cent of that increase was claimed by 500,000 families who make up the top one-half of one per cent of the population.

Together with this increase in the concentration of wealth, an increase in income disparities can be observed. According to the Congressional Budget Office, the top 1 per cent of American households claimed 70 per cent of the total $250 billion net increase in household income during the 1977-1989 period. In 1973 the income of the top 20 per cent of American families was 7.5 times that of the bottom 20 per cent. By 1996 it was more than 13 times.

Unemployment

Even with the arrival of the new economy and the renewed growth without inflation and unemployment rates around 4 per cent, some 40 million people in the United States still live outside the health-care system. This situation is unthinkable in Europe, where almost everybody is covered by some kind of healthcare system but, instead, there are some 15.7 million people unemployed in the countries of the European Union (calculation based on World Bank , 2000a *and* OECD, 2000).

Regarding the demographic forecasts, it is a fact that in the next 25 years the world's population will increase around 3 billion. Because of the aging developed country populations (with negative growth and an increase in life expectancy in most of the European countries), the overwhelming majority of the expected population growth is due to take place in the developing countries.

Poverty, inequality and population growth will certainly increase the pressures to come up with solutions, and this will have to be reflected in the Development Agenda of the international community.

Environment

Throughout history all systems for the production of goods have entailed some form of environmental deterioration. What is absolutely unique is the scale that this

problem has reached in our times. Some of our outmoded production techniques have generated a global threat to the ecological stability of the planet.

The most disturbing problems in this area can be broken down in two groups: climate change and changes in the biosphere. Climate change is already a matter of public debate. Carbon dioxide is building up in the atmosphere (partly due to the combustion of fossil fuels), largely exceeding nature's capacity to recycle it through the normal exchange of carbon dioxide and oxygen among plants and animals.

Climate change means that the surface temperature is rising, (about 0.25 to 0.8 degrees Celsius in the last century, with most of the warming coming in the past two decades) and that, based on the current estimates, the lower and mid-troposphere has warmed less than the earth's surface during the past twenty years (0 to 0.2 degrees Celsius).

Scientists estimate that we can only afford to release a limited amount of carbon dioxide into the atmosphere lest we pass the safe limits on climate change. Some analysts believe that a temperature increase of one degree Celsius is the absolute maximum that should be allowed. The amount of carbon that we can release to keep these limits is in the range of 112.5 to 337.5 billion tons of carbon dioxide over the next 100 years.

World industries already have released around four times this amount of carbon (over one thousand billion tones) relying on existing reserves of oil, coal and gas. This means that three quarters of the oil, coal and gas already found cannot be burned if critical climate change is to be avoided. At the present rate of burning of fossil fuels, the "safe" limit of one degree Celsius will be reached in just forty years.

As a result of the use of CFCs, halons and other ozone-depleting substances, stratospheric ozone has been depleted by approximately 2 per cent per decade over the last thirty years. This increases the penetration of solar UV-radiation to the earth's surface. It is assessed that nowadays the maximum levels of ozone depletion have been reached. Recovery of the Antarctic ozone hole (which has experienced losses of twenty five per cent per decade) is not foreseen until the middle of the twenty first century.

Changes in the biosphere are widespread. In the last fifty years the earth has lost one fourth of its topsoil and one third of its forest cover. At the present speed of deterioration 70 per cent of the world's coral reefs (host of 25 per cent of marine life) will probably disappear in one generation. It is estimated that around one third of the planet's resources has been depleted in the last three decades. It is necessary to preserve the health of the freshwater and marine ecosystems because they provide the most essential services to humankind. For instance, the microbial life of the oceans generates twice as much oxygen as the tropical rain forest.

The international community probably cannot afford to continue lengthy negotiations on these matters for much longer. It has to find the way, to the extent possible, to factor these variables into the price system in order to generate incentives to develop clean technologies. In my view, the fact that this is very much a problem of intergenerational welfare should be better recognized in the Development Agenda.

Volatility

Financial volatility can, in a matter of days, destroy years of social development. It is one of the newer problems we confront as global society.

The speed at which financial markets have developed since the 1980s is truly remarkable. In one single day, these markets move $1 trillion (an amount equivalent to one and a half times the annual trade between the European Union and the United States), while trade in currencies is equivalent to twenty times the world trade.

The flow of private finance to the developing economies fell drastically in 1998 and remained at lower levels during 1999. Net private flows went from $303.9 billion in 1997, to 267.7 billion in 1998 and 238.7 billion in 1999. Nevertheless, if the capital flows are disaggregated by type of investment, it can be seen that the behavior differed by segments.

Net bank lending evolved as follows: $51.6 billion in 1997, $44.6 billion in 1998 and -$11.4 billion in 1999 (the minus sign means outflows). Bond financing went from $48.9 billion in 1997 to $39.7 billion in 1998 and $25.0 billion in 1999. Equity investment also fell dramatically from $30.2 billion in 1997 to $15.6 billion in 1998 to recover in 1999, when it amounted to $27.6 billion. On the other hand, FDI amounted to $170.3 billion, $170.9 billion and $192.0 billion in 1997, 1998 and 1999, respectively. Due to its characteristics, FDI has been far more stable than portfolio investment or bank lending, which turns it into an important channel for developing countries to counteract volatility (World Bank, 2000c).

Financial volatility is here to stay, and while efforts are made to reduce it, we have to learn to live with it. The respective agenda of policy discussions ranges from reform of the key multilateral financial institutions to strengthening of domestic financial systems in developing countries through the by now long discussion on the merits and demerits of controls on short-term capital movements among the list of possible reforms.

Conclusions on development challenges

To sum up:

First, the current Development Agenda has achieved much for the developing world, and some countries raised their participation in the global economy and improved the living conditions of their population.

Second, the number of developing countries that draw on the global economy to foster economic development is relatively small.

Third, some development problems that have emerged or gained prominence pose a serious challenge for the global society in the years to come. These include increasing inequality (as expressed by poverty, skewed income distribution and unemployment), environmental constraints and increased market volatility.

Fourth, although the current Development Agenda is generally appropriate, the large portion of the population that remains disconnected from the globalization process suggests that something is missing. In spite of efforts at reforming their economies, many developing countries are sidestepped by investment flows and are unable to profit significantly from growing global trade flows.

Why is this so? This is where the debate continues. Some suggest that the reason why some countries are not participating in the globalization process can be traced to their own policies, including unfinished reform programmes. Lack of institutions and resources to build capabilities only compound the problem.

I suggest that we also have to verify whether the rules of the globalization process are not tilted against some particular group of countries. The next chapter contains findings that suggest that multilateral trade rules are in fact unbalanced against developing countries. How much this adds to an explanation of why some countries are staying behind still has to be researched more carefully, and this should be done sooner rather than later.

IV. Unbalanced rules and market access opportunities of the multilateral trading and financial system

A. The trading system

Industrialized countries apply the highest tariffs and the most restrictive quotas to the products where developing countries have comparative advantage such as textiles, clothing, leather goods and agricultural products. In contrast, during the last fifteen years, developing countries have opened their markets to trade in goods and services where industrialized countries have clear comparative advantage. These include capital goods, products and processes protected by intellectual property, and capital-intensive services.

This asymmetry of the trading system worsens the terms of trade of developing countries and is a barrier to their economic and social development. How did this happen? The story starts several decades ago when the most competitive products of developing countries were excluded from the multilateral rules of the General Agreement on Tariffs and Trade (GATT). Pushed by strong lobbies, this Agreement included special regulations for granting ever-increasing levels of protection against agricultural products. Some others, like textiles and clothing, were simply excluded from the multilateral trade rules. For several decades, economic growth of poor countries was repressed by this protectionism. Where would developing countries be if this protectionism had not flourished?

Trade negotiations are the avenue countries have for opening markets to their products and services. Most qualified observers and multilateral institutions heralded the launching of the Uruguay Round, in part because textiles, clothing and agricultural goods were put on the negotiating table. The expectation was that this Round would "level the playing field". Practically everyone concluded that developing countries should participate actively in seeking and granting trade concessions.

Developing countries got the message, and many of those who were contracting parties to the GATT rushed to Punta del Este in 1986 to launch the Round. Those that were not filed applications to become parties to the Agreement. As the outcome of the Uruguay Round negotiations has become clearer, what it shows does not augur well for the economic and social development of poor countries over the next few years. The results have deepened the asymmetry between the market-opening concessions that developing countries gave to industrialized countries and what these in turn gave to the first group. In addition, there is some evidence that some developing countries, particularly the poorest, have signed agreements that are not necessarily in their development interest. In these cases, abiding by the ensuing obligations may mean reducing the cost effectiveness of the resources devoted to development.

These issues are discussed in the following section (Finger, and Nogues, 2000).

1. Concessions given and received by developing countries

In addition to introducing textiles and agriculture for the first time in the multilateral negotiating table, the Uruguay Round included some new areas such as intellectual property and services where, except for a few cases, developing countries do not have

comparative advantage. Some figures, including those pertaining to the negotiations on tariffs, elimination of non-tariff barriers, phasing-out of the Multifiber Agreement (MFA), agricultural protectionism, trade facilitation and services, are given below.

1. Tariff negotiations

The tradition in the multilateral system is to assess the outcome of the tariff negotiations in terms of: (a) the proportion of imports whose tariffs are bound; and (b) the depth of the tariff cut. The most recent estimates show that, according to the first criteria, developing and industrialized countries are more or less in balance. In contrast, the tariff cuts of developing countries have been higher than those of developed countries. The reason for this is that, at the start of the Uruguay Round (the base period of the tariff negotiations was 1988-1990), developing countries protected their markets more than industrialized countries. In any case, the pattern of tariff cuts implies price reductions that should allow exports from industrialized to developing countries to grow more than exports going the other way around.

2. Non-tariff barriers

Prior to the Uruguay, macroeconomic imbalances and lobbies had led some countries to implement a growing number of voluntary export restraints (VERs). As part of the safeguard negotiations of the Uruguay Round (Agreement on Safeguards), the commitment taken by participating countries was that the safeguard rules would be loosened in relation to those in the GATT 1947 in exchange for a process that included: (a) notification of existing VERs and quantitative restrictions (QRs); and (b) a timetable for phasing them out. The latest analysis of this obligation shows that developing and industrialized countries have generally complied with this obligation. Apparently in this area, there are no major differences between industrialized and developing countries.

3. The Agreement on textiles and clothing

For decades, textiles and clothing products have been among the most protected sectors in industrialized countries. According to some estimates, nine tenths of the cost to the United States from its import restrictions is due to protection granted to these industries. Dismantling these barriers would benefit the United States and Canada amounting by $29 billion per year and the European Union by about the same amount.

Protection granted under the MFA expanded production but not to the point of eliminating trade. The control of residual imports is done through quotas that are discretionally allocated among developing country suppliers. Therefore, these quotas run counter to the basic most-favoured nation (MFN) principle of GATT. Except for a few developing countries particularly in South East Asia and those in included in preferential arrangements, most others had much to gain from these negotiations.
Negotiators agreed to dismantle the MFA, but there are two reasons why developing countries are frustrated with these negotiations: the pace, and the administration of the liberalization process. The Agreement on Textiles and Clothing (ATC) stipulates that liberalization will be implemented along a process lasting ten years starting in 1995. On 1 January of each of the following years, industrialized countries were supposed to

liberalize ("integrate into the GATT") the indicated proportions: 1995: 16 per cent; 1998: 17 per cent; 2002: 18 per cent, and 2005: 49 per cent. Clearly, the pace of this liberalization is backloaded, showing the strength of the textile lobby in industrialized countries.

The second source of frustration comes from the way liberalization is being administrated. The catch here is in the meaning of "integrate into the GATT". Integrate means to certify that a product is free of restrictions that are illegal under GATT. According to the ATC, the indicated proportions are applied to 1990 imports from a list of textile and clothing products that runs some 30 pages long. During the first stages, countries can choose the products they "integrate into the GATT". Obviously, they will choose those that create the least opposition from the lobbies, and these are expected to be products not affected by import quotas. In fact, industrialized countries have made minimal use of this degree of freedom and liberalization so far.

The most recent estimates from 1999 show that having already passed two of the ATC deadlines, including 33 per cent of the notional liberalization, the United States has liberalized only 1 per cent of QRs, the European Union only 7 per cent , and Canada only 14 per cent. The longer industrialized countries take to eliminate MFA quotas, the longer the barriers to economic and social progress are maintained against developing countries' textile and clothing exports. Effectively, it can be concluded that developing countries have to wait until 2005 for these markets, which are of central importance for their development process, to open.

Finally, even if the dismantling of the MFA is completed on schedule, after 2005 developing countries' exports of textile and clothing products will have to jump some of the highest tariffs applied by industrialized countries. How much does lengthy liberalization and remaining high tariffs cost to developing countries?

4. Agriculture

Ever since its creation, GATT exempted agriculture from the multilateral trading rules. In this way, article XI of the Agreement allowed agriculture to be protected by QRs, and article XVI allowed exports of these products, unlike those of manufactured goods, to be subsidized, i.e. tailor-made exceptions for industrialized countries. As is well known, over time these exceptional rules, which several decades ago originated from "food security" concerns, fed a lobby that today is extremely powerful.

As was the case with textiles and clothing, developing countries expected the Uruguay Round agricultural negotiations to reduce protection significantly. They did not and, what is worse, in some cases protection can be higher today than what it was before the Uruguay Round.

The core elements of the Agreement on Agriculture included:

(a) The substitution of non-tariff barriers (NTBs) by ad-valorem tariffs;

(b) The reduction of tariffs by 36 per cent for industrialized countries and by 24 per cent for developing countries;

(c) The reduction of exports subsidies and domestic assistance.

Analyses of the substitution of NTBs with tariffs suggest that protecting countries used the opportunity to declare base tariffs of their Uruguay Round obligations that in general were higher, several times higher, than the ad-valorem equivalents. More specifically, estimates show that only in a few cases, representing 11 per cent of agricultural imports, has this substitution been done correctly. This process, by which QRs are substituted by ad-valorem tariffs that are higher than the tariff equivalent, is called "dirty tariffication". Once a country implements dirty tariffication, the commitment to reduce tariffs by 36 per cent is not necessarily an indication of liberalization. In fact, most of the analyses show that even after such tariff reductions, agricultural products remain highly protected in industrialized country markets and that, at most, liberalization has been minimal.

Similar stories can be told about domestic assistance and export subsidies. In fact, in the most recent years, as a consequence of declining commodity prices, OECD support to agriculture in the form of domestic assistance and export subsidies is today relatively more important than what it was at the conclusion of the Uruguay Round.

Summary on market access

The outcome in these four negotiating topics, which generally fall under the term market access, suggest that the Uruguay Round resulted in a clear imbalance between the extent to which developing countries opened their markets to industrialized countries' goods, and the extent to which the later countries opened their markets to the first group. Furthermore, while the concessions given by developing countries have already been implemented, industrialized countries' concessions still have to be implemented (textiles and clothing), or are minimal or imply higher protection (agriculture).

The market access negotiations included topics where developing countries could expect to achieve some form of a balanced outcome. This is the reason why they embraced the Uruguay Round negotiations. Having failed to achieve their goals in these areas, developing countries were bound to come out of the Round with an even more significant imbalance in other areas where industrialized countries have comparative advantage.

5. Trade facilitation

Trade facilitation is the name given to the processes that allow compliance with the Agreement on Custom Valuation, the Sanitary and Phytosanitary Agreement, and the Agreement on Trade Related Intellectual Property (TRIPS). Unlike compliance with the agreements on market access that imply no implementing cost to the Government (while a lot of money is transferred, only a decree is needed to implement a tariff cut or eliminate a quota), compliance with these other agreements requires investment in capital goods, in buildings, and in skills. A preliminary assessment indicates that getting up to speed in these areas requires an investment in the order of $150 million (Finger, and Schuler, 2000). For many poor countries, this amount is higher than what they allocate to their development budget. Because of their stage of development of

such countries, these investments do not appear to have priority, yet the countries are obliged by the Uruguay Round agreement.

This happened for the first time in the history of the GATT/WTO (World Trade Organization). While during the first four decades of GATT industrialized countries remained the only active participants in the negotiations, the multilateral rules in these areas were either non-existent (intellectual property), or they reflected the stage of development of these economies (custom valuation). At the Uruguay Round, there was no reflection on development needs and development priorities. Industrial countries' standards became the norm, and developing countries have to close the gap, even though this implies uneconomic investments.

6. Services

Industrialized countries have comparative advantage in most services. This is why their enterprises sought liberalization of tradable and non-tradable service markets. In the non-tradable services, which include areas such as power generation and distribution, gas distribution, telecommunications, cable TV etc., industrialized countries sought the "right of commercial presence" (a technical description for granting to FDI access to markets on an MFN basis), and many developing countries delivered this right. In exchange, developing countries sought to achieve concessions in the area of "movement of persons" which allow for example construction companies to hire workers from developing countries where wages are lower and take them to industrialized countries for the duration of the construction stage of projects. For the time being, concessions in this area by industrialized countries have been minimal.

Note should be taken of the imbalance between the multilateral rules that govern capital movements and those that apply to labor movements. The objectives of these rules are free capital movements but not free labor movements.

2. Reasons for the imbalance

Why was the outcome of the Uruguay Round so imbalanced, and why can the multilateral trading system be expected to remain imbalanced until and unless the rules and market access opportunities are straightened out? One reason is that, unlike previous rounds, in particular the Tokyo Round, the Uruguay Round was a single undertaking, i.e. a country had to accept the whole package in order to participate in the WTO. At a time when developing countries were emerging from important macroeconomic imbalances and high inflation, they simply could not refuse to sign.

While I find this reason quite compelling, I suggest that we also have to focus on several dimensions that make up for the differential negotiating power. In a world where retaliatory actions have been legalized, market size should be an important element explaining differential negotiating power. A second element, and the one where I want to focus attention, is the information gap between both groups of countries. In this regard, there are a number of points.

First, the Uruguay Round was the eighth round of multilateral trade negotiations but, for the developing countries, it was the first round in which they participated actively.

In the previous seven rounds, they had opted not to exchange concessions under the principle that they had a special and differential treatment (essentially, part IV of the GATT). Therefore, one might say that developing countries lacked the experience and knowledge that is gained through the process of learning by participating in such negotiations. Under these conditions, it was difficult to catch up with countries that had more than forty years of experience with multilateral trade negotiations.

Second, the Uruguay Round was by far the most complex in the history of GATT. The previous seven rounds had covered essentially trade barriers in manufactures, which, in the most recent negotiations of the Kennedy and Tokyo rounds, implied dealing with tariff reductions. Much has been written about these experiences, and one can speculate that developing countries approached the negotiations with at least some knowledge of what had happened before. But there were many other " new areas" where negotiations had never taken place. Here, developing countries had to learn not only how to negotiate with the big players, who had pushed hard to have these topics included in the negotiating agenda, but also how to implement these policies domestically.

The case of services is an example. Most developing countries used to deliver public services through State-owned enterprises. In a matter of only a few years, starting around the mid-1980s, many of these countries privatized these enterprises while, at the same time, mounting regulatory agencies and introducing competition policies. In many cases, the outcome has been high prices for the services that these enterprises provide. The reason for high prices may not always be due to the privatization stage but may be due to difficulties in how to regulate. The services negotiations entailed opening markets to FDI (granting concessions in "commercial presence") but no binding obligations on the part of capital-exporting countries regarding technical assistance to help developing countries to manage this process smoothly. The same is true with the Agreement on Custom Valuation, the Sanitary and Phytosanitary Agreement and TRIPS. Technical assistance was a non-binding promise by industrialized countries in exchange for a legal obligation to implement costly agreements.

Third and finally, several of the least developed countries had not even one representative during the negotiations in Geneva (Blackhurst, Lyakurwa, and Oyejide, 1999). If this is an indication of how much these countries knew about the implications of the negotiations, then some of these countries may have been unaware of what precisely was at stake when they signed the Uruguay Round Agreement.

Conclusions on the trading system

Trade negotiations are the opportunity that Governments have for opening foreign markets to the exports of the goods and services that their countries produce efficiently. Ever since the GATT was created, many of these products have been highly protected in industrialized countries. It has been argued above that, at the Uruguay Round, developing countries were not very successful in opening foreign markets and that the outcome was not the result of their refusal to grant concessions. Correctly embracing the benefits of unilateral liberalization policies, developing countries in fact participated actively, granting concessions and opening their markets

widely. The outcome appears to be related to the *single undertaking* characteristic of the Round and the elements that make for differential negotiating power.

One of these elements is information and knowledge regarding the benefits of a country's liberalization to foreign interests and the benefits to a country of opening foreign markets. It is quite difficult to balance a complex multilateral negotiation if a Government lacks the relevant information and knowledge of what is being negotiated. Most developing countries lacked this knowledge. This is one reason why they signed the Uruguay Round at a cost, to some of them, that appears to be unreasonably high.

B. The financial system: Constraints to SME financing in emerging countries

The Latin American debt crisis of the 1980s and the more recent eastern Asian crisis of the late 1990s triggered significant adjustments in prevailing international financial and risk-assessment rules.

In the first case, the attention of the World Bank and, particularly IMF, was turned to the evolution of foreign exchange reserves, the supply of international liquidity and, more recently, balancing the budget. Their tools of intervention were adapted correspondingly. Emphasis on structural adjustment programmes, loans to redress balance-of-payments hardships and the promotion of fiscal and budget reform expressed such concerns.

The sudden burst of the bubble in industrial and real estate asset values that followed the foreign exchange crisis of eastern Asia in the late 1990s disrupted the banking systems of the countries involved as a result of acute liquidity shortages leading to insolvency. Central Bank intervention, by means of attempts to support the banking system by depleting foreign exchange reserves, could not prevent the banking crisis from becoming a run on local currencies. The exchange crises soon moved to the global capital markets as a result of "flights to quality" (i.e., largely towards United States bonds), which provoked an acute fall in the value of emerging countries' financial assets. Ensuing interest rates rises and liquidity shortages had a strong impact, first on the Russian default of April 1998 and then on the Latin American economies through the Brazilian devaluation of 15 January 1999, as well as a general upward trend in risk premiums and recessive movements in real output.

These events left a mark on the agendas of the IMF and the World Bank for Asia and Latin America. This was translated into three sets of recommendations adopted in the programmes for these regions. The recommendations covered norms on: the solvency of financial agents; quality and valuation of banking assets; and risk assessment and provision.

Norms on the solvency of financial agents were aimed at restoring a sound balance between net worth and total assets. Central Banks were encouraged to increase reserve requirements for money instruments. These measures sought to reduce the risk of losses in the savings of the public in case of declines in banking assets or a run on deposits.

Asset quality and value was another focus of attention in programmes seeking to strengthen the banking systems. In this case, assets were to be valued by the "mark to market" method, that is, according to their quotation in open markets, in the case of public instruments, or by means of external audits to continuously adjust the value of assets to their resale value. Criteria for classification of credit balances according to the quality of underlying guarantees were also provided for.

Finally, the obligation was imposed to periodically evaluate the risks of banking assets according to debtors' performance and their position vis-à-vis the rest of the financial system. This entailed taking prompt steps for the provisioning of assets subject to downside changes in creditworthiness according to scales reflecting the quality of the underlying guarantees and debtors' position.

This set of so-called prudential measures were largely inspired in the recommendations of the Bank for International Settlements, which has made important progress over time in the valuation and systematization of prudential norms for banking systems. IMF and the World Bank adopted the Basel norms in their normal menu of recommendations.

The impact of the application of these new guidelines to emerging economies' credit markets is not at all negligible. The effects are perceived particularly at two levels: debtors' selection; and the kind of projects eligible for financing.

In the case of debtors' selection, these norms punish SMEs, particularly industrialized SMEs, since the evolution of their risk rating along the credit cycle may affect provisioning, given the high volatility and competition normally found in the markets where they operate. Likewise, prudential norms seeking to monitor debtors' total liabilities, which are normally distributed in several banks, is an added factor of uncertainty in the perception of their medium-term credit rating. In this context, it is preferable for the financial institutions to gear their credit to individuals and families, since their credit worthiness is normally more stable and their operations concentrated in a single financial institution, with the ensuing advantages from cross-selling.

As for project selection, a similar bias against industrialized SMEs follows. On the one hand, technological and market changes make the perception of the value of industrial assets volatile. On the other hand, streams of future income flows from industrial and service projects are affected by the competitive position of the enterprise, particularly when they are assessed from a medium- and long-term perspective. This leads many financial entities to favor financing assets with more predictable and potentially stable values, such as real estate. This factor also strengthens trends in the banking system towards households' mortgage financing.
Thus, there is a growing marginalization of SMEs from the banking credit market, either because adjustment takes place via rate of interest and period of financing (thus creating a mismatch between what enterprises require and what banks offer), or because of the growing use of collateral guarantees that impose lower leverage to enterprises suffering acute capital shortages.

It would not be wise to reverse progress towards the enactment and enforcement of the above-mentioned financial norms and guidelines in the emerging countries. The norms are, after all, geared to reduce the systemic risks that pervade such economies

and lead them to serious difficulties, as illustrated by the recent Latin America and eastern Asian experiences. Rather, it becomes all the more necessary to *complement* this agenda with measures aimed at reducing the threshold for SMEs to access capital market financing. In this sense, it would be useful:

- ✓ To encourage, first of all, the growth of saving instruments either through common investment funds or, more to the point, by strengthening pension systems based on capitalized contributions. Ultimately, accumulated savings by means of these instruments end up financing medium-sized enterprises with growth potential. As these funds are not regulated according to prudential guidelines applied to banks, they turn an increasing proportion of their resources to enterprises seeking better returns;

- ✓ To reduce, concurrently, SMEs' costs of access to the capital markets. In some countries the creation of special markets has been attempted with a view to letting smaller enterprises quote their stock and negotiate their securities. In this perspective, enabling smaller enterprises to negotiate obligations owed to them by larger enterprises is another step in the right direction;

- ✓ To consider introducing fiscal incentives, such as credits on income taxes to enterprises ready to quote their shares in the stock exchange, thus reflecting the lower taxation costs of enterprises that make information more transparent

- ✓ To set up reciprocal guarantee systems for smaller enterprises based on funds created for that purpose. These systems have shown positive results in Spain, although their implementation is subject to risks of discretionary behavior.

Conclusions on financial system constraints

In conclusion, emerging risk-assessment rules and prudential norms are biased against financial instruments to supply the capital needs of firms in emerging countries, particularly SMEs. However, other means of offsetting this undesirable outcome need to be developed and tried since the emerging norms are a welcome development towards the strengthening of developing countries' banking systems.

V. The ingredients of sustained productivity growth

After having reviewed the legal framework ruling the internal trade and financial systems, I would like to return now to the reform agenda and reflect on some neglected topics. To repeat, our starting point is that the current Development Agenda is appropriate. We want to build on the "consensus" regarding the need for macroeconomic stability, open trade and investment regimes and institutional reform. This section discusses *what sort* of additional reforms are needed, *why they matter* and *how they can be promoted*.

What additional reforms are needed

We need policies to ensure sustained productivity growth and its equitable distribution. Only then will countries enter the high road to development, drawing fully on world trade and investment flows and "connecting" their populations to the global economy. Facilitating a dynamic private-sector-led economy is a key to the success of macroeconomic and institutional reforms.

The point I made before –namely that, while many countries have progressed towards stabilization and getting prices right, several have failed to benefit from global trade and investment flows – is now widely accepted. The next step revolves precisely around the need to develop the broader set of institutions and capabilities that economies need to respond to freer markets and emerging technologies. Simply putting the right incentive framework in place does not ensure that supply will respond adequately. On the contrary, it may accentuate differences and disadvantage the weak. It may even erode the social, political and institutional base to provide the new capabilities needed.

A healthy interaction between markets and institutions can be largely be taken for granted in the developed economies (although most also feel the need to mount competitiveness strategies at the national or local level). There is generally a sufficient base of skills, information flows, business networks and facilitating institutions to allow private firms to tackle competitive challenges. These challenges today essentially concern technology, broadly defined to include managerial and organizational methods. A myriad of companies are engaged in the process of generating and using innovation and coping with intensifying competition and the unprecedented growth of information and communication technologies. This flow stems from the entrepreneurial mobilization of the ingredients of innovation, technical change and productivity growth. The endless (and intensifying) processes of technical creation and destruction that drive competitiveness and growth have become embedded in the normal "flow of business" in advanced economies.

However, this has been the result of gradual and cumulative economic, social and institutional evolution, led in almost all cases by manufacturing industry. In the developing world, there are certainly countries that have achieved rapid growth and structural transformation drawing on industrialization. The leading examples are the original Asian 'Tigers' (Hong Kong Special Administrative Region of China, Singapore, the Republic of Korea and Taiwan Province of China). These countries have rapidly progressed in closing the gap with advanced industrialized countries in

less than forty years; in some ways, they surpass many mature economies in competitiveness and technical prowess. While their experience has greatly influenced our understanding of development policy, there remains debate on the factors that propelled their industrial success.

Some recent "growth accounting" exercises have been used to suggest that it has been the result simply of massive accumulation (or physical and human capital), openness and good macro management rather than of technological effort. There are problems with this interpretation. The measurement of primary factors of production, particularly capital, is laden with difficulties. The assumption that these factors are separable – and so the Solow "residual" is a good approximation to the contribution of technology – is questionable. The specific form in which the residual is measured (that is, the specification of the production function) matters, and different specifications give very different results.

These technical difficulties apart, there is a more important analytical problem. I digress on this because it is important to our understanding of development strategy. The growth accounting methodology assumes that technology is easily transferred and adopted by new users: that, for instance, maintaining a high rate of investment in advanced industrial sectors at competitive levels involves no technological effort. Only on this basis can it be argued that the Tigers were able to rapidly diversify into export-oriented production of highly complex industrial products without technological effort. This is, of course, a gross oversimplification. Technology is not fully embodied in capital goods, blueprints or instructions. It has strong tacit elements. Thus, absorbing and using new technology is a difficult process. It involves investment in building new technical information, experimentation, new skills and new organizational routines. In more neoclassical terms, the Tigers could only prevent the marginal returns to capital from declining, despite massive investments, by undertaking significant technological effort and innovation (Nelson and Pack, 1999).

This is not to say that accumulation and macro stability did not play an important role. Clearly they did. Without these basic framework conditions, technological effort could not have taken place or been embodied in physical facilities. However, the Tigers had to go beyond creating these conditions to foster learning, help enterprises bear its costs, set up support institutions, and overcome externalities and coordination problems. These other policies are what we have to draw upon to learn how the Tigers could effectively deploy a range of new, difficult technologies at best-practice levels. Note that each Tiger adopted *different* strategies, in line with its own vision of industrial development, and built different levels and kind of capabilities. The accumulation of human and physical capital was a necessary part – but it was not sufficient. There are many important lessons for other countries, from both their common elements as well as their differences (Lall,, 1999).

Unfortunately, such cases of rapid catch-up are relatively rare. Take competitive performance in manufactured exports: the top 10 countries account for over three-quarters of the developing world's total. In high-tech products the concentration is higher (Lall, 2000). Most other developing countries, faced with the challenge of globalization and liberalization, have not managed the process well. At best, they enjoyed a spurt of growth when they realized existing competitive advantages by improving macro management and "letting in" the market. After that, most tended to

relapse or stagnate. Such economic improvements as took place failed to reach the majority of the population who, in a world of rapid change and shrinking economic space, risk becoming the new marginalized under-class.

The Asian experience shows that the basis for sustainable growth lies ultimately in the capacity of the private sector to manage effectively new technology and organizational practices. This requires constant learning, experimentation and innovation. The capabilities to do all this arise from the creation of *new skills, information on technology, markets and management practices, focused technological effort, finance for risky activity, and the fostering of cooperation between agents that learn collectively.*

If we accept that such factors are at the core of innovation for productivity growth, what is the role of policy? Most of these factors cannot be provided adequately by markets. In fact, many of them lack "markets" altogether in a meaningful sense, certainly in most developing countries. They have strong "public goods" elements and face a high degree of risk and uncertainty as well as enormous coordination problems. Only coherent government policy – supported by international action to provide the international public goods required – could start to overcome the vicious circles that trap economies in poverty and marginalize them. The need for efficient physical infrastructure to provide logistic, communications and supply chain management hardly needs to be emphasized. For efficient, demand-driven education and training, technological support, technology-based investment and cluster promotion is equally important. The efforts made in the OECD countries (and the European Union at the regional level) illustrate how important Governments of the most advanced countries consider it. Poor countries, with far weaker capabilities and institutions, need such efforts all the more.

What developing countries need in my view, is a set of liberalization cum public goods supply policies to mobilize information, knowledge, skills and technology to support the private sector. Only by improving the interaction between markets and agents does it become possible to distribute the fruits of productivity growth among the population and hopefully get popular support for the reform programmes.

Why do additional reforms matter

A recent poll done in Latin America showed that, after years of economic reform and relatively sustained growth, people feel increasing dissatisfaction with the economic and social outcome of liberalization. If the process is not to be reversed, we have to think about concrete policy responses to the lack of "connectedness".

Policies should now be to build popular trust in the ability of markets and the global economy to deliver sustainable and equitable improvements in living standards within a reasonable period of time. Public trust is indispensable for the continuity of globalization with the spread of good governance and democracies.

Such continuity of the globalization process cannot be taken for granted. Although great strides have been made over the last few decades, with a 16-fold expansion in the volume of world trade since 1950, the degree of liberalization of the international merchandise and financial markets is not much greater than it was in 1913. At that

time Japan was more open than it is today: exports plus imports account in Japan for 22 per cent of GDP against 30 per cent then. Many developing countries faced effectively free trade regimes. Today, despite widespread liberalization, there are still many barriers to trade and investment.

Financial markets are not very different. During the previous globalization spurt (1870-1913) the United Kingdom exported capital at an annual average of 5 per cent (in some years up to 10 per cent) of GDP. The corresponding figure today for Japan, a country with large current account surpluses, is 3.5 per cent. The figure is 2.5 per cent for the OECD as a whole. Outward FDI by the OECD today accounts for 6 per cent of domestic investment. Both were roughly equal for the United Kingdom during the first decade of the twentieth century (de la Dehesa, Guillermo, 2000).

The earlier golden age of free trade and investment suffered massive disruption as it failed to manage the strains engendered within the system. It also failed to provide for the development of the poor countries that participated in the system. Much has been learned since then on how to reconcile the needs of growth and structural change with those of stability, free markets, human development and private enterprise. The nature and pace of technical change have also altered dramatically – they offer much greater opportunities for economic improvement while they set up far larger challenges.

Developing countries can no longer grow over the long term by offering unprocessed primary products or cheap "raw" labor. They have to participate in the technological process as strongly as developed countries, albeit at the level suited to their skills and capacities: development depends on how quickly they can raise this level. In order to get to this point, developing countries will probably have to pass through various development stages, including that of exporting labor-intensive manufactures that will be facilitated when industrialized countries complete the dismantling of the MFA.

How to promote additional reforms

How are we to mobilize information, knowledge, skills and technology in the service of sustained and equitable growth? What contribution can UNIDO make in the specific context of industrial development?

Let us start with the first set of issues. We take as given that technological change will continue at a rapid pace, and that countries will be knit closer by freer flows of information and productive factors and by the international rules of trade and investment. In this setting, the ability to compete with the best in the world will be basic condition for growth in the productive sector. Relying on static endowments like primary resources and cheap unskilled labor may be a good way to start but a bad way to continue.

Developing countries have to deliberately mobilize the key ingredients of productivity growth and spread them evenly. Getting the macro-economy right and opening up to trade and investment is only a first step (one that needs to be handled carefully, although many countries have rushed into it without adequate preparation). If they stop here and make no deliberate effort to build up higher-order skills, capabilities and institutions, growth will slow down or grind to a halt. They have to build the wherewithal to take on, at competitive levels, more complex activities that use emerging technologies and can sustain rising wages. This will entail building the

institutions and providing the support needed to create new skills, information and capabilities. There is little here that most analysts would disagree with – these ingredients of success are hardly a secret. What is difficult is *to devise and implement practical strategies* to suit the specific needs of particular developing countries. The task is broad and challenging. It is also slow, difficult and detailed. It requires understanding and tackling the "nitty-gritty", or basics, of small, incremental changes on which received theory provides little guidance. It entails constant adaptation and learning on the part of policy markers. It has to evoke the cooperation of a range of agents, private and public, and new forms of governance that are difficult to introduce.

While theory may not help greatly in designing and implementing industrial and technology strategy, there is considerable experience in the developed and developing world to draw upon. However, the variety of experience itself poses problems. Which are the relevant experiences? Do we really understand them, since they involved complex interactions of different elements and agents? How do we discover how countries set up the necessary institutions and overcame the inevitable problems? What is the best way to stimulate the growth of higher value production and attract more sophisticated, skill-based foreign investment? How do we prioritize the numerous competing demands to use effectively the limited resources available? Once the broad strategic choices are made, how do we ensure that Governments build the necessary skills and implementation capabilities? What can we do to make sure that policies are flexible and policy learning takes place?

I could go on, but the point is clear. The next phase does not lend itself to general prescriptions apart from accepting the centrality of entrepreneurship, innovation and learning. While the broad lines of policy may be widely accepted, the devil lies in the detail. There are large *information and analytical gaps* between experience and policy lessons. Unless these are overcome, the disenfranchised countries of the world will find it much harder to participate fruitfully in globalization and resistance from their populations may make liberalization much harder.

Conclusions

Let me end with a simplified sketch of key needs that development institutions must cope with, focusing on the industrial sector, which is UNIDO's remit:

- ✓ *Policy research, analysis and information.* There are different perspectives on the best strategies for competitive industrial development. Governments often need information and guidance to formulate effective policies, given their resources, institutions, and history and business culture. So does the private sector to the extent that it is involved in the policy-making process – as is increasingly the case. An important public good would be the objective, affordable and independent analysis of strategy, together with terms of reference, for the effective use of private consultants. UNIDO may be able to provide this good if it builds up its research and analytical capabilities; I believe there is a strong case for investing in these if the organization is to remain a credible player.

- ✓ *Benchmarking of performance.* Benchmarking is the most powerful tool of policy making in the absence of theoretical parameters, almost universally used by developed and newly industrializing countries. Governments now compare the

export, production, education, training, employment, investment, productivity and technological performance of their countries against each other. At the more detailed level, they help enterprises (especially smaller ones) to benchmark performance, domestically and across countries. Between these two levels, Governments are starting to benchmark their own performance and that of support institutions in technology, education and so on. This is a highly information- and skill-intensive task, often difficult for Governments in poorer and smaller countries. International institutions like UNIDO may be able to help members with benchmarking techniques and data. There is also the need for in-depth surveys of technology, skill, trade and FDI patterns, and the logistic and supply-chain needs of major industries. The industrial scene is changing at a bewildering pace in these respects, but Governments find it difficult to collect the relevant information or, more important, conduct an appropriate analysis. Information and analysis can be seen as essential global public goods for policy makers in developing countries. An institution like UNIDO can provide them on an objective basis and on more affordable terms than private consultants can. Indeed, there is a case for free provision, and in the industrial field there is no other international organization that is now specializing in these areas. One useful analytical tool would be a *global industrial competitiveness scoreboard* that ranks countries according to industrial performance and ability to improve that performance – UNIDO is currently undertaking an effort in this direction.

✓ *Specific functional areas.* The four most important policy areas are, in my view, are:

1. The support infrastructure (for information, entrepreneurship, technology, productivity, quality and skills)
2. Innovation financing
3. Export promotion
4. Investment promotion

When devising specific policies, countries need assistance to have ready access to assessed information on best international practices in these fields so that they can provide the right setting for enterprises to invest in them, and to strengthen support institutions. Technology infrastructure is, for instance, something of a Cinderella in that it is neglected many developing countries. Yet a set of modern institutions for quality, standards, testing, metrology, contract research, information and extension is fundamental to efficient industrial development. Today many institutions can be operated on a private, market-oriented basis. However, in many cases what we find are shells of public institutions that provide little or no technological help to enterprises. There is a pressing need to learn from countries that have upgraded their technology institutions and made them relevant to the private sector. Similarly, SME extension is a universal and immediate need – too many enterprises are dying out because there is no help available for them to cope with globalization. There is a growing need for specialized financing of technological activity in developing countries. Training is vital to mobilize entrepreneurial talent. There is much that UNIDO can do, in collaboration with other international institutions like the World Bank, the International Labour Organisation (ILO), UNCTAD and regional development banks, to help Governments formulate better strategies to boost

industrial competitiveness. While good private consultants can provide much of the detailed input, the public good to be provided is the design of the overall strategy.

VI. Final summary

My objective for this paper has been to offer some elements that would facilitate a reflection and discussion of our Development Agenda. In chapter II, I reviewed succinctly the evolution of this agenda over approximately the last three decades, and I observed there that it has undergone important changes. In the process of adjusting the agenda in line with the evolving economic and social ideas, international organizations have made important changes to the policy prescriptions given to developing countries. Because of such prescriptions and other factors, including prevailing planning ideologies in developing countries, years of economic and social development were lost. Furthermore, the knowledge and information of economic and social value that was not accumulated during the years of economic mismanagement may take decades to be recouped.

In contrast to the past, I believe that we are experiencing a period in economic history where international organizations and an important number of countries are in agreement with the basic set of policies that are necessary for creating the conditions for economic and social take-off. These include those addressing macroeconomic equilibrium, essentially of the public sector balance sheet, and trade and capital account openness. These basic policy prescriptions are complemented with an added emphasis on appropriate institutions (meaning among other things, good governance), and the private sector taking the leading role in mobilizing trade, capital and information for economic growth. In historical terms, this high degree of coherence among international organizations is quite unique, and I for one think that we must use this opportunity to build on this consensus.

In chapter III, I recall that the development challenges remain enormous and continue to grow. Many developing countries have embraced the basic policy prescriptions outlined above, but not all have been equally successful. The lack of connectedness between large segments of developing countries' populations and the global economy is a major source of popular dissatisfaction or indifference towards the basic economic and institutional reform prescriptions of our Development Agenda. This appears to be happening not only in countries which, in spite of opening their economies, have for the most part been excluded from the globalization of capital and trade flows but also in some others in which reform programmes were initially quite successful in delivering productivity gains but where, in more recent years, growth has slowed or disappeared altogether. As a consequence, the per capita income gap of most developing countries with the industrial ones continues to grow.

This widening gap is a matter of growing concern to developing countries' Governments and international organizations. In democratic countries, people vote into power those leaders whose reform platform promises not only productivity gains but also a likelihood that they will receive part of the added economic benefits. In chapter III, I recalled that some leaders who had the constitutional opportunity to be re-elected had in fact been voted into power a second term when the reform programmes they implemented delivered the productivity gains to the people. Nevertheless this reform impetus is slowing.

Why is this happening? What is wrong? What is it that is preventing the achievement of higher growth and social performance in developing countries that have embraced

the basic economic and institutional policy prescriptions? Is it that they have not opened their economies sufficiently to capital and trade movements? Is it that they remain risky and in spite of opening, trade and capital flows simply pass them by? And if they remain risky, is it possible for international organizations do more to help them attract capital? Is it something in the rules of globalization that prevents trade and capital flowing to these countries? These are complex questions to address and answer, and we are doing this, but I think that the magnitude of the task ahead is so big that we have to do more. And we have to do it urgently if we want globalization to be a win-win proposal for all countries and not just for a few rich ones.

Chapters IV and V of my paper offer evidence on some of these questions. In chapter IV, I argue that the multilateral trade rules and market access opportunities are biased against developing countries. I also argue that some regulations of the international financial system are a barrier to the development of small- and medium-sized companies. On trade, I summarize the main outcome of the Uruguay Round and find that, while a very high number of developing countries opened up during these negotiations, industrialized countries failed to do so and, as a consequence, they continue to remain closed to the products where developing countries have comparative advantage. The gains to industrialized countries from liberalization policies in trade and services have been substantial. In contrast, many developing countries are still waiting to face similar opportunities. In some goods, like textiles and clothing, industrialized countries have promised to lift some trade barriers in the future while in others, including agricultural products, such a promise has not even been made. In many products of this sector, the markets of these countries are even more closed than what they were before the Uruguay Round.

Many countries, including those that today are classified as industrialized, grew among other ways by passing through stages of export development starting first with primary goods and simple manufactures and progressing on to increasingly more complex and technology intensive products. The successful Asian economies also underwent a growth process along this path of producing and exporting increasingly sophisticated products. Against this experience, closing the biggest and some of the fastest growing markets to the products of developing countries where they should start their economic development process is one of the surest ways of maintaining them in poverty.

Protection of this magnitude is also in sharp contrast to the policy prescriptions of our Development Agenda. The costs imposed by these barriers on developing countries are all the more serious in a world of high capital mobility. As we all know, international capital is allocated according to risk categories and, for the rating agencies, slow export growth and lack of export diversification are indicators of added risk. Therefore, for many emerging markets, industrialized countries' trade barriers impose not only the direct costs of lost production and export opportunities but also the macroeconomic costs of high interest rates associated with high country risk factors. There is no doubt in my mind that the lifting of these barriers would provide one of the most important growth opportunities that developing countries could face in the years ahead. This is no longer a matter of development assistance but simply a matter of "leveling the playing field to all countries alike". The longer it takes for this action to be implemented, the longer this protectionism remains a source of underdevelopment and poverty.

Furthermore, in our Development Agenda, we recognize that the private sector is "the" mobilizer of resources for growth, including skills, technology and information. In industrialized countries, institutions that facilitate this mobilization are functioning appropriately. This has been the result of gradual and cumulative economic, social and institutional evolution, led in almost all cases by the manufacturing sector. A few developing countries, mostly from eastern Asia, have also succeeded in growing fast by drawing on industrialization. But these success stories are few in relation to the vast majority of countries whose growth remains below, in some cases well below, that of the leading countries.

It is in strengthening the capacities of the private sector of developing countries to mobilize resources - skills, capital and knowledge - where we see the biggest promises of public policy. First, and as a basic condition, we need to improve the opportunities of this sector by liberalizing trade where it remains protected against the interests of developing countries. Only by doing this will these countries increase their exports and benefit from the learning that comes with operating in the international marketplace. Second, international organizations need to continue finding the best means of assisting Governments and the private sector to design and implement institutions and policies that will facilitate the mobilization of resources for growth.

This approach, I submit, is likely to provide many of the key answers sought by developing countries to the question of how to address the development challenges referred to in chapter III, particularly those of poverty, volatility and the environment, in a sustainable and effective manner.

Concluding remarks

In his pathbreaking contribution of the early 1960s, Edward Denison attempted to explain the growth of the United States economy by means of growth accounting methods (Denison, 1962.). His study found that the accumulation of production factors (capital, labor) accounted for some 50 per cent of GDP growth, whereas the other half (the so-called "Solow" residue) came from "technical progress".

By then, technical progress was regarded as an exogenous factor, i.e. beyond the reach of policy.

Later on, from the mid-1980s to the early 1990s, a number of economists (notably, Romer 1986 and in Barrow, (ed) 1989, Lucas, 1988 and Grossman and Helpman, 1991) developed the new endogenous growth models. Their basic finding was that technical progress is an endogenous factor and that this factor is influenced not just by market forces but also by policy. They also found that the marginal returns to scale increase, rather than decrease, with the stock of capital. Finally, they postulated that technical progress is at the core of the process of economic growth.
These authors maintain that the rate and direction of technical progress is strongly influenced by policies towards education and training; science, technology and innovation; the openness of the national economy and its interactions with the global economy; and the tax treatment to productive factors.

At the dawn of the new millennium, we have the unique opportunity to build on what amounts to a growing consensus on the sources of productivity growth and to move

the economic debate forward. Will it be possible to cogently articulate the rich variety of new (institutional, social, educational) facets entailed in the development challenges we face in order to build new knowledge on growth and development? Will the environmental challenges raised by our production system be also an incentive to develop new technological trajectories? Is it not necessary to assess the impact of the information technology gap on the rate of growth as was done recently with the performance of the health and educational systems? Which are the best instruments to mobilize the required knowledge for development? How can the information and knowledge resources required to pull poor countries out of their predicament be marshalled?

These and other questions should be matter of serious research and be given at least as much attention as trade, finance or inflation attracted during the past century.

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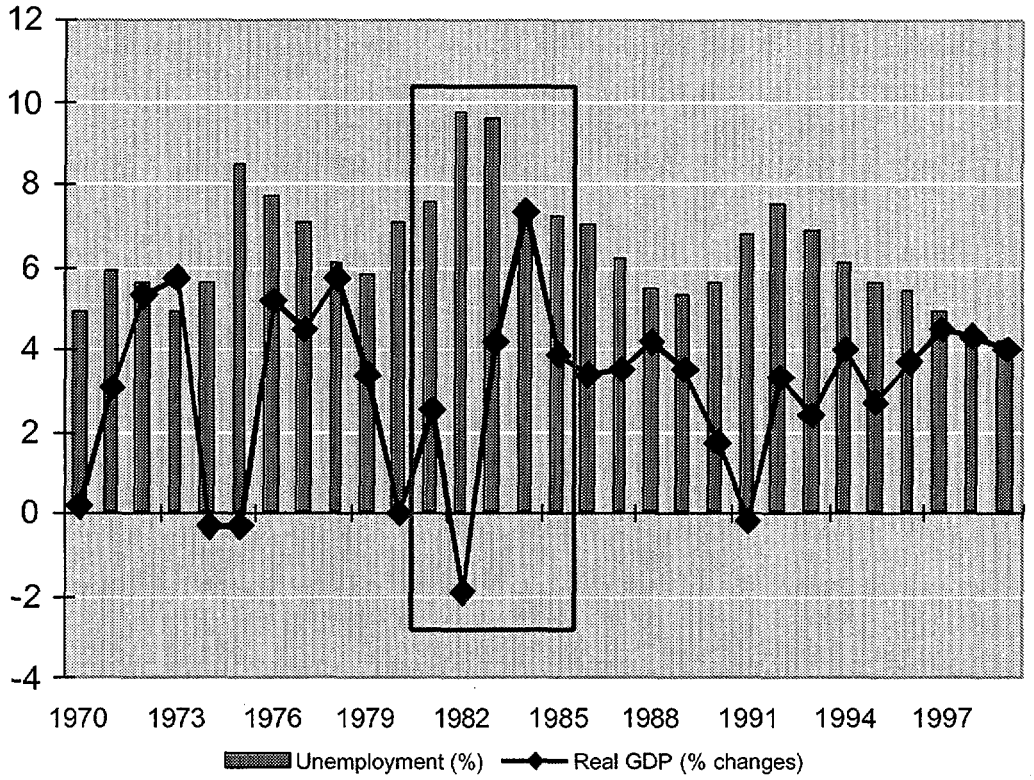
ANNEX

Figure 1: US: Real GDP changes and civil unemployment, 1970-1997 (Percentages)



Source: United States Department of Commerce, Bureau of Economic Analysis and Department of Labor, Bureau of Labor statitics.

Table 1: Annual growth of GDP, 1980-1998, selected countries (Percentage)

	Argentina	Bolivia	Brazil	Chile	Mexico	Peru	Ghana	Kenya	The United Republic of Tanzania	Zimbabwe	Czech Republic	Hungary	Poland	Russian Federation
1980	4.15	-0.93	9.11	8.15	9.23	3.08	0.47	5.59	..	14.42	..	-0.33	..	24.01
1981	-5.69	0.17	-4.39	4.74	8.77	7.18	-3.50	3.77	..	12.53	..	2.87	-9.98	-13.19
1982	-4.96	-4.45	0.58	-10.32	-0.63	-0.41	-6.92	1.51	..	2.63	..	2.84	-4.77	3.14
1983	3.87	-4.13	-3.41	-3.79	-4.20	-12.58	-4.56	1.31	..	1.59	..	0.72	5.55	3.98
1984	2.21	0.30	5.27	7.97	3.61	4.11	8.65	1.76	..	-1.91	..	2.66	5.66	7.99
1985	-7.59	-1.68	7.95	7.12	2.59	2.26	5.09	4.30	..	6.94	0.61	-0.25	5.15	-2.45
1986	7.88	-2.57	7.99	5.60	-3.75	9.24	5.20	7.18	..	2.09	2.08	1.53	4.22	5.78
1987	2.91	2.46	3.60	6.59	1.86	8.46	4.79	5.94	..	1.15	0.57	4.05	1.96	1.40
1988	-2.56	2.91	-0.10	7.31	1.25	-8.35	5.63	6.20	..	7.55	2.05	-0.07	4.10	2.90
1989	-7.50	3.79	3.28	10.56	4.20	-11.66	5.09	4.69	3.91	5.22	4.53	0.74	0.20	1.98
1990	-2.40	4.64	-4.30	3.70	5.07	-5.39	3.33	4.19	5.44	6.98	-1.22	-3.50	-4.90	-3.00
1991	12.67	5.27	1.30	7.97	4.22	6.97	5.28	1.44	4.47	5.53	-11.61	-11.89	-5.50	-5.05
1992	11.94	1.65	-0.50	12.28	3.63	-1.76	3.88	-0.80	-8.90	-9.03	-0.52	-3.06	3.10	-14.53
1993	5.91	4.27	4.90	6.99	1.95	6.42	4.97	0.35	12.22	1.33	0.06	-0.58	4.30	-8.67
1994	5.84	4.67	5.90	5.71	4.42	13.12	3.28	2.63	1.39	6.84	2.22	2.95	5.10	-12.57
1995	-2.85	4.68	4.20	10.63	-6.17	7.46	4.02	4.41	2.58	-0.54	5.95	1.49	7.00	-4.14
1996	5.53	4.36	2.80	7.41	5.15	2.49	4.60	4.15	4.33	8.66	3.82	1.34	6.00	-3.40
1997	8.11	4.45	3.20	7.57	6.76	6.81	4.20	2.09	4.01	3.75	0.32	4.60	6.82	0.90
1998	3.90	4.75	0.15	3.41	4.80	0.30	4.55	1.78	3.51	2.46	-2.33	5.10	4.80	-4.62

Source: World Bank, *World Development Indicators*, 2000.

Table 2: Annual growth of MVA, 1980-1998, selected countries (Percentage)

	Argentina	Brazil	Chile	Mexico	Peru	Ghana	Kenya	The United Republic of Tanzania	Zimbabwe	Hungary
1980	-3.56	9.11	6.17	5.82	8.62	-1.37	5.24	..	15.08	..
1981	-11.98	-10.38	2.56	6.45	1.07	-19.30	3.58	..	9.85	..
1982	-2.68	-0.18	-20.96	-2.74	-5.13	-20.47	2.25	..	-0.45	..
1983	7.37	-5.85	3.10	-7.84	-18.48	-11.11	4.50	..	-2.85	..
1984	2.64	6.16	9.76	5.01	7.44	12.84	4.31	..	-5.05	..
1985	-9.90	8.34	1.16	6.08	6.19	24.32	4.49	..	11.50	..
1986	11.36	11.30	7.62	-5.26	17.98	10.95	5.80	..	3.10	..
1987	0.97	0.95	5.28	3.04	13.97	10.01	5.72	..	1.29	..
1988	-4.50	-3.41	8.81	3.20	-18.40	5.06	6.00	..	5.30	..
1989	-7.60	2.85	10.95	7.89	-13.85	0.59	5.90	4.17	6.27	..
1990	-3.70	-10.13	0.99	6.77	-22.00	5.88	5.23	4.63	5.86	..
1991	10.24	-8.00	5.34	3.43	10.21	1.05	3.80	2.95	2.88	..
1992	11.58	-3.59	11.41	4.16	17.53	3.50	1.20	-10.51	-8.46	1.60
1993	4.65	9.01	7.26	-0.67	4.77	4.00	1.80	8.55	-7.75	5.94
1994	4.50	5.49	4.08	4.07	16.69	1.49	1.90	0.22	10.04	6.74
1995	-7.16	2.10	7.53	-4.94	4.71	1.82	3.90	0.72	-11.51	8.23
1996	6.45	2.95	3.21	10.83	2.52	3.45	3.67	3.24	4.61	3.98
1997	9.15	3.80	5.45	9.96	6.02	7.34	1.93	4.91	2.47	13.00
1998	1.64	0.55	-1.54	7.42	1.50	3.01	1.30	6.54	-2.67	..

Source: World Bank, *World Development Indicators*, 2000.

Table 3: Annual rate of inflation, GDP deflator, 1980-1998, selected countries (Percentage)

	Argentina	Brazil	Bolivia	Chile	Mexico	Peru	Ghana	Kenya	The United Republic of Tanzania	Zimbabwe	Czech Republic	Hungary	Poland	Russian Federation
1980	90.84	87.31	38.72	28.76	33.41	65.90	51.13	9.55	..	6.57	..	6.03	..	..
1981	106.36	107.21	30.69	13.04	26.01	64.83	75.63	10.85	..	14.49	..	5.15	21.79	..
1982	207.62	104.83	160.19	8.53	60.92	64.86	27.89	11.69	..	14.23	..	5.71	111.54	..
1983	382.35	140.20	265.96	30.66	90.47	105.85	123.06	11.83	..	19.45	..	4.96	18.28	..
1984	606.73	212.79	1435.69	12.61	59.09	112.13	35.31	10.11	..	3.53	..	6.33	17.23	..
1985	625.80	231.72	12339.27	30.71	56.74	167.74	20.65	8.23	..	6.49	1.74	5.91	15.83	..
1986	74.46	145.27	230.10	22.10	73.62	74.71	41.71	8.80	..	11.57	-0.12	3.74	18.99	..
1987	127.09	204.10	14.58	24.58	139.66	83.90	39.20	5.39	..	6.87	1.93	8.25	28.27	..
1988	388.49	651.11	17.52	21.45	112.71	555.04	33.40	8.53	..	17.13	1.61	17.53	68.01	..
1989	3057.64	1322.51	13.19	12.39	26.53	2926.60	28.29	8.40	31.27	17.94	-2.25	18.74	298.55	..
1990	2076.79	2509.47	16.26	21.24	28.13	6134.45	31.17	9.37	21.82	14.75	20.84	25.67	416.68	15.91
1991	132.95	415.31	17.69	21.22	23.25	350.63	20.04	11.54	25.30	30.60	36.19	35.72	55.30	128.63
1992	11.92	968.54	13.20	11.77	14.41	63.32	11.15	17.45	40.65	27.62	12.36	21.51	38.50	1490.02
1993	-1.47	1996.64	6.56	10.64	9.72	46.28	31.62	11.59	12.30	21.90	21.01	21.28	30.56	888.07
1994	2.85	2239.13	7.95	12.60	8.04	19.21	30.14	35.23	28.23	23.73	13.40	19.49	28.40	307.30
1995	3.17	77.59	11.43	9.32	37.85	12.17	43.17	11.22	28.86	10.32	10.22	26.73	27.86	163.14
1996	-0.05	17.24	11.58	2.67	30.74	9.75	39.85	8.68	22.32	26.58	9.65	21.17	18.71	44.19
1997	-0.46	7.85	6.77	5.29	17.73	8.78	19.46	15.49	19.28	16.08	6.51	18.44	14.00	16.48
1998	-2.02	3.65	7.71	5.11	13.97	5.55	17.63	10.59	17.30	29.78	10.96	14.19	12.04	11.60

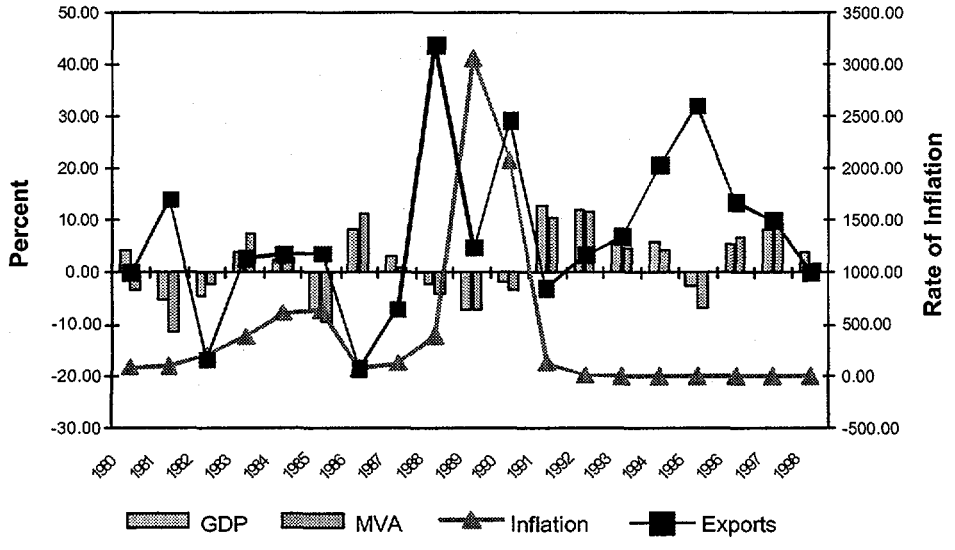
Source: World Bank, *World Development Indicators*, 2000.

Table 4: Annual growth of merchandise exports, 1981-1998, selected countries (Percentage)

	Argentina	Brazil	Bolivia	Chile	Mexico	Peru	Ghana	Kenya	The United Republic of Tanzania	Zimbabwe	Czech Republic	Hungary	Poland	Russian Federation
1981	13.99	15.62	-3.18	-18.47	29.26	-17.03	-35.60	-16.63	5.15	0.69	..	..	-24.93	..
1982	-16.62	-13.33	-9.21	-3.39	3.21	1.35	-14.63	-12.32	-32.63	-9.58	..	..	9.53	..
1983	2.78	8.55	-8.82	3.37	7.89	-8.44	-27.68	-5.93	-7.26	-12.04	..	-0.66	0.59	..
1984	3.38	23.31	-3.97	-4.72	12.13	4.38	28.93	9.96	4.18	1.73	..	1.25	0.34	..
1985	3.65	-5.07	-14.07	4.22	-8.05	-3.11	11.66	-8.41	-17.54	-4.60	..	-5.63	-6.08	..
1986	-18.39	-12.82	-12.36	10.17	-18.52	-15.51	18.51	23.01	2.13	18.13	..	7.23	8.96	..
1987	-7.18	17.28	-4.95	26.53	26.58	5.40	10.41	-21.00	-14.29	9.75	..	8.36	0.84	..
1988	43.62	28.86	4.62	33.02	11.21	0.59	6.53	11.42	34.03	14.67	..	0.22	15.13	..
1989	4.81	1.78	33.33	14.52	14.59	29.37	-8.29	-6.71	7.51	1.74	..	5.05	-7.06	..
1990	29.05	-8.63	14.78	3.65	15.75	-6.00	11.01	8.89	-1.69	3.19	..	-12.79	23.06	..
1991	-3.04	0.67	-8.54	6.80	4.85	2.56	11.26	8.72	-11.03	-3.09	..	5.87	-9.12	..
1992	3.51	13.20	-20.00	11.91	8.22	7.49	-1.20	-6.50	11.85	-9.80	..	4.22	-3.22	..
1993	7.02	10.72	17.76	-8.07	12.31	-3.96	7.91	13.99	10.10	5.30	..	-19.59	-2.49	..
1994	20.76	11.28	37.57	26.14	17.34	30.77	16.35	21.69	16.11	21.88	12.18	-5.80	35.14	..
1995	32.07	5.45	5.69	38.10	30.65	21.53	15.59	25.18	31.60	..	34.53	68.20	36.43	21.88
1996	13.62	2.89	8.74	-3.87	20.69	5.57	9.71	8.26	11.86	..	1.01	10.26	10.05	9.56
1997	9.93	11.16	3.09	8.17	15.03	15.82	-5.10	-0.96	-6.41	..	4.81	38.47	11.52	-1.68
1998	0.01	-3.86	-5.40	-10.99	6.36	-16.06	21.68	-2.42	-17.62	..	16.09	5.64	5.65	-15.99

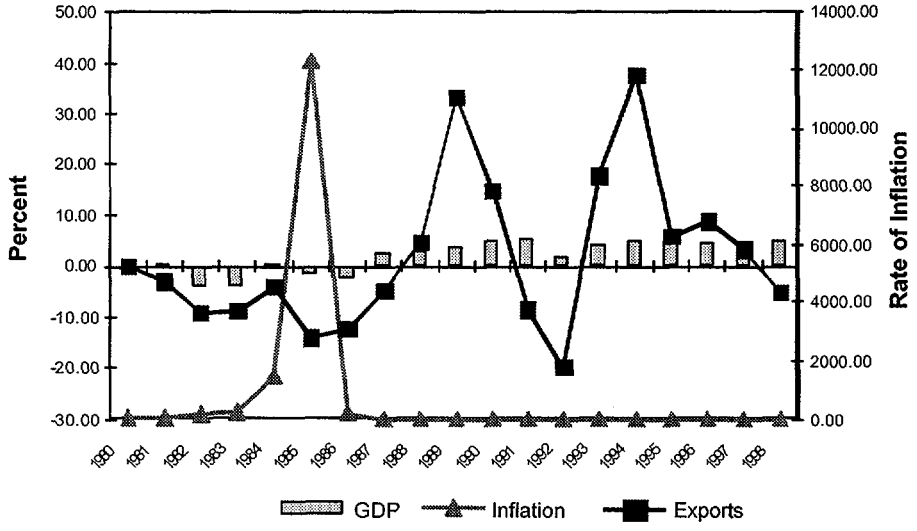
Source: World Bank, *World Development Indicators*, 2000.

Figure 2. Argentina: Annual Growth Rates of GDP, MVA, Inflation and Exports, 1980-1998 (Percentage)



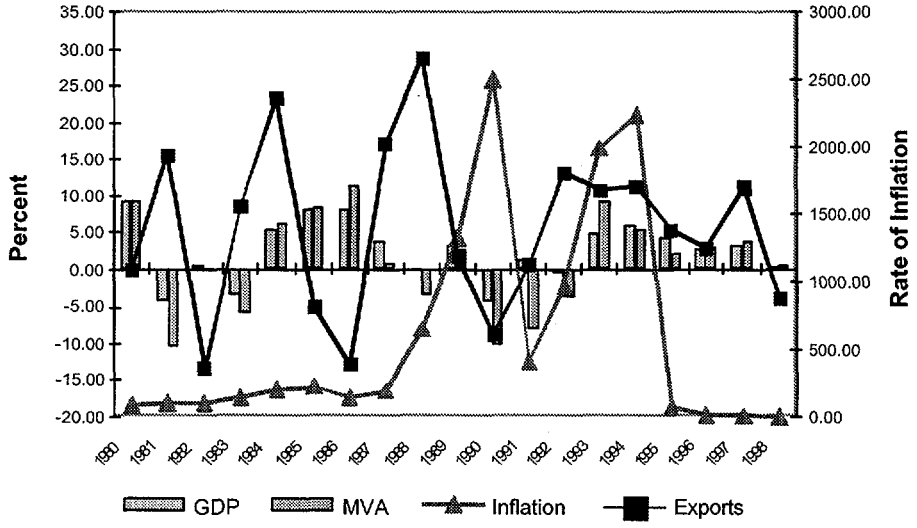
Source: World Bank, World Development Indicators, 2000.

Figure 3. Bolivia: annual growth rates of GDP, Inflation and Exports, 1980-1998 (Percentage)



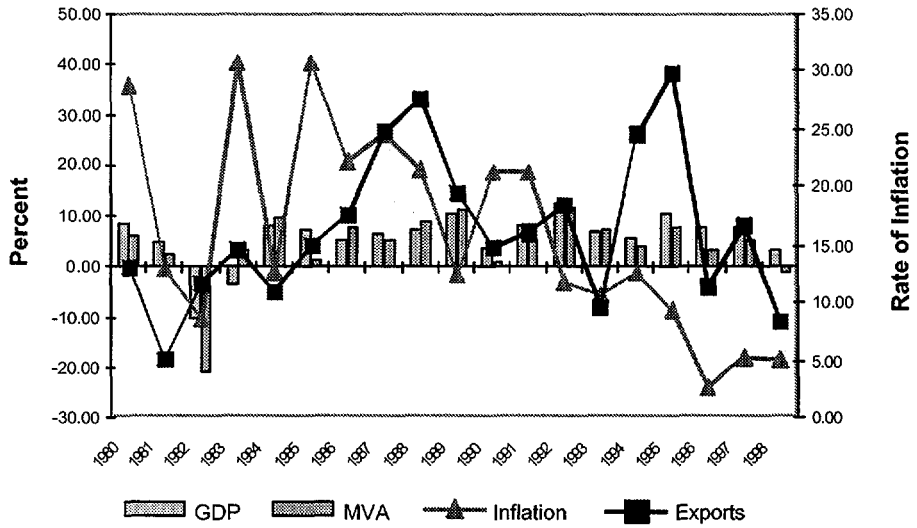
Source: World Bank, World Development Indicators, 2000.

Figure 4. Brazil: Annual growth rates of GDP, MVA, Inflation and Exports, 1980-1998 (Percentage)



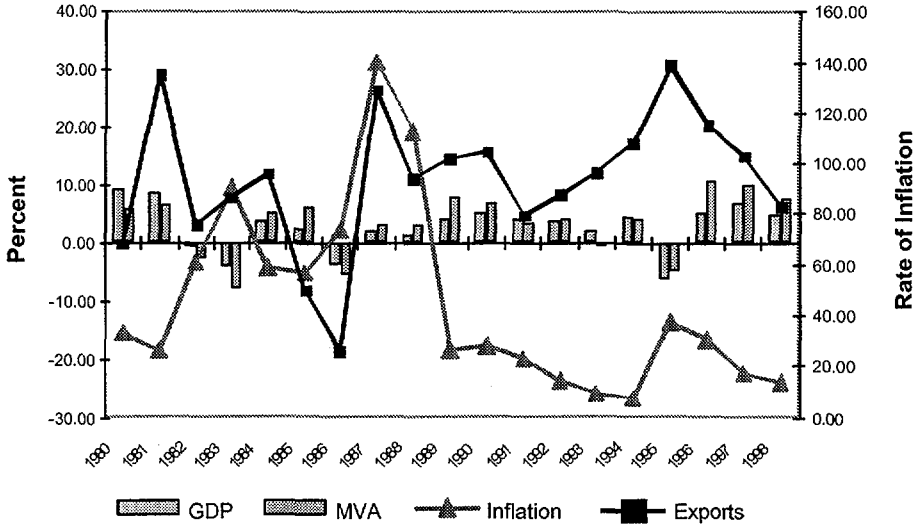
Source: World Bank, World Development Indicators, 2000.

Figure 5. Chile: Annual growth rates of GDP, MVA, Inflation and Exports, 1980-1998 (Percentage)



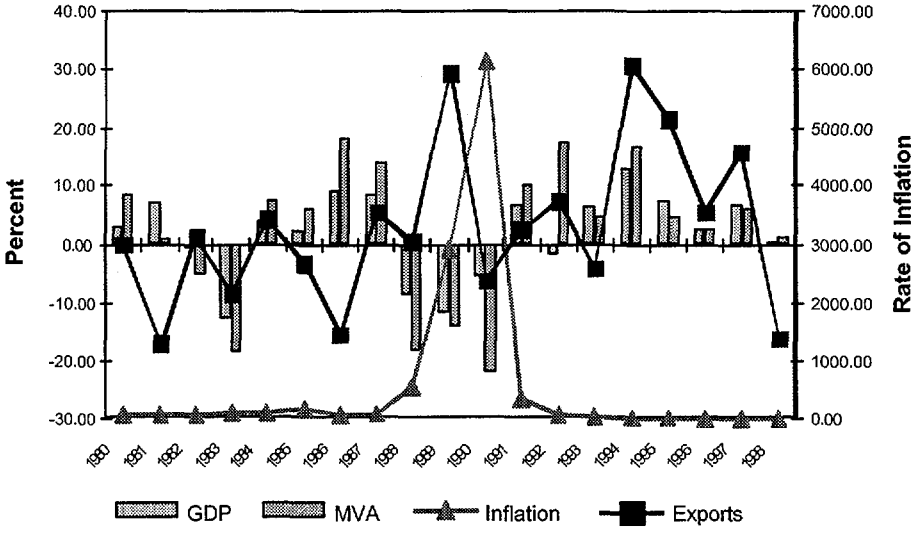
Source: World Bank, World Development Indicators, 2000.

Figure 6. Mexico: Annual growth rates of GDP, MVA, Inflation and Exports, 1980-1998 (Percentage)



Source: World Bank, World Development Indicators, 2000.

Figure 7. Peru: Annual growth rates of GDP, MVA, Inflation and Exports, 1980-1998 (Percentage)



Source: World Bank, World Development Indicators, 2000.

Table 5: Value added per worker in manufacturing, 1980-1997, selected countries
(Thousand US$ per worker in 1990 prices*)

	Argentina	Brazil	Chile	Mexico	Ghana	Kenya	Zimbabwe	Hungary	Poland
1980	24.4	16.54	37.91	67.58	7.57	4.44	10.14	6.00	7.70
1985	(..)	16.79	41.40	46.09	7.98	4.13	10.97	7.23	8.51
1990	18.5	21.97	32.11	55.70	(..)	4.66	11.98	7.90	8.07
1991	(..)	(..)	32.43	58.47	(..)	5.09	12.14	7.36	8.09
1992	(..)	22.93	34.33	63.00	(..)	5.30	9.47	7.05	9.68
1993	(..)	26.08	34.34	71.11	12.30	5.15	11.20	9.34	11.39
1994	(..)	28.83	35.23	78.36	(..)	4.98	12.63	9.82	12.48
1995	(..)	32.63	37.27	77.02	(..)	5.03	11.18	10.18	13.68
1996	31.9	(..)	38.67	(..)	(..)	5.11	11.52	14.24	14.55
1997	(..)	(..)	40.35	(..)	(..)	5.14	(..)	20.94	16.03

*Argentina comprises mining, utilities and construction as well as manufacturing
(..) not available due to adjustments for the transition from ISIC, Revision 2 to ISIC, Revision 3.
Source: UNIDO and World Bank.

Table 6: Annual unemployment rate, 1980-1997, selected countries (% of total labor force)

	Argentina	Brazil	Bolivia	Chile	Mexico	Peru	Czech Republic	Hungary	Poland	Russian Federation
1980	2.30	2.80	..	10.40	..	..	..	..	..	..
1981	4.50	4.30	..	11.30	..	..	..	..	..	..
1982	4.80	3.90	..	19.60	..	..	..	..	..	..
1983	4.20	4.90	..	14.60	..	..	..	..	..	..
1984	..	..	..	..	..	..	..	..	..	..
1985	5.30	3.40	..	12.10	..	..	..	..	..	..
1986	4.40	2.40	..	8.80	..	5.30	..	..	..	..
1987	5.30	3.60	..	7.90	..	4.80	..	..	..	..
1988	5.90	3.80	..	6.30	..	..	..	..	..	..
1989	7.30	3.00	..	5.30	..	7.90	..	..	..	..
1990	9.20	3.70	7.30	5.70	..	..	..	1.70	..	..
1991	6.30	..	5.80	5.30	3.00	5.80	..	8.50	..	0.10
1992	7.20	6.50	5.50	4.40	3.10	9.40	..	9.80	13.30	4.70
1993	9.10	6.20	6.00	4.50	3.20	9.90	3.90	11.90	14.00	5.50
1994	11.70	..	3.10	5.90	4.20	8.90	3.80	10.70	14.40	7.40
1995	15.90	..	3.60	4.70	5.70	..	4.10	10.20	13.30	8.80
1996	16.30	6.90	4.20	5.40	4.40	7.00	3.90	9.80	12.40	9.30
1997	..	..	..	5.30	3.50	7.70	4.70	8.70	11.20	11.30

Source: World Bank, *World Development Indicators*, 2000.

Table 7: FDI and ODA net inflows to selected African countries, 1980-1998 (US$ million)

	Ghana			Kenya			Lesotho			Nigeria			The United Republic of Tanzania			Zimbabwe		
	FDI	ODA	FDI/ ODA	FDI	ODA	FDI/ ODA	FDI	ODA	FDI/ ODA	FDI	ODA	FDI/ ODA	FDI	ODA	FDI/ ODA	FDI	ODA	FDI/ ODA
1980	15.6	191.6	8.14%	79.0	396.6	19.92%	4.5	94.4	4.77%	-739.7	35.7	-2071.99%	0.0	678.6	0.00%	1.6	164.1	0.97%
1981	16.3	145.3	11.22%	14.1	449.4	3.14%	4.8	104.2	4.61%	546.5	40.7	1341.76%	19.0	702.7	2.70%	3.6	212.3	1.70%
1982	16.3	141.2	11.55%	13.0	484.8	2.68%	3.0	93.4	3.21%	432.5	36.8	1174.63%	17.0	683.8	2.49%	-0.8	216.1	-0.37%
1983	2.4	109.8	2.19%	23.7	399.1	5.94%	4.8	107.6	4.46%	344.5	47.6	723.44%	2.0	592.6	0.34%	-2.1	208.5	-1.01%
1984	2.0	214.8	0.93%	10.8	406.4	2.66%	2.3	100.3	2.29%	199.8	33.0	605.64%	-9.0	554.3	-1.62%	-2.5	297.8	-0.84%
1985	5.6	195.9	2.86%	18.1	429.7	4.21%	4.8	93.3	5.14%	478.3	32.3	1482.64%	14.0	484.1	2.89%	2.9	237.1	1.22%
1986	4.3	360.1	1.19%	32.7	444.9	7.35%	2.1	86.6	2.43%	166.8	59.2	281.57%	-8.0	666.2	-1.20%	7.5	224.9	3.33%
1987	4.7	413.0	1.14%	42.8	560.2	7.64%	5.7	106.2	5.37%	602.7	69.3	869.20%	-1.0	899.7	-0.11%	-30.5	293.9	-10.38%
1988	5.0	577.3	0.87%	0.4	836.0	0.05%	21.0	110.9	18.93%	376.9	120.1	313.85%	4.0	1,016.0	0.39%	-18.1	272.7	-6.64%
1989	15.0	717.6	2.09%	62.2	1,064.1	5.85%	13.4	137.0	9.78%	1,882.3	345.4	544.93%	6.0	918.3	0.65%	-10.2	264.9	-3.85%
1990	15.0	562.6	2.67%	57.0	1,185.8	4.81%	17.0	141.7	12.00%	588.0	249.3	235.91%	0.0	1,173.3	0.00%	-12.0	339.6	-3.53%
1991	20.0	881.3	2.27%	19.0	920.2	2.06%	7.0	125.0	5.60%	712.0	261.6	272.19%	0.0	1,079.7	0.00%	3.0	392.8	0.76%
1992	23.0	612.3	3.76%	6.4	885.6	0.72%	3.0	143.4	2.09%	897.0	258.6	346.83%	12.0	1,338.4	0.90%	15.0	791.7	1.89%
1993	125.0	617.2	20.25%	1.6	909.2	0.18%	15.0	142.4	10.53%	1,345.0	278.7	482.58%	20.0	949.7	2.11%	28.0	498.4	5.62%
1994	233.0	546.0	42.68%	3.7	675.3	0.55%	18.7	116.0	16.13%	1,959.0	190.1	1030.67%	50.0	965.3	5.18%	35.0	560.4	6.25%
1995	107.0	650.5	16.45%	32.4	730.6	4.43%	23.0	113.5	20.26%	1,079.0	212.4	507.96%	119.9	877.1	13.67%	40.0	491.5	8.14%
1996	120.0	649.2	18.48%	13.0	590.6	2.20%	287.0	104.0	275.99%	1,593.0	190.8	834.82%	150.1	876.6	17.12%	63.0	371.4	16.96%
1997	83.0	489.0	16.97%	20.0	444.5	4.50%	268.0	91.6	292.58%	1,539.0	200.8	766.63%	157.9	944.1	16.73%	70.0	335.3	20.88%
1998	56.0	700.9	7.99%	11.0	473.9	2.32%	265.0	66.2	400.30%	1,051.0	204.0	515.27%	172.0	997.8	17.24%	76.0	280.0	27.14%

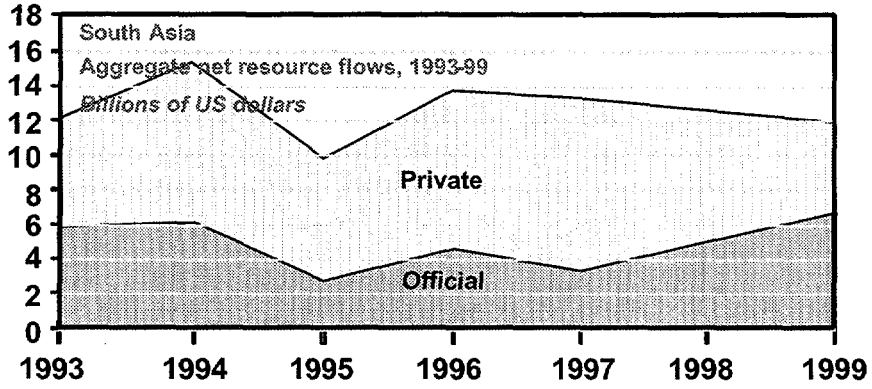
Source: World Bank, *World Development Indicators*, 2000.

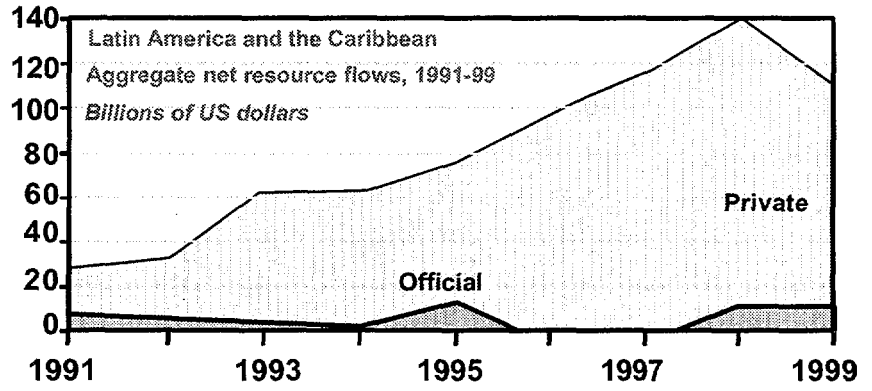
Table 8: Share of manufactured exports in merchandise exports, 1980-1998, selected countries (Percentage)

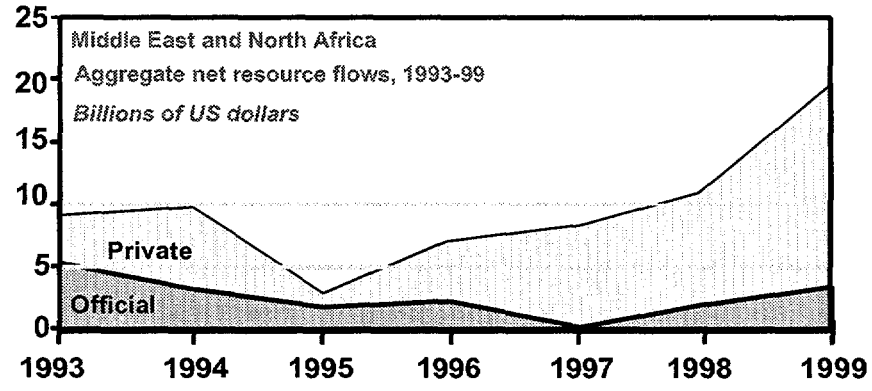
	Argentina	Brazil	Bolivia	Chile	México	Peru	Ghana	Kenya	The United Republic of Tanzania	Zimbabwe	Hungary	Poland
1980	23.00	37.00	3.00	9.00	12.00	17.00	1.00	12.00	14.00	36.00	..	61.00
1981	20.00	39.00	4.00	8.00	10.00	17.00	1.00	11.00	11.00	34.00	..	75.00
1982	24.00	38.00	3.00	7.00	9.00	14.00	0.00	12.00	5.00	26.00	63.00	68.00
1983	16.00	39.00	1.00	7.00	23.00	12.00	1.00	12.00	6.00	24.00	61.00	64.00
1984	18.00	41.00	0.00	7.00	25.00	12.00	1.00	10.00	..	30.00	62.00	62.00
1985	21.00	44.00	0.00	7.00	27.00	12.00	..	11.00	..	29.00	67.00	63.00
1986	26.00	48.00	3.00	9.00	46.00	16.00	..	11.00	..	29.00	69.00	62.00
1987	32.00	50.00	3.00	9.00	38.00	17.00	..	13.00	15.00	..	69.00	62.00
1988	32.00	53.00	3.00	9.00	45.00	16.00	..	13.00	..	..	68.00	63.00
1989	35.00	54.00	5.00	10.00	45.00	20.00	..	..	..	..	66.00	62.00
1990	29.00	52.00	5.00	11.00	43.00	18.00	..	29.00	..	31.00	63.00	59.00
1991	28.00	55.00	4.00	13.00	51.00	19.00	..	21.00	..	30.00	64.00	55.00
1992	26.00	57.00	12.00	14.00	71.00	17.00	8.00	36.00	..	36.00	63.00	59.00
1993	32.00	59.00	19.00	17.00	75.00	17.00	..	28.00	..	38.00	63.00	66.00
1994	33.00	55.00	25.00	17.00	77.00	15.00	..	29.00	..	28.00	63.00	68.00
1995	34.00	54.00	19.00	13.00	78.00	15.00	..	28.00	..	..	66.00	71.00
1996	30.00	54.00	16.00	15.00	78.00	16.00	..	26.00	..	..	68.00	74.00
1997	34.00	54.00	16.00	16.00	81.00	17.00	..	25.00	10.00	..	77.00	73.00
1998	35.00	55.00	30.00	17.00	85.00	24.00	..	24.00	..	..	82.00	77.00

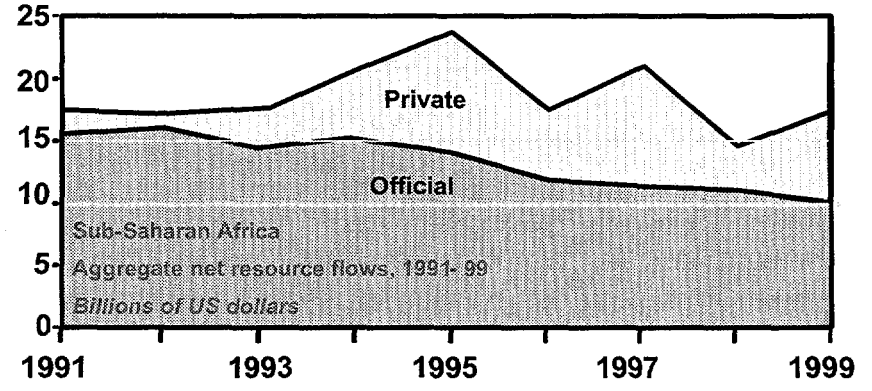
Source: World Bank, *World Development Indicators*, 2000.

Figure 8: Aggregate net resource flows by region, 1993-1999 (US$ Billions)









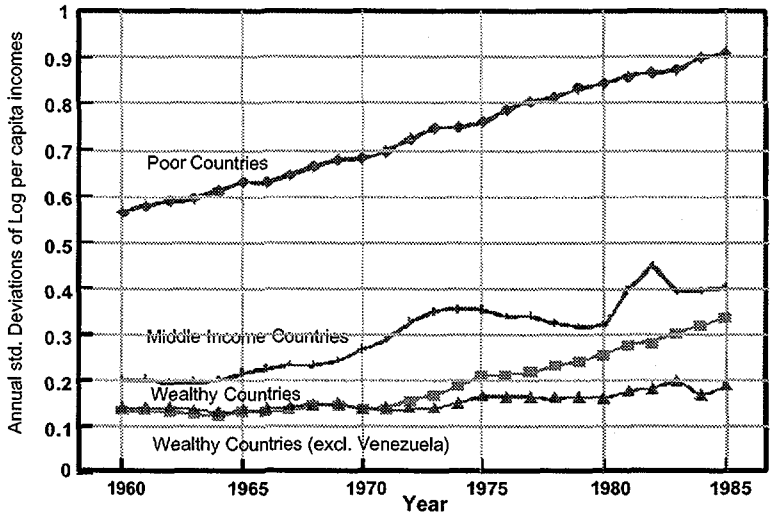
Source: World Bank

Table 9: Summary of Inflation (Percentage)

	Ten-year Averages 1982-91	1992-2001	1992	1993	1995	1994	1996	1997	1998	1999
GDP deflators										
Advanced economies	**4.8**	**2.0**	**3.2**	**2.7**	**2.2**	**2.2**	**1.8**	**1.7**	**1.4**	**1.0**
United States	3.7	2.0	2.4	2.4	2.1	2.2	1.9	1.9	1.2	1.5
European Union	5.8	2.5	4.6	3.8	3.0	2.9	2.5	1.8	1.4	1.4
Japan	1.9	0.7	1.7	1.2	0.7	-0.1	0.1	1.7	0.6	-0.3
Other advanced economies	8.8	2.8	3.8	3.4	3.3	3.8	3.2	2.4	2.6	1.0
Consumer prices										
Advanced economies	**4.9**	**2.3**	**3.5**	**3.1**	**2.6**	**2.6**	**2.4**	**2.1**	**1.5**	**1.4**
United States	4.1	2.5	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2
European Union	5.7	2.5	4.6	3.8	3.0	2.9	2.5	1.8	1.4	1.4
Japan	1.9	0.7	1.7	1.2	0.7	-0.1	0.1	1.7	0.6	-0.3
Other advanced economies	8.8	2.8	3.8	3.4	3.3	3.8	3.2	2.4	2.6	1.0
Developing economies	**45.7**	**20.3**	**36.1**	**49.8**	**55.1**	**22.9**	**15.1**	**9.5**	**10.1**	**6.5**
Regional groups										
Africa	19.6	24.4	47.1	38.7	54.8	35.5	30.0	13.6	9.2	11.0
Asia	9.7	7.6	8.6	10.8	16.0	13.2	8.2	4.7	7.6	2.5
Middle East and Europe	21.2	24.7	26.5	26.6	33.3	38.9	26.6	35.3	26.0	20.3
Western Hemisphere	166.9	47.4	109.1	202.6	202.5	34.4	21.4	13.0	9.8	8.8
Analytical groups										
By source of export earnings										
Fuel	13.7	21.4	22.1	26.2	31.8	43.2	31.9	16.1	15.6	12.0
Nonfuel	51.2	20.3	38.0	53.0	38.0	20.8	13.5	8.9	9.6	6.0
By external financing source										
Net creditor countries	2.8	3.6	4.3	5.5	4.0	5.8	3.9	1.9	1.8	1.4
Net debtor countries	47.7	20.9	37.4	51.6	57.2	23.5	15.5	9.8	10.4	6.7
Official financing	34.3	24.0	59.3	37.4	64.8	30.9	22.4	11.2	8.2	10.4
Private financing	54.6	21.0	38.0	57.1	61.4	21.4	13.9	9.2	10.0	5.7
Diversified financing	22.5	19.2	24.6	28.5	26.2	33.0	26.1	13.3	12.5	11.5
Net debtor countries by debt-servicing experience										
Countries with arrears and/or rescheduling during 1994-98	100.1	49.8	113.6	204.3	219.3	38.7	19.8	10.4	16.6	11.6
Other net debtor countries	27.5	11.0	14.0	14.1	18.6	18.0	13.9	9.6	8.3	5.0
Countries in transition	**15.5**	**118.4**	**788.9**	**634.3**	**273.3**	**133.5**	**42.4**	**27.3**	**21.8**	**43.7**
Central and eastern Europe	...	74.8	278.3	366.8	150.4	72.2	32.1	38.4	18.7	20.5
Excluding Belarus and Ukraine	...	34.0	104.8	85.1	47.5	24.8	23.3	41.4	17.0	10.9
Russia	...	156.1	1,734.7	874.7	307.4	197.4	47.6	14.7	27.7	85.9
Transcaucasus and central Asia	...	193.8	949.2	1,428.7	1,800.7	265.4	80.8	33.0	13.1	15.5
Memorandum										
Median inflation rate										
Advanced economies	5.4	2.2	3.2	3.0	2.4	2.4	2.1	1.7	1.6	1.4
Developing countries	9.5	7.0	9.9	9.3	10.6	10.1	7.1	6.3	5.7	4.0
Countries in transition	11.9	155.2	839.1	472.3	131.6	39.2	24.1	14.8	10.0	8.1

Source: IMF, World Economic Outlook, April 2000

Figure 9: Disparity within three income groups, 1960 - 1985



Source: Ben-David, *Trade, Growth and Disparity among Nations* (Ch2 of WTO Special Study, *Trade Income Disparity and Poverty*).

Table 10: Growth of real GDP, 1996-1999

(GDP in 1987 prices and exchange rates – average annual percentage growth)

	1998 GDP (current billions of U.S. dollars)	1966-73	1974-90	**1991-98**	1998	Estimate 1999
World	28,445	5.2	3.0	**2.5**	1.9	2.6
High-income economies	22,200	5.0	2.8	**2.3**	2.0	2.6
Industrial	21,505	5.0	2.7	**2.2**	2.0	2.6
G-7	18,425	5.0	2.8	**2.2**	1.8	2.6
United States	8,510	3.2	2.7	**3.0**	3.9	3.8
Japan	3,790	10.0	3.8	**1.5**	-2.9	1.3
G-4 Europe	6,130	4.4	2.3	**1.7**	2.2	1.6
Germany[a]	2,130	4.3	2.0	**1.8**	2.0	1.3
Euro area	6,465	5.0	2.3	**1.7**	2.7	2.0
Other industrial	3,080	5.0	2.3	**2.3**	3.7	2.9
Other high-income	695	8.5	5.5	**5.7**	1.2	3.0
Asian NIEs	515	9.6	8.1	**6.0**	1.8	3.6
Low-and middle-income economies	6,245	6.2	3.8	**3.2**	1.6	2.7
Excluding Eastern Europe and CIS	5,390	6.0	3.7	**5.3**	2.1	3.0
Asia	2,360	5.8	6.5	**7.6**	1.6	5.4
Easst Asia and Pacific	1,800	7.8	7.5	**8.5**	0.1	5.5
China	960	8.4	8.7	**11.4**	7.8	6.5
Korea, Rep. Of	320	11.2	8.5	**6.3**	-5.8	8.0
IIndonesia	95	6.4	6.7	**5.8**	-13.2	0.0
South Asia	560	3.6	5.0	**5.9**	5.2	5.4
India	430	3.8	4.9	**6.1**	5.1	6.0
Latin America and the Caribbean	2,000	6.2	2.6	**3.6**	2.1	-0.6
Brazil	775	9.5	3.6	**3.1**	0.2	-0.4
Mexico	425	6.3	3.2	**2.6**	4.8	3.2
Argentina	3404.3	4.3	0.4	**5.2**	3.9	-3.5
Europe and Central Asia	1,040	6.2	4.2	**-4.0**	-0.2	0.3
Russian Federation[b]	337	6.6	5.2	**-7.8**	-4.6	1.0
Turkey	190	1.9	4.2	**4.2**	2.9	-2.2
Poland	145	7.3	0.3	**4.2**	4.8	3.5
Middle East and North Africa	535	7.8	1.4	**2.9**	3.2	2.0
Saudi Arabia	130	8.5	0.9	**1.6**	1.6	-0.4
Iran, Islamic Rep.	120	10.2	-0.3	**3.6**	2.1	1.2
Egypt, Arab Rep.	83	3.7	7.1	**4.1**	4.9	4.9
Sub-Saharan Africa	310	4.5	2.1	**2.8**	2.4	2.3
Republic of South Africa	115	4.9	2.1	**1.5**	0.1	1.0
Nigeria	35	6.5	1.1	**2.5**	2.3	1.0

Note: Growth rates over intervals are computed using least squares method
a. Data prior to 1991 covers West Germany
b. Data prior to 1992 covers the former Soviet Union
Source: World Bank, Global Economic Prospects 2000

Table 11: Exports and imports by region, 1994 and 1998 (US$ billions)

	1994				1998			
	Exports		**Imports**		**Exports**		**Imports**	
	Value	%	Value	%	Value	%	Value	%
World Total	4,261.10	(100%)	4,276.10	(100%)	5,458.50	(100%)	5,532.00	(100%)
Industrial Countries	2,804.00	(67%)	2,898.20	(68%)	3,692.00	(68%)	3,738.10	(67%)
Developing Countries	1,376.61	(33%)	1,363.87	(32%)	1,736.33	(32%)	1,842.66	(33%)
Africa	79.35	**(2%)**	83.85	**(2%)**	103.01	**(2%)**	105.86	**(2%)**
Asia	754.51	**(18%)**	744.22	**(18%)**	831.34	**(15%)**	1,014.06	**(18%)**
Central and Eastern Europe	189.98	**(5%)**	189.48	**(4%)**	313.90	**(6%)**	267.49	**(5%)**
Middle East	130.58	**(3%)**	142.77	**(3%)**	164.35	**(3%)**	153.14	**(3%)**
Western Hemisphere	222.20	**(5%)**	203.55	**(5%)**	323.72	**(6%)**	302.12	**(5%)**

Source: IMF, *Direction of Trade Statistics* , quarterly, December 1999