

# World Economic Situation and Prospects 2003



Department of Economic and Social Affairs  
and  
United Nations Conference on Trade and Development



United Nations



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## EXPLANATORY NOTES

### The following symbols and conventions have been used in the tables throughout the report

- .. **Two dots** indicate that data are not available or are not separately reported.
- **A dash** indicates that the amount is nil or negligible.
- **A hyphen** indicates that the item is not applicable.
- **A minus sign** indicates deficit or decrease, except as indicated.
- . **A full stop** is used to indicate decimals.
- / **A slash** between years indicates a crop year or financial year, for example, 1990/91.
- **Use of a hyphen** between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

**Reference** to "dollars" (\$) means United States dollars, unless otherwise stated.

**Annual rates** of growth or change, unless otherwise stated, refer to annual compound rates.

In most cases, the growth rate forecasts for 2003 are rounded to the nearest quarter of a percentage point.

Details and percentages in tables do not necessarily add to totals, because of rounding.

### The following abbreviations have been used:

<b>ACP</b>	African, Caribbean and Pacific (Group of) States
<b>ADF</b>	African Development Fund
<b>AGOA</b>	Africa Growth and Opportunity Act
<b>AML/CFT</b>	anti-money-laundering efforts and efforts to combat financing of terrorism
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>AU</b>	African Union
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>bps</b>	basis points
<b>CAC</b>	collective action clause
<b>CAP</b>	Common Agricultural Policy (EU)
<b>CEE</b>	Central and Eastern European (countries)
<b>CIS</b>	Commonwealth of Independent States
<b>CPI</b>	consumer price index
<b>CTC</b>	Counter-Terrorism Committee
<b>CTD</b>	Committee on Trade and Development (WTO)
<b>DAC</b>	Development Assistance Committee (of OECD)
<b>ECB</b>	European Central Bank
<b>EGS</b>	environmental goods and services
<b>EPAs</b>	Economic Partnership Agreements
<b>ESM</b>	emergency safeguard mechanism
<b>EU</b>	European Union
<b>FATF</b>	Financial Action Task Force (Bretton Woods institutions)

<b>FDI</b>	foreign direct investment
<b>FTA</b>	free trade agreement
<b>FTAA</b>	Free Trade Area of the Americas
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GDP</b>	gross domestic product
<b>GEF</b>	Global Environment Facility
<b>GI</b>	geographical indicators
<b>GNP</b>	gross national product
<b>GWP</b>	gross world product
<b>HIPC</b>	heavily indebted poor countries
<b>ICO</b>	International Coffee Organization
<b>ICT</b>	information and communications technologies
<b>IDA</b>	International Development Association
<b>IMF</b>	International Monetary Fund
<b>IMFC</b>	International Monetary and Financial Committee
<b>LDCs</b>	least developed countries
<b>M&amp;As</b>	mergers and acquisitions
<b>mbd</b>	million barrels per day
<b>MEA</b>	multilateral environmental agreement
<b>MERCOSUR</b>	Southern Cone Common Market
<b>NAFTA</b>	North American Free Trade Agreement
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NGLs</b>	natural gas liquids
<b>NPLs</b>	non-performing loans
<b>ODA</b>	official development assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>pb</b>	per barrel
<b>PRGF</b>	Poverty Reduction Growth Facility (IMF)
<b>Project LINK</b>	international econometric modelling group, coordinated jointly by the Development Policy Analysis Division of the United Nations Secretariat and the University of Toronto
<b>ROSCs</b>	Reports on the Observance of Standards and Codes (Bretton Woods institutions)
<b>RTAs</b>	regional trade arrangements
<b>SACU</b>	South African Customs Union
<b>SDRs</b>	special drawing rights
<b>SDRM</b>	sovereign debt restructuring mechanism
<b>S&amp;D</b>	special and differential treatment
<b>TIFAs</b>	Trade and Investment Framework Agreements
<b>TNC</b>	Trade Negotiations Committee (WTO)
<b>TNCs</b>	transnational corporations
<b>TRIMS</b>	Trade-related Investment Measures (Agreement on)
<b>TRIPS</b>	Trade-related Aspects of Intellectual Property Rights (Agreement on)
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UN/DESA</b>	Department of Economic and Social Affairs of the United Nations Secretariat
<b>WTO</b>	World Trade Organization



## CHAPTER I: GLOBAL OUTLOOK

The world economy in 2002 was characterized by several common features shared by a majority of countries to varying degrees: sluggish growth of output, benign inflation (and deflation in some cases), stagnant employment, low interest rates, worsening fiscal balances, low and uneven growth in international trade, reduced international capital flows, lower prices for many non-fuel commodities, and depreciated equity prices.

With some signs of stabilization at the end of 2002, global economic growth is expected to improve in 2003 but the strength, breadth and sustainability of the recovery remain subject to many uncertainties. Risks associated with heightened geopolitical tensions, such as the possibility of higher oil prices and lower business and consumer confidence, are the key threats to global economic recovery in the short run. Moreover, such weaknesses as overcapacity, hesitant business capital spending and hiring of workers, and lower equity prices, may continue to inflict deflationary pressures on the world economy and prolong the period of slow global growth. In addition, the large external imbalances across countries, fragilities in the international financial system, as well as in the domestic corporate sector in some countries, and other structural problems portend substantial vulnerability for the world economy in the medium term.

In such a global economic environment, policy makers are facing prodigious challenges. Macroeconomic policy worldwide has in general been accommodative over the past year and has helped prevent the world economy from falling further into a synchronized global downturn. Nevertheless, the various policy stimuli have proven insufficient to provide a strong and widespread boost to economic activity. The policy framework in a large number of economies has constrained authorities from adopting measures that might have been more effective. In many economies, the policies pursued over the past decade focussed predominantly on fighting inflation; they appear to be less effective, or too rigid, or biased, when used to stimulate growth in the present low inflationary, or even deflationary, circumstances in much of the world. Moreover, the room for manoeuvre and for independent policy action in many developing countries and economies in transition has been increasingly restrained by growing global economic integration. Finally, weak macroeconomic policy coordination, both among countries and between monetary and fiscal policy within many countries, may have compromised the effectiveness of policies to revive global growth.

The present global economic weakness could be aggravated by prevailing uncertainties, to the particular detriment of many of the world's poorest. Bringing about a robust and sustained recovery in world economic growth should therefore be the top priority for macroeconomic policies in most economies in 2003. Over the longer run, further structural reforms continue to be needed so that both national economies and the international trade and financial systems contribute to higher and more balanced growth.

## REVIVING GLOBAL ECONOMIC GROWTH

After its sharp slowdown in 2001, the world economy underwent a sluggish and unstable recovery in 2002. Neither the strength nor the breadth of the upturn has been satisfactory. Gross world product (GWP) is estimated to have grown by 1.7 per cent in 2002, only a marginal improvement from the previous year—itself the weakest performance in a decade. World trade barely stabilized following its outright decline in 2001, increasing by only 2 per cent. Only a small number of developing economies managed to increase per capita output by more than 3 per cent in the past two years (see table I.2).<sup>1</sup> Such mediocre global growth implies two consecutive years of decline in per capita income for the world as a whole and marks a setback to fulfilling the overriding Millennium Development Goal of reducing global poverty.<sup>2</sup> The slow pace of growth is expected to continue for the first half of 2003, with momentum gradually gathering in the second half of the year. GWP is forecast to grow by 2¾ per cent for the year as a whole.

### Negative and positive forces for global growth

The frail pace of the global economic recovery has resulted from a confluence of competing forces, with negative factors dominating.

The factors that contributed to the global downturn of 2001 included tepid business capital spending; a protracted consolidation in the global information and communication technologies (ICT) sector; and lower equity prices.<sup>3</sup> Additional negative factors have emerged since mid-2002, including rising geopolitical tensions and an associated

surge in the price of oil; an increasing number and an enlarged scale of corporate scandals in major industrial countries, particularly the United States of America; and worsening fiscal and external debt problems in several Latin American countries. As a result, business and consumer confidence, which were strengthening from their low levels in the wake of the terrorist attacks of 11 September 2001, reversed their course during the year. Those new factors, and the havoc wreaked by unusually severe floods and droughts in a number of economies, exacerbated the previous weaknesses in the world economy and almost aborted the tentative global economic recovery at various points in 2002. At the same time, a number of key supportive factors prevented the global economy from deteriorating further, notably monetary- and fiscal-policy stimuli in countries where they were possible, resilient consumer spending and inventory restocking.

Aside from non-economic uncertainties, the core of the current global economic weakness has been the problem of overcapacity, particularly in the developed economies, resulting from excess investment in the late 1990s. This overcapacity has resulted in asset price deflation, notably in the major equity markets, and debt overhang. Many of those excesses have yet to be worked off.<sup>4</sup> From a global perspective, the excess manufacturing capacity in developed economies reflects not only lacklustre effective demand within these economies, but also mediocre effective demand from the rest of the world, including developing economies. In today's more globalized constellation of production, trade and financing, capacity built in individual economies has become more dependent on aggregate demand worldwide. This holds especially for the high-technology sector with its large scope for economies

Table I.1.

GROWTH OF WORLD OUTPUT AND TRADE, 1993-2003

Annual percentage change											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 <sup>a</sup>	2003 <sup>b</sup>
World output <sup>c</sup>	1.4	3.0	2.7	3.2	3.5	2.2	3.0	4.0	1.1	1.7	2¾
<i>of which:</i>											
Developed economies	0.9	2.9	2.3	2.7	3.0	2.5	2.8	3.4	0.7	1.3	2¼
Economies in transition	-6.7	-7.2	-0.6	-0.1	2.2	-0.7	3.0	6.3	4.4	3.5	4
Developing economies	5.2	5.6	5.0	5.7	5.4	1.6	3.5	5.8	2.0	2.9	4¼
World trade	4.6	10.5	8.6	5.5	9.2	3.3	5.2	12.3	-0.8	1.9	6¼
World output growth with PPP-based weights <sup>d</sup>	1.6	3.5	3.4	3.9	4.1	2.5	3.4	4.6	2.0	2.6	3½

Source: Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA).

<sup>a</sup> Partly estimated.

<sup>b</sup> Forecasts.

<sup>c</sup> Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1995 prices and exchange rates.

<sup>d</sup> Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars (for explanation, see the introduction to the statistical tables in the *World Economic and Social Survey 2002*).



Table I.2.  
DEVELOPING COUNTRIES: FREQUENCY OF HIGH AND LOW GROWTH OF PER CAPITA OUTPUT, 2000-2003

	Number of countries monitored	Decline in GDP per capita				Growth of GDP per capita exceeding 3 per cent			
		2000	2001	2002 <sup>a</sup>	2003 <sup>b</sup>	2000	2001	2002 <sup>a</sup>	2003 <sup>b</sup>
		Number of countries							
Developing countries	95	24	38	33	18	35	15	14	30
<i>of which:</i>									
Latin America	24	6	13	12	5	7	1	1	3
Africa	38	14	9	9	5	8	8	6	16
Eastern and Southern Asia	18	1	7	3	2	13	4	6	9
Western Asia	15	3	9	9	6	7	2	1	2
<i>Memo items:</i>									
Least developed countries	41	16	12	12	11	9	6	6	12
Sub-Saharan Africa	31	13	9	7	5	5	6	6	13
		Percentage of population							
Developing countries	95	6.4	12.5	9.5	4.6	74.2	55.9	57.1	61.8
<i>of which:</i>									
Latin America	24	11.8	49.4	31.2	15.3	59.7	2.5	1.6	2.0
Africa	38	28.1	12.4	20.8	5.2	16.5	18.4	13.8	35.3
Eastern and Southern Asia	18	0.2	2.5	0.9	0.2	90.6	75.5	78.8	80.6
Western Asia	15	9.1	66.7	40.4	37.7	71.3	29.6	29.1	29.2
<i>Memo items:</i>									
Least developed countries	41	24.3	13.1	17.9	14.1	39.0	22.1	23.2	38.6
Sub-Saharan Africa	31	37.2	17.7	15.8	5.8	9.3	21.9	22.6	45.8

**Source:** UN/DESA, including population estimates and projections from *World Population Prospects: The 2000 Revision, Vol. I, Comprehensive Tables*, and corrigendum (United Nations publication, Sales No. E.01.XIII.8 and Corr. 1).

<sup>a</sup> Partly estimates.

<sup>b</sup> Forecasts.

of scale. As part of the effort to reduce the overcapacity in developed economies, it is necessary for policy makers to boost domestic demand; however, it will be even more crucial in the longer run to promote growth in developing countries, where demand for high-technology products and services is potentially large.

The weakness of global demand has exerted downward pressure on the prices of many commodities that form the backbone of the export earnings of many developing economies and has reduced developing countries' inflows of private capital, which have proven once again to be highly pro-cyclical.<sup>5</sup> As a result, many developing countries with a high external debt burden have experienced pressure on their exchange rates when adhering to a fixed-rate regime or weaker exchange rates if they have adopted floating rates, as well as deteriorating debt-to-GDP ratios. Especially vulnerable have been countries with large current-account and fiscal deficits. The

diminution in capital flows to these countries has resulted in a contraction in economic activity<sup>6</sup>, which in turn has precipitated a deterioration in the fiscal situation, eroded investor confidence, and led to a further shrinkage in capital flows and a rise in the cost of external financing. A number of economies in Latin America were mired in such a vicious cycle in 2002—a situation that continued into 2003.

Another feature of the present situation is that the economic recovery of a large number of countries continues to depend to a large degree on the health of the economy of the United States. There is no other major economy that, at least in the short run, could plausibly assume the role of the United States as the locomotive of global economic growth. However, China is increasingly providing impetus to other countries within its region and to the world economy at large. Over time, other regionally significant countries could play a similar role in their respective regions.

Among the *developed economies*, the United States is forecast to continue to lead the global recovery, but without decisive momentum. In Japan and Western Europe, weak domestic demand means that economic recovery continues to rely chiefly on external demand and will remain fragile. Japan's fiscal and debt difficulties continue to weigh on its economy, while most economies in Western Europe are tightly constrained, on both the fiscal and monetary sides, by their adopted policy frameworks, leaving little scope for expansionary macroeconomic policies. The economies of Australia, Canada and New Zealand have fared better than other developed economies, but some moderation in their growth is expected as well.

Having experienced a deceleration in 2002, fairly robust growth is expected for the group of *economies in transition*. Strengthened domestic demand, resulting from fiscal-policy stimuli and, to some degree, the cumulative benefits of the structural reforms enacted in recent years, are offsetting some of the external weakness. Over the medium term, prospective entry into the European Union (EU) is providing some stimulus, but has relatively little impact on short-term prospects. External deficits and fiscal constraints are major policy concerns for a number of Central and Eastern European (CEE) economies while, in the absence of further restructuring and a substantial increase in investment, growth in the medium term for many economies in the Commonwealth of Independent States (CIS) will be constrained by emerging supply bottlenecks.

Among *developing economies*, the rebound in several Asian economies is expected to continue, but the recent buoyancy remains vulnerable to any relapse in the economic recovery in the major developed economies. The outlook for Latin America remains poor, against a backdrop of outright decline in GDP for the region in 2002. An increasing number of countries in Africa are expected to grow by 4 per cent or higher due mainly to strengthened domestic economic factors, but many economies in the region are still not expected to achieve any tangible growth in per capita income. Despite the rebound in oil prices, the benefit for most oil-exporting developing economies in Western Asia and elsewhere will continue to be limited.

### Stagnant employment and benign inflation persist

Accompanying the weak recovery in global output has been the discouraging situation for employment—a key channel linking macroeconomic weaknesses to poverty and other social problems, particularly for the most vulnerable groups in a country.

Except for such economies as Australia, Canada and New Zealand, most developed economies continued to experience a loss of employment in manufacturing sectors in 2002. In the United States, for example, factory

employment is 10 per cent below its peak in 2000; there has been a similar decline in Japan and smaller losses in some EU economies. Recovery in industrial production has not yet been sufficiently strong, or of a sufficiently long duration, to staunch the employment losses incurred in those economies during the downturn. After rising to nearly 6 per cent during 2002 from below 4 per cent in 2000, the unemployment rate in the United States has stagnated (see table A.2). Although the total rate is far below levels observed in the past few decades, the number of long-term unemployed—those unemployed for six months or longer—reached a record in 2002. The unemployment rate in Japan is also rising to a historical high, while the rates for most economies in Western Europe have continued to hover around their 2001 levels. A new feature, associated with the consolidation in the ICT sector, is that the number of unemployed with a high level of skills has risen faster than that for low-skilled labour in a number of developed economies.

High unemployment and large underemployment remain rooted in the structure of many developing countries and economies in transition. This situation continues to pose a long-term policy challenge and is a key hurdle on the way to substantial poverty reduction. Cyclically rising unemployment rates have also become a problem in some Latin American economies, particularly Argentina, where the crisis has driven open urban unemployment above 20 per cent and the population living in poverty has soared (see box III.1.). A number of Asian economies have managed to lower their unemployment rates somewhat, but the rates are in general still higher than those observed prior to the Asian crisis of 1997-1998. In China, sizeable surplus labour in rural areas, combined with the large number of laid-off workers in the cities, continues to be a key policy concern.

A number of CIS economies are the only ones that have continued to reduce their unemployment rates in recent years, but only from the very high levels recorded in the earlier years of transition; unemployment rates remain high. In other transition economies, such as Poland, unemployment, especially among young people, has surged to very high levels.

In the recovery phase of the business cycle, improvements in the labour market normally lag the rebound of output. As a rule, an economy needs to grow above its potential rate of GDP growth for several months before businesses begin to absorb workers laid off during the downturn. Since GWP is forecast to grow only slowly in the near term, with many economies growing at far less than their potential, unemployment rates are expected—at best—to stagnate in many countries and to continue to worsen in others.

In comparison with the problem of employment, inflation is not a policy concern in a large number of economies.

Inflation edged up in many economies during the first part of 2002, driven by a rise in the prices of food and energy in some countries, weaker currencies in others, and large wage increases in some others. In spite of these developments, and with the exception of only a few countries, inflation remains tame throughout the global economy.

Apart from the possibility of an oil shock resulting from the geopolitical tensions in Western Asia, the inflation outlook continues to be benign for the majority of economies. A few developing economies that have recently experienced large currency devaluations need to bring inflation under control. In several CIS and south-east European economies where annual inflation rates remain around 20 per cent, further progress is anticipated. In the Baltic and CEE economies, inflation has already been reduced to single-digit levels so that further reductions can be only mar-

ginal. At the same time, continued deflationary pressures remain a concern in a number of Asian economies.

## UNCERTAINTIES AND RISKS

The baseline forecast is subject to a plethora of uncertainties and encompasses a number of risks. Major caveats include: (1) military action in Western Asia might lead to a disruption in oil supplies, provoking an oil-supply shock to the world economy or exacerbating the effects of the increase in oil prices in late 2002 (see box I.1); (2) a prolonged depression in major equity markets could send the global economy into another downturn, or trap it in a protracted period of growth well below its potential; (3) an abrupt adjustment in the large trade imbalances among the world's economies, notably

### Box I.1. Economic consequences of possible military action in Western Asia

In all respects, including from the point of view of the global economy and the region itself, the most beneficial outcome of the political tensions pertaining to Western Asia would be a prompt, definitive and peaceful solution. These tensions are already having a negative impact on global economic growth through the higher price of oil, rising economic uncertainty and the decrease in business and consumer confidence that they have generated. The present forecast includes these various existing "political premia", but does not include the possibility of military action. The political premia, and particularly the costs they entail, would probably increase if the stand-off continues for an extended period, but an escalation into military action would have even more profound negative economic consequences.

If there is military action in Western Asia, it could take a variety of courses and therefore have a wide range of plausible economic consequences of substantially different magnitudes. Opinions are widely split on the impact on the world economy of even a precisely-defined hypothetical military and political outcome. For example, some commentators claim that a brief conflict would reduce the price of oil and some of the uncertainties currently dampening consumer and investor confidence and equity markets and thereby boost economic growth. Dissenters argue, however, that new uncertainties arising from any military action will prolong, or even aggravate, the deterioration in confidence, that disruptions in the supply of oil could persist for some time, sustaining pressures on the price of oil, and that the financial costs of a military operation will crowd out business investment. All these forces would reduce global economic growth. A third possibility is that military and political developments are outside any presently hypothesized scenario, making it even more difficult to speculate on their economic impact.

In addition to the immediate human casualties, humanitarian crises, destruction of physical capital and overall disruption for the countries directly involved, the major global economic impact of military action in Western Asia would arise primarily as a result of its effects on the supply and price of oil, on consumer and business confidence worldwide and on macroeconomic policies. The magnitude of these effects would be directly related to the scale and duration of any conflict. A temporary rise in the price of oil would adversely affect oil-importing developing countries but would normally have only a limited impact on the world economy as a whole. However, an "oil shock", that is, a markedly higher price sustained for six months or longer, would have a global recessionary effect, not only through welfare losses, but also through further erosion of consumer and business confidence.<sup>a</sup> In addition to the losses in the zones of conflict, military action would have a substantial negative impact on economic activity in those countries in Western Asia not directly involved, through reduced trade and capital flows, lower workers' remittances, a fall-off in tourism and other effects of the poor security situation on domestic and international business and consumer confidence. Oil-exporting countries might initially gain from higher oil prices, but experience indicates that those gains are often short-lived, and even negated, by the slowdown in the world economy that ensues if higher oil prices persist.

The possibility of military action in Western Asia is already having a negative effect on the world economy; its realization would be a further brake on global economic growth, in particular on development in Western Asia.

<sup>a</sup> For analyses of the effects of higher oil prices, see, for example, *World Economic Situation and Prospects 2001* (United Nations publication, Sales No. E.01.II.C.2), pp. 5-6 and *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), box II.2, p. 48.

a sharp reversal of the United States' external deficits, accompanied by a substantial devaluation of the dollar, could trigger financial and real economic shocks in the rest of the world; and (4) financial and fiscal fragility in a number of developing countries could set off further debt crises which, in the present weak economic environment, could have contagion effects.

### The sustainability of the external deficits of the United States

A longstanding major downside risk for the world economy continues to be the sustainability of the large trade deficit of the United States and the value of the dollar. The possibility of a marked reversal in the external deficit of the United States, in conjunction with a sharp depreciation of the dollar against major currencies, remains.

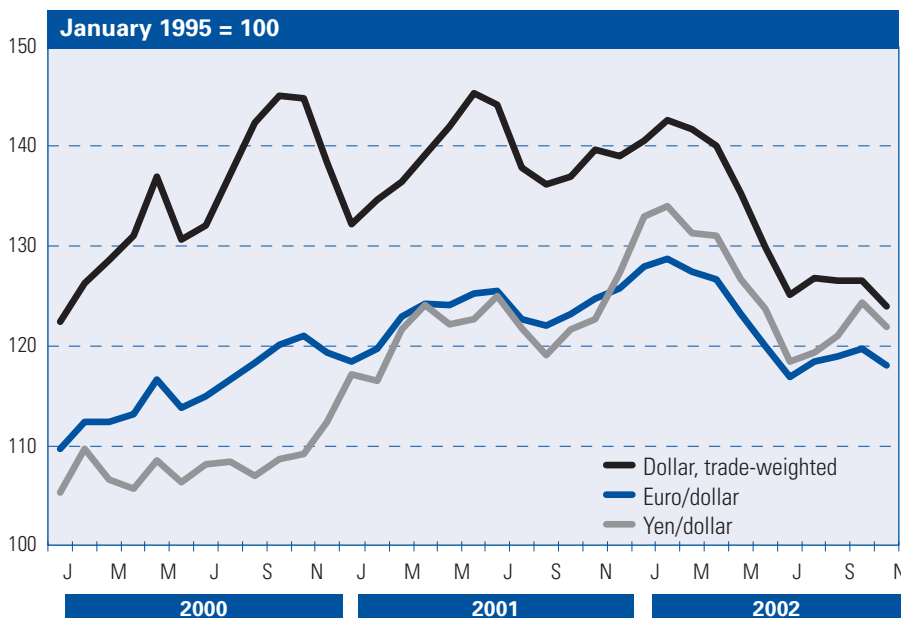
The United States' external deficit presents a dilemma. It is well understood that, the more the deficits expand, the higher is the probability of an abrupt correction later, with consequently ever-larger shocks for both financial markets and the real sectors of the world economy. Nevertheless, strong import demand from the United States is in the interest of global economic recovery in the short run, making a further widening of the country's trade and current-account deficits desirable.

There are myriad ways in which the United States' trade deficit can be reversed. The three basic possibilities are: an abrupt adjustment, driven by a plunge in the value of the

dollar; longer-term structural adjustment in the United States, involving narrowing of the savings-investment gap brought about by an increase in domestic savings (because of a fall in consumer confidence) or a decline in investment (because of a decline in business confidence); and structural adjustment in the world economy, with new growth poles taking over the lead role of the United States and more balance in investment across countries. The most perilous outcome would be an abrupt adjustment. An earlier simulation showed that halving the trade deficit in the United States within two years would lead to a drop in GWP by 1.7 percentage points.<sup>7</sup> The challenge of ensuring a gradual and orderly adjustment therefore remains. Furthermore, the recent addition of a government deficit to the trade deficit in the United States (that is, the return of "twin deficits") may render the adjustment process more complicated than anticipated previously.

Directly associated with the sustainability of the external deficits of the United States is the exchange rate of the United States dollar vis-à-vis other major currencies, particularly the euro and the yen (see fig. I.1). In mid-2002, the trade-weighted value of the dollar fell about 8 per cent below its peak of January 2002. The decline was broad-based vis-à-vis major currencies, with the euro returning to parity against the dollar for the first time since February 2000. The fall against the yen was sufficient to prompt intervention by the Japanese authorities. Most other Asian currencies strengthened against the dollar. Nevertheless, the fall in the value of the dollar in terms of major currencies reversed only part of its rise during the

Figure I.1.  
UNITED STATES DOLLAR EXCHANGE RATES:  
JANUARY 2000-NOVEMBER 2002



Sources: J.P. Morgan and European Central Bank, Monthly Bulletin.

second half of the 1990s, when the trade-weighted dollar index increased by more than 20 per cent. Some further decline is therefore forecast, with the euro expected to drift upwards against the dollar but the yen assumed to remain stable.

The dilemma about the external deficits of the United States also applies to the value of the dollar. Depreciation of the dollar should reduce the risk of an abrupt adjustment in global financial markets in the medium term. In the short run, however, as illustrated by the intervention of the Japanese authorities in 2002, the corresponding appreciation of other currencies is likely to have an adverse effect on those countries' exports—currently the most vigorous component of demand for some of the world's largest economies.

### Longer-term consequences of the fall in equity prices

The protracted fall in world equity prices since 2000 has inflicted downward pressure on world economic growth and continues to be a downside risk. After the recovery in prices following the 11 September 2001 terrorist attacks petered out in the second quarter of 2002, volatility in and downward pressure on equity prices again became a central feature of all major economies. There were declines in broad indices of share prices in the United States for the third consecutive year in 2002. Such a drawn-out contraction has occurred only twice in stock-market history. Moreover, the cumulative falls have been substantial: one broad index had fallen by 45 per cent in the trough of September 2002 from its peak of 2000, the largest fall since the Great Depression. Moreover, the erosion continued despite the substantial easing of monetary policy.

Equity markets in other countries have also weakened considerably and with a high degree of synchronicity. The core Japanese index has fallen to a 19-year low and all major indices of equity markets in developing countries have reverted to their levels of five years ago.

In the late 1990s and into 2000, equity prices were widely considered to be too high, prompting discussions about the broad economic consequences of their possible decline. A previously reported study<sup>8</sup> suggested that a 40 per cent drop in equity prices in the United States and Western Europe would lead to a decline of 1.7 percentage points in GWP in two years. This result corresponds closely to what materialized in the global economy in 2001-2002, when the growth in GWP was below its potential rate by about 1.5 to 2 percentage points.

Despite the large correction over the past two years, major equity markets remain overvalued according to such historical benchmarks as price-to-earning ratios and other measures. If equity markets continue to drop, or stay at a low level for a long period, the recovery in global growth towards its potential, as forecast for 2003, is likely to be jeopardized. Moreover, if major equity mar-

kets are trapped in a secular downturn, particularly if this is accompanied by a bursting of “bubbles” in real estate in some countries (as Japan experienced in the past decade), the prospects for the major developed economies in the medium term would be compromised.

Other risks may arise from the financial fragility and debt overhang in a number of economies, particularly developing countries. The latest debt crisis in Argentina has already underlined the severity of the issue. There remains the possibility that other countries could fall into such a situation, particularly if the global economic environment does not improve.

## CHALLENGES FOR MACROECONOMIC POLICIES

As the sluggishness in the world economy continues, the efficacy of current macroeconomic policies has been increasingly questioned.

### Flexibility in monetary policy

Monetary policy in the world economy has remained largely accommodative since the substantial easing in 2001, as the majority of central banks decided to leave interest rates at low levels in 2002. While a few central banks (such as those of Australia, Canada, New Zealand and Sweden) raised interest rates somewhat in the first half of 2002, the Federal Reserve Bank of the United States (Fed) and a number of central banks in developing countries and economies in transition reduced their policy interest rates further. Most central banks are expected to maintain their accommodative stance at the current level until mid-2003. Moreover, in many economies, there remains room for further monetary easing if the recovery falters.

So far, low interest rates seem to have had more salutary effects on households than on businesses. The strong housing market and resilient consumption of durable goods in a large number of economies owe much to low interest rates. However, business capital spending has, on the whole, remained insensitive to the monetary easing, although low interest rates have ameliorated corporate financial conditions. Excess capacity, depressed equity prices, rising risk premia for corporate borrowing owing to heightened uncertainties, the lacklustre outlook for profits and financial scandals have offset—particularly in the major developed economies—the beneficial effect that the monetary stimulus would otherwise have had for the business sector. In addition, fragility in banking and non-banking financial systems, such as the large volume of non-performing loans, in a number of developed and developing economies may have prevented the effects of monetary easing from being fully channelled into the real sector.<sup>9</sup>

At the same time, the rules for inflation-targeting adopted in a number of economies may have prevented some central banks from reducing interest rates low enough to generate adequate stimulus for real economic growth. This policy regime,<sup>10</sup> which has been adopted by an increasing number of countries over the past decade, has worked well in reducing and stabilizing inflation. However, it has not been tested for its efficacy in reflating an economy under circumstances of near-zero inflation, or even deflation, particularly when the deflationary pressures come from the bursting of asset bubbles and supply-side shocks, such as the current cycle in technological innovation. Some observers believe that inflation-targeting may be inherently asymmetric—that is, it may be less effective in dealing with deflationary problems than with inflation and may even generate deflationary pressure. Others believe that more flexibility in setting and implementing the rules could reduce the bias and improve the efficacy of the regime.<sup>11</sup>

### Worsening fiscal positions

Most countries face a dilemma in their fiscal policy. The sluggish economic recovery suggests the need for more fiscal stimuli, but the majority of economies are facing growing difficulties in adopting such measures because the global slowdown has worsened budget balances owing to either a fall in tax revenues, a rise in government expenditures, or both.

Government accounts in most developed countries turned from a surplus in 2000 to a deficit in 2002. In the United States, fiscal stimuli, in the form of a combination of increased spending and tax reductions, have played a major role in driving the economic recovery, contributing an estimated 1.5 to 2 per cent to GDP. Government spending is estimated to have grown by 7 per cent in real terms in 2002. A government budget deficit of about \$150 billion is estimated for 2002 and is projected to be more than \$200 billion in 2003, compared with the surplus of more than \$200 billion in 2000. In Western Europe, automatic stabilizers, in a few cases combined with moderate discretionary stimuli, have helped to support growth but have also resulted in a broad deterioration in budget deficits; the fiscal deficit for the EU-15 increased from 1 per cent of GDP in 2000 to 1.9 per cent in 2002. In the euro zone, a number of countries, particularly the large ones, either have broken or are likely to break the 3 per cent maximum deficit criterion embodied in the Stability and Growth Pact. Abiding by this ceiling will require them to pursue contractionary fiscal policies in the near term. Despite the austere fiscal policy in Japan over the past two years, when spending on public investment declined by about 5 per cent each year, the deficit in the government balance remains about 8 per cent of GDP.

With public debt at 127 per cent of GDP, the highest among developed economies, fiscal policy is expected to remain restrained.

Fiscal deficits and the levels of government debt in many developing countries and economies in transition have worsened substantially. Argentina represented the extreme case when it declared a default on its external debt in late 2001, but some other countries are vulnerable to a possible external debt crisis. In the past year, the only developing economies able to adopt expansionary fiscal policies to counter the slowdown and to stimulate their recoveries have been a few countries in Asia. Most other developing countries and economies in transition are already facing a tight fiscal constraint. The fiscal situation for those economies will remain severe and for some it may even worsen. There is, therefore, no room for additional fiscal stimulus to accelerate growth in those countries.

### International policy coordination

The common weaknesses in the global economy have raised questions about the need for international macroeconomic policy coordination. There were concerted macroeconomic policy actions among the major developed economies during the 1980s, but such efforts have since faded. This is partly because the divergent economic performances among these countries in the 1990s called for differentiated policies attuned to the conditions in individual countries and partly because these economies did not encounter any large common shocks until the late 1990s. With the synchronized downturn of the current global business cycle and many common weaknesses among major developed economies, the possibility of reviving concerted international policy actions merits consideration.

One study suggests that coordinated interest rate cuts and fiscal stimuli by the seven major developed economies would increase growth rates in those countries by an additional 0.7 percentage point in 2003 and 0.8 percentage point in 2004.<sup>12</sup> Such actions by the major developed economies would also be beneficial for developing countries and economies in transition. The benefits would include stronger growth in exports, greater capital inflows and a global environment that is generally more supportive of growth and less susceptible to financial crises.

The proposed actions, however, involve various risks and costs. Such a general stimulus is potentially inflationary; fiscal stimulus would mean higher budget deficits in the short run; and many of the global imbalances may either be exacerbated or, at a minimum, not improved by such actions. However, a surge in inflation seems unlikely at present and short-term fiscal measures designed to revive world economic growth need not be at odds with medium- and long-term fiscal responsibility. Moreover,

countries with high fiscal deficits could rely more heavily on monetary measures, while those that face limitations in cutting interest rates could exercise more flexibility in stimulative spending. Finally, an aggravation of the present imbalances would be less likely with concerted action than with unilateral action. Overall, the benefits of concerted action to jump-start the global economy at this time would outweigh the costs and improve the prospects for achieving the Millennium Development Goals.

## Notes

- <sup>1</sup> As a rule of thumb, a developing economy would have to increase per capita output by an annual rate of at least 3 per cent in order to make any progress in reducing poverty in the country.
- <sup>2</sup> The United Nations Millennium Declaration set a number of development goals, including halving by 2015 the proportion of the world's people whose income is less than one dollar a day (see United Nations Millennium Declaration, General Assembly resolution 55/2 adopted on 8 September 2000).
- <sup>3</sup> See Part one of *World Economic and Social Survey 2002* (United Nations publication, Sales No. E.02.II.C.1).
- <sup>4</sup> For example, telecommunications is the most beleaguered sector in the present phase of the global economic cycle and, even after two years of consolidation, its

capacity utilization at the end of 2002 was estimated to be only 35 per cent in the United States and many European countries (see *Business Week*, 7 October 2002, pp. 66-74). At the extreme, capacity utilization of the fibre-optics infrastructure built in the late 1990s is reported to be only 3 per cent (*New York Times*, 3 October 2002, p. A26).

- <sup>5</sup> See chapter II below.
- <sup>6</sup> With the recent decline, total net capital flows to developing countries have returned to the level of a decade ago, but the ratio of net capital flows to GDP is now much lower than in the early 1990s. For an analysis of a decade of capital flows to developing countries, see Institute of International Finance, *Capital flows to emerging market economies* (Washington, D.C.: Institute of International Finance, September 2002), p. 4.
- <sup>7</sup> See *World Economic and Social Survey 2001* (United Nations publication, Sales No. E.01.II.C.1), p. 23.
- <sup>8</sup> See *World Economic and Social Survey 1999* (United Nations publication, Sales No. E.99.II.C.1), pp. 12-13.
- <sup>9</sup> The prime example is the economy of Japan, where the policy of a zero interest rate has resulted in double-digit growth in base money, but has left broad money growing at a very low rate.
- <sup>10</sup> For more discussion on the pros and cons of inflation-targeting, see *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), pp. 15-16.
- <sup>11</sup> For example, the Reserve Bank of New Zealand increased its flexibility in late 2002 by excluding zero inflation from the target band (changing it from 0-3 per cent to 1-3 per cent) and by extending the length of the targeting period.
- <sup>12</sup> See [www.globalinsight.com](http://www.globalinsight.com) for details.





## CHAPTER II: INTERNATIONAL TRADE AND FINANCE

**World trade in 2002 reversed the decline it suffered in the previous year but the impetus provided to multilateral trade negotiations by the World Trade Organization Ministerial Meeting in Doha in November 2001 weakened. On the other hand, regional, bilateral and unilateral actions continued apace, highlighting the desire to move towards new trading arrangements. Private financial flows to developing countries, including foreign direct investment (FDI), declined, but official flows increased, largely because of lending to countries facing financial crises. Pledges of increased aid flows made during the year presented both donors and recipients with the challenge of translating those commitments into additional and effective development assistance.**

### UNEVEN RECOVERY IN INTERNATIONAL TRADE

Preliminary estimates indicate that the volume of world trade<sup>1</sup> grew by 1.9 per cent in 2002, reversing the 0.8 per cent decline in 2001. In United States dollar terms, the increase in 2002 was some 3 per cent, the difference reflecting the improvement in the prices of manufactures and of some commodities, as well as the weakening of the dollar. With the recovery in the world's economies, world trade is forecast to grow by 6 per cent in 2003.

A strong recovery in trade during the first half of the year was supported by a revival of economic activity, and of industrial activity in particular, in the major industrialized economies and East Asia. During the second half of the year, increased uncertainties took a toll. As the growth of industrial output faltered (see fig. II.1), the dynamism of world trade fell, except in East Asia where export growth remained resilient.

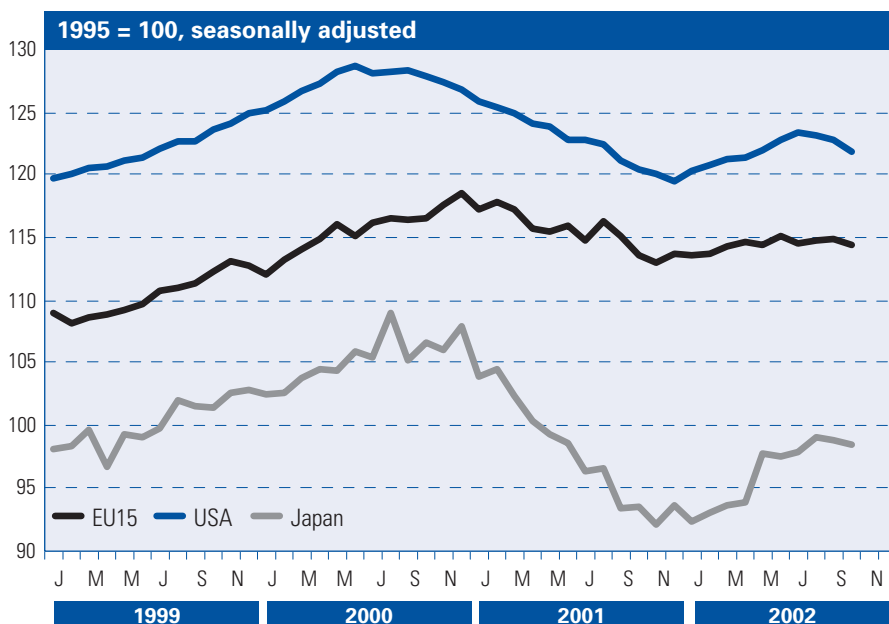
World trade growth continued to depend heavily on economic developments in the United States of America. The volume of imports of goods and services into the United States expanded rapidly in the first half of the year (see fig. II.2), with substantial increases in imports of services and goods such as computers, automobiles and consumer items. With a weak second half, however, the growth of merchandise imports into the United States was less than 3 per cent in 2002. Among the other developed countries, import growth was strong only in Australia, Ireland and New Zealand, which, as small economies,

provided negligible impetus to total world trade. In Japan, the recovery in import demand lagged, but showed some strength in the second half of 2002. On a yearly basis, however, real imports into Japan continued to decline in 2002, albeit at a slower rate than in the previous year (see table A.7). In Western Europe, there was negligible growth of imports and a decline in several economies.

Beyond the United States and some developed countries, imports recovered only in a few countries. In most of those cases, the increase was attributable to the greater international integration of production, whereby a given economy is responsible for discrete stages of the production process, so that a part of imports is associated with demand outside that economy rather than within it. Only a few economies experienced endogenously driven increases in import demand. Notably, despite some deceleration, the real imports of the transition economies grew by almost 7 per cent in 2002 (see table A.7), with import growth being particularly robust in the Commonwealth of Independent States (CIS). Imports also increased in most Central and Eastern European and Baltic countries, largely owing to the ongoing structural transformation, sustained in many instances by strong inflows of FDI and growing domestic demand.

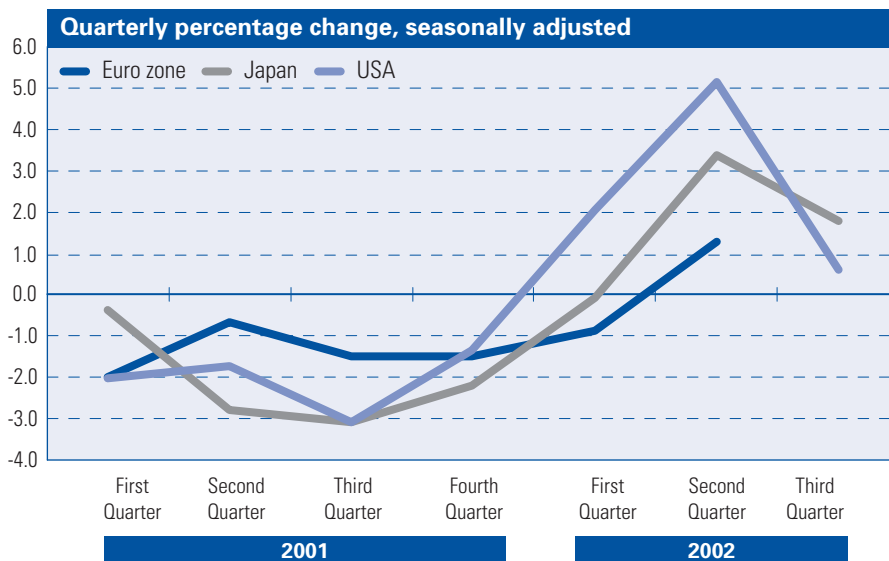
Imports in developing countries expanded only 1.8 per cent in 2002. Moreover, this recovery was largely centred in China and East Asia. In China, growing domestic demand bolstered imports, in particular from East Asian economies. China's imports from Taiwan Province of

Figure II.1.  
SELECTED DEVELOPED ECONOMIES: INDUSTRIAL PRODUCTION,  
EXCLUDING CONSTRUCTION, JANUARY 1999-OCTOBER 2002



Source: OECD, *Main Economic Indicators*.

Figure II.2.  
SELECTED DEVELOPED ECONOMIES: GROWTH OF IMPORTS OF  
GOODS AND SERVICES, FIRST QUARTER 2001-THIRD QUARTER 2002



Sources: European Central Bank; Government of Japan/Economic and Social Research Institute; United States Department of Commerce.

China increased by 80 per cent in the first half of 2002, from the Philippines by 100 per cent and from Malaysia, the Republic of Korea and Thailand at a double-digit pace. China has been gradually assuming the role of the United States as the growth engine in Asia, as illustrated by the fact that China replaced the United States as the largest export market for Taiwan Province of China in 2002. Consumer demand in some East Asian economies

supported import growth. Meanwhile, the modest revival of import volume in Western Asia was largely accounted for by Turkey: imports had contracted in 2001 owing to the economic crisis and the devaluation of the currency, but recovered in 2002 as the economy regained strength.

In contrast with the above, a number of developing countries suffered a decline of net financial inflows and had to cut import demand in an attempt to stabilize their

external balances. Reduced foreign exchange earnings, large currency depreciations, sluggish domestic demand and the firming of oil prices also contributed to lower import demand by several developing countries. For example, in Latin America imports contracted by 5 per cent in real terms in 2002, with the largest declines in Argentina (55 per cent), Brazil (12 per cent), Uruguay (35 per cent) and Venezuela (24 per cent). With weak export markets and financial constraints, the recovery of import demand will remain constrained in some of those economies. Africa's imports also contracted in 2002, but are forecast to increase in 2003.

The revival of import demand in the United States boosted exports from Japan and East Asia. Japan's exports surged by more than 20 per cent in annualized terms during the first two quarters of 2002. For the year as a whole, Japanese exports grew by about 7 per cent in real terms, compared with a drop of 10 per cent in 2001 (see table A.7). In East Asia, export growth was led by information and communication technologies (ICT) products (in response to the restocking in the United States), automobiles and chemicals. Increased intraregional trade also played an important role in export growth in East Asia.

Demand by the United States was also instrumental in accelerating the growth of exports of countries holding free trade agreements (FTAs) or preferential trade arrangements with that country. For instance, while total merchandise exports from Africa contracted both in volume and in value in 2002, owing to sluggish global demand for commodities and weak prices, there were noticeable increases in shipments of textiles, apparel and a wide range of other manufactured goods to the United States under duty-free arrangements and other market-access privileges of the African Growth and Opportunity Act (AGOA). Similarly, Jordanian exports to the United States soared in 2002, mainly owing to the FTAs that allows Jordan duty-free access to the United States market. The volume of exports of both Canada and Mexico—United States' North American Free Trade Agreement (NAFTA) partners—also recovered in 2002, after having contracted sharply in 2001. Relatively high labour costs, however, have been undermining Mexico's export performance. In contrast, Israel's exports stagnated in 2002, despite having an FTA with the United States, in part owing to its exposure to ICT products, whose exports continued to fall in 2002, and in part owing to the security situation in the country, which discouraged business by foreign partners.

A variety of specific factors affected export performance elsewhere. The volume of merchandise exports by the United States contracted for the second consecutive year owing to weak demand and increased international competition. In Western Europe, export growth decelerated in 2002 and was dampened by the appreciation of the euro in the second half of 2002. The volume of exports of

the 15 members of the EU is estimated to have grown by less than 1 per cent, while export revenues fell slightly in local currency terms owing to strong competitive pressures in a weak global market, as well as the strengthening of the euro. In dollar terms, however, merchandise export revenues grew by some 4.5 per cent. Sluggish growth in the region played a role: the value of intra-EU 15 trade (about 60 per cent of the total) increased by 2 per cent in the year ending in September 2002, whereas the value of extra-EU 15 exports expanded by 8 per cent during the same period.<sup>2</sup>

Among the developing economies, China's export performance was remarkable. After relatively slow growth in 2001, exports surged in the first half of 2002, with an estimated 15 per cent increase for the year as a whole. Given the lacklustre global demand, the growth of Chinese exports reflects the country's expanding share of world markets, especially in machinery, electronics and telecommunications products. In Western Asia, the volume of exports declined by some 1.5 per cent owing to the reduction in oil production that was made in an effort to maintain oil prices within a predetermined band (see below). In South Asia, textile and apparel exports of countries such as Bangladesh and Nepal encountered intensified competition from low-cost competitors and production disruptions owing to political instability.

Latin America exports witnessed only a modest improvement in 2002, despite the sharply depreciated currencies in some of its larger economies (see chap. III). The region's export revenues were adversely affected by soft commodity prices, stagnant demand, economic problems in Argentina and difficulties in securing trade finance for Brazil. Measured in United States dollars, export earnings increased by only 1.3 per cent in 2002. The recession in Argentina, together with the depreciation of the Brazilian real, led to the near-collapse of MERCOSUR, which had been an impetus to export growth for member countries in the second half of the 1990s.<sup>3</sup>

Because of a slowdown in import demand by the European Union, their major trading partner, Central European countries could not sustain the export growth achieved in 2002. Moreover, strong capital inflows into those countries led to an appreciation of their currencies, which, together with the appreciation of the euro to which most of the currencies in the region are pegged, further adversely affected export growth to markets outside the euro zone. In some sectors of manufacturing, such as the automotive industry, exports dropped.

Among the CIS countries, exports by the Russian Federation grew by some 4 per cent in real terms. Continuing appreciation of the Russian rouble and resilient domestic demand in that country provided favourable conditions for exports by other CIS economies

to the Russian Federation. Additionally, some of those countries have been diversifying away from the Russian market. Ukraine is a case in point: it has reoriented some of its exports to such non-traditional markets as Western Asia and China.<sup>4</sup> Similarly, there was some export reorientation by the Baltic countries as import demand from the EU decelerated.

World trade is expected to increase by some 6 per cent in 2003, in parallel with improved growth in the developed economies. There are few prospects, however, of a return to the high rates of growth that characterized world trade in the 1990s. The persistence of excess capacity in certain sectors of manufacturing will continue to imply lower investment activity in several countries, which will dampen import demand. Moreover, multilateral trade negotiations under the Doha Development Agenda have progressed more slowly than anticipated, whereas there has been a proliferation of announcements of bilateral and regional free trade initiatives. While complementing global trade liberalization, these initiatives discriminate against third parties and create a complex and competing network of trade regimes (see “Key trade policy developments” below).

## MODEST RECOVERY IN INTERNATIONAL COMMODITY PRICES

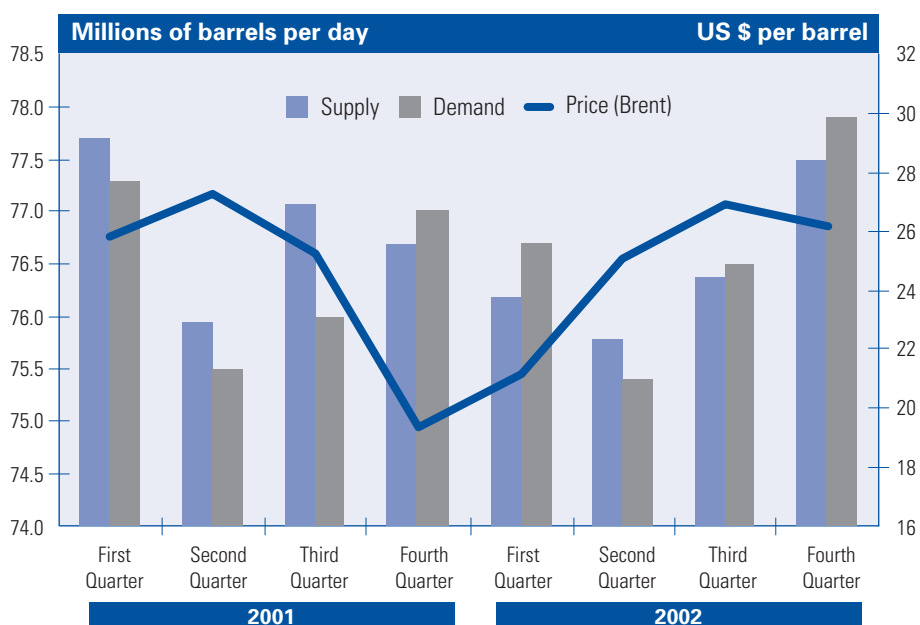
The *price of oil*, as indicated by the price of Brent crude, averaged around \$25 per barrel (pb) for the year 2002 as a whole, about the same as in 2001. In contrast with

2001, when prices declined during the course of the year, oil prices rose as 2002 progressed (see fig. II.3) and did so faster than anticipated. Prices increased by some 50 per cent in the first nine months of 2002.

The pressure on oil prices came from reduced oil production and low world stocks in the first half of 2002 and from increasing demand later in the year (see fig. II.3). Moreover, geopolitical developments underpinned the increase in oil prices throughout the year, particularly in the second half. For instance, Iraq’s temporary suspension of exports in April, in protest against Israeli military operations in the Occupied Palestinian Territory, raised prices; prices declined as Iraq gradually resumed exports from May onwards.<sup>5</sup> By mid-year, however, additional pressure on prices started to build up with the possibility of military action in Iraq and as governments of several developed countries announced plans to increase their strategic oil stocks. Prices climbed from about \$23 pb in early June to about \$29 pb in early October. This increase largely reflected a “war premium”, that is, an addition to prices owing to the possibility of supply disruptions emanating from military action in Western Asia. Prices then receded, but started to increase again in mid-November, in response to renewed uncertainties regarding possible military action in Iraq and, later on, to the general strike in Venezuela that affected that country’s oil exports.

During the first half of 2002, lower OPEC quotas, together with production restraint by some non-OPEC producers, helped to restore some balance between oil demand and supply, leading to a firming of prices. Throughout the year, OPEC successively confirmed its

Figure II.3.  
WORLD OIL SUPPLY, DEMAND AND PRICE, 2001-2002



Sources: United Nations, IMF and International Energy Agency, *Monthly Oil Market Report*, various issues.

production quota at 21.7 million barrels per day (mbd)—the lowest in a decade. Members broadly adhered to their quotas in the first past half of the year: OPEC-10 output was estimated at only 9 per cent above the agreed output ceiling in July.<sup>6</sup> Compliance, however, started to erode later in the year: OPEC-10 overproduction was estimated at 2.7 mbd in October 2002.

Several factors contributed to OPEC's reduced adherence to quotas later in 2002. Some OPEC members started to face increasing difficulties in maintaining idle capacity. Both Algeria and Nigeria asked for higher quotas and raised oil output. In the case of Venezuela, output also rose, particularly after the political disturbances in that country in April. Supply disruptions by Iraq were another factor as other OPEC members stepped up production to cover lower Iraqi exports.

For 2002 as a whole, OPEC-10 crude oil supply is estimated to have averaged some 23.5 mbd, compared with 24.7 mbd in 2001. It is expected to average 24 mbd in 2003, barring any major disruption.<sup>7</sup> In December 2002, OPEC reaffirmed its commitment to market stability and the price band mechanism. Recognizing the role political events had played in the firming of oil prices and taking into account the outlook of supply and demand, it decided on a new OPEC-10 production ceiling of 23 mbd, effective 1 January 2003. No changes in the relative shares of individual country members were introduced.

Non-OPEC oil production was 47.7 mbd in 2002, compared with 47.0 mbd in 2001. Output in those countries is forecast to remain unchanged (at 47.8 mbd) in 2003, as several non-OPEC countries are facing capacity constraints. Total world oil supply, including natural gas liquid (NGLs), is estimated to have been 76.7 mbd in 2002, marginally lower than the 77 mbd recorded in 2001, and is forecast to be 77.9 mbd in 2003.

Global oil demand grew by only 0.5 per cent in 2002, driven mainly by the recovery in North America and the increased demand in China and in several other East Asian countries. Global demand is expected to grow by 1.4 per cent in 2003. Supply exceeded demand by about 0.3 mbd in 2002, compared with 1.0 mbd in 2001, with a surplus of only around 0.4 mbd expected in 2003. Consequently, world oil markets will remain tight. Additionally, low world oil reserves will keep pressure on prices, which are anticipated to be about \$26 on average in 2003. There are, however, significant upside risks in view of the political tensions in Western Asia.

*Non-fuel commodity prices* increased somewhat in 2002 (see fig. II.4).<sup>8</sup> Much of the increase was, however, owing to the weakening of the United States dollar: UNCTAD's dollar-denominated combined commodity price index rose by 6.3 per cent in current dollars from January to September 2002, whereas the same index expressed in special drawing rights (SDRs) rose by only

1.3 per cent. The price increase observed during the year cannot therefore, with some exceptions, be taken as an indication of a general strengthening of market fundamentals. Additionally, however, prices in the first three quarters of 2002 were on average lower than those observed during the same period in 2001 (see table A.8). Demand is still low for most commodities, while supply side rigidities have in many cases prevented a faster response to the subdued market situation. For many agricultural commodities, recent supply increases have contributed to lowering prices even further.

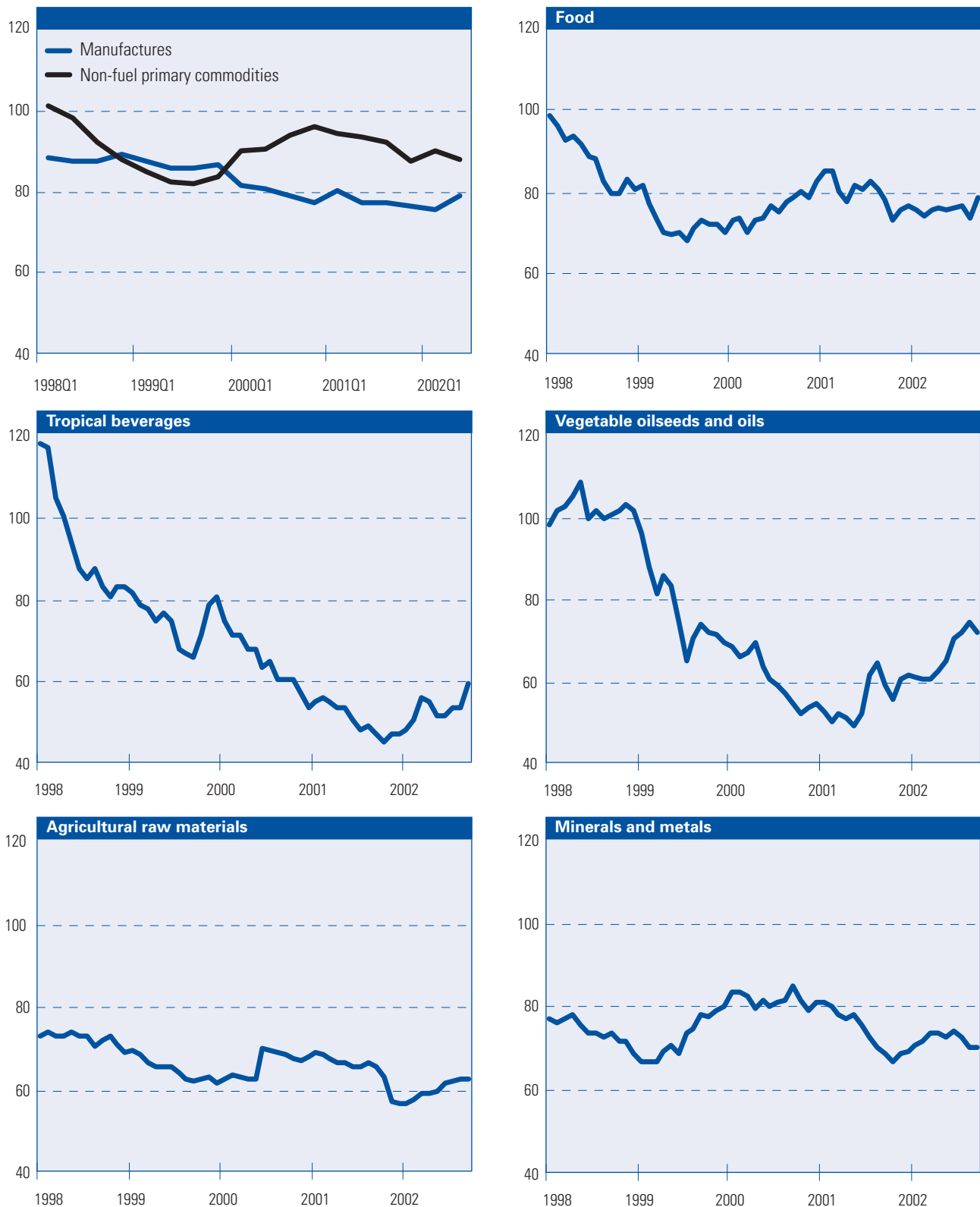
**Food** prices increased by 2.5 per cent during the first three quarters of 2002. The increase was most marked for grains, particularly wheat, as adverse weather affected output in Australia and Canada. Stocks are low both for wheat and for coarse grains, partly as a result of increased food aid deliveries to areas in Africa affected by drought (see chap. III). As a result, wheat prices rose by over 50 per cent during the first three quarters of 2002. Increases in the price of rice, however, were more modest.<sup>9</sup> Meanwhile, the price of bananas gained some stability following agreement at WTO between the EU, the United States and Ecuador in 2001 on the European Union Banana Import Regime. Prices increased in 2002, mainly owing to adverse weather conditions that reduced exports.

The prices of some other food commodities declined in 2002. For instance, sugar prices hit extremely low levels, although they improved towards the end of the year. The market is strongly influenced by persistent oversupply, and the balance between sugar supply and demand is not likely to improve in the short to medium term. Although, the price of beef fell in 2002, it remained high.

**Tropical beverage** prices increased by more than a quarter during the first nine months of 2002, mainly the result of developments in the cocoa market. Having bottomed out in late 2000, cocoa prices improved steadily, peaking in October 2002, when the market was influenced by unrest in Côte d'Ivoire (see chap. III). Subsequently, prices receded, although not to the low levels experienced two years previously.<sup>10</sup> Production in the 2001/2002 crop year (October–September) was estimated to have fallen slightly short of consumption, which will lead to some reduction of stock levels that, however, remain high. With supply and demand almost in balance, no major changes in prices are expected in the near term.

Having declined by more than two-thirds during 1998–2001, coffee prices remained depressed in 2002, although a modest recovery was noticeable towards the end of the year (see table A.8). The International Coffee Organization (ICO) has launched a programme to address the current crisis. Its most important component focuses on quality improvement; therefore, exporting country members have undertaken not to export coffee that does not meet certain standards. This measure will remove

Figure II.4.  
**PRICES OF PRIMARY COMMODITIES AND MANUFACTURES, 1998-2002**  
 (Indices of United States dollar prices, 1995 = 100)



Sources: UNCTAD, *Monthly Commodity Price Bulletin* and IMF.

some of the surplus production from the market, and it is hoped that it will result in improved demand and prices. The ICO is also promoting the development of a diversification programme, which would encompass efforts to undertake specific projects to generate complementary earnings for growers, such as by the introduction of new crops. Finally, promotion efforts have been undertaken, particularly in China and the Russian Federation, where per capita consumption is very low.

The prices of **vegetable oilseeds and oils** improved significantly in 2002, from historical lows in 2001 (see fig. II.4). Demand for, as well as prices of, the two main commodities in this group (soybean oil and palm oil) remained strong throughout the year.

The prices of **agricultural raw materials** increased in 2002, owing to higher cotton prices, which had fallen dramatically over the past four years. Over the past several years, the demand for cotton declined owing to strong competition from synthetic fibres. As a result, the share of cotton in total textile fibre consumption dropped. In the 2002/2003 growing season, however, consumption is expected to exceed production by about 1.5 million tons, owing both to a fall in production, mainly of finer qualities, and to increased demand, particularly from China.<sup>11</sup> Price trends differ according to the quality of cotton, with prices for the higher qualities recovering faster than those for the lower qualities. On average, cotton prices increased by some 15 per cent in the first three quarters of 2002, but they remain close to historical lows. Meanwhile, natural rubber prices rose by about 80 per cent during the same period, mainly as a result of strong demand, while production remained roughly constant during the first half of the year.<sup>12</sup>

For many agricultural commodities, subsidies to domestic production by many developed countries, coupled with high tariffs, mainly on processed agricultural products, reduce demand for developing country exports and depress prices. In the case of most temperate zone agricultural products, downward pressure on prices exerted by subsidized production is often relieved only when there are unexpected shortfalls in output, as was the case for wheat in 2002 (discussed above). For cotton, for example, it has been estimated that prices, which in 2002 were at their lowest level in nominal terms since 1972/73, would be about 75 per cent higher in the absence of direct subsidies.<sup>13</sup> One of the objectives of the Doha work programme was to increase the export opportunities for developing countries by reducing agricultural support in developed countries, but little progress was achieved on this front in 2002 (see below).

While developing countries are given some preferential access to developed countries' markets, this prerogative is limited and subject to complex conditions. For some commodities, such as sugar, restrictions on access, together

with preferences accorded to some countries, imply that only a small proportion of world production is traded on the "free" international market. Accordingly, the market becomes very sensitive to small changes in demand and supply, with consequentially large price fluctuations.

A related problem is the low return captured by many exporters of agricultural products. In many agricultural commodity markets, a higher share of the final price is being appropriated by the later stages of production, which usually fail to pass on to consumers the benefits of lower commodity prices. In the case of coffee, for example, the annual export earnings of coffee-producing countries were \$10–12 billion in the early 1990s, while the value of retail sales was about \$30 billion. Presently, the value of retail sales exceeds \$70 billion, but coffee-producing countries receive only \$5.5 billion.<sup>14</sup> In general, the stage in the processing chain where concentration is largest tends to secure the largest share of the final price, with other stages having to accept smaller portions. The increasing share of large supermarket chains in the retail food sector has also contributed to this trend. Moreover, since markets for inputs for agriculture are also characterized by imperfect competition, producers are squeezed between increasing prices for inputs and falling prices for their products.

**Minerals and metals** witnessed mixed developments during 2002 (see fig. II.4), with the UNCTAD composite price index increasing by less than 1 per cent. Demand for most metals grew only slightly, owing to the slowness of the economic recovery. A large portion of the global-demand increase is accounted for by China, where metals consumption is rising rapidly. Developments in this country are becoming the determining factor for most minerals and metals markets.

Following difficult annual price negotiations between producers and steel companies, iron ore prices declined slightly in 2002, despite a recovery of demand fuelled by increasing steel production and a fall in stocks in North America. A large increase in pig iron production in China resulted in the rapid growth of that country's iron ore imports. Prospects for 2003 are positive. Growth in crude steel production is expected to continue, sustaining increased demand for iron ore.

Base metal prices were weak in 2002. Nickel was an exception to the trend: prices rose owing to strong increases in stainless steel production<sup>15</sup>, particularly in China. Global nickel consumption increased by 4.5 per cent during the first eight months of the year and is expected to continue increasing at roughly the same rate in 2003.<sup>16</sup> Stocks declined and, since production can barely keep up with demand, prices are likely to remain high.

Aluminium prices continued to fall in 2002, albeit less dramatically than in 2001. Following a decrease of 3 per cent in 2001, primary aluminium production increased by

2.5 per cent during the first three quarters of 2002.<sup>17</sup> Spare capacity is still high in the sector. Moreover, China has emerged as a net exporter of aluminium. Since major capacity expansions are under way in that country, China is likely to remain a net exporter in spite of expected rapid growth in domestic demand. Prospects for higher prices are therefore dim unless global demand increases significantly.

The demand for copper increased slightly in 2002, following a decline in 2001. Rapid growth in Chinese demand offset the weakness of other markets, while world production decreased by 2 per cent. As a result, prices increased in 2002. Production cutbacks will contribute to improving the balance between supply and demand in the near term.

Lead prices have fallen since 1998, reflecting continued weak growth in demand and increasing Chinese exports. Production and consumption both decreased slightly during the first three quarters of 2002,<sup>18</sup> and stocks began falling in October as Chinese sales decreased, possibly signalling a turning point. Meanwhile, average zinc prices continued to decline in 2002 (see table A.8). There is excess supply, with production increasing both in 2001 and in 2002, despite a 9.6 per cent decline in consumption in 2001 and less than 2 per cent consumption growth during the first three quarters of 2002.<sup>19</sup> While it is generally agreed that production should be curtailed, no significant cutbacks have been announced, so that there is little prospect for an upturn in prices.

## KEY TRADE POLICY DEVELOPMENTS

The Ministerial Declaration and other decisions adopted by the WTO in November 2001, in Doha, Qatar, launched trade negotiations in several areas and specified further work to be undertaken on other trade issues, in some cases with a view to launching negotiations.<sup>20</sup> One of the objectives of the work programme established in Doha was to introduce a more specific focus on matters of primary importance to developing countries into the negotiations and other work of the WTO. The translation of this development content of the work programme into concrete and effective multilateral rules and disciplines is widely regarded as being critical for the overall success of the negotiations.

The Doha work programme not only covered a large variety of issues, but also established a timetable for its conclusion by 1 January 2005 as a “single undertaking”, whereby all the separate negotiations form part of a “package” that is binding on all participants (that is, “nothing is agreed until everything is agreed”). The “single undertaking” approach requires parallel progress in all areas of the agenda: if progress is slow on some items, it is likely to be slow on others also. To a large extent, this characterized the situation in 2002.

The implementation of the work programme started with the creation of the Trade Negotiations Committee (TNC), the negotiations on specific subjects, the creation of bodies to undertake non-negotiating reviews, and the finalization of work programmes for those structures. A “mid-term review” is to be undertaken by the Fifth WTO Ministerial Conference in Cancun, Mexico, in September 2003. The Cancun Conference will also decide whether to launch additional negotiations on trade facilitation and on three possible new multilateral frameworks: long term cross-border investment, competition policy in relation to international trade and development and transparency in government procurement.

An important component of the Doha work programme, and particularly in terms of its development focus, is to address the concerns of developing countries regarding the implementation of previous General Agreement on Tariffs and Trade (GATT) and WTO Agreements, decisions and understandings. Their concerns relate to: (i) the implementation by developed countries of their WTO commitments and obligations; (ii) imbalances in the rights and obligations in WTO Agreements; (iii) the absence of expected benefits from participation in the multilateral trading system, particularly in areas of export interest to developing countries (for example, agriculture and textiles and clothing); (iv) effective implementation of provisions on special and differential (S&D) treatment; and (v) the difficulties faced by developing countries’ in implementing WTO commitments and obligations and their need for flexibility in this regard.

Those issues were addressed in the Doha Ministerial Decision on Implementation-Related Issues and Concerns<sup>21</sup>, which clarifies and makes recommendations on a large number of the outcomes of the Uruguay Round and its agreements. The Decision refers almost 20 implementation items to different WTO bodies for resolution within fixed and, in many cases, short deadlines, some before the end of 2002. Of particular importance for many developing countries were the agreement to encourage accelerated liberalization of the textiles and clothing sector, and the commitment to exercise restraint in the use of anti-dumping measures for two years after the full integration of the sector into the WTO.

### Doha Work Programme Developments

While progress has been made in a number of areas of the Doha work programme, several deadlines in 2002 were not met. The many issues that were to be resolved before the end of 2002 included some key development concerns, such as agricultural trade, the use by developing countries of the flexibilities available in the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement to protect public health, S&D treatment for



developing countries and some 50 technical matters regarding the implementation of the results of the Uruguay Round. There are also concerns about remitting implementation issues to technical bodies.

At meetings of the TNC in September and October 2002, there was recognition of the urgent need to move collectively to attain convergence and substantive engagement. The TNC has identified the key issues to be resolved prior to the Cancun Conference and established an agenda. Progress needs to be made in order to avoid overloading the Cancun Conference. Fully implementing the programme for 2002, particularly reaching agreement on implementation issues and S&D treatment, prior to the Cancun Conference, would be an important step. There also needs to be progress in deciding how to address issues such as small economies, technology, and trade, debt and finance. If such issues are not resolved, it will raise questions about the treatment of development issues and is likely not only to constrain other negotiations but also reduce the willingness of developing countries to agree to the new areas of work proposed for the WTO.

### Progress on key elements

#### *Agriculture*

The Doha work programme calls for the numerical targets and modalities for the negotiations (that is, the size of the cuts in tariffs, export subsidies and domestic support and the phase-in period) to be agreed by March 2003, so that all WTO Members can submit their draft concessions prior to the Cancun Conference. In July 2002, the United States submitted a proposal to eliminate subsidies and reduce tariffs and domestic support over a five-year period, to be followed by the elimination of all tariffs and support.<sup>22</sup> A proposal made in December 2002 by the European Commission (for consideration by EU Member States prior to being submitted to WTO) includes cuts in tariffs, export subsidies

and domestic support and enhanced market access for developing countries.<sup>23</sup>

#### *Industrial Products*

A number of proposals regarding the target and modalities of the negotiations (see box II.1), along with ways in which special and differential treatment could be reflected, have been discussed and decisions are expected in March 2003. The lack of progress is related to the pace of developments in such other areas as S&D treatment (see below) and implementation.

#### *Services*

Work has entered a new phase with a focus on market access negotiations rather than on general discussions of proposals. Bilateral consultations on requests for market access commenced in July 2002, and initial offers are to be made by March 2003. Over 150 sectoral and horizontal proposals have also been tabled, mostly by developed countries. The deadline of March 2002 for completion of negotiations on the emergency safeguard mechanism (ESM), has been postponed to 2004. Some developing countries believe, without such a mechanism and without credible statistics and data to assess their capacity and the impact of liberalization, their ability to make concessions would be limited.

#### *Trade Related Intellectual Property Rights (TRIPS)*

The Doha Meeting assigned to WTO's TRIPS Council a list of issues that includes: specific aspects of TRIPS and public health, geographical indicators (GI), protecting plant and animal inventions, biodiversity, traditional knowledge, a general review of the TRIPS Agreement and technology transfer. The substantive issues mainly discussed in 2002 were compulsory licensing in relation to TRIPS and public health (see box II.2) and the extension of additional protection for GI. Despite intensive negotiations, no agreement was reached in 2002 on

### Box II.1. Targets and modalities for WTO negotiations on non-agricultural products

- The target of a negotiation is the agreed average tariff cut. The modality (or approach) used to achieve the target can be either request-and-offer, formula or mixed ("cocktail"). Countries can choose to negotiate tariff reductions on either bound tariffs or applied tariffs. There is no precedent for negotiating on applied tariff rates for goods where there are currently bound rates.
- The request-and-offer procedure involves bilateral negotiations and enables sensitive sectors to maintain protection. The increased number of participants in the trade negotiations increases the difficulties involved in the request-and-offer approach.
- Most of the large tariff reductions achieved in trade negotiations have involved the use of a tariff formula, such as a linear cut with the same percentage applying across the board or formulae involving more than proportional reductions in higher tariffs. The latter approach can be particularly useful in reducing tariff peaks and tariff escalation. During the Uruguay Round, a global goal was established for reductions on industrial products and reductions on individual tariff lines were negotiated bilaterally through request-and-offer.

### Box II.2. TRIPS and Public Health

Some developing countries cannot meet their needs for pharmaceuticals from domestic manufacturing capacities and depend on imports, including from countries where production may take place under a compulsory licence. However, such imports are restricted by Article 31(f) of the TRIPS Agreement which states that "a compulsory licence shall be authorized predominantly for the supply of the *domestic* market of the Member authorizing such use".

Addressing this question, the Ministerial Declaration on the TRIPS Agreement and Public Health, adopted at the WTO meeting in Doha in November 2001, recognizes that the TRIPS Agreement "does not and should not prevent Members from taking measures to protect public health", affirms that "the Agreement can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health and in particular to promote access to medicines for all" and provides that Members have the right to grant compulsory licences and the freedom to determine the grounds for doing so. Paragraph 6 instructs the Council for TRIPS to find "an expeditious solution to the problem and to report to the General Council before the end of 2002".

WTO Members generally agree on the need to make TRIPS provisions more flexible to allow for the import of medicines produced under compulsory licences. The debate in 2002 therefore concentrated on technical issues, such as which illnesses and medicines should be covered under the exemption, which countries should be allowed to produce generic equivalents of patented medicines for export, which countries should be allowed to benefit from the mechanism, what conditions should be added (for example, safeguards against diversion) and what mechanism should be adopted.

With respect to the legal mechanism, three major proposals have been tabled:

- A waiver of certain TRIPS obligations (for example, to comply with the obligation to issue compulsory licences predominantly for the domestic market) or a moratorium on dispute settlement procedures for an alleged breach of such obligations;
- An authoritative interpretation of TRIPS Article 30 (exceptions to rights conferred under the patent), allowing the export of medicines to countries in need without infringing on the patentees' exclusive rights in the exporting country;
- A formal amendment to Article 31(f) (other use without authorization of the right holder for the supply of the domestic market of the member authorizing such use) or its deletion.

The elements of a solution need to include the scope of diseases, product coverage, beneficiary importing members, eligible supplying members, safeguards against diversion, notification and transparency, legal mechanism, and meaning of the term "domestic market" in Article 31(f). Governments failed to reach agreement on a solution by the end of 2002 and discussions will continue in 2003.

TRIPS and public health and deliberations will continue in 2003. A major area of disagreement related to disease coverage.

#### *Implementation-related Issues and Concerns*

At Doha, the outstanding implementation issues were divided into two categories: (i) those that should be addressed under the relevant negotiating mandate in the Declaration, if any; (ii) others that should be addressed by the relevant WTO bodies which should report to the TNC by the end of 2002 for action. Of the 93 issues put forward by developing countries, 39 were made the subject of immediate action through direct reference in the Doha Decision on Implementation-related Issues and Concerns, while 48 were made subject to the negotiations pursuant to paragraph 12 of the Doha Declaration (including issues relating to textiles, subsidies, agriculture, anti-dumping and TRIMs). One issue, TRIPS and public health, was covered by the Ministerial Declaration on the subject (see box II.2). Overall, there has been limited progress on implementation issues.

#### *Special and Differential Treatment*

There are some 145 provisions relating to S&D Treatment in WTO Agreements and Ministerial Decisions. The Doha work programme called upon the Committee on Trade and Development (i) to consider the legal and practical implications of converting S&D measures into mandatory provisions, to identify those that should be made mandatory and to report to the General Council with recommendations for a decision by July 2002; and (ii) to consider how S&D could be incorporated into WTO rules.

The deadline for the report by the Special Session of the WTO Committee on Trade and Development (CTD) to the General Council was extended from 31 July 2002 to 31 December 2002, owing to limited progress in considering some 80 proposals submitted by June 2002, mainly by developing countries. Some of the proposals relate to specific provisions of WTO Agreements, while others relate to a possible Framework Agreement on Special and Differential Treatment and cross-cutting issues to ensure the application and effectiveness of S&D provisions. However,

the Special Session of the CTD could not come to an agreement on its Report to the General Council in its December 2002 meeting and will report back to the Council in February 2003.

### *Other Issues*

A Working Group on Trade, Debt, and Finance has been established and has started work by discussing trade and finance linkages and links between trade and external debt. Negotiations have started on the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs) and on the liberalization of trade in environmental goods and services (EGS). A Working Group on Transfer of Technology has been established to examine the relationship between trade and transfer of technology and to recommend measures to increase flows of technology to developing countries. At Doha, it was agreed to maintain the current practice of not imposing customs duties on electronic transmissions, but to continue the work programme on e-commerce established in 1998. A report on progress is to be made to the Cancun Ministerial Conference. In March 2002, the WTO General Council adopted a work programme on small economies to be pursued in the Committee on Trade and Development. Countries have presented proposals to review WTO agreements as they relate to small economies in areas such as preservation of preferences; obligations in forming RTAs under Article XXIV; non-reciprocity in trade negotiations; anti-dumping, subsidies and countervailing measures; sanitary and phytosanitary measures; technical barriers to trade; and dispute settlement.

### **Interregional, Regional and Bilateral Developments**

In addition to discussions within the WTO, 2002 saw a multitude of regional and bilateral negotiations on trade issues, as well as a number of unilateral actions. Many of the initiatives are intended specifically as a contribution to the Doha work programme but all will have a bearing on or be affected by these negotiations. At the same time, one of the current difficulties is the uncertainty that the simultaneous developments present for each other. Regional and bilateral talks are taking place in the absence of clarity regarding the outcome of the forthcoming WTO negotiations, while the WTO negotiations, may be compromised, in terms of both content and attention, by the more limited discussions being undertaken elsewhere. In addition, some unilateral actions and announcements in 2002 have dampened the positive spirit that followed the Doha Meeting.

### *Preparations for participation in the Doha work programme*

The Third Summit of the African, Caribbean and Pacific (ACP) Heads of State and Government in July 2002 in Nadi, Fiji, directed the ACP Group to coordinate its participation in the WTO and emphasized, in particular, that trade liberalization in ACP States should be phased and sequenced in a progressive manner and accompanied by adequate supply-side supportive measures. A Ministerial Conference of Least Developed Countries in August 2002 in Cotonou, Benin, included a review of work in WTO to address the marginalization of the least developed countries (LDCs) and to more fully integrate them into the multilateral trading system.

In November 2002, Australia has hosted a mini-ministerial meeting of 25 trade ministers<sup>24</sup> to assess progress achieved under the Doha work programme, with particular attention on TRIPS and public health. There was some convergence on possible elements of a mechanism to give effect to paragraph 6 of the Doha Declaration on TRIPS and Public Health (for which the Doha Meeting set deadlines in 2002). Other issues discussed included S&D, implementation, agriculture, market access in industrial products and services, WTO rules and preparations for the Cancun Conference.

The President of the United States was accorded Trade Promotion Authority by Congress in July 2002, which should facilitate the Doha work programme because it provides the United States with greater flexibility in its negotiations. As indicated above, the United States and the European Union have made separate proposals for tariff reductions, export subsidies and domestic support for agricultural products. The United States has also proposed a substantial global reduction in tariffs on manufactured goods.

### *Burgeoning of regional arrangements*

It is widely agreed that regional trading arrangements can be a useful complement to a multilateral system and can even contribute to its effectiveness, but they are not a substitute for worldwide arrangements and can sometimes damage a more encompassing system. According to WTO, more than 90 regional trading arrangements have been formed since the completion of the Uruguay Round and some 70 more are under discussion. The following are some of the more important developments in this area in 2002.

Members of the Association of Southeast Asian Nations (ASEAN) and China signed a framework agreement to begin negotiations in 2003 on what would be the world's largest free trade agreement (FTA). The group of ASEAN countries also announced that it would begin talks with India and Japan to achieve similar agreements.

In 2002, Japan signed its first FTA (with Singapore) and is now negotiating a number of others. Singapore also signed an FTA with Australia, adding to its existing agreement with New Zealand, and is close to signing one with the United States – its first in the region, although it already has Trade and Investment Framework Agreements (TIFAs) with Indonesia, Thailand and the Philippines.

In July 2002, African Heads of State and Government replaced the Organization of African Unity by the African Union (AU) and launched the New Partnership for Africa's Development (NEPAD). NEPAD, which will operate under the auspices of the AU, is a comprehensive framework for Africa's development, including a market access initiative to improve intra-African trade and measures geared to increasing African countries' participation in the multilateral trading system.<sup>25</sup>

In September 2002, the EU formally launched negotiations on its new Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) countries that are to become effective in 2008. Six distinct WTO-compatible regional EPAs are likely to emerge in place of the single, non-reciprocal ACP-EU trade agreement embodied in four Lomé Conventions and the present Cotonou Agreement.<sup>26</sup>

The United States' Trade Promotion Authority Act (see above) provides for further negotiations on the Free Trade Area of the Americas (FTAA) and on bilateral trade agreements with Chile and Singapore. It also extends the unilateral preferential trade benefits provided by the United States to the Andean countries, the Caribbean countries and the sub-Saharan African countries. The United States has indicated its intention to begin negotiations in 2003 to form a free trade agreement (FTA) with countries in the South African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa and Swaziland.

All 34 countries participating in the negotiations of the FTAA held a meeting in Ecuador in November 2002 to review progress and to establish guidelines for the next phase of the negotiations, which are to conclude no later than January 2005. Countries have initiated market access negotiations in agricultural and non-agricultural goods, services, investment and government procurement; approved the methods and modalities for negotiation to be applied in the next phase; and set the timetable for the exchange of market access offers. Despite progress, much remains to be done before the FTAA becomes operational.

#### *Unilateral actions*

In addition to the proposals by the United States and the European Commission to reduce the distortions in agricultural trade (see above), there were actions and propositions that seem likely to maintain the present arrangements for some time. The United States' Farm Security and Rural Investment Act of 2002, while excluding direct

and permanent price support measures, increases planned expenditure for agricultural support to \$180 billion over the next ten years and includes measures that would be triggered by a fall in the price of agricultural commodities.<sup>27</sup> This mechanism would insulate United States' producers from decreasing prices and could worsen oversupply. For its part, the European Commission has proposed that the EU's Common Agricultural Policy (CAP) be reformed by making payments conditional on, inter alia, environmental, food safety and animal welfare standards rather than on production. In the meantime, EU agricultural support will continue. Payments to individual farmers within the present EU may decrease because of the overall ceilings on expenditure under the CAP, but total support is likely to increase as direct payments will also be made to new member countries. As the Doha round of negotiations hinges heavily on the reform of agricultural trade, the decisions by the United States and the EU to renew their programmes of agricultural support have damaged the climate of the negotiations for those countries that see their actions as an infringement, at least in spirit, of Uruguay Round commitments in that area.

## HESITANT FINANCIAL FLOWS TO DEVELOPING AND TRANSITION ECONOMIES

The developing countries made a net transfer of financial resources to foreign countries of about 1.5 per cent of their GDP in 2002, that is, 1.5 per cent of their GDP was used for foreign financial transfers rather than for domestic investment or consumption. The countries with economies in transition also made a net financial transfer abroad in 2002, estimated at about 1 per cent of the group's GDP.

The impact of the net financial transfer on a country depends on its overall economic situation. For most developing and transition economies, it would normally be considered desirable to maintain on average a sustainable net inward transfer and thereby raise investment above the amount that could be financed out of gross domestic saving alone. It is thus a matter of some concern that 2002 marks the sixth consecutive year in which the net transfer of the developing countries as a group has been negative.<sup>28</sup> In particular, the net transfer from Latin America and the Caribbean in 2002 reflected the sharp contraction in imports by several economies, especially Argentina. In contrast, the net transfer from Asia, in particular from the newly industrialized countries, was accompanied by significant growth in imports and continuing economic growth. As will be noted below, the region's negative transfer took the form of net repayment of debt as well as purchase of reserve assets. In Africa, there was a net inward transfer of financial resources, as

lower non-oil commodity export earnings brought about an overall trade deficit that was financed from additional official and private financial flows.

The net transfer of financial resources contains three components: a net payment of investment income (interest, profits and dividends), a net purchase (or sale) of official reserve assets, and a net capital inflow.<sup>29</sup> The last was estimated at about \$83 billion in 2002, a second year of small increase after the nadir of virtually no net capital inflow in 2000 (see fig. II.5). Nonetheless, only net FDI and official loans and grants provided net inflows in 2002, while financial markets and international banking operations continued to withdraw funds from developing countries overall.

### Private financial flows

Conditions for private financial flows to developing and transition economies deteriorated in 2002, after a brief upturn in the first three months of the year. Investors' overall concern about risk grew as a result of the weaker-than-expected global economic recovery and weaknesses in corporate governance, especially in the United States. Global political uncertainties exacerbated investor concerns in the second half of the year. In that global environment, coupled with continued declines and volatility in world equity prices, investors became increasingly reluctant to place funds in most emerging markets.<sup>30</sup>

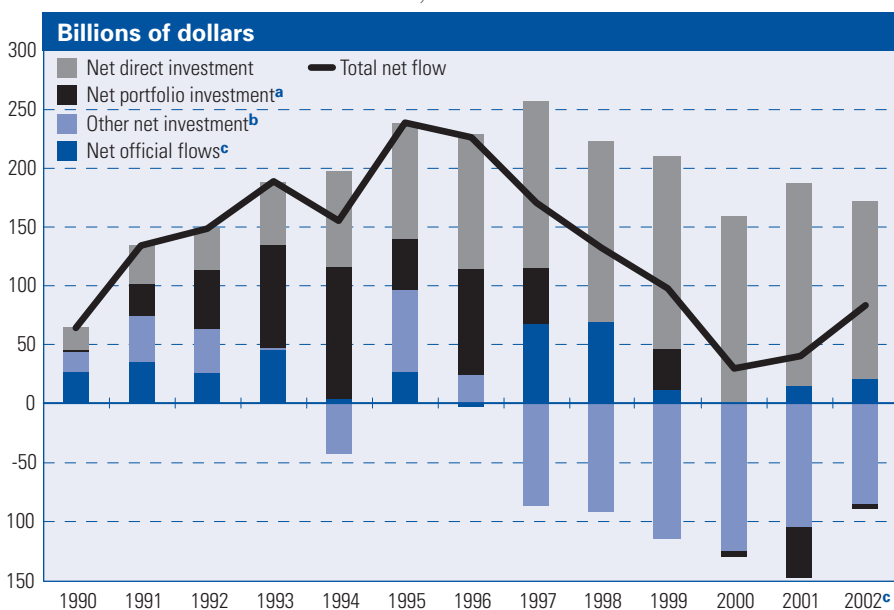
Concerns were most acute about Latin America. The economic problems in Argentina caused financial difficulties in a number of neighbouring countries (Uruguay,

Bolivia and Paraguay) through trade and financial linkages. In addition, the presidential elections in Brazil generated concern about its future economic policy, a loss in investor confidence, capital outflows and depreciation of the currency, which sharp increases in interest rates failed to stem (see chap. III). An agreement reached in August with IMF for a \$30 billion assistance programme partially eased investor concerns, and indications about the future direction of economic policy by the President-elect after the elections in late 2002 further calmed the markets.

The deterioration in investor sentiment about Latin America was seen in the widening spread between the yields on its bonds and the risk-free benchmark, United States' treasury bonds (see fig. II.6). Similarly, heightened concerns about Turkey's continued economic adjustment in a time of political change were reflected in its bond spreads. The largest increase in yield spreads was on bonds of countries with financial difficulties and/or political uncertainties; more limited variations in yield spreads of the bonds of other countries and regions indicated that investors discriminated among different country situations. Indeed, in the first half of the year, sovereign credit rating agencies upgraded their evaluations of a number of emerging market economies, including Mexico, the Republic of Korea and the Russian Federation. Nevertheless, the overall rise in spreads culminated in a more general sell off in emerging market bonds at mid-year.

The stock of outstanding foreign and international bonds and bank loans of developing and transition economies fell in 2002. Many countries repaid more in principal than they received in new credit; only a few,

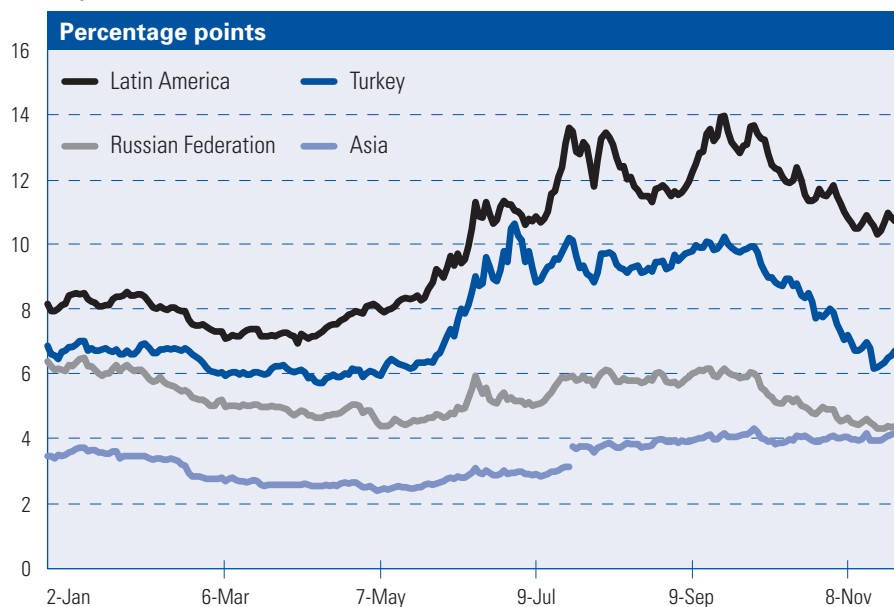
Figure II.5.  
NET FINANCIAL FLOWS TO DEVELOPING  
AND TRANSITION ECONOMIES, 1990-2002



Source: International Monetary Fund, World Economic Outlook database, September 2002.

- <sup>a</sup> Including portfolio debt and equity flows.
- <sup>b</sup> Including short- and long-term bank lending. It may include some official flows owing to data limitations.
- <sup>c</sup> Estimate.

Figure II.6.  
YIELD SPREADS ON EMERGING MARKET BONDS,  
2 JANUARY 2002-21 NOVEMBER 2002



Source: Data of J.P. Morgan Co., New York.

such as China and the Republic of Korea, were net borrowers. Reflecting the rise in yield spreads during the year, bond issuance declined markedly after the first quarter. The decline was concentrated in Latin American countries with financial difficulties, whereas Mexico and countries in Asia and in Eastern Europe maintained access to financing. Issuance by those countries, however, also slowed in the second half of the year.

Net repayment of commercial bank loans by developing and transition economies continued in 2002, as banks sought to reduce their exposure to higher risk developing and transition economies. In particular, a net inflow of bank loans to Brazil in 2001 turned into a net outflow in 2002, as loans dried up. With rising financial uncertainty in Latin America during the year, banks increasingly shifted their lending to Eastern and Southern Asia and Eastern Europe, regions assessed as lower risks than Latin America.

Strong net portfolio equity investment in developing and transition economies early in the year weakened in subsequent months, and volatility in equity prices restrained investment flows in the second half. There was a net outflow from Latin America for the year as a whole, and there was less net investment in Asia than in 2001, especially in the Republic of Korea, where investors sold off shares after strong price appreciation in the first quarter. At the same time, there was a substantial increase in the net flow to China, which issued shares in a number of public enterprises. Those shares, along with shares issued by corporations in other Asian economies, dominated total equity issuance by developing economies in 2002,

which fell below the levels of the past several years.

As elaborated below, net FDI in developing economies fell in 2002, while it remained strong in economies in transition, particularly in the Central European countries preparing for accession to the European Union.

### Official flows

Official flows to developing countries rose in 2002, owing largely to the substantial disbursements made by IMF and other multilateral institutions in support of economic programmes in the countries in financial distress. IMF was a net provider of almost \$13 billion to the developing countries during the first nine months of 2002, compared to net receipts of \$0.8 billion for the whole of 2001. The major disbursements were about \$12.7 billion to Turkey, \$2.9 billion to Brazil, and \$1.4 billion to Uruguay. The IMF's net receipt of funds from the economies in transition fell from \$4.1 billion in 2001 to \$1.0 billion for the nine months in 2002, owing mainly to lower repurchases by the Russian Federation. In another significant development, the World Bank paid \$250 million in October to holders of Argentine bonds under the terms of a guarantee after Argentina, citing liquidity constraints owing to its financial crisis, declared that it could not make the payment. The missed payment nullified the guarantee and prevented it from applying to future payments on the same series bonds. The guarantee would have been reinstated, however, if Argentina had repaid the World Bank within 60 days, which it was unable to do.

In December, Argentina also missed a deadline for a \$726 million payment on a World Bank loan. Argentina's failure to pay froze all ongoing disbursements on loans. While the arrears—and potentially additional arrearages as payments fall due to IMF and the Inter-American Development Bank in January 2003—may be seen in the context of protracted negotiations with IMF over an adjustment programme, if not resolved soon, they would make a worrisome development for the smooth functioning of the system of multilateral financial cooperation.

Final data on flows of official development assistance (ODA) in 2002 are not yet available, but there are indications that they may rise by 2003.<sup>31</sup> Prospects improved with the announcement of planned increases in ODA by a number of donors, including Canada, the European Union, Norway, Switzerland and the United States, in the context of the International Conference on Financing for Development in Monterrey, Mexico, 18-22 March 2002.<sup>32</sup>

It is also recognized that, as a complement to additional ODA flows, efforts have to be strengthened to enhance aid effectiveness and promote greater country ownership of development programmes. In its Communiqué of September 2002, the members of the IMF/World Bank Development Committee expressed their commitment to further action in streamlining such aid policies, procedures and requirements. Those concerns will be further considered at a high-level forum to be held in Rome in February 2003.

After protracted discussions, multilateral concessional lending capacity was boosted during the year. In July, negotiations for the thirteenth replenishment of International Development Association (IDA) resources (IDA-13) were successfully completed. Approximately \$23 billion will be made available during the period 2003-2005, which represents an 18 per cent increase over the previous replenishment. Three innovations in policies and procedures were produced during the negotiations. First, in order to improve flexibility in dealing with the problems of the poorest countries, donors agreed to increase to 18-21 per cent the proportion of IDA assistance that takes the form of grants. Second, IDA donors urged the World Bank to develop a results-based system to link IDA programmes to country development outcomes. Third, the funding negotiations were opened up to representatives of borrowers and civil society, and background documents were posted regularly on the World Bank website.<sup>33</sup>

In September 2002, almost nine months overdue, the Ninth Replenishment of the African Development Fund (ADF-9), the concessional lending arm of the African Development Bank, was agreed in Oslo. Total resources for the replenishment, covering the period 2002-2004,

were estimated at \$3.5 billion and represented a 25 per cent increase over ADF-8. As in IDA-13, donors agreed to increase the proportion of grants to between 18 and 21 per cent (during ADF-8, grants averaged about 4 per cent of total assistance). The ADF-9 negotiations also featured for the first time the participation of representatives of African countries and exchanges of views with regional non-governmental organizations.<sup>34</sup>

In a further boost to international financial cooperation, donors agreed to a \$2.92 billion replenishment of the Global Environment Facility (GEF) for the period 2002-2006.<sup>35</sup> In addition to the amount agreed, which was a record high, several donors said they would consider making additional contributions to the GEF.

### Implementing the Heavily Indebted Poor Countries Initiative

As at November 2002, 26 countries are benefiting from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, of which six (Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania and Uganda) had reached completion points and exited the formal programme<sup>36</sup>. When the 26 decision-point countries complete the process, they will have reduced their outstanding debt stock by some \$40 billion (in net present value terms), or by two-thirds.<sup>37</sup>

Because the HIPC process has taken longer than expected in some cases, the deadline within which to bring eligible countries to decision point, the "sunset clause", was extended in September from end-2002 to end-2004. Bringing the remaining dozen countries to the decision point has proven difficult, since most are conflict-affected and many have arrears problems. Although interim assistance is provided, another task is taking countries from the decision point to the completion point, which requires preparation and acceptance of full Poverty Reduction Strategy Papers (PRSPs) and implementation of agreed economic reform programmes.

The outlook for the HIPC programme depends not only on debtor-country actions, but also on actions by donors who contribute resources, in particular to the HIPC Trust Fund, to cover debtor obligations to the international financial institutions. As of November 2002, total paid-in contributions to the HIPC Trust Fund reached \$2.2 billion, or 85 per cent of total pledges of \$2.6 billion (compared with 45 per cent as of August 2001). Even if all pledges were fulfilled, however, the HIPC Trust Fund would still lack the required resources, as the economic situation of a number of the HIPCs is expected to be worse than anticipated. In light of this situation, it is important that the additional \$1 billion pledged by the Group of 7 countries, first at its summit meeting in Kananaskis in June 2002 and again at a meet-

ing after the IMF-World Bank Annual Meetings in September, be realized.

## REDUCED FDI FLOWS

World FDI flows are estimated to have declined by slightly more than a quarter in 2002, to about \$540 billion (see table II.1),<sup>38</sup> some one-third of the peak value in 2000.<sup>39</sup> As in 2001, the decline was larger in developed countries (31 per cent) than in developing countries (20 per cent) and in Central and Eastern Europe (1 per cent). Uncertainties with regard to the global economic situation, weak stock markets and deficiencies in corporate governance accounting scandals undermined international business confidence, slowed cross-border mergers and acquisitions (M&As) and reduced the willingness of firms to expand. For developing countries as a group, FDI is the largest component of external resource flows, and its decline means that fewer resources are available to finance development. As a result, competition for FDI among developing countries is intensifying, with host

countries adopting a more targeted approach in an effort to attract FDI that conforms with their development strategies and capacities.

The value of completed cross-border M&As for the first nine months of 2002 fell to \$250 billion from \$460 billion for the same period in 2001,<sup>40</sup> partly reflecting a correction for the excessive corporate investments undertaken during earlier years. The decline was particularly marked in the United States. The average size of cross-border M&As in 2002 also declined dramatically. For instance, the largest M&A in 2002 was valued at \$14 billion (see table II.2), compared with the acquisition of Mannesmann by Vodafone AirTouch for \$203 billion in 2000.<sup>41</sup>

Since FDI data include the value of M&As, they tend to display a high degree of “lumpiness” because of a few large cross-border M&A transactions. These can lead to great swings in recorded FDI flows from one year to another and are one of the reasons for the dramatic declines of FDI to some countries in 2001 and 2002. Whereas cross-border M&As generally play a much more important role in developed economies, a number of deals had a significant effect on developing countries’ inward

Table II.1.  
INFLOWS OF FOREIGN DIRECT INVESTMENT INTO  
MAJOR ECONOMIES, 2000, 2001 AND 2002

Billions of dollars			
Host region/economy	2000	2001	2002 <sup>a</sup>
World	1492	735	540
Developed economies	1228	503	349
United States	301	124	44
Canada	66	28	32
European Union	809	323	237
France	43	53	45
Finland	9	4	5
Germany	195	32	43
Ireland	24	10	10
Italy	13	15	15
United Kingdom	117	54	12
Switzerland	16	10	10
Japan	8	6	12
Australia	12	4	11
Developing economies	238	205	164
Africa	9	17	6
Latin America and the Caribbean	95	85	62
Brazil	33	22	15
Mexico	15	25	14
Asia and the Pacific	134	102	96
China	41	47	50
Hong Kong SAR <sup>b</sup>	62	23	19
Central and Eastern Europe	27	27	27
Czech Republic	5	5	9
Poland	9	9	6

Source: UNCTAD, FDI/TNC database.

<sup>a</sup> World FDI inflows are projected on the basis of the 85 economies for which data are available for part of 2002. Data for 2002 for individual countries are estimated by annualizing either quarterly or monthly data obtained from national sources. These data are used to extrapolate data for 2002 for each region/subregion. For the United States, the decline in cross-border M&As (up to September 2002) was applied to obtain the 2002 estimates. If the methodology used for the United States were the same as for other countries, United States’ inflows estimated on the basis of data for the first six months would be only \$31 billion.

<sup>b</sup> Special Administrative Region of China.



Table II.2.

## THE LARGEST CROSS-BORDER MERGERS AND ACQUISITIONS ANNOUNCED IN 2002

Acquiring company	Home country	Acquired company	Host country	Value (Billions of US dollars)
HSBC	United Kingdom	Household International Inc.	United States	14
Vivendi Universal SA	France	USA Networks Inc. Ent Asts	United States	11
National Grid Group PLC	United Kingdom	Niagara Mohawk Holding Inc	United States	9
E.On AG	Germany	Powergen PLC	United Kingdom	8
Duke Energy Corp	United States	Westcoast Energy Inc	Canada	8
RWE AG	United States	Innogy Holdings PLC	United Kingdom	7
Bayer AG	Germany	Aventis Crop Science Hldg SA	France	7
Shell Resources PLC	Netherlands	Enterprise Oil PIC	United Kingdom	6
Imperial Tobacco Group PLC	United Kingdom	Reemtsma Cigarettenfabriken GmbH	Germany	5
Investor Group	Netherlands	Motiva Enterprises LLC	United States	4
RWE Gas AG (VEW/RWE)	Germany	Transgas (Czech Republic)	Czech Republic	4
BP Amoco PLC	United Kingdom	VEBA Oel AG (E.OnAG)	Germany	4
South African Breweries	United Kingdom	Miller Brewing Company	United States	3

Sources: UNCTAD, based on JETRO, *Boeki Toshi Hakusho 2002* (Tokyo: JETRO), p. 16 and *Financial Times*, 15 November 2002.

FDI data in 2001 (for example, in Mexico (Banamex), South Africa (Anglo American and De Beers) and Morocco (Maroc-Telecom)).

Overall, more than half of the 85 economies for which data are available (which accounted for 95 per cent of world FDI inflows in 2001) received less FDI in 2002 than in 2001. Some developing countries and countries in Central and Eastern Europe have been less affected by the overall fall in FDI flows because they have benefited from the intensified competitive pressures faced by transnational corporations (TNCs). Aggravated by the global economic slowdown, those pressures have led to the relocation of production to lower-cost locations. This relocation is one factor behind the continuous increase in FDI in China which, according to those estimates, replaced the United States as the world largest recipient of FDI flows in 2002. If those estimated data are confirmed, it will be the first time that a developing country has been the leading recipient of FDI. Because of the steeper decline of FDI flows into developed countries, the share of developing countries in world FDI inflows increased from 16 per cent in 2000 to 28 per cent in 2001 and 30 per cent in 2002, while the Central and Eastern European region's share increased from 2 per cent in 2000 to 5 per cent in 2002.

Developing countries have also become a more important source of FDI flows. Data for a sample of developed and developing countries indicate that the share of investment inflows originating in developing countries increased only marginally, but that those countries' share of flows to other developing countries rose (from 19 per cent during 1999-2000 to 28 per cent in 2001) (see table II.3). In Asia, China is becoming a potential source of

FDI for many countries in the region. In 2000, there were over 350 Chinese companies with affiliates abroad.<sup>42</sup> China's outward flow of FDI was over \$900 million in 2000 and almost \$1,800 million in 2001.<sup>43</sup> The top 12 Chinese TNCs, mainly state-owned enterprises, control over \$430 billion in foreign assets with over 20,000 foreign employees and \$33 billion in foreign sales in 2001. In addition, non-state-owned enterprises, which are usually small- and medium-sized TNCs, have investments in over 40 countries.<sup>44</sup>

FDI flows to **developed countries** are estimated to have declined by about one-third in 2002 (see table II.1), although Australia, Canada, Finland, Germany, Ireland, Italy, Japan and Switzerland received larger inflows than in 2001. The largest declines were experienced by the *United Kingdom* and the *United States*. The drop of FDI flows to the United States was mainly owing to the decline in equity investment and intra-company loans (see table II.4), especially from the EU, and reflected both the fall in cross-border M&As and the shift to net outflows of intra-company loans.<sup>45</sup> The large repayment of intra-company loans and trade credits in 2002, including loans by foreign affiliates in the United States to their parent companies, is partly explained by the decline in interest rates in the United States as compared to the EU. In 2001, FDI inflows were equivalent to about one-third of the \$393 billion current-account deficit of the United States. Other types of flows had to compensate for the decline in FDI in financing the deficit in 2002.

*France* and *Germany* received levels of FDI comparable to that of the United States in 2002. The high level of

Table II.3.  
INFLOWS OF FOREIGN DIRECT INVESTMENT BY GEOGRAPHICAL  
ORIGIN FOR SELECTED GROUP OF ECONOMIES, 1999-2001

Billions of US dollars						
Home region	Host region					
	1999-2000			2001		
	Developed economies <sup>a</sup>	Developing economies <sup>b</sup>	World total	Developed economies <sup>a</sup>	Developing economies <sup>b</sup>	World total
<b>Developed economies</b>	1 286	11	1 297	303	6	309
North America	166	3	168	78	1	79
United States	99	3	102	69	1	70
Western Europe	1 070	6	1 077	218	3	221
European Union	1 024	6	1 030	157	3	160
Other Western Europe	43	-	44	60	-	60
Other	48	2	50	7	2	9
Japan	35	2	36	3	2	5
<b>Developing economies</b>	63	3	66	15	2	17
Africa	1	-	1	-	-	-
Latin America and the Caribbean	46	-	46	3	-	3
Asia	15	3	18	12	2	14
South, East and South-East Asia	12	3	15	12	2	14
<b>Central and Eastern Europe</b>	4	-	4	6	-	6
<b>Unspecified</b>	43	1	44	-8	-	-8
<b>World total</b>	1 396	14	1 410	317	8	325

Source: UNCTAD, FDI/TNC database.

<sup>a</sup> Includes Australia, Austria, Belgium/Luxembourg, Canada, Finland, Iceland, Ireland, Japan (approval data), Netherlands, Norway, Portugal, Sweden and the United States.

<sup>b</sup> Consists of Bangladesh, Honduras, Lao People's Democratic Republic, Morocco, Pakistan, the Philippines and Thailand only. Some data for 2001 are preliminary.

Table II.4.  
INFLOWS OF FOREIGN DIRECT INVESTMENT TO THE UNITED STATES,  
BY COMPONENT, 2001-SECOND QUARTER OF 2002

Billions of US dollars							
Component	2001					2002	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total	First Quarter	Second Quarter
<b>Total inflows</b>	44.2	52.2	14.5	19.9	130.8	16.6	2.2
Equity investment	20.5	44.4	12.7	30.1	107.7	11.0	8.6
Reinvested earnings	0.7	-2.6	-4.5	-13.3	-19.7	-4.9	6.3
Intra-company loans	23.0	10.4	6.2	3.2	42.8	10.6	-12.7

Source: United States Department of Commerce, "United States international transactions: second quarter 2002", 12 September 2002 (www.bea.doc.gov).

FDI flows to France and increased flows to Germany and a number of other developed countries were mainly owing to an increase in cross-border M&As.

Total FDI outflows from developed countries also fell. The United States remained the largest investor, with FDI outflows only slightly below the level in previous years.

The United Kingdom was the second most important investor in 2002 as firms based there undertook large cross-border M&As (see table II.2), the value of which, however, declined by more than one-third in the first nine months of 2002. Cross-border M&A transactions played a more important role in Germany's outward FDI in the

first half of 2002. Outflows resulting from these cross-border M&As, however, were partially offset by reverse flows related to the repayment of intra-company loans from German affiliates abroad.

FDI inflows to **Africa** declined by about 65 per cent as a result of three key factors. First, inflows in 2001 were inflated by two large transactions, one in Morocco (\$2.2 billion) and the other in South Africa (\$3.2 billion).<sup>46</sup> Second, TNCs from major investor countries, such as the United States, reduced their investments in Africa in the light of the weak international economic environment. Third, political uncertainty in some African countries adversely affected investors' perception of risk on the continent. Despite the regional decline, some African countries, such as Tunisia and Uganda, attracted higher FDI inflows.

FDI flows into developing **Asia** declined by a further 6 per cent in 2002, following a 24 per cent reduction in 2001. The fall was largely owing to the slowdown of flows from Europe and the United States, despite the strong economic growth of leading Asian economies. FDI in China continued its rising trend, with inflows reaching about \$50 billion. Driven by its liberalization process, industrial restructuring and its accession to the WTO (see box II.3), China is experiencing fast FDI growth in medium- and high-tech manufacturing industries and in services. Overall, the increase in FDI flows to China, India, Malaysia and the Philippines was not sufficient to offset the decline in such economies as Hong Kong Special Administrative Region of China (SAR), the Republic of Korea, Thailand and Taiwan Province of China. The decline was partly owing to the repayment of debts by foreign affiliates to their parent firms. During the Asian financial crisis in 1997-1998, many Asian-based affiliates borrowed from their parent companies (and other affiliates) to finance their working capital requirements. Many are now in a position to repay intra-company loans.

FDI flows to **Latin America and the Caribbean** declined for the third year in a row, falling by 27 per cent. The decline was concentrated in *Mexico*, where inflows in 2001 were inflated by the acquisition of Banamex by Citicorp. Excluding that investment, FDI into Mexico in 2002 would have remained at the 2001 level, despite the economic slowdown at home and in the United States, the most important source of foreign investment in Mexico. Inflows into *Brazil* fell by 32 per cent as compared with 2001; despite the decline, the country regained the position of largest recipient of FDI in the region. In *Argentina*, the onset of the financial crisis in 2001 adversely affected FDI inflows in 2002. By the second half of the year, however, FDI increased to about \$3 billion, mainly because of the acquisition of Pérez Compac by Petrobras for \$1.1 billion.

**Central and Eastern Europe** received a similar level of FDI inflows as in 2001. Inflows into the *Czech Republic* increased by 80 per cent, while *Poland* suffered the largest decline, of one-third. FDI into the *Russian Federation* held steady at below \$3 billion. The divergent trends within the region were associated with external and internal factors, including the global economic situation, large privatization-related FDI (in the Czech Republic) or a slowdown in privatization (for example, in Estonia, Poland and Slovakia), the sluggishness of the national economy (for example, Poland), or a wait-and-see attitude by investors with respect to the EU-accession countries (for example, Hungary). On balance, the region continued to be resilient to the global downturn in FDI flows.

## INTERNATIONAL FINANCIAL COOPERATION

### Strengthening crisis prevention and crisis resolution policy

Developing a series of international standards and codes on economic and financial policy and encouraging their voluntary implementation have been central pillars of the efforts since the mid-1990s to prevent financial crises in emerging economies. During 2002, particular attention was put on integrating the monitoring of the implementation of those standards and codes into regular IMF surveillance of national economic policy making.

At the same time, work continues on further elaborating the standards and codes themselves. Indeed, amid recent failures of large corporations, especially in the United States, enhancing principles of corporate governance, of accounting and auditing and their enforcement took on a new global salience.

Also, in response to concerns about potential adverse consequences of the proposed New Basel Capital Accord, the Basel Committee on Banking Supervision (BCBS) continued to work on possible revisions of its proposal.<sup>47</sup> On 1 October 2002, BCBS launched a third Quantitative Impact Study, which asks banks and regulatory authorities (including those from developing countries) to assess how the updated proposals would affect them and whether further modifications were necessary. The Committee intends to finalize the New Capital Accord in the fourth quarter of 2003, that countries may implement it by year-end 2006.

Multilateral surveillance of national economic and financial policies, primarily by IMF, is another part of crisis prevention. The IMF has been reassessing its policies on surveillance. Efforts are being directed towards more rigorous vulnerability analysis, greater attention to institutional weaknesses and provision of more timely advice, better attuned to social and political realities of individual member countries.

### Box II.3. China: WTO accession and FDI

Since it joined the WTO on 11 December 2001<sup>a</sup>, China has relaxed its rules and regulations governing FDI and the operations of TNCs. Sectors that were restricted have been gradually opened up or the pace of opening up has been hastened by the implementation of WTO commitments. Restrictions on foreign ownership and on geographical areas in which foreign enterprises can provide services have been relaxed. On 1 April 2002, a new version of the "Guiding Directory on Industries Open to Foreign Investment" came into effect. The new directory increased the number of "encouraged" industries for foreign investment to 262 from 186 and reduced the restricted ones to 75 from 112. As of 1 December 2002, China allowed investors to acquire domestically listed and unlisted shares of quoted companies and to control listed companies if they comply with foreign investment rules.<sup>b</sup> By 2007, with the full implementation of its WTO commitments, China should have removed most restrictions on FDI.

Even prior to these changes, the manufacturing sector in China was already largely open to foreign investment. It accounted for about two-thirds of the total FDI flows into the country (see box table 1) and made a major contribution to the Chinese economy (see box table 2). As of 2001, over 80 per cent of the Fortune 500 firms had invested in more than 2,000 projects in China and there were over 400,000 foreign affiliates in the country. Technology-intensive industries have been attracting more and more FDI, while FDI flows into traditional industries have been declining.<sup>c</sup>

With the relaxations of regulations, FDI, including cross-border M&As, is likely to increase, particularly in areas where access to the Chinese market is essential or the need to strengthen market position is important. The usual array of other determinants of FDI will also apply, with FDI in the services sector expected to increase the most over the next few years. Nevertheless, an immediate surge in foreign buying of local assets is not expected.<sup>d</sup> Some of the most desirable companies are already linked with TNCs through state-owned joint ventures established in the 1990s. Other factors could also inhibit M&As. For instance, it may be difficult to establish the true value of a local company because of different accounting standards and practices. Chinese state-owned enterprises may also have contingent liabilities, such as environmental clean-up and social costs, which TNCs may not want to assume. Some state-owned enterprises are heavily indebted and this may also discourage TNC take-overs. Finally, the new antitrust rules (whereby a foreign acquisition worth more than US\$30 million, a yearly investment of over US\$100 million, a domestic market share of over 33 per cent or being the eleventh foreign-invested project in an industry in a year will be subject to administrative review) might also hinder foreign M&As in China.<sup>e</sup>

Box table 1.

#### SECTORAL DISTRIBUTION OF FDI INFLOWS TO CHINA, 1997, 2000 AND 2001

Millions of US dollars, per cent						
Industry	1997		2000		2001	
	Value	Per cent	Value	Per cent	Value	Per cent
Total	45 257	100	40 715	100	46 878	100
Agriculture, forestry, animal husbandry and fishery	628	1	676	2	899	2
Mining	940	2	583	1	811	2
Manufacturing	28 120	62	25 844	63	30 907	66
Services	14 013	31	12 159	31	13 210	28
<i>of which:</i>						
Wholesale and retailing	1 402	3	858	2	1 169	2
Banking and insurance	-	-	76	-	35	-
Real estate	5 169	11	4 658	11	5 137	11
Others	1 556	3	1 453	3	1 051	2

Source: UNCTAD, based on information from MOFTEC and *World Investment Directory, Volume VII - Part 1: Asia and the Pacific, 2000* (New York and Geneva, United Nations publication, Sales No. E.00.II.D.11).

## (Box II.3 (continued))

Box table 2.

## INDICATORS OF ROLE OF FOREIGN AFFILIATES IN CHINA, 1990-2001

Percentage												
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Inward FDI stock as a percentage of GDP	7.0	7.7	9.6	15.7	18.7	19.6	21.8	24.7	28.2	31.0	32.3	..
Inward FDI flows as a percentage of gross fixed capital formation	..	4.5	7.5	12.1	17.1	15.7	14.3	14.6	12.9	11.3	10.5	..
Share of foreign affiliates in:												
Value added <sup>a</sup>	..	..	..	..	..	4.4	4.2	4.8	..	..	..	..
Manufacturing sales <sup>b</sup>	2.3	5.3	7.1	9.1	11.3	14.3	15.1	18.6	24.3	27.7	31.3	..
Exports	12.6	16.7	20.5	27.5	28.7	31.5	40.7	41.0	44.1	45.5	47.9	50.0
Industrial outputs	2.3	5.3	7.1	9.2	11.3	14.3	15.1	18.6	24.0	27.8	22.5	..
Tax revenues <sup>c</sup>	..	..	4.3	5.7	8.5	11.0	11.9	13.2	14.4	16.0	17.5	..

Source: UNCTAD, compiled from various tables in *World Investment Report 2002* and MOFTEC, *Statistics on FDI in China, 2001*.

<sup>a</sup> Defined as value added of foreign affiliates divided by GDP.

<sup>b</sup> Defined as sales of foreign affiliates divided by sales of all firms in the manufacturing sector.

<sup>c</sup> Tax revenues (excluding customs duties and land fees) from foreign affiliates account for over 98 per cent of foreign-related tax revenues.

<sup>a</sup> For an overview of the implications of China's accession to the WTO for its trade, see *Trade and Development Report 2002*, chapter V and *World Economic and Social Survey 2002*, Box II.1

<sup>b</sup> China has over 1,200 locally listed A-share companies. About 90 per cent of them are state-owned enterprises with one-third of their shares traded on the stock exchanges. Under the new rule, foreign investors can resell their acquired shares after one year of ownership and repatriate the capital.

<sup>c</sup> See *World Investment Report 2001*, p. 26.

<sup>d</sup> In an attempt to acquire foreign technologies and improve competitiveness, however, more Chinese firms may approach foreign companies on possible tie-up arrangements, which could include M&As. The relaxation of the M&A rule has already induced a number of Chinese companies to talk to overseas partners on possible tie ups (*Business Times*, 5 November 2002).

<sup>e</sup> See EIU, *Business China*, 11 November 2002.

In a related matter, in September 2002, the IMF Executive Board replaced the guidelines on conditionality to be applied in economic adjustment programmes supported by IMF resources, in effect since 1979. The aim is to limit conditions to those necessary to achieve macro-economic goals, to better adjust conditions to country circumstances and to enhance national ownership of adjustment programmes. Additionally, the Fund is considering measures to strengthen its effectiveness in crisis management and resolution.<sup>48</sup>

The lack of a workable sovereign bankruptcy mechanism is considered a major gap in the international financial architecture. Two broad approaches to the matter are now being explored.<sup>49</sup> The first approach involves creation of a sovereign debt restructuring mechanism (SDRM), which would establish a statutory framework that would enable a government with an unsustainable foreign debt to enter into something akin to a bankruptcy proceeding. In September 2002, the International

Monetary and Financial Committee (IMFC) asked the IMF to prepare a concrete proposal for an SDRM arrangement, for consideration by the Committee in April 2003. The second approach aims to achieve a similar result by encouraging debtors to include collective action clauses (CACs) in individual bond contracts, to facilitate agreement on any restructuring. The Group of 10 is working in collaboration with the private sector and emerging market issuers towards an agreed set of model clauses. The objective is to make common practice the incorporation of such CACs in external sovereign bonds. To that end, European Union Member States have pledged to include such clauses in their own government bonds issued under foreign jurisdictions. Before that decision only, Canada and the United Kingdom had CACs in their foreign currency government bond and note contracts.

Whether undertaken through CACs or an SDRM, sovereign debt restructuring is not seen as a substitute for

official financing during a crisis, but as a complement to it. Accordingly, international financial institutions, principally IMF, should have adequate resources to fulfil their responsibilities. Past IMF quota increases, which determine lending capacity from IMF's own resources, failed to keep pace with the growth of world output, international trade and, above all, capital flows. The Twelfth General Review of Quotas is currently underway, and a report on the need for an increase in IMF financial resources will be presented to the IMF Board of Governors by January 2003.

### Combating money laundering and the financing of terrorism

In light of the events of 11 September 2001, national authorities and international organizations have taken a number of actions to combat money laundering and the financing of terrorism. At the centre of the United Nations work on terrorist financing is the Counter-Terrorism Committee (CTC), established by Security Council resolution 1373 of 28 September 2001. As of 8 October 2002, 174 out of 191 Member States and 5 others reported to the CTC on the action taken and planned to implement the resolution.<sup>50</sup> In addition, the Committee is coordinating and facilitating technical assistance to help countries with legislative drafting and to establish effective executive machinery for preventing and suppressing terrorist financing. It also has been focusing on the implementation of the 12 international anti-terrorism conventions, whose progress has been uneven thus far. By October 2002, 24 countries had ratified all 12 instruments.<sup>51</sup>

The IMF and World Bank have also made substantial progress in advancing anti-money-laundering efforts and efforts to combat the financing of terrorism (AML/CFT). The Bretton Woods institutions decided to add the Financial Action Task Force (FATF) recommendations to the list of standards and codes for which Reports on the Observance of Standards and Codes (ROSCs) are prepared. After that decision, the IMF, World Bank and FATF jointly developed a common methodology to assess the countries' compliance with the FATF recommendations. They have also agreed on a 12-month pilot programme of AML/CFT assessments and accompanying ROSCs. For those initiatives to be successful, the provision of adequate technical assistance is critically important.

### Notes

- <sup>1</sup> Measured as an average of exports and imports.
- <sup>2</sup> Eurostat News release No. 134/2002, 19 November 2002.
- <sup>3</sup> Argentina's exports to MERCOSUR partners fell from \$760 million in September 2000 to \$402 million in September 2002, while imports from MERCOSUR partners declined from \$612 million to \$249 million during the same period. (Republica Argentina, Ministerio de Economia, <http://www.2mecon.gov.ar/infoeco/>)
- <sup>4</sup> Ukraine's exports to Turkey, for instance, are estimated to have increased by over 80 per cent in nominal terms in 2002.
- <sup>5</sup> Iraqi average oil production in the second and third quarters of 2002 (1.54 mbd and 1.75 mbd, respectively) was significantly below the average production in the first quarter of the year (2.45 mbd). Production started to rebound sharply in September as the country ended its surcharge on oil sales.
- <sup>6</sup> Although an OPEC member, production quotas do not apply to Iraq. See *World Economic and Social Survey 2002* (United Nations publication, Sales No. E.02.II.C1), pp. 34-37.
- <sup>7</sup> These estimates do not include natural gas liquids (NGLs), which added some 3.5 mbd to total OPEC oil supply in 2002 and are expected to add 3.8 mbd in 2003.
- <sup>8</sup> Unless otherwise indicated, prices and price indices quoted in this section are from UNCTAD, *Commodity Price Bulletin*, various issues.
- <sup>9</sup> See International Grains Council, *Grain Market Report Summary* ([www.igc.org.uk/gmr/gmrsummary.htm](http://www.igc.org.uk/gmr/gmrsummary.htm)).
- <sup>10</sup> The International Cocoa Organization's daily price fell from US\$ 2,418 per ton on 14 October 2002 to US\$ 1,799 on 19 November 2002.
- <sup>11</sup> International Cotton Advisory Committee, Press Release, 1 November 2002.
- <sup>12</sup> International Rubber Study Group, *Statistical Data* ([www.rubberstudy.com/STATS.htm](http://www.rubberstudy.com/STATS.htm)).
- <sup>13</sup> International Cotton Advisory Committee, *Cotton: Review of the World Situation 2002*.
- <sup>14</sup> N. Osorio, "The global coffee crisis: A threat to sustainable development". Submission by the International Coffee Organization to the World Summit on Sustainable Development (United Kingdom: London, 21 August 2002).
- <sup>15</sup> Nickel is one of the main alloying elements used in most types of stainless steel.
- <sup>16</sup> *Mining Journal* (London), 25 October 2002, p. 294.
- <sup>17</sup> International Primary Aluminium Institute ([www.world-aluminium.org/iai/stats/index.html](http://www.world-aluminium.org/iai/stats/index.html)).
- <sup>18</sup> International Lead and Zinc Study Group, Lead Statistics ([www.ilzsg.org/statistics](http://www.ilzsg.org/statistics)).
- <sup>19</sup> International Lead and Zinc Study Group, Zinc Statistics ([www.ilzsg.org/statistics](http://www.ilzsg.org/statistics)).
- <sup>20</sup> For an overview of the outcome of the Doha meeting, see, for example, *World Economic Situation and Prospects 2002* (United Nations publication, Sales No. E.02.II.C.2), pp. 21-22. For a more detailed analysis, see *Trade and Development Report 2002* (United Nations publication, Sales No. E.02.II.D.2), chap. II and "Developments and issues in the post-Doha work programme of particular concern to developing countries" (Trade and Development Board document TD/B/49/12 of 20 September 2002).
- <sup>21</sup> WTO document WT/MIN(01)/17 of 20 November 2001.
- <sup>22</sup> See "Summary of U.S. proposal for trade reform" ([www.fas.usda.gov/itp/wto/summary.htm](http://www.fas.usda.gov/itp/wto/summary.htm)).
- <sup>23</sup> See "WTO and agriculture: European Commission proposes more market opening, less trade-distorting support and a radically better deal for developing countries", European Commission Press Release No. IP/02/1892, 16 December 2002 ([www.europa.eu.int/rapid](http://www.europa.eu.int/rapid)).
- <sup>24</sup> Participants were: Brazil, Canada, China, Colombia, Egypt, European Commission, Hong Kong SAR, India, Indonesia, Japan, Kenya, the Republic of Korea, Lesotho, Malaysia, Mexico, New Zealand, Nigeria, Senegal, Singapore, South Africa, Switzerland, Thailand, Trinidad and Tobago and the United States.
- <sup>25</sup> For an overview of NEPAD, see *World Economic and Social Survey 2002*, *op.cit.*, Box III.1, p. 111.

- 26 For an overview of the Cotonou agreement, see *World Economic and Social Survey 2000* (United Nations publication, Sales No. E.00.II.C.1), Box II.1, p.38.
- 27 For details, <http://ers.usda.gov/publications/AgOutlook/Jan2002/ao288d.pdf>
- 28 For annual estimates of the net transfer for developing countries from 1993 to 2001, see *World Economic and Social Survey 2002*, op. cit., table II.2.
- 29 For additional discussion of the net transfer concept, see *World Economic Survey, 1986* (United Nations publication, Sales No. E.86.II.C.1), annex III.
- 30 See International Monetary Fund, *Global Financial Stability Report: Market Development and Issues*, September 2002, Washington, D.C., pp. 27-53 and Institute of International Finance, *Capital Flows to Emerging Market Economies*, 18 September 2002, for additional discussion of developments in emerging market financing in the first three quarters of 2002.
- 31 In 2001, ODA was \$51.4 billion, equivalent to 0.22 per cent of GNP of the member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development, the lowest ratio ever recorded.
- 32 See "Follow-up efforts to the International Conference on Financing for Development", Report of the Secretary-General (A/57/319-E/2002/85, 16 August 2002), para. 4-14.
- 33 See World Bank, "IDA donors reach agreement on increased funding for poorest countries", News Release No. 2002/001/S, 2 July 2002.
- 34 See The African Development Bank Group, "Donors agree to provide \$3.5 billion to the African Development Fund", Press Release [No. SEGL3/F/50/02].
- 35 The Global Environment Facility (GEF) was formally launched in 1991. Its projects are carried out by various public and private partners, including the United Nations Development Programme, the United Nations Environment Programme and the World Bank.
- 36 The most recent additions to the group of HIPC's reaching completion point are Burkina Faso (April 2002) and Mauritania (June 2002). As of the time of the preparation of the 2002 edition of *World Economic Situation and Prospects*, 24 countries had reached decision point. Since then, Ethiopia and Sierra Leone reached it, bringing the total to 26 countries.
- 37 The worsening of the debt-to-export ratios in 2001, owing to falling commodity prices in Burkina Faso, Mauritania and Uganda, has been viewed with concern and has led to questions about the countries' long-run prospects for debt sustainability. For information about the progress in the implementation of the HIPC initiative, see International Monetary Fund and International Development Association, "Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation", 23 September 2002.
- 38 See UNCTAD Press Release entitled "UNCTAD predicts 27% drop in FDI inflows this year; China may outstrip U.S. as world's largest FDI recipient" (TAD/INF/PR63 of 24 October 2002).
- 39 The year 2000 may be viewed as exceptional because of the surge of cross-border M&As in that year. See UNCTAD, *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development* (United Nations publication, Sales No. E.00.II.D.20).
- 40 The figures cover deals with acquisitions of more than 10 per cent in shares.
- 41 See *World Economic Situation and Prospects 2001* (United Nations publication, Sales No. E.01.II.C.2), p. 22
- 42 See *World Investment Report 2002* (United Nations publication, Sales No. E.02.II.D.4), p. 271.
- 43 UNCTAD FDI/TNC database.
- 44 UNCTAD, *World Investment Report 2002*, op. cit., p.62, based on Xiaoning James, Zhan and Shungi Ge (2002), "Multilateral framework for investment and its implications for China", *Journal of World Economy and Policy Review* (Beijing: China Academy of Social Sciences), 4 (August): 12-21 (in Chinese).
- 45 Foreign affiliates operating in the United States repaid or made loans to their parent firms to a greater extent than they received new loans from parent firms in 2002.
- 46 See UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, for an elaboration (available at [www.unctad.org/wir](http://www.unctad.org/wir)).
- 47 For a discussion of the proposed New Capital Accord, see reports of the Secretary-General entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries" (A/55/187), 27 July 2000, sect. IV.B and "International financial system and development" (A/57/151), 2 July 2002, sect. III.A.
- 48 See "International financial system and development", Report of the Secretary-General (A/57/151, 2 July 2002), p. 10.
- 49 For a more detailed discussion of these proposals, see *World Economic and Social Survey 2002*, op. cit., chap. II, p. 23.
- 50 "Statement by the President of the Security Council", Security Council (S/PRST/2002/26), 8 October 2002.
- 51 Security Council, 4618<sup>th</sup> meeting, 4 October 2002, p. 6.





## CHAPTER III: REGIONAL DEVELOPMENTS AND OUTLOOK

**The limited economic recovery in 2002 was almost universal, and a corresponding similarity in the pattern of growth among countries is expected in 2003. A continuation of the slow recovery is foreseen, with the world economy remaining heavily dependent on the lead role of the United States of America. While there will be some distinctive regional and national features, in most cases these will be less significant than the overriding effects of the behaviour of the global economy at large.**

### DEVELOPED ECONOMIES

With activity stalling in the middle of the year, the acceleration of growth in the developed countries expected in the latter part of 2002 did not materialize. The improvement is now not foreseen until mid-2003; therefore growth for that year as a whole will be weaker than previously anticipated. In some countries, there continues to be a risk of a relapse into recession.

The delayed resurgence is attributable to a number of factors: heightened uncertainty, the continued reduction of excesses built up during the prior boom, and policy constraints. First, the usual uncertainty associated with turning points in economic activity was greatly exacerbated by the 11 September terrorist attacks, the resulting war on terrorism, and, more recently, the possibility of military action in Iraq. The response of both consumers and producers to the heightened uncertainty has been to delay expenditures. Second, rates of capacity utilization are still low, particularly in the telecommunications sector, and inventory investment has been slow to recover, both discouraging new expenditures. In the consumer sector, high levels of debt are encouraging increased savings. Finally, there is little room for policy manoeuvre and policy may begin to have contractionary effects in a number of developed countries.

#### North America: hesitant United States recovery

Unusually, there was a noticeable disparity in the economic performance of the United States and Canada during 2002. Despite Canada's obvious dependency on the

United States' economy, it achieved higher growth than all other major developed economies, while the recovery of the United States was plodding and unstable. The near-term outlook for North America remains clouded by geopolitical uncertainties, but accommodative macroeconomic policies and endogenous cyclical dynamics are expected to strengthen economic growth in the medium run (see table A.1).

After growth of 5 per cent in the first quarter of 2002, the recovery in the United States lost momentum in the remaining part of the year (see table A.2). A relapse into recession was avoided, but GDP growth for the year as a whole was just 2.4 per cent. Underlying this performance were two conspicuous dichotomies: first, resilient household spending and strong government expenditure, in contrast to continued weak business capital spending; and, second, poor financial market performance as compared to a more stable real economy.

Consumer spending in the United States in 2001 and 2002 was supported by lower interest rates, mortgage refinancing, and tax rebates; discounts and financial incentives from retailers; increases in home values, partially offsetting the negative wealth effects from equity markets; and an increase in real labour income as lower inflation compensated for some of the adverse impact of the drop in total employment. By the end of 2002, however, a weakening in consumer spending was evident and consumer confidence fell to its lowest level in several years. Continued negative wealth effects from lower equity prices, together with weak labour markets, finally led households to increase their saving rates, reducing the propensity to consume from current income. On the other

hand, although debt-servicing costs of households are high in relation to income by historical standards, they have not yet risen to unsustainable levels. Household consumption expenditure is therefore expected to slow but not to collapse.

The business sector in the United States was a drag on growth in 2002. Despite an improvement in corporate profits during the year, businesses were hesitant to increase capital spending and to hire new labour. Excess capacity from the overinvestment of the late 1990s remains high. Moreover, bankruptcies, liquidations, and layoffs during the past two years have created a glut of underutilized capital, continuing to portend weak orders for new equipment and construction in the near future. While investment continued to decline in 2002, following a similar drop in 2001, some signs of capital spending on equipment and software have emerged since mid-2002, with particularly strong growth registered in spending on computers. As the recovery progresses, further upgrading in ICT is expected to propel a revival of business capital spending.

Compared with the United States, growth of domestic demand in Canada was robust and balanced. GDP growth averaged more than 5 per cent for the first half of 2002, with strong household consumption and inventory rebuilding, and business capital spending also improving. Some softness, however, appeared by the end of 2002, particularly in manufacturing, as a result of weaker spending on automobiles and other durables in the United States. Therefore, some moderation is expected for growth in Canada, at least in the early part of 2003.

Labour markets in the two economies exhibited opposite trends during most of 2002. Until the fourth quarter, growth in employment in Canada had been rising at steady annual rates of above 2 per cent, although, as the labour participation rate also increased, the unemployment rate remained around 7.6 per cent. Payroll employment in the United States, however, continued to decline in 2002. Although the unemployment rate stabilized at around 5.6 per cent by the end of the year, it was held down mainly by the withdrawal of labour, particularly young people, from the job market. While employment in Canada is likely to stall in the near term, the unemployment rate in the United States is expected to rise until mid-2003 when the recovery of the economy strengthens.

A common characteristic of the two economies has been a prolonged downtrend in equity prices. Broad equity price indices in both the United States and Canada dropped by about 20 per cent in 2002, to levels 40 per cent below the peaks of 2000. The unsatisfactory recovery in corporate profits, revelations of pervasive financial irregularities—particularly in the United States, and heightened geopolitical uncertainties pounded equity markets that had already been depressed by the bursting of the ICT bubble in the previous year. On the bright side,

housing markets in both economies continued to appreciate during 2002, although some signs by the end of 2002 indicated a stall in housing prices.

Inflation in North America remained subdued in 2002, despite a jump in energy prices. Core inflation in the United States fluctuated around 2 per cent for the year. With excess capacity, productivity gains holding down cost increases, and well-anchored inflationary expectations, the inflation outlook remains benign. To the contrary, with the prices of several goods declining and the prices of services softening, the concern has been about deflation, but the risk remains small. Core inflation in Canada moved up and stayed above the midpoint of its inflation-targeting range (between 1 and 3 per cent) during 2002, owing mainly to increases in insurance premiums, electricity prices, and import costs resulting from a depreciation of the currency.

Monetary policies went in different directions in these two economies. The Federal Reserve (Fed) of the United States held policy interest rates at their lowest levels in four decades for most of 2002. Moreover, by the end of October, facing increasing risks of weaker-than-expected growth, in part attributable to geopolitical risks, the Fed reduced interest rates by a further 50 basis points (bps). With the federal funds rate at 1.25 per cent, the real interest rate became negative. By contrast, the Bank of Canada continued to reduce the monetary stimulus to the economy, raising interest rates three times, by a total of 75 bps, in the first half of 2002. By year-end, a differential of 150 bps existed between the policy interest rates in the two countries. The current stance of monetary policy in both economies is expected to be maintained until mid-2003, to be followed by a gradual tightening. However, there may be a need for further short-term stimulus in Canada, if the economy decelerates faster than expected.

Fiscal policy has been stimulatory in both economies, in terms of both increased government expenditure and tax cuts. In the United States, fiscal stimulus has been a major driver for the recovery, and is estimated to have added 1.5–2 percentage points to GDP since the 11 September terrorist attack. Real government spending is estimated to have grown by 7 per cent in 2002, and further stimulus is expected in 2003. Both economies have experienced a deterioration in their government budget balances. In Canada, the surplus is estimated to drop to zero; and a deficit of more than \$150 billion is estimated for the United States in 2002, widening to about \$200 billion in 2003.

#### **Developed Asia and Pacific: continuing economic weakness in Japan**

Following its recession in 2001, there were some quarterly gains in GDP in Japan during 2002, but GDP declined

further for the year as a whole, with only modest growth expected for 2003. The stabilization came mainly from a rebound in exports in the early part of the year, but household consumption and inventory restocking also added some strength in the second half of 2002. More aggressive policy measures were formulated in late 2002 to tackle the structural problems of non-performing loans (NPLs), deflation, and public deficits; however, a plethora of uncertainties remains regarding the consequences of these policies, particularly the adverse side effects on growth and employment prospects in the short run.

Driven by increased exports, industrial production, which had declined for more than a year, strengthened in the first half of 2002. Corporate profits and business sentiment also showed some signs of improvement. However, those positive signs were not sufficient to lift business investment, which declined by about 6 per cent in 2002, with no tangible growth projected for 2003. Persistent excess capacity, unfavourable corporate financing conditions and other uncertainties will continue to curb business capital spending and hiring.

Consumer confidence improved marginally during 2002, but households continue to face a deterioration in employment and income. The unemployment rate has continued to fluctuate near its historic high of 5.5 per cent reached at the end of 2001. At the same time, workers' compensation continued on the downward trend it started in the late 1990s. The latest business surveys indicate that many firms continue to perceive themselves as over-staffed and plan to reduce personnel expenses; under such circumstances, household income, as well as consumer spending, will likely remain weak.

Deflation in Japan continued during 2002, with the CPI declining some 1 per cent from the level of the previous year. Meanwhile, both equity and real estate prices continued their decade-long decline, with the index of the Nikkei 225 stocks reaching its lowest level in 19 years, during September 2002. Weak demand and a low rate of capacity utilization, combined with a fragility in the financial system that nullifies the effects of monetary easing, are expected to sustain the deflationary pressures.

Restrained by its large budget deficit and high public debt (127 per cent of GDP in 2001), fiscal policy was austere in 2002, with public investment expenditure declining by about 5 per cent on top of a drop of 6 per cent in 2001. The government budget for fiscal year 2002 (April 2002-March 2003) involves a further cut in public investment. Because the cuts in corporate income taxes that have been proposed are partially offset by a tax increase for households, fiscal policy is expected to remain restrained. A further increase in the social security contribution, cuts in social security benefits and an increase in the consumption tax are expected to be part of the medium-term effort to reduce government deficits and

debt. In the short term, any stimulus package is likely to be limited in size.

Monetary policy continues to be accommodative. The Bank of Japan (BoJ) set the target for its main policy instrument, the outstanding balance of current accounts held at the Bank, at around 10-15 trillion yen for most of 2002, up from about 5 trillion in the previous years, while the discount rate was held at virtually zero. The dichotomy between the growth of base money and that of the broad money supply, however, remained, with the former running at an annual rate of 20-30 per cent and the latter at about 3 per cent because banks did not use their extra reserves to make loans; this is a key reason for the ineffectiveness of monetary policy in reinvigorating the economy. As part of a new initiative to facilitate the disposal of NPLs and thus to shore up the financial system, the BoJ announced a plan in September 2002 to purchase equities from banks, but this would not necessarily have an impact on the outstanding balances at the BoJ.<sup>1</sup> Otherwise the current policy stance is assumed to hold through 2003.

In addition to global exogenous uncertainties, the risks that are specific to the outlook for Japan are also mostly on the downside, rooted within its economy and closely associated with NPLs, deflation and the government deficit. An accelerated disposal of NPLs would likely lead to more bankruptcies, more unemployment, and higher tax burdens, and thus weaker demand in the short run, although it may benefit economic growth in the longer term.

The economies of Australia and New Zealand performed well in 2002, after weathering the global slowdown of 2001. Domestic demand was strong across a wide spectrum of goods and services in both economies, with the housing sector being particularly vigorous. GDP growth in 2002 is estimated at 3.5 per cent for Australia and 4 per cent for New Zealand, but some moderation in growth is expected in 2003, owing to the gradual emergence of capacity limits and some cyclical factors.

The strength of domestic demand in Australia compensated for its weak exports. Household spending was an important driver of domestic demand, being supported by rising employment and higher real wages. Consumer confidence remained high. Increases in mortgage borrowing or refinancing, supported by rising house prices, also contributed to strong household consumption. The housing sector has been leading the economy, with the cyclical downturn in the sector expected to come later than originally anticipated, most likely in the first half of 2003. The high level of business confidence, continued strength in corporate profitability in the non-farm sector and easy access to low-cost funding are all contributing to a favourable investment climate. Business investment recovered in the first half of 2002 from the slowdown in

2001, but the ratio of investment to GDP remains at historically low levels. The unemployment rate has fallen to about 6 per cent, near its lowest level for a decade. Although employment growth slowed as the year progressed, the outlook for the labour market remains favourable. In New Zealand, strong domestic demand has been partly driven by an increase in immigration, the largest in recent history, substantially boosting consumer and housing demand.

Both economies experienced a slight rise in inflation during 2002, and pressures on wages and prices will remain in 2003. The central banks in both countries raised interest rates by about 50 bps in the first half of 2002 and are expected to tighten further in 2003. Meanwhile, a revision in the inflation target (from a 0-3 per cent target range over a 12 month period to a 1-3 per cent range over the medium term) is expected to add more flexibility to monetary policy for the Reserve Bank of New Zealand.

The overall fiscal stance in Australia in 2003 will have a contractionary effect on economic growth, despite increased spending on defence and domestic security. While Australia is expected to have a balanced government budget, New Zealand is likely to maintain a surplus.

### Western Europe: lagging recovery

The economic outlook for Western Europe has become generally less favourable than anticipated in early 2002. There has been no sign of the acceleration in activity previously anticipated for the second half of 2002 but, at the same time, there is little evidence of a renewed downturn, except in Germany. Acceleration is now expected in the latter half of 2003.

Growth in the EU-15 was 1.0 per cent in 2002 and is forecast at 2.1 per cent in 2003. Six countries in the EU-15 grew at less than 1 per cent in 2002, while only two countries had growth greater than 2 per cent. In 2003, 7 countries of the 15 are expected to grow by 1.5 per cent or less. Among the large economies, activity is expected to be slow in Germany and Italy, but more robust in France and the United Kingdom.

National accounts data for the EU-15 for the first two quarters of 2002 showed continuing support from consumption and government spending, but sustained weakness in fixed investment, and a continued boost from net exports, but partly because of depressed imports. Industrial production picked up in the first quarter of 2002 and continued until mid-year; thereafter activity stalled, with some sectors, particularly capital and durable consumer goods, declining. Although industrial sector weakness is widespread, Germany, Italy, the Netherlands and the United Kingdom stand out. Service sector activity has also weakened since mid-2002, but less than manufacturing, especially in countries with

stronger domestic demand, such as the United Kingdom. Construction activity was more mixed in the first two quarters of the year, turning down markedly in the euro zone owing to extreme weakness in Germany, but maintaining strength in the United Kingdom.

In light of the prevailing uncertainties and excess capacity, a continuation of the current slow growth is forecast, with some acceleration projected for the middle of 2003. The rebound is expected to be led mostly by a resumption of external demand, especially from the United States, but will be dampened by the anticipated appreciation of the euro against the dollar. With only a limited boost from domestic demand, the improvement will be modest.

Private consumption expenditure is expected to maintain its muted support for growth in the region as a whole. Declining inflation over the period should boost real disposable income. In some countries, planned income tax cuts will also provide some boost to consumption; in other countries, budgetary conditions have led to a postponement of tax cuts, and have even resulted in some tax increases. Incomes will also be restrained by the weaker employment outlook, which has also had an impact on consumer confidence. Heightened global uncertainties have reduced confidence. This is expected to lead to temporarily higher savings rates in many countries in the near term. The positive impetus to consumer spending from strong house prices in some countries is expected to moderate. At the same time, current government consumption expenditure is being held back in most countries by budgetary constraints.

Investment should be boosted by the increase in foreign demand, but will be held back by high levels of corporate debt, particularly in the telecommunications sector, excess capacity, and the uncertain profit outlook. Despite the accommodative monetary policies, the cost of capital remains high because of the fall in equity prices and the widening of corporate bond spreads over government bond yields. The diversity of rates of inflation across the area also means that those countries with the lowest rates of inflation—such as Germany—have the highest real interest rates. As capacity utilization rises and if uncertainty diminishes, these negative factors will dissipate. Inventory de-stocking continued in the first half of 2002, but at a decelerating pace; it is expected to provide some support to growth in 2003.

Modest growth, at or below most estimates of long run potential growth, led to a slowing of job creation in 2002. For the EU-15, employment growth slowed from 1.2 per cent in 2001 to 0.4 per cent in 2002. In the euro zone, this reduction translated into a decline in net job creation from 1.4 million persons in 2001 to 500,000 persons in 2002. No improvement is expected in 2003. Despite the slowing growth of the labour force, the overall rate of

unemployment rose marginally for the first time since 1996, averaging 7.9 per cent for the EU-15 in 2002; it is expected to reach 8.0 per cent in 2003. In such high unemployment countries as Greece, Italy, and Spain, unemployment continued to fall in 2002 and is expected to maintain its downward trend in 2003 (see table A.7).

The inflation situation remains a vexing problem for the region, especially in the euro zone. Except for a few months during the last three years, inflation, as measured by the harmonized index of consumer prices (HICP), has been above the European Central Bank's (ECB) target of 2 per cent. Most of the inflation can be explained by a series of supply shocks, such as increases in oil and food prices. In addition, the change over to the euro may have contributed to a one-time jump in prices at the beginning of 2002. Those effects dissipated over the year, with inflation dipping below 2 per cent in June and July, but renewed pressure from higher oil prices then pushed inflation back above 2 per cent, where it remains. More importantly, the pass through from earlier oil and food price increases has pushed core inflation (excluding energy, food, alcohol and tobacco) to around 2.5 per cent, and there has been upward pressure from wage developments. Nevertheless, with subdued growth, some moderate appreciation of the euro against the United States dollar and only a moderate increase in oil prices, the HICP is expected to remain in the 2 per cent range in the early part of 2003 and to begin a gradual decline thereafter.

Fiscal policy in the EU is at a crucial juncture. The use of automatic stabilizers and, in some cases, additional stimulus during the slowdown has led to a general deterioration in budget deficits to the point where a number of countries either have breached, or are in danger of breaching, the maximum fiscal deficit of 3 per cent of GDP embodied in the Stability and Growth Pact (SGP). Portugal was the first country to exceed the SGP limit in 2001. Germany appears to have broken the limit in 2002, while France and Italy may do so in 2003. Furthermore, the additional goals embodied in the revised Stability Programmes agreed upon in December and January 2001—that all countries would achieve budget balance by 2004—are no longer within reach for some countries and have been postponed until 2006. However, fiscal consolidation would further slow economic activity. In addition, there have been promises of tax cuts in many countries and simultaneous pressure for increased spending in some areas. To fulfil those conflicting goals would require significant spending restraint in other areas.

This situation has led to considerable debate about the design of the SGP and the possible modification of the fiscal framework. Nevertheless, the overall goal will probably be for budget balance over the business cycle, so that those countries with large deficits are likely to be required to pursue further consolidation over the medium term. The forecast therefore assumes no major fiscal con-

solidation over the short term, but a gradual and sustained consolidation over the medium term.

In the area of monetary policy, the European Central Bank (ECB) maintained its policy interest rate at 3.25 per cent from November 2001 until December 2002, despite the deterioration in growth prospects and the emergence of additional downside risks. The reason was that, as indicated above, inflation remained above the ECB's target of 2 per cent and there were concerns about further inflationary impulses in the future. The appreciation of the euro was a countervailing pressure, but most of its effect fed through into prices in 2002. The ECB cut its policy rate to 2.75 per cent in December 2002 and this rate is expected to be maintained until the second quarter of 2003. At that point, it is anticipated that interest rates will begin to be raised, by a total of 50 bps during the remainder of the year.

The euro appreciated in the second and third quarters of 2002, breaking through parity with the United States dollar in July. It then retreated somewhat, trading in a fairly narrow range. Much of this strength of the euro reflected weakness in the dollar, which resulted from the simultaneous collapse of equity values in concert with mounting doubts over accounting practices, and a consequent general re-evaluation of the prospects for the United States economy. Following the introduction of the euro, the principal driving force for the strength of the dollar was the perception of superior returns on investments in the United States, but this belief began to be increasingly questioned as 2002 progressed. In addition, the United States current-account deficit, particularly the sustainability of the net resource flows necessary to finance it, again received attention. While some moderate appreciation of the euro is expected, no further major movement is envisaged. Equity prices in Europe have been just as hard hit as in the United States—more so if measured from the beginning of 2002—while growth prospects in Europe are no less uncertain than in the United States. The euro is therefore assumed to remain close to parity with the dollar in the near term, with some upward drift over the longer term.

A key risk facing the euro zone concerns fiscal policy and the requirements of the Stability and Growth Pact. A major fiscal retrenchment in the large economies could tip the balance to recession. At the same time, the breakdown of the Pact could signal a major loss in confidence. Consequently, a very fine line has to be navigated. A mix of tighter fiscal policy and looser monetary policy would be appropriate, but there are no institutional arrangements to formally coordinate such a strategy. Nevertheless, the ECB's easing of monetary policy in December 2002 provides one of the pillars for this approach. Finally, a major appreciation of the euro, even as a reflection of dollar weakness, also poses a risk because the acceleration of economic activity in Europe depends heavily on a revival of exports.

## ECONOMIES IN TRANSITION

### Central and Eastern Europe: resilience tested

Economic growth in Central and Eastern Europe (CEE) decelerated to about 2.5 per cent in 2002, but is expected to increase to about 3 per cent in 2003. The slowdown was a result of the continuing weakness in economic activity and business confidence in the EU, the region's main trading partner; the anticipated recovery is also highly conditional on export performance. The decline in growth was almost universal. Exceptions were the former Yugoslav Republic of Macedonia, which was recovering from its recession of 2001, and Slovakia, where increased domestic consumption boosted growth.

With more subdued demand for the region's exports in 2002, strengthened domestic activity provided the impetus to growth. In such countries as the Czech Republic, Hungary and Slovakia, the source was pre-electoral fiscal spending. Stronger private and public consumption provided some protection to growth, but did not fully compensate for weaker exports. Greater integration of the region's industries into the EU's production networks provided CEE economies with some advantage over other exporters to the EU, but it also increased the region's dependence and limited its policy choices.

Within Central Europe, even the traditionally strong Hungarian economy grew below the official target of 4 per cent in 2002. The competitiveness of Hungarian exports was undermined by its strong exchange rate, and industrial production grew only marginally, impeded by the high accumulation of stocks. The economy of the Czech Republic, in addition to being setback by the weak external environment, was affected by floods, which caused damage estimated at about \$3 billion to some industrial regions and tourism centers. Although reconstruction activity provided some economic stimulus, especially to the construction sector, the Czech economy grew by less than 3 per cent in 2002.

The biggest economy of the region, Poland, grew by only 1.2 per cent in 2002, the same as in 2001. The economy is still suffering from the impact of the earlier tight monetary policy, as well as the consequences of inefficiencies in state-owned enterprises. Although nominal interest rates were lowered several times, falling inflation kept real interest rates high and investment fell in 2002. In spite of lower mortgage rates, there was no growth in construction activity; the demand for Polish exports also remained weak in 2002. The Government continues an anti-crisis programme, providing support to large enterprises, but is constrained by the public deficit, since stalled privatization has led to lower public receipts. Some improvement in growth is expected in 2003.

Weakened external demand also lowered economic growth in South-eastern Europe. Because of its currency

board arrangement, the strong euro adversely affected the competitiveness of Bulgarian exports in markets outside the euro zone, although productivity gains had the opposite effect. Consumer spending was hit by tight income policies, as well as by increased electricity prices in 2002. Economic policy in both Bulgaria and Romania is driven by their commitments to multilateral organizations, in particular the conditions embodied in IMF stand-by loans. Both countries need to complete a number of delayed privatizations, including the energy sector in Romania, and to keep their budget deficits low.

In Yugoslavia, growth in industrial production remained lacklustre in 2002, with the long-term problems of a weak industrial base and a lack of infrastructure compounded by a tightening of monetary policy. There was further progress in macroeconomic stabilization and improvement of the business environment and, at the end of the year, privatization accelerated. Large inflows of foreign aid contributed to the strong exchange rate, undermining exports, but were not used to finance the import of capital goods to the extent expected. For a significant improvement in the business environment, the economy needs to develop an efficient financial sector.

In most of the region, inflation in 2002 was lower than in 2001. This reduction largely reflects successful macroeconomic policies, but also slowing economies in some cases. Relatively stable oil prices in the first half of the year, lower food prices, appreciating currencies and the stronger euro also contributed. Inflation hit a record low in Poland and Slovakia early in the year (in the latter case owing to the freezing of administered prices and a tight monetary policy for most of the year) and subsequently even in Hungary, where inflationary pressures due to wage increases had initially forced a revision of the inflation target. For 2002 as a whole, the Czech Republic, Hungary and Poland met their respective inflation targets. Monetary and fiscal policies have reduced inflation in Romania and Yugoslavia, although it remains above the regional average in both cases. Further disinflation is expected in most of the region in 2003, for many economies in line with policies aimed at eventually joining the euro zone. The greatest inflationary risk is the possibility of higher oil prices, although large inflows of portfolio capital into the region could also exert pressure through increases in the money supply if the exchange rate does not adjust fully.

The opportunities for active policy responses by CEE countries to the global slowdown are limited. As one countercyclical instrument, monetary policy was relaxed in some cases. In Poland, despite cuts in nominal interest rates, real interest rates remain high, but further cuts are not likely in the immediate future because of concerns over the budget deficit.

Interest rates were cut to below euro zone levels in the Czech Republic in 2002, mostly to reduce capital inflows, weaken the currency and thereby increase the competitiveness of exports. Interest rates were also cut in Hungary at the beginning of the year, but then briefly reversed, mostly because of the growing public deficit and the strong expansion of credit to the private sector, before being cut again in November. Because of budget and current-account deficits, monetary policy was tightened in Slovakia but then loosened by the end of the year. In Bulgaria, the development of the domestic banking system has resulted in an expansion of domestic credit, relaxing the previously tight monetary conditions.

There was also fiscal relaxation in the region; this had the short-term effect of sheltering the economies from the effects of lower exports, but budget deficits are high. Since initial projections of growth in 2002 were optimistic and because inflation decelerated, fiscal revenues were lower than expected in many countries, adversely affecting fiscal positions. Pre-electoral fiscal spending in a number of countries, as well as support to export-oriented enterprises, put further strains on budgets. In the Czech Republic, the recovery from the floods is being financed mostly from the state budget; the general budget deficit for 2002 may be above 10 per cent of GDP and will stay high in 2003. In Poland, lower inflation is likely to reduce revenues, but budget spending has not been cut and the deficit for 2002 may exceed 5 per cent of GDP. In Hungary, the Government's fiscal spending priorities will make it difficult to meet even the revised targets for 2002 and 2003. Some progress on budget consolidation has been achieved in Bulgaria and Romania. For most of the region, the assumptions regarding growth that underlie the 2003 budgets are optimistic.

Helped by the prospect of EU membership, the region continued receiving inflows of FDI in 2002, albeit at a slower rate. Domestic savings in the region are still insufficient to finance necessary fixed capital formation and some weakening in fixed investment, in particular in Hungary, Poland and Slovakia, may make the sustainability of growth questionable. In 2002, state-funded infrastructure projects were an important element of investment in Hungary. Higher rates of investment are needed, especially in the former Yugoslav States.

The employment situation in the region remains difficult, especially in rural areas. The rates of registered unemployment are highest in Bulgaria, Poland, Slovakia and most of the former Yugoslav States. Incomplete enterprise restructuring (especially in the countries lagging in their structural reforms), lower import demand, increased labour productivity in the industrial sector and structural changes in the agricultural sector in the wake of the EU accession are impediments to an improvement in the situation.

There were no significant improvements in the current accounts of CEE economies in 2002. In general, a shift from export-led to domestically-driven growth increased imports, adversely affecting current-account balances. Also, floods damaged the region's tourism industry, to the detriment of the services balances, and there was increased repatriation of investment income, especially from the Czech Republic. In most cases, the trade deficits were fully covered by FDI inflows; countries also benefited from low international interest rates if borrowing.

For most CEE countries, preparations for EU accession dominate macroeconomic policies. The required actions include the harmonization of economic policies, business regulations and tax systems with those of the EU and the reduction of subsidies to state-sponsored sectors. Many of the major obstacles to the enlargement were removed by the EU summit in October 2002, when a common approach was adopted to the most difficult issues of the enlargement, including agricultural policy and regional aid. The summit endorsed the European Commission's view that eight of the ten candidates from the CEE and the Baltics countries will be ready to join the European Union as early as 2004.

If the expected improvement in EU growth materializes in 2003, there should be an accompanying acceleration in the CEE countries. The biggest short-term risks for the region are a prolonged slowdown in the EU and an increase in oil prices (since these are all oil-importing countries).

### **Commonwealth of Independent States: further autonomous growth**

Growth in the Commonwealth of Independent States (CIS) is decelerating from the record rates registered in the past two years, but remains robust (see table A.3). The deceleration reflected mostly a slowdown in the Russian Federation, as a result of lower oil prices in 2001 and early 2002. The Russian Federation is critical to the overall performance of the region, not only because it is the largest economy but also because it remains the major export market for most CIS countries, even though these links have been weakening<sup>2</sup>. A similar regional growth rate is expected in 2003, driven mainly by robust domestic demand in the Russian Federation and Ukraine, as well as an oil-related investment boom in the Caspian region.

Growth in the Russian Federation and Ukraine continued to be driven by robust domestic consumption, itself fuelled by rising real wages, increasing consumer confidence and, in the Russian Federation, improving levels of employment. Investment in the Russian Federation was disappointing but is expected to improve, particularly in the oil sector because of stronger oil prices and the end of

the restrictions the Government had imposed on oil exports.<sup>3</sup> FDI into the Russian Federation remains minuscule despite the country's efforts to improve its investment climate. On the other hand, capital flight from the Russian Federation was only \$2.1 billion during the first six months of 2002, compared to \$10.5 in the same period of 2001. Ukrainian growth slowed in the course of 2002 owing to a slowdown in the key metallurgy sector (caused by weak global demand, increasing competition in foreign markets and continued restrictions on exports to the United States and the Russian Federation).

Recovery in the two economies is expected to continue but, without further restructuring and a substantial increase in investment, supply bottlenecks will continue to constrain output growth. The possibility of conflict in Iraq also poses risks for the Russian Federation because of its close trading links with that country. The two countries have been planning a \$40 billion trade deal that might not materialize in the event of a conflict.

Caspian oil and gas-producing countries continued to grow at high rates in 2002. Growth in Azerbaijan and Kazakhstan was driven by the rapid increase in investment, mostly FDI related to large-scale oil and gas projects. The resulting strong growth in industrial output and in construction spilled over into the transport and communication sectors. The oil boom in those countries is expected to continue in 2003, with further inflows of FDI and increased export capacity coming on-stream. The construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which started in September 2002, will also benefit Georgia, since its section will attract a large amount of investment. Notwithstanding their relatively bright prospects, Azerbaijan and Kazakhstan remain highly vulnerable to oil price shocks since their non-hydrocarbon sectors are lagging because of insufficient restructuring. Turkmenistan, another hydrocarbon exporter, is also expected to continue to grow rapidly in 2003 if the Russian Federation and Ukraine maintain their import demand. The country's dependence on those markets may lessen if an alternative pipeline from Turkmenistan through Afghanistan to Pakistan is built. This project is once again under active consideration.

Other smaller economies of the region, with the exception of Kyrgyzstan, enjoyed a third consecutive year of positive growth in 2002. In Armenia, rapid growth was largely attributable to the booming construction sector. There was also continuing recovery in the industrial sector, mostly in jewelry and metal production, as well as food processing. Strong growth is expected to continue, albeit at lower rate, in 2003. Tajikistan and the Republic of Moldova also achieved strong growth in 2002, mostly reflecting continued industrial expansion and, in the Republic of Moldova, strengthening domestic demand. Growth in those economies will decelerate somewhat in

2003 owing to inadequate restructuring (see table A.3).

Conversely, Kyrgyzstan's GDP contracted because of a drop in gold production.<sup>4</sup> Additionally, political turmoil continues to impede reforms and policy-making. Kyrgyzstan is expected to return to positive growth in 2003 as gold production recovers. The immediate economic prospects for Belarus and Uzbekistan are poor. Over the longer term, any improvement will be contingent on each country's commitment to reform and on increased rates of investment.

The military operation in Afghanistan provided greater international visibility to the Central Asian countries, which expanded their international cooperation following the 11 September attacks. Uzbekistan has already benefited from the renewal of relations with multilateral and bilateral lenders, which will enable the Government to pursue its structural investment programme. The rebuilding of Afghanistan is providing an additional export market for construction materials from bordering countries.

Unemployment continued declining in the Russian Federation (see table A.7). In most other CIS countries, unemployment remains high, but changes are difficult to trace owing to the unreliability of official data.

Current-account balances in the region continued to deteriorate as a result of weak export demand, lower energy prices in the first quarter of the year and growth in imports.<sup>5</sup> All these countries, except the Russian Federation and Ukraine, reported current-account deficits in the first half of 2002. A modest narrowing of the Russian current-account surplus is expected in 2003. Ukraine is likely to maintain its current-account surplus in 2003; the prospects for its terms of trade remain favourable since prices of steel, which accounts for about 30 per cent of its exports, are expected to rise.

The Russian Federation had a third year of fiscal surplus in 2002, although smaller than in previous years. The Government has approved a draft 2003 budget with a surplus of 0.6 per cent of GDP, including the large debt payments due during the year. Despite progress in debt restructuring, Ukraine also faces a peak of foreign debt payments in 2003. Payment may prove challenging in the light of the IMF's decision to halt its financing because of the slow pace of reforms.

Inflation continued declining across the region in 2002 (see table A.3) as a result of relatively tight fiscal and monetary policies in many countries and lower oil prices in the first quarter of the year. Ukraine reported its lowest rate of inflation since transition began, with deflation over the first ten months of the year. Nevertheless, inflation remains a concern in the Russian Federation and in such slowly reforming countries as Belarus and Uzbekistan. The Russian central bank continued absorbing large foreign currency inflows, which increased the growth of the money supply and exerted inflationary



pressures on the economy. Because it has declined, the budget surplus, which served as one of the limited range of sterilization instruments available to the Russian Government, has become less effective in this regard. Belarus, Turkmenistan and Uzbekistan continue to use monetary emission to finance state-sponsored projects and to subsidize inefficient enterprises. Stubbornly high inflation in Belarus is not likely to fall below 50 per cent in the absence of far-reaching reforms.

No drop in the average rate of inflation in the region is expected in 2003 as the Russian central bank, despite its declared target of 10–12 per cent inflation, continues to target the real exchange rate in order to protect domestic producers; this policy is likely to lead to inflation exceeding the target. The modest narrowing of the current-account surplus projected for 2003, together with the promised cut in the foreign-exchange surrender requirement, will slow the growth in the money supply to only a limited extent.

### **Baltics countries: buoyancy sustained**

The Baltic economies have fared relatively well in the weak global economy. Following a slowdown at the beginning of 2002, growth of output accelerated in the second quarter and the region grew by an estimated 5 per cent in 2002, with continued sluggish import demand from the EU offset by buoyant domestic demand and relatively strong import demand from the CIS. In 2003, growth is forecast to accelerate to about 5½ per cent as a result of the improved external environment and continued robust domestic demand (see table A.3).

The trends in revenues related to the transit of Russian oil, which have traditionally been an important contributor to growth in the Baltic region, were diverse in 2002. Transit freight through Latvian ports decreased by almost 5 per cent in the first half of 2002 as a result of the Russian Federation's opening of a new oil terminal on the Gulf of Finland. Lithuania, on the other hand, recorded a 20 per cent increase in rail freight in the first half of 2002, thanks mainly to increased volumes between the Russian Federation and the Kaliningrad enclave.

Investment led the revival of domestic demand in Lithuania, (over 20 per cent growth in the first half of 2002) and contributed significantly to growth in the other two countries. Private consumption was boosted by increased wages and credit expansion and, in Estonia and Lithuania, by declining unemployment.

On the supply side, construction and retail trade were the largest contributors to economic growth in the region, reflecting an expansion in bank lending as a result of low and declining interest rates, as well as continued bank restructuring and consolidation. The growth of industrial output was moderate, but accelerated in the course of 2002. In Lithuania, oil refining, the largest industrial sec-

tor, continued to decline because of disruptions in deliveries of oil to the Mazeikiiai refinery.

The current accounts of the Baltic countries are expected to continue showing large deficits. Estonia recorded its highest deficit (12 per cent of GDP in the third quarter) as a result of a particularly sharp decline in exports. Improvement in the region's current-account deficit is contingent on recovery in the EU countries and increased demand for Baltic exports. The high current-account deficits continue to be financed mainly by FDI. FDI inflows into Latvia and Lithuania increased substantially (by 50 per cent in the case of Lithuania), but those into Estonia decreased by about 30 per cent compared to the previous year.

Inflation in the region declined (see table A.9), mainly because of a fall in food prices during the summer months and lower import prices owing to the appreciation of their euro-pegged currencies against the dollar. Inflation is forecast to inch up in 2003, reaching 2½ per cent, as a result of increasing prices of imports, mostly of energy, and continued strong domestic demand.

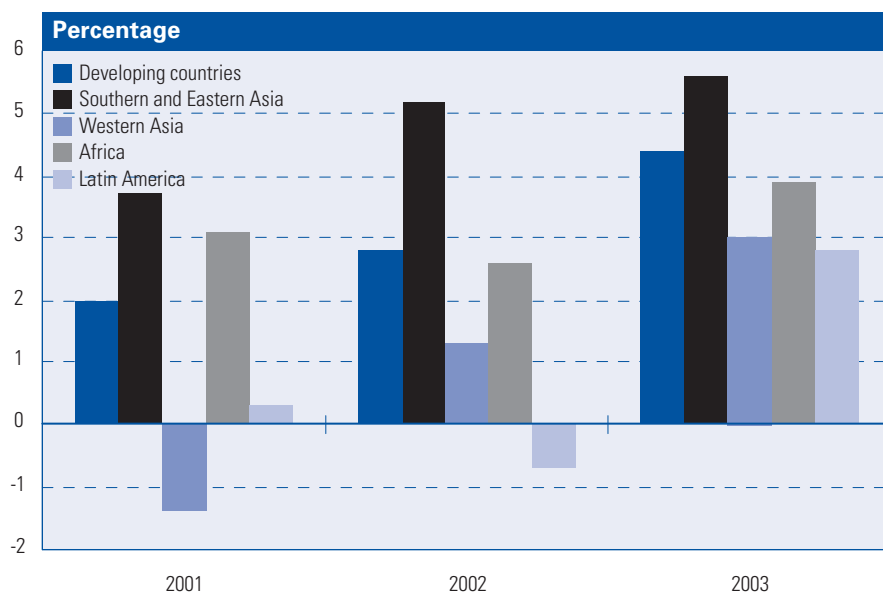
EU accession continues to serve as an external policy anchor for the Baltic countries. Maintaining a currency board or a close equivalent reduces the scope for applying monetary policy tools and makes prudent fiscal policy particularly important. All three countries maintained a tight fiscal stance in the first half of 2002. Both Estonia and Lithuania reported surpluses and the Latvian budget was almost balanced. A slight loosening of fiscal policy in the region is expected in 2003, not only because of the need to cover the costs of NATO memberships and EU accession requirements, but also because of upcoming presidential elections in Lithuania and a second supplementary budget in Estonia.

## **DEVELOPING ECONOMIES**

Constrained by fragile fiscal positions and an unfavourable external environment (and, in a few cases, by inflation), developing countries' rate of growth improved only marginally in 2002. Growth was disappointing in most economies, with the important exceptions of the two most populous countries and the handful of countries that could effectively implement counter-cyclical policies. For the group as a whole, GDP grew by 2.9 per cent in 2002, compared with 2 per cent in 2001. By region, East Asia recovered relatively strongly, Western Asia much less so, South Asia maintained its moderate growth, Africa experienced some deceleration and Latin American GDP contracted (see fig. III.1).

Growth is forecast to accelerate to 4.3 per cent in 2003, largely on account of anticipated stabilization in some crisis-stricken Latin American economies and, to a lesser extent, continued strengthening of domestic

Figure III.1.  
DEVELOPING COUNTRIES: ANNUAL RATES  
OF REAL GDP GROWTH, 2001-2003



Source: UN/DESA.

demand in countries that have been able to sustain growth in 2002. The anticipated progressive improvement in international trade will also support faster growth. An interruption in developed countries' recovery and an increase in geopolitical tensions are the major risks confronting the developing economies.

#### Africa: growth slows

Africa's 2002 GDP growth of 2.9 per cent reflects a slowdown from its 2001 performance (see table A.5). The deceleration was due to lacklustre external demand, depressed prices for many primary commodities (see chapter 2), drought in eastern and southern Africa, and political and economic instability in some of the largest economies. The result of those forces was declines in consumption and foreign direct investment. Additionally, despite renewed pledges of increased official development assistance, little new bilateral assistance has yet appeared. The region's GDP is forecast to grow by about 4 per cent in 2003.

In a reversal from previous years, the large economies of North Africa grew less rapidly than most of sub-Saharan Africa, reducing the aggregate growth rate for the continent. Despite sustained oil prices, Algeria and the Libyan Arab Jamahiriya experienced slow growth in 2002 owing to oil production cuts made to abide by OPEC quotas. In Egypt, Morocco and Tunisia, the tourism industry—an important source of their foreign exchange and economic activity—has yet to rebound fully from the negative impact of the 11 September ter-

rorist attacks. In all three economies, GDP growth slowed in 2002 as export demand for those countries' goods and services, particularly from the European Union, their main trading partner, decelerated during the year. Egypt was particularly hard hit. As a result of uncertainties about military action in Iraq, their vulnerability to terrorism (as evidenced by the April 2002 attack in Tunisia) and the slow growth expected in Western Europe, the North African economies, although recovering, will continue to grow below potential.<sup>6</sup>

GDP growth for sub-Saharan Africa (excluding Nigeria and South Africa) was 3.7 per cent in 2002, and is expected to be above 4 per cent in 2003. In most countries, the improvement in 2002 could be attributed to increased agricultural output, but drought in several countries in southern Africa caused widespread crop failures, leading to severe food shortages and the most severe threat of famine in over a decade. An estimated 14 million people in several countries face a high risk of malnutrition and famine in early 2003. Poor rainfall also affected agricultural production and economic activity in the Sahel region of West Africa and in several countries in Eastern Africa in the latter part of 2002.

The increasing number of countries in sub-Saharan Africa with an expanding oil sector continued their recent robust growth in 2002. Angola, Chad and Equatorial Guinea registered double-digit growth in 2002, almost entirely owing to increased petroleum production and exports. The management of their oil and gas wealth poses challenges for these smaller oil-exporting countries' development strategies over the long term, but many

are expected to fare well in the near term because they are not bound by OPEC production limits and are attracting large foreign investments. Conversely, economic growth in Nigeria, the subregion's largest fuel exporter and sole OPEC member, slowed in 2002, partially because of oil production restraints and its heavy dependence on the energy sector, but also because of uncertainties in the lead-up to elections in 2003. With internal stability and an increased OPEC quota (see chap. II), Nigeria is expected to return to growth approximating 4 per cent.

Manufacturing output rose throughout Africa as a result of increases in consumer demand in some countries, improvements on the supply side (such as higher agricultural output and less disruption in energy supplies) and increased shipments to the United States under the African Growth and Opportunity Act (AGOA). Kenya and Nigeria are cases in point. Large currency depreciations in South Africa and several North African countries also supported growth of manufacturing, although sluggish growth in Western Europe partially offset the benefits of improved competitiveness for exports. South Africa grew by 3.5 per cent in 2002, boosted by increased consumer spending, strong export growth and net inflows of financial resources.

Most countries in the region continued to follow prudent fiscal and monetary policies to preserve macroeconomic stability and reduce inflation. Nonetheless, earlier increases in oil prices and higher food prices increased inflationary pressures in 2002. In the case of South Africa, currency depreciation in the fourth quarter of 2001 caused the country to miss its inflation target for 2002, despite tighter monetary policy.<sup>7</sup> A few economies are experiencing double-digit rates of price increase, largely as a result of fiscal and/or monetary indiscipline. Inflation in the region was below 8 per cent in 2002 and is expected to decline slightly in 2003 (see table A.5).

Most African economies continued to benefit from improved political and economic governance in 2002. Additionally, progress in resolving the conflicts in Burundi, the Democratic Republic of the Congo, Somalia and the Sudan, together with the apparent settlement of some of the more obdurate conflicts in Angola, Eritrea, Ethiopia, Madagascar and Sierra Leone, greatly improved the prospects for peace, stability and economic growth in those countries and their wider subregions.

In other cases, political difficulties damaged economic performance in 2002. GDP in Zimbabwe contracted by 12 per cent amidst continuing controversy over its land redistribution policy, widening fiscal deficits, excessive money supply growth, rising inflation, widespread drought and famine, severe fuel shortages, inadequate foreign exchange for essential food and fuel imports, and growing isolation from donors and international financial institutions. It now faces a third year of economic con-

traction. The volatile political situation in Côte d'Ivoire will depress growth in that country and in West Africa at large. With the mass exodus of its foreign workers, Côte d'Ivoire has lost the backbone of its cocoa economy, and other countries in the region have lost remittance flows, the locus of FDI and a prime engine of growth. The contagion effects of that crisis are considerable; especially affected are the landlocked countries of Burkina Faso, Mali and Niger, whose economies have had to absorb not only reduced remittances and an inflow of returned migrants, but also substantially higher transshipment costs.<sup>8</sup>

Despite these challenges, Africa's GDP growth is expected to accelerate to 4.2 per cent in 2003 as some of Africa's largest economies—such as Algeria and South Africa—begin to expand more quickly, and as the recovery in domestic economic activity that some countries experienced in 2002 is consolidated. This forecast hinges, however, on continued improvements in the external environment, notably some recovery of commodity prices, and, on the domestic front, an absence of natural or man-made shocks. Moreover, civil unrest of the type witnessed in the Central African Republic, Côte d'Ivoire and Zimbabwe and possible disruptions because of elections in several other countries could adversely affect these projections.

### **East Asia and China: domestic demand remains resilient**

The economic recovery in East Asia that began in late 2001 strengthened during the first half of 2002. By the second quarter of 2002, economic growth had begun to increase in all economies in the region. The recovery continued in the third quarter but signs of moderation, along with a deterioration in the external environment, emerged towards the end of the year. Meanwhile, growth in China—which had sustained its robust economic performance in 2001—increased to 7.8 per cent in 2002. For the region as a whole, GDP growth is estimated at 5.2 per cent (see table A.5).

Both domestic demand and exports supported the recovery. Exports increased sharply during the first half of 2002, driven mainly by the rebound in import demand in the United States, surging intraregional trade and the upturn in the ICT sector. Other major non-ICT exports also picked up. The contribution of net exports to growth, however, was mitigated by the concurrent upturn in imports caused by expanding domestic demand and rising demand for inputs for export industries. In the case of China, there was strong growth of imports from other countries in the region (see chap. 2).

Domestic demand strengthened gradually, with private consumption and public spending leading the recov-

ery. In several economies, low interest rates, fiscal stimuli, rising incomes and easier access to consumer financing supported private consumption. In Hong Kong Special Administrative Region of China (SAR), Singapore and Taiwan Province of China, however, high unemployment and weak real property prices restrained private consumption.

Excess capacity, declining stock prices<sup>9</sup> and low business confidence continued to constrain private investment in many economies. In China, however, fixed investment increased by about 14 per cent in 2002, leading the growth of domestic demand. While government investment continued to play a catalytic role in that country, non-government investment gained momentum, with real estate showing particular strength. The growth of household consumption was below 6 per cent in 2002.

On the supply side, in most economies both the industrial and service sectors rebounded robustly from the slowdown of 2001. Export-oriented industries, especially the ICT sector, led the upturn in industrial output, which spread to other industries. Agriculture performed well in the region, except in the Republic of Korea and Malaysia. Growth in the service sector picked up as economic activity recovered. Nonetheless, in such countries as Indonesia and the Philippines, terrorist attacks hurt tourism and transportation. Looking ahead, those two countries additionally remain vulnerable to the possible adverse consequences from the “El Niño” weather phenomena.

In line with increasing output, open unemployment began to fall gradually in many countries during the first half of 2002 (see table A.10). Unemployment rates, however, are still well above their levels prior to the 1997 financial crisis. In the Republic of Korea, the rate fell to 2.7 per cent in July, its lowest since the crisis. In Hong Kong SAR, Singapore and Taiwan Province of China, on the other hand, unemployment increased to record levels during the first half of 2002, owing to the slow pace of economic activity and continuing corporate consolidation. In China, rising unemployment and a large amount of surplus rural labour remained a drag on aggregate household consumption. There has also been an increasing gap between rural and urban households in the growth of disposable income, further widening inequality in the country.<sup>10</sup>

Inflation was benign in most economies, except in Indonesia, where, although falling, it was still high at the end of the third quarter of 2002 (see table A.10). Hong Kong SAR and Singapore, on the other hand, continued to face deflation, reflecting excess capacities and weak property prices. China also faced the return of deflationary pressures as enterprises cut prices to attract customers, and production costs declined owing to lower commodity prices and reduced tariffs, the latter as a result of the country's accession to WTO. For the region,

average annual inflation fell to 2.4 per cent in 2002. In most economies, with the exception of Hong Kong SAR, inflation is expected to edge up in the near term (see table A.5).

With subdued inflation and steadily falling interest rates in the United States, monetary policy in most economies remained accommodative in 2002. There were sharp interest rate cuts in the Philippines, whereas Indonesia eased its monetary policy gradually throughout the year.<sup>11</sup> Interest rates reached historically low levels in many economies and are likely to remain so for some time, as heightened uncertainties regarding the sustainability of the recovery have caused policy makers to postpone their expected policy shift. The Republic of Korea, for instance, raised its overnight call rate by 25 bps in May but, with the softening of external conditions, no further increases in interest rates have occurred. If the recovery is secured and inflation edges up, a shift in policy by an increasing number of countries is likely in 2003. China, however, is expected to maintain its current low interest rates.

Countries where the recovery had solidified, or where fiscal deficits and public debt burdens were high, either began to shift their fiscal policies to neutral in 2002 or maintained their restrictive stance. Indonesia and the Philippines were examples of the latter. In the Philippines, however, additional expenditures on security and preventive measures against “El Niño” caused the fiscal deficit to exceed its target for 2002. Indonesia continued to make progress in reducing its fiscal deficit in 2002 and additional measures (increased taxation and cuts in subsidies) are envisaged for 2003. Hong Kong SAR and Taiwan Province of China shifted to restrictive policies in 2002, but with no positive impact on their fiscal balances. The Republic of Korea adopted a more neutral fiscal stance as its economic recovery strengthened in the first half of the year. Its budget for 2003 envisages that a modest increase in spending will be financed by increased tax receipts so that the fiscal balance will be maintained.

Malaysia and Singapore maintained an expansionary policy in 2002. As the recoveries become secure in 2003, however, their fiscal policies are also expected to become less expansionary owing to concerns about medium-term fiscal sustainability. Nevertheless, most East Asian economies still have room for additional policy stimuli and are likely to be cautious in reducing fiscal stimuli if they are faced with moderating global demand. China, on the other hand, is expected to maintain an accommodative fiscal policy, although its effectiveness needs to be enhanced. Fiscal reforms, including tax reform, should aim to stimulate the effective demand of both businesses and households. Furthermore, fiscal policy needs to strengthen its role in redistribution so as to alleviate widening income gaps.

The recovery in East Asia, although delayed, is expected to continue in the near term. Barring major exogenous shocks, growth in the region is forecast to be 5½ per cent in 2003. The strength of exports will continue to be a key factor shaping the recovery of those economies. The region's ICT exports, although currently subdued and generally highly volatile, are expected to grow as ICT spending in the region increases and demand from the United States continues to recover.

Growth in private consumption, except in economies such as Hong Kong SAR and Taiwan Province of China, is expected to remain resilient. The strong growth in investment in China is likely to continue, driven by the country's will to expand in the global market for manufactures and to meet the increase in domestic demand. Nonetheless, at nearly 40 per cent of GDP, the high investment ratio poses potential risks for the stability and sustainability of economic growth in the future, particularly if FDI suddenly dwindles or if a bubble develops in the real estate market. In the other economies of the region, the upturn in investment—supported by a revival in exports and accommodative policies—will be more modest. In the case of Indonesia and the Philippines, the terrorist attacks of 2002 will have a negative impact on growth, at least in the short term, as foreign tourists and investors avoid those two economies. Furthermore, there are likely to be spillover effects throughout the region.

### **South Asia: moderate growth continues**

After an improvement in the first half of 2002, South Asia's economic growth moderated. The upturn was driven mainly by favourable agricultural production in India and Sri Lanka, a rebound in the region's exports and expansionary policies in a number of countries. From mid-2002, however, an unfavourable monsoon, weaker demand from major developed countries and higher oil prices dampened the upward momentum in the region. For 2002 as a whole, real GDP growth is estimated at 4.6 per cent, about the same as in 2001. A modest acceleration is forecast for 2003.

In the first half of 2002, there was a harvest-related recovery in domestic demand, and consumption in particular, in India and Sri Lanka. Investment in India (particularly construction) also rebounded, supported by policy stimuli and rising economic activity. Domestic demand in most other countries, however, was weak. Exports picked up in all countries of the region, except Nepal and Sri Lanka where they continued to decline.

Sectoral performance was uneven across the region. Agricultural output was disappointing in Bangladesh, Nepal and Pakistan. After sluggishness for the previous year and a half, manufacturing began to recover in India, driven by consumption and exports. In Bangladesh and

Nepal, the service sector remained weak. Tourism remained depressed in Nepal because of the continuing insurgents' violence. In other countries, the service sector performed more favourably.

Inflation in the region was 4.4 per cent in 2002. Given the low rate of inflation and the need to support growth, most countries continued to lower key interest rates steadily during the year. Accommodative monetary policies are expected to continue for a while, but the need to finance large and rising fiscal deficits will limit those countries' capacities to lower interest rates.

Fiscal policy remained expansionary in fiscal year 2001/2002. Most countries, with the exception of Bangladesh, could not meet their fiscal targets because slower-than-expected growth produced revenue shortfalls; structural factors, including a narrow tax base and inefficient revenue collection, aggravated the problem.<sup>12</sup> Budgets for fiscal year 2002/2003 have continued to focus on reining in fiscal deficits, mainly through revenue increases, by improving the tax system and stepping up privatization. Political resistance and the need to support economic growth, however, will continue to temper those efforts. Expenditures are budgeted to increase only modestly, but higher spending on security and the farm sector by some countries is likely to result in overruns.

Economic growth is forecast to accelerate to 5¾ per cent in 2003. The expected strengthening of exports, together with a return to normal levels of agricultural production, will be key factors underlying growth. Domestic demand is also expected to strengthen, but not to reach full potential in 2003, owing to higher oil prices, security concerns and, in some countries, the lagged effects of unfavourable monsoons on rural consumption. The industrial and service sectors should pick up as external demand strengthens but, particularly in major garment-exporting countries, such as Bangladesh and Sri Lanka, the industrial sector will continue to face keener competition.

The outlook for South Asia involves several major risks. A rebound in agricultural production in Bangladesh, India and Nepal depends on the return of normal weather. In Nepal and Sri Lanka, domestic peace will remain a key factor for recovery, while tensions between India and Pakistan, if heightened, will depress investor confidence. Furthermore, an increase in the large fiscal deficits will have negative implications for inflation and growth.

### **Western Asia: growth resumes but modestly**

The year 2002 witnessed little progress in key factors determining economic growth in Western Asia. Oil production remained constrained; the conflict between Israel and Palestine escalated during the year; Israeli GDP con-

tinued to contract in 2002; and the Palestinian economy remained in the doldrums. The conflict also affected neighbouring countries, as tourism receipts and investment flows declined. Furthermore, the decline in world stock markets and the possibility of military action in Iraq further weakened consumer and investor sentiment throughout the region. With the exception of Turkey, which was slowly recovering from its severe recession in 2001, most economies in the region experienced either a slowdown or a recession in 2002. The region's GDP is estimated to have grown by 1.3 per cent in 2002, mainly because of Turkey's turnaround. In 2003, growth of 3 per cent is expected.

In line with lower OPEC quotas (see chap. 2), oil production declined in the region's fuel-producing countries in 2002 (see fig. II.3). Although not bound by OPEC quotas, Iraq's oil production also fell in 2002, in part owing to the country's temporary suspension of exports. In addition, the non-oil sectors of those economies did not perform well because of the negative impact of increased geopolitical tensions on domestic consumption and investment, although favourable weather in countries previously affected by droughts or floods (for example, the Islamic Republic of Iran and the Syrian Arab Republic) contributed to a rebound in agricultural production.

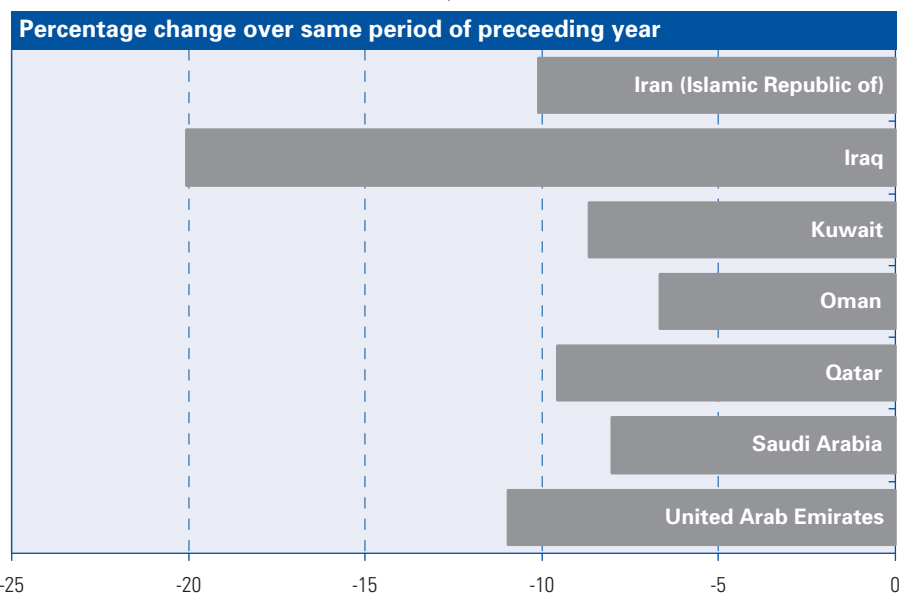
The slowdown of the oil-exporting countries negatively affected neighbouring countries, which depend on them as export markets. Additionally, the increased tensions in the region reduced tourism, adversely affecting the service sector. Economic recession persisted in Israel owing to the security situation, the tepid recovery of

external demand and the continued consolidation of the ICT sector. Turkey, on the other hand, began recovering from a major recession: its growth during the second quarter was about 8 per cent, driven mainly by stock-building. Growth then moderated because of the negative impact on investment and consumption caused by the increased regional geopolitical tensions and the political uncertainty created by the November elections.

The region's weak economic performance had a negative impact on employment. Unemployment has been rising and remains high on the policy agendas of both oil-exporting and non-oil exporting countries. In oil-exporting countries, expatriate workers account for more than half the labour force but, with declining economic growth and a rising number of young nationals entering the labour market, governments have attempted to create employment opportunities for their nationals and to replace expatriate workers with nationals. Nevertheless, unemployment among nationals continues to rise; the official rate reached 14 per cent in some countries in 2001 and is unlikely to have improved in 2002. For example, by mid-2002 the official unemployment rate had reached 15.4 per cent in Jordan, up from 14 per cent in 2000. In Israel, unemployment affected 11 per cent of the labour force by the end of 2002, a further deterioration from 9.3 per cent in 2001. Despite the economic recovery in Turkey, the unemployment rate increased to 10 per cent in 2002 from 8.5 per cent in 2001. With the collapse of the Palestinian economy, its unemployment rate increased to over 50 per cent of the labour force in 2002.

Figure III.2.

SELECTED WESTERN ASIAN FUEL EXPORTING COUNTRIES:  
AVERAGE CRUDE OIL PRODUCTION, FIRST 9 MONTHS OF 2002



Source: United States Energy Information Administration, *International Petroleum Monthly*, November 2002 (<http://www.eia.doe.gov/ipm>).

Note: Includes oil condensates.

The declining inflation in the region since 1995 was interrupted in 2002. In Bahrain, Oman and Saudi Arabia (which had experienced deflationary trends for several years) the gradual removal of subsidies for housing, healthcare and transport was one factor underlying higher inflation. Nonetheless, inflation remains low in the oil-exporting countries, with the Islamic Republic of Iran being the only one to register double-digit inflation in the year.

In the oil-importing countries, inflation in 2002 was linked mostly to movements in the exchange rate and to higher oil prices. In Israel, inflation was 1.1 per cent in 2001, but reached 6.8 per cent during the first nine months of 2002, compared with the target of 2-3 per cent for the year. In Turkey, the monthly rate of inflation slowed owing to the lagged effects of the currency appreciation and tight monetary policy. Despite subsequent pressures on the currency and higher oil prices, annual inflation, at 33.4 per cent in October 2002, was below the official target of 35 per cent.

Monetary policy in most oil-exporting countries remained unchanged in 2002, despite the acceleration in inflation. Most countries continued to peg their currencies to the United States dollar and were supported by abundant foreign reserves and assets. Conversely, monetary policy was tight in Israel and Turkey owing to inflationary concerns. The deviation from its inflation target has prompted the Bank of Israel to increase its interest rate by 5.3 percentage points since March 2002. Meanwhile, the central bank of Turkey cut interest rates several times as inflation declined. Real interest rates, however, remained high.

Fiscal policy was not conducive to growth in most countries of the region in 2002. Oil-exporting countries had framed their 2002 budgets under conservative assumptions with regard to oil production and prices, and had envisaged continued fiscal consolidation. As in the past, reducing current spending remained politically sensitive, making cutting public investment the preferred means to reducing expenditure. Fiscal deficits are estimated to have increased in 2002, but by less than originally anticipated owing to higher oil prices after mid-2002. In Turkey, the public sector's primary surplus increased: fiscal revenues improved thanks to the economic recovery and enhanced tax collection, while higher public spending helped to sustain domestic demand. In contrast, Israel's defence spending increased and its fiscal revenues declined (owing to its weak economy), causing the fiscal deficit to increase to an estimated 4.5 per cent of GDP in 2002, against a revised target of 3 per cent. The unexpected increase led the Government to implement an emergency economic package aimed at reducing spending and increasing taxes, these measures are likely to constrain economic growth in the near term.

Despite the downside risks, the forecast is for an acceleration in growth in West Asia to 3 per cent in 2003. While oil production is expected to remain constrained, non-oil output is anticipated to increase with several industrial and infrastructure projects coming on stream. Furthermore, owing to the firming of oil prices, most fuel exporters have indicated a rise—though small—in government spending. Both fiscal and external balances in the oil-exporting countries will continue to improve. Some oil-importing countries will also benefit from increased workers' remittances, more soft loans and enhanced market opportunities. With international trade anticipated to continue its slow recovery, external demand should provide support to economic activity. In Israel, however, growth will remain constrained by tight fiscal and monetary policies, while growth in Turkey will be moderated by the need to continue to produce a primary surplus and reduce inflation.

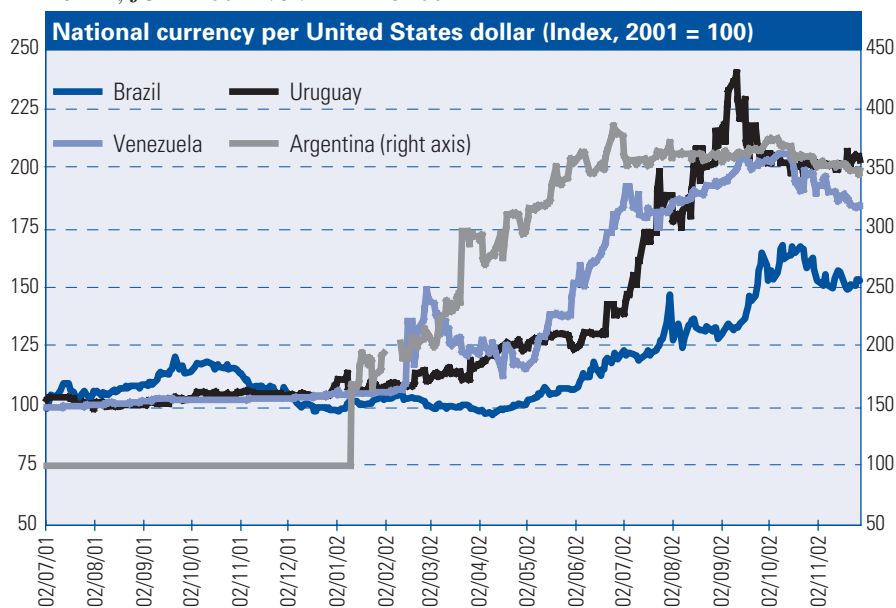
#### **Latin America and the Caribbean: GDP contracts amid financial concerns**

GDP is estimated to have contracted by 0.7 per cent in Latin America in 2002—the second consecutive year of declining per capita output in the region. The main sources of this worse-than-anticipated outcome were the continuation of a deep economic crisis in Argentina and its negative consequences on neighbouring countries, the worsening economic conditions in Brazil, the sluggish economic recovery in the United States, the low commodity prices and the reduced levels and higher costs of private foreign capital inflows. Growth is forecast to increase to 2¼ per cent in 2003, largely reflecting a turnaround in Argentina and a continuation of the recovery in Mexico.

Except for a few countries (such as the Dominican Republic, Ecuador and Peru), the region remained mired in slow growth, with outright recessions in Argentina, Barbados, Paraguay, Uruguay and Venezuela. Growth in Brazil, the region's largest economy, was sluggish owing to weak internal demand in a context of very restrictive monetary and fiscal policies. Additionally, foreign investor confidence deteriorated sharply, with panic over a possible default "à la Argentina" playing a role. The result was a large depreciation of the currency (see fig. III.3) and the tightening of external financing conditions. Brazil's fiscal and external positions were feared unsustainable, while uncertainties about the future course of macroeconomic policy—in view of the elections—compounded the problem.

Brazil's net public debt stands at almost 60 per cent of GDP, and a large part of it is indexed to either the United States dollar or the domestic interest rate. Consequently, as the real depreciates against the United States dollar

Figure III.3.  
SELECTED LATIN AMERICAN COUNTRIES: FOREIGN EXCHANGE  
RATE, JULY 2001-NOVEMBER 2002



Sources: Banco Central de Venezuela and Ministerio de Economía Argentina.

and domestic interest rates increase, the stock of debt measured in local currency and the cost of servicing the debt also increase. Such vulnerability is exacerbated when investors' heightened concerns over the sustainability of the debt translate into tighter financial conditions and additional pressures on the currency, aggravating the problem. Despite improvement in the country's current-account balance, there is a vicious cycle of depreciation, higher interest rates, increased debt and thus a heightened risk of default. In 2002, the Government adopted a series of measures to relieve the pressure on the currency, including a sharp increase in interest rates. The economy suffered from the attacks on the currency and the restrictive policies, but the real stabilized and recovered some of its value later in the year.

Economic collapse and severe social hardship persisted in Argentina throughout most of 2002, with GDP estimated to have fallen by 12 per cent. The protracted recession took a heavy toll on social conditions in the country (see box III.1). By the end of the year, the banking system continued to face a serious liquidity problem, credit remained restricted and economic activity was generally subdued.<sup>13</sup> Nevertheless, towards the third quarter of 2002, some signs of stabilization emerged, as the economy slowly started to reap the benefits of the sharp devaluation in the form of import substitution. Inflation, which had soared after the floating of the peso, moderated as the exchange rate stabilized (see fig. III.3) and confidence gradually returned to the banking system. Banking restrictions were gradually eased throughout 2002, but foreign exchange controls remain in place. A mild recovery

is expected for 2003, but considerable uncertainties remain, which include the need for strategies to address the crisis in the banking sector and for a framework for fiscal relations between the Central Government and the provinces. Advances in those areas would facilitate an agreement with the IMF that would, in turn, open the door for external financial support and negotiations on the restructuring of the country's external debt.

The economic and financial crisis in Argentina and the difficulties in Brazil imposed a toll on the economies of Paraguay and Uruguay because of the trade and financial linkages within the Southern Cone Common Market (MERCOSUR). GDP in both countries contracted in 2002, in Uruguay's case by more than 10 per cent. Financial assistance to that country from the IMF and the United States in mid-2002, following a continued loss of foreign reserves and heavy withdrawals from the banking system, prevented a debt default and a banking collapse.

Mexico is slowly recovering from a recession in 2001 but is losing international competitiveness owing to rising labour costs. Chile's economy, meanwhile, continues to lose momentum because domestic demand remains sluggish despite the implementation of counter-cyclical fiscal measures and an accommodative monetary stance. Poor external demand and reduced tourist flows were the main reasons for the weak economic performance of the Caribbean countries in 2002. The exception was the Dominican Republic, where the economy was supported strongly by internal demand. A moderate recovery for the subregion is expected for 2003.

In the Andean subregion, Venezuela's GDP is estimat-



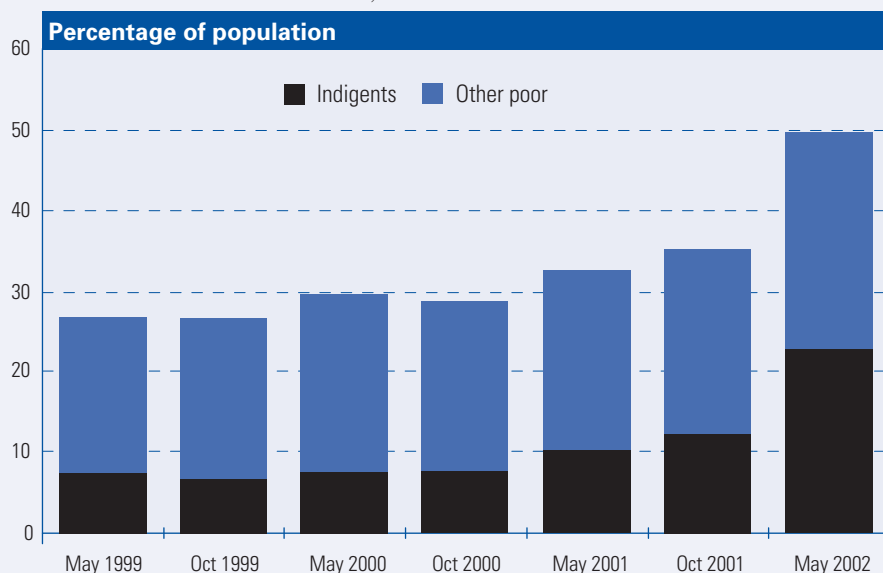
### Box 3.1. Poverty in Argentina today

The protracted economic crisis in Argentina has taken a heavy toll on living conditions and has sharply increased poverty levels. The deterioration, which started in previous years, has accelerated since the aggravation of the crisis at the end of 2001. Recorded open urban unemployment jumped to 21.5 per cent of the labour force in May 2002 from 14.9 per cent a year earlier. Official unemployment figures, however, are surrounded by methodological difficulties.<sup>a</sup> For instance, if hidden urban unemployment is also included, the figure exceeds 34 per cent (compared with 26 per cent in the previous year).<sup>b</sup>

Moreover, unemployment is only one aspect of the social situation prevailing in a given country; data from household surveys may convey more comprehensive information on overall social conditions. According to official estimates, 53 per cent of the country's urban population and almost 70 per cent of the urban population in the northeast region are deemed "poor", meaning that they cannot afford the cost of the basket of basic goods and services.<sup>c</sup> The percentage of "indigents", that is, those who cannot afford even a basket of basic foods, was estimated at 24.8 per cent of the urban population in May 2002.

The evolution of the poverty and indigence rates also points to the intensification of this phenomenon as the crisis persisted. For example, in the Greater Buenos Aires area, where poverty had been gradually increasing for the past few years, the proportion of the population classified as poor rose by a further 20 percentage points between October 2000 and May 2002 (see fig.). Moreover, the level of indigence increased threefold during the period (from 7.7 per cent to 22.7 per cent of the population). As a result, the share of indigents in the poor increased from roughly 25 per cent in previous years to over 45 per cent in May 2002. As more people were pushed below the poverty line by the economic recession, those who were already poor were pushed further downwards, and became unable to afford even a minimum basket of basic foods. Poverty not only increased, but became more acute.

Box figure III.1.  
METROPOLITAN AREA OF BUENOS AIRES: LEVELS OF  
POVERTY AND INDIGENCE, MAY 1999-MAY 2002



Source: República Argentina/Instituto Nacional de Estadística y Censos, "Incidencia de la pobreza y de la indigencia en el aglomerado Gran Buenos Aires, Mayo 2002", Información de Prensa, 25 July 2002.

<sup>a</sup> See, for example, *Report on the World Social Situation 1997* (United Nations publication, Sales No. E.97.IV.1), Box 7.1 "Defining and measuring unemployment".

<sup>b</sup> This figure comprises people working less than 35 hours per week who would like to work longer.

<sup>c</sup> Poverty estimates were based on a nationally defined and established poverty line. (República Argentina/Instituto Nacional de Estadística y Censos, "Incidencia de la pobreza y de la indigencia en los aglomerados urbanos, Mayo 2002", Información de prensa, 21 August 2002.

ed to have contracted by 6 per cent in 2002 as a result of several factors: the contraction in the oil sector in the second half of 2001 spilled over to the rest of the economy in 2002; a sharp fiscal adjustment; and financial outflows that caused the Government to float the currency

and to tighten monetary policy in early 2002. The bolivar lost more than 40 per cent of its value to the United States dollar between February and November 2002 (see fig. III.3). Persisting political uncertainties are hindering the recovery.

Because of poor growth, unemployment increased during 2002. At the regional level, average urban open unemployment rose to 9.4 per cent in the first half of 2002, compared with 8.5 per cent a year before. The deterioration was largest in Argentina (see box III.1).

Low growth and high unemployment currently present more of a challenge to the region than does inflation. Concerns over inflation relate mostly to the actual or potential effects of currency depreciations, as illustrated by Argentina, Brazil, Uruguay and Venezuela. In Venezuela, the floating of the bolivar was followed by strong price increases.<sup>14</sup> In Argentina, the sharp hikes in prices during the first half of 2002 moderated during the third quarter. Price increases were particularly large in tradable goods, reflecting adjustment following years of deterioration relative to the prices of non-tradables under the convertibility regime. In Brazil, inflation is expected to overshoot the official target in both 2002 and 2003 by a significant margin, largely as a result of the real's depreciation and substantial revisions of administered prices.

With soft internal demand and no internal pressures on prices, monetary policies have remained accommodative in most countries, as governments have tried to revive economic activity while facing expenditure constraints. In Brazil, however, both monetary and fiscal policy increasingly tightened, as the Central Bank tried to counter the inflationary effects of the depreciation of the real while the Government struggled to maintain the primary surplus of at least 3.75 per cent of GDP agreed upon with the IMF. The tightening of the monetary stance in Mexico in September 2002 reflected inflationary expectations, as well as concern over the potential inflationary effect of the depreciation of the peso.

Fiscal balances were negatively affected in 2002 by the general loss of revenue owing to lower economic activity and the effects of currency depreciations on debt service payments, as well as country-specific developments, such as the limited results of fiscal reform in Mexico. The deterioration in revenues, along with a general worsening of conditions for financing budget deficits and the large debt burdens faced by many countries, forced governments to remain cautious on the expenditure side. Non-financial public sector deficits are estimated to be 3 to 4 per cent of GDP in 2002 in the majority of countries. Most countries are expected to maintain a tight fiscal stance in 2003.

## Notes

- <sup>1</sup> The other measures in the new initiative included setting up a Resolution and Collection Corporation, and the possible direct injection of public funds.
- <sup>2</sup> During the first eight months of 2002, Russian imports from CIS countries shrank by almost 18 per cent, while those from non-CIS countries expanded by over 19 per cent.
- <sup>3</sup> See *World Economic and Social Survey 2002* (United Nations publication, Sales No. E.02.II.C.1), pp. 35-36.
- <sup>4</sup> Gold accounts for 40 per cent of the country's industrial production.
- <sup>5</sup> The value of exports from the region contracted on average by over 5 per cent in the first half of 2002, while that of imports expanded by over 2 per cent.
- <sup>6</sup> Other tourist-dependent economies throughout the continent (such as the United Republic of Tanzania and Kenya) will also likely be negatively affected by safety concerns.
- <sup>7</sup> The index used for inflation-targeting rose from 5.8 per cent in September 2001 to 11.8 per cent in September 2002, compared to the target range of 3-6 per cent for 2002.
- <sup>8</sup> Reports suggest that, because Burkina Faso, Mali and Niger have been forced to avoid Ivorian ports, their transshipment costs have increased by more than 160 percent. Additionally, numerous multinational firms have ceased operations in Côte d'Ivoire, which was used as a regional beachhead.
- <sup>9</sup> After a strong increase in the first half of 2002, stock prices in most major economies in the region declined; mainly owing to the fall in equity prices in the developed economies and to net selling of local equities by foreign investors. Average stock prices in most countries are still substantially below pre-crisis levels.
- <sup>10</sup> Disposable income for urban household is increased by 17 per cent in 2002, while for those in rural areas the increase was less than 6 per cent.
- <sup>11</sup> The average interest rate on one-month SBI (Sertifikat Bank Indonesia) notes fell gradually from 17.6 per cent at the end of 2001 to 13.1 per cent by late October 2002.
- <sup>12</sup> In Pakistan, continued financial assistance by the IMF, together with the 2001 rescheduling of its \$12.5 billion external debt with the Paris Club, and additional support from the United States and other donors, have eased financial constraints significantly.
- <sup>13</sup> Industrial production was about 14 per cent lower in January-September 2002 than in the same period a year earlier, but some sectors, as automobile production, had contracted by as much as 40 per cent.
- <sup>14</sup> Consumer prices increased by almost 28 per cent during the first ten months of the year and wholesale prices increased by almost twice as much.

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Table A.1.  
DEVELOPED MARKET ECONOMIES: RATES OF GROWTH OF REAL GDP  
AND RATES OF INFLATION AND UNEMPLOYMENT, 2001-2003

Annual percentage change									
	Growth <sup>a</sup>			Inflation <sup>b</sup>			Unemployment <sup>c,d,e</sup>		
	2001	2002 <sup>f</sup>	2003 <sup>g</sup>	2001	2002 <sup>f</sup>	2003 <sup>g</sup>	2001	2002 <sup>f</sup>	2003 <sup>g</sup>
<b>Developed economies</b>	0.7	1.3	2¼	1.9	1.3	1½	6.2	6.7	6¾
United States	0.3	2.4	3	2.8	1.7	2½	4.8	5.7	6
Canada	1.5	3.0	2¾	2.5	2.3	2	7.2	7.6	7
Japan	-0.3	-0.4	1	-0.7	-0.8	-1	5.0	5.3	5½
Australia	2.7	3.5	3¼	4.4	3.0	2¾	6.7	6.4	6½
New Zealand	2.5	3.8	2½	2.7	2.3	2	5.3	5.3	5¾
<b>EU-15</b>	1.5	1.0	2	2.5	2.2	2	7.4	7.6	7½
<b>Euro zone</b>	1.5	0.9	2	2.6	2.3	2	8.0	8.3	8¼
Austria	1.0	1.5	2½	2.7	1.8	1½	3.6	4.3	4
Belgium	1.0	0.7	1¼	2.5	1.7	1½	6.6	7.2	7½
Finland	0.7	1.4	2¾	2.6	1.8	2	9.1	9.3	9½
France	1.8	1.2	2½	1.6	1.7	1½	8.5	8.8	8¼
Germany	0.6	0.3	1½	2.5	2.2	2	7.7	8.5	9
Greece	4.0	3.6	4	3.4	3.6	3¼	11.2	10.9	10¼
Ireland	5.7	4.0	4¾	4.9	4.9	4½	3.8	4.3	4¾
Italy	1.8	0.5	1½	2.8	2.4	1¾	9.4	9.0	8½
Luxembourg	3.5	2.8	5¼	2.7	1.7	2	2.0	2.3	2¾
Netherlands	1.3	0.5	1½	4.5	3.5	2½	2.4	3.1	4
Portugal	1.7	0.5	¾	4.4	3.7	3	4.1	4.8	5
Spain	2.8	1.9	2¾	2.8	2.9	2	10.6	10.4	9¾
<b>Other EU</b>	1.7	1.7	2¾	2.0	1.7	2½	4.9	4.8	4¾
Denmark	1.0	1.8	2½	2.3	2.2	2	4.3	4.2	4
Sweden	1.2	1.9	2¾	2.6	2.4	2	4.9	4.9	5
United Kingdom	2.0	1.6	2¾	1.8	1.5	2½	5.0	4.9	5
<b>Other Europe</b>	1.0	0.3	1	1.7	0.8	1¼	2.8	2.9	3¼
Iceland	3.6	-1.1	1	6.4	5.6	3¼	1.4	1.7	1¾
Malta	-0.8	2.5	3	2.9	2.4	2	5.1	5.2	5
Norway	1.4	1.3	1½	3.0	1.2	2	3.6	3.9	4¼
Switzerland	0.8	-0.2	¾	1.0	0.5	¾	2.3	2.3	2¾
<b>Memo item:</b>									
Major developed economies	0.5	1.2	2¼	1.6	1.1	1½	6.1	6.7	6¾

Sources: UN/DESA, based on IMF, *International Financial Statistics* and OECD.

- <sup>a</sup> Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.  
<sup>b</sup> Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.  
<sup>c</sup> Unemployment data are standardized by OECD for comparability among countries and over time in conformity with the definitions of the International Labour Office (see OECD, *Standardized Unemployment Rates: Sources and Methods* (Paris, 1985)).  
<sup>d</sup> Data for country groups are weighted averages, where labour force is used for weights.  
<sup>e</sup> Greece and Malta are not standardized.  
<sup>f</sup> Partly estimated.  
<sup>g</sup> Forecasts.

Table A.2.  
**MAJOR INDUSTRIALIZED COUNTRIES: QUARTERLY INDICATORS  
 OF GROWTH, UNEMPLOYMENT AND INFLATION, 2000-2002**

Annual percentage change											
	2000 quarters				2001 quarters				2002 quarters		
	I	II	III	IV	I	II	III	IV	I	II	III
<b>Growth of gross domestic product<sup>a</sup></b> (percentage change in seasonally adjusted data from preceding quarter)											
Canada	5.1	4.7	4.9	2.6	0.6	0.3	-0.5	2.9	5.7	4.4	3.1
France	4.5	3.4	1.9	5.4	1.2	-0.2	2.0	-2.1	2.3	1.7	0.8
Germany	4.1	4.9	1.2	0.8	2.4	-0.1	-0.8	-1.2	1.2	0.8	1.1
Italy	4.1	1.1	1.9	3.3	2.7	0.0	0.8	-0.8	0.8	0.9	1.1
Japan	8.2	3.1	-2.9	1.1	4.1	-6.3	-5.3	-1.9	0.8	4.2	3.0
United Kingdom	1.8	3.2	3.5	2.4	2.4	1.4	1.7	0.3	0.7	2.4	3.4
United States	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0
<i>Memo items:</i>											
Major developed economies	4.4	4.0	0.3	1.6	1.5	-2.2	-1.2	0.4	2.9	2.1	2.9
Euro zone	3.2	3.2	1.6	2.4	2.0	0.0	0.8	-1.2	1.6	1.2	1.2
<b>Unemployment rate<sup>b</sup></b> (percentage of total labour force)											
Canada	6.8	6.7	6.9	6.9	6.9	7.0	7.2	7.7	7.8	7.6	7.6
France	10.2	9.7	9.3	9.2	8.6	8.5	8.5	8.5	8.7	8.7	8.8
Germany	8.1	8.0	7.8	7.7	7.8	7.8	7.8	7.9	8.0	8.2	8.3
Italy	11.0	10.6	10.3	10.0	9.7	9.5	9.4	9.2	9.1	9.0	9.0
Japan	4.8	4.7	4.6	4.8	4.8	4.9	5.1	5.5	5.3	5.3	5.4
United Kingdom	5.8	5.6	5.4	5.3	5.0	4.9	4.1	5.1	5.1	5.1	5.2
United States	4.1	4.0	4.0	4.0	4.2	4.5	4.8	5.6	5.6	5.9	5.7
<i>Memo items:</i>											
Major developed economies	5.9	5.8	5.6	5.6	5.6	5.8	5.9	6.4	6.4	6.5	6.5
Euro zone	9.3	9.0	8.8	8.6	8.4	8.3	8.0	8.0	8.1	8.2	8.3
<b>Growth of consumer prices<sup>c</sup></b> (percentage change from preceding quarter)											
Canada	2.2	3.5	3.9	2.7	0.9	6.9	0.3	-3.5	2.7	6.1	4.4
France	2.3	2.3	1.3	1.7	-0.1	5.3	0.4	0.3	2.7	3.2	0.9
Germany	3.5	1.5	3.4	0.9	4.3	4.1	0.6	-1.7	4.7	1.1	0.1
Italy	2.5	2.9	2.4	2.9	3.4	3.5	1.4	1.3	3.5	3.0	1.9
Japan	-2.5	0.9	-0.9	-0.5	-1.2	-0.3	-1.1	-1.5	-2.8	1.8	-0.6
United Kingdom	1.6	7.7	0.6	2.5	-0.5	5.1	0.2	-0.5	0.2	5.1	1.4
United States	4.0	4.3	3.2	2.2	3.9	4.2	0.5	-1.1	1.4	4.4	1.7
<i>Memo items:</i>											
Major developed economies	1.9	3.1	1.9	1.4	2.0	3.2	0.1	-1.1	0.9	3.3	0.9
Euro zone	3.1	2.7	2.7	2.3	1.5	6.1	0.4	1.1	2.9	4.0	0.4

Sources: UN/DESA, based on data of IMF, *International Financial Statistics*; OECD and national authorities.

<sup>a</sup> Expressed at annual rate (total is weighted average with weights being annual GDP valued at 1995 prices and exchange rates).

<sup>b</sup> Seasonally adjusted data as standardized by OECD.

<sup>c</sup> Expressed at annual rate.

Table A.3.  
ECONOMIES IN TRANSITION: RATES OF GROWTH OF REAL GDP AND  
RATES OF INFLATION AND UNEMPLOYMENT, 2001-2003

Annual percentage change									
	Growth <sup>a</sup>			Inflation <sup>b</sup>			Unemployment <sup>c</sup>		
	2001	2002 <sup>d</sup>	2003 <sup>e</sup>	2001	2002 <sup>d</sup>	2003 <sup>e</sup>	2001	2002 <sup>d</sup>	2003 <sup>e</sup>
Economies in transition	4.4	3.5	4	14.6	10.6	10%	..	..	..
Central and Eastern Europe and Baltic States	2.9	2.6	3½	9.0	5.5	4%	..	..	..
Central and Eastern Europe	2.7	2.5	3½	9.3	5.7	5	..	..	..
Albania	6.5	6.0	6	0.3	6.0	3	14.5	14.2	14¼
Bulgaria	4.0	3.6	3¾	7.4	6.0	5	17.3	17.4	17
Croatia	3.8	4.0	4	5.0	3.0	3	23.1	21.7	20
Czech Republic	3.3	2.6	3¾	4.7	2.3	2	8.9	9.3	8
Hungary	3.8	3.2	4	9.2	5.6	5	8.4	8.1	8
Poland	1.1	1.2	2¾	5.5	2.3	2	17.4	17.5	17½
Romania	5.3	3.8	4	34.5	24.0	20	8.6	8.2	9
Slovakia	3.3	3.8	4	7.1	3.3	5½	18.6	16.4	16
Slovenia	3.0	3.0	3¾	8.4	7.0	4	12.0	11.7	10½
The former Yugoslav Republic of Macedonia	-4.6	1.5	3	5.5	4.0	3	45.0	43.0	40
Federal Republic of Yugoslavia	6.0	3.8	4	88.9	20.0	12	27.9	29.0	29
Baltic States	6.3	4.9	5½	2.8	1.7	2½	..	..	..
Estonia	5.4	4.5	6	5.8	3.5	3½	7.7	7.0	6¾
Latvia	7.6	5.0	5½	2.5	2.0	2½	7.7	7.7	7¾
Lithuania	5.9	5.0	5	1.3	0.5	2	12.9	10.4	10
Commonwealth of Independent States	5.7	4.3	4¼	18.5	14.2	14	..	..	..
Armenia	9.6	9.0	6	3.0	2.5	3	..	..	..
Azerbaijan	9.9	9.5	9	2.0	2.5	3	..	..	..
Belarus	4.1	4.0	3	61.0	50.0	55	..	..	..
Georgia	4.5	4.5	6½	5.0	6.0	5	..	..	..
Kazakhstan	13.2	9.5	8	8.0	6.0	6½	..	..	..
Kyrgyzstan	5.3	-3.0	2	7.0	3.0	5	..	..	..
Republic of Moldova	6.1	6.0	5	10.0	7.0	8	..	..	..
Russian Federation	5.0	4.0	4	18.6	15.0	14	..	..	..
Tajikistan	10.2	8.0	7	37.0	10.0	12	..	..	..
Turkmenistan	20.5	15.0	12	8.2	10.0	13	..	..	..
Ukraine	9.0	4.5	5	12.0	1.0	6	..	..	..
Uzbekistan	4.5	3.0	4	26.6	25.0	25	..	..	..

Sources: UN/DESA and Economic Commission for Europe (ECE).

<sup>a</sup> Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.

<sup>b</sup> Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.

<sup>c</sup> Because of comparability problems, data for the Commonwealth of Independent States are not given.

<sup>d</sup> Partly estimated.

<sup>e</sup> Forecasts.

Table A.4.  
**MAJOR ECONOMIES IN TRANSITION: QUARTERLY INDICATORS OF GROWTH AND INFLATION, 2000-2002**

Annual percentage change											
	2000 quarters				2001 quarters				2002 quarters		
	I	II	III	IV	I	II	III	IV	I	II	III
Rates of growth of gross domestic product <sup>a</sup>											
Belarus	6.6	2.2	6.7	7.3	2.4	5.1	4.5	4.0	3.9	5.5	4.0
Czech Republic	3.3	3.1	2.8	3.9	3.6	3.5	3.3	2.7	2.8	2.5	..
Hungary	6.6	5.7	4.6	4.2	4.4	4.0	3.7	3.3	2.9	3.1	3.4
Kazakhstan	9.6	11.9	11.1	6.9	11.4	17.1	12.9	12.7	10.4	8.1	9.7
Poland	5.9	5.0	3.1	2.4	2.3	0.9	0.8	0.2	0.5	0.8	1.6
Romania	1.2	2.8	1.4	1.8	4.3	5.1	5.7	5.3	3.1	5.7	4.7
Russian Federation	11.0	9.0	9.9	6.6	4.8	5.3	5.8	4.3	3.7	4.1	..
Ukraine	7.0	3.0	6.4	7.2	7.8	12.0	8.1	9.0	3.8	4.8	3.7
Growth of consumer prices <sup>a</sup>											
Belarus	227.4	196.1	175.8	124.0	83.3	70.6	55.0	46.3	47.2	44.6	..
Czech Republic	3.6	3.8	4.1	4.3	4.2	5.1	5.4	4.3	3.8	2.3	0.8
Hungary	10.0	9.2	9.9	10.5	10.4	10.6	8.7	7.2	6.3	5.6	4.8
Kazakhstan	20.4	13.7	10.1	10.4	9.1	9.7	8.3	7.0	5.7	5.5	..
Poland	10.4	10.1	10.9	9.2	6.8	6.6	4.8	3.8	3.5	2.0	1.1
Romania	53.8	44.6	44.9	41.6	40.1	36.9	31.8	30.5	26.8	24.2	21.3
Russian Federation	25.4	19.9	18.8	19.8	22.3	24.5	21.1	18.9	18.0	15.8	15.1
Ukraine	25.1	27.4	31.1	28.9	19.4	14.5	8.9	6.1	3.7	0.8	..

Sources: UN/DESA and Economic Commission for Europe (ECE).

<sup>a</sup> Percentage change from the corresponding period of the preceding year.



Table A.5.  
DEVELOPING COUNTRIES: RATES OF GROWTH OF REAL GDP AND RATES OF INFLATION, 2001-2003

Annual percentage change						
	Growth <sup>a</sup>			Inflation <sup>b,c</sup>		
	2001	2002 <sup>d</sup>	2003 <sup>e</sup>	2001	2002 <sup>d</sup>	2003 <sup>e</sup>
Developing countries <sup>f</sup>	2.0	2.9	4¼	5.8	7.3	6½
<i>of which:</i>						
Latin America and the Caribbean	0.3	-0.7	2¼	5.9	10.7	9
Net fuel exporter	0.6	0.8	3	..	..	..
Net fuel importer	0.2	-1.3	2	..	..	..
Africa	3.3	2.9	4	6.3	7.7	6¼
Net fuel exporter	2.8	2.0	3½	..	..	..
Net fuel importer	3.6	3.4	4½	..	..	..
Western Asia	-1.4	1.3	3	17.7	19.4	14
Net fuel exporter	0.7	0.9	3¼	..	..	..
Net fuel importer	-4.6	2.1	3	..	..	..
Eastern and Southern Asia	3.7	5.2	5½	3.0	2.4	3
<i>of which:</i>						
East Asia	3.5	5.3	5½	2.9	2.0	2½
South Asia	4.6	4.6	5¼	3.7	4.4	5½
<i>Memo items:</i>						
Sub-Saharan Africa (excluding Nigeria and South Africa)	3.4	3.7	4½	11.0	12.3	12¼
Least developed countries	4.6	4.3	4¼	7.3	8.0	8
East Asia (excluding China)	1.3	4.2	4¼	3.7	2.6	3¼
<i>Major developing economies</i>						
Argentina	-4.5	-12.0	1	-1.1	26.0	16½
Brazil	1.5	1.4	2	6.9	8.8	8
Chile	2.8	2.2	4	3.6	2.4	3
China	7.3	7.2	7	1.0	0.8	1
Colombia	1.6	1.3	3¼	8.7	6.0	5½
Egypt	2.5	0.8	2	2.3	4.7	4
Hong Kong SAR <sup>g</sup>	0.1	1.5	2¼	-1.6	-1.5	½
India	5.1	4.7	6	3.7	4.4	5½
Indonesia	3.3	2.6	3½	12.6	10.1	8¼
Iran (Islamic Republic of)	5.1	5.0	5½	11.3	17.5	13½
Israel	-0.9	-1.2	1¼	1.1	2.4	2½
Korea, Republic of	3.0	6.1	5¼	4.1	2.9	3½
Malaysia	0.4	3.8	4¼	1.4	2.0	2
Mexico	-0.3	1.9	3½	6.4	5.0	4¼
Nigeria	3.9	3.0	4¼	13.0	16.9	13½
Pakistan	3.1	4.1	5	3.1	4.0	5¼
Peru	0.2	3.5	4	2.0	0.1	2
Philippines	3.3	3.8	4½	6.1	4.0	5½
Saudi Arabia	1.2	0.4	2¼	-0.5	1.0	2
Singapore	-2.0	3.9	5¼	1.0	-0.1	1½
South Africa	2.8	3.5	4¼	5.7	6.0	5½
Taiwan Province of China	-1.9	3.1	4	0.6	-0.1	1¼
Thailand	1.6	4.3	4½	1.7	0.6	2
Turkey	-8.0	4.1	3½	54.4	54.2	36¼
Venezuela	2.7	-6.0	-¾	12.5	22.6	25

Source: UN/DESA, based on IMF, *International Financial Statistics*.

<sup>a</sup> Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1995 prices and exchange rates in United States dollars.

<sup>b</sup> Data for country groups are weighted averages, where weights for each year are 1995 GDP in United States dollars.

<sup>c</sup> For Africa and sub-Saharan Africa, the Democratic Republic of the Congo is excluded.

<sup>d</sup> Partly estimated.

<sup>e</sup> Forecasts.

<sup>f</sup> Covering countries that account for 98 per cent of the population of all developing countries.

<sup>g</sup> Special Administrative Region of China.

Table A.6.  
 MAJOR DEVELOPING COUNTRIES: QUARTERLY INDICATORS  
 OF GROWTH, UNEMPLOYMENT AND INFLATION, 2000-2002

Annual percentage change											
	2000 quarters				2001 quarters				2002 quarters		
	I	II	III	IV	I	II	III	IV	I	II	III
<b>Rates of growth of gross domestic product<sup>a</sup></b>											
Argentina	0.5	0.2	-0.5	-2.1	-2.0	-0.2	-4.9	-10.5	-16.3	-13.5	-10.1
Brazil	5.1	4.4	4.3	3.8	3.9	2.1	0.6	-0.8	-0.6	1.0	2.4
Chile	5.5	6.0	5.6	4.5	3.0	3.8	2.7	1.7	1.6	1.7	1.8
China	8.1	8.3	8.2	7.6	8.1	7.7	7.1	6.7	7.6	8.0	8.1
Colombia	1.8	3.1	3.4	2.9	1.6	1.7	0.9	1.4	0.5	2.2	..
Ecuador	-2.2	2.0	3.6	6.0	7.8	5.9	5.3	3.7	1.7	4.0	..
Hong Kong SAR <sup>b</sup>	13.6	10.1	10.3	7.2	2.3	1.6	-0.3	-0.9	-0.5	0.5	3.3
India	5.7	5.4	6.2	3.4	1.5	3.5	5.3	6.2	6.4	6.0	..
Indonesia	3.4	4.7	4.7	6.6	4.8	3.8	3.1	1.6	2.5	3.8	3.9
Israel	7.6	7.2	8.1	3.2	1.9	-0.6	-4.3	-3.5	-3.2	-2.5	..
Korea, Republic of	12.6	10.2	10.0	5.0	4.2	2.9	1.9	3.7	5.8	6.4	5.8
Malaysia	11.5	8.1	7.7	6.3	3.0	0.4	-0.9	-0.5	1.1	3.9	5.6
Mexico	7.7	7.6	7.3	5.1	2.0	0.1	-1.5	-1.6	-2.0	2.1	1.8
Philippines	4.1	3.8	5.2	3.7	2.9	3.0	3.0	3.9	3.7	4.8	3.8
Singapore	9.8	8.4	10.3	11.0	5.0	-0.5	-5.4	-6.6	-1.5	3.9	3.7
South Africa	3.3	3.4	3.7	3.4	2.3	2.6	1.8	3.2	3.0	3.8	3.0
Taiwan Province of China	7.9	5.1	6.7	3.8	0.9	-2.4	-4.2	-1.9	0.9	1.5	..
Thailand	5.3	6.4	2.9	3.2	1.8	1.9	1.5	2.1	3.9	5.1	..
Turkey	5.6	6.9	7.8	8.6	-0.8	-9.6	-7.4	-10.4	1.9	8.2	..
Venezuela	0.9	2.7	3.4	5.6	4.0	3.1	3.3	0.9	-4.1	-9.9	..
<b>Unemployment rate<sup>c</sup></b>											
Argentina <sup>d</sup>	..	15.4	..	14.7	..	16.4	..	18.3	..	21.5	..
Brazil	8.0	7.7	7.0	5.9	6.0	6.6	6.2	6.2	7.7	8.3	8.2
Chile	8.2	9.4	10.7	8.3	8.8	9.7	10.1	7.9	8.8	9.5	9.6
Colombia	16.7	14.7	14.7	13.8	18.9	16.7	16.6	15.4	17.5	16.3	..
Hong Kong SAR <sup>b</sup>	5.7	5.1	5.0	4.6	4.3	4.5	5.0	5.9	6.6	7.3	7.8
Indonesia	4.1	..	6.1	..	8.1	..	8.1	..	..	..	..
Israel	8.6	8.6	8.9	8.9	8.6	8.6	9.6	10.3	10.6	10.3	..
Korea, Republic of	5.1	3.8	3.6	3.7	4.8	3.5	3.3	3.2	3.3	2.9	2.7
Malaysia	3.0	3.3	3.1	3.0	4.0	3.7	3.3	3.7	3.7	3.8	..
Mexico	2.3	2.2	2.4	2.0	2.4	2.4	2.4	2.5	2.8	2.6	2.9
Philippines	9.5	13.9	11.2	10.1	11.3	13.3	10.1	9.8	10.3	13.9	..
Singapore	2.8	4.4	2.1	3.0	2.0	3.4	3.0	4.9	3.7	5.2	3.8
Taiwan Province of China	2.8	2.8	3.1	3.2	3.7	4.2	5.1	5.3	5.1	5.0	5.3
Thailand	4.3	4.1	2.4	3.7	4.8	3.5	2.6	2.4	3.2	2.9	1.8
Turkey	8.3	6.2	5.6	6.3	8.6	6.9	8.0	10.6	11.8	9.6	9.9
Uruguay	12.0	14.3	13.9	14.2	14.9	16.0	15.4	14.9	14.8	15.6	..
Venezuela	15.3	14.0	14.1	12.1	14.2	13.3	13.4	12.1	15.3	15.8	..

Table 6 (continued)

	2000 quarters				2001 quarters				2002 quarters		
	I	II	III	IV	I	II	III	IV	I	II	III
	Growth of consumer prices <sup>a</sup>										
Argentina	-1.3	-1.1	-0.8	-0.6	-1.4	-0.1	-1.1	-1.6	4.2	23.3	36.0
Brazil	7.9	6.6	7.6	6.2	6.2	7.1	6.6	7.5	7.6	7.8	7.6
Chile	3.2	3.6	4.0	4.6	4.0	3.6	3.6	3.0	2.4	2.2	2.4
China	0.1	0.1	0.3	0.9	1.4	0.5	-1.0	-1.0	-0.6	-1.1	-0.8
Colombia	9.0	10.6	9.4	8.9	8.6	8.3	8.9	8.9	7.5	6.5	6.8
Ecuador	83.2	96.5	104.8	97.3	67.6	39.6	28.9	24.1	14.7	13.2	12.4
Hong Kong SAR <sup>b</sup>	-5.0	-4.5	-2.9	-2.5	-2.0	-1.4	-1.1	-2.0	-2.6	-3.1	-3.3
India	3.7	5.3	4.1	3.0	2.9	2.7	4.7	4.4	5.1	4.5	4.0
Indonesia	-0.6	1.1	5.7	8.8	9.3	11.1	12.8	12.6	14.5	12.6	10.4
Israel	1.5	2.0	1.0	0.0	0.3	0.9	1.7	1.6	..	..	..
Korea, Republic of	1.5	1.4	3.2	2.9	4.1	5.2	4.1	3.0	2.6	2.7	2.5
Malaysia	1.6	1.4	1.5	1.7	1.5	1.6	1.4	1.2	1.4	1.9	8.8
Mexico	10.5	9.5	9.0	8.9	7.5	6.9	6.0	5.2	4.8	4.8	5.2
Philippines	3.0	3.9	4.5	5.9	6.8	6.6	6.4	4.7	3.6	3.4	2.8
Singapore	1.1	0.8	1.5	2.0	1.7	1.7	0.8	-0.2	-0.8	-0.4	-0.4
South Africa	2.8	4.9	6.6	7.0	7.4	6.4	4.8	4.3	5.9	8.4	11.6
Taiwan Province of China	0.9	1.4	1.1	1.5	0.6	0.0	0.0	-0.6	-0.1	0.0	-0.2
Thailand	0.8	1.6	2.1	1.6	1.4	2.5	1.7	1.1	0.6	0.2	0.3
Turkey	68.8	61.7	52.7	42.3	35.6	52.3	58.6	67.5	70.3	47.0	39.5
Venezuela	18.2	17.1	15.6	14.2	12.6	12.4	12.7	12.4	14.6	18.9	28.0

Sources: IMF, *International Financial Statistics* and national authorities.

<sup>a</sup> Percentage change from the corresponding quarter of the previous year.

<sup>b</sup> Special Administrative Region of China.

<sup>c</sup> It reflects national definitions and coverage. Not comparable across economies.

<sup>d</sup> Data is reported in May and October each year.

Table A.7.  
WORLD TRADE: RATES OF GROWTH OF VOLUMES AND VALUES, 2001-2003

Annual percentage change						
	Volume of exports <sup>a</sup>			Volume of imports <sup>a</sup>		
	2001	2002 <sup>b</sup>	2003 <sup>c</sup>	2001	2002 <sup>b</sup>	2003 <sup>c</sup>
World	-0.5	2.3	6¼	-1.0	1.5	6
Developed economies of which :	-1.1	0.5	5	-1.1	1.0	6
North America	-5.3	-2.2	7	-3.6	2.6	5¼
Western Europe	2.4	0.8	5½	0.6	0.2	6¼
Japan	-10.0	7.0	½	-2.0	-0.8	2
Economies in transition	8.6	5.7	7	11.0	6.8	8¼
Central and Eastern Europe <sup>d</sup>	11.1	5.7	8¼	10.4	5.6	9
Commonwealth of Independent States	5.7	5.4	5½	15.8	9.5	7
Developing Countries	-0.4	5.7	8½	-2.9	1.8	6¼
Latin America and the Caribbean	-0.1	1.5	8½	3.6	-5.0	6½
Africa	0.8	-1.8	5¼	1.1	-1.6	3½
Western Asia	4.7	-1.5	1¼	-6.4	0.2	2¼
Eastern and Southern Asia <sup>e</sup>	-1.3	8.4	9½	-5.0	4.5	7½
China	7.8	15.3	13	10.9	15.0	13½
	Value of exports <sup>a</sup>			Value of imports <sup>a</sup>		
	2001	2002 <sup>b</sup>	2003 <sup>c</sup>	2001	2002 <sup>b</sup>	2003 <sup>c</sup>
World	-3.8	3.6	9½	-3.6	2.5	9½
Developed economies of which :	-3.5	2.4	9¼	-3.3	2.5	9¼
North America	-5.8	-2.9	8½	-6.3	1.8	8½
Western Europe	-0.3	4.6	10¼	-1.6	3.1	10
Japan	-15.6	4.3	3	-2.1	0.0	3
Economies in transition	6.4	7.1	9¼	11.1	6.8	11¼
Central and Eastern Europe <sup>d</sup>	12.5	8.8	11¼	9.3	7.3	12
Commonwealth of Independent States	-3.8	5.1	6	21.7	6.4	10½
Developing Countries	-6.0	5.8	10½	-6.9	1.7	8
Latin America and the Caribbean	-2.9	1.3	10½	-3.8	-6.6	8½
Africa	-6.7	-2.2	8	-0.1	0.0	6½
Western Asia	-25.0	3.6	9½	-6.8	1.8	5
Eastern and Southern Asia <sup>e</sup>	-4.4	8.0	10¼	-8.9	5.2	9
China	6.8	14.0	13	10.9	15.0	13½

Sources: United Nations and IMF, *International Financial Statistics*.

<sup>a</sup> Growth of country groups are weighted average, where weights for each year are the previous year's trade valued at 1995 prices and exchange rates in United States dollars.

<sup>b</sup> Partly estimated.

<sup>c</sup> Forecast, partly based on Project LINK.

<sup>d</sup> Includes Baltic countries.

<sup>e</sup> Excludes China.

Table A.8.  
COMMODITY PRICES, 2000-2002

Annual percentage change								
	2000	2001 quarters				2002 quarters		
		I	II	III	IV	I	II	III
<b>Combined index, non-fuel commodities</b>								
Dollar	2.3	2.9	-1.0	-4.4	-10.2	-9.7	-3.9	-1.0
SDR	5.3	9.1	4.2	-1.6	-8.5	-6.4	-5.3	-5.0
<b>Food and tropical beverages</b>								
Tropical beverages	0.9	8.4	2.3	-0.3	-8.4	-10.0	-4.6	-2.6
Cocoa	-13.8	-23.7	-20.9	-21.9	-18.6	-6.6	0.0	15.2
Coffee	-22.1	19.9	13.4	12.0	47.5	37.6	54.3	98.4
Coffee	-16.2	-36.7	-27.6	-26.5	-19.8	-9.7	-5.0	0.5
Food	5.6	16.0	8.2	4.1	-6.8	-10.6	-5.5	-5.5
Bananas	-2.3	20.7	35.9	81.6	25.5	-14.1	2.5	-25.8
Maize	-8.0	-4.7	-8.6	12.1	7.0	-1.1	11.7	15.3
Rice	-18.2	-24.1	-19.5	-7.9	-6.5	5.1	19.4	13.1
Sugar	30.4	83.7	28.5	-18.5	-27.3	-28.7	-31.6	-20.0
Wheat	3.5	18.1	15.0	7.6	-2.8	-3.8	-3.3	33.3
<b>Vegetable oilseeds and oils</b>								
Palm oil	-22.3	-23.5	-21.5	9.0	11.2	17.6	30.7	18.3
Palm oil	-28.8	-27.3	-26.8	10.6	20.7	34.5	52.8	22.9
Soybeans	5.0	-5.9	-16.6	3.0	-9.7	-6.4	6.1	9.5
<b>Agricultural raw materials</b>								
Cotton	2.0	8.9	1.6	-4.5	-12.3	-16.0	-9.7	-5.7
Cotton	11.5	12.8	-16.9	-28.1	-38.7	-28.4	-16.0	11.4
Rubber	7.9	-14.2	-12.4	-10.3	-19.7	4.4	22.9	46.0
Tropical logs	3.7	26.4	13.3	-0.5	-9.7	-20.5	-13.5	-10.6
<b>Minerals, ores and metals</b>								
Aluminium	12.2	-4.1	-4.5	-14.4	-14.8	-9.9	-4.4	0.6
Aluminium	13.8	-4.0	1.6	-11.8	-12.9	-12.4	-9.7	-5.0
Copper	15.3	-1.7	-5.0	-21.4	-22.9	-11.7	-2.5	3.0
Iron ore	2.6	4.5	4.5	4.5	4.5	-1.0	-1.0	-1.0
Lead	-9.7	8.2	10.8	-0.2	1.6	-0.3	-1.8	-8.4
Nickel	43.7	-30.4	-29.1	-33.6	-32.1	-5.3	4.0	24.4
Phosphate rock	-0.4	-2.3	-4.4	-6.8	-4.7	-4.7	-2.5	0.0
Tin	0.6	-9.9	-9.6	-26.0	-25.2	-25.5	-15.4	1.5
Zinc	4.8	-9.8	-17.6	-29.8	-28.8	-22.1	-16.3	-7.3
<b>Memo items:</b>								
Manufactured export prices of DME	-4.4	-1.7	-4.0	-2.3	-1.2	-5.8	2.4	..
Real prices, non-fuel commodities	6.6	4.6	3.1	-2.2	-9.1	-4.2	-6.0	..
Crude oil (Brent)	59.9	-3.5	2.6	-17.1	-34.5	-18.5	-8.2	6.7

Sources: UNCTAD, *Monthly Commodity Price Bulletin* and IMF.