UNCTAD/TDR/2006

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
GENEVA

TRADE AND DEVELOPMENT REPORT, 2006

Chapter III

CHANGES AND TRENDS IN THE EXTERNAL ENVIRONMENT FOR DEVELOPMENT

UNITED NATIONS
New York and Geneva, 2006

Chapter III

CHANGES AND TRENDS IN THE EXTERNAL ENVIRONMENT FOR DEVELOPMENT

A. Introduction

The external environment for development continues to be determined by the growth performance, cyclical and structural changes as well as economic policy decisions of developed countries. In recent years, fast and sustained growth in the two developing countries with the largest populations, China and India, has added another dimension to this aspect of interdependence. However, although the growth dynamics of these two large Asian economies are increasingly exerting an influence on other developing countries, they themselves depend to a large extent on cyclical and structural changes in the industrialized countries.

The effects of the emergence of China and India as key players in the world economy on the pattern of globalization and the prospects for other developing economies were examined at length in *TDR 2005*. The extent to which China's output and import growth and its export drive influence the external environment for other developing countries in the coming years will depend not on China alone, but also largely on the way in which global imbalances are corrected, as discussed in chapter I of this *Report*. In addition to the evolution of demand from the industrialized countries and the impact of China's and India's growth, the overall external environment is also shaped by structural changes in other areas, such as international trading arrangements, and external debt and finance. These are areas in which the contribution of developed countries to the global partnership for development finds expression. This chapter looks at a number of these areas, which have evolved considerably over the past two decades.

There is widespread agreement that improved export opportunities can contribute significantly to economic development and the alleviation of poverty. The chapter therefore first examines in section B the nature and extent of improvements in export opportunities for developing countries over the past 15 years as a result of trade liberalization in developing countries' trading partners, the evolution of market entry conditions and non-tariff measures, and changes in income-related import demand in their main trading partners' markets.

One factor that has inhibited investment and growth in many developing countries has been

their debt overhang. Recognizing the constraining and systemic nature of the debt problem, the international financial institutions and bilateral donors have launched various initiatives to address the problem, partly through the provision of debt relief. The progress achieved in the area of debt relief, especially under the HIPC Debt Initiative of the World Bank and IMF, and its relationship with recent trends in official development assistance (ODA) are discussed in section C. While ODA remains a key element in the global partnership for development, it is smaller than both private capital flows and migrants' remittances. The latter have been gaining importance as a source of foreign exchange for a number of developing countries, exceeding ODA flows by an increasing margin and prompting questions about the potential impact they could have on development in the receiving countries, as discussed in section D of this chapter.

The external environment for development is mainly determined by the growth performance, cyclical and structural changes as well as economic policy decisions of developed countries, but growth in China and India has added another dimension to these determinants.

Another important feature of the world economy in recent decades has been the growth of foreign direct investment (FDI) and related internationalization of production by transnational corporations (TNCs). A number of developing countries and economies in transition have been recipients of these increased flows and are progressively participating in international production networks. Indeed, a few of them are also assuming an increasingly important role as sources of FDI for other developing countries. Consequently, FDI and internationalization of production present new opportunities for developing countries and economies in transition, which they need to consider in their development strategies. But there are also new challenges for policymakers in terms of balancing private sector interests with national economic objectives and development priorities. Against this background, section E takes a closer look at trends and patterns in FDI to developing countries over the past quarter century, the potential of FDI to enhance growth and structural transformation in host countries, and the implications for policies aimed at strengthening the contribution of FDI to the development process. The chapter ends with a summary of conclusions.

B. Export opportunities for developing countries

There is widespread agreement that improved export opportunities can significantly help promote economic development and alleviate poverty. The Monterrey Consensus (paragraph 26) emphasizes the potential role of "international trade as an engine for development" and affirms that a "universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting countries at all stages of development".

The aim of this section is to assess improvements in export opportunities for developing countries over the past 15 years. External conditions for increasing developing-country exports include: (i) trade liberalization in developing countries' trading partners through multilateral trade negotiations or regional and unilateral measures to give them enhanced market access; (ii) the lowering of market entry barriers and other non-tariff measures (NTMs); and (iii) an increase in import demand in trading partners' markets as a result of rising incomes.[1]

1. Market access conditions

(a) Market access following the Uruguay Round Agreements

Although developing countries are increasingly trading among themselves (*TDR 2005*, chap. IV), market access conditions in developed countries continue to be a major determinant of their export opportunities.[2] It was not until the launch of the Uruguay Round that major sectors and products of export interest to developing countries, such as agriculture, and textiles and clothing, were included in the multilateral trade negotiations. However, to date, progress towards improving market access for developing countries' exports has been modest.[3] High levels of protection continue to be applied against those products that are produced mainly by developing countries, such as labour-intensive manufactures, as well as primary commodities.

An analysis of the evolution of the post-Uruguay Round tariff structure, between 1994 and 2005 (table 3.1) shows that the products of export interest to developing countries face the highest tariff barriers in developed-country markets:[4]

- Applied tariffs on agricultural products and labour-intensive manufactures, which include textiles, clothing, footwear, leather and travel products, are higher than those on non-labour-intensive manufactures.

- Overall, developed countries apply higher average tariffs to developing countries' products than to those from other developed countries, signifying that there is a bias against export opportunities for developing countries. This is the case particularly for labour-intensive manufactures.

- Between 1994 and 2005, developed countries reduced weighted average tariffs on their imports from other developed countries by more than on their imports from developing countries. This difference in tariff reductions is especially significant for agricultural products and labour-intensive manufactures.

Table 3.1

EFFECTIVELY APPLIED TARIFFS IN DEVELOPED AND DEVELOPING COUNTRIES BY SELECTED PRODUCT GROUP, 1994 AND 2005

(Per cent)

Products and markets	Exporting regions											
	Simple Average						Weighted average					
	1994		2005		Percentage change		1994		2005		Percentage change	
	Developed countries	Developing countries	Developed countries	Developing countries	Developed countries	Developing countries	Developed countries	Developing countries	Developed countries	Developing countries	Developed countries	Developing countries
All products												
Developed countries	5.43	5.73	2.54	3.80	**-53.2**	**-33.7**	3.32	4.47	1.29	2.12	**-61.1**	**-52.6**
Developing countries	18.83	19.96	9.14	9.87	**-51.5**	**-50.6**	13.15	14.71	5.85	4.88	**-55.5**	**-66.8**
Agriculture												
Developed countries	5.09	3.11	5.19	3.02	**2.0**	**-2.9**	4.88	2.83	2.98	2.48	**-38.9**	**-12.4**
Developing countries	19.92	18.98	15.55	11.59	**-21.9**	**-38.9**	11.20	14.04	12.62	12.12	**12.7**	**-13.7**
Manufactures												
Developed countries	5.49	6.21	2.28	3.94	**-58.5**	**-36.6**	3.25	5.18	1.14	2.39	**-64.9**	**-53.9**
Developing countries	18.76	20.13	8.52	9.68	**-54.6**	**-51.9**	13.65	16.83	5.13	4.38	**-62.4**	**-74.0**
Labour-intensive manufactures												
Developed countries	9.35	11.59	4.94	8.44	**-47.2**	**-27.2**	8.90	11.19	4.33	9.32	**-51.3**	**-16.7**
Developing countries	26.07	26.74	11.95	13.86	**-54.2**	**-48.2**	23.55	31.96	6.92	7.33	**-70.6**	**-77.1**
Other manufactures												
Developed countries	4.56	3.81	1.64	2.13	**-64.0**	**-44.1**	2.98	2.83	1.03	0.88	**-65.4**	**-68.9**
Developing countries	17.85	18.47	8.06	8.60	**-54.8**	**-53.4**	13.36	14.31	5.10	4.03	**-61.8**	**-71.8**

Source: UNCTAD, *Trade Analysis and Information System* (TRAINS) Database at the World Integrated Trade Solution (WITS).
Note: Based on the nearest year for which tariff data are available.

- The highest tariffs are to be found in labour-intensive manufactures. The implementation of the Agreement on Textiles and Clothing (ATC) led to a progressive elimination of quotas in international trade of this product category, culminating in their complete removal by 1 January 2005.[5] But the ATC did not affect tariffs, which for textiles and clothing continue to be much higher than the average for other manufactured exports from developing countries.

Average tariff levels conceal the level of effective protection against developing countries' exports. Products of particular export interest for developing countries are often subject to specific tariffs, tariff peaks and tariff escalation in developed-country markets. In the case of specific tariffs that are non-ad-valorem tariffs of a fixed amount, widely used in agriculture, the protection level rises when international prices fall. These kinds of tariffs offer higher protection against lower-priced exports from developing countries. Additionally, the proportion of specific tariffs tends to increase with the degree of processing. In the Quad,[6] over 30 per cent of the tariff lines in agriculture contain non-ad-valorem tariffs of this kind (Aksoy, 2005).

Tariff peaks[7] are applied mainly to agricultural products and labour-intensive manufactures. Between 1994 and 2005 the number of international tariff peaks applied by developed countries to developing countries' exports increased by over 13 per cent, the corresponding maximum levels of tariffs increasing from 800 to 1,235 per cent. Tariff peaks on agricultural exports of developing countries to developed countries more than doubled during this period, accounting for 29 per cent of total tariff peaks in 2005. The number of peaks in labour-intensive manufactures, which in 2005 accounted for almost 90 per cent of total peaks in manufactured exports, increased by 10.5 per cent between 1994 and 2005 (UNCTAD TRAINS database).

Developing countries' exports are also negatively affected by tariff escalation in developed countries,[8] which is extensively applied on processed food products. Elamin and Khaira (2003) note that tariff escalation is more pronounced in commodities such as meat, sugar, fruit, coffee, cocoa and hides and skins, which are of export interest to many of the poorer developing countries.

Other forms of agricultural protection in developed countries are domestic support and export subsidies. Progress in reducing these forms of protection in OECD countries has been limited, but there have been positive steps towards decoupling support from production. According to the OECD (2005), the level of support to OECD producers remains high, having changed little since the mid-1990s. As a share of gross farm receipts, producer support fell from an average of 37 per cent in 1986–1988 to an average of 30 per cent in 1995–1997, and since then it has not changed much. Total support to agriculture declined from 2.3 per cent of GDP in 1986–1988[9] to 1.2 per cent of GDP in 2002–2004. In absolute terms, the total support estimate increased from an average of $305 billion in 1986–1988 to $378 billion in 2004, and the producer support estimate increased from $243 billion to $279 billion.

Although better market access conditions in developed countries have somewhat improved developing countries' export opportunities, those conditions continue to be biased against developing countries.

The impact of each of the three pillars of protection on agricultural trade differs, with market access having by far the greatest effect.[10] Domestic support and export subsidies are normally less trade distorting than border measures. However, domestic support is known to significantly distort trade in selected commodities such as sugar and cotton. And export subsidies are small compared with trade-distorting domestic farm support (Hufbauer and Schott, 2006).[11] Therefore, even drastic reductions in export subsidies, which are the least distorting of these forms of agricultural protection, may not have major consequences for the export opportunities of developing countries.[12]

In conclusion, although better market access conditions in developed countries have somewhat improved developing countries' export opportu-

nities, under the multilateral trading system those conditions continue to be biased against developing countries.

(b) Market access under regional and bilateral trade agreements

In addition to developments in the multilateral trading system, developing countries may benefit from improved export opportunities through regional trade agreements (RTAs) and non-reciprocal preferential trading agreements with developed countries. The number of RTAs and their share in world trade has considerably increased over the past few years.[13] The main instrument used by developed countries to grant non-reciprocal, preferential market access to developing countries has been the Generalized System of Preferences (GSP), under which selected products originating in developing countries are granted lower than most-favoured nation (MFN) tariff rates. LDCs receive special and preferential treatment for a wider range of products, as well as deeper tariff cuts. The EU's GSP system was revised in 2005 and streamlined into three schemes: a general scheme with increased product coverage; a new "GSP plus" scheme for particularly vulnerable economies with special development needs and which have ratified a number of international conventions on sustainable development and good governance; and the "Everything but Arms" (EBA) scheme. Some preferential schemes have a specific focus on particular countries. For example, the EBA initiative, which the EU adopted in 2001, grants duty-free access to imports of all products from LDCs without any quantitative restrictions, except on arms and munitions. In 2000, the United States' African Growth and Opportunity Act (AGOA) amended the basic GSP programme in favour of designated sub-Saharan African countries, providing duty-free treatment for a much wider range of products, including textiles and apparel.

Although preferences were expected to lead to increased export earnings and promote diversification in the preference-receiving countries, evidence shows that developing countries, and particularly the poorest ones, have not been able to fully benefit from them. The preferences are not fully utilized by the LDCs and a significant proportion of their exports are outside the preferences. For example, in 2003, the sectors in LDCs' economies that relied on market access preferences accounted for an estimated 33 per cent of the total foreign exchange earnings of these countries (UNCTAD, 2005a). Moreover, the actual utilization of trade preferences is concentrated in a few country/product pairs (UNCTAD, 2003). For instance, in 2005 petroleum accounted for over 92 per cent of AGOA imports (including GSP) into the United States.[14]

The underutilization of preferences and their limited benefits are due to uncertainty surrounding the schemes, restrictive rules of origin, insufficient product coverage and supply-capacity constraints. Moreover, many products of major export interest to developing countries are regarded as "sensitive" and are therefore excluded from preferential schemes. For example, the GSP scheme of the United States covers only about 50 per cent of the tariff lines and excludes articles such as textiles, watches, footwear, handbags, luggage, steel, glass and electronic equipment (Amiti and Romalis, 2006). Under the EBA initiative, there are temporary exceptions for rice, sugar and bananas, but market access restrictions are to be phased out between 2006 (for bananas) and 2009 (for rice and sugar).

In addition to non-reciprocal preferential agreements, for those developing countries that are not generally included in the preferential schemes some free-trade agreements (FTAs) can offer better market access conditions than multilateral agreements. However, reciprocity in these agreements in many instances implies concessions by developing countries that go beyond their multilateral obligations; that is, they do not have the "less than full reciprocity" approach of multilateral agreements or the non-reciprocal character of preferential schemes such as GSP, EBA and AGOA. Many bilateral agreements also cover more areas than trade in goods, such as services, investment and competition, which developed countries tried to incorporate in the multilateral trade agenda, but with limited success.[15]

(c) Potentially new export opportunities from multilateral trade liberalization

Benefits resulting from a global reduction of market access barriers are often assessed on the basis of computable general equilibrium (CGE) models. These measure the welfare[16] benefits from efficiency gains and terms-of-trade effects that result from trade liberalization. The results of these models are highly dependent on fairly restrictive assumptions[17] and therefore need to be interpreted with caution. Simulation results can only provide a general idea, rather than accurate projections, of the impact of trade liberalization on different sectors and regions in the world. Moreover, these models often misinterpret the difference between two equilibrium states as representing a change from one to another (Akyüz, 2005).

CGE models were widely used to estimate the benefits that would result from the Uruguay Round of WTO negotiations. However, actual benefits from that Round have been much smaller than those prior estimates (Panagariya, 1999). This has contributed to increasing scepticism among developing countries regarding estimates of the gains they could obtain from multilateral trade negotiations. In recent years, a number of studies have also included CGE model estimations to assess the potential benefits expected from the Doha Round of multilateral trade negotiations.[18] A recent World Bank study by Anderson, Martin and van der Mensbrugghe (2005)[19] arrives at considerably lower estimates for the overall benefits of trade liberalization than earlier simulations by the World Bank that were published just after the launching of the Doha Round (World Bank, 2002). The earlier simulations used 1997 data while the later study used 2001 data, which reflect the current conditions of the global economy much better.[20] Indeed, the results using this updated database, compared to the results of earlier studies, show a decline in the estimated share of developing countries in those benefits (van der Mensbrugghe, 2005: fig. 1).[21]

Export and income gains expected to result from the Doha Round appear to be modest, and concentrated in a few countries.

Although Anderson, Martin and van der Mensbrugghe (2005: 385) conclude that "a great deal can be gained from liberalizing merchandise – especially agricultural – trade under … [the likely Doha scenario], with a disproportionately high share of that potential gain available for developing countries (relative to their share in the global economy)", a closer analysis of the potential gains for developing countries leads to a less optimistic conclusion. In per capita terms, the global gains of $96 billion by 2015 resulting from the likely Doha scenario[22] amount to only $3.13 per year, or the equivalent of less than a cent per day for those living in developing countries (Ackerman, 2005). Similarly, as a share of GDP, this scenario would lead to an overall rise in income of just 0.16 per cent in developing countries.

Among the developing countries, there is a high concentration of the welfare benefits. In the likely Doha scenario, only six countries (Argentina, Brazil, China, India, Indonesia and Thailand) would receive 73.3 per cent of developing-country benefits. Brazil alone would account for 22.4 per cent of the gains for developing countries. On the other hand, some countries, such as Bangladesh, Mexico and Viet Nam would stand to lose.

By sector of economic activity, reforms in agriculture would account for most of the global potential gains from full multilateral trade liberalization (63 per cent). Additionally, a decomposition of the effects by policy instrument shows that almost all the welfare gains from liberalization of agriculture would stem from a reduction in market access barriers. Only minor gains would accrue from the other two pillars of the multilateral trade negotiations (i.e. removal of domestic support and export subsidies). Agricultural liberalization in developed countries could even harm some, particularly food-importing, developing countries, because it may lead to higher food prices.

As for expected trade effects, according to estimations by Anderson, Martin and van der Mensbrugghe (2005), under the likely Doha scenario, by 2015 developing countries' total exports will be higher by $78 billion, which is about 37 per cent of the estimated global increase in exports. On a sectoral basis, about 55 per cent of the glo-

bal increase would be in manufacturing exports (excluding textiles and clothing), 26 per cent in agricultural and food exports and 19 per cent in textiles and clothing exports. In developing countries, agricultural and food exports would contribute the most (53 per cent) to export expansion. Textiles and clothing would represent 32 per cent of the export expansion for developing countries, while other manufacturing would account for only 15 per cent. This is in contrast with the results for developed countries, where the manufacturing sector, excluding textiles and clothing, would contribute over 77 per cent to export expansion.

The estimated rise in total developing-country exports is concentrated in a few countries, particularly China for manufactures and Brazil for agricultural products. For example, simulation results by Polaski (2006: 42–43) indicate that liberalization based on the framework set out in the Ministerial Declaration of the WTO Ministerial Conference in Hong Kong (China) in December 2005 would "lead to most East and South Asian developing countries exporting more labor-intensive manufactured goods and electronic equipment and importing more manufactured intermediates and capital intensive products. Brazil and Argentina would see a broad decline in manufactured exports offset by growth in food and agricultural exports. However, a number of the poorest developing countries experience an overall decline in exports, dominated by declines in labor-intensive exports and processed food."

Fernandez de Cordoba and Vanzetti (forthcoming) show that any of the likely scenarios for non-agricultural market access liberalization under the Doha Round negotiations will cause substantial adjustment pressure in terms of employment and output losses for individual economic sectors. For example, according to their simulation results, an ambitious application of a Swiss-type formula would lead to an output decline of 36 per cent in the motor vehicle sector in South Asia, excluding India, and of 14 per cent in those countries' electronic equipment sector; in Mexico, output would decline by 15 per cent for textiles and by 20 per cent for wearing apparel, and India's non-ferrous metal sector would experience an output decline of 25 per cent. The potential adjustment costs associated with trade liberalization and the unequal distribution of the benefits that may arise from new export opportunities have been recognized, leading to the "Aid for Trade" initiative, under which increased trade-related international assistance will be made available to developing countries (IMF and World Bank, 2005a).

While the numbers referred to above are not accurate projections of the increase in developing countries' export opportunities, it may be useful to put their magnitude in perspective by comparing them with projections for other variables related to the external sector, such as ODA flows and migrants' remittances. According to Anderson, Martin and van der Mensbrugghe (2005) total annual exports of developing countries will be higher by $78 billion by the year 2015 under the Doha scenario, and annual exports of developing countries to the developed countries will be higher by $62 billion. This compares with ODA inflows that can be expected to be higher by around $50 billion by 2010 thanks to new commitments by members of the OECD Development Assistance Committee (OECD, 2006: table 2), and to a level of migrants' remittances that by 2015 can be estimated to be $100 billion higher than in 2005, on the basis of recent World Bank estimates (World Bank, 2005).[23] In light of these comparisons the expected export gains from a successful conclusion of the Doha Round again appear relatively modest.[24]

2. Non-tariff measures (NTMs)

The reduction in tariff barriers has in recent years been accompanied by an increase in the use of NTMs, most notably in the form of technical measures.[25] These are technical regulations and standards that can be mandatory or voluntary, and they may be applied by the government or by the private sector. In principle, technical measures are aimed at accomplishing the legitimate policy objectives of human safety and health protection, as well as environmental protection.[26] Problems arise when the purpose of these technical measures goes beyond their legitimate protection policy objectives. Some countries may strategically abuse them as an instrument of trade policy, so that in effect they become a disguised form of protectionism by unfairly restricting imports, thereby discriminating against foreign producers in favour of domestic ones.

The quantification of NTMs, and particularly their impact on trade, remains a difficult task, as they are hard to define and detect. They may be measured in different ways, none of which seems entirely satisfactory.[27] One possible illustration of the increasing importance of technical measures, obtained from the UNCTAD TRAINS database, is to count the tariff lines affected by each type of NTMs and to calculate the percentage distribution for all countries for which data were available at the end of 1994 and 2004. This shows that the use of technical measures almost doubled, from 31.9 per cent to 58.5 per cent over that 10-year period. The most recent trends in NTMs indicate an increasing use of technical measures, as well as quantitative measures associated with technical measures (i.e. non-core measures), from 55.3 per cent to 84.8 per cent, and a decreasing use of all other measures (core measures), from 44.7 per cent to 15.2 per cent (UNCTAD, 2005b). Indeed, 10 years after the conclusion of the Uruguay Round, there has been a sevenfold increase in government-mandated testing and certification requirements (UNCTAD, 2006a).

The reduction in tariff barriers has in recent years been accompanied by an increase in the use of non-tariff measures.

Other evidence of the increasing use of technical measures is the number of technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures that have been the subject of notifications to the WTO since 1995. As can be seen in figure 3.1, the number of TBT notifications shows a slightly increasing trend, but not to the same extent as the number of SPS notifications. An analysis of the notifications by developing countries to the Negotiating Group on Non-Agricultural Market Access (NAMA) of the Doha Work Programme also shows that of all the NTMs, the highest number of notifications involved TBTs. Together with SPS notifications they represent over 55 per cent of all notifications (Flies and Lejarraga, 2005). The number of disputes over TBT and SPS measures could also be considered an indicator of the use of technical measures as trade barriers. However, as developing countries lack the appropriate capacities to initiate these disputes, this number may be an underestimation. This shows that while it may be relatively straightforward to report on the frequency of use of technical measures, it is not easy to measure the extent of their trade restrictiveness.[28] In general, this would require a case-by-case analysis.[29] In business surveys, which are another approach used to assess the importance of NTMs, technical measures are among the most frequently reported NTMs and they are considered a major obstacle to exports.[30]

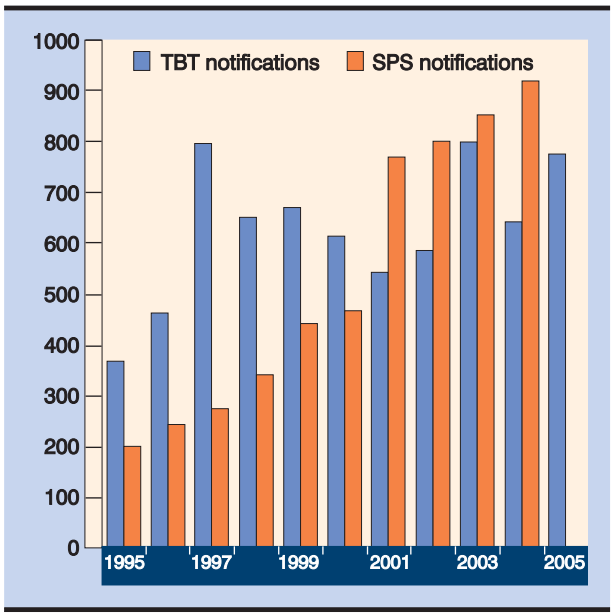
Anti-dumping has emerged as the most widespread impediment to international trade over the past 25 years. There is the danger that increasing recourse to anti-dumping measures will erode the predictability and non-discriminatory application of trade policies that have been achieved through successive rounds of multilateral trade negotiations. The number of anti-dumping investigations grew considerably during the 1990s, and the composition of the countries initiating anti-dumping cases, as well as those targeted by anti-dumping investigations, changed radically.[31] The number of anti-dumping initiations per year more than doubled between the late 1980s and the late 1990s, reaching a peak of 364 initiations in 2001, but falling subsequently to 191 in 2005.[32] Until the beginning of the 1990s, anti-dumping measures were used mainly by developed countries. Indeed, the so-called "traditional users" (including Australia, Canada, the EU, and the United States) accounted for more than 80 per cent of the total number of anti-dumping initiations. But in recent years, Argentina, Brazil, India, Mexico, the Republic of Korea, South Africa and Turkey within the group of "new users" have initiated a large number of investigations, their share increasing to between 50 and 60 per cent from virtually none in the early 1980s.

Anti-dumping measures have emerged as the most widespread impediment to international trade over the past 25 years.

The growing number of investigations as well as users of anti-dumping measures has been ac-

Figure 3.1

TBT AND SPS NOTIFICATIONS TO THE WTO SINCE 1995



Source: WTO, 2006; and Pay, 2005.

companied by a rising number of countries targeted by dumping charges. Among individual countries, Asian countries have increasingly been subject to anti-dumping investigations, their share rising from about 30 per cent in the late 1980s to over 70 per cent in 2005. China has become the most investigated country, accounting for about 30 per cent of all anti-dumping investigations in 2005.

Most of the investigations concern the base metals and chemicals sectors, which accounted for almost half of total investigations between 1995 and 2005. Other sectors where the number of investigations is high are plastics and rubber, machinery, electrical and electronic equipment, textiles, and pulp and paper.

Developing-country exporters are particularly vulnerable to the adverse impact of anti-dumping actions, because often they are new entrants to international markets and thus are more exposed to uncertainty and unpredictability in international trading relations than well-established exporters. They also lack the expertise, financial capacities and technical equipment required to effectively defend their interests in an anti-dumping investigation.

3. *Import demand growth in developing countries' trading partners*

With growing global trade integration across countries, a developing country's export opportunities are strongly influenced by the economic fortunes of its trading partners. In this context, a country's export opportunities depend on the extent of its trade with high-performing countries, and the economic size, import propensity and rate of aggregate income growth of its trading partners.

The first step in examining which developing countries have been best placed to benefit from strong import demand conditions in their trading partners is to measure export weights. These weights can be used to calculate weighted average changes in each developing country's export opportunities stemming from changes in the economic fortunes of its trading partners. Measuring export weights (i.e. each trading partner's share in a developing country's total exports) for three successive five-year intervals over the period 1990–2004, using a sample of 91 exporting developing countries that accounted for 99.7 per cent of total developing-country exports during the period 2000–2004, reveals a number of interesting facts.

First, most developing countries rely on a narrow range of countries as export destinations. The share of developing countries' five most important trading partners in their total exports was, on average, 66.9 per cent for the period 1990–2004. This high concentration changed little during this period, as the respective numbers for the three 5-year sub-periods are 67.7 per cent (1990–1994), 65.8 per cent (1995–1999), and 67.2 per cent (2000–2004).[33] However, these averages mask wide variations. While the five most important export destinations accounted for about 95 per cent of the total exports of a number of countries (which, over the past 10 years, comprise especially Mexico, but also Brunei Darussalam, the Dominican Republic, the Democratic Republic of the Congo and

Iraq), they absorbed only about 40 per cent of the total exports of other countries (including, over the past 10 years, Bahrain, Lebanon, India, the United Republic of Tanzania, Viet Nam and Zambia). Perhaps more importantly, for a variety of developing countries one single destination accounted for the vast majority of their exports during the period 2000–2004 (table 3.2). Mexico tops this list, with almost 90 per cent of its exports going to the United States. Many of the developing countries geographically close to the United States ship a very large share of their exports to that market. It should, however, be borne in mind that these results, as well as the results reported below, rely on export data expressed in gross value terms. This means that the data are inflated for countries that have a high import content in their exports due to, for example, their active participation in international production networks.[34] Many of the countries listed in table 3.2 have preferential access to the United States markets, including through outsourcing agreements.

Table 3.2

DEVELOPING COUNTRIES WITH THE HIGHEST CONCENTRATION OF EXPORTS TO A SINGLE DESTINATION, 2000–2004

Exporter	*Destination*	*Market share of destination (Per cent)*
Mexico	United States	88.9
Dominican Republic	United States	80.1
Trinidad and Tobago	United States	67.7
Sudan	China	67.4
Nicaragua	United States	66.8
El Salvador	United States	65.9
Mozambique	Netherlands	64.6
Venezuela	United States	63.8
Gabon	United States	59.1
Cambodia	United States	55.9

Source: UNCTAD secretariat calculations, based on IMF, *Direction of Trade Statistics*, October 2005.

Second, looking at the single most important export destination for developing countries more generally shows a number of interesting features (table 3.3). First, unsurprisingly, large economies rank at the top. This is true for both the developed and the developing countries that were the most important destinations for developing-country exports. However, the importance of Japan, and particularly that of the large European developed economies, has declined over the past 10 years (reflecting their lacklustre economic performance during this time),[35] whereas the importance of the United States and rapidly growing developing countries – especially China, but also India – as the main trading partner of developing countries has increased.[36] Second, the already considerable importance of the United States as developing countries' major export destination in the mid-1990s has further increased over the past few years, and that country is now the main export destination for almost half of the developing countries in the sample. As already mentioned, geographical closeness is a key determinant, which would explain why the majority of the developing countries for which the United States is the most important export destination are in Central and South America. The number of countries in South and Central America for which the United States is the most important export destination has remained virtually unchanged. It has also remained the most important export destination of large African fuel exporters (such as Angola, Gabon and Nigeria) over the entire period 1990–2004. Between 1994 and 1999 it temporarily gained in importance for a number of Asian economies (e.g. Cambodia, Iraq, Myanmar and Nepal). Moreover, in 2004 the United States was the most important export destination for some additional fuel exporters from Africa (e.g. Algeria and Equatorial Guinea).[37]

A country's export opportunities are strongly influenced by the economic fortunes of its trading partners.

Several factors affect the kind of impact that trading partners' economic fortunes will have on a country's export opportunities. A first group of factors can be characterized as determining whether two countries are a "good match". These factors,

Table 3.3

MAIN MARKETS FOR DEVELOPING-COUNTRY EXPORTS AND NUMBER OF DEVELOPING COUNTRIES FOR WHICH THEY ARE THE MOST IMPORTANT MARKET

1994		*1999*		*2004*	
United States	33	United States	40	United States	40
Japan	11	Japan	9	China	9
France	7	France	5	Japan	8
Italy	5	Italy	5	France	3
Brazil	4	Brazil	3	India	3
Germany	4	China	3	Italy	3
United Kingdom	3	India	3	Netherlands	3
Australia	2	United Kingdom	3	Brazil	2
Belgium and Luxembourg	2	Australia	2	South Africa	2
China	2	China, Taiwan Province of	2	Thailand	2
Russian Federation	2	Germany	2		
Saudi Arabia	2	Saudi Arabia	2		
Spain	2	South Africa	2		
Thailand	2	Spain	2		

Source: See table 3.2.

Note: Includes all developing countries whose cumulated average exports accounted for 99.7 per cent of total developing-country exports during the period 2000–2004, and for which comprehensive data are available (i.e. 90 countries for 1994, and 91 for 1999 and 2004). The table lists only those countries that were the main export destinations of at least two developing countries in the respective years.

which include geographic distance (which has a strong impact on trading costs), the overlap between one country's export composition and the other country's import composition, and the exporter's competitiveness relative to other countries exporting the same product palette, are reflected in the export weights discussed above. A second group determines the extent to which changes in a trading partner's economic performance influence a country's export opportunities. This influence is reflected in the trading partner's relative economic size (measured by its share in world aggregate income),[38] a change in the trading partner's economic activity (measured by the rate of the country's aggregate income growth, in constant dollars), and the trading partner's import/GDP ratio, which measures that partner's import propensity and its import price elasticity.

Taking account of both these groups of factors, the 15 developing countries whose export opportunities have evolved the most favourably, and the 15 whose export opportunities have evolved the least favourably, in response to changes in world economic conditions during the period 1990–2004 are shown in table 3.4. Three features of the table are noteworthy. First, only a narrow range of developing countries appears in the table for all three sub-periods. The main beneficiaries include economies in Central and South America that are geographically close to the United States, as well as Angola, Gabon and Macao (China). Those that benefited the least include four African countries,[39] as well as Cuba, Lebanon and Paraguay. Second, in each of the three five-year periods, more than half of the main beneficiaries were those that are geographically close to the United States, with the other half comprising small economies that have a strong concentration of exports in fuels or clothing. Some of the economies benefiting the least either have a small neighbouring country as their main trading partner (e.g. Lebanon and Syria,

Table 3.4

RANKING OF DEVELOPING ECONOMIES WITH THE LARGEST AND SMALLEST INCREASES IN EXPORT OPPORTUNITIES FROM WORLD IMPORT DEMAND GROWTH, 1990–2004

1990–1994	*1995–1999*	*2000–2004*
The 15 developing economies with the largest increase in export opportunities		
Mexico	Mexico	Mexico
Angola	Dominican Republic	Dominican Republic
Honduras	Angola	Cambodia
Dominican Republic	Gabon	El Salvador
Venezuela	Honduras	Venezuela
Costa Rica	Venezuela	Gabon
Trinidad and Tobago	China, Macao	China, Macao
Ecuador	Jamaica	Guatemala
Nepal	Guatemala	Angola
Congo	Bangladesh	Trinidad and Tobago
Panama	Sri Lanka	Honduras
Philippines	Nicaragua	Iraq
Nigeria	Philippines	Panama
Gabon	Colombia	Colombia
China, Macao	Trinidad and Tobago	Nicaragua
The 15 developing economies with the smallest increase in export opportunities		
Jordan	Jordan	Togo
Iraq	Benin	Paraguay
Benin	Togo	Benin
Lebanon	Paraguay	Senegal
Mali	Senegal	Uganda
Cuba	Lebanon	Lebanon
Togo	Cuba	Mozambique
Paraguay	Mali	Cuba
Cambodia	Yemen	Zambia
Mongolia	Sudan	Mali
Kenya	Kenya	Yemen
Myanmar	Dem. People's Rep. of Korea	Dem. People's Rep. of Korea
Zambia	Mozambique	Papua New Guinea
Bahrain	Uruguay	Iran, Islamic Rep. of
Senegal	Syrian Arab Republic	United Republic of Tanzania

Source: UNCTAD secretariat calculations, based on IMF, *Direction of Trade Statistics*, October 2005; UN COMTRADE; and UNCTAD *Handbook of Statistics*, various issues.

Note: Calculations based on a sample of 94 developing countries whose cumulated average exports in 2000–2004 accounted for 99.7 per cent of total developing-country exports; due to missing data on export weights for some of these countries, the sample covered 90 countries for 1990–1994 and 1995–1999, and 91 countries for 2000–2004. The ranking is based on the magnitude of change in export opportunities.

Uganda and Kenya), or their main export product is a primary commodity that experienced extended periods of low prices (e.g. cotton for Benin, Mali and Togo; coffee for Uganda; copper for Zambia; and sugar for Cuba). To the extent that commodity price movements have been responsible for the evolution of developing countries' export opportunities, the recent commodity price rise has substantially improved their opportunities for higher export earnings. Finally, for all of the 15 major beneficiaries in all three sub-periods, the United States was the most important export destination, with the exception of Nepal, for which Germany was the most important export destination in the period 1990–1994. The 15 developing countries that benefited the least have a wide variety of trading partners and their main export destination has been frequently changing.

The results of this first measure of changes in developing countries' export opportunities, shown in table 3.4, are strongly influenced by the economic size of their main trading partners. Using a second measure, which excludes the economic size variable and the import propensity variable from the calculation, and calculating the improvement in export opportunities arising from changes in world income conditions only on the basis of export market shares and export partners' aggregate income growth, strongly increases the importance of developing countries, especially China but also a few other Asian economies such as Malaysia, Thailand and Taiwan Province of China, as trading partners that provide the fastest increase in export opportunities. This is evident particularly for the period 2000–2004, when the main export destination for the exports of nine out of the ten developing countries with the largest increase in export opportunities calculated on this basis was a developing country, and for six out of nine it was China, as shown in table 3.5.[40] This is additional evidence of China's rising importance as a destination of developing-country exports, as discussed in some detail in *TDR 2005*.

The table also shows that those countries for which the United States is the main export destination tend to have a highly concentrated destination pattern. While this is undoubtedly beneficial as long as the main trading partner is a large economy with robust economic growth, it also strongly increases the risk of being adversely affected when the trading partner's economic fortune turns. This risk became manifest during the Asian financial crisis, when the trade channel was one of the main mechanisms of contagion (*TDR 2004*), and it is also reflected in the sensitivity of Mexico's GDP to changes in United States import demand (see, for example, EIU, 2005a).

Table 3.5 also shows that those developing countries identified as the main beneficiaries of improved export opportunities due to changes in world import demand (i.e. the second measure) tend to experience significantly higher rates of export growth. However, the absolute value of exports is significantly higher for those countries identified on the basis of the first measure (i.e. the economic size of the main trading partner). This is probably due to the fact that the import composition of those economies that have experienced rapid growth over the past few years, especially China, significantly differs from that of very large economies, such as the United States. Hence, the economic ascendance of the Asian drivers has come to be an important determinant of developing countries' export opportunities.

The economic ascendance of the Asian drivers has become an important determinant of developing countries' export opportunities.

The increasing significance of Asian developing countries in world imports is also likely to be the main reason for the growing importance of the "old" economy in product-specific dynamism of developing-country exports over the past few years. Between 2000 and 2003, which is the latest year for which comprehensive data are available, the export values of many products in the category of high-technology-intensive manufactures, and in particular the electronics products of the "new" economy, continued to experience a rate of growth above the average for all products. There was also robust growth in the export values of an increasing number of primary commodities, as well as of manufactures in the low- and medium-technology-intensive categories (table 3.6). Although much

Table 3.5

INCREASE IN EXPORTS DUE TO RISING EXPORT OPPORTUNITIES FROM WORLD IMPORT DEMAND GROWTH, 2000–2004

Exporting economy	Destination providing biggest improvement in export opportunities, 2004: Destination	Market share	Exports: Average annual change 2000–2004 (Per cent)	Exports: Total value 2004 ($ million)	Memo item: Purchasing power of exports, 2004 (Index number, 2000=100)
			First variant[a]		
Mexico	United States	88.4	3.0	189 083	109
Dominican Republic	United States	80.1	8.9	1 299	121
Cambodia	United States	55.9	14.5	2 415	..
El Salvador	United States	65.9	2.4	1 474	99
Venezuela	United States	63.8	2.0	36 200	92
Gabon	United States	59.7	11.4	3 970	151
China, Macao	United States	49.9	-2.1	2 160	..
Guatemala	United States	53.6	1.8	2 938	98
Angola	United States	38.0	16.6	13 550	157
Trinidad and Tobago	United States	67.7	5.6	5 103	..
Memo item:					
Average		62.3	6.4	25 819	118
			Second variant[b]		
Mongolia	China	47.8	9.3	770	..
Sudan	China	67.4	20.7	3 778	194
China, Hong Kong	China	44.1	6.9	259 314	135
Yemen	Thailand	33.9	6.3	5 109	112
Dem. Republic of the Congo	China, Taiwan Prov. of	27.8	7.3	3 115	115
Oman	China	29.5	3.9	13 342	125
Dem. People's Rep. of Korea	China	41.8	8.9	1 035	..
Cuba	Netherlands	22.8	-0.8	1 730	..
Mali	China	32.7	18.2	1 123	145[c]
Myanmar	Thailand	41.4	12.6	2 921	156
Memo item:					
Average		38.9	9.3	29 224	140
Average excl. Hong Kong (China)		38.3	9.6	3 658	140

Source: See table 3.4.

Note: See table 3.4. The ranking is based on the magnitude of improved export opportunities.

a Magnitude of improved export opportunities measured by export market share multiplied with export partner's composite index (economic size * import propensity * GDP growth).

b Magnitude of improved export opportunities measured by export market share multiplied with export partner's GDP growth.

c 2003.

Table 3.6

DYNAMIC PRODUCTS IN DEVELOPING-COUNTRY EXPORTS BY CATEGORY, 1995–2003

(Number of products)

	1995–2000		*2000–2003*		***Memo item:*** *1995–2003*	
	Above-average growth	*Below-average growth*	*Above-average growth*	*Below-average growth*	*Above-average growth*	*Below-average growth*
Primary commodities	20	71	47	44	19	72
Labour- and resource-intensive manufactures	10	25	12	23	9	26
Low-technology-intensive manufactures	6	15	18	3	7	14
Medium-technology-intensive manufactures	18	18	27	9	25	11
High-technology-intensive manufactures	20	23	31	12	27	16

Source: UNCTAD secretariat calculations, based on UN COMTRADE; and UNCTAD estimates.
Note: For the composition of the product categories, see *TDR 2002*: 87–92. The dynamism of an individual product refers to its rate of export value growth relative to the average rate for all products.

of the dynamism in developing countries' exports of primary commodities (e.g. a range of cereals, as well as silver) over the past few years has occurred from a low base, the export values of commodities that figure more prominently in these countries' export baskets (e.g. cocoa, rubber and vegetable oils) have risen rapidly. Between 2000 and 2003, among low- and medium-technology-intensive manufactures, export values grew the most rapidly for iron and steel, transport equipment and machinery.

In sum, the evolution of import demand in developing countries' main trading partners has had a significant impact on developing countries' export opportunities. The structure of this demand growth has also strongly influenced the product-specific pattern of developing countries' export dynamism since 1995. Thus, by implication, there appears to be only a weak link between changes in developing countries' market access conditions and their export opportunities. Nevertheless, evidence suggests that even a slight easing of such conditions could provide a sustained improvement in developing countries' export opportunities. By contrast, demand growth in developing countries' main trading partners can significantly increase their export opportunities, but it also has a strong cyclical component and may therefore eventually prove to be unsustainable. The challenge for developing countries is to translate these improvements in export opportunities into faster export growth. For this, it will be necessary to improve supply-side conditions, in particular through rapid productivity growth and technological upgrading, as discussed in chapter V below.

C. Debt relief and official development assistance

For developing countries, cross-border debt financing is considered an important vehicle for mobilizing resources for public and private investment. External financing from international capital markets or official sources enables countries to import more inputs for domestic production than the current level of their export earnings would normally allow. Where the official external financing takes the form of grants, it will not create any repayment obligation in the future, and its use for social and humanitarian purposes is therefore appropriate. By contrast, external borrowing leads to debt service obligations in the future, and the question as to whether developing-country borrowers will be able to service their debts as scheduled is at the core of debt sustainability analysis, which has received increasing attention in recent years.

Exogenous shocks can seriously undermine a country's ability to service its external debt.

In principle, the productive use of external debt will itself create the capacity for servicing that debt to the extent that it generates additional income and foreign exchange through either higher export earnings or reduced dependence on imports. However, experience from the last three decades shows that, in addition to inappropriate domestic policies, exogenous shocks such as terms-of-trade deterioration, interest rate hikes or natural disasters, can seriously undermine a country's ability to service its external debt. With the rapid build-up of the stock of debt during the 1970s and 1980s, debt rescheduling became more frequent, and analysis of the debt problem of developing countries began to evolve from the traditional view that it was strictly a liquidity problem, towards the view that in many countries it was a structural one.

This section briefly reviews the considerable progress made in recent years by the international community in dealing with the debt problems of the poorest countries, which are mainly or exclusively indebted vis-à-vis official creditors. It also takes up some issues relating to the debt problems of low- and middle-income countries that have obligations to private creditors, for which little progress has been made in finding satisfactory solutions.

1. The framework for official debt relief

The rescheduling of official bilateral debt takes place under the aegis of the Paris Club, a voluntary, informal group of creditors that coordinates agreements with debtor countries to redress debt service difficulties. The incidence of Paris Club reschedulings rose dramatically among the poorest countries over the period 1976–1988, when 24 of the countries that later were identified as heavily indebted poor countries (HIPCs) were granted 77 reschedulings: 10 under ad hoc[41] treatments and 67 under the classic terms. These reschedulings led to a postponement of debt service

Table 3.7

PARIS CLUB TERMS AND RESCHEDULINGS

	Paris Club terms	Debt reduction[a] (Per cent)	Number of reschedulings		Number of debtor countries involved in reschedulings	
			Total	HIPCs	Total	HIPCs
1956–present	Classic terms (non-concessional)	-	169	68	58	27
	1976–1982	-	27	20	15	10
	1983–1990	-	101	47	43	23
Sept. 1990– present	Houston terms	-	34	5	20	5
Oct. 1988–June 1991	Toronto terms	33	28	27	20	19
Dec. 1991–Dec. 1994	London terms	50	26	24	23	22
Jan. 1995–present	Naples terms					
	Jan. 1995–Sept. 1999	50	6	5	4	3
	Jan. 1995–present	67	44	40	31	28
Dec. 1996–Nov. 1999	Lyon terms	80	7	7	5	5
Nov. 1999– present	Cologne terms	90	42	42	28	28

Source: UNCTAD estimates, based on the "breakdown by year of agreements already concluded by Paris Club creditors" at www.clubdeparis.org.

Note: Data for HIPCs cover the countries identified under the HIPC Initiative, including countries that were deemed to have potentially sustainable debt following traditional debt relief (Angola, Kenya, Viet Nam and Yemen); they do not refer to the newly identified countries included under the extended sunset clause.

a Debt reduction may apply to either debt service or stock.

payments to a later date, thereby causing debt stocks to rise (IMF, 1999).

The evolution of the terms granted by the Paris Club creditors since the late 1970s reflects the increasing realization that repeated rescheduling of debt service flows was not the solution to the debt problems of developing countries (table 3.7). The turning point occurred with the adoption of the Toronto terms in 1988, which first introduced debt stock reduction for poor countries. Under these terms, eligible countries obtained a 33 per cent reduction of their debt stock. During the period 1988–1991, 19 countries (now classified as HIPCs) underwent 27 debt reschedulings under the Toronto terms. The Houston terms, which were adopted in 1990, did not provide for any debt stock reduction. These terms were intended to address the debt of lower-middle-income countries and were also applied in a few cases to countries presently classified as HIPCs.

Despite these new measures, it soon became evident that they were insufficient to avert the continued and unsustainable increase in debt stocks. Consequently the London terms replaced the Toronto terms in late 1991, increasing the debt stock reduction granted to eligible countries to 50 per cent. Despite this debt stock reduction, an additional 22 countries presently classified as HIPCs underwent 24 debt reschedulings under the London terms in the subsequent three years. Clearly, the frequency of reschedulings was not declining. Debt reduction efforts were further enhanced in 1994 with the adoption of the Naples terms, which provided a 67 per cent reduction of the debt stock.

While the official creditors were reducing the stock of bilateral debt of the poorest countries, there was no mechanism to address their rising stocks of multilateral debt, which continued to increase as a percentage of their external debt position. It was soon recognized that the repeated

rescheduling process was not addressing the problem of debt overhang, and that a more comprehensive scheme would be necessary to successfully tackle the debt problem of these countries.

Consequently, in 1996 the proposal for the HIPC Debt Initiative was put forward at the G-7 Summit in Lyon. It was designed to coordinate the efforts of the involved creditors through broad and equitable participation. The Initiative represented a major step towards comprehensively addressing the debt problems of the poorest countries in that it sought to find a lasting solution to the problem of debt overhang through a reduction of debt to a sustainable level. A major feature was the inclusion, for the first time, of multilateral debt in the international debt relief effort. Further, the proposal increased the net present value (NPV) of debt stock reduction accorded to eligible countries by Paris Club creditors to 90 per cent under the Cologne terms. The architects of the Initiative envisaged that a simultaneous treatment of both official and multilateral debt, accompanied by a large debt stock reduction, would provide a permanent exit for HIPCs from repeated debt rescheduling operations.

The rationale behind the HIPC Initiative was that debt overhang has a negative impact on growth and investment because high debt service obligations reduce the flexibility of fiscal policy and the scope for public investment; moreover, they create uncertainty about future macroeconomic developments among potential domestic and foreign investors, and therefore raise the cost of borrowing.[42] This is because creditors tend to require a higher marginal return when there is uncertainty over a country's future debt servicing capacity. The higher cost of borrowing reduces the willingness of governments to undertake public investment, with attendant effects on private investment and growth. In addition, as governments are forced to divert resources to servicing debt and away from investment and social expenditure, the presence of a severe debt overhang can undermine a country's ability to pursue the Millennium Development Goals (MDGs). Debt service obligations can create fiscal constraints that distort effective resource utilization, and they diminish a government's capacity to form and shape a national development strategy (Moss and Chiang, 2003: 9). An underlying principle of the HIPC Initiative, therefore, was to use the newly freed public resources from lower debt service payments to increase social expenditures aimed at reducing poverty.

After 10 years of implementation, the HIPC Initiative has not succeeded in meeting all its goals. One of the main obstacles to solving the current debt problem of HIPCs, and minimizing the risk of their plunging into a new debt crisis, remains the limited participation of non-Paris Club creditors in the write-offs and litigation by some private creditors who refuse to accept any write-off on their claims. Moreover, some lenders are not following the World Bank's principle of extending highly concessional loans or grants to post-HIPC countries, thus paving the way for new debt servicing difficulties for these countries a few years from now. The process for countries to benefit from the Initiative is lengthy, slow and complex, which places a burden on their already weak institutions. By the third quarter of 1999 only seven of the eligible countries had reached the "decision point" – the stage of the Initiative at which the international community commits to providing additional assistance beyond traditional debt relief to assist countries in reaching the debt sustainability thresholds defined under the Initiative. At the end of 1999, the HIPC Initiative was broadened,[43] and by the end of 2000, 22 countries had reached the decision point under the enhanced Initiative.

After 10 years of implementation, the HIPC Initiative has not succeeded in meeting all its goals.

Despite these efforts, the Initiative has constantly faced financing problems, making a quick resolution to the debt problems of HIPCs impracticable. While the HIPCs as a group have made progress in terms of a number of debt indicators, such as the ratio of debt service to exports and debt service to government revenue, a number of completion point countries continue to have unsustainable levels of debt. According to World Bank estimates based on 2003 NPV debt ratios of 13 countries for which data was available, the debt ratios of 11 countries have deteriorated; of these, 8 countries have exceeded the sustainability thresholds. Moreover, one third of the completion

point countries – Burkina Faso, Ethiopia, Guyana, Nicaragua, Rwanda and Uganda – are expected to exceed the sustainability thresholds in the medium term of the post-completion period (World Bank, 2006a: 18–19).

In an additional push to resolve the debt problem of the poorest countries, in July 2005 the G-8 announced the Multilateral Debt Relief Initiative (MDRI), which provides countries that have reached the completion point under the HIPC Initiative with 100 per cent debt cancellation of claims from multilateral financial institutions.[44] The objective of the G-8 proposal is to complete the HIPC debt relief process by freeing additional resources to support countries' efforts to achieve the MDGs. It is estimated that the MDRI will reduce the NPV debt-to-export ratio from 140 per cent post-HIPC relief to approximately 52 per cent (IMF and World Bank, 2005b). The cancellation of the multilateral debt of these countries is expected to have a profound impact on the burden of their debt overhang and on the pursuit of their development objectives.

2. Extent and impact of the HIPC Initiative

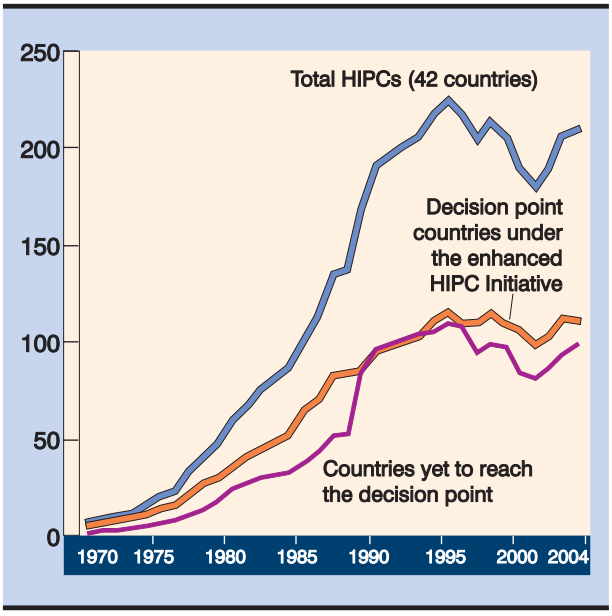
Estimating the amount of debt relief accorded to countries under the HIPC Initiative and assessing its impact is not straightforward. Debt relief can take the form of concessional debt restructuring – which leaves the nominal debt stock unchanged – or various forms of debt cancellation, with different implications on future debt service obligations (Chauvin and Kraay, 2005: 7–8). Behind a given nominal value of the debt forgiven there is a structure of interest and principal payments, which determines the degree to which the nominal debt relief will reduce future debt service payments, and the impact on future debt service payments of forgiving a nominal amount of concessional debt will differ greatly from the same amount of forgiveness on non-concessional debt.

In 2004, the nominal stock of debt of the HIPCs that had begun to receive debt relief after reaching the decision point under the enhanced Initiative, was roughly the same as it had been in 1996, the year of the launch of the Initiative (fig. 3.2). What is apparent, though, is that the accumulation of debt decelerated, and even declined from 1998 to 2001, before rising again from 2002 onwards. This could lead to the conclusion that the enhanced Initiative has not adequately addressed the problem of debt overhang for the countries that have reached the decision point (listed in annex table 3.A1). However, it is important to note that there have been steady improvements in the terms of the new loan commitments for the countries that had reached the decision point by the end of 2004. These trends are apparent with respect to the average interest rate, the average maturity and the proportion of the grant element in the terms of the new commitments (fig. 3.3). The improvements are more pronounced when compared to the terms for the countries that have been identified as potentially

Figure 3.2

TOTAL EXTERNAL DEBT OF HIPCs, 1970–2004

(Billions of dollars)

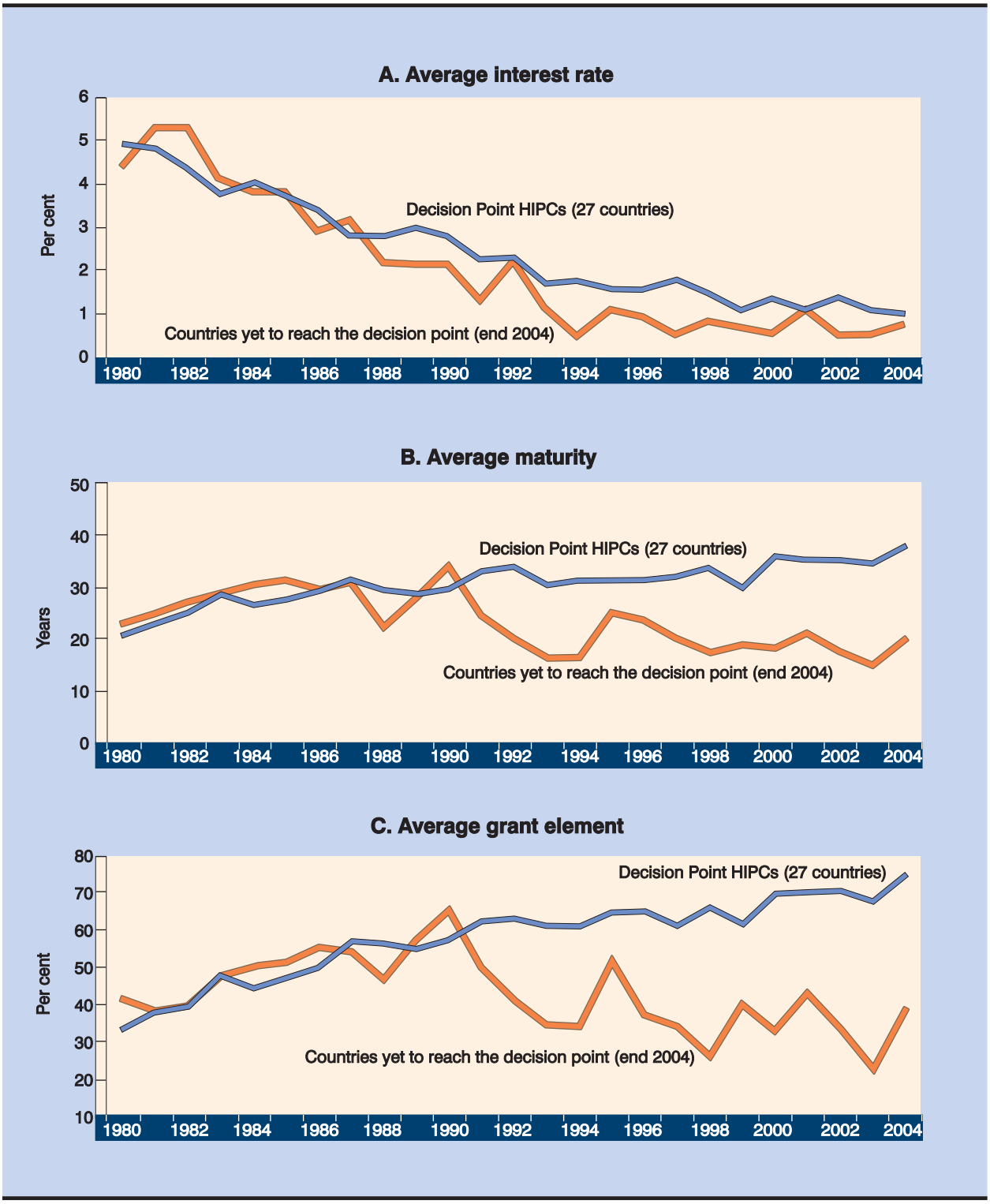


Source: UNCTAD secretariat calculations, based on World Bank, *Global Development Finance* Database.

Note: The decision point countries include data for the 27 HIPCs that reached the decision point by end 2004. For a listing of the decision point countries, see annex table 3.A1 of this chapter.

Figure 3.3

DECISION POINT HIPCs: TERMS OF NEW LOAN COMMITMENTS, 1980–2004



Source: UNCTAD estimates, based on World Bank, *Global Development Finance*, May 2006.

Note: Figures reflect a simple average. The countries that had yet to reach the decision point by end 2004 are Burundi, Congo and the countries identified as potentially eligible for assistance under the enhanced HIPC Initiative, including the Central African Republic, Comoros, Côte d'Ivoire, Eritrea, Haiti, Kyrgyzstan, Liberia, Nepal, Somalia, Sudan and Togo. Due to lack of data, Eritrea and Kyrgyzstan are not included in the group averages.

Table 3.8

DEBT INDICATORS OF DECISION POINT HIPCs, 1995–2004

(Weighted average, per cent unless otherwise indicated)

	1995	*2000*	*2004*
Total external debt stocks (*$ billion*)	114.7	104.9	111.1
Total external debt stocks/Gross National Income (GNI)	143.0	115.8	86.8
Multilateral debt/total external debt stocks	34.1	41.8	57.8
Concessional debt/total external debt stocks	55.4	61.4	74.1
Short-term debt/total external debt stocks	9.8	10.0	4.9
Debt service, total long-term (*$ billion*)	3.8	3.5	3.3
Debt service/exports of goods and services	31.2	16.1	10.1

Source: UNCTAD secretariat calculations, based on World Bank, *Global Development Finance* Database; and IMF, *World Economic Outlook* Database.

Note: The table presents data for the 27 HIPCs that reached the decision point by end 2004. For a listing of the current 29 decision point countries, see annex table 3.A1 of this chapter.

eligible for assistance under the enhanced HIPC Initiative. For these countries, the new commitments have much shorter average maturities and lower grant elements.

Table 3.8 presents a snapshot of some debt indicators of the 27 HIPCs that had reached the decision point by the end of 2004, for three selected years: 1995, the year before the launch of the HIPC Initiative; 2000, the first year of the enhanced HIPC Initiative; and 2004, the last year for which data is available. Several trends can be discerned from these indicators. First, there has been a steady decline in the ratio of total debt to GNI, while the nominal stock of debt declined until 2001 before rising again in recent years. Second, the debt service burden for the group as a whole has eased, both in terms of current dollars and as a proportion of exports of goods and services. However, the lower debt-service-to-exports ratio is due to a large extent also to considerably improved export performance of some HIPCs as a result of increased demand for their export commodities. And third, there has been a shift in the composition of the total debt towards a greater proportion of multilateral and concessional debt and a decline in the share of short-term debt.

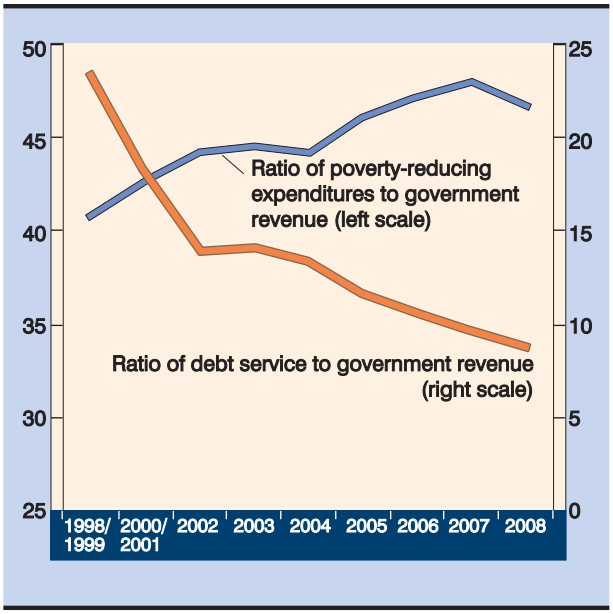
In 1999, the IMF and the World Bank introduced "country owned" poverty reduction strategies as the basis for future lending, and incorporated the poverty reduction strategy approach into the procedures of the enhanced HIPC Initiative (see also chapter II, section D). Besides providing debt relief to reduce the debt overhang of HIPCs, the enhanced Initiative also sought to provide countries with additional fiscal space to enable them to increase spending in order to spur economic growth and pursue their objectives under the MDGs. In principle, countries are required to have a Poverty Reduction Strategy Paper (PRSP) in place by the time they reach the decision point under the Initiative, which should outline medium- to long-term targets. By the time countries reach the completion point, it is expected that their poverty reduction strategies will take into account specific challenges and set forth their objectives. These will vary from country to country, as will the associated resource requirements to meet them. Additionally, some of the objectives that countries choose to pursue may lie outside the scope of the MDGs. All of these factors complicate the measurement of the full impact of debt relief and thus make comparative progress all the more difficult to gauge.

Among the 29 decision point countries that reached the decision point by May 2006 under the enhanced HIPC Initiative, there has been a rise in poverty reduction expenditures and a fall in debt service, measured as a ratio of government revenue (fig. 3.4). This is not surprising, as the provision

Figure 3.4

DECISION POINT HIPCs: DEBT SERVICE AND POVERTY REDUCING EXPENDITURES AS A PERCENTAGE OF GOVERNMENT REVENUE, 1998–2008

(Weighted average)



Source: IMF, *HIPC Statistical Update*, March 2006.
Note: See figure 3.2. The ratio of poverty-reducing expenditures to government revenue for 1998/1999 is only for 1999. Data for 1998/1999 and 2000/2001 are averages.

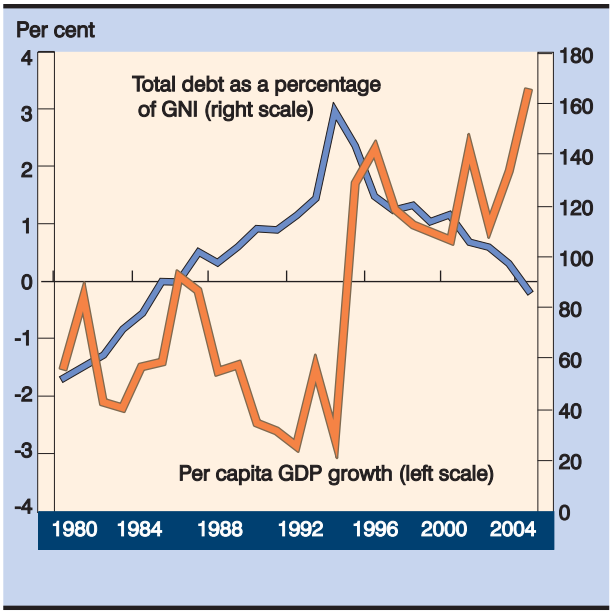
of such expenditures was incorporated into the PRSP process. However, despite the increase in these expenditures, the additional resources resulting from debt relief remain below what is needed for these countries to achieve the MDGs. Many of the countries have made only modest progress towards attaining some of the goals, with the majority of countries likely to fall considerably short of the targets set for 2015 (annex table 3.A2). As a group, these countries have made some progress towards achieving the goals under gender equality, improved sanitation facilities and child mortality, although individual performance varies widely. It is evident that these countries will require a sizeable increase in development assistance if they are to reach the targets.

Elimination of a debt overhang is a necessary but certainly not sufficient condition for achieving and maintaining higher levels of economic growth over the long term. The launching of the HIPC Initiative coincided with an upward swing in average per capita GDP growth in those countries that had reached decision point by the end of 2004, from a negative rate of around -2 per cent between 1980 and 1995 to a positive one in the order of 1.5 per cent in 1996–2004 (fig. 3.5). Although the swing occurred too early to be attributable to the economic effects of the HIPC Initiative, the expectation and actual provision of debt relief is likely to have been a contributory factor. In any case, in order to reap the benefits from debt relief for growth and employment creation, due consideration has to be given to the context of spending within a country's national development strategy and to the overall impact of investment (particularly in infrastructure) on growth (UNCTAD, 2004a). Further, the vulnerability of

Figure 3.5

DECISION POINT HIPCs: PER CAPITA GDP GROWTH AND RATIO OF TOTAL DEBT TO GNI, 1980–2004

(Weighted average)



Source: UNCTAD secretariat calculations, based on United Nations Statistics Division, United Nations Common Database (UNCDB); and World Bank, *Global Development Finance* Database.
Note: See figure 3.2.

these countries to exogenous shocks, such as adverse weather conditions, exchange rate changes, or commodity price movements, and their degree of export diversification should also be taken into account when considering their long-term growth prospects. Underestimation of this vulnerability has been one of the reasons why estimates of export earnings and economic growth in the context of the implementation of the HIPC Initiative tended to be overly optimistic in the past (USGAO, 2004). There is thus a need for caution in making economic projections that serve to assess future debt sustainability.

It is also necessary to bear in mind that traditional debt indicators only give a partial picture of the foreign exchange obligations resulting from external financing; they do not reflect the root cause of many of the debt problems of developing countries. As such problems frequently retard progress in economic development and structural change, so that countries continue to remain vulnerable to adverse changes in the external environment, it is important to incorporate systematic debt management in national development strategies. This would help ensure that progress is made not only towards poverty reduction, but also in areas that support diversification, output growth and technological progress.

3. Additionality of debt relief and ODA

Even after reaping the full benefits of debt relief under the HIPC Initiative, countries continue to be faced with the challenge of maintaining debt sustainability while seeking the additional financing needed to pursue the MDGs. One-off debt relief will not provide a universal solution to broader structural problems, and it certainly will not ensure against a recurrence of debt problems.

According to the OECD, ODA to developing countries, including debt forgiveness grants, provided by DAC rose to $106.5 billion in 2005, representing an increase of 31.4 per cent over 2004. However, ODA is expected to fall again in 2006 and 2007, since the sharp increase in 2005 was mainly due to exceptionally high debt relief accorded to Iraq ($14 billion) and Nigeria ($5 billion), and emergency aid to tsunami-affected countries ($2.2 billion) (OECD, 2006b).

In comparison, the total donor cost of supporting the MDG financing gap in investment for every low- and middle-income country is estimated to be $73 billion for 2006, increasing to $135 billion by 2015 (UN Millennium Project, 2005: 240). There are likely to be additional national and international costs for emergency and humanitarian assistance, outlays for science and technology, enhanced debt relief, increased technical capacity needs of bilateral and multilateral agencies, and other categories of official development assistance. In its report, *Investing in Development* (also known as the Sachs report), the Millennium Project estimates that if the developed countries were to increase their ODA from 0.25 per cent of their gross national product (GNP) in 2003 to 0.44 per cent in 2006, and to 0.54 per cent in 2015, the cost of achieving the MDGs could be met in all countries. It further suggests that these should largely take the form of grants for budgetary support. It should be noted that this level of ODA is below the level of the 0.7 per cent of GNP that donors had already committed to reach by 2015 to support the MDGs and other development assistance priorities.

Most HIPCs will need greater grant-based financing if they are to achieve the MDGs by 2015 without encountering further debt servicing difficulties. However, in cases where additional loans are necessary to finance investment for development, there is a need to promote responsible lending and borrowing, and to link the grant element of such loans to the capacity to pay, which, in the poorest countries is often subject to externally induced fluctuations, given the high dependence of these countries on commodity export earnings. In this context, the question arises as to how a country can strike the proper balance between grants and concessional loans, which would allow it to achieve its development objectives without the risk of getting into an unsustainable external debt position.[45]

The obvious benefit of grants is that they will not lead to potential debt servicing problems at a later stage, while providing the valuable fiscal space and resources needed to achieve national development objectives. The HIPC completion

point countries, in particular, will not have enough resources to finance development expenditures without a sizeable increase in aid, preferably in the form of grants. There is concern, however, that a significant shift to grants from loans may increase uncertainty with regard to future aid flows.

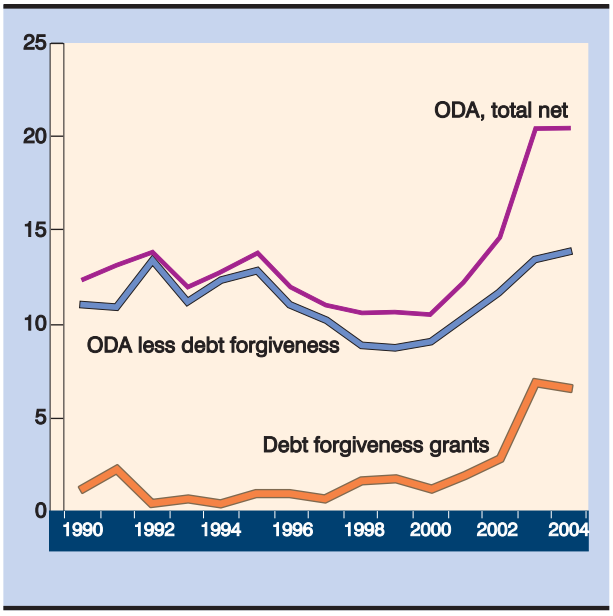
Once the debt relief initiatives are complete, countries will have to find additional means to finance the MDGs. The main concern is that the HIPC Initiative makes only a modest contribution to alleviating a government's budgetary constraints. While the modalities of debt relief may have an impact on a country's balance of payments – in the sense that debt stock relief, unlike debt service relief, eliminates the need to mobilize foreign exchange for repayment to the creditor – it will not ease the budgetary burden, as the amount previously scheduled for debt service payments will instead be transferred into a special account that is drawn upon to finance social expenditures under the country's PRSP. Where countries had accumulated significant arrears before benefiting from the HIPC Initiative, governments will thus have to incur additional expenditures to "clear" these arrears in the form of higher social spending. These additional expenditures will have to be financed by reducing expenditure on other categories of public sector outlays or by finding ways of increasing government revenue. Hence, to what extent debt relief can provide additional fiscal space to enable the beneficiary government to take measures to achieve the MDGs, and to what extent the conditions attached to the programme impose additional constraints on public spending and investment or on measures in support of growth and structural change in the longer term, is a matter of interpretation.

Moreover the provision of debt relief, which was intended to free up resources for increased public expenditures, was based on the assumption that such relief would be in addition to aid flows that may have been provided in the absence of debt relief. Again, the judgement about additionality in this sense is largely a matter of interpretation and assumptions about the counterfactual. But a decomposition of nominal ODA flows from DAC members suggests that, so far, debt relief has not been fully additional under the Initiative. As can be seen from figure 3.6, for the countries that reached the decision point by the end of 2004,

Figure 3.6

DECISION POINT HIPCs: ODA FLOWS AND DEBT RELIEF, 1990–2004

(Billions of dollars)



Source: UNCTAD secretariat calculations, based on OECD, *Development Assistance Committee* Database.
Note: See figure 3.2.

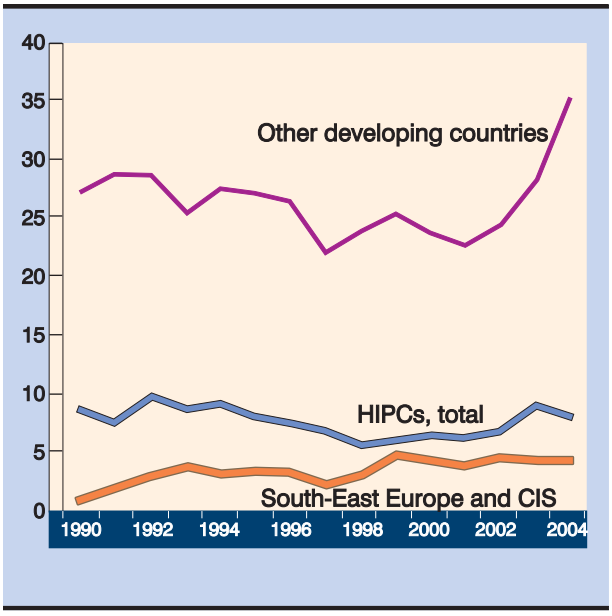
there was a continuous decline in aid flows, after deduction of debt forgiveness, following the launch of the HIPC Initiative in 1996 until 2000. This trend was reversed in 2001, with a continuous rise in the level of aid. A recent evaluation by the World Bank (2006a) points out that HIPC debt relief was significantly additional to non-debt transfers in the period after 1999. However, it is important to note that this rise of ODA, less debt forgiveness, only meant a return to the level prevailing before the launch of the HIPC Initiative.

ODA flows from DAC members, after deduction of debt relief grants, rose faster from 2001 to 2004 for developing countries that are not among the beneficiaries of the HIPC Initiative (55 per cent) than for the HIPCs (27 per cent) and the transition economies of South-East Europe and the CIS (10 per cent) (fig. 3.7). This could lead to the conclusion that bilateral HIPC debt relief has partly been at the expense of other ODA flows to HIPCs as a group. However, a large proportion of

Figure 3.7

ODA LESS DEBT RELIEF BY DAC MEMBERS, 1990–2004

(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on OECD, *Development Assistance Committee* Database.

the increase in ODA flows, excluding debt forgiveness, to non-HIPCs was due to a substantial increase in aid flows to only two countries with exceptional reconstruction needs: Afghanistan and Iraq (OECD, 2006c).

4. Debt problems of middle-income countries

In addition to calling for measures to assist the poorest countries, the Millennium Declaration also underlined the need for national and international measures to help make the debt of low- and middle-income developing countries more sustainable in the long term. While the 1990s were marked by a major effort to deal with the debt sustainability problems of the poorest countries, those of the middle-income countries did not receive the same attention. It was only after the Argentine default in 2001 that both private and official creditors turned their attention to improving the existing mechanisms for dealing with the debt problems of these countries.

The fact that a number of non-HIPCs also face serious problems of debt sustainability was recognized in the Evian approach proposed in 2003. This approach provides a framework for treatment by the Paris Club of the official debt of low- and middle-income countries, which have not been eligible for debt relief under the HIPC Initiative but have accumulated similar debt overhangs as the HIPCs. Under this approach, the standard terms of flow reschedulings will be applied to countries with a liquidity problem but an otherwise sustainable debt. For countries that have an unsustainable debt situation, but are committed to policies implemented within the framework of IMF programmes, the Evian approach allows a comprehensive treatment of their debt problem by the Paris Club, including flow rescheduling, stock re-profiling, or stock reduction. It also reinforces the principle of comparable treatment by other creditors, including private creditors.

So far the Evian approach has been applied only to six countries, two of which were considered to have an unsustainable debt situation.[46] Although no new terms of treatment have emerged from the Evian approach, the Paris Club considers it an improvement over past practices in debt renegotiations with middle-income countries. However, there are a number of problems with this approach: first, the factors which allow a distinction to be made between liquidity and solvency problems are not clearly identified; second, the case-by-case treatment of debtor countries is not entirely transparent in terms of the criteria or methodology underlying the treatment of the individual case; and, third, the debt sustainability analysis that serves as a basis for determining the treatment focuses on macroeconomic policies while paying little attention to the links between development policies and sustainability, or between vulnerability factors and sustainability.

During the 1990s there was considerable progress in solving the debt problems of the 1980s that were related to obligations vis-à-vis commercial bank creditors, but at the same time new debt problems built up that came to haunt the international financial markets by the end of the decade.

The improved external position of a number of middle-income countries, coupled with their reliance on capital inflows to finance investment and accelerate growth led to a rapid expansion of international bond issuance by middle-income countries.

Finding a solution to debt servicing problems related to bond debt is more complex than that concerning problems related to international syndicated bank lending, which was the most frequent form of private external financing before the 1990s. This is because bond lending involves diversified groups of bondholders, including domestic residents, and can be issued under different jurisdictions. In case of crisis, an orderly and collaborative debt restructuring agreement will be difficult to achieve, and aggressive creditor litigations and protracted negotiations can lead to a stalemate, or produce an outcome which would not correspond to the financial needs of the debtor countries.

The Argentine crisis once again showed the need for the development of an orderly international mechanism for solving sovereign debt default. In hindsight, it would seem that it would have been in the interest of both Argentina and the bondholders to seek an earlier resolution to the crisis within a well-established and internationally recognized structure. This issue is not new, but little progress has been made to devise an internationally agreed and institutionalized work-out mechanism for sovereign debt since the debt crisis of the 1980s. Against the background of that crisis and the slow progress in solving the debt problems of the countries indebted vis-à-vis commercial banks in the first half of the 1980s, *TDR 1986* highlighted the lack of a fair and efficient mechanism in the international financial system for resolving sovereign debt problems:

> The lack of a well articulated, impartial framework for resolving international debt problems creates considerable danger, which has in part already materialized, that international debtors will suffer the worst of both possible worlds: they may experience the financial and economic stigma of being judged *de facto* bankrupt, with all the consequences that this entails as regards creditworthiness and future access to financing. At the same time, they are largely without the benefits of receiving the financial relief and financial reorganization that would accompany a *de jure* bankruptcy handled in a manner similar to chapter 11 of the United States Bankruptcy Code (*TDR 1986*, annex to chapter VI).

It was only after a number of financial crises in emerging-market countries that the idea of an international framework for dealing with sovereign debt received greater attention in the IMF in 2002, in the form of a proposal for a sovereign debt restructuring mechanism (SDRM) (Krueger, 2001). In parallel with discussions about the SDRM, which sought a statutory solution comprising elements of national bankruptcy legislations, the IMF also supported further analysis of the effects of the incorporation of collective action clauses (CACs) into newly issued emerging-market bonds. Such clauses are cooperative arrangements that facilitate a restructuring of the debt resulting from individual bond issues, should the need arise, and they are relatively easy to implement. They have been used in recent years by an increasing number of developing-country issuers, and experience has shown that initial fears that an inclusion of CACs in new bond issues could send a wrong signal to potential investors and make external borrowing more costly were unwarranted.

Little progress has been made to devise an internationally agreed and institutionalized debt work-out mechanism.

However, CACs have little in common with the initially proposed framework that was intended to bring debtors and creditors together to resolve problems with the overall servicing of sovereign debt, secure greater transparency, and provide a mechanism for dispute settlement. Thus the problem of an orderly debt work-out, which would also ensure a fair sharing of the burden of financial crises between creditors and debtors, as well as between the private and public sectors, remains unsolved. Involving private creditors in crisis management and resolution would also help to prevent such crises, as creditors would have to bear the risks they take with speculative investments in emerging markets (see also *TDR 2001*, chap. III). In contrast to the procedures outlined in national

bankruptcy laws, the current international financial architecture still does not ensure independent mediation and arbitration with regard to the required level of debt relief necessary for a country to regain a sustainable debt position. There is still a need to develop a comprehensive, fair and efficient international system for the resolution of a sovereign debt crisis.

D. Migrants' remittances

1. Recent trends in migrants' remittances

Recorded migrants' remittances[47] to developing countries have considerably increased since the early 1990s. They quadrupled between 1990 and 2004, becoming an increasingly important source of foreign exchange for these countries (fig. 3.8). In 1990, the level of remittances was about half that of ODA inflows, and close to that of FDI inflows. Subsequently, they grew more slowly – albeit more steadily – than FDI but faster than ODA, and since 1996 they have been exceeding ODA by an increasing margin.

Because of incomplete reporting, which is mainly due to the fact that a large proportion of migrants' remittances goes through informal channels, their actual value is believed to be much higher than what is recorded in balance-of-payments statistics. Minimum thresholds for official recording also mean that many countries do not register all their remittance inflows. Indeed, it is estimated that unrecorded remittances amount to at least 50 per cent of the recorded flows (World Bank 2006b: ix).

Overall, remittance inflows into developing countries have been more stable than their export earnings, FDI inflows, other private capital inflows and ODA. Unlike private capital flows, they do not fluctuate with the mood of capital markets or decline when the performance of the domestic economy of the receiving countries worsens. In fact remittances continued to increase at the beginning of the millennium when FDI showed considerable volatility as a result of the weak outlook of the global economy (fig. 3.8). Indeed, remittances often behave in a countercyclical pattern, as remitters tend to increase their transfers in times of economic crisis or natural disasters in their countries of origin. However, to some extent migrants' remittances are also undertaken for portfolio diversification reasons, in which case they tend to behave procyclically.

Migrants' remittances to developing countries have become an important source of foreign exchange, exceeding ODA by an ever-increasing margin.

China and the Philippines provide two examples of how remittances can respond to dramatic changes in economic activity and the investment climate in recipient countries in the same manner as capital flows. Remittance inflows into China in the past few years have in part been motivated by speculation about the exchange rate of the renminbi and have behaved procyclically

due to fast economic growth in that country. Similarly, remittance flows to the Philippines rose steadily as the investment climate improved in the early 1990s, but they became more volatile following the financial crisis in the late 1990s. Cross-country comparisons also reveal that remittances are affected by the investment climate in recipient countries (OECD, 2003), but, overall, remittance flows have been found to be less volatile and procyclical than foreign exchange inflows from other sources (IMF, 2005b).

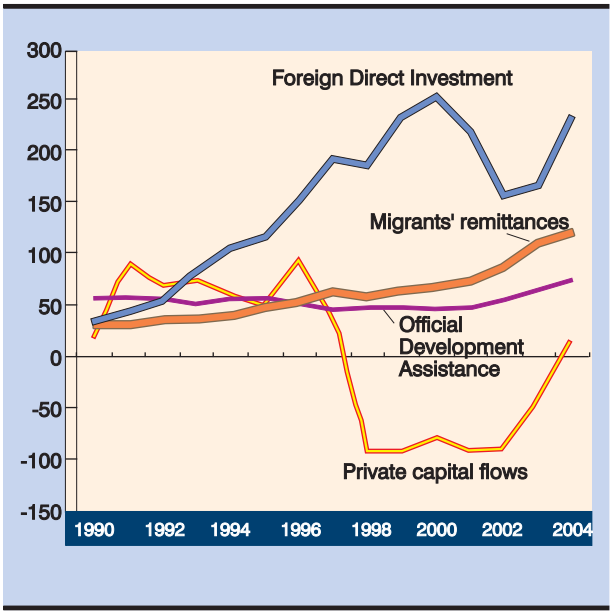
Another particularity of migrants' remittances is that they typically constitute a form of additional household revenue in the recipient countries and the government has little control over their use. This makes it difficult to integrate their use into a strategy for the financing of development. On the other hand, they are less costly for the recipient country than foreign exchange inflows from other sources, because they do not create liabilities vis-à-vis the country of origin, such as interest payments in the case of debt instruments, conditionality in the case of official grants, or profit remittances in the case of FDI.

The rapid expansion of recorded remittance flows since 1990 has been due to three factors. First, migration from developing countries has been increasing owing to a confluence of conditions, such as labour shortages in some activities in a number of advanced and dynamic economies (United Nations, 2006), wage differentials and demographic disparities between source and destination countries, as well as lower costs of migration, including transportation. Second, the share of skilled workers and immigrants with higher educational attainment has risen significantly in the past three decades. Their resultant higher earning power has also contributed to larger remittances (Burgess and Haksar, 2005). The third factor is a purely statistical one: both receiving and sending countries have significantly improved their tracking and recording of remittances in recent years, and there has also been a shift from informal to formal channels of transferring in response to lower transaction costs and technological advances. The share of unrecorded remittances is also likely to have shrunk as a result of stricter controls since September 2001. In addition, a number of developing countries have changed their foreign exchange control policies, which has reduced the black market premium for foreign exchange. Therefore, while the actual value of remittances may still be considerably underestimated, the actual year-on-year increase over the past few years is likely to be smaller than what the official records suggest.

Figure 3.8

MIGRANTS' REMITTANCES AND FINANCIAL FLOWS TO DEVELOPING COUNTRIES, 1990–2004

(Billions of dollars)



Source: UNCTAD secretariat calculations, based on *UNCTAD Handbook of Statistics,* online; IMF, *Balance of Payments Statistics*, CD-ROM, June 2006, and *World Economic Outlook* Database, April 2006; OECD, *OLISnet* Database.

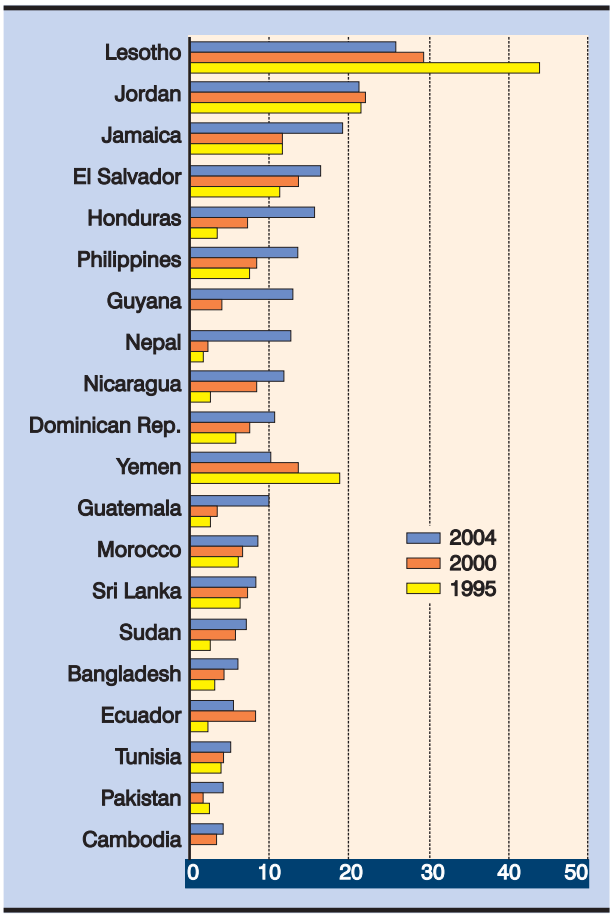
Note: Migrants' remittances are workers' remittances, compensation of employees and migrants' capital transfers; data for 2004 are estimates. Private capital flows are net private portfolio flows and other private capital flows.

Although migrants' remittances vary considerably across countries, they are spread more evenly among developing countries than FDI flows. Nevertheless, the inflow of remittances has grown much faster in Latin American and Caribbean countries and in Asian developing countries than in Africa. Between 1990 and 2004 these flows multiplied by a factor of 12.4 in East Asia and the

Figure 3.9

MAJOR REMITTANCE-RECEIVING DEVELOPING COUNTRIES, 1995, 2000 AND 2004

(Per cent of GDP)



Source: UNCTAD secretariat calculations, based on United Nations Statistics Division, *National Accounts Main Aggregates* Database; and IMF, *Balance of Payments Statistics*, CD-ROM, June 2006.

Note: Tonga, Lebanon and Haiti also appear to receive large inflows of remittances, as a proportion of GDP (World Bank, 2005: 90). However, these are not included in the figure due to inconsistencies in available data.

Pacific, by 7 in Latin America and the Caribbean and by 5.6 in South Asia, but only by 4 in sub-Saharan Africa, where recorded remittances are far less significant (World Bank, 2006b).

Geographical or cultural proximity to countries with much higher per capita income is one of several factors influencing migration from, and hence remittances to, developing countries. It explains, for example the high level of remittance inflows, in absolute terms, for Mexico, and, in relation to GDP, for Lesotho, Jordan or Yemen. In absolute terms, the largest remittance-receiving countries are the two developing countries with the largest population, China and India. However, in terms of their share of GDP, remittances are of particular importance for smaller countries (fig. 3.9). In 2004, they accounted for more that 15 per cent of GDP in 5 developing countries and for 10 per cent or more in 10 countries. In exceptional cases (Jordan and Lesotho) remittances represent over one fifth of GDP. For some small countries, remittances have exceeded FDI inflows by a wide margin. But the same is also true for India, where they reached $20.5 billion in 2005 – almost twice the total inflow of portfolio investment and FDI combined, which was $11.9 billion (EIU, 2005b).

2. The economic impact of migrants' remittances

Remittances have many facets and can have various effects at the microeconomic and macroeconomic level. There is broad agreement that they have a direct positive impact on poverty alleviation, since they frequently flow directly to poor recipients and allow them to meet basic needs, such as food and clothing, and to purchase other consumer goods. The effects of migrants' remittances on economic growth and development are less clear. They depend on a variety of factors, including the pattern of utilization of remittances by recipient households, the size of remittance streams over time and the motivation for remittances, as well as the efficiency of domestic financial intermediation and national monetary conditions. The contribution to growth and development of the receiving economy would be greater the larger the proportion of remittance inflows that can be channelled into investment in physical and human capital, either directly by the receiving individuals or indirectly through financial intermediation in the recipient country.

Evidence on the actual utilization of remittances at the micro level is anecdotal, but it is estimated that 80 to 85 per cent of remittances are used to cover basic everyday needs of the recipi-

ent households (de Vasconcelos, 2005: 5). Remittances are an important social insurance against shocks for low-income households, and they help to smooth consumption. Where many of these households face difficulties in borrowing for the acquisition of land or residential construction, remittances can play an important role in easing private credit constraints and, to some extent, substitute for shortcomings in the domestic financial system (Giuliano and Ruiz-Arranz, 2005).

Although remittances generally add to household income and consumption, sometimes they are also used for investment in capacity- or productivity-enhancing investment in agriculture or to start or expand small-scale entrepreneurial activities in manufacturing or services. Some studies indicate that remittances have facilitated the capitalization of migrant-owned businesses (Buch, Kuckulenz and Le Manche, 2002). Their contribution to capital formation is likely to increase with the level of per capita income of the recipient country: once basic consumption needs are satisfied, a growing share of remittances is used for investment in physical and human capital. There are also examples of joint efforts by groups of migrants to provide grants for investment in local infrastructure projects, such as schools, in their countries of origin.

Remittances have a direct positive impact on poverty alleviation, but their effects on economic growth and development are less clear.

It is well known that while emigration can alleviate the unemployment burden and generate remittance income, it costs the country in terms of a loss of skilled workers and talent, rendering it more difficult to develop local manufacturing activities. On the other hand, over and above remittances, emigrants can also benefit their home countries when they return with additional professional skills and, sometimes, entrepreneurial spirit.

Parallel to the microeconomic impact on income and welfare of the receiving households, remittances can have significant macroeconomic effects in the recipient economies. As remittances are a major source of foreign exchange, they can help alleviate the balance-of-payments constraints of developing countries, so that a trade deficit does not result in higher indebtedness. By providing additional foreign exchange for the acquisition of imported inputs for domestic production they constitute a source of financing for development. However, this effect depends on how the receiving households use their remittance income. To the extent that the latter is spent directly on imported consumer goods, the positive balance-of-payments effect will be offset.

It has been argued that the potential positive effects of migrants' remittances can be reduced by their impact on the exchange rate (Amuedo-Dorantes and Pozo, 2004). However, to have such an effect, the share of remittances in the recipient country's foreign exchange transactions would have to be particularly large; moreover, the size of remittances would have to increase dramatically within a short period of time, and not be matched by a similar increase in imports.[48] These conditions are likely to occur only in exceptional cases. In general, as noted earlier, migrants' remittances are the most stable form of financial flows to developing countries, often changing against the cycle and frequently accompanied by changes in imports. There is even some evidence that in countries that receive both large private capital flows and large remittances, the latter can help reduce the probability of current-account reversals and financial crises (Bugamelli and Paterno, 2005).

An indirect effect of a stable and large inflow of migrants' remittances for the recipient countries appears to be better access to international capital markets. Expectations of higher future remittance inflows tend to lead to improved creditworthiness and higher bond ratings of the country. On the one hand, this opens or strengthens the possibility to "leverage" the impact of remittance inflows on development by additional external borrowing for the financing of imports that are essential for diversification, creation of additional productive capacity and technological progress. On the other hand, this effect may also lead to external borrowing for non-productive purposes, thereby contributing to the build-up of debt that will have to be serviced from future national income.

3. National and international policies to enhance remittances' impact

Current world demographic trends and the widening gap in standards of living between most developing and developed countries point to an intensification of labour migration from developing to developed countries for a number of years to come. From a longer-term perspective on development, remittances should be considered a temporary source of additional foreign exchange which can help solve the problems that have been causing emigration in the first place. That is, they can push domestic growth and development and generate increasingly productive domestic employment.

Developing countries, especially those for which migrants' remittances constitute a major source of foreign exchange income, should therefore aim at integrating migration and migrants' remittances into a broader development strategy. Such a strategy could include the provision of incentives for migrants, or for the recipients of their remittances, to channel these transfers to the largest extent possible into productive uses.[49] From this perspective, such remittances could have a similar effect as "diaspora" investment, which can play an important role in the development process. This is because the diasporas are often better informed about local conditions than other potential foreign investors.

Coordination between source and destination countries, bilateral agreements and temporary foreign labour schemes could be part of managed migration policies.

The potential of migrants' remittances has been increasingly recognized in the international debate on development policies. In order to increase remittances per migrant, the importance of reducing the cost of remittance transfers and making transfer channels more efficient, for example through a common electronic platform to facilitate remittance transfers, has been stressed. Furthermore, the impact of remittances could be enhanced by efforts to strengthen the domestic financial system in developing countries (Kapur, 2004).

Another approach to addressing development concerns in relation to emigration would be the provision of incentives in home countries to encourage the return of talented migrants after several years of work abroad. They may bring home valuable skills acquired in destination countries, thus turning the "brain drain" into "brain gain". With internationally managed cross-border labour mobility as an element of the global partnership for development, several objectives could be pursued in parallel: an increase in remittance flows to developing countries, meeting labour demand in some segments of the international labour market, and ensuring "productive repatriation" of migrants are some possibilities.

There have been proposals to "multilateralize" immigration rules as a global public good (Rodrik, 2001). Coordination between source and destination countries, on the basis of bilateral agreements and temporary foreign labour schemes could be part of managed migration policies. For instance, Rodrik (2004) has suggested the creation of a temporary labour mobility scheme as an instrument to spark development and growth in the home country. Under such a scheme, migrants would leave their home countries for a period of 2 to 5 years, while both the home and host country would provide incentives for their return and for a new round of migrants to replace them. It is expected that those who return would bring back some financial capital, as well as various skills and professional competencies that could be employed in support of economic and social development in their home country. Obviously, such a scheme can only function if it is supported by a number of other institutional features at the international level, as well as at the national level in both the home and host country. One step in the direction of greater international labour mobility is the so-called Mode 4 proposal for supplying services that is under consideration in the current round of GATS negotiations at the WTO. This recognizes that a regulated temporary movement of skilled persons could create welfare benefits for both the home and host countries by turning the brain drain into managed brain circulation to benefit development. It could also enhance predictability and transparency (UNCTAD, 2004b).

E. A strengthened role for FDI?

1. FDI in developing countries: trends and patterns

FDI flows to developing countries including "greenfield" as well as portfolio investment rose consistently from the mid-1980s until the late 1990s. While maintaining their level, they have become less stable since the turn of the millennium. Since the early 1990s, FDI has been the largest component of financial flows to developing countries (UNCTAD, 2005c: 7), accounting for over half of all financial resource flows to them as a group in 2003. All developing regions have seen an increase in their FDI inflows over the past two and a half decades (fig. 3.10). However, flows to different regions have been rising at different rates, resulting in changes in the relative positions of different host regions in terms of their shares of FDI stock (fig. 3.11).

The role that FDI inflows can play in national development strategies differs considerably from one country to another.

Before the 1980s Latin America and the Caribbean received by far the largest share of FDI flows to developing countries. This changed when output growth in that region declined dramatically and macroeconomic instability increased in the context of the debt crisis of the 1980s, while a number of East Asian economies continued to grow fast and to integrate successfully into the world economy. As the differences in the macroeconomic conditions and domestic investment widened between Asia and Latin America, Asia became the most important developing host region for FDI at the beginning of the 1980s. Since then, its relative importance has increased further, as favourable conditions for both domestic and foreign investment in several East and South-East Asian countries have attracted additional FDI. China has accounted for a rapidly increasing share of the total since the 1990s, and has emerged at the beginning of this century as the largest FDI recipient among all developing countries.

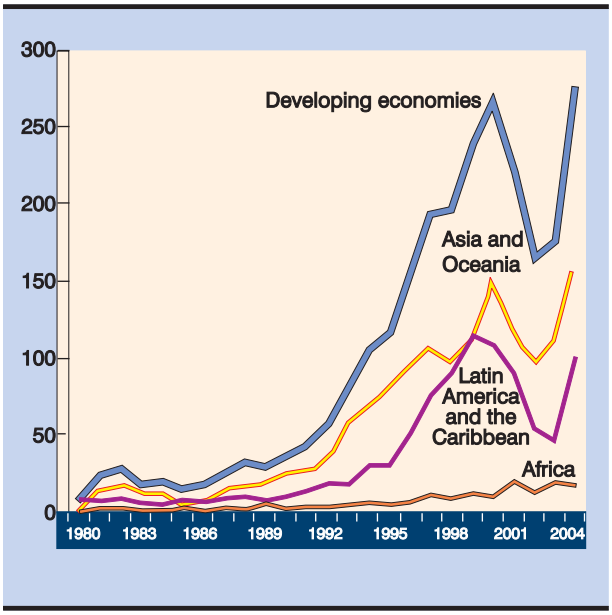
Although Latin America saw much smaller FDI inflows than Asia, its share in developing-country FDI stock remained stable during the period 1980–2004. FDI inflows to the region rose during the 1990s, in large part in response to large privatization programmes, but declined after 1999 as the potential for privatization shrunk and the macroeconomic conditions remained unfavourable. Since 2004, there has been a resurgence of inflows to some countries, driven mainly by prospects for greater earnings potential in the primary sector, especially in the extractive industries.

By contrast, Africa's share in developing-country FDI stock declined steadily from the early 1980s, although inflows increased significantly in the 1980s and 1990s. Since 2001, there has also been a considerable rise in FDI flows to some, mainly oil- and metal-exporting, countries as a result of improved prospects in international raw material

Figure 3.10

FDI INFLOWS TO DEVELOPING ECONOMIES BY REGION, 1980–2004

(Billions of dollars)



Source: UNCTAD, *FDI/TNC* Database (www.unctad.org/fdistatistics).

markets. Overall, not only FDI, but also domestic investment has been lower in Africa for the past 25 years; the latter fell from more than 25 per cent of GDP in the mid-1970s to around 18 per cent in 2000–2004 (UNCTAD, 2005d, section B).

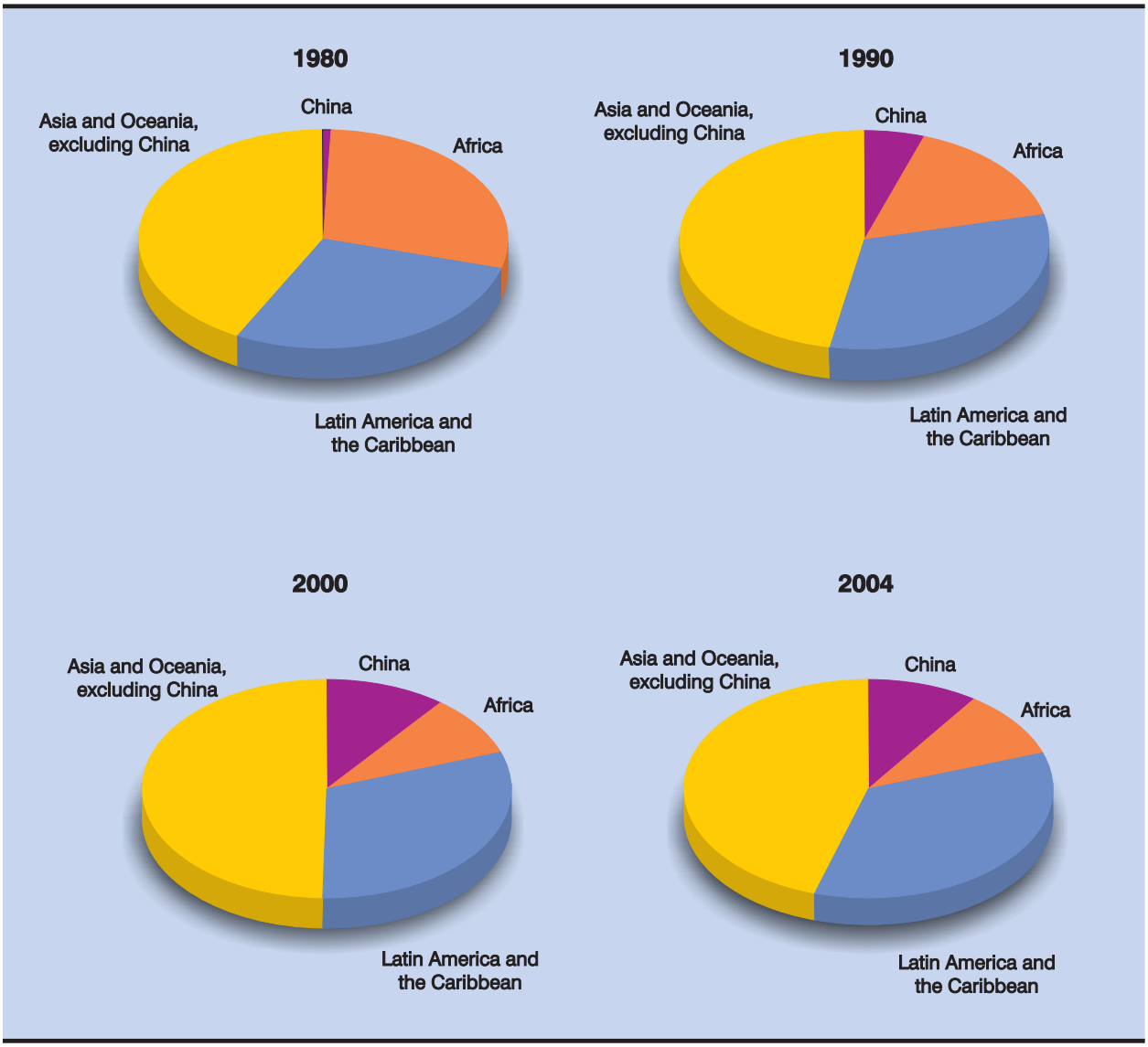
Cross-border mergers and acquisitions (M&As) in developing countries, although much fewer than in developed countries, have increased significantly since the mid-1990s. Privatization in industries such as electricity and telecommunications in Latin America and the Caribbean – especially Argentina and Brazil – accounted for a major proportion of the sales of local firms until 2000 (UNCTAD, 2000: 123). Acquisitions by foreign firms of enterprises in Asian countries affected by the financial crisis of 1997–1998, such as Indonesia and the Republic of Korea, also contributed to the growth of M&As in developing countries. More recently, there has been a significant increase in cross-border M&As in China and India (UNCTAD, 2005c: 9), suggesting that this mode of FDI entry to developing countries – with its underlying motivations of rapid entry and acquisition of created or strategic assets in the form of enterprises – may be extending its scope beyond privatizations (as in Latin America and Africa) or special circumstances (as during the East Asian financial crisis).

Although the bulk of FDI flows are among developed countries, the share of developing countries in world FDI stock is growing. In 2004 they accounted for 25 per cent of that stock and for 39 per cent of the inflows (tables 3.9 and 3.10). Outward FDI from developing countries has risen sharply over the past two and a half decades, from annual outflows of less than $20 billion in the 1980s to over $40 billion in the mid-1990s and to a peak of $100 billion in 2000 (UNCTAD, 2005c: 6). TNCs from China, Malaysia and South Africa, for instance, are among the most important foreign investors in Africa (UNCTAD, 2005d, section B; UNCTAD, 2005e), and in developing Asia and Oceania more than 40 per cent of FDI flows are intraregional, with Hong Kong (China), China and Singapore as the leading investors. According to a study by Aykut and Ratha (2003), South-South FDI is estimated to have risen from 5 per cent of all FDI flows to the South in 1994 to 30 per cent in 2000.[50]

While the attitude of TNCs towards investment in developing countries is an important factor in the external environment for development, the role that FDI inflows can play in national development strategies differs considerably from one country to another. Changes in aggregate figures on FDI flows and stocks in developing countries or regions give an imprecise picture of their role in individual countries. It is well-known that FDI stocks and inflows are highly concentrated in a relatively small number of developing countries: in 2004, the top 10 recipients had almost two thirds of developing-country FDI stocks, and China and Hong Kong (China) accounted for almost one third (table 3.10). In the same year, 8 of the 10 major hosts of FDI stocks were also among the 10 major recipients of new flows, which accounted for about 70 per cent of all FDI flows to developing countries that year (with China and Hong Kong (China) alone receiving over 34 per cent). Thus there is a continuing trend towards the concentration of FDI and related TNC activities in a minority of developing countries.

Figure 3.11

SHARES IN INWARD FDI STOCK OF DEVELOPING ECONOMIES BY REGION, 1980, 1990, 2000 AND 2004



Source: See figure 3.10.

However, the absolute amount of FDI inflows does not give a clear picture of the importance or the potential impact of FDI in an individual country. A better picture is obtained by indicators relating the volume of FDI to some national variable, such as gross fixed capital formation (GFCF) or the size of GDP (table 3.11).[51] From this perspective, FDI plays a less important role in Asia, and in particular in South Asia, than in Africa and Latin America. A comparison of FDI inflows with GFCF and FDI stocks with GDP also puts into perspective the distribution across countries: in 2004, only three economies (Chile, Hong Kong (China) and Singapore) that were among the ten major recipients of FDI inflows and among the ten major hosts of FDI stock had a ratio of FDI inflows to GFCF of more than 20 per cent and a ratio of FDI stock to GDP of more than 40 per cent. By contrast, in many smaller economies in Africa and Latin America and the Caribbean the

Table 3.9

MAJOR DEVELOPING HOST ECONOMIES OF FDI IN 2004

(Billions of dollars)

Economy	*FDI inward stock*
China, Hong Kong	456.8
China	245.5
Mexico	182.5
Singapore	160.4
Brazil	151.0
Bermuda	77.6
Republic of Korea	55.3
Chile	54.5
Argentina	53.7
Thailand	48.6
10 major developing host economies	*1 485.9*
Memo items:	
Developing economies	2 225.9
Developing economies, excl. China	1 980.5
World	8 895.3

Source: See figure 3.10.

importance of FDI is much higher than the average of all developing countries or their respective regions.

FDI has come to play an increasingly important role also in the transition economies of South-East Europe and the CIS. Between 2000 and 2004, FDI inflows to these economies almost quadrupled and expectations are for a further increase (UNCTAD, 2005c: 74–78). During the same time the FDI stock almost tripled, after having grown during the 1990s from practically zero to $70 billion, to a large extent in the context of large-scale privatizations. The Russian Federation and Romania had inflows in 2004 on the same scale as the major developing country recipients, at $15.4 and $6.5 billion, respectively, and Azerbaijan and Kazakhstan also received inflows of over $3.5 billion. The quantitative importance of FDI for the transition economies is evident from the ratio of FDI inflows to GFCF, which averaged 15.9 per cent for the group in 2002–2004, compared to 9.9 per cent for the developing countries excluding China, and 9.1 per cent for China. FDI stocks as a percentage of GDP stood at 21.5 per cent in 2004, compared to 29.1 for the developing countries excluding China, where the stock has been accumulated over a much longer period of time, and 14.9 per cent for China. Azerbaijan and Kazakhstan, where oil and other extractive industries dominate the economy, both had ratios of FDI to GFCF of more than 20 per cent and of FDI stock to GDP of more than 40 per cent.

A significant indicator for the potential of FDI to contribute to development is its sectoral distribution. Although the availability of continuous, comprehensive data is limited, there are strong indications that FDI has grown more rapidly in services than in the primary and manufacturing sectors. The share of services in the FDI stock of developing countries is estimated to have risen from 47 per cent in 1990 to 55 per cent in 2002, with a parallel fall in the share of manufacturing, from 46 per cent to 38 per cent (UNCTAD, 2004c: 30).

Table 3.10

MAJOR DEVELOPING-ECONOMY RECIPIENTS OF FDI INFLOWS IN 2004

(Billions of dollars)

Economy	*FDI inflows 2004*
China	60.6
China, Hong Kong	34.0
Mexico	18.7
Brazil	18.1
Singapore	14.8
Bermuda	14.8
United Arab Emirates	8.4
Republic of Korea	7.7
Chile	7.2
India	5.5
10 major developing-economy recipients	*189.8*
Memo items:	
Developing economies	275.0
Developing economies, excl. China	214.4
World	703.7

Source: See figure 3.10.

Within the services sector, the traditionally dominant subsectors of finance and trade appear to have declined in relative importance in developing countries' inward FDI, while activities such as electricity, gas and water, construction, transport, storage and communications, have attracted larger shares of FDI, some of them as a result of privatization of public utilities (UNCTAD, 2004c: 99). FDI in business activities, which include holding companies and consultancy firms, accounted for one third of total FDI in services in 2001–2003, with more than two thirds of these flows destined for Hong Kong (China) (UNCTAD, 2004c: 262). Although the shift towards services has taken place in all developing regions, the sectoral and industrial patterns of inward FDI differ considerably among the three major regions.

In Asia, the share of FDI stock in services is estimated to have risen from 43 per cent in 1995 to 50 per cent in 2002, while that in manufacturing fell from 51 per cent to around 44 per cent, and it remained small in the primary sector (UNCTAD, 2004c: 52). In Latin America and the Caribbean, over half of the inward FDI stock in 2002 was in the services sector, following a sharp rise from about 20 per cent in the mid-1980s to about 50 per cent in 1996 (UNCTAD, 2004c: 64–65). The primary and manufacturing sectors each accounted for around 20 per cent of the total FDI stock in Latin America in 2002. The share of the manufacturing sector has shrunk considerably since the late-1980s, while that of the primary sector has more than doubled (UNCTAD, 2004c: 65). Recently, there have been signs of a reversal in this trend, as several TNCs have been selling their foreign affiliates or shareholdings to local investors in line with changes in their global investment strategies and in host countries FDI policies and regulations, but also in response to changes in the privileges accorded to foreign investors. The shift in the sectoral composition of FDI in Latin America and the Caribbean may also be due to the apparent growth of FDI in the primary sector in response to the boom in markets for primary commodities, especially oil and gas. However, it is not clear to what extent these recorded investments constitute a reinvestment of profits for the enlargement or upgrading of productive capacities, or just undistributed profits added to the reserves of the international firms that have been benefiting from the commodity boom since 2002, as it seems to have been the case in the Chilean copper sector. In Africa, depending on the country, between 50 and 80 per cent of FDI is in natural resource exploitation; FDI in manufacturing

Table 3.11

FDI IN RELATION TO GROSS FIXED CAPITAL FORMATION AND GDP IN SELECTED REGIONS AND ECONOMIES IN 1990 AND 2004

	Inflow of FDI as a percentage of GFCF	*Inward stock of FDI as a percentage of GDP*	
	2002–2004[a]	*1990*	*2004*
Developed economies	8.3	8.2	20.5
Developing economies	9.6	9.8	26.4
Developing economies, excl. China	9.9	10.2	29.1
Africa	13.5	12.7	27.8
Angola	57.1	10.0	88.8
Chad	56.2	14.4	72.9
Congo	34.7	20.6	66.7
Gambia	52.5	49.4	85.9
Mauritania	47.4	5.8	64.2
Nigeria	34.0	30.0	44.0
Seychelles	35.8	55.4	114.7
Unit. Rep. of Tanzania	24.3	9.1	48.0
Zambia	18.0	31.1	55.8
Asia	8.0	8.7	23.2
East Asia	9.0	9.7	28.4
China	9.1	5.8	14.9
China, Hong Kong	52.6	60.3	277.6
China, Macao	41.3	86.4	52.1
Malaysia	14.8	23.4	39.3
Rep. of Korea	2.6	2.1	8.1
Singapore	43.3	83.1	150.2
Thailand	3.8	7.0	29.7
South Asia	3.4	1.1	6.3
India	3.2	0.5	5.9
Latin America	14.6	10.5	34.1
Argentina	13.9	6.2	35.3
Belize	45.6	22.1	66.2
Bermuda	-	869.7	1793.5
Brazil	15.4	8.0	25.2
Chile	28.4	33.2	58.2
Guyana	24.3	10.6	120.9
Jamaica	23.9	18.6	66.4
Mexico	11.2	8.5	27.0
Nicaragua	20.4	12.4	49.7
Trinidad and Tobago	45.1	41.3	83.3

Source: See figure 3.10.
a Annual average.

has been lagging behind that in services, with some exceptions (UNCTAD, 2004c: 45; UNCTAD, 2005d). It has been increasing in services – just as it had done earlier in Latin America – particularly in telecommunications, electricity, management and trade, partly as a result of privatization programmes in the case of the first two.

If the sectoral structure of FDI stocks and inflows varies considerably among regions, it varies even more among countries, where the level and type of FDI depends on income levels and consumption patterns, initial or acquired comparative advantages, technological capabilities and infrastructure, as well as policies relating to FDI. Thus, as some countries have grown and strengthened their human resources and technological capabilities, they have been able to attract FDI in more technology-intensive industries and more sophisticated activities and functions within TNCs' integrated international production systems, including R&D in manufacturing and services.

2. The role of international production systems and networks

FDI in manufacturing and services in developing countries in part continues to aim at serving local markets, particularly in the larger economies of Latin America and Asia, but to an increasing extent it is motivated by the low-cost, unskilled or skilled labour and other cost advantages these countries offer. The latter type of FDI is intended to serve global and regional markets, often in the context of international production networks. Beginning in the 1960s with export-oriented investments in the textiles and clothing industry in East Asia, FDI has diversified and expanded into other countries and regions, to more industries and to a wider range of activities or functions located in host countries. Increased competition in a globalizing world economy, combined with advances in transport and, especially, in information technology (IT) and telecommunications, have increased pressures and provided new incentives for TNCs in the manufacturing sector to fragment and spread their value chains globally or regionally, or to develop a network of closely related suppliers or contract manufacturers, some of whom in turn undertake FDI to enhance their efficiency. Several Asian countries are locations for this efficiency-seeking kind of FDI, especially in the electrical, electronics and automobile industries, in addition to textiles. China has also attracted FDI in a range of low-value-added, export-oriented consumer industries. Latin American and Caribbean countries are hosts to efficiency-seeking FDI in textiles and clothing and, in the case of Costa Rica and Mexico, in electronics and automobiles respectively. Some African countries have attracted FDI in garment manufacturing for export.

More recently, efficiency-seeking FDI has also expanded to the services sector. Service functions that can be digitized, separated from related activities and exported via telecommunication links from cheaper locations are being offshored by TNCs, either as parts of their own internationally integrated value chains or for delivery (as "contract service providers") to other firms. While many services still need to be produced where their customers are located, IT-enabled, back-office and front-office work in areas such as accounting, billing, software development, design, testing and customer care is increasingly being relocated abroad by TNCs, including to some developing countries (UNCTAD, 2004c). The skill intensity of these offshored tradable services is generally higher than that of TNC activities in manufacturing or natural resource exploitation in developing countries.

To an increasing extent, FDI is intended to serve global and regional markets, often in the context of international production networks.

Since the late 1990s, there has also been a trend towards the internationalization of R&D by TNCs, leading to increasing FDI in this area in some developing countries. However, such investment is still small (accounting for only 3 per cent of total FDI flows of United States parent companies to developing countries) and even more concentrated than total FDI, with five countries (Brazil, China, Mexico, the Republic of Korea and Singa-

pore) accounting for an estimated 70 per cent of the total FDI to developing countries (UNCTAD, 2005c: 129). Nevertheless, the share of developing countries in total overseas R&D expenditure by United States parent companies rose from about 8 per cent to more than 13 per cent between 1994 and 2002 (UNCTAD, 2005c: 129). Moreover, there are indications that such R&D activities are no longer only confined to adapting technologies to local conditions; increasingly they also involve "innovative" R&D, including developing technologies for regional and world markets (UNCTAD, 2005c: 138). But to what extent such R&D investment in developing countries spills over into the domestic economy in terms of both local application of innovative technology and strengthening of local R&D capacities (see also chapter V, section D below) is still unclear. And the policy instruments developing countries are able to use in order to enable such spillovers differ from country to country, not least because of different negotiating power vis-à-vis foreign investors.

The potential impact of FDI on development depends on the strategy of the TNCs involved and on the national policies and characteristics of the host economy.

3. The potential impact of FDI on development

The growth of FDI in many developing countries relative to other variables, such as domestic capital formation or GDP, suggests that inward FDI has come to play a more significant role in developing economies than it did some two decades ago. If integrated into a strategic concept for productive capacity building and upgrading, FDI inflows can have a direct impact on domestic income creation, including fiscal income, and an indirect impact by positively influencing domestic investment.

In some countries, especially in Africa and Latin America and the Caribbean, where the indicators presented in table 3.11 hint at a quantitatively important role played by FDI in their economies, such investment is still heavily concentrated in extraction and exploitation of natural resources with weak potential linkages to the domestic economy. In other countries, it has expanded to a range of manufacturing and service industries, where the potential for linkages with and spillovers to domestic industries is larger. But to what extent this larger quantitative presence of FDI amounts to a strengthened role in the development process of the countries that host more production activity by foreign firms depends on the balance between TNCs' private business interests and national development objectives.

FDI may be viewed as a package of tangible and intangible resources and assets, many of them firm-specific, that can contribute to economic development in host countries. Key elements of the package include capital, technology, skills and management techniques. FDI can also be a vehicle for host economies to access international markets by integrating into the international production, marketing and distribution networks of TNCs. What matters most from a dynamic perspective is the extent to which such investment brings modern technologies and know-how that might not otherwise be available to developing countries, and the extent to which it raises the efficiency with which existing technologies are used, improving productivity and strengthening technological capabilities in the host countries. The role of FDI and its impact on host-country development in these respects are likely to depend on two factors. One is the motivation and strategy of the TNCs involved and the specific assets they bring to a host country; another is the national policies and characteristics of the host economy.

The effects of FDI on domestic investment and growth in individual countries depend to a large extent on the mode of entry (UNCTAD, 2000). For example, FDI in new plant equipment ("greenfield investment") adds to the existing capital stock, and it is more likely than portfolio investment to involve a longer-term commitment by the foreign investor to produce in the host country. In contrast, portfolio investment allows easier

exit or repatriation of capital. FDI in the form of M&As may involve transfer of know-how and technology and improved market access in the future, but it does not add to the host country's stock of productive capital.

On the other hand, host-country regulations, including contractual obligations with regard to technology transfer, special incentives for entry in targeted economic sectors, and performance requirements related to purchases of intermediate inputs from local suppliers, can influence the creation of linkages between domestic producers and foreign affiliates and the extent to which FDI contributes to technology transfer. Moreover, the existence of a physical, scientific and institutional infrastructure, and of a dense network of potential domestic input suppliers, as well as support policies designed to create such a network, can be an important means to attract or retain TNCs. Such support policies are important not only because they influence the quantity and kind of FDI that a country attracts, but also because of the possible indirect effects that can be had from linkages with, and spillovers to, host-country firms and institutions.

Host-country regulations can influence the creation of linkages between domestic producers and foreign affiliates and the extent of technology transfer.

Belief in the positive impacts of FDI on economic growth, technology transfer and productivity has led many countries to adopt investment regimes that offer special fiscal or other financial incentives to foreign enterprises. However, macroeconomic studies on the relationship between FDI and growth have yielded diverging results, and empirical evidence points to considerable variation in the benefits that host countries actually reap from FDI inflows (UNCTAD, 1999, Part Two; Moran et al., 2005). According to Kumar (2005: 179–186), a multitude of recent empirical studies show that knowledge spillovers from FDI have been rare, and in some cases FDI may have the negative effect of crowding out domestic investment. While the crowding out of the least efficient firms from an industry may not matter if incoming FDI raises average productivity and domestic value added across foreign-owned and domestic firms, crowding out of most of the competitors (and suppliers linked to them) as a result of the overwhelming market power of the incoming TNC may severely compromise the opportunities for favourable effects and externalities. Moreover, there is a tendency for TNC affiliates to acquire the bulk of their inputs from their parent companies or other already associated suppliers, and hence generate few domestic linkages. One study suggests that the effectiveness of FDI depends on the stock of human capital in the host country (Borensztein, De Gregorio and Lee, 1998). Significant positive effects of FDI on growth have been found in samples of countries with higher skill levels (Xu, 2000).

The development of local industry can be jeopardized if FDI crowds out domestic investment.

Other studies have concluded that FDI does not exert an independent and robust influence on growth once other factors such as trade openness are accounted for (Moran et al., 2005). A major problem for empirical research on the contribution of FDI to growth, and thus a reason for the mixed results, may be the difficulty of capturing, in multi-country macroeconomic studies, the different factors that influence the impact of FDI, such as the type of FDI, firm characteristics, as well as host countries' economic conditions and policies. While the evidence for the impact of FDI on income growth is mixed, there are strong indications that high and stable income growth based on high rates of domestic investment attracts FDI. As a result, FDI that supports manufacturing activities tends to by-pass countries that are most in need of external capital and know-how for diversification and industrialization, while benefiting economies where domestic forces for growth are already vigorous.

A varied picture also emerges from studies based on firm-level data (Lipsey and Sjoholm, 2005; Blalock and Gertler, 2005). A number of analyses have concluded that productivity and

wages in foreign firms are higher than in domestic firms, and that these have positive spillover effects on domestic firms. Spillovers are found to be highest in sectors where there is vigorous competition, and to be greater when the technological gap between foreign and domestic firms is not too wide. On the other hand, some studies have found that productivity growth in domestic firms is lower than it would have been without the presence of foreign firms, suggesting the absence of positive spillovers. More generally, it is clear that FDI alone cannot provide opportunities for sustained growth unless there is a minimum level of domestic industrial capabilities and the technological capacity necessary to benefit from eventual externalities of TNC activity (Narula and Lall, 2004). The growth of South-South FDI, with its distinctive characteristics that may be closer to those of enterprises in host developing countries, may provide increased opportunities for host countries to benefit from inward FDI. However, much depends on host-country policies.

The varied experiences of host developing countries with respect to the role played by FDI and its impact on the development process, and the importance of host-country absorptive capacities for benefiting from FDI, highlight the need for FDI policies to be in line with the identified development objectives of a country. Such policies should also aim at maximizing the potential benefits of FDI while minimizing the negative effects, such as those that could result from crowding out of domestic firms and the abuse of market power. Government intervention may be motivated by two main types of market failure: (i) information or coordination failures in the investment process; and (ii) the divergence of the private interests of investors from the economic and social objectives of the host economies. To optimize the impact of inward FDI, governments need to address the following four sets of issues (UNCTAD, 1999: 317–328):

- Information and coordination failures in the international investment process. Addressing such failures can enable governments to pursue effective policies to attract the volume and type of FDI that can best serve domestic objectives of sectoral development, on the one hand, and protect themselves against FDI that is not desirable from the point of view of their overall development strategy, on the other. Effective promotion should go beyond simply "marketing a country"; it should also coordinate the supply of immobile assets with specific development needs to attain national development targets.

- Infant industry considerations for the development of local enterprises, which can be jeopardized if inward FDI crowds out those enterprises. Addressing these requires striking the right balance between policies that regulate and those that permit or attract FDI entry. A few economies (such as the Republic of Korea and Taiwan Province of China) have built impressive domestic capabilities and innovative systems while restricting the access of TNCs, but many others have not succeeded in these respects, despite restricting foreign entry.

- The static nature of advantages transferred by TNCs in situations where host-country domestic capabilities are low and do not improve over time, or where TNCs fail to invest sufficiently in improving the relevant capabilities. Addressing these requires adopting an appropriate trade and competition policy regime; developing appropriate policies with regard to the operations of foreign affiliates, such as local content requirements, incentives for local training or R&D, and pressures to diffuse technologies; influencing TNCs' location decisions by targeting investors; inducing upgrading through specific measures and incentives; and improving local factor markets, firms and institutions.

- Weak bargaining and regulatory capabilities on the part of host-country governments, which can result in an unequal distribution of benefits or an abuse of market power by TNCs. This is of particular relevance for major resource extraction projects and for the privatization of large public utilities and industrial companies. Addressing these issues requires strengthening host-country bargaining and regulatory capabilities to ensure that appropriate standards are set in areas such as competition and environmental protection, and that a race to the bottom in the provision of fiscal incentives is avoided.

To conclude, developing countries have responded to the challenges of rapid technological change, globalization and increased competition by opening up their economies to trade and foreign investment. However, differences persist in the ability of countries to draw on the potential technological and other contributions that FDI can make to the process of development. This underlines the need for effective policy interventions with a view to maximizing the benefits of FDI for host-country development in an open environment.

F. Conclusions

The review of some structural elements that have shaped the global environment for development in the first decade of the new millennium gives a mixed picture. In several respects there have been improvements in the external environment, but not all initial promises or expectations have been fulfilled, and in some areas new constraints have emerged.

External conditions for export growth in developing countries are shaped mainly by import demand from the developed countries, resulting from income growth and shifts in the structure of domestic production. But the extent to which such income growth translates into higher exports of developing countries also depends on market access conditions in developed countries, as well as the evolution of market entry conditions and the use of non-tariff measures.

While better market access conditions in developed countries can provide lasting improvements in developing countries' export opportunities, there have been very few improvements in such conditions for developing countries since the conclusion of the Uruguay Round. Indeed, market access conditions in developed countries continue to be biased against developing countries. Moreover, the link between changes in these conditions and the actual export opportunities of developing countries appears to be relatively weak compared to their dependence on demand growth in their main trading partners. The potential gains from growing import demand for developing countries' exports are likely to be much larger, but this demand also has a strong cyclical component, and depends on improved global macroeconomic management, especially with regard to correcting the global imbalances that have built up in recent years (see chapter I).

Although preferences were expected to improve export earnings and promote diversification in the preference-receiving developing countries, especially the poorest ones, these countries have not been able to reap large benefits from them. The main reasons for the underutilization of preferences and their limited benefits are the uncertainty of the schemes, restrictive rules of origin, the often limited product coverage, and supply capacity constraints. Similarly, the export gains that can be expected to result from the Doha Round appear to be relatively modest when compared to other sources of foreign exchange, such as expected ODA inflows or migrants' remittances. The decline in tariffs has in recent years been accompanied by an increase in the use of non-tariff measures, particularly in the form of technical barriers to trade and anti-dumping measures. The latter have emerged as the most widespread impediment to international trade in the past 25 years, and there is the danger that increasing recourse to such

measures will erode the predictability and non-discriminatory application of trade policies that have been achieved through successive rounds of multilateral trade negotiations.

The progress achieved under the HIPC Initiative and additional bilateral debt relief, as well as faster GDP growth and higher budget revenues have alleviated developing countries' external debt burden in recent years. However, despite an overall improvement, many low- and middle-income countries remain severely indebted. Indeed, 10 years after the launch of the HIPC Initiative, only 29 of the 42 eligible countries have reached the decision point, at which countries qualify for interim debt relief, and only 19 countries have reached the completion point, which qualifies them for the full amount of debt relief possible under the Initiative. In the spirit of a global partnership for development, it is therefore imperative to mobilize additional efforts at the national and international level to enable more expeditious implementation of the HIPC Initiative and the Multilateral Debt Relief Initiative, so that all eligible countries can benefit from the debt reductions.

In several respects there have been improvements in the external environment, but not all initial promises or expectations have been fulfilled, and in some areas new constraints have emerged.

Commitments for multilateral debt relief and considerably increased bilateral ODA could improve the prospects for the poorer developing countries to achieve the MDGs and reduce the income gap with the more advanced economies. In order for these countries to avoid falling back into unsustainable debt situations, it will also be essential to ensure that the pledged rise in ODA is additional to debt relief, and that increased official financing is made available, in particular for social and humanitarian purposes, in the form of grants. Bolder debt reductions for middle-income countries could also be envisaged under the Paris Club's Evian terms.

Large-scale outward migration is one of the symptoms of slow progress in development and low expectations of employment and higher living standards at home. Nevertheless, for many developing countries, remittances of migrants working abroad have become an important source of foreign exchange. They are private income and a means to improve the living conditions of many poor households in the receiving countries. While the ultimate policy objective must be to remedy the root causes of the migration through output and productivity growth and job creation in the home countries, remittances are to some extent a potential contribution to the external financing needs of the migrants' home countries. A challenge for policymakers is to use this potential within the framework of a broader development strategy and channel the remittances, as far as possible, to productive uses. Developed countries can support efforts to maximize the developmental impact of migrants' remittances by reducing the cost of remittance transfers and making the transfer channels more efficient. Home and host countries could also cooperate to create incentives for talented migrants to return home after several years of work abroad so as to strengthen the local human resource base, by using the experience and skills acquired abroad. Indeed, managing international labour mobility, especially between the developed and the more advanced developing countries, on the one hand, and the poorer countries or economies with large amounts of excess labour, on the other, could constitute a key element of the global partnership for development.

In contrast to migrants' remittances, FDI flows are the outcome of a global assessment of profit opportunities. If well managed, FDI, especially in the manufacturing sector, can help the recipient developing economies to seize opportunities presented by globalization. From the point of view of developing countries with a small domestic market or excess labour, FDI offers one possibility to participate in international production networks. Accordingly, in recognition of this potential, many countries have liberalized the entry of TNC affiliates and stepped up efforts to attract FDI by offering fiscal, financial and material incentives. But more FDI does not automatically result in higher domestic income, enhanced productive capacity or faster growth. Its impact depends in

large part on the extent to which the investment actually adds to existing productive capacity and increases productivity, and on the sectors in which the investment is made. It also depends on whether the profit motives underlying TNC investment decisions can be brought in line with the broader national economic and development objectives of the host countries. This requires appropriate macroeconomic and sectoral policies to create an environment that is conducive to private investment in general and to entrepreneurial risk-taking in sectors strategically important for domestic structural change and beneficial integration into international trade relations. Increasing FDI should not be regarded as an objective in its own right or as a yardstick for successful integration into the globalizing world economy. Rather, it is an instrument that can help achieve successful integration, and success should be measured against the benefits actually accruing in terms of higher per capita income.

There is considerable scope for further improvements in the external environment, especially in the areas of trade and aid, and strengthened global economic governance that takes into account the needs and specificities of different developing countries. The various factors that have shaped the changing external environment for development since the mid-1980s, some of which are examined in this chapter, can contribute to faster growth and poverty alleviation by providing new opportunities for trade and sectoral development, or by alleviating financial constraints. Even though there have been improvements in the external environment as a result of a strengthened global partnership for development or other factors, such as the rise in primary commodity prices discussed in chapter I, the challenge for developing countries is to translate these positive developments into faster growth of domestic output, employment and income. As discussed in chapter II, meeting this challenge will require more than a reliance on market forces complemented by a stronger focus on social policies. There is a greater likelihood of obtaining long-term benefits for growth and poverty alleviation from existing and possible future improvements in the external environment by the adoption of a development strategy that incorporates good macroeconomic and sectoral policies in support of investment, productivity growth and technological change. ■

Notes

1 Integration into global production networks, whose importance in international trade flows has increased considerably in the last few years, is another factor that improves developing countries' export opportunities (not discussed here, however, as it was already discussed in detail in *TDR 2002*).

2 The discussion in this section is limited to commercial policies relating to merchandise trade.

3 The UR also agreed on increasing transparency by converting NTMs into tariffs, but as the rules of tariffication allowed significant increases in tariffs, these remained high even after implementation of the agreed tariff reductions.

4 The table provides simple and weighted averages of effectively applied tariffs that take into account unilateral and/or reciprocal preferences. Although weighted averages take better account of the relative importance of various tariff lines, they may have a downward bias because there will be lower imports of products that are subject to higher tariffs (a prohibitive tariff would give a zero weight).

5 However, both the EU and the United States have introduced quota restrictions on exports from China under safeguard agreements (Brenton and Hoppe, 2005).

6 Canada, the EU, Japan and the United States.

7 International tariff peaks are tariffs that exceed 15 per cent.

8 Under tariff escalation, tariffs increase with the degree of processing.

9 The period 1986–1988 was the reference period used in the Uruguay Round agreements.

10 According to Anderson, Martin and Valenzuela (2006), if all forms of support to farmers and to agricultural processors globally are taken into account, 75 per cent of total support is provided by market access barriers and only 19 per cent by domestic farm subsidies.

11 Outright export subsidies amount to less than $5 billion, versus $80 billion of "amber box" subsidies worldwide, in applied terms.

12 The Hong Kong Ministerial Declaration of December 2005 agreed "to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013" (WTO, 2005a). Meanwhile, the EU had already planned to phase out most export subsidies, which account for almost 90 per cent of all OECD export subsidies (Aksoy, 2005).

13 More than one third of all global trade takes place between countries that have some form of reciprocal RTA – a share more than three times that of 1990 – with the EU and the United States playing a prominent role (World Bank, 2004).

14 See AGOA Fact Sheet, accessed at: http://www.agoa.gov/ on 11 April 2006.

15 At the 2003 Cancun Ministerial Conference, WTO member States failed to reach an agreement on the so-called "Singapore issues", which included investment, competition, government procurement and trade facilitation.

16 Welfare is measured as the equivalent variation, which is the increase in income that would have the same impact on the welfare of households as the removal of the tariff. For a detailed, non-technical explanation on how these models work, see Piermartini and Teh, 2005.

17 As Stiglitz and Charlton (2005: 69) recognize "much of the analysis… relies on a particular model of the economy, the neo-classical model, which assumes full employment of resources, perfect competition, perfect information, and well-functioning markets, assumptions which are of questionable validity for any country, but which are particularly problematic for developing countries."

18 Recent reviews of these kinds of studies can be found in Charlton and Stiglitz, 2005; UN-DESA, 2005; and FAO, 2005.

19 The study provides simulations that use an updated version of the *Global Trade Analysis Project* (GTAP) database, which refers to 2001 rather than 1997. They include China's recent trade liberalization (particularly in the context of its WTO accession), the termination of the ATC Agreement, and the recent enlargement of the EU. Most importantly, a more comprehensive picture of trade protection is provided, as it incorporates preferential arrangements, both reciprocal and non-reciprocal. It also contains effective tariff rates, MFN tariff rates and bound rates, which allows measurement of the relative importance of the "binding overhang" between bound and applied tariff rates. For other recent studies, see Francois, van Meijl and van Tongeren, 2005; Bouet et al., 2005; and Polaski, 2006.

20 For a detailed, critical assessment of the new World Bank estimates, see Ackerman, 2005; Wise and Gallagher, 2005; and Suppan, 2005.

21 Van der Mensbrugghe (2005) analyses the changes in the results of the estimations by comparing the results using the GTAP5 database with those using the new GTAP6 database, first under MFN tariff rates, then including preferences, and finally, incorporating other policy commitments, such as China's WTO accession.

22 The results of the simulations are provided for a set of scenarios, starting with full liberalization. The likely Doha Round liberalization scenario corresponds to a harmonizing formula for agricultural market access, with smaller tariff cuts for developing countries and none for LDCs, plus a 50 per cent cut in all tariffs on non-agricultural products for developed countries, 33 per cent for developing countries, and none for LDCs (Anderson, Martin and van der Mensbrugghe, 2005: 360).

23 The estimates by Anderson, Martin and van der Mensbrugghe (2005) also show that by 2015 under the Doha liberalization scenario annual developing country imports from developed countries will be $55 billion higher. In the past, trade liberalization has caused trade deficits associated with any given rate of income growth to become larger, adding to payments difficulties, increasing dependency on capital inflows, and heightening the risk for financial crises (*TDR 1999*).

24 Moreover, these additional exports would occur after the reduction in tariffs, with attendant adverse effects on developing countries' fiscal revenues. Developing countries' tariff revenues amounted to $156 billion in 2001 (Laird, 2006). According to the IMF (2005a), trade tax revenues represent one quarter to one third of the total tax revenue of low- and middle-income countries.

25 As defined in the UNCTAD *Trade Analysis and Information System (TRAINS)* database, which is the most comprehensive database on technical measures, such measures refer to product characteristics such as quality, safety or dimensions, including the applicable administrative provisions, terminology, symbols, testing and test methods, packaging, mark-

ing and labelling requirements as they apply to a product. They may also refer to different aspects of production processes.

26 They are also intended to facilitate trade in the context of globalization, as they improve compatibility among products and enable a degree of homogenization and harmonization. According to the *WTO World Trade Report 2005*, the use of standards and technical regulations can help markets operate effectively by addressing market failures in three major ways: first, they enhance compatibility between complementary goods in consumption and production in the presence of network externalities, where the value of the product depends on the availability and variety of complementary goods and/or the number of people using the same product; second, they solve the problem of asymmetric information about quality (e.g. safety standards); and third, they reduce negative environmental externalities. While in the first case they help increase trade, in the other two cases they may reduce trade. Technical measures are more frequently applied in developed countries since they are used more intensively as incomes rise. Consumers in developed countries tend to demand higher quality products. In the food sector, this trend has been accelerated by the worldwide dispersion of different food diseases. Additionally, as a result of their greater awareness of environmental and social issues, consumers in developed countries are increasingly demanding products that fulfil certain relevant criteria, such as organic agricultural and fair trade products.

27 At the UNCTAD Expert Meeting on Methodologies, Classifications, Quantification and Development Impacts of Non-Tariff Barriers which took place in September 2005, the Secretary-General of UNCTAD announced the setting up of a Group of Eminent Persons on NTMs to address this issue, among others related to NTMs. For a more elaborate discussion on the problems related to the quantification of NTMs, see UNCTAD, 2005b.

28 A recent study by the World Bank indicates that standards and technical regulations in developed countries affect the propensity of developing-country firms to export (Chen, Otsuki and Wilson, 2006).

29 Jaffee and Henson (2005) illustrate the potentially disruptive impact of food safety and agricultural health measures on exports from developing countries with examples relating to fish bans, limits on mycotoxins and horticultural product standards.

30 See UNCTAD, 2005b and 2006b; and Fliess and Lejarraga, 2005.

31 The data are compiled by the WTO secretariat and include anti-dumping measures taken only by members of the WTO. Zanardi (2004) shows that Taiwan Province of China has been a long-standing user of anti-dumping measures, and that the Russian Federation and Ukraine have recently joined the ranks of new users.

32 Data on anti-dumping are obtained from the WTO *Antidumping Statistics* website at: http://www.wto.org/english/tratop_e/adp_e/adp_e.htm#dol for the period 1995–2005, and from Miranda, Torres and Ruiz (1998) for earlier years.

33 These data refer to the 91-country sample less South Africa for which comprehensive data were not available.

34 On the other hand, gross export data usually provide the basis for assessments of developing countries' participation in world trade and of their ability to take advantage of newly arising export opportunities.

35 The decline in Brazil's importance as a major export destination for developing countries probably reflects the devaluation and slow income growth. But there could well be a reversal following the more recent economic upswing.

36 This finding contrasts markedly with the result in Arora and Vamvakidis (2005: 27) that "for most countries, the set of most important trading partners remains relatively stable over time." However, the examination here differs from theirs by including only developing countries (rather than all countries) as exporters, looking at the period 1990–2004 (rather than 1960–1999), and, given the strong concentration of export destinations – which raises some doubts as to the appropriateness of the approach taken by them – looking at only five (rather than ten) of the most important trading partners.

37 Thus, the strategy to diversify the origin of its fuel imports, combined with the coming on-line of oil reserves in a number of African countries, are important factors in the growing importance of the United States as developing countries' main export destination.

38 From the results of an analysis based on a gravity model, the IMF (2002: 124) concludes that "differences in economic size account for 80 percent of the difference in average bilateral trade flows."

39 Moreover, Kenya and Zambia rank 16th in the subperiod for which they are not among the 15 least benefiting countries.

40 Moreover, China has become the second most important destination for Yemen and Congo, almost as important as their leading destinations.

41 Ad hoc treatment used to be provided when a country did not fit into previous categories but required a global, comprehensive and exceptional treatment. Such treatment has been rationalized for non-HIPCs under the Evian approach, which is discussed in greater detail later in this section. Since 1988, only two HIPCs have received such treatment, Kenya (1994, 2000) and Guyana (2004).

42 For a review of the extensive literature on the macro-

economic implications of a debt overhang, see Patillo, Poirson and Ricci, 2002.

43 The Initiative employs several key benchmarks as indicators of debt sustainability, one of which is the ratio of the net present value (NPV) of debt to exports. Under the original initiative, countries were required to bring this ratio to a range of 200 to 250 per cent; this was amended under the enhanced Initiative to 150 per cent. The sustainability indicator – the ratio of debt to government revenue – was also lowered from 280 per cent to 250 per cent, and the eligibility thresholds for the export-to-GDP ratio and the revenue-to-GDP ratio were reduced to 30 per cent and 15 per cent respectively.

44 HIPCs will not benefit equally from this new initiative, as the only regional financial institution participating in debt relief under the Initiative is the African Development Bank. The inclusion of other regional financial institutions should therefore be considered, so as to be able to offer similar (equal) treatment for all completion point countries under the HIPC Initiative.

45 Daseking and Joshi (2005) suggest that projects of high social value but with low financial returns may be better suited to funding by grants, while other projects that may generate more immediate proceeds may be more effectively financed through loans.

46 The countries that have received assistance under the Evian approach are the Dominican Republic, Gabon, Georgia, Iraq, Kenya and Kyrgyzstan. Iraq and Kyrgyzstan were deemed as having an unsustainable debt.

47 Remittances refer to workers' remittances, migrants' capital transfers and compensation of employees.

48 Amuedo-Dorantes and Pozo (2004: 1414) refer to a "…doubling of transfers in the form of workers' remittances", which, according to their findings, can "result in real exchange rate appreciation of about 22% in our panel of 13 Latin American and Caribbean nations."

49 Some governments of developing countries which are among the main recipients of remittances, such as India, Morocco, Pakistan and Turkey, already appear to be providing different types of incentives to channel those remittances into the domestic financial system, including various interest and tax advantages (see, for example, Ennin, 2006).

50 In the study by Aykut and Ratha (2003), the definition of South includes not only developing economies, but also some economies in Central and Eastern Europe.

51 These measures of the relative importance of FDI should not be understood as reflecting the part of fixed investment that is undertaken by foreign investors, since FDI figures also include the acquisition by foreigners of already existing real capital.

References

Ackerman F (2005). The shrinking gains from trade: a critical assessment of Doha Round projections. Working Paper 05-01, Tufts University, Global Development and Environment Institute, Medford, MA.

Aksoy MA (2005). Global agricultural trade policies. In: Aksoy MA and Beghin JC, eds., *Global Agricultural Trade and Developing Countries*. Washington, DC, World Bank: 37–53.

Akyüz Y (2005). The WTO negotiations on industrial tariffs: What is at stake for developing countries? Penang, Malaysia, Third World Network, May.

Amiti M and Romalis J (2006). Will the Doha Round lead to preference erosion? Working paper, WP/06/10, International Monetary Fund, Washington, DC.

Amuedo-Dorantes C and Pozo S (2004). Workers' remittances and the real exchange rate: a paradox of gifts. *World Development*, 32 (8): 1407–1417.

Anderson K, Martin W and Valenzuela E (2006). The relative importance of global agricultural subsidies and market access. World Bank Policy Research Working Paper 3900, Washington, DC, April.

Anderson K, Martin W and van der Mensbrugghe D (2005). Market and welfare implications of Doha reform scenarios. In: Anderson K and Martin W, eds., *Agricultural Trade Reform and the Doha Development Agenda*. Washington, DC, World Bank and Palgrave Macmillan, 333–399.

Arora V and Vamvakidis A (2005). How much do trading partners matter for economic growth? IMF Staff Papers, 51 (1): 24–40.

Aykut D and Ratha D (2003). South-South flows: How big are they? *Transnational Corporations*, 13 (1), 149–176.

Blalock G and Gertler PJ (2005). Foreign direct investment and externalities: The case for public intervention. In: Moran T, Graham E, and Blomstrom M, eds., *Does Foreign Direct Investment Affect Economic Growth?* Washington, DC, Institute for Economic Growth and Center for Global Development, 73–106.

Borensztein E, De Gregorio J and Lee JW (1998). How does foreign Direct Investment Affect Economic Growth. *Journal of International Economics*, 45 (1): 115–135.

Bouet A et al. (2005). Multilateral agricultural trade liberalization: The contrasting fortunes of developing countries in the Doha Round. *The World Economy*, 28 (9): 1329–1354, September.

Brenton P and Hoppe M (2005). Life after quotas? Early Signs of the New Era in Trade of Textiles and Clothing. In: Newfarmer R, ed., *Trade, Doha, and Development: Window into the Issues*. Washington, DC, World Bank: 155–164.

Buch C, Kuckulenz A and Le Manche MH (2002). *Worker Remittances and Capital Flows.* Working Paper no. 1130. Kiel, Germany, Institute for World Economics, June.

Bugamelli M and Paterno F (2005). Do workers' remittances reduce the probability of current account reversals? World Bank Policy Research Working Paper no. 3766. Washington, DC. November.

Burgess R and Haksar V (2005). Migration and foreign remittances in the Philippines. IMF Working Paper, WP/05/111. Washington, DC, International Monetary Fund, June.

Charlton A and Stiglitz JE (2005). A development-friendly prioritization of Doha Round Proposals. *The World Economy*, 28 (3): 293–312, March.

Chauvin N and Kraay A (2005). What are 100 billion dollars worth of debt relief done for low-income countries? Mimeo. Available at: http//:economics.uchicago.edu/download/ChauvinKraazWhatHas DebtRelief AccomplishedSept2005.pdf.

Chen MX, Otsuki T and Wilson JS (2006). Do standards matter for export success? World Bank Policy Research Working Paper 3809, Washington, DC, January.

Daseking C and Joshi B (2005). Debt and new financing in low-income countries: looking back, thinking ahead. Paper presented at the IMF seminar on Foreign Aid and Macroeconomic Management, held in Maputo, Mozambique, March. Available at: www.imf.org/external/np/seminars/eng/2005/famm/pdf/bikas.pdf.

de Vasconcelos P (2005). Improving the development impact of remittances. UN/pop/mig/2005/10, United Nations, New York, 5 July.

EIU (2005a). *Country Profile 2005, Mexico*. Economist Intelligence Unit.

EIU (2005b). *Country Report: India.* Economist Intelligence Unit, September 2005. Available at: www.eiu.com.

Elamin N and Khaira H (2003). Tariff escalation in agricultural commodity markets. *Commodity Market Review 2003-2004*, 101–120. Rome, Food and Agricultural Organization of the United Nations.

Ennin B (2006). *Making Ghana competitive*. Available at Ghana home page: www.ghanaweb.com/Ghana HomePage/features/artikel.php?ID=100748 (accessed on 10 March).

FAO (2005). *The State of Food and Agriculture 2005*. Rome, Food and Agricultural Organization of the United Nations.

Fernández de Córdoba S and Vanzetti D (forthcoming). Now what? Searching for a solution to the WTO industrial tariff negotiations. In: Laird S and Fernandez de Cordoba S, eds., *Coping with Trade Reforms: A Developing-Country Perspective on the WTO Industrial Tariff Negotiations*. Basingstoke: Palgrave MacMillan.

Fliess B and Lejarraga I (2005). Non-tariff barriers of concern to developing countries. In: OECD, *Looking Beyond Tariffs: The role of Non-Tariff Barriers in World Trade.* Paris, Organisation for Economic Co-operation and Development: 227–296.

Francois J, van Meijl H and van Tongeren F (2005). Trade liberalization in the Doha Development Round. Gauging the WTO negotiations' potential gains. *Economic Policy*, 20 (42): 349–391, April.

Giuliano P and Ruiz-Arranz M (2005). Remittances, financial development and growth. IMF Working Paper, WP/05/234. Washington, DC, International Monetary Fund, December.

Hufbauer GC and Schott JJ (2006). The Doha Round after Hong Kong. *Policy Briefs in International Economics* no. PB06-2. Washington, DC, Institute for International Economics, February.

IMF (1999). From Toronto Terms to HIPC Initiative: a brief history of debt relief for low-income countries. IMF Working Paper WP/99/142, Washington, DC, International Monetary Fund, October.

IMF (2002). Trade and financial integration. *World Economic Outlook*. Washington, DC, International Monetary Fund, September.

IMF (2005a). Dealing with the revenue consequences of trade reform. Background paper for *Review of Fund Work on Trade*. Washington, DC, International Monetary Fund, February.

IMF (2005b). *World Economic Outlook.* Washington, DC, International Monetary Fund, April.

IMF and World Bank (2005a). Doha Development Agenda and Aid for Trade. Washington, DC, 19 September. Available at: www.imf.org/external/np/pp/eng/2005/091905.pdf.

IMF and World Bank (2005b). Note on the G8 debt relief proposal: assessment of costs, implementation issues, and financing options. DC2005-0023, Washington, DC, Development Committee, Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund, 21 September. Available at: *http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20656508/DC2005-0023(E)-DebtRelief.pdf.*

Jaffee SM and Henson S (2005). Agro-food exports from developing countries: the challenges posed by standards. In: Aksoy M and Beghin JC, eds., *Global Agricultural Trade and Developing Countries*. Washington, DC, World Bank: 91–114.

Kapur D (2004). Remittances: The new development mantra? G-24 Discussion Paper no. 29, April.

Krueger AO (2001). International financial architecture for 2002: A new approach to sovereign debt restructuring. Address to the American Enterprise Institute, Washington, DC, 26 November. Available at: www.imf.org/external/np/speeches/2001/112601.htm.

Kumar N (2005). Performance requirements as tools of development policy: lessons from developed and developing countries. In: Gallagher KP, ed., *Putting Development First: The Importance of Policy Space in the WTO and International Financial Institutions*. London and New York, Zed Books: 179–194.

Laird S (2006). Coping with trade reforms. Presentation at the Commission of Trade in Goods and Services, and Commodities. Geneva. 6–10 February.

Lipsey R and Sjoholm F (2005). The impact of FDI on host countries: Why such different answers? In: Moran T, Graham E. and Blomstrom M, eds., *Does Foreign Direct Investment Affect Economic Growth?* Washington, D.C, Institute for Economic Growth and Center for Global Development, 23–44.

Miranda J, Torres RA and Ruiz M (1998). The international use of antidumping: 1987–1997. *Journal of World Trade*, 32 (5): 5–71.

Moran T, Graham E and Blomstrom M, eds., (2005). *Does Foreign Direct Investment Promote Development?* Washington, DC, Institute for International Economics.

Moss TJ and Chiang HS (2003). The other costs of high debt in poor countries: Growth, policy dynamics, and institutions. *Issue Paper on Debt Sustainability* no. 3, Washington, DC, Center for Global Development, August.

Narula R and Lall S (2004). Foreign Direct Investment and its Role in Economic Development. In: Narula R and Lall S, eds., Understanding FDI-Assisted Economic Development, Special Issue of the *European Journal of Development Research,* 16 (3): 447–464.

OECD (2003). *Trends in International Migration 2003*. Paris, Organisation for Economic Co-operation and Development.

OECD (2005). *Agricultural policies in OECD countries: Monitoring and evaluation*. Paris, Organisation for Economic Co-operation and Development.

OECD (2006a). *Aid rising sharply, according to final ODA figures for 2004*. Paris, Organisation for Economic Co-operation and Development.

OECD (2006b). Aid flows top USD 100 billion in 2005. 4 April. Available at: www.oecd.org/documentprint/30.

OECD (2006c). OECD Development Assistance Committee Database online. Available at: www.oecd.org/dataoecd/50/17/5037721.htm.

Panagariya A (1999). On the "extravagant" predictions of benefits from the Uruguay Round. *Economic Times*, 25 August.

Patillo C, Poirson H and Ricci L (2002). External debt and growth. IMF Working Paper WP/02/69, Washington, DC, International Monetary Fund, April 2002.

Pay E (2005). Overview of the Sanitary and Phytosanitary measures in Quad countries on tropical fruits and vegetables imported from developing countries, *South Centre T.R.A.D.E. Research Papers*. Geneva, November.

Piermartini R and Teh R (2005). Demystifying modelling methods for trade policy, World Trade Organization, Discussion Paper no.10, Geneva.

Polaski S (2006). *Winners and Losers: Impact of the Doha Round on Developing Countries.* Washington, DC, Carnegie Endowment for International Peace.

Rodrik D (2001). Comments at the Conference on Immigration Policy and the Welfare State. Trieste, 31 July.

Rodrik D (2004). Development Round: A marketing gimmick? *South Bulletin*, no. 73. Geneva, South Centre.

Stiglitz JE and Charlton A (2005). *Fair* Trade *For All: How Trade Can Promote Development*. Oxford, Oxford University Press.

Suppan S (2005). Policy coherence and agricultural trade liberalization: Lessons for the Doha Round. In: *Sailing Close to the Wind: Navigating the Hong Kong WTO Ministerial*. Minneapolis, Institute for Agriculture and Trade Policy: 45–58.

UN Millennium Project (2005). *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (*Sachs Report*). London and Sterling, VA, Earthscan.

UNCTAD (1999). *World Investment Report 1999: Foreign Direct Investment and the Challenge of Devel-*

opment. United Nations publication, sales no. E.99.II.D.3, New York and Geneva.

UNCTAD (2000). *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development.* United Nations publication, sales no. E.00.II.D.20, New York and Geneva.

UNCTAD (2003). Trade preferences for LDCs: An early assessment of benefits and possible improvements. UNCTAD/ITCD/TSB/2003/8, New York and Geneva.

UNCTAD (2004a). Debt sustainability: oasis or mirage? *Economic Development in Africa.* UNCTAD/GDS/AFRICA/2004/1, United Nations publication, sales no. E.04.II.D.37, New York and Geneva.

UNCTAD (2004b). *Trade and Development Aspects of Professional Services and Regulatory Frameworks.* TD/B/COM.1/EM.25/2, Geneva.

UNCTAD (2004c). *World Investment Report 2004: The Shift towards Services*, United Nations publication, sales no. E.04.II.D.36, New York and Geneva.

UNCTAD (2005a). Erosion of preferences for the Least Developed Countries: Assessment of effects and mitigating options, TD/B/52/4, 4 August.

UNCTAD (2005b). Methodologies, classification, quantification and development impacts of Non-Tariff Barriers, TD/B/COM.1/EM.27/2, Geneva, 25 June.

UNCTAD (2005c). *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*, United Nations publication, sales no. E.05.II.D.10, New York and Geneva.

UNCTAD (2005d). *Economic Development in Africa - Rethinking the Role of Foreign Direct Investment*. United Nations publication, sales no. E.05.II.D.12, New York and Geneva.

UNCTAD (2005e). Policy issues related to investment and development. United Nations document TD/B/COM.2/64, Geneva, 4 February.

UNCTAD (2006a). Market access, market entry and competitiveness, TD/B/COM.1/76, Geneva.

UNCTAD (2006b). *Trade and Environment Review 2006*, United Nations publication, sales no. E.05.II.D.27, New York and Geneva.

UNCTAD (various issues). *Trade and Development Report*. United Nations publication, New York and Geneva.

UN-DESA (2005). *World Economic and Social Survey 2005*, New York.

United Nations (2006). International migration and development. Report of the United Nations Secretary-General, A/60/871. 18 May.

United States General Accounting Office (USGAO) (2004). Achieving Poor Countries Economic Growth and Debt relief targets faces significant financing challenges. GAO-04-0405. Washington, DC.

van der Mensbrugghe D (2005). Estimating the benefits of trade reform: Why the numbers change. In: Newfarmer R, ed., *Trade, Doha, and Development: Window into the Issues.* Washington, DC, World Bank: 59–75.

Wise TA and Gallagher KP (2005). The Hong Kong Ministerial: What's at stake for the Poor? Bridges, no. 10, Geneva, International Center for Trade and Sustainable Development, December.

World Bank (2002). *Global Economic Prospects 2002*. Washington, DC, World Bank.

World Bank (2004) *Global Economic Prospects 2005*. Washington, DC, World Bank.

World Bank (2005) *Global Economic Prospects 2006*. Washington, DC, World Bank.

World Bank (2006a). Debt relief for the poorest: an evaluation update of the HIPC Initiative. Washington, DC, Independent Evaluation Group, World Bank.

World Bank (2006b). *Global Economic Prospects: The Economic Implications of Remittances and Migration.* Washington, DC, World Bank.

WTO (2005a). *Doha Work Programme Ministerial Declaration*, WT/MIN(05)/DEC, Hong Kong, 22 December.

WTO (2005b). *World Trade Report 2005*. World Trade Organization, Geneva.

WTO (2006). Eleventh Annual Review of the Implementation and Operation of the TBT Agreement, Committee on Technical Barriers to Trade, World Trade Organization, G/TBT/18, 17 February.

Xu B (2000). Multinational Enterprises, Technology Diffusion and Host Country Productivity Growth. Journal of Development Economics 62 (2): 477–493, August.

Zanardi M (2004). Antidumping: what are the numbers to discuss at Doha? *World Economy,* 27 (3): 403–433.

Annex tables to chapter III

Table 3.A1

PROGRESS UNDER THE HIPC INITIATIVE, 1997–2006

	Original HIPC Initiative		*Enhanced HIPC Initiative*	
	Decision point	*Completion point*	*Decision point*	*Completion point*
1997	Bolivia (Sept.) Burkina Faso (Sept.) Guyana (Dec.) Uganda (April)			
1998	Côte d'Ivoire (March) Mali (Sept.) Mozambique (April)	Bolivia (Sept.) Uganda (April)		
1999		Guyana (May) Mozambique (June)		
2000		Burkina Faso (July) Mali (Sept.)	Benin (July) Bolivia (Feb.) Burkina Faso (July) Cameroon (Oct.) Gambia (Dec.) Guinea (Dec.) Guinea-Bissau (Dec.) Guyana (Nov.) Honduras (June) Madagascar (Dec.) Malawi (Dec.) Mali (Sept.) Mauritania (Feb.) Mozambique (April) Nicaragua (Dec.) Niger (Dec.) Rwanda (Dec.) Sao Tome and Principe (Dec.) Senegal (June) U. Rep. of Tanzania (April) Uganda (Feb.) Zambia (Dec.)	Uganda (May)
2001			Chad (May) Ethiopia (Nov.)	Bolivia (June) Mozambique (Sept.) U. Rep. of Tanzania (Nov.)
2002			Ghana (Feb) Sierra Leone (March)	Burkina Faso (April) Mauritania (June)
2003			Dem. Rep. of the Congo (July)	Benin (March) Guyana (Dec.) Mali (March)
2004				Ethiopia (April) Ghana (July) Madagascar (Oct.) Nicaragua (Jan.) Niger (April) Senegal (April)
2005			Burundi (Aug.)	Honduras (April) Rwanda (April) Zambia (April)
2006			Congo (March)	Cameroon (May)

Source: *IMF Survey*, various issues.

Table 3.A2

PROGRESS OF THE 29 DECISION POINT HIPCs TOWARDS VARIOUS MILLENNIUM DEVELOPMENT GOALS

	Poverty and hunger		**Universal primary education**		**Gender equality**	
Target:	***Halve**, between 1990 and 2015, the proportion of people who suffer from hunger.*		*Ensure that, by 2015, **all** children will be able to complete a full course of primary schooling.*		***Eliminate** gender disparity in primary and secondary education, preferably by 2005, and all levels of education by 2015.*	
Indicator:	*Malnutrition prevalence, weight for age* (percentage *of children under 5)*		*Primary completion rate, total (percentage of relevant age group)*		*Ratio of girls to boys in primary and secondary education (per cent)*	
	Percentage point change[a]	*Per cent*	*Percentage point change 1990/91–2004*[b]	*Per cent short of achieving the goal*	*Percentage point change 1991–2004*	*Per cent short of achieving the goal*
Benin	-6.3	-21.6	30.4	51.2	21.9	28.6
Bolivia	-3.5	-31.5	28.8[b]	-0.2	..	1.6
Burkina Faso	5.0	15.3	9.1	70.5	14.6	23.7
Burundi	..	..	-7.9	66.9	0.1	18.2
Cameroon	3.0	19.9	6.3	36.7	4.0	13.3
Chad	-2.1	-5.4	12.9	70.5	16.5	42.0
Congo	..	..	7.3	33.6	..	..
Dem. Rep. of the Congo	-3.4	-9.9	..	..	..	..
Ethiopia	0.5	1.0	37.0	49.4	4.4	27.2
Gambia	-9.0	-34.4				
Ghana	-5.2	-19.0	2.6[b]	34.6	12.1	9.4
Guinea	5.9	22.0	29.8	51.5	26.7	27.5
Guinea-Bissau	..	..	..	..	..	..
Guyana	-4.7	-25.7	5.7	4.7	..	..
Honduras	-1.4	-7.8	14.7[b]	20.6	..	..
Madagascar	1.0	2.4	10.4	54.7	..	..
Malawi	-5.7	-20.7	29.4	41.5	17.3	1.5
Mali	6.3	23.4	33.5	56.0	15.5	25.6
Mauritania	-15.8	-33.2	13.9	56.9	28.0	4.5
Mozambique	-3.3	-12.2	4.1	71.0	10.8	17.7
Nicaragua	-1.4	-12.7	29.5	26.5	-6.6	-2.7
Niger	-2.5	-5.9	9.8	75.0	13.9	28.9
Rwanda	-5.1	-17.3	-8.0	62.6	4.1	-0.1
Sao Tome and Principe	..	..	..	25.1	..	..
Senegal	1.1	4.8	3.6	54.8	20.9	10.2
Sierra Leone	-1.5	-5.2	..	46.3	..	..
Uganda	-2.6	-10.2	..	42.9	15.4	2.9
United Rep. of Tanzania	0.5	1.7	10.1	43.5	..	..
Zambia	-2.2	-8.7	..	33.8	..	6.9
Average	*-2.1*	*-7.6*	*14.1*	*45.4*	*12.9*	*15.1*

Source: UNCTAD secretariat estimates, based on World Bank, *World Development Indicators* database 2006.

Note: The series presented in the table were selected based on data availability.

a Due to the inconsistent reporting periods across countries for this indicator, changes reflect the difference between the latest and earliest reported figures.

b Data for 1991 were used for countries which did not have data reported for 1990.

Table 3.A2 (concluded)

PROGRESS OF THE 29 DECISION POINT HIPCs TOWARDS VARIOUS MILLENNIUM DEVELOPMENT GOALS

Reduce child mortality		**Environmental sustainability**				
*Reduce the under-five mortality rate by **two thirds**, between 1990 and 2015.*		***Halve** the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015.*				
Mortality rate, age under-5 (per 1 000)		*Improved sanitation facilities (percentage with access)*		*Improved water source (percentage with access)*		
Change (per 1 000) 1990–2004	*Per cent*	*Percentage point change 1990–2002*	*Per cent*	*Percentage point change 1990–2002*	*Per cent*	
-21.4	-19.3	21.0	190.9	8.0	13.3	Benin
-35.0	-39.3	12.0	36.4	13.0	18.1	Bolivia
-16.2	-14.3	-1.0	-7.7	12.0	30.8	Burkina Faso
0.0	0.0	-8.0	-18.2	10.0	14.5	Burundi
2.2	2.6	27.0	128.6	13.0	26.0	Cameroon
0.0	0.0	2.0	33.3	14.0	70.0	Chad
-2.0	-2.4	..	..	..	..	Congo
0.0	0.0	11.0	61.1	3.0	7.0	Dem. Rep. of the Congo
-20.6	-15.7	2.0	50.0	-3.0	-12.0	Ethiopia
-14.0	-13.6	..	..	..	..	Gambia
-7.0	-9.3	15.0	34.9	25.0	46.3	Ghana
-44.0	-30.3	-4.0	-23.5	9.0	21.4	Guinea
-27.4	-17.9	..	..	..	..	Guinea-Bissau
-16.0	-25.0	..	..	..	..	Guyana
-12.6	-28.6	19.0	38.8	7.0	8.4	Honduras
-27.0	-26.2	21.0	175.0	5.0	12.5	Madagascar
-36.2	-24.8	10.0	27.8	26.0	63.4	Malawi
-19.0	-13.6	9.0	25.0	14.0	41.2	Mali
-7.0	-8.2	14.0	50.0	15.0	36.6	Mauritania
-53.6	-33.9	..	..	..	..	Mozambique
-21.2	-40.8	19.0	40.4	12.0	17.4	Nicaragua
-39.2	-20.5	5.0	71.4	6.0	15.0	Niger
15.0	14.6	4.0	10.8	15.0	25.9	Rwanda
0.0	0.0	..	..	..	..	Sao Tome and Principe
-12.4	-13.8	17.0	48.6	6.0	9.1	Senegal
-9.6	-5.5	..	..	..	..	Sierra Leone
-12.8	-13.8	-2.0	-4.7	12.0	27.3	Uganda
-23.6	-23.1	-1.0	-2.1	35.0	92.1	United Rep. of Tanzania
1.0	1.0	4.0	9.8	5.0	10.0	Zambia
-15.8	*-14.5*	*8.9*	*44.4*	*11.9*	*27.0*	*Average*