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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Net transfer of resources from developing countries

Report of the Secretary-General

CONTENTS

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I. INTRODUCTION

1. The Economic and Social Council, at its second regular session in 1989, adopted resolution 19891112 of 28 July 1989 on the net transfer of resources from developing countries and its impact on their economic growth and development. Specifically, the Council requested

> "a more comprehensive analysis of the transfer of resources to and from developing countries, the main factors affecting such transfers and their impact on the growth and development of developing countries, presenting alternative hypotheses on the future evolution of that issue, taking into account recent developments in the world economy and distinguishing between both gross and net resource transfers and financial transfers . ..".

In response to that resolution, the Assistant Secretary-General for Development Research and Policy Analysis made a preliminary oral presentation to the Second Committee of the General Assembly on 16 October 1989. Moreover, chapter IV of the World Economic Survey 1990 1/ contains a thorough analysis of the net financial transfer of the developing countries.

2. The General Assembly continued the debate of this issue and, in its resolution 44/232 of 22 December 1989, requested the Secretary-General to report on the implementation of various recommendations contained in paragraph 1 of the resolution, which address the need to ensure adequate resources for the reactivation of economic growth and sustained development in developing countries.

3. At its more recent session, the Economic and Social Council adopted resolution E/1990/56 of 26 July 1990, in which the Secretary-General is requested "to include in his report to be submitted to the General Assembly in response to paragraph 4 of General Assembly resolution 44/232 a review and analysis of the issues and problems at both the national and international level raised by this phenomenon".

4. The net transfer issue has attracted considerable attention in recent years. Essentially, the deterioration of the net transfer situation for many developing countries during the 1980s is an aspect of the debt situation, In 1987, the first report of the Secretary-General on the net transfer of resources from developing to developed countries (A/42/272) examined the conceptual issues and described the pattern of financial flows to developing countries in the 1970s and 1980s, identifying the factors that resulted in the present net outflow of resources from the developing countries as a group. Even earlier, the Secretariat had drawn attention in its World Economic Survey 1985 to the shift in the resource flows to developing countries that took place in 1983-1984. In 1938, a second report of the Secretary-General on net transfer of resources from developing countries to developed countries 2/ extended the previous analysis by examining the interactions between changes in the terms of trade and changes in the pattern of financial flows to and from developing countries. 3/

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II. TRENDS IN THE NET FINANCIAL TRANSFER OF THE DEVELOPING COUNTRIES AND ITS COMPOSITION

5. On all accounts, 1983 is the year in which the net transfer of resources of the developing countries as a group turned negative, and it has remained so every year since. According to the most recent survey on Financing and External Debt of Developing Countries of the Organisation for Economic Co-operation and Development (OECD), "short of a marked fall in international interest rates or significant debt (service) reduction, and a vigorous recovery in confidence and investment in the problem countries, the underlying trend is for persistently high and even growing net financial transfers". 4/ The negative transfer is thus not a short-run phenomenon.

6. Developing countries have traditionally been "capital-importing countries". This denomination reflected the fact that these countries were importing goods and services at a faster rate than they were exporting goods and services, and were "importing capital" to finance the corresponding current account deficit. It reflected also the conviction that, at initial stages of growth, an expanding economy ha8 to put in place a numoer of import-intensive activities and that therefore import need8 tend to outpace the ability to increase exports.

7. During the 1980s, a8 shown in table 1, the aggregate of capital-importing developing countries - which represents all developing countries with the exception of eight major oil-exporting countries classified as "capital-surplus" - ha8 experienced an outward net financial transfer since 1983. The story behind the figures in tatie 1 is now well known. The same unfavourable conjunction of factor8 at the etart of the 1980s that explain6 the beginning of the debt crisis is at the origin of the prolonged outflow of resources from developing countries. The outcome is that developing countries, on the whole, are being transformed in net exporters of financial resources long before reaching commensurate levels of development. This conjunction of factors can be summarized as follows:

(a) Foreign debt in many developing countries had reached high levels. In the second half of the 1970s, developing countries - in particular the newly industrializing among them - had borrowed easily from commercial banks. In those years, since real interest rates were very low, many countries had opted for "growth-cum-debt" instead of earlier retrenchment and adjustment to a lower level of foreign exchange availability;

(b) Interest rates did rise steeply, over a debt structure in which commercial loans at floating rates represented most of the debt. Starting in 1979, the industrialized countries, led by the United States of America, tightened their monetary policies to fight inflation. This brought unprecedented interest levels, which multiplied suddenly the cost of third world debtr

(c) Because of deteriorating terms of trade and a lack of ability to increase exports earnings with sufficient speed, too many countries could not cope with the rapid rise in debt service. The same policies in OECD countries that brought higher interest rates resulted in the world-wide recession of the early 1980s, which depressed export prices from developing countries and reduced markets for their products;

Table 1. Net transfer of financial resources of the capital-importing developing countries, 1980-1989 a/

(Billions of dollars; sample of 96 countries)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	5.5	9.0	6.4	5.5	5.6	6.3	5.6	8.7	14.1	13
vidends and other income	-10.5	-9.9	-9.4	-8.8	-8.0	-7.5	-6.4	-7.0	-7.8	-9
.ansfer	-5.0	-0.9	-3.0	-3.3	-2.5	-1.2	-0.8	1.7	6.3	4
Transfer through private credit										
Mediunt-tenn and long-term foreign borrowing										
Net credit flow	35.4	48.3	40.6	26.5	17.8	11.6	7.7	1.4	6.5	6
Interest paid	-24.2	-31.2	-37.2	-35.2	-39.9	-38.9	-34.6	-33.9	-39.2	-42
Net transfer	11.2	17.0	3.4	-8.7	-22.0	-27.3	-27.0	-32.5	-32.8	-36
Short-terns borrowing and domestic outflows c/										
Net transfer	0.9	-17.3	-27.2	-18.9	-12.7	-8.6	1.8	3.2	-10.1	7
Transfer through private grants (net)	1.2	1.2	1.2	1.9	2.1	2.5	3.4	3.5	4.2	4
Transfer through official flows										
Official transfers (grants)	11.1	11.7	9.2	10.2	10.7	11.5	11.1	12.3	12.4	12
Net official credits	23.2	28.8	31.6	27.7	25.0	16.5	16.0	12.0	16.0	22
Interest paid	-5.8	-6.8	-8.3	-9.7	-11.3	-12.8	-15.6	-16.9	-18.2	-22
Net transfer	28.6	33.7	32.5	28.2	24.5	15.1	11.5	7.5	10.2	13
Total transfer (financial basis)	36.8	33.8	7.0	-1.2	-10.6	-19.4	-11.1	-16.6	-22.1	-7
Use of official reserves d/	-12.8	2.7	15.9	-8.0	-19.4	1.6	8.7	-14.4	-9.9	-17
Total transfer (expenditure basis)	24.0	36.5	22.9	-9.2	-30.0	-17.8	-2.4	-31.0	-32.0	-24

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of the International Monetary Fund (IMF), OECD, the World Bank and United Nations Secretariat estimates.

(Footnotes on following page)

(Footnotes to table 1)

a/ Definitions! direct investment is net of reinvested earnings (cash flow approach); official credits include use of IMF credit, and interest includes Fund charges! private grants include net flow of gifts Erom overseas residents (excluding workers' remittances) and grants by non-governmental organizations.

b/ Preliminary estimate; rounded to the nearest half-billion dollars.

c/ Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears on interest due, and other flows captured in balance--of-payments data as "errors and omissions" and presumed to be financial flows).

d/ Additions to reserves shown as negative numbers.

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(d) Finance from private creditors dried up suddenly and could not be compensated for by official credit.

8. After 1982, commercial banks rapidly reduced their exposure in developing countries. Even though not all developing countries were affected by the debt crisis, the drying up of finance from private creditors also affected, by contagion, developing countries with no immediate balance-of-payments difficulties. Net private credit flows to capital-importing developing countries, as shown in table 1, went down steeply from $48 billion in 1981 and were just above $1 billion in 1987. They went up somewhat in the next years, in the context of various debt-restructuring exercises. However, voluntary new lending from commercial banks to developing countries is virtually non-existent today, and it is not expected that it will start soon.

9. Together with interest rates, interest payments due went up very rapidly. For the highly indebted countries, interest payments more than doubled in the first two years of the decade (see table 2). Interest rates remained throughout the decade at historically hiqh levels. Even the effect of recent debt-reduction agreements did not make much of a dent in terms of reducing the debt-service jumps resulting from prior interest rate hikes. 5/ Interest payments were still rising in 1989, despite interest arrears. Unusual before the 1982 break-out of the debt crisis, interest arrears have been increasing continuously, reflecting the payment difficulties in the indebted countries. Interest arrears on long-term debt have been estimated by the World Bank at some $31 billion end-1989 and are not projected to become less this year. 6/ Figures for the net negative transfer would be even higher if it were not for payment arrears.

10. Official credit did not give rise to the net negative transfer. Even though an important component, such as official export credits, also fell off considerably, net official credit remained positive for the aggregate of developing countries after 1983. Official multilateral credit continued to increase in the 1980s, but, with overall more or less stagnant bilateral official credit, the increase in total official credit was too slow to compensate for the sharp reduction in private credit. Since 1987. however, the net financial transfer through official credits has been negative for the aggregate of the capital-importing developing countries, and even more so for the highly indebted countries. In the most recent years, official transfers on the whole are positive only when grants are included in the estimate (see table 1). 7/

11. On the whole, the changed situation meant that the traditional rollover of debts by commercial banks came to a halt. The cumulative result of the numerous reschedulinqs has been a relative reduction of debt owed to private creditors and an increase in debt owed to official creditors. Since 1989, developing countries already owe more than half of their debt to official creditors and the proportion of official debt is increasing. 8/

12. The net flow on account of foreign direct investment towards developing countries also declined in the 1980s and has been negative during some of the years of the decade. Sub-Saharan Africa has suffered from an outflow on account of foreign direct investment. But the highly indebted middle-income countries still register a net inflow of foreign direct investment (see tables 2 and 3).

Table 2. Net transfer of financial resources to a sample of middle-income highly indebted countries a/

(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	2.6	5.4	3.5	2.2	2.0	3.1	1.8	3.9	6.5	4
Net dividends and other income	-3.6	-3.4	-3.2	-2.7	-2.5	-2.8	-3.0	-3.5	-4.3	-5
Net transfer	-1.0	2.0	0.2	-0.5	-0.5	0.3	-1.2	0.5	2.1	
Transfer through private credit										
Net credit flow	26.4	28.9	12.0	0.1	0.4	-10.0	-2.5	3.7	-9.3	2
Net interest paid	-14.3	-23.9	-34.6	-31.3	-33.9	-31.2	-25.8	-24.9	-26.9	-28
Net transfer	12.1	5.0	-22.6	-31.3	-33.6	-41.2	-28.3	-21.2	-36.2	-26
Private grants and gifts (net)	0.7	0.8	0.6	0.7	0.8	0.9	1.0	1.1	1.4	1
Transfer through official flows										
Official transfers (grants)	1.0	1.0	0.7	0.8	0.8	1.3	0.9	1.1	1.3	1
Net official credits	5.4	7.1	10.2	8.8	9.8	5.0	6.2	2.3	4.0	6
Interest paid	-2.2	-2.5	-3.1	-3.4	-4.2	-5.0	-6.3	-7.1	-7.9	-11
Net transfer	4.2	5.6	7.8	6.2	6.3	1.3	0.8	-3.8	-2.5	-4
Overall net transfer (finance definition)	16.0	13.4	-13.9	-24.9	-26.9	-38.7	-27.7	-23.3	-35.2	-29
- Additions to reserves	7.3	-7.1	-23.2	1.0	13.5	2.2	-4.9	5.4	-3.6	6
= Overall net transfer (expenditure definition)	8.7	20.5	9.3	-23.8	-40.4	-40.9	-22.8	-28.7	-31.7	-35

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of IMF, the World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of re-invested earnings (cash-flow approach); official credits include use of IMF credit and interest includes Fund charges; net private credit flow includes arrears on interest as well as principal and outflows of capital by residents.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

b/ Preliminary estimate.

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Table 3. Net transfer of financial resources to sub-Saharan Africa a/

(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Transfer through direct investment										
Net investment flow	-0.3	1.0	0.8	0.8	0.3	0.7	0.2	0.8	0.9	1
Net dividends and other income	-2.5	-1.7	-1.4	-1.0	-1.0	-1.1	-0.9	-1.5	-1.4	-1
Net transfer	-2.8	-0.8	-0.6	-0.3	-0.7	-0.5	-0.8	-0.7	-0.4	
Transfer through private credit										
Net credit flow	2.3	3.4	6.2	3.4	-1.0	-0.9	0.8	3.1	3.6	2
Net interest paid	-0.6	-0.9	-1.8	-2.1	-2.2	-2.8	-2.2	-4.1	-4.1	-4
Net transfer	1.7	2.5	4.4	1.3	-3.2	-3.7	-1.5	-1.0	-0.5	-2
Private grants and gifts (net)		0.1	0.2	0.2	0.6	0.7	0.7	0.8	0.9	1
Transfer through official flows										
Official transfers (grants)	3.0	3.1	2.7	2.9	3.0	3.6	3.8	4.7	4.7	5
Net official credits	4.3	5.6	5.4	5.7	3.8	2.6	3.7	2.4	3.9	5
Interest paid	-0.8	-0.8	-1.0	-1.1	-1.4	-1.6	-1.8	-2.0	-2.3	-2
Net transfer	6.6	7.9	7.1	7.5	5.4	4.6	5.7	5.0	6.4	7
Overall net transfer (finance definition)	5.5	9.8	11.1	8.8	2.2	1.1	4.1	4.2	6.4	6
- Additions to reserves	4.1	-4.7	-2.3	-0.1	1.4	2.1	0.2	0.8	0.9	2
= Overall net transfer (expenditure definition)	1.3	14.5	13.4	8.9	0.8	-1.0	3.9	3.3	5.5	4

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of IMF, the World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of re-invested earnings (cash-flow approach); official credits include use of IMF credit and interest includes Fund charges; net private credit flow includes arrears on interest as well as principal and outflows of capital by residents.

a/ Sample of 42 countries, including Nigeria.

b/ Preliminary estimate.

13. These aggregate figures give some idea of the burden of adjustment necessary in developing countries to face the shift from inflow to outflow of financial resources, but they give only a partial picture. Not all developing countries suffer a net negative transfer, though it is far from being a rare occurrence. During the 1980s the net transfer on account of credit has been negative in more than 40 developing countries. An overall negative transfer has been present in more than 30 countries. Obviously, the story is not the same for all these countries. The development implications of the net negative transfer are essentially different in three groups of countries: (a) the energy-exporting countries that have been denoted for analytical purposes as "capital-surplus countries": (b) the four successful exporters of manufactures, namely, Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China: (c) the rest of the developing countries in that category. Their separate stories of net transfer have been analysed in World Economic Survey 1990, chapter IV. One important difference is whether the trade surplus that has to be present to allow the financial transfer abroad is obtained through rapid export growth or through import curbs and whether such surplus results in the presence of favourable or unfavourable changes in the terms of trade. The impact on investment and on growth has been closely associated with the rapidity and size of the shift in the flow of foreign finance, and on the policy measures and flexibility of the economy to bring about the corresponding shift towards higher exports, as well as an increase in domestic savings to compensate the reduction in savings from abroad.

14. Sub-Saharan Africa, for various reasons, received positive net financial transfers throughout the decade, but the amount diminished considerably (see table 3). Commercial banks had a comparatively low share in the debt of sub-Saharan Africa. Special debt relief and financial support measures were also put in place for low-income countries. Moreover, grants, official and private, were and still remain an important component of the overall inflow. Yet, while in sub-Saharan Africa as a whole net financial transfers were positive over most of the decade, it should be noted that a country like Nigeria, where private credits had an important participation, has experienced an outward net transfer since 1984.

III. TERMS OF TRADE AND THEIR RELATIONSHIP TO NET FINANCIAL TRANSFERS

15. Changes in terms of trade and changes in the patterns of financial flows interact in many ways. Some have already been alluded to. A sudden worsening of terms of trade, brought about by a sharp decline in prices of the main commodity exports of a country, increases the need for external finance to offset the resulting decline in export earnings, or else implies import contraction and the related decline, at least in the short term, in domestic activity. Along the same lines, if a country has to make a financial transfer abroad due to repayment of previously contracted debt, obviously the task is made easier/harder depending on the presence of gains/losses deriving from changes in terms of trade. Interactions between the flow of finance and changes in terms of trade are also important. As is known, easy credit in the 1970s came to a large extent on the wake of extraordinary gains in the terms of trade of oil-exporting countries. On the other hand, the debt crisis is itself partly the result of a collapse in commodity prices

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and an unfavourable change of terms of trade in the indebted countries. In turn, the battle to obtain trade surpluses to cope with the sudden increase in debt service most probably influenced a further decline in commodity prices. Simultaneous efforts by several countries to increase the supply of commodities whose demand is generally price-inelastic, have the effect of drawing down their prices.

16. The secular trend in the terms of trade of developing countries has been an important issue in the analysis of development prospects and policies, 9/ but more recently the discussion on terms of trade has concentrated on the severity of the shocks that hit developing countries in the 1980s. Commodity prices declined persistently in the 1980s. Between 1980 and 1988, the real prices of non-fuel commodities from developing countries declined by 40 per cent. Fuel prices declined by 50 per cent in the same period. Owing mainly to the recovery in minerals and agricultural raw materials between mid-1987 and the first quarter of 1983, the average price index of commodities recovered somewhat, but was still far below its levels at the start of the decade. It remained stable over 1988, only to renew its decline in 1989.

17. The impact of these price movements on country groupings and individual countries varied according to the composition of their exports. Commodity-dependent countries lost ground, while countries with more diversified exports and a high share of manufacture exports faced neutral or, in some cases, improving terms of trade. But the fact is that, on the whole, developing countries were adversely affected by changes in terms of trade. Terms-of-trade losses of one country are the gain of another. Industrial countries benefited from the changes in terms of trade in the 1980s

18. The most common measure of the terms of trade is the so-called net barter terms of trade, which is calculated as the change in the ratio of an export price index to an import price index, relative to a base year. If a country faces a reduction in its terms-of-trade index, it means that for the same volume of exports it will be able to obtain less imports, which is to say that it suffers a decline in real income (or decrease in domestic resource availability). Measurement difficulties, as the choice of the base year, the question of the changing composition of exports and imports, the interaction with changes in volume, have been discussed in previous documents. 10/ In assessing the impact of terms-of-trade changes on individual countries, it is necessary to keep in mind in particular the weight of international trade and the degree of diversification of exports. In the sample of countries studied in the annex, in some cases a very high percentage in gross domestic product (GDP) of the terms-of-trade losses is explained by the very high share of exports in GDP. When examining an aggregate of countries, arguably the extreme cases are smoothed away in the average.

19. In tables 4 and 5, the shocks for two groups of countries affected by the changes of the economic environment of the 1980s are quantified. The figures for financial transfers are as calculated in tables 2 and 3. The estimates of the gains or losses from trade are a comparison of every year with 1980, that is, they represent a comparison with the hypothetical situation that the prices of exports

Table 4. Sub-Saharan Africa: a/ external shocks

(Billions of dollars and percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Net financial transfer	1.3	14.5	13.4	8.9	0.8	-1.0	3.9	3.3	5.5	4.0
(GDP 1985: $175 billion)										
Share in 1985 GDP	0.7	1.8	1.7	1.1	0.1	-0.1	0.5	0.4	0.7	0.5
Terms of trade (1980 = 100)	100	95	93	94	100	93	82	74	74	72
(Value of exports in 1980: $57 billion)										
Gains (losses) from trade		-2.9	4.0	-3.4	0.0	-0.6	-10.3	-14.8	-14.8	-16.0
Share in 1985 GDP		-1.6	-2.3	-2.0	0.0	-0.3	-5.9	-8.5	-8.5	-9.1
Impact on total domestic resource availability		11.7	9.4	5.5	0.8	-1.6	-6.4	-11.5	-9.3	-12.0
Share in 1985 GDP		6.7	5.4	3.1	0.5	-0.9	-3.6	-6.6	-5.3	-6.8

Source: United Nations Department of International Economic and Social Affairs, based on data of the IMF, the World Bank and the United Nations Statistical Office.

a/ Including Nigeria.

b/ Preliminary estimate.

Table 5. Middle-income highly indebted countries: a/ external shocks

(Billions of dollars and percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 b/
Net financial transfer (GDP 1985: $801 billion)	8.7	20.5	9.3	-23.8	-40.4	40.9	-22.8	-28.7	-31.7	-35.0
Share in 1985 GDP	1.1	2.6	1.2	-3.0	-5.0	-5.1	-2.8	-3.6	4.0	6.4
Terms of trade (1980 = 100) (Value of exports in 1980: $161 billion)	100	97	90	86	90	85	73	73	71	72
Gains (losses) from trade		-4.8	-16.1	-22.5	-16.1	-24.2	-43.5	-43.5	-46.7	-45.1
Share in 1985 GDP		-0.6	-2.0	-2.8	-2.0	-3.0	-5.4	-5.4	-5.8	-5.6
Impact on total domestic resource availability		15.7	-6.8	-46.3	-56.5	-65.1	-66.3	-72.2	-78.4	-80.1
Share in 1985 GOP		2.0	-0.8	-5.8	-7.1	-8.1	-8.3	-9.0	-9.8	-10.0

Source: Department of Intemati onal Economic and Social Affai rs of the United Nations Secretariat, based on data Of the IMF, the World Bank and the United Nations Statistical Office.

a/ Sample of 15 countries as listed in table 2.

b/ Preliminary estimate.

and imports had remained the same as in 1980, and that the same volumes as in 1980 had been exported. 11/

20. The figures in tables 4 and 5 show for individual years the level of net financial transfers and the income gains or losses due to changes in terms of trade. The combined effect appears in the last two rows. As already stated in previous analyses, it is in Africa that the decline in commodity prices and terms of trade has taken its heaviest toll. 12/ In North Africa, the drop in oil prices in 1906 had a major adverse impact on export revenues and national income. In sub-Saharan Africa, the losses from unfavourable terms of trade are in the last years of the decade equivalent to more than 10 per cent of its GDP. The positive financial transfer was not enough to compensate for such losses. The story is somewhat different in the group of highly indebted countries. Although terms of trade were also unfavourable to that group of countries, because of a more diversified structure of exports (on the aggregate) the impact, as measured by the share in the 1985 GDP, is milder, and here, over the decade, the strongest impact comes from the financial net negative transfer, but the sum of the impact- of the unfavourable environment has been very heavy indeed, in particular in the second half of the decade, when it reached the order of 8 to 9 per cent of gross domestic product- in the highly indebted countries, and 4 to 6 per cent of gross domestic! product for sub-Saharan Africa.

IV. NET TRANSFER, ADJUSTMENT AND GROWTH

21. A whole range of domestic adjustments occurs in response to a "net neyative transfer", since the financial transfer requires a corresponding domestic resource mobilization. The share of the "net negative transfer" in GDP indicates the burden of the adjustment required, that is, the proportions cf the domestic mobilization of funds to he transferred abroad, Thus, there is a domestic transfer problem which is the other side of the coin of the transfer abroad. When the shift. is large and rapid, corresponding domestic adjustment is not feasible in a short period of time. The difficulty increases commensurately when domestic resource nvoilability has been reduced by terms-of-trade losses.

22. The burden of domestic mobilization has been high and sudden compared with historical transfer cases. Since the debt crisis, indebted developing countries had in general to transfer abroad financial resources between 2 and 3 pet- cent. of their GDP, For Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean (ECLAC) has calculated a net financial transfer of 4 per cent. of GDP in the period 1983-1987. It was higher in several instances in that region and it went over 6 per cent in Mexico and Venezuela, in the same period. 13/ These figures are higher than, for instance, the German transfer case in the interwar period, when Germany, in the period 1924-1932, made war reparation payments. It is also higher than the 3 per cent. net transfer from the United States in the period 1949-1961, mainly for aid, grants and investments abroad associated with the Marshall Plan. 14/

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23. The rapidity of the shift from positive to negative transfer has added to the problem. Table 6 presents some examples of changes in the transfer, as share of GDP. They are a rough indication of the effort necessary in obtaining a higher domestic savings rate to compensate for the disappearance of external savings - if domestic investment is not to fall - and in increasing exports and correspondingly shifting domestic production towards tradeables. Not all countries were equally prepared to adapt to the shift (see annex I), Countries with falling terms of trade experienced additional difficulties, Yet, a country with a very high domestic savings rate and rapid export expansion in fact voluntarily could increase the net negative transfer by making early principal payments on its debt. 15/

24. The problem of domestic mobilization of the financial transfer is largely a problem of government finance, since by far the largest part of foreign debt is serviced by the public sector in the debtor countries. Not only was an important part of the debt originally contracted by public sector enterprises, but also private sector debt was converted into public sector liabilities. This was particularly the case in Latin America, where Governments in many instances were under pressure to assume the debt of private enterprises to avoid defaults that would have disrupted the economy. Thus, foreign debt service came to absorb an increasing share of tax revenue in many debtor countries.

Table 6. Net financial transfers as percentage of gross domestic product

(Annual averages)

	1974-1979	1980-1982	1983-1987	Shift from X980-1982 to 1983-1987
Argentina	0.2	-2.0	-4.7	-2.7
Brazil	3.0	0.3	-3.3	-3.6
Côte d'Ivoire	..	9.2	-2.2	-11.4
Indonesia	..	-2.1	-1.2	0.9
Mexico	1.4	-0.6	-6.3	-5.7
Nigeria	..	1.2	-1.7	-2.9
Korea, Republic of	..	3.5	-5.6	-9.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat and Economic Commission for Latin America and the Caribbean.

25. That a greater share of fiscal revenues has to be absorbed by interest payments abroad implies that a larger transfer of resources from the private to the public sector is required - to compensate for the higher financial expenditure. In other words, according to financial experts, "a net positive change in the fiscal balance must accompany the improvement in the trade account required to make the foreign payment. Or, putting it differently, the Government, which must service the foreign debt, must be able to buy from the private sector the dollars generated by the trade surplus. The additional transfer from the private to the public sector can occur through (i) higher taxation, (ii) a reduction in non-interest public expenditure, (iii) voluntary lending by individuals to the State, (iv) involuntary landing by individuals to the State, and (v) inflationary finance." 16/ The rise in inflation rates that set in soon after the transfer requirements became entrenched in many debtor countries was not accidental. It was largely a consequence of the fact that government budgets became overstretched by the increase in financial expenditures. To accommodate increased financial payments, the Governments of indebted countries either had to increase revenues or cut non-financial expenditures. Higher rates of inflation came because no feasible political pact could be achieved to share the burden of the necessary reduction in non-financial public expenditure or the burden of a rise in tax revenues. High inflation and the disorganization of public finance in several indebted countries would indicate that too often the level of the required transfer abroad was too high and the shift too rapid to be met by non-inflationary finance. 17/

26. In some cases, when public expenditures were comparatively high as a share of GDP, a potential to reduce non-financial public expenditures existed. In fact, reduction in public expenditures did take place, although the cuts were not equally drastic everywhere. Government expenditures as a share of GDP declined almost everywhere in indebted developing countries in the 1980s. In general, public investment bore the brunt of the reduction in government expenditures, although cuts in current expenditures such as salaries of civil servants were also made. Nevertheless, in most indebted countries the cuts were not enough to compensate for the increase in financial expenditures and prevent exploding budget deficits.

27. Increased tax revenues would have contributed to mobilizing domestic resources for the transfer. For reasons that vary from political to administrative considerations, and owing to the narrow tax bases typical in developing countries, tax revenues could not be raised swiftly. In some cases, rises in tax rates proved to be counter productive, leading to a reduction in the income tax yield despite the increase in the marginal income tax. In addition, the need to increase tax revenues in the 1980s coincided with a period of lower growth rates or even negative growth in various countries. In fact, Governments were facing a shrinking tax base, caused by reductions in per capita income, which were partly the result of falling terms of trade. Moreover, in most developing countries, fiscal revenues are closely associated with import tariffs and export taxes. The decline in the prices of primary commodities negatively affected the latter and the collapse in imports, the former.

28. The inability of Governments to raise revenues and, to a lesser extent, the insufficient cuts in expenditure in face of increased transfer payments resulted in a rise in fiscal deficits. It has been calculated that to accommodate the

swings in the finance transfers without reducing public investment and without resorting to money creation or increased domestic borrowing would have required, on average, halving current non-interest spending - an impossible task for any Government. 18/

29. In many indebted countries, the increased budget deficits were financed by the central bank through money creation, with the consequent rise in inflation. In a number of them - e.g., Argentina, Brazil and Mexico - domestic indebtedness of the public sector increased at an unprecedented rate. The rapid accumulation of internal debt associated with the external debt crisis posed difficulties of its own. For the public deficit to be financed by domestic borrowing, through the sale of government bonds of various types, domestic interest rates had to rise. Domestic interest rates had to be kept higher than interest rates in the international capital markets, because government bonds were competing with other investment opportunities, including the flight into hard currency induced by inflation and by the bias of any indebted economy towards currency devaluation. When government debt increases rapidly, interest rates are also influenced by the perceived risk of government debt. Thus, the interest rates that Governments had to pay on the domestic debt tended to be higher not only in nominal but in real terms compared to what they had to pay for foreign debt. 19/

30. This largely explains the emergence of a debt-induced vicious circle: higher interest rates, given the high share of interest payments in government expenditure, feed into an increased budget deficit which, in turn, makes it necessary to further increase domestic debt and leads to still higher deficits. When government indebtedness and inflation accelerate, the time-frame in which the debt can be rolled over by Government gradually diminishes. On the limit, domestic debt may become as inflationary as money creation by the central bank.

31. Currency devaluation becomes one more component of this process. Highly indebted economies trying to cope with debt service are all intent On obtaining a trade surplus. Economic policy is oriented towards obtaining the hard currency necessary for the increased debt service. Governments are under pressure to provide incentives that bring about a shift towards exports. This means that currency devaluation has to be kept ahead of inflation. As long as the debt overhang is present, the generalized expectation of regular devaluation is equally present. This is an incentive to capital flight. Moreover, currency devaluation increases the domestic currency equivalent of the foreign debt service, and, in that way, increases again the share of financial expenditures in total government expenditure. This result of currency devaluation adds to the inflationary effect that a large trade surplus has in itself. Governments face conflicting results in their use of policy instruments and even conflicting policy goals. In adopting currency devaluation, the export goal conflicts with the price stabilization goal. 20/

32. In the process of transferring savings abroad, not only public investment was reduced, but private investment declined as well. In fact, in conditions of higher inflation, private investment tended to decline more rapidly than public investment. The overall rate of investment thus declined. For the 15 main debtor nations, the investment ratio (investment over GDP) was 24 per cent of GDP on

average in the 1970s and still the same in 1981. From 1982 on, investment ratios declined, and were around 17 per cent by mid-decade. The figures are similar for the Latin American region, lnvestment ratios declined from about 23 per cent in 1980 to about 16.5 per cent in 1985 and remained stagnant at that level for the rest of the decade in the region. In Africa, investment ratios went down from an averagb of 24 per cent in 1980-1982 to less than 20 per cent in 1983-1985 and further down to 18 per cent in 1987-1989. 21/

33. The absorption of a rising share of the government budget b/ debt service, external and domestic, had another consequence with long-term implications, *namely,* the decline in social services, including health and education. In developing countries, the provision of health care, education, housing, safe water supply and sanitation has reached a far smaller share of the population than in developed countries. Governments are thus confronted with much larger unmet requirements. As Governments cut non-financial expenditures, this could not but affect social expenditures . Fragmentary evidence exists on the damaging effects of such cuts in social expenditure. 22/

V. POLICY IMPLICATIONS

34. The prolonged and large outward transfars of resources and its association to low or negative growth has been a feature of the 1980s. Invostment has particularly suffered in indebted countries. The debt crisis and the pattern of financial flows it engendered continue to be the major obstacle to recovery and dovelopment in most indebted countries, particularly in Latin America and in Africa. It has also had adverse repercussions on the exports of many industrial countries. 23/ The internal resource mobilization that the outward transfer implies and the actual policy response to the need of such mobilization was a main factor in the budget crisis of several developing countries. Throughout the 1980s the severity of the adjustment to the shift in financial flows has been compounded by adverse changes in terms of trade. In assessing these trends, the international community has recognized that, during the 1980s, the large net transfer of resources to the developed countries has deprived developing countries of much needed resources for development, 24/

35. The prospects for the 1990s under unchanged policies are bleak for developing economies, Projections of international organizations indicate very little pet capita growth in Latin America and the Caribbean and virtual stagnation in Africa, While the international economic environment should be less adverse than that of the 1980s, or might. even be favourable, a large number of developing countries are beginning the new decade in a much weaker economic position. A global recession as in the early 1980s, or the prolonged and substantial fall of commodity prices of the last decade, will not necessarily occur in the 1990s. Yet, the starting point for most debtor- developing countries is one of depressed investment, deteriorated physical infrastructure and serious balance-of-payments difficulties. Such conditions wete not pervasive at the beginning of the 1980s. Massive national and international efforts are required to change these conditions and to revitalize growth and development .

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36. Given the diversity of factors determining the sharp fall in net financial transfers to many developing countries, and given the differences in the ability of countries to cope with these changes, a mix of policy measures in various areas is required. For many countries, the mix will have to include further fiscal adjustment and measures towards export diversification, combined. with efforts to create a climate of confidence to increase domestic savings and productive investment, including foreign direct investment and return of flight capital. This is a tall order. For the domestic adjustment to be orderly and at all feasible not only from an economic, but from a socio-political standpoint, the shift in the resource transfer should not be abrupt. This implies restoring a higher degree of stability to the flows of international finance and reducing world interest rates.

37. There are, so to speak, two sides of the coin in this issue of the abrupt changes in net transfers: one is the financial implications; the other is the ability to cope with such changes via increased export earnings. Stability in commodity prices and elimination of protectionism against products from developing countries would reduce these countries' need for compensatory finance. Improved access to the markets of industrial countries in areas of interest to developing countries such as textiles and clothing, tropical products and agriculture, as well as the elimination of tariff escalation in developed countries - which is an obstacle to the export diversification of developing countries - are some of the trade measures called for. Anti-dumping measures should not be used as just one more protectionist tool. Beyond a successful completion of the Uruguay Round of multilateral trade negotiations, structural adjustment will be necessary in industrial countries to enable them to reduce protectionism and make room for competitive manufactures from developing countries. And, not least, policy co-ordination at the international level in order to achieve, in the 1990s, vigorous non-inflationary growth. Such policy co-ordination will have to walk the tightrope between supporting economic growth and avoiding that the new demands on world savings drive up world interest rates.

38. Notwithstanding the essential character of other interrelated measures, the main contribution to a reduction of the excessive outward transfer of resources from developing to developed countries would come from a concerted public solution to the debt problem. The Brady plan, initially proposed by the former United States Secretary of the Treasury, Nicholas Brady, has the ingredients of a public solution to the debt problem. It recognized that voluntary lending would not start any time soon and that the debt could not be repaid in the original conditions. In an important departure from the previous strategy, the Brady initiative endorsed the commitment of public finance to support debt reduction. The Brady plan created high expectations on the possibility of debt reduction regarding commercial debt, and thus debt-service reduction and diminution of the net negative transfer. It has made some progress in that direction. After very complex and prolonged negotiations. debt and debt-service reduction was obtained in Costa Rica, Mexico, the Philippines and Venezuela. Nevertheless, only a very partial reduction of the debt overhang was achieved.

39. The unabated increase in the number of reschedulings and in arrears indicates the persistence of the problem. Limited debt reduction, with only a small impact on the the debt overhang and on the net negative financial transfer, cannot bring

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about what is aimed at in the first place, namely, to allow an increase in investments and imports, and in growth. The Brady plan has to be extended rapidly to a larger number of developing countries. Adequate debt reduction is necessary to restore development. There are some 40-odd countries waiting to be eligible for the Brady plan, and various studies have concluded that, on the aggregate, a minimum between one third and 45 per cent is necessary to have an impact on investment and growth. On that account, the Brady plan suffers from under-funding, as evidenced also by the shortage of official collateral funds in the last debt reduction agreements.

40. Also, the present accounting, tax and regulatory environment in which banks operate calls for examination. Lack of clarity and differences in national bank law make the negotiations extremely complex and make it difficult to devise a reduction scheme in which all concerned bear their fair share of the cost of debt reduction. To close the unfinished business of the era of concerted lending and move to the concerted acceptance of loss, the case-by-case approach to debt reduction has to be complemented by concerted rules of cost sharing. While at the domestic level countries need to arrive at social consensus on how the burdens and fruits of unavoidable adjustment are to be shared, the international community, to speed up the restoration of adequate flows of finance for development, also badly needs some common rules and agreements on cost-sharing amongst the numerous partners involved.

41. The Brady plan addressed commercial debt only. It is now recognized that official debt, including to the international financial institutions, will have to be part of a solution. Debt relief for most least developed an? other low-income developing countries, particularly in Africa, remains critical. Debt forgiveness from bilateral creditors is particularly important for those among such countries that face serious debt-servicing difficulties,

42. Following the Toronto Summit decisions, several low-income countries have benefited in the last two years from easier terms and partial write-offs in the reschedulings of official bilateral debt within the framework of the Paris Club. Regarding low-income countries, an increasing number of donor countries have converted official development assistance (ODA) loans into grants, in line with the United Nations Conference on Trade and Development's Trade and Development Board resolution 165 (S-IX). The Enterprise for the Americas Initiative announced on 22 June this year by President Bush, when proposing to reduce the region's official debt to the United States, implicitly recognized the need to extend beyond the poorest countries the Paris Club eligibility criteria for easing the terms of rescheduling and for reducing official bilateral debt. Still regarding official flows, a positive development is the willingness of IMF and the World Bank to make disbursements while a country has not yet finished negotiations with the banks and even if a country has arrears to the banks.

43. Net official development finance - grants plus net official credits - was virtually at the same level in 1989 as in 1980. The recovery of investment in Africa and Latin America and the consolidation of the vigorous capital accumulation in Asia of recent years will require a substantial increase in net official flows to support internal savings mobilization efforts. In the case of least developed

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countries and other low-income countries, mostly in Africa, ODA is particularly important to narrow the gap in foreign exchange and savings required to resume growth and increase investments. In other developing countries, official flows remain critical during this period of foreign exchange stringency. The imported component of investments in machinery and equipment tends to be quite high in middle-income developing countries and such investments are a sine qua non for the transformation of productive structures and to increase export potential. It is only after growth has been restored and exports have achieved a certain momentum that private capital - foreign direct investment and commercial bank flows - are likely to again play a significant role in the development process.

Notes

1/ E/1990/55.

2/ E/1988/64.

3/ The main United Nations Secretariat documents that contain analyses and policy recommendations regarding the net transfer are: Net transfer of resources from developing to developed countries. Report of the Secretary-General, 13 May 1987 (A/42/272); Net transfer of resources from developing to developed countries. Report of the Secretary-General, 22 June 1988 (E/1988/64); World Economic Survey 1985 (United Nations publication, Sales No. E.85.II.C.1), pp. 57-59: World Economic Survey 1986 (United Nations publication, Sales No. E.86.II.C.1), in particular annex III, "Definition and measurement of the net transfer of resources": World Economic Survey 1989 (United Nations publication, Sales No. E.89.II.C.1), chaps. IV and VIII; World Economic Survey 1990 (United Nations publication, Sales No. E.90.II.C.1), chap. IV: External debt crisis and development. Report of the Secretary-General, 16 October 1989 (A/44/628); Debt and managing adjustment: attracting non-debt-creating financial flows and new lending. Report by the UNCTAD Secretariat, 19 February 1990 (TD/B/C.3/234); and Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: options to reduce the debt burden. Santiago, Chile, 19 March 1990 (LC/G.1605 (SES.23/5)).

4/ OECD, Financing and External Debt of Developing Countries (Paris, 1990).

5/ According to the World Bank "the additional burden of high real interest rates, in relation to their 1963-80 average, was roughly $8 billion a year for Latin America during the 1980s, or close to 1 per cent of the region's GDP. . . . The cumulative shock to Sub-Saharan Africa and South Asia was milder - less than one-third of that experienced in Latin America" (World Development Report 1990, p. 15).

6/ World Bank Debt Tables 1989-90, vol. 1, p. 78.

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Notes (continued)

7/ In relation to the International Monetary Fund, there is a net negative flow since 1986. In reference to the World Bank, the net capital flow remains positive. However, this is due to International Develoment Association (IDA) loans, whereas the net transfer of resources of IBRD, the non-concessional lending of the World Bank, is negative since 1988 (World Economic Survey 1989 (United Nations publication, Sales No. E.89.II.C.1), pp. 62-66, and World Economic Survey 1990 (United Nations publication, Sales No. E.90.II.C.1), pp. 84-87). For Latin America and the Caribbean, the net transfer of resources with multilateral lenders was negative to the tune of $2.3 billion in 1987 and $2.9 billion in 1988. See Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: Options to reduce the debt burden, LC/G.1605 (SES.23/5), Santiago, Chile, 1990, p. 73.

8/ World Debt Tables 1989-90, First Suvvlement, p. 4.

9/ A recent account of the state of the controversy on secular trends in terms of trade appears in Ronald Findlay, "Terms of trade" and in H. W. Singer, "Terms of trade and economic development", both entries of The New Palsrave: A Dictionary of Economics, John Eatwell, Murray Milgate and Peter Newman, eds. (The Macmillan Press, London, 1987).

10/ Net transfer of resources from developing to developed countries. Report of the Secretarv-General, 22 June 1988 (E/1988/64).

11/ The reason for applying the terms-of-trade changes in every year always to the exports of 1980, as done in tables 4 and 5, is to isolate the impact of the price changes and avoid the paradoxical result obtained when using the current exports in each year, namely, that the losses from an unfavourable change in terms of trade are larger the more successful the export drive as assessed by the increase in the volume exported. Alternatively, for the individual country studies in the annex, similar calculations of the trade gains or losses are done using the value of exports of every year, which also reveals the success or failure in increasing export earnings in each case.

12/ See Africa':: commoditv problems: towards a solution. A revort bv United Nations Secretary-General's Expert Group on Africa's Cvmmvditv Problems chaired by Malcolm Fraser (UNCTAD/EDM/ATF/1), 1990. Confirming the particularly unfavourable price movements for Africa, surprising evidence was presented recently that African importers have been subjected to overpricing of their imports in comparison to world prices paid by other countries. This has been clearly documented in Alexander J. Yeats, Do African Countries Pay More for Imvorts? Yes (PPR Working Papers WPS 265, The World Bank, September 1989).

13/ Economic Commission for Latin America and the Caribbean, Latin America and the Caribbean: Options to Reduce the Debt Burden (Santiago, Chile, 19 March 1990 (LC/G.1605 (SES.23/5)), annex 1.

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Notes (continued)

14/ See Helmut Reisen and Axel Van Trotsenburg, Developing Country Debt: The Budaetarv and Transfer Problem (Paris, OECD Development Centre, 1988), pp. 24-26.

15/ The rapidity of the shift obviously varies according to the period chosen for comparison. In comparing the average 1980-1981 to the average 1983-1985, and using a similar definition of the transfer, the OECD Development Centre study found in general a heavier shift than that indicated here (see Reisen and Van Trotsenburg, op. cit., p. 25).

16/ See Vito Tanzi, Fiscal policy and economic reconstruction in Latin America, unpublished manuscript, International Monetary Fund, 2 November 1989, p. 12.

17/ Using a formal model, Edmar Bacha analyses the chain of reaction between the net foreign transfers and domestic factors that bring about a situation in which government budget limitations become the main source of growth (and inflation) difficulties. At the point of accelerated inflation, an expansion of the primary bu.dget surplus in current account and a reduction of money printing is a necessary course of action, but may face significant domestic political resistance. Conditional external debt relief might provide the necessary incentive for such fiscal austerity measures. See Edmar L. Bacha, "A three-gap model of foreign transfers and the GDP growth rate in developing countries", Journal of Development Economics 32 (1990), pp. 279-296.

18/ See Debt and Manaaina Adiustment: Attractina Non-debt Creatinq Financial Flows and New Lending, Report by the UNCTAD secretariat (TD/B/C.3/234), in particular p. 16 and table 3.

19/ As noted by Tanzi, domestic financing has become very expensive financing and the cost of providing public services has risen sharply. See Vito Tanzi, OD. cit., p. 10.

20/ See Bacha, OD. cit., p. 295.

21/ Investment ratio figures from CEPAL, "Changing production patterns with social equity" (LC/G.1601 (SES.23/4)) 19 March 1990 and IMF, World Economic Outlook April 1988 and May 1990.

22/ See 1989 Revort on the World Social Situation, annex (United Nations publication, Sales No. E.89.IV.1) and Supplement to the 1989 Report on the World Social Situation, Report of the Secretarv-General, 16 March 1990 (A/45/137), chap. III.

Notes (continued)

23/ A recent study which measures the United States manufacturing trade balance with Latin America estimated that the large bilateral United States surplus shrank from $18.6 billion in 1980-1981 to $1.2 billion in 1987. According to the study, the large decline in investment in Latin American has adverse repercussions on United States exports of capital goods. It notes that "unless and until there is an alternative debt strategy that provides Latin America with the resources to service their debts, their trade surpluses will not vanish. In this sense, the debt problem is also a problem of U.S. manufacturing" (emphasis added) ... Meeting World Challenges: U.S. Manufacturing in the 1990s, by Rudiger Dornbusch, Paul Krugman and Yung Chul Park (Eastman Kodak Company, Rochester, 1989).

24/ General Assembly resolution S-18/3 of 4 June 1990, pares. 8 and 9.

ANNEX

Individual country instances of the net transfer

1. The present annex contains estimates of the gains (losses) from trade, changes in financial transfers and their combined effect on domestic resource availability for eight indebted countries - Brazil, Côte d'Ivoire, Hungary, Indonesia, the Republic of Korea, Mexico, Nigeria and Poland - as well as short notes on their experience during the 1980s.

2. The gains (losses) from trade for each year are calculated as the product of the value of exports in that year by the percentage gain (loss) on the terms of trade, taking 1980 as the base year. As 1980 is an arbitrarily chosen base, the gains (losses) from trade are not to be interpreted as the approximation of a secular trend, but simply as the most direct effect on the country of the changes in international terms of trade that occurred in the past decade.

3. The financial transfers are calculated according to the definition of "transfer *on* expenditure basis" of the Department of International Economic and Social Affairs of the United Nations Secretariat. (See World Economic Survey 1990, chap. IV, box IV.l: Measuring the net transfer of financial resources of developing countries).

4. The combined effect is the algebraic sum of the gains (losses) from trade and the financial transfers. Finally, the three variables are related to the GDP in 1985, estimated at constant 1980 prices, obtaining ratios which constitute an approximation of the order of magnitude of the shocks. A ratio to the 1985 GDP has been preferred because year-by-year GDP values in current dollars are distorted by the strong exchange rate fluctuations in the past decade. The corresponding estimates are shown in the country tables at the end.

5. According to the country data presented, the combined effect of the losses from trade and of negative financial transfers have been very strong, although the relative weight of the two shocks varies from country to country. The common and exogenous features of the various national experiences become apparent when they are examined together: commodity prices, dynamism of world markets, and the increase in international interest rates were all factors beyond the individual countries' control, and their changes had not been correctly forecast. Nevertheless, the same trends in the world economy had different impacts in different countries, according to their financial and economic conditions at the time of the shocks, the adequacy of their policy responses, and the flexibility in their productive structure.

6. The changes in international terms of trade have been most disruptive in those countries that depend on one or a few primary commodity exports and were not capable of diversifying their export composition towards manufactures (see figure 1). The two African countries in the sample are cases in point. The experience of the Republic of Korea and Indonesia have been quite different. The Republic of Korea was already a net manufacture exporter and a net primary

commodity importer in the 1970s, hence its terms of trade improved in the 1980s. Indonesia did suffer a severe terms-of-trade deterioration during the second half of the decade, but was able to increase the volume of exports and to shift their composition away from oil and towards manufactures, As opposed to Nigeria and Côte d'Ivoire, the Eastern European and Latin American countries considered in this annex had a relatively developed industrial base, and tried to expand their non-traditional exports, obtaining important but insufficient results. owing partly to the legacy of past anti-export biases in their industrialization policies, they did not manage to increase exports rapidly enough to accompany the shift in the financial flows, and were forced to curtail imports, thus hampering growth and capital accumulation.

7. The magnitude of the shocks and the rapidity of the required adjustment presented an impossible task for some countries, On the other hand, the level of negative financial transfers, as well as that of the gains or losses from trade, differed markedly from one country to another. The impact of the evolution of the international financial market, which shifted from a borrowers' market in the 1970s to a lenders' market in the 1980s, was related to the size and structure of each individual country's debt. The ratio of the outstanding debt to GDP and exports, the relative weight of concessional and commercial, private and official loans, their maturity and the conditions attached to their repayment all influenced the amount of negative financial transfers. Also important was the ability on the part of the various countries to obtain relatively Favourable agreements during the successive rescheduling negotiations and to influence and/or control private capital movements to avoid capital flight and to foster capital inflows.

Brazil

8. Net financial transfers from Brazil went up in 1984-1985 to a level of $11 billion, more than 4 per cent of GDP, and then reached a still higher level of almost $17 billion in 1988, more than 6 per cent of GDP. As the net financial transfers became increasingly negative, investment declined from an average of 22.5 per cent of the GDP in the second half of the 1970s to about lG.5 per cent in 1984-1985 (see table A.l).

9. A major component of the financial transfer was net interest payment, which increased sharply in 1981 to over $9 billion (from $6.3 billion in 1980), and climbed to a record of over $11 billion in 1982. Thereafter, it has been fairly stable, fluctuating around a level of $10 billion, falling below $9 billion only in 1987, reflecting lower world interest- rates. The reversal in the direction of long-term capital flows (other than direct. investment), dwindling short-term capital flows (especially in 1983-1984) and the increase in capital flight in some years also contributed negatively to the financial position of the country.

10. A sizeable terms-of-trade shock hit Brazil at the beginning of the decade owinq to the decline in the price of major agricultural exports, mainly coffee, and Lo the increase in oil prices. In 1982 and 1983, Brazil's terms of trade kept on deteriorating. The value of exports reached its nadir in 1982, the only year of the decade when exports failed to grow in real terms. The subsequent year-s saw a gradual recovery of both terms of trade and the global value of exports, thanks to

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the progressive shift of their composition towards manufactures, whose share increased to over 50 per cent since 1987, up from slightly over 30 per cent in 1980. Thus, in 1988 the volume of Brazilian exports was almost double that of 1980. although their purchasing power had increased less than 80 per cent.

11. Despite declining terms of trade, trade surpluses were quickly generated and increased from about $1 billion in 1982 to $13 billion in 1984. In 1988 it reached a record of $19 billion. The improvement in the trade balance, however, was obtained mainly ehro ~h a reduction in aggregate demand, real exchange rate depreciation and drastic import cuts, particularly during the first half of the 1980s. Real GDP growth declined from an annual rate of 8.5 per cent in the 1970s to 2.6 per cent during 1981-1989.

12. The combined magnitude of the change in the terms of trade and financial transfers, modest in 1981 and 1982 when the financial component was still positive, climbed to over $15 billion per year in 1984-1985, declined in 1986 and 1987 and jumped again to a record of almost $20 billion in 1988. In 1989 it declined, but was equivalent to a reduction in domestic resource availability on the order of 5 per cent of GDP.

Côte d'Ivoire

13. The terms of trade of Côte d'Ivoire declined in the early 1980s, recovered partially in 1984-1986 and fell sharply in 1987-1989, following the unstable and deteriorating fortunes of its two main traditional tropical exports: cocoa and coffee. Cocoa, in particular, generates more than half of total Ivorian exports. Its price started to fall in 1984 and by 1989-1990 it had more than halved. Thus, the impact of the change in the terms of trade for Côte d'Ivoire has been strongly negative for the decade as a whole, constituting a decisive factor leading the country to the present severe crisis. The forced reduction in the domestic absorption is reflected in the dramatic decline of the investment ratio which was halved between 1981 and 1984 and has stagnated at 10 per cent of the GDP since then, thus jeopardizing future growth prospects. GDP had been falling in the early 1980s and again since 1987, and a further serious drop is forecast for 1990, the fourth consecutive year of negative growth. Meanwhile, real wages and the standard of life of the majority of the population deteriorated severely.

14. Côte d'Ivoire incurred sizeable external borrowing in the late 1970s, when the commodity export boom gave it ample credit in the international financial markets. Hence, it started the decade with debt equivalent to nearly 60 per cent of GNP. In 1982, it was already equal to GNP. Debt service absorbed almost half of the export earnings in 1983. The country was still experiencing positive net financial transfers, but rescheduling was inevitable.

15. Agreements with the Paris Club and with commercial banks in 1984 led to a momentary fall in the debt-service ratio and to new credits from multilateral and commercial banks. In spite of the relief, net financial transfers turned negative in 1984-1986. In mid-1986, Côte d'Ivoire reached a new agreement with both official and commercial creditors, easing the repayments schedule up to 1989. However, these new conditions proved to be impossible to meet in 1987, owing to the

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continuous worsening of the terms of trade. The Government thus suspended debt payments, leading eventually to further and more favourable rescheduling with the Paris and London Clubs in 1987-1988. Even so, arrears on debt payments occurred again, jeopardizing the willingness of the World Bank and IMF to resume their lending. The net result of this multiple rescheduling process so far has been a precarious renovation of the positive net financial transfers towards Côte d'Ivoire, accompanied by a large increase of its external debt.

16. The effect on domestic resource availability of the persistently negative gains from trade and the alternate trends of financial transfers shows large year-to-year variations. In 1981-1983, when net financial transfers were positive, the combined effect was also positive or negligible. When the financial component became negative in 1984-1986, the total adverse shock was very strong, on the order of 11 per cent of GDP in 1985. In 1988 and 1989, financial transfers became positive again, thus softening the impact of the continuing deterioration of the terms of trade (see table A. 2).

Hungary

17. Hungary has been making a net outward transfer of financial resources during the 1980s (see table A. 3). This negative transfer followed a period of substantial positive transfers in the late 1970s, financed by what proved to be unsustainable rates of borrowing from international financial markets. The required export increase reduced domestic absorption and investment rates were slated. Gross fixed capital formation declined from 26.5 per cent of the GDP in 1981 to 22.5 per cent in 1985. A shift in the allocation of output from domestic markets towards exports, reduction of imports, and the use of the national foreign exchange reserves were opted for. Most of the export increases were provided by agricultural commodities and raw materials, while changes taking place in the structure of production, in technologies and in the incentives mechanism were not sufficient to lay the foundation for a rapid and sustained export growth. Accordingly, the economy failed to grow in 1985. Since the quantum of imports is closely related to domestic spending, the short-term adjustment between 1980 and *1985* was based *consequently* on import-reduction policies.

18. From 1986, however, with the beginning of a new five-year plan, an acceleration of economic growth immediately worsened the balance of trade, and new credits were needed to finance a substantial negative balance of payments: the gross international debt increased from $0.8 billion at end-1984 to over $20 billion at end-1989. Higher investment in 1986 generated increasing financing needs, and, in turn, the increase in external borrowing in a shortage-ridden economy (with plenty of bottlenecks) deepened the external disequilibrium, requiring subsequently stronger adjustment efforts. From 45 per cent of GNP in 1980, total external debt increased to 76 per cent of GNP in 1987, and declined only in 1988.

19. Substantial deterioration in the terms of trade contributed to a rise in the ratio of debt service to export revenue. The ratio of outstanding net debt to exports to the market economies also worsened: in 1985 it was 173 per cent, in 1988, 310 per cent. Overall, debt service absorbed an increasing share of export

revenues until 1987. Net interest payments became the dominant factor of the negative financial transfer in the 1980s.

20. Deteriorating terms of trade and declining or negative financial transfers contributed to a decline in the investment ratio in the 1980s. The revitalization of the Hungarian economy, given the high share of exports in domestic production, depends on a rapid expansion in exports of goods and services (mainly tourism). To achieve this, substantial structural change in favour of tradable goods is needed. In addition to this, favourable trade conditions and financial support remain essential.

Indonesia

21. In 1981, Indonesia had a large net negative financial transfer, which was very much the counterpart of very large trade surpluses obtained from the hike in oil prices. This negative transfer did not represent hardship for a country as it could be financed by a very substantial gain in terms of trade. It is certainly different from a situation in which the trade surplus has to be obtained at the cost of slashing imports. In 1981 Indonesia's imports did grow at the high speed of 32 per cent. As world demand for petroleum weakened and as drought conditions affected the agricultural sector in 1982, revenues from both oil and non-oil exports declined. Indonesia's external resource situation deteriorated as the current account deficit grew dramatically to $5.5 billion in 1982 and more than $6 billion in 1983. As a result, Indonesia borrowed substantially from foreign sources and drew upon its reserves to finance its current account deficit. In 1983, the net financial transfer to Indonesia reached $2.7 billion. In 1984-1985, net financial transfers from Indonesia averaged about $1.9 billion. Severe import restriction measures began to take effect, which affected investment levels but led to the improvement of the current account deficit to an average of $2 billion for the period. GDP growth rate, however, was only 1.9 per cent in 1985, the lowest of the decade. Net interest payments would rise steeply to $1.3 billion. In 1986, net financial transfers became positive again, coming to nearly $900 million. In the period 1987-1989, net financial transfers became negative mainly owing to net interest payments that rose from $2.3 billion in 1987 to $3.1 billion in 1989. Nevertheless, at the end of the decade economic growth recovered, partly as the favourable effects of Indonesia's diversification programme from oil to non-oil exports began to be felt.

22. Up until 1986, Indonesia's terms of trade were determined to a large degree by the movement in the international price of oil. In 1980, the oil and gas sector accounted for 80 per cent of foreign exchange earnings. By 1987, earnings from non-oil exports had outpaced those from oil, and presently they account for more than 60 per cent of total export receipts. As world oil prices slumped in 1986, world prices of wood and rubber recovered. What is remarkable is that Indonesia managed to diversify considerably its exports. Most of the additional earnings from non-fuel exports came from the export of industrial products, in particular, wood products, garments and textiies. However, persistently lower prices of oil, which still accounts for some 40 per cent of total export receipts, continued to be a drag on Indonesia's terms of trade as are the erratic changes in the prices of some commodities. The terms-of-trade deterioration, though having a negative

impact on the economy, was better absorbed by Indonesia than elsewhere. Between 1984 and 1989, the terms of trade fell by more than 40 per cent, whereas the investment ratio declined only by a few percentage points.

23. In the early part of the 1980s, the combined effect of the changes in the net financial transfers and in the terms of trade produced an increase in total resource availability. The gains from trade were significant up to 1984. However, the combined effect turned negative in 1984, the last year of recorded gains from trade, and stayed negative for the rest of the decade (see table A.4).

Mexico

24. Net financial transfers from Mexico have been negative since 1982. They peaked in 1984 at $14 billion, more than 7 per cent of the GDP. As is the case for most highly indebted countries, especially in Latin America, this negative trend was caused mainly by the virtual suspension of new lending and the rise in interest payments. Capital flight initially also contributed to the higher levels of the net negative financial transfer. From 1985 on, the outflow of financial resources declined due to the relatively lower interest rates and the reschedulings of the Mexican debt. By the end of the decade, they were about $5 billion or 2.5 per cent of the GDP.

25. In order to adjust to the new economic environment of the early 1980s, Mexico adopted very tight fiscal and monetary policies and a more realistic exchange rate so that trade surpluses could be generated. While the trade balance position already improved considerably in 1983, the country experienced a severe recession in the year with investment reduced to 17 per cent of the GDP from 27 per cent in 1981, and the economy contracted by 4.2 per cent.

26. The Mexican economy was also to be severely affected by the instability of oil prices which essentially determine the evolution of Mexico's terms of trade. In 1986, oil prices plunged by 50 per cent. This fact implied a severe blow to the Mexican economy whose dependence on the oil sector for both government and export revenues was still considerable despite diversification efforts. GDP contracted by 3.8 per cent and investment was further reduced.

27. Lately, however, Mexico has relied less on oil. The continuous fall in the oil share in total Mexican exports is due both to a price and quantity effect, as the importance of manufactured exports has been growing steadily. Manufactures generated more than 50 per cent of the country's exports in 1989. Mexico's terms of trade, however, have not yet recovered. Compared to its 1980 levels, the country is still incurring losses from trade at about 4 per cent of its GDP.

28. For the Mexican economy, the combined result of financial transfer and changes in the terms of trade has been considerable. It represents a sizeable reduction in domestic resource availability. It peaked in 1984, at a level of almost $18 billion, close to 9 per cent of the GDP. It was still 7 per cent of GDP in 1989 (see table A.5).

Nigeria

29. Owing to the narrowness and fragility of its industrial base, Nigeria has not been in a position to substitute manufactured exports for hydrocarbons as a major source of foreign exchange, at a time of severely depressed world oil prices. Indeed, its overwhelming dependence on oil exports did not diminish over the 1980s. Other traditional exports whose production was partially revived in recent years, such as cocoa and coffee, faced unfavourable world market conditions. Thus, Nigeria's terms of trade underwent a deterioration since 1982. In 1989 conditions improved only marginally, as a recovery of oil exports, both in prices and quantity, was partially marred by a collapse of non-oil exports: as a result, Nigeria is presently more dependent than ever on oil.

30. Nigeria's heavy borrowing took place at a relatively late stage. Starting in 1978, it acquired major proportions in the early 1980s. As a result, in 1981-1983 Nigeria experienced a significantly positive net financial transfer. As repayments matured, oil receipts plummeted and private capital increasingly flew from the battered Nigerian economy: the country's financial situation became precarious. Financial net transfers turned negative from 1984 on, in spite of arrears, and in 1986 the collapse of oil export revenues to about a quarter of their 1980 level forced the Government to adopt a structural adjustment programme and to seek debt rescheduling. Protracted rescheduling negotiations took place, but the persistence of domestic crisis, low world oil prices and high international interest rates led to a continuous increase of debt-service obligations, projected to grow to almost $5 billion in 1991. Rescheduling took place again in the first months of 1989, leading to a new agreement at more favourable conditions: all the multilateral debt is now to be repaid over 20 years, with three years' grace. Another $12 billion debt with the Paris and the London Clubs had been already rescheduled. Notwithstanding these agreements and the partial recovery of oil exports, in 1989 Nigeria again experienced a negative financial transfer. Debt-servicing, however, is still a significant component of the country's financial transfers and reached $1.75 billion in 1989, according to preliminary estimates by the World Bank.

31. Total transfers to Nigeria were positive and substantial in 1981 and 1982, thanks to both their financial and trade-related components. When terms of trade started deteriorating in 1983, they were still more than compensated by financial transfers: but from 1984 on, both components turned negative, resulting in a reduction of domestic resource availability of more than $5 billion annually, on average, for the period 1985-1988 (see table A.6).

32. Negative net financial transfer and deteriorated terms of trade implied a reduction of the investment ratio which, in the late 1980s, was only a third of its 1981 level. GDP grew at negative rates for most of the decade. A modest recovery took place in 1986-1989, which is expected to continue in the short run. But the growth rates achieved so far have been barely sufficient to avoid a fall in the GDP per capita, which has already shrunk to a level close to that of the 1960s.

Poland

33. In the 1970s, Poland attempted to boost the country's economy with substantial increases in investment on the basis of, inter alia, ample use of foreign credits. The country's gross debt with market economies increased more than twentyfold between 1970-1980, from $1.2 billion to $24.1 billion. Only about one third of this debt was accumulated with commercial banks, the rest was with foreign Governments. With about 50 per cent of its liabilities coming due in 1979 and 1980, nothing short of a total ban on hard currency imports combined with sustaining the same value of exports could have produced the cash flow necessary to keep Poland afloat in 1980. New credits were short of filling the resource gap and in March 1981, the Government announced a moratorium on debt payments. The stage was set for a debt crisis. Rescheduling followed, with subsequent debt reschedulings in later years.

34. Between 1981 and 1988 Poland made net outward transfers of financial resources in the amount of $11 billion (see table A.7). After rescheduling, Poland relied on the extensive use of administrative measures to slash imports, in particular those of machinery and equipment, and thereby to reduce domestic absorption rates. Exports, however, could not be significantly expanded. Only from 1987 on did exports recover somewhat. The cumulative current account balance was a negative $15 billion, mostly due to the negative service balance. Given the high and increasing indebtedness, debt-service payments became a main factor in the development of the overall balance-of-payments positions.

35. Deteriorating terms of trade and increasing negative financial transfers abroad are among the reasons for the lower investment ratios throughout the 1980s. In late 1989, faced with declining production in industry and weak agricultural performance, serious supply shortages due to import cuts, slow export growth and high inflation, the authorities decided to implement an austerity programme. This programme aims at stabilization and reform of the domestic economy by strengthening the role of market forces. IMF is supporting the programme with a stand-by arrangement.

36. Financing arrangements for the 1990s start with an exceptional $9.4 billion debt-rescheduling agreement with the Paris Club. The accord includes accumulated debt-service arrears as of end-1989 and all interest and principal remittances due between now and the end of March 1991. Payments are to be suspended for eight years, then spread out over six years. There might be some debt forgiveness as well. Thus, it is expected that the net negative financial transfer will be reduced in the 1990s.

Republic of Korea

37. Net financial transfers to the Republic of Korea were $3.7 billion in 1980, dropped to $2.2 billion in 1981, and fell to virtually nil in 1982. During that period, the current account deficit was halved from $5.4 billion to $2.7 billion, and net interest payments rose from $2.1 billion to $3.1 billion. For the remainder of the 1980s, net financial transfers from the Republic of Korea increased rapidly from almost $700 million in 1983 to around $15 billion in 1988.

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In 1983-1985, the deficit on the current account narrowed from $1.6 billion to less than $1 billion, and net interest payments averaged around $3 billion. In 1986, net financial transfers from the country almost quadrupled to $6.7 billion as the current account swung from a deficit of almost $1 billion to a $4.5 billion surplus. For the next two years, continued large trade surpluses made possible increasing net financial transfers from the Republic of Korea. Since 1987, the country has accelerated its external debt repayments and it is expected to become a net creditor country by the early 1990s. Total external debt stood at $40.5 billion in 1987, was down to $28.9 billion in 1989 and is estimated to decrease further to $27 billion in 1990. The accelerated debt repayment programme has contributed to the large net negative transfer of recent years (see table A.8).

38. The country's terms of trade have remained relatively neutral during the first half of the decade. Being an oil importer, the country has realized considerable terms of trade gains since 1986. The domestic savings ratio, already high in the last years of the 1970s, increased again in the second half of the 1980s. Domestic savings have been above 30 per cent of GDP since 1984, and were approaching 40 per cent in 1988. Thus, the increase in the net transfer abroad was matched by a rise in domestic savings.

39. Rapid wage increases since 1987 (at annual rates of 10-20 per cent), together with sluggish productivity growth, resulted in large rises in unit labour costs which were significantly higher than the country's major competitors. Furthermore, the won appreciated 28 per cent and 32 per cent in nominal and real terms, respectively, between early 1988 and the middle of 1989. The overall result was a considerable drop in the current account surplus to $5.8 billion and a corresponding fall in the net financial transfer out of the Republic of Korea in 1989.

40. Thanks mainly to the effective utilization of borrowed funds in the creation of export capacity in the manufacturing sector, the Republic of Korea was able to continue on a path of higher investment rates and fast economic growth during the 1980s. Gross fixed capital formation increased during the decade while GDP grew at an annual average rate of more than 8 per cent between 1981 and 1989.

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Table A.1. Brazil: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	23.3	20.2	21.9	27.0	25.5	22.5	26.2	33.4	34.7
Terms of trade, 1980=100	85	80	78	85	83	97	87	92	87
(GDP in 1985: $258 billion)									
Gains/losses from trade	-3.5	-4.1	-4.9	-4.0	-4.4	-0.7	-3.4	-2.7	-4.5
Share in GDP	-1.4	-1.6	-1.9	-1.6	-1.7	-0.3	-1.3	-1.0	-1.7
Net financial transfer	1.6	2.8	-4.1	-11.4	-10.7	-5.9	-8.3	-16.9	-10.2
Share in GDP	0.6	1.1	-1.6	-4.4	-4.1	-2.3	-3.2	-6.6	-4.0
Impact on total domestic resource availability	-1.9	-1.3	-9.0	-15.4	-15.1	-6.6	-11.7	-19.6	-14.7
Share in GDP	-0.7	-0.5	-3.5	-6.0	-5.9	-2.6	-4.5	-7.6	-5.7
Memorandum items:									
GDP growth in constant prices	-3.4	0.6	-3.4	5.1	8.4	7.5	3.7	-0.3	3.0
Gross fixed capital formation in GDP	21.0	19.5	16.9	16.2	16.7	19.0	18.3	17.6	17.7

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

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Table A.2. Côte d'Ivoire: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	2.4	2.3	2.1	2.6	2.7	3.2	3.1	2.4
Terms of trade, 1980=100	89	81	77	86	85	88	78	75
(GDP in 1985: $10.3 billion)								
Gains/losses from trade	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.7	-0.6
Share in GDP	-2.6	-4.2	-3.9	-3.5	-3.9	-3.7	-6.6	-5.8
Net financial transfer	0.9	0.5	0.4	-0.4	-0.7	-0.3	0.0	0.5
Share in GDP	8.7	4.9	3.9	-3.9	-6.8	-2.9	0.0	4.9
Impact on total domestic resource availability	0.6	0.1	0.0	-0.8	-1.1	-0.7	-0.7	-0.1
Share in GDP	6.2	0.6	0.0	-7.4	-10.7	-6.6	-6.6	-1.0
Memorandum items:								
GDP growth in constant prices	1.2	-3.3	-1.0	-4.8	5.0	4.0	-6.1	-3.2
Gross fixed capital formation in GDP	20.0	16.9	14.7	9.4	10.3	9.4	9.7	10.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.3. Hungary: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	8.9	9.1	8.9	8.8	8.9	9.1	9.8	10.3
Terms of trade, 1980=100	96.7	94.5	92.5	89.7	89.6	86.4	87.4	89.6
(GDP in 1985: $20.7 billion)								
Gains/losses from trade	-0.3	-0.5	-0.7	-1.0	-1.0	-1.2	-1.2	-1.1
Share in GDP	-1.4	-2.4	-3.4	-4.8	-4.8	-5.8	-5.8	-5.3
Net financial transfer	-0.2	-0.5	-0.7	-1.1	-0.7	0.4	-0.3	-0.6
Share in GDP	-1.0	-2.4	-3.4	-5.3	-3.4	1.9	-1.4	-2.9
Impact on total domestic resource availability	-0.5	-1.0	-1.4	-2.1	-1.7	-0.8	-1.5	-1.7
Share in GDP	-2.4	-4.8	-6.8	-10.1	-8.2	-3.9	-7.2	-8.2
Memorandum items:								
GDP growth in constant prices	2.9	2.8	0.7	2.7	-0.3	1.5	4.0	-0.1
Gross fixed capital formation in GDP	26.5	25.2	24.6	23.0	22.5	24.0	24.8	21.1

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on international sources.

Table A.4. Indonesia: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	23.4	19.7	18.7	20.7	18.5	14.4	17.2	19.4	22.1
Terms of trade, 1980=100	111	111	103	105	98	64	68	59	60
(GDP in 1985: $93.7 billion)									
Gains/losses from trade	2.6	2.2	0.6	1.0	-0.4	-5.2	-5.5	-8.0	-8.8
Share in 1985 GDP	2.7	2.3	0.6	1.1	-0.4	-5.5	-5.9	-8.5	-9.4
Net financial transfer	-2.2	2.5	2.7	-2.1	-1.6	0.9	-1.4	-2.5	-1.7
Share in 1985 GDP	-2.3	2.7	2.9	-2.2	-1.7	1.0	-1.5	-2.7	-1.8
Impact on total domestic resource availability	0.4	4.7	3.3	-1.1	-2.0	-4.3	-6.9	-10.5	-10.5
Share in 1985 GDP	0.4	5.0	3.5	-1.1	-2.1	-4.6	-7.4	-11.2	-11.2
Memorandum items:									
GDP growth in constant prices	7.9	2.2	4.5	4.2	1.9	3.0	3.6	5.4	6.0
Gross fixed capital formation in GDP	22.7	24.1	23.7	21.0	19.2	19.1	19.3	17.7	n.a.

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

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Table A.5. Mexico: resource transfer

(Billions of dollars and Percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	20.0	21.2	22.3	24.2	21.7	16.0	20.6	20.6	22.7
Terms of trade, 1980=100	101	87	91	85	86	65	69	60	63
(GDP in 1985: $10.3 billion)									
Gains/losses from trade	0.2	-2.8	-1.9	-3.7	-3.0	-5.6	-6.4	-8.2	-8.4
Share in GDP	0.1	-1.5	-1.0	-1.9	-1.6	-2.9	-3.3	-4.2	-4.3
Net financial transfer	6.1	-6.1	-10.5	-14.1	-9.3	-5.9	-10.7	-4.4	-4.7
Share in GDP	3.1	-3.1	-5.4	-7.3	-4.8	-3.0	-5.5	-2.3	-2.4
Impact on total domestic resource availability	6.3	-8.9	-12.4	-17.8	-12.3	-11.5	-17.1	-12.6	-13.1
Share in GDP	3.2	-4.6	-6.4	-9.2	-6.4	-5.9	-8.8	-6.5	-6.8
Memorandum items:									
GDP growth in constant prices	8.8	-0.6	-4.2	3.6	2.6	-3.8	1.5	1.1	3.0
Gross fixed capital formation in GDP	26.5	22.2	16.6	17.0	17.9	16.4	16.1	16.9	17.8

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.6. Nigeria: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	18.0	12.1	10.3	11.9	13.1	6.6	7.5	7.4
Terms of trade, 1980=100	114.0	107.0	95.0	95.0	93.0	51.0	57.0	45.0
(GDP in 1985: $66.1 billion)								
Gains/losses from trade	2.5	0.8	-0.5	-0.6	-0.9	-3.2	-3.2	-4.1
Share in GDP	3.8	1.3	-0.8	-0.9	-1.4	-4.9	-4.9	-6.2
Net financial transfer	5.5	6.1	3.5	-1.3	-4.0	-1.3	-2.7	-1.7
Share in GDP	8.3	9.2	5.3	-2.0	-6.1	-2.0	-4.1	-2.6
Impact on total domestic resource availability	8.0	6.9	3.0	-1.9	-4.9	-4.5	-5.9	-5.8
Share in GDP	12.1	10.5	4.5	-2.9	-7.4	-6.9	-9.0	-8.7
Memorandum items:								
GDP growth in constant prices	-5.9	-1.9	-6.4	-5.5	2.4	-5.0	-2.0	4.0
Gross fixed capital formation in GDP	22.1	16.4	13.3	7.7	8.4	8.9	8.1	7.4

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Table A.7. Poland: resource transfer

(Billions of dollars and Percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988
Exports	10.5	11.5	11.6	11.5	10.9	11.9	12-0	13.8
Terms of trade, 1980=100	92.3	06.0	84.6	32.7	84.6	84.1	85.8	87.7
(GDP in 1985: $79.0 billion)								
Gains/losses from trade	-0.8	-1.5	-1.8	-2.0	-1.7	-1.9	-1.7	-1.7
Share in GDP	-1.0	-1.9	-2.3	-2.5	-2.2	-2.4	-2.2	-2.2
Net financial transfer	1.1	-1.1	-1.2	-1.6	-1.6	-1.6	-2.5	-2.9
Share in GDP	1.4	-1.4	-1.5	-2.0	-2.0	-2.0	-3.2	-3.7
Impact on total domestic resource availability	0.3	-2.6	-3.0	-3.6	-3.3	-3.5	-4.2	-4.6
Share in GDP	0.4	-3.3	-3.0	-4.6	-4.2	-4.4	-5.3	-5.8
Memorandum items:								
Growth of GDP in constant prices	-10.0	-4.8	5.6	5.6	3.6	4.2	2.0	4.1
Gross fixed capital formation in GDP	18.7	20.1	20.1	20.7	21.3	21.9	22.6	22.5

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on international sources.

Table A.8. Republic of Korea: resource transfer

(Billions of dollars and percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports	20.7	20.9	23.3	26.4	26.4	33.8	46.1	59.7	61.1
Terms of trade, 1980=100	98	100	101	98	100	106	106	109	105
(GDP in 1985: $90 billion)									
Gains/losses from trade	-0.4	0.0	0.2	-0.5	0.0	2.0	2.8	5.4	3.1
Share in 1985 GDP	-0.5	0.0	0.3	-0.6	0.0	2.3	3.1	6.0	3.4
Net financial transfer	2.2	0.0	-0.7	-1.4	-1.7	-6.7	-11.4	-14.8	-5.8
Share in 1985 GDP	2.4	0.0	-0.8	-1.6	-1.9	-7.4	-12.7	-16.4	-6.4
Impact on total domestic resource availability	1.8	0.0	-0.5	-1.9	-1.7	-4.7	-8.6	-9.4	-2.7
Share in 1985 GDP	2.0	0.0	-0.5	-2.1	-1.9	-5.2	-9.6	-10.5	-3.1
Memorandum items:									
GDP growth in constant prices	6.9	5.5	9.5	7.9	5.1	12.0	11.1	12.2	6.7
Gross fixed capital formation in GDP	28.8	29.6	31.2	31.5	30.9	30.4	32.0	32.1	n.a.

<u>Source</u>: Department of International Economic and Social Affairs of the United Nations Secretariat.

Figure 1. Selected developing countries: resource transfer, percentage of GDP

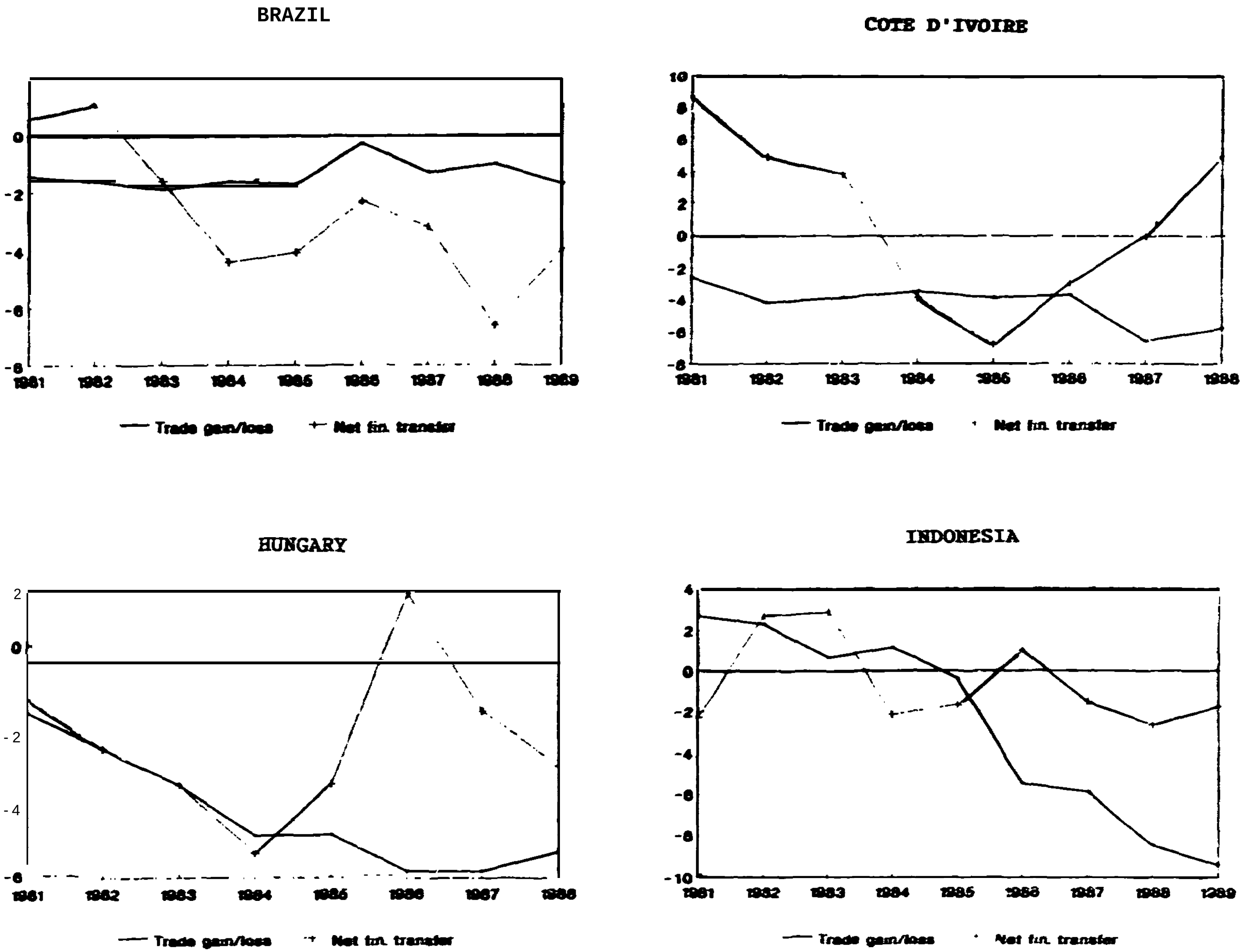

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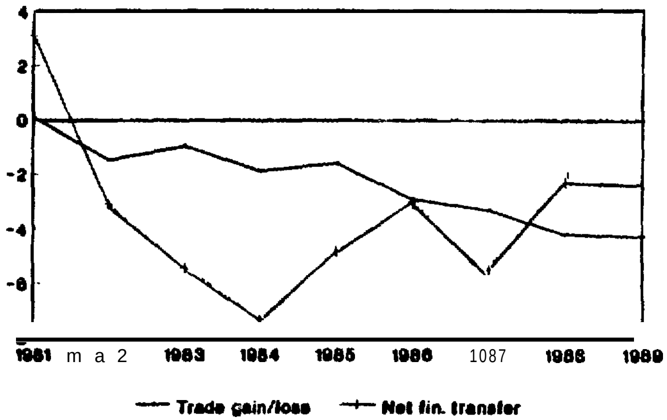
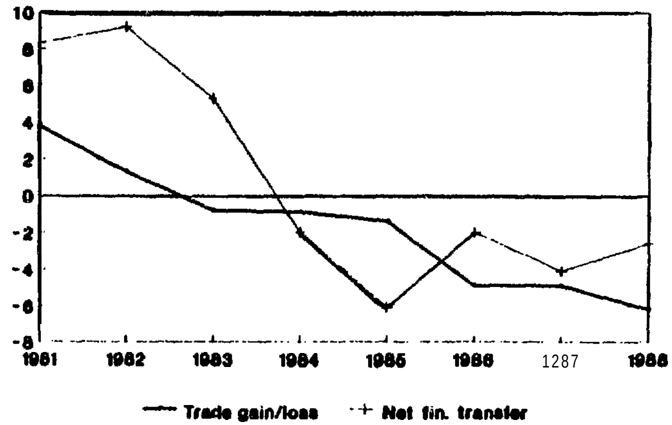
Figure 1 (continued)

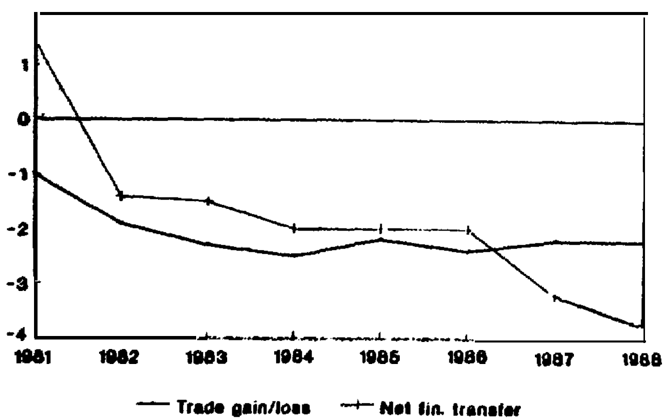
MEXICO



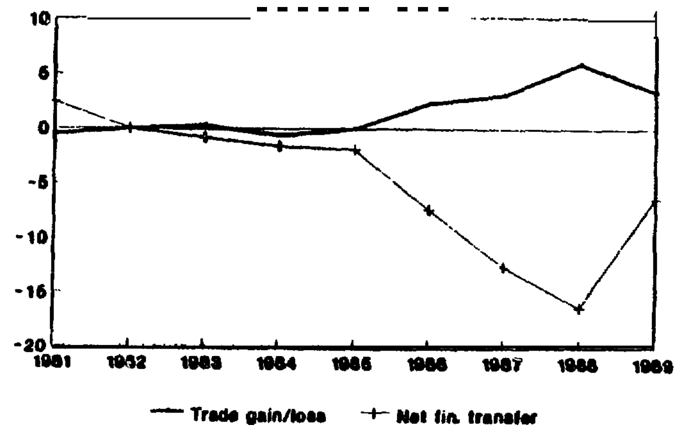
NIGERIA



POLAND



REPUBLIC OF KOREA



Source: Department of International Economics and Social Affairs of the United Nations Secretariat.