REPORT ON THE MEETING OF THE EXPERT GROUP ON THE WORLD ECONOMIC SITUATION AND PROSPECTS (PROJECT LINK)

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INTRODUCTION

The Fall 2004 meeting of the Expert Group on the World Economic Situation and Prospects (Project LINK) was held at United Nations Headquarters, New York, from 22 to 24 November 2004. The Economic Monitoring and Assessment Unit (EMAU) of the Department for Economic and Social Affairs (DESA) hosted the meeting, and some 90 participants from about 50 countries, as well as several representatives from international agencies and the United Nations regional commissions, attended. This report summarizes the presentations and discussions during the meeting.

The agenda of the meeting covered three broad topics: (1) the global economic outlook, including the LINK global forecast prepared by EMAU, and the global outlook as assessed by other international institutions; (2) regional economic outlooks presented by LINK country participants and United Nations regional commissions; (3) other economic issues, such as the macroeconomic policy challenges for new and prospective European Union (EU) member countries in their quest to adopt the euro and unemployment and growth in Latin America and Caribbean.

The LINK *Global Economic Outlook*, prepared by EMAU for the meeting, LINK *Country Reports*, prepared by country participants, and other documents presented at the meeting were available on both the United Nations website (http://www.un.org/esa/analysis/link) and the Project LINK Research Center website at the Institute for Policy Analysis at the University of Toronto (http://www.chass.utoronto.ca/link). The deliberations of the meeting were used as inputs for *World Economic Situation and Prospects 2005*, prepared by the United Nations Secretariat.

Mr. Ian Kinniburgh, Director, Development Policy and Planning Office, **United Nations,** delivered an opening statement on behalf of Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs. First, he welcomed the participants and thanked those who submitted model solutions and country reports. He then raised issues and questions, which he hoped would be addressed during the meeting. He expressed the view that, while the outlook, presented at the LINK meeting six months earlier, for strong global growth in 2004, had proven correct, the extent and speed of the increase in oil prices and in the depreciation of the dollar had not been foreseen. These would become the backdrop and serve as the focus of much of the discussions.

According to Mr. Kinniburgh, the challenge lay in fine tuning macroeconomic policies in the world's economies, particularly in some of the largest. Policy makers had already moved from an expansionary policy stance to a more neutral position but the question remained how far should they move in this direction. Mr. Kinniburgh also mentioned a few other issues to be discussed during the meeting, such as the consequences of the increase in the price of oil and how they would differ from those in the 1970s and 1980s, when the increase had resulted in oil crises; reasons for and consequences of the recent surge in the prices of non-oil primary commodities; the persisting global imbalances and the related movements in the exchange rates among the major currencies; and the reasons for the lag in the recovery of employment behind the recovery in output.

Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs, United Nations (UN DESA), addressed LINK participants later in the meeting. He congratulated LINK founders, Professors Klein and Hickman, as well as others, who were instrumental in maintaining and developing LINK on the thirtieth anniversary of the project. He also mentioned that DESA was currently restructuring its flagship publication, which was now going to be issued in January. This was the key reason behind the change in the timing of the main LINK meeting.

Mr. Ocampo emphasized the importance of the LINK exercise and its usefulness in addressing short and medium-term macroeconomic issues and concerns which affected the global economy and developing countries in particular. Among short and medium-term concerns, Mr. Ocampo mentioned the twin deficits in the United States and the downside risks posed by rising prices of oil.

GLOBAL ECONOMIC OUTLOOK

Professor Lawrence Klein, University of Pennsylvania, chaired the opening session. In his opening remarks, he raised several questions. Was the growth in China and India sustainable? Could the Chinese economy slow down in a controlled manner? Was a slowdown foreseen in Russia which, according to him, was increasingly gaining importance for the global economy? He also pointed out that Western Europe and the United States were not exhibiting vigorous economic activity, and he could foresee a further moderation of growth in the near future in light of the ongoing situation in Iraq.

Representatives from five international institutions presented their global economic forecasts at the meeting: Mr. Ian Kinniburgh, on behalf of the United Nations/LINK; Mr. Thomas Helbling, on behalf of the International Monetary Fund (IMF); Mr. Hans Timmer, on behalf of the World Bank; Mr. Ray Barrell, on behalf of the National Institute of Economic and Social Research (NIESR); and Mr. Erik Britton, on behalf of Oxford Economics USA.

All five speakers noted that the momentum of the global economic recovery had slowed in the second quarter of 2004, but they also agreed that the outlook for 2005 was for continued solid global expansion.

Mr. Kinniburgh presented the highlights of the outlook as documented in the *LINK Global Economic Outlook*. He argued that, at 3.8 per cent, the estimated growth of gross world product (GWP) in 2004 had been the highest and most broad-based for a number of years, but it was expected to moderate to 3.0 per cent in 2005.

The *LINK Global Economic Outlook* of April 2004 suggested that the strength of the world economy remained largely cyclical and that the accelerating phase of the global expansion would end gradually in 2004. After strong growth in the second half of 2003 and early 2004, the world economy indeed decelerated around mid-year. A number of factors were responsible for the moderation in global growth: higher oil prices; the weak and delayed recovery of employment in a large number of economies; a relapse in the recovery from the bursting of the bubble in the global information and telecommunication technologies (ICT) sector in 2000; and an unwinding of policy stimuli in some economies. These factors were expected to continue to weigh on the world economy in 2005.

Among these factors, the surge in oil prices has been the most salient. In the previous *LINK Global Economic Outlook*, the average annual price of Brent oil was assumed to be $28 per barrel (pb) for 2004, but it turned out to be around $40. Oil prices had been on an upward trend since 2003, but soared to record highs in 2004, reaching $55 pb in October. This had triggered two main concerns: first, the risk of another global oil crisis which, according to some analysts, could dwarf the crises of the 1970s and the 1980s, both of which wreaked havoc on the world economy; second, the possibility of permanently high oil prices in the long run.

Although growing more slowly than anticipated, the United States continues to be the fastest growing of the developed countries. Nevertheless, that economy faces a large number of growing constraints and unsustainable imbalances, pointing to a deceleration of growth in 2005. Growth in Western Europe has remained highly dependent on external demand and, consequently, has slowed marginally from earlier in 2004. The recovery remains on track but it is not expected to be robust. In Japan also, the economic recovery initiated in the summer of 2003 continues, but has shifted to a low gear. However, gross domestic product (GDP) growth can still reach 4 per cent for the year, the best annual performance in the past decade. Growth in 2005 is, however, expected to decelerate to 2 per cent.

The economies in transition are growing at robust rate. Impending entry into the EU has been a major driving force for the sound performance in Eastern Europe and the Baltic States. High commodity prices continue to support robust economic growth in the CIS region.

Most developing countries are doing slightly better than expected. Growth in South and East Asia is export-oriented, driven by growth in China and the recovery in the United States. In Western Asia also, economic prospects improved sharply during the course of 2004 and are expected to remain favourable in 2005 as well. In Africa, both oil-exporting and oil-importing countries are doing well, with higher prices for both oil and non-oil commodities. Growth is expected to accelerate to 4.8 per cent in 2005 as these favourable conditions continue to prevail. Improvement in the Latin American and Caribbean region in 2004 is largely due to a rebound from slow growth in 2003 growth will continue in 2005, albeit at a slower pace.

Mr. Thomas Helbling presented the outlook for the global economy based on the IMF *World Economic Outlook* issued in September 2004. According to him, the global economy has been expanding at a rapid pace (5 per cent in 2004 when country growth rates are weighted by purchasing power parities rather than exchange rates), reflecting strong growth in developed countries and rapid expansion in China. This has been evidenced by an upturn in global industrial production and global trade, a surge in private consumption growth, improving labour market conditions and continued strength in investment. Although the momentum of the recovery slowed in the second quarter, the outlook for 2005 is for continued solid global expansion. The recent *World Economic Outlook* forecast 4.3 per cent growth of the global economy. According to Mr. Helbling, if the forecast had been prepared at the time of the LINK meeting and had taken into account the latest developments in oil prices, the forecast would probably have been reduced to about 4 per cent.

Mr. Helbling also presented some highlights of the outlook for the regions and for commodity prices. Recovery has become broader based, but some regions continue to grow faster than others. The United States continues to be the engine of growth but, with monetary and fiscal stimulus fading, growth in 2005 will need to rely on a sustained increased in employment. Recovery in the euro area remains weak and dependent on external demand; the main risks for 2005 include a slower-than-expected pick-up in employment. The upturn in Japan is strong; despite some slowdown in the second and third quarters, consumer confidence has held up and many indicators still look healthy. A hard landing in China would pose a major risk for the rest of emerging Asia as well as Japan. There has been a strong rebound in Latin America and the Caribbean, supported by the global recovery, high commodity prices and strong domestic demand. The expansion in Central and Eastern European countries continues, with fiscal and current-account deficits remaining the main vulnerability. Strong growth in the Commonwealth of Independent States (CIS) has been boosted by the rising price of oil. In the Russian Federation, a possible rise in inflation (related to resisting currency appreciation) remains a concern. The growth projection for Africa has been revised upward,l mainly due to faster-than-expected growth in Nigeria.

Mr. Hans Timmer highlighted the record growth developing countries achieved in 2004, even when China and India—two of the largest and fastest growing developing economies—are excluded from the group. He indicated that, besides three major risks confronting the global economy (see below), a slowdown was anticipated for 2005. He argued, however, that most developing countries would be in a good position to face less favourable conditions. Nonetheless, low-income countries that were fuel importers and middle-income countries that were heavily indebted remain vulnerable.

In his view, the global slowdown in 2005 was due to the decelerating phase of the current business cycle. However, the more neutral policy stance, high oil prices and the anticipated soft landing by China would reinforce that factor. The three major risks to global growth were: i) the increasing global imbalances—largely reflected in the twin deficits of the United States, the sustainability of which has been increasingly questioned and which could lead to an increase in interest rates, a steep depreciation of the U.S. dollar and lower growth in the United States; ii) a hard landing by China that would have negative consequences for the global economy in general and for Japan and other Asian countries in particular, owing to the increasing dependence of their exports on the Chinese market; and finally, iii) higher oil prices, which would curb domestic demand in many developing countries, thereby compromising their growth prospects.

Mr. Ray Barrell started his presentation by highlighting three major issues: the global impact of rising oil prices, a slowdown in the United States and Japan expected for 2005 and the acceleration of growth expected for the euro area. He was of the view that the fears associated with rising oil prices could be exaggerated. According to him, the sustained rise in oil prices — by 25 per cent since the previous quarter would reduce global growth by only 0.2 percentage points in both 2005 and 2006, and the slowdown would be most marked in North America and Japan, as they were already operating at full capacity. Mr. Barrell expected an acceleration in the euro area, and his forecast for this region was more optimistic than forecasts made by other institutions.

In discussing the United States twin deficits, Mr. Barrell thought that the correction would be effected through a significant domestic adjustment — a reduction in Government borrowing or a rise in private savings — rather than through an adjustment in the exchange rate. He also expressed the view that an increase in the savings ratio was not likely to be sufficient. According to his simulations, a 2 percentage point rise in the savings ratio is only a quarter of the increase needed for the current-account balance to return to its historical average.

Mr. Erik Britton had similar views but focused his presentation on the developed economies. He mentioned that while the United States and China have been the two locomotives of global growth, the EU and Japan have been a drag on growth. He also expressed concerns about the possibility of higher inflation in the future due to higher oil prices and increased fiscal expenditures in the United States brought about, in part, by the war effort.

In his analysis of the global imbalances, he suggested that the fiscal imbalance in Japan was far worse than in the United States because it required an adjustment of about 9.3 per cent of GDP just to stabilize public debt at current level. Regarding the current-account imbalances, he anticipated that the current weakening of the dollar would help in narrowing existing gaps. In the event that Asian central banks stopped accumulating dollar reserves, a sharp devaluation of the dollar would follow, but that would trigger a positive cycle in the United States by boosting GDP due to the positive contribution of net trade to growth. On the other hand, inflationary pressures would be exacerbated, which would lead the Federal Reserve to increase short-term interest rates, thus slowing growth.

In the subsequent debate, **Mr. Ray Barrel** argued that a revaluation of Asian currencies would do little to correct the United States current-account deficit. Currency misalignment, in his opinion, was not the reason for the large United States current-account deficit; rather, the reason was the saving-investment gap currently being fed by the fiscal deficit. He expected some consolidation in the future as there were no further reelection prospects for the current United States Administration. **Prof. Lawrence Klein**, however, disagreed in view of the ongoing war in Iraq, which has been costly and needs to be financed, and the fact that the current Administration wants to maintain the tax cuts it introduced earlier. Thus, fiscal adjustment did not seem to be in the pipeline.

GLOBAL ECONOMIC OUTLOOK: COMMODITIES

Oil market developments and their economic implications

Five participants made presentations related to oil market developments and their economic implications: Professor Robert Kaufmann of Boston University; Mr. Ray Barrell; Ms. Sara Johnson of Global Insight, Inc.; Mr. Pingfan Hong of the United Nations; and Mr. Sergei Gorbunov of the United Nations. All the speakers agreed that high oil prices seemed to have become permanent, owing to continuously high demand and a collapse of exploration.

Mr. Robert Kaufmann began his presentation by stating that oil price developments in 2004 had come as a surprise and prices differed markedly from those forecast in the Fall 2003 and Spring 2004 LINK meetings. High oil prices having prevailed for some time, it has become clear that maintaining the Organization of the Petroleum Exporting Countries (OPEC) price range of \$22-\$28 pb is not realistic. OPEC seems to have lost control over the market as the result of losing control of the marginal supply.

The speaker elaborated on reasons for the dramatic price hike in 2004. Both the real and imagined reasons are related to supply disruptions — in the Russian Federation (the threat to break up Yukos caused fear that production might drop sharply), in Iraq (supply disruptions are a fact, but they are already diminishing and production has now surpassed pre-war levels), in Norway (labour strikes were short and limited), in Nigeria (civil unrest and tension between oil companies and ethnic groups mean that spare capacity cannot be used), and in the United States (Hurricane Ivan caused major supply disruptions, mainly due to damage caused to refineries). As a result, stocks of heating oil have declined in the United States since September 2004, which makes oil price developments in the coming months highly sensitive to weather conditions in the North-eastern United States.

Mr. Kaufmann concluded that high oil prices seemed to be a permanent phenomenon, owing mainly to changes in world oil supply and demand. OPEC oil production is back to the levels reached in the late 1970s, with capacity utilization at over 90 per cent. Increases in capacity are not expected until the end of 2005 or 2006. On the demand side, China's need for electricity is growing at 16 per cent per year and, with coal proving to be an inadequate substitute, the country's demand for oil has risen sharply. Demand for oil will continue to grow. Over the next two years, oil prices are expected to remain between $35 and $40 pb, with upside risks.

Mr. Ray Barrell pointed out that the trend of oil prices since 1985 suggests that OPEC can put a floor, but not a ceiling, on oil prices. Since 1985, real oil prices had been more or less constant, affected by the United States dollar exchange rate and output gaps in the countries of the Organization for Economic Cooperation and Development (OECD) as a whole. Under these circumstances, OPEC was able to maintain high oil prices through supply policies. With OECD countries operating at or near full capacity (as is currently the case), OPEC does not have the means to restrain oil prices from rising beyond their official price band.

High oil prices are more of a problem for the United States than for the EU. This is due to the higher oil intensity of output in the United States (60 per cent higher in the United States than in the EU) and to the trade structure of oil-exporting countries. While the United States accounts for 22 per cent of world GDP, it accounts for only 11 per cent of oil exporters' imports. While the speed at which oil revenue is recycled into the world economy has risen compared to the 1970s, the United States benefits relatively less from this than the EU, the source of most of the oil exporters' imports.

In a model simulation, short-term effects of a permanent 25 per cent increase in oil prices on output and inflation are highest in the United States. In the long term, real interest rates both in the United States and in the euro area have to rise, which will slow world economic activity. The simulation also suggests that OPEC exports will rise sharply, but that imports will rise to match exports within 3 to 4 years. Given this relatively quick recycling of oil revenues, the consequences of high oil prices are likely to be less disruptive for the world economy as a whole than was the case in the 1970s.

The speed of the oil-revenue-recycling is more a problem for the EU than for the United States: the more slowly that OPEC countries spend their money, the more adverse the output effects will be for Europe. A loose monetary policy will not make a large difference for inflation in the first year of an oil price hike but, in the longer run, a loose monetary policy will have serious inflationary effects.

Ms. Sara Johnson began her presentation by confirming what the first speaker had said, that high oil prices seemed to have become permanent, owing to continuously high demand and a collapse of exploration and drilling in the late 1990s. New investments in capacity are not expected to bear fruit for a number of years.

Every oil price shock is unique and its impact on the world economy depends on the international economic situation at the time of the price hike. The current situation is characterized by: a lower price impact than in the past; demand growth as the primary cause for the price hike; substantially lower oil usage intensity in the world economy; a higher oil import dependence in the United States and Asia; a macroeconomic environment where there are output gaps and where inflationary pressures are therefore lower; a less challenging political environment (notwithstanding the situation in Iraq and the threat of Al-Qaeda); more rapid and efficient “revenue recycling”; higher credibility of central banks’ willingness and ability to shape inflation expectations; large budget deficits which are providing a countercyclical stimulus (even though the EU countries are restricted by the Stability and Growth Pact); the United States and Canada having the highest oil demand among developed economies, measured as a share of their GDP expressed in United States dollar; and Asia’s oil demand as a percentage of United States dollar-denominated GDP being larger than that of developed economies.

In a model simulation, a $10 rise in oil prices impacts the United States economy as follows:

- In the first year, real GDP declines by 0.3 per cent and real consumption by 0.4 per cent
- In the second year, the cumulative GDP decline amounts to 0.6 per cent, CPI inflation rises by 1 percentage point, and real consumption declines by 0.7 per cent.

Four different oil price scenarios have been analyzed, of which two were presented at a more detailed level: the baseline scenario with an oil price of $43 pb in 2005 and $36 pb in 2006, and the crisis scenario with an oil price of $75 pb for the first two quarters of 2005 and a subsequent drop to $30 pb. In the baseline scenario, world economic growth reaches 3.3 per cent in 2005, while it is reduced to 2.4 per cent in the crisis scenario. In the crisis scenario, advanced economies experience a decline in growth rates, but only few suffer outright recessions, while growth in the Middle East, Africa and the Russian Federation is drastically reduced. The main losers in the crisis scenario (compared to the baseline scenario) are China, India, Japan, South Korea, the United States and the euro zone. The growth deceleration in the crisis scenario could cause deflation, so the G7 could cut interest rates without risking inflation. Brazil and Central Europe are severely hit in the crisis scenario due to subsidized or formerly subsidized (Central Europe) fuel prices and the resulting inefficient fuel usage.

Considering the current economic situation and the model simulations, the speaker concluded that the disruptions from high oil prices would not be as severe as in the past, and that there was little risk of stagflation. If oil prices remained at levels between $50 and $55, the world economy would witness low growth over several years and could move into a “deflationary danger zone”.

Mr. Pingfan Hong indicated that the surge of oil prices in 2004 had triggered two main concerns. Firstly, there is increasing concern about the heightened risk for another global oil crisis, as history shows that most downturns in the global economy in the past few decades were preceded by a substantial rise in oil prices. According to some pessimistic analysts, the upcoming oil shock will dwarf the crises of the 1970s and 1980s, both of which wreaked havoc on the world economy. Secondly, there is also a worry about the possibility of a permanently high level of oil prices in the long run: oil prices are unlikely to be $35 pb again, according to some headlines. Supporting this long-run pessimism are arguments relating to structural increase in global oil demand driven by the rapid industrialization in such large developing economies as China and India, and a prediction, based on geological data of peak global oil production in the near future.

On the other hand, more optimistic views argue that the current level of oil prices, if measured in inflation-adjusted terms, remains far below the record highs of the 1980s and that the volatility in the prices is not comparable to that of past oil crises either. Meanwhile, the rise in oil prices is currently driven mainly by strong global oil demand, while the oil crises in the past were caused by curtailments in supply. Global oil production capacity is tight in the short run, exacerbated by various heightened uncertainties around major oil producing areas, but, as long as there is no large-scale disruption in global oil supply, an oil crisis can be averted: higher oil prices should gradually curb global demand and raise new oil production capacity, in turn lowering oil prices. In other words, higher oil prices may lead to a slower global economic growth, but not necessarily to a substantial downturn or a recession.

While quantitative studies, both those based on time-series analysis and those based on structural models, have provided rich information about the macroeconomic impact of higher oil prices, there are caveats and limitations to the results. A salient lacuna in most of these studies is the omission of oil volume as a variable in determining the macroeconomic impact of higher oil prices. With this omission, and with their comparative static approach, these studies are not robust in at least three respects. First, they cannot make a distinction between a case of higher oil prices driven mainly by strong oil demand (as in the current situation, when global oil demand and global oil production are both growing at the highest rates in the past 25 years) and a case of higher oil prices dominantly caused by reduction in oil supply (either due to actions taken by OPEC or to exogenous factors such as wars —as in the oil crises of the 1970s and 1980s when oil production dropped by 7-8 per cent). Secondly, they cannot simulate the acute degree of an oil crisis, such as those in the 1970s and 1980s when the shortage of oil caused as much, if not more, damage for the economy than the higher oil prices. Thirdly, they cannot reasonably simulate a "permanent" higher level of oil prices in the longer run without taking into account the response of the volume of oil to the change in oil prices.

Mr. Sergei Gorbunov pointed out that the Russian Federation saves a significant part of its oil windfall. In 1999, taxation related to oil production had changed. The ad valorem tax on extraction and on exports now rises with a rise in oil prices. For oil prices above 25 rubles, the combined tax rate is 59 per cent. From January 2005, this rate will rise to 86 per cent. In budget planning, oil prices are being assumed to average $28 pb for 2005. With the higher fiscal revenues from oil, the budget becomes more sensitive to oil price changes. In 2004, oil receipts financed 40 per cent of the Russian budget, compared to only 20 per cent in 1998.

In January 2004, an oil stabilization fund was established to reduce this sensitivity. Unlike in Norway, where a similar fund serves to share the oil wealth over generations, the Russian fund's main purpose is to stabilize the fiscal position. All surplus revenues resulting from an oil price above $20 pb are channelled into the fund, which has an upper limit of 500 billion rubles ($80 billion). Additional funds can be used for other purposes, such as repaying external debt. By the end of 2004, the fund will have exceeded 580 billion rubles. So far, the fund has only been used for debt repayments and the Government has stood firm in the presence of demands to use the surplus to other ends, such as investment in infrastructure..

Many questions were raised and comments made by the participants: given the high oil prices, why was there not more investment in drilling, especially in non-OPEC countries?; what was the role of speculation in current oil prices and what would its role be in the future?; what probabilities were assigned to each scenario in the Global Insight study?; what was known about the size of the oil windfall revenue in 2004 and 2005 and how this revenue had been recycled, in view of the limited absorption capacity?; how large was the "fear factor" mark up?; why had the oil price forecasts been so wrong?; why are oil prices assumed to stay high in the medium term, and what about possible substitution?; how was the oil price modelled in the simulations – as a supply shock or as a demand shock?; if high oil prices were thought to be permanent, why did non-OPEC countries not increase production, given that there should be room for profits? In addition, there were several observations: India's oil imports were dominated by heavier crude, which had not witnessed as much of a price increase and the presence of ad valorem taxes and their downward adjustment by the Government in reaction to rising oil prices had led to less inflationary pass – through than would have otherwise been the case; macro models did not provide any new insights at this stage of the oil price discussion — sectoral models would, inter alia, allow a closer look at Dutch disease effects and at income distribution effects within countries; and, with input-output tables for the United States from 1972 to 1999, it should be possible to check if the shock effect of an increase in oil prices had a trend over time.

Mr. Kaufmann thought that, in the short term, operable capacity was at its limit. This situation will prevail at least until mid-2005. In the long term, the world is not running out of oil. However, due to the tight supply situation and the strong demand, even a small supply shortfall can mean a large revenue loss for refineries. The "fear factor" has therefore a very pronounced price impact when supply is close to capacity. The ratio of oil use to total GDP is not a good measure of the importance of oil, because it does not take into account the lack of short-term substitutability; the dependency of the developed economies on oil is higher than the relatively low oil-intensity ratios suggest.

Mr. Hong agreed with **Mr. Kaufmann** and stated that oil use in relation to GDP is not a conclusive indicator of oil dependency. In order to assess the impact of higher oil prices, one must ascertain the underlying reason for the price increase and consider the economic impact of the volume of oil consumption instead of only prices. Speculation in the oil futures market greatly increased in 2004, as measured by the number of new futures contracts.

Ms. Johnson indicated that the Global Insight model assumed a 60 per cent probability for the baseline scenario, 20 per cent for the crunch scenario, 10 per cent for the crisis scenario and another 10 per cent for a scenario of persistently lower prices. Concerning the assumptions for the different oil price scenarios, it captured the possibility of inter-fuel substitution and allowed for longer range price elasticity of demand, such that, ultimately, higher prices would lead to adaptations in volume.

As to the size of windfall revenues, **Mr. Barrell** suggested that one possible indicator was the increase of exports from EU countries — for instance, exports from Germany to the Russian Federation, Norway and other oil-exporting countries had risen by around 20 per cent in the second quarter of 2004. In general, the increased revenues were being spent, mainly on imports from the EU. Russian recycling had slowed somewhat since the introduction of the stabilization fund.

According to **Mr. Kaufmann**, prices will stay high in the medium term because of the high capacity utilization in OPEC. In the next 5–7 years, there will not be a viable possibility for substitution in the transport sector, which is one of the main sources of growing oil import demand in the developed countries. The revenue windfall in OPEC states is between $30 and $60 billion, and it is being used mainly to pay back external debt.

Ms. Johnson stated that, in the crisis scenario, the model assumed a supply shock from the Middle East and Venezuela. In the crunch scenario, the model assumed a demand-driven shock. **Mr. Barrell** pointed out that, for third countries, the distinction between supply and demand shocks is irrelevant (in the first round). For the impact on long-term real interest rates, this distinction is also irrelevant. It does, however, make a difference for GDP forecasts.

Ms. Johnson suggested that there will be a supply response to the oil price hike, leading to some decline in oil prices. Prices are high enough to make further capacity increases rational for non-OPEC countries. **Mr. Kaufmann** argued that the planning price at major oil companies is currently US $28 dollar per barrel. This is too low to encourage major capacity increases.

Non-oil commodity markets

Three participants gave presentations on non-oil commodity markets: Professor Gerard Adams of Northeastern University presented his outlook, Ms. Pilar Fajarnes-Garces of the United Nations Conference on Trade and Development (UNCTAD) spoke about the impact of Chinese demand on developing countries, and Ms. Shamika Sirimanne of the United Nations Economic Commission for Africa (ECA) provided the African trade outlook with respect to recent developments in commodity markets.

Mr. Gerard Adams made three main points in his presentation on the outlook for non-oil commodity prices. First, he highlighted the remarkably strong commodities' prices over the course of the year, which he linked to increasing demand from China. He predicted that this cyclical boom might be close to its peak, but added that it would depend on whether growth in China and the world slows down.

Second, he reaffirmed the importance of the United States dollar exchange-rate movements in non-oil commodities' price changes. He distinguished between the United States dollar exchange rates with respect to other major consuming countries, notably the EU, and the United States dollar exchange rates with respect to major developing producer countries. He then stressed that the effect of the depreciation of the dollar vis-à-vis the euro in the determination of dollar-based commodity prices is less important than fluctuations of the dollar against currencies of developing-country commodity producers.

Third, he expressed concern about overly optimistic estimates of long-run commodity prices. He argued that long-term prices seem to be driven, primarily, by marginal costs of production, which new technologies can help reduce substantially. He predicted vigorous supply responses to any substantial price increases that would then force prices to recede.

Ms. Pilar Fajarnes-Garces made a presentation on the impact of Chinese demand on developing countries, notably on sub-Saharan Africa and Latin America and the Caribbean. She highlighted a significant increase in Chinese imports of commodities from these two subregions. These imports are concentrated in timber, oil and some minerals from Africa, and food products from Latin America and the Caribbean. The major forces behind this trade were primarily related to the strong growth of the Chinese economy, the size of China's population, its emerging middle class, rapid industrialization and the infrastructure needs that accompanied it.

The speaker finished by raising three fundamental questions: (1) would China's dynamic demand for commodities be sustained?; (2) was this the beginning of a "new geography of trade"?; and (3) did the new dynamics constitute a starting point of a reversal of the long-term decline in the terms of trade of commodities?

Ms. Shamika Sirimanne provided the trade outlook for Africa with respect to recent developments in commodity markets. She reported that only four commodities exported by the region had seen their prices go down, namely cocoa, robusta coffee, groundnut oil and vanilla. She referred to the recent favourable environment that had spurred the growth of African exports, which included strong world demand and such preferential trade agreements as the United States' African Growth and Opportunity Act (AGOA) and the EU "Everything But Arms" (EBA). However, she projected a decline in the prices of non-oil commodities for the coming two to three years, driven to a large extent by new entrants into the markets, increased productivity and price-support initiatives in developing countries.

The three presentations were followed by discussions. Answering a question on the new geography of trade, **Ms. Sirimanne** underlined the growing importance of Asia-Africa trade and intra-African trade. **Mr. Kaufman** pointed to the decision of the Brazilian Government to open up the Amazon to agricultural commodities production as an indication of future strong trade links between China and Latin America. On the impact of trade liberalization on Africa, **Ms. Sirimanne** drew attention to the results of a study commissioned by the ECA which concluded that only full liberalization of agricultural markets is expected to be beneficial for the region as a whole. Among African countries, net food-importing countries (concentrated mainly in sub-Saharan Africa) benefit least from partial liberalization, while net food-exporting countries (concentrated in North Africa) benefit the most.

REGIONAL ECONOMIC OUTLOOK

Several sessions were devoted to the outlook for different regions in the world economy.

United States

Professor Lawrence Klein presented his views on the short-term outlook for the United States, based on the High Frequency Model maintained at the University of Pennsylvania. He analyzed a large number of indicators to provide a comprehensive review of both the strengths and weaknesses of the United States economy. His general assessment was that the economy of the United States was in neither bad nor good shape: GDP growth would likely reach 4 per cent in 2004, reflecting a strong performance in the first quarter and moderate performance in subsequent periods. He predicted a further moderation in growth for 2005, to 3 per cent.

Professor Klein stressed the change in the trend of the peace dividend and its impact on economic growth over the past decade or so. He believed that the reduction in military spending was a key factor behind the economic boom of the late 1990s. Showing a chart of the change in the defense manpower of the United States for the past two decades, he reminded the audience that, although there was no consensus on how exactly to measure the peace dividend —some economists suggesting that it came mainly in the form of the lower interest rates in the late 1990s — no significant improvement in economic growth was possible without cutting military spending. According to Professor Klein, the peace dividend has disappeared as the United States has started to increase defense expenditure.

Analyzing short-run macroeconomic variables, the speaker emphasized the weakness in the labour market. Noting the recent improvement in the payroll data, he pointed out that employment had far from recovered: the potential unemployment rate should be around 4 per cent, whereas the recent unemployment rate was still nearly 6 per cent. He warned of a rise in the producer price index as a result of higher oil prices. He also expressed his opposition to the use of the "core" inflation rate, which excluded prices of food and energy, arguing that consumers have to spend on food and energy. He believed the best indicator for inflation expectations was the yield spread between inflation-indexed and non-indexed government bonds. This indicator seemed to be edging upward.

According to Professor Klein, was a sensitive sector of the economy housing which would provide a crucial clue for the health of the economy in the outlook. The substantial appreciation of housing prices in the past few years, according to his analysis, was largely due to a shift in investment from the equity market to real estate following the bursting of the information technology (IT) bubble. Currently, housing starts are still on the rise while housing prices remain at a high level. However, the speaker was wary of the risk of a reversal and warned about an upward movement in mortgage interest rates.

The speaker was trenchant in his remarks on the current fiscal policy of the United States, particularly on tax reform to reduce taxation of dividends. He mentioned that there was no econometric evidence of a stable relationship between corporate profits and business investment to support the notion that cutting the tax on dividends would stimulate economic growth. He also commented that monetary policy alone would have limited effects for stabilizing the economy: the Federal Reserve (Fed) could target only short-term interest rates, while the capital market would determine long-term interest rates. In his opinion, stabilization should rely on a combination of fiscal and monetary policies, but the former did not seem to be in a sound position.

Answering a question about the effect of tax relief on business investment, Professor Klein stated that there was a fine line between tax reform and tax stimulus but, unlike the Administration in the 1980s, the current Administration did not distinguish between the two. Responding to a question about the issues surrounding the large current-account deficit of the United States, he remarked that no other country in the world could run such a large deficit, but it seemed that dollar-denominated assets remained attractive to foreign investors, particularly to Japan and China who were accumulating foreign reserves. The deficit would be rebalanced through further depreciation of the United States dollar and/or higher interest rates.

Canada

Professor Peter Pauly, University of Toronto, presented the economic outlook for Canada. His general assessment of the Canadian economy was positive, with GDP growing at above 3 per cent. He emphasized the high dependency of the Canadian economy on the United States, which is the recipient of 85 per cent of Canadian exports. As a result, the Canadian economy would be sensitive to any trade protection measures, as well as to any terrorist attacks on the United States, which could lead to border disruption, higher transportation costs and restricted market access. Meanwhile, Canada's macroeconomic policy would not be very different from that of the United States. He noted the significant appreciation of the Canadian dollar vis-à-vis the United States dollar, largely due to the higher prices of many commodities. In his opinion, the impact of the appreciation on the economy had not been significant, although it would increase with further appreciation. He also raised the question of how there could be a persistent difference in productivity growth between Canada and the United States, with the former being 85 per cent of the latter, in the light of the similarities in other aspects of these two economies, such as education level and technology.

Japan

Professor Kanemi Ban, Osaka University, presented the outlook for the Japanese economy. While many economists were disappointed by the latest slowdown in Japan's growth, which had decelerated to barely above zero after a strong recovery in late 2003 and early 2004, he believed it was a normal adjustment, as the potential growth for Japan was about 2 per cent, the rate he also predicted for 2005. He pointed out a number of signs of improvement in the economy, such as increased corporate profits despite higher oil prices, the increase in employment and the stabilization in the ratio of government debt to GDP. All these would imply better prospects for business investment and consumer spending.

Professor Ban stressed the continuation of deflation. Despite a rise in the producer price index, the CPI continued to decline and this, in his opinion, would continue until mid-2006. He thus believed that the Central Bank of Japan would continue to provide ample liquidity to the economy through various measures. He also emphasized the difficulties in the Government's fiscal position which, in his view, were mainly due to the imbalances in social security. He commented specifically on three broad measures for fiscal consolidation: a cut in government subsidies, a reversal of the tax reduction introduced in the 1990s, and a rise in the consumption tax (value added tax). He suggested the last measure should be postponed until 2007. The main downside risks for Japan, in his opinion, remained a slowdown in the United States and/or a "hard landing" in China.

Addressing a question about the latest change in Government's statistical methodology for GDP compilation and its implications for a downward revision in GDP growth, he suggested that the new methodology — which involved a "chain deflator" similar to that adopted in the United States in the late 1990s— was still in an experimental stage, and more comprehensive data would be released in December.

Western Europe

Mr. Ray Barrell presented the outlook for Western Europe. He indicated that growth was slow in mid-2004, partially due to high oil prices, but this was a temporary problem. Domestic demand was weak in a number of countries. However, investment, and most likely also consumption, should pick up as overall growth improves. At the same time, external demand projections were encouraging; growth was strong in the United States and import spending by oil-producing countries was robust. For example, in the first half of 2004, French and Italian exports to oil producers rose 10 per cent and 20 per cent, to the Russia Federation in particular.

Growth in the euro area and in the United Kingdom has diverged, explained in part by differential rates of currency appreciation. In addition, the support from fiscal policy has differed — France and Germany had loosened at the top of the cycle and run out of room for manoeuvre during the downturn, whereas the United Kingdom loosened at the right time. There was also significant divergence of performance within the euro zone. Some of this could be ascribed to the pattern of real exchange rates that resulted from the locking in of nominal exchange rates at the beginning of the Economic Monetary Union (EMU). A number of countries started out far from their equilibrium rates, resulting in divergent growth and inflation rates for a number of years until equilibrium was restored. Another factor explaining the divergent performance was weak domestic demand in some countries. House prices could explain some of this, with growth supported or held back by their relative strength. In Germany, there has been an oversupply of housing since reunification, while in the Netherlands there has been strong demand and limited supply. France and Spain were still seeing rising demand.

According to the speaker, the monetary policy framework appears to be robust, but inflation remains above target. Fiscal policy targets have been exceeded in a number of countries. In France and Germany, fiscal policy was expansive during the boom and has been a constricting element ever since. France and Germany have persistently exceeded the 3 per cent bound in the SGP and Italy, Greece and Portugal could breach the limits in 2005. Special measures may bring some deficits below the bound in 2005 without changing the fiscal stance.

The results of simulations of a sharp correction in house prices in the United Kingdom were presented, pointing to a significant effect on output. Corrections in the housing market were also a risk in France and Spain. Other risks to the forecast included further euro appreciation, a tightening of fiscal policy or a rise in the personal savings rate in the United States, slower oil revenue spending or a different geographic pattern to that spending, and, finally, the potential need for a more rapid fiscal adjustment.

Central and Eastern Europe and the Commonwealth of Independent States

Mr. Rumen Dobrinsky, United Nations Economic Commission for Europe (ECE), presented the outlook for the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). At the outset, the speaker drew attention to the changing geopolitical situation in the region, owing to the EU accession of eight former centrally planned economies. According to the speaker, growth in both regions had accelerated in 2004 and was expected to reach 5.5 per cent in the CEE region and 7.8 per cent in the CIS.

Growth in the CEE has been driven by strong growth in Poland and a robust performance in all sub-regions – Central Europe, the Baltic States and South-eastern Europe. Growth, however, slowed down in the third quarter. Macroeconomic policies in the region in 2004 remained largely neutral or supportive – monetary policy in general was relaxed, although some fiscal tightening took place in Central Europe. Growth was driven by continuing enterprise restructuring, enhancing export-oriented productive capacities, as well as improved productivity, which supported competitiveness. The improvement in financial intermediation and a surge in foreign direct investment (FDI) to South-eastern Europe also supported growth. Demand for the region's exports was stronger in 2004 than in the previous year and domestic absorption remained robust, in terms of both consumption and investment spending.

The key factors behind the strong economic performance in 2004 will continue into 2005. Business and consumer confidence remains strong and credit is expanding. The ongoing gains in productivity should sustain export competitiveness. Nevertheless, a slowdown in growth is expected for 2005. The economies of the region have already slowed and the weakness in the EU continues. The main downside risks for the region stem from continued sluggishness in the EU, a strong euro, limited support from domestic demand, high energy prices (which may drive up interest rates), and a possible tightening of fiscal policy.

The speaker then turned to the CIS region. For a second consecutive year, the CIS economies are experiencing very strong growth: GDP in the region as a whole grew by 7.8 per cent in 2004. There is fast economic expansion all over the region: in the Russian Federation, GDP grew by 6.9 per cent; in other European CIS countries, by 10.6 per cent; in the Caucasian CIS, by 8.1 per cent; and in Central Asian CIS, by 8.8 per cent. This growth was supported, by a pro-cyclical fiscal loosening in many of the CIS countries and expansionary monetary policy in the Russian Federation aiming to prevent real exchange rate appreciation. Employment growth was registered only in the Russian Federation and Kazakhstan. Despite the overall strong growth and positive prospects, Mr. Dobrinsky pointed to a slowdown in most of the economies in the region in the second half of 2004. It remains to be seen whether this will be a lasting trend.

The boom in the region is driven mostly by commodity exports, which have expanded due to very favourable external conditions and responsiveness to external demand. In addition, growth in the economies of this region is mutually reinforcing: expansion of import demand in the Russian Federation has boosted exports from neighbouring countries and intra-regional trade has increased in general. Domestic demand grew faster than GDP as a result of the continuing recovery in private consumption and increasing investment in some resource-rich economies. Mr. Dobrinsky stressed the growing domestic demand which drives imports and, in turn, weakens the transmission from domestic demand to domestic output. This new trend is affected by supply factors as well.

The medium-term prospects for the region remain positive. GDP growth will remain robust due to world commodity prices, which remain high, strong domestic demand and generally supportive macroeconomic policy. The downside risks are the recent slowdown in these countries, very high dependency on commodity exports, the limited capacity of macroeconomic policy to deal with "Dutch disease", a weakening of demand in the main export markets and the low supply responsiveness of domestic producers to domestic demand.

Following the presentation, there were a number of interventions were made.

Poland: **Wladislaw Welfe, University of Lodz,** described the performance of the Polish economy in 2004 as largely export-driven and noted that investment remained much weaker than expected. If, however, investment growth accelerates, the economy will sustain its high growth rate. Inflation in 2003 was the lowest in the region but, due to EU accession, some equalization of prices took place in 2004 and inflation increased. This is expected to stabilize.

Hungary: **Andras Simon, National Bank of Hungary,** commented on developments in the Hungarian economy. He drew attention to a strong increase in real wages and booming credit markets. He also suggested that some wage flexibility might have been given up and strong credit expansion was premature. Mr. Dobrinsky replied that there was also a strong credit boom in South-eastern Europe that was financing investment in addition to consumption.

A suggestion was made to improve the measurement of real GDP growth for these countries by taking into account changes in the gradually improving terms of trade.

South and East Asia

Ms. Cornelia Kaldewei, United Nations, presented the outlook for the South Asian region. According to her assessment, South Asia had been able to maintain a strong performance in 2004 despite some unfavourable conditions, such as bad weather in parts of the region and higher oil prices, which benefited only the Islamic Republic of Iran. The main drivers of growth for 2004 were services (India and Sri Lanka), manufacturing (Pakistan) and the oil sector (Islamic Republic of Iran). Strong growth was forecast for 2005 as well, despite some slowdown. Despite strong trade performance, merchandise trade deficits increased in most of the region but were largely offset by service exports and continued remittance inflows. A less robust export performance was expected for 2005 because of the global slowdown.

Increased domestic demand, weak agricultural performance and higher oil prices caused inflation to pick up. Nonetheless, inflationary pressure seemed to be easing due to policy action, probably attesting to the beginning of some monetary tightening in the region. Only the Islamic Republic of Iran—the single country in the region with double-digit inflation—witnessed a fall in average inflation during the year. Fiscal policies in the region remained expansive in the fiscal year 2004/2005, with a trend towards improved revenue collection and a new, stronger focus on development and social spending, especially in the agricultural, education and health sectors.

India: **Mr. Krishnamurthy Sundaram, University of Delhi,** remarked that, among the development challenges the region faced in the medium to long term, its dependence on agriculture was problematic due to not only the volatility of output caused by unpredictable weather conditions but also the fact that the slow growth of agriculture tended to constrain the manufacturing sector, thus slowing the entire economy. He also argued that, despite the relatively low official unemployment rate, there was concern that many remained engaged in self-employment, mainly in unproductive jobs. A sufficiently high growth rate therefore was needed over the medium term to allow for labour absorption *cum* productivity growth.

Nepal: **Mr. Dilli Raj Khanal, Institute for Policy Research & Development,** added that remittances, trade-related reforms and financial support from the Bretton Woods Institutions (BWIs) were increasingly contributing to the recovery of the Nepalese economy. Nevertheless, there were downside risks, the most prominent being uncertainties related to the peace process.

Islamic Republic of Iran: **Mr. Ahmad Mojtahed, Monetary and Banking Research Academy** reiterated that unemployment—estimated at 14 per cent—remained a problem in the Islamic Republic Iran and the major policy challenge confronting that country was how to increase the utilization of existing capacity which, in his assessment, could lead to much faster growth.

Mr. Matthias Kempf, United Nations, introduced an overview of economic conditions prevailing in East Asian developing economies at the end of 2004 as well as the outlook for the region in 2005. In his view, the increased growth the region experienced in 2004 had been driven by a robust performance of exports of manufactures, in particular to China and the United States, as well as by a stronger domestic demand in some economies. In this regard, the anticipated deceleration by China in 2005 brought about by policy measures (administrative measures as well as an increase in interest rates) would lead to slower growth in the region as well. Although a soft landing by China was envisaged, countries with relatively high exposure to that market would be the most affected. Additionally, such economies as the Republic of Korea and Taiwan Province of China would be negatively affected by a less dynamic electronics market in 2005.

Inflation increased in the region in 2004 owing to higher oil and commodity prices, with Hong Kong, Special Administration (SAR) of China moving out of deflation. Policy makers have been confronted with the need to preempt the rise in inflation while sustaining growth. Among the other policy challenges confronting the region, Mr. Kempf mentioned the need to avoid a hard landing by China and the need for the region's economies under a fixed peg regime to eventually move onto a more flexible exchange-rate regime, thereby improving their adaptability to future shocks as well as promoting greater efficiency of resource allocation.

China: **Mr. Tongsan Wang, Institute of Quantitative and Technical Economic, Beijing,** remarked that China had already gone through three periods of overheating and, as a result of the measures adopted, three different outcomes had emerged. As in the past, he envisaged three different growth possibilities as a result of measures currently being adopted to cool off the economy: a soft landing; a rebound; or a hard landing, which he considered the least likely scenario.

Western Asia

Mr. Edouard Nsimba, United Nations, presented the outlook for the Middle East. He started his presentation by saying that the economic prospects for the region for 2004 and 2005 had improved sharply. The region's economic growth is driven mainly by the oil-exporting countries, reflecting their increased oil production and improved financial situation. The economic upturn of the oil-exporting countries was being transmitted to the oil-importing countries through increased tourism, workers' remittances and soft loans. As a result, growth in the oil-importing countries of the region also increased in 2004, and the momentum is likely to be maintained in 2005. The cyclical upswing is also beneficial to countries outside the region through increased workers' remittances to Africa, the Philippines and South Asia as well as through increased demand for imports of goods and services from the EU countries and Japan.

This positive outlook is clouded by continued violence in Iraq and the Occupied Palestinian Territory which divert resources away from development. Poverty has climbed in both countries. Economic constraints in Iraq will remain serious as long as its high debt and reparations overhang restrict the financing available for reconstruction. The lack of return to normalcy in Iraq has proved particularly detrimental to several countries in the region. Jordan, Kuwait, the Syrian Arab Republic and the United Arab Emirates which are the most affected by the loss of Iraqi market.

Fiscal and external balances improved sharply thanks to soaring oil prices and an increased volume of oil exports. All oil-exporting countries of the region recorded budget surpluses in 2004 and will be able to carry them into 2005. Current-account surpluses increased in all oil-exporting countries, leading to rising foreign-exchange reserves. Most oil-importing countries faced fiscal deficits in 2004 and no reversal is expected in 2005, due mainly to the oil price hike. However, external balances improved in those countries, mostly due to the surge in workers' remittances and soft loan inflows, offsetting the rise in import bills caused by higher oil prices.

Inflation in the region picked up in 2004 and is expected to rise in 2005 owing mainly to exchange-rate movements and a gradual removal of subsidies. With the exceptions of Iraq, the Occupied Palestinian Territory and Yemen, consumer inflation remains manageable. Because the currencies of the region are pegged to the United States dollar, interest rates are expected to rise in line with those of the United States.

Despite the region's economic upswing, unemployment is unlikely to be reduced during 2004 and 2005. Due to the propensity by contractors and the private sector to employ non-nationals, employment creation is not benefiting nationals. The formal education system is another limiting factor, as it does not produce personnel who meet the private sector's requirements.

Turkey: **Mr. Suleyman Ozmucur, University of Pennsylvania,** presented the economic outlook for Turkey. The Turkish economy grew very strongly in the first half of 2004. For the year as a whole, a 9.9 per cent growth rate is expected. Growth is forecast to decelerate to 5.8 per cent in 2005. Unemployment remains at 10–12 per cent, but inflation rate is decreasing and driving down interest rates. Imports and exports have been very strong, growing by 17 and 30 per cent, respectively, in 2004. Government policies remain committed to the IMF programme and to EU accession.

Africa

Ms. Shamika Sirimanne, United Nations Economic Commission for Africa (ECA), presented the regional outlook for Africa. She indicated that real GDP growth in Africa was expected to be 4.6 per cent in 2004 and 5 per cent in 2005. This would be the best performance of the region in over a decade. Especially noteworthy was the performance of sub-Saharan Africa, where GDP growth was forecast to increase from 4.5 per cent in 2004 to 4.8 per cent in 2005. Notwithstanding this good economic performance, only six countries meet or exceed the target of 7 per cent growth needed to achieve the Millennium Development Goals (MDGs).

The main factors contributing to growth in 2004 were the following: good weather, which accounted for increased agricultural output; high oil and commodity prices, reflected in strong growth in oil revenues (oil-producing countries account for 52 per cent of Africa's GDP); improved capital inflows in the form of FDI and official development assistance (ODA); the receipt of accelerated debt relief by several heavily indebted poor countries (HIPCs), namely Ethiopia, Ghana, Madagascar, Niger and Senegal; good domestic demand, reflected in higher levels of consumption and investment and strong sectoral growth in agriculture, mining, construction and services; good macroeconomic policies, evidenced by prudent monetary policies, widespread fiscal consolidation and low inflation (except in a few countries, such as Angola, Nigeria and Zimbabwe).

Ms. Sirimanne then commented on the improvement in Africa's external accounts. In 2004, the current-account balance turned into a surplus of 1.2 per cent of GDP. This result was mainly due to stronger export earnings from high oil prices, recovery in non-oil commodity prices (including gold and other precious metals) and growth in demand for African exports as a result of stronger global economic growth.

FDI flows to Africa increased to $15 billion in 2003 from $11 billion in 2002, but still represented only about 2 per cent of global FDI flows. Furthermore, Africa's FDI inflows are largely concentrated in natural resource sectors, which are heavily dominated by the hydrocarbons sector in oil-producing countries, with Algeria, Angola, Chad and Nigeria among the largest beneficiaries. Such FDI flows carry limited benefits because they usually do not stimulate either general, broad-based development, expanded employment opportunities, export diversification or meaningful technological transfers in recipient countries.

Market-access agreements with the United States and the EU, such as the AGOA and the EBA trade initiative, respectively, have led to an increase in market-based "efficiency seeking", resulting in larger FDI flows to such countries as Lesotho, Madagascar, South Africa and Uganda. Tunisia similarly benefited from increased FDI inflows after signing a free-trade agreement with the EU. Regional integration policies in southern Africa through the Southern African Customs Union (SACU) and the southern African Development Community (SADC) have also led to large FDI flows from South Africa to neighbouring countries.

Ms. Sirimanne expressed the view that Africa's medium-term outlook was positive. GDP growth was expected to increase to 5 per cent in 2005 owing to increases in agricultural production and export revenues, reflecting increased demand and continued high prices for African exports. The main downside risk is the potential for political instability in some countries. At the end of 2004 the eruption of civil unrest and armed conflict in Cote d'Ivoire posed the risk of potential negative contagion in neighbouring countries.

Ms. Sirimanne also briefed the meeting on the results of the special survey on Africa's trade, entitled *Raising Africa's trade potential*. In her opinion, Africa has not benefited to the full extent possible from global economic integration, despite the openness of African economies to trade. Africa's external trade represents 65 per cent of GDP, compared to the world average of 57 per cent and 35 per cent in Latin America. Africa's interaction with the global economy is characterized by the "two per cent phenomena" whereby Africa accounts for two per cent of world trade and only two per cent of FDI flows. The lack of export diversification is another feature of Africa's trade that accounts for weak performance in the global economy. Manufactured goods now comprise 70 per cent of the exports of other developing regions, while primary commodities comprise 70 per cent of African exports.

Protectionist policies in OECD countries impede Africa's export potential. ECA studies have indicated that African economies would benefit most from full liberalization of agricultural trade. Preferential market access assignments, such as AGOA and EBA, confer only limited benefits to African countries because of their stringent rules of origin stipulations. Many countries choose to export under Most Favoured Nation (MFN)/ Generalized System Preferences (GSP) tariffs. Time-bound preferences, such as AGOA, which was scheduled to expire in 2008 but was extended to 2015, discourage significant investment. Supply-side constraints, however, remain the most significant constraint to faster export growth. A "trade competitive index" developed by ECA indicated that Africa's trade potential was severely constrained by weak institutional arrangements, inadequate supplies of productive resources, including shortage of skilled labour and other high quality human capital resources, and poor transportation, telecommunication and energy infrastructure. Mauritius, South Africa and Tunisia top the list of African countries most likely to benefit from trade opportunities.

South Africa: **Ms. Charlotte du Toit, University of Pretoria,** addressed current developments in South Africa. She identified the strong rand (the national currency) as the main contributing factor behind South Africa's growth performance in 2004. The rand had appreciated steadily from 12 rands to the dollar in 2001 to 6 rands to the dollar. The positive impact of the strong rand on the domestic economy included a fall in consumer price inflation to a historically low level of 3 per cent. Interest rates also dropped to historically low levels because of low inflation and moderate monetary supply growth. There was also strong growth in consumer spending, which reflected the combined effects of low inflation, low interest rates and high disposable incomes made possible by fiscal expansion and lower tax rates. GDP growth consequently accelerated to 3 per cent in 2004 from 1.9 per cent in the previous year.

The rand was likely to remain strong for a number of reasons: the expected continued depreciation of the dollar vis-à-vis the euro and other major currencies; strong fundamental factors reflected in relative inflation and interest rates; and prudent monetary and fiscal policies that generated positive market sentiments and increased the confidence of domestic and foreign investors in the sustainability of South Africa's growth performance. Appreciation of the rand, however, caused a loss in competitiveness of export-oriented industries and sluggish growth in private sector employment.

South Africa's GDP growth was expected to accelerate to 3.2 per cent in 2005. This forecast, however, was subject to inflation risks associated with continued high and uncertain oil prices, high levels of structural unemployment and the continued pattern of jobless growth in recent years. Another risk is that the South African economy is operating at close to full capacity because of inadequate supplies of skilled labour and other structural bottlenecks. Growth in potential output was estimated to be close to current GDP growth rates. Consequently, South

African policy makers faced the challenge of developing innovative policies to reduce the high levels of unemployment and increase the pool of skilled labour in the economy.

Sudan: **Ms. Faiza Awad Mohammed Osman, Ministry of Finance and National Economy,** spoke about macroeconomic developments in the Sudan. She presented an optimistic view of Sudan's growth prospects under conditions of peace and political stability. If recent negotiated peace agreements were successful in settling the conflicts, the Sudanese economy could achieve GDP growth rates of 6-6.5 per cent in 2004-2005 with macroeconomic stability, low inflation, narrow fiscal deficits and stable exchange rates based on increased output of crude oil, petroleum products and livestock. This favourable outlook was threatened, however, by continued conflict in southern Sudan and the Darfur region. Ninety per cent of petroleum production, accounting for 40 per cent of GDP, and livestock production, accounting for an additional 15 per cent of GDP, were located in those two areas of conflict. Under different model scenarios, GDP growth in 2005 could fall to 2-3 per cent if conflicts prevailed in those regions.

Nigeria: **Sam Olofin, University of Ibadan,** outlined Nigeria's economic performance in 2004 and its prospects for 2005-2006 and described of the main features of Nigeria's medium-term programme of economic reforms known as the National Economic Empowerment and Development Strategy (NEEDS).

Nigeria achieved a GDP growth rate of 5 per cent in 2004 based on increased oil revenues and strong growth in the agricultural, manufacturing and services sectors. Growth was expected to increase further to 6 per cent in 2005 and 7 per cent in 2006. Under different scenarios covering a range of oil prices from $22 pb to current levels in the region of $50 pb, the results of model simulations indicated that prices at the high end of the scale had little sustained impact on GDP growth. High levels of imports of petroleum products and large subsidies on those products usually offset the beneficial impact of increased revenues from higher crude oil prices. The main risk to the optimistic outlook for 2005-2006 was the possibility of continued labour unrest to protest reform measures under the NEEDS strategy, particularly the removal of subsidies on petroleum products and other commodities. Sharp price increases in petrol prices have recently led to violent street protests and severe disruptions of economic activity. Nigeria also faced the prospect of continued civil unrest in the oil-producing region of the Niger Delta.

The NEEDS reform programme was aimed, primarily, at strengthening public- and private-sector institutions; accelerating the privatization of state-owned enterprises in aviation, mining and banking; and promoting economic diversification and strengthening downstream activities in the oil sector to reduce dependence on imported petroleum products. Also given high was the need to reform, recapitalize and revitalize the banking sector to strengthen capacity to finance activities in the real sector.

Ghana: **Mr. Cletus Dordunoo, ClayDord Consult**, reviewed Ghana's record of macroeconomic stability in recent years, during which inflation had declined from 42 per cent in 2000 to 12 per cent in 2004. Public sector management exercised strong fiscal discipline, even in 2004 under the pressures of presidential and parliamentary election campaigns. The Government had performed particularly well in external debt management. Ghana reached the HIPC completion point in August 2000 and subsequently managed to cut pre-HIPC debt stock by half, from $7 billion to the current level of $3.5 billion. Model simulations indicate that Ghana could sustain a manageable debt/GDP ratio of close to 20 per cent if continued macroeconomic stability encouraged major creditors to grant additional unconditional debt relief. The main risks to Ghana's economic performance were the inflationary impact of increased imported oil prices, subsidies on petroleum products and negative contagion effects from the conflict in Côte-d'Ivoire.

During the question and answer session, a wide range of issues were discussed. In response to one of the questions, Ms. Sirimanne pointed to the importance of remittances as a source of capital inflows to several African countries. Remittances now total approximately $10 billion each year, which is about half the amount of annual ODA to Africa. She also confirmed the high oil intensity of most African countries, which will have a large, negative impact on the continent if oil prices remain high, since most African countries are net oil importers. On the question of how African oil-exporting countries have managed oil revenues, Ms. Sirimanne indicated that several African oil-exporting countries suffer from "Dutch-disease" type problems that include almost exclusive reliance on oil revenues for GDP growth as well as neglect of other productive sectors of the economy and fiscal expenditure patterns that do not encourage economic diversification and broad-based development activities. She noted, however, that Chad, one of Africa's new oil exporters, adopted a public expenditure management and accounting system with the assistance of the World Bank to ensure proper accounting of oil revenues and adequate financing of social and infrastructure development projects from the oil revenue windfalls.

There was a discussion of whether low fiscal deficits and other indicators of macroeconomic stability were appropriate indicators of sound economic management in countries that, at the same time, suffer from high poverty and unemployment levels as well as severe capacity constraints, such as poor infrastructure and low investment rates. Ms. Sirimanne agreed that low fiscal deficits might not necessarily be beneficial or appropriate under those conditions, except in situations where the economy was extremely sensitive to price inflation that may result from expansionary fiscal policies and large budget deficits. Ms. Sirimanne further indicated that data indicating a pattern of low fiscal deficits for African countries usually include grant elements of ODA flows in the calculations. Additionally, low fiscal deficits were often made possible only by suppressing expenditure on essential government services. In recent years, however, some countries have done remarkably well in increasing revenues through VAT schemes, improved tax collection systems and other methods to increase government revenues.

Responding to a question of whether the rates of over 40 per cent quoted for South African unemployment might involve measurement errors, Ms. du Toit mentioned that two popular methods were used to measure and report unemployment in South Africa. The official method excludes job seekers who have given up looking for employment. This results in a lower rate of close to 30 per cent, which the authorities use in official reports. An expanded definition includes discouraged job seekers and results in the higher rates that she quoted. Ms. Du Toit also indicated that the high levels of unemployment in South Africa were caused by severe structural rigidities in the labour market. Those structural problems mainly reflect the legacy of the apartheid system and current corrective legislative and policy measures, such as affirmative-action policies, black economic empowerment schemes, minimum wage rates and mandated working conditions.

Latin America and the Caribbean

Mr. Andre Hofman, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), presented the outlook for Latin America and the Caribbean. According to Mr. Hofman, the region's GDP was expected to grow by 5.2 per cent in 2004 and by 3.8 per cent in 2005. Three main reasons explain the strong growth in 2004: a favourable international context where both exports and imports grow, especially exports to China from South America and to the United States from Mexico and Central America; very high rates of recovery in Argentina, Uruguay and Venezuela (which will not be repeated in 2005); and a strong recovery of domestic demand.

In 2004, there were clear geographical patterns in growth. Mexico and Central America grew at 4 per cent and less than 4 per cent, respectively, slower than the rest of the region. In South America, both the Andean region and the Southern Cone grew rapidly, but Argentina is expected to slow to an average rate of 4-4.5 per cent. Chile will continue growing at around 5 per cent, and the rest of the Cone at 4 per cent. In 2005, the fastest growers will be Chile, Panama and Argentina, while the laggards will be the Dominican Republic and El Salvador.

According to Mr. Hofman, the region will continue to have current-account and trade surpluses in 2005, although they will be smaller than in 2004, because of a less favourable international context and continued growth of imports. Also, in 2004, many countries succeeded in increasing their primary surpluses, but this will be more difficult in 2005 with lower growth and a less favourable external situation.

Inflation in 2004 was slightly higher than expected at 7.5-8 per cent, prompting countries like Mexico, Brazil and Chile to raise their policy interest rates. According to some simulations, a 10 per cent increase in the price of oil would increase the inflation rate in the region by 0.4 of a percentage point on average. Including the indirect effects, such as the increase in energy and transportation costs, the rise would account for a 0.6–0.7 percentage point increase in the inflation rate.

The terms of trade of oil-exporting countries were positively affected in the period 2000-2004, but those of the more diversified economies benefited less. Among the net oil importing countries, the metal exporters benefited the most and the exporters of agricultural products the least.

Several country participants added to Mr. Hofman's presentation:

Mexico: **Mr. Alfredo Coutiño, Center for Economic Forecasting of Mexico**, was of the view that economic recovery in Mexico seemed to be transitory. There are no domestic sources of growth for the next two years. Investment has dropped from 24 per cent to 19–20 per cent of GDP during the last 4 years. The Mexican business cycle is very dependent on the United States, since 80 per cent of exports go to the United States. This externally based recovery will, therefore, not last more than two years. In addition, the political cycle, ending with elections in 2007 will provoke a slowdown. Macroeconomic stability has been preserved, but without any job creation.

Brazil: **Mr. Eustaquio Reis, IPEA,** commented that, in contrast to the situation in Mexico, the good news in Brazil was an improvement of the labour market with an increase in real wages for the first time in 5 or 6 years. The inflation rate remained within the 7.2-9 per cent target band. The industrial sector has been recovering, while investment has increased. However, the Central Bank has raised the policy interest rate to 17.25 per cent, anticipating inflation of 7 per cent. This will hurt the public debt as well as dampen private investment. The Government will try to compensate for this through public-private investment projects in infrastructure. Labour reforms have been postponed due to electoral activities scheduled for 2006.

Colombia: **MS. Ximena Cadena, FEDESARROLLO,** briefed the meeting on the macroeconomic situation in Colombia. The agricultural sector of the economy has grown by over 4 per cent since the fourth quarter of 2003. Investment in housing and consumption of durables has been strong, but unemployment and poverty levels remain high. The role of fiscal policy will be limited due to problems in the pension fund, although IMF targets have been met. The emission of external debt shows some positive signs, but reforms are being delayed for political reasons. The present oil price hikes are affecting consumption in a special way, since oil reserves may be depleted by 2010, when Colombia is expected to become a net oil importer. Remittances have become an important poverty-reducing mechanism.

Venezuela: **Ms. Cristina Rodríguez, Metroeconometrica,** commented that growth in the Venezuelan economy in 2004 was due to the positive behaviour of oil prices and production, which had led to greater export earnings and Government revenues, and had also created a positive statistical effect. The relaxation of exchange-rate controls also supported this growth by prompting investment. However, unemployment is still high. Liquidity grew less rapidly due to the relaxation of exchange rates. The resulting decline of the parallel market also helped to slow inflation. The reduced volatility will help to keep inflation in check in 2005.

SPECIAL ECONOMIC TOPICS

The road to the euro for new and prospective EU member countries: challenges for macroeconomic policy

Mr. Stephen Hall, Imperial College, introduced the round table. He was of the view that the new EU members should join the monetary union as soon as possible. Since most of these countries are small, many problems which became apparent when some of the EU-15 countries had joined are irrelevant. The speaker then pointed out the distinction between nominal versus real convergence in these countries, noting that real convergence was not something to wish for as the new members needed much higher growth rates than the EU-15 countries.

According to the speaker, another important issue for the new EU member states is that, by joining the euro area, they open their financial sectors to competition. From a theoretical point of view, there are no particular reasons to expect crowding out of domestic banks. In Greece, for example, the banking sector has developed well and there has been no invasion of EU banks. Mr. Hall then pointed out some concerns relevant to the countries which had decided to join the EMU, such as the constraints on fiscal policies related to compliance with the SGP. Similar concerns apply, however, to the EU-15 countries and the EU is addressing them by considering a possible shift to more flexible arrangements. Another problem is related to the structure of the

European Central Bank (ECB) which, according to Stephen Hall, cannot be maintained with the increased number of countries, so that some reforms will be necessary.

Bulgaria: **Garabed Minassian, Bulgarian Academy of Sciences,** addressed the problems of adopting the euro from the point of view of a small country with a currency board arrangement. Examples of such countries are Estonia and Lithuania, both new EU member countries, and Bulgaria, an acceding country. The currency boards in these countries have influenced their economic performance and have to a large extent provided a smooth path to the euro as these countries will maintain their currency boards until the final adoption of that currency. Estonia and Lithuania have already joined the Exchange Rate Mechanism (ERM II).

According to the speaker, the countries in question were able to curb their inflation rates in just a few years after adopting their currency boards. He noted, however, that convergence of macroeconomic indicators also implies convergence in price levels. This process is faster at the beginning when disparities are more significant, but the complete price level alignments are expected to take decades. Adjusting the general price levels requires corresponding growth in productivity. This is a major challenge for all Eastern European countries, and in particular for the countries which maintain a currency board, as they cannot offset any domestic factors by manipulating the exchange rate. In the countries with currency board arrangements, fiscal policy is the only instrument for efficient macroeconomic management. The speaker concluded that the currency board proved to be a successful tool for economic stabilization and progress, but it needs to be combined with consistent structural reforms and macroeconomic policies in order to provide sustainable development.

Hungary: **Andras Simon, National Bank of Hungary,** pointed out that the debate related to the adoption of the euro in Hungary was mostly focused on the question of timing. There seems to be consensus that it is beneficial for a small country like Hungary to adopt the euro. Such countries are considered to be too small and too vulnerable to maintain their own currencies. According to the speaker, the benefits of preserving their own currency when adjusting to asymmetric shocks are illusionary; on the other hand, the danger of creating asymmetric shocks is large.

The speaker then spoke about the fiscal criteria for EMU membership, referring to the principles of subsidiarity and defense against negative externalities. In his view, fiscal deficits in the new EU member countries can exceed the target due to the underdeveloped infrastructure in these countries. On the issue of nominal convergence concerning inflation, interest and exchange rates, the speaker suggested that the present system is not optimal as it requires three different targets for monetary policy. Price stability is desirable, but it is not clear at which stage, and convergence can occur both before and after the adoption of the euro. In concluding, the speaker stressed the importance of balancing fiscal positions in the new EU member countries during the pre-adoption period in order to avoid inflation problems in the future.

Poland: **Wladislav Welfe, University of Lodz,** focused on Poland, the largest of the new EU members, which had already modernized its banking system and undergone a large fiscal reform in the last 3–5 years. There is a general agreement among politicians and economists that Poland should become a member of the EMU as soon as possible, and the discussions in the Parliament in the previous two weeks had stressed the benefits of being a member of the EMU. By 2007, Poland will meet the Maastricht criteria according to the estimates of the Ministry of Finance, and it could become a member of EMU by 2009.

Economic experts in Poland are also pointing to the benefits of adoption of the euro, namely the elimination of the possibility of having exchange rate crises and lower interest rates. However, there is little popular support because joining the EU was accompanied by an increase in inflation and a similar situation is expected following adoption of the euro. Experience in Greece and Spain confirms that inflation may return. There is still a lot of improvement to be made in the fiscal area given the large budget deficit, caused by the financial crisis three years previously.

The discussion which followed the round table focused mostly on the initial exchange-rate levels and the implications for inflation. Answering a question regarding the methodology used to estimate the exchange rate at which the countries would join the EMU, Mr. Simon and Mr. Welfe said that any equilibrium exchange rate calculated within a 15 per cent error could be implemented, because it should be determined by the free market. Mr. Jan Hanusek from Slovakia commented on the differences in price levels between the countries and noted the challenge in reaching the higher levels. Mr. Simon responded that it was dangerous to reach EU price levels in the pre-accession position. Professor Pauly noted that disparity was expected to decline rather than increase as the currency strengthened.

Unemployment and growth in Latin America and Caribbean: the recent experience

Mr. Jürgen Weller, Economic Commission for Latin America and the Caribbean spoke about recent trends in unemployment and the relationship between employment and economic growth in the region. The gap between the participation and the employment rate had increased since the 1990s, resulting in higher unemployment. The high open unemployment rates of the 1980s had decreased in the 1990s, helped by the growing informal sector.

There is a high correlation between labour supply and job growth, given that people search for employment even without social security benefits, out of necessity. There was also a correlation between growth and employment and an even higher correlation between growth and wage jobs, which meant that there was immediate job destruction in times of crisis.

Trade liberalization in the 1990s proved to increase productivity but did not create jobs. Self-employment, which was traditionally countercyclical, became pro-cyclical, i.e. increasing in times of growth. This provoked a saturation of the informal sector, which reduced the income of the self-employed while wage earners' income increased. This saturation reduced the capacity of the informal sector to absorb the unemployed in times of slow growth.

During the following discussion, **Mr. Eustaquio Reis** explained that the employment rate in Brazil during the 1990s fell despite growth because of an increase in informal sector employment, as well as progress in reforms, especially privatization and liberalization. **Professor Peter Pauly** commented that the correlation between employment and growth should have some time lags. The speaker responded that his exercise showed a high correlation, even for quarterly data. **Ms. Cristina Rodriguez** suggested a sectoral analysis, given the different nature of labour and capital intensity. The speaker concluded that steady growth is necessary to avoid job destruction produced by volatility. Labour reforms should still promote liberalization but not without added social protection. Job creation should come from supporting small and medium-sized enterprises, as well as from offering training.

Annex I

Project LINK Meeting

22-24 November 2004
Conference Room 4
United Nations Headquarters
New York

Provisional Agenda

<u>Monday 22 November</u>

10:00-10:15	**Opening** **Chair : Lawrence Klein** *United Nations*
10:15-1:00	**Global Outlook** **Chair : Lawrence Klein** United Nations Project LINK *Ian Kinniburgh, United Nations, New York* International Monetary Fund *Thomas Helbling, IMF, Washington* World Bank *Hans Timmer, World Bank, Washington* National Institute of Economic and Social Research *Ray Barrell, NIESR, London* Oxford Economics *Erik Britton, Oxford Economics USA, Wayne* General Discussion
1:00-2:30	Lunch
2:30-5:30	**Commodity markets** **Chair: Bert Hickman** Roundtable: Oil market developments and their economic implications *Robert Kaufmann, Boston University, Boston* *Ray Barrell, NIESR, London*

Sara Johnson, Global Insight, Inc., Boston
Pingfan Hong, United Nations, New York
Sergei Gorbunov, United Nations, New York

Non-oil commodity markets
F. Gerard Adams, Northeastern University, Boston
Pilar Fajarnes-Garces, United Nations Conference on Trade and Development, Geneva
Shamika N. Sirimanne, Economic Commission for Africa, Addis Ababa

5:30-7:30 **Reception**
Staff Lounge, 3rd floor, DC1 Building (via elevators)

<u>Tuesday 23 November</u>

10:00-11:30 **Regional Economic Outlook**
Chair: Sam Olofin

(a) United States
Lawrence Klein, University of Pennsylvania, Philadelphia

(b) Canada
Peter Pauly, University of Toronto, Toronto

11:30-1:00 **Regional Economic Outlook**
Chair: Sam Olofin

(c) Latin America
Andre Hofman, Economic Commission for Latin America and the Caribbean, Santiago
Country Participants

1:00-2:30 Lunch

Regional Economic Outlook
Chair: Delia Nilles

2:30-3:30 (d) Japan
Kanemi Ban, Osaka University, Osaka

3:30-4:30 (e) Western Europe
Ray Barrell, NIESR, London

4:30-5:30 (f) Central and Eastern Europe and CIS countries
Rumen Dobrinsky, Economic Commission for Europe, Geneva

Country Participants

Wednesday 24 November

10:00-11:30	**Regional Economic Outlook** **Chair: Eustaquio Reis** (g) Africa *Shamika N. Sirimanne, Economic Commission for Africa, Addis Ababa* *Country Participants*
11:30-12:15	**Employment in Latin America** **Chair: Eustaquio Reis** *Jurgen Weller, Economic Commission for Latin America and the Caribbean, Santiago*
12:15-1:00	**Regional Economic Outlook** **Chair: Eustaquio Reis** (h) Middle East *Edouard Nsimba, United Nations, New York* *Country Participants*
1:00-2:30	**Lunch**
2:30-3:30	**Regional Economic Outlook** **Chair: Peter Pauly** (i) South and East Asia *Cornelia Kaldewei, United Nations, New York* *Matthias Kempf, United Nations, New York* *Country Participants*
3:30-4:30	**The road to the euro for new and prospective EU member countries: challenges for macroeconomic policy** **Chair: Peter Pauly** *Roundtable discussion:* *Stephen Hall, Imperial College, London* *Garabed Minassian, Bulgarian Academy of Sciences, Sofia* *Andras Simon, National Bank of Hungary, Budapest* *Wladislaw Welfe, University of Lodz, Lodz*
4:30	**LINK Business Meeting**

Annex II

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No.	Country	Author
1	Austria	Ulrich Schuh
2	Finland	Hannu Viertola
3	Nepal	D R Khnal
4	Switzerland	Delia Niles
5	Croatia	Mervar Andrea
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7	Turkey	Suleyman Ozmucur
8	Belgium	Simon Erlich
9	Greece	Stella Balfoussias
10	Italy	Monica Ferrari
11	India	K. Sundaram
12	Hong Kong	Chou Win Lin
13	Venezuela	Jose Barcia
14	Nigeria	Samuel Olofin
15	Australia	Duncan Ironmonger
16	Sweden	Jonny Nilsson
17	China	Tao Liping
18	Malaysia	Muthi Samudram
19	Poland	Wadysaw Welfe
20	Czech Republic	Milan Kilma
21	Mexico	Alfredo Coutino
22	Japan	Ban Kanemi
23	Bangladesh	Salahuddin Ahmad
24	Colombia	Juan C. Chaparro

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25	Sudan	Faiza Awad Mohamed
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27	Ireland	Terry Quinn
28	France	Antoine Deruennes
29	Ukraine	M Skrypnychenko
30	Israel	Rachel Sheinin
31	Korea	Hangyong Lee
32	Philippine	Gay Cororaton
33	Hungary	Andras Simon
34	Costa Rica	Juan-Rafael Vargas
35	Romania	Constantin Ciupagea
36	Taiwan	Chung-Shu

Annex III

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1	Colombia	Juan C. Chaparro
2	Czech Republic	Milan Kilma
3	Hungary	Andras Simon
4	Venezuela	Jose Barcia
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13	Ireland	Terry Quinn
14	Mexico	Alfredo Coutino
15	Belgium	Simon Erlich
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17	Hong Kong	Chou Win Lin
18	Bangladesh	Salahuddin Ahmad
19	Poland	Wadysaw Welfe
20	Nepal	D R Khnal
21	Switzerland	Delia Niles
22	Canada	P.Duncan, S. Murphy, T.A. Wilson
23	Vietnam	Tran Kim Chung
24	Iran	Bijan Bidabad

No.	Country	Author
25	Korea	Hyeon-Wook Kim
26	Norway	T. Eika & M. Rolland
27	Germany	R. Dohrn & G. Barabas
28	Taiwan	Jin-Lung Lin
29	Romania	C. Ciupagea
30	South Africa	Charlette du Toit
31	Australia	Duncan Ironmonger

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