

Global Economic Prospects and the Developing Countries 2001

PRESS CONFERENCE

Tuesday, December 5, 2000

10:07 a.m.

Room J1-050

701 18th Street, N.W.

Washington, D.C.

—

P R O C E E D I N G S

MR. HAY: Very good morning, everyone, and thanks very much for coming along to our briefing this morning of Global Economic Prospects in the Developing Countries 2001.

Just a brief housekeeping point that the report is embargoed until 2:00 p.m. Washington time this afternoon. So that's straightforward.

So without any further ado, let's go through some introductions up here. On my immediate left is Nick Stern, our Chief Economist. On his immediate left is Hans Timmer, who is the leader of the Global Trends team in the Bank's Development Economics Department. And on his left is Bill Shaw, who is both lead author and lead economist, lead author of this year's Global Economic Prospects.

So without any further ado, let me ask Nick Stern to start us off with an overview of the global economy.

MR. STERN: Thank you very much, Phil. The main authors of the report are on my left. I'm going to limit myself to emphasizing just three key messages, key conclusions which emerge from this report.

The first one concerns the prospects for growth, the rather promising prospects for growth in the developing world, and the underlying reasons for that. Secondly, I'll say something about the impact of those prospects for poverty--implications of those prospects for poverty reduction. And, lastly, I'll say something about trade. So let me begin then with the prospects for growth.

What this report emphasizes, what it brings out, I think, really rather convincingly, is that the prospects for growth for the next ten years are better than they have been in the developing world really since around 30 years. This is something which is very encouraging. We do see prospects for growth in the developing world as now being faster in per capita terms than the developed world.

Now, what's the basis for that? Essentially what we've seen over the last ten years or so is a significant improvement in economic policy in developing countries, much more responsible macroeconomic policies, much more opening of those economies to trade, and emphasis on internal reforms. That has gone along with in many countries, including India, from which I

returned just this weekend, very strong emphasis on education and quite successful expansion of education.

If you put that policy reform and the education advances together, I think that you will see the reasons underlying the more optimistic prospects that are set out in this report.

The reasons that those policies have improved have been, I think, a growing and deepening understanding of the importance of responsible and liberal economic policies in generating economic growth. That's come partly from the experience of developing countries themselves in coping with inflation and protectionism over the years and a realization that it doesn't work. But it's also, I think, come with help from the international community, in which the World Bank and the IMF have played a part.

Now, second, what are the implications for poverty reduction? Well, first, let's understand that over the last ten years or so the poorest countries have been growing more slowly than the rest of the developing world. That has meant that world poverty over the last ten years or so has dropped only slightly in percentage terms and has been relatively constant in absolute terms in terms of the numbers of poor.

Now, we do see poverty going down in the first decade or so of this century as a result of the improved growth, but it's going to be vital that we work, that we all work, developing countries and donor countries together, to try to create an environment where poor people can participate more strongly in that economic growth.

Of course, the growth of India and China, the two biggest countries, will be crucial in poverty reduction, and both those countries seem to be growing at a pretty healthy rate and are likely to continue to do so, provided that the reform policies are taken forward and deepened.

We see Africa as growing in per capita terms over the coming decade, but only slowly. There, I think, is a major challenge for us all to try to accelerate that rate of growth and poverty reduction in Africa. It is looking better than the last decade. We're anticipating growth in per capita incomes in Africa of only around 1.3 percent in the coming decade. It needs to be much faster than that if the problems of poverty are to be overcome in that continent. So that's the challenge of poverty reduction. It looks better for poverty reduction than it has been, but major challenges in deepening reforms involving the poor, and particularly in Africa.

And, lastly, let me say something about trade. What the report shows, I think, very effectively, is that trade sanctions are not an effective means of improving labor and environmental standards in developing countries. Essentially, in large part, the emphasis on labor and environmental standards in the discussions of trade has in many cases cloaked essentially a creeping protectionism. What we want--protectionism of the advanced countries against the developing countries. What we need to see going forward is not an increase in protectionism through these various back-door methods, but what we need to see is a major reduction in protectionism by the advanced countries against the developing countries.

The total cost to developing countries of the protectionism in advanced countries is bigger, perhaps two times as big or more than the overall annual flows of aid. Annual flows of aid of the order of \$50 billion and the cost to the developing countries of advanced country protection is probably substantially in excess of \$100 billion.

It's not, of course, that easy to calculate these figures precisely because so much of the protectionism is in the form of non-tariff barriers, various forms of barriers which are creatively used in advanced countries against developing countries. But the cost to the developing countries

is major, and what we should be seeing over the coming years is a reduction in this kind of protectionism and not an increase through these back-door kinds of approaches.

Let me just give you one other figure to illustrate the size of this problem. The payments by OECD countries to the subsidization of agriculture are around \$300 billion a year. That's roughly the GNP of Africa. So the issue of protectionism is a major one. Some of it, of course, is through policies towards the agricultural sector, a sector in which developing countries have their comparative advantage.

And there's a certain hypocrisy about lectures from advanced countries to developing countries on the importance of liberalization, of getting into the world community, whilst at the same time erecting barriers against just the kinds of goods which comparative advantage would lead them to want to trade. It's not, of course, an argument against liberalization of trade policies. That is fundamental to growth in trade in developing countries, but it would be so much more effective if at the same time the protectionist barriers in advanced countries started to be dismantled.

Thank you.

MR. HAY: Okay. Let me ask Hans Timmer to give us an idea of what the global prospects hold for developing countries.

MR. TIMMER: Thank you very much, and good morning, everybody. I would like to walk you through the main messages of the article by showing you four graphs. And since Nick Stern already addressed improved long-term growth potential, I will mainly focus on the short run and on the risks to the forecast. I hope this is working.

This first graph shows growth rates of world production, the bars, and growth rates of world trade, the solid line, since 1965 and including our forecast for the coming two years. And this graph shows that currently, in 2000, we witness exceptionally strong growth of the world economy. The growth rate of world production exceeds the 4 percent, and we have to go back to 1988 to see growth that fast. And world trade grows at a record rate of 12.5 percent, and in no single year since 1965 trade volumes have expanded that rapidly.

Now, in the report we analyze both the structural factors, like improved technological developments and trade liberalization, and the cyclical factors, like the sharp rebound in East Asia after the financial crisis that contributed to these high growth rates. And according to our analysis, the world economy currently hits a cyclical high, and we expect for the coming two years a moderate slowdown in world production. And even with this moderate slowdown, the growth rates of world trade will slow down to single-digit levels, and that's because normally the cyclical pattern of trade is much more volatile than of production.

This high-growth environment has created a favorable short-run outlook for all developing regions, and in some of the regions, like East Asia, South Asia, and Central Europe, we expect, like for the global economy, a moderate slowdown, and for other regions we expect even a further acceleration of growth from somewhat lower levels, each region for different reasons.

So far, so good. However, some tensions are building up in the world economy, and let me mention two of the main tensions that pose also downside risks to this favorable outlook.

The first one is related to development in commodity markets. Here we see the price index of oil, of metals, and of agricultural products since the beginning of '97, just before the Asian crisis. And you see that the oil price is now about 40 percent higher than it was just before the Asian crisis. And at the same time, the other prices of commodities hardly recovered, if at all, from the sharp drops after--following the Asian crisis.

And, of course, the high oil prices pose a risk for the industrial world. It could trigger higher inflation, and it could trigger a sharper slowdown. However, in our analysis this is not the main challenge that we are facing. The main challenge is for the poor, oil-importing, commodity-exporting countries.

For example, if a country exports agricultural products to finance the oil imports, it now has to export twice as much products to pay for the same amount of oil compared to the situation before the Asian crisis. And since we expect that the oil price hike is only temporary, the optimal policy direction of such a country would be to temporarily borrow more money to finance part of this higher oil bill, but especially those countries, they don't have access to the international capital market, and that's the main challenge for the international community and for the international organizations at the moment as a result of the high oil prices.

The other tension that's building up is in the financial markets. There is still a large amount of bad debts in developing countries, keeping uncertainty in the financial markets, and at the same time the large debts in the private sector in the United States pose a risk to the forecast. What we see here is a graph with risk premiums to be paid on junk bonds in the United States and risk premiums to be paid on bonds in emerging markets. And you clearly see the rising trends in both risk premiums in the last month, and probably with the United States functioning as a bottom--as a floor in the market.

Now, this development poses a direct risk for developing countries because it increases the cost of borrowing, but it also imposes an indirect risk for developing countries because the financial problems in the United States could trigger a harder landing than we assume in the baseline. And a harder landing in the United States will indirectly adversely affect the developing countries.

So, to summarize, we experienced record growth rates, and the short-term prospects are favorable, and the long-term prospects are very good, like Nick Stern said. But at the same time, some specific tensions are developing in the world economy. And we attempted to capture those two elements in this report by developing, besides a favorable short- and long-term outlook, also a low-case scenario that starts with a hard landing in the United States and then spills over to other regions and jeopardizes also the long-term growth.

I haven't presented a lot of numbers in this presentation, but, of course, you can find them in the report, and we can discuss it afterwards also.

Thank you very much.

MR. HAY: Thank you, Hans.

Let me ask Bill Shaw to take us on through some of the other chapters that follow the prospects.

MR. SHAW: Thank you. I'm going to talk about the topical chapter of Global Economic Prospects. Chapter 2 is on trade policies in the 1990s and the poorest countries.

Developing countries, including the poorest countries, made substantial progress in reducing trade barriers over the past two decades. But the growth performance of the poorest countries was disappointing.

The least developed countries--sorry, the low-income small countries' exports increased by only 3 percent per year, and their per capita incomes actually fell and this dismal performance was due in part to the high incidence of conflict. The countries that avoided conflict saw a rise in per capita GDP of 0.8 percent a year. Nevertheless, growth remained well below that of the middle-income

developing countries and the advanced industrial economies. And the growth of exports and GDP of the poorest countries was constrained by weak domestic policies and by trade barriers in industrial countries.

On the domestic side, overvalued exchange rates that discriminated against production for export and for import competition. The chart compares two groups of countries of the poorest countries. The ones on the far right are small countries--small, low-income countries that had low real exchange rate volatility during the 1990s, and the ones on the far left had high real exchange rate volatility.

Volatile real exchange rates lead to sharp changes in the relative profitability of different economic activities. This increases the risk of investment and, therefore, discourages private initiative. As you can see, output and export growth in the low real exchange rate volatility countries was much higher than the other countries.

At the same time, unreliable transport services, inefficient banking systems, power interruptions, and burdensome red tape increased the costs that exporters faced and made it harder for them to compete in world markets.

Also, the poor countries find it difficult to refund or to exempt the duties that exporters face on the capital and intermediate goods that they need to import. As a result, exporters in the poor countries actually face higher taxes on their imported inputs than do exporters in the more successful middle-income countries where programs to refund these taxes are quite common.

On the external side, subsidies, quotas, and high tariff rates, particularly on agricultural products in industrial countries, made it extremely difficult for developing country exporters of agricultural products to compete. For example, tariffs on some commodities such as meats, sugar, milk, chocolates, frequently face tariffs of in excess of 100 percent in many industrial country markets, and tariff peaks, very high tariffs, can be several times this figure.

As a result of this and other factors, developed countries' exports of agricultural--the performance of developing countries' agricultural exports has not been good. Their share of agricultural world trade has declined over the past 30 years. By contrast, tariff and non-tariff barriers in manufacturing have declined significantly, and developing countries' share of world manufacturers' trade has increased. And the poorest countries are perhaps most penalized by these barriers because they are least equipped to deal with external trade barriers as a host of domestic policy and institutional weaknesses inhibit their diversification to products that face less barriers.

Chapter 2 is on Standards, Developing Countries, and the Global Trading System. One of the main messages we have is that trade sanctions are ineffective in promoting labor and environmental standards. Poor labor standards, including freedom of association and freedom from exploitative child labor, as well as appropriate environmental standards, such as limits on pollution and deforestation, are essential for sustainable development. However, the imposition of trade sanctions to improve standards is likely to be costly and ineffective. Imposing trade sanctions to improve labor standards hurts workers directly by reducing demand for their products.

Even if sanctions force improvements in some sectors or industries, it is unlikely to improve working conditions in the economy as a whole. For example, foreign pressure to end child employment in Bangladesh's garment industry resulted in many children having to turn to lower remunerative and more dangerous occupations.

Further, low labor standards do not usually confer a competitive advantage because, indeed, they tend to erode competitiveness by reducing incentives for workers to improve skills and for firms to introduce labor-saving technology.

Empirical studies also show that trade sanctions are ineffective in reducing pollution levels while easily costing a large amount in terms of output. There's only limited evidence that low environmental standards increase competitiveness or attract more foreign direct investment.

Product standards, by contrast, which are rules governing the characteristics of goods imposed to protect health and safety, are critical for markets and help provide important support to the international trading system by increasing the reliability and, hence, the acceptance of imported goods. However, product standards can also be used to discriminate against imports, and as determining whether a particular standard is really necessary for health and safety or simply serves some protectionist purpose can be difficult, developing countries can be disadvantaged in dealing with these issues as they often lack the technical capability and financial resources to meet standards.

The final chapter of the report is on the impact of electronic commerce on developing countries. Estimates of electronic commerce vary, but it's clear that electronic commerce has increased from about zero in the middle of the last decade to about \$100 billion. This is still less than 1 percent of the GDP of industrial countries. However, electronic commerce could reach into the trillions of dollars over the next five years.

Substantial productivity gains are expected from electronic commerce. For example, procurement costs may decline as switching from paper to Internet-based procurement processes can save 90 to 95 percent of the costs. There will be reduced use of middlemen as firms connect directly to their customers, and inventory control is improving, which allows firms to reduce the stock of inventories and improve the integration with other firms.

As is well known, developing countries have much less access to the Internet than do industrial economies. Internet access in developing countries is also highly differentiated. Some middle-income countries have relatively high penetration rates. India and China have low penetration on the Internet on a per capita basis but, nevertheless, have a critical mass of users that helps promote electronic commerce. By contrast, access in the poorer countries of Sub-Saharan Africa is negligible.

Telecommunications is a major constraint on the Internet use in developing countries. Access to telephones, as shown in the chart, by Latin American countries on average is about a fifth of the access to telephones of industrial countries. In turn, the poorer countries of Sub-Saharan Africa, which excludes South Africa in this chart, have much less access to telephones, either main lines or mobile phones, than Latin America and other developing country regions.

Policy regimes in some developing countries are an important constraint on electronic commerce, and government needs to ensure openness to trade and foreign direct investment to absorb the technology required for Internet participation, investment in human capital to ensure the workforce can participate effectively, reliable power, efficient transportation services, and well-regulated financial systems to make sure that the transactions that are effected over electronic commerce can actually take place, and a support of legal and regulatory regimes that represents the realities of electronic commerce.

I should note that all of these areas are necessary. Any one can serve as a bottleneck to further participation.

Network effects where the value of the network increases with the number of participants emphasizes the importance of government policies in supporting Internet access. However, specific infrastructure investments to increase access are very risky as rapid changes in technology can make them obsolescent in short order.

Thank you.

MR. HAY: Bill, thanks very much.

Let's open it up to questions. Just as usual, if you'd identify yourself and your organization for the benefit of the transcriber over there. Let's go in the front row here.

QUESTION: Damian Milverton from Dow Jones. The question is to anyone on the panel, but it would appear that we are going to have a President one way or another in the U.S. who will favor tax cuts. I note in the report that you said that this would not perhaps be the best thing for a country trying to get itself out of the current account problem.

Would this mean that with the tax cuts coming in they should perhaps look to tight monetary policy as an offset to perhaps slow demand or at least keep a lid on potential price pressures if that is the case?

MR. STERN: I don't think it's the immediate job of the Global Economic Prospects to tell the U.S. Government what to do in its monetary and fiscal policy. What we do is draw attention to some of the key issues, and there's no doubt that the very large trade deficit in the U.S. should over the medium term be a central issue in the formation of economic policy in the U.S. That is going to have to unwind sometime over the next few years. How it unwinds obviously is of crucial importance to the rest of the world, but I don't think I'll offer either of the potential presidential possibilities specific advice right now.

MR. HAY: Whatever we said would be overturned on appeal, anyway, Damian.

[Laughter.]

MR. HAY: If we can go to the second row here?

QUESTION: Mike Phillips from the Wall Street Journal. Mr. Shaw, the Clinton administration in its waning days has adopted a policy of negotiating free trade agreements under which the country that they're negotiating with is required to adhere to its own labor and environmental standards with the possibility of sanctions if they do not follow their own laws.

How effective do you think that is in creating better labor and environmental standards? And how effective is it in promoting growth?

MR. SHAW: Well, I think a country establishing appropriate environmental and labor standards and adhering to them is very important. Whether it's an effective way to enforce that is to include them in a trade negotiations agreement with the United States would hinge, I suppose, on who's making the judgment as to whether the country is actually following their standards. This is an issue that I would prefer to leave up to the country rather than dealing with it in the context of trade negotiations.

MR. HAY: Okay. Let's go over here to Dr. Parasuram in the second row.

QUESTION: Parasuram from the Press Trust of India. This is for Mr. Stern. You mentioned your recent visit to India. I was wondering whether you discussed in India the rate of growth in India. Recently the Prime Minister of India has been wanting to raise the growth rate to 9 percent, and I was wondering whether with your experience you think that is feasible.

Also, for the war against poverty, what do you think should be the minimum rate of growth in order to make an impact on poverty?

MR. STERN: As you say, Prime Minister Vajpayee has spoken in terms of 9 percent growth rate as a goal compared with the 6 percent or so that it is now. First, let's recognize that the rise in India's growth rate from the so-called Hindu rate of growth of 3.5 percent of the '60s and '70s is itself a major achievement, and it's an achievement which comes from the economic reform programs that have been developing in India over the last 10 or 15 years.

So essentially the answer to your question lies in that observation. It's reform, liberalization, and macro stability that has generated the rise in growth rate from 3.5 to 6 percent over the last 10 or 15 years. It's going to be a deepening and strengthening of that reform that's going to be the foundation for any rise above 6 percent.

It's difficult to speculate just how far above 6 percent it can go. I myself think it can go significantly above 6 percent if those reforms are followed. At the top of the list I would put power sector reforms. The unreliability of the power supply in India is a major deterrent to domestic and foreign investment. It's a major hindrance on agricultural growth. It's a major hindrance on the growth of the small-scale industries in India's small towns that are going to have to drive that growth. So power sector reform is crucial.

The fiscal deficit is now approaching or in the region of 10 percent of GDP in India, and major inroads need to be made into that.

And, lastly, governance reform more generally in India will be very important and reduction of bureaucratic harassment and red tape, which is inhibiting investors.

Given the constraints that there are on Indian economic investment, it's impressive that it has risen from 3.5 to 6 percent. I think with further deepening reforms along the lines I've described, it is possible to go significantly above 6 percent. How far above will depend on the strength and depth of those reforms.

MR. HAY: The gentleman down here in the first row.

QUESTION: (?), European Commission. I would like to have two questions, well, one clarification. The 12 percent growth you're talking about, is that--what is the part of the increase of the oil prices in that case? How sustainable is this 12 price or is this also a price effect due to the oil price increases?

A second question. Is there anything more known about the impact on the less--or you are quite positive about what is happening? Yes? Do also really the less-developed countries, is there any indication that they will benefit from the prospects? What is the prospects for the less-developed countries, or is the gap--or we saw an increasing gap between the less-developed countries and the rest of the world, what increased in the last century. Is it now we are reversing the trend, do you think, or is there still--the gap between them is still widening?

MR. STERN: Let me comment briefly on the second part of the question, then I'll pass over to Bill for the oil part.

We are anticipating growth in income per capita in the developing world over the next ten years or so to be faster than in the developed world. That means that in that sense, you see, you would expect to see some reduction of the gap, whereas in recent times the growth rate income per capita has been the other way around, the differential. So at the rather aggregative level I've described, you would expect to see some catching up from the differential growth rates and income per capita. But the very poor countries have been growing less slowly, and I remark that we're estimating growth of income per capita in Africa, over the coming decade or so, at only a little over 1 percent.

So broadly speaking, developing countries are growing faster in income capita terms than developed, but very significantly in that story, some of the very poor developing countries are growing less fast. So in that sense, the gaps will widen unless economic policy and transfers are focused on raising the growth rates in the poorest developing countries, particularly in Africa.

MR. TIMMER: And for world trade and the oil prices, when I showed 12-1/2 percent growth of oil trade, I was talking about the volume of oil trade and not about the value. And that means it has no direct relation with the oil prices. If there is a relation with attention in the oil market, there's a negative one, because the volume of the trade in oil will be smaller. The main determinant of this record growth in oil trade are the strong import growth in the industrial world, especially in the United States this year, and the exceptionally strong import growth in East Asia, where this year industrial production and import growth, following industrial production, were about 20 percent.

MR. HAY: The gentleman in the third row back.

QUESTION: (?) Perrera with the Mexican News Agency, Multimax. When you talk about Mexico, you place very well among, you know, all the Latin America countries. You mention, for example, that in '98, the Mexican exports growth at 25 percent, when most of the other countries has a growth of 17 percent. My question is basically, what do you--I mean what (?) did you see or what of those element did you see that--can you tell that Mexico will perform well in the next decade, especially when we have a new government. There is some uncertainty in how well this new government will perform in the economic area due to lack of the expertise in most of these cabinet members.

MR. STERN: Looking back over the last few years, Mexico has indeed been one of the strong performers in terms of economic growth and trade, and the circumstances and policies that have underlined, that have been underneath this rapid progress, we would trust would continue. Of course, Mexico's exports are strongly dependent on growth in the United States, and that will be an important part of the process. But I don't want to comment directly on the likely policies of an incoming government, but I think that any government in Mexico would look at the experience of the last few years and recognize those factors which have led to Mexico's success.

MR. HAY: The gentleman in the second row there.

QUESTION: My name is Andrei Sitov. I'm with the Russian News Agency, TASS.

My question refers to the oil prices and energy markets. Some experts have said recently that the energy markets will remain tight and the prices will remain high for the simple reason that you do not use oil, crude oil, for gas stations. You cannot run cars on oil. And some experts say that the refining capacity is limited, and that people are not willing to invest very much in that refining capacity because of the expectations that within the next 10, 15 years there will be new fuel sources.

So I wanted to ask the--any one of the panel who deals with these issues, to see if you took consideration of these factors?

MR. TIMMER: I think it's true that there are some capacity constraints, especially in the United States in the refinery market, but you should make a distinction between the crude oil price and the price of gasoline at the station. And in our analysis for the crude oil price, we think that it could remain high through the winter, but from starting in the spring, next spring, there is a great chance that it will go down.

And according to our analysis, the equilibrium long-run price for crude oil is something like 19, \$20 a barrel in current dollars, and we assume that from the spring on it will slow down to that level. And I think for the capacity constraint in the United States, it's mainly due to environmental regulations, also that is not a real long-run phenomena, but it will be solved also.

QUESTION: If I may follow up on that. But the environmental constraints, which are an important constraint also, also mean that this is hampering international trade, because, again, some experts--I mean I could give you a name of the person who was saying all of this, if I could look it up in my notes, but basically he said that at this point the United States and the Western European markets are basically closed to a lot of oil products from other countries such as Venezuela or Russia or any other countries, for the simple reason that the standards are higher in these markets. So does it influence international trade?

MR. TIMMER: In the sense that it will not increase international trade what you would expect if you would allow more refined products coming in. In that sense, that very much depends on the regulation in the countries, and I don't think at the moment there are clear restrictions to import refined products from Venezuela, for example. And again, all those problems could raise some domestic prices of gasoline, but it's not an argument to have higher crude oil prices, and that's our main concern in analyzing the world economy, and also in analyzing the oil-importing, developing countries, which very much depend on the price of the crude oil.

MR. HAY: Question down there in the front row. Changed his mind. Let's go to the lady four rows back in the middle there.

QUESTION: I'm Anna Willard from Bridge News. I was wondering what your current outlook for Turkey is, and also, in particular, do you think the current exchange rate regime is appropriate?

MR. STERN: Obviously, the financial situation in Turkey is cause for some concern, and our colleagues from the IMF are working closely on that with the Turkish authorities right now. We also, in the World Bank have a country assistance strategy over the next--for the next three years, which will be going to the Board this month, of the order of--with resources of the order of \$5 billion over the next three years. So that's the background.

And we should recognize that the situation in Turkey is a financial crisis. The Turkish Government has been, over the last few years, involved on a reform program, which we do think is sound, and which we've been working closely--on which we've been working closely with them, and will continue to do so.

But on exchange rates regimes specifically, and monetary policy, as you know, those issues are with the IMF, rather than the World Bank, and they're working right now with the Turkish authorities.

MR. HAY: Question, the gentleman in the glasses, and then the lady to his right.

QUESTION: Hi. Mark Dragien (?) from Bloomberg News.

I'm interested in knowing if the events, different economic indicators over the last few weeks, have made you think that there is more likelihood of a hard landing in the US, or less likelihood, and what specifically you're looking at for that?

And a related question if I may: do you think there's any implications from the events in Argentina and Turkey on the rest of the developing world and outlook for emerging markets in general?

MR. STERN: Let me say a word or two on the emerging markets, and then perhaps Bill could comment more specifically on the US circumstances.

Argentina and Turkey are important emerging markets. I think that the world financial community analysis of emerging markets has improved considerably over the last couple of years or so. And developments in Argentina and Turkey have, I think, been closely followed, and well understood. As you know, the IMF has taken a lead in Argentina, and the World Bank has been involved also, and the IMF is now taking lead in Turkey.

I do think that the problems in both countries will be overcome over the coming months, but they are important to the whole emerging market structures, and it's important that they are resolved. But I think the emerging markets as a whole are stronger, less vulnerable, the investors are more discerning now than they were two or three years ago. So while the events in these two economies are indeed significant, I don't think that we should associate them with the events of '97 and '98.

MR. TIMMER: With respect to the hard landing in the United States, there has been a risk already for a couple of years now, that people were afraid of a hard landing in the United States, and always we considered two kinds of scenarios that could lead to a hard landing. The first one originated in domestic economy and the second one was coming from the international environment.

Domestic economy, there was always the possibility of an over-shooting of the Fed, that it would raise interest rates higher than was necessary to slow down the economy, and we can say that the chances of such a hard landing are very low at the moment. Probably there will be no further increases of the interest rates of the Fed, and they succeeded in bringing down domestic demand to a more sustainable level.

The risk of a hard landing coming from outside was related to the huge and increasing current account deficits, which actually is a large debt of the private sector in the United States. And once there is a reversal of the sentiment in the international market that could shift funds away from the United States, then it would lead to higher interest rates in United States, but also to a weaker dollar and to a sharp slowdown.

And those risks have increased in the last couple of months, and the graph I showed on the risk premium on the junk bonds is one signal that we are following for that.

The other signal that would go into that direction is a real weakening of the dollar, and that's what we haven't seen yet. So in that sense, our baseline forecast is still the most probable one, but indeed, the risks are increasing of a kind of hard landing coming from the international environment. And then that of course will have an impact as it already has an impact on some developing countries. Those risks that I mentioned, the higher oil price and the increased borrowing cost, are not in favor of developments in Turkey and Argentina.

QUESTION: Kathy Schalk, National Public Radio. How long has it been since the per capita income growth rate in the developing world was faster than in the industrialized countries? And for how long do you expect that faster growth in developing countries to continue?

MR. STERN: It's 30 years or so I think since the growth rate was clearly faster in developing countries than in developed in terms of income per capita. We're going back really to the early '70s and the '60s.

The prospects for the future, for the reasons that we described at the beginning, I think that if the policies of developing countries are maintained and deepened in terms of the kinds of reforms we've seen over the last 10 years or so, then in that case I think we're likely to see growth in developing countries in terms of income per capita being higher than in the developed countries for 10 or 15 years. It's difficult to look further ahead than that.

But let me emphasize again as I did at the beginning that for some poor, very poor developing countries, that's not true. It's not true for Africa. We don't anticipate the growth rate in income per capita of Africa being faster than in developed countries. So it's very important to look within the group of developing countries and recognize there are some very poor countries for whom the prospects have improved but we still would not anticipate their growth rate income per capita exceeding that for developed countries.

MR. HAY: Gentleman with his hand, Stevan, to your right.

QUESTION: Jose Puertos (ph) from France Presse. You're telling us that the oil prices are in fact have grew up by 40 percent and that is one of the reasons for the tensions building up in the system. Implying maybe that oil prices to be maybe a little bit lower than that. But every time this fact is point to the oil-exporting countries they said, in fact the oil prices are lower today than they were in '72 in constant dollars. And it is one of the very few bright spots in the export for the developing countries, together with a slight increase in manufactures.

So how do all of this play in the oil picture?

MR. TIMMER: When we say that currently the oil prices are high and probably temporarily high, it's not a kind of normative statement that we say that oil prices are too high. What we are saying is that these high prices will not be there in the long run if you look at the market fundamentals.

It's true that there is some declining trends in the real oil prices, like you said, and the real oil prices are not that high compared to many decades ago. But that's also true for lots of other commodities, and especially true for non-oil agricultural commodities which are very important for lots of poor developing countries. And it's especially, the current relation of very high oil prices and very low other commodity prices that is such a challenge for those poorer countries.

MR. HAY: We have time for about two or three more questions, so let's take this gentleman here.

QUESTION: Ab Hamilton, International Trade Finance Report. In looking at developing countries with less developed financial structures has any weight been given to those which have official export credit agencies providing pre and post-shipment financing for exporters? And if so, what?

MR. SHAW: There are some countries have export credit but I don't understand the question, any weight given to them.

QUESTION: If poor countries have a slow export growth rate, are there specific instances of countries having export credit agencies that have a faster growth rate than their peers lacking such agencies?

MR. SHAW: I see what you're asking. It's true that a few of the middle income developing countries both have export credit facilities and very high export growth rates. Those are not

causal effects. Those are related. They just happen to have strong export markets and the government is supporting them. I don't think you can judge by that that other countries should therefore adopt export credit agencies, particularly a country that can't afford those kind of facilities.

MR. HAY: Any more questions? Anyone else? Okay, let's go back here to the gentleman in the front row.

QUESTION: I have still one question. There is, I think, one threat over the whole world, the threat of AIDS, what influence in particularly Africa, the Caribbean, Central and Eastern Europe, Russia, et cetera. How is the forecast about the spread of AIDS incorporated in the effects on the outcome of your studies? What were the presumptions on this? Were there any presumptions did you take of AIDS into consideration about what will happen in the next 10 years?

MR. STERN: Yes, we did. I'll leave Bill to say something about that. But I wouldn't confine the areas where this is an issue to the areas you described in the question. In India, for example, also there's very strong measures you could start to see the level of AIDS rising very rapidly and that would have serious consequences. Of course, it's far below African levels at the moment but there are real dangers there too.

Bill, would you want to talk about how it was taken into account in the growth estimates?

MR. SHAW: Yes, certainly. Of course, the significant problem is in Africa, and particularly in southern Africa. We expect that in the most affected countries the labor force growth could actually fall by one or two percentage points simply because of AIDS.

Now that in the sense of AIDS not only is a terrible human tragedy but tends to affect the people who are in the prime of their life, who are the breadwinners, who are the people who support children and older people. That could actually result in a decline in per capita income depending on severity of how the disease plays itself out in the next decades.

So it is a terrible problem. It will have an impact in reducing growth rates in Africa compared to what they would otherwise have been.

MR. HAY: Let me thank you all very much for coming along today. The embargo is set for 2:00 p.m. So nice to see you all. Thanks very much.

[Whereupon, at 10:57 a.m., the press conference was concluded.]