

EXTERNAL SECTOR

The East-Asian crisis, which erupted in July 1997, spread rapidly across other emerging economies through 1998. The crisis led to fears of widespread credit crunch and concomitant recession. However, beginning early 1999, most of the economies affected by the crisis had begun to recover, and global economic and financial conditions have improved markedly. Oil prices recovered in early 1999, after a sharp drop of over 30 per cent in 1998 and have soared higher in recent months. The decline in many other commodity prices have also been arrested; world trade prices, in US dollars, of non-fuel primary commodities are projected to increase by 2.8 per cent in 2000, in contrast to the declines of 15.7 per cent and 11.2 per cent in 1998 and 1999, respectively. Similarly, prices

of manufactures, as represented by unit value index of manufactures exports from G-5 countries (USA, UK, Germany, Japan and France) to developing countries, are expected to increase by 2.5 per cent in 2000, as against a decline of 3.9 per cent in 1998 and 0.6 per cent in 1999. The recession in Japan deepened during 1998, but economic activity in early 1999 witnessed a sharp rebound. Global growth has bottomed out at 1.9 per cent in 1998 and estimates/forecasts point to a recovery to 2.6 per cent in 1999 and 2.9 per cent in 2000 (Table 6.1). However, there are downside risks including, inter-alia, a slowdown in the United States from the present robust performance, doubts about the strength of the Japanese recovery after a protracted recession and some

TABLE 6.1
External Environment

(Per cent Change)

	Estimate 1998	Forecasts		
		1999	2000	2001
World Output	1.9	2.6	2.9	2.8
Major seven OECD countries*	1.8	2.6	2.4	2.1
Low and Middle-income countries	1.6	2.7	4.2	4.5
East Asian crisis-5**	-7.9	4.4	5.3	5.1
Excluding East Asia Crisis-5	3.3	2.4	4.0	4.4
World Trade Volume	4.2	5.0	6.4	6.3
World Trade Prices in US dollars				
Manufactures export unit value@	-3.9	-0.6	2.5	2.5
Oil (weighted average)	-31.9	37.8	2.8	-2.7
Non-fuel primary commodities	-15.7	-11.2	2.8	4.2
Inflation (consumer prices)				
Major seven OECD countries	1.4	1.3	1.6	1.8
United States	1.6	2.2	2.5	2.5

* Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

** Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand.

@ Unit value index of manufactures exports from G-5 to developing countries.

Source : Global Economic Prospects 2000, The World Bank, November, 1999.

concerns about the sustainability of the (so far partial) recovery in East Asia. Slower output growth in all the main country groups in 1998 led to a sharp slowdown in the growth of world trade volume to an estimated 4.2 per cent in 1998 and 5 per cent in 1999. World trade volume, though projected to recover significantly to 6.4 per cent in 2000 will, nevertheless, be

much below the volume growth of 10.5 per cent reached in 1997. According to the latest World Economic Outlook, there was a precipitous drop in net private capital flows to emerging markets from US \$214 billion in 1996 to US \$66 billion in 1998. In 1999, net private capital flows have yet to recover and are estimated to remain low at US \$68 billion.