

Managing the World Economy in the 1990s
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1. Introduction

Three developments with significant implications for the management of the world economy in the 1990s were rapid growth in emerging markets, rising capital mobility, and the tension between regionalism and globalism. After the lost decade of the 1980s, growth accelerated in the developing world. Exports from developing countries grew twice as fast as production, by nearly ten per cent per annum and in some cases, like China, even faster.¹ Disturbances in emerging markets, including financial crises, became a prominent concern. And emerging market economies, for their part, increasingly insisted on a voice in the management of the world economy.

The preceding reference to financial crises points to the second important development, namely, rising capital mobility. A growing number of countries relaxed controls on capital movements in the 1980s and 1990s. Advances in information and communications technologies reduced the costs and increased the attractions of investing across borders. In response, net private capital flows to developing countries rose sixfold between 1983-89 and 1993-96.² Another metric is private net capital flows as a share of developing country GDP, which rose from ½ of 1 per cent in 1983-89 to 3 per cent in 1994-6. Capital mobility promised to extend the benefits of portfolio diversification, consumption smoothing, and higher rates of capital

¹World Bank (2001), p.15. Sachs and Warner (1995) list more than 30 developing countries as switching from closed to open trade regimes between 1985 and 1995.

²Excluding the newly-industrializing economies of East Asia

formation to capital-poor countries. But capital flows proved not just large but also volatile. Following repeated bouts of instability, net private debt flows to emerging markets collapsed to negligible levels at the end of the 1990s. Managing capital flows thus became a major challenge for those responsible for managing the world economy.

The third important development was the rise of regionalism. The 1990s saw the deepening and widening of the European Union, with the creation of the single market in 1992, the accession of Austria, Finland and Sweden in 1995, and the advent of the euro and the European Central Bank in 1999. It saw the establishment of NAFTA and the development of Asian regionalism under the umbrellas of ASEAN, APEC and other “a’s.” Events like the European exchange rate crisis of 1992, which might have been thought to be in the province of global institutions like the IMF, were handled regionally.

These were not the only developments with important implications for managing the world economy.³ Nor were they without precedent or parallel. In the second half of the 19th century, for example, an earlier cohort of emerging markets, the overseas regions of recent European settlement, had transformed the pattern of international settlements and the global competitive balance. The emergence in the late 19th and early 20th centuries of the largest and most dynamic member of that cohort, the United States, had disturbed the operation of the international monetary system and international capital markets.

Nor was the final decade of the 20th century the first period of high international capital mobility: as a share of global GNP, net capital flows were actually larger in the century’s

³No paper can cover everything; among the omissions of this one is a discussion of the collapse of the Soviet Union and attempts to manage the subsequent process of transition.

opening decade. Financial crises, similarly, were far from unprecedented. And the end of the 20th century was not the first episode of economic regionalism. European regionalism was long standing. There had been economic blocs in the 1930s and the 19th century as well.

But that these phenomena had precedents does not make them unimportant. It does not limit their utility as windows onto the challenges of managing the world economy. Indeed, subtle differences in their nature of these changes and in the policy responses they elicited can help us to understand what was distinctive about the global economy and its management in the 1990s.

2. How Different were the 1990s?

How different were the 1990s from the point of view of international transactions? This section considers the question for international trade, international production, international migration, and international capital flows. It has two messages. First, the 1990s were similar to previous decades in that the rise in international transactions was a continuation of trends that had been underway for half a century and more. Those trends reflected secularly declining communication and transportation costs which encouraged the internationalization of markets and policies. They reflected the removal of restrictions on economic freedom that has been part and parcel with the removal of restrictions on political freedom.⁴

At the same time, there were signs of an acceleration of the growth of international transactions in the 1990s. This is evident in the rates of growth of international trade,

⁴This refers to the association of liberal economic policies and with liberal democracy and by implication to the spread of democracy in Latin America, Asia, Eastern Europe and other parts of the world.

international capital flows, and international production, if not also in the rate of growth of international migration.⁵ The question is to what extent this reflected an acceleration in the pace of political and technological change (and thus the operation of the same mechanisms as described above) versus other changes, such as autonomous shifts in policy.

Second, while it became fashionable to draw comparisons with earlier episodes of globalization (the late 19th century, the 1920s), globalization in the 1990s was in an important sense more extensive. The exposure of economies to trade was higher, not surprisingly given that transport costs (relative to the value of the goods transported) were lower.⁶ The internationalization of manufacturing production was more extensive, given the decline in costs of communication and therefore corporate control. While net capital flows had been large a century before, gross capital flows had been smaller, and a narrower range of assets had been traded across borders. In the 1990s many of the constraints leading to this earlier pattern were relaxed by the information-technology revolution, with far-reaching implications for economic management at the national and international levels.

Table 1 shows merchandise exports as a share of GDP for the world and 11 important countries. The rising export/GDP ratio in the 1990s is clearly evident, for the world and for most of the countries enumerated in the table. At the same time it is apparent that this rise was a continuation of a trend extending back to the early 1950s, reflecting recovery of the global

⁵Comparing international migration with these other magnitudes is difficult, of course, owing to large amounts of unrecorded immigration.

⁶Alan Greenspan became notorious in the 1990s for the speech in which he argued, to not obvious ends, that GNP “was growing lighter.” In fact, he meant the increasing weightlessness of GNP as a metaphor for declining transport costs (it costs less to send a batch of semiconductors by air than a ton of coal by sea) and hence rising globalization.

trading system from the ravages of the Great Depression and World War II. But by 1973 recovery to the export/GDP ratios of pre-Depression and prewar years was complete. The further rise in export/GDP ratios since then reflected other forces such as declining transport costs, the development of global supply chains, and the reduction of tariff and nontariff barriers to trade.⁷ From this point of view, the rise in export/GDP ratios in the 1990s was not unique. It reflected the fact that the world was still very far from fully globalized.⁸

At the same time, there were distinctive aspects of the rise in export/GDP ratios in the 1990s. The rate of increase was faster: after having risen by less than a quarter in nearly two decades since 1973, the export/GNP ratio worldwide rose by more than 50 per cent in the decade of the 'nineties. Other changes included export-oriented structural adjustment in Latin America in response to the debt crisis of the 1980s, which ratcheted up the openness of the region's relatively closed countries, and the emergence of China as a major trading power.

As a result of these and other factors, it is often asserted, levels of trade dependence were, by the end of the 1990s, back to 1913 levels. The figures in Table 1 suggest that they were actually quite a bit higher. Other metrics point to the same conclusion: for example, Bordo, Eichengreen and Irwin (1999) calculate trade exposure as the ratio of trade to production in sectors potentially exposed to trade and find that trade exposure, so measured, was considerably

⁷Thus, World Bank (1995) reports that the costs of oceanic freight transport fell by fully 70 per cent between the 1920s and the 1990s. The fall in the cost of air freight was even faster.

⁸For instance, had global integration been complete, a United States that accounted for 20 per cent of global production would have imported 80 per cent of the goods and services consumed by its residents. The actual number was more on the order of 10 per cent; again, see Table 1.

higher at the end of the 20th century than at the beginning.⁹

Flows of labor were stimulated by declining costs of commercial air transportation and telecommunications but constrained by restrictive policies in the destination countries. One way of summarizing how much more restrictive immigration policy was is in terms of the real wage differential between sending and receiving countries, which can be taken as a measure of the incentive to move. Real wage differentials were three to four times as large in the 1990s as in the earlier “age of mass migration.” In 1880, the U.S.-Italian wage differential was roughly two to one; now the differential between developed and developing countries is on the order of ten to one.

United Nations estimates suggest that the stock of migrants had grown by 1.9 per cent per annum over the quarter century from 1965 to 1990, slightly above the rate of growth of world population, and that the rate of growth of the migrant stock accelerated as the period progressed (Table 2). In the 1990s, in contrast, the immigrant stock rose by a slower 1.3 per cent per annum, reflecting restrictive policies. Thus, what was different about the ‘nineties was not a faster rate of growth of immigration but changes in composition and direction. The advanced countries were the only region to see increases in the immigrant stock over the decade; the migrant population of the less developed regions actually fell by 2 million in the 1990s (according to the best available estimates). Thus, although migration patterns are too diverse to admit of simple generalizations, it might be said the movement of people increasingly took the form of migration from the developing to the developed world. Total gross immigration to the

⁹Their calculations also point to the main structural difference between trade in the two eras of globalization, namely that pre-1913 trade was primarily inter-industry, while modern-day trade is predominantly intra-industry.

United States, Canada, Australia and New Zealand rose sharply from an annual average of less than 800,000 in the 1980s to well more than 1,000,000 in the 1990s. Annual immigrant inflows these countries had been less than 600,000 in the 1950s and less than 700,00 in the 1960s; thus, this too was a continuation of the broad post-World War II trend, although the acceleration in the 1990s was noticeable. Nor was this trend limited to the North America and Oceania: for example, net immigration to the European Union rose from 200,000 per annum in the 1980s to roughly 750,000 per annum in the 1990s (Chiswick and Hatton 2003). Western and Southern Europe became destinations for immigrants from Asia, the Middle East, Africa, and the former Soviet Union.

The growth of foreign direct investment and multinational production had been prominent for the entire post-World War II period; few aspects of this process grew more quickly in the 1990s than in preceding years (Table 3). An important exception was cross-border mergers and acquisitions, reflecting the growing role of financial markets in international transactions. While there was some sign of an acceleration in the rate at which restrictions on capital inflows and outflows were removed (Figures 1-2 and Table 4), that trend had already been underway since the mid-1970s or early 1980s in the industrial countries and since the early or late 'eighties, depending on how the phenomenon is measured, in the developing world. Reflecting this rise in capital mobility, the 1990s saw the growth of current account balances and the shrinkage of the Feldstein-Horioka puzzle (the high correlation of national savings and investment rates).¹⁰ Similarly, the period saw a rise in foreign assets as a share of world GDP

¹⁰Consensus results pointed to a decline in this correlation from the point estimate of 0.9 originally obtained by Feldstein and Horioka (1980) to estimates on the order of 0.6. See Sinn (1992).

from 25 per cent in 1980 to 49 per cent in 1990 and 92 per cent in 2000.¹¹

Capital mobility was another feature of the 1990s with important consequences for international economic management. Some have questioned the uniqueness of this situation by suggesting that financial markets had been equally globalized before, specifically before 1913. They have a point, but there is a question is how far to push it. Foreign investment may have loomed large before 1913 in the development of certain countries – the UK on the creditor side and Canada and Australia on the debtor side – but it loomed much smaller in the accounts of others such as the United States. Other data, including Obstfeld and Taylor’s estimates of foreign assets as a share of world GDP, suggest that foreign asset stocks were considerably smaller in 1913 than in the 1990s.¹² In part this is telling us about the difference between gross and net flows: estimates of foreign assets are constructed by cumulating gross flows, whereas current account balances reflect net flows. And gross flows were almost certainly an order of magnitude larger in the 1990s, reflecting diversification on the part of rich-country investors. In addition, it was in connection with gross flows that the impact of information technology was most apparent; the cost of moving financial capital across borders with the click of a key on a computer keyboard was a small fraction of the cost of a cable-based transaction a century before. Thus, the 1990s were different from, say, the 1890s by virtue of the growth of short-term gross capital flows in particular.

The impact of advances in information technology in the 1990s could be seen in the

¹¹Obstfeld and Taylor (2003), Table 2.1.

¹²Their figure is only 18 per cent for 1914. Compare the figures for the 1990s cited in the text.

volume of transactions on foreign exchange markets, a more specialized indicator of what was happening to gross international capital flows and to short-term gross flows in particular. Official BIS estimates suggest that transactions in spots, forwards and swaps rose by 46 per cent between 1992 and 1995 and by a somewhat slower 26 per cent in 1995-98.¹³ Other measures, which adjust volumes for changes in the value of non-dollar transactions, suggest that the growth of turnover in fact accelerated between these periods.¹⁴ These were very rapid rates of growth from levels that were already historically unprecedented.

The ramifications of the fall in costs of information and communication extended beyond the foreign exchange market. The greater ease of monitoring foreign market conditions encouraged portfolio diversification, as already noted. The greater ease of monitoring management in far-distant places also encouraged the internationalization of production. The growth of foreign direct investment in manufacturing – the use of foreign investment to construct global supply chains and produce near to the final consumer, thus facilitating the tailoring of products to local demand – was thus one of the profound differences from the pre-1913 period, when direct investment had been heavily concentrated in extractive industries.¹⁵ The

¹³See BIS (1998). In contrast, the BIS's next survey, of foreign exchange market turnover in April 2001, showed a decline from the previous survey of some 14 per cent when volumes are measured at constant exchange rates. This presumably reflected the growing role of electronic brokers, the declining tolerance for open foreign exchange positions after the turbulence of August-September 1998, and the advent of the euro.

¹⁴Thus, a rise in the dollar reduces the value of non-dollar transactions unless a correction is made for changes in the exchange rate.

¹⁵Dunning (1983) estimates that 55 per cent of the foreign capital stake in this period was accounted for by the primary sector and only 15 per cent by manufacturing. A commonplace explanation is that monitoring and control are least problematic in such sectors, where both inputs and outputs are, in the main, tangible. See Bordo, Eichengreen and Irwin (1999). This, of course, is just another perspective on the phenomenon noted above, namely the growing

development of global supply chains was evident in the growing volume of foreign direct investment in China, while the incentive to produce close to the consumer was apparent in the growing volume of mergers and acquisitions between the high-income countries. It is important to emphasize the far greater importance of the latter at the end of the 20th century. Whereas in 1914 nearly two-thirds of the global stock of FDI was located in developing countries and regions (according to Dunning 1983), in the mid-1990s well more than two-thirds was located in the advanced-industrial countries themselves (according to UNCTAD 2000), reflecting the large and growing volume of direct-investment-related transactions among the industrial countries themselves.¹⁶

The 1990s, then, was not the first age of globalization. Moreover, the growth of international transactions was the continuation of trends that had been underway for decades. Along many dimensions the pace of growth did not exceed that of the immediately preceding period, although there is some sign that growth quickened in markets and transactions especially sensitive to progress in information technology – short-term capital flows and international production, for example. An historical perspective thus cautions against exaggerating the novelty of this “decade of globalization.” Still, even incremental processes can have profoundly important cumulative effects. In the 1990s the cumulative effects of this ongoing process of economic internationalization became increasingly difficult to ignore.

importance of intra-industry as opposed to inter-industry trade.

¹⁶Dunning suggests adopting the contemporary definition of developing countries when considering the pre-World War I data, in which case their share rises to more than four fifths. This further accentuates the contrast with today.

3. The Emergence of Emerging Markets

“The emergence of emerging markets” was one of the signal developments of the 1990s. Developing countries accounted for a growing share of world trade: Table 5 shows that the share of developing countries in world trade rose by a third over the decade, from 24 per cent at its beginning to 32 per cent at its end. A small number of recipient countries similarly came to account for a growing share of North-South capital flows. Between 1990 and 1996, 16 emerging markets accounted for nearly three quarters of all net private capital flows to the developing world.¹⁷ One implication was that policy toward developing countries bifurcated into policy toward middle-income countries with ready access to international markets for exports and finance versus policy low-income countries in need of debt-relief and export-oriented structural reform (discussed in Section 4 below). Another implication was that Third World countries, regardless of the category into which they fell, insisted on more voice in the institutions of global governance.

An illustration is the Uruguay Round of trade negotiations signed in April 1994. In contrast to its predecessors, this was the first trade round in which the developing countries formed a significant negotiating group (Brown 2003, pp.164-5). Exports had come to figure more importantly in their growth strategies, highlighting the issue of market access. Developing countries thus worked together with some of the smaller industrial economies to craft a compromise agenda for the Uruguay Round. In contrast to previous multilateral trade rounds,

¹⁷IMF (1997), p.76. The 16 countries were Argentina, Brazil, Chile, China, Colombia, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, the Philippines, South Africa, Thailand, Turkey and Venezuela.

they did not insist on strict reciprocity as a condition for concessions.¹⁸ In turn this facilitated cross issue bargaining.

The developing world also provided impetus for the creation of the World Trade Organization, which it saw as a way of limiting the scope for unilateral action by the larger powers, including the United States. The immediate objectives of developing countries included steps to outlaw voluntary export restraints, such as those on clothing and textiles which had grown into the Multi-Fiber Arrangement (MFA), and to facilitate agricultural trade liberalization. Lobbying as a block they succeeded in including in the Uruguay Round an agreement to phase out many voluntary restraints and orderly marketing agreements.¹⁹ They secured small steps in the direction of reducing agricultural protection (such as the tariffication of border measures). In return, developing countries “gave” market access for service industries, in many of which they had yet to develop a comparative advantage, and the extension of the multilateral trade regime to intellectual property.²⁰ This is not to suggest that there were no divisions among the developing countries. But their collective voice figured more prominently than in earlier GATT rounds, reflecting their growing importance as exporters and importers.

Just as emerging markets worried that the GATT was too weak to prevent arbitrary action by the large industrial countries, they complained about institutional weaknesses in the International Monetary Fund, the World Bank and the Bank for International Settlements. The

¹⁸That is, they not insist that industrial countries reduce their market-access barriers as a quid pro quos for reductions by the developing countries.

¹⁹Over three years except in the case of the MFA, where the phase-out was to occur over ten years.

²⁰Brown (2003) characterizes the TRIPS agreements on services as a quid pro quo for phasing out the Multi-Fiber Agreement.

BIS was an extreme case: though its Committee of Banking Supervisors was charged with formulating rules for global financial markets and institutions, emerging-market countries were unrepresented. The Asian crisis highlighted the problem by making Asian financial markets the center of regulatory attention. Talk of creating an Asian BIS quickly led BIS management to offer admission to Hong Kong, Singapore and a number of other emerging markets.²¹

IMF and World Bank reform proved harder nuts to crack. These institutions disbursed real money, which left the advanced countries reluctant to share control. The developing countries and emerging markets that accounted for 85 per cent of IMF members and were now the subject of 100 per cent of its programs had only 40 per cent of the votes. Relative to their share of global GDP (at purchasing power parity), this left them significantly underrepresented in the Fund (Henry 2003). Similarly, the 85 per cent of IMF members that were not advanced industrial countries had only 50 per cent of the seats on the executive board. As the financial problems of developing countries gained prominence in the Fund, questions arose about the representativeness and therefore the legitimacy of its actions. The same was even more true of the G-7, the select grouping of advanced industrial countries that had traditionally set the broad agenda for IMF policy. Following the Asian crisis, the United States created the Group of Twenty Two “systematically significant countries” with the participation of key emerging markets, to consider reforms of the international financial architecture. But the ad hoc nature of this group, to whose composition the small members of the G-10, excluded from the G-22, predictably objected, robbed it of legitimacy and prevented it from evolving into an effective

²¹By the early 21st century, the list included Argentina, Brazil, Hungary, Korea, Mexico, South Africa, Thailand, Turkey and a number of Central and Eastern European economies.

mechanism for governance of the international financial system and the IMF.

These problems of representativeness and legitimacy were acute in the case of the poorest countries. For example, the 46 Sub-Saharan African countries that were chronic users of IMF resources and chronically dependent on the World Bank were represented by just two executive directors. This could not help but create a feeling that the advanced-industrial countries who were the principal shareholders in the IFIs dictated the terms of the reform packages on which their forgiveness of the debts of the poorest countries was conditional, while the poor countries themselves were just the subjects of the exercise. In turn this aggravated what came to be known as the ownership problem. The development of Poverty Reduction Strategy Papers and more extensive dialogue between the IFIs and civil-society groups in program countries went some way toward addressing the issue. Ultimately, however, the task of reforming IMF governance was left to the next century.

4. The Rise of Capital Mobility

A key development affecting the world economy in the 1990s, as noted, was the explosive growth of international capital flows. The single largest net flow was, ironically, toward the United States, itself a relatively capital-abundant economy. Foreign capital was attracted by the promise of a New Economy which manifested itself in the high level of the stock market. The combination of strong growth in the United States and capital inflows from abroad supported the dollar, whose rise reversed itself only when the bloom came off the stock-market-and-new-economy rose.

The aspect of capital mobility that most attracted the attention of policy makers was the

flow to emerging markets. Debt flows to developing countries recovered following the Brady Plan and the development of a market in emerging market debt securities. Equity flows were stimulated by the liberalization of stock markets and the relaxation of capital controls.²² But while portfolio capital flows got most of the press, foreign direct investment dominated numerically and economically. As Table 6 indicates, net FDI flows exceeded net portfolio equity flows by a growing margin as the decade progressed. Notwithstanding the growth of portfolio equity flows, investors saw holding minority stakes in foreign enterprises as risky business. Limiting principal-agent slack across long distances in most cases still implied holding the substantial shares that are the defining characteristic of direct investment.

FDI was facilitated by containerization, which reduced transport costs for merchandise, and by the information and communications revolution, which facilitated the control of branch plants abroad and the development of global supply chains. It responded to privatization in developing countries, which allowed the acquisition of former state enterprises, often in resource-intensive activities, and to macroeconomic stabilization and structural reform, which heightened the attractions of investment in other sectors. In contrast to financial capital flows, in the case of FDI the evidence of learning spillovers was more compelling.²³ The implications for

²²In addition to these “pull” factors in the South, there were “push” factors in the North, notably demographic trends (aging populations in Europe) and the growth of institutional investors (Mutual funds, pension funds, hedge funds, etc.).

²³Studies suggest that spillovers are mainly vertical (inter-industry, affecting buyers and suppliers) rather than horizontal (intra-industry, affecting competitors) and that they are contingent on the absorptive capacity of the recipient economy. See *inter alia* Aitken and Harrison (1999) and Kugler (2000).

financial stability were more benign.²⁴

FDI and medium-to-long-term debt flows from private creditors fluctuated in tandem in the first half of the 1990s, but the latter collapsed in the wake of the Asian crisis. The same pattern is evident in the behavior of bank loans and bonds, although bank lending fell more precipitously following the Asian crisis, turning negative in 1999.²⁵ Banks concluded that syndicated lending to developing countries was dicey and that bonds had better risk-sharing characteristics.²⁶ Another important if under-appreciated feature of the data is the importance of mergers-and-acquisitions-related flows, which dwarfed lending through banks and the bond market and displayed the same procyclical pattern.

That short-term flows were the most volatile component of the capital account is apparent from Table 6. Whereas the swing in net bank lending following the Asian crisis was from +\$50 billion to -\$5 billion, the swing in short-term debt flows went from +\$60 billion to -\$60 billion, more than twice the same absolute amount. The share of short-term debt in a country's external obligations was clearly associated with its vulnerability to crisis (Rodrik and Velasco 1999). While there is some dispute over whether that association was causal (since if investors fear a crisis they have an incentive to shorten the tenor of their claims), there is little question that

²⁴See Frankel and Rose (1996). Hausmann and Fernandez-Arias (2000) caution against using the share of FDI in a country's total capital inflows as a measure of its financial health. "Unhealthy" (financially riskier) countries attract less total capital but actually import more of it in the form of FDI.

²⁵The "other" entry under net debt flows from private creditors reflects mainly the change in trade credits.

²⁶The banks also adjusted by purchasing subsidiaries in developing countries and establishing local branches, which they could use to fund their local lending with local (and local currency) deposits.

heavy reliance on short-term debt could heighten the severity of a crisis. This led a number of countries to use capital controls and regulatory policies to lengthen the maturity structure of their external obligations.²⁷ By the end of the decade, even the IMF and the U.S. government had acknowledged the prudence of such measures.

This reference to the IMF and the U.S. government alludes to an important respect in which management of the world economy went off-track in the 1990s. In retrospect, the Fund and the U.S. pushed with excessive vigor for capital account liberalization. Recall that the Clinton Treasury was pressing Asian and Latin American countries to abolish all capital controls, and that prior to the Asian crisis (and as late as the Bank-Fund meetings in Hong Kong in September 1995), the IMF was lobbying for an amendment to its charter that would have made capital account liberalization an obligation of member countries. Elsewhere I have reflected on what might explain this naive enthusiasm for capital account liberalization.²⁸ For present purposes the important point is that by the end of the decade it had been acknowledged as excessive, and both the U.S. government and IMF had moderated their positions.

²⁷Chile's non-interest-bearing deposit requirement is a favorite example of this policy. A few countries mistakenly pursued policies with the perverse effect of encouraging short-term inflows and paid the price. Thus, Korea opened its banking system to short-term inflows in the mid-1990s while continuing to limit inward DFI, the idea being that the country did not want to compromise control of its corporate sector. The December 1997 crisis was an almost direct result.

²⁸See DeLong and Eichengreen (2002). As noted there, the Clinton Treasury's sympathy for capital account liberalization flowed from its belief in free and open markets. It reflected the experience and predisposition of a Treasury secretary drawn from the markets. It was consistent with the belief that controls created opportunities for corruption. It reflected the belief that domestic financial liberalization had important benefits. It followed from the administration's commitment to trade liberalization, including trade in services. Even the sum of these explanations is not entirely satisfactory, however; no doubt this question will be fodder for future historians.

To be sure, capital account liberalization was not simply foisted on developing countries by the United States and the International Monetary Fund. There were powerful economic and political forces, not least in the affected countries themselves, encouraging the liberalization of capital accounts. In Europe, the removal of capital controls was integral to the Single Market project (as we will see in Section 5 below). This is apparent in Figure 1 from the acceleration in financial opening in the industrial countries after 1986 and especially after 1992. In emerging markets the removal of capital account restrictions accelerated later, as part of the general process of economic opening. Policy makers in developing countries saw capital-account decontrol as a concomitant of the general strategy of liberalization, stabilization, and privatization. Investors saw it as a signal of policy reform and as a promise of ease of repatriation of their earnings.²⁹

With benefit of hindsight we know that these views were too simple. Structural reform and macroeconomic stabilization needed to precede capital account liberalization. For it to contribute to growth rather than simply precipitating costly crises, serious macroeconomic imbalances first had to be removed. The banking system had to be strengthened. The exchange rate regime had to be adapted to the reality of capital mobility, which generally meant adjusting it in the direction of greater flexibility.

These principles were not always appreciated at the time. Williamson and Mahar (1998) show that while most countries did in fact reduce tariffs, strengthen fiscal policies and deregulate domestic financial transactions prior to liberalizing short-term capital inflows, fewer of them reduced government ownership and involvement in the banking system and strengthened

²⁹See Bertolini and Drazen (1997).

prudential supervision and regulation in the preceding period. This failure is one way of understanding why the 1990s was a decade of crises. Efforts to count the number of currency and banking crises and to quantify their severity using intertemporally consistent criteria suggest that crises were becoming more frequent, although – some prominent exceptions to the contrary notwithstanding – they were not obviously also becoming more severe.³⁰ There is also some indication, mainly anecdotal, that the problem began dying down toward the end of the decade. It is tempting to credit the progress of emerging markets in adapting their policies to the new environment of high capital mobility – by strengthening their banking systems, accumulating reserves, limiting their dependence on short-term capital, and moving to greater financial transparency and exchange rate flexibility.

It is also tempting to assign some credit to reform at the IFIs. Following the Mexican crisis in 1994, the IMF and World Bank began devoting more resources to encouraging transparency and more effective prudential supervision in member countries. The IMF established a Special Data Dissemination Standard for countries active on international capital markets, and the Bank and Fund undertook joint Financial Sector Assessment Programs (FASPs) and Reviews on the Observance of Standard and Codes (ROSCs).³¹ The IMF established an International Capital Markets Department. It reviewed its response to capital account crises, rethinking the role for structural conditionality in crisis countries. As noted above, it acknowledged the prudence of going slow on capital account liberalization.

³⁰See Bordo, Eichengreen, Klingebiel and Martinez-Peria (2001).

³¹It is still too early to tell how much difference these programs make for country credit-worthiness and financial stability. Empirical analyses of the early evidence include Gelos and Wei (2002), Glennerster and Shin (2003), and Christofides, Mulder and Tiffin (2003).

But if there was progress on crisis prevention, there was less movement on crisis resolution. Some advocated expanding IMF lending operations – turning the Fund into an international lender of last resort on the grounds that most capital account crises resulted from panic, pure and simple – while others recommended curtailing them on the grounds that IMF programs only encouraged reckless lending and encouraged future crises. While the evidence for this moral-hazard view was hardly overwhelming, it carried the intellectual day. Realizing that it would never be practically possible to limit IMF lending until there were other ways of managing crises at acceptable costs, officials contemplated alternatives for crisis resolution like adding restructuring-friendly provisions (“collective action clauses”) to loan agreements, creating an international bankruptcy court, and establishing a sovereign debt restructuring mechanism through an amendment to the IMF’s Articles of Agreement. None of these proposals was implemented in the 1990s, but the intellectual way was paved: 2003 saw the first significant issues of sovereign bonds with collective action clauses in New York by emerging markets like Mexico, Brazil, South Korea and South Africa. When economic histories of the first decade of the 21st century are written, it may be possible to say how much difference this made for the stability of the international system.

The temperamentally less optimistic will observe that little progress was made in creating locks and levies to regulate the tidal waves of capital that periodically flood into emerging markets. Absent progress in regulating the volume of global liquidity (through, inter alia, procyclical adjustments in the Basle Capital Standards), the entire burden of adjustment was placed on emerging markets. Nor was progress evident in addressing the inability of emerging markets to borrow abroad in their own currencies (Eichengreen and Hausmann 1999). The main

options this left developing countries for protecting themselves against currency mismatches was accumulating reserves (an expensive policy, since the yield on U.S. Treasury bonds was significantly less than the cost of funds) or not borrowing abroad in the first place (and thus stymying the transfer of resources from capital-rich to capital-poor countries). The massive accumulation of reserves by Asian and Latin American countries and the decline in portfolio capital flows toward them at the end of the decade were indicative of inadequate progress on these aspects of international financial management.

Poor countries, unlike their emerging market counterparts, lacked access to international financial markets. Moreover, both total foreign aid and the share directed toward the poor countries declined in the 1990s. On the other hand, FDI flows to the poor countries rose from 0.4 per cent of their GDP in 1986-88 to 1.1 per cent in 1991-93 and 2.7 per cent in 1997-99, as these countries benefitted from the global surge in FDI, took steps to enhance their investment climates, and adopted new laws permitting profit repatriation and limiting double taxation. As a result, over the course of the 1990s they received as much FDI as a share of GDP as other developing countries. While foreign investment continued to flow toward mineral- and oil-exporting countries, their share of the poor-country total in fact fell over the course of the decade, from nearly 50 to roughly 20 per cent. As a result, the Feldstein-Horioka correlation (between savings and investment) fell from 0.7 to 0.4-0.5 between the first and second halves of the 1990s. In addition, poor countries were connected to the international financial system by the growing participation of foreign banks in their economies. Foreign bank assets as a share of total bank assets in poor countries rose from less than 20 per cent to more than 40 per cent between 1995 and 2000. By the end of the 1990s, only 15 of the 58 countries classified as low

income by the World Bank reported no foreign bank activity.³²

Thus, the view that the poorest countries were wholly disconnected from the international financial system and therefore dependent on aid flows is exaggerated. That said, their lack of securities market access, in conjunction with low savings capacity and pressing capital needs, continued to support the case for official aid. Against this backdrop the decline in official flows and, in particular, the decline in the share of total aid going to the poorest countries were particularly disturbing. Aid fell by 10 per cent in real terms between 1990 and 2000. (See Table 7.) It fell by a third as a share of donor-country GNP over a decade when the number of persons in developing countries living on less than \$1 a day showed little downward trend. On top of this, the share of total aid going to low-income countries fell by a tenth from the early 1980s to the late 1990s.

In part, the stagnation of aid flows reflected donor skepticism about the effectiveness of concessionary transfers. Where governance was poor and corruption was rampant, aid might be dissipated or worse.³³ In an influential paper for the World Bank (using pre-1994 data and widely circulated prior to publication), Burnside and Dollar (2000) found that aid had a positive impact on growth in developing countries with good fiscal, monetary and trade policies but little effect in the presence of poor policies. This finding influenced World Bank and donor-country policy in the late 1990s, suggesting how foreign aid programs might be restructured and under

³²World Bank (2002), p.65.

³³Where worse might including helping to keep in power the corrupt authorities whose actions prevented the country from initiating reforms and attracting private finance.

what circumstances it made sense to augment the aid going to particular countries.³⁴

Unfortunately for this new consensus, subsequent research (e.g. Easterly, Levine and Roodman 2003) suggested that the aid-growth nexus was more complex and that simple formulas like “aid only countries that already have strong policies and institutions” had limited utility.

5. The Challenge of Regionalism

The rise of regionalism reflected processes that had been ongoing long before the decade in question. The modern wave of European integration had been underway since the second half of the 1940s. By the 1980s integration had become a touchstone of European policy – it was the household remedy that Europe’s leaders administered for every ache and pain. At this point their most important source of discomfort was chronic slow growth and high unemployment (“eurosclerosis”). European officials responded by reinvigorating the integration process and specifically by committing to the creation of a unified internal market by 1992. They did not all share a common vision of what that internal market should entail or how it would solve the problem of eurosclerosis. Some saw it as a way of eliminating regulatory barriers to growth and introducing the chill winds of competition, while others saw it as a way of avoiding a race to the bottom and reinventing the European social model on a continental scale. But if rationales varied, results were uniform in that policies uniformly led to a more integrated and unified market.

³⁴More important surely in providing motivation for increased aid, especially by the United States, were the events of September 11th 2001. But it is revealing that President Bush’s Millennium Challenge Corporation, designed as the mechanism for such aid, was set up to rate countries in terms of the strength of their policies and institutions and to limit aid to countries with sufficiently high ratings.

Monetary union, the goal set out in the Delors Report in 1989, was similarly a long-standing aspiration. In 1971 an earlier committee of experts chaired by Pierre Werner, Prime Minister of Luxembourg, had recommended monetary unification within ten years. What was different in the 1990s was that the single market heightened the urgency of the task.³⁵ By requiring that European countries dismantle capital controls in order to create a unified European capital market, it ruled out alternatives like narrow fluctuation bands and pegged-but-adjustable rates. Flexible exchange rates being a source of political tension and transactions costs, preserving the single market, which was now both the symbol and the motor of integration, required a forced march to monetary union.

The result of reinvigorated economic and monetary integration was a strengthening of regional institutions for managing economic affairs. This was evident in the case of the European Central Bank, which became the vehicle used by the majority of European countries for managing interest rates, exchange rates, and financial flows. But the point is more general. As a result of the single market, the European Commission acquired a larger role as the guardian of competition. As a result of Economic and Monetary Union, the Commission and the Council of Ministers acquired more responsibility for the surveillance of European fiscal policies (at the expense of the IMF and the OECD). When currency and financial crises erupted, European governments handled them regionally rather than turning to the IMF, as had been the practice in

³⁵In addition, it can be said in retrospect that monetary integration proceeded more smoothly in the 1990s because the European economy was not buffeted by oil shocks as severe as those of the 1970s.

earlier decades.³⁶

Two additional features of European integration were important for global management in the 1990s. First, fears of a Fortress Europe notwithstanding, there was little evidence that regional integration was inconsistent with global integration. Data for a cross section of developed and developing countries suggest that EU member states traded more with the rest of the world as a result of their regional arrangement.³⁷ European regionalism was embedded in the GATT system. Europe was still broadly sympathetic to the notion of global trade liberalization (agriculture aside); the only difference made by the single market was that the continent now negotiated with one voice.

Second, deepening and widening did not prove incompatible, contrary to the fears of early critics of European integration. Warnings that a European Union struggling with the structural challenges of deeper integration would be unable to digest new members proved unfounded. There were good reasons for thinking that the accession of Austria, Finland and Sweden in 1995 would go down easily, but it is more striking that neither the commitment to the single market nor the fact of monetary union slowed the EU's negotiations with the transition economies of Central and Eastern Europe, 8 of which were offered treaties of accession at the beginning of the following decade.

The other important regional initiative in the 1990s was the North American Free Trade Agreement. Free trade between the U.S. and Canada was hardly earthshattering: industries like

³⁶Thus, the UK and Italy had drawn resources from the IMF in the 1970s, and Denmark had engaged in a reserve tranche purchase as recently as 1987.

³⁷These conclusions are based on Eichengreen and Taylor (2003), Table 1, columns 3 and 6.

motor vehicles and parts had long standing cross-border links, and economic structures and living standards were not dissimilar. Free trade with Mexico was a more significant departure. In part the impetus came from declining information and transportation costs, which reduced the difficulty of controlling branch plants in foreign countries; for U.S. producers, Mexico was a particularly obvious place to outsource assembly operations. In part it derived from the European example and the desire to insure against the danger of a Fortress Europe, however remote. In part it reflected the wish in Washington to lock in policy reform south of the border. It reflected the coming to power of a new generation of Mexican policy makers (not a few with Ph.D.s in economics from leading U.S. universities) who realized that their country's future depended on inward forward investment and merchandise exports – that is, on internationalization.³⁸

Controversy continues to swirl over NAFTA's balance sheet. For the United States, NAFTA remains small potatoes; the Mexican (and, for that matter, the Canadian) economy is simply too small to have a major impact on the USA. For Mexico, NAFTA has been associated with a sharp increase in exports to the United States and an even sharper increase in inward FDI. On the other hand, NAFTA's advent on January 1st, 1994 was followed in short order by a disastrous currency and financial crisis. One way of understanding this crisis is in terms of the management of capital flows and the sequencing of liberalization (that is, in terms of the discussion of the preceding section). Opening the economy to capital inflows before exchange rate policy is made more flexible and both macroeconomic and regulatory policies are

³⁸And, for Mexico, internationalization most obviously meant integration with the United States.

strengthened is a recipe for disaster. Thus, when in March 1994 the assassination of presidential candidate Luis Donaldo Colosio caused the foreign investment flows to turn around, the exchange rate collapsed, the banking system was devastated, and living standards tumbled. Even now, Mexican real wages have not recovered to pre-NAFTA levels.

Ultimately, the debate over NAFTA turns on the dynamic effects on the Mexican economy. While economists and policy makers remain optimistic, hopes that Mexico would quickly move out of assembly-for-export operations into higher value-added exports with tighter links to the domestic market were initially disappointed; despite some evidence of positive vertical spillovers (Lopez-Cordova and Moreira 2003), the main response was a boom in assembly operations. The optimistic view is that less than a decade was too short a time to observe the desired dynamic effects. On the other hand, that growing numbers of production and assembly operations outsourced from the United States now seem to be shifting to China lends a more negative cast to the debate.

NAFTA is more weakly institutionalized than the European Union. It has side agreements for environment and labor standards but no body with regulatory powers like those of the European Commission or policy making prerogatives comparable to the Council's. This reflects its more limited economic scope: there is little appetite for moving from a free trade area to a single market with a common sets of policies and regulations. It also reflects the more limited political aspirations of the partners; as yet, there is no evident desire for political integration. This means that NAFTA has posed less of a challenge to global venues for governance.

It is too early to say whether NAFTA will be slower to expand than its European

counterpart. After all, nearly a decade had to pass between the creation of the Common Market and the first enlargement of the European Community. NAFTA's expansion to Chile is unproblematic because that country is so small; Brazil, in contrast, is a bigger deal. Politically, creating a free trade area in the Americas is complicated by the economic dominance of the United States, which is both larger relative to its continent than Germany is to its and less inclined to share decision making power.

The progress of regionalism was even slower in Asia, although it can be argued that developments in the 1990s set the stage for an acceleration that is now becoming evident. Asian regionalism faced a number of structural obstacles. Income levels, development stages, and economic and political systems were even more diverse than in Europe or the Western Hemisphere. Trade links were less concentrated regionally. Intra-regional capital flows figured less importantly as a share of foreign investment. The putative leader of the integrationist process, Japan, was in the doldrums throughout the 'nineties, undermining its leadership abilities. More generally, the balance of power in the region was in flux, with the Asian crisis dealing a setback to the tigers and other countries having to adjust to the rapid rise of China. Asia also lacked a tradition of integrationist thought comparable to Europe's. The legacy of World War II was very different; countries did not draw the European lesson that integration was the way to prevent another war. The United States did not promote integration within Asia; in contrast to its strategy in Europe, it preferred bilateral security ties.

The six founding members of ASEAN agreed to form an ASEAN Free Trade Area

(AFTA) and to establish a common effective preferential tariff (CEPT) in 1993.³⁹ But their agreement permitted members to exclude so-called sensitive goods, as they continue to do. While the initial AFTA program also required members to progressively remove nontariff barriers, it did not indicate how NTBs affecting trade in products covered by the CEPT were to be identified or eliminated. It allowed countries to maintain extensive exclusion lists of products deemed sensitive to tariff reduction. That there was not more progress reflected the fact that AFTA did not include the three most important trading countries in the region: China, South Korea and Japan. As a result, little headway was made by attempts to extend regional cooperation to the promotion of foreign direct investment and financial market development.

Another reason for slow progress was that Asian integration remained weakly institutionalized (as noted above). Cooperation is characterized by consensus decision making, a presumption of nonintervention in national affairs, and an understanding that countries will not criticize their neighbors (the so-called “Asian way”). Harris (2000) refers to the result as “soft institutionalism.” This emphasis on consensus and good manners constrains efforts to apply peer pressure for faster action. In the absence of stronger regional institutions, Asia was in no position to speak with one voice on global venues or to challenge multilateral approaches to global governance.

³⁹In 1995 the six founding members of ASEAN they shortened the time frame for these previously-agreed reductions in tariffs (from 15 to 10 years) and committed to expand AFTA from commodities and manufactures to services, intellectual property rights, investment, and nontariff barriers. In 1998 they agreed to accelerate the rate at which tariffs would fall to below 5 per cent, and set a target of zero tariffs on manufactured goods for 2003 (in the case of the original members). These initiatives built on the earlier Preferential Trading Arrangement of 1977, which had provided for preferential tariff rates on trade in basic commodities within the region.

The obvious test of the hypothesis – and a potential turning point for Asian integration – was the financial crisis of 1997-8. When the crisis struck, Asian countries responded not by circling the wagons but by turning to the IMF. Although Japan did provide some assistance bilaterally, it was the Fund that crafted the rescue programs and designed the conditionality. While controversy continues to swirl over the efficacy of these programs, there is a widespread feeling that they could have been better tailored to Asia’s distinctive circumstances. In particular, IMF programs could have been better attuned to the strength of the region’s budgets, the weakness of its banks, the highly-g geared nature of its corporations, and the fragility of its political systems.

As early as the autumn of 1997, dissatisfaction with the design and effects of IMF programs led to proposals for an Asian Monetary Fund. Asian countries better understood their own distinctive characteristics, the argument went, and in addition an Asian Fund would relieve them of the embarrassment of having to go crawling to Washington, D.C. But the United States and the IMF opposed the AMF initiative on the grounds that the “Asian way” would lead to weak conditionality, inadequate adjustment, and moral hazard. Cynics suggested further that the U.S. government and the Fund were reluctant to agree to any initiative that might compromise their control. In response to their objections, the AMF idea was abandoned. Inability to rebuff U.S. objections reflected both the weak institutionalization of Asian regionalism (there was no existing institutional foundation on which to quickly build an AMF) and Asia’s extensive interdependence with other regions.

These responses in turn lent new momentum to Asian integration. The realization that Asian regionalism would never be consequential without the involvement of the continent’s

large economies led to an increasing level of activity in ASEAN+3 (where the “plus-three partners” were China, Korea, and Japan). There was also growing activity in the region’s pre-existing intergovernmental networks. The results included the Chiang Mai Initiative, a regional arrangement of swaps and credit lines, negotiated in 2000, and the Asian Bond Fund, a regional initiative to promote the development of regional financial markets, sealed in 2003.⁴⁰

It remains to be seen how consequential those developments will be for the management of the world economy. Will the Chiang Mai Initiative evolve into an Asian Monetary Fund? Will the Asian Bond Fund lead to a single currency for Asia? Perhaps. But negative answers are also plausible; the diversity of Asia’s political and economic systems and its extensive links with other parts of the world militate against purely regional solutions.

6. Conclusion

“The decade of globalization” is one familiar label for the 1990s. International trade and investment expanded. Emerging economies became increasingly prominent in international goods and capital markets. Direct foreign investment grew not just in volume but also in the variety of countries and sectors to which it flowed. Turbulence in international capital markets and financial crises lent new prominence to the activities of the International Monetary Fund.

⁴⁰Up to 10 percent of the drawings available to a country under the CMI can be provided for a limited period without it having entered into an IMF agreement, but subsequent disbursements will be linked to an IMF program and therefore to the government’s success in meeting IMF conditions, thus meeting U.S. and IMF insistence that a regional support arrangement should not undercut the effectiveness of IMF conditionality. That these developments occurred after the decade that is the subject of this paper is perhaps not surprisingly given that the Asian crisis to which they were a response broke out in that decade’s final years.

One can question whether these developments were truly novel, since many of them – the growth of trade, the rise in capital mobility, the growing stock of foreign born residents in the industrial countries, and the expansion of multinational production and foreign direct investment – had been underway for many decades. But even where there was no break in the trend and no obvious acceleration in the 1990s, cumulative effects alone would have sufficed to lend these developments new prominence and make them topics of growing attention and concern. Onto that were superimposed the distinctive characteristics of the 1990s, including structural reform, economic opening and financial liberalization in countries that had not participated in these processes previously, and an information technology revolution that helped to integrate national markets with one another more tightly than before.

In turn this created challenges for international economic management. Could a new global trade round be completed? Could institutions be built for surmounting the obstacles to trade liberalization in the 21st century? Could capital flows be managed in ways that magnified their benefits instead of their costs? Could enthusiasm for regional integration be reconciled with existing inter-regional interdependencies? Could the high-income countries and multilateral institutions devise policies to ameliorate problems of poverty and stagnation in low-income countries? Could problems of representation and legitimacy at the international financial institutions be successfully resolved?

Not surprisingly, there was more progress in addressing some of these questions than others. The Uruguay Round was successfully completed in 1994. The World Trade Organization was created as a mechanism for overseeing a more rules-based trading system and addressing new issues like services trade and intellectual property. Countries pursued policy

reforms that attracted foreign direct investment, which held up surprisingly well in the face of global financial turbulence. Regionalism developed more quickly in some parts of the world, but virtually without exception it developed in ways that complimented global markets and institutions rather than undermining their operation.

There was less progress in managing financial capital flows in ways that maximized their benefits relative to their costs. While the frequency of financial crises seemed to die down toward the end of the 1990s, one of the mechanisms bringing about this result was the collapse of private debt flows to developing countries, which meant that many of the benefits of capital mobility evaporated along with the costs. Few of the changes in private contracts and IMF policies that were tabled as responses to this problem had been implemented by the end of the decade. Little progress was made in reducing poverty in the poorest countries, official aid to which declined as the decade progressed. No significant progress was made in addressing governance problems at the IFIs.

Optimists will argue that even where progress in the 1990s was halting, the stage was set for future steps. In the next decade, the IMF continued to rethink its response to capital account crises and adopted a more cautious approach to capital account liberalization. It initiated a debate on sovereign debt restructuring which ultimately led the markets to add restructuring friendly provisions to their loan contracts. The advanced-industrial countries, and notably a United States galvanized by the events of September 11th, 2001, committed to significant increases in aid. Each of these developments, it can be argued, reflected ongoing adaption to deeper globalization – a process of adaptation begun in the 1990s. Whether that decade proved to be a source of durable lessons and sustained momentum for addressing these issues remains to

be seen. This question will have to be answered by historians of future decades.

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Table 1
Merchandise Exports as Per Cent of GDP in 1990 Prices, 11 Countries and World, 1870-1998

	1870	1913	1929	1950	1973	1990	1998
France	4.9	7.8	8.6	7.6	15.2	20.5	28.7
Germany	9.5	16.1	12.8	6.2	23.8	32.4	38.9
Netherlands	17.4	17.3	17.2	12.2	40.7	51.1	61.2
United Kingdom	12.2	17.5	13.3	11.3	14.0	19.6	25.0
Spain	3.8	8.1	5.0	3.0	5.0	11.7	23.5
United States	2.5	3.7	3.6	3.0	4.9	6.8	10.1
Mexico	3.9	9.1	12.5	3.0	1.9	5.3	10.7
Brazil	12.2	9.8	6.9	3.9	2.5	4.2	5.4
China	0.7	1.7	1.8	2.6	1.5	2.9	4.9
India	2.6	4.6	3.7	2.9	2.0	1.6	2.4
Japan	0.2	2.4	3.5	2.2	7.7	12.4	13.4
World	4.6	7.9	9.0	5.5	10.5	12.8	17.2

Source: Maddison (2001), Table F-3 and author's calculations based on Table C-3.

Table 2
Migrant Stock by Region and as a Percentage of Region's Total Population; Growth Rate of Migrant Stock by Region; and Migrant Stock by Region as a Percentage of Migrant Stock World Total, 1965,1975,1985 and 1990

Region	Estimated foreign-born population																			
	Thousands					As a percentage of total population					Annual rate of change (percent)					As a percentage of migrant stock world total				
	1965	1975	1985	1990	1965	1975	1985	1990	1965-75	1975-85	1985-90	1965	1975	1985	1990					
World Total	75,214	84,494	105,194	119,761	2.3	2.1	2.2	2.3	1.2	2.2	2.6	100.0	100.0	100.0	100.0					
Developed Countries	30,401	38,317	47,991	54,231	3.1	3.5	4.1	4.5	2.3	2.3	2.4	40.4	45.3	45.6	45.3					
Developing Countries	44,813	46,117	57,203	65,530	1.9	1.6	1.6	1.6	0.3	2.1	2.7	59.6	54.7	54.4	54.7					

Source: Zlotnik (1998).

Table 3
Selected Indicators of FDI and International Production, 1982-1999 (billions of dollars; %)

Item	Value at current prices (billion dollars)				Annual growth rate (percent)			
	1982	1990	1999	1986-1990	1991-1995	1996-1999	1998	1999
FDI inflows	58	209	865	24.0	20.0	31.9	43.8	27.3
FDI outflows	37	245	800	27.6	15.7	27.0	45.6	16.4
FDI inward stock	594	1761	4772	18.2	9.4	16.2	20.1	18.8
FDI outward stock	567	1716	4759	20.5	10.7	14.5	17.6	17.1
Cross-border M&As ^a	..	151	720	26.4 ^b	23.3	46.9	74.4	35.4
Sales of foreign affiliates	2462	5503	13564 ^e	15.8	10.4	11.5	21.6 ^e	17.8 ^e
Gross product of foreign affiliates	565	1419	3045 ^d	16.4	7.1	15.3	25.4 ^d	17.1 ^d
Total assets of foreign affiliates (thousands)	1886	5706	17680 ^e	18.0	13.7	16.5	21.2 ^e	19.8 ^e
Exports of foreign affiliates	637	1165	3167 ^f	13.2	13.9	12.7	13.8 ^f	17.9 ^f
Employment of foreign affiliates (thousands)	17433	23605	40536 ^g	5.6	5.0	8.3	11.4 ^g	11.9 ^g
<i>Memorandum:</i>								
GDP at factor cost	10611	21473	30061 ^h	11.7	6.3	0.6	-0.9	3.0 ^h
Gross fixed capital formation	2231	4686	6058 ^h	13.5	5.9	-1.4	-2.1	-0.3 ^h
Royalties and fees receipts	9	27	65 ^h	22.0	14.2	3.9	6.3	0.5 ^h
Exports of goods and non-factor services	2041	4173	6892 ^h	15.0	9.5	1.5	-1.8	3.0 ^h

Source: UNCTAD, World Investment Report 2000, p. 4

a Data are only available from 1987 onwards.

b 1987-1990 only.

c Based on a regression of sales against FDI inward stock for the period 1982-1997.

d Based of a regression of gross product against FDI inward stock for the period 1982-1997.

e Based on a regression of assets agaist FDI inward stock for the period 1982-1997.

f Based of a regression of exports against FDI inward stock for the period 1982-1997.

g Based of a regression of employment against FDI inward stock for the period 1982-1997.

h Estimates.

Table 4
National Regulatory Changes Affecting Foreign Direct Investment, 1991-1999

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999
Number of countries that introduced changes in their investment regimes	35	43	57	49	64	65	76	60	63
Number of regulatory changes of which:	82	79	102	110	112	114	151	145	140
More favorable to FDI ^a	80	79	101	108	106	98	135	136	131
Less favorable to FDI ^b	2	-	1	2	6	16	16	9	9

Source: UNCTAD, World Investment Report 2000, p. 6.

Table 5
Share of World Exports and Imports (%)

Region and economic grouping	Exports - Exportations (f.o.b. / f.a.b.)										
	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	
World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Developed market economy countries	71.51	70.05	68.96	68.64	67.60	66.81	68.44	67.27	64.03	64.12	
Developing countries and territories	23.85	27.03	27.63	27.71	28.59	29.38	27.81	29.13	31.98	31.46	
Countries in Eastern Europe	4.64	2.92	3.41	3.65	3.81	3.81	3.75	3.60	3.99	4.42	

Source: UNCTAD Handbook of Statistics 2002, p. 14.

Table 6
Net capital flows to developing countries, 1989–2003
(billions of dollars)

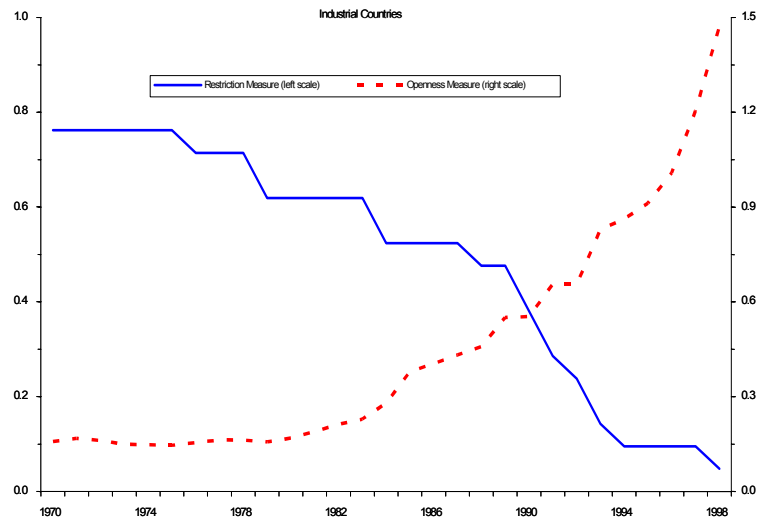
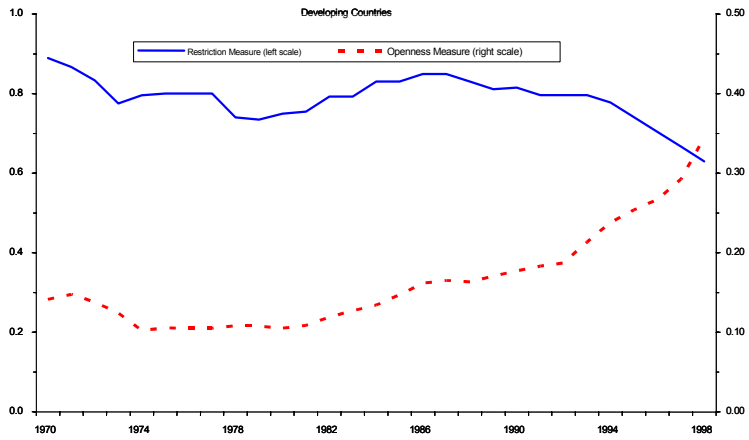
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Current account balance	-44.7	-17.8	-72.3	-80.2	-128.6	-85.5	-106.5	-90.0	-91.4	-113.6	-10.7	61.9	27.6	48.3	
as % of GDP	-1.2	-0.4	-1.8	-1.9	-3.0	-1.9	-2.1	-1.6	-1.5	-2.0	-0.2	1.0	0.5	0.8	
Financed by:															
Net equity flows	24.5	28.6	41.4	59.7	116.5	133.2	125.8	161.5	196.0	181.9	194.3	186.7	177.7	152.4	
Net FDI inflows	21.2	24.1	33.4	45.6	68.2	90.0	105.6	127.9	169.3	174.5	179.3	160.6	171.7	143.0	
Net portfolio equity inflows	3.3	4.5	8.0	14.1	48.3	43.2	20.2	33.6	26.7	7.4	15.0	26.0	6.0	9.4	
Net debt flows	50.0	58.0	63.5	95.1	108.6	72.0	151.8	114.1	102.1	57.4	13.9	-1.0	3.2	7.2	
Official creditors	20.5	27.3	30.5	24.7	26.8	15.6	38.8	3.8	13.0	34.1	13.5	-6.2	28.0	16.2	
Private creditors	29.5	30.7	33.0	70.4	81.8	56.4	113.0	110.3	89.1	23.3	0.5	5.1	-24.8	-9.0	
Net M-L debt flows	12.8	15.6	13.9	34.5	48.3	41.3	54.1	81.9	84.0	87.4	21.9	14.5	-8.6	-2.9	
Bonds	3.2	1.0	8.2	8.6	33.0	28.9	23.4	49.3	38.4	39.7	29.6	17.4	10.1	18.6	
Banks	1.8	4.0	4.0	14.8	4.7	8.2	28.6	30.6	43.1	51.4	-5.9	2.6	-11.8	-16.0	
Other	7.9	10.5	1.7	11.1	10.7	4.2	2.1	1.9	2.5	-3.6	-1.8	-5.5	-7.0	-5.5	
Net short term debt flows	16.7	15.1	19.0	35.9	33.4	15.0	58.9	28.4	5.0	-64.2	-21.4	-9.4	-16.2	-6.1	
Change in reserves (- = increase)	-37.4	-53.2	-14.9	-63.8	-60.5	-101.2	-88.9	-54.0	-18.5	-37.7	-51.7	-81.6	-161.3		
Bilateral aid grants (excluding technical cooperation)	19.2	28.2	35.1	30.5	28.4	32.7	32.8	27.8	26.7	28.2	29.4	29.6	29.5	32.9	
Net private flows (debt+equity)	54.0	59.3	74.4	130.1	198.3	189.6	238.8	271.9	285.1	205.2	194.7	191.8	152.8	143.4	
Net official flows (aid+debt)	39.7	55.5	65.6	55.2	55.2	48.3	71.6	31.6	39.7	62.3	42.9	23.4	57.5	49.0	
Workers' remittances	24.5	30.6	31.2	36.3	38.5	43.6	48.1	52.6	62.7	59.5	64.6	64.5	72.3	80.0	

Source: Global Development Finance 2002.

Table 7
Net Official Aid to Developing Countries, By Type and Source, 1990-2001
(billions of dollars)

Aid	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
ODA and official aid	45.1	49.5	46.4	41.7	48.1	46.3	39.7	36.1	39.0	42.3	40.7	39.3
Grants (ex tech coop)	30.1	35.1	30.5	28.3	32.7	32.8	28.1	26.6	27.9	30.2	29.9	29.6
Bilateral	26.5	29.5	23.9	22.5	24.6	26.2	21.8	19.8	20.5	22.0	22.6	22.5
Multilateral	3.6	5.6	6.6	5.8	8.1	6.6	6.3	6.8	7.4	8.2	7.3	7.1
Concessional loans	15.0	14.4	15.9	13.4	15.4	13.5	11.6	9.5	11.1	12.1	10.8	9.7
Bilateral	8.3	6.3	8.5	6.7	6.5	4.9	3.0	1.5	2.9	4.6	3.6	3.0
Multilateral	6.7	8.1	7.4	6.7	8.9	8.6	8.6	8.0	8.2	7.5	7.2	6.7
<i>Memo item</i>												
Tech coop grants	14.6	15.6	17.7	18.2	16.9	20.1	18.7	15.7	16.3	16.6	15.5	15.4

Source: World Bank (2002).



Note: the restriction measure is the average value of the on-off measure of openness constructed by the IMF, while the openness measure is the average stock of accumulated capital flows as a per cent of GDP.

Source: Presad et al. (2003).

