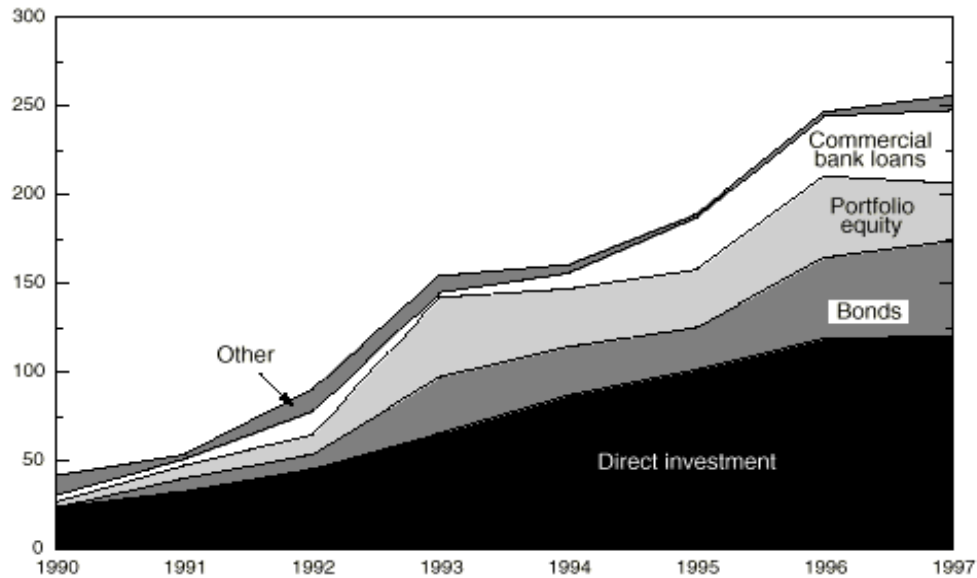


Chart 6-1 **Net Capital Flows to Developing Countries**

Foreign direct investment is the largest source of net capital flows to developing countries.

Billions of dollars



Source: World Bank.

Source: Economic Report of the President, 1999: 220.

TABLE 6-1.— *Capital Flows to Industrial and Developing Countries*
[Billions of dollars]

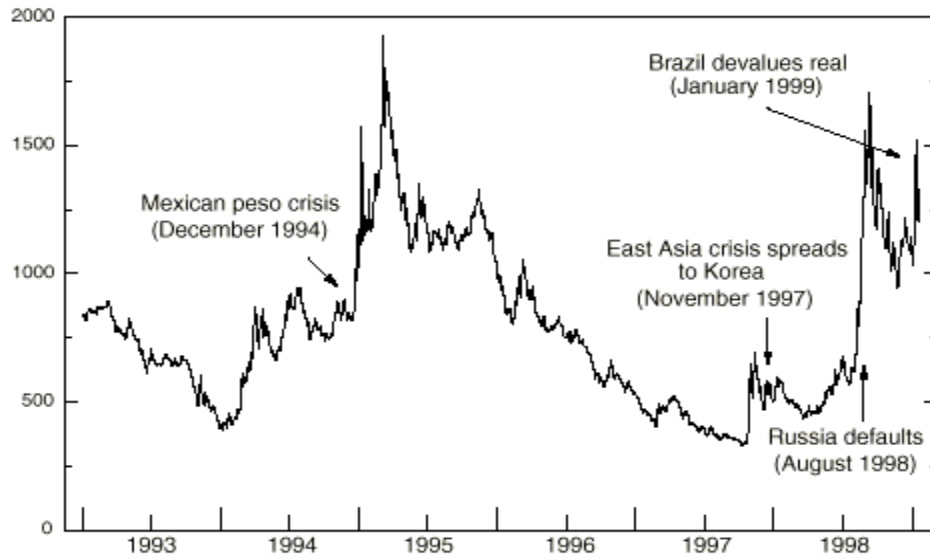
Flows	Industrial countries		Developing countries	
	Direct investment	Portfolio investment	Direct investment	Portfolio investment
Gross outflows:				
1973-78	28.6	11.8	0.4	5.5
1979-82	46.9	35.0	1.1	17.8
1983-88	88.2	126.5	2.3	-5.1
1989-92	201.3	274.6	10.4	10.3
1993-96	259.6	436.4	19.2	19.2
Gross inflows:				
1973-78	17.9	24.4	5.0	1.3
1979-82	36.6	51.0	14.6	3.1
1983-88	69.3	139.1	15.5	4.0
1989-92	141.9	343.0	37.8	27.5
1993-96	173.0	549.9	106.4	95.9
Net inflows:				
1973-78	-10.7	12.6	4.6	-4.2
1979-82	-10.3	16.0	13.5	-14.7
1983-88	-18.9	12.6	13.2	9.1
1989-92	-59.4	68.4	27.4	17.2
1993-96	-86.6	113.5	87.2	76.7

Source: International Monetary Fund.

Source: Economic Report of the President, 1999: 221.

Chart 6-2 Perceived Risk and the Spread on Emerging Market Bonds
The risk premium on emerging market bonds shot up between March and September 1998. Spreads subsequently declined, then rose again following Brazil's devaluation.

Stripped spread over Treasuries (basis points)



Source: J.P. Morgan Emerging Markets Bond Index.

Source: Economic Report of the President, 1999: 233.

TABLE 6-2.— *Five Asian Economies: External Financing*
 [Billions of dollars]

Item	1995	1996	1997	1998 (esti- mated)	1999 (pro- jected)
CURRENT ACCOUNT BALANCE	-41.0	-54.6	-26.3	58.5	43.2
External financing, net	81.5	100.6	28.8	-5	-1.2
Private flows, net	79.0	103.2	-1.1	-28.3	-4.8
Equity investment, net	15.9	19.7	3.6	8.5	18.7
Direct equity, net	4.9	5.8	6.8	6.4	14.2
Portfolio equity, net	11.0	13.9	-3.2	2.1	4.5
Private creditors, net	63.1	83.5	-4.7	-36.8	-23.4
Commercial banks, net	53.2	65.3	-25.6	-35.0	-18.8
Nonbanks, net	9.9	18.2	21.0	-1.7	-4.6
Official flows, net	2.5	-2.6	29.9	27.8	3.5
International financial institutions	-3	-2.0	22.1	21.6	-2.0
Bilateral creditors	2.9	-6	7.9	6.1	5.5
Resident lending/other, net	-26.5	-26.8	-35.0	-16.9	-14.9
Reserves excluding gold ¹	-14.0	-19.3	32.5	-41.1	-27.0

¹ Minus sign indicates increase.

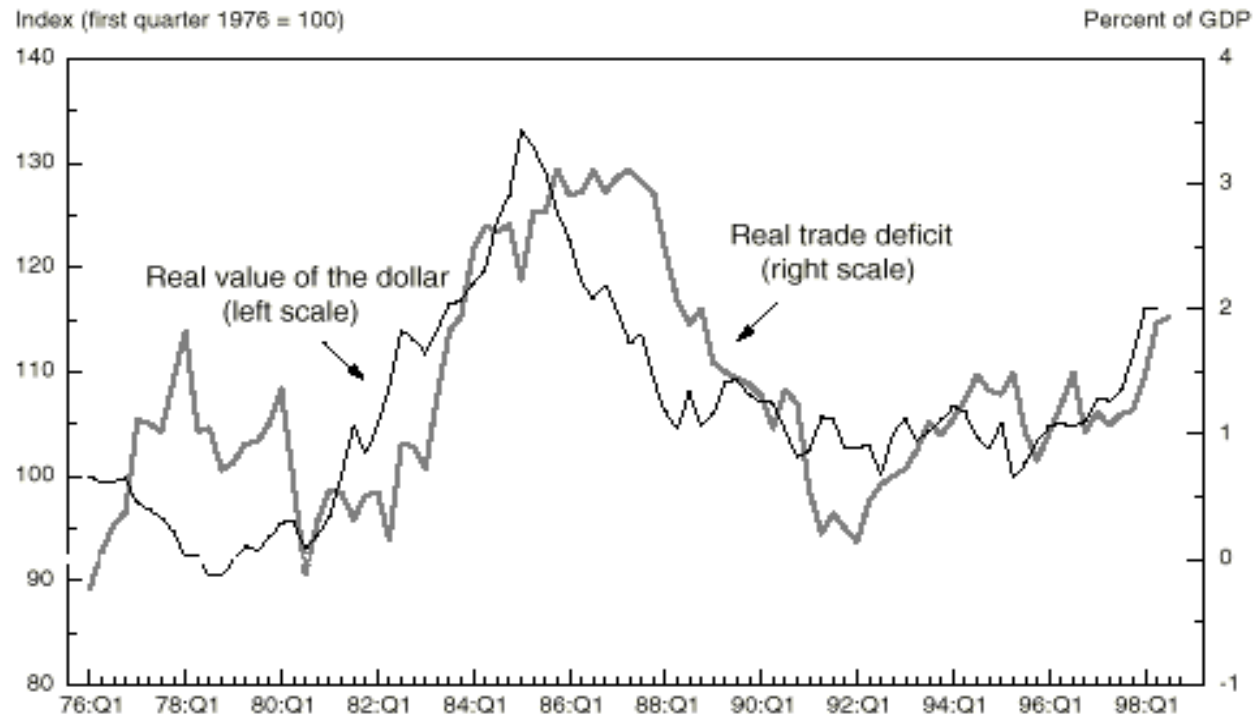
Note.— Countries are Indonesia, Malaysia, Philippines, South Korea, and Thailand.
 Detail may not add to totals because of rounding.

Source: Institute of International Finance.

Source: Economic Report of the President, 1999: 241.

Chart 6-3 Real Value of the Dollar and the Trade Deficit

The trade deficit is a macroeconomic phenomenon: increases typically follow an appreciation of the dollar.



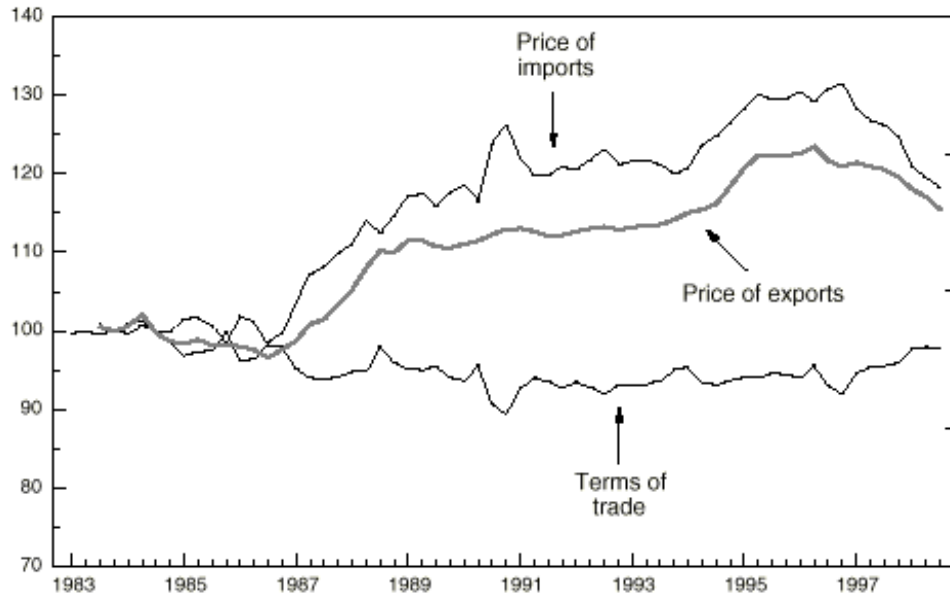
Sources: Department of Commerce (Bureau of Economic Analysis) and Federal Reserve Bank of Dallas.

Source: Economic Report of the President, 1999: 252

Chart 6-5 Terms of Trade

Import prices have fallen more than export prices since the onset of the Asian crisis, leading to an improvement in the terms of trade.

Index (fourth quarter 1983 = 100)



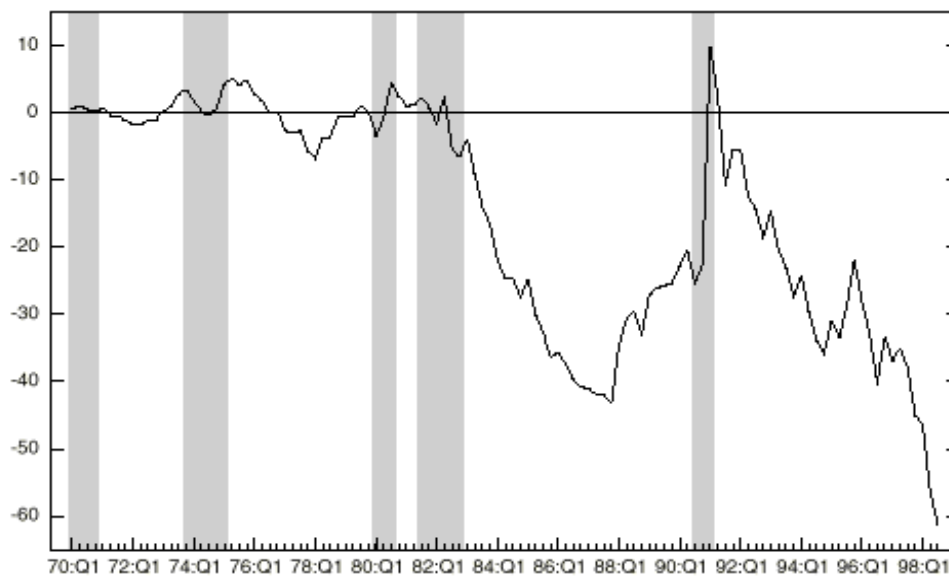
Source: Department of Labor (Bureau of Labor Statistics).

Source: Economic Report of the President, 1999: 253

Chart 6-6 Current Account Balance

The current account balance has been positive and/or increasing during recessions and has decreased during periods of economic expansion.

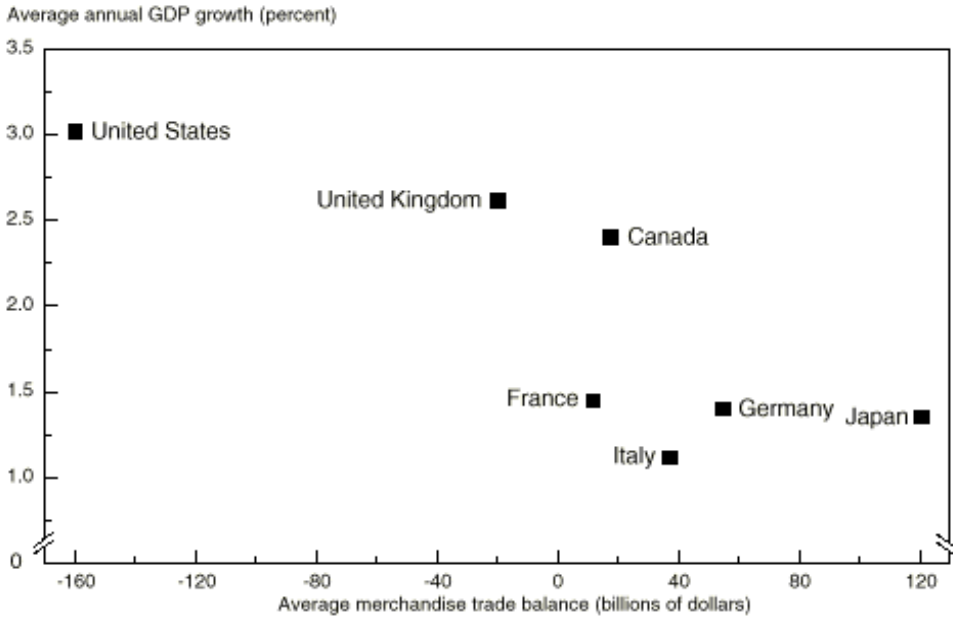
Billions of dollars



Source: Department of Commerce (Bureau of Economic Analysis).

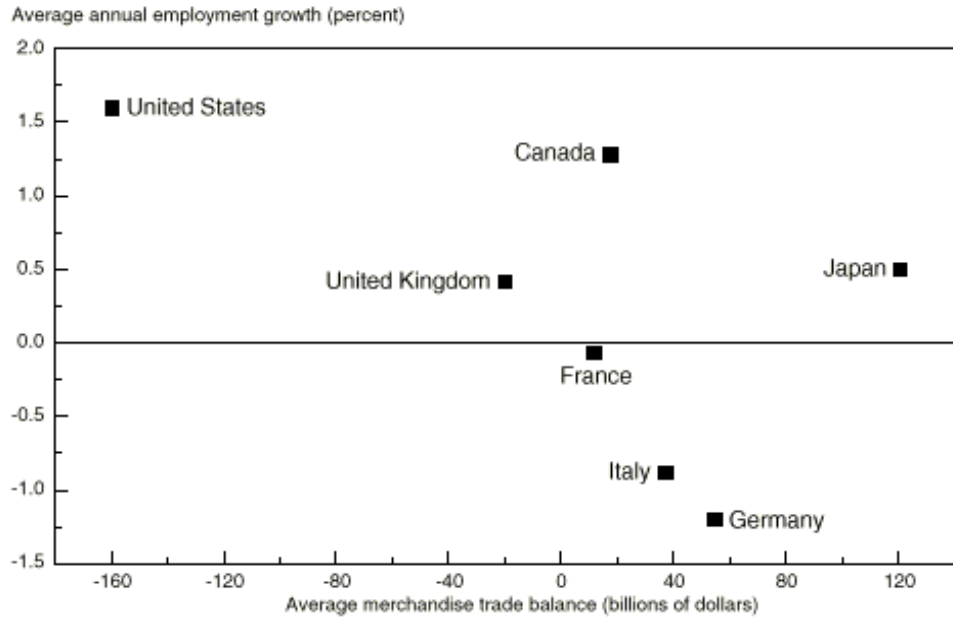
Source: Economic Report of the President, 1999: 256.

Chart 6-7 Economic Growth and Trade Balances of G-7 Countries, 1992-97
 Across the major industrial countries, positive trade balances have been associated with weak economic performance.



Source: Organization for Economic Cooperation and Development.

Chart 6-8 Employment Growth and Trade Balances of G-7 Countries, 1992-97
 Across the major industrial countries, positive trade balances have also been associated with weak employment performance, and vice versa.



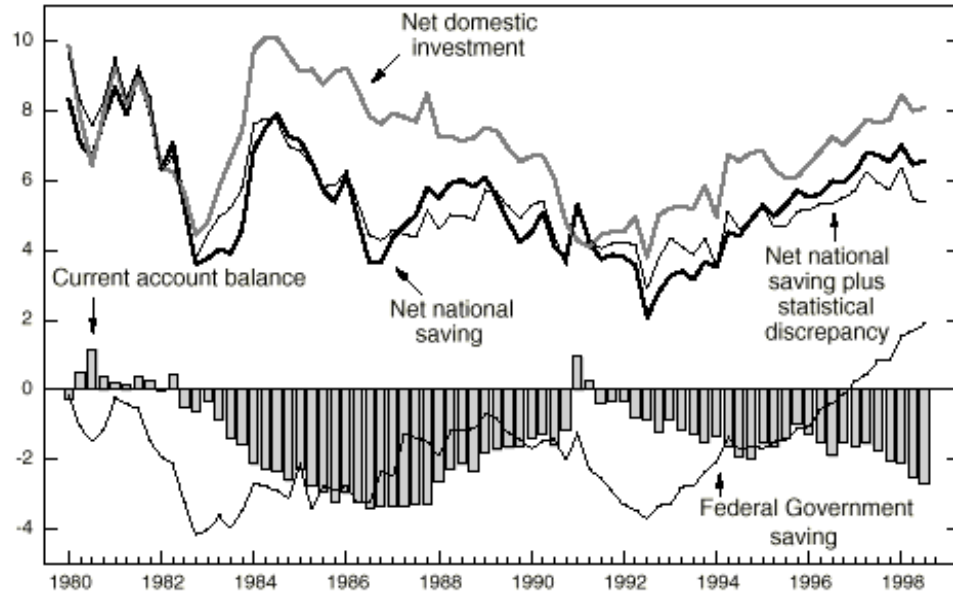
Source: Organization for Economic Cooperation and Development.

Source: Economic Report of the President, 1999: 258.

Chart 6-9 Saving, Investment, and the Current Account Balance

The current account deficit grew in the mid-1980s as saving fell faster than investment. In the 1990s, however, both investment and saving are increasing.

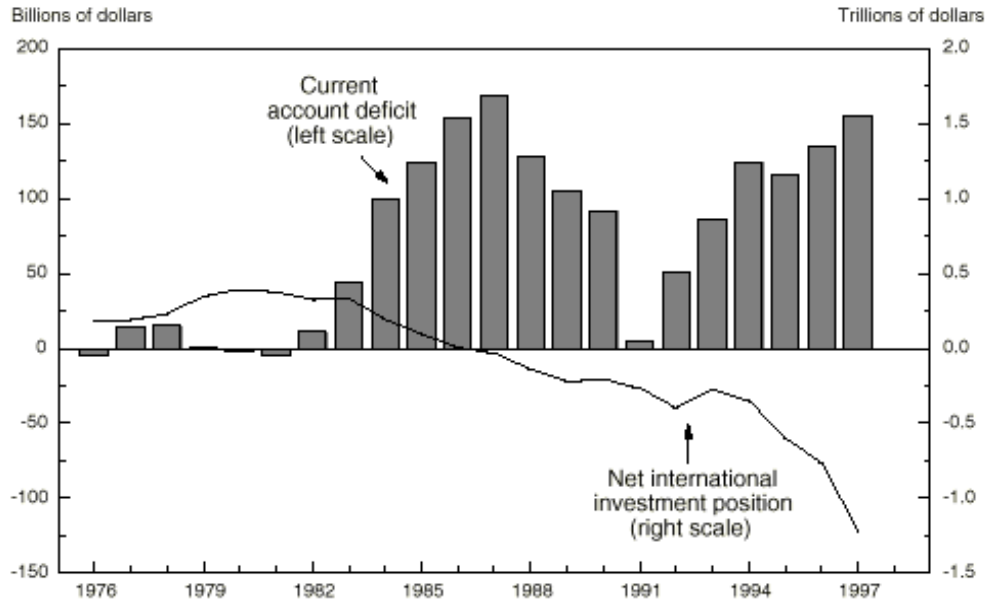
Percent of GDP



Source: Department of Commerce (Bureau of Economic Analysis).

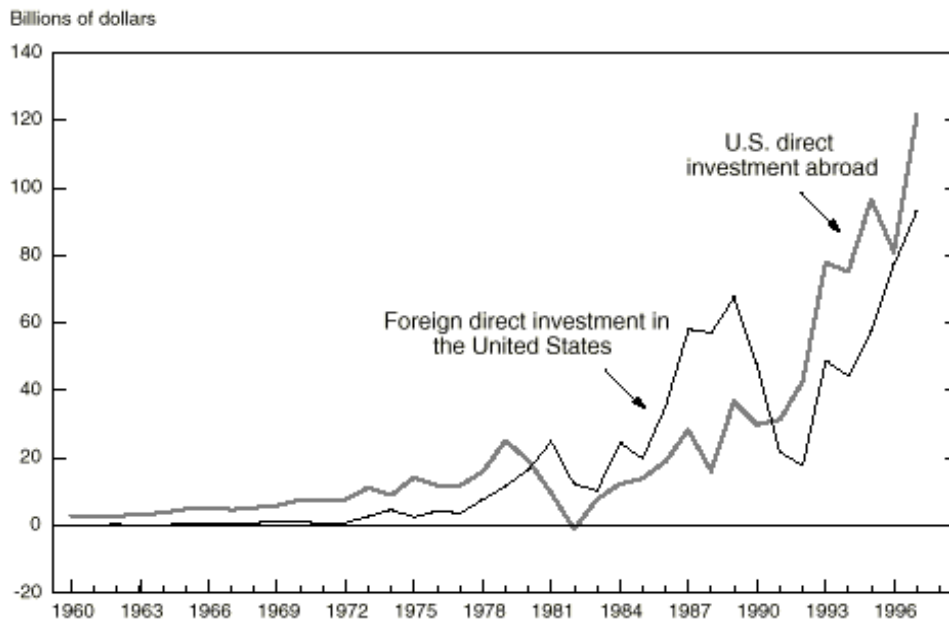
Source: Economic Report of the President, 1999: 259.

Chart 6-10 Current Account Deficit and Net International Investment Position
 As the United States started to run large current account deficits in the early 1980s, the net international investment position declined.



Note: Net international investment position at current cost.
 Source: Department of Commerce (Bureau of Economic Analysis).

Chart 6-11 Foreign Direct Investment Flows
 The 1980s saw a surge in foreign direct investment into the United States. In the 1990s, however, direct investment outflows have again surpassed inflows.



Source: Department of Commerce (Bureau of Economic Analysis).

Source: Economic Report of the President, 1999: 262.