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*UN projects Gross World Product growth of only 1.5 per cent in 2002*

## **Developing economies hit hardest by global slowdown**

(NEW YORK, 10 January) – Recovery from the economic downturn that began early in 2001 and was aggravated by 11 September terrorist attacks is likely to take place slowly in the year ahead, and adverse effects of the continuing slowdown are hitting economies hardest in East Asia and Latin America, according to a UN report released today. The weakness in the world economy has become widespread, with more than a dozen economies in recession and more than three-quarters growing less than they did a year previously.

The UN's World Economic Situation and Prospects 2002 projects growth of only 1.5 per cent in Gross World Product (GWP) in 2002 (as compared to 1.3 per cent last year) and suggests that this modest improvement is hostage to a number of economic uncertainties, notably the high dependency of the global economy on the recovery of the United States. This involves risks because of the country's still-high equity prices, its low saving rate, its high level of private sector debt and its external deficits. The difficulties in Japan and the uncertainties surrounding the Argentinean situation are additional frailties.

The double-barrelled impact of GWP growth that lags behind world population growth in 2001 and 2002 poses particular difficulties for the developing countries, according to the United Nations. Several of these countries experienced a fall in output in 2001 and, on a per capita basis, there was a setback in East and West Asia and Latin America and the Caribbean. These reversals compound the challenge of reducing the number of people living in poverty.

### **Weak international economic environment**

Developing countries and economies in transition face a frail international economic environment, according to the United Nations. This includes lacklustre growth of international trade, weak international prices for primary commodities and difficult access to and higher costs of external financing. The recovery of these countries is therefore to a large extent dependent upon, and must wait for, recovery in the developed economies to improve the international environment.

Stagnation in international trade was the key factor in transmitting the slowdown to the developing countries and economies in transition. "A few countries, notably Argentina and Turkey, suffered from a combination of, and interaction between, domestic and international financial difficulties" but "external shocks through international financial channels in 2001 were smaller than in the 1997-1998 international financial crises" the report says. Nevertheless, net private capital flows to developing countries and economies in transition, down in 2001, are expected to decline further in 2002, according to the UN.

Foreign direct investment (FDI) flows to developing countries, which had remained a relatively stable during the crisis years of 1997-1998, fell last year and are expected to drop further in 2002, despite increases to such countries as China, Mexico and South Africa. The key

to restoring flows of FDI to developing countries remains economic growth since, the report argues, "the basic factors determining these flows have not changed" and "the potential for FDI is far from exhausted in many developing countries". As transnational corporations re-position themselves for the more price-driven environment created by the slow-down of the world economy and as developing countries liberalize their regulatory frameworks further, there may be a redistribution of FDI towards developing countries, particularly since reinvested earnings are increasing.

The report also shows that flows of FDI among developed countries, have declined dramatically in 2001, mainly because of the halving of cross-border mergers and acquisitions. These FDI flows are likely to pick up again when consumer confidence is restored, the report argues, but are unlikely to fully recoup the ground lost.

### **Terms of recovery**

World Economic Situation and Prospects 2002 notes hopeful signs on the economic horizon. By the end of last year, monetary policy in many major developed countries had become more accommodative; fiscal stimuli were beginning to take effect; prices of energy had softened; and there was a tentative rebound in equity markets. The impact of these developments is expected to build momentum gradually in 2002, leading to a restoration of consumer and business confidence and a revival of private sector activity.

The current challenge for policymakers worldwide is not only to continue taking immediate steps to extricate the global economy from its current slowdown, the report indicates. The volatility in the global economy in recent years, the report maintains, has had an asymmetric impact, with most developing countries "tending to benefit less than the leading developed economies in the upturns, but suffering equally, or more so, in the downturns". It is therefore important to "sustain the longer-term agenda that seeks to ensure that developing countries can participate more effectively in the globalized world economy".

The report highlights the need for further progress in resolving the debt problems of developing countries – through the HIPC Initiative for poor countries and through better arrangements for private sector involvement in middle income countries. Commending the work programme drawn up at the Doha Ministerial Meeting of the WTO in November 2001, it also calls for strengthening the capacity of developing countries to participate in trade negotiations and to implement the outcomes. The forthcoming International Conference on Financing for Development, to be held in Monterrey, Mexico in March 2002, is presented as one opportunity where progress can be made on these and related issues.

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WORLD ECONOMIC SITUATION AND PROSPECTS 2002 is available for \$10.00 (Sales No. E.02.II.C.2, ISBN 92-1-109141-1) from United Nations Publications, Two UN Plaza, Room DC2-853, Dept. PRES, New York NY 10017 USA, Tel.800-253-9646 or 212-963-8302, Fax.212-963-3489, E-mail: publications@un.org; or Palais des Nations, CH-1211 Geneva 10, Switzerland, Tel.41-22-917-2614, Fax.41-22-917-0027, E-mail: unpubli@unog.ch; Internet:<http://www.un.org/publications>



**TABLE**

**Growth of world output and trade, 1999-2002**

(Annual percentage change)

	1999	2000	2001 <sup>a</sup>	2002 <sup>b</sup>	
World Output	2.9	4.0	1.3	1½	
<i>of which:</i>					
Developed economies	2.7	3.5	0.9	¾	
<i>of which:</i>					
United States	4.0	4.1	1.0	1¼	
Japan	0.7	2.4	-0.7	-1¼	
EU-15	2.4	3.4	1.6	1½	
Economies in transition	3.0	6.0	4.3	3¾	
<i>of which:</i>					
Central and Eastern Europe	1.4	3.9	2.8	3	
Baltic States	-1.7	5.4	5.1	4	
Commonwealth of Independent States		4.7	7.9	5.5	4½
Developing economies	3.5	5.8	2.3	3½	
<i>of which:</i>					
Latin America and the Caribbean	0.4	3.9	0.5	1¼	
Africa	2.9	3.4	3.3	3½	
Western Asia	0.7	6.3	0.8	3½	
Eastern and Southern Asia	6.3	7.2	3.5	5	
<i>of which:</i>					
East Asia <sup>c</sup>	5.9	7.3	0.9	3¼	
South Asia	5.9	5.7	4.6	5½	
World trade	5.2	11.4	0.8	3	

Source: UN/DESA

- a Partly estimated.
- b Forecasts.
- c Excluding China.