



Surging trade and investment gives a lift to developing countries' place in the global economy

UNITED NATIONS GENEVA, 11 January: More and more of the flows of goods and capital that criss-cross the globe come from or are heading to a developing country, the United Nations notes in a report released today.

In an overall strong year for world trade – up 10 per cent by volume in 2006, and 16 per cent in US dollar-value, according to this year's World Economic Situation and Prospects – the share of the developing world in total exports reached 35 per cent.

Import demand also accelerated strongly. African, Latin American and Western Asian imports have been increasing at double-digit percentage rates, driven by strong consumption and installation of new infrastructure to boost oil-, mineral- and metal-exporting capacity. In South and East Asia, import demand is powered by relocation of manufacturing facilities and growing inter-Asian trade integration. About 60 per cent of imports to China in 2006, for instance, came from other Asian nations, helping to swell total Chinese imports by 20 per cent over the previous year.

As the global economy moderates in 2007 (see main press release), trade expansion is also expected to slow in the developing countries, and worldwide to about 7 per cent, the UN estimates.

Euro appreciation not yet a large factor in trade position

Western Europe matched the overall world export growth of 10 per cent in volume terms during 2006, indicating that the appreciation of the euro and other European currencies against the US dollar and some Asian currencies has had only a minor impact. But export growth is expected to decelerate this year, as world demand slows and local currencies appreciate further.

In 2006, the European Union maintained its position as the largest host region for FDI, pulling in 45 per cent of total world inflows. But the US regained the lead as the largest FDI recipient among countries last year, overtaking the UK.

The United States is also the main locomotive for world trade, according to World Economic Situation and Prospects 2007.

US import demand grew by 12 per cent to an estimated \$2.2 trillion in 2006, accounting for 13 per cent of the global total. The increase in the import bill for oil and raw materials alone was \$70 billion, due largely to pricing effects, as volume remained stable. But at the same time, US exports flourished. An estimated 12 per cent increase in 2006 was spurred by strong sales abroad of capital goods, especially to Europe and Japan. The fastest growing destinations for all US exports were among the oil producing countries, who increased purchases by 30 per cent last year, and Latin America, up by about 20 per cent.

Developing countries taking off as global investors

Buoyed by strong economic growth worldwide and improved investment climates in many developing countries, foreign direct investment in the developing world pushed upward to \$334 billion in 2005, and an estimated \$368 billion last year, according to UN Conference on Trade and Development (UNCTAD) statistics.

As with its share of world trade, the developing country share of global FDI inflows has now reached a level of 35 per cent according to the UN, up from 20 per cent in 1978-1980. The current distribution of FDI flows is very uneven, however, with the top five countries garnering more than half of the developing world FDI inflows.

Significantly, developing countries are emerging as major sources of FDI as well. They invested \$117 billion abroad in 2005, a 4 per cent increase over the previous year. Combined outward FDI from developing countries and economies in transition (including, notably, the Russian Federation) accounted in 2005 for 17 per cent of global FDI outflows.

Despite strong private capital inflows, the amount of outward net transfers of financial resources – that is, total net financial flows less interest payments and profit remittances – from developing economies to developed countries have increased further to a massive \$650 billion in 2006. Also sub-Saharan Africa is now transferring more financial resources than it receives to and from other parts of the world. Much of these outward transfers are related to the buildup of official reserves by developing countries.

Developing countries now own together well over \$ 3 trillion in foreign-exchange reserves, with China alone holding more than \$ 1 trillion. The strengthened reserve positions are providing these countries with larger buffers to deal with external shocks emanating from volatility in world markets.

This trend of poor countries financing rich countries has continued for a decade and the UN report questions its sustainability. The mirror image of the build up of reserves in developing countries is the widening external deficit of the world's major reserve currency country, the United States, and is thus part of the problem of the global financial imbalances (see main release). A disorderly adjustment of these imbalances, including a possible abrupt adjustment of the US deficit and a large devaluation of the dollar could then severely hit developing countries.

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