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Summary of the UNCTAD side event

Potential and prospects for trade and investment between developing countries and transition economies

Summary prepared by the UNCTAD secretariat

Introduction

1. For the first time in recent years, the side event examined an extremely dynamic albeit virtually silent phenomenon occurring in world trade and investment flows – trade and investment between developing countries and transition economies.

2. Trade between developing countries and countries with economies in transition showed a massive increase in the period between 2000 and 2006, although starting from a low base in the 1990s. In 2006, transition economies' total exports to developing countries were US$ 82 billion, a 290 per cent rise compared with 2000. Their total imports from developing countries grew even more, increasing by 424 per cent to reach US$ 73 billion in 2006.

3. Foreign direct investment (FDI) between developing countries and transition economies, although still small relative to total South–South FDI, displayed a clear upward trend during the past decade and was continuing to gain momentum. Outward investment from those groups totalled US$ 193 billion in 2006, the highest level ever recorded, corresponding to 16 per cent of world outflows against a mere 7 per cent only ten years previously.

4. The event was moderated by Mr. Andrei Savinykh, Deputy Permanent Representative of Belarus to the United Nations, Geneva and included several panellists: Mr. Carlos Márcio Cozendey, Minister, Director of the Economic Department of the Ministry of External Relations, Brazil; Mr. Andrei Kemarskiy, Deputy Director, Ministry of Foreign Affairs, Russia; Mr. Amarendra Khatua, Joint Secretary, Department of Commerce, Ministry of Commerce and Industry, India; and Mr. Zhanat Mukashev, Head of External Relations Section, Office of the Prime Minister, Kazakhstan.

State of play

5. The phenomenon of rapidly expanding trade and investment between developing countries and transition economies was recognized as a significant sign of changing geography in international economic relations, which, along with South–South trade and investment, could be a real plus for development. On the other hand, dynamism was spread among a few countries, mostly situated in the Commonwealth of Independent States and developing Asia.

6. As compared to the past, those emerging trade and investment flows were geared to the market, in accordance with the economic interests and comparative advantage of trade partners, and were thus more sustainable and complementary.

7. The main sectors of exports from transition economies to developing countries were fuels, which included crude oil, natural gas and coals, and base metals. Developing countries' exports to transition economies were more diversified and were mainly in the category of manufacturing sectors such as textiles and clothing, electric/electronic goods, vehicles and machinery. Exports of agricultural and food products were also on the rise.

8. FDI flows between developing countries and transition economies was largely driven by rising demand for energy, the search for new and large markets, as well as proximity, cultural affinity and historical relationships.

Opportunities

9. Trade and investment between the two groups of countries had substantial potential and included vast opportunities, particularly if those relationships were backed by comprehensive cooperation and investment partnerships; measures to facilitate trade and investment; arrangements for transfer of technology and improvements in trade-supporting infrastructure, especially transport interconnectivity. Such emerging cooperative ties could also be supported by debt relief measures, trade preferences (especially granted to LDCs), innovation policies, trade liberalization (reduction of tariffs and non-tariff barriers), and trade in advanced services sectors such as information and communication technologies.

10. Several dynamic areas for immediate cooperation between those countries were identified: energy, mining, services and agriculture.

Challenges

11. However, several constraints, such as a lack of transport links or inadequate information on market opportunities, prevented the realization of the full potential of deeper trade and investment linkages. Furthermore, accession to the World Trade Organization of transition economies and developing countries, which were not yet members, as well as the granting of "market economy status" to all transition economies, could boost trade and investment between the two groups. Another policy challenge was to sustain and impart the dynamism of those trade and investment flows to other developing regions, especially African countries. Expansion of trade between developing countries and transition economies should also involve trade in services, which had considerable potential, to a much greater extent.

Role of UNCTAD

12. Participants urged UNCTAD to expand its research and analysis of trade and investment between developing countries and transition economies and to monitor developments on a continuous basis, as well as to adapt its technical cooperation programmes on specific issues, e.g. upgrading transport infrastructure development

and information/knowledge databases. The Organization should also examine emerging policy issues and trends related to those expanding trade and investment flows in order to foster complementarities and maximize the benefits for development.