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Cross- Border Trade and Investment among Emerging Economies: Lessons from differing experiences in Africa, Asia and Latin America

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I. INTRODUCTION

It is by now a truism that trade, investment and financial flows have exploded in the world, and more so outside the traditional realm of the advanced economies. The dynamism of trade has transformed international economic relations, and particularly the patterns of regional interactions. The rapid rise of Eastern and Southern Asia, together with a healthy recovery of Latin America and Africa has brought new possibilities for the economies of the majority of emerging and developing countries alike. Moreover, Central and Eastern Europe, and the CSIS (Commonwealth of Socialist Independent States) countries are rapidly integrating, and providing major investment and trading opportunities. The rise in trade among these regions in an increasingly globalized economy has been accompanied by rapidly rising cross border Foreign Direct Investment (FDI) flows, in particular in Asia and to a lesser extent in Latin America. The possible consequences of these trends will be enormous as the Emerging World grows in importance in the international scene over the next decades, and an ever increasing flow of trade and investment circumvents the "Developed" world as the center of financial operations for the world. So far, however, developments have not been homogeneous: Asia has been engaged in a major transformation that has been admired world around; Latin America has pursued integration efforts for long, but with considerably poorer results, while continuing to rely on its resource base for growth in trade; and Africa, is only now starting the process, and also relying fully on its rich natural resources. The differing experiences may provide important lessons for the future, particularly for Latin America and Africa, if they do not want to see continued erosion in their role in the world economy.

This paper presents an overview of developments in the area of trade and investment for Emerging Economies. In particular the paper focuses at the increasing role of the inter-actions among them. Section 2 provides an overview of developments among these Emerging Economies (EEs), and in comparison to the world and the Advanced Economies. Section 3 reviews trade flows in more detail. In particular it reviews the geographic and commodity structure of trade by the Emerging Economies, while presenting a discussion on the integration efforts in which these countries are engaged. Section 4 focuses on Foreign Direct Investment developments among the Emerging Economies, including the rising role of the countries in the group as capital exporters, and the closer links that have arisen in the developing world. Finally, the paper puts forward concluding remarks and possible issues for discussion.

II. MAJOR TRENDS IN TRADE AND INVESTMENT IN THE WORLD ECONOMY

Over the last quarter century trade and capital flows within and among emerging regions have increased very significantly. Without question their economic and trade growth have constituted the most dynamic aspect of international cooperation and globalization in recent years. After a period of a relative decline, emerging markets have recovered their share in world output (Table 1), particularly in the case of Developing Asia, but also for other regions. The recovery has reflected strong world demand and the improvement in terms of trade, which resulted in a boost for domestic activity.

Table 1: Regional Share in World GDP (Market rates)

	1980	1990	2000	2008	%growth 2000-08
World	100.0	100.0	100.0	100.0	4.0
Advanced economies	69.1	77.1	79.8	69.9	2.4
Emerging and developing economies	30.9	22.9	20.2	30.1	6.4
Africa	3.0	1.8	1.4	2.1	5.6
Central and Eastern Europe	3.3	2.4	2.1	3.5	4.9
CSIS	7.7	6.9	1.1	3.7	7.4
Developing Asia	6.5	4.8	7.3	11.2	8.1
Middle East	3.5	1.9	2.0	2.9	5.4
Western Hemisphere	6.9	7.3	6.3	6.8	3.7

Source: IMF, WEO data base, April 2008

Over the last quarter century or so, the volume of world trade has grown at an average rate of 6 %, or about double the rate of world output (2.9%), reflecting the increasing interaction among various countries.2

Table 2 provides a view of the growth of export volumes for different regions. From the table it is clear that trade- or more specifically exports- grew at the fastest rate in newly industrialized Asian countries, like Korea, Taiwan Province, Singapore, and Hong Kong, as well as developing Asia, and particularly China and South East Asia. Above average growth rates have been observed also for Eastern and Central Europe and Latin America, two regions that embraced the opening of trade during the late 1980s and have continued to benefit from it even since. In contrast Africa and the Middle East have shown more limited growth, although accelerating during this decade.

[2] The numbers presented here are based on the statistics included in the Data Base of the World Economic Outlook. WTO numbers suggest a somewhat slower rate of growth over the same period, at 5.2%, still a very impressive rate of growth of international trade. During the same period export prices have increased at an average rate of 2.0%, even taking into account the recent sharp increase in commodity prices.

Table 2 : World Trade Volume (1990=100)					
	1980	1990	2000	2007	Av. annual % growth
World	64	100	202	303	6.0
Advanced economies	59	100	197	271	5.8
Newly industrialized Asia	34	100	288	562	11.0
Emerg.and dev. economies	78	100	224	414	6.4
Africa	88	100	153	205	3.2
Central and eastern Europe	86	100	234	510	6.8
CSIS	80	100	105	174	2.9
Developing Asia	54	100	339	845	10.7
Middle East	103	100	152	212	2.7
Western Hemisphere	56	100	253	332	6.8
memo: Export Prices	86	100	97	146	2.0
World GDP	73	100	128	158	2.9
Source: IMF, WEO Data Base, April 2008, Centennial database and own estimates					

World Foreign Direct Investment stocks and flows also grew at a very fast rate, reflecting both the emergence of new countries as origin and destination of capital flows, and rapidly evolving capital markets, which allowed for a sharp increase in available capital within the private sector, and resulting in a decline in the lending by the Multilateral Agencies (International Financial Institutions or IFIs). Most interesting was the change in the composition of these flows, as illustrated in Table 3. While total FDI directed to developed countries retained the lion's share of the total inflows, both Asia and Latin America became increasingly important, even with some volatility in the case of Latin America. Also, the countries of the CSIS and of Eastern and Central Europe began to receive increasing flows, while Africa witnessed a decline in flows and in the share of total investment, likely reflecting existing policies, and political turmoil. Only in recent years has this trend been reversed.

Table 3: Foreign Direct Investment: Recipient regions flows and stocks (US$ billions)

	1980	1990	2000	2006
			Flows	
World	55.3	201.6	1411.4	1305.9
Developed economies	47.6	165.6	1146.2	857.5
Developing economies	7.7	35.9	256.1	379.1
of which:				
Africa	0.4	39.8	9.7	35.5
Latin America and the Caribbean	6.5	35.1	97.8	83.8
South, East and South-East Asia	3.9	49.8	144.8	199.5
Southeast Europe and CSIS	0.0	0.0	9.0	69.2
			Stocks	
World	551.2	1779.2	5810.2	11998.8
Developed economies	410.9	1414.4	4031.3	8453.9
Share in total	*74.5*	*79.5*	*69.4*	*70.5*
Developing economies	140.4	364.7	1707.6	3155.9
Share in total	*25.5*	*20.5*	*29.4*	*26.3*
of which:				
Africa	39.8	59.5	153.2	315.1
Share in total	*7.2*	*3.3*	*2.6*	*2.6*
Latin America and the Caribbean	35.1	104.6	481.0	908.6
Share in total	*6.4*	*5.9*	*8.3*	*7.6*
South, East and South-East Asia	49.8	152.2	1000.3	1684.3
Share in total	*9.0*	*8.6*	*17.2*	*14.0*
Southeast Europe and CSIS	0.0	0.1	71.3	389.2
Share in total	*0.0*	*0.0*	*1.2*	*3.2*
World FDI stock(real terms) 1/	858.8	2387.6	7947.6	11998.8

1/ Adjusted by world export prices

Source: UNCTAD, World Investment Report (2007), Centennial Database and own estimates

III. THE STRUCTURE OF TRADE IN EMERGING ECONOMIES

A. Geographic structure of trade by developing countries

As economic growth picked up in different areas of the developing world, this has been accompanied by growing trade flows. Moreover the trade flows have shown a significant process of integration within each developing area, and with other emerging economies. The increase in these trade flows can be attributed to several reasons: increased formal integration within the various areas, better use of comparative advantage in relation to the advanced economies, and also greater complementarily among developing countries. To a significant extent this seems the most important aspect of the enormous growth in trade among countries in Asia, and particularly in connection to the initial influence of Japan, the emergence of the Newly Industrialized Countries as economic power houses, and more recently the presence of China as a new economic giant in the region. In the case of Africa and Latin America a further issue has been the impact of commodity prices. As commodity prices declined in the 1980s and 1990s, the share of those regions in total trade tended to decline notwithstanding the increased openness of the regions. Over the last few years improving commodity prices may distort the picture again as part of the observed advances are related to the higher prices and may well reverse as these prices retreat.

Table 4: Intra-regional trade 1980-2007
(in percent of total trade for the region, unless specified)

Region	**1980**	**1990**	**2000**	**2007**	Trade/GDP (%, 2007)
Developing Africa	5.0	7.6	9.5	9.5	58.3
Developing Asia	24.1	33.9	41.6	47.3	105.9
Developing and Advanced East Asia 1/	36.5	48.3	60.0	65.3	72.5
memo: Developing Asia intraregional trade and with Advanced Asia1/	55.8	67.7	74.3	74.8	
Latin America and Caribbean	21.0	16.4	18.6	21.2	42.8
Americas2/	18.0	29.9	39.3	36.0	20.4
Memo: Latam and Car. Intraregional trade and with US and Canada 2/	56.0	58.1	71.6	62.1	
European Union	61.6	67.1	67.3	67.2	63.7

1/Includes Developing Asia, Japan and NICs(Hong Kong, Taiwan, S. Korea, and Singapore
2/Americas Includes , Latin America, Caribbean, Canada and the US
Source; IMF, directions of trade, WEO data base, and Centennial Estimates

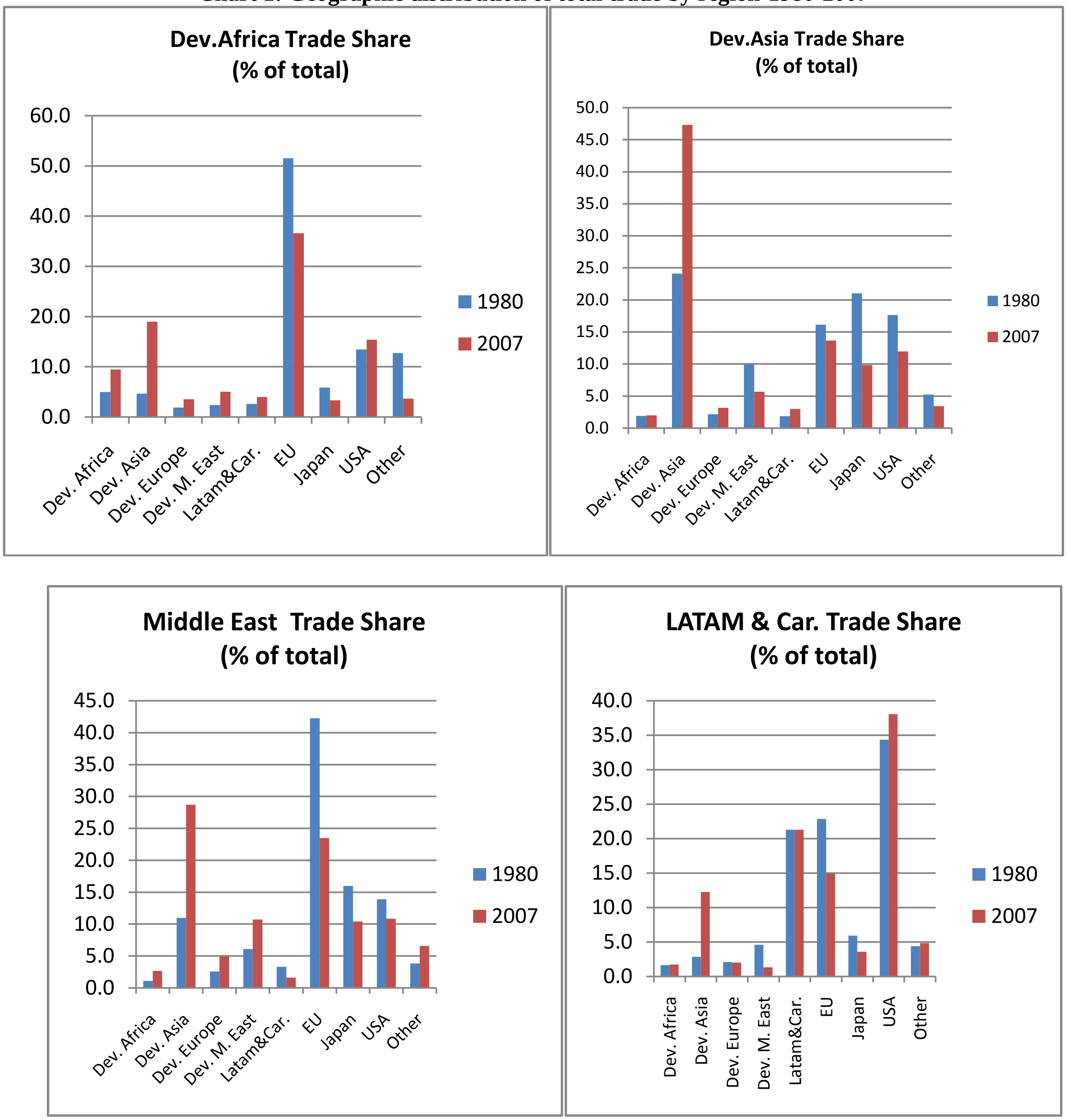
Table 4 shows the changes in intraregional trade in Africa, Asia and the Americas. It includes information for Developing countries as well as data that cover trade with the major developed countries in each area- Japan and the NICs in Asia, and the US and Canada in the Americas. While all areas have shown a significant increase in regional trade, the degree of regional integration in Asia is impressive at every level, explaining 2/3 of total trade for the broader regional definition, and about ½ for the emerging economies including China.[3] This level of integration is almost equivalent to that of the European Union (EU). It may even soon surpass it as an intra-regional trade share within the EU has remained about constant. Moreover, the Asian economies, advanced and emerging alike are much more open, with a much higher ratio of trade to GDP, than the EU, not to speak of Africa and the American Continent.[4]

Intraregional trade rose rapidly in Africa, but remains very small. In the case of the Americas the degree of regional integration including the North American countries has increased, but after reaching 40%, it declined and remains at about 1/3 of total trade. Furthermore, after some years of growth, intra Latin American trade, at some 20% of the total, is at about the same level as in 1980. This suggests that there have been only limited efforts to develop a process of integration in new activities. Notwithstanding the development of complex and far-reaching formal trade agreements, the region remains highly dependent on commodities in their international trade, with the exception of Mexico after it joined NAFTA, the North American Free Trade Agreement. Chart 1 below, illustrates in more detail the changes in intra and inter-regional trade. The general trend is a decline in the trade volume of EEs with the European Union and with Japan. The picture is somewhat more blurred with the US, as total trade with that country grew both in the case of Africa- most likely at the end of the boycott with South Africa- and in the case of Latin America and the Caribbean on account of the increased integration of the continent, because of increased commerce with Mexico under NAFTA, and an increasing number of bilateral arrangements with other

[3] Even excluding China from these trade statistics for Developing Asia, the degree of integration in the region is very high- about 40% of total trade, as opposed to 47%, including China in2007.
[4] The numbers for the Americas are somewhat distorted by the size and nature of the US economy, which in itself is a major trading area. Nonetheless, the Americas are by far more closed than any of the other major regions.

countries in the region, like Chile, Peru, and Central America. In any event, the greatest change in the trade landscape is the sharp jump in trade with Developing Asia, mostly on account of China.

Chart 1: Geographic distribution of total trade by region-1980-2007

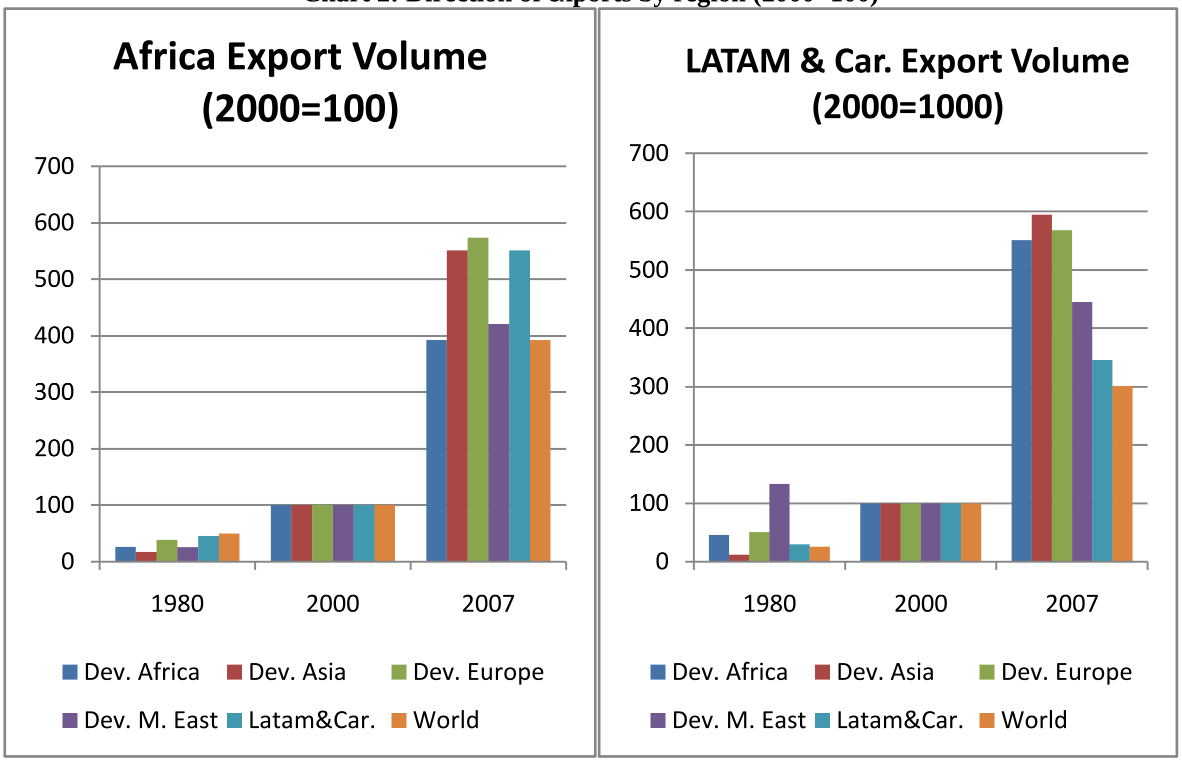


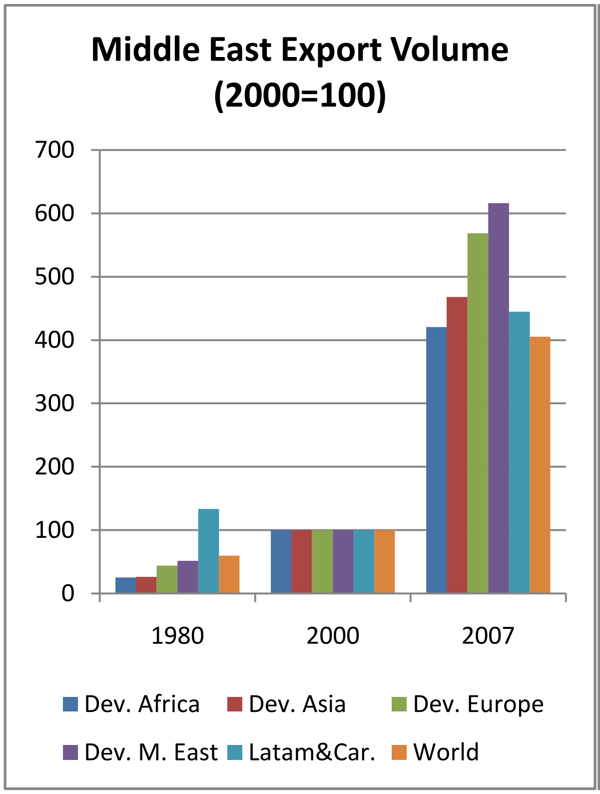
Source: IMF, Directions of Trade, 2008, Centennial and own estimates.

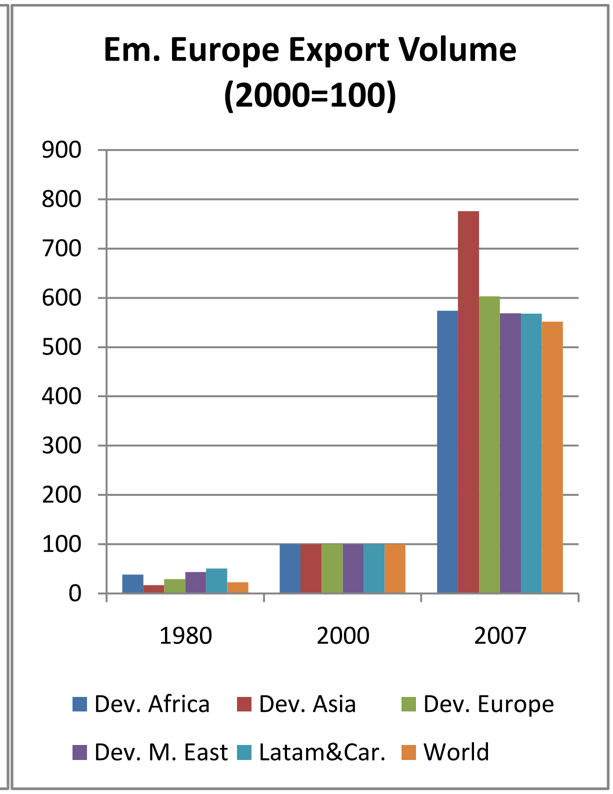
The trade flows within East Asia, including Japan and the Newly Industrialized countries, not presented here, show a similar structure as that for Developing Asia. The share of trade within the area has risen from 28 percent in 1980 to 48 percent in 2007, with a decline in trade with most other regions, except for the EU and Latin America, where trade has remained stable, and an increase, from a small base, for Emerging Europe.

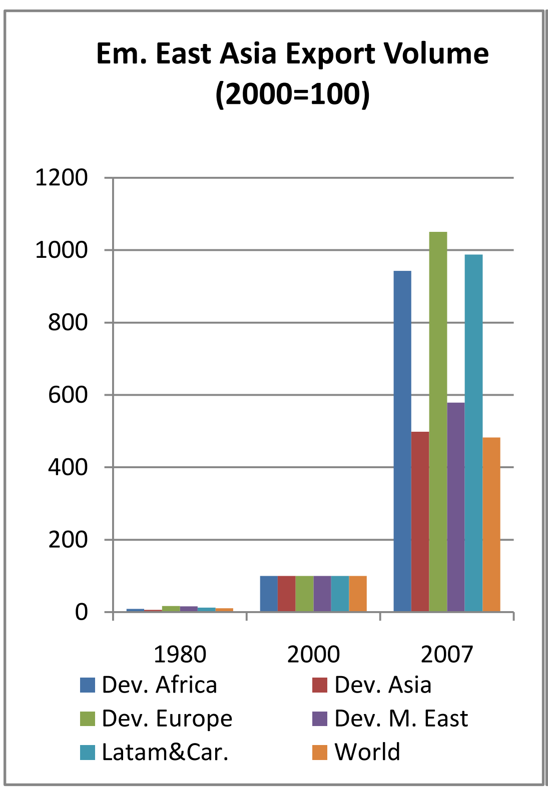
As noted above, trade shares in Latin America and the Caribbean have not changed significantly, in spite of the major efforts to establish trade agreements within the region. Trade blocks like Mercosur, the Andean Group, and the Central American Common Market have provided the opportunity to integrate these economies. However, trade has developed more with Asia and the US, reflecting on the one hand the continued reliance on raw materials and food in the region and the availability of competitive manufactures, in the case of Asia. The increased trade with the US is related to NAFTAs impact in creating a framework for integrated trade in North America, including Mexico.

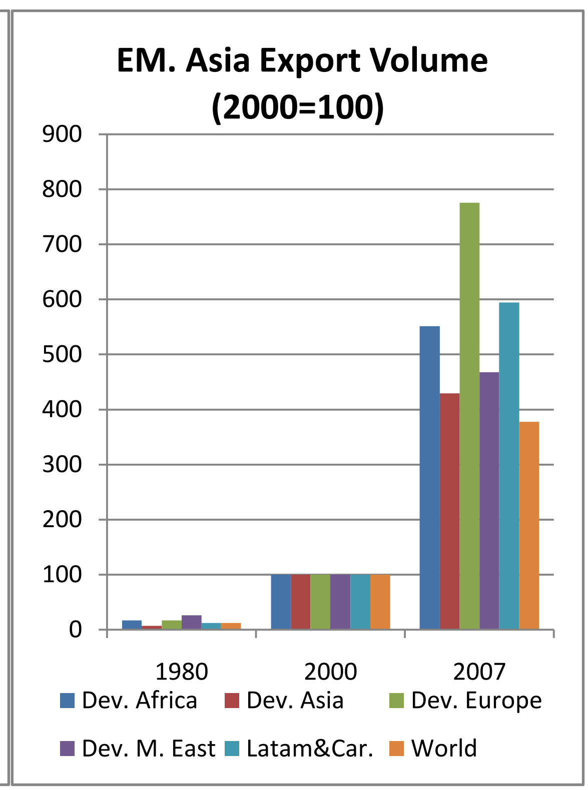
Chart 2: Direction of exports by region (2000=100)











Source: WTO and IMF statistical information, Centennial and own calculations

Consistent with the trends in trade patterns, export volumes to different regions have increased at a path-breaking pace, as is well illustrated in the six panels of Chart 3. The information presented shows the increase in trade among developing countries. One of the most noteworthy observations is the rapid pace of increase of exports to Developing Asia for non-Asian countries, particularly since 2000. The same is true for the trade among different regions, with a particularly rapid growth, again from a very low base, for trade with developing Europe. This shows the increasing integration of the region with the world economy since the demise of the Soviet Union and satellite system almost 20 years. Trade with Africa and Latin America has also grown rapidly, although the share of trade with these regions remains small.

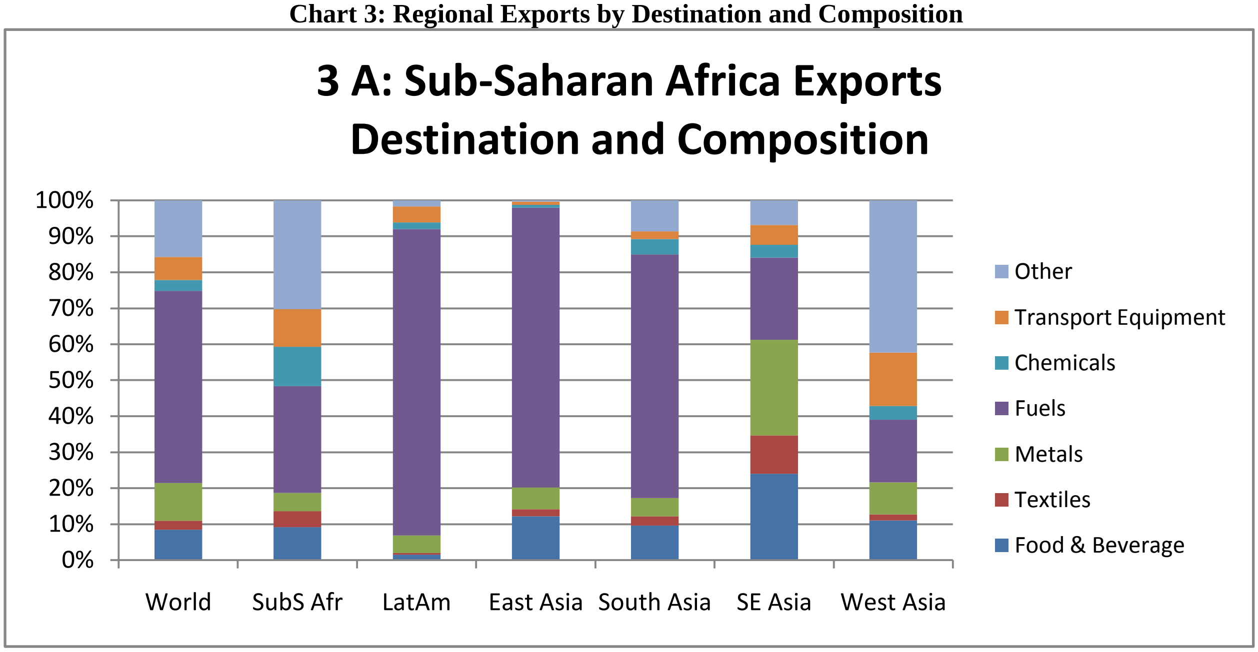
B. The commodity structure of trade

The composition of exports to different regions of the world provides an insight to the process of integration of the various Emerging regions, as presented in detail in Chart 3, which utilizes data provided by UNCTAD for 2006, the last year available, with a somewhat different classification than the data in previous tables and charts, in particular for Asia and Africa. While the data incorporated in this set of charts is affected by the inevitable degree of aggregation, it shows a very different pattern for different regions.

In summary terms, exports for different regions can be characterized as follows:

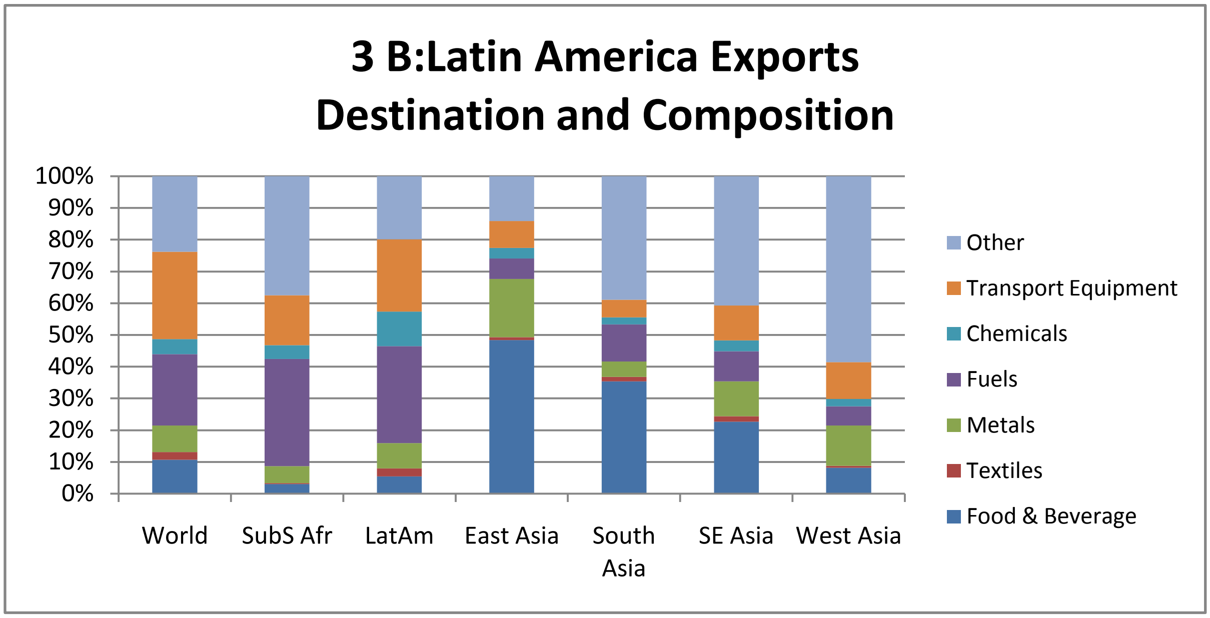
1. Sub Saharan Africa exports are dominated by food, metals and fuels overall, and also for most of the exports destined to emerging markets with the exception of intra-regional trade in Africa and with West Asia (effectively the Middle East), where trade is more specialized, and may also reflect some integration and joint industrialization efforts. However, these represent a very small fraction of total regional exports.

Chart 3: Regional Exports by Destination and Composition

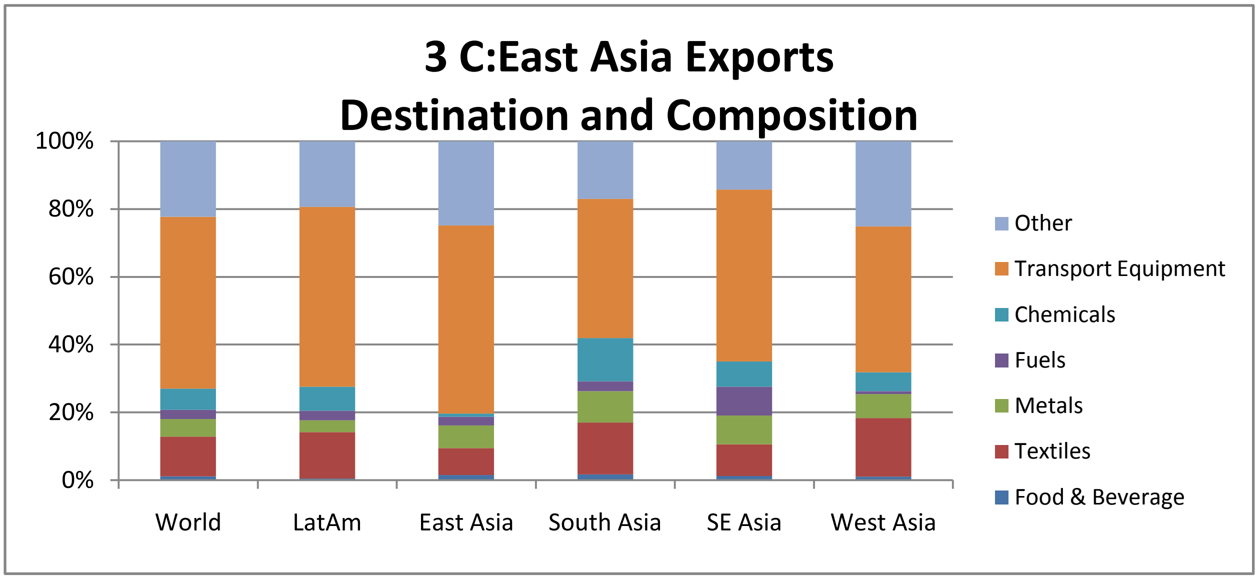


2. Latin American exports are mainly commodity based, but with significant industrial exports, both to Advanced and emerging economies. Regional trade in Latin America is well diversified, reflecting the production base of the different countries and very much in line with its export structure to the world. However trade with Asia is mostly based on commodities, including food, minerals and fuels. Manufacturing, in large part reflected in transportation and "other" is also playing a significant role

but considerably less than for Asia, even though the region still enjoys a higher Per Capita Income than developing Asia.



3. East Asian exports are dominated by transport equipment, textiles, and other manufacturing, with a significant and growing participation of electronics, including TVs and computers, with very small differences as far as regional composition, reflecting the solid industrial basis of these countries. This is also the specific case of China, presented for illustrative purposes. Manufacturing, including vehicles, textiles and "other", represents the bulk of China's exports, except for intra-Asian exports, where the production base is considerably more diversified, reflecting the increasing process of industrial integration in the region.



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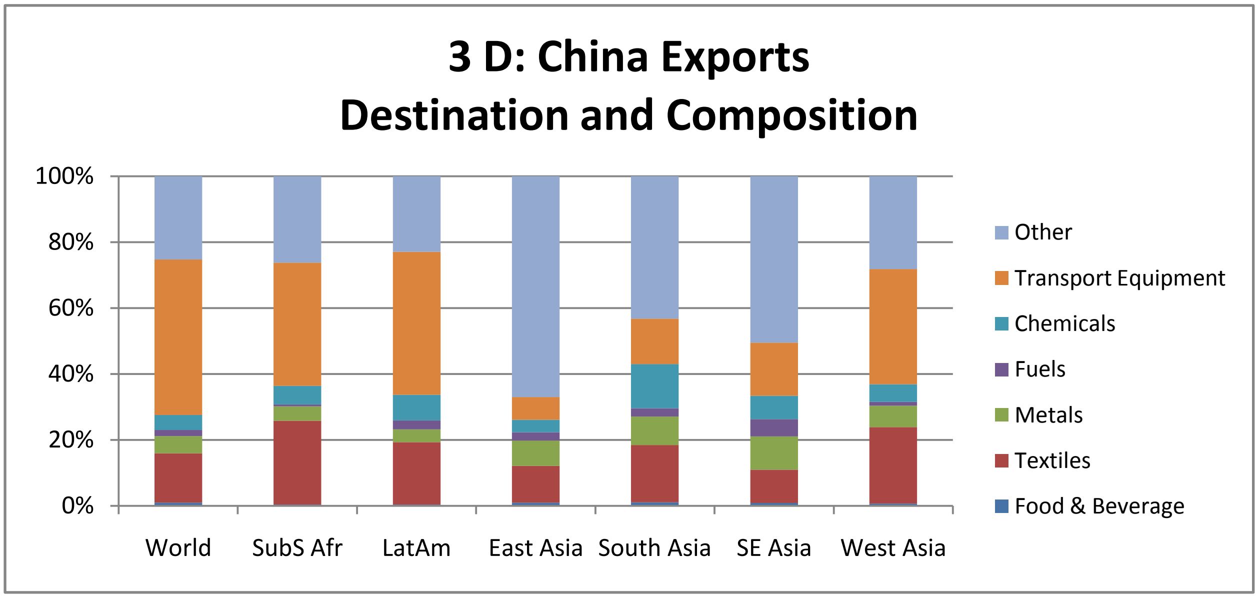
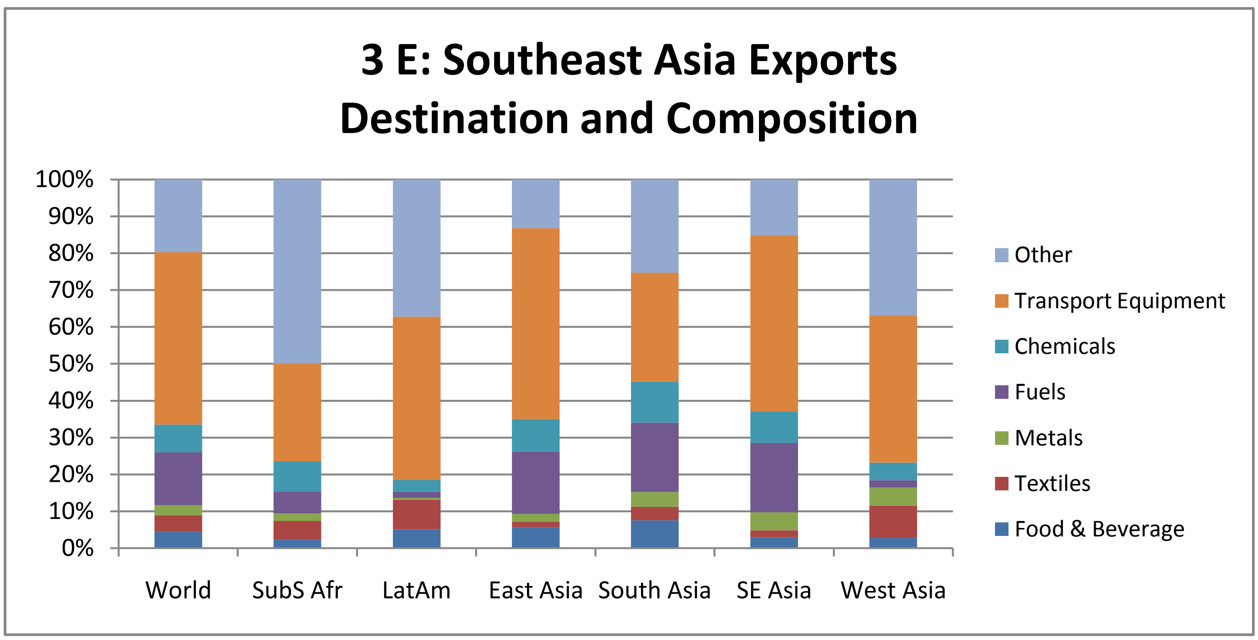
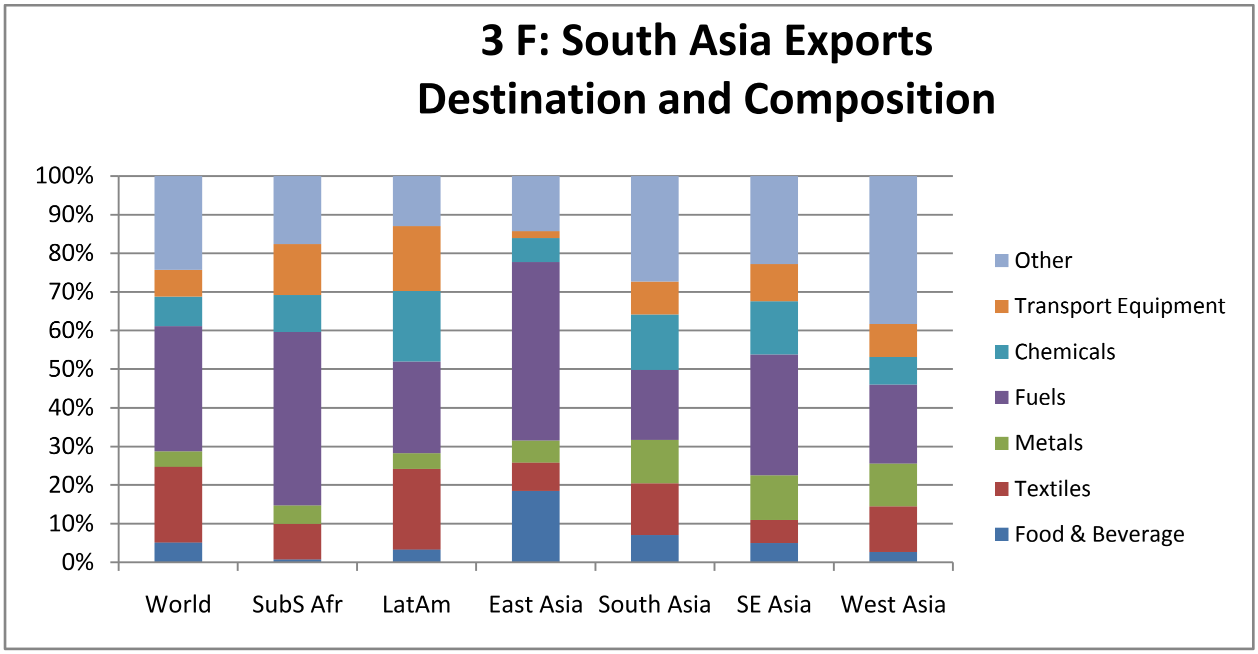


4. While South East Asia exports are dominated by transport, chemicals, fuels and textiles, other manufacturing exports are playing a significant role for areas like Africa, Latin America, and the Middle East. However, these areas represent only a small fraction of total exports, and thus can be dominated by specific items



5. South Asian exports are well diversified, with only divergent patterns for East Asia, dominated by fuel exports and food. However, it is possibly the region with the most stable export base among the various country groups, together with Latin America. This again shows a rich and diversified production base, and a stable integration into the world economy.



Source: UNCTAD Trade Report, 2007, Centennial and own calculations

C. Trade integration efforts

Trade integration has been a major objective among different emerging regions. Moreover these efforts were further enhanced by the stellar efforts of the EU over the last half a century. The EU track record, even with its faults, has brought about the admiration of the Developing world, particularly as the EU has made continuous and generally successful moves to expand its membership and integrate the region. Of course, the conditions in Latin America and to some extent Africa are far from similar to Europe, which was affected by massive wars and deep ideological divisions thereafter. Enmity, ideology and wars however affected other regions, particularly Asia, which in practice has been able to integrate effectively without a complex institutional framework equivalent to that of the EU. Rather, the process has occurred in response to the liberalization efforts of many of its members, and particularly China and India. However, this has not been the case in other regions, and particularly in Latin America, notwithstanding official efforts that have extended for well over a century.

Even with different outcomes, there has been a significant move toward negotiating trade-related agreements in the world, and their number has accompanied the increase in the volume of trade. As shown in chart 4, the actual number of trade agreements submitted for consideration to the World Trade Organization (WTO) grew sharply after 1990, in line with the liberalization efforts of developing countries and increasing ties with advanced economies. After a sharp period of growth, the number of arrangements stabilized, as a number of trade areas consolidated, while trade continued to grow throughout the period.[5]

The completion of trade agreements was clearly dominated by Europe through 1989, while the countries in central and eastern Europe and the CSIS dominated the scene in the 1990s (table 5). During this decade trade agreements have bloomed in Asia, Europe and the Americas, in line with the liberalization and integration patterns observed around the world. Arguably, the process of trade growth and globalization

[5]Trade values in Chart 4 are based on the information provided by WTO, and are somewhat lower than those incorporated in the WEO exercise of the IMF. However, the different pace of growth of both series is materially unimportant with regard to the current exercise.

preceded the establishment of these agreements, thus formalizing a *de-facto* situation, more than generating it. More interestingly, the 2000s has witnessed an increasing number of trade arrangements that cross regional lines, for a total of 52 out of 125 since 2000.[6] These are the agreements that have followed the process of increased trade among regions described above in detail.

Chart 4: The link between exports and trade agreements

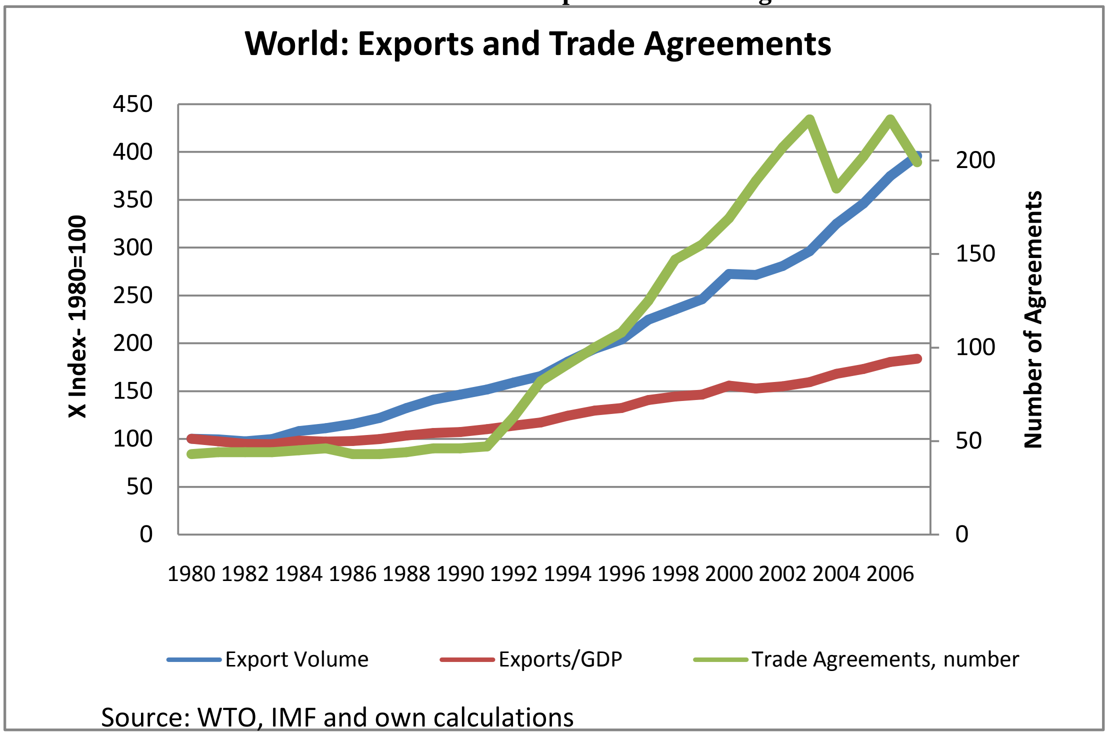


Table 5: Number of Regional Trade Agreements submitted to WTO

Period	Africa	Americas	Asia	CIS& E. Eur.	Europe	Multiple Regions	Total
1957-1979	1	2	1	0	9	3	**16**
1980-1989	0	2	0	0	5	2	**9**
1990-1999	4	12	3	18	8	9	**54**
2000-2008	2	20	36	2	13	52	**125**
Total	**7**	**36**	**40**	**20**	**35**	**66**	**204**

Source: WTO data base, 2008, Centennial and own estimates

To a large extent, the existing trade agreements, with the possible exception of those for the EU and NAFTA have not tended to create significant volumes of trade. Most of the trade flows have followed comparative advantages, with Africa and Latin America concentrating on commodities and Asian countries on manufacturing. Nonetheless, these comparative advantages have been far from static. Latin America has developed a sophisticated industrial base, with increasing exports of manufacturing, from

[6] The numbers for the Americas include a number of free trade agreements and other treaties between the US, and Canada on one side, and Latin America and the Caribbean on another. These arrangements, as is the case with some Asian treaties covering Japan, Korea, Singapore and others blur the presentational line among advanced and emerging economies.

cars and steel (Mexico and Brazil) to airplanes (Brazil). Moreover the region has been at the forefront of agricultural technology (Argentina, Brazil, and Chile). In turn, Asia, led by China, and India, has developed their industrial base from labor intensive processes, to metals, and machinery to software and computer hardware, as champions of technological innovation.

Trade relations with the developed world remain at the center of interest for most of the emerging economies, but the fast-growing flows among them have broken the traditional exchange mold. Initially in the form of new markets for traditional exports, the structure of trade has evolved into more complex exchanges, as technological processes have allowed for increased competitiveness. Moreover, trade has become more specialized, as manufacturers have been able to separate industrial processes and have diversified geographically at a speed and complexity that has far exceeded the speed of the actions by governments in seeking to conclude formal integration agreements.

Even though the trade agreements have lagged rather than preceded the flows of trade in today dynamic world, their role is far from trivial. There is a need to complete global trade agreements (e. g. Doha) to help eliminate the burden of protectionist policies both on consumers in importing countries and producers in the (mostly) poorer producing countries. Beyond these efforts, regional agreements can provide a stable institutional environment within which trade flows can take place, and protected from capricious and discretionary policy actions by opportunistic national authorities, in advanced, emerging, and poorer countries alike.

The question remains as to why integration has not been correlated to these agreements, particularly regional agreements. Although the underlying natural resource (Africa and Latin America) and labor (Asia) endowments explain part of the differential pattern, the causes run deeper. Much higher levels of savings and investment in Asia, on average in excess of 10 percentage points of GDP in favor of Asia, explains the region’s dynamism. Furthermore, in the last decade, the institutional business and investment climate has been much more favorable in Asia, thus helping in generating the growth momentum that can be observed today.

IV. FLOWS OF FDI IN EMERGING ECONOMIES

Foreign Direct Investment has contributed very significantly to the process of growth of activity and trade in developing countries. The increasing mobility of capital and the rise of important enterprises and projects in the developing world have accelerated the process. Overall, world FDI stocks in real terms as of 2006 (most recent UNCTAD information, as presented in table 2 above) are about 14 times the level observed in1980 (almost 7 times higher as a proportion of GDP) and about 50% higher than in 2000 (22% in relation to GDP) , mostly invested in the industrialized world. However, both Asia and Latin America have become increasingly important as FDI destinations. There has been some reversal in more recent years, in part because countries of the CIS and of Eastern and Central Europe began receiving increasing flows. The massive increase of FDI in developing countries is illustrated also in Table 6, which shows the increases observed from 1990 to 2005. The sectorial composition shows that most of the recent investments went to services, mainly energy generation and wireless communication, with considerably less going to manufacturing and the primary sectors.

The most striking development in recent years regarding FDI is the rapid growth of Emerging Economies as a source of capital. It is still true that the advance economies hold a net creditor position in terms of FDI, and that emerging and developing economies remain net debtors. However, emerging economies have increased their stock of investment by about 50 times from 1990 to 2005, while the stock FDI outflows for advanced economies rose by about 4 times over the same period. Still, the stock outstanding of FDI held by developing countries is only 10 % of the total held by advanced economies. Most of the new investment is in the services sector with only limited investments in other areas.[7] Table 7 provides additional information on flows of capital from and to developing countries, including portfolio investments, illustrating the massive flows to Asia, Central and Eastern Europe and Latin America, over the period 2002-06.

While it may well take time for emerging economies to reach levels of outward FDI equivalent to those in the advanced world, the strength of their balance of payments, and the savvy approach of Emerging Market business-people bodes well for a continued increase in their participation in FDI flows, in line with developments in the recent past.

Table 6: FDI stocks in different areas and sectors (US billion)

	1990			**2005**		
	Inward FDI					
Region	Developed Countries	Developing Countries		Developed Countries	Developing Countries	CSIS & S. Europe
Primary	139	28		551	202	38
Manufacturing	584	165		2197	717	62
Services	713	155		4684	1340	87
Unspecified	10	5		114	49	8
Total FDI stock	1446	353		7546	2308	195
	Outward FDI					
Region	Developed Countries	Developing Countries		Developed Countries	Developing Countries	CIS & S. Europe
Primary	162	2		584	35	
Manufacturing	794	6		2655	117	2
Services	835	12		6264	831	1
Unspecified	4	1		69	22	
Total FDI stocks	1795	21		9572	1005	3

Source: UNCTAD, World Investment Report, 2007; Centennial database and own estimates.

Table 7: Cumulative Investment flows for Emerging Economies-2002-06 (US$ billions)

	FDI Outflows	**FDI Inflows**	**Portfolio Assets**	**Portfolio Liabilities**	**Net Flows (+ inflows)**
Sub-Saharan Africa	-9.6	50.0	-11.8	37.3	65.9
Developing Asia	-78.9	447.6	-152.4	185.9	402.2
of which: East Asia	*-60.6*	*390.0*	*-153.2*	*144.1*	*320.3*
South Asia	*-18.3*	*52.6*	*1.0*	*41.8*	*77.1*
Europe	-48.4	238.7	-59.7	122.2	252.8
Middle East	-2.5	44.9	-9.7	7.0	39.6
Latin America and Car.	-89.0	306.2	-59.9	39.0	196.2
Total Emerging Economies	**-228.4**	**1087.3**	**-293.4**	**391.3**	**956.8**

[7] Information on FDI originating in Emerging Economies and invested in other Emerging Economies is not available on a systematic basis in the main source of information on the subject, UNCTAD's World Investment Report data basis.

Table 7(cont.): Cumulative Investment flows for Emerging Economies-2002-06 (US$ billions)					
Selected Countries	**FDI Outflows**	**FDI Inflows**	**Portfolio Assets**	**Portfolio Liabilities**	**Net Flows (+ inflows)**
Argentina	-4.3	18.0	1.7	-15.9	-0.5
Brazil	-42.9	78.7	-2.1	12.0	45.7
China	-33.3	308.5	-139.2	87.5	223.5
India	-17.9	39.8	0.0	40.0	61.9
Korea	-22.1	25.1	-60.4	69.0	11.6
Mexico	-18.8	100.7	2.9	17.5	102.3
Nigeria	0.0	7.8	3.4	0.0	11.1
South Africa	-8.9	9.3	-5.1	36.2	31.5
Source: IMF- Balance of Payments data base 2008, Centennial database					

While emerging economies have become large capital exporters, the limited available information suggests that a large proportion of it is still directed to advanced economies, with the exception of Asia. Most of the FDI directed to emerging economies is done within the same region where the exporting country is located. Only four bilateral country relationships among the 100 largest bilateral FDI relations are between Emerging Economies. The largest ones are between China and Hong Kong, legally within the larger China, with total investments involving about US$450 billion. The other two consist of investments by Korea and Singapore in China, involving about US$26 billion each. Thus, Emerging Economies have not yet achieved a major role in the process of investment in other emerging countries. Again the major exception is Asia, particularly in regard to China, Hong Kong, Korea, and Singapore either as origin and destination of FDI.

The 100 largest Trans National Corporations (TNCs) from developing countries have a strong preference to locate their foreign affiliates in the industrialized world. According to the World Investment Report (2007), the prime foreign locations for these corporations are the United Kingdom and the US, with China a distant third. In fact, among the 30 preferred foreign locations for all these companies, in addition to China, the only Emerging Countries that made the list were Brazil, Malaysia, Mexico, Argentina, Panama, and Venezuela. To some extent, the generally conservative approach of TNCs from Emerging Economies may be related to the fact that wants to proceed cautiously in their foreign investments, particularly with regard to investments outside Asia. Such approach is consistent with the general poorer business environment in Africa and Latin America. As an illustration, the average ranking for the most important 15 countries in Asia (including NICs) according to Doing Business (World Bank, 2007) was 67, for a total of 175 countries; for Latin America the average rating was 87; for Africa was 106. An equivalent ranking related to the World Competitiveness Report (WMF, 200) for 133 countries again ranks the average for Asia at 50, Latin America at 81 and Africa at 89, again a significant difference in favor of Asia.

Even with the growing influence of EEs, only two companies from the Developing World are included in the list of largest 100 TNCs in the world: PETRONAS (Oil, Malaysia), ranked 55 by foreign assets; and CEMEX (Cement, Mexico), ranked 63. UNCTAD includes as part of the list Hutchinson Whampoa (ranked 20), and Jardine Matheson (98) from Hong Kong; Samsung (87) and LG (92) from Korea; and SingTel, (82) from Singapore, as being located in Emerging Economies, as is the definition of the Emerging Market Forum. This differs from the methodology of the IMF, for the World Economic Outlook, a major player in the analysis of these flows.

Among the largest TNCs with Headquarters in Developing Countries, China (11 companies), and South Africa (10, mainly in mining) dominate the numbers. They are followed by Mexico (7), Malaysia (6), Brazil (3), India (2), Egypt, Philippines, Thailand, and Venezuela (1 each), mainly with investments in the developed world.[8] Some of these TNCs have engaged in significant transactions, as described in detail in table 8.

Table 9 provides information for cross country investment among emerging economy companies in mining and oil and gas extraction. These activities are among the main areas of FDI in the recent past. The most important aspect is the diversity of home countries (investors) and hosts (areas of investment). Furthermore, while many investments entail regional links, the number of extra-regional operations suggests the small but increasing role of FDI by Emerging Economies in the world.

Table 8: Recent Cross Border mergers and Acquisitions Among Emerging Economies (2006)

Rank among 172 world transactions of more than US$ 1 bill.	Target Co.(Nation)	Acquiring Co. (Nation)	Investment (US$bill.)	Activity
59	NNPC-OML(Nigeria)	CNNOC(China)	2.7	Oil
77	Tunisie-Telecom(Tunisia)	UAE Investor Group	2.3	Telecom
84	Verizon Dominicana (D. R.)	America Movil (Mex.)	2.1	Telecom.
121	Encana Corp(Ecuador)	Andes Petr. (China)	1.4	Oil &gas
125	Mobitel(Sudan)	MTC Kuwait(Kuwait)	1.3	2Telecom.
145	Quilmes (Argentina)	AMBev (Brazil)	1.2	Malt. Bev.
Emerging Economies	6		11.0	
World	172		583.6	

Table 9: Oil and Mining Companies from EEs with projects in other EEs

Company		**Home Country**	**Host Countries**
Mining	**Rank among 25 largest**		
CVRD	3	Brazil	Indonesia, New Caledonia
Grupo Mexico	8	Mexico	Peru
Anglogold Ashanti	12	South Africa	Argentina, Brasil, Perú, Namibia, Guinea, Tanzania, Ghana, Mali, Senegal
Gold Fields	19	South Africa	Peru, Ghana
Impala Platinum	22	South Africa	Zimbabwe
Harmony Gold Mining	24	South Africa	Papua New- Guinea

[8] The list in table 8 includes only TNCs from Emerging Economies according to the WEO definition. UNCTAD also includes Taiwan, Hong Kong, Korea and Singapore in their list of 100 largest TNCs from developing countries.

Table 9 (cont.): Oil and Mining Companies from EEs with projects in other EEs			
Oil Companies	**Rank among 50 largest oil companies**	**Home Country**	**Host Countries**
CNPC	8	China	Azerbaiyán, Ecuador, Indonesia, Irán, Kazakhstan, Mongolia, Nigeria, Oman, Perú, Sudan, Syria, Tunisia, Turkmenistan, Venezuela
Sonatrach	10	Algeria	Peru
Petrobras	17	Brazil	Angola, Argentina, Bolivia, Colombia, Ecuador, Perú, Venezuela
ONGC	28	India	Colombia, Sudan, Syria, Venezuela
Sinopec	34	China	Azerbaijan, Colombia, Ecuador, Kazakhstan, Turkmenistan
PETRONAS	38	Malaysia	Chad, Egypt, India, Indonesia, Iran, Thailand, Myanmar, Pakistan, Sudan, Viet Nam
CNOOC	41	China	Indonesia
UNCTAD, World Investment Report, 2007			

V. CONCLUDING REMARKS AND ISSUES FOR DISCUSSION

The recent boom in trade and investment flows among Emerging Economies is one of the most noteworthy recent events in the international scene. Trade flows among developing countries have grown at a much more rapid pace than overall trade, as the process of development brought about increasing synergies, supplemented by significant capital flows. While the adaptation of institutions has played an important role in paving the way, economic growth has been related to the emergence of developing Asia, the opening of regional economies, the increased availability of financing in the world- even at present- and the development of a modern and aggressive business elite in many of the larger developing countries, and particularly in Asia.

While these developments are impressive and provide exciting opportunities for the future, their success is by no means guaranteed. World trade and investment continues to be dominated by flows among Advanced Economies as well as between them and the Developing World. The Asian experience provides a good example of integration, but it would have been difficult to envisage this process without the overwhelming presence of China, India, and the dynamism of the Newly Industrialized Countries of the region. Integration makes progress in Latin America, but to a much lesser extent. In the case of Africa and Latin America, the inter-regional flows are a new geographical reality, but the trade composition tends to follow the traditional pattern of exports of commodities. .

Foreign investments by Emerging Economies have also grown, but they have tended to be directed to the region of origin and the Developed World, showing some mistrust among Emerging regions, Moreover, decisions are influenced by the greater degree of uncertainty and volatility of policies prevailing in some regions. There are a growing number of trade and investment treaties among the Emerging economies but this development does not seem a key factor in predicting increasing integration and growth.

Within generally favorable trends with regard to trade and investment, there are clear differences among regions. In particular, Asia is clearly far ahead in terms of the process of integration worldwide, arguably with the exception of the EU. It has been pointed out that initial abundance of labor explained this phenomenon, but this is clearly a simplistic view. More to the point, Asia has shown much higher levels of savings and investment, and greater trade openness and integration than most other areas of the world.

The Asian process has not been the result of a major regional institutional effort. On the contrary, it is apparent that it has been market driven, helped but not explained by the emergence of China and its strong connections with some of the more advanced countries in the region. While not uniformly, the region (even excluding the NICs) provides a much more attractive environment for doing business, and ranks much higher than Africa and Latin America in terms of competitiveness, and generally economic freedom. These conditions, plus a relentless emphasis on effective education and health, as well as poverty reduction have helped develop an entrepreneurial drive that explains many of the advances. It is true that governments have intervened to support certain areas, but the results of this intervention have been far from positive. Actually, it was the reduced government intervention in China, East Asia and India that energized these economies, in many cases after a long period of stagnation, worse than in Africa and Latin America.

In this context, three main topics need to be faced in the near future:

1. To what extent can the current trends in trade and investment among Emerging Economies be considered sustainable over the medium term? While changes in Asia are clearly here to stay, is that the case for other regions or is it the consequence of a temporary investment boom in China and India, but which has not changed economic structures in Africa and Latin America?
2. What is the role for governments in helping facilitate the process of trade and investment integration in Emerging Economies? The enterprise sector is the leading force in these efforts, but what should be the appropriate balance of action to help identify the problems and reform and strengthen the current institutional set up? Asia seems to lean toward less government intervention, and the converse seems the case in Latin America, but observers disagree. In light of the experience of participants, what should be the best approach to attain an acceleration of growth?
3. Asia's level of savings and investment, and development of human capital have propelled the region to forefront of the Emerging World, and almost inevitably will leave Africa and Latin America behind. What should be the key lessons that should be taken from the Asian experience in order to help other regions remain as meaningful world trade and investment partners?

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