UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

2024

# Trade and Development Report

# Rethinking development in the age of discontent

## OVERVIEW

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# Content

# Foreword

Looking only at global averages, the world economy in 2024 performed what experts call a “soft landing”, taming inflation without falling into a recession. That is an important achievement. But the *Trade and Development Report 2024: Rethinking Development in the Age of Discontent* shows the reality is more nuanced. Although some developing economies show promising growth, the overall picture in the global South is one of weak growth, growing exposure to global shocks and the risk of trade fragmentation.

This report forecasts global growth in gross domestic product of 2.7 per cent for 2024 and 2025, marking three consecutive years below the 3 per cent pre-pandemic growth trend. Regionally, South Asia displays the most dynamic growth. The three major powers of the global economy – China, the United States of America and the European Union – are on decelerating or weakened growth trajectories. Despite the context of a turbocharged technological revolution, the much-needed acceleration in economic activity to achieve the Sustainable Development Goals remains elusive for many countries in the global South trapped by a confluence of high debt burdens, financial and resource outflows, weak investment and enforced austerity. Only 1 of the 46 least developed countries is currently meeting the promise of a 7 per cent annual growth target under the global goals.

In many ways, the world is seeing a further deterioration of the sluggish "new normal" growth that followed the global financial crisis over 15 years ago. But important shifts in geopolitics and economic thinking – including the return of industrial policy, multipolar trade patterns and new technological innovations – signal that globalization itself is at an inflection point. Whether this will lead to a global paradigm that is more favourable to developing countries and the Sustainable Development Goals remains an open question.

This report seeks to answer it head on. Chapters 1 and 2 present our analysis of major economic trends in the global economy, international trade, financial markets, commodities, and capital flows. Chapters 3 and 4 discuss the current pivot of globalization, marked by the changing structure of global trade, technological innovations and the rise of South–South trade. Chapter 5 advocates concrete ideas for a fairer international tax system and a global financial architecture that gives developing countries the policy space they need to adapt and thrive in this new era.

The Trade and Development Report 2024 is a call to action, showing that despite the many challenges we face, there are clear opportunities for sustained per-capita growth for the developing world, particularly in renewable energies and critical minerals, South–South trade and the strategic use of new generation industrial policies. It is an appeal to policymakers, academics and civil society to engage in critical dialogues that find solutions to reduce the fragility and volatility of our current status quo. Above all, the report is a testament to the fact that the future is not something that happens to us – it is something we create, together. As globalization shifts, we must steer it, carefully and deliberately, towards sustainable development.

Rebeca Grynspan
Secretary-General of UNCTAD

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# Globalization has reached an inflection point

Technological, geoeconomic, and geopolitical shifts converge, creating a critical moment in globalization, challenging developing countries.

The world economy, weakened by crises and climate change, is facing accelerating, far-reaching technological changes at a moment of geopolitical fragility. What do these forces mean for development? How can the economies of the global South best respond to them?

The Trade and Development Report 2024 suggests that several ongoing shifts are creating an inflection point in globalization that poses multiple challenges to developing countries. New technologies associated with green transition, artificial intelligence, bioinformatics and financial innovation, herald the dawn of the next global growth wave. This is likely to lead to the wider use of synthetic materials and cheaper assembly lines and could fundamentally transform the global division of labour and market competition. In tandem, geopolitical tensions rippling through trade and investment decisions may lead to stepped-up home-shoring.

An inflection point is nothing new. Sixty years ago, UNCTAD was established during a similar era of rapid change. Subsequent decades saw the culmination of decolonization, the breakdown of the Bretton Woods system of fixed exchange rates and capital controls, the beginning and then failure to shape a new international economic order, and the dawn of the revolution in information and communications technology. Each factor decisively shaped the development trajectories available to the economies of the South in the evolution of trade-driven globalization.

Global finance, trade, and debt pressures are dividing the world, emphasizing the need for new development pathways.

The current pivot accentuates many problems long faced by developing countries. Pressures in global finance, trade and debt are cementing divisions in the world economy, underscoring imperatives to find development pathways that lead to equitable and sustainable growth, advance the green transition and create a development-responsive international financial architecture.

Opportunities are also arising, including for the global South to rearticulate its needs and priorities. This report examines five core themes:

- **A** A new, low normal for the global economy
- **B** The changing structure of trade and trade policies
- **C** The dawn of a service economy?
- **D** Financialization in a new commodity cycle
- **E** The global South and its quest for long-term development finance



# 1

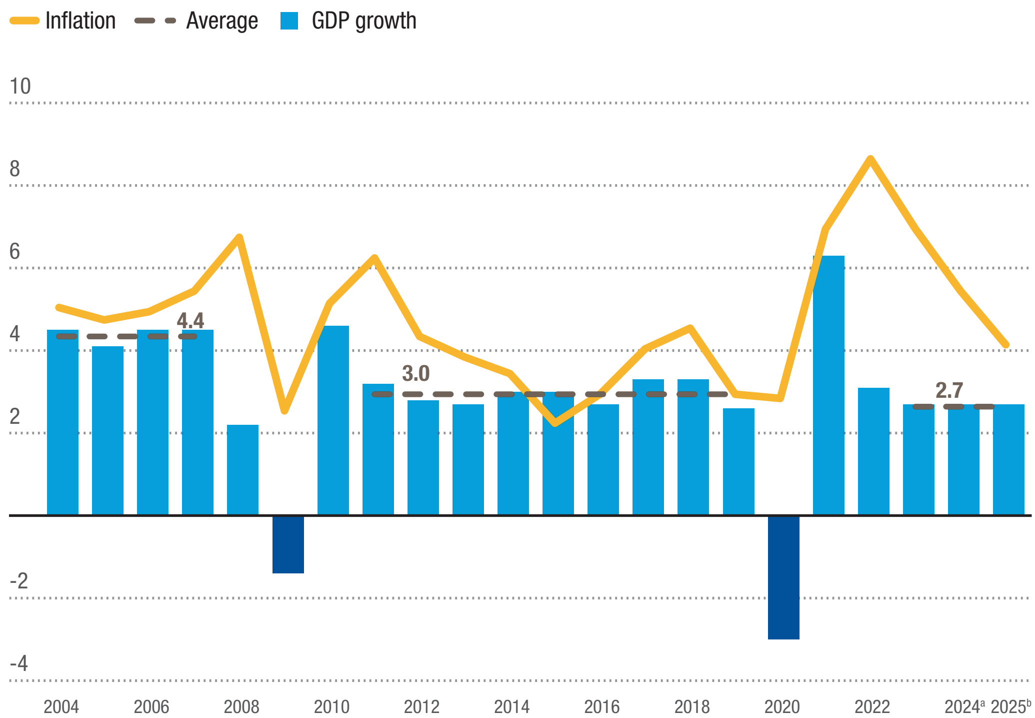
# A new, low normal for the global economy

**In 2024, several positive economic developments occurred. Inflation, although still present, continued its steady decline across both advanced and developing economies (figure 1). Turbulence in financial markets in August 2024 caused concern but did not lead to broader financial contagion, although uncertainty persists. Some developing countries, such as India, Rwanda and Viet Nam, are expanding at an accelerated pace. Others, including Bangladesh, Côte d'Ivoire and Indonesia, register robust growth. International trade and net capital flows have rebounded from post-pandemic lows. After several years of high volatility, commodity prices have partly receded from their 2022 highs, although they remain elevated by historical criteria.**

### Figure 1

**Easing inflationary pressures have accompanied lacklustre growth in global output**

World output growth and inflation
(Percentage)




*Source:* UNCTAD based on the United Nations Global Policy Model.
*Notes*: GDP, gross domestic product. Output growth is based on GDP at constant 2015 prices (market exchange rates). Grey dashed lines denote average annual growth rates for 2004–2007, 2011–2019 and 2023–2025. Inflation corresponds to a weighted average of national and regional GDP deflators.
[a] Estimate.
[b] Projection.

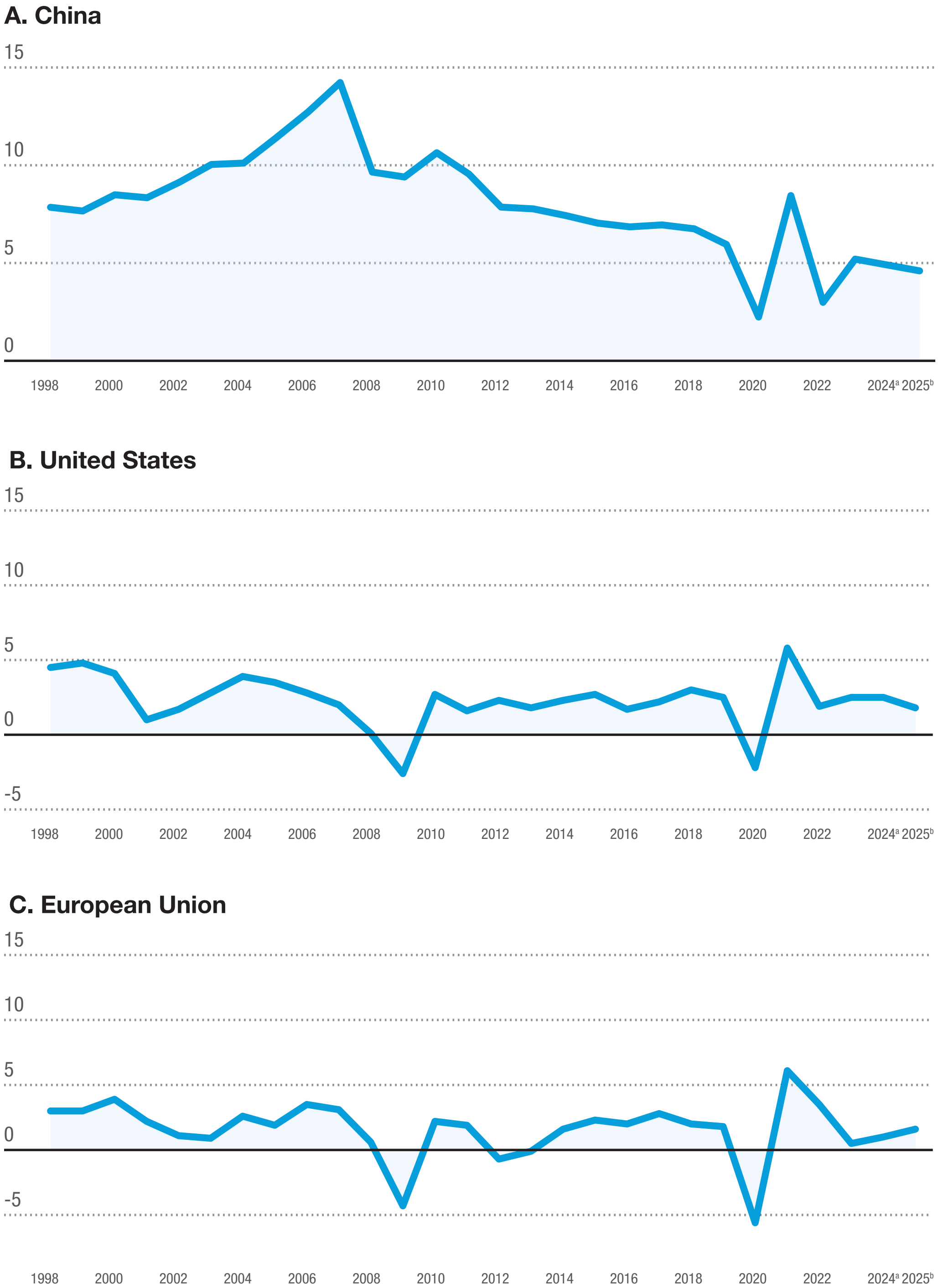
Beneath the surface, however, major challenges percolate. Global growth is projected at a low 2.7 per cent in both 2024 and 2025, indicating stagnation. Crucially, this prediction reflects deceleration in the economies of China and the United States of America and subdued growth in the European Union (figure 2).

## Figure 2

**Stagnation and deceleration afflict the world's major economies**

Real GDP growth, selected economies

(Percentage)



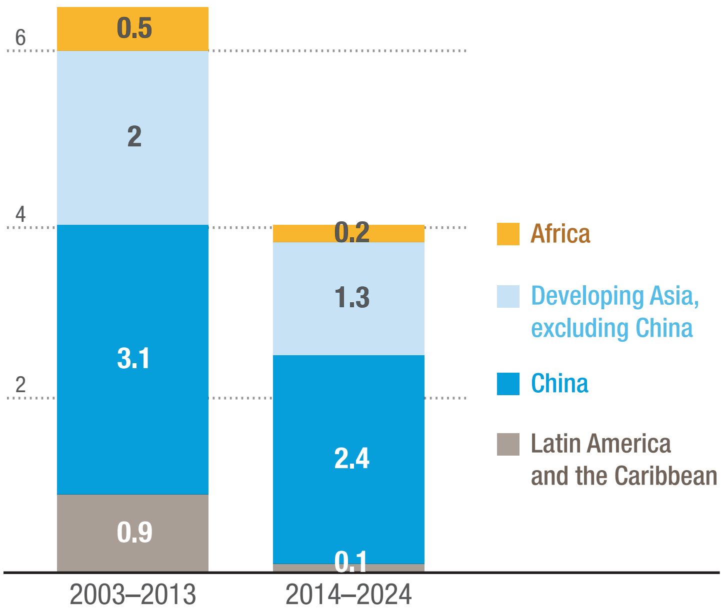

*Source:* UNCTAD based on the United Nations Global Policy Model.
*Notes*: Based on GDP at constant 2015 prices.
[a] Estimate.
[b] Projection.

The "new normal" global growth rates are insufficient for developing countries to address the challenges they face.

A depressed global trajectory indicates the erosion of growth potential during years of crises and high interest rates. This loss is particularly significant for the global South. While the economies of developing economies expanded on average by 6.6 per cent in 2003–2013, growth averaged only 4.1 per cent in 2014–2024. Excluding China, the economies of the global South have grown annually at 2.8 per cent on average for the past decade.

This trajectory means that the "new normal" is stabilizing at rates insufficient for developing countries to address the economic, social, development and environmental challenges they face (figure 3).

**Figure 3**
**Crises weakened growth potential across the global South**
Contribution to global South's economic growth, selected economy and groups
(Percentage)



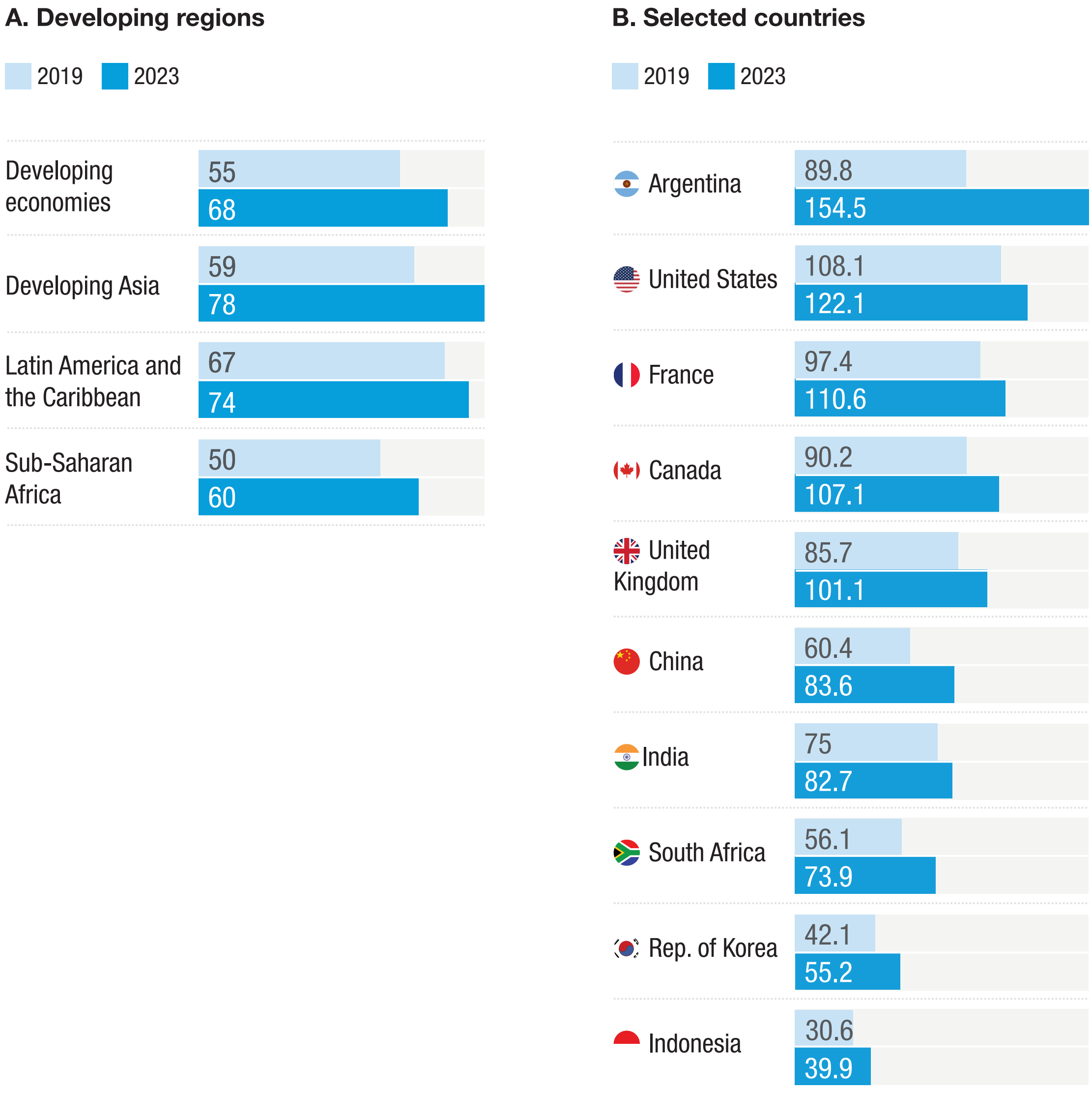

*Source:* UNCTAD based on United Nations Global Policy Model.
*Notes:* Data reflect the average annual growth rates for the two periods analysed. The global South corresponds to the UNCTAD classification grouping of developing economies.

Prevailing global conditions are particularly worrisome in terms of debt dynamics in the global South. The combination of high interest rates in advanced economies and depreciating currencies in developing countries reduces policy flexibility and raises the cost of servicing foreign currency debt. This increases fiscal pressure and financial stability risks (figure 4).

## Figure 4

### Significant increases in public debt levels in the aftermath of the COVID-19 shock

General Government, gross debt
(Percentage of GDP)




*Source*: International Monetary Fund (2024). World Economic Outlook. April.

*Notes:* COVID-19, coronavirus disease. "General Government" refers to central, State and local governments and the social security funds controlled by these bodies. Estimates for 2023

Equally concerning, high public debt ratios in many economies – a hallmark of the new, post-pandemic norm – heighten the risk of a return to austerity as a policy guideline. In the developing world, public debt levels have jumped 15 percentage points in four years. Many developing economies are spending a growing share of export earnings on servicing debt, highlighting the urgency of reforming the international debt architecture.

Equally concerning is how high public debt ratios in many economies have heightened the risk of a return to austerity.

## The macroeconomics of consumer discontent

The post-pandemic inflation spike was largely due to supply issues from global bottlenecks and sector monopolies.

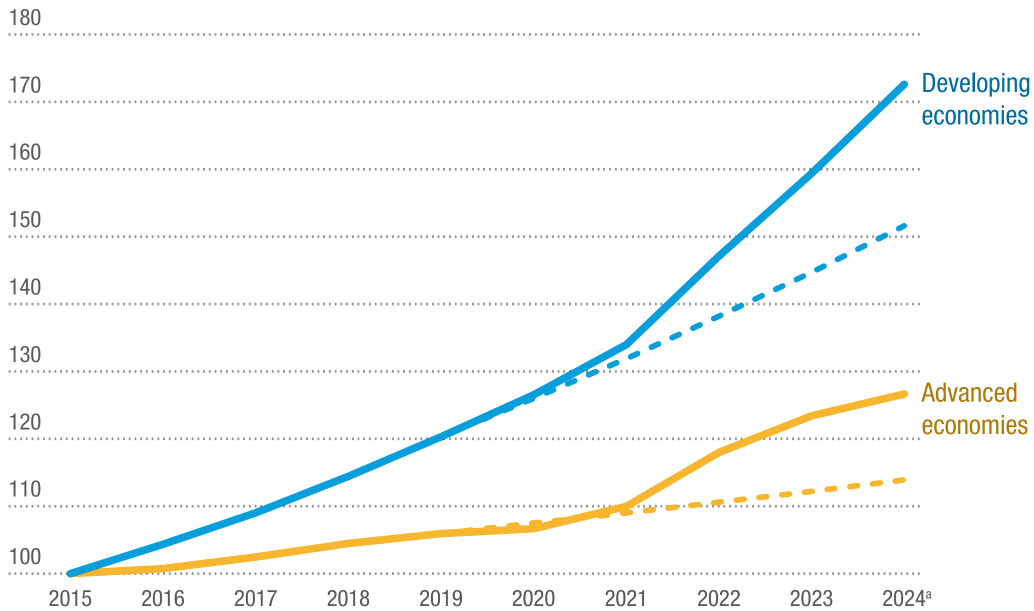
The post-pandemic inflation spike was in large part a supply issue, created by bottlenecks in global value chains and excessive oligopolistic power in certain sectors, particularly agriculture and energy commodities. The subsequent excessive reliance on monetary tightening as the main policy tool to bring down inflation to target rates, particularly in advanced economies, has inflicted undue hardship domestically and internationally.

As a result, the post-COVID-19 recovery has been marred by widespread discontent. Higher consumer prices and credit costs have eaten into household disposable income, resulting in consumption spending below pre-pandemic levels in many countries (figure 5). The loss of rewarding manufacturing jobs and the perceived lack of such jobs in the future (figure 6) contribute to a wider sense of economic precarity. In many advanced economies, this feeds fragility internally and contributes to risks of fragmentation internationally.

### Figure 5

**The uptick in consumer prices has eroded household purchasing power in both advanced and developing countries**

Consumer price index
(2015=100)




*Source*: UNCTAD based on data from International Monetary Fund (2024). World Economic Outlook. April.
*Note*: Dashed lines correspond to estimates based on pre-pandemic (2015–2019) trends. Aggregations for advanced and developing economies are computed using geometric means.
*a* Estimate.

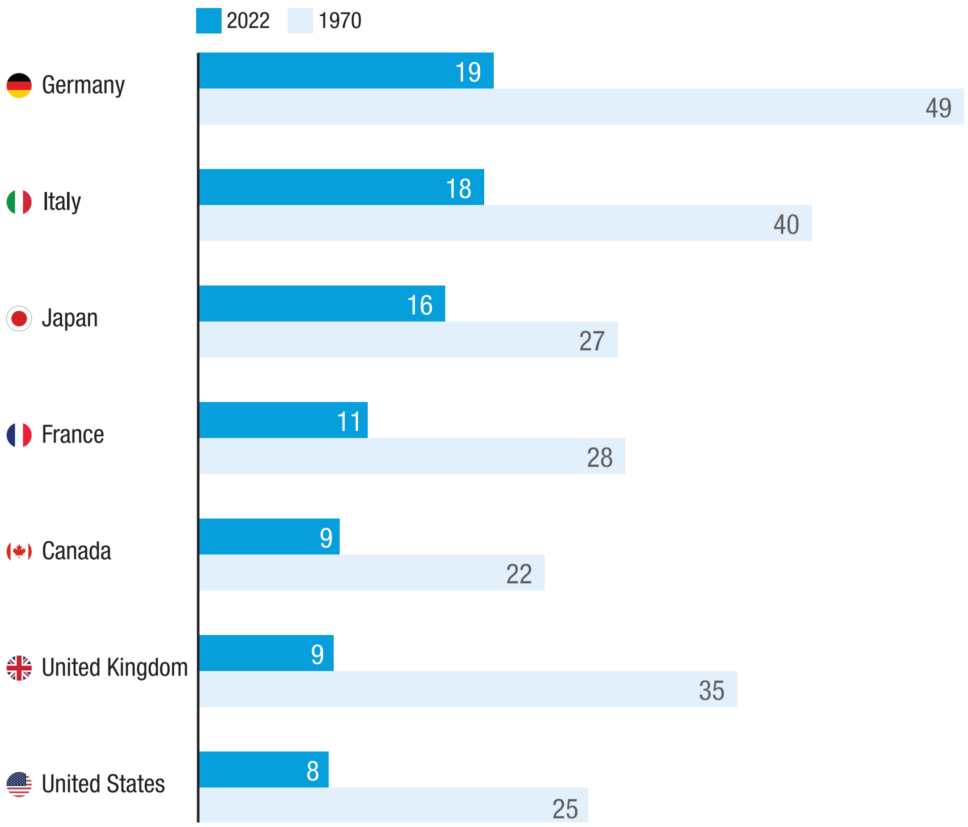
New industrial and trade policies offer a political response to public discontent with the consequences of globalization.

Trade tensions, protectionism, home-shoring and the securitization of supply chains have become hallmarks of international trade during the past decade. In part, these measures stem from competition and frictions among leading economic powers. But new industrial and trade policies also offer a political response to public discontent with the consequences of globalization.

## Figure 6

### Workers in advanced countries could long count on stable jobs but many no longer find them in manufacturing

Share of manufacturing in total employment, selected developed countries
(Percentage)




*Source*: UNCTAD based on data from the Organisation of Economic Co-operation and Development and United States, Bureau of Labor Statistics.

Even as industrial policy returns to the agenda of advanced economies, it remains frowned upon as a policy tool in developing economies, on the assumption that the risks outweigh the benefits when a country does not have the appropriate institutional framework in place. Successful development cases, however, indicate that while industrial policies inevitably create risks, they also induce improvements in governance structures and regulatory frameworks.

In today's context, new industrial policies need to be adaptive to external constraints, and broadened to encompass all economic sectors, including services. Internationally, this requires greater policy coordination, including on climate. The easing of climate risks would, among an array of positive outcomes, reduce inflationary pressures from extreme weather conditions and the costs of mitigating climate change. Yet geopolitics has pushed environmental concerns and progressive economic policies from the priorities of many governments. In this context, multilateral institutions are key to fostering better policy coordination between advanced and developing economies.

Modern industrial policies must address environmental, demographic, financial, and technological factors shaping growth and trade.

## Overall, global economic performance in 2024 frames three key policy priorities:

- **Reversing the trends of rising income inequality, stagnant real wages and jobless growth in developing economies.** This requires effective policies of structural diversification, enabling State capacities and guidance, concrete commitments to social protection, and inclusive growth strategies.
- **Overly restrictive monetary policy stances, particularly in the major advanced economies, risk further discontent, both at home and abroad.** At a moment of precarious levels of indebtedness, UNCTAD has put forward transformational proposals to help reduce the costs of finance and diminish sovereign debt vulnerabilities in developing countries.
- **Going forward, a gradualist approach to inflation and a wider of set of policy tools to stabilize prices would give more time for demand growth to pull investment up.** The ensuing expansion of productive capacity in the goods sector, in turn, will help to alleviate inflationary pressures in the medium term.

## Pathways to new development strategies

Current growth dynamics coincide with accelerated technological change, indicating a potential transition to a new global growth wave. This will likely shape the course of development in many economies over the long run. Strategies to respond to these changes should consider the following three sets of factors.

Current growth dynamics coincide with accelerated technological change, indicating a potential transition to a new global growth wave.

**First and positively, a new growth wave almost always increases demand for developing country exports.** This potential is already visible in rising demand for critical minerals and scare materials generated by the shift to electric vehicles.

**Second, in the past, greater productivity in new sectors spurred higher wages in developed economies and pushed less productive sectors offshore in search of lower wage costs**. Looking forward, however, low-cost labour is unlikely to be a major criterion for foreign investment. New technologies may disrupt existing markets, impacting trade flows and economic stability. Dependence on critical minerals and scarce materials exacerbates such risks.

**Third, fluctuations in demand, supply chain issues and geopolitics could cause significant price volatility in new energy technologies and transportation modes.** As technologies evolve, changes in global power dynamics and trade balances may affect trade relationships.

Industrial policy is needed because markets alone cannot deliver required structural changes.

International agreements and mechanisms will be important to address the complex challenges of the energy transformation. Achieving both sustainable economic diversification and the objectives of the Paris Agreement on climate change calls for a rapid phase-out of fossil fuels, although their high profitability and continuing subsidies imperil the green transition.

A strategic approach to modern industrial policies is key to a climate-conscious developmental paradigm. Given current dynamics in global trade, investment and technologies, such an approach should go beyond industrialization per se and consider the increasingly important interplay among environmental, demographic, financial and technological factors that affect economic growth, trade and global supply chains.


# 2

# Changing structure of trade and trade policies

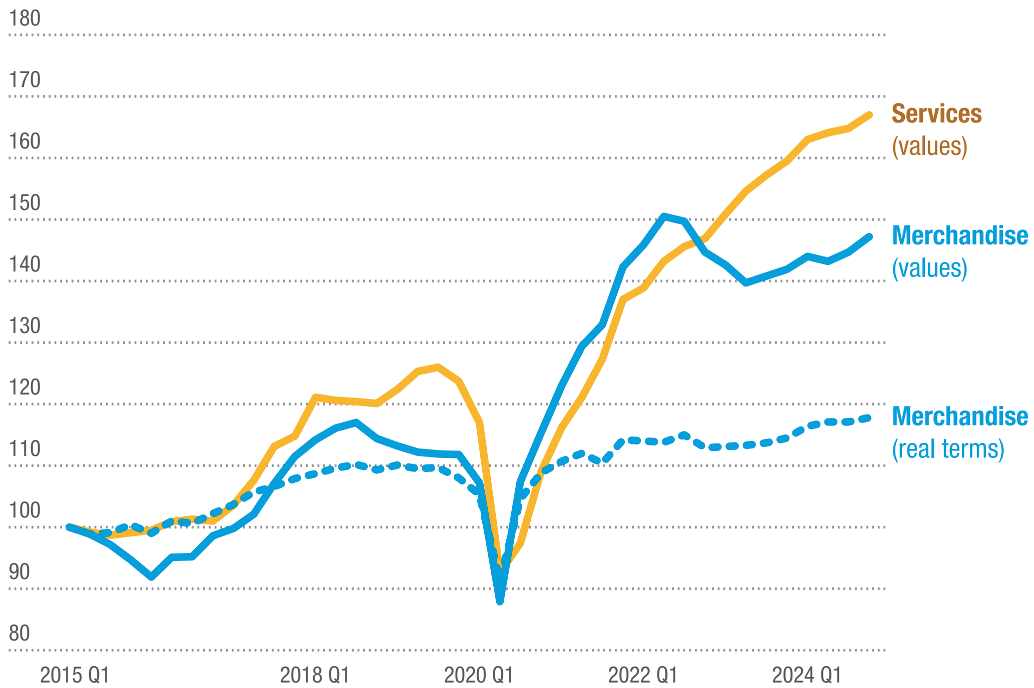
**Global trade is transforming due to domestic priorities, climate commitments and evolving industrial policies. After stagnating in 2023, international trade in goods and services is projected to rebound eventually by about 2 per cent in real terms in 2024.**

The rebound is mainly being led by a revival of merchandise trade, which accounts for 75 per cent of the gross trade flows in aggregate. Yet trade in services remains more dynamic than trade in goods and continues robust growth of 5 per cent (figure 7). Transport and travel components grew at double-digit rates during the first quarter of 2024, with other commercial services expanding at about 5 per cent.

## Figure 7

**Trade in services continues to show more dynamism than merchandise trade**

Quarterly world trade of merchandise and services, first quarter of 2015–fourth quarter of 2024
(First quarter of 2015=100)




*Source*: UNCTAD based on UNCTADstat database.
*Notes*: Q1, first quarter. All series are seasonally adjusted. Estimates from UNCTAD Nowcasts for the second to fourth quarters of 2024.

Overall, however, 2024 will see global trade slowing towards the end of the year. Restrictions on trade and inward-focused industrial strategies, particularly in major economies, are projected to affect trade in intermediate and final goods. Structural factors also play a role in trade deceleration and can best be understood in the broader context.

## The global slowdown of trade

Generally, although global trade has continued to increase in absolute terms, its growth relative to global GDP has stagnated since the 2008–2009 global financial crisis. From 1995 to 2007, trade expanded at twice the pace of global GDP, but the share of global trade as a percentage of GDP peaked at 25 per cent in 2008 and has remained stagnant or declined since. This slowdown reflects both the impact of the financial crisis and broader economic fragmentation.

Changing global dynamics combined with trade disruption in 2020 and 2021 have worsened economic difficulties for low- and middle-income countries, many of which rely heavily on trade for economic growth. Many commodity-exporting countries face the effects of "reprimarization." In many economies caught in a stalled transition to non-extractive sectors, decline in manufacturing employment and rising informality limit the scope for structural transformation (figures 9 and 10).

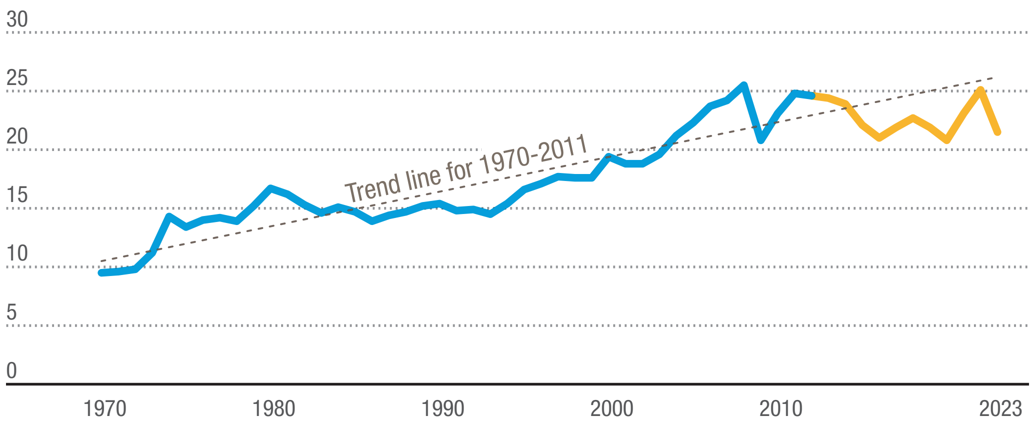
Changing global dynamics combined with trade disruptions have worsened economic difficulties for low- and middle-income countries.

Other factors are in play, as illustrated by the pivot of international trade in 2023. While world trade gradually levelled off vis-à-vis global GDP (figure 8), in 2023, in an unprecedented development, merchandise trade contracted while global economic activity expanded. Episodes of trade contraction are rare but not unheard of. In more than four decades, global trade has contracted only twice, in 2009 and 2020. On both occasions, however, world gross product also shrank in parallel.

### Figure 8

**The fifth growth wave saw rapidly rising exports, but world trade has been levelling off**

World trade as a share of global GDP
(Percentage)




*Source*: UNCTAD based on UNCTADstat database.

Development strategies for structural diversification should target manufacturing and services, including non-tradable ones.

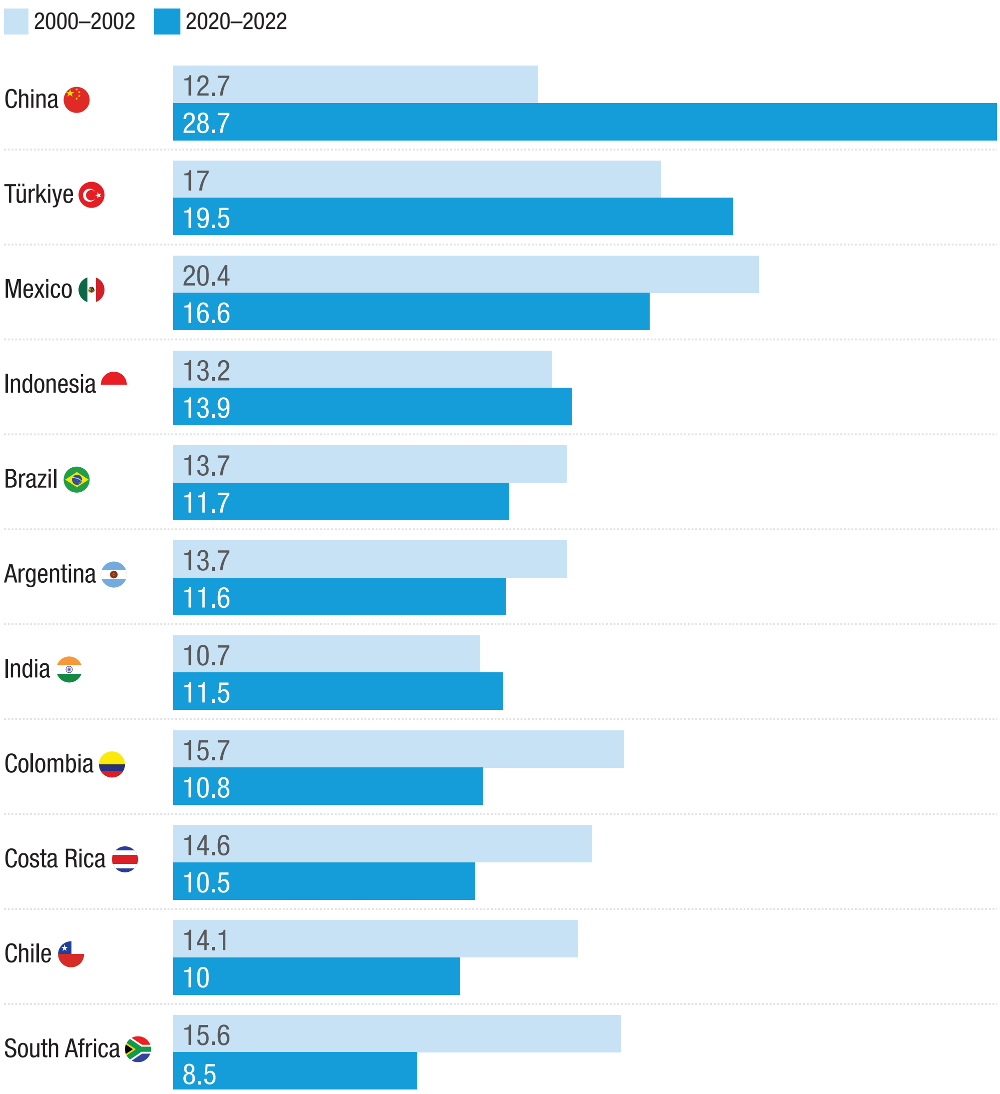
In 2023, in contrast, global merchandise trade saw a structural slowdown while trade in services grew by 5 per cent in real terms, signifying the rising importance of international trade in services. The share of services in global trade reached almost 25 per cent in 2023 and is projected to grow further, leading to expectations that international services could become a new growth engine.

Such hopes, however, are premature, since trade in services alone is unlikely to become the new principal developmental lever. At the same time, there is growing recognition that strengthening productivity and creating quality jobs in labour-absorbing sectors requires a set of strategies for structural diversification. Such strategies should target manufacturing and services, including those that are not internationally traded.

## Figure 9

**Manufacturing employment has often declined in developing countries over the last two decades**

Share of manufacturing employment in total employment, selected developing countries
(Percentage)

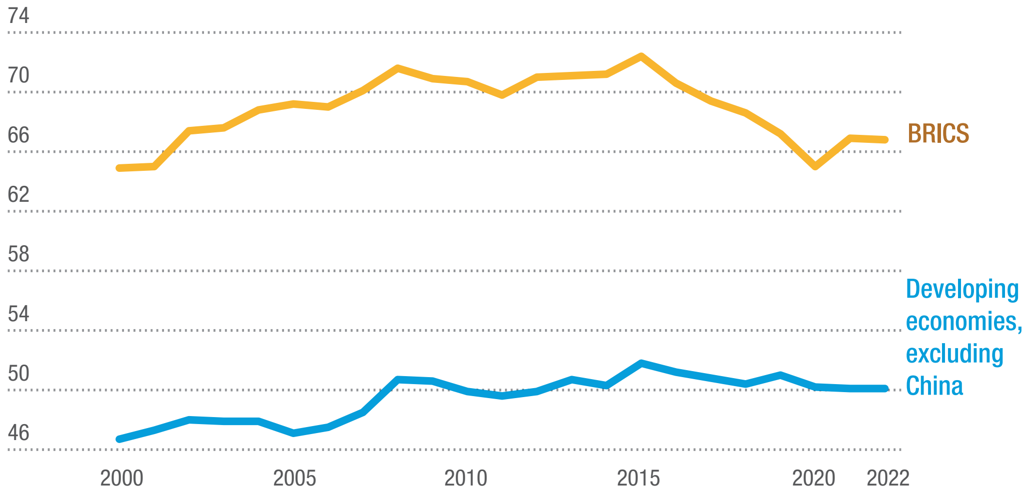



*Source*: UNCTAD based on the Global Sustainable Development Goals Indicators Database of the United Nations.

**Figure 10**

**A lack of structural transformation has spurred rising informality and weakened productive capacity**

Productive capacity index, selected country groups




Source: UNCTADstat database.

*Notes*: BRICS, Brazil, Russian Federation, India, China, South Africa. Structural changes in selected countries. Structural change refers to the movement of labour and other productive resources from low- to high-productivity economic activities. This shift is currently captured by the sophistication and variety of exports, the intensity of fixed capital and the weight of industry and services in total GDP. Higher numbers indicate greater sophistication and development in an economy.

## Looking forward, a strong revival of world trade is unlikely

The long-term slowdown in world merchandise trade, coupled with technological advancements, prompts a re-evaluation of traditional development pathways. The model of manufacturing-led exports growth to create jobs, boost productivity and drive economic transformation increasingly appears to have limitations for some developing economies.

A changing landscape highlights the need for a broader approach to development strategies. Decision-makers should reconsider key components to adapt to the reconfiguration of global trade and the impact of new technologies. The inflection point in global trade also heightens geopolitical risks as countries navigate a more uncertain and competitive international environment.

The model of manufacturing-led exports growth increasingly appears to have limitations for some developing economies.

# POLICY FOCUS

- **Addressing the challenges posed by a fragmenting trade system** requires coordinated policy responses at both the national and international levels.
- **Developing countries will need to navigate policy space to strengthen their domestic industries and reduce their vulnerability to global economic shocks.** Promoting manufacturing and investing in renewable energy could help to reduce reliance on imported fossil fuels and attain financial sustainability. Such policies must be supported by international agreements that prevent trade conflicts and guarantee access to global markets and financing.
- **Global trade dynamics may provide opportunities for developing countries to negotiate favourable trade and financing arrangements.** South–South trade (trade between developing countries) has more than doubled from 2007 to 2023 (figure 11). This trajectory offers opportunities for developing countries to reduce their dependence on traditional trade partners and strengthen regional economic integration.

Global trade dynamics provide opportunities for developing countries to negotiate favourable trade and financing arrangements.

The shift towards greater regionalism and the focus on securing national interests, however, also poses risks for developing economies, particularly those relying on access to global markets for their exports. The rise of protectionist policies in advanced economies, combined with the potential for trade conflicts and disruptions to supply chains, could undermine efforts by developing countries to industrialize, diversify their economies and maintain financial sustainability.

Rising protectionism and securitization of trade pose risks for developing economies relying on access to global markets.

Multilateral institutions such as the World Trade Organization will need to play a key role in managing the risks of trade fragmentation and ensuring that developing countries have a voice in shaping the future of the global trade system. Efforts to reform World Trade Organization rules on industrial subsidies and trade barriers as well as initiatives to support South–South trade will be crucial in mitigating negative effects. By leveraging regional trade partnerships and implementing strategic industrial policies, developing economies can navigate risks and build more resilient and diversified economies.

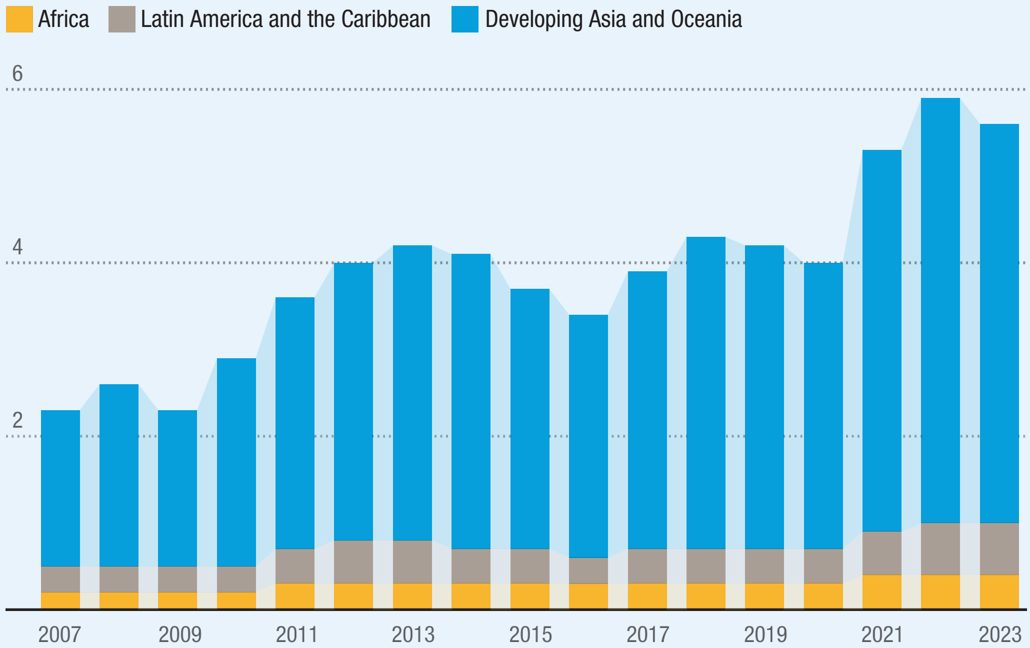
## Figure 11

**South–South trade more than doubled from 2007 to 2023**

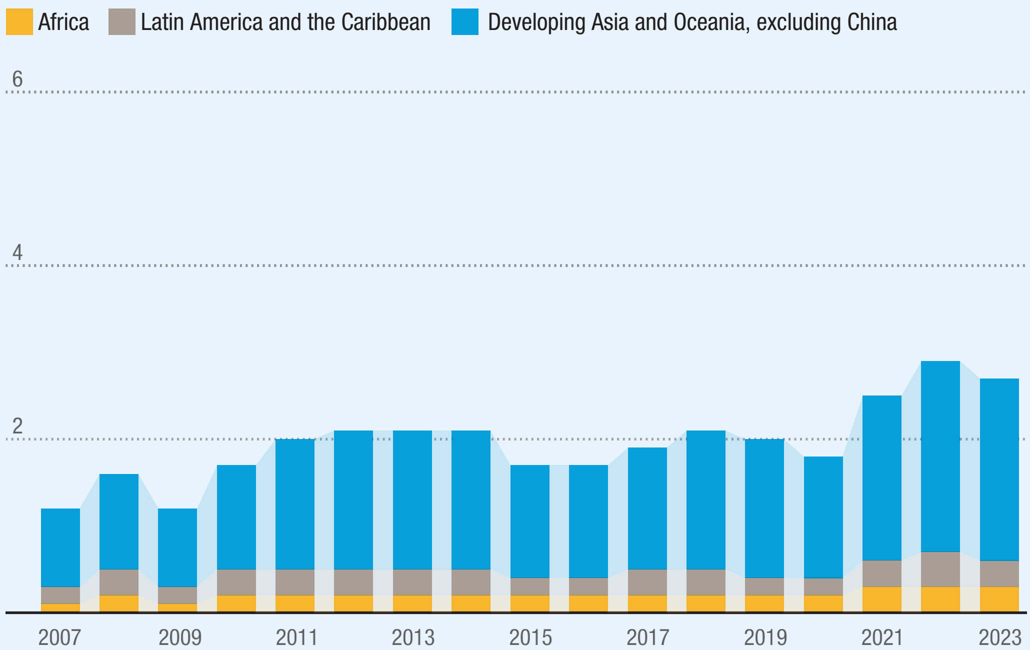
Global South merchandise trade, by region

(Trillions of United States dollars)

**A. South–South trade**




**B. South–South trade, excluding China**




*Source*: UNCTADstat database.

*Note*: Merchandise trade is presented as the average of export and import for the region.


# 3

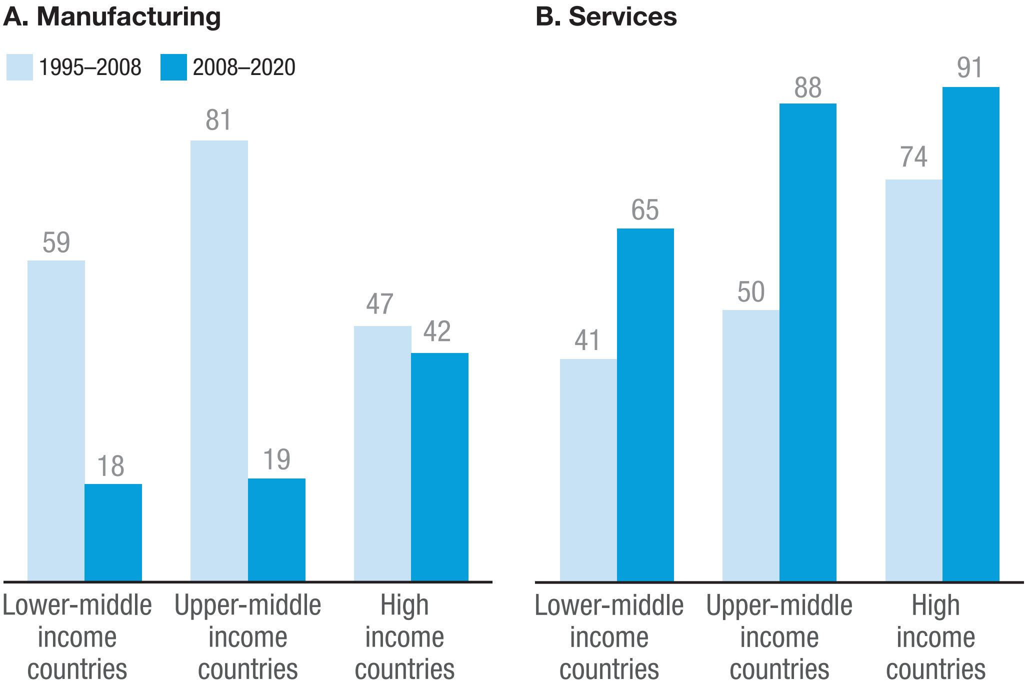
# The dawn of a service economy?

**While manufacturing remains an important pillar of economies, its effectiveness as a growth strategy for developing countries is diminishing (figure 12). This is largely because the comparative advantage of cheaper, less-skilled labour no longer aligns with the reliance of modern manufacturing on skill- and capital-intensive production. Additionally, industrialization is increasingly scrutinized for its large ecological footprint and contributions to climate change.**

## Figure 12

### Manufacturing-led export growth is declining while services-led export growth is booming

Share of countries experiencing manufacturing- and/or services-led export growth, selected income groups
(Percentage)




*Source*: Baldwin RE (2024). Is export-led development even possible anymore? Factful Friday blog. 7 June. Available at https://www.linkedin.com/pulse/export-led-development-even-possible-anymore-richard-baldwin-nusge/
*Notes*: This figure reports the percentage of countries within each income group that experienced export-led growth in manufacturing and services during the two considered periods. A country is considered as having export-led growth in one of the two sectors if the value added in sector exports grew faster than GDP. A country can register both types of export-led growth simultaneously. Services-led export growth only considers information and communications technology-enabled services trade and excludes transportation and tourism. The lower-middle-income country group contains 17 economies, the upper-middle-income one 16 and the high-income group comprises 43 economies.

In 2023, developing countries accounted for under 30% of services and 44% of merchandise export revenues.

Finding a new pathway will not be easy; the emergent service-based economy and the growing role of intangible assets in investments are likely to magnify North–South asymmetries. In aggregate, developing countries account for less than 30 per cent of world services export revenues and 44 per cent of merchandise exports. The shift towards services in investment projects may accentuate structural barriers to the economic integration of the global South (figure 13).

## Figure 13

### Changing investment flows favouring services may worsen structural barriers

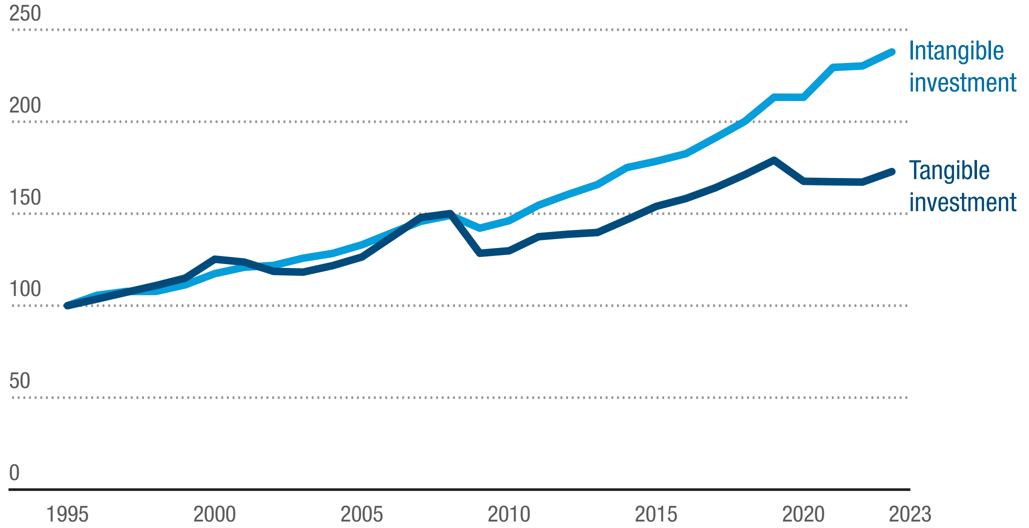
Structure of foreign direct investment, by sector
(Percentage of total number of cross-border greenfield projects)

| | 2004–2007 | 2008–2011 | 2012–2015 | 2016–2019 | 2020–2023 |
|---|---|---|---|---|---|
| **Manufacturing** | | | | | |
| Africa | 3 | 5 | 5 | 6 | 5 |
| Latin America and the Caribbean | 8 | 11 | 14 | 13 | 13 |
| Developing Asia | 37 | 40 | 34 | 31 | 27 |
| Rest of the world | 51 | 44 | 47 | 50 | 55 |
| **Other tangible** | | | | | |
| Africa | 9 | 10 | 12 | 8 | 8 |
| Latin America and the Caribbean | 12 | 12 | 15 | 16 | 11 |
| Developing Asia | 26 | 27 | 33 | 27 | 14 |
| Rest of the world | 52 | 51 | 40 | 50 | 67 |
| **Services** | | | | | |
| Africa | 3 | 5 | 5 | 4 | 4 |
| Latin America and the Caribbean | 5 | 7 | 7 | 7 | 7 |
| Developing Asia | 36 | 34 | 31 | 26 | 27 |
| Rest of the world | 57 | 55 | 57 | 63 | 63 |
| **Total** | | | | | |
| Africa | 3 | 5 | 5 | 5 | 4 |
| Latin America and the Caribbean | 6 | 8 | 9 | 9 | 8 |
| Developing Asia | 36 | 34 | 31 | 27 | 26 |
| Rest of the world | 55 | 52 | 54 | 60 | 62 |

*Source*: UNCTAD based on information from the *Financial Times* FDI Markets database.
*Notes*: The sectoral analysis is based on the variable "Business Activity". Crucially, this means that "Services" include services activities within typical manufacturing industries (for example sales offices of car manufacturers). "Manufacturing" is as classified in the database. "Other non-services" includes several activities normally classified as services but physical asset-heavy in nature; it comprises the following categories: construction, electricity, extraction and infrastructure. "Services" includes all remaining (service-related) business activities. The business activity "ICT &Internet Infrastructure" was split into internet infrastructure, allocated to "Other non-services", and the remaining part of ICT services allocated to "Services".

Conventional trade statistics overlook exports of intangible services through global value chains. This leads to an underestimation of advanced economy exports and skews trade balances with developing countries. Intangible assets such as brands, designs, patented technologies and supply chain knowledge increasingly drive the success of firms in global value chains, potentially leading to "factory-less" production where companies own no manufacturing but control design and marketing. Over the past 15 years, investment in intangible assets, such as software and data, has surged, growing three times faster than physical assets and reaching $6.9 trillion in 2023. Tangible investment rose to $4.7 trillion (figure 14).

## Figure 14
**The ability of firms to lead and benefit from global value chains increasingly relies on intangibles**
Total intangible and tangible investment
(1995=100)




*Source*: World Intellectual Property Organization and Luiss Business School (2024). World Intangible Investment Highlights.

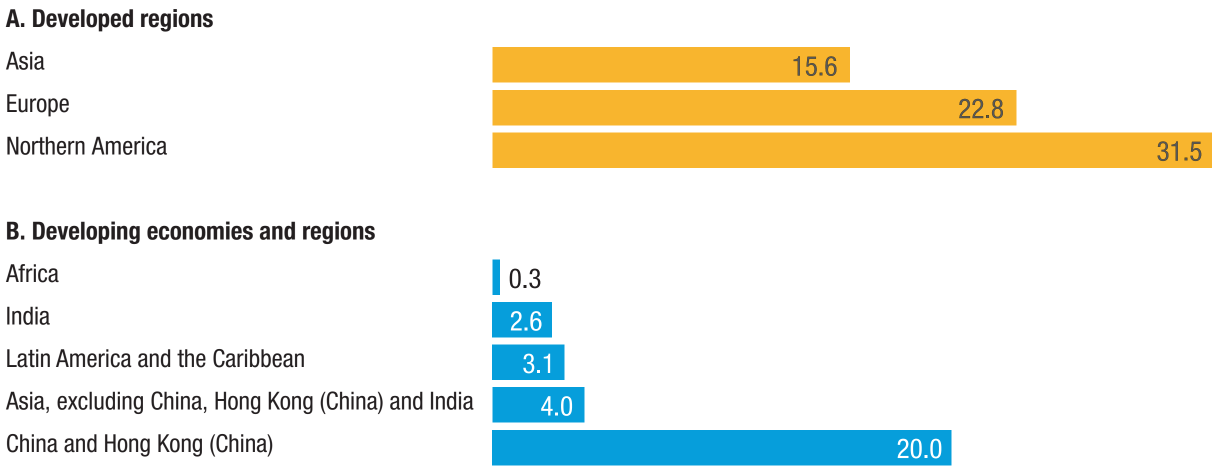
Market concentration in creative services trade highlights the dominance of advanced country companies.

Market concentration in the creative services trade highlights the dominance of advanced country companies. In 2022, creative services were valued at $1.4 trillion, with developed countries accounting for 80 per cent of exports, even though they represent less than 60 per cent of the global economy. This concentration is also seen in the geography of multinational enterprises providing international services. In 2022, 70 per cent of the headquarters of these multinational enterprises were located in advanced regions, with revenues totalling nearly $35 trillion, five times the value of trade in services (figure 15).

## Figure 15

**Headquarters of major multinationals responsible for most trade in services are located in developed regions and China**

Share of headquarters locations of large multinational enterprises providing international services
(Percentage)




*Source*: UNCTAD based on London Stock Exchange Group Eikon.
*Note*: The sample refers to 924 companies, both publicly traded and not, that each had more than $10 billion in revenues from goods and services sold in 2022, and whose activities involve the international trade of services (i.e. excluding companies primarily involved in the production and export of goods).

# POLICY FOCUS

**Policymakers in developing countries need to look beyond manufacturing-led exports to enable productivity growth across the economic system.**

Current trade in services cannot generate enough quality jobs in developing countries. There is, therefore, a need for a policy shift towards green transition, and the promotion of labour-absorbing services activities. Here, a three-pronged strategy could focus on:

- **Encouraging lower-skill job creation by larger firms in non-tradable services.**
- **Providing public inputs and access to productivity-enhancing investments for smaller enterprises.**
- **Investing in technologies that complement, rather than replace, low-skilled workers in services sectors.**

Overall, the current period of subdued merchandise trade and rapid digitalization suggests that policymakers in developing countries need to look beyond manufacturing-led exports to enable productivity growth across the economic system.


# 4

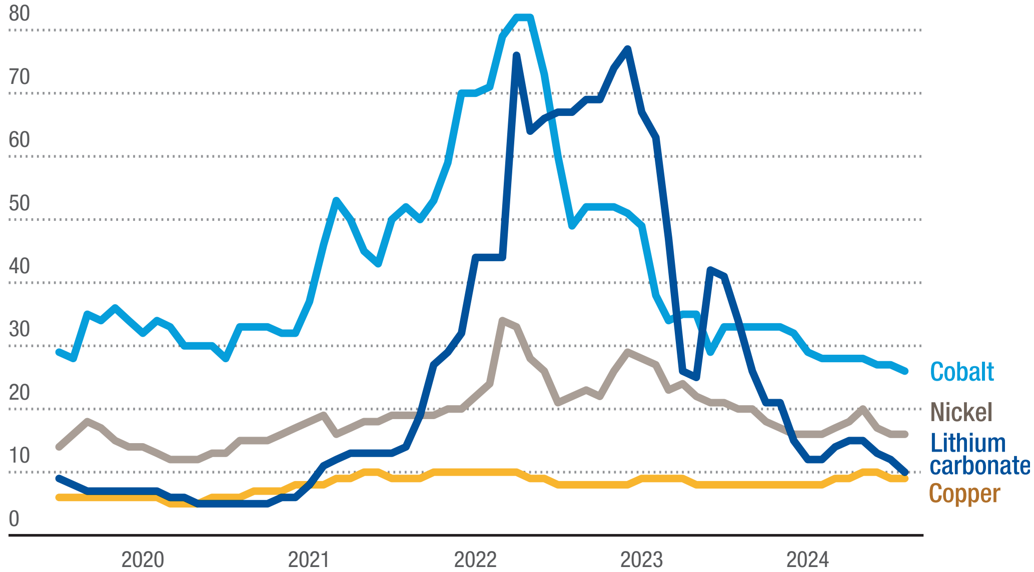
# Financialization in a new commodity cycle

**As of July 2024, commodity prices were over 20 per cent above 2019 levels, despite some decline from the post-Ukraine war surge. Non-fuel commodity prices increased in early 2024, while fuel prices slightly decreased due to lower global demand. Prices for key energy transition minerals – lithium, cobalt and nickel – plummeted in 2023 by 78 per cent, 34 per cent and 42 per cent, respectively, due to production surges and oversupply (figure 16).**

## Figure 16

**Critical energy transition minerals prices are highly responsive to geopolitical tensions and supply bottlenecks**

Selected critical energy transition minerals prices
(Thousands of dollars per metric ton)




*Source*: UNCTAD based on United States Federal Reserve Economic Data, London Stock Exchange Group Eikon and the Commodities Price Data (The Pink Sheet) of the World Bank.

China, which dominates global demand for these minerals, heavily influences price fluctuations. In response to price volatility and geostrategic competition, in 2023, countries signed 22 trade agreements to secure mineral supplies. Producing countries imposed export restrictions, likely tightening mineral markets further.

## Implications for developing countries

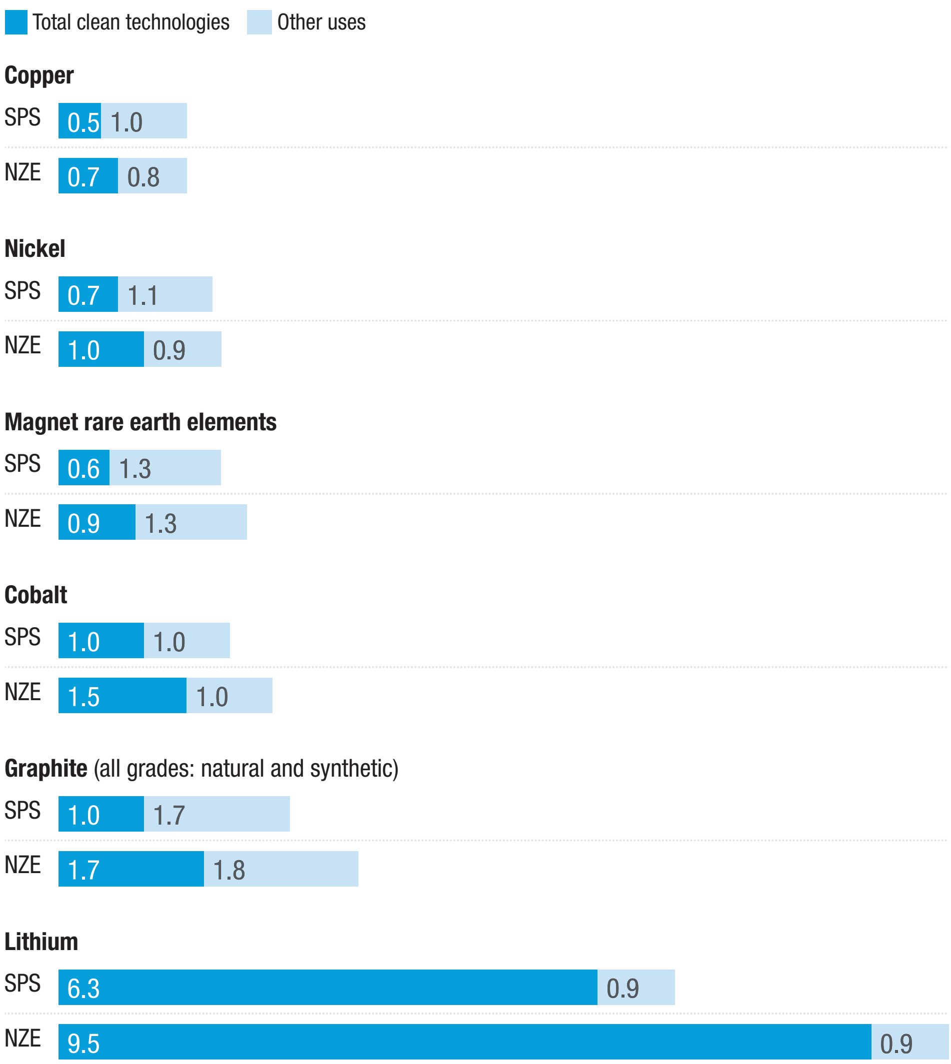
Global exploration budgets for minerals increased by 16 per cent in 2022, after a strong 34 per cent rise in 2021. Latin America attracted 25 per cent of exploration activity, followed by Africa at 17 per cent. Investment in critical minerals surged by 30 per cent in 2022 on the heels of a 20 per cent rise in 2021. While this growth is significant, it is unclear if these investments will meet rising demand for critical minerals.

The global response to the surging hunt for transition minerals mainly centres on expanding minerals extraction (figure 17), with some developing economies expected to benefit accordingly. Importing countries aiming to secure access to minerals for electrification are ramping up domestic mining operations.

Importing countries aim to secure access to transition minerals, often by ramping up domestic mining operations.

### Figure 17
**Demand for key energy transition minerals is taking off and will likely grow significantly by 2050**

Ratio to 2023 demand of the stated policy scenario and a net-zero emissions scenario, both by 2050




*Source*: UNCTAD based on International Energy Agency, International Energy Agency (2024). Global Critical Minerals Outlook. Paris.
*Notes*: SPS, stated policy scenario; NZE, net-zero emissions scenario.

It is important not to overstate the degree to which demand for transition minerals can drive development for more than a few countries.

Yet the degree to which demand for minerals can drive development for more than a few countries should not be overstated. Some materials required for renewables, such as lithium, are widely dispersed geographically, although processing is currently fairly concentrated. Others, such as cobalt and rare earths, are not.

Advanced economies, such as Australia and the United States, are already inducing local production with new industrial policies. Norwegian authorities announced an 8.8-million-ton deposit of rare earth elements in June 2024. Security concerns are reinforcing efforts to find more readily and locally available materials for batteries, such as iron, rather than relying on minerals such as cobalt with concentrated supply sources.

Security concerns reinforce efforts to find more readily and locally available materials for batteries

## New energy sources

Decarbonization policies are working alongside market forces to accelerate electrification and clean transportation. Countries worldwide, both advanced and developing, are subsidizing solar and wind industries, making their electricity prices competitive with coal and sometimes natural gas. This shift indicates a decline in coal use, affecting countries that depend on coal exports.

Additionally, the electrification of vehicle fleets is expected to drastically reduce fossil fuel demand, particularly petroleum. Oil exports are crucial for many developing economies, which accounted for 81 per cent of global crude oil exports from 2010 to 2022. While demand for petrochemicals and aviation fuel may remain stable, these sectors represent only 20 per cent of global oil demand.

By contrast, demand for oil in overland transportation, comprising half of global consumption, is decreasing. In 2022, global oil production was below its 2018 peak, with major oil companies distributing profits to shareholders instead of investing in new production, reducing greenfield spending. Projections suggest a slowdown in oil and gas capital expenditure growth from 2024 onwards compared to 2021–2023.

In many developing countries, energy exports, mainly fossil fuels, are significant, accounting for about one third of the exports of the 101 most commodity-dependent nations. In 35 countries, they exceed 30 per cent of total exports, and in 25 countries, they constitute more than half. The anticipated permanent negative shock to export values is likely to significantly impact these economies (figure 18).

Some energy exporters, such as Kuwait, Qatar and Saudi Arabia, have substantial past fossil fuel revenues. They may successfully diversify their economies, as smaller Gulf States have already done.

## Figure 18
**Some countries are highly vulnerable to a downturn in energy exports**
Developing countries with energy exports greater than 30 per cent of merchandise exports, 2022

| Country | Energy exports (Billions of dollars) | Total merchandise exports (Billions of dollars) | Share of energy exports in total merchandise exports (Percentage) |
|---|---|---|---|
| Iraq | 124.8 | 129.3 | 96.5 |
| Algeria | 57.8 | 60.9 | 94.9 |
| Angola | 48.1 | 51.3 | 93.7 |
| Libya | 35.5 | 38.0 | 93.6 |
| Nigeria | 57.9 | 63.6 | 91.1 |
| Azerbaijan | 34.4 | 38.1 | 90.3 |
| Turkmenistan | 11.8 | 13.2 | 88.9 |
| Equatorial Guinea | 6.6 | 7.5 | 88.5 |
| South Sudan | 0.7 | 0.9 | 84.5 |
| Qatar | 109.2 | 131.0 | 83.4 |
| Brunei Darussalam | 11.4 | 14.2 | 80.3 |
| Venezuela (Bolivarian Rep. of) | 3.6 | 4.7 | 77.2 |
| Saudi Arabia | 319.9 | 426.5 | 75.0 |
| Guyana | 8.3 | 11.3 | 73.3 |
| Chad | 2.4 | 3.5 | 69.4 |
| Gabon | 5.8 | 9.2 | 63.3 |
| Congo | 6.6 | 10.7 | 61.7 |
| Kazakhstan | 51.8 | 84.4 | 61.4 |
| Colombia | 35.1 | 58.6 | 60.0 |
| Trinidad and Tobago | 7.6 | 13.3 | 57.4 |
| Oman | 37.3 | 66.5 | 56.1 |
| Mongolia | 7.0 | 12.5 | 55.5 |
| Cameroon | 3.2 | 5.9 | 54.8 |
| Kuwait | 51.7 | 101.3 | 51.0 |
| Iran (Islamic Republic of) | 36.7 | 72.1 | 50.9 |
| Timor-Leste | 0.2 | 0.5 | 49.7 |
| United Arab Emirates | 262.1 | 532.8 | 49.2 |
| Yemen | 0.4 | 0.9 | 48.2 |
| Mozambique | 3.8 | 8.3 | 46.1 |
| Papua New Guinea | 5.6 | 14.5 | 38.5 |
| Ecuador | 11.7 | 32.7 | 35.9 |
| Ghana | 6.7 | 18.7 | 35.9 |
| Lao People's Dem. Rep. | 2.7 | 7.6 | 34.8 |
| Indonesia | 100.4 | 292.0 | 34.4 |
| Egypt | 15.6 | 48.1 | 32.4 |

*Source*: UNCTAD based on UNCTADstat data.
*Notes*: The Bahamas, Jamaica and Saint Lucia are not included as their energy exports are dominated by re-exports. Energy exports from the Lao People's Democratic Republic are mostly electricity.

New development opportunities need policies balancing short-term commodity gains with the rising services and finance sectors.

## Finance as a new dimension of the resource curse

The economies of Africa and Latin America remain heavily reliant on natural resources, a problem compounded by debt burdens, poverty and slow structural reforms. While new development opportunities remain, they require the global South to design policies that can balance short-term gains from commodities and the growing role of services and finance sectors.

In this respect, financialization has significant implications for integration strategies in commodity-dependent developing countries, where financial cycles closely impact commodity prices (figure 19).

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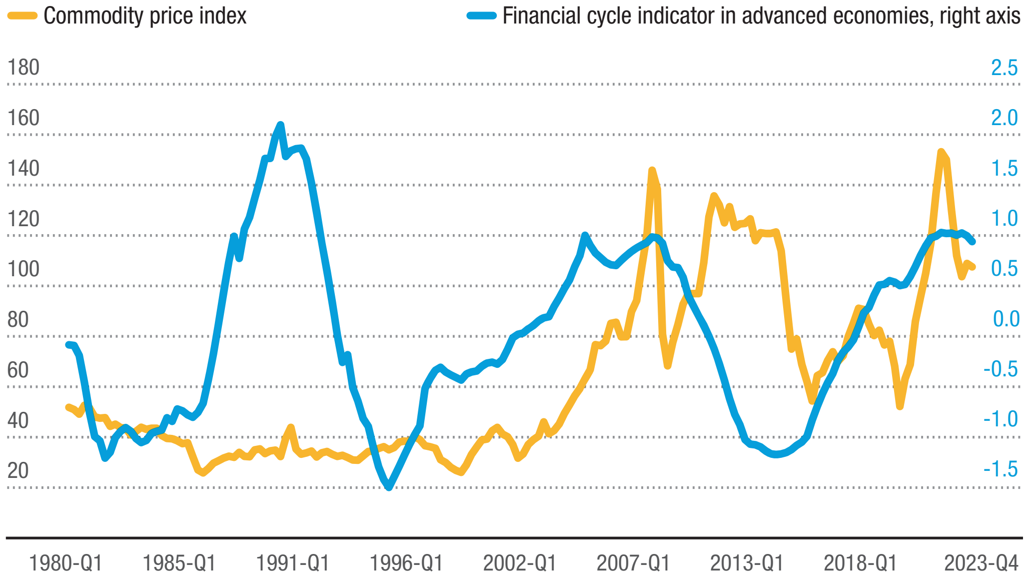
## Figure 19

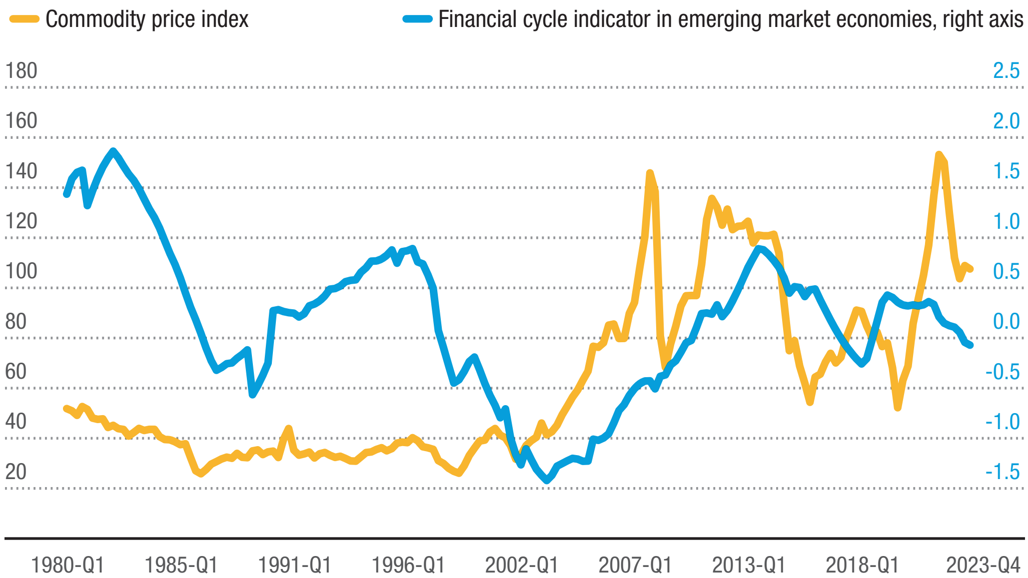
**Is a commodity cycle a financial cycle? Evidence shows a close relationship, more so for emerging markets**

Financial cycle indicator and commodity price index (2010=100)

### A. Advanced economies




### B. Emerging market economies




*Source:* UNCTAD based on Fitch; national data; Bank for International Settlements; World Bank commodity price data.

*Notes:* Q1, first quarter; Q4, fourth quarter. Financial cycles are measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices (Borio, 2014). Financial cycles are normalized by country-specific means and standard deviations before simple averages are taken for country groupings. Emerging market economies comprise: Brazil, Chile, China, Hong Kong (China), Colombia, Czechia, Hungary, India, Indonesia, Israel, Republic of Korea, Mexico, Malaysia, Singapore, South Africa, Thailand and Türkiye. Advanced economies comprise: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Kingdom of the Netherlands, Norway, New Zealand, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

POLICY FOCUS

Policies focusing on long-term diversification, redistribution and financial regulation are essential for successful development strategies.

## Avoiding a finance curse

The challenges of commodity dependence are mounting due to the energy transition, which is unfolding under advanced financialization. An oversized, unregulated financial sector can exacerbate commodity dependence, limit economic diversification and worsen income inequality. In times of crises, intertwined commodity and financial markets intensify economic vulnerabilities. The current context calls for policy approaches that can safeguard job creation and economic resilience in economies relying on commodity exports for growth. This includes:

- **New policies focusing on long-term diversification, redistribution, as well as a comprehensive framework of financial regulation.**
- **Balancing the growth of extractive sectors and financialization, promoting domestic revenue mobilization, curbing corporate arbitrage and enhancing the oversight of multinational enterprises to cultivate economic resilience and achieve equity across the global South.**


5

# The global South and its quest for long-term development finance

International financial reform is becoming more urgent as the debt crisis risks morphing into a development crisis.

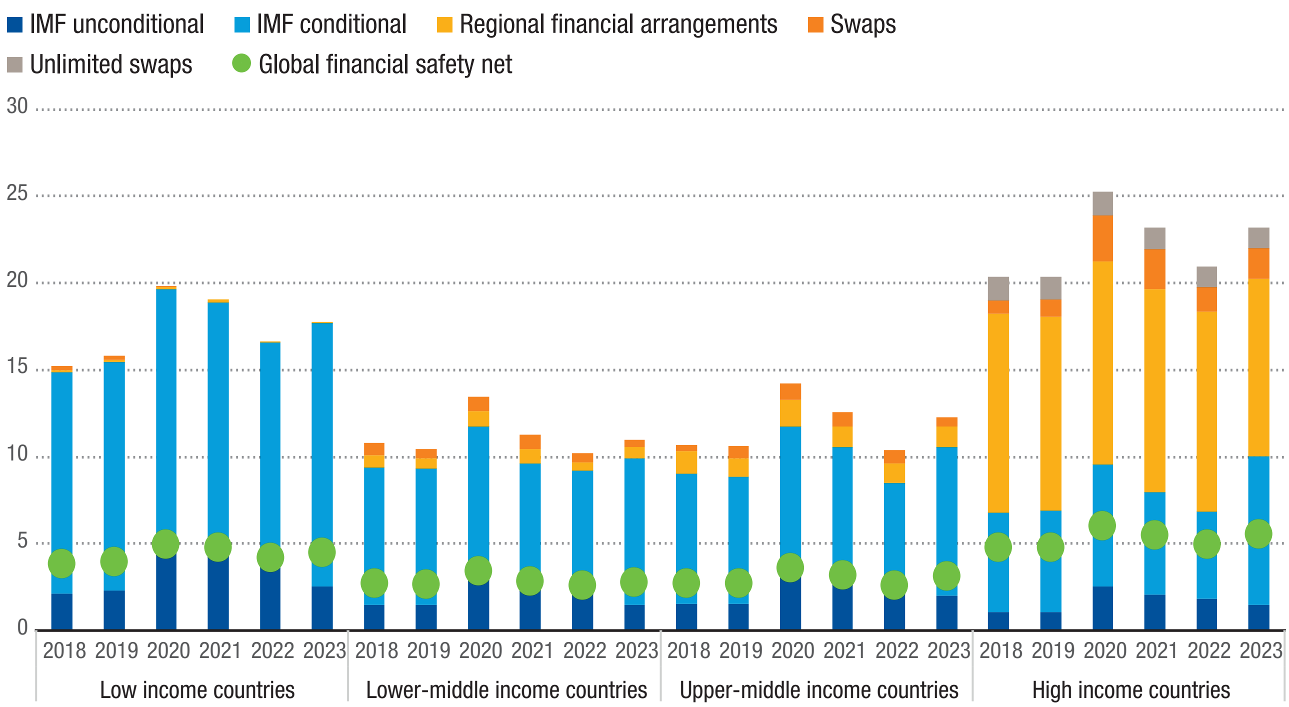
**Developing countries face hard policy trade-offs due to complex and overlapping crises linked to high energy prices, increased demand for health and social services, and constraints on international trade due to rising protectionism and geoeconomic shifts. Raising capital remains a daunting challenge, demonstrated by the fact that among all developing countries, only 22 have investment grade ratings. High costs, volatile external private financing and limited access to affordable public financing exacerbate already significant gaps in development finance.**

As the fiscal and trade policies of advanced countries shift inwards to support long-term reindustrialization and the green transition, global financial markets centre on maximizing private sector returns and asset valuations. Against this backdrop, the global financial architecture has remained unchanged since its inception 80 years ago. The urgency of reforming it has only escalated as debt service stress risks morphing into a development crisis in the global South. Current elements of the global financial safety net are inadequate in the face of the mounting financial needs of many developing countries (figure 20).

### Figure 20

**Inequities in access to crisis finance in the global financial safety net**

Access to lending facilities, by country income group
(Percentage of GDP)




*Source*: UNCTAD based on data from the Global Financial Safety Net tracker and Muhlich et al. (2024).
*Notes*: IMF, International Monetary Fund. Green dots indicate the averages of all individual components. See also Global Financial Safety Net tracker, methodology guidebook, available at https://www.bu.edu/gdp/global-financial-safety-net-tracker/

Timely and flexible liquidity, debt relief, sovereign debt restructuring and a wider scope for development lending remain top multilateral priorities for financing for development. These proposals have been at the centre of the UNCTAD reform agenda for a development-conscious international financial architecture (see table 1).

## Table 1
### Proposals to reform the international financial architecture

| UNCTAD proposals | Related actions recommended by the United Nations in Our Common Agenda Policy Brief 6 |
|---|---|
| **Institutional reform** | **Action 1**. Transform the governance of international financial institutions |
| | **Action 2.** Create a representative apex body to systematically enhance coherence of the international system |
| **Liquidity** | **Action 10.** Strengthen liquidity provision and widen the financial safety net |
| **1965**: Universal special drawing rights allocations with aid link<br>**1971**: Creation of the Group of 24 | **Action 11.** Address capital market volatility |
| **Investment** | **Action 5.** Massively increase development lending and improve terms of lending |
| **1964**: Multilateral interest equalization fund (Horowitz proposal)<br>**1965**: Universal special drawing rights allocation with aid link<br>**1970**: Official development assistance target of 0.7 per cent of GDP<br>**1971**: Definition of least developed countries<br>**2014**: Support for Southern-led multilateral development banks | **Action 6.** Change the business models of multilateral development banks and other public development banks to focus on sustainable development goal impact; and more effectively leverage private finance for sustainable development goal impact<br>**Action 7.** Massively increase climate finance, while ensuring additionality<br>**Action 8.** More effectively use the system of development banks to increase lending and sustainable development goal impact<br>**Action 9.** Ensure that the poorest can continue to benefit from the multilateral development bank system |
| **Debt** | **Action 3.** Reduce debt risks and enhance sovereign debt markets to support sustainable development goals |
| **1980**: Trade and Development Board agrees on the need for a Mechanism for Fair Sovereign Debt Workouts<br>**1983**: Creation of the Debt Management and Financial Analysis System<br>**2012**: Principles for Responsible Sovereign Lending and Borrowing<br>**2014–2015**: United Nations General Assembly resolution creating the Ad Hoc Committee on Sovereign Debt Restructuring, definition of basic principles. | **Action 4:** Enhance debt crisis resolution through a two-step process: a debt workout mechanism to support the common framework and, in the medium term, a sovereign debt authority |
| **Finance–corporate nexus** | **Action 12.** Strengthen regulation and supervision of bank and non-bank financial institutions to better manage risks and rein in excessive leverage |
| **1967**: United Nations General Assembly resolution creating the Ad Hoc Group of Experts on International Cooperation in Tax Matters.<br>**1975– 1993**: Creation of the Centre for Transnational Corporations | **Action 13.** Make businesses more sustainable and reduce greenwashing<br>**Action 14.** Strengthen global financial integrity standards<br>**Action 15.** Strengthen global tax norms to address digitalization and globalization through an inclusive process, in ways that meet the needs and capacities of developing countries and other stakeholders<br>**Action 16.** Improve pillar two of the proposal by the OECD/Group of 20 inclusive framework on [BEPS] to reduce wasteful tax incentives, while better incentivizing taxation in source countries<br>**Action 17.** Create global tax transparency and information-sharing frameworks that benefit all countries |

*Source:* UNCTAD based on United Nations (2023), which contains more detailed lists of subactions.
*Note:* BEPS, base erosion and profit shifting. OECD, Organisation for Economic Co-operation and Development. Yellow indicates actions and/or subactions to address the transversal challenges of climate and environmental sustainability.

Long-term development financing requires a foundation of effective mechanisms for revenue mobilization.

Beyond the urgent reform tasks, long-term development financing requires a foundation of effective and coordinated mechanisms for domestic revenue mobilization. This is central for developing State capacity and maintaining macroeconomic stability, enabling governments to make required investments independent of external sources.

One major element involves elaborating the scope for developing countries to capture tax revenues from cross-border activities. Currently, developing economies typically lack the resources to effectively tackle base erosion and profit-shifting activities by multinational enterprises. Nearly 40 per cent of multinational profits were shifted to tax havens between 2015 and 2019, reducing global corporate tax revenues by 10 per cent. The countries most affected by base erosion and profit-shifting, particularly in Africa and Latin America, lose a larger share of total tax revenue compared to wealthier nations.

Domestic revenues are also affected by corporate arbitrage and illicit financial flows. UNCTAD found that about a quarter of the subsidiaries of the top 100 non-financial multinational enterprises in the global South engage in no apparent associated economic activity. Illicit financial flows linked to trade misinvoicing further undermine revenue mobilization and are a particular problem in extractive industries. Studies in Burkina Faso and South Africa revealed significant illicit flows in gold, petroleum and electrical machinery, for example. In some cases, illicit flows may constitute as much as half of officially recorded trade, representing a severe blow to the tax revenues of these countries.

A new international tax convention could fill gaps in global finance and boost domestic revenue mobilization.

In 2023–2024, Member States at the United Nations established the Ad Hoc Committee for the United Nations Framework Convention on International Tax Cooperation. This initiative should provide an opportunity for developing countries to steer development of a convention that could address gaps in the international financial architecture and strengthen mechanisms for domestic revenue mobilization.

The proposed convention aims to create a global multilateral framework for international tax cooperation, which would address issues including base erosion and profit-shifting, tax avoidance and illicit financial flows. While the current tax system relies heavily on bilateral agreements and limited multilateral cooperation, the convention could establish a comprehensive platform for global tax governance.

The success of the United Nations framework convention on international tax cooperation will depend on several factors:

- **Effective policy cooperation among developing countries and North–South dialogue.**
- **Inclusiveness and transparency, which are prioritized at the United Nations in contrast with initiatives by the Organisation for Economic Co-operation and Development. The United Nations is also more responsive to the needs of the global South.**
- **International tax reform that shapes the future of international tax cooperation and reforms of the global financial architecture.**
- **Addressing arbitrage and inequalities and risks of differential tax regimes that could affect global trade and investment flows and limit domestic revenue mobilization.**

## A pivot that could hold promise for all

Today's juncture in world trade, finance, technology and geopolitics poses major developmental dilemmas for the economies of the global South. A pivot in globalization is unfolding amid the climate crisis and low global growth, constraining economic opportunities for developing countries. New trade and industrial policies are reshaping international trade, yet the global financial architecture remains largely unchanged from its inception 80 years ago. Gaps between the two systems are diminishing fiscal space and worsening debt burdens across the developing world.

New opportunities are also emerging, through technologies for the green transition as well as growing South–South trade and integration. Realizing their full promise, however, requires new approaches to economic structural transformation, industrial policies and financial governance. Nationally, States need effective institutional capacities. On the multilateral level, North–South dialogue and policy coordination need to guide an inclusive and stable global economy rooted in collective interests. While 2024 ushered in important beginnings in the multilateral arena, such efforts need to be scaled up, and soon, to achieve a sustainable future for all.

**The global South faces developmental challenges, requiring new trade, industrial policies, and financial governance for sustainability.**

The United Nations Conference on Trade and Development – UNCTAD – is the leading body of the United Nations focused on trade and development.

UNCTAD works to ensure developing countries benefit more fairly from a globalized economy by providing research and analysis on trade and development issues, offering technical assistance and facilitating intergovernmental consensus-building.

Standing at 195 countries, its membership is one of the largest in the United Nations system.

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