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**DEVELOPING COUNTRIES IN
INTERNATIONAL TRADE
2007**

TRADE AND DEVELOPMENT INDEX



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PREFACE

by Dr. Supachai Panitchpakdi, Secretary-General, UNCTAD

The link between trade and development, and the kind of policies required to strengthen the contribution of one to the other, have been the subject of much academic discussion. For UNCTAD, as the United Nations focal point for the integrated treatment of trade and development, this issue has been at the centre of its work for more than 40 years.

In this Trade and Development Index (TDI), UNCTAD presents some of its research on the link between trade and development in a new, integrated fashion. The TDI is an outcome of the secretariat's analysis to identify the complex interdependence of current economic conditions in both developing and developed nations.

The index offers a comprehensive review of the global trade and development performance of different countries, and identifies the strengths and weaknesses of their institutional and policy environment. It showcases not only the tremendous progress that many developing countries have achieved in recent years, but also raises several pertinent issues which will require further attention in formulating trade and development policies.

The TDI also aims to provide policymakers and researchers with a new tool for policy analysis and formulation, by presenting an analytical framework to understand how to enhance the enabling environment for trade and development. We believe that this framework will contribute to understanding why certain countries have made progress towards achieving the United Nations Millennium Development Goals (MDGs), while others have not. The analytical framework will also allow the UNCTAD Secretariat to enhance the overall coherence of its work, ranging from technical assistance to promoting Aid for Trade.

In order to guide and support our future work on the TDI and related issues, I have constituted an Advisory Board, which will be chaired by Nobel Laureate Professor Lawrence R. Klein. The Board consists of international scholars drawn from academia, international organizations, think tanks and the private sector. I am confident that the pragmatic framework of the TDI and the work of the Advisory Board will help UNCTAD further strengthen its capacity to assist countries in formulating sound trade and development policies.



Supachai Panitchpakdi

FOREWORD

by Professor Lawrence R. Klein, Nobel Laureate in Economic Sciences

The Trade and Development Index (TDI) has been taken forward in 2007 beyond its inaugural presentation in 2005, and UNCTAD has laid a solid framework in establishing new standards for examining progress in world economic and social development. The second release of TDI measures has expanded country coverage and broadened the scope of quantitative analysis.

The main index, showing development dynamics across countries, has been enlarged and covers new time periods. It also takes up the very important concept of sustainability. In the analysis of key international totals, such as total national income or total production among countries, new attention is paid to income distribution within countries. This is of extreme importance among – as well as within – countries, as it sheds light on the existence of poverty in all too many countries. This is a necessary first step for programmes to reduce poverty.

The principal tool of statistical analysis used remains the method of principal components to deal with latent variables, which are defined in a modern dictionary as something that is “present but not visible or apparent”. The use of the method of principal components in quantitative economic analysis was introduced by Richard Stone in 1947, but he fruitfully explored national results in terms of specific economic magnitudes across time periods for the United States. This approach can readily be used for the countries being studied in the TDI. This extends the statistical analysis to the sustainability, of specific growth rates, a feature that all countries want to know, concerning their economic progress in development.

The TDI framework indicates that in this era of globalization, one must look at financial interrelationships among nations. Trade flows alone cannot provide an understanding of international economic issues. Trade in goods must be extended to goods and services. The latter concept needs further extension to current account balances for the increasing degree of globalized connections among countries to be appreciated. This can be seen in the recent problems of a bank in the United Kingdom being caused by a financial disturbance in the United States mortgage market. For better understanding of financial linkages and their effect on international economic stability, one must look beyond merchandise trade flows among nations.

Methodology, scope, and provision of practical information are all present in improved form in the 2007 edition of this publication. It can be expected that many more such estimates of specific concepts or magnitudes will be in future publications.



Lawrence R. Klein

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The report benefited from comments and observations by participants of the high-level event "Climbing the trade and development ladder: Trade and Development Index" at the tenth session of the UNCTAD Commission on Trade in Goods and Services, and Commodities, as well as representatives of UNCTAD member States.

Consultations were also carried out with staff members of other international organizations, including the United Nations Department of Economic and Social Affairs, the United Nations Economic and Social Commission for Asia and the Pacific, the International Labour Organization, the International Monetary Fund, the World Bank and the World Trade Organization; and academic institutions, including the University of Pennsylvania, the London School of Economics and Graduate Institute of International Studies and the University of Geneva. Comments were also received from a number of other entities such as Global Economic Research of Goldman Sachs, as well as some non-governmental organizations and research institutions.

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CONTENTS

PREFACE	iii
FOREWORD	v
ADVISORY BOARD	vii
ACKNOWLEDGEMENTS	viii
ABBREVIATIONS	xi
PART I.		
TRADE AND DEVELOPMENT INDEX 2006		
1.	Introduction	1
2.	TDI and benchmarks: concepts, methodology and computation.....	4
2.1	The conceptual approach to TDI 2006	4
2.2	Selection of indicators	5
2.2.1	Components of the structural and institutional context dimension	5
2.2.2	Components of the trade policies and processes dimension	8
2.2.3	Components of trade and development performance	9
3.	TDI 2006 results.....	10
3.1	TDI 2006 scores and global rankings	10
3.2	TDI scores and rankings: regional patterns	10
3.3	Major emerging economies: TDI scores and rankings	14
3.4	Benchmarking: TDI, InputMI and OutcomeMI scores.....	17
3.5	Climbing the TDI ladder: a comparison of results in 2005 and 2006.....	20
3.6	TDI components and variability	27
	REFERENCES	29
APPENDICES		
1.	List of countries in the TDI 2006 sample	33
2.	Computational approach.....	37
3.	Components and indicators: definition and sources.....	41
4.	Trade and Development Index: global rankings.....	47
5.	TDI, dimensions and input and outcome measures.....	51
PART II.		
COUNTRY PROFILES	57

List of Figures

1.	Conceptual framework of TDI	4
2.	Regional pattern in TDI 2006, InputMI 2006 and OutcomeMI 2006 scores	12
3.	Regional pattern in TDI 2006 components	13
4.	TDI scores in E7 and other regions	14
5.	TDI scores in emerging economies	15
6.	Emerging economies pattern in TDI 2006 components	16
7.	Benchmarking TDI	18
8.	Benchmarking TDI components across country groups	19
9.	TDI scores in 2005 and 2006	20
10.	InputMI score in 2005 and 2006	21
11.	OutcomeMI score in 2005 and 2006	21
12.	Climbing the TDI ladder: pattern in developed countries	22
13.	Climbing the TDI ladder: pattern in developing countries	23
14.	Climbing the TDI ladder: pattern in LDCs	23
15.	Climbing the TDI ladder: pattern in energy exporting developing and transition economies	24
16.	Climbing the TDI ladder: pattern in commodity-dependent countries	25
17.	Climbing the TDI ladder: pattern in E7 countries	26
18.	Climbing the TDI ladder: pattern in countries with economies in transition	26
19.	OutcomeMI scores and input component variability in 2006	27
A1.	Weights for InputMI and OutcomeMI	39

List of Tables

1.	Trade and Development Index 2006: global rankings	11
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ABBREVIATIONS

DCIT	Developing Countries in International Trade
E7	seven emerging economies
EU	European Union
EU15	EU Member States before 2004
EU10	EU Member States that acceded in 2004
EVI	economic vulnerability index
GDP	gross domestic product
GNI	gross national income
GNTB	Group of Eminent Persons on Non-tariff Barriers
ICT	information and communication technology
InputMI	Input Measure Index
LDC	least developed country
MID	middle-income developing country
NTBs	non-tariff barriers
OutcomeMI	Outcome Measure Index
PCA	principal component analysis
PPP	purchasing power parity
SIC	structural and institutional context
TDI	Trade and Development Index
TDP	trade and development performance
TPP	trade policies and processes
TRAINS	Trade Analyses and Information System
UNDP	United Nations Development Programme