2024 Trade and development report

Chapter II

The illusion of a rebound: International markets in 2024

Growth in merchandise trade is expected to rebound about 2 per cent in 2024 after declining by 1.2 per cent in real terms in 2023. The dynamic trends observed during the first quarter of 2024 will slow through the end of the year as economic deceleration is anticipated in the world's two largest economies. Further, the front-loading of orders in part drove early 2024 momentum.

Several countries, both developed and developing, have introduced trade restrictive measures related to China in 2024.

Trade in services remains more dynamic than trade in goods. Transport and travel components grew at double-digit rates during the first quarter of 2024, with the rest of commercial services growing about 5 per cent.

International prices of many commodities have receded from their 2022 peaks, yet they remain high by historical standards.

In early 2024, net capital flows to developing countries recovered, partly because of a rebound of sovereign bond issuances in developing regions albeit limited in Africa. Borrowing costs, however, are above historical averages.

United Nations

Key policy takeaways

- **Developing country policymakers need to look beyond manufacturing-led exports in an era of subdued merchandise trade and rapid digital progresses** to enable the creation of quality jobs in the services sectors, including in non-tradable services.
- **A rapid phase out of fossil fuels is an essential condition for implementing climate objectives of the Paris agreement and sustainable economic diversification.** Continuing subsidies for fossil fuels and the profitability of fossil fuels extraction and trade imperil the green transition.
- **UNCTAD is offering a set of transformational proposals** along the five stages of the debt life cycle to reduce the costs of development financing and diminish sovereign debt vulnerabilities in developing countries.

A. Introduction

In 2024, major international markets rebounded, including in the trade of manufactured products, services, primary commodities and financial assets. After several turbulent years, commodity prices have partly receded from their 2022 highs. Net capital flows to developing countries turned positive during the first quarter of 2024, and growth in merchandise trade returned to positive territory.

Beneath the surface, however, lie major challenges for policymakers, particularly in developing countries. Geopolitical tensions, global warming, and financial and currency instability compound discontent with a global economy weakened by crises and underinvestment (chapter I).

Uncertainties weigh on international markets and risk distracting policymakers from addressing long-term challenges.

As a result, the current period is marked by high uncertainties. Immediate problems divert attention from long-standing challenges. In many areas, this undermines multilateralism and global economic stability. Changes in monetary policies by the central banks in advanced economies, coupled with the rapid unwinding of financial positions, jeopardize international trading, monetary and financial systems, as market turbulence in August 2024 showed. Most crucially, uncertainty, geopolitical tensions and weakened macroeconomic foundations do not provide a favourable economic and financial environment for development.

This chapter reviews current trends and specific challenges in international trade (section B), primary commodities (section C) and capital flows (section D). It also identifies major issues that together constitute a core challenge for development policy and require further multilateral attention:

- Reorientation of development strategies to go beyond manufacturing-led exports for developing countries and allow broad-based creation of quality jobs in an era of subdued merchandise trade and rapid digitalization.
- The high profitability of fossil fuel extraction and trade that drives current “brown” energy investment and exports as well as continued subsidies for fossil fuels imperil the much needed push for a green transition.
- Changes to the global financial architecture along the five stages of the debt life cycle are needed to reduce the costs of development financing.

B. International trade: The 2024 revival is not the end of the tunnel

1. Geopolitical tensions and policy uncertainty are likely to limit the rebound

After stagnating in 2023, international trade in goods and services is expected to rebound by 2 to 3 per cent in real terms in 2024.[6] Merchandise trade, which contracted 1.2 per cent in real terms in 2023, was the main cause for the poor performance of the broad aggregate in 2023. This is because gross flows of goods still account for more than 75 per cent of global trade in aggregate. The drop reflected a mixture of trade tensions, subdued global demand, changes in inventories and high base effects relating to the temporary shift in expenditure towards durable goods during the COVID-19 pandemic (UNCTAD, 2024h). As a result, the elasticity of global merchandise trade vis-à-vis economic output plunged into negative territory.

That change was unprecedented in recent history. Apart from 2023, global trade had contracted only twice on an annual basis in more than four decades, in 2009 and 2020. On both occasions, however, world gross product also shrank in parallel. Hence the elasticity – which refers to the ratio of the percentage change in trade volume to the percentage change in world gross product – remained positive. What made 2023 extraordinary was the fact that merchandise trade contracted while global economic activity was still growing.

Beyond these arithmetic considerations, this development highlights the structural slowdown that merchandise trade has experienced since the global financial crisis. By contrast, trade in services has been more dynamic.

In 2023, global trade in services grew by about 5 per cent in real terms, highlighting the mounting importance of international trade in services. These elements explain why global trade supporters have recently put more emphasis on international services. As the share of services in global trade reached almost 25 per cent in 2023 and is projected to grow further,[7] expectations are high in some policy and academic communities for international services to become the new growth engine.

There is no consensus, however, that trade in services can be the new principal developmental lever in developing countries. Rather, there is a growing recognition, shared by leading academics, that strengthening productivity and the creation of quality jobs in labour-absorbing sectors such as care, retail, education and other personal services, which tend not to be internationally traded, should be the cornerstones of future development strategies. This seems to be the only remaining way to ensure that a large part of the currently underemployed labour force can register increased real wages over time. This section delves more deeply into these issues.

[6] Providing a precise estimate for 2023 will only be feasible after all national accounts data for that year have been released. Preliminary estimates of key price indices and already released trade figures for subcomponents of trade in goods and services in nominal terms point, however, to a subdued expansion or even a mild contraction in real terms of this broad aggregate in 2023.

[7] The value of trade in services stood slightly below 25 per cent in 2023, even though the World Bank and WTO (2023) find that services activities – albeit not only deriving from trade in services – currently account for roughly half of global trade in value added terms. These two approaches do not contradict themselves, however, because a significant part of the value added emanating from services is necessary to produce manufactured goods that are internationally traded and, thus, are counted under goods instead of services in tracking gross trade flows.

Trade in goods at a time of geopolitical turmoil

Growth prospects for world merchandise trade for 2024 have returned to positive numbers. The UNCTAD nowcast model predicts that export revenues will reach almost $32 trillion in 2024. Yet regional developments have been uneven. Although revenues from world trade are growing again, they are unlikely to surpass their record level of 2022 (UNCTAD, 2024c). This is primarily because, in real terms, exports in most developed countries have either stagnated or even declined recently (figure II.1), but also because key international commodity prices have also receded (section C).

In Europe, a key player in international trade, the euro revenues of goods exports from the euro area were still 3 per cent lower during the first quarter of 2024 compared to the same period the previous year. This occurred even though inflation mechanically boosted revenues. More precisely, each of the 12 largest exporters of this group registered a decline between these two periods (ECB, 2024). In the United Kingdom, export revenues, in sterling, were also down by 4 per cent (United Kingdom, 2024). Overall, this highlights subdued demand from key partners, such as China, as well as the difficulties of European exporting firms in maintaining their shares of world markets.

The robust trends in merchandise trade in early 2024 will likely dwindle.

The robust trajectory observed in East and South-East Asian developing economies, by contrast, has contributed most to the expansion of merchandise exports during the first half of 2024. Specifically, merchandise export revenues in dollar terms of the world's largest merchandise-exporting economy have exhibited robust expansion, with exports from China growing about 7 to 9 per cent on a year-on-year basis by mid-2024 owing to increased shipments of cars and semiconductors.

The adoption of increased protectionist actions was not restricted to OECD economies.

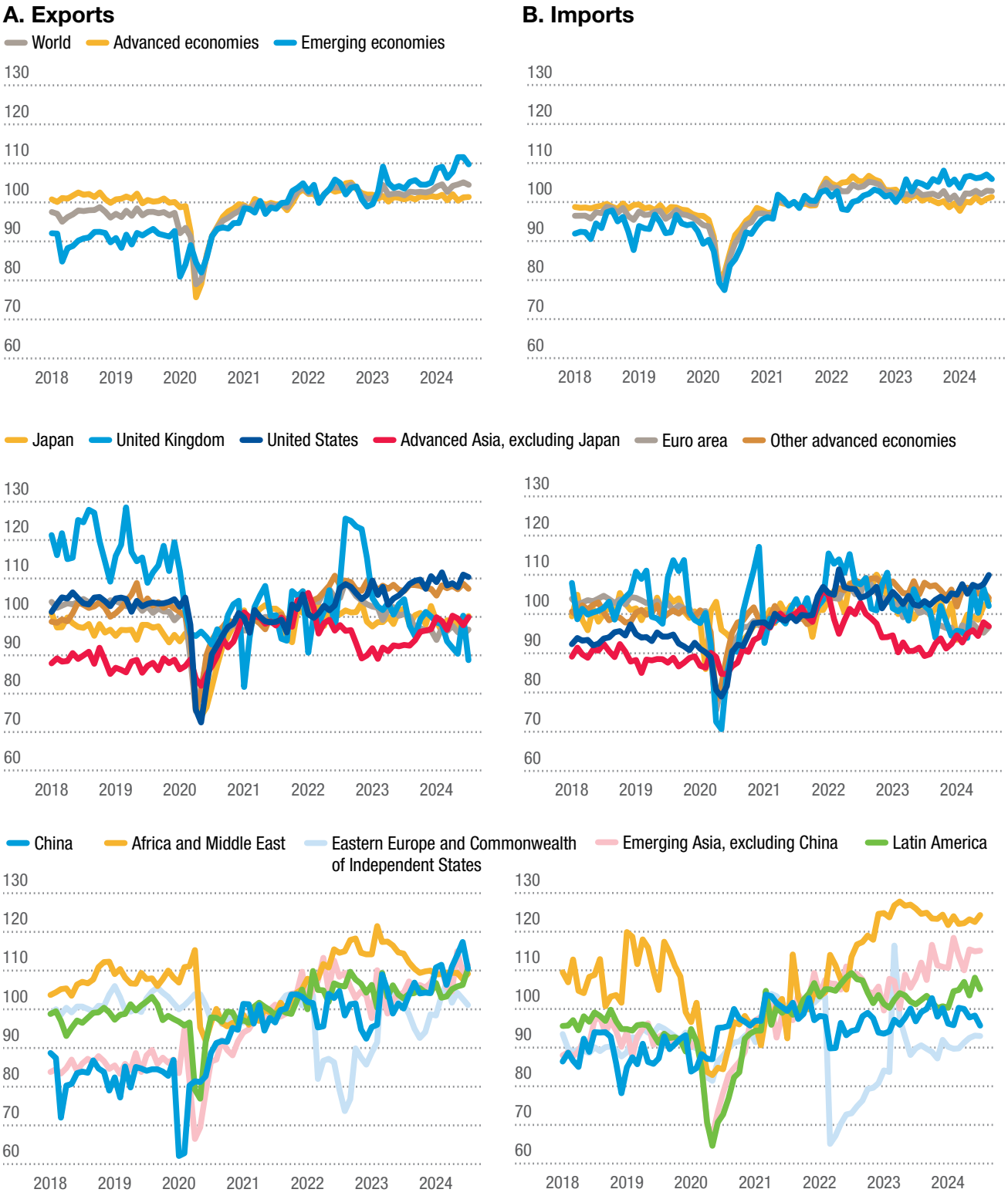
Two key factors suggest, however, that such buoyant export patterns may not continue through the second semester and plausibly also next year. One relates to front-loading orders from China and the risks of heightened trade tensions. The other links to the risk of an economic slowdown in the United States, in particular, and in the global economy as a whole.

With respect to front-loading orders from China, some analysts have suggested that this aspect has played a key role in stronger-than-expected Chinese export figures in the first half of 2024. This took place because economic agents expected new trade restrictions on the world's leading exporter of manufactures to kick in during 2024 (*Financial Times*, 2024f). In May 2024, the United States announced that it would hike tariffs on an array of imports from China, starting in August (United States, 2024). This includes quadrupling duties on Chinese electric vehicles to 100 per cent. While there is not necessarily a causal link, the record-high monthly trade surplus of $99 billion recorded by China in June 2024, when the Chinese economy was experiencing weak domestic demand and strong production capacity, might have been another element that exacerbated trade tensions.

The trade restrictions enacted in the United States were followed by similar measures by the world's major markets. For instance, the European Union confirmed in July that it would impose tariffs on electric vehicles, albeit only up to 37.6 per cent. Türkiye announced it would implement a 40 per cent additional tariff on Chinese-made electric vehicles. In late August, the Department of Finance of Canada decided on "implementing measures to protect Canadian workers and key economic sectors from unfair Chinese trade practices", which will become effective in October 2024 (Canada, 2024).

The adoption of increased protectionist actions was not restricted to OECD economies. Within developing Asia, Indonesia announced in July its intentions to impose import duties of up to 200 per cent on textile products, which come mainly from China (Reuters, 2024). India recently imposed a series of anti-dumping measures, and some observers have

Figure II.1
World merchandise is growing again, although divergences exist across regions
Trade flows in real terms, January 2018–July 2024
(Average 2021=100)



Source: The World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis.

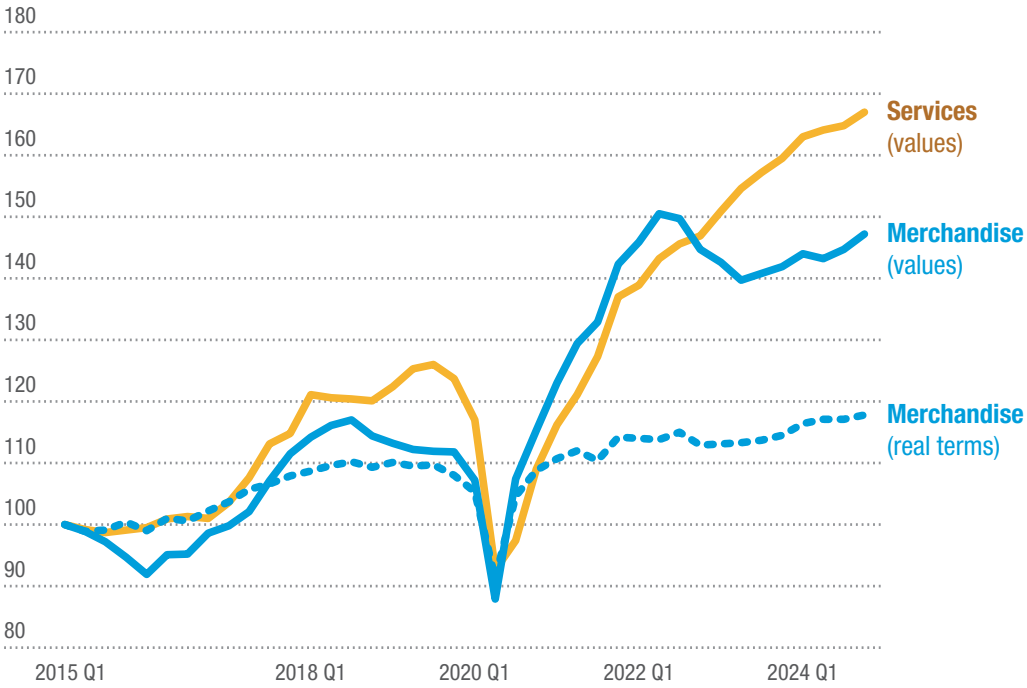
Note: Country group classification relies on CPB Netherlands Bureau for Economic Policy Analysis (see Ebregt, 2020).

reported a growing debate within the Government of India about whether or not to consider further restrictions on Chinese products and inward investments. Bilateral trade imbalances are deteriorating between the two economies, and India aspires to position itself as the "China plus one" manufacturing destination (*Financial Times,* 2024a). Thailand recently established a new Government body to examine restrictions on Chinese imports (Foreign Policy, 2024). In Latin America, Chile imposed anti-dumping tariffs on Chinese steel. Brazil and Mexico took similar measures.

In terms of economic deceleration, consumer spending had started to show signs of flagging in the United States after helping to prop up the world's largest economy since the pandemic. Given the fact that the United States has provided the most demand-side impetus – together with several large developing economies of East, South and South-East Asia, except China, which had contributed negatively to world imports by mid-2024 – further headwinds are expected during the second half of 2024.

Overall, signs of weaker prospects for merchandise trade in the quarters ahead had already appeared in several leading indicators. The July release of the global manufacturing Purchasing Managers' Index data, for instance, depicted a second consecutive monthly contraction for the new export orders component (S&P Global, 2024). The UNCTAD trade nowcast of September pointed to a growth deceleration from the second quarter of 2024 onwards (figure II.2).

Figure II.2
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.

Trade in services remains more dynamic

In line with earlier dynamics, the outlook for trade in services remains comparatively better than for merchandise trade in 2024. Data for the first quarter show that world services exports in dollar terms increased by 9 per cent on a quarter-on-quarter, seasonally adjusted annualized-rate basis. High carbon emissions-intensive services grew most rapidly: travel expanded 18 per cent, while transport increased 15 per cent. All other commercial services grew 5 per cent.

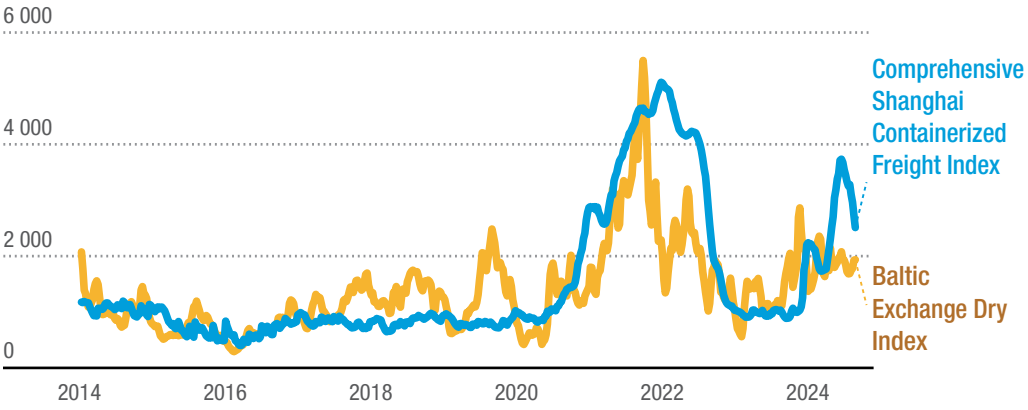
This expansion, however, hides a darker side: the heavy environmental footprint of current dynamism in transportation sectors. In maritime transport, increased revenues as of September 2024 partly resulted from the need to use longer trade routes, often at faster speed, to complete shipments between two given points (UNCTAD, 2024f). This was due to attacks on vessels in the Red Sea, and led to increases in both shipping costs and carbon dioxide emissions.

Regionally, preliminary data for the first quarter of 2024 suggests growth in services exports as a whole in Asia and Oceania, Northern America and Europe, at around 8 to 10 per cent on a quarter-on-quarter, seasonally adjusted annualized-rate basis. In Latin America and the Caribbean, growth reached 19 per cent on the back of robust performance in international transport services from Mexico.

For the rest of 2024, from the second quarter onwards, UNCTAD nowcast data for trade in services in dollar terms points to a continued expansion, ranging from 2 to 5 per cent on a quarter-on-quarter, seasonally adjusted annualized-rate basis, significantly below the rate during the first quarter. Forecasts point to an annual expansion of revenues of services exports of almost 6 per cent, while for merchandise, the corresponding figure will be just slightly more than 2 per cent.

Transport revenues are expected to rebound sharply over the course of 2024 due to significant price increases, particularly for container freight rates (figure II.3). This is due primarily to firmer demand as well as the disrupted routes in the Red Sea, and

Figure II.3
Container freight rates normalized in 2023 before surging again in 2024
Weekly Baltic Exchange Dry Index and Comprehensive Shanghai Containerized Freight Index (Base date=1,000)



Source: UNCTAD based on Clarksons Shipping Intelligence Network.

Note: The base date when the index number equalled 1,000 was 4 January 1985 for the Baltic Exchange Dry Index and 16 October 2009 for the Comprehensive Shanghai Containerized Freight Index. The two depicted series end in September 2024.

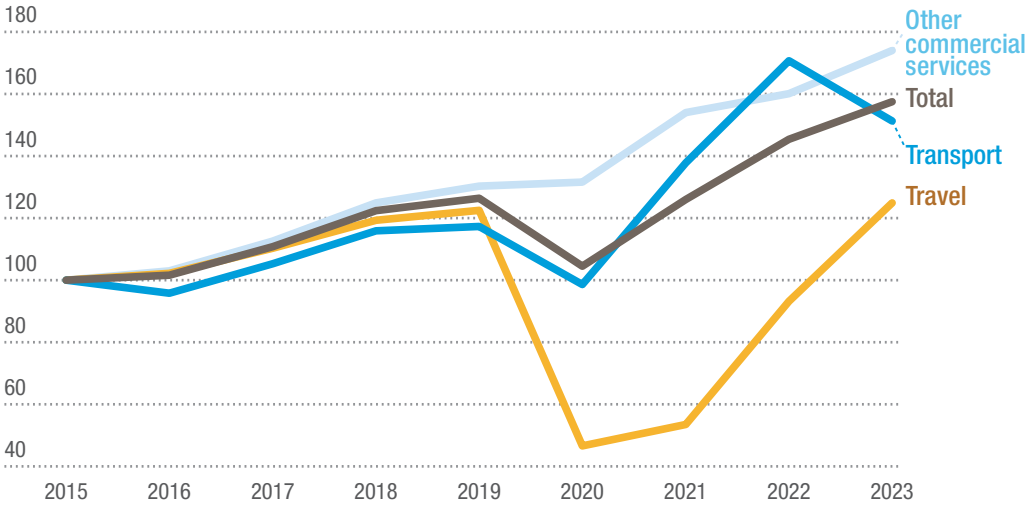
to a lesser extent to delays at the Panama Canal earlier in 2024 (UNCTAD, 2024f).

Regarding travel, about 790 million international tourists were registered between January and July 2024, some 11 per cent more than in 2023, though 4 per cent less than in 2019. Strong demand in Europe and the reopening of several markets in Asia and the Pacific supported this catch-up. Data show a strong start to the year, followed by a more modest second quarter. The United Nations Tourism Confidence Index of September 2024 suggests positive expectations for the last part of the year, at 120 points for September to December 2024, although this is below prospects for May through August, which stood at 130 (on a scale of 0 to 200, where 100 reflects equal expected performance). Overall, the number of arrivals for 2024 as a whole roughly match the record high in 2019. In international tourism receipts, 47 out of 63 countries with available data recovered pre-pandemic values during the first half of 2024, with many reporting strong double-digit growth compared to 2019, in local currencies and current prices (UNWTO, 2024).

In total, other commercial services are expected to grow roughly in line with trade in services in 2024. This diverse grouping of activities is dominated by business services, telecommunications and computer services, intellectual property, and insurance and financial services, and further comprises construction and personal, cultural and recreational services. Among these, telecommunications and computer services as well as financial services have experienced relatively faster growth.

Looking back, services trade recorded a robust expansion in 2023, with revenue growth of about 9 per cent in the global commercial services trade, computed as the average growth rate between exports and imports. In Latin America and the Caribbean, services trade expanded 13 per cent. For the limited number of African economies with data, it grew 11 per cent. These were the fastest-growing regions. Except for current and former members

Figure II.4
Growth in commercial services remains firm while the travel segment is still catching up
World exports of commercial services, selected components (2015=100)



Source: UNCTADstat database.

Note: Other commercial services comprises goods-related services, construction, insurance and pension, financial services, intellectual property charges, telecommunications, computer and information services, other business services, and personal, cultural and recreational services.

of the Commonwealth of Independent States, whose exports of commercial services stagnated, all other major regions experienced growth ranging from 7 to 9 per cent in 2023 (WTO, 2024).

Growth composition in 2023 was supported by the continuing fast rebound in travel, with international travel receipts rising at an annual rate of 35 per cent. This contrasts with an 8 per cent decline in global transport, which was also reflected in a sharp but transitory decline in shipping rates that temporarily brought them back to pre-pandemic levels. Other commercial services, including goods-related services, grew on a par with the aggregate for all services. Commercial services accounted for the bulk of services at 57 per cent, followed by transport and travel, with each accounting for 20 per cent of total services in 2023. Goods-related services came in last at 3 per cent (figure II.4).

Looking forward, a strong revival of world trade is unlikely

Beyond the rebound in world trade and its expected deceleration during 2024, the prioritization of domestic issues and the pressing need to fulfil climate commitments[8] are prompting shifts in trade and industrial policies. Higher reliance on trade restrictions and inward-focused industrial strategies, especially by the largest economies, are expected to prevent a smooth functioning of international trade in general and some key sectors in particular, such as aluminium, semiconductors and steel. Sectoral slowdowns, however, do not always correspond with reduced trade flows globally, as the expected eight-year record high of steel exports from China in 2024 illustrates (*Financial Times*, 2024c).

The long-term slowdown of world merchandise trade and its ongoing reconfiguration (UNCTAD, 2023a) as well as significant breakthroughs in information and communications and digital technologies prompt a rethink of development pathways. Once preferred strategies for development in low- and middle-income nations – centred around manufacturing export-led growth to absorb a sizeable portion of unskilled workers, boost productivity and ultimately stimulate economic transformation – appear to be increasingly unable to deliver simultaneously on these fronts. This calls for a wider consideration of key components of development strategies today.

The next section reviews some issues pertinent to decision-makers.

2. The quest for quality jobs: The limits of services-led exports

Until not so long ago, the path to economic development in the global South was mainly associated with industrialization. Manufacturing exports were expected to serve as a powerful engine, particularly for small economies with a limited domestic market. The rationale was straightforward. By focusing on manufacturing, these countries could achieve economies of scale, enhance productivity and integrate more effectively into the global economy, while creating employment opportunities, including for relatively unskilled workers moving from rural areas to growing cities.

For many developing nations, a certain type of manufacturing export-led strategy – ideally reflecting a country's specific context and conditions – was presumed to drive the convergence towards the most advanced economies. The success stories of several East Asian economies provided a compelling blueprint, although it is highly misleading to ascribe these successes only to greater

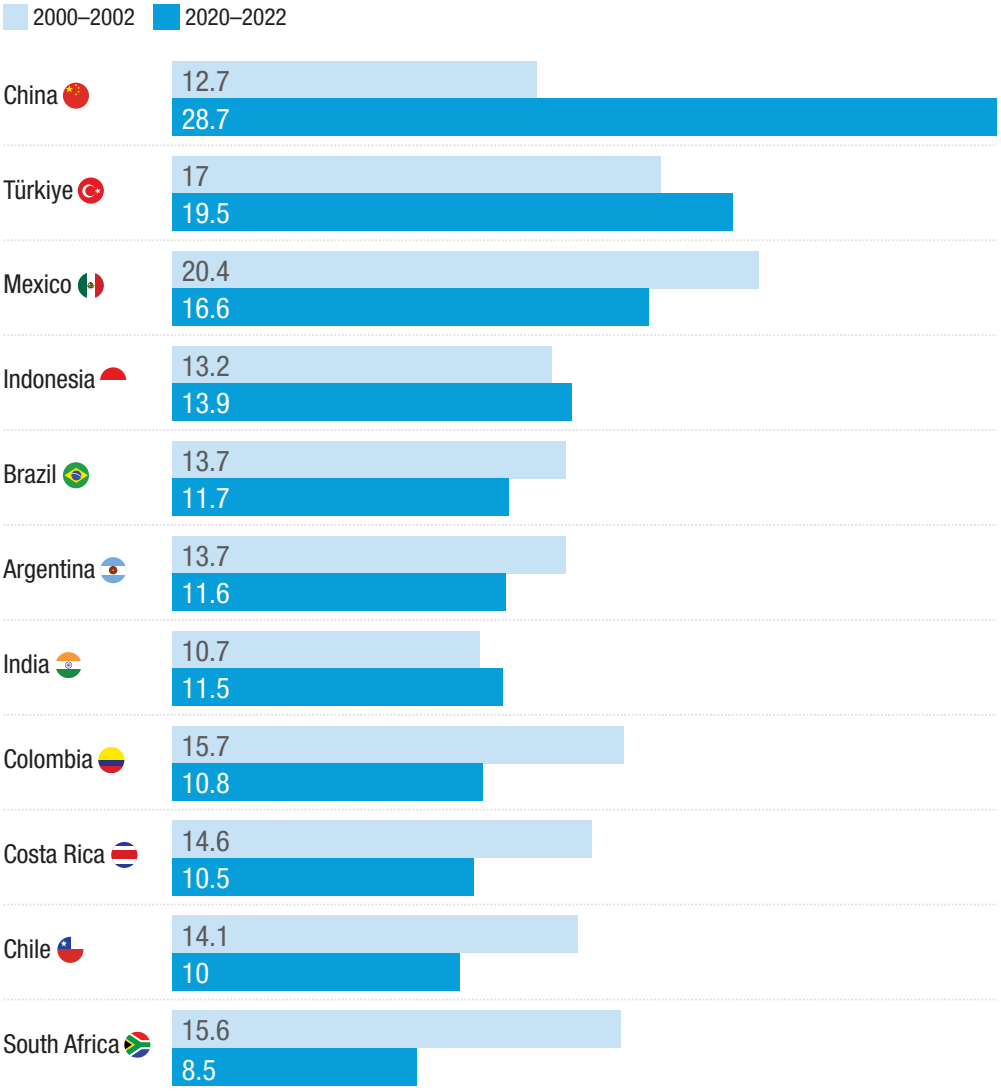
[8] The attempts to tackle climate change have remained insufficient to address global warming. Reducing carbon emissions by at least 45 per cent from 2010 levels by 2030 as well as reaching net zero around 2050 require immediate actions to phase out fossil fuel extraction, including from fossil fuel companies (United Nations Secretary-General, 2023).

trade openness. These countries deployed a combination of targeted industrial policies, investment in human capital and outward-oriented strategies that dramatically changed their economies (see chapter IV for further discussion on the limits of this model).

The global economic environment has evolved significantly since these economies embarked on their rapid transformations in the second part of the twentieth century. The lead of China in manufactures, the rise of industrial robots and digital technologies, shifts in global trade patterns and an increasing emphasis on sustainability have reshaped the contours of economic development, even though hardly any country has realistic plans for phasing out greenhouse gas emissions let alone preserving biodiversity. In terms of jobs provision, with few exceptions, many developing countries with significant industrial sectors have experienced declines in manufacturing as a share of total employment over the last two decades (figure II.5).

Figure II.5
Manufacturing employment has mostly 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.

While manufacturing remains important, there is growing recognition that the efficacy of industrialization as a growth strategy has been undermined. This is partly because the comparative advantage of developing countries – which still lies in the relative abundance of cheaper and less-skilled workers – no longer matches the skill- and capital-intensive production techniques that are increasingly central to many manufacturing processes. Further erosion of efficacy comes from the lack of attention to the heavy ecological and carbon footprint that industrialization and traded goods and services can generate (see box II.1). As research repeatedly confirms, the economic costs and physical damages imposed by accelerating climate change weigh primarily on developing countries and their poorest citizens (UNCTAD, 2022, 2023a).

Past studies identified the problem but fell short in defining required actions

Concerns about the limits of prevailing development strategies are not new. When it comes to structural transformation and the provision of jobs in developing countries, World Bank economists (Hallward-Driemeier and Nayyar, 2017), for instance, have raised concerns about the declining ability of manufacturing-led development to provide the dual benefits of productivity gains and job creation for unskilled workers. At the same time, they were nonetheless broadly positive about the benefits that manufacturing sectors and tradable services can offer if policymakers succeed in delivering on the "3 Cs", namely:

- Competitiveness. To develop firm ecosystems, shift from a focus on low wages to broader considerations of the business environment, the rule of law and the use of technology to complete financial transactions.
- Capabilities. Equip workers with new skills, build stronger firms and develop necessary infrastructure to adopt modern technologies.
- Connectedness. Improve logistics, lower trade restrictions on manufactured goods and lower trade restrictions on services.

Going one step further, Baldwin and Forslid (2023) anticipated that services-led development would become the norm rather than the exception in the future. Because success in the services sector relies on factors distinct from those in manufacturing, there is a moderate optimism regarding the potential of trade in services to raise the incomes of relatively high-skilled workers living in urban areas in middle-income countries. This is based on the assumption that services trade would allow developing nations to directly export the source of their comparative advantage – i.e. labour, which is low cost given its lower productivity – without having first to make goods with that labour and then export the goods. In other words, joining service value added chains would require less of a push than the development of an industrial base. Yet the accumulation of human capital may take longer, compared to the time needed to accumulate physical capital in a context of significant financial openness.

Using data from the Statistics on Trade in Value Added database of OECD and World Trade Organization (WTO), Baldwin (2024) defines an output-based indicator to capture when countries have experienced export-led growth episodes. Considering two time periods, 1995–2008 and 2008–2020, and three income-level groups, the study seeks to establish whether and when the value added in exports has grown faster than GDP, which can be computed for both manufacturing and services. Findings show that, among countries listed in the database of OECD and WTO, a majority of lower- and upper-middle-income countries experienced manufacturing export-led growth during 1995–2008. About 60 per cent of lower-middle-income countries and 80 per cent of upper-middle-income ones saw manufacturing exports grow faster than GDP at that time. Value added growth in tradable services was about 40 per cent in lower-middle-income countries and 50 per cent in upper-middle-income ones.

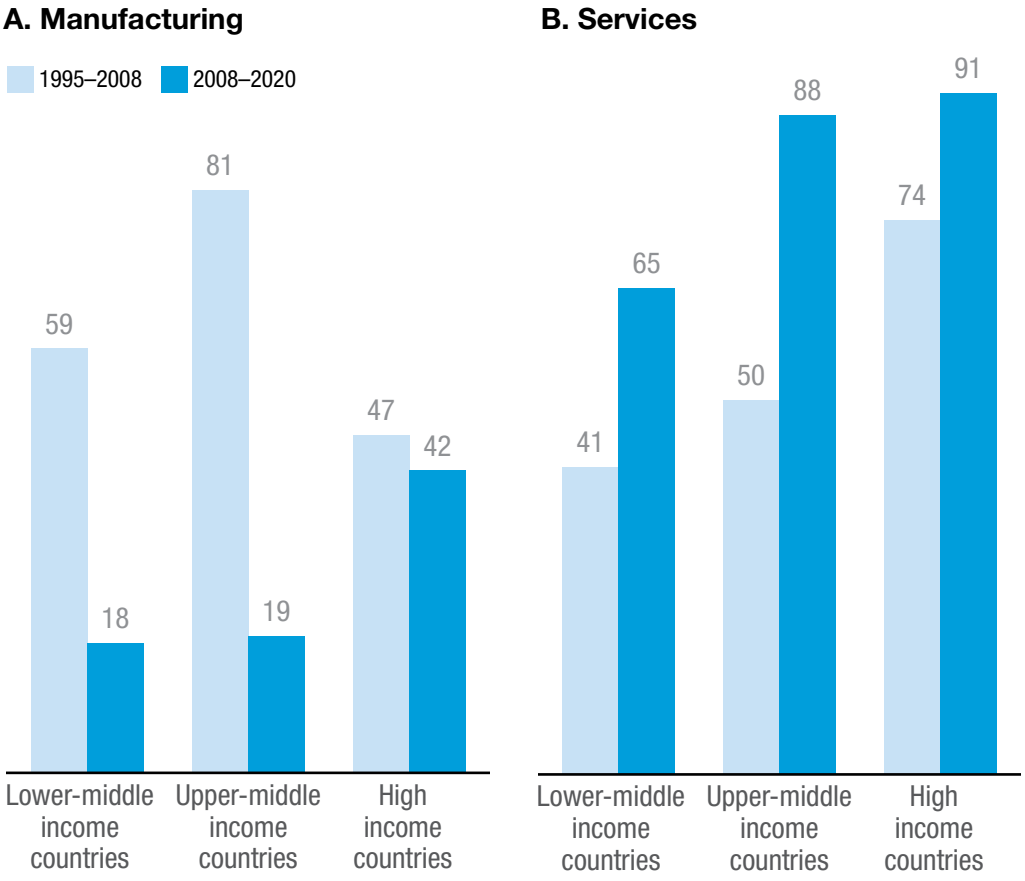
Manufacturing-led exports used to support growth in middle-income countries ahead of the global financial crisis.

Manufacturing-led export growth effectively dominated the picture in both groups in the decade before the global financial crisis.

Nowadays, services-led export growth is more likely.

In the aftermath of the global financial crisis, which made clear that previous global growth patterns were unsustainable, drastic changes occurred. Less than 20 per cent of middle-income countries still registered manufacturing-led export growth during 2008–2020, while almost 70 per cent of lower-middle-income countries and 90 per cent of upper-middle-income ones recorded services-led growth within these years. Interestingly, among high-income countries, the percentages registering manufacturing- and/or services-led growth have remained more stable, despite a slight decrease in manufacturing-led growth episodes and an uptick in services-led ones between the two time spans (figure II.6). This supports the view that manufacturing-led export growth is somehow losing steam while services-led growth is booming.

Figure II.6
Manufacturing-led export growth is declining while services-led export growth is booming
Share of economies experiencing manufacturing- and/or services-led export growth, selected income groups
(Percentage)



Source: Baldwin (2024).

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.

Demand-side measures and modern industrial policies need to be expanded to all economic sectors

While studies present some compelling arguments about structural transformation, their policy recommendations are not really appropriate from a macro perspective. The menu of policy options suggested in Hallward-Driemeier and Nayyar (2017), for instance, mostly comprises supply-side measures and fails to acknowledge the fundamental role of modern industrial policies in fundamentally reorienting and expanding the demand side for both the overall economy and the labour market. Also, while equipping workers with new skills always looks promising, the proposed policies are of little relevance to the majority of unskilled workers who will not become skilled overnight. As such people constitute the bulk of the labour force in developing nations, especially ones with the lowest income per capita, a more comprehensive approach needs to be proposed.

In short, it will be crucial to put greater emphasis on tertiary sectors in general and non-traded ones in particular. Absent government policies that explicitly target the structural transformation of economic activity in pursuit of some public goal – the way Juhasz et al. (2019) define industrial policies – markets, left to their own dynamics, are unlikely to drive needed structural change (not to mention their inability to address burning ecological issues that most affect unskilled workers in poorer countries).

A strategic approach to modern industrial policies broadened to encompass all economic sectors, including services, is key to a climate-conscious developmental paradigm. Considering the discussion above, such an approach should also go beyond industrialization per se and consider the increasingly important interplay between environmental, demographic, financial and technological factors that affect economic growth, trade and global supply chains.

Trade in services alone faces several limitations and can scarcely be expected to become a realistic alternative to manufacturing-led development. It hardly fulfils the dual mandate of enhancing productivity gains and creating many jobs for unskilled workers, not to mention the growing negative environmental footprint of some activities (box II.1).

On the one hand, tradable services that are productively dynamic – such as banking, information technology and business-process outsourcing – provide limited scope to generate widespread employment for unskilled workers, for the same reason that manufacturing nowadays is unable to generate sufficient jobs for the unskilled labour force (see chapter IV for a discussion of the “finance curse”). In short, these sectors often rely primarily on high-level skills and automated processes. On the other hand, more labour-intensive sectors such as tourism and construction do not generate significant productivity enhancements given limited possibilities for achieving meaningful economies of scale and creating backward and forward linkages.

Modern industrial policy encompassing all economic sectors including services is needed.

Box II.1
On the growing energy use and carbon footprint of trade in services

The positive framing of trade in services for sustainable development partly relies on the assumption that services are more dematerialized and less harmful to the climate and environment than trade in manufacturing. Yet many services, such as transport and international travel, are highly carbon-intensive and hard to decarbonize. Digitally delivered services, such as e-commerce, are energy-intensive and generate strong rebound effects as they generally accelerate the production, circulation and consumption of material goods. The case for pitching the fast growth of trade in services – and even digital services – as a sustainable development path appears limited and questionable.

Digitally delivered services and trade across borders have grown very rapidly. Between 2005 and 2022, exports of digitally delivered services expanded by 375 per cent (World Bank and WTO, 2023). This boom would not have been possible without the rapid expansion of material supporting systems, such as information technology goods and infrastructure or "smart" devices. This aspect of digitally delivered services compounds the challenge of electronic waste, which is often exported from developed to developing countries, and is growing five times faster than reported e-recycling (WHO, 2023; UNITAR, 2024).

Cryptomining and data centres alone accounted for 2 per cent of global electricity use and nearly 1 per cent of global emissions in 2022.

Moreover, this boom would not have been possible without growing water and energy use. According to some studies, the energy consumption of the information and communications technology sector has grown by 9 per cent per year on average during the last decade. Its share in global carbon emissions increased from 2.5 per cent in 2013 to 3.7 per cent in 2018 and may reach 8 per cent by 2025 (The Shift Project, 2018). Cryptomining and data centres alone accounted for 2 per cent of global electricity use and nearly 1 per cent of global emissions in 2022, and their footprint is growing fast. One bitcoin transaction requires roughly the same amount of electricity as the average person in Ghana consumes in three years or the average person in Germany in three months. ChatGPT queries require 10 times more electricity than a Google search, due to the electricity consumed by artificial intelligence data centres (Hebous and Vernon-Lin, 2024a, 2024b).

Dashing hopes of a "weightless" digital economy, the exponential growth of digitally delivered services instead undermines the possibility of cutting global carbon emissions by 95 per cent by 2050, as envisioned in net-zero climate scenarios (Pitron, 2021). Consequently, and amid fallacious net-zero claims, big technology companies are missing their climate targets by large and increasing margins. Because reducing emissions while growing at such rapid rates remains impossible, these firms have instead led attempts to gut science-based carbon metrics and rewrite carbon accounting rules (*Financial Times*, 2024f, 2024g).

As underscored by UNCTAD (2024a), developing countries experience most of the environmental costs of digitalization while reaping fewer benefits. They export low value added raw materials and import high value added devices, along with increasing digital waste. Such challenges call for a cautious approach to increased trade in digitally delivered services as an avenue to reach sustainable development. To move away from this unsustainable model, a global shift towards sufficiency, including in the digital sector, and enhanced efforts to promote circularity are required.

Sources: Hebous and Vernon-Lin (2024a, 2024b); *Financial Times* (2024d, 2024g); Pitron (2021); The Shift Project (2018); UNCTAD (2024a); UNITAR (2024); WHO (2023); World Bank and WTO (2023).

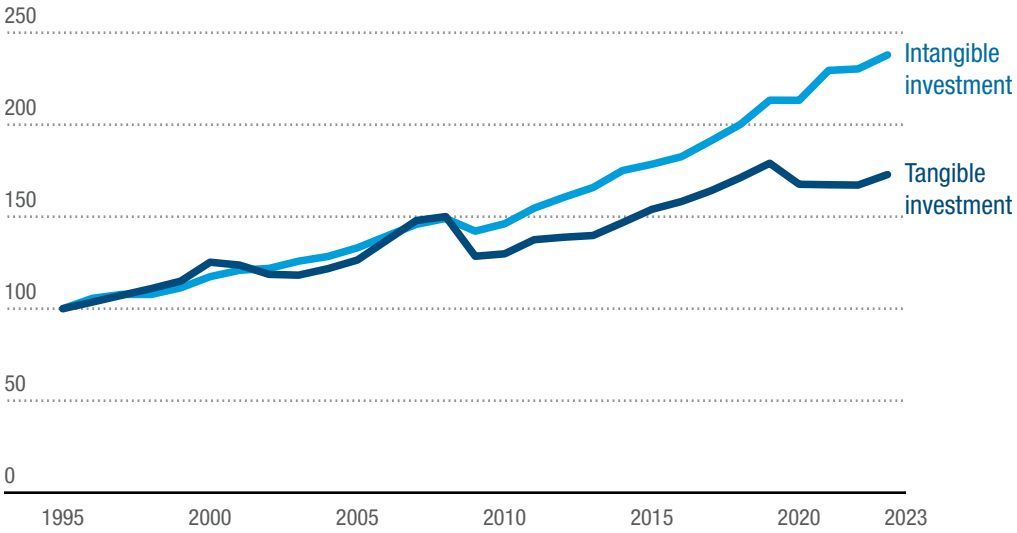
Furthermore, information and communications technology-enabled services, or even trade in services in general, usually remain primarily dominated by developed countries. Recent trade data show a low number of non-high-income developing economies in the top 30 economies in world services exports in 2023. This contrasts with merchandise trade, for which the figure is larger. In aggregate, developing economies accounted for less than 30 per cent of world services export revenues; the figure for merchandise exports is 44 per cent (table II.1).

The growing role of intangible assets adds to these concerns (figure II.7). According to the Asian Development Bank (ADB) et al. (2021: xviii): "Conventional trade statistics do not capture exports in the services of intangibles via [global value chains and therefore they] substantially underestimate the actual exports of developed economies and distort the trade balance between them and developing economies". Yet intangible assets, such as brands, unique designs, patented technologies and the knowledge of supply chain management, rather than tangible assets (i.e. manufacturing production), are increasingly determining the ability of firms to lead and benefit from global value chains. In the extreme, this may lead to "factory-less" production in which firms that design and market manufactured products own none of the production process. As a result, an important part of modern global value chains consists of innovator countries exporting the services of their intellectual property in return for manufactured goods (ADB et al., 2021: xi).

According to the World Intellectual Property Organization (WIPO) and Luiss Business School (2024), investment in intangible assets such as brands, designs, data and software has grown three times faster over the past 15 years than investment in physical assets such as factories and machinery. France, Sweden and the United States have seen the most intensive activity, and India is trending upward. In 2023, aggregate intangible investment touched $6.9 trillion, more than doubling from $2.9 trillion in 1995. Tangible investment rose to $4.7 trillion in 2023.

Developing countries represented less than 30 per cent of world services export revenues and 44 per cent of merchandise exports in 2023.

Figure II.7
The ability of firms to lead and benefit from global value chains increasingly relies on intangibles
Intangible and tangible investment in the world
(1995=100)



Source: WIPO and Luiss Business School (2024).

Table II.1
Top 30 rankings in world commercial services and merchandise exports in 2023

	COMMERCIAL SERVICES			MERCHANDISE		
Rank	**Economies**	**Percentage**	**Billions of dollars**	**Economies**	**Percentage**	**Billions of dollars**
1	United States	13.0	1 027	China	14.2	3 380
2	United Kingdom	7.4	584	United States	8.5	2 020
3	Germany	5.5	439	Germany	7.1	1 688
4	Ireland	5.0	398	Netherlands (Kingdom of the)	3.9	935
5	China	4.8	381	Japan	3.0	717
6	France	4.6	360	Italy	2.8	677
7	India	4.3	338	France	2.7	648
8	Singapore	4.1	328	Republic of Korea	2.7	632
9	Netherlands (Kingdom of the)	3.9	312	Mexico	2.5	593
10	Japan	2.6	207	Hong Kong (China)	2.4	574
11	Spain	2.5	198	Canada	2.4	569
12	Switzerland	2.1	169	Belgium	2.4	562
13	United Arab Emirates	2.1	166	United Kingdom	2.2	521
14	Luxembourg	1.9	149	United Arab Emirates	2.1	488
15	Italy	1.9	148	Singapore	2.0	476
16	Belgium	1.8	146	Taiwan Province of China	1.8	432
17	Canada	1.7	137	India	1.8	432
18	Republic of Korea	1.6	124	Russian Federation	1.8	424
19	Denmark	1.4	114	Spain	1.8	423
20	Poland	1.4	108	Switzerland, Liechtenstein	1.8	420
21	Sweden	1.3	104	Poland	1.6	382
22	Türkiye	1.3	102	Australia	1.6	371
23	Hong Kong (China)	1.2	98	Viet Nam	1.5	354
24	Austria	1.1	90	Brazil	1.4	340
25	Israel	1.1	83	Saudi Arabia	1.4	322
26	Australia	0.9	74	Malaysia	1.3	313
27	Thailand	0.7	57	Thailand	1.2	285
28	Portugal	0.7	56	Indonesia	1.1	259
29	Taiwan Province of China	0.7	54	Türkiye	1.1	256
30	Greece	0.7	53	Czechia	1.1	255
	World	**100.0**	**7 913**	**World**	**100.0**	**23 784**
	Developing economies	29.7	2 348	Developing economies	44.1	10 489
	Developed economies	70.3	5 566	Developed economies	55.9	13 295

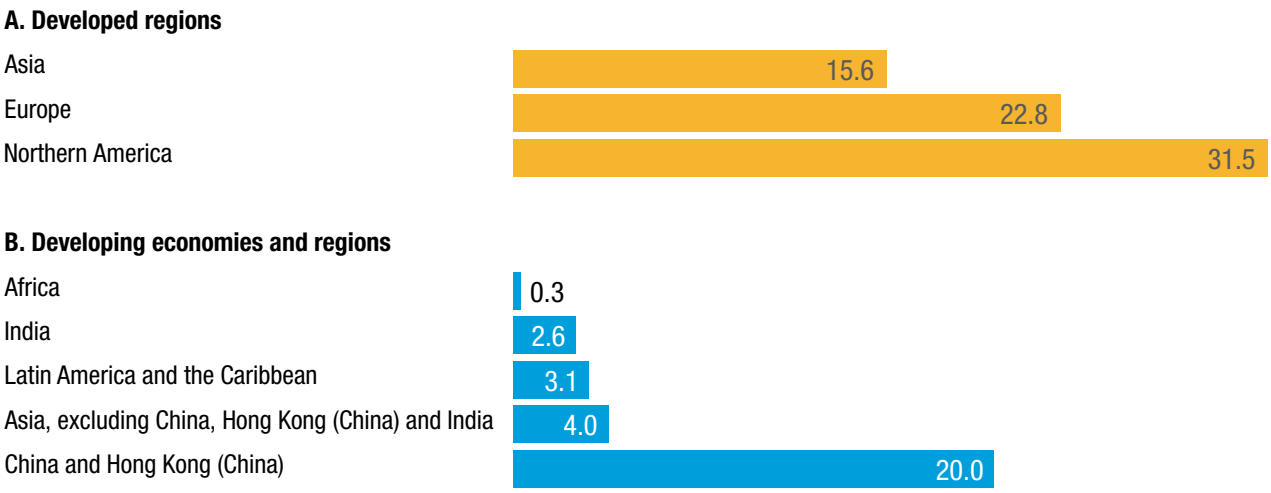
Source: UNCTADstat database.

Besides concerns relating to intangible assets, issues about market concentration, such as in the creative services trade,[9] also show how developed economies continue to lead in an area that is often portrayed as a plausible multifaceted engine for economic development. While the value of this sector rose to $1.4 trillion in 2022, developed economies still accounted for 80 per cent of exports in 2022. This contrasts with the size of developed countries in the world economy, which is less than 60 per cent.

High concentration is also reflected in the geography of headquarters of large multinational enterprises providing international services. As figure II.8 shows, 70 per cent of headquarters activities in international trade in services are in advanced regions, compared to only 10 per cent for the rest of the developing world outside China, including Hong Kong Special Administrative Region (SAR). This figure was derived from the financial statements of a group of almost 1,000 multinational enterprises, both publicly traded and not, that each recorded more than $10 billion in revenues in 2022. Arguably, these are key players in international services with their revenues, albeit also from domestic activities, collectively accounting for almost $35 trillion in 2022, more than five times the value of trade in services that year.

Figure II.8
Headquarters of major multinationals responsible for most trade in services are mostly located in developed regions and China

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



Source: UNCTAD based on LSEG Eikon.

Notes: 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). School (2024).

[9] Creative services trade statistics cover the following categories of services: advertising; market research; architecture; audiovisual; cultural; recreational; heritage-related; information; research and development; and software.

Although interesting export promotion initiatives have emerged recently in trade in services, tradable services will remain insufficient to absorb a major part of the labour force in developing countries (UNCTAD, 2024i). More broadly, asymmetries in exports among country groups – together with issues of market concentration and competition-related concerns as recently reassessed by UNCTAD (2024d) – explain why it seems difficult to envisage that international services could supersede what manufacturing-led development successfully achieved in some parts of the developing world in the past. Deductive reasoning suggests that there is no other solution than turning to services in some non-tradable sectors, a topic addressed in the remaining part of this section.

An ambitious policy mix in non-tradable sectors will be necessary

Recognizing the inability of trade in services to provide enough quality jobs to the majority of underemployed people in developing countries, Rodrik and Stiglitz (2024) recently proposed a more radical policy shift centred on the green transition and the promotion of labour-absorbing services activities, mostly in the non-tradable sectors. They advocate a three-pronged strategy based 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.

This strategy argues for more inclusive and equitable growth strategies even if growth is lower. In short, it is about quality rather than quantity. The core idea is to deliver direct income gains for poorer segments of society through better jobs and, thus, to build a middle class, rather than wait for a "trickle-down" from the export champions and largest firms.

New studies have been advancing a vision for services-led economic development in more practical terms, even if there is still a long way to go before understanding well how to raise productivity in labour-absorbing services. Rodrik and Sandhu (2024), for instance, sketch four strategies that could be explored – and are not mutually exclusive – to expand productive employment in services that create the most jobs in developing countries, drawing from concrete examples in India, Nigeria and South Africa (table II.2).

Effective strategies for expanding employment opportunities in the services sector must be selective, targeting firms and subsectors with higher chances of success. Experimentation is essential and more likely to work when decentralized. This is because local governments, such as municipalities and subnational authorities, are often more aware of specific local conditions. Hence, they may be best suited to conduct and implement pilot programmes.

An important dimension is to enhance employment prospects for those at the lower end of income distribution. This is likely to boost the middle class and further stimulate domestic demand, which could support a virtuous cycle reinforcing economic growth, social inclusion and job creation.

For the natural environment not to be the poor relation of these future growth strategies, authorities, in selecting targeted sectors and firms, should consider expected linkages that planned developments will trigger in both economic and environmental terms. Absent such consideration, long-lasting and plausibly increasing costs are likely. These could ultimately exceed the benefits of such interventions.

As policymakers embark on the challenging journey of critically reviewing, assessing and plausibly recalibrating development pathways for the decades to come, the discussions above can provide some valuable food for thought. At this juncture,

it is worth stressing that perhaps the most cautious and promising approach to implementing modern industrial policies involves two aspects in parallel: Addressing the identified problem while minimizing adverse effects on international cooperation and multilateralism. This new odyssey will not be easy, as was the case for previous attempts to harness the best of globalization. Boosting productivity in services is known for being complicated. Yet attempts to provide good jobs for most citizens without greater consideration of non-tradable services seem increasingly implausible.

Table II.2
Four strategies for expanding productive employment in labour-absorbing services

Focus	Actions	Expected benefits	Illustrative case
▶ Established large and relatively productive incumbent firms	Incentivizing such firms to expand their employment either directly or through local supply chains	Generating upstream linkages with service providers	Saksham Saarthi Partnership with Uber and Ola in Haryana, India
▶ Small enterprises	Providing such firms with specific inputs (e.g. management training, loans or grants, customized skills among workers, specific infrastructure or technology assistance)	Enhancing productive capabilities in such firms	Youth Enterprise with Innovation (YouWiN!) in Nigeria
▶ Workers or firms	Offering digital tools and other modern technologies that explicitly complement low-skill labour	Enabling less educated workers to do (some of) the jobs traditionally reserved for more skilled professionals and increasing the range of tasks they can perform	The Manthan Project in Uttar Pradesh, India
▶ Less-educated workers	Combining vocational training with "wrap-around" services, a range of additional assistance programmes for job seekers	Enhancing the employability, retention and eventual promotion of less-educated workers	Harambee Youth Employment Accelerator in South Africa

Source: UNCTAD based on Rodrik and Sandhu (2024).
Note: Saksham saarthi translates to "capable charioteer/driver".

C. Commodity markets: Prices have receded but remain high

Commodity prices remained elevated as of July 2024. Although they have declined compared to the heights they reached following the outbreak of the war in Ukraine, aggregate commodity prices remain more than 20 per cent above their 2019 level.

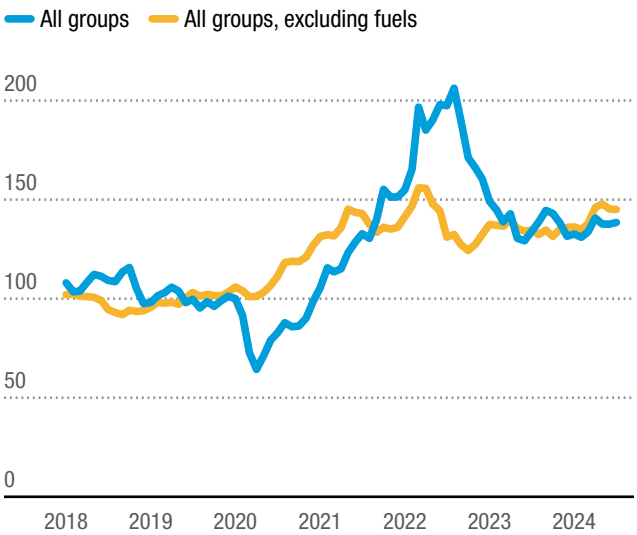
During the first months of 2024, non-fuel commodity prices rose. Fuel prices declined slightly during the second quarter amid decelerating demand worldwide (figure II.9).

These developments occurred after some volatility in 2023. The UNCTAD commodity price index for all commodity groups saw a notable 12 per cent increase from June to September 2023, attributed to a surge in fuel prices resulting from supply cuts announced by the Organization of Petroleum Exporting Countries and its allies (OPEC+). A subsequent decrease of approximately the same magnitude happened from September to December 2023, leaving the overall annual average way below the one recorded in 2022.

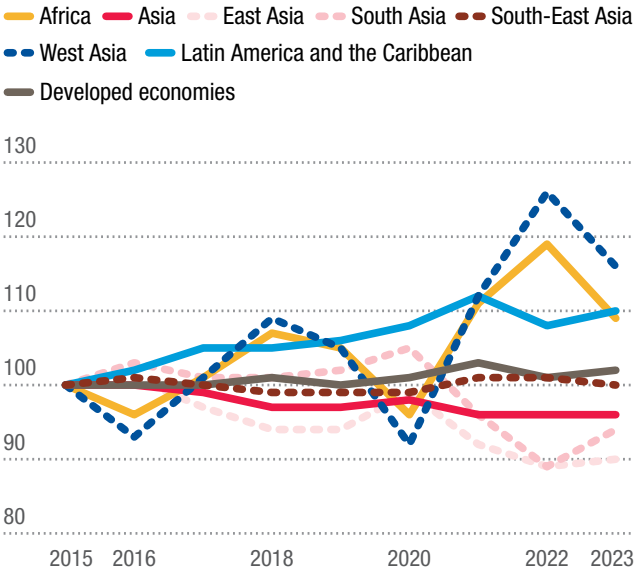
Consequently, the net barter terms of trade of the main commodity-exporting regions deteriorated slightly from 2022 to 2023,

Figure II.9
Commodity prices softened but remained more than 20 per cent above pre-COVID-19 levels

A. UNCTAD commodity price index
(Average 2019=100)



B. Net barter terms of trade, selected country groups
(2015=100)



Source: UNCTAD based on UNCTADstat database.

Note: In panel A, data ends in August 2024.

although not enough to offset gains made in recent years. Africa and Western Asia, for instance, experienced a decline of almost 10 per cent of their terms of trade. Individual countries had greater deteriorations, such as Angola (23 per cent), Equatorial Guinea (35 per cent) and Nigeria (14 per cent).

Aggregate commodity prices are anticipated to increase slightly. Announced and expected monetary easing in advanced economies will likely support such an evolution. Rising demand for critical energy transition minerals, particularly from China, will support aggregate commodity prices (see chapter III for an in-depth discussion). At the same time, the ongoing war in Ukraine and situation in Gaza may threaten the supply of commodities travelling through maritime trade routes, such as the Black Sea and Red Sea, and generate price volatility.

1. Oil and natural gas: High profitability limits the energy transition

Fossil fuel commodity prices were volatile during recent economic downturns and crises. The price of natural gas increased more than tenfold between the trough of June 2020 caused by the COVID-19 pandemic and the peak of August 2022 after the outbreak of war in Ukraine. Yet both oil and natural gas prices have since returned to levels below those prevailing prior to February 2022. Oil prices have stabilized and fluctuated mostly above $80 per barrel over the past 12 months (figure II.10.A), benefitting fossil fuel exporters and weakening incentives to diversify away from oil-export dependency (see table III.1).

Demand for fossil fuels has historically grown in tandem with global economic activity. As climate action and emissions mitigation remain dangerously insufficient, the share of fossil fuels in the primary energy mix has remained constant at around 80 per cent, independent of fossil fuel price swings over the years (figure II.10.C and D). The few temporary drops in global oil consumption, such as in 2009 and 2020, were not caused by high oil prices but by severe global economic downturns weighing negatively on economic activity and energy demand. It appears unlikely that higher fossil fuel prices and markets alone will be enough to phase out fossil fuels on the road to net zero (*Financial Times,* 2024g). This tendency is accentuated by continuing fossil fuel subsidies (UNCTAD, 2023a).

Fossil fuels have accounted for 80% of global primary energy since 1965, independently of price swings over the years.

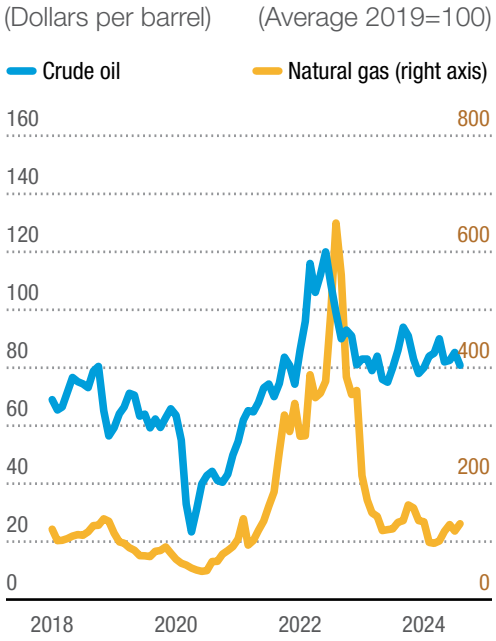
As energy consumption is largely captive to and dependent on long-term infrastructure investment decisions made by energy suppliers, expected profit in the fossil fuel sector appears to be the most significant determinant of future fossil fuel extraction. The profitability of fossil fuels remains higher than that of renewable energy (figure II.10.B). Although renewable energy consumer prices will continue declining, this trend alone is unlikely to much affect prevailing high profitability and output in the fossil fuel sector (Christophers, 2022, 2024).

In this regard, the International Energy Agency (IEA) and OPEC hold contrasting views. While the former claims that fossil fuel demand is set to peak in 2030, notably because of growing "green" investment and a rising supply of cheaper renewable energy (IEA, 2023), the latter argues that "peak oil demand is not on the horizon". OPEC (2024) instead expects fossil fuel extraction to keep rising to at least 116 million barrels per day by 2045, up from 102 million barrels per day in 2023. In the short term, and in the absence of binding quantitative regulatory limits on fossil fuels extraction and trade, both IEA and OPEC project oil consumption will rise as usual by 1 million to 2 million barrels per day in 2024.

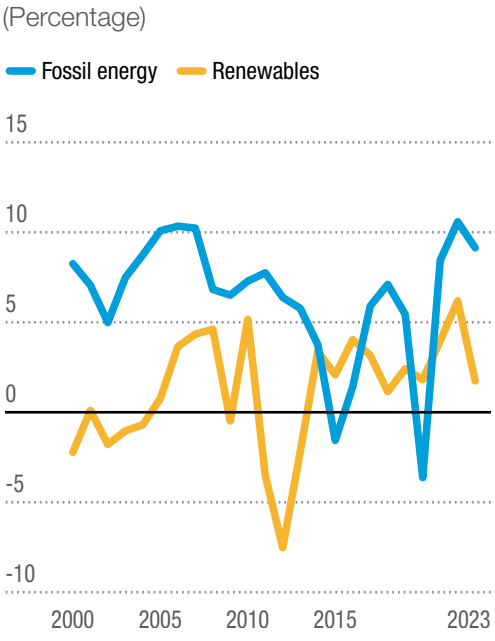
The profitability of fossil fuels continues to push net-zero goals far out of reach.

Figure II.10
Global fossil fuels are historically profitable and rising, regardless of price swings

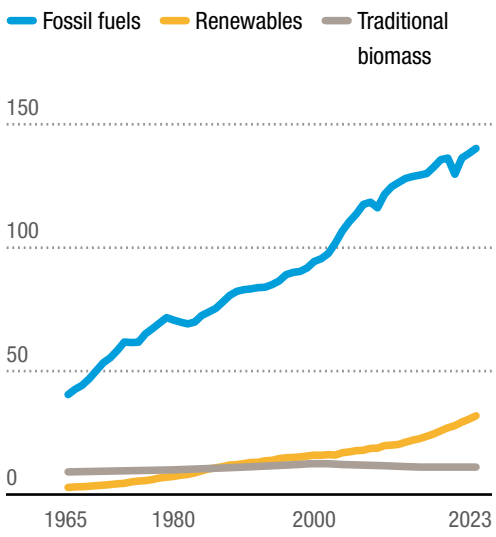
A. Oil and natural gas prices



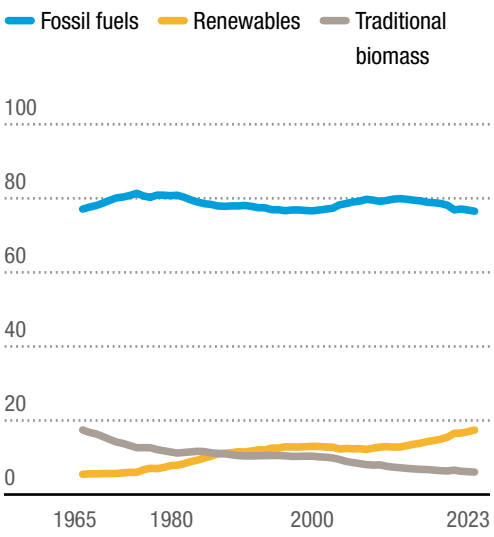
B. Ratio of profit to revenues in the energy sector



C. Primary energy consumption, by type



D. Share in primary energy, by type



Source: UNCTAD based on UNCTADstat database, LSEG Eikon and the Commodities Price Data (The Pink Sheet) of the World Bank.

Notes: In panel A data ends in August 2024. Primary energy consumption data in panels C and D are based on categorizing "fossil fuels" as including oil, gas and coal, and "renewables" as including hydropower, nuclear, wind, solar, modern biofuels and other renewables. Financial data on profit and revenues in panel B define nuclear as a separate category that is not included under "renewables".

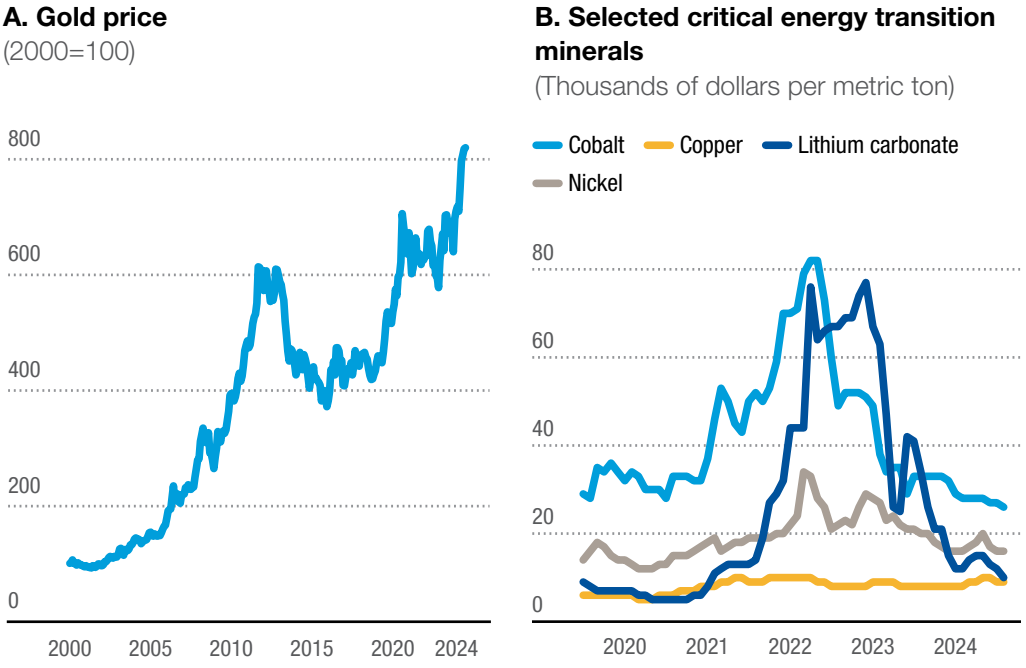
2. Minerals and metals: Price volatility remains amid intensifying geostrategic competition

Much like other aggregate commodity indices, the UNCTAD minerals, ores and non-precious metals index has been less volatile since early 2023 compared to previous years. It experienced an 11 per cent decline between February and May 2023, reflecting falling prices across key commodities such as aluminium, copper, iron ore and nickel. Following relative stability from June to December 2023, the index has risen again by more than 10 per cent since February 2024.

Precious metals such as gold and platinum experienced comparable price trends. The price of gold in particular rose by 25 per cent between March and mid-September 2024. It reached a new record high (figure II.11) on the back of strong demand from customers but also from central banks of countries planning to reduce their reliance on the dollar, such as China, India, Kazakhstan and the Russian Federation. The rising price of gold also reflected market expectations of imminent monetary easing in the United States, which stoked fears of resurging inflation and dollar depreciation, even though massive quantitative easing in past decades has shown that such expectations might be misguided.

Price volatility has been most acute in markets for some critical energy transition minerals. Lithium, cobalt and nickel prices fell by 78 per cent, 34 per cent and 42 per cent, respectively, in 2023 (figure II.11). The decline was partly due to a surge in production and an oversupply of these raw materials, following strong demand for electric vehicles and batteries in 2021 and early 2022. Additionally, slow growth in electric vehicle battery sales, coupled with large-scale production of battery cells and cathodes, led to a significant build-up of downstream products in inventory.

Figure II.11
Critical energy transition minerals and gold prices are highly responsive to geopolitical tensions and supply bottlenecks



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

Note: Data ends in August 2024.

Chinese manufacturing fluctuations cause higher price volatility for critical energy transition minerals than for other minerals.

China commands half of global demand for this group of metals and minerals. Given its outsized market share in the production of electric vehicles (58 per cent), wind turbines (66 per cent), and lithium batteries and solar panels (more than 80 per cent each), the prices of critical energy transition minerals are even more dependent than other metals and minerals on fluctuations in manufacturing in China.

In a context of price volatility and intensifying geostrategic competition for critical energy transition minerals, a growing number of countries importing them have attempted to secure a stable and diversified supply through trade-related agreements. In 2023, 22 such agreements were signed. Producing countries, such as Indonesia, Malaysia, Namibia and Zimbabwe, have adopted export-restricting measures to leverage mineral resources for domestic industrialization, enabling the capture of a larger share of value added compared to continued raw material exports (UNCTAD, 2024e). Such trends may persist and contribute to tightening markets for critical energy transition minerals, generating renewed upward price pressures.

3. Food and fertilizers: Elevated prices still weigh on poor households

Food commodity prices can have the most destabilizing short-term impacts on developing nations. In 2023, food commodity prices remained elevated, adding to the import bills of food-importing developing countries. It was only in December 2023 that the UNCTAD food index declined below its February 2022 level, stabilizing at about 20 per cent above its pre-pandemic level.

The prices of other agricultural commodities, such as vegetable oilseeds and oils prices, experienced similar fluctuations. By contrast, prices of tropical beverages have risen sharply since the beginning of 2024, owing to negative weather conditions and climate phenomenon, such as El Niño, that affected agricultural production.

Prices of fertilizers have also stabilized above pre-pandemic levels (figure II.12). The prices of potassium and urea reached unprecedented highs following the outbreak of the war in Ukraine and have declined since then. By contrast, the price of phosphate rock fell only in November 2023 by about 50 per cent, based on improved production prospects driven mainly by lower input costs, before stabilizing above its pre-pandemic level.

Among major food commodities, the prices of cereals such as maize and wheat have slowly declined since early 2023, returning closer to their pre-pandemic levels (figure II.12). The Black Sea Initiative, although it was suspended in July 2023, enabled a sharp decline initially as it contributed to continued Ukrainian agricultural exports and improved production and exports from the Russian Federation, which increased from 76 to 104 million metric tons from 2021–2022 to 2022–2023, according to the Agricultural Market Information System.

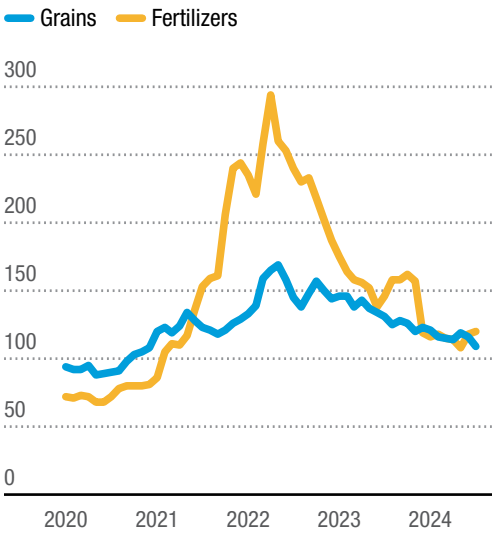
Unlike all other cereals, the price of rice has not fallen below its February 2022 level. After a slight decline in early 2023, the benchmark price of Thai rice surged by 35 per cent from March to December (figure II.12). This increase occurred due to export restrictions enacted by important exporters of rice (for example, India) to boost domestic supplies and food security in response to rising domestic prices and robust demand in Asia and Africa. The first quarter of 2024 saw a slight decrease in the benchmark price, driven by the depreciation of the currencies of major exporters against the United States dollar, sluggish global rice demand amid higher prices and an increase in seasonal supply.

Global maize production and exports are expected to increase slightly whereas opposite projections prevail for wheat.

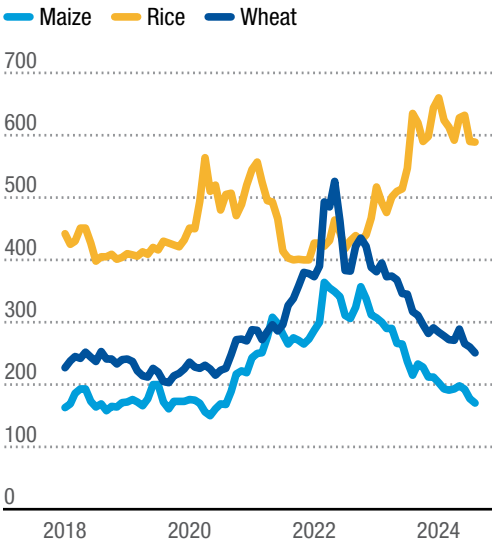
World rice production is forecast to rise, but not international rice exports, which may result in upward aggregate food price pressures. High food prices and inflation may also persist because of oligopolistic market structures. In the grains market, the top four companies control between 70 and 90 per cent of global trade (UNCTAD, 2023a), while markets for production inputs, such as fertilizers, seeds and technology, are also increasingly concentrated (see chapter III). To ensure market access for importing developing countries and alleviate their financial burden, it is essential to prevent anti-competitive trade practices.

Figure II.12
Food and fertilizer prices are declining except for rice

A. Grains and fertilizers
(2010=100)



B. Selected food commodity benchmark prices
(Dollars per metric ton)



Source: UNCTAD based on UNCTADstat and the Commodities Price Data (The Pink Sheet) of the World Bank.

Note: Data ends in July 2024.

D. Net capital flows to developing countries: The recovery is still fragile and uncertain

Net capital flows to developing countries returned to positive territories during the first quarter of 2024 after registering negative values over nine quarters in a row.[10] This means that, in aggregate, resident units from developing countries again became net borrowers vis-à-vis non-resident units from developed ones.

Region-wise, this favourable performance reflects, primarily, the increase in net inflows to Latin America and the Caribbean compared to the three last quarters of 2023, which were more than sufficient to compensate for net outflows from the other two developing regions. Net inflows to Latin America and the Caribbean have remained positive over the years, but since the pandemic have had a more volatile pattern and have not come back to the higher levels recorded over 2011–2014.

Another factor behind this improved situation was the gradual diminution of net outflows in developing Asian economies after their mid-2022 highs, mostly on the back of development in China, Hong Kong (China) and Singapore, although net outflows during the first quarter of 2024 were slightly larger than the ones of the last quarter of 2023. Africa recorded a small net outflow after a positive but subdued performance in 2023 (figure II.13).

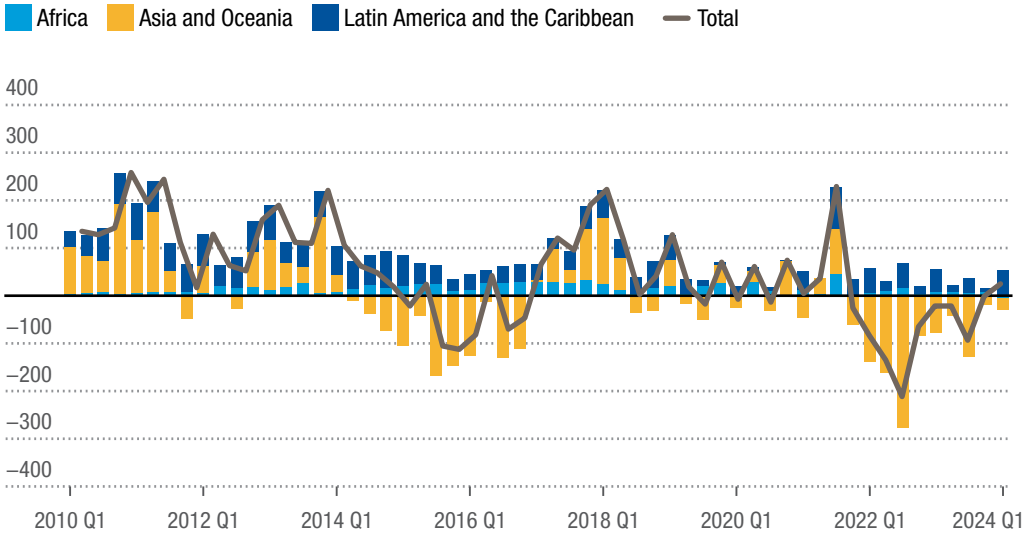
The last episode of persistent aggregate net outflows from developing countries occurred over 2014–2016. As in the recent episode, it was due to net capital outflows from developing Asia, more specifically, East Asia (table II.3). The main drivers of such outflows differed markedly between the two periods, however. The mid-2010s episode was centred around stock market turbulence in China, following the 2013 taper tantrum, with net outflows in other investments predominating.

[10] In this section, net capital flows refers to the sum of net direct investments, net portfolio investments and net other investments from the financial account of the balance of payments. It captures non-resident net flows minus resident net flows, excluding “derivatives” and “reserves and related assets”.

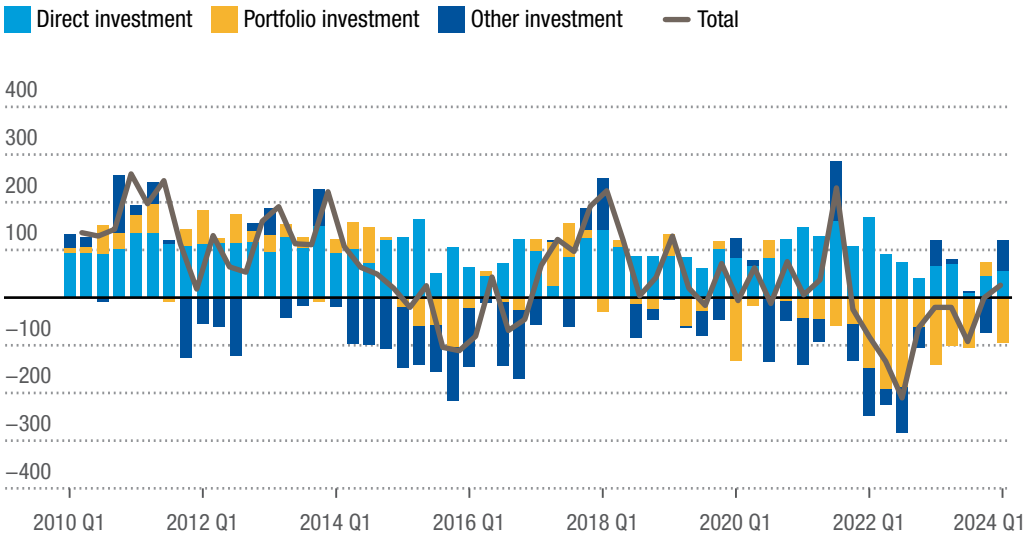
Figure II.13
After nine negative quarters, capital flows to developing countries rebounded in early 2024

Quarterly net capital flows to developing countries, selected regions and types
(Billions of dollars)

A. By region



B. By type



Source: UNCTAD based on the Balance of Payments database of the IMF.

Notes: Q1, first quarter. Net positive liabilities in the source data are valued as positive inflows and net positive assets as negative ones. Portfolio investment includes debt and equity. Other investment includes short and long-term bank lending. Total capital flows refer to the sum of direct, portfolio and other investments, i.e. the three classes of investments in the financial account of the balance of payments outside the direct and effective control of monetary authorities.

Table II.3
Net capital flows to developing countries

Yearly net capital flows to developing countries, selected regions and types
(Billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023[a]
▶ Developing countries	**617**	**490**	**279**	**566**	**185**	**-193**	**-150**	**483**	**400**	**208**	**128**	**280**	**-484**	**-116**
Direct investment	408	508	480	485	397	456	317	343	434	349	363	564	387	185
Portfolio investment	112	109	140	49	119	-255	-49	203	-37	-45	-128	-212	-594	-278
Other investment	97	-127	-341	32	-331	-394	-418	-63	3	-96	-107	-72	-276	-23
Of which:														
▶ Africa	**17**	**34**	**63**	**83**	**83**	**94**	**105**	**132**	**70**	**84**	**41**	**80**	**48**	**18**
Direct investment	46	36	48	39	63	49	40	46	30	36	18	72	39	13
Portfolio investment	6	8	27	23	8	25	17	47	3	32	0	-40	-30	-1
Other investment	-36	-10	-12	21	12	20	47	39	38	16	23	49	40	6
Of which:														
▶ North Africa	**11**	**-1**	**14**	**19**	**22**	**34**	**47**	**35**	**26**	**28**	**28**	**37**	**11**	**.**
Direct investment	10	5	8	11	11	11	12	12	13	13	9	9	14	.
Portfolio investment	8	-11	-3	1	1	2	2	23	-2	12	3	4	-23	.
Other investment	-7	5	9	7	10	20	33	0	15	2	17	25	20	.
▶ Sub-Saharan Africa	**6**	**35**	**49**	**64**	**61**	**60**	**58**	**97**	**44**	**56**	**13**	**43**	**38**	**18**
Direct investment	36	31	40	28	51	38	28	34	17	23	9	63	25	13
Portfolio investment	-1	19	29	22	7	23	15	24	5	19	-3	-43	-6	-1
Other investment	-29	-16	-21	14	2	0	14	39	23	14	7	24	20	6
▶ Asia	**385**	**196**	**-22**	**260**	**-153**	**-456**	**-386**	**208**	**142**	**26**	**52**	**43**	**-671**	**-233**
Direct investment	252	315	267	292	190	272	148	171	258	200	243	390	221	39
Portfolio investment	4	-6	28	-75	3	-331	-113	114	-58	-75	-132	-185	-555	-258
Other investment	128	-114	-316	43	-346	-398	-421	-77	-58	-99	-59	-162	-337	-1
Of which:														
▶ Central Asia	**-10**	**-8**	**-5**	**2**	**6**	**10**	**9**	**7**	**-1**	**6**	**19**	**9**	**-6**	**8**
Direct investment	6	11	13	10	6	6	16	6	6	9	7	5	11	5
Portfolio investment	9	-13	-17	-6	-1	6	-1	6	-3	-4	9	6	-13	-4
Other investment	-24	-6	0	-1	1	-1	-7	-4	-4	1	3	-1	-4	8
▶ East Asia	**277**	**256**	**-31**	**316**	**-69**	**-429**	**-438**	**112**	**142**	**-30**	**-53**	**-88**	**-304**	**-262**
Direct investment	176	238	170	215	135	171	14	52	118	78	127	212	38	-134
Portfolio investment	-33	16	43	-9	69	-204	-115	54	33	15	21	-35	-325	-111
Other investment	134	2	-243	111	-273	-396	-336	6	-9	-123	-201	-266	-17	
▶ South Asia	**82**	**66**	**93**	**70**	**82**	**86**	**37**	**102**	**84**	**107**	**85**	**147**	**66**	**75**
Direct investment	16	28	19	31	28	42	46	35	37	43	58	32	39	18
Portfolio investment	38	2	32	9	45	11	-4	34	-10	27	11	7	-19	31
Other investment	28	36	43	30	9	33	-5	33	57	37	16	108	46	27
▶ South-East Asia	**37**	**-5**	**3**	**-36**	**-50**	**-69**	**-23**	**25**	**15**	**-12**	**10**	**42**	**-172**	**-27**
Direct investment	42	32	50	46	37	56	59	82	97	83	55	126	147	150
Portfolio investment	8	11	-43	-59	-49	-74	-2	-4	-58	-97	-82	-86	-75	-109
Other investment	-12	-48	-4	-23	-39	-51	-80	-53	-24	3	37	2	-243	-68
▶ West Asia	**-1**	**-114**	**-82**	**-92**	**-122**	**-54**	**30**	**-38**	**-99**	**-46**	**-9**	**-66**	**-256**	**-27**
Direct investment	14	6	15	-9	-17	-3	14	-4	-1	-13	-4	14	-14	1
Portfolio investment	-16	-23	14	-9	-61	-70	9	24	-20	-16	-91	-76	-122	-65
Other investment	2	-97	-111	-74	-45	18	8	-59	-78	-17	86	-4	-119	37
▶ Latin America and the Caribbean	**212**	**258**	**234**	**218**	**256**	**171**	**132**	**146**	**191**	**102**	**36**	**161**	**138**	**99**
Direct investment	107	155	162	151	142	133	128	126	147	114	103	104	127	133
Portfolio investment	101	106	84	101	108	51	47	43	17	-2	5	13	-10	-18
Other investment	4	-3	-13	-34	7	-14	-43	-22	27	-10	-71	44	20	-16
▶ Oceania	**3**	**2**	**4**	**5**	**-1**	**-1**	**-1**	**-4**	**-3**	**-4**	**-1**	**-5**	**1**	**.**
Direct investment	2	2	3	3	2	2	1	0	0	0	-1	-1	0	.
Portfolio investment	0	1	1	0	0	0	0	0	0	0	0	0	0	.
Other investment	1	0	1	3	-4	-3	-2	-3	-4	-3	0	-3	1	.

Source: UNCTAD based on the Balance of Payments database of the IMF.

Notes: Net positive liabilities in the source data are valued as positive inflows and net positive assets as negative ones. Portfolio investment includes debt and equity. Other investment includes short and long-term bank lending. Total capital flows refer to the sum of direct, portfolio and other investments, i.e. the three classes of investments in the financial account of the balance of payments outside the direct and effective control of monetary authorities. Due to rounding, some totals may not correspond with the sum of the separate figures.

[a] Indicates preliminary estimates.

By contrast, because negative outflows between the fourth quarter of 2021 and the end of 2023 were associated with monetary tightening in developed countries and deteriorating global financial conditions (UNCTAD, 2023a), they were more broad-based geographically, with several countries in all developing regions experiencing a pattern similar to the one that the aggregate for developing countries depicts. This time, however, "portfolio investment" in general and the sale of domestic bonds by non-residents in particular played larger roles, followed by outflows in other investments. Foreign direct investment performance also deteriorated, especially in 2023 in Africa and developing Asia.

It is important to note that developments observed over the last two to three years suggest more profound structural shifts among international investors due to current geopolitical tensions. Complacency about the positive dynamics observed during the first quarter of 2024 is not warranted. Overall financial conditions remain fragile and volatile, particularly for developing countries.

Preliminary data for the second quarter of 2024, based on monthly portfolio flows for a handful of large developing countries with available information, points to the waning of momentum, casting doubts on the robustness of trends observed at the beginning of 2024. This echoes financial investors' realization that the easing of monetary policy in the United States, particularly, did not occur as swiftly as previously expected.

The unwinding of the yen carry trade in August 2024 acted as another signal of potential troubles ahead, even though the panic that hit financial markets at that time seems, so far, to have been short-lived and contained, with limited implications for the real economy. Nevertheless, the magnitude of the swings observed in several currency and stocks markets in early August left many agents rather insecure about the overall current financial environment. There is no doubt that the instability in today's financial markets is not creating favourable terrain for long-term key investments.

1. Direct investment: Geoeconomic fragmentation is reshaping the landscape

In the context of current discussions about the relocation of firms and more long-term structural changes, foreign direct investment data point to slowing flows amid recent global and regional crises. Flows remained subdued in 2023 for a second consecutive year. In absolute terms, foreign direct investment fell 7 per cent in the developing world to $867 billion, mainly due to an 8 per cent decrease in developing Asia, though flows retreated as well in Africa and Latin America and the Caribbean, by 3 per cent and 1 per cent, respectively.

More broadly, empirical evidence shows that geoeconomic fragmentation is reshaping the landscape of global direct investment as trade networks are fragmenting, regulatory environments are diverging, and international supply chains are being reconfigured (UNCTAD, 2024b; 2024j). All investment patterns are not changing in the same ways, however. Apple (United States), for instance, scaled down its operations in China to diversify its supply chain. By contrast, data for the first half of 2024 point to large German carmakers reinforcing their presence in Chinese manufacturing; they reinvested about half of profits earned there to expand production (Schmitz and Matthes, 2024). Part of the reason for this lies in global carmakers not wanting to lose their relative share of the world's largest and most dynamic market. Beyond such anecdotal evidence, however, the overall picture looks gloomy as high uncertainties hardly support long-term planning. They can lead to postponing or scaling down investment decisions in the short to medium term.

Net capital flows to developing countries returned to positive territory in 2024, yet vulnerabilities remain.

The direct investment picture for developing countries, in aggregate, does not support long-term planning.

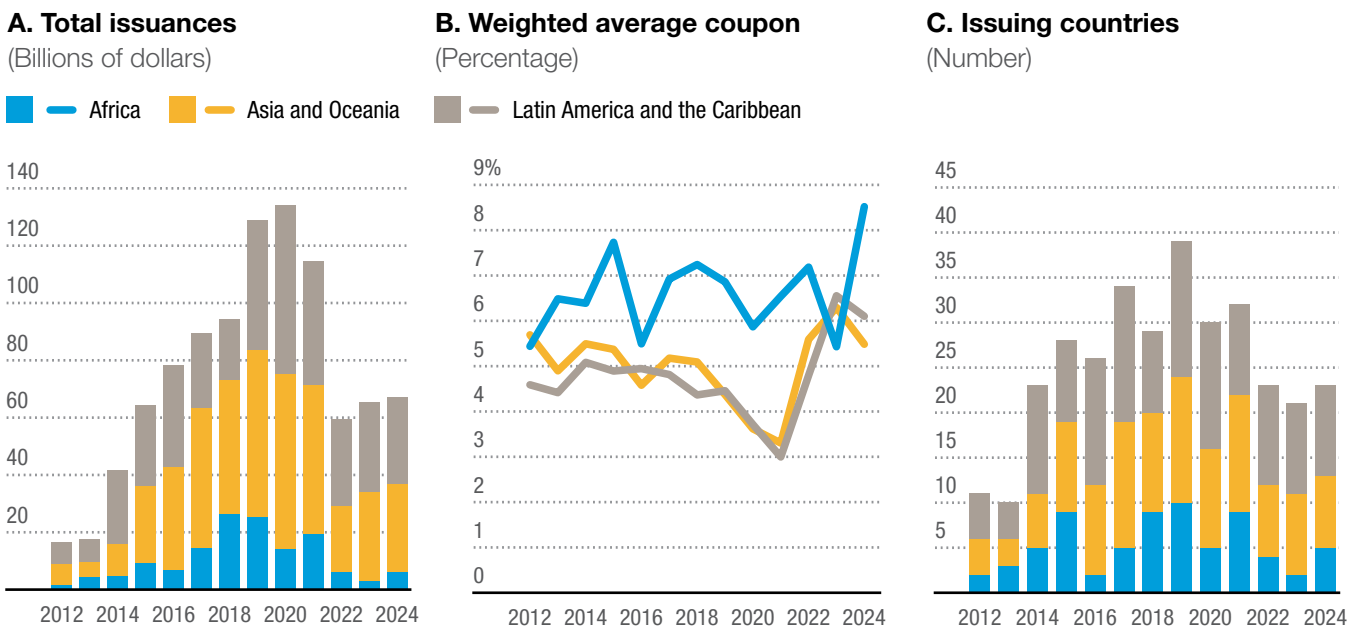
2. Portfolio investment: Financing conditions remain harsh for many developing countries

Available portfolio investment data for a handful of emerging market economies suggest that, after hitting a low point over the past two years, the momentum of non-resident capital flows to these economies changed direction in the first quarter of 2024. Some large emerging market economies returned to international bond markets, at times with record issuances (UNCTAD, 2024h). This shift is partly due to a slightly more favourable outlook for developing countries compared to advanced economies (chapter I). It also results from improved global financial conditions owing to expectations of interest rate cuts in the United States and Europe, even though financial investors, in aggregate, appeared at times too optimistic regarding the expected decline in interest rates.

A deeper look calls, however, for a more cautious and less rosy diagnostic for at least two types of arguments. The first relates to sovereign debt in developing countries. As seen in figure II.14, 2024 issuances of new debt between January and August exceeded levels recorded for the entire year in both 2022 and 2023, highlighting the revival of appetite by international investors for developing countries' public external debt. Yet aggregate flows remain below the 2019–2021 peak years and probably also below the three previous years. Moreover, the value of sovereign bond issuances in 2024 in Africa remains below levels observed since 2015.

The average coupon of 2024 issuances is higher than historical levels in all developing regions, which raises concerns about increasing debt servicing that diverts

Figure II.14
Borrowing costs are still high while new sovereign bond issuances are rebounding in developing regions
Total issuances, weighted average coupons and number of issuing countries of newly issued sovereign bonds, selected developing regions



Source: UNCTAD based on LSEG Eikon.

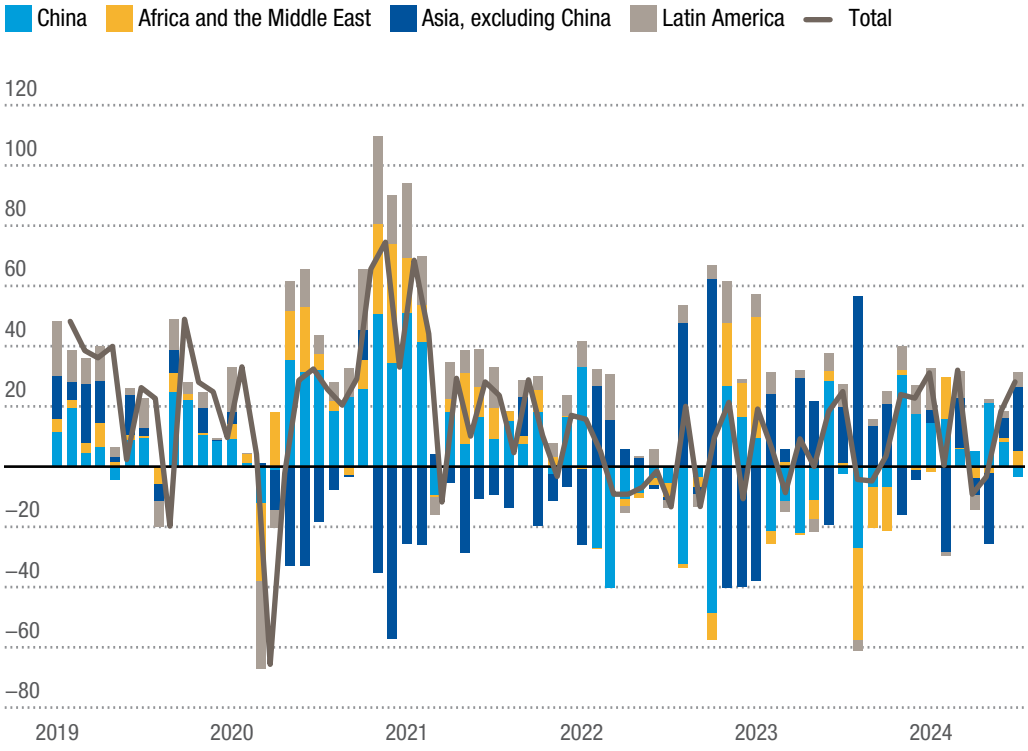
Note: Data relate to annual issuances of sovereign dollar, euro and yen bonds under foreign jurisdictions, excluding issuances in the context of debt restructuring. For 2024, data only comprise issuances until August.

essential resources away from development investments (figure II.14). Furthermore, the number of developing countries tapping the international bond market in 2024 has lagged behind what was typical in the years from 2015 to 2021 in general and is 40 per cent below a 2019 record. Overall, these patterns highlight how rising global interest rates since 2022 have further strained public budgets in developing countries. Interest payments are outpacing essential public expenditures such as health, education and climate action; one in three developing countries spends more on interest payments than on these critical areas for human development (United Nations Global Crisis Response Group-Technical Team, 2024).

Another argument relates to the plausible waning of momentum observed during the first quarters of 2024. Monthly portfolio flows for a sample of emerging market economies point to a significant slowdown of non-resident portfolio flows to developing countries during April and May 2024, except for portfolio investments in Chinese debt. Flows then bounced back, especially in July on the back of robust issuances in Mexico and Türkiye (figure II.15). Yet this volatility casts doubts on the robustness of trends observed at the beginning of 2024. It highlights how the waning of initial optimism in financial markets about the pace of monetary policy easing in the United States put upward pressure on global funding costs during the second quarter of 2024.

In August 2024, the Jackson Hole meeting brought positive news for developing

Figure II.15
Monthly portfolio flows suggest that momentum vanished after the first quarter of 2024
Non-resident portfolio flows to China and selected developing regions
(Billions of dollars)



Source: UNCTAD based on Institute of International Finance database.

Note: Data ends in July 2024. Developing economies considered in this figure comprise Brazil, Chile, China, Taiwan Province of China, Colombia, Ghana, India, Indonesia, Kenya, Lebanon, Malaysia, Mexico, Mongolia, Pakistan, the Philippines, Qatar, Saudi Arabia, South Africa, Sri Lanka, Thailand, Türkiye and Viet Nam.

countries, confirmed on 18 September when the Federal Reserve of the United States cut its policy rate by 50 basis points, more than two and a half years after it started hiking borrowing costs. The outlook remains clouded with uncertainties regarding the magnitude and timing of subsequent cuts, however. The forthcoming presidential election in the United States also brings unpredictability. Concerns about interest rate levels are particularly acute given heightened vulnerabilities linked to the public and publicly guaranteed debt of developing countries (box II.2) and the significant debt renewal that developing countries will face as they address their maturity wall in 2024 and 2025.

Box II.2
The sovereigns of frontier market economies are not out of the woods yet

An asymmetry exists between two groups of financially integrated developing economies: the emerging market economies and the frontier market economies. The former are mostly upper-middle-income countries that have integrated into international capital markets since the 1990s. The latter are mainly low- or lower-middle-income countries that began to tap this market after the global financial crisis of 2008.

Because frontier market economies issue mostly speculative-grade sovereign bonds with high-yield assets for global investors, they tend to have greater spread volatility and are the first to be sold during global financial shocks. Since many pension funds are precluded from investing in non-investment grade debt instruments, more speculative asset managers and investors (such as hedge funds) predominate in the ownership of such securities.

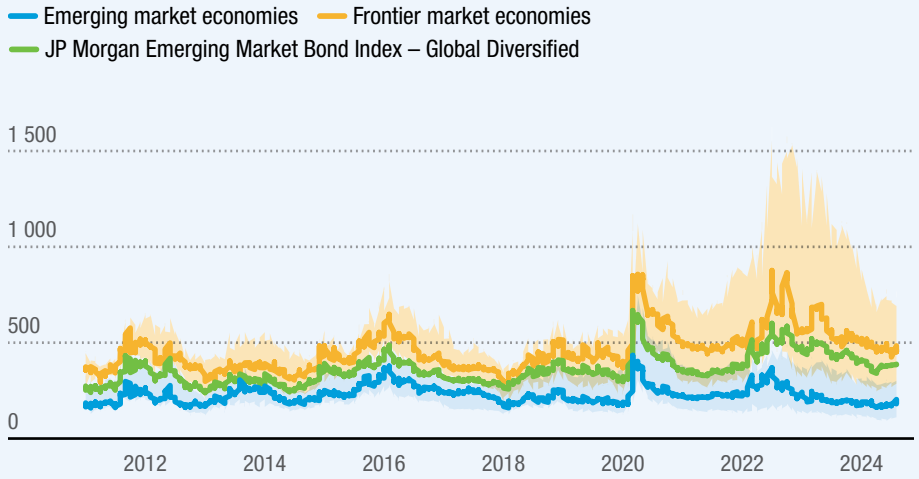
Consequently, the external sovereign bonds of frontier market economies faced sharper spread increases than those of emerging market economies from 2019 to mid-2023, when global financing conditions deteriorated. Sharper reversals also took place when global financial conditions improved between the last quarter of 2023 and the first quarter of 2024. As frontier market economy sovereign bond prices reached record lows, global investors again bought in, compressing their spreads closer to those of emerging market economies (UNCTAD, 2024g).

Frontier market economy sovereigns have therefore regained access to global capital markets, albeit at a higher cost given increased interest rates in major developed economies, particularly the United States. Further, spreads of emerging market and frontier market economies with respect to the United States benchmark have only returned close to the average level between the global financial crisis and the start of the COVID-19 pandemic. Key benchmark rates used to be much lower.

In this context, it is not surprising that the external and public sector debt sustainability of two thirds of developing countries worsened between 2017 and 2023, with frontier market economies registering sharper deterioration. External debt servicing costs have risen more quickly than foreign exchange earnings and interest cost growth has outstripped that of government revenues (United Nations Global Crisis Response Group-Technical Team, 2024). In 2023, public and publicly guaranteed debt in frontier market economies reached an estimated $684 billion, a threefold increase since 2010. This compared to 2.4 times for emerging market economies and 1.8 times for other developing economies that have limited integration into global capital markets and rely mainly on external public financing and official development assistance.

Yields of sovereign bonds in frontier market economies have not receded to pre-COVID-19 levels

Weekly spreads with respect to Treasury bonds of the United States, selected economies, July 2011–August 2024
(Basis points)



Source: UNCTAD based on country-level data from the JP Morgan Emerging Market Bond Index.

Note: The bold lines for the emerging market and the frontier market groups of economies correspond to the median of each group, computed from economy-specific data available in JP Morgan's Emerging Market Bond Index – Global Diversified. The shaded areas refer to the interquartile range.

The total external debt servicing costs of frontier market economies increased by about 550 per cent from 2010 to 2023 (an average of 15.5 per cent a year), compared with 174 per cent (8.1 per cent per year) and 121 per cent (6.3 per cent a year) for other developing economies and emerging market economies, respectively.

The frontier market economy sovereign external debt build-up has primarily been accompanied by increasing sovereign debt servicing that shrinks resources for crucial public expenditures. Debt servicing on public and publicly guaranteed debt relative to government revenues surged from almost 6 to 15 per cent between 2010 and 2023. This contrasts with the figure for emerging market economies of around 3 per cent, and for other developing economies of just over 7 per cent in 2023, half the figure for frontier market economies.[a]

These patterns raise concerns about the ongoing sustainability of both external and public debt for developing countries, and the extent to which the servicing of such debt drains resources from development in the context of the vast financing gap for achieving the goals of the 2030 Agenda and the Paris Agreement.

Source: UNCTAD (2023a, 2024g); United Nations Global Crisis Response Group-Technical Team (2024).

[a] Group averages conceal differences across economies. Considering the top 25 developing economies with the highest ratios of public and publicly guaranteed debt servicing to government revenues in 2023, 2 were emerging market economies, 10 were frontier market economies and 13 were other developing economies. Sovereigns from the last group also confront high debt vulnerabilities, particularly those with lower-middle- and low-income levels. Among these 13 countries, only 2 are upper-middle-income (Belize and Mauritius).

3. Other investment, including interbank lending, diverges across developing regions

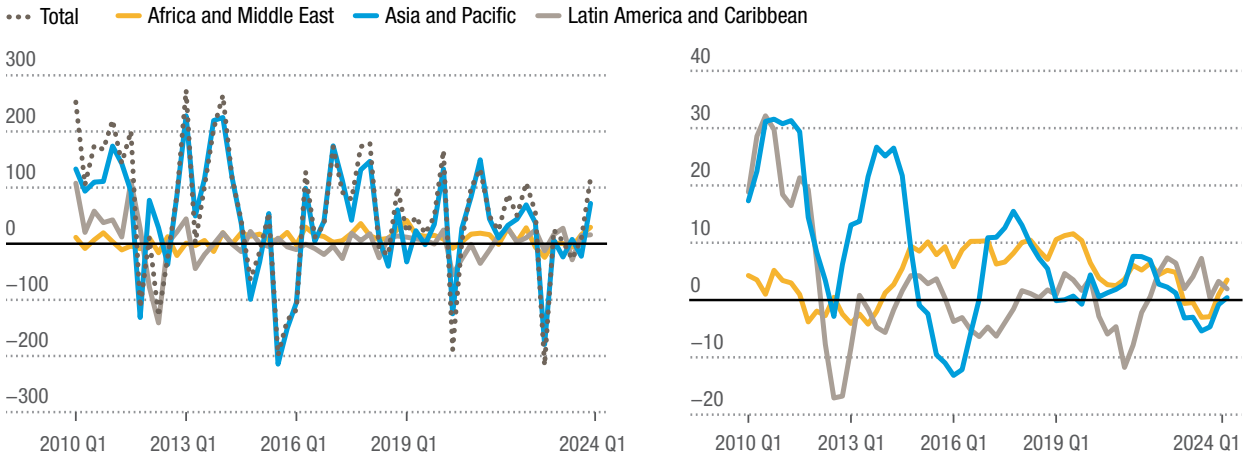
Net other investment flows to developing countries have oscillated between positive and negative territories in recent quarters, reflecting their volatile nature. Cross-border bank lending, one of its components, experienced similar patterns. Bank for International Settlements (BIS) locational banking statistics show that banks' global cross-border claims to residents of developing countries in Africa and the Middle East, Asia and the Pacific, and Latin America and the Caribbean rose sharply by $117 billion over the first quarter of 2024 on a foreign exchange and break-adjusted basis, following a meagre increase during the last quarter of 2023. Of these claims, credits – which comprise loans and holdings of debt securities – accounted for almost $100 billion (figure II.16). These flows comprised the largest quarterly increase of the past three years, on the back of record high lending of $49 billion in Chinese renminbi, reflecting the growing value of cross-border credits by banks in Chinese currency (*Financial Times*, 2024b).

Credit expansion diverged somewhat across regions. Credit to Asia and the Pacific expanded by $64 billion, restoring annual growth to positive territory (0.4 per cent). Credit to residents in Africa and the Middle East expanded by $29 billion with year-on-year growth reaching 3.5 per cent. Credit to entities in Latin America and the Caribbean grew by $6 billion, driven by robust credit to borrowers in Brazil, which expanded by 8 per cent annually (figure II.16), although year-on-year growth for the region overall decelerated to 2.0 per cent. Dollar-denominated foreign currency credit to non-banks in developing countries grew about 1 per cent, the first positive figure in nearly two years (BIS, 2024).

Figure II.16
International bank lending to developing countries rebounded during the first quarter of 2024

A. Banks' global cross-border claims to residents of selected developing regions
(Billions of dollars on a foreign exchange and break-adjusted basis)

B. Year-on-year changes in cross-border bank credit to selected developing groups
(Percentage)



Source: UNCTAD based on the Locational Banking Statistics database of the BIS.

Notes: Q1, first quarter. Claims refers to "all instruments" on bank balance sheets, comprising credits (loans and deposits as well as holdings of debt securities) and residual other instruments. Annual changes are adjusted according to BIS (2019). Country group classification relies on BIS criteria.

4. On the way to the fourth International Conference on Financing for Development

As preparations gear up for the 2025 fourth International Conference on Financing for Development, the recent evolution of cross-border capital flows indicates that external private finance has fallen short of what is needed to bridge the large and growing gap in financing to achieve sustainable development (United Nations, 2024).

According to UNCTAD estimates, as of 2023, the annual investment gap for the Sustainable Development Goals had increased to $4 trillion, about 60 per cent more than the $2.5 trillion estimated on the adoption of the 2030 Agenda (UNCTAD, 2023b). This additional gap stems from two critical trends. The first is underinvestment. The pace in the growth of investments in the Sustainable Development Goals was below 2014 ambitions, with the COVID-19 pandemic playing a key role in slowing progress. Moreover, higher interest rates have exacerbated weak investment trends in the private sector. Elevated costs of capital have been particularly harmful for investments in capital-intensive renewable energy because they are relatively sensitive to monetary and financial conditions (United Nations, 2024). The second trend entails additional needs associated with cascading crises and mounting estimates of the investment needs for climate change mitigation and adaptation.

While net capital flows returned to a positive level in developing countries in the first quarter of 2024, it is uncertain if this trend will continue. The procyclicality and high volatility of capital flows, particularly portfolio investment and cross-border bank lending, mean that external private financing disappears when it is most needed. This tendency is compounded by disappointing trajectories in foreign direct investment linked to geoeconomic fragmentation.

Several takeaways could be kept in mind as United Nations Member States prepare for the 2025 conference. First, hopes that blended finance would help to mobilize private financing resources have not been realized; the “billions-to-trillions” mantra has never delivered on its promises. Second, addressing sovereign debt vulnerabilities in developing countries requires policy action to stop a growing development crisis (box II.3).

Private finance is falling short of what is needed to bridge the sustainable development financing gap.

Box II.3
Dealing with sovereign debt vulnerabilities in developing countries

Cascading crises – the pandemic, the war in Ukraine, a deepening climate crisis, a cost-of-living crisis and escalating geopolitical tensions and conflicts – and the most aggressive monetary tightening in developed countries since the 1970s have intensified an already unsustainable sovereign debt position for many developing countries (box II.2).

While a systemic external debt crisis – where a growing number of countries move simultaneously from distress to default – has not taken place, a development crisis is under way, with rising external and public debt servicing draining resources from the 2030 Agenda and Paris Agreement ambitions.

Current debt challenges and the consequent development crisis are deeply rooted in the inequities of the hierarchical international monetary and financial system, which has become increasingly disconnected from development priorities, as evidenced by the latest trends in external private financing.

Against this backdrop, for countries experiencing deteriorating external debt sustainability, there are two broad sets of policy responses that do not include efforts to curtail economic growth. The first set comprises measures aimed at reducing external debt by decreasing the need for imports and/or expanding and diversifying exports over time. The second set entails reducing the average cost of servicing external debt. The former relates primarily to trade and industrial policies that bring about structural changes in the import and export propensities of the economy. The latter broadly relates to the ability of countries to access private and official capital flows, and the terms governing how they do so (UNCTAD, 2024d). The experience of frontier market economies (box II.2) reveals that access to private capital flows may expand capital available but at a high price – especially if it substitutes for concessional finance from official sources due to a graduation in income level.

In this context, as detailed by UNCTAD (2023a), changes to the prevailing global financial architecture along the five stages of the debt life cycle could reduce the costs of development financing. For private external capital to developing sovereigns, the following transformational proposals could be considered:

1. **Revisiting the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing** to align them with broader development financing needs, innovative financial instruments and the new creditor landscape
2. **Creating an international loans repository** to improve debt management by digitizing loan transactions, ensuring consistent financial terms and providing reliable statistics
3. **Establishing a multilateral sovereign debt workout mechanism** with ensured participation of all creditors, including private lenders, on comparable terms
4. **Setting up a borrower's club to discuss technical issues and innovation** as well as sharing experience and advice
5. **Initiating an automatic standstill for countries declaring distress**, to concentrate the minds of creditors in the workout process
6. **Defining international and domestic rules** for a standstill on debtors' obligations during climate, health and other external crises.

Source: UNCTAD (2023a, 2024d).
Note: These six bullet points are a subset of UNCTAD proposals to address sovereign debt vulnerabilities in developing countries.

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