2024 Trade and development report

Chapter IV

Rise, retreat and repositioning: Lessons from the global South

In the early 2000s, the fast-growing economies of the global South appeared as powerful engines of global economic growth. In 2013, the global economy seemed to be divided into a rising South and a crisis-ridden North.

However, the rise of the South had been uneven and incomplete. The commodity boom of 2003–2013 masked structural problems and vast regional divergence.

Global shocks further tested economic resilience of the developing economies. Through all major economic crises of the past 40 years, the South grew faster than the North, but subsequent recessions tended to be deeper.

The regional diversity of the global South raises questions about the direction and type of development strategies today. As the global economy enters a new growth wave, the many earlier assumptions about development models are in doubt, while new challenges emerge.

The success stories of the 1990s may not be easily emulated amid the new commodity cycle, the energy and technology transition, and the advanced financialization and servitization of economies.

United Nations

Key policy takeaways

- **Across the real economy, trade and global value chains, financialization has major implications for integration strategies.** In developing countries, the relationship between financial cycles and commodity prices tends to be pronounced.
- **Managing the expansion and financialization of extractive industries poses a key challenge for commodity-exporting countries** amid the energy transition and a new growth wave.
- **Safeguarding economic resilience requires policy coordination**, including through monitoring the economic footprint of multinational enterprises and sharing relevant data.
- **Finding new pathways to successful development requires re-evaluating the commodity cycle and devising policies** to achieve diversification and redistribution.
- **The balance between the growth of extractive sectors and financialization** needs to be in a focus of policymakers across the global South.

A. Introduction

The early years of the new millennium enriched the international political lexicon considerably. In 2001, Goldman Sachs economist Jim O'Neil coined the term "BRICS" to classify the emerging economies of Brazil, the Russian Federation, India, China and South Africa as an asset class.

In 2009, the BRICS held an inaugural summit and began to formally advance positions on some major issues of global economic governance and intragroup economic priorities (*The Economist,* 2024).

The idea of the rise of the global South emerged in the early 2000s, referring to the fast-growing economies of Africa, East and South-East Asia, and Latin America. This marked their emergence as new, powerful engines of global economic growth. Perspectives on this phenomenon differed, however. Many saw signs of economic convergence between the North and South, noting a shift in global wealth towards emerging markets (OECD, 2014). Yet high rates of economic growth in developing regions and especially their ostensible resilience to the global financial crisis of 2007–2009 contributed to the hypothesis of a "decoupling" between the North and South.

In 2013, the global economy appeared to be a tale of two worlds: a resurgent South and a crisis-ridden North.

In 2013, the state of the global economy appeared to be a tale of two worlds. One was a resurgent South, most visibly exemplified by countries such as China and India. It was characterized by human development progress, robust growth and rapid poverty reduction. The other was a crisis-ridden North, where austerity policies and recession imposed hardships on millions of unemployed people and pressured social compacts (UNDP, 2013).

But it would soon become apparent that the rise of the South was not to last beyond the commodity boom of 2003–2013 (UNCTAD, 2018). After global commodity prices peaked, many developing countries, and especially commodity exporters, retreated into low growth trajectories or stagnated. The end of the commodity cycle exposed persistent structural differences among the economies of Africa, Asia and Latin America. Two major crises, the global financial crisis and the COVID-19 pandemic, as well as the continuing costs of climate change meant that since 2013–2014, the global South began a retreat.

This trajectory is particularly prominent in Africa, the region often seen as a harbinger for the evolution of the global South more broadly (see section B). Following a profound economic crisis that persisted for the last quarter of the twentieth century, from around 2000 onwards, Africa experienced a turning point. Deeper international economic integration brought robust growth and broad optimism about the continent's development prospects. Yet low growth since 2014 and enduring economic and political challenges suggest that African economies did not experience structural transformation during the "Africa rising" years. Since 2014, external shocks, including the pandemic, conflicts, debt and climate crises, have constrained Africa's development prospects.

Does this mean that the global South has peaked as an economic force globally?

Can these countries overcome their macroeconomic divergence to articulate and pursue a shared agenda for the reform of the global economic architecture? What key priorities and challenges do the economies of the South face at the current inflection point in globalization?

This chapter explores these questions. Section B considers key lessons from the initial rise of the global South from 2003 to 2013. Section C examines current policy challenges associated with the continuing financialization of extractive industries. Section D concludes.

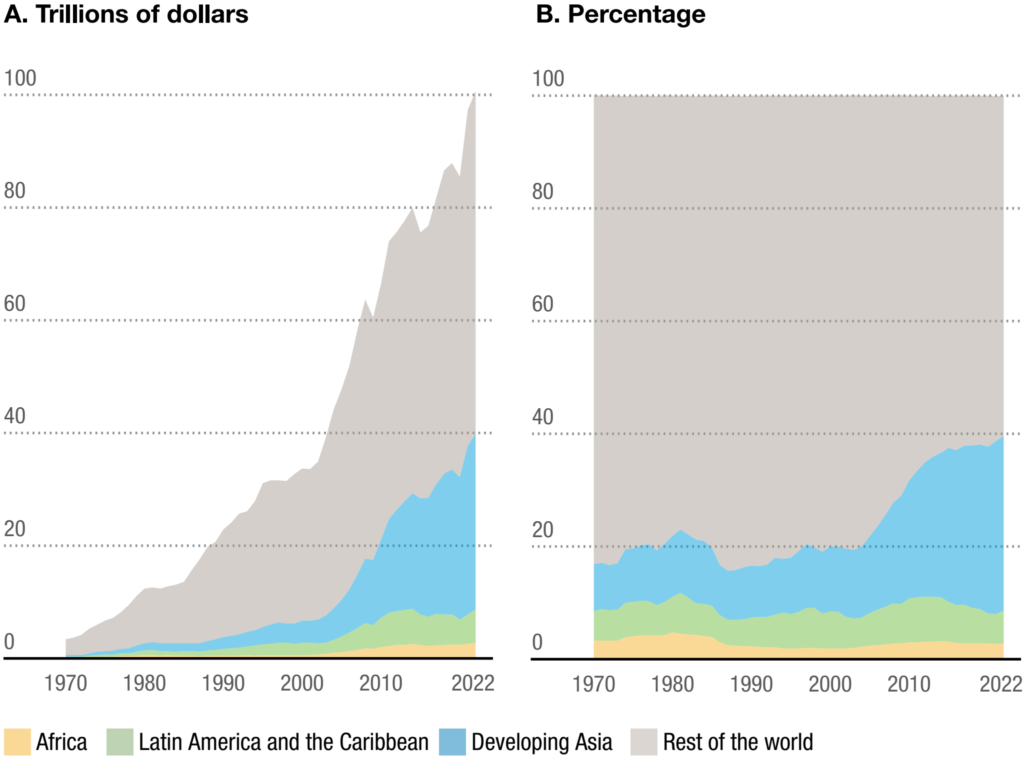
B. The global South: The rise of the idea and the idea of the rise

1. Powers behind the concept

Despite a history going back to the 1960s, the term "global South" has been rather amorphous. It cannot be defined clearly on a map, and it comprises regions and countries with diverse histories, cultures and political-economic regimes. It often refers to the rise of individual countries rather than a cohesive group (*The Economist,* 2024). The boundary between the North and South has not been constant historically, as some economies of the developing South, such as Singapore, have become rich countries themselves (Mold, 2023).

In a wider frame, it is hard to ignore the historic rise of the South since the mid-twentieth century as well as the vast economic potential of developing countries. In the 1970s, together, the developing economies of Africa, Asia, and Latin America and the Caribbean could claim just under 17 per cent of world gross income. By 2022, this figure had risen to nearly 40 per cent, with developing Asia accounting for 31 per cent (figure IV.1).

Figure IV.1
The rise of the global South has brought greater wealth but mainly in Asia
Gross national income, by region



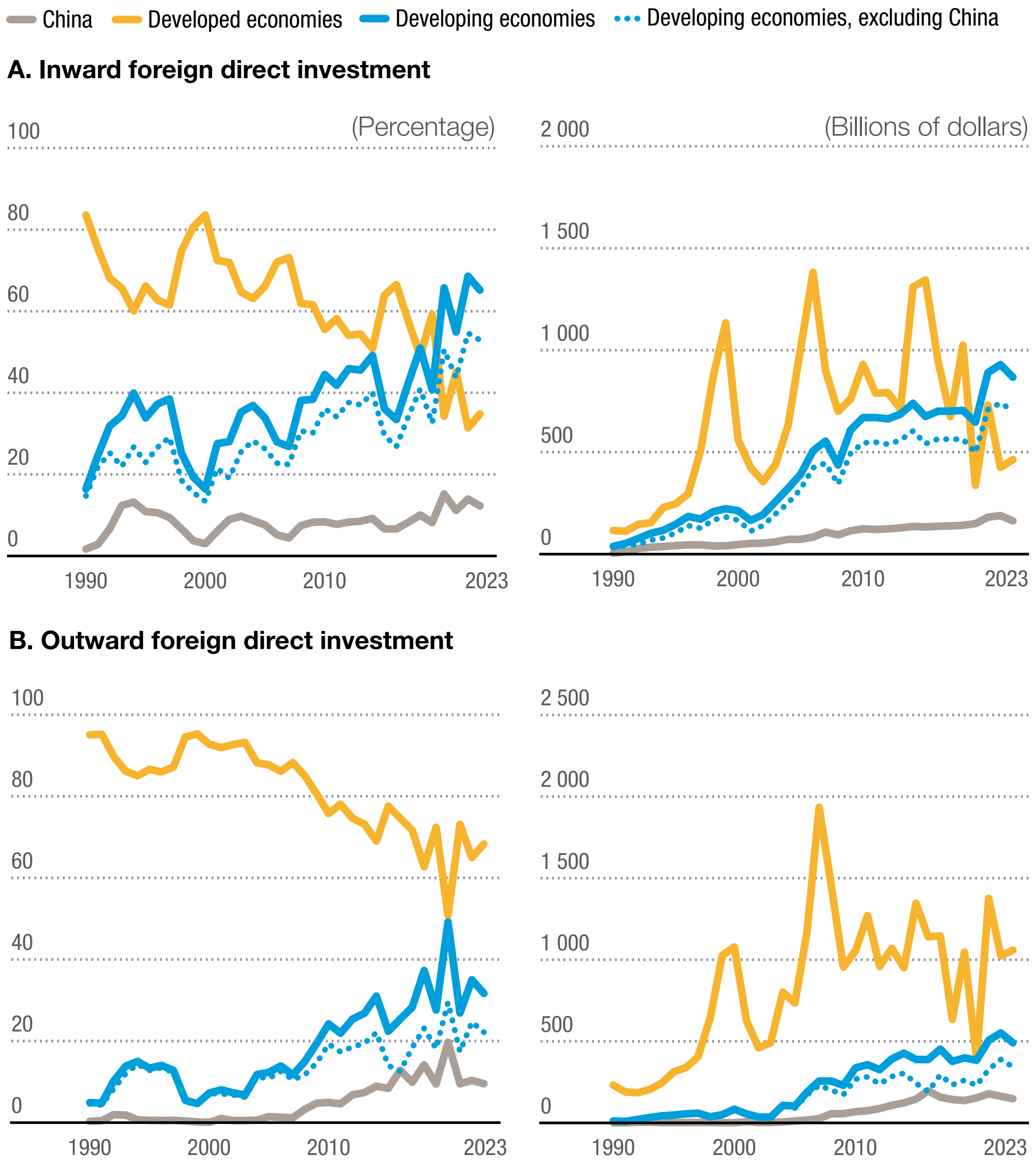
Source: UNCTAD based on National Accounts Main Aggregates database, United Nations Statistics Division.

South–South merchandise trade accounts for around 23% of global trade; the North–North share is 39%.

Today, countries of the global South make up roughly 40 per cent of world gross product and have around 85 per cent of the world's population.

The largest bilateral trade corridor today runs between China and the United States. UNCTAD data shows that South–South merchandise trade accounts for around 23 per cent of global trade; the North–North share is 39 per cent.[27] The global South now hosts more than 65 per cent of total inward foreign direct investment, up from 16 per cent in 1990. In terms of outward foreign direct investment, it accounts for 32 per cent of the total, rising from just 5 per cent in 1990 (UNCTAD, 2024c).

Figure IV.2
The global South hosts more than 65 per cent of inward foreign direct investment
Share of foreign direct investment flows, selected regions



Source: UNCTADstat database.

[27] See https://unctadstat.unctad.org/datacentre/dataviewer/US.IntraTrade.

In light of this economic ascent and amid rising geopolitical tensions since 2022, the global South has regained prominence in the policy vernacular. Leaders in China, France, India and the United States have used it with increasing frequency (*The Economist*, 2024).

The current global South discourse has historical precedents. It is widely believed that Carl Ogelsby, a leftwing writer and activist in the United States, first used it in 1969, remarking that "the North's dominance over the global South…[has] converged…to produce an intolerable social order" (Ogelsby, 1969). While this was not a precise definition of a political grouping at the time, the global South became an umbrella term for countries outside advanced capitalist economies.

During the Cold War, the terms "third world" and "non-aligned countries" were interchangeable in the media, policy circles and academia when commentators referred to political alliances and the security stance of Southern countries. In more specialized discussions of economic and development issues, concepts such as "less developed countries"[28] or "developing countries"[29] were widely used. Since the end of the Cold War, the developing–developed country dichotomy has become widespread and even mainstreamed in multilateral diplomacy. In 2000, the United Nations launched the Millenium Development Goals, which focused on eight development challenges of developing countries.

But the global context kept evolving, and the past decade brought its own revisions of multilateral policy vocabulary. The aftermath of the global financial crisis, the economic rise of developing countries during the first decade of the twenty-first century and the evolution of the BRICS and other emerging economies opened questions, mainly in the North, about the relevance of distinguishing developed and developing countries. In 2015, when the landmark 2030 Agenda for Sustainable Development was adopted, United Nations Member States agreed that the Sustainable Development Goals, the successors to the Millennium Development Goals, should apply to all countries, regardless of development status.

The COVID-19 pandemic and subsequent cascading crises deepened the divide between advanced and developing countries. In tandem, resurging political and security risks reinforced the collective notion of developing economies as the global South. While academic publications have employed this concept since 2008–2009, in the global policy arena, use has exploded only in the past two years. Since 2023, references to the global South have featured in the official documents of the G20, Group of Seven and BRICS summits. In January 2024, the term was included in the outcome document of the Third South Summit held in Kampala, Uganda. For the first time, 134 member States of the Group of 77 collectively agreed to place "the Global South onto a more influential and equal footing in the international arena and in mutually beneficial cooperation with all partners" (Group of 77, 2024).

In short, although the lack of an "alternative shorthand for politicians and journalists" (Nye, 2023) was a factor behind the adoption of the global South in international policy vernacular, its mainstreaming over the past two decades reflects an element of the shared identity, economic potential and common challenges of developing countries.

The current inflection point in global economic integration is testing the countries of the global South individually and as a group. To understand why, the next section explores the main policy lessons from the first period of the rise of the global South.

In 2024, the Group of 77 collectively agreed to place the global South onto a more influential and equal footing in the international arena.

[28] General Assembly resolution 1710 (XVI) on the first development decade.
[29] General Assembly resolution 1995 (XIX) on establishing UNCTAD and General Assembly resolution 3201 (S-VI) on the new international economic order.

2. The myth of decoupling

At the start of the 2007–2009 global financial crisis, growth in the global South was widely thought to have "decoupled" from the crisis-ridden North.

In the early 2000s, expectations of the historic rise of the economies of the global South rested on high rates of growth in China and other developing economies. These were further reinforced by the apparent resilience of the developing world to the financial crisis of 2007–2009. This resilience was so remarkable that, in the early days of the global financial crisis, growth in the South was widely expected to "decouple" from the difficulties confronting the advanced economies (Akyuz, 2012). As the advanced economies slowed under the pressures of austerity policies and indebtedness, financial resilience and strong reserve positions seemed to herald robust growth ahead for most of the developing world.

The theory of the global South decoupling from the global North rested on several arguments. First, the very nature of the 2007–2009 crisis was quite distinct. Unlike earlier crises across the developing world in the 1980s and 1990s, the global financial crisis was a "very North Atlantic credit crunch" (Nesvetailova and Palan, 2008; Tooze, 2018) or a "First-World debt crisis" (Wade, 2008). The financial implosion centred on a segment of the mortgage market in the United States. It spilled over to banking systems in Europe and revealed, among other problems, the vast size of an unregulated shadow banking system that played a central role in the transmission of systemic risks. This new, largely unanticipated "Minsky type" crisis in highly financialized economies initially appeared to have had a disproportionate impact on advanced countries and a more limited effect on developing countries, where non-bank financial intermediation and credit interlinkages were less advanced (Whalen, 2007; Griffiths-Jones and Ocampo, 2009).

Developing economy resilience to the 2007–2009 external financial shock was seen as heralding the rise of a post-United States world.

The countries of the global South not only weathered the brunt of the shock but many also, during 2010–2011, grew at or above pre-crisis rates. Having shrugged off the fallout from the global recession, they were recovering with "a healthy dose of certainty and momentum" (Abiad et al., 2012: 4). On the whole, the World Bank (2018) observed, developing economies "managed the global recession relatively well, especially those that were less dependent on external trade and finance, and those with strong pre-crisis fundamentals". To many commentators, comparative resilience to the financial shock across developing economies was an important marker of the decline of the power of the United States and the rise of a post-United States world (Zakaria, 2008).[30]

The decoupling theory would not stand the test of time, however. Crisis resilience across the global South would prove transitory. It was soon apparent that the umbrella notion of the "rising South" concealed vast differences in regional experiences of the global recession. Many developing countries had to provide rescue packages to bolster their financial systems and/or to implement expansionary monetary policy (UNCTAD, 2010).

The 2007–2009 crisis came on top of a period of highly volatile commodity prices and exchange rates, which increased uncertainty and reinforced a vicious circle of falling trade flows and investments. Food and fuel price spikes through mid-2008 put food- and oil-importing sub-Saharan African countries under severe stress, depleting foreign exchange reserves and making it difficult to pay for imports and sustain growth. While oil-exporting countries benefited from increased revenues, the boom and slump contributed to output volatility, discouraging investments in long-term productive capacity (Allen and Giovanetti, 2011).

As UNCTAD concluded at the time, the 2007–2009 crisis showed that the adoption of prudent macroeconomic policies and the accumulation of foreign currency reserves by emerging market economies "have

[30] The North is in fact more resilient to crisis, particularly in the medium and long term.

been insufficient to immunize them against the systemic risks inherent in financial globalization" (UNCTAD, 2010). The "rise" itself had been uneven and incomplete, with the commodity boom of 2003–2013 masking structural problems and vast regional divergence (UNCTAD, 2018).

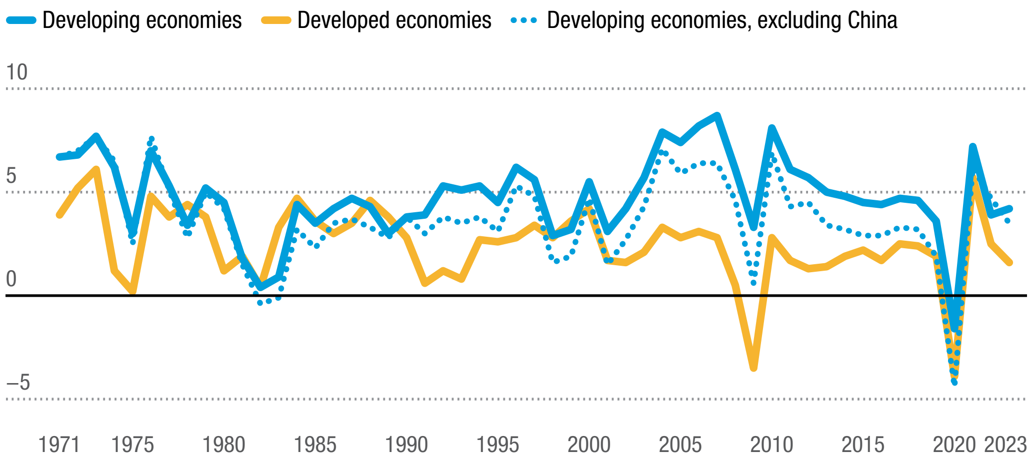
In addition, and importantly, advanced and developing countries differed in their degrees of policy space to craft a response to global uncertainty. In many developing countries, high levels of debt preceded the COVID-19 crisis. Global debt in 2019 stood at a record 233 per cent of GDP and government debt at an historic 84 per cent. The debt of developing countries totalled 180 per cent of GDP, led by private debt, which rose to 126 per cent of GDP. Four fifths of developing countries had higher debt, both domestic and external, than in 2010 (Kose et al., 2021).

Overall, the impact of the global financial crisis on the South, while not immediate, was much more severe than on the North because it fundamentally changed the growth trajectory (figure IV.3). From 2001 to 2008, the average annual growth of real GDP was about 6.7 per cent for developing countries, surpassing that of developed countries (2.3 per cent) by 4.4 percentage points. In the aftermath of the global financial crisis, from 2008 to 2019, average growth dropped for both developing countries (5.0 per cent) and developed countries (1.5 per cent), but the gap narrowed to 3.5 percentage points. After the COVID-19 shock, from 2020 to 2023, the gap fell further to 1.9 percentage points (5.1 per cent for developing countries and 3.2 per cent for developed countries).

As figure IV.3. indicates, since the global financial crisis, growth between the South and North has been gradually converging, although the South supposedly has larger growth potential. This is consistent with an earlier pattern. In the last 40 years, the five major economic crises (the 1982 debt crisis in Latin America, the 1994 Mexican peso crisis, the 1997 Asian financial crisis, the 2007–2009 global financial crisis and the 2020–2022 pandemic shock) exposed a similar trend: the South did grow faster than the North but the subsequent recession tended to be deeper in the former and it took economies there longer to recover.

Through all major economic crises of the past 40 years, the South grew faster than the North, but subsequent recessions tended to be deeper and recovery took longer.

Figure IV.3
Growth plunges across the board during crises, with the global financial crisis and COVID-19 crises having lasting effects
Real GDP growth rates
(Percentage)



Source: UNCTADstat database and table I.1.

Global growth is stabilizing at rates that are not sufficient for developing countries to address economic, social and environmental challenges.

Today's shifting global macroeconomic context adds a further alarming nuance to this general pattern. In the wake of the pandemic, global growth is stabilizing at rates that are not sufficient for developing countries to address their economic, social and environmental challenges.

3. Retreat: The divergent legacy of the 2003–2013 commodity boom

The 2003–2013 commodity boom was wide, encompassing growing demand for energy, metals and food. In a departure from earlier booms, prices for commodities behaved similarly (e.g. IMF, 2011: 47).

The 2003–2013 commodities boom revealed successful structural changes in East Asia, macroeconomic stabilization in Latin America and a lack of structural transformation in Africa.

The commodity cycle affected the three main regions of the global South differently, revealing macroeconomic, institutional and structural divergences. In Asia, strong demand for commodities led to unprecedented macroeconomic performance for most commodity exporters (OECD, 2014). In Africa and Latin America, however, the boom stalled economic diversification.[31]

The boom revealed major differences in economic transformation, namely: its success in East Asia; improved macroeconomic fundamentals in some economies in Latin America; and the absence of structural shifts in non-extractive sectors in Africa.

Asia

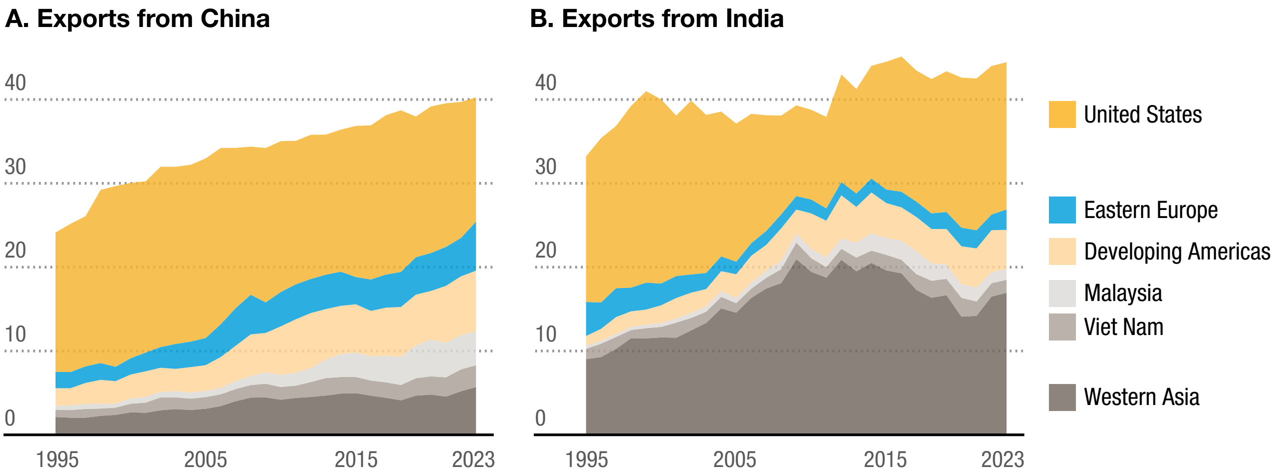
Strong demand for commodities from Asian economies was led primarily by China, which grew rapidly from 1978 to 2017 (9.5 per cent annually on average). Particularly after 2001, it provided a major boost to the 2003–2013 commodity cycle. The region became a key source of demand for commodity exports from Africa and Latin America. From 1980 to 2009, real GDP in Asian economies increased 7.5 times compared to just 3 times for the global economy. Average global income registered just under a twofold increase (Lee and Hong, 2010).

Asia's economic ascent took off due to structural factors and especially growth in capital accumulation. Although labour input, education and total factor productivity on the whole were positive, their contributions to GDP growth were more moderate (Lee and Hong, 2010). Policies of structural transformation, including the shift from agriculture to industry and services, and the continuing move within manufacturing towards higher value added products, encouraged resource shifts from low- to high-productivity sectors (IMF, 2006). From the 1990s to the 2020s, Asia became the world's processing, manufacturing and assembly hub. Its manufacturing sector value added increased from 29 to 53 per cent of global total value added from 1992 to 2021 (McKinsey Global Institute, 2023).

The second major constant in Asia's growth has been its unmatched level of regional integration, which has progressed steadily over the past 15 years (ADB, 2023a: xvi). As the COVID-19 shock challenged logistics, supply chains and labour availability, levels of consumption and investment decreased (ADB, 2023b). Yet even during the pandemic and despite trade tensions, aggregate trade held up. The severe contraction in global value chains in 2020 was followed by a rapid rebound in 2021. Figure IV.4 illustrates the dynamics of export structures for the two largest economies in the region, China and India.

31 Asia's share in world gross product grew 20 percentage points in the last 50 years, while the shares of Latin America and Africa remained largely unchanged, at around 5 per cent. This indicates that, while the global South as a whole is catching up with the global North, not all global South regions participate in the same way (Fernandez et al., 2022).

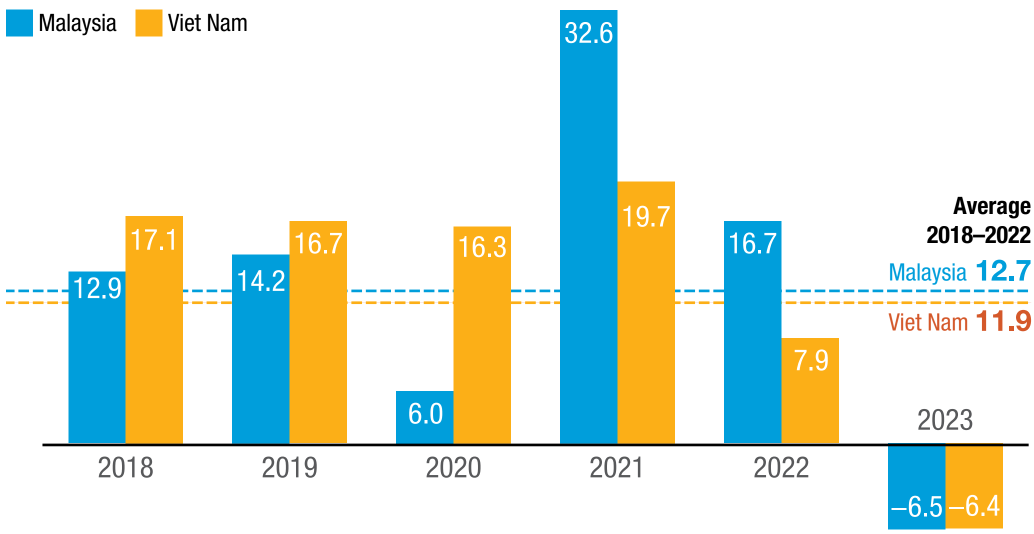
Figure IV.4
Exports have grown and held firm even during crises in the region's two powerhouse economies
Exports to selected regions
(Percentage)



Source: UNCTADstat database.

Intraregional trade helped sustain the resilience of economies in Asia during the pandemic. For instance, from 2018 to 2022, trade between China and Viet Nam grew by 12 per cent annually, and between China and Malaysia by almost 13 per cent (figure IV.5).

Figure IV.5
Expanding intraregional trade bolstered resilience during the pandemic
Growth rates of China's trade with Malaysia and Viet Nam
(Percentage)

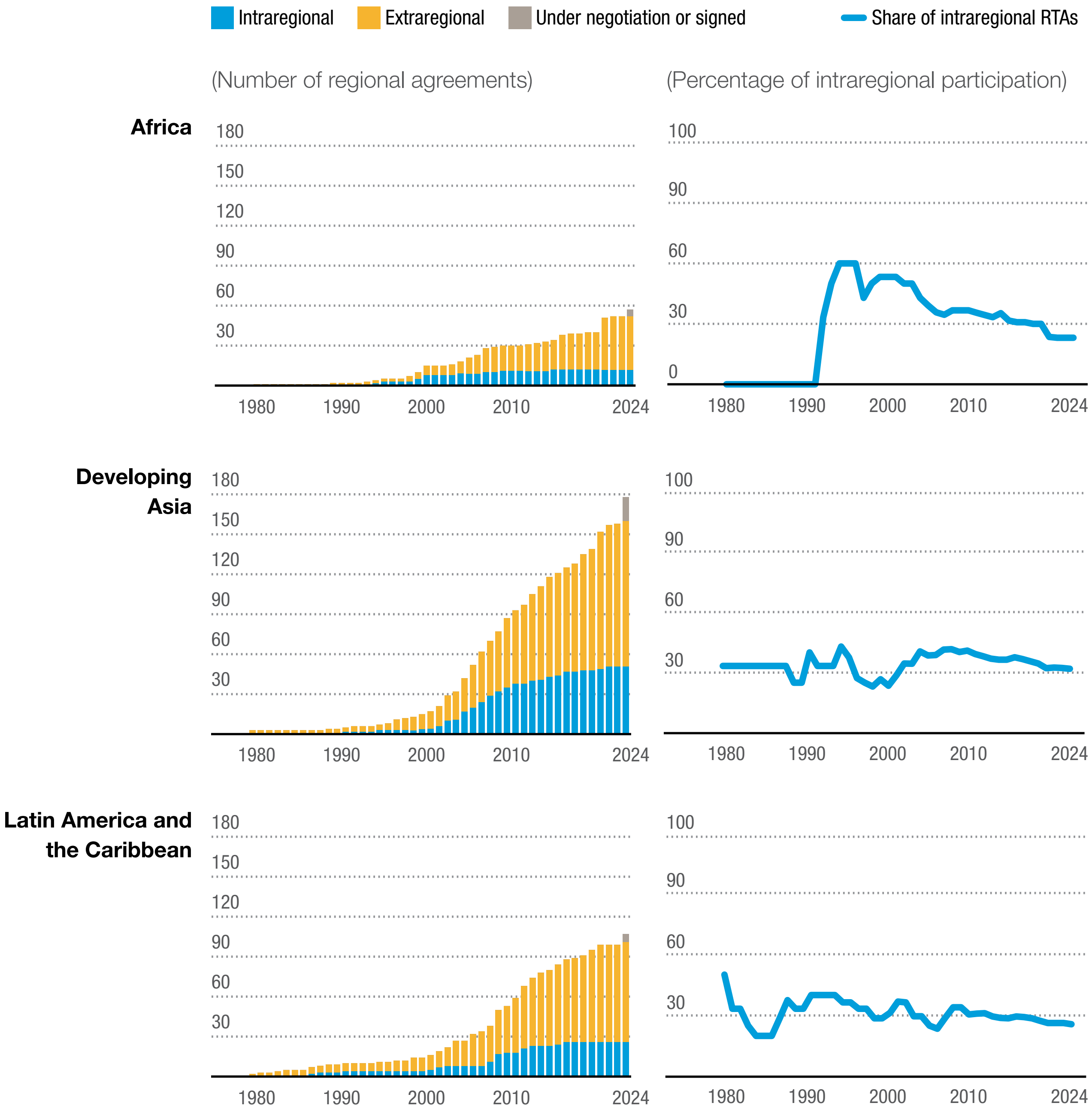


Source: UNCTADstat database.

Trade integration is a continued strength of Asian economies insofar as regional trade agreements have the potential to mitigate supply chain disruptions (ADB, 2023a: 10). Figure IV.6 shows that the participation of developing Asian economies in intraregional trade agreements has grown progressively since the early 2000s and is substantially above rates in Africa and Latin America.

Figure IV.6
Countries in Asia participate in more regional trade agreements, smoothing disruptions when supply chains falter

Regional trade agreements in force



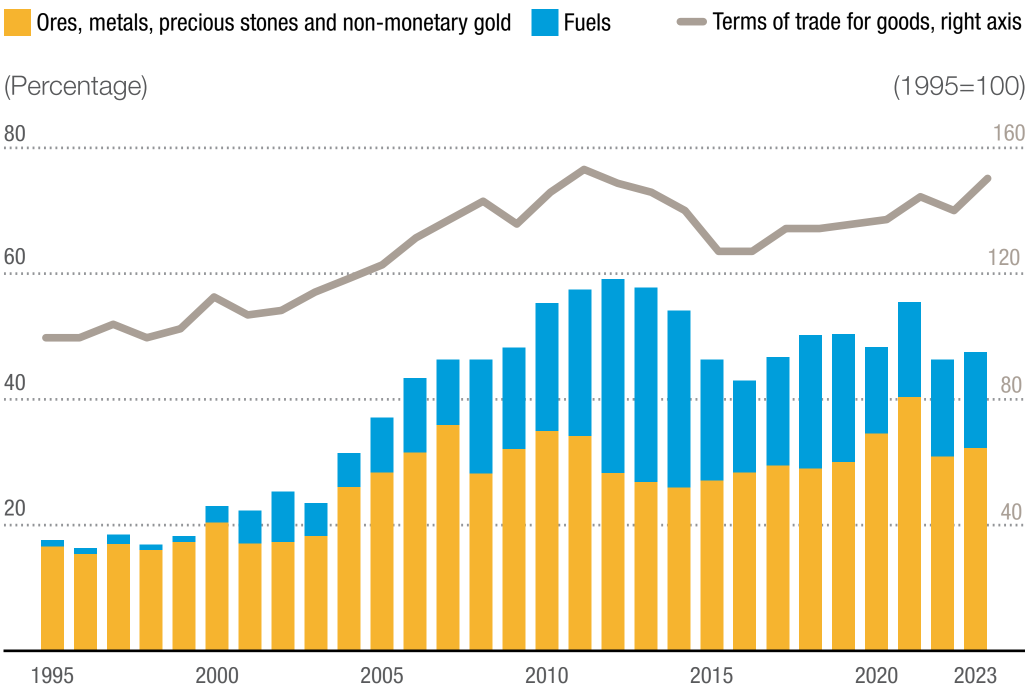
Source: UNCTAD based on World Trade Organization, Regional Trade Agreements, 2024.

Notes: RTAs, regional trade agreements. The share of intraregional RTAs in total (intra plus extra) RTAs is based on RTAs in force where all parties are from the respective region.

Latin America

Countries in Latin America benefited considerably from greater demand in Asia for natural resources from 2003 to 2013. Terms of trade for commodity exporters peaked in April 2011, when metal prices started to fall. Figure IV.7 shows that the situation reversed in June 2014 with an oil price shock that hit oil and natural gas exporters the most, namely, the Plurinational State of Bolivia, Colombia and Ecuador. Commodity terms of trade remained broadly unchanged from 2014 to 2019 for metal exporters such as Chile and Peru, after falling from 2011 to 2014 (Balakrishran et al., 2021: 5).

Figure IV.7
Demand for natural resources in Asia has boosted exports from Latin America but with variation over time and by commodity
Share of selected commodity groups in total merchandise exports from Latin America to developing Asia

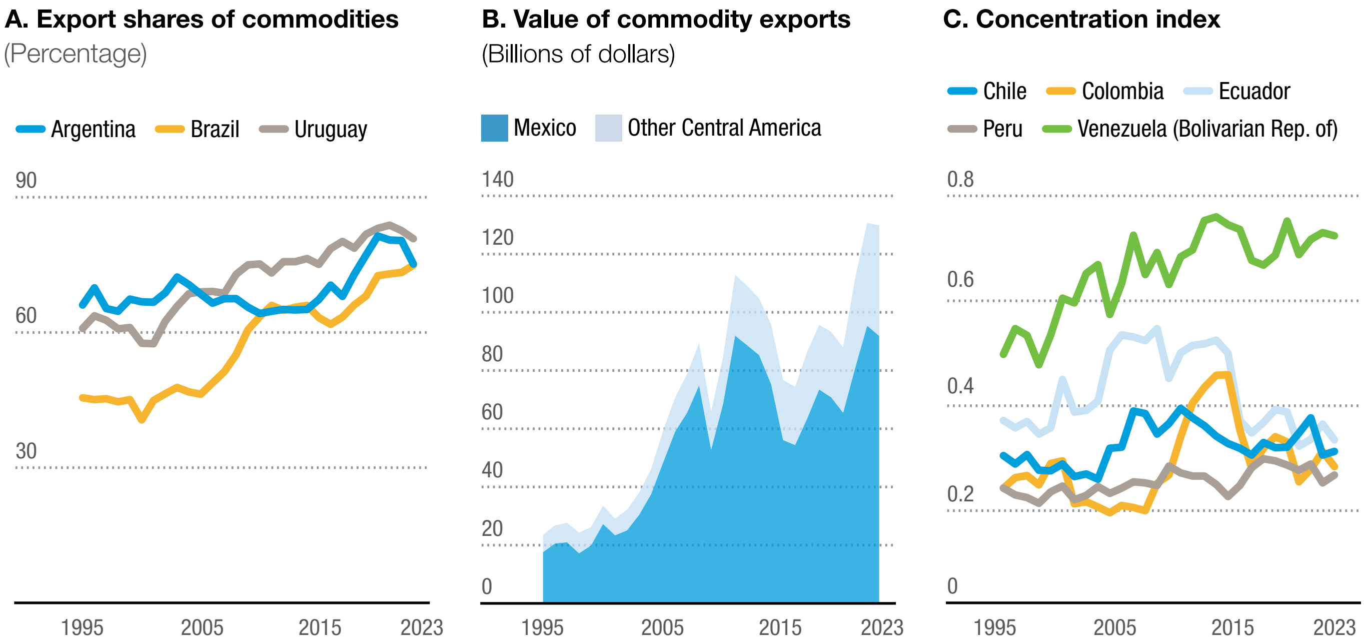


Source: UNCTADstat database and Cepalstat database.

Across Latin America, despite some diversification away from commodities, the commodity boom still saw primary goods accounting for 60 per cent of total exports on average (figure IV.8). Argentina, Brazil and Uruguay experienced a significant increase of their export shares of commodities. Heavy metal or energy exporters such as Chile, Colombia, Ecuador, Peru and Venezuela did not embrace significant diversification and were, consequently, more vulnerable when the cycle reversed. In Mexico and Central America, commodity exports fell by half between 1970–1980 and 2010 (IMF 2011: 51). These differences notwithstanding, during the boom, the reliance on commodities in Latin America appeared broadly unchanged since the 1970s (IMF 2011: 62).

Figure IV.8
In Latin America, diversification away from commodities has been limited

Primary commodity exports and concentration index, selected countries



Source: UNCTADstat database.

Notes: The product concentration index shows to which degree exports and imports of individual economies are concentrated on a few products rather than being distributed in a more homogeneous manner among several products. It does not include services. The index value is from 0 to 1 (close to 1 means less diversified exports).

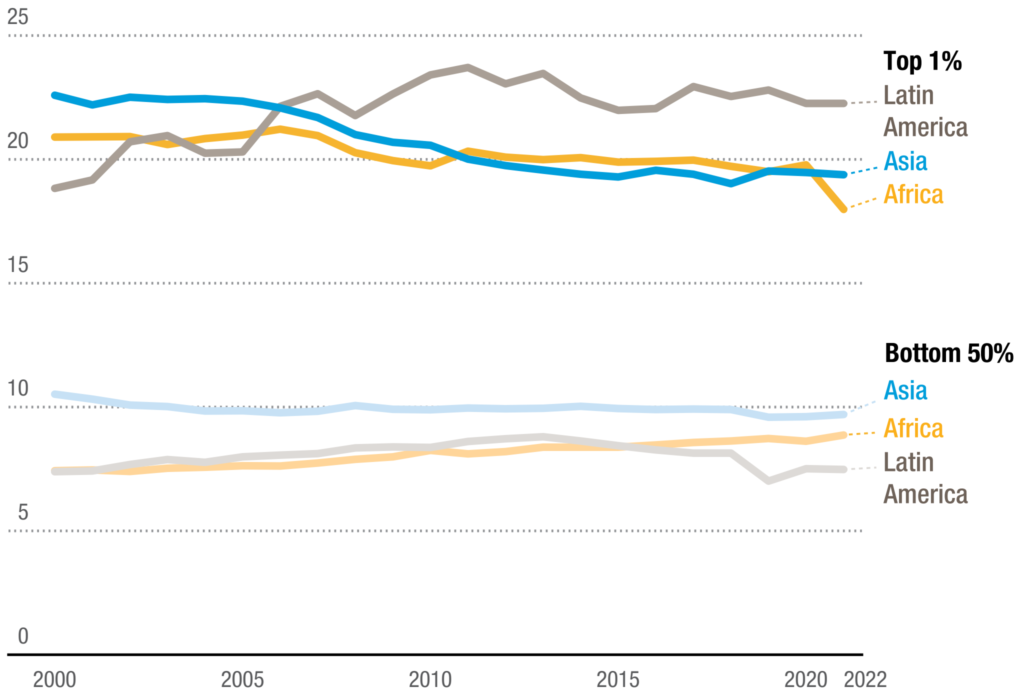
Renewed growth in the share of natural resource goods in the export basket of Latin America, described as "reprimarization" or "recommoditization", accentuated the region's high natural resource dependence (OECD, 2014; Ocampo, 2017). In exports from Latin America to China, which became the region's major trading partner, commodities represented over 90 per cent of the total. Booming Chinese imports contributed to reprimarization by weakening the manufacturing sectors in several Latin American countries (Ocampo, 2017).

The commodities boom enabled progress in reducing poverty and inequality. Both Central and particularly South America recorded diminishing inequality rates. From 2000 until the onset of the pandemic in early 2020, measures of multidimensional poverty fell in every country in Latin America (UNDP, 2021).[32] Yet in many commodity exporters, poverty reduction came to a halt between 2013–2014 (the end of the commodity boom) and 2020 (the onset of the pandemic) as labour markets stagnated and real wages decreased (Balakrishran et al., 2021). Poverty increased in a few cases, as in Argentina and Brazil, yet on average, the impressive gains of the boom did not so much reverse as stagnate (Balakrishnan et al., 2021). Compared to other region of the global South, income inequality remains high in Latin America (figure IV.9).

[32] Multidimensional poverty measures include: nutrition, child mortality, years of schooling, school attendance, cooking fuel, electricity, drinking water, sanitation, housing and assets (UNDP, 2021).

Reduced inequality and particularly poverty during the commodities boom stemmed from increased fiscal spending and labour demand in low-skill sectors, such as construction and services, that were directly tied to resource production (Balakrishran et al., 2021). Political will to increase social spending on innovations such as non-contributory programmes for the poor also contributed to positive outcomes (Sánchez-Anchochea, 2021; Gasparini and Cruces, 2021).

Figure IV.9
Income inequality remains high, particularly in Latin America
Pre-tax national income shares of the top 1 and bottom 50 percentiles, by region
(Percentage)



Source: World Inequality Database.

Note: Asia includes developing and developed countries.

In the region as a whole, declining inequality resulted from better short-term government management of the commodity boom relative to previous episodes. Labour market formalization and improved minimum wages were promoted along with measures to "control a higher share of commodity rents than in the past" (Sánchez-Ancochea, 2021) and to reduce tax avoidance (Gasparini and Cruces, 2021). Yet generally, Latin America still has significantly higher income inequality than its degree of development would suggest, and it remains the most unequal region in the world (Galindo and Izquierdo, 2024; Gasparini and Cruces, 2021).

In stark contrast to Asia, the participation of countries in Latin America and the Caribbean in global value chains has lagged. Uneven trade policies in the region, the fragmented nature of interregional trade, and the lack of common preferences and rules of origin in the network of preferential trade areas have all hampered the development of supply chains (Moreira and Stein, 2019: 50–51). According to the Inter-American Development Bank, "although there is growing evidence that the fragmentation of global trade could benefit some Latin American economies, in the current context, the leading indicator for the region's exports does not point to a change in the trend in the first half of 2024" (IDB, 2024: 10).[33]

Africa

In the early 2000s, the notion of "Africa rising" and even "lions on the move"[34] embodied many assumptions about the rise of the global South more generally. Africa holds some 12 per cent of the world's oil reserves, 42 per cent of its gold, 80 to 90 per cent of chromium and platinum metals, 60 per cent of arable land and large timber reserves (African Union, 2021). Commodities account for more than 60 per cent of exports in 46 of the continent's 54 countries (UNCTAD, 2022a).

Yet for this resource-rich continent, a "rise" would prove to be short-lived, closely mirroring the 2003–2013 commodity cycle. From 2004 to 2014, the continent experienced an unprecedented boom in mineral production and prices driven by high demand in Asia's industrializing economies. This was particularly the case for the oil and gas sector. Africa's top 10 producers generated an extraordinary $2.3 trillion in revenues from 2004 to 2014 (International Energy Agency, 2019).

In addition to major producers such as Angola and Nigeria, and a number of longstanding medium-scale producers (Gabon and the Republic of the Congo), a large number of countries saw corporate interest in their oil and gas potential and eventually became hydrocarbon exporters (Oppong and de Oliveira, 2021).

Among them, Mozambique loomed large, having seen the discovery of some of the world's largest natural gas reserves in 2010 (Salimo et al., 2021). Foreign direct investment in extractive industries began coming not just from the western oil and mining corporations that dominated the continent until 2000 but also from a large number of companies from the global South, especially China and India.

Overall, from 2000 to 2010, Africa grew by an average of 5.1 per cent per year, but the rate slowed to 3.3 per cent in 2010–2019 (Tran, 2024). Sub-Saharan Africa's GDP per capita peaked in 2014 at $1,936 and has since fallen more than 10 per cent to about $1,700 in 2023. In the same period, global GDP per capita rose nearly 15 per cent (Blas, 2023). Commodity exporters in Africa have seen low growth since 2014, and the largest economies on the continent (such as Angola, Nigeria and South Africa, all commodity exporters) have had particularly disappointing trajectories (figure IV.10).

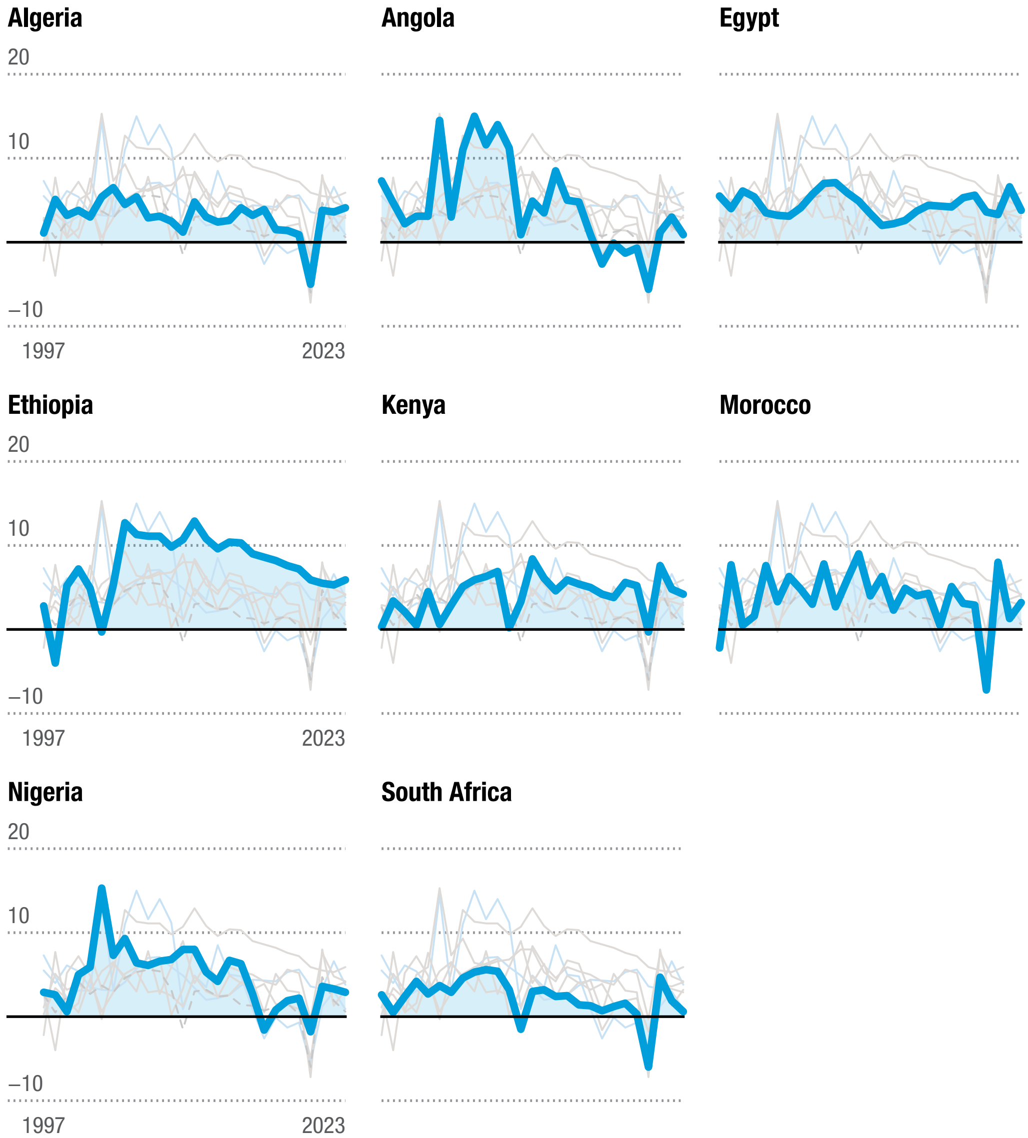
[33] Mesquita et al. (2022) find some evidence that "near-shore" suppliers such as Mexico gained ground, particularly after the 2008 crisis. These gains seem to have come at the expense of producers in the United States, however, instead of "far-shore" suppliers in Asia, which continued to strengthen their position. This point is challenged by Utar, Torres Ruiz and Zurita (2023). Looking at firm-level data in Mexico from 2015 to 2021, they find that the "U[nited] S[tates]–China trade war had a significant impact on [Mexican] firms' exports… Mexico's GVCs in manufacturing and services are a substitute for China's GVCs and complements U[nited] S[tates] manufacturing. In particular, Chinese import protection in the U[nited] S[tates] over 2018–19 has a significant positive impact on Mexican GVC firms' exports to the U[nited] S[tates], amounting to a 16.5 [per cent] increase in 2019". They add that "despite a temporary dampening of this effect in 2020 at the height of the COVID pandemic, the positive effect remains significant at 17 [per cent] by 2021. The protectionist turn in the U[nited] S[tates] targeting China also causes imports of Mexican GVC firms from the U[nited] S[tates] and Asian countries to increase, but less so than their exports, resulting in a significant increase in their overall net exports". Hence, they conclude that "the recent shift in U[nited] S[tates] trade policy played a role in reshaping GVCs and provide evidence of their relocation towards Mexico" (Utar, Torres Ruiz and Zurita 2023: 3).

[34] See especially McKinsey, 2010 and Radelet, 2010.

Figure IV.10

A downward trend is evident in major African economies dependent on commodities

Real GDP growth rates in the largest African economies
(Percentage)



Source: UNCTADstat and table I.1.

The continent has not fully recovered from the pandemic, having lost 2.4 percentage points of GDP relative to the pre-COVID-19 trend as of 2023. Its income gap with the rest of the world has widened, to its disadvantage (Tran, 2024). One hypothetical projection gives an idea of the scale of the gap between Africa and the advanced economies today. UNCTAD calculations suggest that the 55 countries of the African Union would need to grow by 19 per cent per year for the next 20 years simply to reach Group of Seven living standards today.

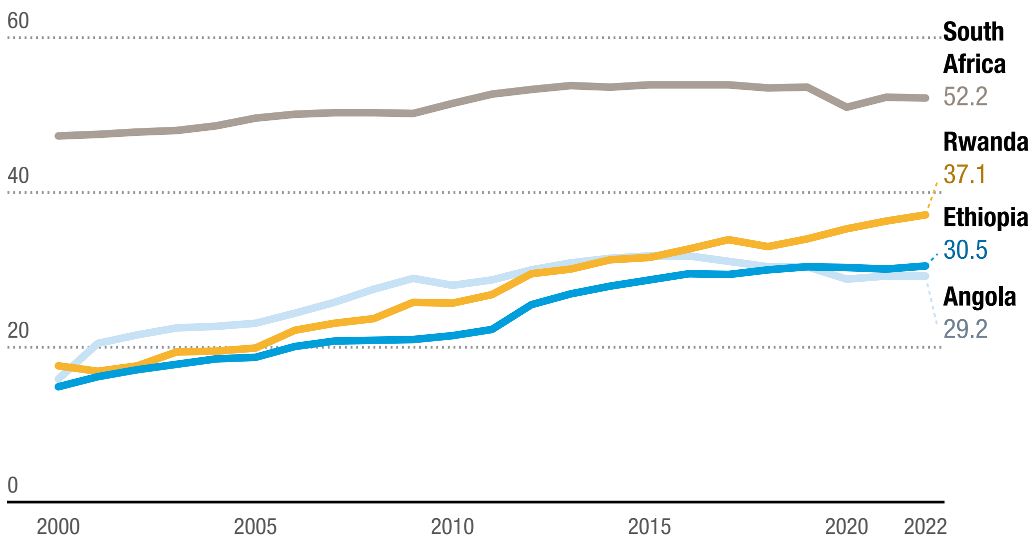
At the same time, it is important not to overlook the legacy of benefits of the commodity boom. The era of high commodity prices was a welcome respite from previous decades of economic decline. It enabled economies to return to strong growth, address late twentieth century debt burdens and shake off the most stringent forms of structural adjustment mandated by the international financial institutions. Amid increased foreign direct investment and the strong diversification of investors, particularly Asian industrializing economies, prospects for a qualitative improvement seemed promising.

Economic improvements in the early 2000s enabled African States to emphasize the role of public institutions in fostering national development (Péclard et al., 2020). Resource-rich States such as Angola, which experienced an oil boom after the end of the civil war in 2002, pursued capital-intensive industrial projects. Even resource-poor countries, such as Ethiopia and Rwanda, sought to implement ambitious diversification policies. Despite limited financial means, these two countries arguably have a better record of economic diversification over the last two decades, albeit starting from very modest baselines (figure IV.11). Elsewhere on the continent, the results of diversification have been disappointing.

Slow or absent structural transformation adds to a more pessimistic picture. Between 1980 and 2000, the modest manufacturing share in African GDP fell by half (Jacquemot, 2018). In sub-Saharan Africa, despite interest from potential investors, manufacturing declined from 18 per cent of GDP in 1981 to 11 per cent in 2023 (Pilling, 2024).

In essence, the period from 2000 into the 2010s was a period of jobless growth. Expectations of the continent's many young people remained unmet. Africa creates about 3 million formal wage jobs a year, but 12 million young people will enter the labour force every year over the next decade. The continent suffers from high unemployment among people aged 15–24, averaging more than 20 per cent. South Africa has

Figure IV.11
Diversification, even from a low baseline, helped Ethiopia and Rwanda boost productive capacity
Productive capacity index, selected African countries



Source: UNCTADstat database.

Note: For details on the productive capacity index, see note for figure III.13.

the highest youth unemployment rate in the world, at 61 per cent (Tran, 2024).

Enthusiasm about the consumer potential of an African rising middle class is now considered exaggerated, as is the size and geographic distribution of this class (e.g. Melber, 2017). Poverty alleviation has not progressed in much of the continent, and absolute numbers of poor people continue to increase. While there are some clusters of Asian foreign direct investment in African manufacturing, the "flying geese" theory of industrialization has not borne fruit. In terms of the absolute size of manufacturing value as well as an increase in manufacturing jobs, the continent has continued to industrialize (Abreha et al., 2021). Yet there has been industrial decline in Africa's hitherto most industrialized economy, South Africa. African economies in general have found it very difficult to insert themselves in global value chains (Abreha et al., 2021).

International financial integration has come at the cost of higher debt burdens for many countries. By 2018, 10 of 13 countries that had acquired a high risk of debt distress since 2013 were in sub-Saharan Africa. From 2017 to 2023, 46 of the 57 developing countries, or 81 per cent, experienced a deterioration in external financial sustainability, with a median annual increase in debt service costs of 16.3 per cent, far outstripping growth in exports plus remittances of 5 per cent. Twenty-seven countries with deteriorating positions were in Africa, 14 were in Asia and 5 were in Latin America and the Caribbean (UNCTAD, 2024b). In 2023, among the 25 countries with the highest proportion of export earnings allocated to total external debt servicing, 9 countries were from Africa (figure IV.12).

From the vantage point of the post-boom years, the vast majority of African economies clearly saw little structural transformation towards non-extractive sectors. In 2024, African economies are outliers compared to industrial economies and other developing economies. They retain a strong natural resource focus, a very low degree of integration in global value chains, mostly poorly educated labour forces and few prospects of competing with agile global South peers, whether in manufacturing or commercial agriculture.

4. Summary

In retrospect, therefore, the 2003–2013 rise of the global South has been both uneven and incomplete. Asia's advance towards becoming a global economic centre was an outcome of structural transformation domestically and increased economic integration regionally.

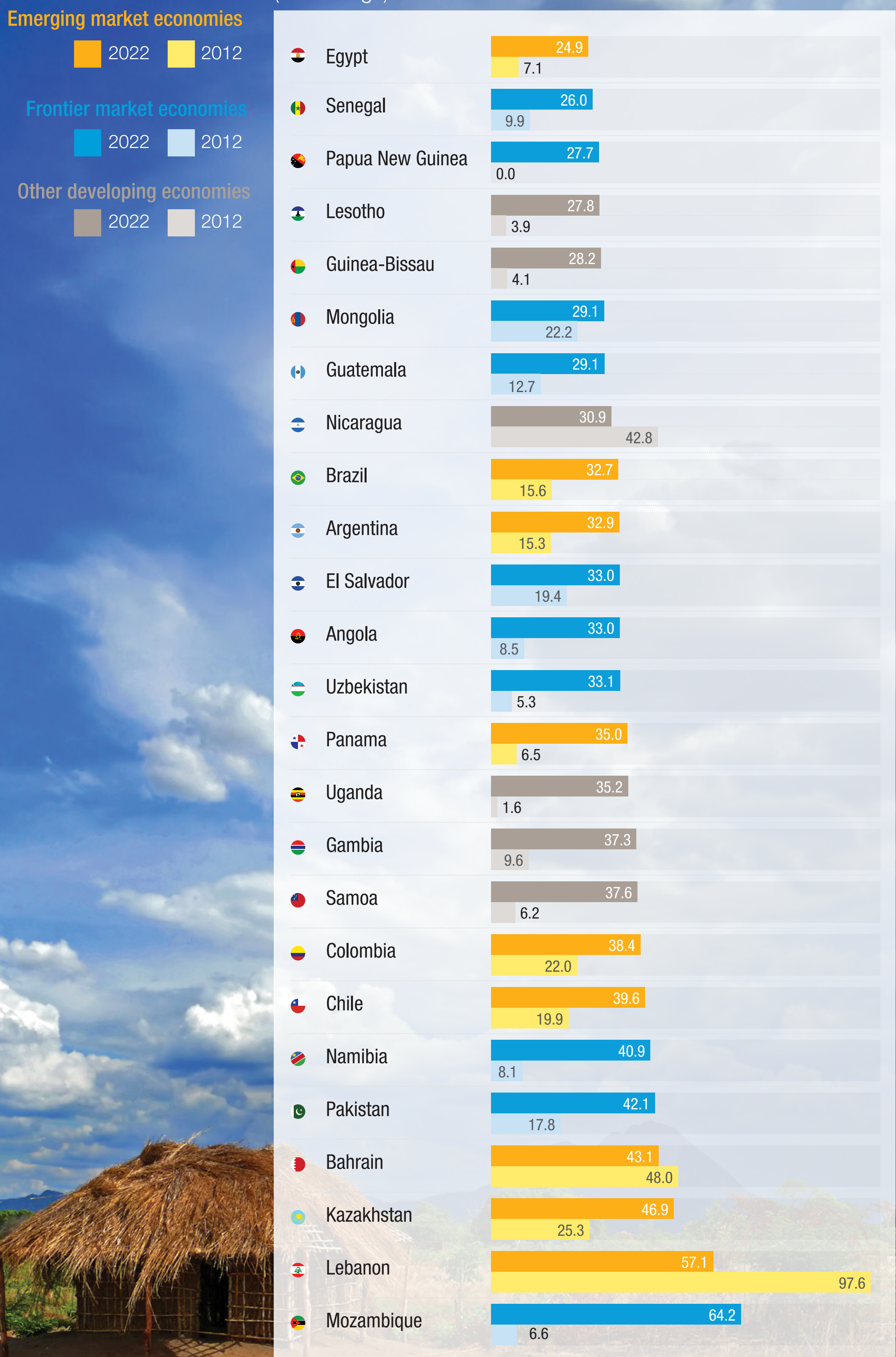
In Latin America, growth during the first two decades of the new century was based on conjunctural factors, such as the commodity boom, although macroeconomic policy and financial regulation proved effective and consistent with the goals of inflation control and financial stability. Notable exceptions were Argentina and the Bolivarian Republic of Venezuela.

Africa, despite successful diversification away from non-extractive sectors in several countries, such as Ethiopia and Rwanda, has gone through a commodity-driven boom of jobless growth. Despite a significant emphasis on industrial policy, most resource-rich economies were just as dependent on natural resources in 2013–2014 as they had been before. Today, the continent remains heavily dependent on its resource base, while a heavy financial legacy of debt burdens exacerbates long-term problems of poverty, insufficient structural reforms and anaemic development overall.

Figure IV.12

Top 25 developing countries with highest amount of export earnings spent on debt servicing

Debt servicing as a share of export revenues
(Percentage)



Source: UNCTAD based on World Bank International Debt Statistics and the IMF *World Economic Outlook* (April 2024).

C. Repositioning: New pathways to development

The regional diversity of the global South raises important questions about the direction and type of development strategies at an inflection point for globalization.

Geoeconomic changes cast doubts about some previously prevalent assumptions, such as the notion that East Asian industrialization can be emulated elsewhere in the global South today. Several issues put such ideas into question.

First, East Asian integration closely resembles traditional trade and investment relations between the North and South. Yet a "flying geese" model of industrialization and regional integration has not borne fruit in Africa or Latin America. Expectations that the "flying geese" typology provides a realistic depiction of East Asian industrialization and its potential implementation across the global South tend to gloss over the typology's analytical shortcomings and inevitable reductionism. They exaggerate its policy relevance (Saad-Filho, 2014), as critiques of the Asian model have suggested (e.g. Das, 2015).

Second, the current diversity of the global South is reflected in the interrupted trajectories of some regional economic leaders. In the 1990s, for instance, Chile was hailed for its closeness to the East Asian model (Paik et al., 2011). Today, the country's inadequate tax collection imperils public services; bureaucracy slows investment; and the manufacturing sector remains small compared with emerging world peers, including neighbouring Argentina. Mining products such as copper account for most exports and billionaire wealth, making Chile look more like an old-fashioned commodity economy than an East Asian tiger (Sharma, 2024).

In South Africa, the largest economy in Africa, the implosion of the 2003–2013 commodity boom exposed the country's many fault lines, including youth unemployment above 50 per cent, a high share of the population on welfare, weak investment and recurrent power outages. Even in Asia, Thailand, one of the original "Asian Tigers", has seen its per capita GDP decline. It has one of the world's highest inequality rates, with 79 per cent of the poor living in rural areas. Despite efforts to become a factory hub based on its location on global trade routes, productivity is stagnating, and Thailand is losing out to manufacturing rivals such as Viet Nam (Sharma, 2024).

Third and finally, new constraints on prospects for Asian-style development and industrialization arise from the impact of the new growth wave discussed in chapter III. The development successes of the 1990s, regionally and nationally, may not be easily emulated amid a new commodity cycle, the energy and technology transition, advanced financialization and the shift towards services as the dominant sector of the economy.

The geography of service-oriented foreign direct investment reflects the current diversity of the global South (figure IV.13), where developing Asia continues to account for the bulk of the increase in greenfield investment flows. While shares of service-oriented investment projects in Africa and Latin America rose from 2020 to 2023, overall investment has stagnated since 2020. At the same time, the growing importance of service industries and intangible assets in global value chains can pose risks to developing economies as a whole. This may exacerbate existing structural barriers holding back the world's least developed countries and could magnify their vulnerability to external shocks (UNCTAD, 2018).

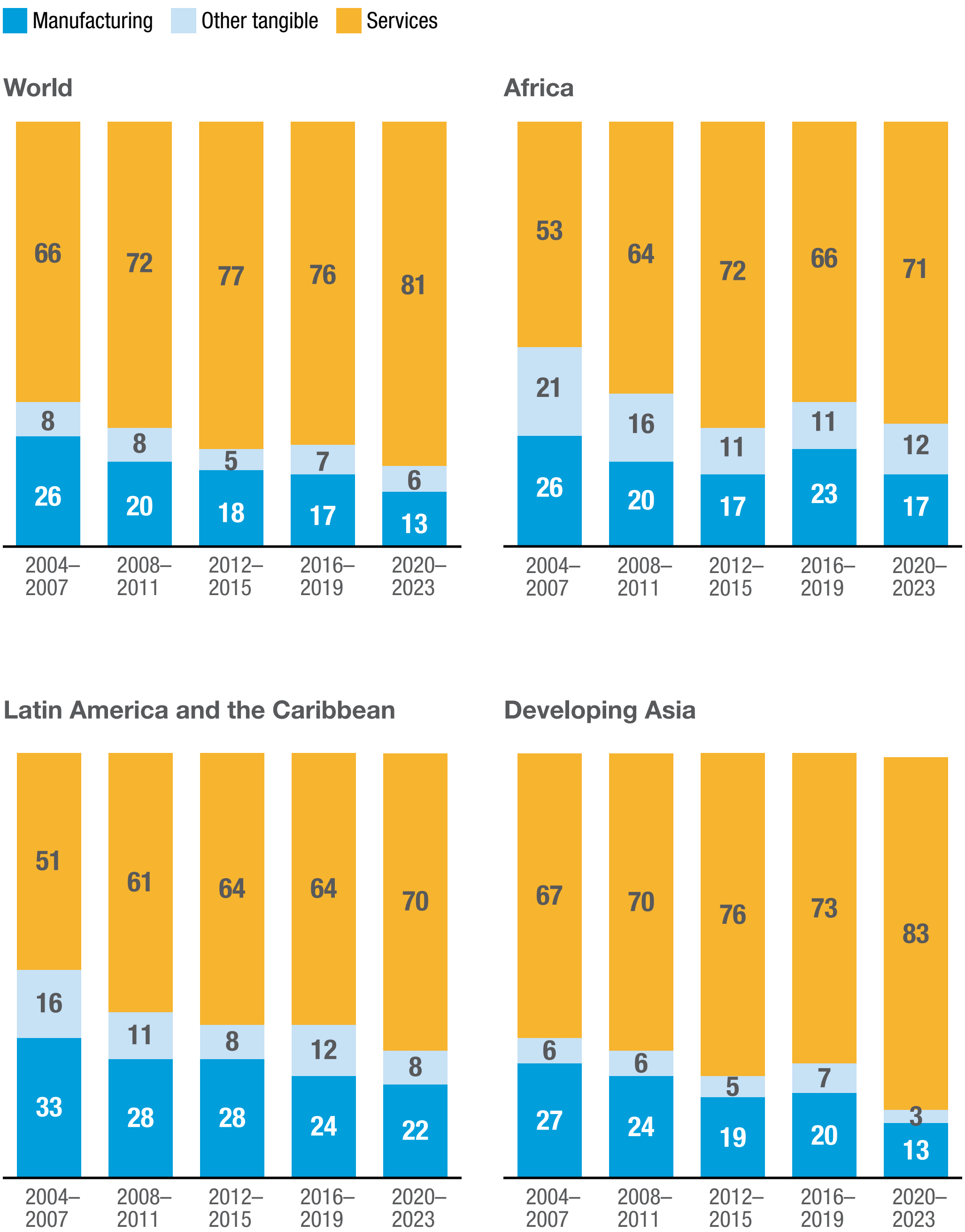
Today, the assumption that East Asian industrialization can be successfully emulated as a development model elsewhere in the global South is in doubt.

Developmental success stories of the 1990s may not be easily emulated amid the new commodity cycle, energy and technology transition, advanced financialization and servitization of the economy.

Figure IV.13
Changing investment flows favouring services may worsen structural barriers

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

A. By region



B. By Sector

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

Source: UNCTAD based on information from the *Financial Times* FDI Markets database.

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

Finding new pathways to successful development requires re-evaluating the commodity cycle and devising policies to achieve diversification and redistribution.

Within this changing context, new pathways to successful development and sustainable growth can still be found. For many countries in the global South, this requires re-evaluating the short-term benefits of the commodity cycle as well as rising shares of services and finance-related sectors. New policies are needed aimed at long-term diversification and redistribution.

The continued influence of financialization – denoting the growing role of financial instruments, activities and valuations (Sawyer, 2013) – across the real economy, trade and global value chains, carries major implications for developing countries pursuing economic integration. Some are examined below.

Across the real economy, trade and global value chains, financialization has major implications for integration strategies.

1. The challenges of financialization, old and new

Given lessons from the 2003–2013 commodity boom as well as a new wave of growth and the energy transition, careful management of the expansion of extractive industries is increasingly important for many resource-exporting countries of the global South. In 2018, 18 out of 27 surveyed developing economies experienced increased shares of extractive industries in export value added. Some registered spikes topped 10 percentage points (UNCTAD, 2018).

For many developing countries, commodity booms are closely intertwined with the financial cycle and associated risks of financialization. The financialization of commodity markets and industries has progressed since 2000, when the deregulation of derivatives markets in the United States and a wave of new financial innovations incentivized banks, hedge funds and other types of investors to trade and speculate on commodity-based index products. Many institutional investors were attracted to commodity-based products by the prominent narrative that a growing population would generate ever-growing demand for the world's natural resources, and that food production would need to grow by 50 per cent or more in the coming decades (FAO, 2017; Clapp, 2019).

A more recent development is the energy transition. With its mounting demand for commodities, especially minerals, it is unfolding under the influence of advanced financializaton (e.g. Knuth, 2018; Appiah et al., 2023). Managing the expansion and financialization of extractive industries constitutes a key challenge for commodity exporters as the energy transition and new growth wave move forward.

Extractive commodity industries, namely, mining and energy, are extremely capital-intensive; rents tend to be concentrated in the hands of the owners of capital. In agricultural commodity sectors, activities are labour-intensive. The majority of producers in developing countries are small in scale and only participate in the lower value added segments of international food chains, retaining a fraction of the value added of what they produce. Coffee producers, for example, earn as little as three per cent of the final price (UNCTAD, 2018).

Against growing control of the agriculture sector by a few multinational enterprises, smallholder producers face the combined challenges of high cost and limited access to inputs; inadequate capital; growing requirements to comply with safety, quality and environmental standards enacted by importing countries; and increasing weather variability with limited tools for adaptation (UNCTAD, 2024a).

Conversely, during recent years of market turbulence, the profits of commodity trading giants that control, conservatively, up to 70 per cent of global food markets have soared, in many cases boosted by financial speculation (UNCTAD, 2023). For instance, the global grain trade is dominated by a small number of firms in highly financialized commodity markets prone to volatility (Clapp, 2022). The speculative practices of these companies have been a policy concern even as the lack of regulatory attention and corporate arbitrage enable them to profiteer in periods of crisis and market volatility (UNCTAD, 2023; Clapp, 2022).

Definitions of financialization vary across academic disciplines (van der Zwan, 2014), but the phenomenon can be understood both as the greater tradability of underlying assets in financial markets and the predominance of profits from financial ventures over revenues from core business activities. Balancing the exposure of commodity-exporting countries to financialization externally while regulating the growth of extractive industries within the domestic macroeconomy constitutes a twofold challenge for policymakers in many developing countries. This is for several reasons.

First, in developing countries, the relationship between financial cycles and commodity prices tends to be particularly pronounced (Aldasoro et al., 2023). The precise role of commodity markets in the transmission of the financial cycle to developing countries remains debated, but recent research suggests that the endogenous response of export prices plays a major role in amplifying the transmission of monetary policy in the United States to developing countries. This is due to the sensitivity of commodity prices to interest rates, and because changes in monetary policy in the United States and global risk appetite are key drivers of capital flows in commodity-exporting economies (Juvenal and Petrella, 2024).

Figure IV.14 shows the close relationship between the financial cycle and commodity prices since the early 2000s, when the introduction of commodity-based index products in international financial markets widened opportunities for financial speculation (Gkanoutas-Leventis and Nesvetailova, 2015).

Financial cycles tend to be much slower moving than commodity price cycles, where the frequency is closer to that of capital flows. Figure IV.14 presents a correlation in line with findings by Aldaroso et al. (2023). Namely, the first principal component of capital flows to emerging markets is much more strongly corelated with commodity prices than the respective first principle component of capital flows to advanced economies.

The negative impacts of financialization on economic stability and income distribution in developing economies were documented in pre-pandemic analyses (Bonizzi, 2013; Kaltenbrunner and Painceira, 2015). Recent research (Sharma, 2022) finds that the effects of the financialization of commodities became more pronounced during COVID-19 compared to the 2008–2009 period.

Recently this analysis was advanced by new empirical studies of the financialization of commodity value chains (box IV.1). They suggest that the financialization of commodities and the concentration of global value chains effectively constitute a twofold problem for exporters in the global South. In part, this is due to the fact that although at the aggregate level financial institutions and markets play a central mediating role, financial investments on the ground, at different stages of value chains, are mediated through asset management firms and corporate practices.

Financialization entails the greater tradability of underlying assets and the predominance of profits from financial activities over revenues from core business activities.

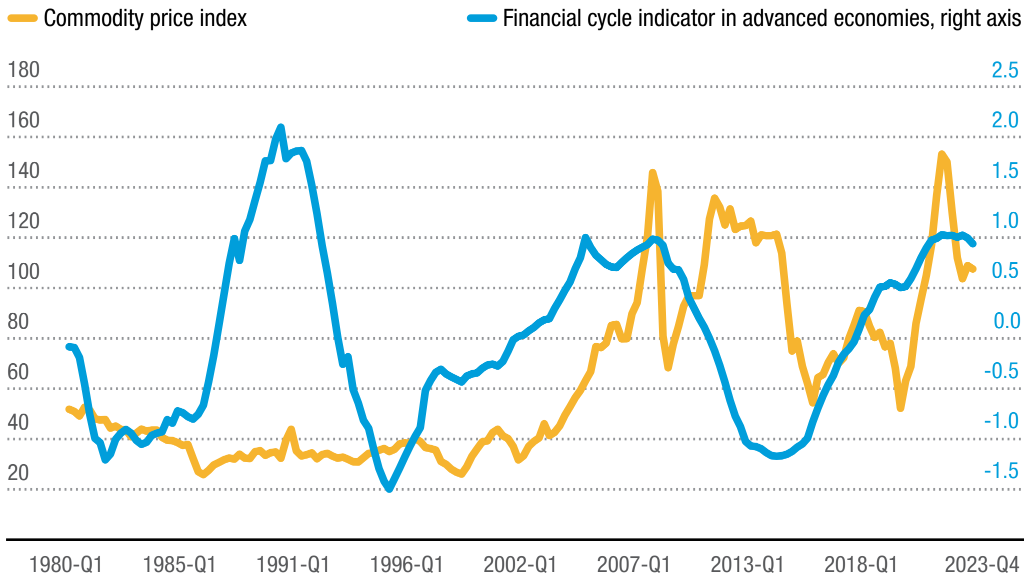
In developing countries, the relationship between financial cycles and commodity prices tends to be pronounced.

The effects of the financialization of commodities became more pronounced during COVID-19 compared to the 2008–2009 period.

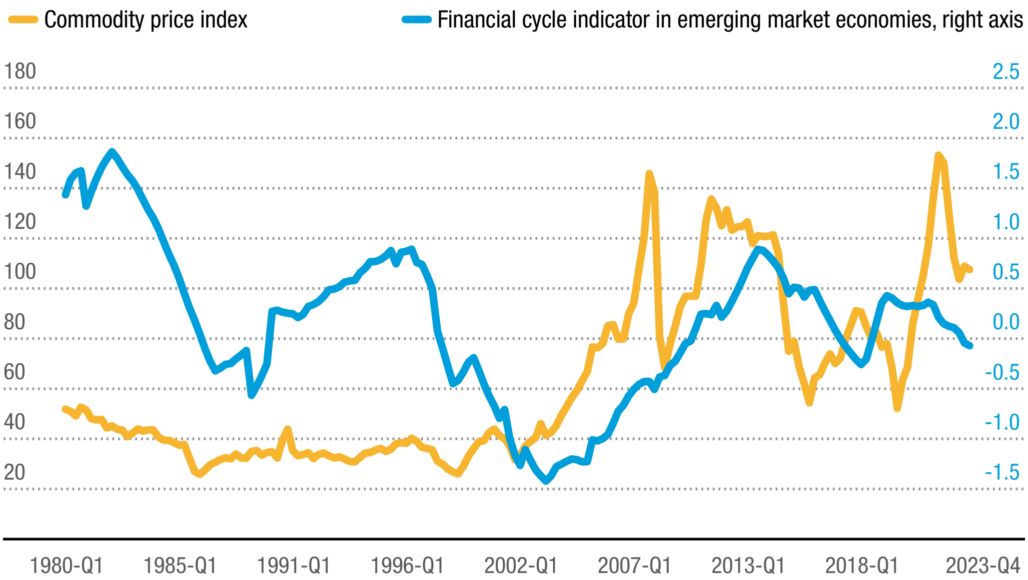
Figure IV.14
Is a commodity cycle a financial cycle? Evidence shows a close relationship, more so for emerging markets

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

A. Advanced economies

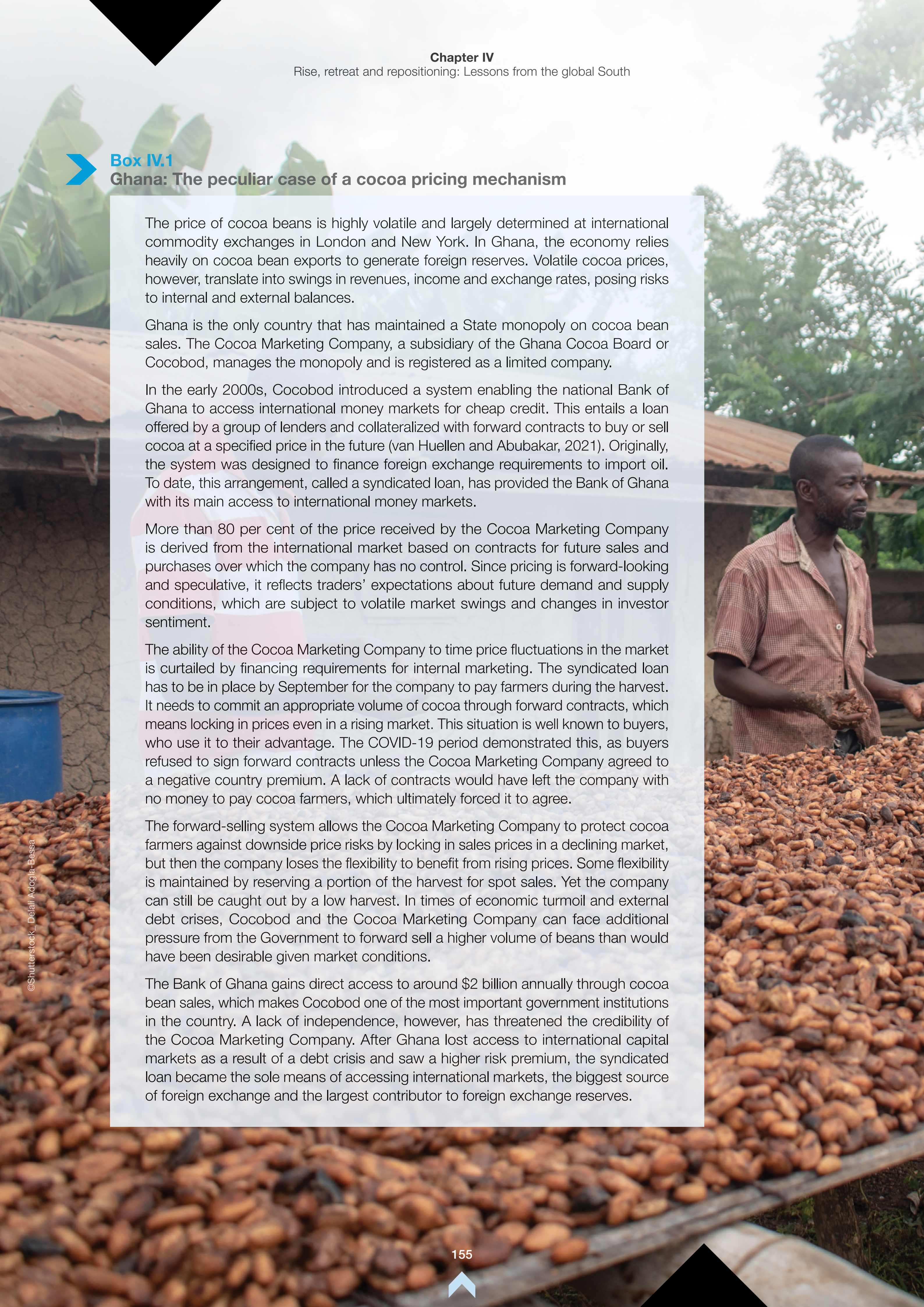


B. Emerging market economies



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

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



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Box IV.1
Ghana: The peculiar case of a cocoa pricing mechanism

The price of cocoa beans is highly volatile and largely determined at international commodity exchanges in London and New York. In Ghana, the economy relies heavily on cocoa bean exports to generate foreign reserves. Volatile cocoa prices, however, translate into swings in revenues, income and exchange rates, posing risks to internal and external balances.

Ghana is the only country that has maintained a State monopoly on cocoa bean sales. The Cocoa Marketing Company, a subsidiary of the Ghana Cocoa Board or Cocobod, manages the monopoly and is registered as a limited company.

In the early 2000s, Cocobod introduced a system enabling the national Bank of Ghana to access international money markets for cheap credit. This entails a loan offered by a group of lenders and collateralized with forward contracts to buy or sell cocoa at a specified price in the future (van Huellen and Abubakar, 2021). Originally, the system was designed to finance foreign exchange requirements to import oil. To date, this arrangement, called a syndicated loan, has provided the Bank of Ghana with its main access to international money markets.

More than 80 per cent of the price received by the Cocoa Marketing Company is derived from the international market based on contracts for future sales and purchases over which the company has no control. Since pricing is forward-looking and speculative, it reflects traders' expectations about future demand and supply conditions, which are subject to volatile market swings and changes in investor sentiment.

The ability of the Cocoa Marketing Company to time price fluctuations in the market is curtailed by financing requirements for internal marketing. The syndicated loan has to be in place by September for the company to pay farmers during the harvest. It needs to commit an appropriate volume of cocoa through forward contracts, which means locking in prices even in a rising market. This situation is well known to buyers, who use it to their advantage. The COVID-19 period demonstrated this, as buyers refused to sign forward contracts unless the Cocoa Marketing Company agreed to a negative country premium. A lack of contracts would have left the company with no money to pay cocoa farmers, which ultimately forced it to agree.

The forward-selling system allows the Cocoa Marketing Company to protect cocoa farmers against downside price risks by locking in sales prices in a declining market, but then the company loses the flexibility to benefit from rising prices. Some flexibility is maintained by reserving a portion of the harvest for spot sales. Yet the company can still be caught out by a low harvest. In times of economic turmoil and external debt crises, Cocobod and the Cocoa Marketing Company can face additional pressure from the Government to forward sell a higher volume of beans than would have been desirable given market conditions.

The Bank of Ghana gains direct access to around $2 billion annually through cocoa bean sales, which makes Cocobod one of the most important government institutions in the country. A lack of independence, however, has threatened the credibility of the Cocoa Marketing Company. After Ghana lost access to international capital markets as a result of a debt crisis and saw a higher risk premium, the syndicated loan became the sole means of accessing international markets, the biggest source of foreign exchange and the largest contributor to foreign exchange reserves.

Box IV.1 **Ghana: The peculiar case of a cocoa pricing mechanism**

The current system, with prices referenced to the terminal market price in London as well as multiple currency conversions, leaves the Cocoa Marketing Company exposed to significant price and quantity risk. Adjusting the existing arrangement is challenging, because it provides Cocobod with liquidity to finance its position as the monopoly buyer of Ghanaian cocoa beans. It also provides the Bank of Ghana with access to the international market at affordable rates, which is vital amid the domestic debt crisis and a continuously depreciating currency.

Calls to abolish the 30-year-old system have grown in recent years, however, prompting speculation that it is time for Cocobod to design a five-year plan to wean itself off the syndicated loan. This would reduce interest payments and allow dollar revenues from cocoa exports to continuously enter the Bank of Ghana. Funding demands persist, however, and the current IMF restrictions on the country's ability to extend funding means negotiations are required before a strategy is implemented.

Source: van Huellen et al., 2024.

2. Finance as a fresh dimension of the resource curse

Frequent and increasingly violent gyrations in international commodity prices have a direct impact on both export and fiscal revenues, foreign direct investment and exchange rates, generating macroeconomic instability. This often impedes long-term investment and revenue mobilization to achieve sustainable growth and development (UNCTAD, 2018).

Further, unregulated expansion of the financial sector may expose countries to risks of unbalanced growth, based on the contribution of the finance, insurance and real estate (FIRE) sector to overall output, value added and employment. The nature of the sector's contribution to output and value added has gained policy and research interest in the wake of the global financial crisis, although mainly in terms of advanced economies with more readily available data.

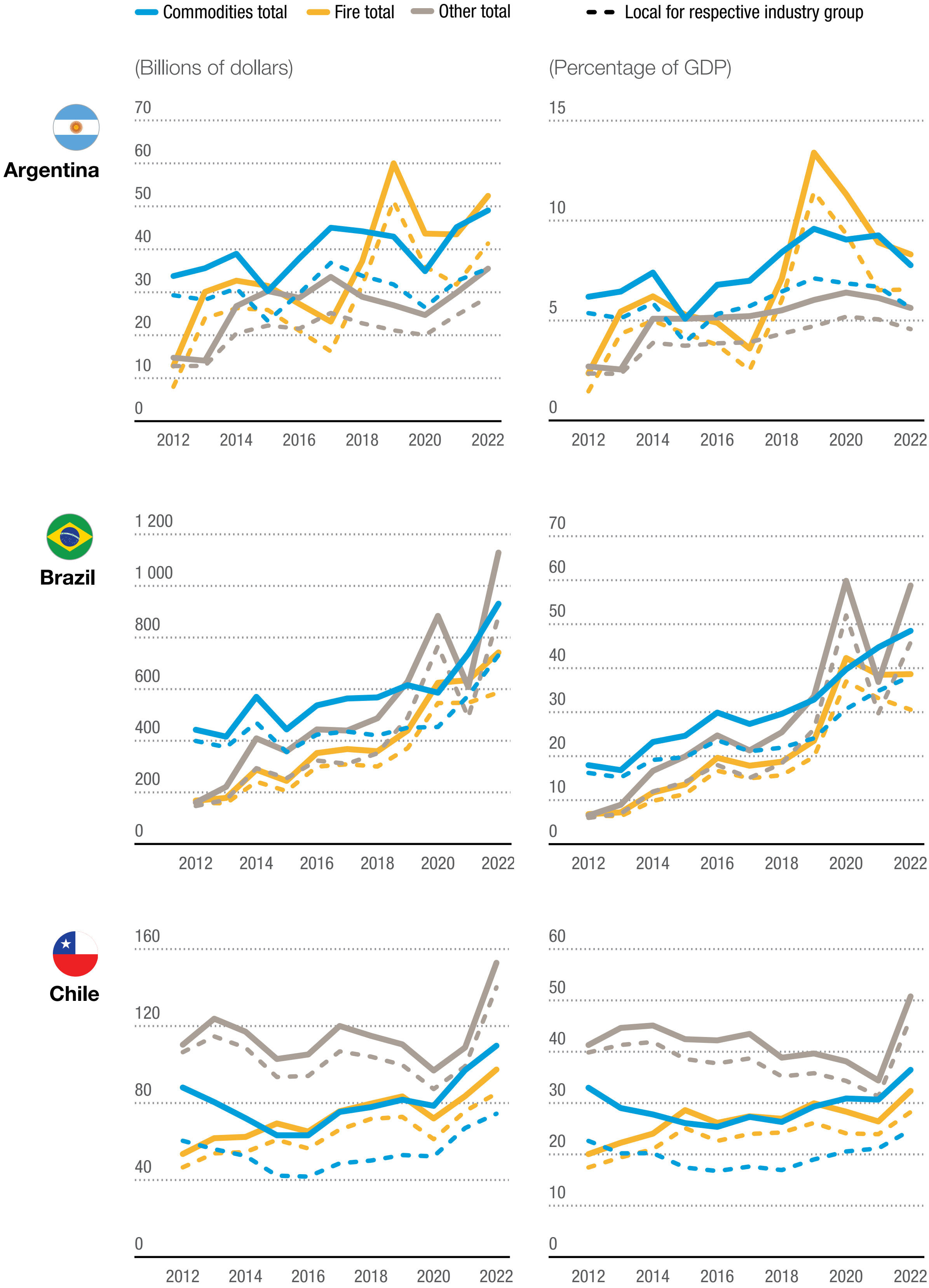
Research on macroeconomics has argued that national accounts "impute" value added in the FIRE sector to make it equal to incomes (wages and profits) (Foley, 2011). In terms of the sector's share of total value added correlated to its share of total employment, finance exhibits a negative (and statistically significant) correlation, while real estate has no significant correlation (Assa, 2016). Financial service revenues represent an opportunity cost, since the money paid for them could have been spent on productive activities elsewhere. The observed negative correlation between the shares of financial services in output and employment has prompted researchers to argue that the FIRE sector is extractive rather than productive (or value reducing rather than value adding) as far as the economy is concerned (Assa 2016, 2017).

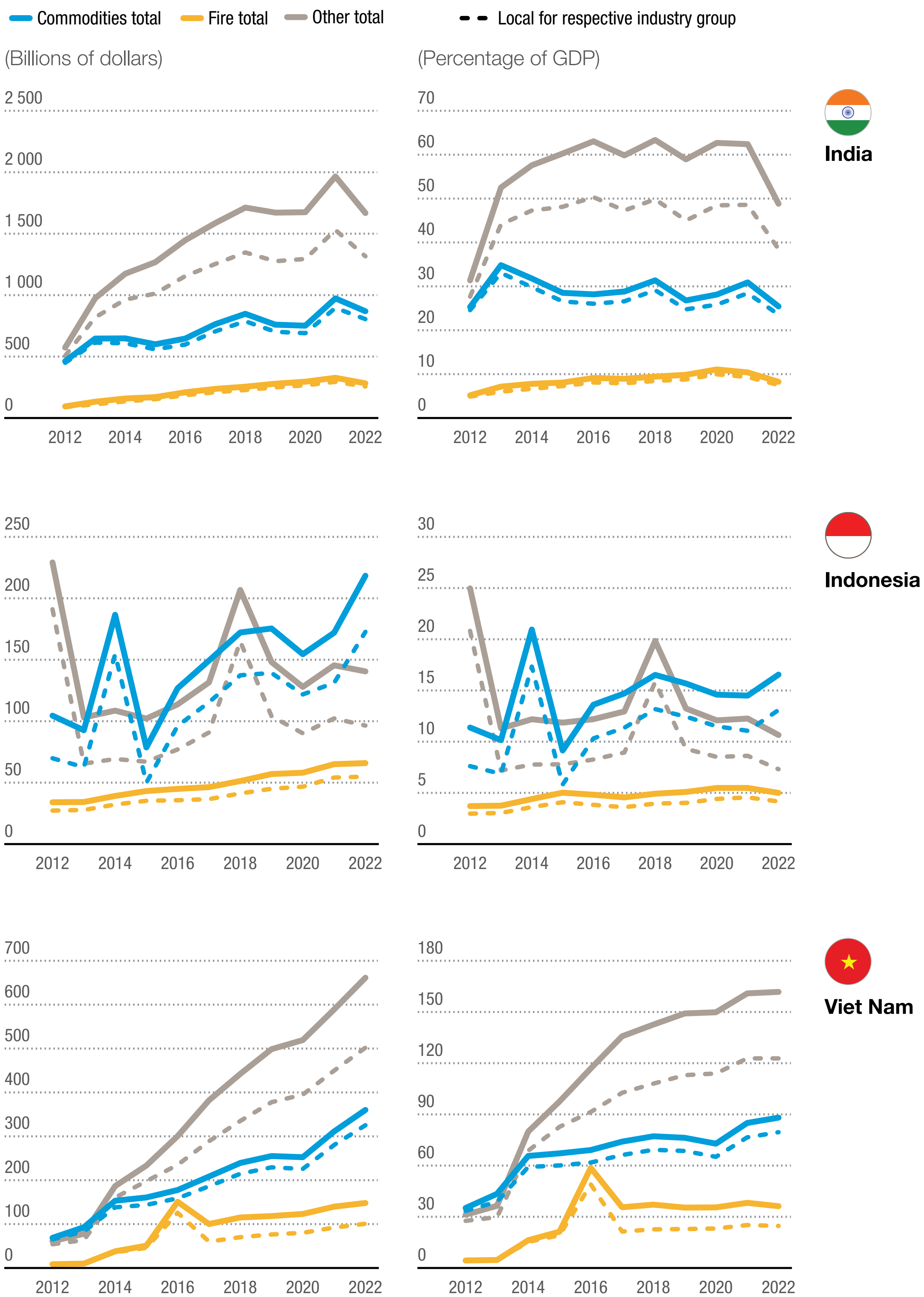
Finance studies have taken the issue further and suggested that, in heavily financialized economies such as the United Kingdom (where the FIRE sector is more than 30 per cent of GDP) and the United States, the reliance on finance for economic growth becomes a drag on the economy, leading to a "finance curse". Analogous to a resource curse, a "finance curse" describes a situation where an outsized financial sector drains resources from other parts of the economy without generating a sufficient share of well-paid jobs and while creating systemic imbalances (Shaxson, 2019; Tax Justice Network, 2020).

The finance curse has been explored primarily in the context of international financial centres and advanced economies (Baker et al., 2018; Epstein and Montecino, 2016). In the wake of the global financial crisis, Andy Haldane, the then chief economist of the Bank of England, estimated that the costs of "banking pollution" – or the social costs to the public from banking crises – may be close to $100 billion in the United Kingdom (Haldane, 2010). For the economies of the global South, continuing financialization, particularly in the context of the growing role of intangible assets and related financial activities (WIPO, 2024), presents important policy concerns.

To give a glimpse of the issue, figure IV.15 presents the dynamics of sector profits since 2012 for selected developing economies in three key groups of industries: commodities (energy, mining and agriculture), FIRE and the rest of the economy (non-commodities).

Figure IV.15
The extent of economic diversification influences the prominence of the finance, insurance and real estate sector in an economy
Total revenue by industry group, selected countries





Source: UNCTAD based on Orbis database (Moody's).

Notes: An Orbis firm-level classification field delineates commodity, FIRE (finance, insurance and real estate) and "rest of economy" subgroups. Sector groups are aggregated based on financial reports by companies classifying their activities in the relevant sector. The data set includes revenues reported by State-owned enterprises and publicly listed and privately held corporations, including at the subsidiary level.

The figure shows that in countries that have experienced deindustrialization, such as Argentina, Brazil and Chile (Castillo and Neto, 2016), the evolution of revenues in core commodity sectors has become intertwined with the expansion of FIRE sector revenues, particularly during the commodity boom that started in 2020. This has accentuated the risks of instability transmitted through an outsized financial sector, while raising concerns about sector concentration. Figure IV.15 presents a marked contrast with the economies of India, Indonesia and Viet Nam, where economic diversification is more advanced, and the FIRE sector's position and revenue trends appear to be more balanced in the overall structure of the economy.

The finding corresponds with the economic complexity ranking of 133 developing countries published by the Harvard Growth Lab. It calculated the economic complexity of a country based on the diversity of its exports and their ubiquity or the number of countries able to produce them.[35] Overall, the researchers found that the performance of developing countries since 1995 has been mixed (figure IV.16). Some developing countries, particularly in Asia, such as China, India, Indonesia, Malaysia, Singapore, Thailand and Viet Nam, have moved up the ranking very rapidly. But others, particularly economies that have experienced deindustrialization, such as Argentina, Brazil and South Africa, have seen a significant drop in their ranking. This is important in the context of the growing role of service industries and growth, as well as close links and potentially growing interdependencies between financialization and the extractive sectors as described above.

3. Policy focus

There is limited research on developing countries and the relationship between extractive sectors and financialization, including trade and global value chains (e.g. Cibils and Alami, 2013). Yet with the ongoing consolidation of corporate power over core markets, led by the financial and legal mechanisms of global value chains, this issue needs to come into sharper focus among policymakers across the global South (Lianos et al., 2022; BRICS Competition Law and Policy Centre, 2021).

Left unaddressed by policy, an outsized financial sector (Muda et al., 2020) can add to the problem of commodity dependence in two major ways. First, the unregulated or unbalanced expansion of the finance and finance-centred sectors in commodity-exporting countries can affect sectoral composition within the economy. This can limit economic diversification, undermining resilience and accentuating income inequalities (UNCTAD, 2024c).

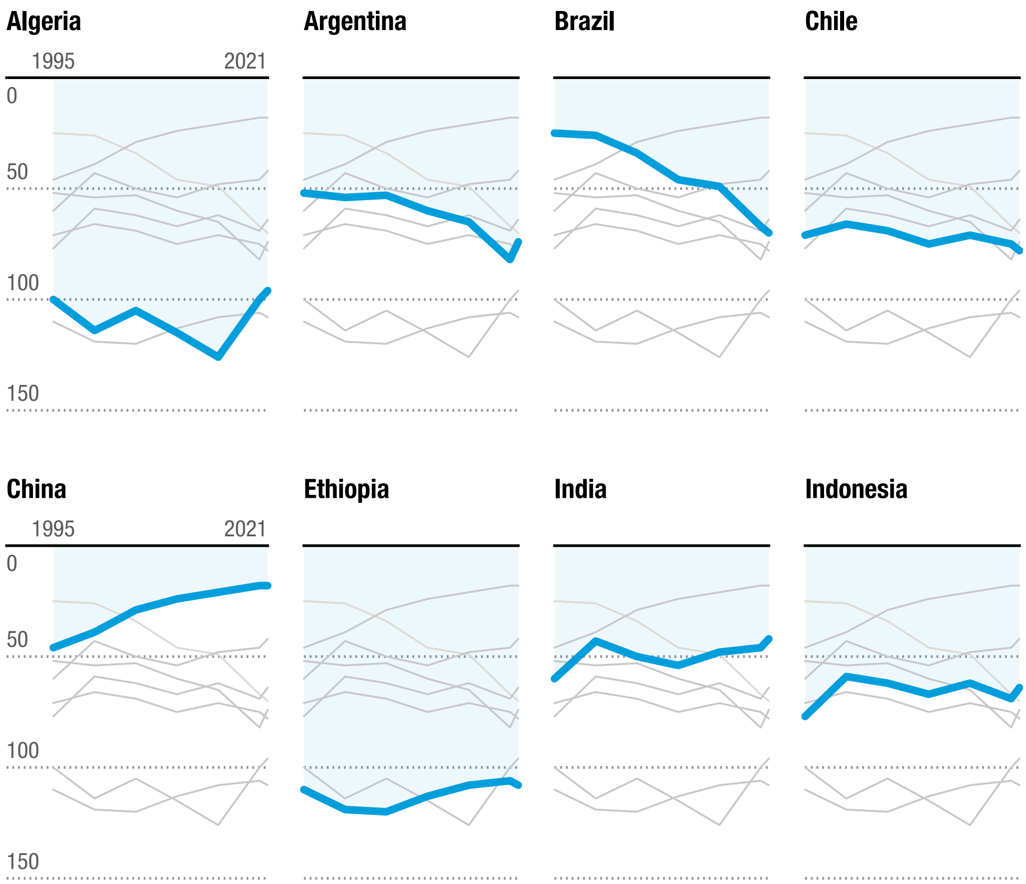
Second, in periods of overlapping crises, when turbulence in energy, commodities and financial markets can combine and create multiple points of stress, the effects of the global commodity cycle can be reinforced through a financial sector intertwined with the growth of commodities revenues. In commodity-exporting economies, the expansion of the FIRE sector therefore needs to be considered when devising national industrial and financial regulations and policies (Cibils and Allami, 2013). Closer regulatory attention requires more granular research and understanding of accounting and financial data at all levels of corporate business activities, yet access

[35] "Economic complexity" is a measure of the knowledge in a society as expressed by the products it makes. It is calculated based on the diversity of exports a country produces and their ubiquity or the number of countries able to produce them (and the complexity of those countries). Countries that are able to sustain a diverse range of productive knowledge, including sophisticated, unique know-how, are able to produce a wide diversity of goods, including complex products that few other countries can make (see the Growth Lab definition at https://atlas.cid.harvard.edu/glossary). At the same time, economic complexity cannot be seen as a surrogate for the concept of development, which is a multidimensional process. For example, the economic complexity index ranks of Australia and Norway are quite low due to their trade structure but they are among the most developed economies. For several countries from the global South, such as China, India, Thailand and Viet Nam, although they have rapidly become the main exporters of many sophisticated manufacturing products, various development indicators remain a challenge.

Figure IV.16

Countries that have improved on an index of economic complexity tend to have more diversified economies

Ranking on the economic complexity index, selected countries



Source: UNCTAD based on the Atlas of Economic Complexity. Havard Growth Lab.

to such data remains scarce in many developing economies, especially in Africa.

Safeguarding economic resilience and equity, in turn, calls for coordination of the policies of redistribution, diversification and financial regulation. Crucially, for raising development finance, these measures need to enhance domestic revenue mobilization, including through greater efforts to curb corporate arbitrage, trace and monitor the economic footprint of multinational enterprises, and share relevant data at the multilateral level to enhance policy coordination.

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