



2025 Trade and development report

Chapter IV

Trade and finance: Reshaping the global South amid uncertainty

KEY FINDINGS

- ▶ Over the past two decades, the world's economic centres of gravity have shifted dramatically. Today, the global South accounts for 44 per cent of international trade and 42 per cent of global output. Its share of foreign direct investment (FDI) flows almost tripled, rising from around 22 per cent in 2007 to over 58 per cent in 2023.
- ▶ Many developing economies have flexibility in sourcing and directing goods, what can help enhance resilience against policy shocks and new risks. Regional integration and new trade alliances foster a more diversified trade system.
- ▶ However, disparities persist: North–North trade constitutes about 40 per cent of global merchandise flows. Despite their expanding role in merchandise trade, developing countries make up less than 30 per cent of global services trade. While South–South FDI flows have doubled over the past decade, FDI instock has seen limited movement. Much potential for interregional trade integration remains untapped.
- ▶ Amid the more varied landscape of trade and investment, global finance remains highly concentrated and dollar-centric. While financialization has reshaped developing economies, their role in global finance remains constrained. Asymmetries in intangible capital, digital services, and financial assets exacerbate wealth divides between the North and South.



**United
Nations**



Policy takeaways

- ▶ To stabilize the trade and finance system, a nuanced understanding of the interconnections among financial, digital, and service sectors is essential. Coordinated trade and investment statistics, complemented by comprehensive trade data, can inform policies aimed at fostering inclusive growth within an increasingly financialized global economy.
- ▶ Strengthening domestic financial ecosystems is paramount. Enhancing local financial infrastructure – ranging from capital markets to digital payment systems and skills development – could facilitate trade diversification, reduce overexposure to dollar-denominated finance, and bolster domestic markets. Supporting trade finance can further mitigate some of the risks associated with financialization.
- ▶ To effectively manage exchange rate risks and strengthen regional currency settlement mechanisms, greater international cooperation is needed. Regional capital markets must evolve in tandem with trade integration efforts, as enhanced cooperation and cross-border investment are vital for building resilient trade networks.
- ▶ In a climate of policy volatility and significant trade shifts, it is crucial to avoid financial fragmentation. Reliable cross-border payment networks, robust regional financial frameworks, and well-developed capital markets can contribute to a more balanced global economy.
- ▶ Reforming the international financial architecture is imperative. Establishing a new SDR-based currency, potentially with automatic allocations, could lessen reliance on the dollar, reduce currency volatility, and enhance financial policy space in developing economies.



A. Introduction: An uneven rise

Amid growing uncertainty, the complex link between financial and trade policies is increasingly scrutinized by global policymakers and researchers (Adolfson and Harr, 2025; BIS, 2025a; Chari et al., 2025). This emerging policy agenda has only just begun to explore the concerns of the global South, focusing mainly on large emerging markets and some of the effects of the financial-commodity cycle (Stockhammer, 2004; Carrera, 2023; Magubane, 2025).

This chapter takes a step in advancing the discussion, by first, scoping the main

outcomes of the economic integration of developing countries into international trade and finance; and second, by analysing these findings in the context of financialization in the global South.

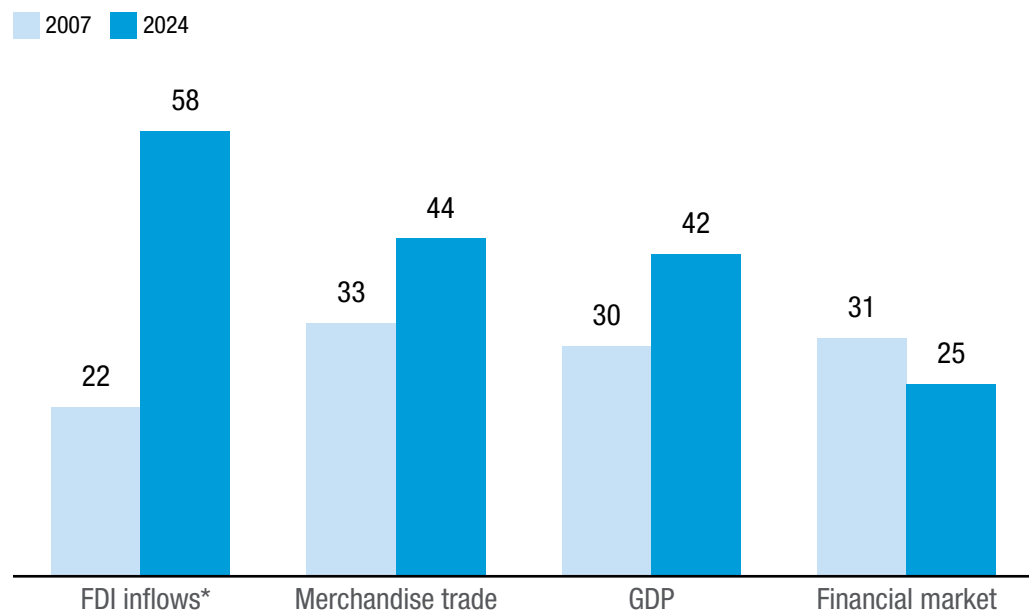
Conventionally associated with the greater power of financial markets over the interests of the real economy, financialization has driven transformative shifts across the world economy (Stockhammer, 2004; Epstein, 2005), shaping the integration of the global South. The outcomes have been uneven. Despite tangible progress in global trade



Figure IV.1

The South in the global economy: An uneven rise

The share of the global South in world FDI, trade production and financial markets (Percentage)



Sources: UNCTAD based on UNCTADstat, World Federation of Exchanges (WFE), and BIS Statistics.

Note: FDI inflows correspond to aggregate bilateral flows, excluding Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Cyprus, Guernsey, Ireland, Isle of Man, Jersey, Luxembourg, Malta, Mauritius, and Panama. Trade values represent the aggregated merchandise imports and exports. The European Union is treated as a single economy, and its intraregional trade is excluded. Financial market size is defined as the combined value of stock market capitalization and outstanding fixed-income securities. Production aggregates are based on GDP at constant 2015 dollars.

*Due to data availability, FDI flows refer to 2023.



integration and a growing role in foreign direct investment, most developing economies play a limited role in global finance (figure IV.1).

The following analysis assesses this apparent contradiction, in three parts. Section B scopes the transformed global economic landscape. The greater participation and weight of developing economies have redrawn the global trade map and investment flows over the last three decades. Today, the global South accounts for 42 per cent of global output; more than half of FDI inflows and 44 per cent of all merchandise trade flows. FDI inflows to developing economies have increased threefold, from under 22 per cent in mid-2000s to 58 per cent in 2023 (40 per cent excluding China and a few financial centres).²⁹

Underneath this ascent, however, sectoral, regional and international asymmetries remain. They present hurdles to deeper trade diversification and are especially pronounced in capital formation and investment.

Section C examines these issues in the context of the transition of the global economy from bank-based to “asset capitalism”, a system where wealth is primarily generated and accumulated through the ownership of assets instead

of productive activities (Lysandrou, 2016; Braun, 2021; Braun and Christophers, 2024). The analysis highlights that one of the key effects of financialization – manifest in the rapid expansion of securities markets – has been to reinforce the dominance of dollar-anchored financial instruments and markets globally.

This poses direct challenges to the financial integration of developing economies and accentuates dilemmas of diversification. While diversity is key to resilience, in the highly financialized ecosystem of international trade, diversification carries risks of fragmentation. It thus needs to be pursued in a balanced and strategic way.

Section D draws policy lessons pertinent to today’s context. It emphasizes how the enduring centrality of dollar-anchored finance could undermine the benefits of trade integration while increasing the potential for cascading crises. This risk underscores the importance of integrated policy frameworks that must target the financial sector and finance-related activities within the macroeconomic contexts and regional development strategies of developing countries.

FDI inflows to developing economies increased threefold, from 22% in mid-2000s to 58% in 2023.

In the highly financialized ecosystem of international trade, diversification carries risks of fragmentation.

B. Remapping global trade and foreign direct investment flows

1. Global trade: Diversity and decentralization

In the geography of trade, the growing role of the global South has been a defining feature of the past few decades. The globalization of production chains

and technological change, the economic growth of China and deepening South–South trade links have driven this rise.

In 2007, only six economies from the global South were deeply integrated into the international trade matrix. By 2024, 11 were significant global export–import

The number of developing economies with key export–import hubs has doubled since the turn of the century.

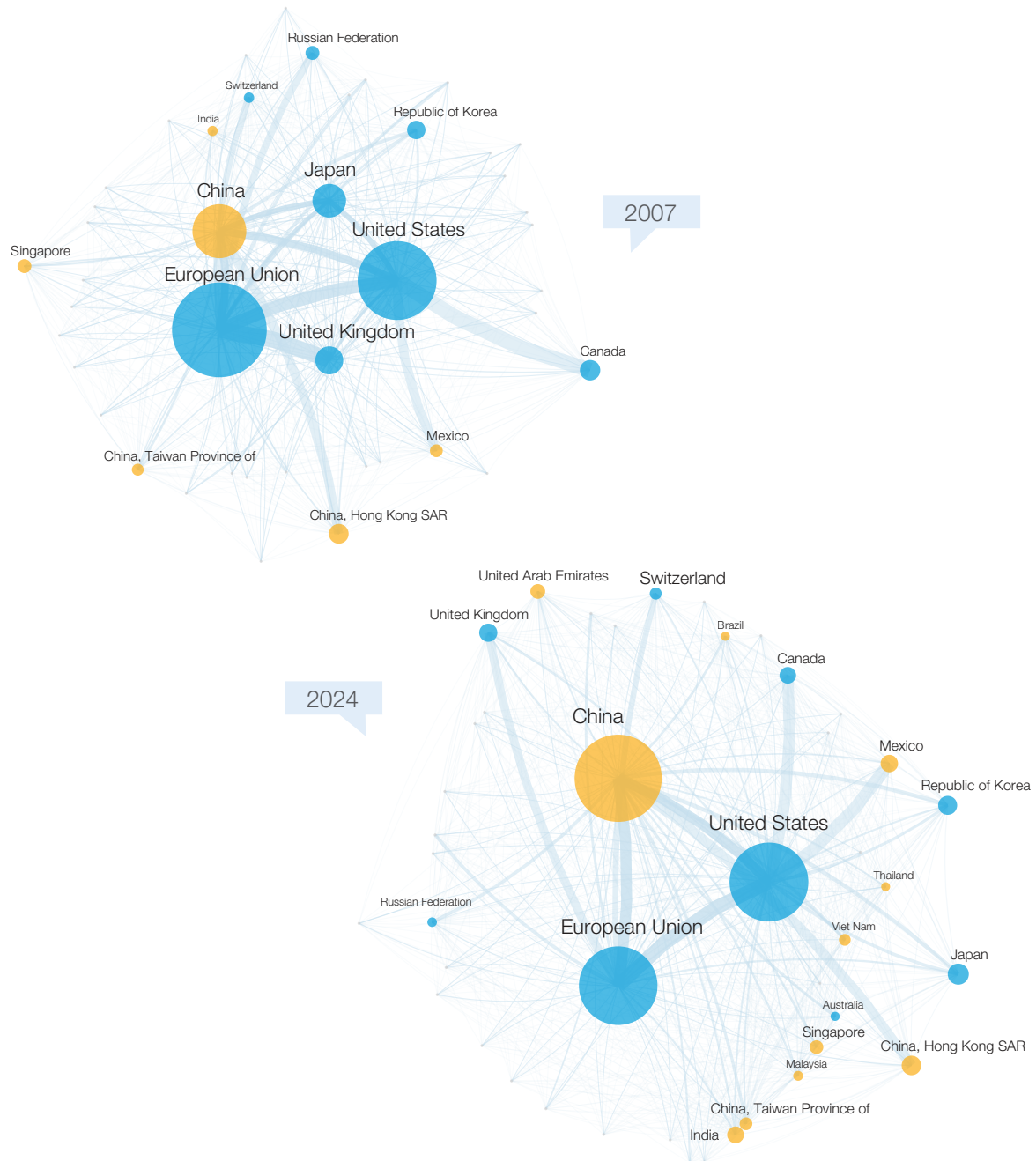
²⁹ In this chapter, the term global South refers to developing economies, and global North refers to developed economies.



hubs (figure IV.2). From 2007 to 2024, the share of China in global merchandise trade increased from around 7 to over 13 per cent.

The diversification of supply chains and trade partnerships has not been confined to developing countries.

Figure IV.2
Global South economies are increasingly prominent in global trade
World network of bilateral merchandise trade

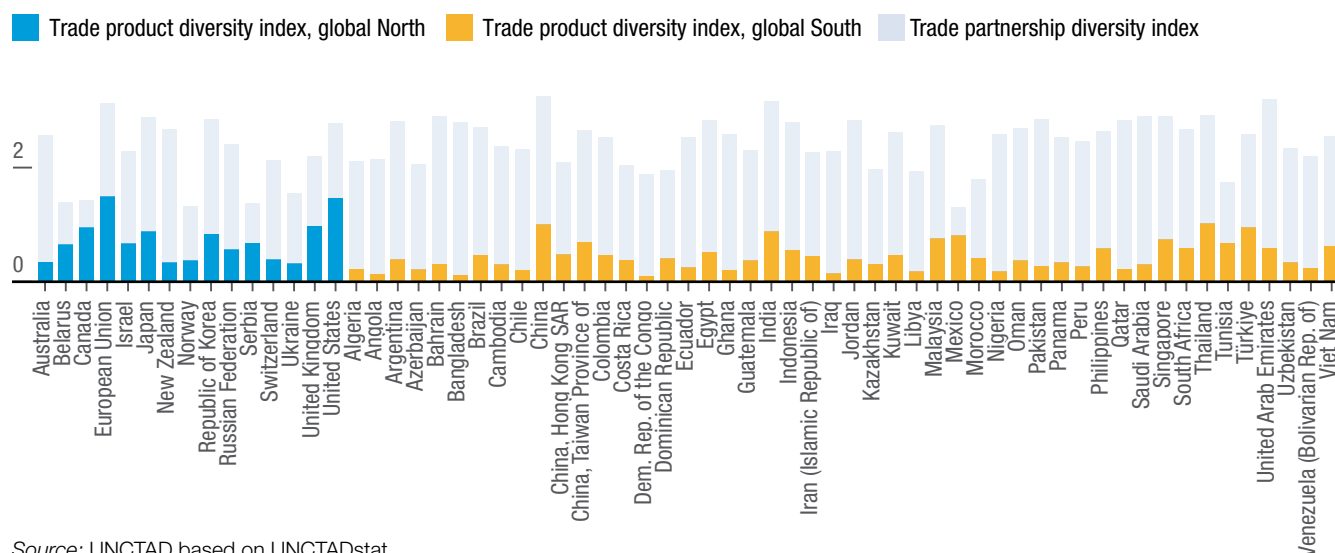


Source: UNCTAD based on UNCTADstat.

Note: Only the top 20 per cent of the world's largest economies by trade value are represented in this figure. Intra-European Union trade is not considered. For each economy, its node size is proportional to the total value of its exports and imports. Economies' names are only listed if their share in global trade is at least 1.5 per cent. Blue nodes refer to the global North and yellow nodes to the global South.

Figure IV.3 Trade diversification has occurred across many economies

A combination of partnership and product merchandise trade diversity indices for 2024, selected economies (Index)



Source: UNCTAD based on UNCTADstat.

Note: The merchandise trade diversity indicator is calculated based on Shannon entropy index, which measures the diversification of merchandise trade partnerships and products. The index was computed for the largest 63 economies in terms of aggregated exports and imports: 45 correspond to the global South; 18 to the global North (the European Union is treated as a single economy). The solid columns represent a composite diversity index of merchandise trade products. Economies with a wider range and homogeneously distributed export values across product categories have higher scores, indicating higher product-level trade diversity. The shadow columns represent a composite diversity index of merchandise trade partnerships, capturing the heterogeneity of an economy's trading relationships. A higher index value indicates wider and more homogeneously distributed trade flows across partners, reflecting greater diversification. For detailed information on the merchandise trade diversity indicators, please refer to appendix IV.1.

Many countries, developed and developing, have broadened their trade ties over the past decade. China, India and the United Arab Emirates lead trade partnership diversity rankings³⁰ among the developing countries. Japan, the Republic of Korea and the European Union are at the forefront of the advanced economies (figure IV.3). As appendix IV.1 shows, of the 15 most diversified in partnership economies in the world, 12 are in Asia.³¹

As figure IV.4 shows, many exporters in the global South today have more choices about where to direct and source goods. This may support resilience in the face of tariff uncertainties and other emerging risks.

Global South exporters now diversify sourcing and destinations, strengthening resilience to policy shocks and new risks.

³⁰ Diversification progress here is measured across the structure of trade and the range of trade partners. It indicates how adaptable countries are to changing geoeconomic contexts and cyclical fluctuations.

³¹ According to the diversity index of trade partnerships from UNCTAD, the 15 most diversified economies are as follows: China, United Arab Emirates, India, European Union, Thailand, Singapore, Bahrain, Saudi Arabia, Japan, Jordan, Republic of Korea, Pakistan, Qatar, Argentina.



Figure IV.4

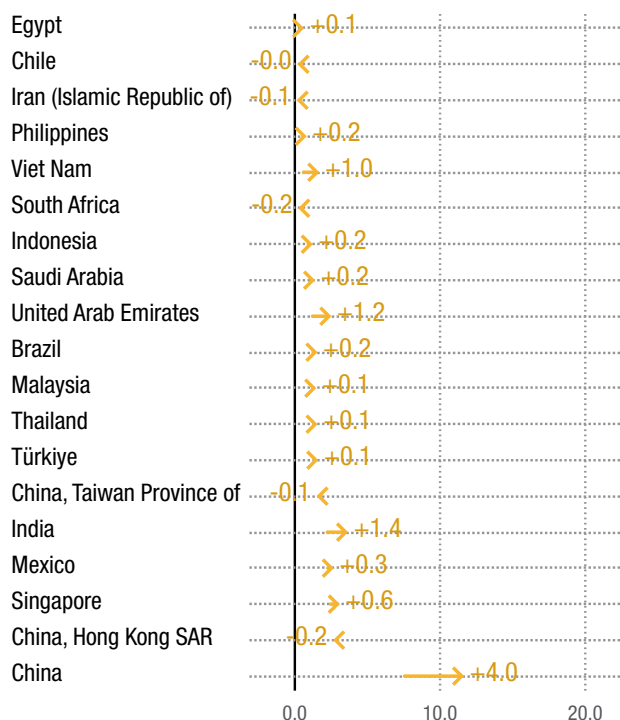
A new trade map: The global South overtakes the global North in imports

Changes in the share from 2007 to 2024 of global imports of merchandise products and services, selected economies

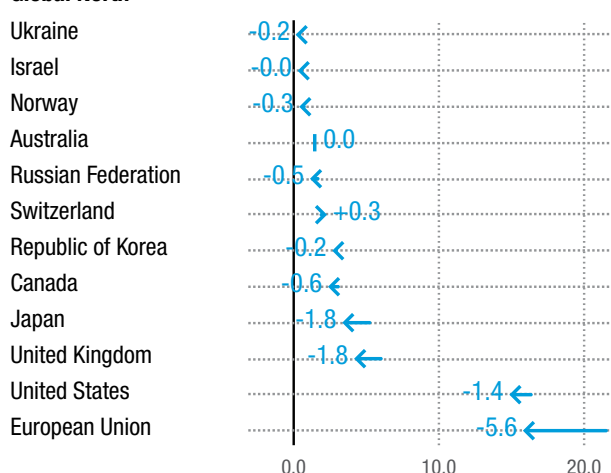
(Percentage)

Global South Global North

Global South



Global North



Source: UNCTAD based on UNCTADstat.

Note: The selection of economies is based on their 2007 import shares exceeding 3 per cent of global imports. The ascending order reflects the respective import volume for each economy in 2007. The European Union is treated as one economy; intraunion trade is not included. The arrows in the figure indicate the direction of change in this economy's import share from 2007 to 2024.

North-North trade still leads globally; developing Asia and Oceania dominate South-South flows for decades now.

A more diversified or weblike pattern of global trade has replaced the older hub-and-spoke flows, with the share of the global South rising from 26 per cent in 1995 to about 45 per cent in 2024. Newly formed multilateral networks, such as the BRICS, have also augmented the global trade map, although the potential for interregional trade and economic cooperation remains large (box IV.1).

Yet progress in trade diversification has been uneven. Despite an over twofold expansion of South-South trade flows between 1995 and 2024, North-North trade flows still dominate globally, accounting for almost 40 per cent of all merchandise trade flows. Within the global South, developing Asia and Oceania has maintained a commanding lead over the past 25 years (table IV.1).



Table IV.1
Trade shifts have occurred among major players but not more broadly
Changes in the global merchandise export flows

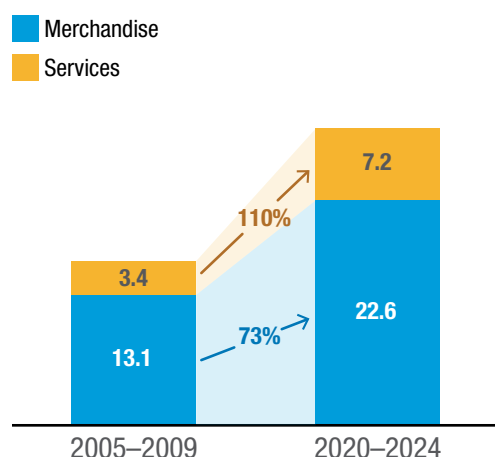
Trade direction	Trade value (Billions of dollars)		Share in global trade (Percentage)	
	1995	2024	1995	2024
Intraregional trade flows				
North to North	2 773.6	9 113.4	56.8	37.8
South to South	505.6	6 177.2	10.4	25.7
▶ Africa to Africa	13.5	106.2	0.3	0.4
▶ Americas to Americas	47.8	202.1	1.0	0.8
▶ Asia and Oceania to Asia and Oceania	381.6	4 529.8	7.8	18.8
▶ Cross-regional trade within South	62.7	1 339.0	1.3	5.6
Cross-regional trade flows				
South to North	781.1	4 883.3	16.0	20.3
North to South	823.3	3 905.4	16.9	16.2

Source: UNCTAD based on UNCTADstat.

The picture changes drastically when the expanding services trade is included (figure IV. 5). In the global services trade, developing countries have increased their footprint only marginally. Overall and in

contrast to its growing role in merchandise trade, the global South today accounts for a third of global services trade (figure IV.6). Much of the increase has been driven by China and India, which together accounted

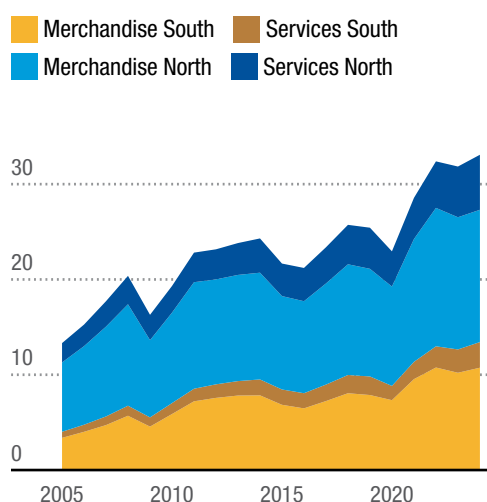
Figure IV.5
The changing global trade landscape: Services grow faster than merchandise trade
Five-year averages of global exports in services and merchandise trade
(Trillions of dollars)



Source: UNCTAD based on UNCTADstat.

Note: Arrows show growth rates for the indicated periods.

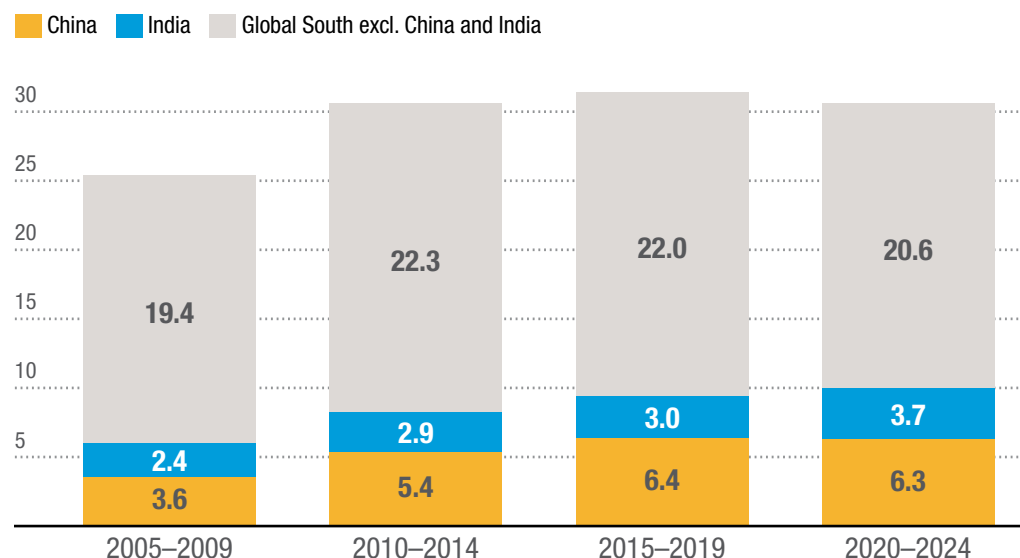
Figure IV.6
Global South's limited role in the changing global landscape
Merchandise and services trade in global North and global South
(Trillions of dollars)



Source: UNCTAD based on UNCTADstat.

Figure IV.7 China and India drive service trade growth from the global South

The share of developing countries in global services trade
(Percentage)



Source: UNCTAD based on UNCTADstat.

Asymmetries in intangible capital, digital services and financial assets deepen the North–South wealth divides.

for about 10 per cent of global services trade at the end of 2024 (figure IV.7).

On the one hand, this gap partly reflects the broader shift toward the ‘servicification’ of manufacturing and transformation of global value chains (UNCTAD, 2024). This re-iterates the long-standing policy challenges of localizing value upgrading and the need for policies for industrial transformation and development-related measures (DRM) (UNCTAD, 2021b).

On the other, the services trade gap increasingly reflects new dimensions of economic activities and wealth creation, representing asymmetries in intangible capital, digital services, and financial markets, which deepen the wealth divide between the North and the South.

This suggests that the outcomes of economic integration should be gauged not only by rising cross-border flows of goods, investment and services; but also by

harder-to-track intangibles. Recent studies of this issue call for a closer coordination between trade and investment statistics to capture multinational enterprises’ global activities and stress the policy priorities of improving trade data (Fu and Ghauri, 2020), as well as the need for a revised policy framework for inclusive growth in the age of financialization (Baldwin and Forslid, 2020; UNCTAD, 2022a; Ing and Rodrik, 2025).

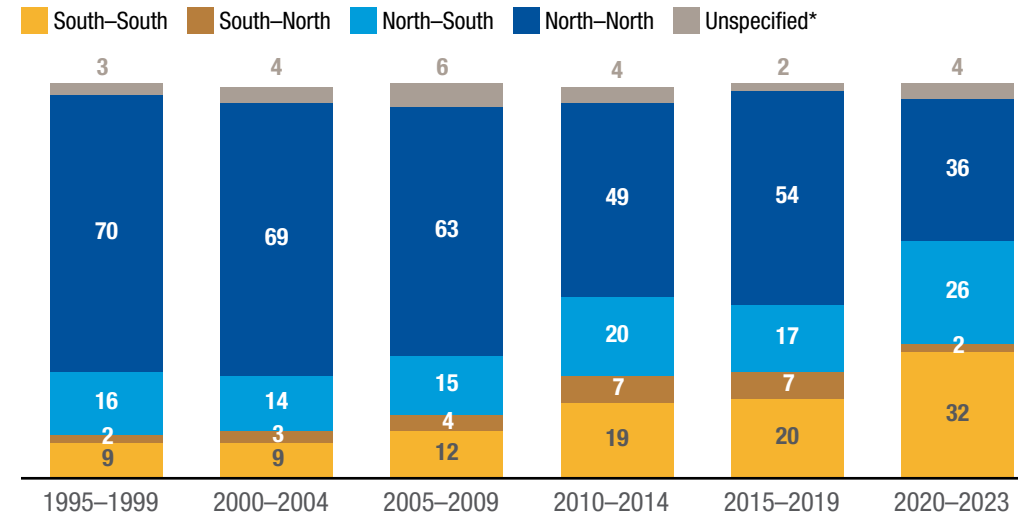
2. The global South and global foreign direct investment flows³²

Asymmetries in trade are reflected in the evolution of the global map of FDI. The inflow of FDI to the global South has seen a dramatic surge over the past decades, but setbacks and structural obstacles to capital formation and investment in developing countries persist (figure IV.8).

³² Contrary to normal practice in UNCTAD World Investment Reports, international financial centres and associated FDI flows have been included here where necessary, to show divergent trends in developing country integration between trade, investment and finance.

Figure IV.8 Foreign direct investment flows from global South have markedly increased

Bilateral FDI flows
(Percentage)



Source: UNCTAD based on UNCTADstat.

Note: The dataset includes international financial centres. The decline in North–North FDI inflows and the concurrent increases in South–South and North–South flows during 2020–2023 are inflated by negative flows reported in the Netherlands, Luxembourg and Switzerland.

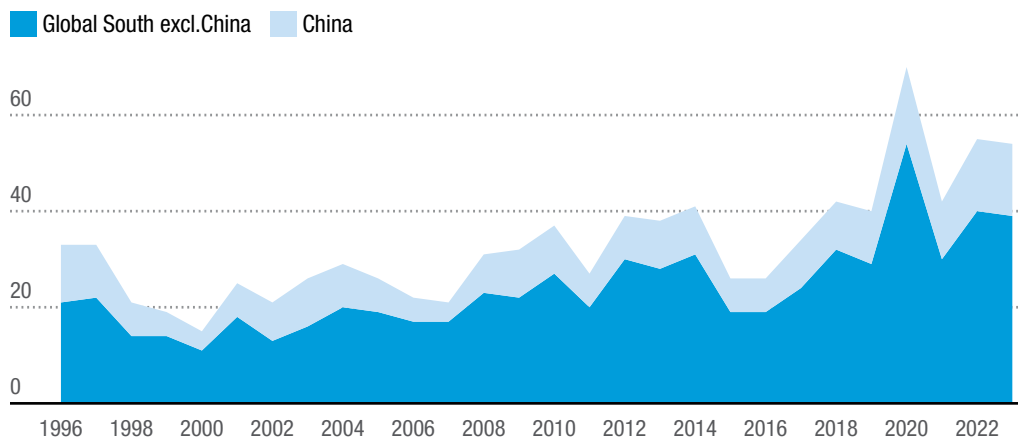
*Unspecified are FDI inflows where the country of geographic origin could not be definitively identified in the official reporting data.

Globally, since the 1990s, the share of South–South FDI inflows has increased nearly fourfold, from an average of 9 per cent in 1995–1999 to 32 per cent in

2020–2023. When China is included, the increase is more dramatic, with global South accounting for about 60 per cent of FDI inflows globally in 2023 (figure IV. 9).

Figure IV.9 China accounts for a substantial share of the rising FDI inflows into the global South

The share of bilateral FDI inflows to global South economies
(Percentage)



Source: UNCTAD based on UNCTADstat.

Note: The dataset refers to figure IV.1.

While new investments flow into the global South, financial volatility erodes their impact, preventing sustained capital formation.

At face value, this evolution can be interpreted as a greater role for companies from developing countries in driving investment patterns worldwide.

Yet a more granular examination reveals a different picture.

The contrast between the growing share of the South in FDI inflows and their stagnating share in global FDI stock reflects the fact that investment in the South tends to be more tangible, targeting productive capacity creation (UNCTAD, 2025e), whereas a large part of FDI in the North includes financial transactions and intangibles, subject to stock revaluations. This is reflected in a closer correlation between FDI stock trends in the South cumulative flows. In the North, in contrast, stock trends grow considerably faster than cumulative flows.

South–South FDI flows have expanded nearly twofold over the past decade. Yet FDI stock has barely moved, edging up from 11 to 16 per cent (UNCTAD, 2025e). Interestingly, South–North FDI instock

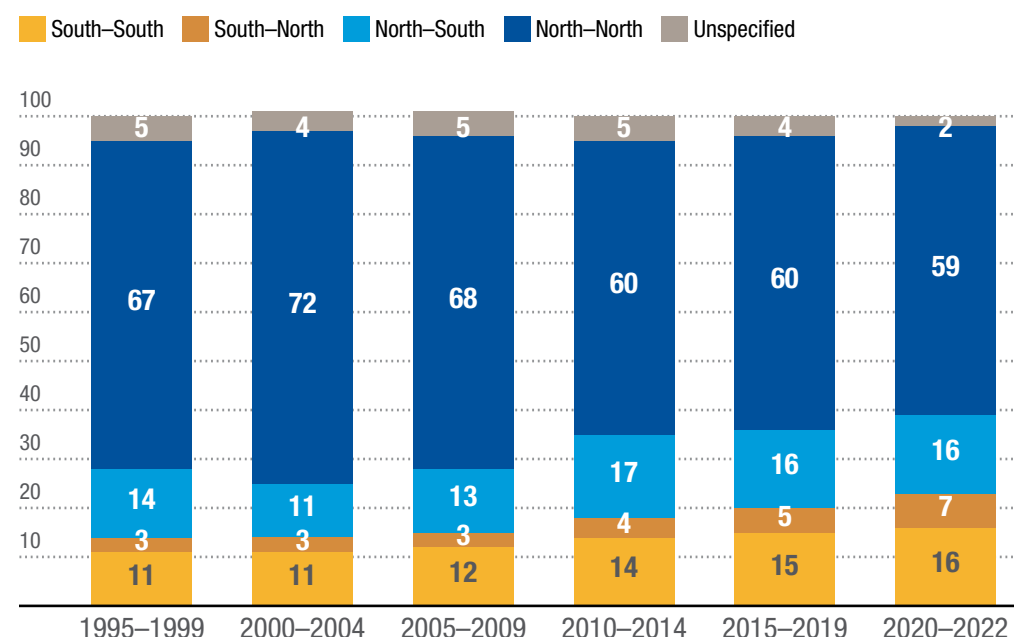
shows constant growth, suggesting a growing but still minor shift as emerging economies begin to invest more steadily in the global North (figure IV.10).

Thus, the positive inflows of FDI can be negative valuation adjustments such as sharp currency depreciations that reduce the recorded value of assets. In effect, while new investments do enter the global South, financial volatility can erode their impact, preventing sustained long-term capital formation.

The evidence suggests trade and FDI have diversified in tandem in recent decades. On the one hand, the growing weight of the global South in merchandise trade and investment flows points to deeper integration into production networks and greater participation in global value chains. On the other hand, however, broadening the lens on FDI to include financial transactions and international financial centres alters the picture (see figure IV.11): much of the investment flows

Figure IV.10
FDI instock is concentrated in the global North

Bilateral FDI instock
(Percentage)



Source: UNCTAD based on UNCTADstat.

Note: The dataset includes international financial centres.

remain clustered in advanced economies and a handful of international financial hubs that offer regulatory alignment and access to advanced capital markets.

Unlike the international trade network, the global FDI network appears to be increasingly geared towards the United States.

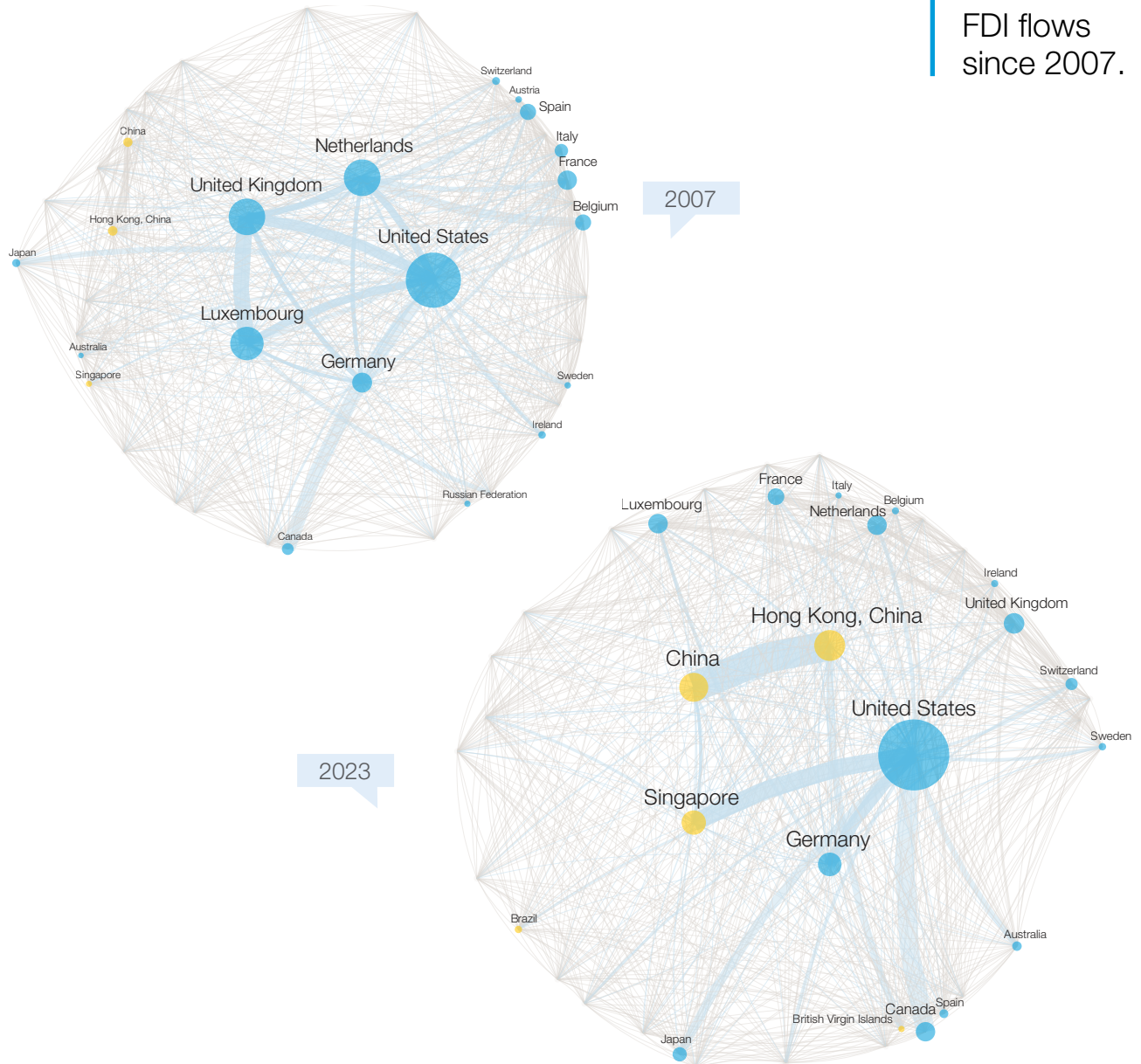
China, Singapore, and Brazil have joined the developed countries as global hubs of bilateral FDI flows since 2007.



Figure IV.11

Capital centres: A handful of developing economies have become international foreign direct investment hubs since 2007

World network of bilateral foreign direct investment flows



Source: UNCTAD based on UNCTADstat.

Note: Bilateral FDI refers to the aggregated inflows and outflows. Only the top 40 world's largest economies by this metric are considered. Node sizes and arrow widths are proportional to the world's total FDI inflows and outflows that particular year. Economies' names are only listed if their aggregate FDI flows belong to the top 20 globally. Blue nodes refer to the global North and yellow nodes to the global South. Contrary to normal practice in UNCTAD World Investment Reports, international financial centres have been included in this network mapping. An analysis based on ultimate ownership data offers an alternative mapping of FDI, to show FDI integration of global South.



Asymmetries in global trade and investment flows partially manifest a more profound imbalance in the global financial system. Notwithstanding the expanding role of South–South linkages and the progress of integration examined above, developing economies remain at the periphery of global finance. This results from structural

issues in governing global financial architecture, but also, importantly, from macro-level and sectoral asymmetries such as the development of payment systems and financial market infrastructure, financial services and mechanisms of financialization (UNCTAD, 2021a). The next section addresses these issues.



Box IV.1 Trade within BRICS

Over the past decade, ten BRICS members expanded their global trade presence, with exports rising from nearly \$1 trillion in 2003 to almost \$6 trillion in 2024.

BRICS is one of the world's most significant economic cooperation platforms. It is widely viewed as a leading mechanism of global South cooperation.

As of mid-2025, five countries – Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates – have become full members, joining the original five, Brazil, China, India, the Russian Federation and South Africa. Ten other countries – Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda, Uzbekistan and Viet Nam – have become “partners” to the group.

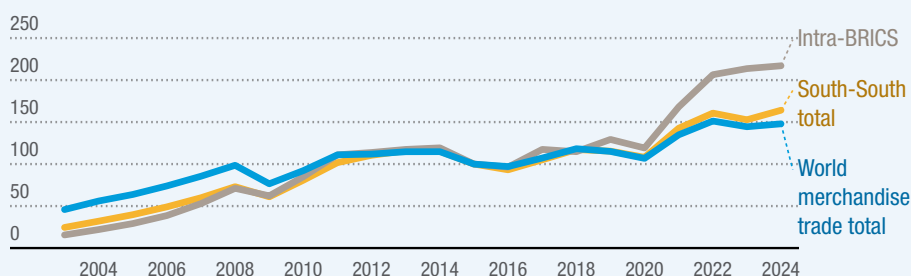
Over the past decade, the 10 full members of BRICS have enlarged their footprint in global trade. Total merchandise exports from them to the world increased dramatically, from almost \$1 trillion in 2003 to \$6 trillion in 2024. This growth has resulted in a steady expansion in their share of global exports, from approximately 12 to 24 per cent. The group's total merchandise imports grew from almost \$800 billion in 2003 to \$5 trillion in 2024. Their share of global imports climbed from about 10 to 20 per cent.

BRICS members have made efforts to capitalize on the potential of intragroup trade. The Strategy for BRICS Economic Partnership 2025 committed to “continue to explore opportunities for intra-BRICS trade and economic cooperation in the areas where BRICS members have already reached joint arrangements and results” (BRICS, 2020:5).

Alongside strong trade performance with the rest of the world, intra-BRICS trade (exports) has expanded even more rapidly, increasing from \$84 billion in 2003 to \$1.2 trillion in 2024. It grew at an annual average rate of 13 per cent, much higher than the rate for global trade (6 per cent) or overall South–South trade (10 per cent) (as figure IV.B1.1 indicates).

Figure IV.B1.1
Intra-BRICS trade has rapidly expanded

Dollar value of merchandise exports
(Index numbers, 2015=100)



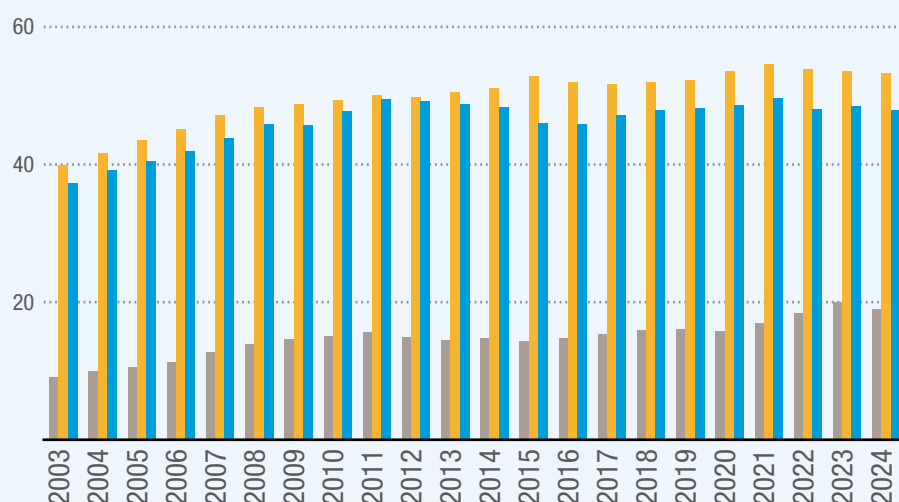
Source: UNCTAD based on UNCTADstat.

Despite rapid growth in the last two decades, the scale of intra-BRICS trade remains small compared to the economic size and trade capacity of members. Collectively, members account for 27 per cent of global GDP and 68 per cent of the GDP of the global South. In total exports, they have 24 per cent of the global share and 53 per cent of the global South share. But intra-BRICS trade only comprised about 5 per cent of world trade and 20 per cent of South–South trade as of 2024 (figure IV.B1.2).

Figure IV.B1.2
Intra-BRICS trade does not match capacity

Intra-BRICS merchandise trade versus South–South
(Percentage)

■ Ratio of intra-BRICS trade over the total South–South trade (total exports) ■ BRICS share of the global South (total imports)



Source: UNCTAD based on UNCTADstat.

This disparity indicates untapped potential for intra-BRICS trade cooperation. Yet BRICS members have not yet formulated concrete policy actions, such as a free trade agreement.

Several factors account for the disparity between market potential and policy cooperation: heterogenous development, divergent policy contexts, and geopolitics. **UNCTAD suggests a Trade+ strategy to foster more concrete trade cooperation among BRICS members. This includes initiating a BRICS preferential trade agreement, building links between trade and other policy action areas, reforming BRICS trade cooperation institutions and strengthening capacity-building among members.**

Note: This box is based on UNCTAD (2025, forthcoming).

While collectively, members account for 27 per cent of global GDP and 68 per cent of the GDP of the global South, intra-BRICS trade comprised about 5 per cent of world trade and 20 per cent of South–South trade in 2024.

While there is untapped potential for intra-BRICS trade cooperation, concrete policy actions are yet to be implemented.

3. The global South and financialization

The term “financialization” captures a range of transformations, including financial liberalization and capital account opening at the macro level, the deepening of credit relationships inside an economy, and a key role of financial innovation in economic development (Chinn and Ito, 2002). In a broader socio-economic framework, financialization also refers to the influence of financial accounting norms and calculative

practices over the economy, society and environment (Besedovsky, 2018).

In developing economies, financialization has been a defining force of international integration, inducing qualitative changes in the behaviour of economic agents and the policies of the State (Becker et al., 2010; Kaltenbrunner and Paineira, 2018). Crucially, it is shaped by currency and sovereign debt hierarchies (de Paula, 2017).

This mutual dependence creates a paradox. While financial deepening offers a range of risk management tools, it also

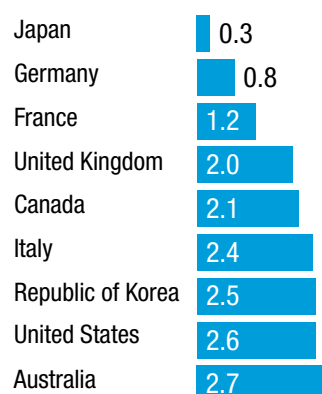


Figure IV.12

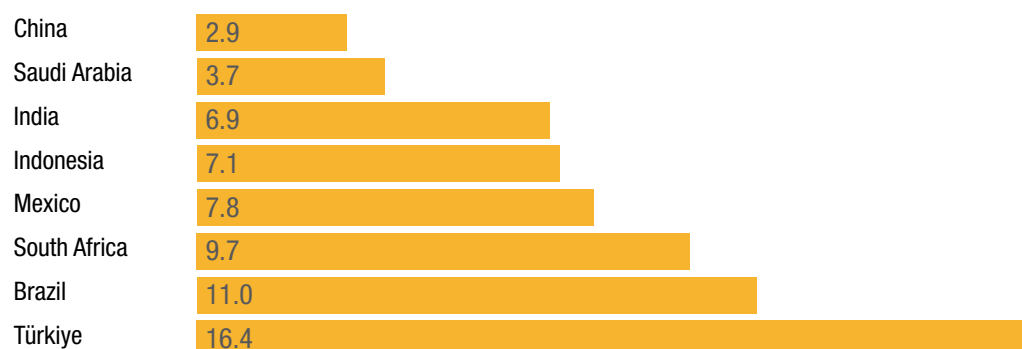
Global South sovereign borrowing comes with a higher cost

Ten-year treasury yield: global South and global North, 2015–2025 averages (Percentage)

Global North



Global South



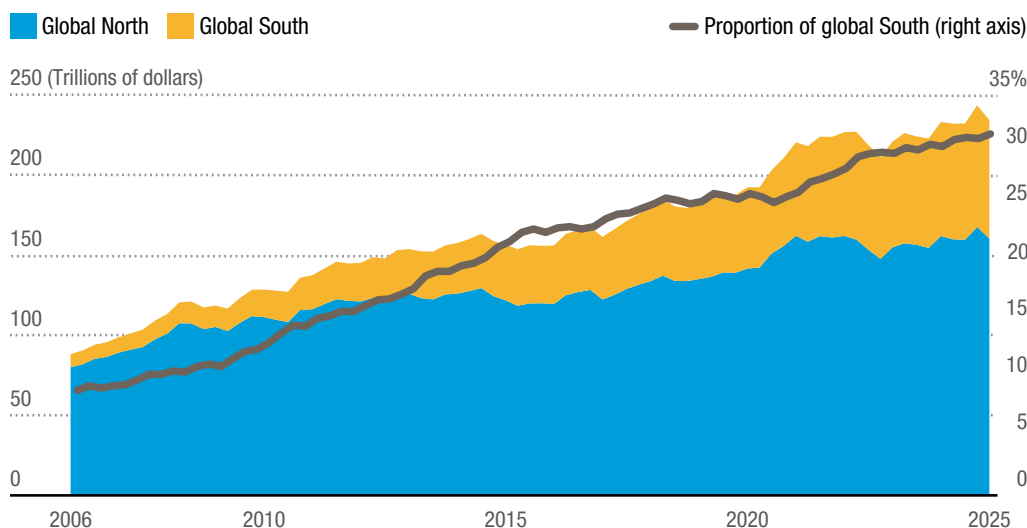
Source: UNCTAD based on LSEG Datastream.

Note: Data show the government benchmark bid yield for 10-year bonds in selected G20 economies. Typically denominated in the local currency, these yields reflect the most liquid, domestically issued securities, serving as the primary ‘risk-free’ rate for each country. They form the baseline cost of long-term sovereign borrowing and influence corporate borrowing costs across their respective economies.



Figure IV.13 As developing economies grow, credit relationships deepen

Total credit to the nonfinancial sector, global South and global North



Source: UNCTAD based on BIS data.

Note: Credit to the nonfinancial sector includes borrowing activities by both governments and private nonfinancial sectors. Financial instruments comprise currency and deposits, loans and debt securities.

reinforces asymmetries and dependencies that often harm developing countries and constrain their integration strategies (de Souza, 2025). Beneath the general mode of ‘peripheral financialization’ (ibid.), its specific outcomes are increasingly divergent across the global South.

Notwithstanding some fluctuations, levels of financialization in the advanced economies, as indicated by the credit-to-GDP ratio, have remained high and changed little over the past two decades. In contrast, the ratio in developing

countries nearly doubled between 2004 and 2024, with its median increasing by around 80 per cent (BIS, 2025b).

Despite the overall expansion of the financial sector, however, including at the national level, governments and nonfinancial companies across the South remain on the periphery of financial markets, hampered in their ability to raise capital (figure IV.13).

They typically face much higher borrowing costs (figure IV.12), lower credit ratings and more constrained fiscal space (UNCTAD, 2025a).

In developing economies, the credit-to-GDP ratio has grown by 80% in the past 20 years.

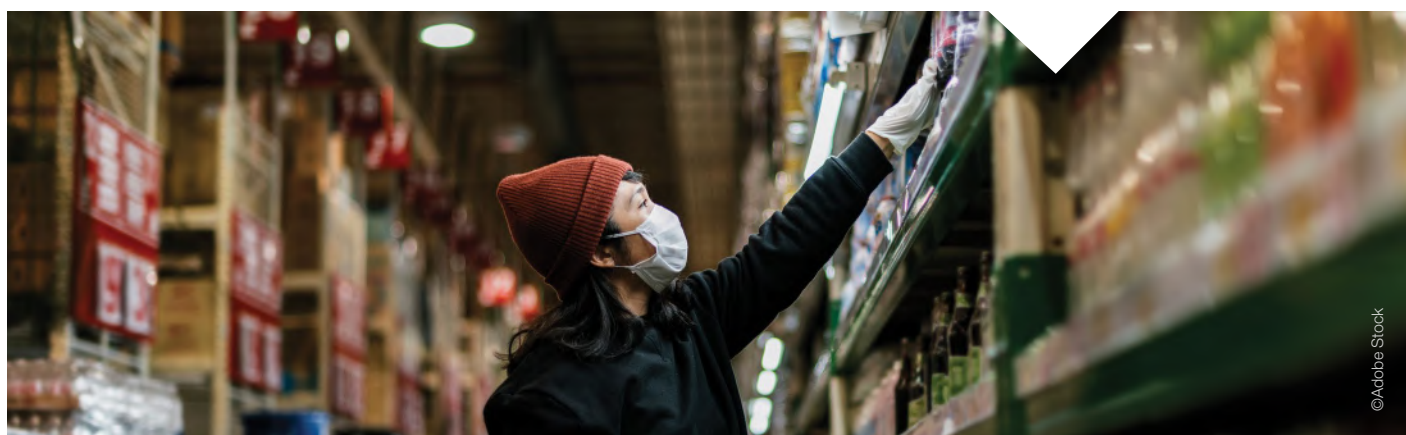
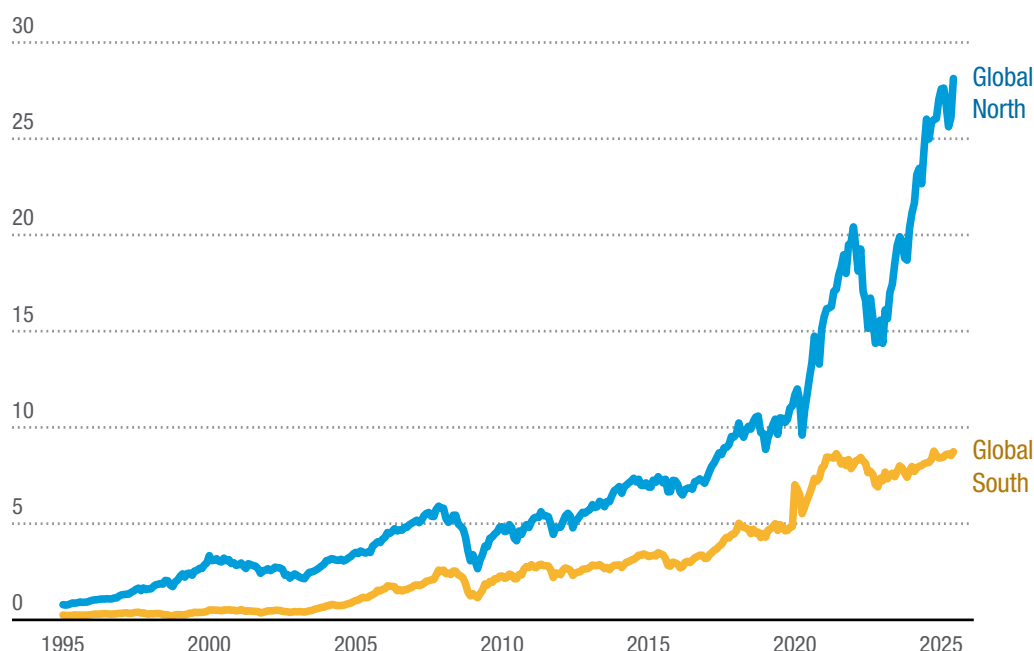




Figure IV.14

Raising capital remains a challenge for companies from the global South

Monthly market capitalization of selected firms from the global South and global North (Trillions of dollars)



Source: UNCTAD based on LSEG Datastream and World Federation of Exchanges.

Note: The data set was constructed using a stratified sampling approach based on MSCI regional and sectoral indices. For each region and sector, the top 20 firms by market capitalization were selected for each time period to ensure the representation of the most significant and highly financialized large-cap companies. Market capitalization is proxied by 333 large-cap companies across 39 countries, of which 109 have their headquarters in the global North and 224 have their headquarters in the global South. They include firms from 11 sectors: energy, materials, industrials, consumer discretionary, consumer staples, healthcare, financials, information technology, communication services, utilities and real estate.

Even after substantial post-2008 expansion, developing economies' total market capitalization was under half the global North's by end-2024.

Developing countries' access to finance – broadly defined as the ability to obtain safe, affordable, relevant financial products – remains weak and uneven (Birkenmaier et al., 2019). Even with the significant expansion of domestic financial markets since 2008, the total market capitalization of developing economies was less than half of that of the global North at the end of 2024 (figure IV.14).

A widespread lack of adequate institutional infrastructure, market depth and investment grade ratings compounds this difficulty (figure IV.15). As a result, developing countries face greater barriers in securing affordable and stable financing. This issue requires deeper analysis of the

mechanisms of financialization and their implications for emerging markets.

At its core, financialization is associated with the dominance of finance over the real economy. This manifests in the expansion of the world's financial securities – equities and bonds – relative to global GDP (Lysandrou, 2025). In 1980, world securities stocks and world GDP were roughly similar, at \$11 trillion. By 2024, world securities (equity and corporate fixed-income market) had grown to nearly three times world GDP for that year – \$272 trillion in securities compared to a GDP of \$111 trillion (see figure IV.16). The most recent estimates in 2025 suggested global wealth has reached \$600 trillion (McKinsey & Company, 2025).

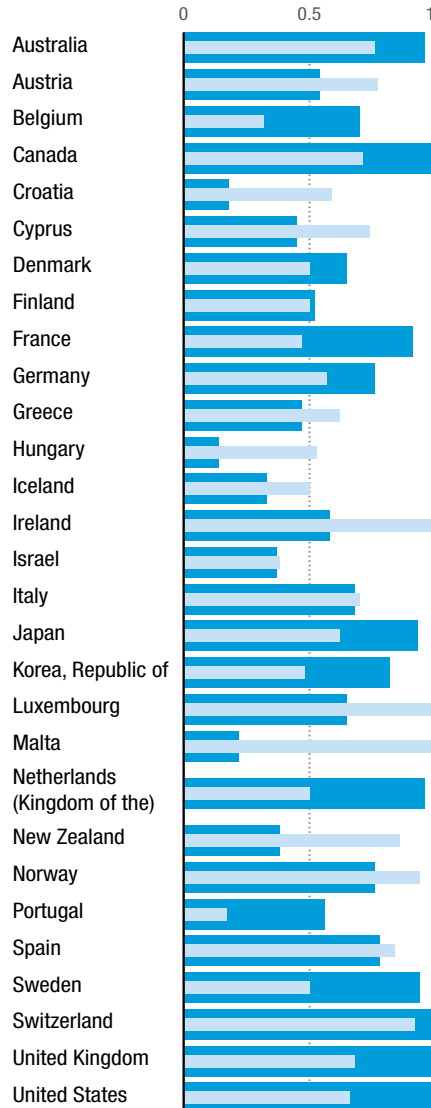


Figure IV.15 Developing economies face unequal financial access

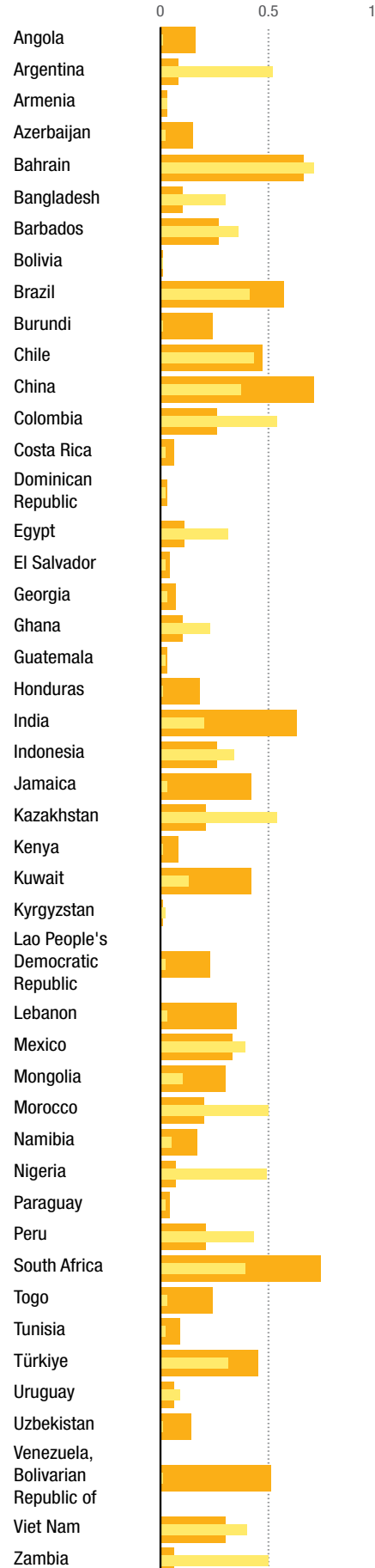
Financial Markets Access and Depth indices, selected economies, 2025

Access Depth

Global North



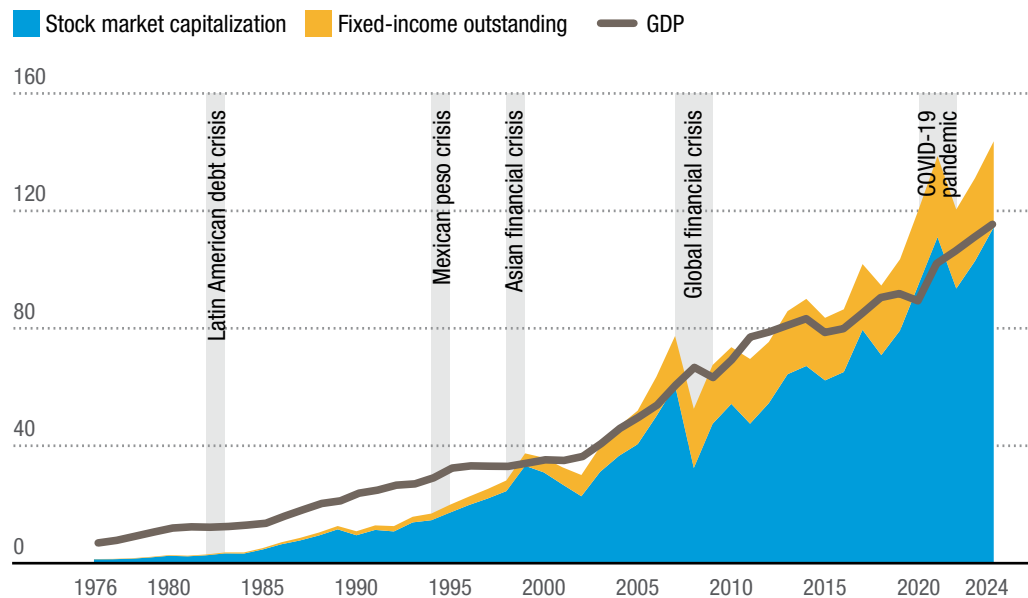
Global South



Source: UNCTAD based on the IMF Financial Development Index.

Note: Both indices are composite indicators aiming to capture financial market access (ability of individuals and companies to access financial services) and depth (size and liquidity of markets). They are based on data measuring various characteristics of financial institutions and markets. For more details about the specific variables selected for each index, see Svirydzenka (2016).

Figure IV.16
Global financial market expansion has outpaced economic growth
Global GDP, global equity market capitalization and global fixed-income outstanding
(Trillions of current dollars)



Source: UNCTAD based on World Bank, WFE and BIS Statistics.

Note: Financial market size is defined as the combined value of stock market capitalization and outstanding corporate fixed-income securities.

Table IV.2
The United States dominates global capital markets

Global equity market capitalization and global bond stock outstanding, 2024
(Percentage)

	Global equity market	Global bond stock
China	9	17
United States	50	40
European Union	9	18
Global South (excl. China)	12	6

Source: UNCTAD based on BIS and WFE.

In this financialized system, United States assets dominate global equity and bond supplies, accounting for nearly 50 per cent of the value of global equities and 40 per cent of global bond stock. Other economies are far below these levels (table IV.2; see

also figure IV.14). The combination of financialization and the centrality of the United States in the global supply of equities and bonds, reflects two processes.

First is the transition from a bank-based financial system to an economy where much wealth is divorced from the accumulation of saved incomes; where the structure of assets and liabilities and capital market valuations play a growing role in shaping investment and macroeconomic trends (Bezemer et al., 2025). This process was fuelled by pension reforms in many advanced economies, when the key functions of securing the financial welfare of citizens – such as pensions – moved away from the State to professional investment institutions (UNCTAD, 2017; Braun, 2021).

In such a system, the financing strategies of both private and public entities are increasingly shaped by large institutional players – such as sovereign wealth funds, pension funds, asset managers, and banks. Asset managers buy securities expecting future repayment with a premium, while using these assets as stores of value for their clients' funds. The value storage capacity

of securities, in turn, rests on their safety, liquidity and scale (Adrian and Shin, 2010).

For developing countries, the rise of asset management has entailed a second shift. Whereas capital flows in the 1990s often fuelled speculation, by the early 2000s, they reflected the increasing internationalization of professionally managed asset portfolios (Obstfeld and Rogoff, 2009). Institutional investors are reluctant to hold assets in the global South, however, without compensation through high returns and/or macroeconomic “de-risking”.

As a result, asset managers hold emerging market assets for yield, or in a “satellite” position to their core portfolios, which are oriented primarily towards value storage functions offered by safe-haven assets (Lysandrou, 2025). Thus for the professional class of asset managers, developing countries' financial assets have become “arbitrage opportunities” (Sula and Willett, 2009; UNCTAD, 2019).

Financing strategies of private and public entities are increasingly shaped by sovereign funds, pension funds, asset managers, and banks.

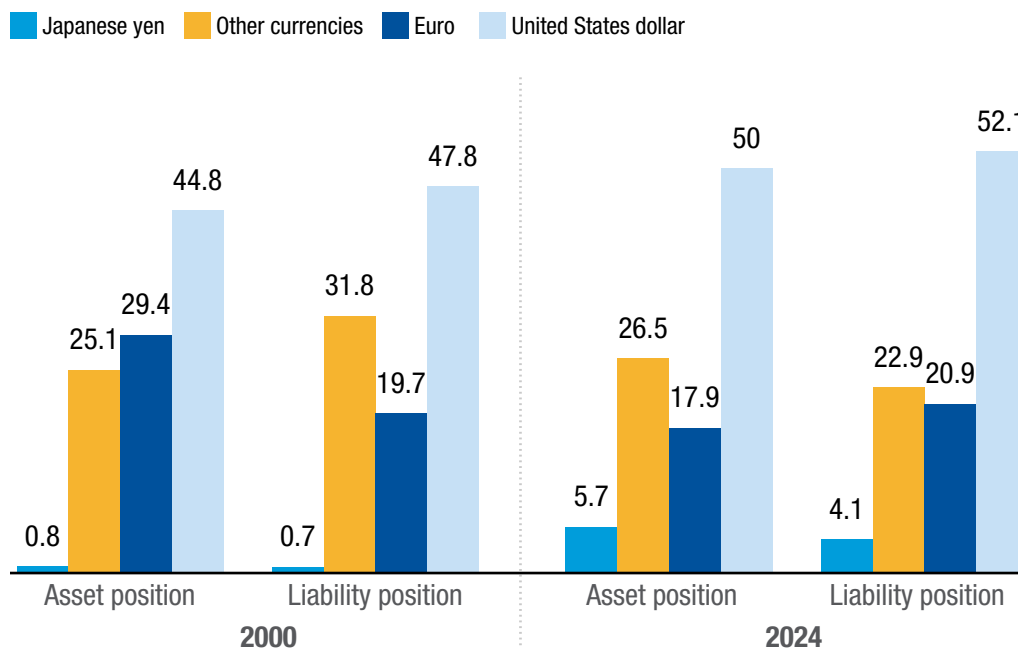
For the professional class of asset managers, developing countries' financial assets have become “arbitrage opportunities”.



Figure IV.17

The rising role of the dollar in global investment and borrowing

Currency composition of international investment positions
(Percentage)



Source: UNCTAD based on the IMF Currency Composition of International Investment Positions database.

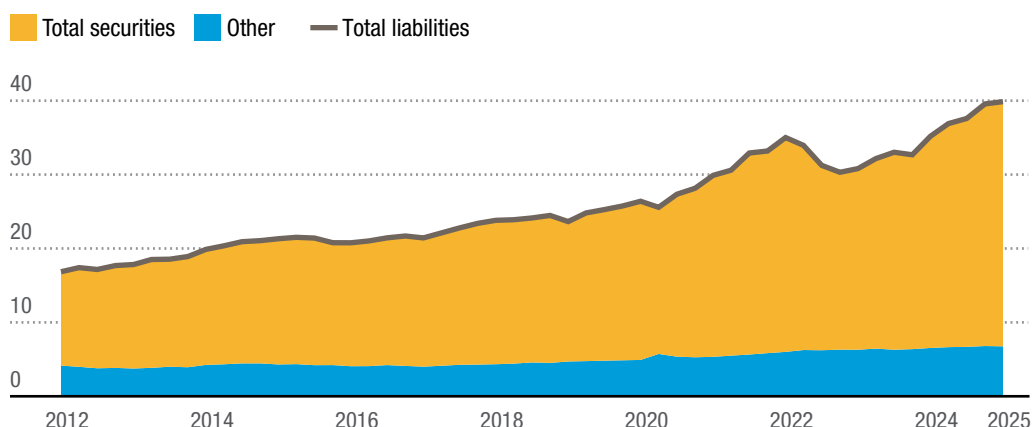
Note: The international investment asset position represents the value of a country's financial claims on the rest of the world. The liability position reflects the value of foreign financial claims on that country. Both exclude the foreign holders' own domestic currencies.





Figure IV.18
Global confidence in United States financial assets remains strong

Total United States banking and securities liabilities to foreign residents
(Trillions of dollars)



Source: UNCTAD based on Federal Reserve data.

Note: United States banking and securities liabilities to foreign residents refers to foreign investors' investments in United States financial assets, including government debt (Treasuries), corporate bonds and stocks.

International portfolio flows are routine, driven by asset-management shifts, making securities markets increasingly interdependent.

On a global scale, this core and satellite structure of asset portfolios is a key element underlying the continuing centrality of the dollar and dollar-anchored mechanisms worldwide. This is reflected in international investment positions, where the majority of cross-border investments occur in dollars (figure IV.17).³³ In fact, notwithstanding the recent volatility in investors' risk attitudes, a growing number of foreign investors now hold United States assets (figure IV.18).

This indicates investor preferences to borrow and invest through dollar-based instruments rather than alternative currencies (table IV.3).

The systemic impact of financialization therefore goes beyond the effects of financial openness and capital account liberalization. Heavy international portfolio flows have now become routine, driven by structural shifts in the global asset management industry. These changes have transformed securities markets, making their domestic sizes increasingly interdependent, rather than solely the result of domestic factors (Magubane, 2025).

³³ For instance, in November 2021, 65 per cent of total fund holdings were denominated in dollars, even as only 31 per cent of those funds were domiciled in the United States.



The dollar market, by virtue of its central position in the global financial system, has grown larger over time, offering foreign investors the advantages of safety, liquidity and scale. Other currency-denominated markets, especially in emerging economies, have often shrunk relative to this benchmark, as foreign investors seek higher yields to compensate for their smaller size and higher perceived risks (Lysandrou, 2025). This imbalance underscores how the global financial cycle and specifically,

asset management strategies, rather than purely local fundamentals, now shape the trajectories of securities markets worldwide (Rey, 2016).

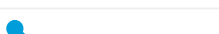
This development adds to the complex interplay among the global financial cycle, domestic macroeconomic conditions and international trade. The following section examines these issues, noting the need for more comprehensive analysis in the future.

The dollar market's centrality has expanded, offering foreign investors safety, liquidity and scale over time, globally.

Table IV.3

Global investors show continued demand for dollar-denominated financial assets

International debt securities shares by currency

	2019 — 2025 (Percentage)	Change in share (Percentage)	Outstanding debt, 2025 (Billions of dollars)
1 United States dollar	46.7  47.2	0.5	14 548
2 Euro	37.9  38.6	0.8	11 904
3 British pound sterling	8.2  7.9	-0.3	2 428
4 Japanese yen	1.9  1.1	-0.8	333
5 Australian dollar	1.1  0.9	-0.2	275
6 Chinese renminbi	0.5  0.8	0.4	254
7 Swiss franc	0.8  0.7	-0.1	207
8 Hong Kong dollar	0.5  0.5	0.0	145
9 Canadian dollar	0.5  0.4	-0.1	130
10 Swedish krona	0.4  0.4	-0.1	120
11 Others	1.7  1.6	-0.1	482

Source: UNCTAD based on BIS international debt securities statistics.

Note: All data refer to the first quarter of the respective year. Amounts outstanding of debt securities issued in international markets by residents of all countries (excluding residents of all issuers), all currencies, all maturities and all interest rate types.

C. The dollar as the global financial anchor

1. Asset capitalism and the centrality of the dollar

The role of the dollar as the world's financial anchor is explained by three dimensions: safety, liquidity and scale (table IV.4).

To start, international trade requires formal financing in hard currencies. For developing countries, this generally implies financing in major global currencies to take advantage of lower interest rates. Yet it creates a currency mismatch (see chapter I).

This increases the already concentrated exposure of firms in the global South to the global financial and trade system, as evidenced by the growing concentration of international banking relationships since 2007. Available data indicate that only a handful of developing countries (e.g.,

Brazil, China, Mexico and Türkiye) have augmented the global financial network, which is increasingly geared towards the United Kingdom, the United States and international financial centres (figure IV.19).

Part of the explanation of the increased centrality of the global financial system is that contrary to many commonplace notions of the hypermobility of capital, global finance remains deeply anchored in long-established networks of trust and regulatory niches.³⁴ Furthermore, the centralization of major bank and investment networks around major advanced economies between 2007 and 2023, shows that in the absence of an effectively working global payment system, the movement of money is executed indirectly, via established financial centres (Brandl and Dieterich, 2023; BIS, 2025a).

Brazil, China, Mexico and Türkiye have augmented the global financial network, which is increasingly geared towards international financial centres.



Table IV.4
The financial foundations of dollar dominance

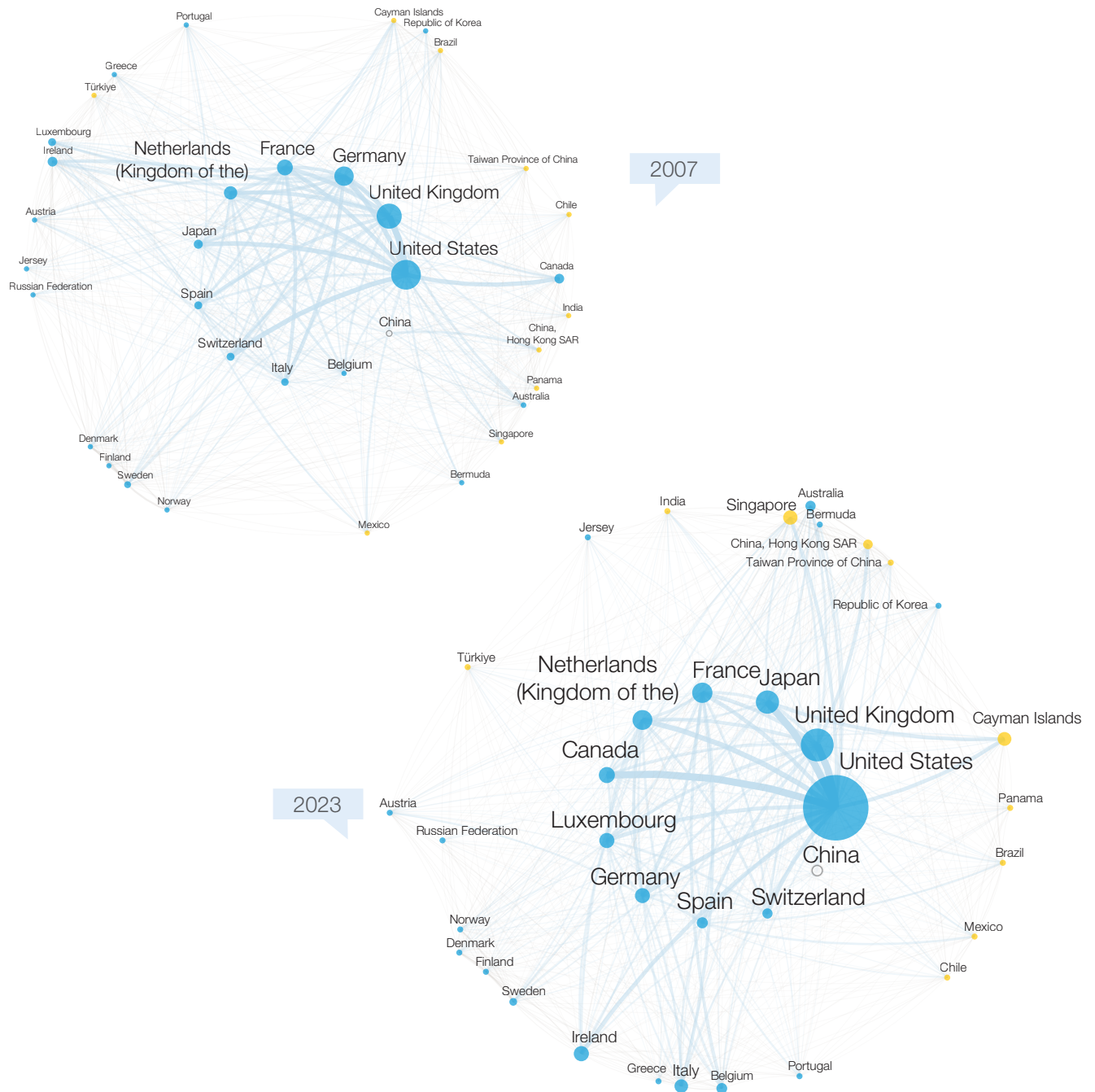
Trade–finance nexus	Features of financial assets	Implications for global South
Trade: Formal financing in hard currencies	Safety: The stored value invested in securities must hold firm up to the point of sale	For many developing countries, exports invoiced in dollars represent 80–90 per cent of their total exports
Global payment system	Liquidity: Assets can be sold quickly without any adverse impact on their price and hence stored value	Limited access to global payment systems
Global regulatory architecture	Scale: Financial securities must be capable of holding such substantial quantities of value as can match those carried in international portfolio flows	Developing countries' currencies and assets retain a 'satellite' position in the portfolio of large asset managers, which are structured around value storage and yield priorities

Source: UNCTAD based on Lysandrou (2025).

³⁴ See Haberly and Wojcik (2022) for an in-depth discussion of globalization, States' power and regulatory architecture of global financial networks.



Figure IV.19
A growing stock of foreign financial asset clusters in the global North
FDI and foreign claims and liabilities in the banking sector, selected economies



Source: UNCTAD based on UNCTADstat and BIS consolidated banking statistics.

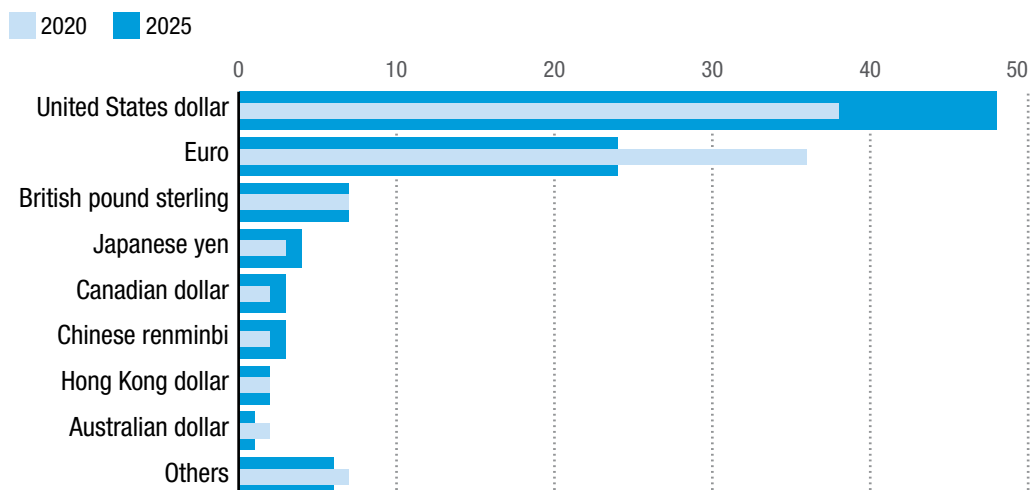
Note: The selected economies correspond to the publicly available BIS list of countries with data on foreign claims. Financial stocks refer to the end-of-year aggregated values of bilateral FDI inflow and outflow stocks together with foreign claims and liabilities reported in the banking sector. Stock outflows and liabilities values are retrieved respectively from the inflow and claim sides by reversing the directions to keep figures consistent. Each node represents an economy; the size of the node indicates its aggregate value of inflow and outflow FDI stocks, together with foreign claims and liabilities. Arrow width reflects the values of inflow and outflow FDI stocks together with foreign claims and liabilities between corresponding economies. The grey node for China indicates missing data.



Figure IV.20

The dollar's growing role in global payments

Currency composition of SWIFT transactions, selected currencies
(Percentage)



Source: UNCTAD based on SWIFT database.

Note: 22 currencies principally used in the SWIFT system are covered. Less-used currencies are grouped under "Others". Among them: Danish krone, Chilean peso, Hungarian forint, Swiss franc and other.

Global finance remains deeply anchored in long-established networks of trust and regulatory niches.

A mapping of advanced country currencies in the global economy reflects this. As figure IV.20 shows, since 2020, the share of the dollar in global SWIFT payments has risen from just under 40 per cent to nearly 50 per cent today. The dollar continues to dominate global foreign exchange transactions, although 40 per cent of all global foreign exchange deals take place in the Eurodollar markets in the United Kingdom (Neal, 2024).

Payments by financial institutions, making up 80 per cent of SWIFT transaction value, are mostly concentrated in advanced economies. Large-value transactions (\$50 million and above), which comprise approximately 83 per cent of payments by financial institutions and 61 per cent by customers, dominate total payment value.

Beyond its direct role in cross-border trade and investment, the dollar serves as the dominant currency for international settlements and financial transactions. Its centrality is most evident in currency derivatives, where operations in other currencies rely heavily on dollar-linked

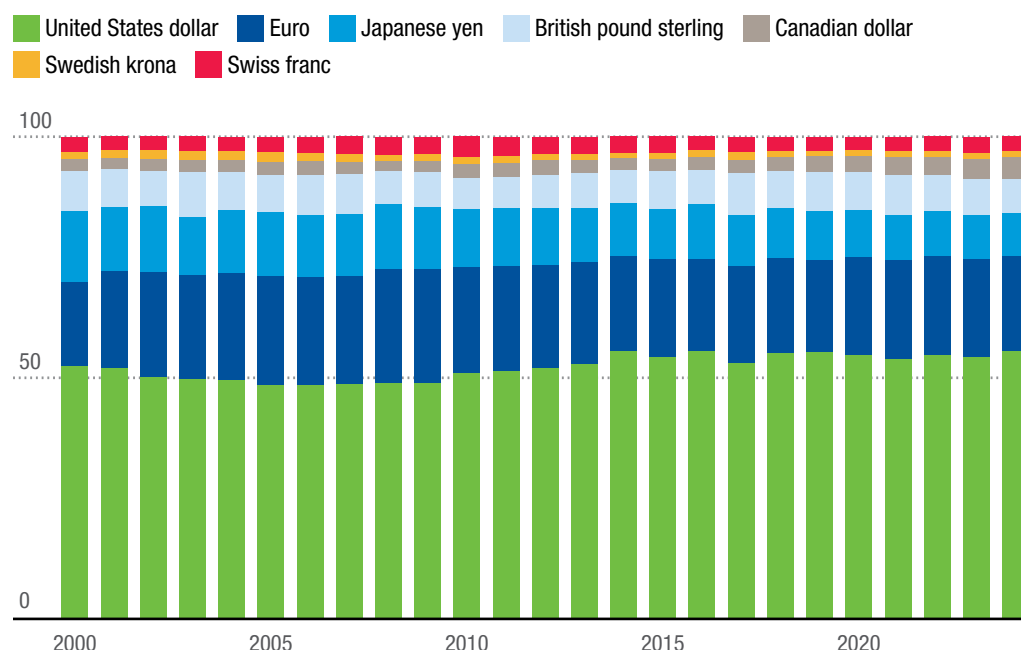
products for hedging, liquidity management and facilitating global flows. At the end of 2024, the dollar accounted for over 55 per cent of the global foreign exchange derivatives market, a position largely unchanged since 2000 (figure IV.21).

Thus the dominance of the dollar extends beyond trade, to key dimensions of the international financial system, including its role as the primary reserve currency and through its anchoring functions in global derivatives transactions, global capital markets and the infrastructure of the global financial system. The last is particularly important, as financial infrastructure is increasingly a key lever of economic integration and development.



Figure IV.21 The dollar has a growing share of the foreign exchange derivatives market

Share of selected currencies in the foreign exchange derivatives market
(Percentage)



Source: UNCTAD based on BIS foreign exchange derivative statistics.

Note: This figure includes seven major foreign exchange derivatives, based on notional amounts.

2. Financial services and infrastructure

Financial infrastructure encompasses the systems, institutions and technologies that facilitate the secure and efficient transfer of money and assets (Hall, 2011). This complex ecosystem includes three key parts: technical mechanisms, such as payment and securities settlement systems that allow capital to flow seamlessly; the legal and regulatory environment, which provides crucial trust and stability; and the professional community of bankers, lawyers and accountants who sustain the entire

system. A robust financial infrastructure supports economic growth, facilitates international trade and enables the more efficient integration of global markets.

Financial institutions, including banks, law firms, consulting companies and other advanced financial services companies, offer services that help create and intermediate financial assets with the real economy (Clark and Monk, 2014; Hashimoto, 2021; UNCTAD, 2025b). Since the 1980s, the role of financial infrastructure has expanded, alongside the globalization of finance and deepening financialization (Häusler, 2002).

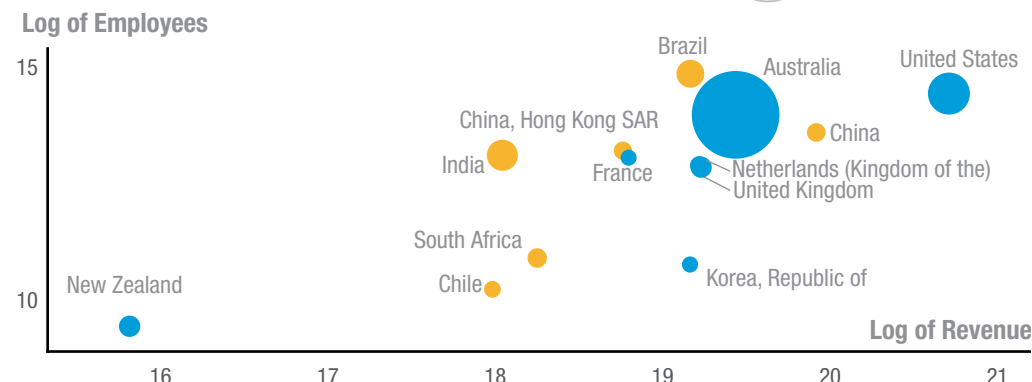
A robust financial infrastructure supports economic growth and integration.



According to some metrics, the number of market infrastructure providers (including financial exchanges and clearing houses) has grown from about 60 in 1975 to more than 250 today (WFE, 2025).

Global financial infrastructure hubs remain clustered in the global North and Asia.

● Global North ● Global South Firm counts ○ 200K ○ 800K ○ 2M



Note: The y-axis plots the logarithm of total employment in financial firms for each economy, while the x-axis plots the logarithm of total revenue generated by financial firms in each economy. The size of each circle indicates the number of financial entities present in each economy. Financial firms here include trusts, funds, financial leasing, credit granting and other financial services, except insurance companies and pension funds. Only economies where financial services firms account for more than 1 per cent of global financial services are shown. Australia has a unique pension system characterized by largely compulsory and self-managed retirement savings. These funds are typically structured as trusts and administered through numerous small entities, with oversight provided by the tax office rather than a dedicated pensions regulator. This distinctive model is supported by the country's large financial services sector.

instance, by the ranking of international financial centres, remain geographically clustered in the global North and to a lesser degree, in Asia (figure IV.22).

As follows from figure IV.23, the concentration of financial services is not limited to the sheer number of financial services firms headquartered in these regions; it extends to their revenue generation (x-axis) and employment capacity (y-axis). While countries in the global South have made notable progress in developing their own financial service sectors, operations remain comparatively limited. They also tend to offer fewer employment opportunities and generate significantly lower revenue per firm than their counterparts in the advanced economies.

3. Dilemmas of diversification

The peripheral position of the global South in the financialized, asset-based economy contrasts with its changing weight in international commerce and FDI flows. This apparent contrast masks a web of complex interdependencies, many of which accentuate the policy dilemmas around trade and financial diversification.

On the one hand, governments and multinational enterprises in developing economies cannot consistently trade or secure low-interest financing in their own currencies from global markets. This necessitates additional hedging against exchange rate and interest rate risks. It also increases the monetary and time costs of international trade and investment, complicating transactions and raising risks associated with these activities.

On the other hand, global trade, driven by the expansion of new sectors in technology, the digital economy, artificial intelligence, services, etc., increasingly involves complex production processes and mechanisms (Fu and Ghauri, 2020). They require financial intermediation at every stage of planning, investment, production, trade

and service delivery, which reinforces the reliance of economic agents on major currencies, capital markets and financial centres. Several structural consequences for developing economies result.

First, many developing economies remain dependent on commodities. As of November 2024, two thirds of developing countries, comprising 95 economies (out of 143 developing economies) and more than 80 per cent of least developed countries, still relied on commodities for more than 60 per cent of their merchandise exports. This leaves them vulnerable to the global commodity and financial cycle and delays structural transformation (UNCTAD, 2025c).

Foreign capital withdrawal from commodity projects, for instance through sudden mine closures, can impact both export earnings and employment overnight, triggering broader social instability. For net food-importing economies, similar disruptions in agricultural trade finance or foreign exchange availability can quickly lead to price spikes, a jump in informal or black-market activity and social discontent.

Second, control over key markets by a handful of suppliers, as seen during the pandemic, has given rise to “seller’s inflation” (Weber, 2023) and profiteering in key strategic sectors (UNCTAD, 2023). This phenomenon disproportionately affects developing economies. Market concentration limits substitutability and increases the probability that a disruption in one node will spread across multiple sectors. Complex chains of control over critical sectors, such as commodities, raise risks of illicit financial flows (IMF, 2023; OECD, 2023; UNCTAD, 2025d).

Third, the growth of new technology sectors, propelled by financial markets, is reinforcing the North–South capital gap. Despite the expansion of South–South trade globally, nearly 80 per cent of the top 100 companies in the world are in North America and Europe.

While developing countries made notable progress in building financial service sectors, operations remain limited.

Nearly 80% of top 100 companies in the world are in North America and Europe.

**Table IV.5****Capital divide: Top 10 companies, worldwide and in the global South**

Market capitalization

(Billions of dollars)

Worldwide				
Ranking	Company	Economy	Sector	Market capitalization
1	Nvidia	United States	Information technology	4 238.8
2	Microsoft	United States	Information technology	3 895.8
3	Apple	United States	Information technology	3 003.4
4	Amazon.com	United States	Consumer discretionary	2 290.3
5	Meta Platforms Class A (Facebook)	United States	Communication services	1 626.7
6	Saudi Aramco	Saudi Arabia	Energy	1 547.9
7	Broadcom	United States	Information technology	1 357.6
8	Alphabet Class A (Google)	United States	Communication services	1 100.2
9	Berkshire Hathaway	United States	Financials	990.5
10	Taiwan Semiconductor Manufacturing	China, Taiwan Province of	Information technology	987.0

Global South				
Ranking	Company	Economy	Sector	Market capitalization
1	Saudi Aramco	Saudi Arabia	Energy	1 547.9
2	Taiwan Semiconductor Manufacturing	China, Taiwan Province of	Information technology	987.0
3	Tencent	China	Communication services	636.0
4	Industrial and Commercial Bank of China Limited	China	Financials	328.0
5	China Construction Bank	China	Financials	219.8
6	Agricultural Bank of China	China	Financials	212.5
7	Alibaba	China	Consumer discretionary	287.7
8	Bank of China	China	Financials	200.0
9	Naspers	South Africa	Communication services	41.6
10	FirstRand	South Africa	Financials	22.6

Source: UNCTAD based on LSEG Datastream.

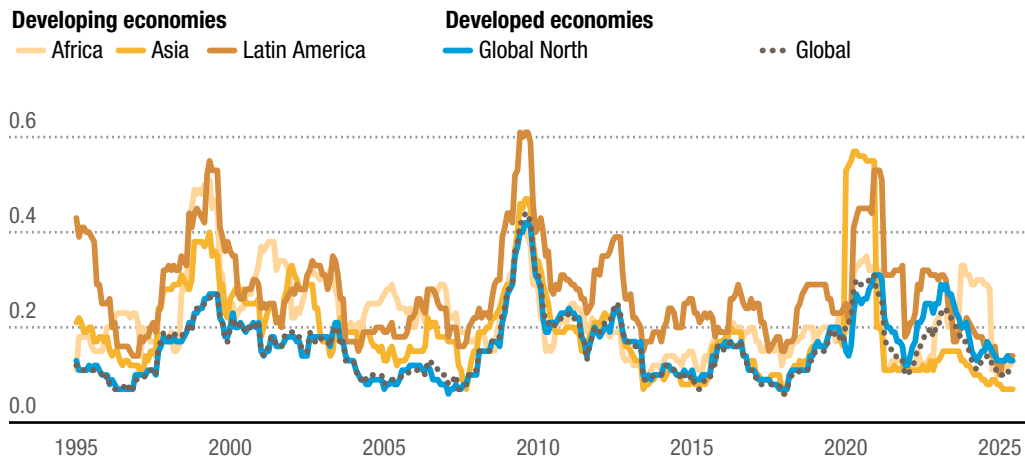
Note: Class A shares are cited as the market cap representative because they are the voting stock and their price closely tracks all other publicly traded classes. Market capitalization figures are based on data from 9 August 2025.





Figure IV.24
Developing economies are more exposed to financial volatility

Twelve-month rolling standard deviation of monthly market capitalization, selected country groups
(Standard deviation)



Source: UNCTAD based on LSEG Datastream.

Note: Market capitalization is proxied by 333 large-cap companies across 39 countries, of which 109 are based in the global North and 224 are located in the global South.

Network effects further supercharge the expansion of the intangible economy, propelled by the market capitalization of tech giants in advanced economies, where scalable assets such as software, algorithms and digital platforms benefit from synergies and pools of talent (Parikh, 2025).

This drives further market concentration and magnifies the consequences of the capital gap. Many multinational enterprises, driven by strategic considerations such as cost reduction, sophisticated financial infrastructure and networks, as well as convenient access to developed financial markets, increasingly draw on a narrow range of actors in the developed economies (UNCTAD, 2025e). While in the wake of the pandemic, many advanced economies leveraged innovation, financial deepening in the global South stalled, leading to prolonged stagnation in financial integration. At a peak in June 2025, the stock market capitalization of the global North was nearly 320 per cent that of the global South.

The top companies in the world tend to be technology giants from advanced countries. In the global South, financial

service and energy firms dominate the list of the top 10 most valued companies, although their capitalization is much lower than for leading enterprises from the global North (table IV.5). The widening gap in market capitalization highlights persistent structural hurdles faced by companies from developing countries in accessing global capital and securing long-term investments.

On the one hand, persistent asymmetries point to the central role of financialization in shaping integration strategies in developing economies, underscoring the importance of financial sector policies for macroeconomic stability and balanced growth. The misalignment between increasingly diversified networks of international trade and investment on the one hand, and centralized system of global finance on the other, could undermine the benefits from trade diversification while increasing the probability of cascading risks. The situation is particularly challenging amid multiple global uncertainties.

First, at the macro level, diversity of trade links obscures the problem of concentrated corporate power over key markets.

At a peak in June 2025, the stock market capitalization of the global North was nearly 320 per cent that of the global South.



This phenomenon undermines transparency and competition, encourages price speculation in major commodities and hampers resource mobilization (chapter III).

Second, as shown above, financial flows and investment stock remain skewed towards the advanced economies and dollar-denominated assets, depriving the global South of much-needed resources, patient capital and financial access for climate-resilient development.

Third, systemic weaknesses make the financial ecosystems of nations in the global South more vulnerable to external crises and global volatility (Magubane, 2025). Developing economies tend to experience more profound financial shocks, take longer to recover and face greater volatility in their domestic financial markets during global crises (figure IV.24).

Developing countries lack policy space to address the effects of the global financial cycle (chapter II). Many vulnerable economies are suffocating under high debt servicing costs (see chapter V). Internally, structural problems and underdeveloped financial infrastructure impede domestic capital formation. This reinforces dependence on external financing to support major corporate and infrastructure projects (UNCTAD, 2017).

These structural asymmetries accentuate the paradox of diversification in the highly financialized context of global trade. On the one hand, diversification across products, industries and trade partners is key to resilience and sustainable growth. The records of many developing countries show that South–South and targeted trade and investment partnerships hold potential for sustainable development. On the other hand, in a highly financialized global economy, diversification is hampered by intricate interdependencies.

As nations establish alternative trade and investment links, many seek to reduce their reliance on the dollar (see chapter I). Yet financialization reinforces complexity of value chains and the overexposure to the dollar in global finance – an impediment to recent proposals by some countries

to create alternative payment networks. Further, rerouting the financial channels of trade and investment carries risks of fracture (The Economist, 2025).

The challenge is multifaceted. The dollar remains the dominant global investment asset, the key currency for invoicing, funding, foreign exchange matching and central bank swap lines (Sandbu, 2025). As chapter I indicates, even amid recent volatility, no single asset can serve as a comprehensive alternative for this range of functions.

New non-monetary assets, such as cryptocurrencies, carry their own political-economic and technology risks and remain untested by a crisis (UNCTAD, 2022b). The evolution of the euro as a contender for a global currency underscores the importance of a capital market, and especially a sovereign bond market, as a foundation for the credibility, scale and liquidity of a currency that is not only a means of payment but also an international financial asset (Arampatzi et al., 2025; Hanssens, 2025).

Reliable cross-border payment networks (Zamani et al., 2024), comprehensive regional financial frameworks and capital markets are vital for reducing over-exposure to the dollar and fostering a more balanced international financial system. Yet amid policy volatility and major shifts in trade, it is important to avoid financial fragmentation. The proliferation of smaller-scale payment systems could complicate international transactions and undermine stability and resilience. As recent analysis notes, fragmentation of the cross-border payment landscape may increase the opacity and complexity of transactions, potentially causing delays. This, in turn, could affect liquidity dynamics, especially during times of stress (Chari et al., 2025).

In a highly interconnected and financialized economy, market or policy shocks can reverberate through financial systems, dampening trade and reducing domestic demand. With governments' fiscal and monetary capacities diminished since the 2007–2009 crisis, the global economy appears increasingly fragile, burdened by high debt and sluggish growth.

Developing economies face deeper financial shocks, prolonged recoveries, and greater volatility during global crises.

Amid policy volatility and major shifts in trade, it is important to avoid financial fragmentation.



D. Conclusion: Navigating fragilities in the global trade–finance nexus

Multiple challenges underscore the need to reform the international financial architecture (see chapter V). An integrated approach would strengthen links between trade and financial stability that are essential for future resilience and sustainable growth (UNCTAD, 2021b).

In terms of concrete policy directions, two broad principles are relevant. First, in light of past crisis experience, policy decisions must be balanced against systemic resilience and sustainability (UNCTAD, 2023). Second, transmission mechanisms among trade and finance should become part of new approaches to economic modelling (see also chapter II).

In light of the issues discussed above, strengthening regional currency settlement mechanisms and managing exchange rate risks demand greater international cooperation. Building on UNCTAD's findings, three key levels of reform could help to reshape the global financial system to better support trade and growth in developing countries.

First, reform of the international financial architecture is essential. Establishing a new SDR-based currency, possibly with an automatic allocation, would reduce reliance on the dollar, curb currency volatility and give emerging markets greater financial sovereignty. Such changes could stabilize global trade

and foster more balanced growth (UNCTAD, 2020, 2022c). Expanding the current SDR basket to include more developing economies could provide a more diversified reserve base for less-traded currencies.

Second, strengthening domestic financial ecosystems is critical. Bolstering local financial infrastructure, including capital markets, digital payment systems, and skills development, could boost trade diversification and inclusion, reduce over-exposure to dollar-denominated finance and support internal markets. Supporting trade finance in local currencies could also help mitigate some risks of financialization (chapter III and UNCTAD, 2021b).

Third, regional capital markets must progress in parallel to regional trade integration. Creating vibrant, harmonized regional bond markets could finance infrastructure and intraregional trade in local currencies, decreasing over-exposure to dollar flows and insulating economies from global shocks. Greater regional cooperation and cross-border investment are key to building resilient trade networks (UNCTAD, 2019, 2022b). Complementary measures should include facilitating direct swap agreements between major and minor currencies. These steps would improve liquidity and enable effective risk hedging.

An integrated policy framework can strengthen links between trade and financial stability.

Strengthening regional currency settlement mechanisms and managing exchange rate risks demand greater international cooperation.





Finally, trade, finance and macroprudential policies must go hand in hand (chapter II). Recent research suggests that the interconnections between the financial systems of advanced economies and systemic emerging markets call for synchronized policy efforts in both the contractionary and expansionary phases of the financial cycle (UNCTAD, 2019). In light of the close connections between global trade and financial cycles, macroprudential efforts need to be supplemented by trade-focused policy initiatives and cross-market measures. These should enhance competition, market access and coordination at the macro level of international trade.

Stabilizing the trade and finance system is a prerequisite for a broader development agenda, such as achieving the Sustainable Development Goals, promoting green growth and reducing destabilizing trade imbalances (see also chapter V). These goals, in turn, require a much more granular understanding of the subcomponents of financial, digital and service-based sectors.



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Appendix IV.1

A. Diversity index of trade partnerships, 2024

Global North (top 15 economies)					
Economy	Diversity index	Economy	Diversity index	Economy	Diversity index
European Union	3.1	Australia	2.6	Ukraine	1.6
Japan	2.9	Russian Federation	2.4	Canada	1.4
Republic of Korea	2.8	Israel	2.3	Belarus	1.4
United States	2.8	United Kingdom	2.2	Serbia	1.4
New Zealand	2.7	Switzerland	2.1	Norway	1.3

Global South (top 48 economies)					
Economy	Diversity index	Economy	Diversity index	Economy	Diversity index
China	3.3	Oman	2.7	Guatemala	2.3
United Arab Emirates	3.2	South Africa	2.7	Iraq	2.3
India	3.2	China, Taiwan Province of	2.7	Iran (Islamic Republic of)	2.3
Thailand	2.9	Philippines	2.6	Venezuela (Bolivarian Rep. of)	2.2
Singapore	2.9	Kuwait	2.6	Angola	2.1
Bahrain	2.9	Nigeria	2.6	Algeria	2.1
Saudi Arabia	2.9	Türkiye	2.6	China, Hong Kong SAR	2.1
Jordan	2.8	Ghana	2.6	Azerbaijan	2.1
Pakistan	2.8	Panama	2.5	Costa Rica	2.0
Qatar	2.8	Viet Nam	2.5	Kazakhstan	2.0
Argentina	2.8	Ecuador	2.5	Dominican Republic	2.0
Egypt	2.8	Colombia	2.5	Libya	1.9
Indonesia	2.8	Peru	2.5	Dem. Rep. of the Congo	1.9
Bangladesh	2.8	Cambodia	2.4	Morocco	1.8
Malaysia	2.8	Uzbekistan	2.3	Tunisia	1.7
Brazil	2.7	Chile	2.3	Mexico	1.3



B. Diversity index of trade products, 2024

Global North (top 15 economies)					
Economy	Diversity index	Economy	Diversity index	Economy	Diversity index
European Union	1.49	Republic of Korea	0.84	Switzerland	0.39
United States	1.47	Serbia	0.68	Norway	0.37
United Kingdom	0.98	Israel	0.67	Australia	0.34
Canada	0.95	Belarus	0.65	New Zealand	0.34
Japan	0.88	Russian Federation	0.57	Ukraine	0.32

Global South (top 48 economies)					
Economy	Diversity index	Economy	Diversity index	Economy	Diversity index
Thailand	1.02	Colombia	0.47	Saudi Arabia	0.30
China	1.00	Brazil	0.47	Peru	0.27
Türkiye	0.95	Kuwait	0.47	Pakistan	0.27
India	0.88	Iran (Islamic Republic of)	0.45	Ecuador	0.25
Mexico	0.81	Morocco	0.42	Venezuela (Bolivarian Rep. of)	0.24
Malaysia	0.76	Dominican Republic	0.41	Azerbaijan	0.22
Singapore	0.74	Argentina	0.39	Algeria	0.22
China, Taiwan Province of	0.69	Jordan	0.39	Qatar	0.22
Tunisia	0.68	Costa Rica	0.38	Chile	0.21
Viet Nam	0.63	Oman	0.37	Ghana	0.20
Philippines	0.59	Guatemala	0.37	Nigeria	0.18
United Arab Emirates	0.59	Panama	0.34	Libya	0.18
South Africa	0.59	Uzbekistan	0.34	Iraq	0.15
Indonesia	0.55	Bahrain	0.31	Angola	0.14
Egypt	0.52	Kazakhstan	0.31	Bangladesh	0.12
China, Hong Kong SAR	0.48	Cambodia	0.30	Dem. Rep. of the Congo	0.10

Source: UNCTAD based on UNCTADstat.

Note: Detailed note is provided in figure IV.3

