



2026 Trade and development report

Chapter I

Resilience and its limits

KEY FINDINGS

- ▶ Global growth is predicted to slow to 2.6 per cent in 2026 and 2.7 per cent in 2027, down from 2.9 per cent in 2025. Inflationary pressures, tighter monetary policy and higher borrowing costs weigh on private consumption as well as investment and trade, although the latter retain momentum from the artificial intelligence boom.
- ▶ The energy shock has laid bare the macroeconomic cost of energy dependence. Regarding the inflationary impact, unlike 2022, the current shock has not struck at a time of rapidly recovering demand, tight labour markets, nor financial surpluses, but it has erupted alongside growing financial stability risks.
- ▶ Growth in the developing world is bifurcating. A few large economies are driving global expansion, with India fastest among them at 7.3 per cent in 2026. Import-dependent economies absorb the shocks with far less fiscal room and rising debt servicing costs.
- ▶ Trade has proven more resilient than expected, but growth teeters on a narrow base. Global trade grew 4.4 per cent in real terms in 2025 and should expand about 4 per cent in 2026, well above what was anticipated when the conflict in the Middle East began.
- ▶ Artificial intelligence products, comprising advanced computing equipment deployed primarily in new data centres, have become the main driver of merchandise trade; 82 per cent of value added accrues to four supplier segments in this category. As demand for artificial intelligence goods moderates, growth of trade in services may outpace that of goods in 2027.
- ▶ Development aid is contracting as financial volatility escalates. Official development assistance (ODA) is projected to fall by almost 7 per cent in 2026, marking a third consecutive year of decline. A notable diversion away from developing regions has been underway since 2022. Volatility in non-resident portfolio flows doubled in 2026, constricting fiscal space in emerging and, particularly, frontier market economies.



Policy takeaways

▶ **Supply-driven inflation calls for supply side responses.**

Measures addressing energy and supply constraints are likely to prove more effective than monetary and fiscal tightening, which weigh on activity without reaching the source of the pressure.

▶ **The energy transition is a chance to improve energy security.**

Renewable energy is increasingly economically viable, and can strengthen energy security and resilience against future supply shocks.

▶ **Macroprudential frameworks need to be calibrated to exposure to artificial intelligence.**

Stress testing would benefit from incorporating portfolio flow scenarios alongside leverage and liquidity. Where markets are inelastic, capital flow regulation becomes an instrument of financial stability rather than restriction.

▶ **Closing the development financing gap requires more than a cyclical rebound.**

Achieving the Sustainable Development Goals calls for stronger multilateral support and scaled-up domestic development finance in local currency. Further, automatic multilateral mechanisms and multi-year pooled commitments, replacing annual bilateral allocations, would better insulate ODA recipients from shifting donor priorities.



A. Artificial intelligence, the energy shock and the limits of resilience

The world economy in 2026 is buffeted by forces unforeseen a year ago. The crisis in the Middle East erupted amid intensifying geoeconomic competition, disrupting oil and gas markets and cascading into fertilizers, shipping and other critical inputs, amplifying inflationary pressures.

In a break with past decades, the technology sector feeds these pressures rather than alleviates them. Supply constraints in rapidly expanding Asian semiconductor production have driven up tech prices. In parallel, the cost of capital has remained high by twenty-first century standards. It is sustained by monetary tightening and rising long-term yields in developed countries, amid concerns about inflation, as well as by the large-scale issuance of corporate bonds to fund investments in artificial intelligence.

The current trajectory confounds expectations. With inflation easing from its 2022 peak across the major economies, and technology firms holding substantial cash reserves and able to issue stock, the cost of capital was expected to fall. Adding to these concerns, severe heatwaves, droughts and forest fires signal that the climate crisis is accelerating, disrupting energy and food supplies, trade routes and fiscal planning. The consequences are unfolding unevenly across countries.

A somewhat unexpected development has been how demand responded to higher energy and capital costs in 2026. Household spending slowed, as expected, but the slowdown has been less pronounced than previously feared. Meanwhile, in several large economies, fuel demand, specifically, has proved more elastic than after the 2022 inflation shock. Moreover, fixed investment has expanded rapidly in some sectors and geographies, supporting renewed swings in equity prices.

Apparent resilience, however, masks wide differences across countries and sectors. Only a few economies benefit from the artificial intelligence boom. The divide compounds long-standing structural challenges – financialization, inequality, fiscal conservatism and climate change – examined in previous *Trade and Development Reports*. Today, these unfold against the strategic contestation embodied in geoeconomic shifts.



What is geoeconomics?

Today's geoeconomic contestation departs from the era of market-driven globalization, which rested on agreed principles and treated integration as a positive sum development. Under geoeconomics, the zero-sum logic of strategic considerations prevails over market efficiency. It securitizes sectoral policies and integration agendas. Competition increasingly entails economic statecraft rather than firms.

While power relations and security interests have always shaped globalization, three specific features characterize the emerging geoeconomy: the blurring of the line between economic and national security, enabled by digital technologies and artificial intelligence; the growing weight of geopolitical considerations in shaping trade policies, supply routes and long-term competitive positioning; and the weakening of institutional stabilizers within the multilateral system.

This report defines geoeconomics as the process through which States deploy economic and financial instruments to pursue strategic – geopolitical and

economic – objectives. The concept sits at the intersection of geopolitics, economics and political economy, drawing on work on the coercive potential of trade and financial interdependence (Hirschman, 1945; Keohane and Nye, 1977), monetary hegemony (Kindleberger, 1973; Eichengreen, 2011) and structuralist accounts of asymmetric power (Prebisch, 1950; Strange, 1988). Luttwak (1990) initially coined the term. No settled definition has emerged since, although recent contributions converge on the manipulation of interdependence as leverage (Blackwill and Harris, 2016; Scholvin and Wigell, 2018; Aiyar et al., 2023; Clayton et al., 2024).

Two features matter most of all. First, the interdependencies created by hyperglobalization enable the exercise of geoeconomic power. Networks built for efficiency have become instruments of leverage. Second, geoeconomics drives new asymmetries that are reshaping – and in some cases worsening – the conditions under which most developing countries, particularly least developed countries (LDCs), can pursue sustainable development.

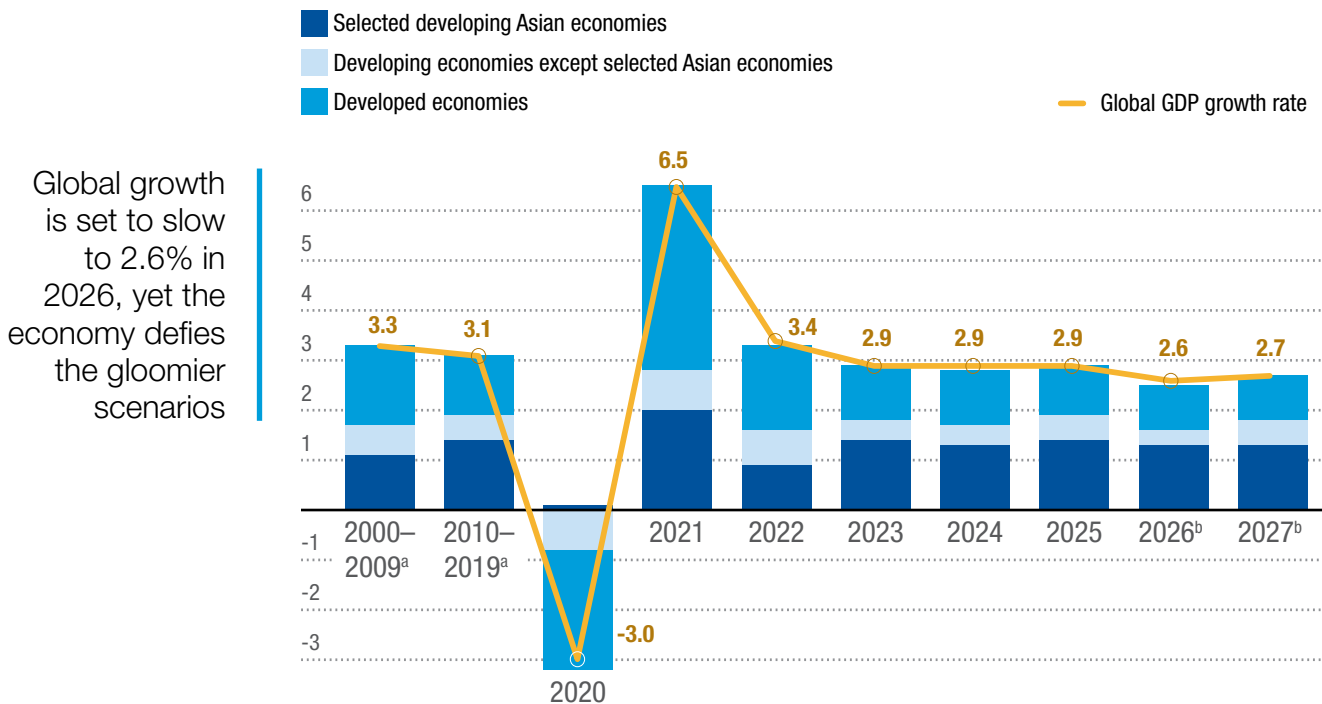


B. Global economic outlook: Growth in a bifurcated world

Global growth is projected at 2.6 per cent in 2026 and 2.7 per cent in 2027 (figure I.1). Aggregate performance has defied gloomier scenarios than heightened geopolitical tensions and the

return of inflation might have warranted. Divergences across and within country groups remain stark, however (table I.1), and growth has seen substantial deceleration compared to 2.9 per cent in 2025.

Figure I.1
Global growth is slowing



Source: Table I.1.

Note: Selected developing Asian economies comprise China, India, Indonesia, Malaysia, Singapore, Viet Nam, Hong Kong SAR (China) and Taiwan Province of China.

^a Compound annual growth rates.

^b Projection.

Table I.1
World output growth, 1991–2027

GDP growth rate
(Annual percentage change)

Country groups	1991– 1999 ^a	2000– 2009 ^a	2010– 2019 ^a	2020	2021	2022	2023	2024	2025 ^b	2026 ^c	2027 ^c
World	2.9	3.3	3.1	-3.0	6.5	3.4	2.9	2.9	2.9	2.6	2.7
► Africa	2.5	5.3	4.4	-3.4	4.3	4.1	3.6	3.0	4.4	4.1	4.2
South Africa	2.7	4.0	1.7	-6.2	4.9	2.1	0.8	0.5	1.1	1.1	1.4
► North Africa (incl. South Sudan)	3.0	5.0	2.8	-3.6	5.4	3.6	3.3	1.1	4.8	4.3	4.1
► Sub-Saharan Africa (excl. South Africa and South Sudan)	2.1	6.0	6.1	-2.7	3.5	4.8	4.3	4.5	4.9	4.6	4.8
► Americas	3.4	2.5	2.1	-3.2	6.3	2.9	2.7	2.7	2.1	2.0	1.9
► Latin America and the Caribbean	3.2	3.4	1.3	-7.6	7.2	4.2	2.2	2.3	2.4	2.1	2.3
Mexico	3.2	1.7	2.3	-8.4	6.1	3.7	3.1	1.4	0.6	1.5	1.7
► Central America (excl. Mexico) and Caribbean	2.5	4.5	3.3	-8.9	8.4	5.0	2.7	2.6	2.5	1.7	3.1
► South America	3.3	4.0	0.7	-7.1	7.4	4.3	1.7	2.6	3.1	2.4	2.3
Argentina	4.6	3.8	0.9	-9.9	10.4	6.0	-1.9	-1.4	4.5	2.7	3.0
Brazil	2.9	3.6	0.7	-3.3	4.8	3.0	3.2	3.4	2.3	1.8	1.5
► Northern America	3.4	2.3	2.2	-2.3	6.1	2.7	2.9	2.7	2.1	2.0	1.8
Canada	2.8	2.3	2.1	-5.0	6.0	4.7	2.0	2.0	1.9	0.7	1.8
United States	3.5	2.3	2.2	-2.1	6.2	2.5	2.9	2.8	2.1	2.1	1.8
► Asia	4.3	5.5	5.1	-1.0	6.9	3.7	4.3	4.1	4.4	3.8	4.1
► Central Asia	-4.7	8.3	4.8	-0.4	5.6	4.6	5.3	5.9	7.0	5.7	5.2
► East Asia	4.2	5.3	5.1	0.3	7.1	2.5	4.1	3.8	4.1	3.8	3.7
China	11.0	10.6	7.5	2.3	8.6	3.1	5.4	5.0	5.0	4.5	4.5
Japan	1.2	0.9	1.3	-4.3	3.6	1.2	0.9	0.1	1.2	0.7	0.8
Republic of Korea	7.0	4.9	3.3	-0.7	4.7	2.9	1.5	2.2	1.2	3.3	2.9
► South Asia	5.2	6.7	6.2	-3.9	8.3	6.1	7.3	6.3	6.2	5.9	6.0
India	5.9	7.2	6.9	-5.9	9.4	7.0	8.8	7.4	7.3	7.3	6.8
► South-East Asia	5.3	5.6	5.2	-3.8	3.7	5.7	3.9	4.9	4.8	4.7	4.6
Indonesia	4.8	5.2	5.4	-2.1	3.7	5.3	5.0	5.0	5.1	5.2	5.0
► Western Asia	4.2	5.0	4.1	-3.9	6.9	7.6	2.4	2.6	3.9	-0.9	4.5
Saudi Arabia	2.2	4.3	4.0	-3.8	6.5	12.0	0.5	2.6	4.6	-1.0	4.5
Türkiye	3.8	5.1	5.9	1.8	11.8	5.4	5.0	3.3	3.6	3.0	3.5
► Europe	1.3	2.2	1.6	-5.8	6.5	3.2	0.7	1.4	1.5	1.1	1.3
Russian Federation	-5.9	6.2	1.5	-2.7	5.9	-1.2	4.1	4.3	1.0	0.5	1.3
United Kingdom	2.6	2.1	2.1	-10.0	8.5	5.1	0.3	1.0	1.3	1.1	1.1
► European Union	2.0	1.9	1.5	-5.6	6.3	3.6	0.4	1.1	1.5	1.2	1.3
► Euro area	1.9	1.7	1.3	-6.0	6.4	3.6	0.5	1.0	1.4	1.0	1.2
France	1.9	1.7	1.3	-7.4	6.9	2.7	1.4	1.4	0.9	0.6	1.0
Germany	1.7	1.1	1.8	-4.1	3.9	1.8	-0.9	-0.5	0.2	1.1	1.0
Italy	1.5	0.7	0.1	-8.9	8.9	4.8	0.9	0.8	0.7	0.8	0.6
► Oceania	3.7	3.2	2.7	-2.0	5.2	4.1	2.2	0.8	1.8	2.0	1.8
Australia	3.7	3.3	2.6	-2.0	5.4	4.2	2.1	1.0	2.0	2.0	1.8
► Developed economies	2.3	2.2	1.9	-3.8	6.0	2.8	1.7	1.9	1.7	1.6	1.6
► Developing economies	5.1	6.5	5.2	-1.7	7.3	4.2	4.6	4.4	4.7	4.0	4.4

^a Average.
^b Estimate.
^c Projection.

Source: UNCTAD based on United Nations, Department of Economic and Social Affairs, National Accounts Main Aggregates database and World Economic Situation and Prospects 2026 (September update); Economic Commission for Latin America and the Caribbean; Organisation for Economic Co-operation and Development (OECD); International Monetary Fund (IMF), World Economic Outlook; Economist Intelligence Unit, EIU Viewpoint Data database; J.P. Morgan, Global Data Watch; and national sources.

Note: The composition of the five geographical regions follows the M49 standard of the United Nations Statistics Division. Europe and the European Union aggregates comprise Cyprus, even if it is usually considered part of Western Asia. The distinction between developed and developing countries is based on the updated M49 classification of May 2022. Country aggregate calculations are based on gross domestic product (GDP) in constant 2020 dollars (market exchange rates).

Developing economies are split between a dynamic few and a majority no longer catching up

With a few exceptions, growth deceleration highlights the lack of convergence between developed and most developing economies. While developed economies, as a group, grapple with protracted low growth and monetary policy dilemmas, the developing

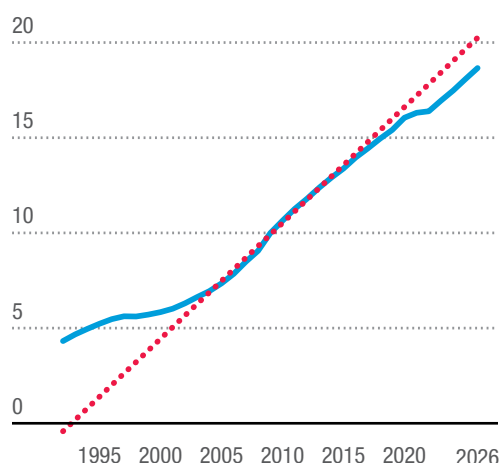
world is bifurcated between dynamic growth leaders (figure I.2.A) and the vast majority of developing economies where convergence in per capita GDP has collectively receded since the mid-2010s (figure I.2.B).



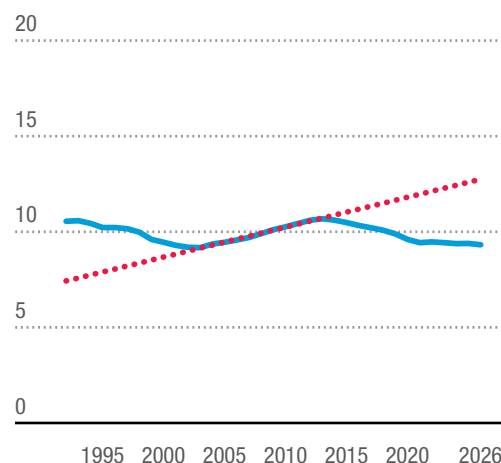
Figure I.2
Developing world stopped catching up outside a few Asian frontrunners

GDP per capita ratios to developed economies of selected developing country groups (Percentage)

A. Selected Asian economies



B. Developing economies except selected Asian economies



Source: UNCTAD based on table I.1.

Note: The ratio represents the average GDP per capita of the group to that of developed countries. An increase refers to a catching up. The dotted line depicts each group's 2003–2013 linear trend. Selected developing Asian economies comprise a non-exhaustive set of economies included for illustrative purposes, which consists of China, India, Indonesia, Malaysia, Singapore, Viet Nam, Hong Kong SAR (China) and Taiwan Province of China. During the 2003–2013 convergence period, the group of developing economies, excluding the selected Asian economies, closed the gap with the group of developed economies by an average of 0.16 percentage points per year. For Asian frontrunners, convergence was 0.61 percentage points per year, highlighting faster economic catch-up.

Convergence towards developed economies remains elusive for most developing countries

Developed economies, as a group, are broadly characterized by stagnation, tightening monetary environments and anaemic industrial performance as they absorb the brunt of the 2026 energy shock. The United States of America remains a major engine of global growth. Its economy is projected to grow 2.1 per cent in 2026 and 1.8 per cent in 2027, following 2.1 per cent in 2025. Strong investment in artificial intelligence and a stable labour market

have supported domestic demand, but persistent inflation – stoked by imported energy and costlier electronics – is eroding real wages. The Federal Reserve had initially deferred long-anticipated rate cuts before hiking for the first time since 2023 its policy rate in September, tightening credit just as bond market strains in major developed economies push longer-term yields towards a two-decade high (figure I.3).

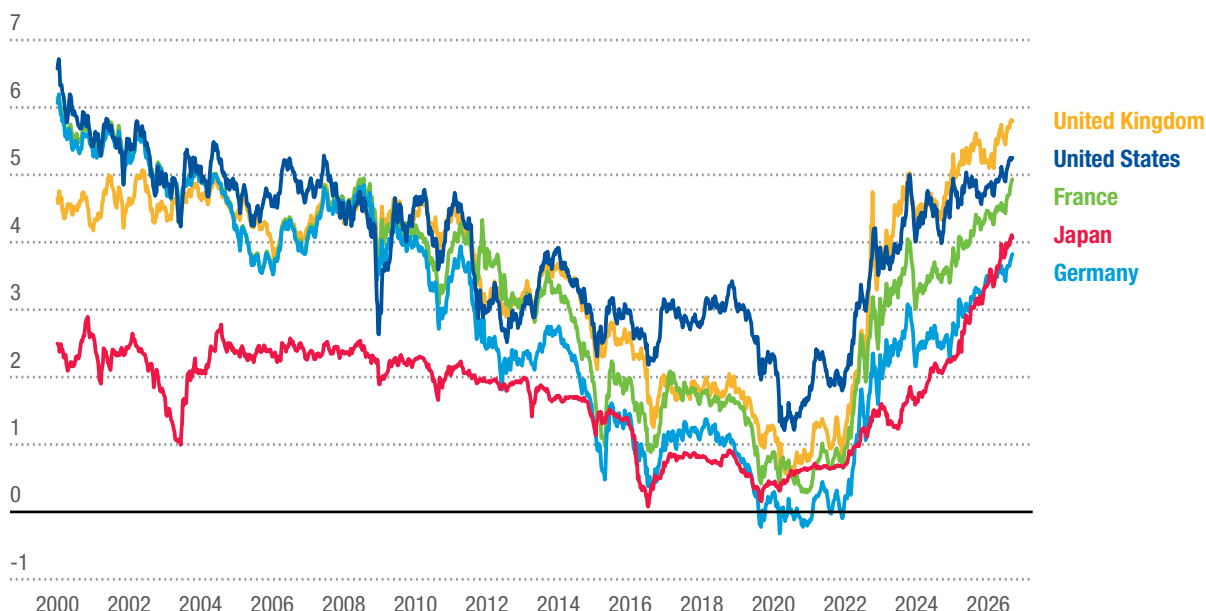




Figure I.3

Long-term borrowing costs have soared to a two-decade high

Thirty-year government bond yields, selected developed countries
(Percentage)



Source: UNCTAD based on LSEG Datastream.

Western Europe is caught in a low-growth phase, severely vulnerable to stagnating investment, global trade fragmentation (chapter II) and energy price volatility. Although output contracted in several leading economies during the first quarter of 2026 owing to high input costs and weak capital formation, the United Kingdom continued to expand and is projected to record growth of 1.1 per cent in both 2026 and 2027. Across the United Kingdom and European Union, a prolonged cost-of-living crisis continues to drag on domestic demand and investment, while strained public budgets complicate plans to invest in regional industrial policy (chapter III).

Several developed Asian economies, the Republic of Korea above all, benefit from strong external demand for high-tech components and sustained investment in semiconductor capacity (section I.B.2). Similarly, in Japan the export sector is benefitting from buoyant global demand for semiconductors as well as electronic

goods more generally, which is partly offsetting sluggish domestic demand.

Developing economies present a bifurcated picture. High-growth economies are driving global expansion, while import-dependent ones absorb the same energy and rate shocks with far less fiscal room, compounded by rising debt servicing costs (UNCTAD, 2026e).

China and India continue to outperform, although along distinct structural paths. India is the fastest-growing major economy, with GDP projected to expand by 7.3 per cent in 2026 and 6.8 per cent in 2027 due to robust domestic demand, increasing manufacturing capacity and public infrastructure programmes. Together, these factors sustain growth despite heavy reliance on oil imports. China is managing a rebalancing away from investment towards consumption and working through real estate imbalances, with expected growth moderating to 4.5 per cent in both years.



Chapter I

Resilience and its limits

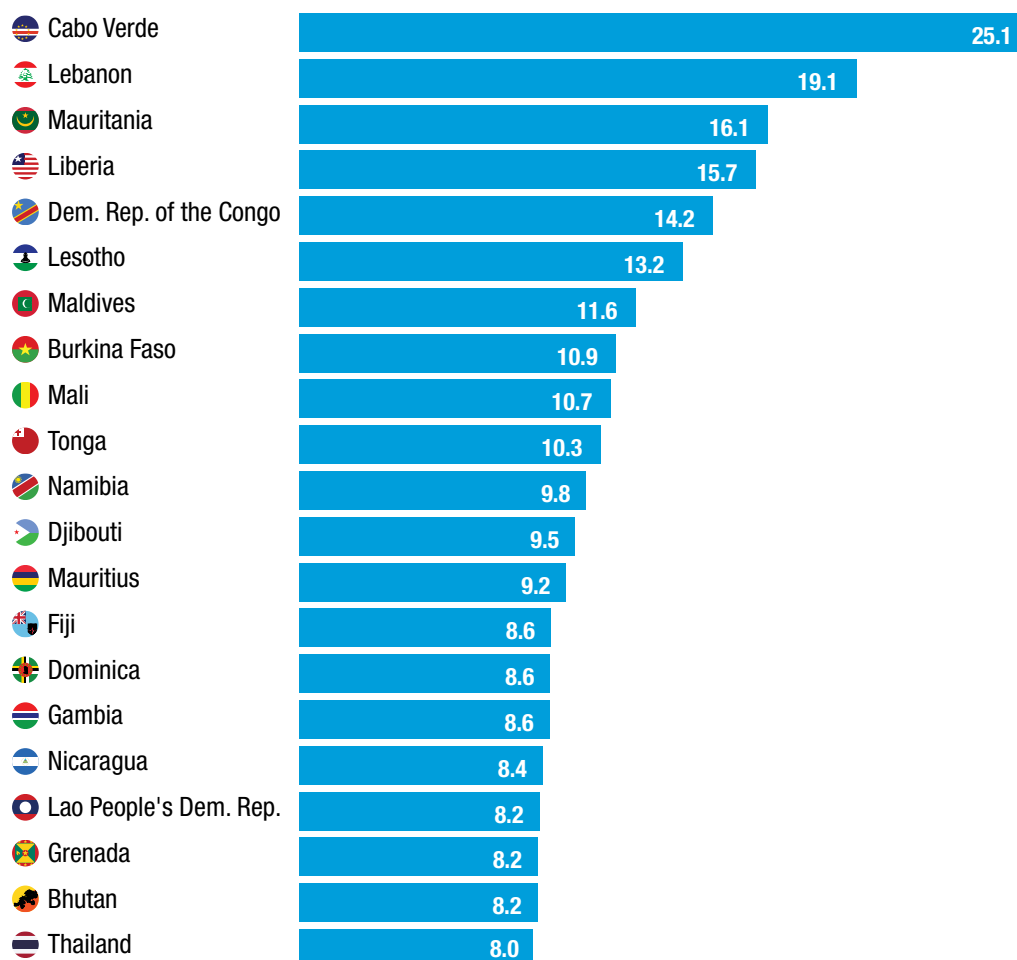
Conditions across other major developing economies remain uneven. Argentina has benefited from resilient agricultural exports and an improving outlook for shale, hedging the cost of energy imports. Brazil has drawn on strong household consumption and private investment, which have lifted imports, alongside robust agricultural exports. Indonesia continues to post solid growth, driven by domestic demand and investment tied to critical minerals and manufacturing. Türkiye has tightened monetary policy after a prolonged inflationary period. South Africa faces persistent structural problems: electricity shortages, weak investment and high unemployment. Saudi Arabia is advancing diversification under its Vision 2030, with non-oil growth partly offsetting lower oil revenues and production cuts.

For the rest of the developing world, the outlook is uneven. Oil and gas exporters outside the Strait of Hormuz, among them Angola, Guyana, Kazakhstan and Nigeria, are positioned to benefit from higher prices. Where domestic refining capacity is insufficient, however, that advantage is partly offset by the steeper rise in refined product prices. Fuel- and food-importing countries face acute balance-of-payments pressures – small island developing States most acutely – as they are exposed to both oil and cereal import shocks (figure I.4) (UNCTAD, 2026a; Hinz et al., 2026). High global interest rates and a periodically strengthening dollar have driven capital flight and raised external financing costs (section I.C.2). In many low-income countries, sovereign debt service is draining budgets, leaving little fiscal space to shield populations from rising prices or to invest in basic infrastructure (UNCTAD, 2026e).



Figure I.4 African countries and small island developing States are among the most reliant on imported energy supplies

Net imports of mineral fuels, oils and distillates
(Percentage of GDP)



Source: UNCTAD based on United Nations Comtrade data.

Note: Data are based on the difference in 2023 between exports and imports of HS (Harmonized System) commodity code 27: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.

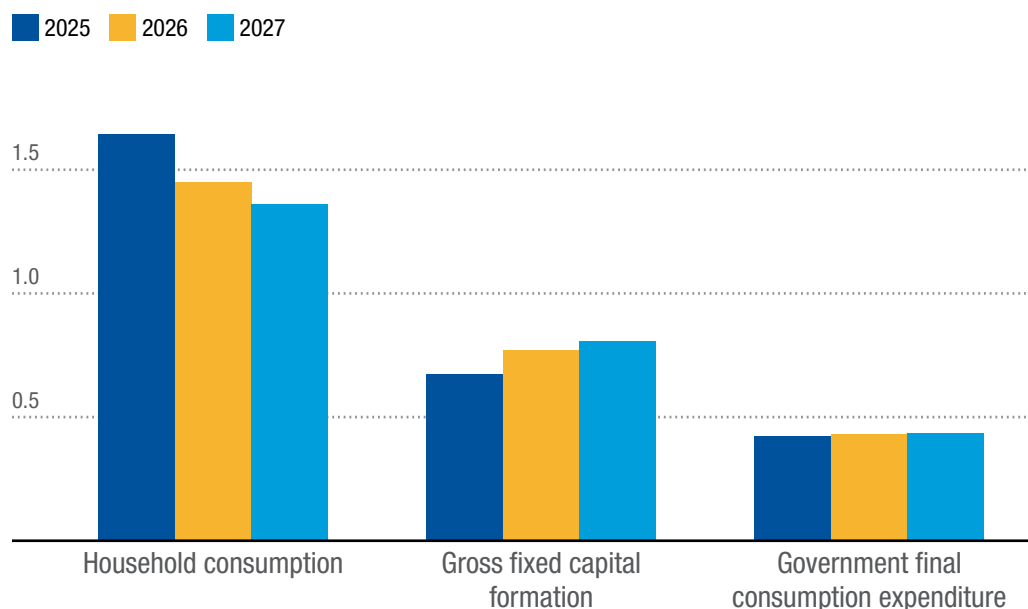
Trends in global spending components

A closer look at the components of global aggregate demand – private consumption, investment and government consumption expenditure – reveals asymmetries (figure I.5). According to UNCTAD estimates, the contribution of household consumption to

global growth will slow in 2026 and 2027, although with geographic divergences (section I.B.1). The contribution of gross fixed capital formation will accelerate, driven mainly by investment in artificial intelligence (section I.B.2). Government consumption will sustain its 2025 contribution through 2026 and 2027, with higher defence spending crowding out other government outlays (section I.B.3).

Figure I.5
Uptick in global investment partially offsets slowing household consumption

Absolute contributions to global growth by component
(Percentage points)



Source: UNCTAD based on table I.1.

1. Waning private consumption amid the energy shock

UNCTAD estimates that real private consumption growth will slow from 2.9 per cent in 2025 to 2.6 per cent in 2026, and again to 2.4 per cent in 2027. The deceleration is broad-based, reflecting global factors, above all, the fallout from the conflict in the Middle East alongside country-specific pressures.

Higher energy costs and resulting inflation are eroding household real incomes. Inflationary pressure has delayed monetary loosening in some economies and prompted tightening in others, restricting credit and further dampening consumption.

Developed economies have some cushion in the form of resilient labour markets and unemployment protection systems, although higher interest rates and energy costs are eroding purchasing power. In developing economies, the shock hits harder: energy accounts for a

larger share of household consumption baskets, so higher energy prices pass through to inflation more strongly.

In this context, households are reallocating income towards non-discretionary items, primarily fuel and food, and suppressing discretionary retail and services spending. While nominal consumption may rise as prices are higher and demand for essentials is inelastic, real consumption is weakening. The ultimate impact depends on how the conflict in the Middle East evolves, although the erosion of purchasing power will likely persist as households repair their balance sheets.

Rising costs are squeezing household budgets from one side; from the other, the labour share of income has fallen across developed and developing countries since the 1980s (UNCTAD, 2024a). That decline directly holds back consumption, and, in some countries, it has accelerated. The labour share in the United States, for instance, reached an all-time low in the first and second quarters of 2026 (Bureau of Labor Statistics, 2026).

Falling savings rates have averted a sharper slowdown. Across the four major developed economies – Japan, the United Kingdom, the United States and the euro area – savings rates fell 1.6 percentage points between 2024 and the first half of 2026 (J.P. Morgan, 2026a). This dissaving largely reflects wealth effects from a rising stock market, which lift both current and expected future income. Such effects are concentrated among higher-income households holding equities, however, where private consumption is driven by dissaving rather than by growth in real labour income (Federal Reserve, 2026). Absent a pickup in employment and labour income, reliance on wealth effects is a vulnerability. An equity downturn would weigh on consumption through the same channel.

In the United States, household consumption is expected to decelerate from 2.6 per cent in 2025 to 1.9 per cent in 2026, and further decline to 1.4 per

cent in 2027. The inflationary impact of the energy shock and monetary tightening are already dampening consumption. A correction in equity markets would compound this pattern as consumption growth depends disproportionately on higher-income households whose spending has tracked stock market gains.

In the European Union, the marginal 2025 uptick in private consumption to 1.6 per cent, although still subdued, is estimated to reverse to 1.4 and 1.1 per cent in 2026 and 2027, respectively. Already sluggish private consumption throughout the European Union, even before the conflict in the Middle East, has been exacerbated by heightened inflationary pressures, reduced real household incomes and monetary tightening in the euro area.

In Japan, private consumption is expected to slow to 1.2 per cent this year and 0.9 per cent next. Elevated energy prices and higher borrowing costs, still lower than elsewhere in the developed world, are crimping household spending. Yen weakness compounds this tendency: the currency slid in July to its lowest level against the dollar in more than three decades, raising import prices and eroding purchasing power, and occurring alongside weak wage growth. Fiscal measures to shield households from higher living costs have partly offset the effect on real incomes.

In China, private consumption is estimated to tick up to 4.6 per cent in 2026 through targeted fiscal support for households, before easing to 4.3 per cent in 2027. Household consumption continues to lag industrial output and exports, indicating that the shift to a consumption-driven growth model still faces obstacles amid property sector vulnerabilities and a softening labour market.

India continues to post dynamic growth in household consumption, estimated at 6.9 per cent this year and 5.6 per cent next. These rates nonetheless mark a significant deceleration from previous years, as higher prices and input costs rein in expansion.

The surge in energy costs and uptick in inflation weigh on households' real income and consumption



In Brazil, household consumption is expected to accelerate based on improving labour market conditions and real wages, although growth remains muted at 1.7 per cent in 2026 and 1.8 per cent in 2027. Rising inflation and slower monetary easing than anticipated before the Middle East conflict are holding it back.

In South Africa, private consumption is expected to remain flat in 2026 before expanding by 1.0 per cent in 2027. Weak employment growth and elevated household debt compound external headwinds. Easing energy prices and a resumption of monetary loosening underpin a likely modest uptick in 2027.

a) The energy shock: Transmission and absorption

Dependence on imported fossil fuels leaves even diversified economies exposed to external energy shocks. Beyond prompting many economic agents to reconsider their energy sources (box I.1), the conflict in the Middle East has laid bare the macroeconomic cost of that dependence.

The conflict has damaged energy infrastructure across the region and halted transit through the Strait of Hormuz, a vital thoroughfare for seaborne oil and liquefied

natural gas (LNG). The result has been the largest monthly loss of global energy supply on record (IEA, 2026). Prices rose sharply and volatility increased: Brent crude, the global benchmark, surged from \$70 to over \$110 per barrel in the weeks following the outbreak of the conflict, with large swings along the way as the dynamics of the disruption remained uncertain.

Several factors have kept prices below previous peaks: an unprecedented drawdown in global oil reserves, higher output from producers outside the Middle East and supply diversification, a broad expectation in energy markets that the disruption would be short-lived (World Bank, 2026), and a long-run fall in the fossil fuel intensity of economies, which has reduced the sensitivity of prices to supply shocks (World Bank, 2024). Nonetheless, the price increase has been sharp. The prospect of a peace deal in June brought a temporary drop, although renewed tensions during the third quarter, against diminished global inventories, produced a rebound. Prices are expected to exceed pre-conflict levels by over \$30 per barrel through the end of 2026 (figure I.6). Any sudden escalation or resolution would shift these expectations significantly.



Box I.1 **Redefining energy security: The strategic case for renewables**

Until two years ago, the case for moving from fossil fuels to renewables rested primarily on curbing emissions and limiting the rise in global average temperatures. Recent developments have added two further, potentially more persuasive, motivations.

One is the rapidly changing economics of renewable energy: the global economy has grown less reliant on oil (box figure I.1.1). Since 2024, in more than 90 per cent of cases, large cost declines have made renewable energy more competitive than the cheapest newly installed fossil fuel-based alternatives (IRENA, 2026). Battery storage costs have plummeted by 95 per cent, solar photovoltaic by 89 per cent and onshore wind by 71 per cent since 2010 (Wallis, 2026; Bloomberg NEF, 2025).

Second, the 2026 energy crisis added a catalyst. Facing disrupted fossil fuel supplies, governments and firms are reconsidering energy security. The long-held premise that supply will always meet demand is now in question, especially as conflicts grow more frequent.^a The closure of the Strait of Hormuz and the damage to fossil fuel infrastructure have exposed the vulnerabilities of the current energy model.



Oil and gas reach end users through a long chain of drilling, extraction, processing, storage, refining and wholesale. Chokepoints at several stages undercut assumptions around a secure supply of fossil fuels.

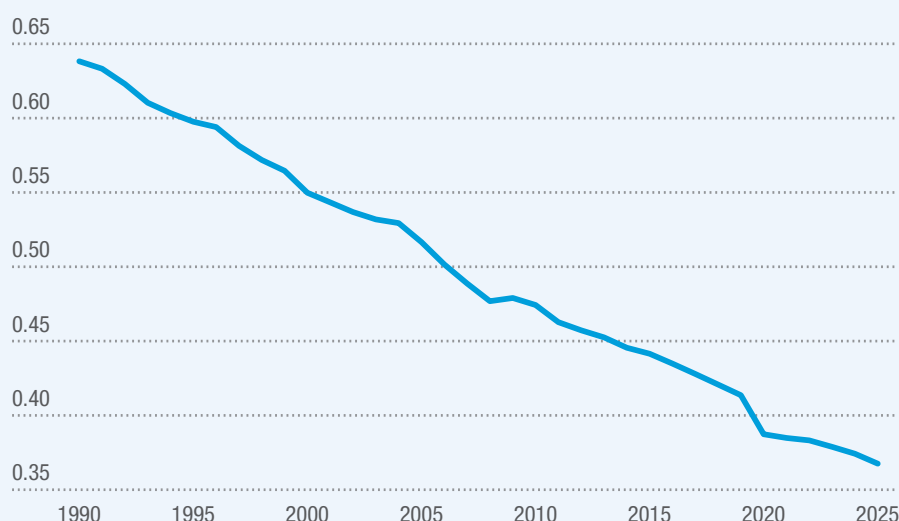


Box figure I.1.1

Oil intensity of production has declined steadily since 1990

Ratio of global oil consumption over world gross product

(Barrels per thousand dollars of economic output, at constant 2020 prices)



Source: UNCTAD based on UNCTADstat and United States Energy Information Administration.

Note: Oil refers to petroleum and other liquid fuels consumption. Lower values indicate lower oil use per unit of real output.

The policy response to recent developments has been to shift towards diversified energy sources and domestic provision where feasible, aiming for resilience to future shocks and strategic flexibility. It is an example of geoeconomic fragmentation spawned by interdependencies built over four decades (chapter III).

Countries with more developed green energy ecosystems are less affected by fossil fuel shocks. Those that have invested more in renewables have proved substantially less exposed to the current crisis. In Europe, countries further advanced in the transition have seen smaller price increases, because gas sets the power price less often. In Spain, gas is the marginal price-setter just 15 per cent of the time, against 89 per cent in Italy, where the renewables share is low (Ember, 2026). Since gas prices tend to drive overall energy prices in Europe, the roughly 50 per cent global increase has shaped consumption, inflation and the wider macroeconomic picture.

On the demand side, countries with more electrified transport have been less exposed to gasoline and diesel shortages. Rapid growth in electric vehicle sales in China, Nepal, Singapore and Viet Nam, among others, has left them more resilient (IEA, 2026). By contrast, at least 25 countries have adopted rationing or other restrictions on the use of fuel.^b

The current crisis has boosted demand for electric vehicles worldwide: in the first quarter of 2026, trade in electric vehicles increased by 11 per cent (UNCTAD, 2026d). In Africa, for example, orders for electric motorbikes and buses have surged because they are more competitive than combustion engine alternatives (e.g. Christophe, 2026). It opens an opportunity to leapfrog technologies, bypassing the mass adoption of combustion engines.^c



Two countervailing factors constrain these gains. First, demand for electricity is rising sharply with the expansion of artificial intelligence (section I.B.2), which by some estimates could consume nearly half of global data centre electricity in 2026. Data centres for artificial intelligence now generate 2.5–3.7 per cent of global greenhouse gas emissions, surpassing the global aviation industry's contribution (see UNCTAD, 2024b).

Second, prolonged heatwaves across much of the world drove up electricity demand for cooling in the summer of 2026. This reveals a feedback loop: slow progress in moving away from fossil fuels raises average temperatures, which escalates cooling demand, which increases emissions.

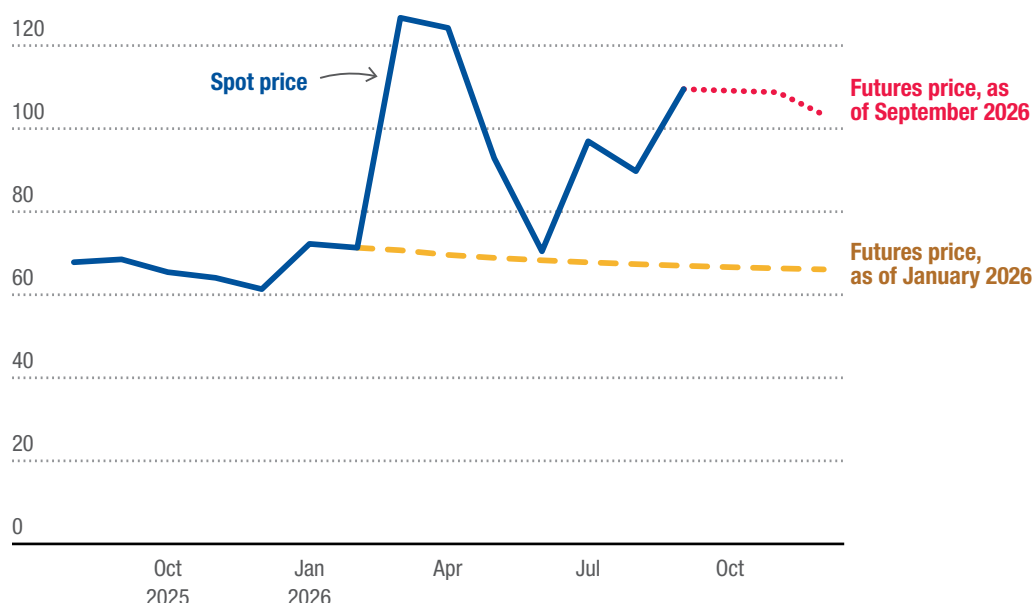
^a Including the disruptions in global energy markets emanating from the conflicts in Ukraine in 2022 and the Middle East in 2026.

^b See Data from AllaboutAI. Available at <https://www.allaboutai.com/resources/ai-statistics/ai-environment/>.

^c For some previous successful episodes of leapfrogging in mobile telephony and mobile money in Africa and Asia, see UNCTAD (2018).

Figure I.6
The energy price shock continues to reverberate in international markets

Brent crude oil spot and futures prices
(United States dollars per barrel)



Source: UNCTAD based on LSEG Datastream.

The shock is global, but the effects are uneven

While the shock to energy markets is global, its effects are asymmetric. Higher international prices reach consumers

through domestic fuel and electricity bills, reducing real incomes and constraining consumption. The steepest domestic fuel price increases have been in developing countries, predominantly in Asia and Africa (figure I.7).

Figure I.7 Surging domestic fuel prices squeeze household spending and increase firms' production costs

Change in domestic gasoline and diesel prices since 23 February 2026
(Percentage)

A. Gasoline

Myanmar	50.7
United Arab Emirates	49.8
Malaysia	48.4
Nigeria	48.1
Rwanda	47.7
Sri Lanka	45.6
Peru	40.6
United Republic of Tanzania	39.8
Cabo Verde	38.5
Guatemala	37.9
Indonesia	37.8
Lebanon	37.4
Jamaica	36.9
Curaçao	36.2
Aruba	36.2
Lesotho	35.9
Philippines	35.6
Panama	35.3
United States	34.9
Guyana	34.1
Pakistan	32.9
Ghana	32.4
Paraguay	31.6
Honduras	31.5
Lao People's Democratic Republic	30.5

B. Diesel

Nigeria	82.7
Lebanon	73.6
Peru	66.7
Guatemala	66.3
Myanmar	65.4
Lao People's Democratic Republic	64.2
Panama	62.6
Moldova	61.8
Indonesia	61.1
Philippines	59.8
Honduras	58.4
Malaysia	56.2
Viet Nam	54.1
Lesotho	54.1
Rwanda	54.1
Puerto Rico	53
Cabo Verde	51.7
United Arab Emirates	50.8
Macedonia	49.3
United States	48.4
Aruba	48.4
Sri Lanka	48
United Republic of Tanzania	47.3
Armenia	46.7
Jamaica	46.7

Source: GlobalPetrolPrices.

Note: Price changes are calculated in United States dollar terms. Data as of 31 August 2026.

Literature on developing countries in Africa, Asia and Latin America points to the striking impact of fuel price increases on household purchasing power. A \$0.25 per litre increase in fuel prices is estimated to effectively reduce household real income by more than 5 per cent on average (Coady et al., 2015) while also restricting

household consumption. The burden is unevenly distributed within countries. Poorer households spend two to three times more income on fuel than wealthier ones (Gourinchas et al., 2026). They also save less, so the surge in energy prices falls hardest on those least able to absorb it.

Higher retail energy prices have driven the pickup in inflation rates

Inflationary pressures on the rise

So far, the pickup in inflation (figure I.8.A) has been driven mostly by higher retail energy prices (figure I.8.B), although rising technology prices are also starting

to register in consumer price index figures (section I.C.1). Most developing economies are likely to see a sharper rise, since energy accounts for a larger share of consumption baskets and production is more energy-intensive, which magnifies the pressure on costs.

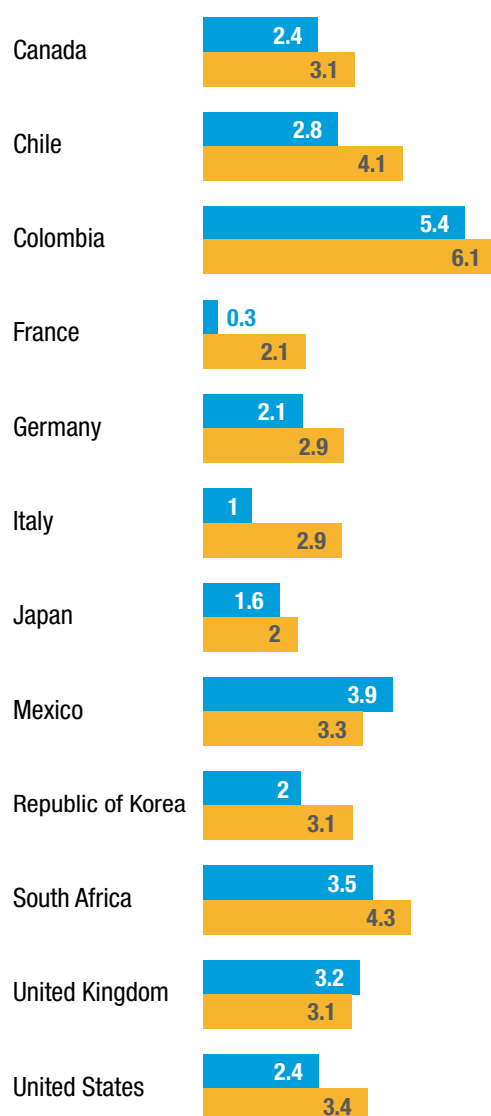


Figure I.8 The energy price shock swiftly passed through to consumer price inflation

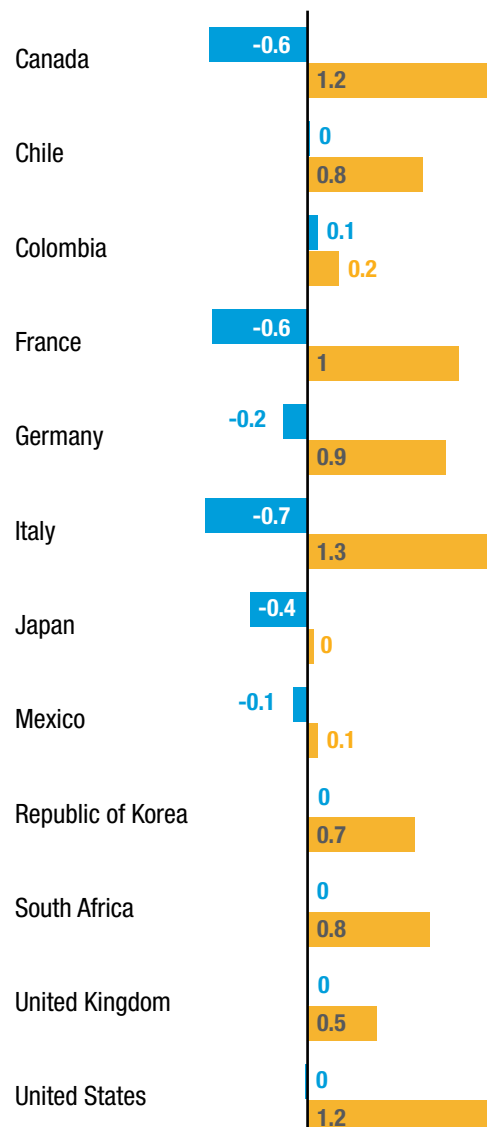
Year-on-year consumer price index inflation and contribution from energy, selected countries

A. Headline consumer price index inflation (Percentage)

January 2026 August 2026



B. Contribution to inflation from energy (Percentage points)



Source: UNCTAD based on the OECD consumer price database, United States Bureau of Labor Statistics and Statistics South Africa.



An energy shock passes into inflation in two stages. First-round effects stem directly from higher energy costs and then indirectly from rising energy-related production and distribution costs across goods and services. These are typically short-lived, since energy prices rarely rise repeatedly over a prolonged period. Second-round effects emerge when the initial rise feeds into wages, firms' pricing and ultimately inflation expectations; they take longer to appear but are broader and more persistent (OECD, 2026b).

Little thus far suggests that initial price increases are seeping into wage- and price-setting. Monetary authorities remain wary nonetheless, given the experience of 2022–2024. The 2022 energy crisis was also a conflict-driven supply shock and saw inflation reach heights not seen in decades. Today's conditions differ, however. The 2022 shock struck amid rapidly recovering post-pandemic demand, supply chain disruption, tight labour markets, and unprecedented household and corporate financial surpluses (UNCTAD, 2023a; Forbes et al., 2024). None of these factors defines the present context.

Tightening credit conditions

In the current scenario, standard logic would dictate that central banks should “look through” the inflationary impact of the energy supply shock as long as potential second-round effects remain contained. Monetary policy, largely limited to managing demand, is ineffective in neutralizing supply shocks of this nature. As a result, monetary tightening may curb inflationary pressures but potentially at a very high cost to unemployment and output, while failing to address underlying supply issues (UNCTAD, 2022). Moreover, policy rate increases in response to oil shocks have strong distributional effects, with lower income households hit disproportionately hard (Broer et al., 2025).

Monetary policy perspectives, however, have disregarded these considerations and taken a restrictive turn in recent months. The post-pandemic environment of heightened sensitivity to inflationary pressures has undoubtedly played a significant role. Notably, expectations that central banks of several major developed economies would loosen policy during 2026 have dissipated as inflationary pressures have risen. Indeed, the European Central Bank raised its key policy rates by 25 basis points in June, the first increase since 2023, and by a further 25 basis points in September. In the United States, the Federal Reserve initially paused its loosening cycle before hiking its policy rate by 25 basis points in September. Current perspectives of the path of monetary policy through the end of 2026 remain significantly tighter than the consensus prior to the conflict in the Middle East. This is reflected in the more hawkish tone adopted by central banks in recent months (figure I.9). More restrictive monetary conditions reverberate in tighter domestic credit conditions and higher borrowing costs, which further dampen private consumption.

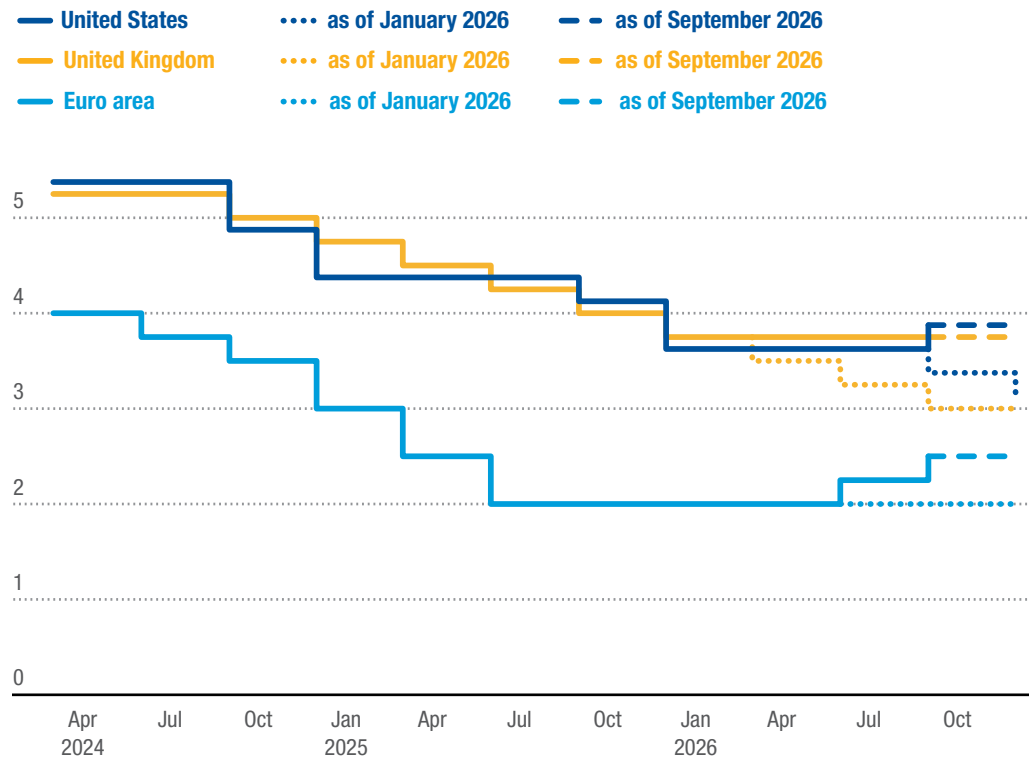
Unlike 2022, the current shock has not struck amid rapidly recovering demand, tight labour markets, nor outsized financial surpluses

Monetary policy is ineffective in neutralizing protracted supply shocks



Figure I.9 Monetary policy perspectives have tightened in major developed economies, a reaction to inflation and heightened uncertainty

Actual and expected monetary policy rates, selected developed economies (Percentage)



Source: Bank of England, European Central Bank, Federal Reserve of the United States and Economist Intelligence Unit.

The impacts of monetary policy stances by developed economies are magnified in developing countries

Tighter monetary stances in several developed economies have negative effects not only domestically. The detrimental impacts are magnified in most developing countries due to their impact on global monetary and financial conditions. This is especially true for the many developing economies that depend on capital inflows, have elevated external debt, and are prone to currency depreciations that, among other adverse consequences, erode real incomes and restrict private consumption. Tighter stances in several developed economies puts additional pressure on monetary authorities in developing countries

to follow suit, regardless of domestic macroeconomic dynamics. This is intended to avoid interest rate differentials that would likely trigger capital outflows and currency depreciations (UNCTAD, 2024). Central banks in Botswana, Indonesia, Pakistan, the Philippines, Rwanda and South Africa, among others, have all raised policy rates in recent months, while monetary authorities in Brazil and Mexico have paused their respective monetary loosening cycles. Again, this more constrained monetary policy environment raises borrowing costs for households and further slows private consumption.

Concerns over rising inflationary pressures and expectations of tighter monetary policy, as well as heightened geopolitical uncertainty, are reflected in an upturn in long-term sovereign bond yields in major developed economies (figure I.3). Although the increase does not immediately translate into higher government interest payments, this does occur over time as existing bonds mature and are refinanced by new bonds at prevailing yields. Moreover, the impact of the upward trajectory of yields is not limited to governments' financing costs. It equally affects households, as their loan terms are strongly influenced by government borrowing costs. Higher yields compound constraints on household consumption.

These effects are not confined to economies where yields have risen. Higher yields in major developed economies push up global interest rates, tightening financial conditions worldwide. In most developing countries, household borrowing costs rise and public finances come under strain, particularly where large shares of outstanding debt fall due for refinancing against already limited fiscal space (UNCTAD, 2025a). Yields have also grown more volatile since the eruption of the Middle East conflict, as investor sentiment tracks each signal about its duration. That volatility is itself destabilizing for global financial conditions and for non-resident portfolio flows to developing countries (section I.C.2).

2. Artificial intelligence boom, bubble and concentration

Investment in 2026 is dominated by artificial intelligence capital expenditure on advanced chips and model development. For now, the effect on aggregate demand is limited, given how little employment such expenditure generates, but data centres spur growth dynamism. Investment remains concentrated in China and the United States, and Europe, to a lesser extent. Brazil, India, Indonesia, Kenya, Malaysia, Mexico and Thailand benefit to varying degrees.

While aggregate data remain limited, the scale of investment in artificial intelligence is now macroeconomically relevant. Brandsaas et al. (2025) estimate \$400 billion of data centre investment in 2026 and roughly \$600 billion in 2027 in the United States alone (figure I.10), implying growth of about 300 per cent this year and 50 per cent next year. Fixed investment in the United States across all sectors, by comparison, is projected to grow by 7 per cent in 2026. Without data centres, the investment picture would look profoundly different.

Concentration also appears in the flow of international investment. Global foreign direct investment rebounded to \$1.6 trillion in 2025, a 6 per cent increase that ended two years of decline. This recovery masks growing fragmentation, however: inflows to developed economies grew 11 per cent against 2 per cent for developing economies (UNCTAD, 2026b). Capital allocation now follows geoeconomic fragmentation, industrial policy and technological competition more than short-term profitability or the cost of capital (chapter III). It favours capital- and technology-intensive projects in strategic technologies, artificial intelligence compute infrastructure, data centres and critical minerals.

Artificial intelligence investment is concentrated in China and the United States, although some developing economies are benefiting

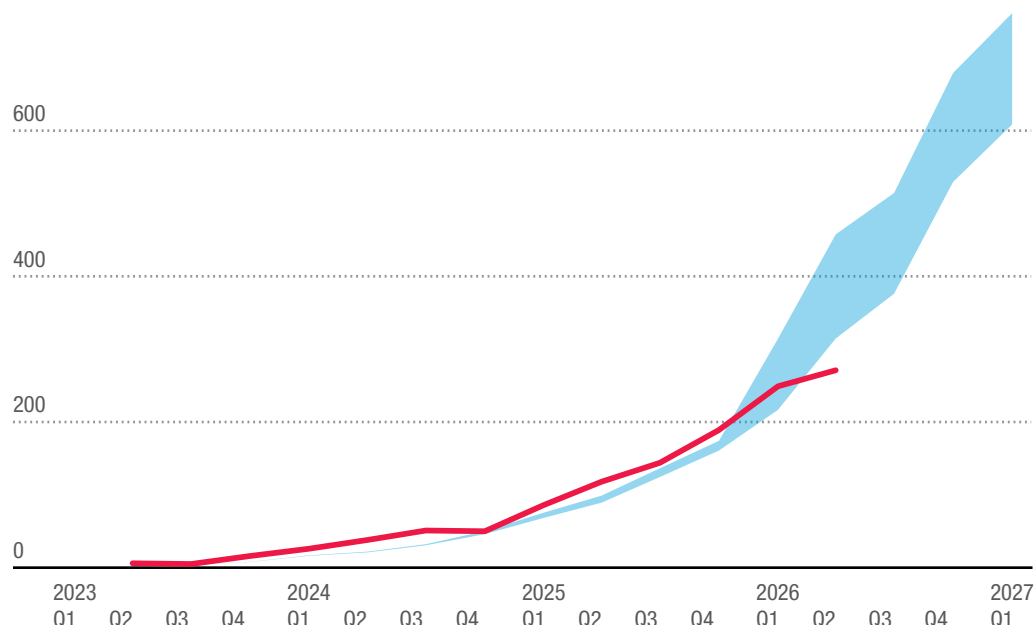
Investment in the United States is projected to grow by 7 per cent in 2026, though without data centres, the picture would look profoundly different





Figure I.10
Investment in data centres now has macroeconomic heft

Estimated investment in data centres in the United States
(Billions of United States dollars)



Source: UNCTAD based on Brandsaas et al. (2025), supplemented with more recent data from <https://github.com/eirikbrandsaas/DataCenterPublic>.

Note: Quarterly data reflect annualized figures. The line represents data centre investment imputed from the national income and product accounts (NIPA). The area depicts the expected interquartile range from the simulations as of August 2026.

The dynamism of technology investment prompts two caveats. The first is the risk of crowding out investment classes with stronger effects on employment and energy efficiency. The second is the scale of financing flowing to the sector and its effect on stock and bond markets.

Two related trends in United States equity markets threaten global financial stability (IMF, 2026a; BIS, 2026b). First, the largest technology companies, all heavily invested in artificial intelligence, account for a growing share of total market capitalization in markets that have proved more inelastic

than conventional models assume, with implications for stability (box I.2). Second, quarterly disclosures show that the revenue growth driving the valuations of technology companies depends heavily on a small number of artificial intelligence laboratories. Successive funding rounds have lifted their valuations, delivering windfall capital gains to the technology companies holding their shares (figure I.11). The same companies earn significant revenue from renting cloud computing capacity to the laboratories (McMorrow et al., 2026).





Box I.2

Following the money: How portfolio flows amplify equity market moves – and the inelastic markets hypothesis

To what extent do financial markets reflect economic fundamentals? The question has long divided analysts and policymakers. The boom in artificial intelligence has given it fresh urgency.

The efficient market hypothesis, which holds that asset prices incorporate all available information and so trade at a fundamental value, has been repeatedly challenged, not least by heterodox scholarship on finance and recurrent literature on financial bubbles (e.g., Minsky, 1982; Shiller, 2015). Among more recent analytical contributions, the *inelastic markets hypothesis* disputes the view that stock prices primarily reflect the discounted present value of future dividends or earnings, proposing instead that prices respond disproportionately to capital flows, since the supply of shares adjusts only weakly to changes in demand. Gabaix and Koijen (2023), the architects of this hypothesis, argue that equity markets are far more inelastic than conventional models assume. This makes aggregate valuations highly sensitive to equity portfolio net flows, or the flow of funds into and out of equities, irrespective of changes in underlying fundamentals.

Key findings

The inelastic markets hypothesis rests on a central empirical result. Investing \$1 of fresh capital into equity markets raises total market capitalization by approximately \$5, based on estimated multipliers ranging from \$3 to \$8 across econometric specifications. This finding challenges the central premise of the efficient market hypothesis that prices reflect all available information and that non-informational trading (index flows, buybacks, pension contributions, exchange-traded fund rebalancing, etc.) should have a minimal impact on prices.

The inelasticity of equity demand partly results from dominant holders of equities – among them pension funds, insurance companies, index funds and sovereign funds – that operate under mandates that fix equity allocations within narrow bands. When aggregate demand shifts, or when portfolios are rebalanced between debt and equity, these institutions cannot absorb the change, so prices must move substantially to clear the market. The price impact is not transient: a permanent shift in demand produces a permanent shift in valuations not because flows carry new information about fundamentals but because the market cannot supply more shares. This dynamic operates independently of leverage, which, historically, is another driver of boom-and-bust dynamics.



Stress testing
should
incorporate
portfolio flow
scenarios
alongside
measures of
leverage and
liquidity

Where markets
are inelastic,
capital flow
regulation
becomes a
tool of financial
stability, not
restriction

Implications for asset pricing and macrofinance

The inelastic markets hypothesis has far-reaching implications across several dimensions of macroeconomic and financial analysis:

- **Amplification of macroeconomic shocks.** Even modest shocks to institutional mandates or household savings behaviour can generate large and persistent movements in aggregate wealth and, via wealth effects, in consumption and investment. Under these conditions, shifts in global investor allocations may exert a first-order influence on asset valuations, generating boom–bust dynamics only loosely connected to domestic fundamentals. This raises important policy questions regarding financial stability.
- **Excess volatility reconceived.** The puzzle of stock market fluctuations poorly correlated with fundamentals is reframed. What appears as excess volatility is, in large part, the predictable consequence of modest flow shocks hitting structurally inelastic markets.
- **Share buybacks and issuances.** Corporate capital allocation decisions – share repurchases and new equity issuances – are recast as flow shocks with first-order price effects, complicating standard Modigliani–Miller neutrality results at the aggregate level, which posit that the way firms finance themselves does not affect real aggregate outcomes.

Policy takeaways

- **Financial stability regulation should better integrate the monitoring of flow dynamics.** Traditional macroprudential frameworks focus on leverage, liquidity and interconnectedness. The inelastic markets hypothesis argues for supplementing these elements with data that allow close monitoring of portfolio flow and stock dynamics across investor classes. It also emphasizes better incorporating flow scenarios into stress testing.
- **Mandatory allocation rules raise systemic risk.** Regulatory frameworks that impose rigid equity allocation targets on pension funds, insurers and other large institutions inadvertently reduce the absorptive capacity of equity markets, heightening price sensitivity to flow shocks. Policymakers should weigh these systemic externalities when designing prudential requirements.
- **Capital flows liberalization carries higher price risks.** In open economies, cross-border capital flows interact with domestic market inelasticity. Sudden stops or surges in foreign equity portfolio investment may produce disproportionately large valuation effects. These warrant targeted measures to regulate capital flows in vulnerable jurisdictions, particularly emerging and frontier market economies.





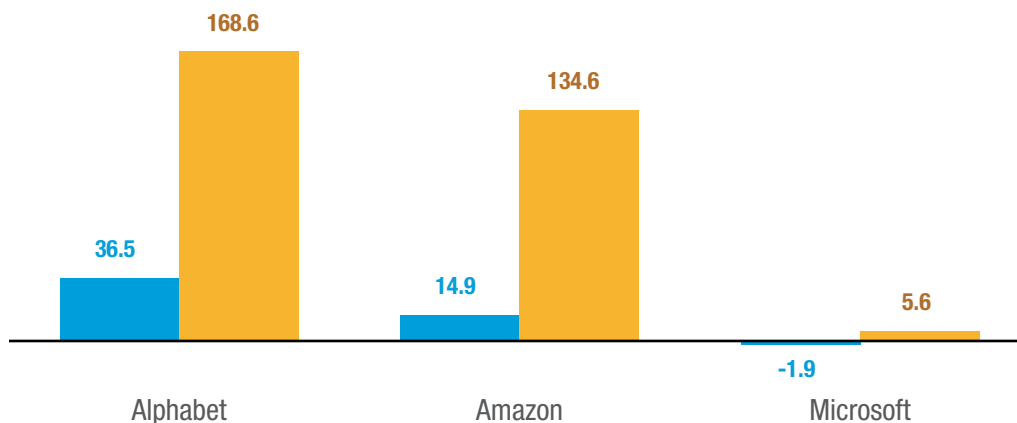
Figure I.11

Some mega-cap technology companies have growing income from artificial intelligence developers

Share of operating income generated by artificial intelligence labs in the largest tech companies

(Percentage)

■ 2025 ■ 2026



Source: UNCTAD based on company disclosures.

Note: Data for 2026 refers to the first semester.

Neither trend would matter much if valuations rested on substantial profits or unassailable market positions. Some of the largest technology companies do enjoy solid revenues from accumulated technological advantage. The artificial intelligence laboratories do not. They are not yet profitable, and their revenues, while substantial and rising, come with heavy infrastructure costs.

Their prospective profits depend closely on whether artificial intelligence delivers the promised productivity gains (Storm, 2026). The logic is straightforward: higher productivity means lower unit costs for adopters and strong demand for laboratories' products. The laboratories and their corporate partners therefore have a clear incentive to promote the coming transformation of work. Yet surveys suggest that productivity improvements at the task level vanish at higher levels of aggregation, regarding, for example, productivity results at the firm or industry level, in what is known as the artificial intelligence aggregation puzzle (ILO, 2026). Current explanations suggest that

widespread adoption of artificial intelligence, as with electrification and information technology before it, requires workforce training and other adjustments that take time. Whatever the cause, profits that fail to materialize soon enough could trigger a serious correction in stock prices, with consequences for global financial stability.

Given the outsized weight of technology companies in the United States stock market (figure I.12), a downward correction in valuations may ignite a sell-off and margin calls in other segments of the financial market, even if companies themselves survive the event with their core profits intact. From this point, a variety of consequences may follow. The most concerning is a wave of bankruptcies among companies that have taken on high leverage against artificial intelligence and technology stocks. Credit conditions could then seize up while lenders assess the extent of the correction, spreading contagion through the credit channel and reaching the real economy through wealth effects, reduced spending and job cuts.

Artificial intelligence profits that fail to materialize soon enough could trigger a serious correction in stock prices

Credit could seize up while lenders assess the correction, spreading contagion to the real economy





Figure I.12

Only seven companies represent a third of market capitalization in the leading stock market index

Weekly share of the largest seven companies in total S&P 500 market capitalization, August 2016–August 2026
(Percentage)



Source: UNCTAD based on LSEG Datastream.

Note: The seven tech giants, often referred to as the Magnificent 7, are Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla.

The artificial intelligence race is young, but already too big to fail

Two factors complicate the picture further. The first is the amount of debt-fuelled investment in artificial intelligence, reaching an estimated \$4.1 trillion by 2030, compared to total capital expenditure of \$5.5 trillion (Fortune, 2026). The second is the impact of geoeconomic competition on the profits of current market leaders. The technology companies accumulated large cash reserves between 2020 and 2024. But their commitments to hyperscaling now exceed those reserves, and they have turned heavily to corporate bond markets in dollars and other currencies. Should the flow of funding into the sector slow, having so far continued unabated, some bonds would depreciate and feed the contagion loop.

For all the scale of its investment and potential to transform the global economy, artificial intelligence growth displays, to a marked degree, the features of earlier financial bubbles (table I.2). The yield curve is moving towards inversion, a closely watched leading indicator of recession. Market operators are aware that other fast-expanding sectors have accumulated substantial revenue exposure to artificial intelligence, semiconductors in Asia above all, with an estimated 85 per cent of listed companies on the Taiwanese TAIEX having earnings exposure (Bloomberg, 2026). The race is young, but already too big to fail.



Table I.2
Indicators of market euphoria are flashing red

Indicator	1929	2000	2008	August 2026
	Radio and electrification	Internet and information and communications technology	Housing and mortgage-backed securities	Artificial intelligence and automation
Shiller CAPE	32.6	44.2	27.3	42
Buffett indicator	95%	148%	105%	215%
Top 10 stocks Share of market capitalization	24–28%	20–25%	18%	37%
Largest stock Share of market capitalization	Radio Corporation of America (6%)	Microsoft (4.3%)	Exxon (3%)	NVIDIA (8%)
Tech leader price to earnings at peak	Radio Corporation of America 72×	Cisco 120×	n/a	NVIDIA 365×
Margin debt/GDP	8.1%	2.8–3.0%	2.6%	4.5%
Corporate profits/GDP	8%	9%	10%	13%
Shadow credit channel	Investment trusts	Venture capital, initial public offerings, vendor financing	Shadow banking system	Private credit, collateralized loan obligations, building development companies

Source: UNCTAD based on LSEG.

Note: The Shiller CAPE (cyclically adjusted price earnings ratio) divides the S&P 500 price index by average earnings adjusted for inflation over the previous 10 years. Its historical average is about 17. The Buffett indicator is the total market value of listed United States companies as a percentage of GDP. Higher values of both indicators mean that stocks are more expensive relative to corporate earnings or economic output. Both indicators were elevated in each of these four episodes.

3. Fiscal reprioritization

Government consumption is projected to contribute 0.45 percentage points to the 2.6 per cent rise in global demand in 2026 (table I.1 and figure I.5). This is slightly above 2025, but accounts for only 17 per cent of the rise in global GDP, consistent with the pattern of recent decades.

The principal new fiscal development has been on the spending side. Defence expenditure is rising even at a time of mounting fiscal pressure from long-term interest rates at decade highs. Globally, after relative stability following the 2008 global financial crisis, defence spending

resumed its rise in 2016 and accelerated sharply after 2022. Further large increases announced in many countries would double or triple current levels (section I.B.3.a).

In some developed countries, this move may support GDP. In most developing countries, it is likely to strain government and external balances, crowding out investment in social protection, energy and other sectors central to sustainable development. New fiscal priorities under defence-led fiscal expansion in developed economies have led to a deprioritization of official development assistance, a political shift that compounds the difficulties facing the most aid-dependent developing countries (section I.B.3.b).

Fiscal reprioritization in many advanced economies compounds the difficulties facing the most aid-dependent countries

a) New fiscal priorities

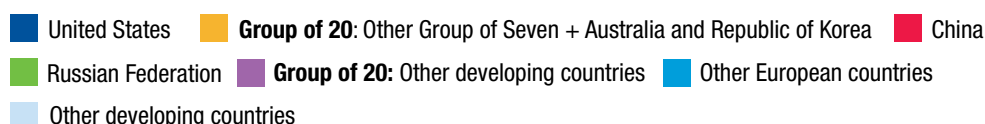
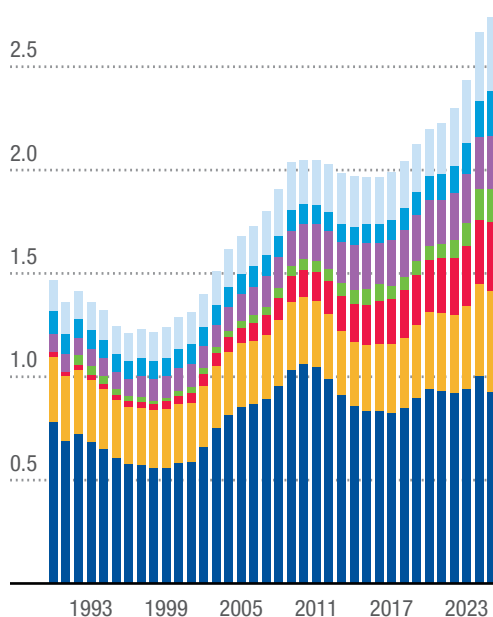
Real defence spending has climbed almost continuously since 1990. In constant dollars, it grew from under \$1.5 trillion in 1990 to more than \$2.7 trillion in 2025 (figure I.13.A), equivalent to \$334 per person worldwide, or

13 times the official development assistance (United Nations, 2025a). Spending fell slightly in two periods, in the 1990s and the 2010s, before resuming its rise in 2016 and accelerating sharply after the outbreak of the war in Ukraine in 2022.

Figure I.13
Defence spending has risen continuously since 2016

A. Absolute total values

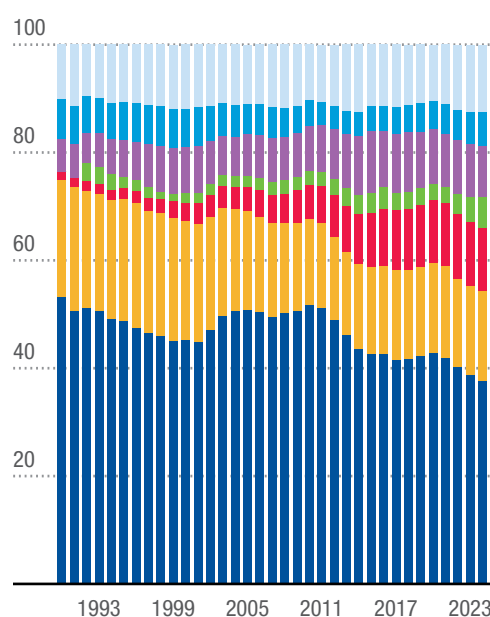
(Trillions of constant 2024 United States dollars)



Source: UNCTAD based on the SIPRI Military Expenditure Database.

B. Share of countries and groups

(Percentage)



From 1990 to 2025, the share of Group of 20 developing countries rose from 8 to 22 per cent and that of non-Group of 20 developing countries from 12 to 13 per cent (Figure I.13.B).

Behind these aggregates lie wide differences among countries (figure I.14). If the 3.5 per cent of GDP benchmark for core military requirements was applied worldwide, global defence expenditure

would exceed \$5.2 trillion within a decade (United Nations, 2025a). Most countries would then devote between 8 and 15 per cent of their government budgets to defence, diverting trillions of dollars from human development, social investment, climate action and official development assistance, and setting back progress on many internationally agreed goals.



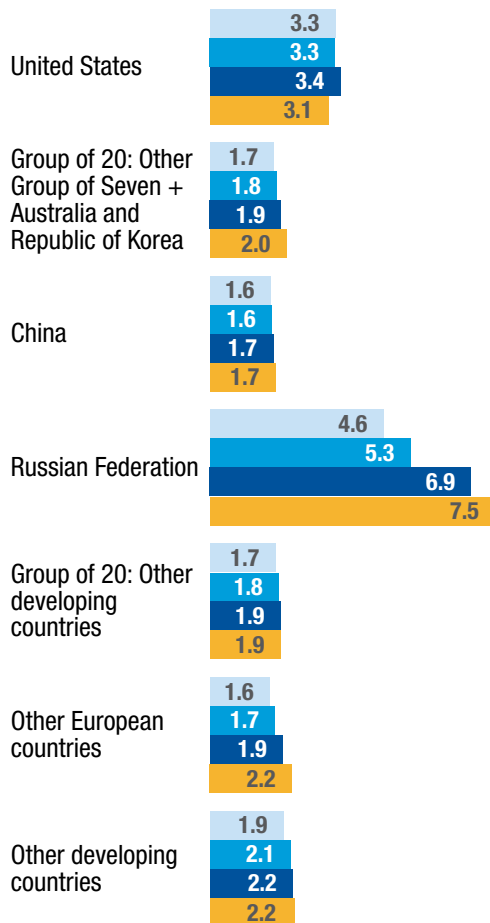
Figure I.14

The pickup in defence expenditure has been pronounced since 2022

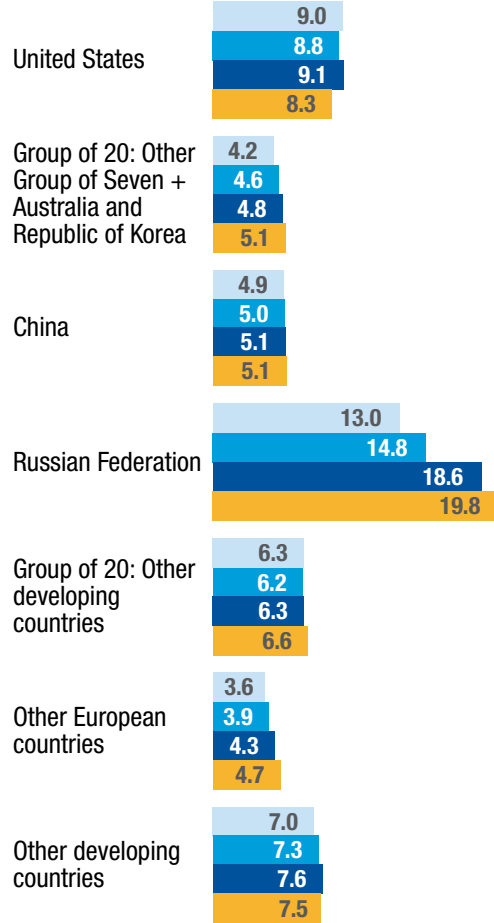
Defence expenditure
(Percentage)

A. Share of GDP

2022 2023 2024 2025



B. Share of government spending



Source: UNCTAD based on the SIPRI Military Expenditure Database.

Note: Shares of country groups are measured as averages.

Spending in defence and fiscal stimulus

If government spending holds constant as a share of GDP while defence spending rises, other outlays fall. Past defence booms have been financed initially by wider deficits and the reprioritization of non-defence spending, and by higher subsequent

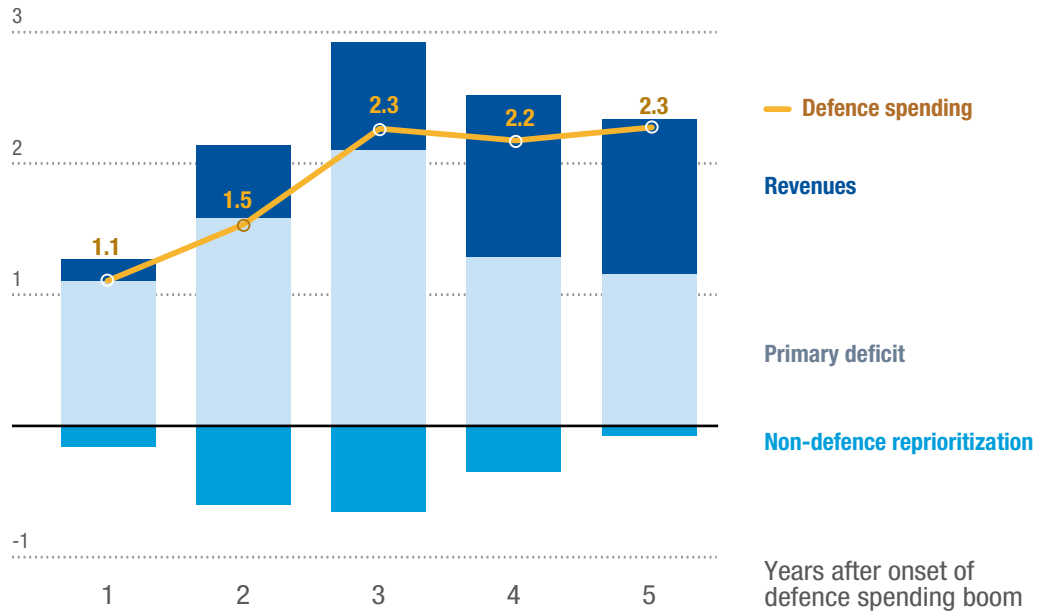
taxes and revenues. According to the IMF (2026a), on average, five years after defence expenditure begins to expand, it remains half funded by public deficits and half by new taxes and revenues (figure I.15). This suggests that defence spending booms impose long-lasting fiscal pressures and nurture growing public debt.

Five years after defence spending rises, half is still funded by deficits, half by taxes



Figure I.15
As defence expenditure mounts, national fiscal positions deteriorate

Average financing decomposition over five years
(Cumulative change, percentage points of GDP)



Source: IMF (2026a).

Note: The line denotes the cumulative increase in defence spending in percentage points of GDP in a sample of developed and developing economies. For each year, the cumulative increase in defence spending is decomposed into its financing sources. “Non-defence reprioritization” is computed as the residual in this equation: change in deficit = change in defence spending + change in non-defence spending – change in revenues.

Defence spending is growing faster than GDP in a rising number of countries. After fluctuating between 30 and 45 per cent over 1995–2015, the share of developed countries showing this pattern climbed to about 60 per cent from 2020 on, overtaking the corresponding share among developing countries (figure I.16.A). In OECD countries,

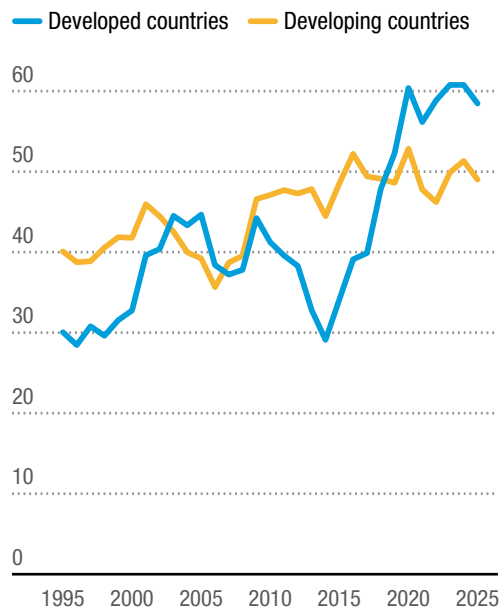
higher defence expenditure relative to GDP has been accompanied by declining shares for health and education (figure I.16.B). The shifts remain small relative to GDP, but the increases now announced point to a larger reprioritization over the medium term.



Figure I.16

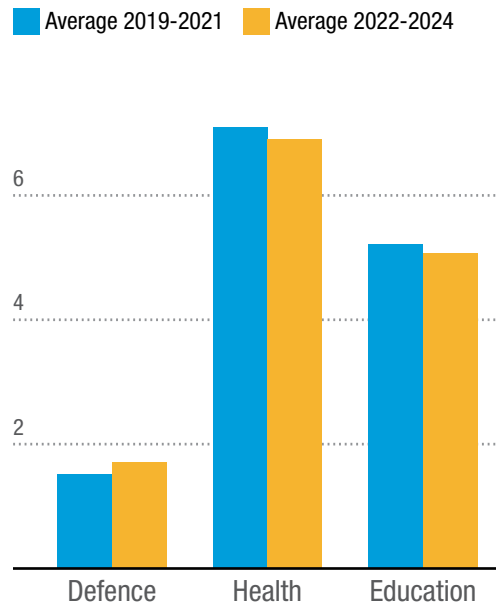
Rising government spending on defence increasingly crowds out social investments

A. Share of countries where defence spending grows faster than GDP
(Percentage, five-year moving average)



Source: UNCTAD based on IMF data and the SIPRI Military Expenditure Database.

B. Defence, health and education expenditure in OECD countries
(Percentage of GDP, non-weighted average)



Source: UNCTAD based on the OECD Data Explorer.



Fiscal multipliers of defence spending

Higher defence allocations can have short-term effects on GDP. Fiscal multipliers for defence booms have been close to unity, i.e., a one-dollar increase in defence spending increases economic output by one dollar, and they have further declined in recent periods (IMF, 2026a). In sectoral terms, defence spending is skewed towards research and development, software, precision electronics and capital-intensive systems. All these sectors absorb less labour and employ fewer workers, whose higher marginal propensity to spend would otherwise drive stronger multipliers.

Multipliers appear higher for long-standing equipment exporters, where sustained demand supports capital formation and reduces import leakage, improving productivity alongside fiscal and external balances. Ilzetzi (2025) estimates that an increase in defence expenditure of 1 per cent of GDP could raise long-run productivity by 0.25 per cent through learning-by-doing and research and development. Technological expertise is accumulating in a few countries, an asymmetry rooted in the concentration of know-how and production. Even there, however, rising debt against elevated long-term borrowing costs may erode the expected benefits.

For countries that import most of their equipment, which includes most smaller developed economies and all smaller developing ones, capital spending yields low multipliers and can worsen the balance of payments. Spending on operating costs and personnel is more mixed, since personnel tend to consume locally (IMF, 2026a).

b) Shrinking development assistance

ODA provided by members of the Development Assistance Committee (DAC) is projected to further decline by 6.9 per cent in 2026, after already falling sharply for two consecutive years, by 8.5 per cent in 2024 and an unprecedented 23.3 per cent in 2025 (OECD, 2026a).

The 2026 ODA cuts are anticipated to be broad-based; 16 of 33 DAC members, including the five largest donors, have announced reductions, a trend projected to worsen (OECD, 2026a). Measured in constant 2024 dollars, this would shrink ODA to \$152 billion, its lowest level since 2014 or only 0.23 per cent of DAC countries' combined gross national income (GNI). This is comparable to the level around the launch of the Millennium Development Goals in 2000 and amounts to less than a third of the 0.7 per cent target for ODA disbursements (figure I.17).

Fiscal reprioritization has come at the cost of international development cooperation

Half of DAC members announced ODA cuts in 2026

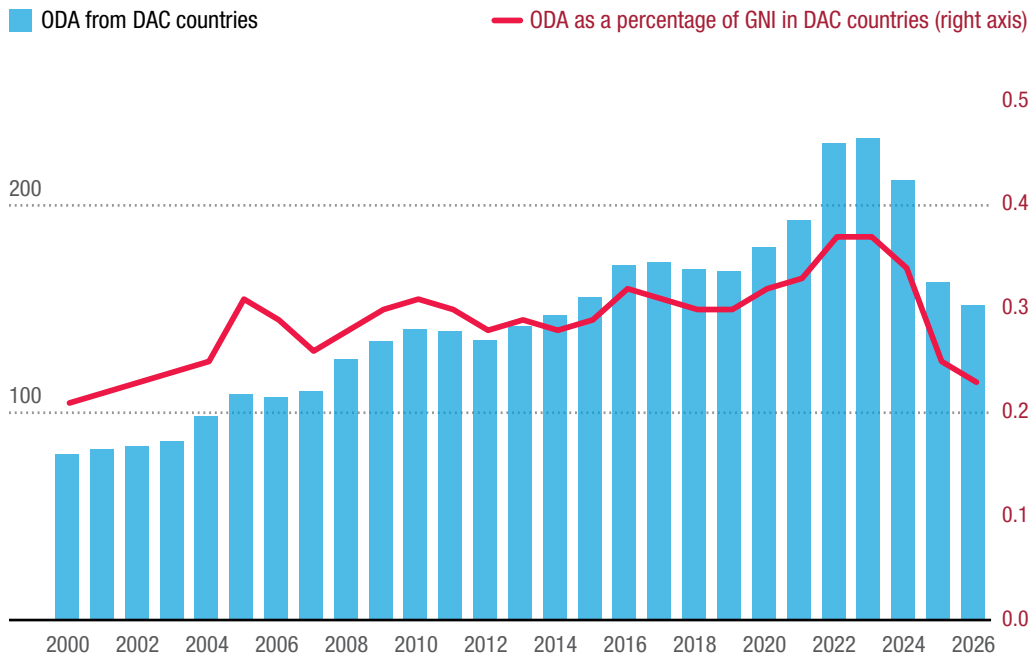




Figure I.17

Official development assistance from OECD-DAC countries is falling for the third year in a row

Total net official development assistance, excluding debt relief
(Billions of United States dollars and percentage of GNI)



Source: UNCTAD based on OECD Data Explorer and OECD (2026a).

Note: 2025 data are estimated; 2026 data are projected.

These aggregates conceal an even more alarming pattern: a reallocation away from LDCs. An analysis by recipient regions between 2020 and 2024 shows that DAC ODA to developing Africa, Americas, Asia and Oceania declined slightly by \$0.8 billion, while ODA to Europe and “unspecified” recipients increased by more than \$24 billion each (figure I.18.A). Assistance to Europe rose sharply after 2022.

Part of the increase in the unspecified category relates to increased flows directly serving donor countries, since

it captures support that benefits several regions at once or cannot be assigned to a particular recipient. It includes refugee costs in donor countries, infectious disease control, support to research institutions and administrative costs. The share of ODA allocated to Europe rose by 10 percentage points to 14.7 per cent, and the unspecified share by 5.5 percentage points to 30 per cent. Shares for other regions fell correspondingly: Africa from 34.4 to 27.2 per cent, Asia from 28.0 to 20.6 per cent, and Americas by 1.4 percentage points to 5.6 per cent (figure I.18.B).





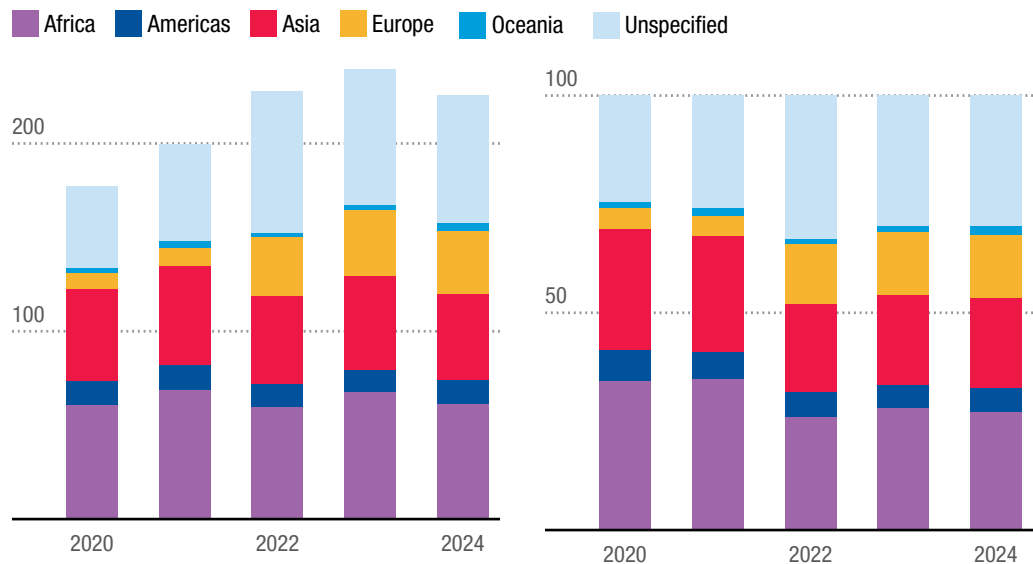
Figure I.18

The diversion of assistance from developing regions since 2022

Gross official development assistance from OECD-DAC countries by recipient region

A. Billions of United States dollars

B. Percentage



Source: UNCTAD based on OECD Data Explorer.

Official development assistance in the geoeconomic context

The 2025 contraction in assistance from DAC members was highly concentrated. France, Germany, Japan, the United Kingdom and the United States accounted

for almost 96 per cent of the decline (OECD, 2026a). The cuts reflect a reordering of priorities in the new geoeconomic context, as spending shifts towards national security, domestic industrial policy and strategic partnerships (chapter III).



Remaining assistance is also being reoriented, increasingly aligned with foreign policy and security objectives. This extends beyond traditional conditionality, in which policy reform is exchanged for aid, to the explicit alignment of flows with strategic objectives that may diverge from recipients' own priorities.

Together, budget contractions and the redirection of remaining flows narrow policy choices and development paths for many developing countries, particularly LDCs, which were already facing challenges in terms of their agency over decisions that shape not only private external flows, but also ODA (UNCTAD, 2023b).

From dependence to resilience: Rethinking the aid architecture

Aid-dependent countries have built health systems, food programmes and budget support around multilateral and bilateral assistance flows. The 2025 contraction showed how quickly a change in donor

priorities can withdraw that financing, with little transitional provision, tightening external constraints on development (figure I.19.A). Less visible is the acute exposure of small island developing States, some of which receive aid inflows exceeding 200 per cent of GNI (figure I.19.B).

The reorientation of aid is unlikely to reverse in the short term. The question is whether the development finance architecture can be reformed to reduce the exposure of the most vulnerable countries to this volatility, such as through multilateral channels, automatic financing mechanisms and modalities that insulate development objectives from shifting strategic interests.

Reducing reliance on external financing also requires deepening domestic and local currency financing capacity, as the Seville Commitment calls for (United Nations, 2025b), although that capacity depends on the development process it is expected to finance.

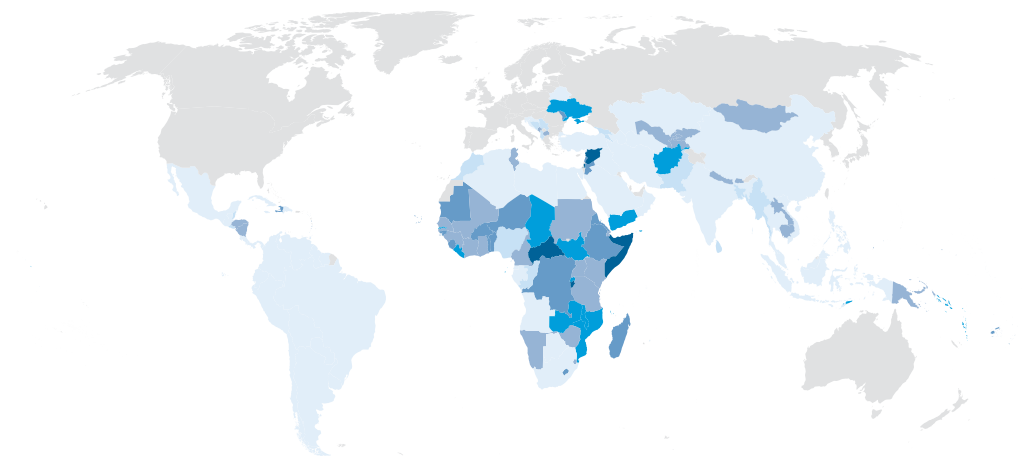
Domestic financing capacity depends on the development process it is expected to finance



Figure I.19
The most aid-dependent countries are highly exposed to sudden shifts
Net official development assistance as a share of gross national income, 2024
(Percentage)

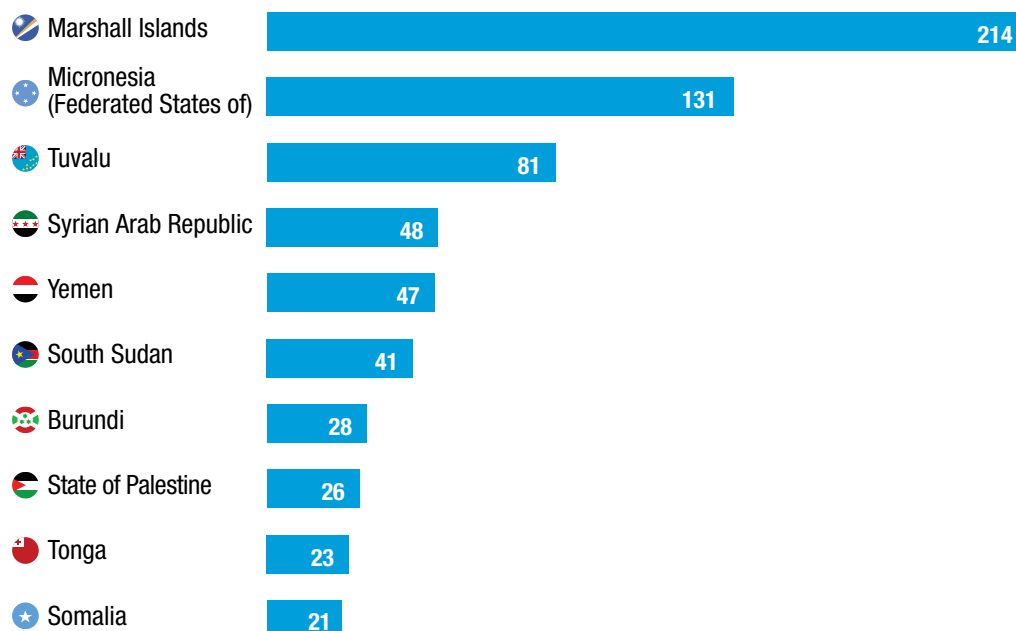
A. World

0-1% 1-2% 2-5% 5-10% 10-20% 20-50% >50%



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

B. The 10 countries most dependent on official development assistance



Source: UNCTAD based on OECD data.

Note: Where 2024 data are unavailable, the latest available matched year value is shown.

C. International markets

1. Trade: Strong yet deeply unbalanced

Trade performance in 2025 and early 2026 came as a positive surprise, given restrictive policy stances and the unfavourable geoeconomic context. Aggregate resilience masks an increasingly uneven composition: strong nominal growth conceals softer volumes, reflecting price developments in some sectors, a disproportionate contribution from artificial intelligence goods and wide regional variation.

Global trade in goods and services grew 4.4 per cent in real terms in 2025, a solid rate by post-crisis standards. Double-digit real growth in merchandise trade in January and February 2026, driven by strengthening global manufacturing output, accelerated the expansion. The conflict in the Middle East slowed that momentum without halting it. For 2026 as a whole, trade is expected to grow about 4 per cent at constant prices, a mild deceleration from 2025 but a sharp improvement on what was anticipated when the conflict began (UNCTAD, 2026c).

Setting aside the structural shifts examined in chapter II, two opposing forces have shaped trade in 2026. On the downside, geopolitical tensions dampened private consumption (section I.B.1) and demand for internationally traded goods and services. International transport and, initially, tourism, each accounting for 15 to 20 per cent of commercial services, were hit directly at the onset of the conflict. Declining investment, outside a few booming sectors (section I.B.2), also curtailed demand for durable goods, which are highly trade-intensive.

On the upside, the digital infrastructure boom, particularly in artificial intelligence hardware, lifted several segments of merchandise trade and digital services,

prompting some to characterize the current phase as an artificial intelligence supercycle (*Barron's*, 2025). The data centre boom has supported trade in electricity generation equipment, construction machinery and cooling systems. Leading providers have begun generating revenue from commercial services worldwide, although the segment is yet to show profitability. Further downstream, advances in large language models and software relating to artificial intelligence underpin growth in digitally deliverable services. It remains unclear, however, how much currently concentrated corporate profits could generate the broader household income gains needed to sustain economic expansion, and how large the spillover effects of the current hype in artificial intelligence will ultimately be in supporting broad-based productivity gains (section I.B).

On balance, the negative factors appear to dominate slightly, compounded by constraints on expanding production in some already overheating technology sectors. Unless momentum in artificial intelligence demand is sustained and matched by further increases in productive capacity, trade in goods is set to slow, and services may again outpace goods in 2027. Real trade growth would then realign with global economic activity, the pattern that has held since the global financial crisis, apart from the pandemic years.

Whatever its trajectory, trade is not an autonomous engine of growth. Its development impact depends on macroeconomic conditions, technological change and sectoral shifts, with geoeconomic forces increasingly in play. The following sections consider recent developments in merchandise and services trade.

The data centre boom has lifted trade in generation equipment, machinery and cooling systems

It is unclear whether concentrated corporate earnings will translate into household income gains sustaining economic expansion

Services may again outpace goods in 2027, as demand for artificial intelligence goods moderates



a) Trade in goods: Price increases conceal weaker volume

Accounting for nearly 75 per cent of total trade in goods and services, merchandise remains crucial for aggregate trade dynamics. Drawing on various scenarios for the second half of 2026, UNCTAD latest central projection points to a real expansion of world trade in goods of about 4.5 to 5 per cent in 2026, roughly on par with 4.8 per cent in 2025. Nominal growth, by contrast, is set to reach 10 per cent, with the dollar value of world exports reaching \$29 trillion in 2026.

Nominal figures, which are timelier yet affected by price changes, suggest strong trade dynamism during the first half of 2026, especially the second quarter. Numerous green flashes (table I.3) illustrate the general outperformance of trade flows over multi-year averages. Piecemeal evidence suggests that temporary drivers have been at play in this acceleration. More precisely, a combination of inventory replenishment or accumulation outside the energy sector and a new round of frontloading activities in anticipation of more restrictive tariffs likely kicked in (United States, Census Bureau, 2026; Retail Insight Network, 2026). These recent pickups sketch a mixed picture. Temporary support from frontloading may unwind in subsequent quarters. By contrast, inventory rebuilding may point to more favourable business expectations ahead. These buoying figures, however, reflect substantial inflationary pressures emanating primarily from the energy and tech sectors, although the magnitude of these effects varies widely, in line with each country's specific merchandise trade basket.

Large movements in trade prices can make estimates of real trade volumes more uncertain and subject to revision. Yet it is real exports and imports, not nominal, that enter GDP growth calculations, so they warrant closer attention. Revisions to these estimates, or, more accurately, to the price deflators on which they rely, may warrant

reassessments of the contribution of net exports to GDP. Constructing adequate deflators for these aggregates in near real time, particularly when several shifts are unfolding in parallel, is a demanding task.

Given the scale of price changes in merchandise trade in the second quarter of 2026, volume indicators unsurprisingly point to a more muted picture. According to the CPB Netherlands Bureau for Economic Policy Analysis, the most reliable monthly source for merchandise trade in constant prices, the higher values recorded from March 2026 onwards resulted almost entirely from a sharp rise in the world trade price index (figure I.20).

Derived quarterly estimates from more volatile monthly figures point to a significant slowdown in volumes between the first and second quarters of 2026. Quantitatively, after growing at almost 13 per cent, based on a seasonally adjusted annualized rate during the first quarter of 2026, and due to stellar performance in the first two months of the year, real world merchandise trade expanded by a meagre 1.5 per cent in aggregate over the next three months. For its part, the unit value index accelerated from almost 12 per cent in the first quarter to 29 per cent in the second, an unprecedented rate, even during the turbulent COVID-19 quarters. Still, between April and June 2026, volume performances outside the energy sector remained strong in parts of Asia (see the regional discussion below). This helps explain why the disruptions in the Strait of Hormuz did not send global merchandise trade into negative territory during this period.

World merchandise trade is expected to grow 4.5–5% in 2026, roughly on par with 2025

The price deflator of world merchandise trade, on an annualized basis, increased 29% during Q2 2026

Strong non-energy volumes in parts of Asia kept global merchandise trade out of negative territory



Table I.3

A broad-based uptick in merchandise trade in the second quarter reflects various factors

Annualized quarter-on-quarter growth rate of merchandise trade flows in current United States dollars
(Percentage)

Exports

	First quarter of 2026	Second quarter of 2026
Argentina	2.1	9.5
Australia	2.5	8.4
Brazil	0.9	3.7
Canada	2.7	13.5
Chile	-2.1	2.6
China	13.4	4.7
Costa Rica	-14.6	2.2
India	-4.8	20.4
Indonesia	-3.3	8.7
Israel	-5.1	19.1
Japan	6.1	0.3
Mexico	4.4	12.2
New Zealand	2.6	8.7
Norway	20.9	14.7
Republic of Korea	23.2	19.4
Russian Federation	-0.5	22.2
South Africa	8.6	2.0
Switzerland	-0.3	7.2
Türkiye	-1.8	8.5
United Kingdom	3.2	6.6
United States	9.2	3.9
European Union	1.7	3.9

Imports

	First quarter of 2026	Second quarter of 2026
Argentina	-5.5	2.9
Australia	13.9	7.9
Brazil	4.3	6.2
Canada	6.5	3.0
Chile	-1.4	6.9
China	16.9	8.9
Costa Rica	4.0	8.7
India	0.3	8.7
Indonesia	-0.6	21.2
Israel	5.0	16.9
Japan	5.3	3.7
Mexico	4.7	7.7
New Zealand	6.3	7.3
Norway	0.5	5.8
Republic of Korea	7.0	11.9
Russian Federation	-0.3	10.3
South Africa	2.3	20.7
Switzerland	-1.7	3.9
Türkiye	-0.1	-0.6
United Kingdom	5.4	5.7
United States	6.0	7.8
European Union	2.1	5.2

Source: UNCTAD based on OECD key short-term economic indicators.

Note: Calendar and seasonally adjusted data. The sample selection reflects data availability. Coloured tags draw from economy-specific quarterly growth rates observed since 2022. For the European Union, data reflect extra-European Union trade flows.



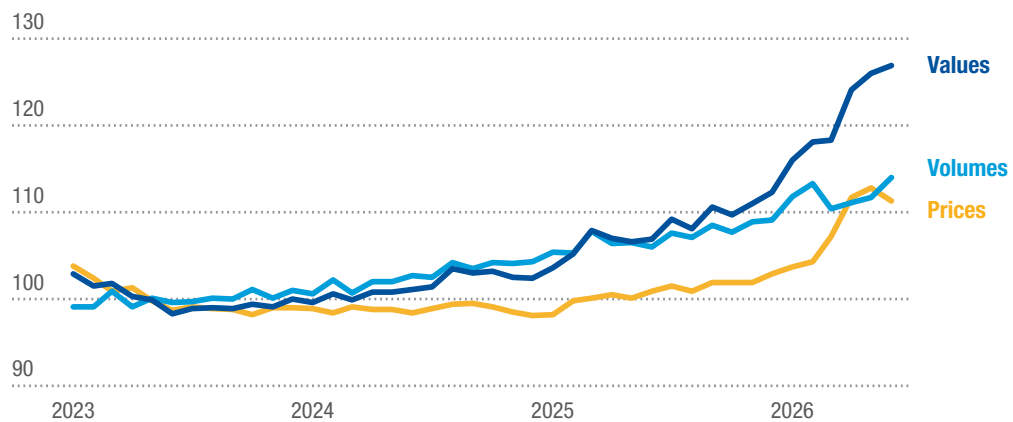
Beyond the first half of 2026, it remains unclear which forces will dominate between the tailwinds relating to artificial intelligence and the headwinds emanating from the conflict in the Middle East. The annual growth forecast is largely unaffected either way, since late-year movements bear comparatively little on full-year performance;

they are more influential in the following year's forecast. Early data suggest continued dynamism in Asian technology supply chains, although accelerating global inflation could ultimately depress merchandise trade volumes. The remainder of this subsection examines specific sectors and geographies.



Figure I.20
Price effects explain most of the recent increase in world trade

World merchandise trade, selected indicators, January 2023 to June 2026
(Average 2023=100)



Source: The World Trade Monitor database of the CPB Netherlands Bureau for Economic Policy Analysis, published on behalf of the European Commission.

Note: World trade reflects the average between the sum of total exports and imports across all considered entities. The prices series corresponds to the price index, or deflator, for world merchandise trade. Technically, it corresponds to the unit value in United States dollars.

Technology and artificial intelligence-enabling goods: The main support

The single most consequential category for the growth of merchandise trade in 2025 and 2026 – but also a key unknown variable for the years ahead – has been the rapid expansion of investments in artificial intelligence-enabling products and infrastructure. These encompass many specific goods that usually have very high trade content, making the artificial intelligence investment cycle particularly supportive of merchandise trade. Producing semiconductors, servers and other related equipment relies on highly specialized and geographically fragmented global value chains (OECD, 2026b). In 2025, trade in

these products surged 22 per cent in value, reaching \$4.2 trillion and accounting for 42 per cent of total global merchandise trade growth in nominal terms, despite representing only about one sixth of world trade value (WTO, 2026). Complex supply chains centred in Asia, especially around China, Japan, the Republic of Korea and Taiwan Province of China, have been supplying the bulk of semiconductors, servers and related advanced compute infrastructure, notably to the United States. These products account for roughly two thirds of the total cost of new data centres (Michael and Cottier, 2026; IOT Analytics, 2025), even if some assembly factories have relocated closer to their final destination, such as to Mexico, or partly reshored, such as in the United States.

United States-led supply chains centred on Asian manufactures supply most semiconductors enabling artificial intelligence

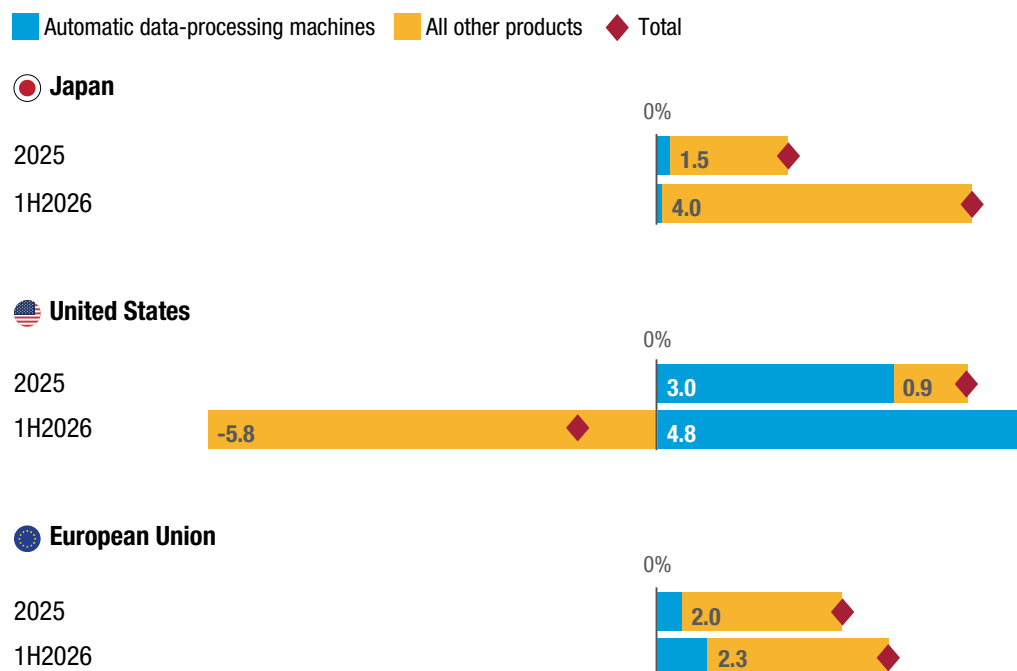


Within these specific products, artificial intelligence compute hardware and its supply chain deserve particular attention. Automatic data-processing machines – one of over 5,500 categories within the six-digit HS merchandise products classification – contributed significantly to the growth of imports in the two largest world economies in 2025. In the United States, this single HS category contributed about three quarters of the 4 per cent nominal growth of total merchandise imports. In China, such products almost offset the decline registered by all other imported products taken together (UNCTAD, 2026c). During the first half of 2026 – the most recent period for which data are currently available – these specific imports played an even larger role in the United States. The import bill for them rose almost 5 per

cent year on year, nearly offsetting the negative 5.8 per cent contribution of all other imported products taken together. In the European Union, these products explained about one fourth of the increase in import bills from outside the group (figure I.21). By contrast, the corresponding import bill in China shrank by 0.3 per cent, even though the development of artificial intelligence played an even greater role in this economy. Such contraction is consistent with the gradual emergence of a Chinese-centred artificial intelligence technology ecosystem, partly due to the strategic export controls the United States introduced on its main foreign competitor (United States, 2022). In other developed economies, such products can also have macro effects, albeit to a smaller extent.

Figure I.21 Artificial intelligence-enhancing hardware is boosting merchandise imports, especially in the United States

Growth of the nominal merchandise import bill by product group in some of the largest developed economies
(Percentage)



Source: UNCTAD based on Comtrade, Eurostat and national sources.

Note: For Japan and the United States, data refer to import values in United States dollars. For the European Union, they relate to imports in euros from partners outside the European Union. All other products correspond to total merchandise imports minus the value under the HS 847150 code, which relates to automatic data-processing machines.

Available trade statistics do not identify how the value added embedded in these products is generated or who ultimately captures it. A product-based supply chain investigation sheds further light on how value is distributed across firms and geographies in this supply chain (box I.3). The map shows value addition concentrating in a handful of economies, with little participation

from the developing world beyond China and Taiwan Province of China.¹ The sector's contribution to growth and trade is therefore more qualified than the prevailing account suggests: the aggregate gains are real, but they fall unevenly across firms, economies and population groups, and most developing countries stand to benefit little directly.



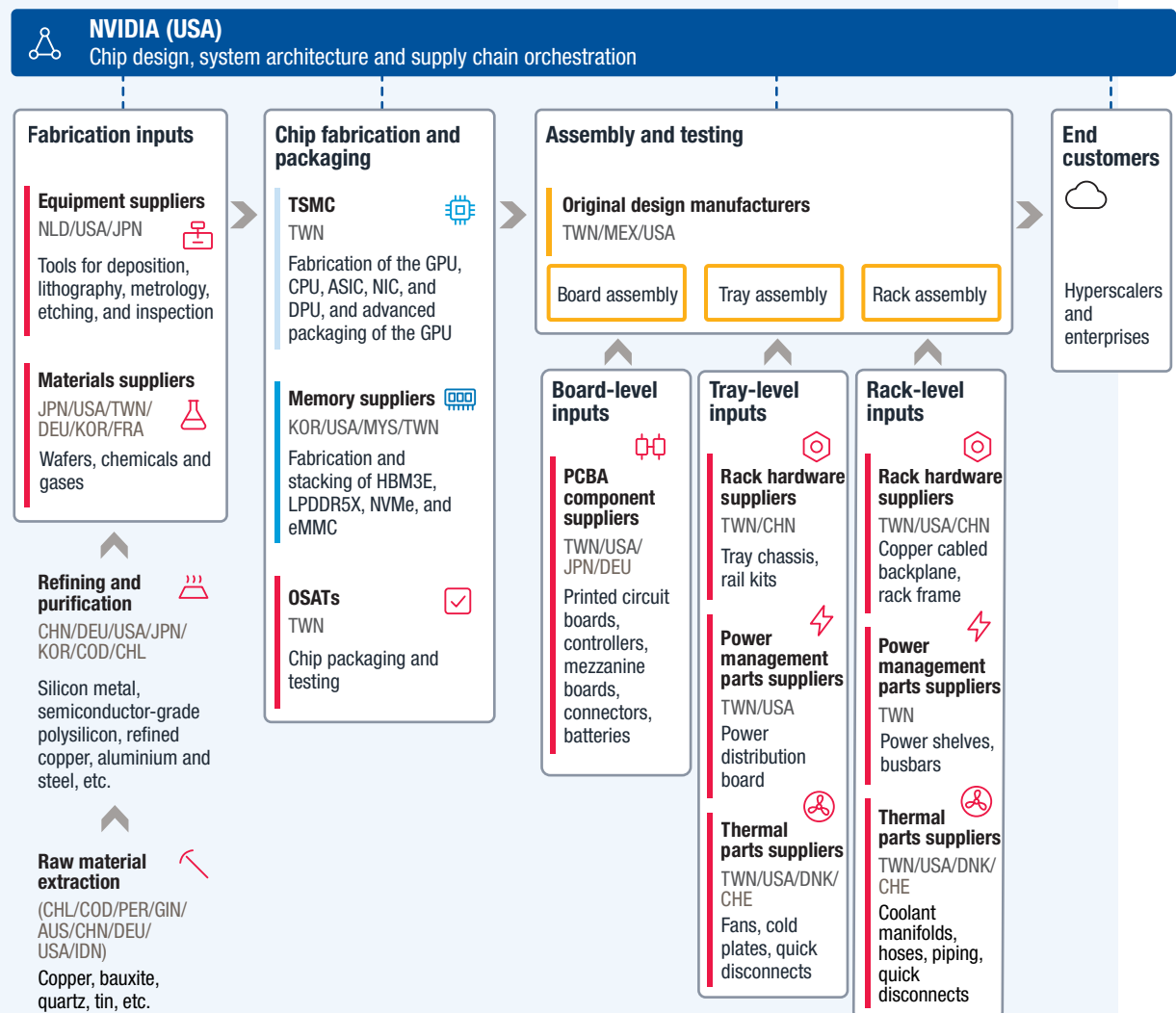
¹ Such concerns echo the findings by Rishabh and Shreeti (2026), which mapped the geography of artificial intelligence firms across five primary role layers: compute, infrastructure, data tools, models and applications. It goes beyond UNCTAD analysis of compute alone. The study surveyed more than 1,200 artificial intelligence firms and found that less than 3 per cent are in developing economies outside China, Singapore and Taiwan Province of China. If India was also left out, the share shrank to less than 1 per cent.



Box I.3 Tracing value added in the artificial intelligence hardware supply chain

Artificial intelligence-enabling compute hardware – such as advanced servers and chips – currently accounts for a significant share of global merchandise trade expansion. To illuminate where the economic value embedded in these products is generated and who ultimately captures it, UNCTAD conducted a product-level value added analysis of a leading compute system, the NVIDIA GB200 NVL72 server rack (box figure I.3.1). This hardware has been deployed in dense configurations in newly built data centres worldwide and serves as a proxy for the artificial intelligence hardware supply chain. It is representative of similar products that rely on a few major global providers of crucial intermediates and are produced using common processes and technologies. This analysis offers several new insights into this booming sector, excluding the parallel supply chain emerging in China.

Box figure I.3.1
Map of the value chain of the NVIDIA GB200 NVL72 server rack



Source: UNCTAD based on Heydemann and Maystre (2026).

Note: Country codes indicate the headquarters or major production locations of principal suppliers identified in the GB200 supply chain; the list is not exhaustive. Geographies include: AUS, Australia; CHL, Chile; CHN, China; COD, Democratic Republic of the Congo; DEU, Germany; DNK, Denmark; FRA, France; GIN, Guinea; IDN, Indonesia; JPN, Japan; KOR, Republic of Korea; MEX, Mexico; MYS, Malaysia; NLD, Kingdom of the Netherlands; PER, Peru; TWN, Taiwan Province of China; and USA, United States of America. Inputs are: ASIC, application-specific integrated circuit; CPU, central processing unit; GPU, graphics processing unit; NIC, network interface controller; DPU, data-processing unit; HBM3E, high-bandwidth memory; LPDDR5X, low-power double-data-rate memory; NVMe, non-volatile memory express storage; eMMC, embedded multimedia card storage; OSATs, outsourced semiconductor assembly and testing firms; and PCBA, printed circuit board assembly.

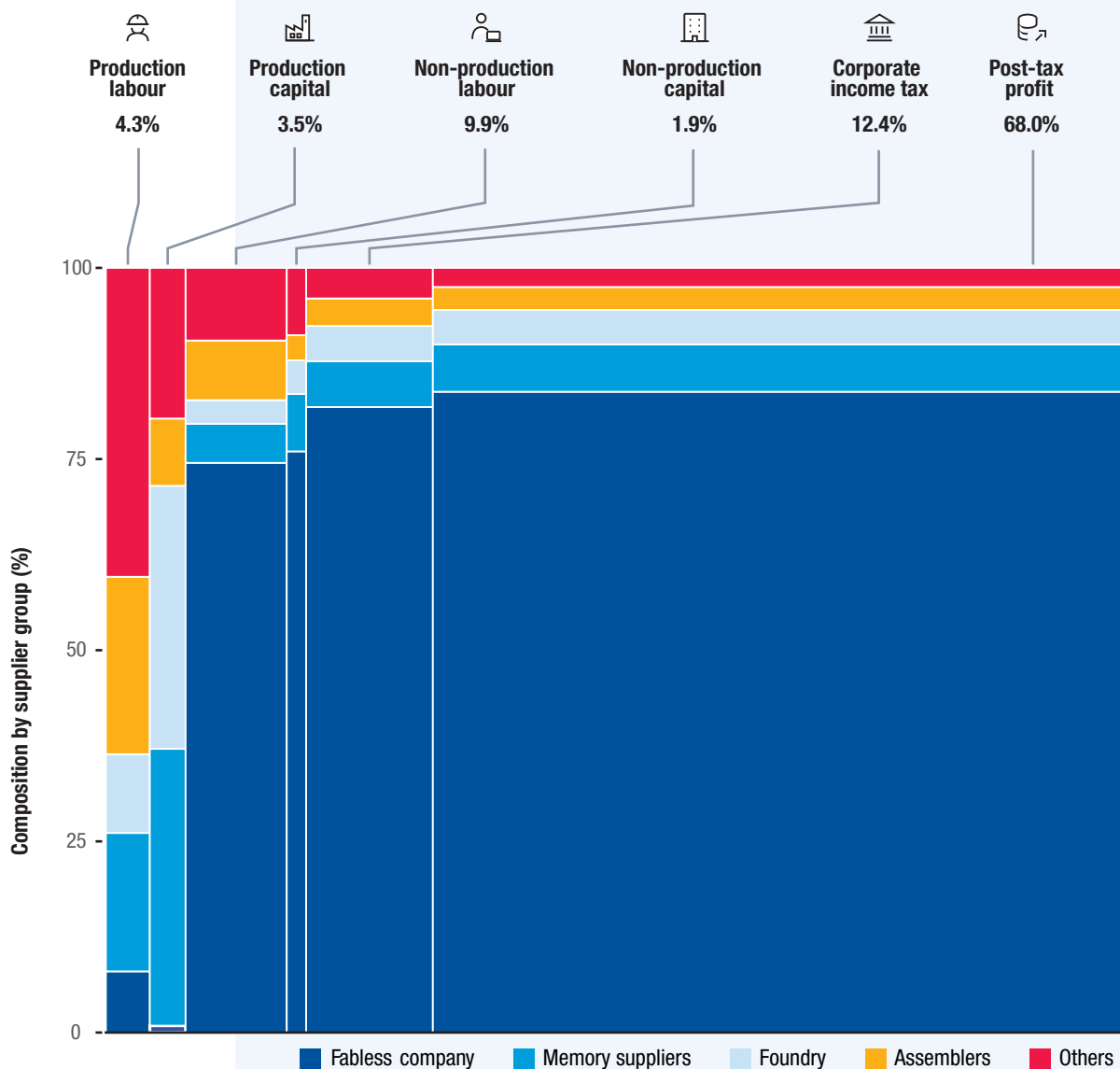
By estimating a detailed bill of materials and combining this with financial statement disclosures of major firms across the value chain, the analysis mapped more than 87 per cent of the overall value added by type of supplier, and decomposed this traced value added between production workers; non-production workers; production capital; non-production capital; corporate income taxes; and the remaining financial profits across leading firms in the supply chain (box figure I.3.2).



Box figure I.3.2

Magnitude and composition of traced value added by component and supplier group

(Percentage)



Source: UNCTAD based on Heydemann and Maystre (2026).

Note: Traced value added represents more than 87 per cent of the total value added of an NVIDIA GB200 NVL72 server rack. Component width is proportional to its share of traced value added, while vertical segments show the distribution of each component across supplier groups. "Others" combines rack hardware, thermal, power delivery and board electronics.



This decomposition illuminates the concentration of the value chain of artificial intelligence hardware. Eighty-two per cent of total value added accrues to four supplier segments: the fabless semiconductor company (NVIDIA), the chip foundry (TSMC), memory and storage suppliers (SK Hynix, Samsung, Micron), and assembly and testing firms (Foxconn, Quanta, Wistron, Wiyynn). Geographically, according to headquarter location, value creation is concentrated, in descending order, in the United States, Taiwan Province of China, the Republic of Korea and China. At the firm level, NVIDIA alone accounts for 67 per cent of total value added, though this firm headquartered in the United States ultimately depends on Asian suppliers for production.

Across the components of traced value added, post-tax operating profit accounts for the largest share (68 per cent), while workers altogether capture less than 15 per cent. Participation by developing economies – apart from the aforementioned ones and a few others involved in assembly and testing, such as Malaysia and Mexico – remains extremely limited. It is largely confined to the supply of raw materials, which under favourable assumptions amounts to less than 1 per cent at best. Excluding the indirect benefits that may arise from the diffusion of AI-enabled software, services and innovations, the vast majority of developing economies capture at best a marginal share of the rack's final value. Consequently, they derive little direct benefit from the production of this good or, more broadly, from the boom in AI compute hardware.

Source: UNCTAD.

Workers receive under 15% of value added from artificial intelligence hardware; post-tax operating profit takes 68%

Other goods categories: Divergent fortunes

Outside the artificial intelligence cluster, trade has been more mixed. In agriculture, oilseeds and animal products led expansion in the first half of 2026, while coffee, tea and spices lagged, reflecting the fall in coffee prices from the highs of previous quarters. Natural resources rose strongly on higher mineral fuel prices amid the conflict in the Middle East, and minerals and metal ores grew by more than 30 per cent. In manufacturing, electrical machinery, machinery and other base metals sustained the growth of late 2025, while chemicals, iron and steel, and textiles and apparel contracted.

Within energy and motor vehicles, electric vehicle goods performed strongly: batteries rose 29 per cent, critical minerals

54 per cent and electric cars 11 per cent. Overall motor vehicle growth was below average, although demand shifted towards electric and hybrid models. Among renewable energy products, solar lagged, while wind grew faster than energy products overall. (figure I.22).

Demand for semiconductors, batteries and electric vehicle components is likely to remain an important driver of trade growth in the second half of 2026. Higher-frequency survey indicators also point to a possible broadening of capital expenditure beyond technology sectors in several major Asian economies: machinery orders rose strongly month-on-month in China and Japan, with manufacturing orders improving alongside non-manufacturing. If this is confirmed and extends beyond Asia, the baseline scenario for global investment and merchandise trade would improve.

Trade in minerals and metal ores expanded more than 30%; chemicals, steel and textiles contracted

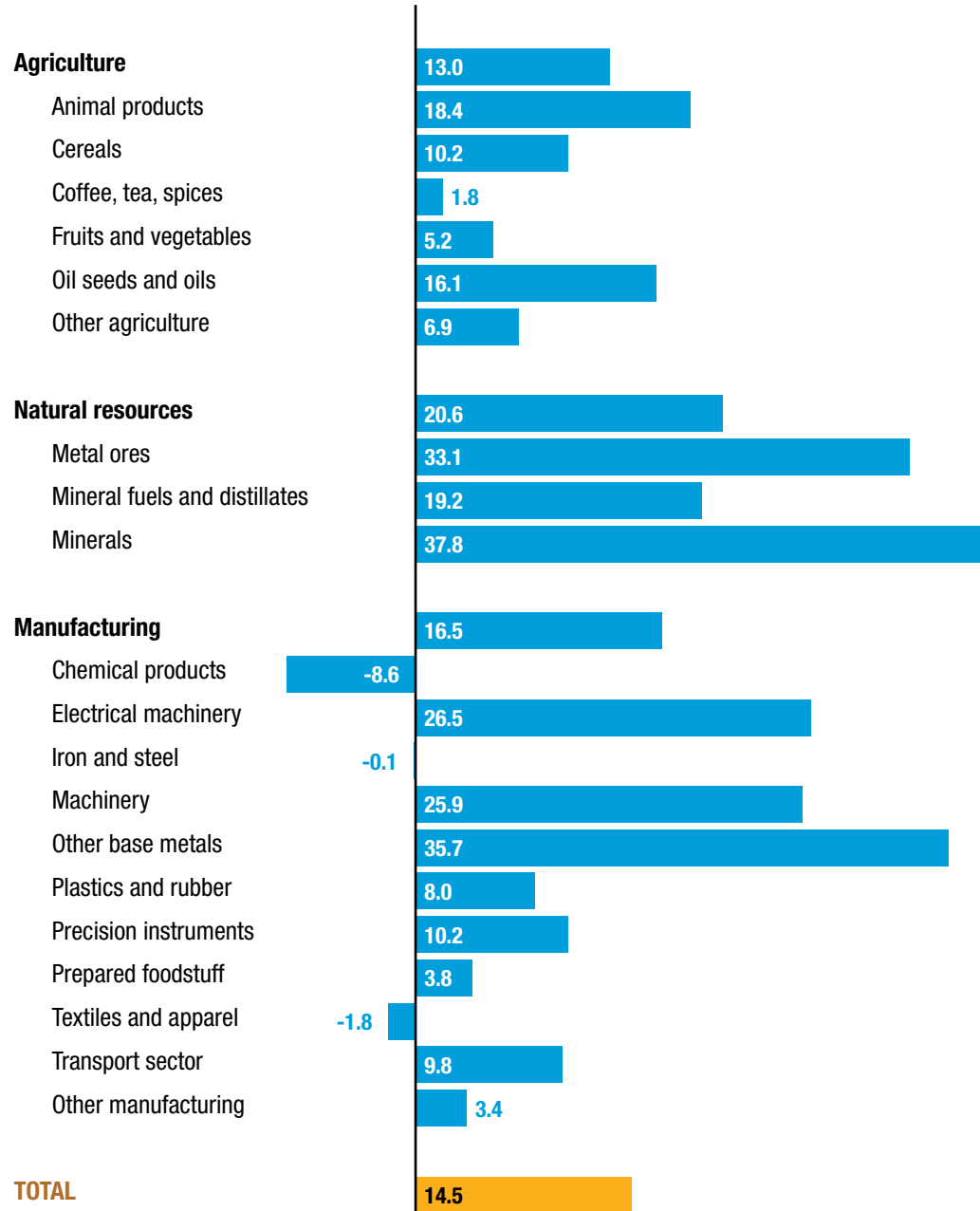


Figure I.22

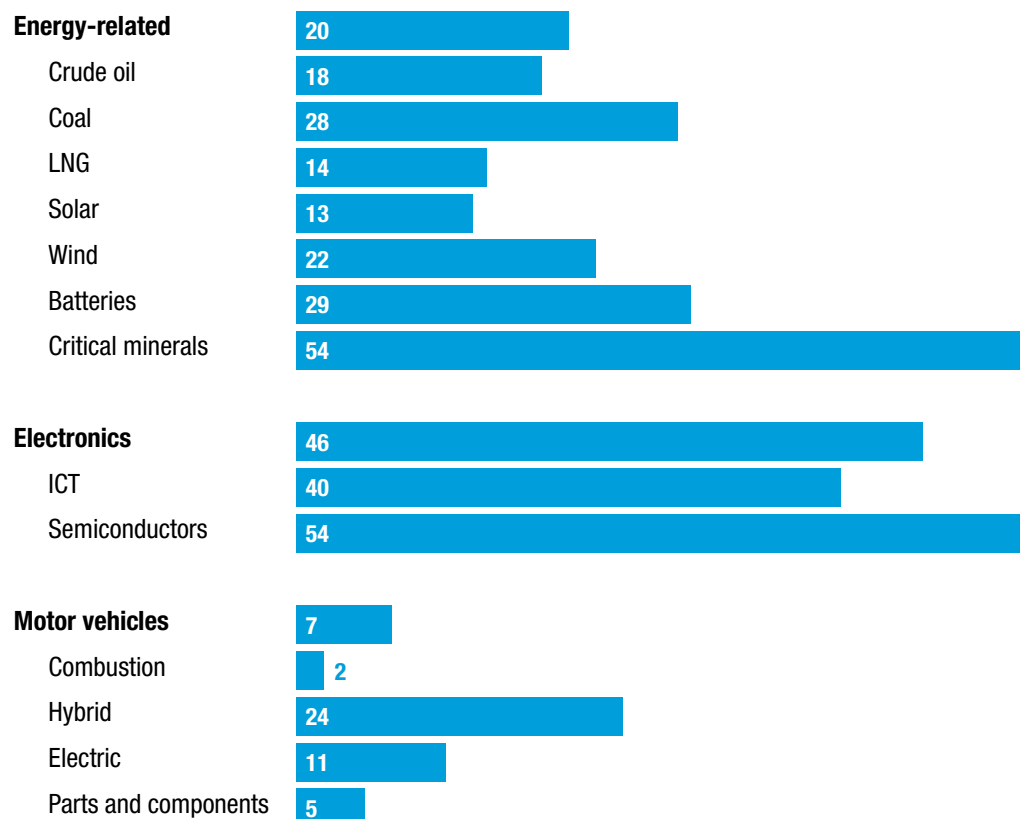
Manufacturing performed well in the first half of 2026, but many subsectors lagged

Year-on-year growth, selected sectors and subsectors
(Percentage)

A. Main aggregates and components



B. Selected specific subsectors



Source: UNCTAD (2026d) with updated estimates for the second quarter of 2026.

Notes: ICT refers to information and communications technology and LNG to liquefied natural gas.

Regional goods trade: Exporters and importers

Asia remains the most dynamic exporting region, with intra-Asian merchandise trade rising markedly. South–South flows are deepening as China and other large Asian exporters increase shipments to growing emerging markets. Exports from North America rebounded by 36 per cent on a seasonally adjusted annualized basis in the first quarter before falling by 7 per cent in the second. In Latin America, exports picked up after contracting in late 2025 and early 2026, reaching 13 per cent in the second quarter amid the redirection of energy and commodity flows. European performance has been weaker: the euro

area posted a 6 per cent decline in the first quarter, reflecting subdued industrial activity and energy costs, before recovering fully in the second. Economies in Eastern Europe and the Commonwealth of Independent States (CIS) contracted by 21 per cent in the first quarter, rebounding by 8 per cent between April and June.

On the import side, Asia is expected to post the strongest growth in 2026, followed by North America, where demand for imported artificial intelligence goods has supported the aggregate. In Latin America, imports have grown at close to double-digit rates since mid-2025 as manufactured goods deepen their penetration of the region (figure I.23).



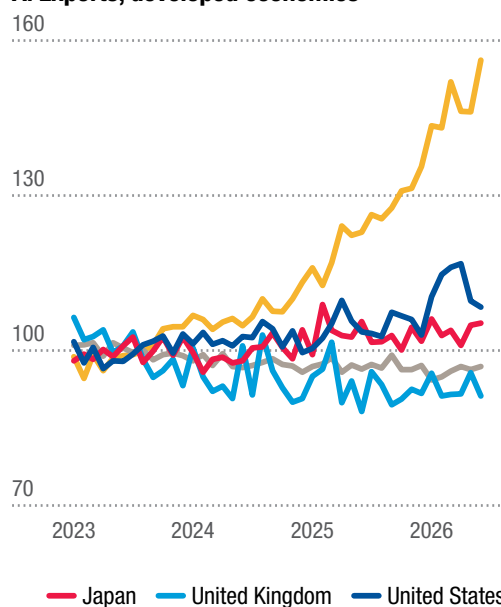


Figure I.23

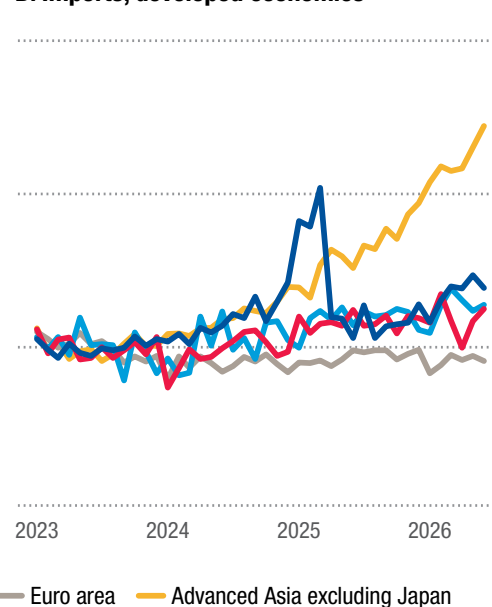
Merchandise trade performance has diverged

Trade flows at constant prices, January 2023 to June 2026
(Average 2023=100)

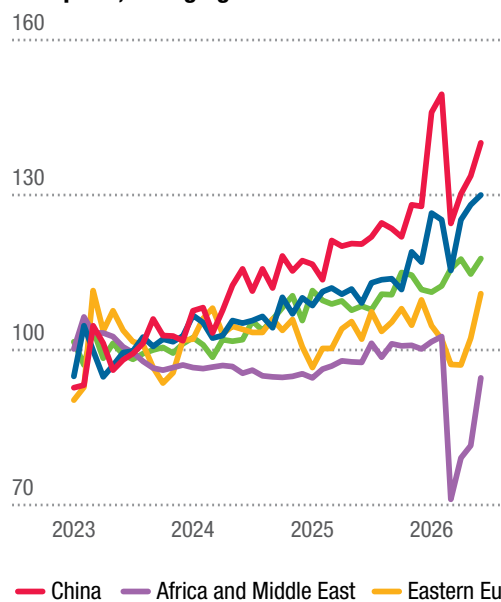
A. Exports, developed economies



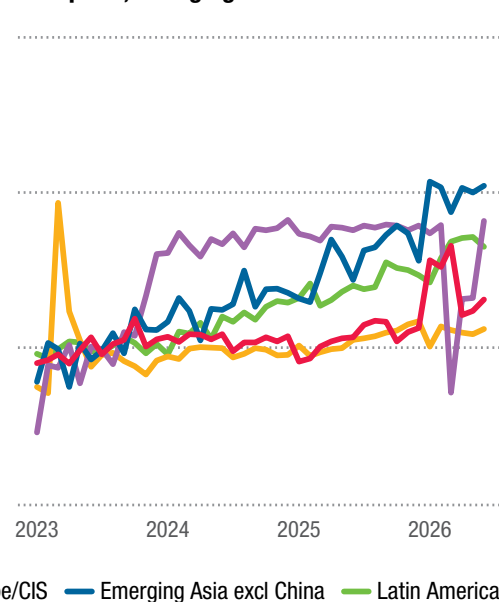
B. Imports, developed economies



C. Exports, emerging economies



D. Imports, emerging economies



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

Note: Country group classification relies on the CPB Netherlands Bureau for Economic Policy Analysis (Ebregt et al., 2024).



b) Trade in services: Resilient but moderating

World services exports have proven resilient, reaching almost \$10 trillion in 2025, an annual increase of 8 per cent. Quarter-on-quarter momentum turned slightly negative in the first few months of 2026, although year-on-year growth held at 10 per cent. Among the three largest subcategories, transport was the most sluggish at 4 per cent, while international travel and the residual category covering all other services, most of them digitally tradable, each grew 11 to 12 per cent. Preliminary estimates from UNCTAD Nowcast point to a 6 per cent increase in dollar revenues for 2026 as a whole, a mild deceleration from 2025.

Transport services: Under pressure

Transport services, which benefited from strong goods trade in 2025, are forecast to post the weakest growth of the three main subaggregates in 2026. A weak and uncertain maritime outlook, together with persistent trade policy uncertainty, is affecting shipment timing, cargo bookings and demand for shipping and logistics.

The conflict in the Middle East is disrupting the Strait of Hormuz, which normally handles significant shares of the global oil, liquefied petroleum gas (LPG) and LNG trade. Traffic fell by around 95 per cent in early March, from about 120 ships a day before the conflict, and remained severely constrained through August. Restricted transits, rerouting and congestion have reduced effective vessel availability and raised fuel, insurance and operational costs. In container shipping, fleet expansion is adding vessel supply even as rerouting, longer voyages and congestion constrain effective capacity, keeping freight rates volatile (UNCTAD, 2026f).

Travel services: Post-pandemic normalization slows

Dollar revenues from travel services are expected to grow by about 9 per cent (World Tourism Organization, 2026), although international tourist arrivals are projected to expand by only 2 to 3 per cent in 2026, down from 5 per cent in 2025. The conflict in the Middle East has hit this category hard: the region accounts for 7 per cent of global transport services exports in normal times and serves as a critical air and maritime hub linking Europe, Asia and Africa. Between late February and June, tens of thousands of flights were cancelled due to safety concerns and the sharp rise in jet fuel prices.

Other commercial services: Steady, with digitally delivered services outperforming

Revenues from other commercial services, the largest subcategory at almost two thirds of services trade, are expected to grow by about 6 per cent in 2026. It covers professional, financial, insurance and business services, which benefit from structural demand for outsourcing, consulting, and legal and financial advice, particularly as multinational investment in artificial intelligence infrastructure generates ancillary demand.

Digitally delivered services, a distinct but overlapping category, continue to outperform. Preliminary estimates show cloud computing, software, computer services, intellectual property and remote professional services trending upward, often at double-digit rates.

Services exports reached \$10 trillion in 2025, up 8%, with a 6% rise projected for 2026

International tourist arrivals are projected to grow just 2–3% in 2026

Financial, insurance and business services, two thirds of services trade, should grow by 6% in 2026

2. Capital flows: High volatility amid tightening global financial conditions

In early 2026, capital flows to developing countries reached their highest level since late 2021

Non-resident capital flows to developing countries rebounded between the third quarter of 2025 and the first quarter of 2026, reaching their highest level since the third quarter of 2021 (figure I.24). Favourable performance across all three modalities of these flows – foreign direct investment, portfolio investments and other investments – supported this recovery. The rebound peaked in the first quarter of 2026, driven mainly by other investment inflows to China.² Excluding China, the recovery was less pronounced but still significant and, unlike China, was led by a stronger increase in portfolio investment in debt securities.

The spread between domestic interest rates and those of leading developed countries was a key driver of the diverging performance between China and other

developing countries. For China, the spread has been negative. For emerging market economies excluding China and frontier market economies, it has been positive (and, in some cases, very high), encouraging both hard currency bond issuance and portfolio investments in local currency debt securities.³ Developed country monetary policy remained broadly loose in 2025, while several central banks in emerging market economies operating under inflation-targeting regimes were cautious about easing, cutting only gradually or raising rates further (IMF, 2025). Dollar depreciation between the second quarter of 2025 and the first quarter of 2026 (BIS, 2026a) may also have encouraged sovereign borrowers in emerging and frontier market economies, and corporate borrowers in emerging market economies, to raise funds abroad. A weaker dollar strengthens the balance sheets and repayment capacity of borrowers with liabilities in dollars and assets in domestic currency.

² The increase was driven, mainly, by the short-term deposit and loan liabilities of resident banks. This may be related to stronger cross-border trade and investment activity that increased non-residents' transaction and settlement balances with Chinese banks, while also prompting resident banks to raise short-term external funding to meet greater settlement, liquidity and trade finance needs (China, State Administration of Foreign Exchange, 2025 and 2026).

³ In this section, developing economies are classified into three groups, according to their levels of integration into the global capital market. The first group consists of developing economies considered as emerging market economies and are mostly upper-middle-income developing economies that have been integrated into the global capital market since the 1990s and early 2000s. They correspond to the developing economies included in the J.P. Morgan Emerging Market Bond Index, Global Diversified category. The second group are frontier market economies, comprising mainly low-income and lower-middle-income economies that integrated into the global capital market after the global financial crisis of 2008. They correspond to the developing economies included in the J.P. Morgan Next Generation index. The final group, "other developing economies", are those that are neither emerging market economies nor frontier market economies, tend to have lower degrees of integration into the global capital market and rely mainly on external public financing from official sources. For more details, see: UNCTAD, 2023a and 2026e.





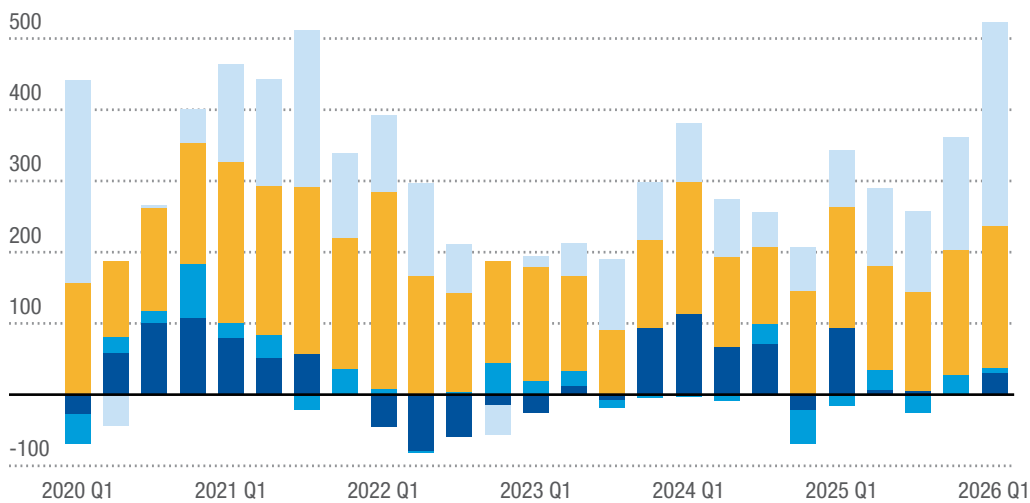
Figure I.24

Non-resident capital flows trended upward until the first quarter of 2026

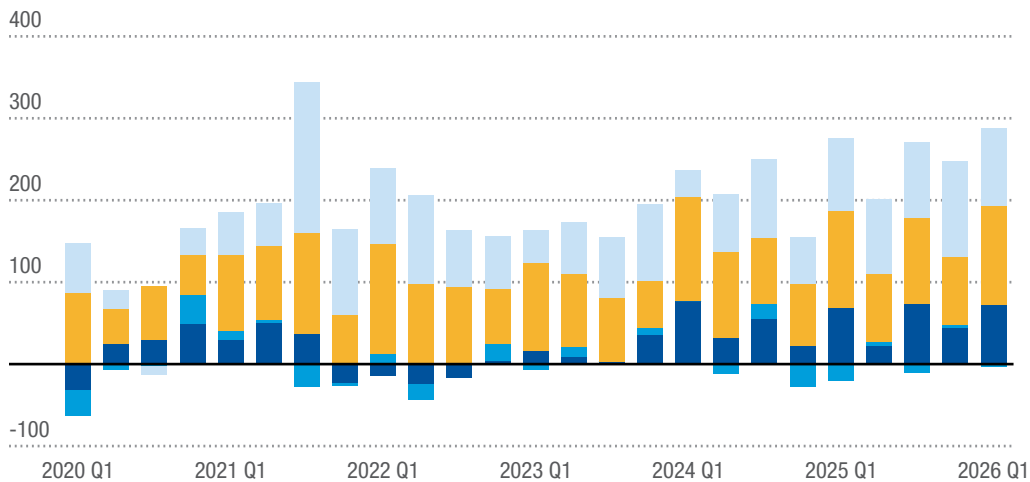
Non-resident capital flows to developing countries
(Billions of United States dollars)

A. All developing countries

- Portfolio investment liabilities, debt securities
- Portfolio investment liabilities, equity and investment fund shares
- Direct investment liabilities
- Other investment liabilities



B. Developing countries excluding China



Source: UNCTAD based on IMF balance of payments statistics.

More recent indicators, although narrower, show that the uncertain global environment produced an up-and-down pattern in non-resident portfolio flows to major emerging market economies, whose

volatility increased in 2026 compared to the 2014–2025 level (figure I.25). The outbreak of the conflict in the Middle East triggered a flight to safe assets (UNCTAD, 2026c).

The volatility of non-resident portfolio flows doubled in 2026 amid global uncertainty

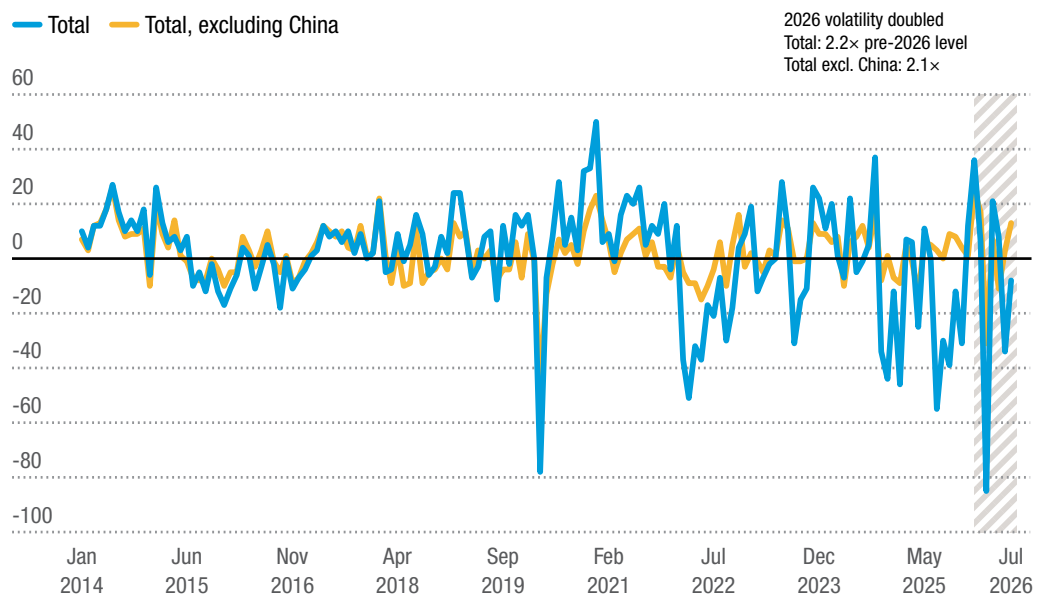


Outflows slightly exceeded those at the onset of the pandemic in March 2020, which until then was the largest since these economies integrated into global capital markets (UNCTAD, 2020). The rebound in April suggested that March outflows may have overshoot, although the oscillation between inflows and outflows through July indicates that conditions remain difficult.

Both the sell-off and the pattern that followed reflect two interrelated trends since the global financial crisis of 2008 that have increased the share of more volatile private external financing: deepening financial integration and a changing composition of capital flows in which non-bank financial institutions play a growing role. Together, these have heightened the vulnerability of emerging and frontier market economies to shifts in global financial conditions (UNCTAD, 2025b; IMF, 2026b).

Figure I.25
The volatility of portfolio investments in emerging market economies doubled in 2026

Non-resident portfolio flows, selected emerging market economies
(Billions of United States dollars)



Source: UNCTAD based on LSEG.

Note: The monthly aggregate includes Brazil, Chile, China, India, Mexico, the Philippines, South Africa and Türkiye. After March 2026, it excludes the Philippines; July excludes India. China, India, Mexico and South Africa are approximations from respective portfolio investment or equity flow series; volatility refers to the standard deviation of monthly flows.

Sovereign bond yields through September, driven primarily by the portfolio decisions of non-bank financial institutions, also point to volatile global financial conditions in both emerging and frontier market economies (non-resident portfolio investment data for frontier market economies are unavailable after March 2026). The volatility reflects

shifting expectations about the duration of the Middle East conflict and about the monetary policy in the United States and other major developed economies. The March sell-off pushed external sovereign yields up. They receded partly in April and May before resuming a volatile upward path.

By mid-September, both median and average sovereign bond yields for emerging market economies stood 0.7 percentage points above their levels when the conflict in the Middle East broke out, while for the frontier market economies similar figures for the median and the average exceeded 0.7 and 0.4 percentage points, respectively (figure I.26). Therefore, unlike previous episodes of deteriorating global financial conditions (the COVID-19 shock and the war in Ukraine; UNCTAD, 2023), this time around frontier market economies were not hit harder than their emerging market counterparts. This may be related to the increased participation of highly

speculative non-bank financial institutions (hedge funds and crossover investors) seeking carry-trade returns in emerging-market economies' assets (IMF, 2026b). However, frontier market economies continue to pay higher sovereign yields due to their financial integration pattern (UNCTAD, 2023b and 2025b). Moreover, volatile global financial conditions weigh more heavily on their fiscal space, since most non-resident portfolio investment flows into hard-currency sovereign debt (UNCTAD, 2026e). Non-resident investment in local currency sovereign markets matter only in a few countries, such as Egypt and Nigeria (J.P. Morgan, 2026b).

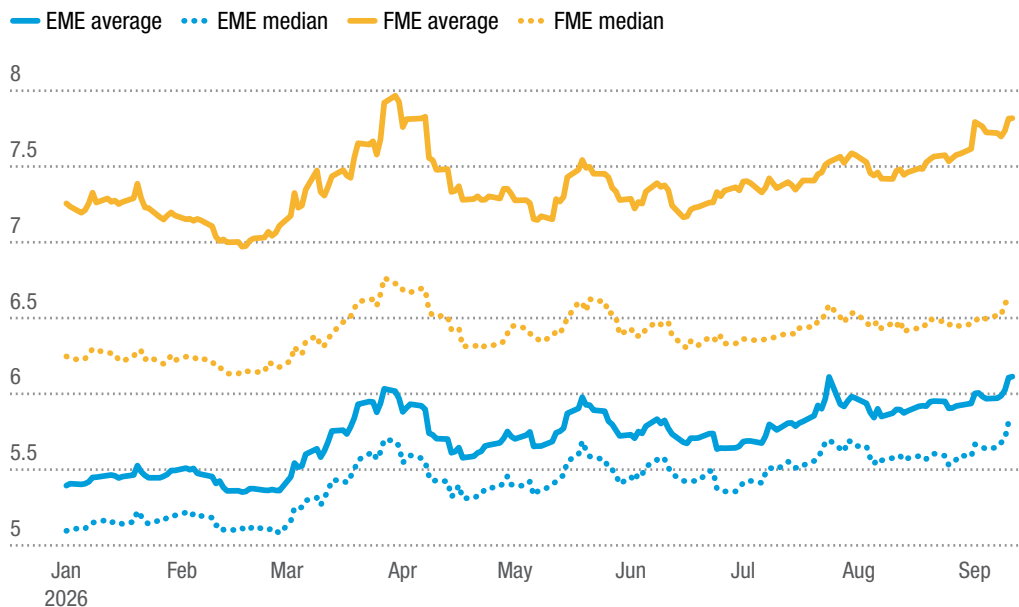
In frontier market economies, volatile global financial conditions weigh heavily on fiscal space



Figure I.26

Sovereign bond yields increased amid tightened global financial conditions

Yields on sovereign bonds, average and median for emerging and frontier market economies
(Percentage)



Source: UNCTAD based on LSEG.

Note: Data include all bonds issued by emerging (EME) and frontier market (FME) economies in dollars, euros or yen available through LSEG. Yields are weighted by market values in dollars. Defaulted bonds and bonds maturing within one year are excluded.

The increase in sovereign bond yields of emerging and frontier market economies reflects both higher risk premiums and the rise in the yield of the benchmark safe asset, usually the United States sovereign bond of

matching maturity (figure I.3). The Federal Reserve's first rate increase since 2023 — a 25-basis-point hike to 3.75–4.00 per cent in September 2026 (Jones and McCormick, 2026) — points to renewed upward pressure



on these yields, as a restrictive monetary policy stance in the United States tends to deteriorate global financial conditions and, consequently, raise external borrowing costs and trigger capital outflows towards dollar-denominated assets (UNCTAD, 2025a).

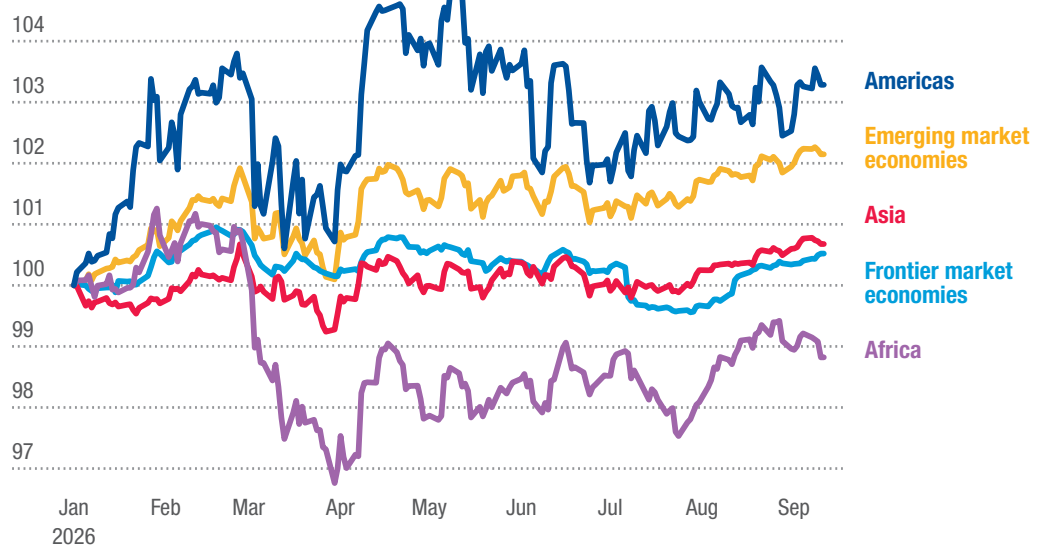
Non-resident capital flow dynamics have influenced developing countries' exchange rates, which followed a similarly volatile path: widespread depreciation across all developing regions in March, a synchronized but uneven appreciation in April, and oscillation from May onwards. Cumulative changes over 2026 differ by region. Only Africa recorded depreciation, while the Americas appreciated more than Asia. Currencies in emerging and

frontier market economies gained, respectively, 2.1 and 0.5 per cent on average (figure I.27.A and I.27.B).

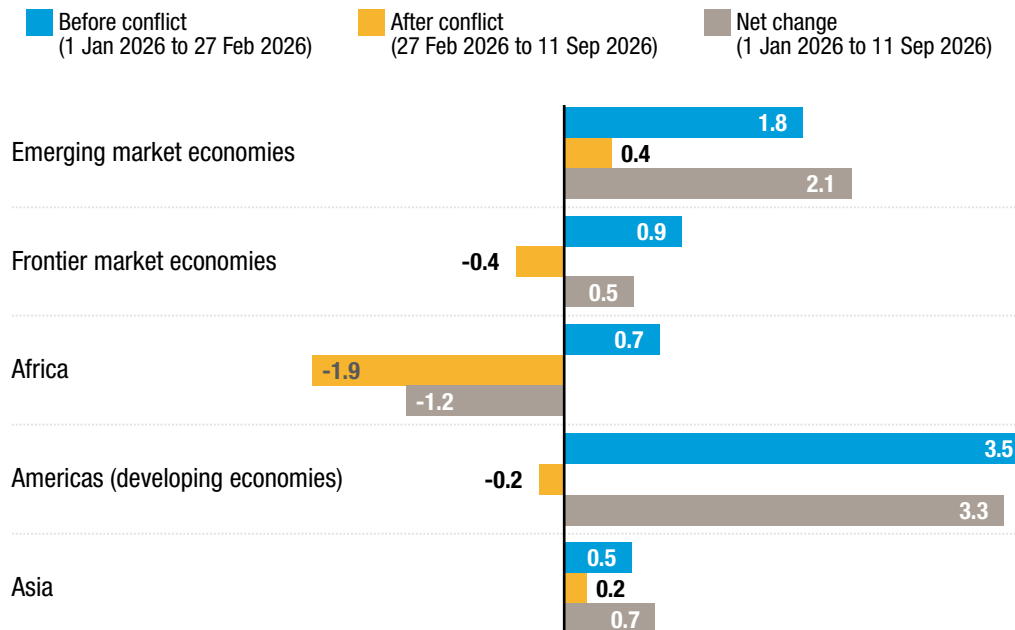
These averages conceal considerable country-level variation, reflecting the extent of appreciation before the conflict, the monetary policy stance, debt sustainability risks and the exchange rate regime. Investors also differentiated by exposure to the energy shock and its effect on the trade balance. Currencies of oil importers, excluding China, depreciated by almost 4 per cent in 2026, against a marginal appreciation for energy exporters or a depreciation of 0.5 per cent when Mexico is excluded (figure I.27.C).

➤ **Figure I.27**
Developing country currencies took a hit from the conflict in the Middle East

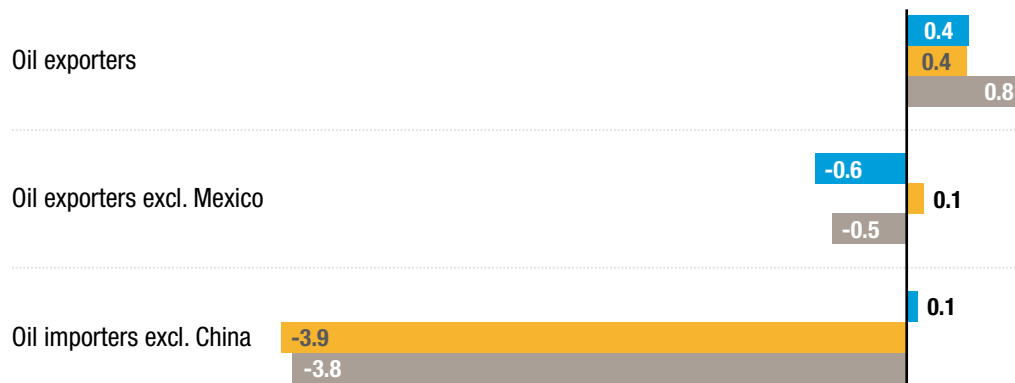
A. Exchange rate index against the dollar
(January 2026 = 100)



B. Change in average exchange rates against the United States dollar, selected country groups
(Percentage)



C. Change in average exchange rates against the United States dollar: Oil exporters and importers
(Percentage)



Source: UNCTAD based on LSEG Datastream.

Looking ahead, tighter global financial conditions, together with the risk of renewed geopolitical escalation and sustained oil price pressure, are expected to restrain non-resident portfolio flows to emerging and frontier market economies, while other developing economies face shrinking ODA.

Against this background, closing the estimated \$4.3 trillion financing gap for the Sustainable Development Goals remains a formidable task. Assuming the composition

of domestic and external financing seen in 2024, UNCTAD (2026e) estimates that external financing to developing countries would need to rise by about a third between 2025 and 2030, some \$500 billion above 2024 levels. Meeting that requirement calls for stronger multilateral support and more diversified financing instruments, including domestic development finance in local currency, as the Seville Commitment calls for (United Nations, 2025b).

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