UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

DEVELOPING COUNTRIES IN INTERNATIONAL TRADE 2007

TRADE AND DEVELOPMENT INDEX

Executive Summary

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Introducing *Developing Countries in International Trade 2007 – Trade and Development Index*, new publication by UNCTAD secretariat

Summary

The new edition of UNCTAD's Trade and Development Index (TDI) provides a comprehensive review of global trade and development performance for 2006, integrating almost all key factors and indicators affecting trade and development in all countries, whether developing or developed. It is designed to offer an innovative analytical and benchmarking tool to assess trade policies in interaction with development strategies at the national level, in order to promote balanced economic and social development in developing countries, least developed and countries with economies in transition. TDI measures positive interactions between two broad sets of measures: **input-based measures (InputMI) and outcome-based measures (OutcomeMI).** Its major finding is that countries with a better availability of inputs have a better chance of meeting the preconditions for reaping maximum benefits through more beneficial trade integration with the rest of the world.

Three broad sets of determinants (dimensions) are included within the InputMI and OutcomeMI measures: in the case of InputMI, the dimensions are: **structural and institutional context, and trade policies and processes;** for OutcomeMI it is **trade and development performance**. These three dimensions are composed of a number of components – e.g. human capital, physical infrastructure, macroeconomic stability, openness to trade, access to foreign markets, trade performance, and economic and social well-being – which are in turn composed of a set of various indicators.

This year's TDI incorporates a number of refinements following suggestions from member States and the academic community. Three new components have been added to the structural and institutional context dimension: domestic finance resources, international finance resources and macroeconomic stability. Two new components – trade performance and economic and social well-being – have been added to the trade and development performance dimension. In addition, a number of new indicators have been added, including (a) gross domestic savings, (b) total external debt service and short-term debt, (c) regulatory quality and control of corruption, (d) the inflation and current account balance, (e) female-to-male income share and female labour force participation in total labour force, and (f) the adult literacy ratio as an education indicator.

This year's TDI also introduces its Advisory Board, composed of prominent academics from all regions under the chairmanship of Professor Lawrence R. Klein, Nobel Laureate in Economic Sciences.

TDI 2006 scores and global rankings

TDI scores for 2006 have been expanded to include 123 countries, an increase from 110 in TDI 2005. Eighty-two of the 123 countries in this year's index are developing countries and include 26 least developed countries (LDCs) and six of the seven so-called emerging economies (E7) of Brazil, India, China, Mexico, the Russian Federation, South Africa and the Republic of Korea. The sample also includes 10 South-Eastern Europe and the Commonwealth of Independent States. Scores are also computed for a number of country groups, namely, developing countries, developed countries (including the 15 members of the European Union who were members before the 2004 expansion (the “EU 15”) and six Organization for Economic Cooperation and Development (OECD) member countries), and the new European Union member States that acceded in 2004 (the “EU 10”).

The United States holds the top position in TDI 2006, followed by Germany, Denmark and the United Kingdom. Developed economies occupy the top positions, with the exception of the developing island State of Singapore, which holds fifth place. Five developing countries appear among the top 30 performers, namely the Republic of Korea (21), China (25), Malaysia (27) and Thailand (29).

The 20 countries at the bottom of the TDI 2006 ranking are either LDCs (14 countries), sub-Saharan African countries or both, with the exception of the Syrian Arab Republic (105) and Yemen (117). More specifically, nine of the bottom 10 are sub-Saharan African countries, including seven LDCs. Only two African countries – South Africa (47) and Mauritius (50) – are among the top 50. This indicates the severity of the problems of integrating trade and development confronting LDCs and sub-Saharan African countries.

Major emerging economies – TDI scores and rankings

In recent years, the overall performance of developing countries and their ability to catch up in economic development with the richest countries have been remarkable. The new economic weight of some developing countries, particularly the E7, is reflected in TDI 2006. On average, E7 countries have higher TDI 2006 scores than other developing countries, and the gap between their scores and those of EU 10 countries is not large. This result is perhaps unsurprising given that the share of global merchandise exports of these countries increased from 10.6 per cent in 1995 to 17.2 per cent in 2005. This robust trade performance contributed to a high economic growth rate in these emerging economies, with annual real gross domestic product (GDP) growth of 5.7 per cent. The new economic weight of some developing countries creates significant opportunities for the rest of the developing world.

Benchmarking

Trade and development analysis through the TDI framework brings country-specific realities to the forefront by identifying structural, institutional, financial, trade policy and development measures and strategies, identifying gaps and pointing to policy options to overcome bottlenecks to trade and development, in order to allow developing countries to meaningfully benefit from trade liberalization and globalization.

TDI results for 2006 show that developing countries continue to lag behind developed countries in their scores for areas such as human capital, physical infrastructure, financial intermediation, institutional quality, trade performance and economic and social well-being. However, disaggregated scores for InputMI and OutcomeMI components show that developing countries have scores that are closer to those of developed countries in the components for domestic finance, economic structure, macroeconomic stability, environmental sustainability and openness to trade.

TDI results also show that most economies are now relatively comparable with respect to openness. Yet the differences in other components indicate the limits to what openness alone can achieve in the absence of other key determinants of trade development evolution. The scores for access to foreign markets of developed countries and EU 10 (86) are above those of the developing country group (79).

Developed countries achieve higher economic and social well-being scores (395 points) than EU 10 countries (344 points) and developing countries (263 points). In trade performance, EU 10 and developed countries score 108 and 123 points, respectively, well above that of developing countries (84 points).

Climbing the TDI ladder – a comparison of results in 2005 and 2006

Since early 2000, the overall performance of developing countries and their ability to catch up in development with the richest countries have improved in a number of crucial ways. All developing regions have climbed up the TDI ladder, with the highest scores being reached in sub-Saharan Africa, the Middle East and North Africa. The reductions in the range between the lowest scores (sub-Saharan Africa) and the highest (North America) suggest that there has been at least some climbing up the trade and development ladder during the early years of the new millennium.

The four developing countries with the largest improvements over the same period are Ecuador, Honduras, the Islamic Republic of Iran and Oman, the latter two being key players in the international trade of energy exports.

The top climbers among LDCs are (in ascending order): Chad, Lesotho, Malawi, Mali, Madagascar, Senegal and the Central African Republic. All seven countries have shown improvement in both InputMI and OutcomeMI, pointing to the benefits of a balanced approach in trade and development policies. Only three LDCs – Mauritania, Bangladesh and Zambia – have experienced a fall in TDI scores, due mainly to lower InputMI scores in 2006.

All energy-exporting countries, with the exception of Malaysia, had higher TDI scores in 2006 than they had in 2005. The decline in Malaysia's TDI was due to falls in both InputMI and OutcomeMI. Eight of the ten most commodity-dependent economies – Malawi, the Central African Republic, Iceland, Rwanda, Guinea-Bissau, Uganda, Ethiopia and Paraguay – had higher TDI scores in 2006 than in 2005. Jamaica was the only exception in this category of countries.

All E7 economies increased their TDI scores between 2005 and 2006, with China achieving the highest increase, followed by India. Seven countries in South-Eastern Europe and the Commonwealth of Independent States, including the Russian Federation, achieved improvements in TDI scores as compared to 2005. The highest increase was in Romania (a European Union member since 1 January 2007), followed by Azerbaijan and Albania.

Among developed countries (OECD and EU 15), Switzerland has shown the largest fall in TDI score from TDI 2005, followed by the United States, Japan and Norway, caused by weaker scores in OutcomeMI (trade performance and economic/social well-being). Five developing countries (Botswana, Jamaica, Uruguay, Cameroon and the Syrian Arab Republic) registered the largest falls in TDI between 2005 and 2006 due to the same reasons.

To sum up, the favourable economic environment of the past five years has been extraordinarily propitious for developing economies in general. Significant opportunities for countries of the South have also been created as a result of a spectacular growth of large developing countries such as China and India, which are now engines of world economic growth. However, despite extensive trade liberalization, many countries, especially the LDCs and lower and middle-income developing and transition countries, have not achieved significant poverty reduction and broader human development.

TDI components and variability

A key result of the TDI 2006 analysis, which will help to inform policy decisions at both international and national levels, is the discovery through statistical analysis of a general rule that says, "The lower the variability in input components, the higher output scores".

Countries with the best OutcomeMI scores display a low variability of scores among the 11 components of InputMI and tend to score uniformly high in different components. The highest variability is found among countries with the lowest OutcomeMI results. Therefore, the better performing countries indicate consistency of input and outcome performances across all indicators.

This has important implications because it suggests that policymakers, especially in developing countries, should endeavour to advance all trade and development components at the same time, and that countries need to follow an effective and coherent framework that allows designing successful strategies for trade and development.

The chief implication is that TDI offers tools to measure both quantitative and qualitative changes in trade performance. Higher TDI scores indicate quantitative trends, while, in qualitative terms, TDI clearly demonstrates that the lesser variability of input components, the better results are in outcomes comprising trade performance and social and economic well-being.

A policy implication of this causality is that disproportionate emphasis on a limited number of objectives is likely to yield only marginal results. This is reflected in the fact that economic integration and trade liberalization is not effectively addressing development concerns. For example, TDI shows that despite extensive trade liberalization (manifested in high trade openness scores) most LDCs have not achieved significant improvements in social and economic well-being, including poverty reduction.

The Trade and Development Index remains a work in progress. The UNCTAD secretariat is expecting a broad reaction and feedback from Governments and other stakeholders, including from members of the TDI Advisory Board, in order to further improve it to serve as an effective tool for monitoring, assessing and benchmarking trade and development performance.