

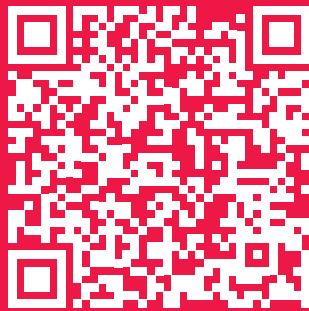
2025  
Trade and  
Development  
Report

# On the brink

Trade, finance and the reshaping  
of the global economy



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OVERVIEW  
OF THE REPORT

2025  
Trade and  
Development  
Report

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of the global economy



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Geneva, 2025

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## Foreword

When we discuss international trade, we typically speak of supply chains – networks of factories, farms, ports and transport routes that move goods across borders. But there is another architecture lying beneath this visible flow, one less discussed yet equally powerful: the architecture of balance sheets.

Trade is not just a concatenation of suppliers. It is also the concatenation of credit lines, payment systems, currency markets and capital flows. Over 90 per cent of world trade depends on trade finance and cross-border banking infrastructure. While one system – the network of suppliers – has become increasingly decentralized and diversified, the other – the financial infrastructure enabling trade – remains remarkably concentrated. This asymmetry matters. The linkages to finance carry their own dynamics: how credit flows and at what price, which countries can access it, and which cannot, and how risks are propagated through the system when shocks hit.

This year's *Trade and Development Report* places these financial dynamics centre stage, understanding that the intersection between trade and finance has never been more critical. The global economy is showing an uneasy resilience in the face of significant headwinds. Despite the sharpest tariff increases in decades and mounting geopolitical tensions, world trade grew approximately 4 per cent in real terms during the first half of 2025. Netting out frontloading and investments related to artificial intelligence, we calculated the underlying trade growth at about 2.5–3.0 per cent. As in recent years, services and South–South trade are outperforming global averages.

Yet this resilience may prove fleeting. Developing economies remain vulnerable to currency volatility, financial infrastructure disruptions and shifts in risk pricing originating in distant financial centres. When major central banks adjust monetary policy, or investor appetite for risk shifts, these movements ripple through the global financial system, affecting the real economy and trade conditions across the global South.

The asymmetry is striking. Economies of the global South today account for over 40 per cent of global output, above 50 per cent of foreign direct investment inflows and more than 40 per cent of trade. Their share of merchandise exports has grown from roughly 30 per cent in 2000, to over 45 per cent today. Yet their position in global financial markets tells a different story. They remain peripheral to the equity and bond markets that finance long-term development: the North's market capitalization stands at over three times that of the South, with 40 per cent of the global bond market residing in just one country. Sitting on



the periphery means that developing countries access credit on far more expensive terms and operate with financial infrastructure lacking the depth and liquidity to support domestic capital formation. This gap in access constrains fiscal space, limits domestic capital raising and reinforces external financing dependence, creating structural headwinds that domestic policy efforts can seek to navigate, though not fully offset, in the absence of complementary reforms in the global financial system.

The report also examines how financialization has transformed commodity markets, where pricing increasingly reflects financial strategies rather than supply and demand. In global food systems, financial intermediation accounts for over 75 per cent of major trading companies' revenues. Producers in developing countries struggle to compete against large multinational enterprises using financial markets for pricing advantages, while structured credit and securitization raise concerns about stability, illicit finance and market concentration.

The enduring dominance of the dollar is likewise addressed. While its share in official foreign exchange reserves has declined since 2000, no other currency has risen to replace it. The dollar continues to dominate international payments and capital markets, shaping both opportunities and constraints for developing economies.

What does genuine resilience require? Integrated policy frameworks that recognize links between trade, finance and sustainability. Strengthening of domestic financial ecosystems while advancing regional capital markets alongside trade integration. Reform of the international monetary arrangements to reduce volatility. The tools exist; the challenge is coordination and commitment.

Fundamentally, trade and finance cannot be treated separately; they are interrelated and central to development. Choices about financial architecture directly shape which countries can trade, what they trade, and whether trade advances sustainable development.

This *Trade and Development Report* maps out the terrain where trade meets finance, identifies mechanisms through which financial conditions shape trade outcomes and proposes concrete measures to build resilience while preserving openness. The report puts a spotlight on that hidden architecture – and charts pathways to strengthen it for shared prosperity.



**Rebeca Grynspan**  
Secretary-General of UNCTAD



# Abbreviations

▶ <b>ADB</b>	Asian Development Bank
▶ <b>ADM</b>	Archer Daniels Midland
▶ <b>APEC</b>	Asia-Pacific Economic Cooperation
▶ <b>ASEAN</b>	Association of Southeast Asian Nations
▶ <b>BIS</b>	Bank for International Settlements
▶ <b>CBR</b>	correspondent banking relationship
▶ <b>ECB</b>	European Central Bank
▶ <b>FAO</b>	Food and Agriculture Organization of the United Nations
▶ <b>FDI</b>	foreign direct investment
▶ <b>FSB</b>	Financial Stability Board
▶ <b>GAAP</b>	Generally Accepted Accounting Principles
▶ <b>GDP</b>	gross domestic product
▶ <b>GFCy</b>	global financial cycle
▶ <b>ICC</b>	International Chamber of Commerce
▶ <b>IFRS</b>	International Financial Reporting Standards
▶ <b>IMF</b>	International Monetary Fund
▶ <b>IRF</b>	impulse response function
▶ <b>ITFA</b>	International Trade and Finance Association
▶ <b>NBFI</b>	non-bank financial institution
▶ <b>ODA</b>	official development assistance
▶ <b>OECD</b>	Organisation for Economic Co-operation and Development
▶ <b>OPEC+</b>	Organization of the Petroleum Exporting Countries and its allies
▶ <b>SDR</b>	special drawing right
▶ <b>UNODC</b>	United Nations Office on Drugs and Crime
▶ <b>UNWTO</b>	United Nations World Tourism Organization
▶ <b>V20</b>	Vulnerable Twenty Group
▶ <b>VAR</b>	vector autoregressive
▶ <b>VIX</b>	Chicago Board Options Exchange Volatility Index
▶ <b>WIPO</b>	World Intellectual Property Organization
▶ <b>WTO</b>	World Trade Organization



# Explanatory notes

The analysis presented in the present report is consistent with information and data available as at 10 November 2025. Inquiries about the content of this publication should be sent to the Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD), by email through [unctad-gds\\_mdpb@unctad.org](mailto:unctad-gds_mdpb@unctad.org).

## Classification by country

The classification of countries in this report has been adopted solely for the purposes of statistical or analytical convenience and does not necessarily imply any judgement concerning the stage of development of a particular country or area.

There is no established convention for the designation of “developing” and “developed” countries or areas in the United Nations system. This report follows the classification as defined in the UNCTAD Handbook of Statistics 2024 for these two major country groupings.

For more details concerning the grouping of economies, see the classifications page of this handbook and the Data Hub Classifications webpage available at <https://unctadstat.unctad.org/EN/Classifications.html> (accessed on 14 November 2025), which is based on the classification applied in the “Standard Country or Area Codes for Statistical Use”, known as “M49”, maintained by the United Nations Statistics Division (see <https://unstats.un.org/unsd/methodology/m49/>, accessed on 14 November 2025).

Likewise, for statistical purposes, regional groupings used in this report follow generally those employed in the UNCTAD Handbook of Statistics 2024 unless otherwise stated. The data for China do not include those for Hong Kong Special Administrative Region (Hong Kong SAR), and Taiwan Province of China.

References to “sub-Saharan Africa” in the text or tables include South Africa unless otherwise indicated.

## Other notes

The term “dollar” (\$) refers to United States dollars, unless otherwise stated. The term “billion” signifies 1,000 million.

The term “trillion” signifies 1,000,000 million. The term “tons” refers to metric tons.

Annual rates of growth and change refer to compound rates.

Use of a dash (–) between dates representing years, e.g. 2019–2021, signifies the full period involved, including the initial and final years.

An oblique stroke (/) between two years, e.g. 2019/20, signifies a fiscal or crop year. A dot (.) in a table indicates that the item is not applicable.

Two dots (..) in a table indicate that the data are not available or are not separately reported. A dash (–) or a zero (0) in a table indicates that the amount is nil or negligible.

Decimals and percentages do not necessarily add up to totals because of rounding.





# 2025 Trade and development report

## Chapter I

# Current trends and challenges in the global economy

### KEY FINDINGS

- ▶ An increasingly challenging external environment clouds prospects for the global economy. Global growth will decelerate to 2.6 per cent in 2025, down from 2.9 per cent in 2024. Economic expansion in developing economies is projected to stay at 4.3 per cent in 2025.
- ▶ The slowdown expected in the aftermath of frontloaded imports will spill into 2026, weighing on growth. Despite potential gains from new technologies like artificial intelligence, global growth is projected to remain subdued in 2026, at 2.6 per cent. Growth in developing economies is expected to slow marginally to 4.2 per cent in 2026.
- ▶ Deterioration in the international environment affects the global South through trade and financial channels. Increased financial volatility due to sudden policy swings leads to greater instability in capital flows and exchange rates, impacting international financing conditions.
- ▶ Recent volatility in international financial markets has spurred anomalous movements in the prices of safe-haven assets. It remains to be seen whether atypical trajectories in past months correspond to cyclical factors or reflect a more significant long-term erosion in the perception of these assets.



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## Policy takeaways

- ▶ **A key factor in reducing exposure to shifts in trade policy is the diversification of export markets through deepening regional integration.** Regional initiatives can also serve to diversify productive structures, preventing excessive reliance on particular exports and individual markets, and providing a bridge to global trade integration based on higher value-added goods.
- ▶ **Combining national and coordinated international actions would be most effective in addressing global imbalances.** It would also limit negative fallout from required macroeconomic adjustments, domestically and globally.
- ▶ Where fiscal pressures constrain critically needed public spending and investments, particularly amid increasing debt-servicing costs and waning external financing, **governments can look to boost public resources through enhanced and more efficient frameworks of domestic revenue mobilization and curbing tax and regulatory arbitrage.**
- ▶ **Alternative arrangements that can provide countries with more options for the settlement of international trade and financial transactions are increasingly discussed as resilience-enhancing measures.** While such efforts could pave a way towards a more diversified international monetary architecture, institutional costs of these initiatives are high and risks of financial fragmentation cannot be overlooked.
- ▶ **Multilateral cooperation and coordinated policymaking are imperative** to avert economic fragmentation, revitalize and sustain long-term development, and tackle global challenges such as rising inequality and climate change.



# A. Global economic outlook

## 1. Introduction

The year 2025 has been defined by protracted and system-wide uncertainty over trade policy shifts and geoeconomic challenges. Even as international policy discussions tend to focus on tariffs, the impact of the current reset goes beyond trade.

International trade is deeply embedded in the global financial system: over 90 per cent of world trade depends on international banking and financial infrastructure. Yet trade and finance are organized according to different systemic principles. Notwithstanding current tensions over tariffs, around 72 per cent of global trade flows continue to be governed by WTO most favoured nations terms (WTO, 2025). Global finance, in contrast, is embedded in long-established market practices and conventions, networks of regulatory arbitrage and standard-setting functions delegated to private authorities.

In the short run, this interdependence can help avoid fracture and provide an effective signal for policy recalibration, as happened, for instance, in April 2025. Over the long-run, the disparity between the rules-based matrix of global trade and the centralized global finance system manifests a deeper imbalance in the global economy.

Although the imbalance between trade and financial architecture has a long gestation, it tests global economic resilience at a time of fading trust in multilateralism, polarization and slowing economic growth. It is particularly damaging to smaller and vulnerable developing economies which are asymmetrically affected by tariff escalation and face mounting debt service costs and climate crises.

## 2. From subdued to faltering global growth

The ongoing reset of trade policy norms points to a deeper transformation of the global economy, a transition marked by uncertainty and geoeconomic challenges. Both factors amplify the effects of the absence of reliable drivers of growth. Subdued investment spending – aside from outlays concentrated in certain sectors, such as artificial intelligence technologies – as well as debt overhangs and constrained public spending persist in many countries. These factors weigh on growth prospects already weakened by shocks in recent years.

Consequently, global growth is projected to decelerate to 2.6 per cent in 2025, down from 2.9 per cent in 2024. The rate of expansion is 0.4 percentage points below the pre-pandemic average (2016–2019), which was already subpar (figure I.1). UNCTAD foresees the muted global growth dynamic to persist in 2026, at 2.6 per cent, as economies seek to adjust to the evolving external environment.

The current reset goes beyond trade.

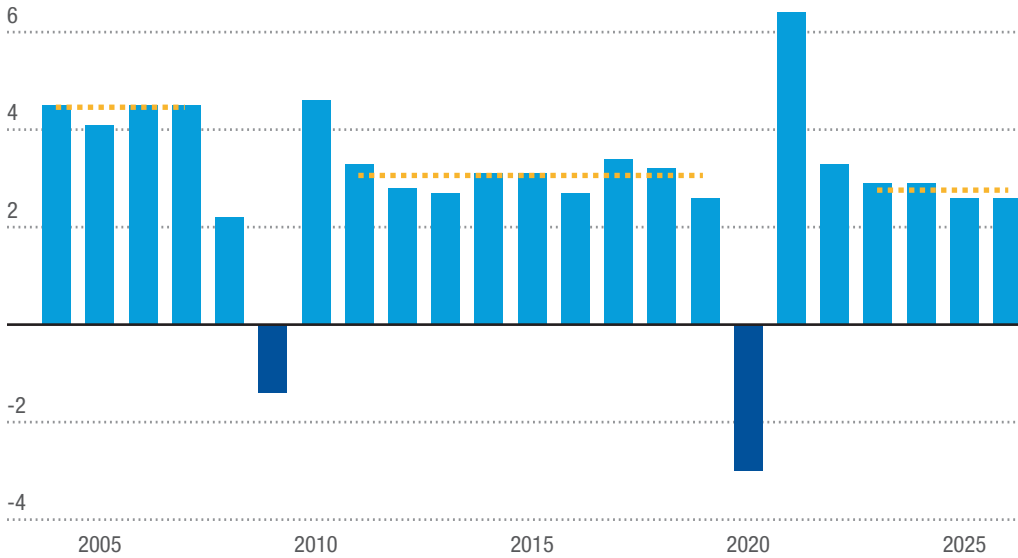
For 2025, UNCTAD estimates a further deterioration in already subdued global growth.





**Figure I.1**  
**Faltering global growth shows no signs of picking up in the near term**

Global output growth, 2004–2026  
(Percentage)



Source: Table I.1.

Note: Output growth is based on GDP at constant 2015 prices (market exchange rates). Yellow dashed lines denote average annual growth rates for 2004–2007, 2011–2019 and 2023–2026. Data for 2025 and 2026 are projections.

Resilience in economic growth numbers observed in early 2025 reflects dynamism in certain sectors and more transitory forces. Strong investment and accelerating deployment of artificial intelligence technologies has boosted economic activity and prospects. At the same time, a notable frontloading of imports and purchases in anticipation of tariff measures – as firms and consumers brought forward purchases to get ahead of increased costs from importing goods – provided a significant albeit temporary support to growth trajectories in the first two quarters of 2025.

Frontloading had a transitory positive impact on outward trade flows to the United States and on production levels, which were ramped up to meet the fleeting uptick in demand for certain goods. The subsequent drop-off, however, will likely negate some of the initial positive impetus from brought forward flows and purchases. As a result, market resilience during the first

half of 2025 may give way to a weakening in activity that will be more clearly reflected in subsequent quarterly data releases.

For its part, the impact of trade policy shifts on global value chains is ongoing and not yet fully internalized. Still, the vulnerabilities of these production processes to sudden shifts in trade policy are evident. Likely disruptions to cross-border production lines will inevitably hurt economic activity. Economies dependent on value chains linked to the United States are particularly exposed to fallout from trade policy shifts.

The policy volatility accompanying these shifts has also hampered growth. Uncertainty complicates firms' decision-making, impacting business spending and capital expenditure as companies delay investment and hiring decisions amid a likely reconfiguration of supply chains. Recent studies have demonstrated that elevated policy uncertainty, particularly around

Resilience in economic growth numbers observed in early 2025 reflects dynamism in certain sectors and more transitory forces.

The impact of trade policy shifts on global value chains is ongoing and not yet fully internalized.



Heightened levels of uncertainty have hampered growth.

UNCTAD foresees global growth to remain subdued in 2026, at 2.6 per cent.

trade, tends to coincide with downturns in exports, investment spending and aggregate economic activity (Caldara et al., 2020).

Looking forward, the internalization of trade policy shifts undertaken during 2025 is expected to bring some degree of clarity to the international policy environment in 2026. Yet disruptions and dislocations in international production processes and increasing economic fragmentation stemming from these shifts could continue to temper any potential rebound in global economic activity. Moreover, the expected deceleration in activity after the frontloading of imports and purchases will spill over into next year, further dragging

on growth numbers. The prospect of a positive impetus from investments in new technologies – most notably generative artificial intelligence – will not be sufficient to offset the deterioration in the global economic environment. UNCTAD foresees global growth to remain subdued in 2026, at 2.6 per cent.



**Table I.1**  
**World output growth, 1991–2026**

GDP growth rates  
(Annual percentage change)

Country groups	1991–1999 <sup>a</sup>	2000–2009 <sup>a</sup>	2010–2014 <sup>a</sup>	2015–2019 <sup>a</sup>	2020	2021	2022	2023	2024	2025 <sup>b</sup>	2026 <sup>b</sup>
<b>World</b>	<b>2.9</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>	<b>-3.0</b>	<b>6.4</b>	<b>3.3</b>	<b>2.8</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>
<b>► Africa</b>	<b>2.3</b>	<b>5.6</b>	<b>2.9</b>	<b>2.8</b>	<b>-3.9</b>	<b>3.9</b>	<b>4.0</b>	<b>3.2</b>	<b>3.2</b>	<b>3.7</b>	<b>4.1</b>
South Africa	2.7	4.0	2.5	1.1	-6.2	4.9	2.1	0.8	0.5	0.9	1.3
► North Africa (incl. South Sudan)	2.6	5.3	-1.8	3.8	-4.8	4.5	3.5	2.3	1.5	3.9	4.2
► Sub-Saharan Africa (excl. South Africa and South Sudan)	1.9	6.5	6.2	2.8	-2.9	3.4	4.8	4.2	4.6	4.2	4.5
<b>► America</b>	<b>3.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.0</b>	<b>-3.4</b>	<b>6.3</b>	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>1.8</b>	<b>1.6</b>
► Latin America and the Caribbean	3.3	3.4	3.4	0.0	-7.3	7.1	4.2	2.2	2.2	2.1	2.1
Mexico	3.1	1.7	3.0	1.7	-8.4	6.0	3.7	3.3	1.4	0.8	1.4
► Central America (excl. Mexico) and Caribbean	2.8	4.4	3.6	3.0	-8.8	8.7	4.9	2.9	2.8	2.6	2.8
► South America	3.4	3.9	3.5	-0.9	-6.6	7.3	4.3	1.6	2.4	2.5	2.2
Argentina	4.6	3.8	2.7	-0.3	-9.9	10.4	6.0	-1.9	-1.3	4.0	3.2
Brazil	2.9	3.6	3.2	-0.4	-3.3	4.8	3.0	3.2	3.4	2.1	2.0
► Northern America	3.4	2.3	2.2	2.5	-2.4	6.1	2.6	2.8	2.7	1.7	1.5
Canada	2.8	2.3	2.6	2.0	-5.0	6.0	4.2	1.5	1.6	1.1	1.0
United States	3.5	2.3	2.2	2.5	-2.2	6.1	2.5	2.9	2.8	1.8	1.5
<b>► Asia (excl. Cyprus)</b>	<b>4.4</b>	<b>5.6</b>	<b>5.7</b>	<b>4.8</b>	<b>-0.9</b>	<b>6.8</b>	<b>3.7</b>	<b>4.3</b>	<b>4.0</b>	<b>4.0</b>	<b>3.9</b>
► Central Asia	-4.4	8.1	6.7	4.0	-0.3	5.8	4.6	5.8	5.7	5.9	5.4
► East Asia	4.4	5.6	5.8	4.8	0.4	6.9	2.4	4.1	3.8	3.9	3.6
China	11.0	10.6	8.6	6.7	2.2	8.4	3.0	5.2	5.0	5.0	4.6
Japan	1.2	0.9	1.4	0.9	-4.2	2.7	0.9	1.2	0.1	0.9	0.8
Republic of Korea	6.8	4.9	3.7	3.1	-0.7	4.6	2.7	1.6	2.0	0.8	1.0
► South Asia	5.0	6.6	5.5	6.1	-3.7	8.1	5.9	7.0	5.7	5.3	5.5
India	5.9	7.2	6.6	7.0	-5.9	9.4	7.0	8.8	6.7	6.4	6.4
► South-East Asia	5.3	5.5	5.7	5.0	-3.7	3.8	5.6	4.0	4.8	4.2	4.3
Indonesia	4.8	5.2	5.8	5.1	-2.1	3.7	5.3	5.1	5.0	5.0	4.9
► Western Asia (excl. Cyprus)	4.3	5.1	5.6	2.9	-3.4	7.2	7.3	2.5	2.2	3.1	3.7
Saudi Arabia	2.2	4.3	6.1	2.3	-3.8	6.5	12.0	0.5	2.0	3.6	3.8
Türkiye	3.9	5.0	7.6	4.3	1.9	11.4	5.5	5.1	3.2	3.3	3.5
<b>► Europe (incl. Cyprus)</b>	<b>1.4</b>	<b>2.2</b>	<b>1.2</b>	<b>2.1</b>	<b>-5.7</b>	<b>6.5</b>	<b>3.2</b>	<b>0.7</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>
Russian Federation	-5.9	6.2	3.1	1.2	-2.7	5.9	-1.2	4.1	4.3	1.0	0.6
United Kingdom	2.6	2.1	1.8	2.1	-10.0	8.5	5.1	0.3	1.1	1.2	1.3
► European Union	1.9	1.8	0.8	2.2	-5.5	6.4	3.6	0.4	1.1	1.3	1.4
► Euro area	1.9	1.7	0.6	2.0	-6.0	6.4	3.6	0.4	0.9	1.1	1.2
France	1.9	1.7	1.2	1.5	-7.4	6.9	2.7	1.4	1.2	0.6	1.0
Germany	1.5	1.0	2.0	1.8	-3.8	3.9	1.8	-0.9	-0.5	0.2	1.0
Italy	1.5	0.7	-0.9	1.1	-8.9	8.9	4.8	1.0	0.7	0.6	0.7
<b>► Oceania</b>	<b>3.7</b>	<b>3.2</b>	<b>2.8</b>	<b>2.7</b>	<b>-1.9</b>	<b>5.3</b>	<b>4.1</b>	<b>2.1</b>	<b>0.9</b>	<b>1.6</b>	<b>2.2</b>
Australia	3.7	3.3	2.8	2.5	-2.0	5.4	4.1	2.1	1.0	1.7	2.2
<b>► Developed countries</b>	<b>2.3</b>	<b>2.2</b>	<b>1.8</b>	<b>2.2</b>	<b>-3.9</b>	<b>5.9</b>	<b>2.8</b>	<b>1.7</b>	<b>1.8</b>	<b>1.4</b>	<b>1.4</b>
<b>► Developing countries</b>	<b>4.9</b>	<b>6.4</b>	<b>5.9</b>	<b>4.4</b>	<b>-1.7</b>	<b>7.2</b>	<b>4.1</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>

Sources: UNCTAD based on United Nations, Department of Economic and Social Affairs, National Accounts Main Aggregates database; United Nations, Department of Economic and Social Affairs, World Economic Situation and Prospects, update as of June 2025; Economic Commission for Latin America and the Caribbean, 2025; OECD, 2025; IMF, World Economic Outlook; Economist Intelligence Unit, EIU Viewpoint Data database; JP 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. The distinction between developed and developing countries is based on the updated M49 classification of May 2022. Calculations for country aggregates are based on GDP at constant 2015 dollars (market exchange rates).

<sup>a</sup> Average.

<sup>b</sup> Projection.

While policy uncertainty has dropped from unprecedented highs in early April 2025, it nevertheless prevails at historically high

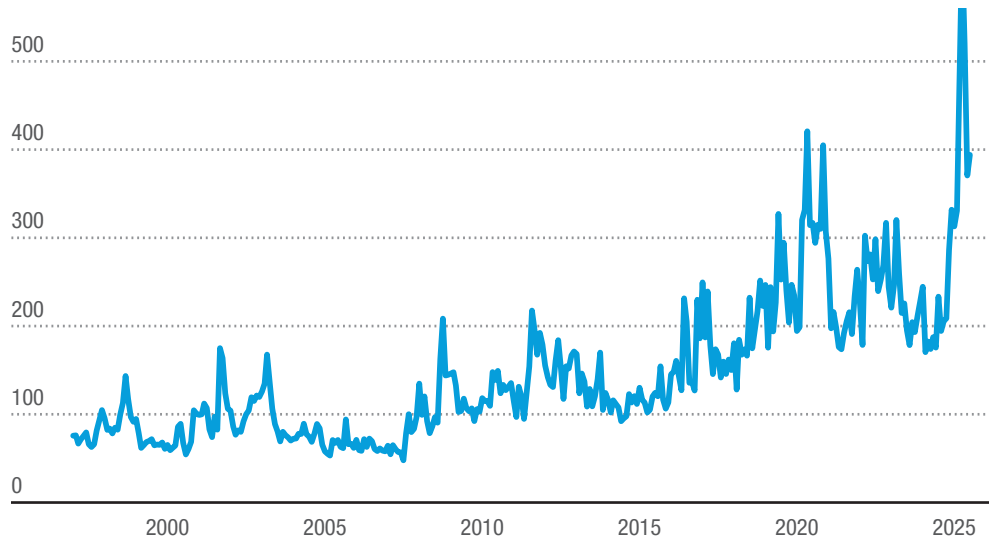
levels. This reflects continuing volatility regarding, although not limited to, future shifts in trade policy (figure I.2).



**Figure I.2**

**While descending from unprecedented highs, policy uncertainty remains elevated**

Global economic policy uncertainty index  
(Index numbers, average 1997–2014 = 100)



Source: Davis (2016) with updated data from <https://www.policyuncertainty.com>.

Note: The index is calculated monthly based on three underlying components: the newspaper coverage of policy-related economic uncertainty, data from the United States, Congressional Budget Office, and data from the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters.

The tariff rates that took effect on 7 August have brought greater clarity to the new trading scenario. Yet the potential for further rate adjustments – due to subsequent bilateral agreements, commitments in agreements that affect spending and investments, and the imposition of higher tariffs based on other considerations (as for Brazil, Canada and India) – suggests that

while policy uncertainty has decreased, it will remain elevated and continue to weigh on firms’ spending and investment decisions. Prolonged policy uncertainty will likely magnify associated negative effects on trade flows, capital expenditure and overall economic activity, and reverberate in increasingly volatile financial markets.



### 3. A generalized downturn affects everyone

The downturn in growth prospects cuts across countries. The direct impact of trade measures, along with their

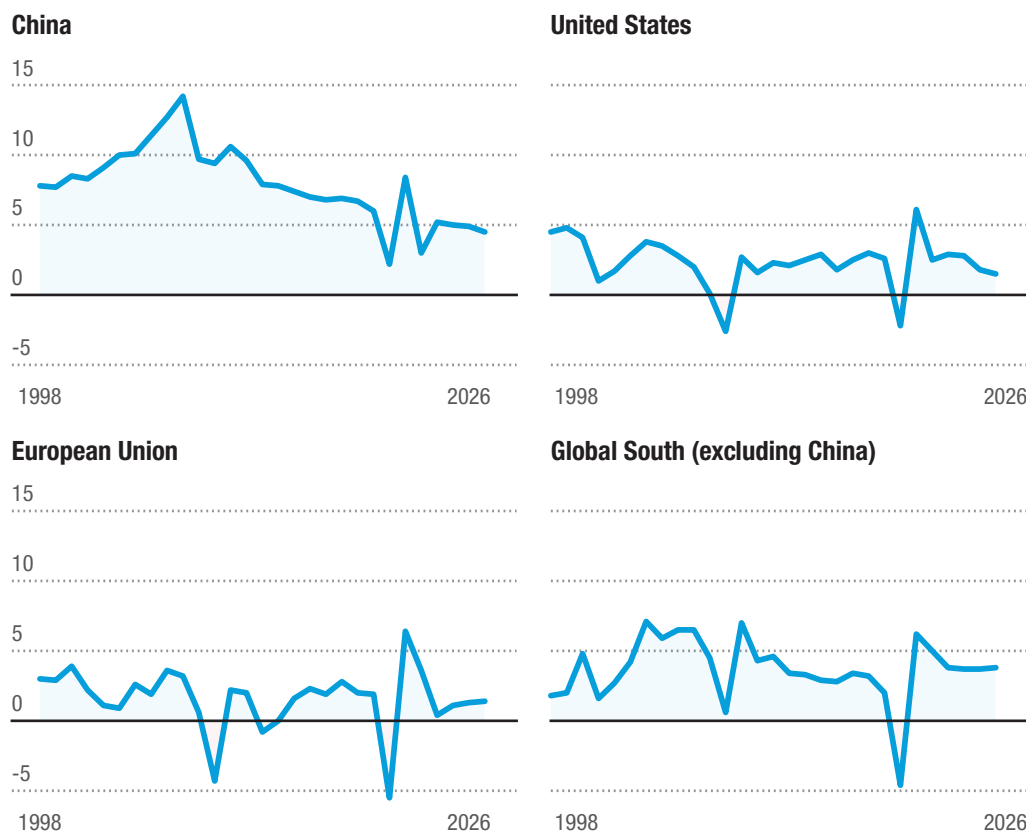
indirect effects through trade linkages and elevated policy ambiguity, has led to a general deterioration in the global environment. Certain regions and countries are, nevertheless, more vulnerable to the adverse international context than others.

The downturn in growth prospects cuts across countries.



#### Figure I.3 Deterioration in the policy environment is affecting growth dynamics across the globe

Real GDP growth, selected economies, 1998–2026  
(Percentage)



Source: Table I.1.

Note: Output growth is based on GDP at constant 2015 prices (market exchange rates). Data for 2025 and 2026 are projections.

In the United States, economic activity is expected to slow as increased tariff rates on supply chains have a detrimental impact on industrial sectors and the services sectors that depend on them. Ongoing policy uncertainty continues to weigh on investment and private consumption (Londono et al., 2025). On the positive side, equity markets have rebounded from

outsized losses in April while investments driven by artificial intelligence have proven particularly strong. These positive trends do not compensate, however, for the shortfall in consumption and other investment spending. UNCTAD expects the United States economy to register a substantial deceleration, expanding by 1.8 and 1.5 per cent in 2025 and 2026, respectively.

Excluding China, growth in developing economies is projected to stay at 3.7 per cent in 2025; and to rise marginally to 3.8 per cent in 2026.



China's rapid diversification of export markets has helped to buttress the expansion in activity.

Among low-income countries, 35 of 68 are currently in or at high risk of debt distress.

Debt defaults have historically led to outsized, long-lasting consequences that hamper any subsequent recovery.

In the European Union, growth is projected to remain sluggish. Despite reaching a deal with the United States to set tariffs for the bloc's exports at 15 per cent – a significant improvement over the initial reciprocal tariff rate – trade frictions could dampen growth prospects. While the agreed baseline tariff rate provides some policy clarity, the prospect of new sectoral tariffs and potential exceptions could keep policy uncertainty high and hinder business investment. Ongoing monetary loosening will likely help ease credit conditions and boost private consumption. A significant expansionary pivot in Germany's fiscal stance may provide some growth impetus, although this will not fully offset the deterioration in the external environment. UNCTAD anticipates ongoing subdued growth in the European Union, with expansions of 1.3 and 1.4 per cent in 2025 and 2026, respectively.

In China, solid economic growth occurred at the beginning of 2025. In the latter part of the year, however, increased bilateral tariff rates have become a drag on output growth. A rapid diversification in export markets as exporters reroute goods shipments to alternative markets; expansionary fiscal policy focused on subsidies for consumption goods, transfers to households and increased outlays for infrastructure; and monetary loosening have all buttressed the expansion in activity. UNCTAD expects the growth rate to remain steady at 5.0 per cent in 2025, before moderating to 4.6 per cent in 2026.

In the rest of the global South, a challenging external environment complicates the outlook. The deterioration in the international environment affects developing economies

through both trade and financial channels (chapter II). Policy shifts reverberate in increasingly volatile international financial markets, leading to greater instability in capital flows and exchange rates and impacting international financing conditions.

Developing countries are particularly susceptible to movements in these variables, especially those with high external financing and refinancing needs and those with elevated external debt burdens. According to the most recent International Monetary Fund (IMF) debt sustainability analysis, more than half of low-income countries – 35 of 68 – are currently in debt distress or at high risk of debt distress (IMF, 2025a). Debt defaults have historically led to outsized, long-lasting reductions in output; a lack of access to international capital markets; and sharp increases in borrowing costs that hamper any subsequent economic recovery.

UNCTAD expects moderate growth in the global South in 2025, with many developing regions experiencing a decline relative to 2024 (table I.1). Excluding China, growth in developing economies on aggregate is expected to remain at 3.7 per cent in 2025 before rising marginally to 3.8 per cent in 2026 (figure I.3).

Amid the subdued global growth outlook, the developing economies of the global South are expected to contribute the lion's share of global economic expansion in 2025, contributing just under 70 per cent of global output growth (table I.2).





**Table I.2**  
**Developing regions of the global South are main contributors to global growth**

Relative contribution to global growth  
(Percentage)

	1995	2000	2005	2010	2015	2019	2024	2025 <sup>a</sup>	2026 <sup>a</sup>
▶ <b>Africa</b>	2.1	2.3	4.7	4.5	3.7	3.3	3.6	4.6	5.2
▶ <b>Americas</b>	29.3	34.6	33.5	26.1	23.3	23.5	29.1	21.9	19.4
▶ Northern America (excl. Mexico)	26.8	28.6	25.5	16.5	23.3	25.0	24.3	17.0	14.4
▶ Latin America and the Caribbean	2.5	6.0	8.0	9.6	0.0	-1.5	4.8	4.9	5.0
▶ <b>Asia</b>	43.9	31.5	42.3	53.7	55.7	54.7	55.6	61.4	62.2
▶ Central Asia	-0.6	0.4	0.6	0.6	0.4	0.9	0.9	1.1	1.1
▶ East Asia	29.5	20.2	27.2	36.3	37.2	38.6	35.3	39.3	37.5
▶ South Asia	4.9	3.4	5.6	7.1	7.8	6.6	10.2	10.4	11.6
▶ South-East Asia	6.2	3.1	3.6	5.2	5.1	6.1	6.1	5.9	6.2
▶ Western Asia	3.9	4.4	5.3	4.5	5.2	2.5	3.1	4.7	5.8
▶ <b>Europe</b>	22.8	30.4	18.1	14.6	15.5	17.0	11.1	10.9	11.6
▶ European Union	21.4	20.4	10.5	9.7	13.7	12.7	6.2	7.9	8.5
▶ Other European economies	1.4	10.0	7.6	4.9	1.8	4.3	4.9	3.0	3.1
▶ <b>Oceania</b>	1.9	1.4	1.4	1.1	1.7	1.6	0.6	1.1	1.6

Source: UNCTAD.

<sup>a</sup> Projection.

Developing economies in Asia (excluding China) are projected to see a slowdown in growth, to 3.8 per cent in 2025, and to pick up to 4.0 per cent in 2026. Economic performance in South-East Asia is particularly impacted by trade shifts. On the brighter side, the economy of India continues to exhibit strong growth amid

continued robust public spending and private investment outlays. Western Asia is also projected to see a pickup in growth, to 3.1 per cent in 2025 and 3.7 per cent in 2026, on the back of increasing oil output agreed by OPEC+ countries as well as dynamism in specific non-oil sectors.



In Latin America and the Caribbean, growth is expected to remain relatively weak, at 2.1 per cent in 2025 and 2026. The region's exports are especially affected by trade measures in their principal destination markets, while elevated borrowing costs are weighing on domestic consumption and investment spending in several countries.

In Africa, growth is estimated at 3.7 per cent in 2025 and 4.1 per cent in 2026. A few African economies are experiencing rapid economic development, but a combination of global factors and idiosyncratic domestic conditions holds back the regional aggregate. Cuts to official development assistance are expected to have an outsized impact on the most vulnerable economies in the region, while the expiration of the African Growth and Opportunity Act is likely to have similarly negative consequences for affected countries. Section B provides a more detailed analysis of growth dynamics at the regional and country level.

#### 4. Diverging monetary policy paths add to volatility in international markets

Dramatic policy shifts and the unconventional manner in which these have been implemented have heightened volatility in international markets in 2025. Diverging monetary policy paths in major developed economies exacerbate this effect, amplifying swings in exchange rates and capital flows, among other variables.

In the United States, ambiguity surrounding policy decisions and an uptick in inflation led the Federal Reserve to pause its monetary loosening cycle during the first half of 2025. It subsequently resumed its loosening with two 25 basis-point cuts

in September and October, respectively, amid signs of a weakening labour market. The pace of monetary loosening has, nevertheless, been significantly slower than anticipated when the current loosening cycle began in September 2024.

In Japan, re-emerging inflationary pressures have prompted the Central Bank to begin tightening policy, with a 25-basis-point increase earlier in 2025, after decades of extremely loose monetary conditions.

In the euro area, the European Central Bank continued its loosening cycle in 2025, reducing its key policy rates four times during the first half of the year, by a cumulative 100 basis points. The Bank of England cut its official bank rate three times, by 75 basis points in total.

Despite the reduction in policy rates by other major central banks, while the Federal Reserve held its rate unchanged during the first half of 2025, the dollar depreciated notably. Through the first nine months of the year, it fell 12 and 7 per cent against the euro and pound sterling, respectively. Moreover, its value declined substantially against a broad index of currencies (7 per cent) as well as specifically against a basket of advanced (9 per cent) and emerging (5 per cent) economy currencies (figure I.4). The trajectory in exchange rates relative to the dollar may reflect broader shifts in the perception of safe assets internationally (section C).

Diverging monetary policy paths in the major developed economies adds to volatility in exchange rates and capital flows.

The dollar declined in value against a broad index of currencies.



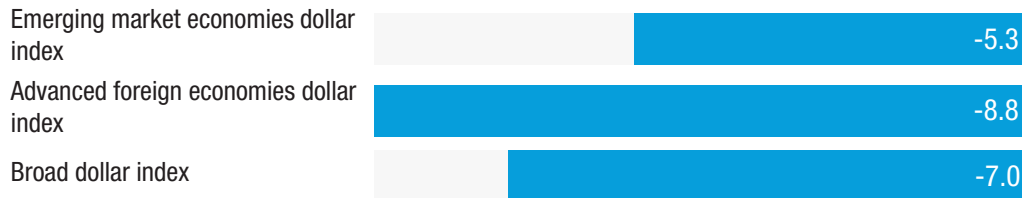


**Figure I.4**

**The dollar depreciated notably against a broad array of currencies in 2025**

Evolution of broad, emerging market economies and advanced foreign economies dollar indices, 1 January – 30 September 2025

(Percentage)



Source: UNCTAD based on data from the Federal Reserve Bank of St. Louis.

Notes: A negative (positive) value corresponds to a depreciation (appreciation) of the dollar. The displayed dollar indices refer to a weighted average of the dollar against the currencies of a broad group of major trading partners, advanced foreign economies and emerging market economies.

## 5. International credit conditions remain tight

Ongoing tight macrofinancial conditions internationally continue to hinder global growth prospects. Although financial markets have partly recovered from April's turmoil, bond yield volatility remains elevated (figure I.5).

Higher yields can indicate an improved outlook for economic growth. However, the uptick in government bond yields has been principally driven by increased uncertainty pushing up term premia, or the amount by which the yield on a long-term bond exceeds that on shorter-term bonds, reflecting the amount investors expect to be compensated for lending for longer periods. Concerns around public debt trajectories are also in play. For example in the United States with the passage of renewed tax cuts<sup>1</sup> and in the United Kingdom.

The direct impact of rising government bond yields on debt-servicing costs is particularly worrisome given elevated public debt levels. Increased bond yields do not immediately translate into higher government interest payments. But this does occur over time as existing bonds mature and are refinanced by issuing new bonds at prevailing yields.

Ongoing tight macrofinancial conditions internationally hinder global growth prospects.

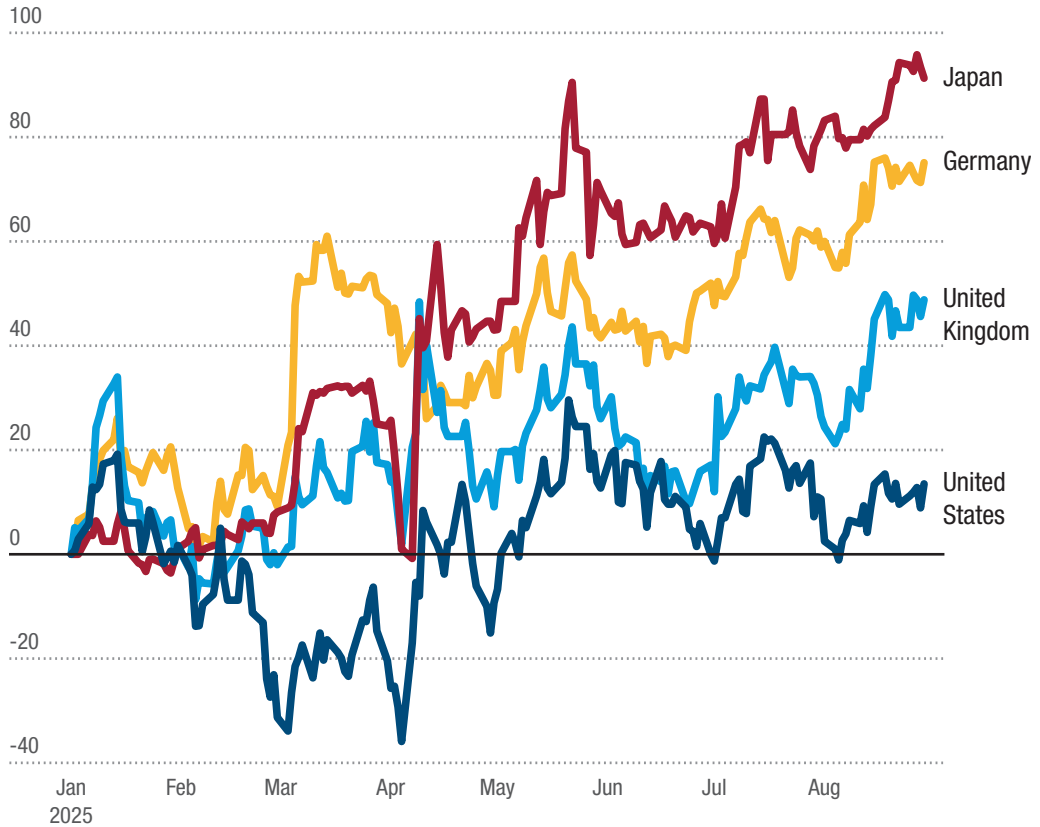
<sup>1</sup> The White House (2025). President Trump's One Big Beautiful Bill Is Now the Law. 4 July.





**Figure I.5**  
**Increases in long-term government bond yields in developed economies reflect tight macrofinancial conditions**

Change in 30-year government bond yields since 1 January 2025  
 (Basis points)



Source: UNCTAD based on the LSEG Workspace.

Increased bond yields in major developed economies put upward pressure on global interest rates.

The indirect impact is equally troublesome. Increased bond yields in the major developed economies put upward pressure on global interest rates. Tight international financial conditions, in turn, strain public finances in developing countries, many of which will soon need to refinance significant shares of outstanding debt. While the depreciation of the dollar during 2025 has provided some reprieve in this regard, the upward trajectory of bond

yields nevertheless marks a concerning trend. Moreover, government bond markets play a key role in broader capital markets, serving as the foundation for a range of other financing vehicles that directly influence the borrowing costs of businesses and households.



## 6. Policy responses

In the current environment, proactive policy action is crucial to shield economies from the adverse effects of current shifts and an unpredictable international landscape. It must also lift economies out of their low-growth malaise.

Where fiscal pressures constrain critically needed public spending and investments, particularly amid increasing debt-servicing costs and waning external financing, governments can look to boost public resources through enhanced and more efficient frameworks of domestic revenue mobilization. Failure to meet growing public investment needs is likely to have long-lasting detrimental impacts on growth and development prospects (UNCTAD, 2024b), while unaddressed public spending constraints severely limit the capacity to enact countercyclical policies to manage demand shocks (UNCTAD, 2024b).

Internationally, regulatory arbitrage – including tax avoidance, base erosion and profit shifting, particularly by larger corporations – continues to drain fiscal revenues from developing countries and can undermine financial stability (chapter III). Greater international tax cooperation is vital to address these harmful practices (UNCTAD, 2019). Increased concessional financing is needed to support development objectives, particularly in the most vulnerable developing countries. Coordinated global policy actions – encompassing concessional financing and debt relief – are critical to mitigate growing financing vulnerabilities.

A key factor in reducing exposure to prevailing trade shifts is through deepening regional integration and export diversification (chapter IV). When a country's exports have multiple destination markets, businesses can more easily adapt to shifts or downturns in one market by redirecting outward flows to others (UNCTAD, 2025c).

Recently, China rerouted exports to alternative markets amid tariff escalation with the United States (UNCTAD, 2025c). This suggests that market diversification can cushion the impact of sudden shifts in any individual market on revenues and production.

Regional initiatives can help diversify productive structures and prevent excessive reliance on particular products – as well as any individual export destination market – while providing a potential bridge to global trade integration based on higher value-added goods (UNCTAD, 2025e). In parallel, strategies beyond manufacturing-led exports, particularly those that seek to create quality jobs in the services sectors, including non-tradable services, can also provide a complementary development path and reduce exposure to external dynamics (UNCTAD, 2024b).

Multilateral institutions are crucial in mitigating the potentially negative spillover effects of policy decisions in one country on others. More generally, multilateral cooperation and coordinated policies are needed now more than ever to avert economic fragmentation, revitalize and sustain long-term growth, and tackle global challenges.

Proactive policy action is crucial in shielding economies from the adverse effects of current shifts.

Failure to meet growing public investment needs is likely to have long-lasting detrimental impacts on growth and development prospects.



## B. Regional trends

### The Americas

The **United States** economy is navigating a complex and somewhat fragile landscape. Since early 2025, the Government has embarked on policy initiatives to decisively recalibrate national priorities.

This is reshaping domestic and external dynamics. While certain policy intentions are clearly articulated, their long-term macroeconomic impact remains contingent on dynamic global responses and domestic adjustments still underway. It is therefore premature to draw conclusions about its economic trajectory in the medium-term. The recent shutdown of the federal government further blurred the picture as several data releases were delayed, including third quarter GDP. With these caveats in mind, annual GDP is expected to grow by 1.8 per cent in 2025 and 1.5 per cent in 2026.

Looking back at the first half of 2025, output growth recovered at an annualized rate of 3.8 per cent during the second quarter, after contracting by 0.6 per cent in the first quarter. Large swings in trade data distorted these trajectories as significant frontloading took place following tariff announcements in the first semester. On the expenditure side, improvement in the GDP headline figure in the second quarter primarily reflected decreased imports and a moderate rebound in consumer spending, although this mostly corresponded to the highest income deciles. These positive contributions were offset by declining investment and exports. More granular indicators suggested that the economy had been losing steam in the third quarter of 2025. The growth of the labour supply slowed even as the unemployment rate remained stable.

On inflation, momentum in reducing wage and price growth to levels compatible with Federal Reserve objectives has faltered in recent months. Nevertheless, having paused rate cuts during the first half of 2025, the Federal Reserve resumed its monetary loosening with two 25 basis-point cuts in September and October, respectively, amid signs of a weakening labour market.

Concerns about the United States fiscal deficit – which is about 6 to 7 per cent of GDP, a historically high figure outside a recession – are growing in financial markets. This has begun to drive up yields on longer-maturity Treasuries and could lead to a reassessment of their safe-haven status, prompting further bearish sentiments on the dollar and threatening global financial stability.

In **Canada**, trade tensions have put the economy on a lower growth path for the coming years as evolving trade relations are expected to fundamentally reshape the Canadian economy.<sup>2</sup> GDP is projected to grow by 1.1 per cent in 2025 and 1.0 per cent in 2026, with risks tilted to the downside. During the first half of 2025, GDP contracted by 1.6 per cent in the second quarter after recording 2.2 per cent growth during the first quarter, amid a temporary surge in exports in anticipation of increased tariffs. During the second half of 2025 and in 2026, economic activity is expected to recover albeit at a very modest pace.

**Mexico** is estimated to register sluggish growth of 0.8 per cent in 2025, after a subdued expansion of 1.4 per cent in 2024. A 25 per cent tariff on Mexican goods to the United States – excluding goods under the United States–Mexico–Canada Agreement – has had a substantial impact on the

<sup>2</sup> Bank of Canada (2025) Monetary Policy Report – October 2025.



country's critically important export sector. Given that the United States accounts for approximately 80 per cent of Mexican goods exports, and that half of these goods do not fall under the Agreement, the tariffs represent a significant strain on growth prospects. Ongoing uncertainty regarding future tariff rates weighs on investment and business spending, and has prompted slowing industrial production and subdued household consumption. A more accommodative monetary policy stance is largely offset by a restrictive fiscal stance, which is tempering the growth outlook. For 2026, growth is projected to pick up moderately but remain subdued, at 1.4 per cent, amid challenging external conditions.

Economic recovery is expected in **Argentina** after two consecutive years of contractions. The economy is estimated to expand by 4.0 per cent in 2025. The rebound in the first half of 2025 was driven by a recovery in private consumption due to improving real wages and an uptick in investment spending amid easing domestic credit conditions. Strong performance by the extractive mining and energy sectors helped boost exports and overall economic activity. However, a sharp weakening of the peso in September and significant depletion of foreign exchange reserves amid efforts to support the currency's value dampened the growth momentum observed in the first half of 2025. The provision of external financial support – most notably the establishment of a 20 billion dollar swap line with the United States – served to partially calm markets. The Government's aggressive cutting of public outlays including sharp cuts to public works projects, may also continue to constrain activity amid already difficult socioeconomic conditions, with poverty affecting over 30 per cent of the population in the first semester of 2025 (INDEC, 2025). In 2026, growth is projected to decelerate to 3.2 per cent as an increasingly difficult external environment and slowing growth in some of the country's main export markets hamper a more dynamic expansion.

In **Brazil**, growth is estimated to slow to 2.1 per cent in 2025 compared to 3.4 per cent in 2024. A more restrictive monetary policy and high borrowing costs, which will likely depress domestic consumption and investment spending, and an increasingly unfavourable external environment are largely responsible for the more subdued expansion. An ongoing expansionary fiscal stance could help to buttress growth. The decision by the United States Administration to impose a 50 per cent tariff on Brazil's goods exports – with the notable exclusion of the energy and aviation sectors – is expected to have an impact on the economy and specifically on the value of the Brazilian real, although exports to the United States only account for 12 per cent of the country's total goods exports. Growth is projected to remain stable at 2.0 per cent in 2026, with the prospect of a less restrictive monetary stance helping to ease credit conditions and boost domestic consumption and investment spending.

## European Union

In the economies of the European Union, growth is expected to remain relatively weak at 1.3 per cent in 2025. The deal between the United States and European Union setting tariffs on the bloc's exports at 15 per cent was an improvement over earlier announcements of much higher rates. It brought greater policy certainty to the trading relationship. Nevertheless, the 15 per cent blanket tariff rate and a higher 50 per cent rate on exports of metals are a significant setback from prior trading arrangements. A more complicated external environment will likely hamper growth. Accommodative monetary policy conditions – the European Central Bank continues to reduce its key policy rates – could help shore up private consumption and investment. Economic growth is projected to reach 1.4 per cent in 2026 as domestic demand strengthens amid ongoing monetary easing and lower borrowing costs.



Economic expansion in **France** is estimated to decelerate from 1.2 per cent in 2024 to 0.6 per cent in 2025. Tariffs could hold back export growth as well as private investment spending. The easing of monetary policy may help to buoy consumer spending amid lower borrowing costs. While economic growth was higher than expected in the first half of 2025, this was largely driven by accumulating inventories, implying a probable softening in growth during the latter part of the year. In 2026, growth is projected to rise moderately to 1.0 per cent as further monetary easing encourages private spending.

In **Germany**, growth is estimated to return to positive territory, reaching 0.2 per cent in 2025 after a 0.5 per cent contraction in 2024. A substantial trade surplus with the United States makes the German economy particularly exposed to fallout from higher tariff rates. A transitory boost to the economy from frontloading export orders at the beginning of the year will likely fade. Growth may slow significantly in the second half of 2025 as exports and investment spending wane. On the positive side, reforms to fiscal rules that previously constrained public spending, particularly on infrastructure, could facilitate greater public outlays and buttress growth. In 2026, growth is projected at 1.0 per cent, as infrastructure spending boosts investment and growth, and easing monetary conditions support household spending.

Economic expansion in **Italy** is estimated to remain steady at 0.6 per cent in 2025, compared to 0.7 per cent in 2024. The Italian economy is similarly exposed to the tariff hikes as it runs a significant trade surplus with the United States, its largest non-European Union export market. The unfavourable external environment will likely dampen investment. But easing borrowing costs from looser monetary policy could support a more dynamic expansion in private consumption, further aided by lower inflationary pressures that could bolster household disposable incomes. In 2026, growth is projected at 0.7 per cent as

ongoing monetary easing produces a steady expansion in household consumption.

## **United Kingdom**

Growth in the **United Kingdom** is estimated to remain almost constant at 1.2 per cent in 2025. The United Kingdom was among the first countries to reach a tariff deal with the United States, which fixed a blanket higher rate of 10 per cent. Despite the predominance of the United Kingdom's services exports – which are unaffected by tariff increases – the higher rate may still weigh on the country's goods exports and hamper economic growth. While a strong expansion in activity took place at the beginning of the year, this corresponded mostly to the frontloading of exports to the United States in anticipation of tariff hikes. The outlook for the remainder of the year is one of slowing growth amid increasing energy costs and inflation that may offset the positive boost to household demand from continued monetary easing. UNCTAD expects growth to rise marginally in 2026, to 1.3 per cent, as a series of large-scale public investment projects – focused on green energy technologies, infrastructure and residential construction – stimulate economic activity. A projected easing in inflation along with reduced interest rates could support greater household consumption.

## **Russian Federation**

The economy of the **Russian Federation** is expected to see a sharp deceleration. After expanding by 4.3 per cent in 2024, growth is expected to decelerate to 1.0 per cent in 2025 and 0.6 per cent in 2026. Falling oil prices, external trade and financial restrictions, and policy uncertainty amplify pressures on growth. The central bank has lowered its key policy rate from 21 to 17 per cent, but credit conditions remain tight. Inflation hovers around 9 per cent, over double the 4 per cent target. Unemployment is low at around 2.3 per cent, primarily due to labour shortages, but wage growth has lagged



inflation, weakening consumption. In some industries, such as transport, construction, retail trade and real estate, the slowdown is acute propelling higher numbers of corporate and debt restructurings as well as rising unemployment. While central bank interventions and fiscal inflows strengthened the rouble early in 2025, a modest decline is expected later in the year. Coupled with low growth, rising military expenditure, sectoral adjustments and declining oil prices, the budget deficit is projected to be 2.5 to 2.7 per cent of GDP.

## East Asia

**China** is estimated to achieve its growth target of 5.0 per cent in 2025, building on strong growth in the first three quarters. Better-than-expected performance is generally attributed to two factors.

First, anticipating external challenges, China announced expansionary policies before the tariff shocks. In fiscal policy, the Government increased the ratio between the budget deficit and GDP from 3 to 4 per cent. It also announced RMB 1.3 trillion of ultra-long special treasury bonds to support consumption and national strategic projects; RMB 500 billion in special treasury bonds to replenish the capital of large State-owned commercial banks; and RMB 4.4 trillion in local government special-purpose bonds. In monetary policy, the Central Bank deployed policy measures comprising further cuts to the policy rate (10 basis points), a reserve requirement ratio (50 basis points), structural policy tool rates (25 basis points), mortgage rates (25 basis points), and structural loan support to science, technology and innovation, services and agriculture. With proactive policy measures, consumption grew by 5 per cent.

Second, merchandise exports have proven resilient amid tariff shocks. Despite a 9.9 per cent decline in goods exports to the United States in the first half of 2025, trade flows to other countries, notably to ASEAN countries, Africa and Central Asia have grown rapidly. Along with the

effects of frontloading, these flows enabled overall exports to increase by 7.1 per cent over the first three quarters of 2025. The bilateral summit between China and the United States in October resulted in a one-year suspension of specified tariffs and export control measures, providing some stability to the bilateral trading relations.

Some risks remain, including ongoing tariff tensions. Domestically, the real estate market remains vulnerable and continued to weigh on growth through the third quarter of 2025. While manufacturing output growth was robust (6.8 per cent), investment slowed in the third quarter and the purchasing managers' index for the sector has been below 50 per cent since April. Finally, consumer price indices remained negative during the first three quarters of the year, at -0.1 per cent, pointing to constraints on domestic consumption despite 4.5 per cent growth in this period.

Growth in the **Republic of Korea** is estimated to reach only 0.8 per cent in 2025. Weak performance in the first two quarters came on the back of falling private consumption, reduced investment in construction, and lower exports. Economic activity is expected to expand faster in the second half of the year supported by monetary and fiscal policy measures. The Central Bank has cut interest rates by a cumulative 100 basis points since October 2024. The Government approved a KRW 13.8 trillion supplementary budget in May and plans to inject another KRW 20 trillion. Inflation is expected to remain stable at 2.0 per cent, as upward pressures from processed food and services prices are offset by weak demand and declining global oil prices. The labour market has shown resilience, with the unemployment rate shrinking to 2.6 per cent in June.

On 31 July 2025, the Republic of Korea and the United States reached a trade agreement. Under the new terms, general exports to the United States will face a 15 per cent tariff. Automobiles have a globally standardized tariff of 25 per cent, while steel, aluminium and copper are at



50 per cent. Although these rates remain elevated, the agreement provides greater predictability and reduces uncertainty, offering some relief to exporters. Economic growth is projected at 1.0 per cent in 2026.

The economy of **Japan** is estimated to expand by 0.9 per cent in 2025, reflecting the impact of weakening global growth and import tariffs in the United States. Japan's economy is highly export-oriented; export revenues accounted for roughly 17 per cent of GDP in 2024. The United States is the single largest destination market. Motor vehicle exports to the United States declined sharply during the second and third quarters, although a trade deal negotiated in July saw Japan pledge a \$550 billion package of investments and loans to the United States in exchange for a reduction in tariffs on automobile imports. Lower public sector expenditure has been a drag on growth over the first half of the year, and in October, the newly elected Prime Minister announced an economic stimulus package that is expected to expand local government grants, with a focus on small and medium-sized companies, and investments in growth sectors such as artificial intelligence and semiconductors. In monetary policy, the Central Bank has deferred further increases to the short-term policy target rate, currently at 0.5 per cent, after hikes in 2025 put Japanese interest rates above zero for the first time in many years. Rates are still far lower than in most other advanced economies. Economic growth is projected at 0.8 per cent in 2026.

expenditure, easing financing conditions and declining inflation. In fiscal policy, the Government planned a public deficit of 4.4 per cent of GDP over the current fiscal year, amid tax cuts and corporate tax rebates. In August, S&P Global upgraded the sovereign credit rating from “BBB-” to “BBB”, citing robust fundamentals, disciplined fiscal governance, improved policy frameworks and market dynamism. This upgrade is likely to bolster investor confidence and burgeoning transnational corporate investment plans, although tariff policy changes could temper enthusiasm. In monetary policy, the Reserve Bank of India initiated cuts to the repo rate in 2025; it remained unchanged at 6.5 per cent for several years before being cut by 100 basis points between February and October. Inflation is likely to hover around 4 per cent in 2025, well within the Reserve Bank's target band of 2 to 6 per cent. Externally, its relatively low ratio of goods exports to GDP limits the exposure of India to global trade effects. Tariffs imposed by the United States, however, could have an impact on critical manufacturing sectors, such as apparel and electronics, potentially shaving up to 0.3 percentage points from GDP growth. Capital markets have exhibited resilience as domestic institutional investors have compensated for most foreign outflows, significantly reducing their disruptive impact. The economy is projected to grow by 6.4 per cent in 2026, supported by continued public spending, private investment and a weakening dollar alleviating its trade deficit.

## South Asia

Economic activity across the region remains dynamic and driven by its largest economy, India. Complex debt dynamics burden smaller economies, such as Bangladesh, Pakistan and Sri Lanka, which struggle under IMF programmes. **India** has been the world's fastest-growing major economy since 2021. Economic activity is estimated to expand by 6.4 per cent in 2025 through continued elevated public capital

## South-East Asia

Economic expansion in **Indonesia** is estimated at 5.0 per cent in 2025. The economy registered 5.0 per cent growth in the first three quarters of the year, driven primarily by exports and domestic consumption. The three largest exports destinations for Indonesia continue to be China (23.3 per cent of total exports), the United States (11.5 per cent) and India (7.0 per cent). Government spending contracted slightly in the wake of the 2024 election



but returned to positive growth in the third quarter of 2025. The government has revised the fiscal deficit to GDP ratio up to 2.8 per cent. This should enable funding for a new stimulus package and measures to offset external uncertainties. The manufacturing sector has seen increasingly strong growth in recent months, indicating ongoing expansion, while the services sectors registered similarly robust activity. The growth momentum is expected to persist through 2025. In monetary policy, amid low inflation, the Bank of Indonesia has cut its policy rate five times since September 2024, totalling 125 basis points, amid manageable inflationary pressures. Indonesia submitted its initial memorandum on its accession to the Organisation for Economic Co-operation and Development (OECD) in June, which is likely to lead to broader policy reforms. Economic growth is projected to remain robust at 4.9 per cent in 2026.

## Western Asia

Western Asia grew more rapidly in 2025 despite lower oil prices and geopolitical tensions across the region. **Saudi Arabia** is estimated to grow at 3.6 per cent in 2025 on the back of increasing oil output agreed by the Organization of the Petroleum Exporting Countries plus allied non-OPEC countries (OPEC+) and a dynamic non-oil sector. The country continues to rely on its Vision 2030 diversification strategy, even though several major projects, such as Neom, were scaled down, reflecting cost pressures, lower oil prices and slowing oil revenue growth. The Saudi economy is projected to expand by 3.8 per cent in 2026, though the region and oil prices remain particularly volatile.

**Türkiye** is undergoing stabilization and is estimated to grow by 3.3 per cent in 2025, supported by more cautious monetary policy, public spending and external demand boosted by a competitive exchange rate. Annual inflation has declined but remains elevated, hovering above 30 per cent in September. This crimps private consumption and investment. GDP is projected to expand

by 3.5 per cent in 2026 amid possible fiscal stimulus before the 2028 election.

## Africa

Economic activities across the continent are projected to grow by 3.7 per cent in 2025 amid considerable uncertainty. This rate, partly resulting from low base effects in some large African economies, is largely insufficient to support sizeable progress on the Sustainable Development Goals. A few African economies are experiencing rapid economic development, but a confluence of global factors and idiosyncratic domestic conditions holds back the aggregate. While exports of hydrocarbons and many other primary commodities are expected to remain relatively immune to United States trade policy, which primarily targets manufacturing, a challenging global macroeconomic environment will likely depress growth. Moreover, the introduction of new tariffs on African countries and the expiration of the African Growth and Opportunity Act at the end of September could hinder their structural transformation. Prospects for 2026 remain subdued. The appreciation of many currencies coupled with slowing inflation rates throughout the region may be a boon, improving current account balances and allowing central banks to shift towards more accommodative stances. This trend has started, but several central banks remain cautious.

In **South Africa**, which is among the region's three largest economies, recent data reveal persistent supply-side problems, including logistics. These continued to hamper growth in the first half of 2025. Business and consumer confidence declined amid uncertainty. Ongoing structural reforms, however, are expected to gradually support economic activities in the coming years, with GDP growth increasing gradually, albeit only to a feeble rate of about 2 per cent.

In **Nigeria**, the National Bureau of Statistics in mid-2025 rebased GDP to 2019. This showed that the economy is 35 per cent



larger than initially estimated under the prior 2010 base year. The revision changed historical data for both the country and the African continent. Recent data point to improved economic activities in several key sectors, resulting in higher net capital inflows, increased earnings from greater crude oil production, rising non-oil exports and a significant reduction in aggregate imports. The renewed push to expand the country's free zones ecosystem also supported this development. In parallel, the Government's ambition to step up infrastructure development, including new roads, will also have positive spillovers to the wider economy once it reaches broadscale realization.

In **Egypt**, improved economic conditions following macroeconomic instability (2022–2024) led to year-on-year growth of 4.5 to 5 per cent during the first half of 2025. A solid recovery in non-oil manufacturing activity and significant activity in the tourism and telecommunication sectors supported this development. On the expenditure side, increased private investment coupled with improved net exports boosted aggregate demand. Despite a recent decline, inflation is persistently high, although private consumption is expected to remain robust. Fixed investment is poised to strengthen, owing partly to large foreign-led projects in real estate as well as the ongoing transformative high-speed railway project.

In the rest of Africa, economies characterized by resource abundance and strong commodity exports are expected to maintain momentum amid intensified competition for strategic natural assets. Yet triggering positive spillovers to other economic sectors and the general population remains a challenge. The adverse impact of elevated public debt levels – particularly in countries with limited fiscal space – still looms (UNCTAD, 2025d). This financial pressure is poised to dampen investment and growth prospects while constraining policy flexibility. Additional vulnerabilities stem from geopolitical tensions, especially in

the Sahel, and episodes of civil unrest which can disrupt economic activity. The former also contributes together with climate variability and extreme weather events to aggravated food insecurity; 31 African countries still require external assistance for food (FAO, 2025).

## Oceania

The economy of **Australia** is estimated to expand by 1.7 per cent in 2025. Its growth trajectory is tempered by the broader global context, with weaker global and national demand amid increased uncertainty due to trade tensions. Fiscal policy measures, including public investment, continue to be important support for the domestic economy, helping to offset a decline in private demand as business and consumer confidence soften. The economy has limited direct exposure to trade tariffs. It is nonetheless at risk indirectly if the Chinese economy slows and reduces demand for Australia's commodity exports.

In monetary policy, the Reserve Bank surprised markets by choosing not to continue lowering interest rates at its latest meeting in July, holding the base rate at 3.85 per cent. This is nonetheless the lowest level for the last two years. A rise in unemployment to over 4 per cent signals a cooling job market.

Severe weather events have impacted critical sectors of the economy, including mining, tourism and shipping, with uncertain implications for costs and prices. The Reserve Bank recently changed regulations on surcharges on credit and debit cards and interbank charges. This could potentially save consumers and businesses more than AUD 1 billion dollars and nudge demand without lowering the cost of credit. Growth is expected to increase to 2.2 per cent in 2026, supported by recovering domestic consumption and continued strength in public demand.



# C. The role of the dollar in the global economy

## 1. Introduction

The central role of the United States dollar in the international monetary and financial system has endured through recent decades despite profound transformations in the global economy. Through this period, the dollar's centrality has been underpinned by strong network effects and complementarities among its different functions in global trade and international financial transactions, in international reserve holdings, as a benchmark for exchange rate stabilization, and in the unmatched depth, liquidity and perceived safety of United States assets. While some recent developments have spurred debates about the future role of the dollar, its functions as the global financial anchor are deeply embedded in trade and financial networks (chapter IV).

The dollar saw a gradual rise as the global reserve currency. During the 1920s and 1930s, it gained prominence as the pound sterling declined in international trade (Chitu et al., 2014). After the Second World War, the Bretton Woods Agreement pegged the dollar to gold and required countries to ensure convertibility to the dollar at a pre-determined rate. This fixed exchange rate regime lasted nearly three decades. In 1971, the United States suspended dollar-gold convertibility, ushering in free-floating currencies and unrestricted capital flows. Despite this, the dollar's dominance continued, shaping international liquidity and credit conditions (Tooze, 2021). The emergence of the euro and China's global economic rise coexisted with the dollar's centrality, which was further reinforced by the expansion of global finance and financialization (chapter IV). These transformations cemented the dollar as the

primary global currency, underscoring its enduring influence on the world economy and position as the global financial anchor (Eichengreen, 2021, 2025).

Some developments in 2025 have reignited long-running debates in economic history and globalization about the role of the dollar in international monetary order and the global hierarchy of currencies. The following section examines key recent trends in the macroeconomic context. Chapter IV discusses the dollar-anchored financial system and the global South.

## 2. The enduring centrality of the dollar

The various complementary uses of the dollar, along with associated network effects and jointly reinforcing dynamics between trade and finance, have underpinned the currency's dominant position in recent decades. For example, its prevalent use in trade invoicing can incentivize companies and households to hold dollar-denominated assets as a store of value (IMF, 2025b). In turn, high demand for dollar deposits has depressed associated interest rates, favourably impacting terms for dollar-denominated borrowing and encouraging companies and households to assume dollar-denominated liabilities. The dollar's dominance in international transactions has induced central banks to seek to minimize movements of their respective currencies against the dollar (IMF, 2025b). The resulting greater stability in the dollar exchange rate and increased liquidity in capital markets reinforced reliance on the dollar in trade invoicing and debt issuances.

The dollar's centrality has been underpinned by strong network effects and complementarities among its different uses.

Despite the restructuring of the Bretton Woods system, the centrality of the dollar endured.



The dominance of offshore dollar financing underpins the international transmission of the Federal Reserve's monetary policy.

The centrality of the dollar in the bulk of its functions— as a currency for foreign bank loans and deposits, foreign exchange transactions and global payments; an invoicing and settlement currency for international trade; and a global investment asset – has remained largely intact (chapter IV). The share of the dollar in these different areas has remained relatively stable since 2000. The dollar currently accounts for 89 per cent of all global foreign exchange trades (BIS, 2025),<sup>3</sup> approximately half of all international trade<sup>4</sup> and about half of the total value of global payments processed through the SWIFT network (United States of America, Federal Reserve, 2025).

More than 60 per cent of the \$30.8 trillion in outstanding international debt securities is denominated in dollars.<sup>5</sup> This preponderance of offshore dollar financing reflects the dollar's status as the primary funding currency in global markets and underpins the international transmission of the Federal Reserve's monetary policy, which continues to shape the global financial cycle (chapter II).

Yet some shifts away from dollar centrality are now palpable, most notably in its status as the global reserve currency. The share of dollars in the basket of currencies making up the allocated official foreign exchange reserves of central banks across the globe – the total size of which stands at \$11.5 trillion – has been in decline since 2000 (figure I.6). This trend points to a greater diversification of currencies in international reserves, indicating a strategy to reduce excessive exposure to the dollar.

<sup>3</sup> Data remain the latest available as of August 2025.

<sup>4</sup> Based on data summarized in United States of America, Federal Reserve, 2025.

<sup>5</sup> BIS International Debt Securities Statistics, July 2025.

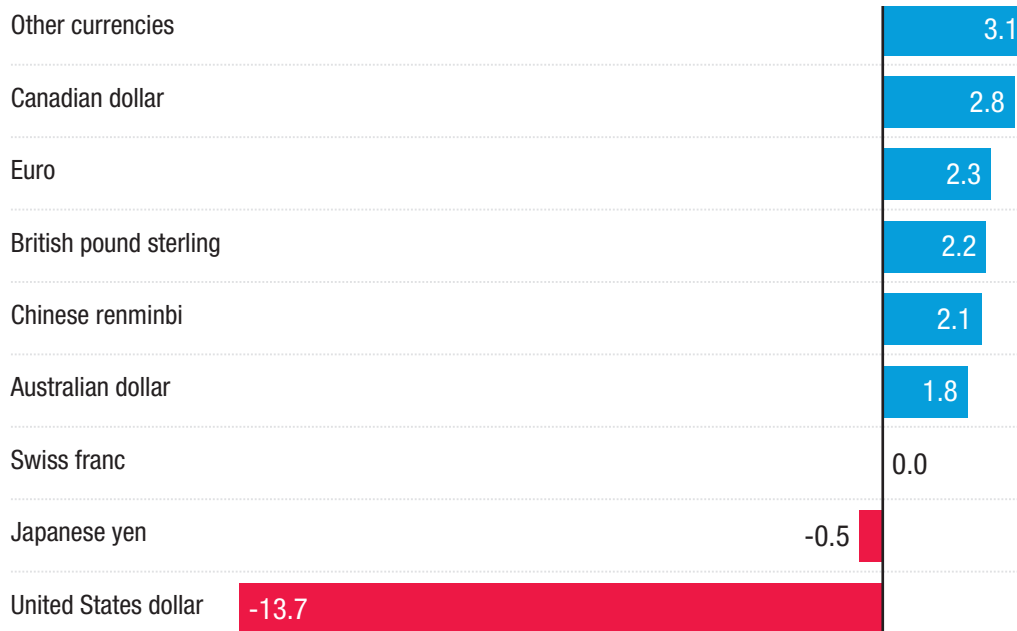




**Figure I.6**

**The dollar has seen a notable decline in its share of central banks' foreign exchange reserves**

Change in share of foreign currency reserves, first quarter of 2000 – fourth quarter of 2024 (Percentage points)



Source: UNCTAD based on data from the IMF Currency Composition of Official Foreign Exchange Reserves (COFER).

The apparent divergence in trends between the dollar's role as a reserve asset for monetary authorities and its ongoing centrality in other international functions can appear puzzling. This is particularly so given the assumed complementarities between these different functions (Gopinath and Stein, 2021).

Diverging trajectories indicate an apparent misalignment between the new strategic treatment of the dollar by State actors, and the established practices of private markets that is sufficient to offset these complementarities (chapter IV). The liquidity, scale and perceived safety of dollar-based assets have continued to be defining factors for the sector. At the same time, monetary authorities have increasingly prioritized other considerations, including geopolitical factors, in determining the composition of reserve holdings (Eichengreen, 2025).

Based on these trends, the dollar's central role in the international monetary system is likely to endure for the majority of its functions, with only a gradual ongoing decline in its role as the global reserve currency. However, while the dollar's share of official foreign exchange reserves has declined markedly, this has not been mirrored by the commensurate ascent of any single alternative currency (figure I.7).

Rather, the lower share of the dollar is reflected in an increasing share of an array of other currencies that, while growing, still only each account for a marginal share of the foreign currency holdings of monetary authorities. In other words, despite its notable decline, the dollar continues to account for a far greater share of central banks' reserve assets than any other currency. While the move away from the dollar in official foreign exchange reserves is clear, no indication exists of another currency as a potential replacement.

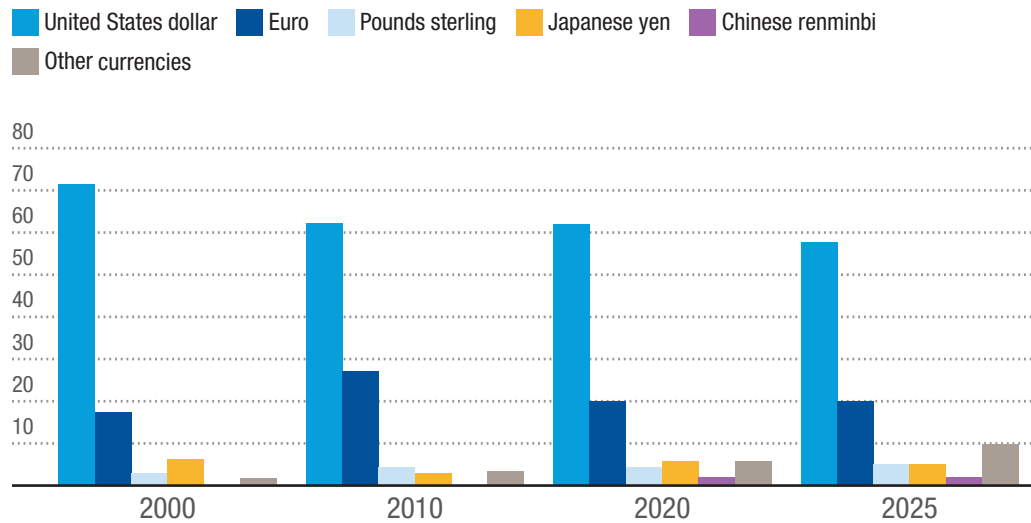
Diverging trajectories indicate an apparent misalignment between the new strategic treatment of the dollar by State actors, and the established practices of private markets.

The decline in the dollar's share of international reserves has not been mirrored by the ascent of any single alternative currency.



**Figure I.7**  
**The decline of the dollar in foreign exchange reserves is not mirrored by the ascent of any single alternative currency**

Share of total allocated foreign currency reserves  
(Percentage)



Source: UNCTAD based on IMF COFER.

Note: 2025 refers to the first quarter of 2025.

Importantly, the data and analysis presented above corresponds to foreign currency reserves and, by definition, excludes monetary gold. Despite its distinct characteristics as an asset class – as well as the fact that it is not issued by a monetary authority and therefore does not confer specific benefits to a particular issuing country – gold has nevertheless gained renewed prominence as a central bank reserve asset.

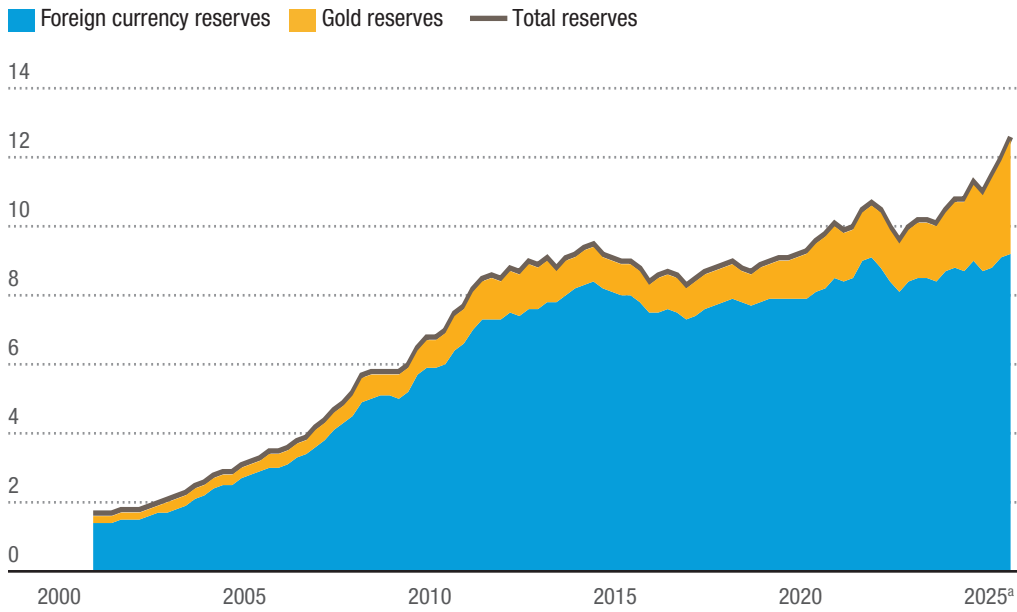
Indeed, the market value share of monetary gold in central bank total reserves surpassed 20 per cent at the end of 2024 and continued to rise in 2025 (figure I.8A). Gold has now superseded the euro as the second largest central bank reserve asset. While the vast bulk of this upswing corresponds to price effects, volumes have also registered sustained, albeit far more moderate, increases (figure I.8B). Ongoing

demand for gold from monetary authorities is principally born out of diversification strategies to guard against economic risks, such as inflation and cyclical downturns, as well as geopolitical considerations (ECB, 2025). The sustained demand for gold could add further weight to the potential softening demand for the dollar as a reserve asset. Nevertheless, as noted previously, the dollar's predominance in this regard persists.

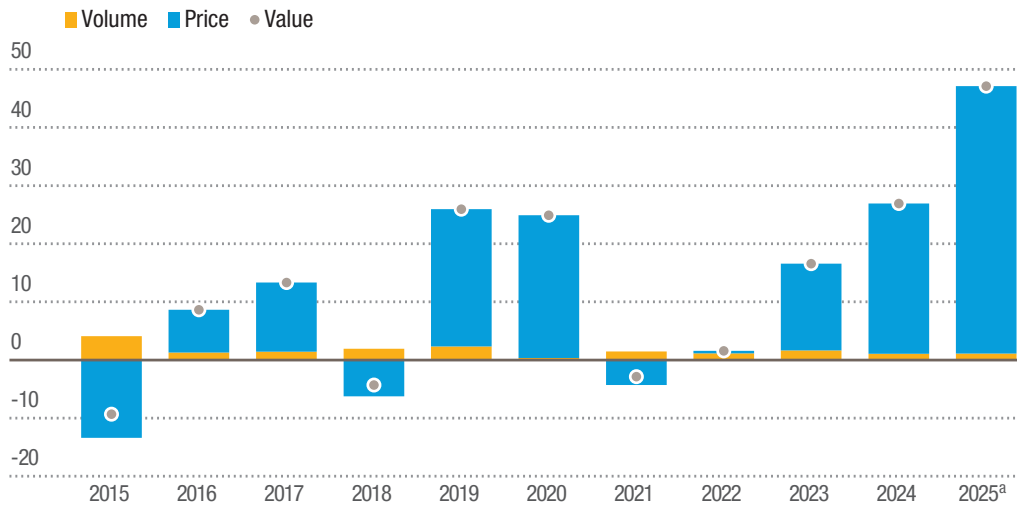


**Figure I.8**  
**Rising share of gold in central bank total reserves, as surging gold price drives up market value**

A. Foreign currency and monetary gold reserves held by central banks globally  
(Trillions of dollars)



B. Change in market value of central bank monetary gold reserves decomposed by volume and price effects  
(Percentage)



Source: UNCTAD based on data from World Gold Council.

<sup>a</sup> Corresponds to third quarter.



### 3. The benefits and drawbacks of dollar centrality

The dollar's dominant international status embeds a premium in United States assets that reduces borrowing costs.

The central role of the dollar in global trade and finance has long been viewed as affording a strategic advantage to the United States. The dollar's dominant international status embeds a premium in United States assets that reduces the country's borrowing costs – evidenced by the so-called “convenience yield” enjoyed by dollar-denominated bonds issued by the public or private sector (Jian et al., 2019). This suggests a higher return on

the country's external assets than on its external liabilities as well as a significant relaxation of its external constraints (Gourinchas and Rey, 2007 and 2022).

The higher return is reflected in the fact that despite its outsized and growing negative net international investment position – which corresponds to the gap between the stock of foreign assets owned by United States residents and the stock of assets within the United States owned by non-residents – the net returns from these assets and liabilities, shown by the primary account balance of the current account, have been mostly positive in recent years (figure I.9).



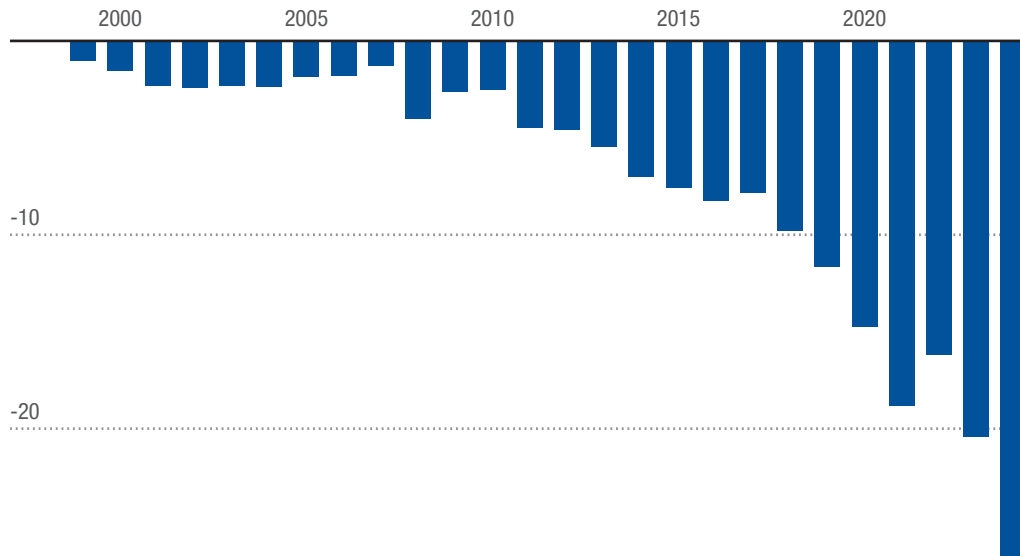


**Figure I.9**

**Despite mounting net claims on United States assets held by non-residents, resulting income flows remain fairly balanced**

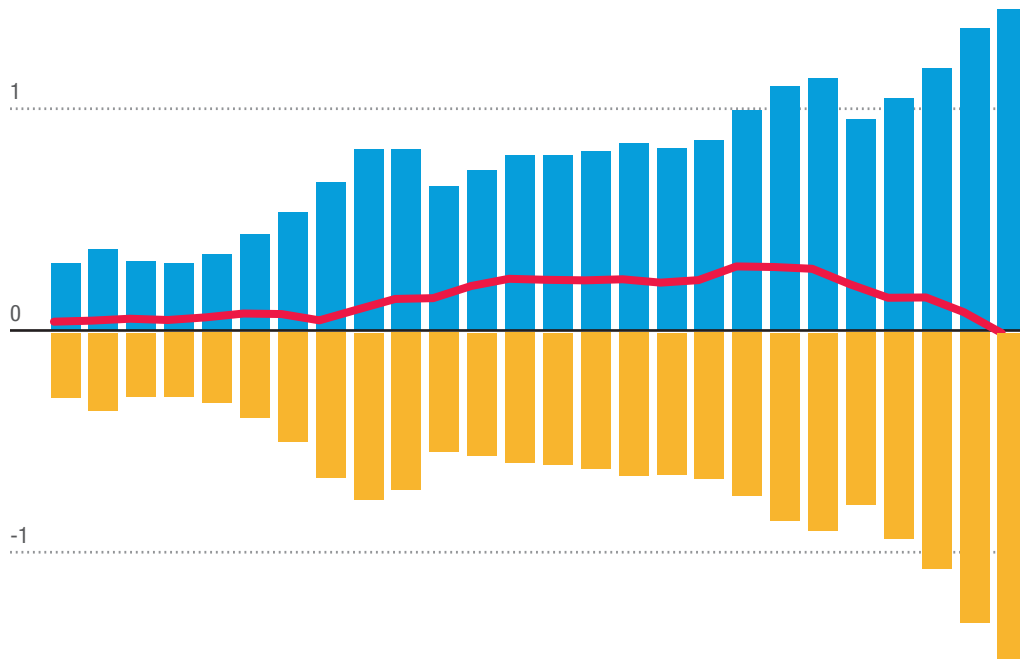
Net international investment position and primary income account of the balance of payments, United States, 1999–2024  
(Trillions of dollars)

**A. Net international investment position**



**B. Primary income account**

■ Primary income receipts ■ Primary income payments — Primary income account balance



Source: UNCTAD based on data from United States Bureau of Economic Analysis.



An appreciation of the dollar puts upward pressure on the servicing costs of dollar-denominated external debts.

Given that the bulk of official dollar reserves are held in United States Treasuries (Bertaut et al., 2025), additional demand for these assets due to the dollar's reserve currency status has enabled Treasuries to command exceptionally lower yields than comparable instruments (Jian et al., 2019). This has reduced the funding costs of the United States Government by a significant margin. While estimates of this lower cost vary, recent research points to a differential of up to 120 basis points between the yields on "safe" AAA corporate bonds and Treasuries (Szoke et al., 2024).

The dollar's central role in international markets supports its historic safe-haven status. At times of economic or financial turmoil – even when it has originated within the United States economy, as in the global financial crisis of 2008 – financial capital tends to flow into the dollar and United States assets. International investors typically withdraw funds from riskier assets and channel them towards those perceived as safe, the so-called "flight to safety" (Baele et al., 2014). This tends to have a stabilizing effect on the United States economy and its financial markets at times of elevated volatility and shocks (Noeth and Sengupta, 2010).

The potential for high exposure to the dollar in global markets can, however, complicate international transactions in other sets of countries. This is particularly the case for developing countries, where governments and companies often use non-domestic currencies to conduct basic international transactions. These actors also must often borrow in foreign currencies, generally the dollar, even though they may have limited dollar revenues. This mismatch between the currencies of liabilities and income streams exposes governments and firms to unexpected exchange rate movements. An appreciation of the dollar puts upward pressure on the servicing costs

of dollar-denominated external debts, often bringing up liquidity and solvency issues that would otherwise not be a concern.

The dollar's central global status reverberates in policy decisions in the United States that tend to have an outsized impact on international monetary conditions (chapter II). Central banks in developing countries find themselves pressured to mimic or follow the Federal Reserve's policy stances, even when domestic macroeconomic fundamentals and trajectories may point to another monetary policy path (UNCTAD, 2024b).

#### 4. Recent developments and the future of the global monetary system

Recent developments have introduced uncertainty around the potentially evolving role of the dollar in the international financial system. The announcement of "reciprocal tariffs" by the United States on 2 April was met by heightened volatility and distress in international financial markets. Such market turmoil invariably translates into a sharp increase in demand for safe-haven assets, which in turn typically leads to falling yields of United States Treasuries as well as an appreciation of the dollar (Gourinchas et al., 2019).

In stark contrast to historical norms, however, a very different trajectory emerged in 2025. The yield on Treasuries increased, widening the spread between them and the sovereign bonds of other major developed economies. The dollar suffered a sharp depreciation (figure I.10).<sup>6</sup> These trajectories indicate softening demand for United States assets, precisely when the reverse would be the norm.

The recent trajectory of United States assets indicates weakening demand for them, precisely when the reverse would be the norm.

<sup>6</sup> By the end of August 2025, the 30-year Treasury yield remained 40 basis points above its level at the beginning of April. The dollar's value against a basket of developing economy currencies depreciated 5 per cent in the same period.

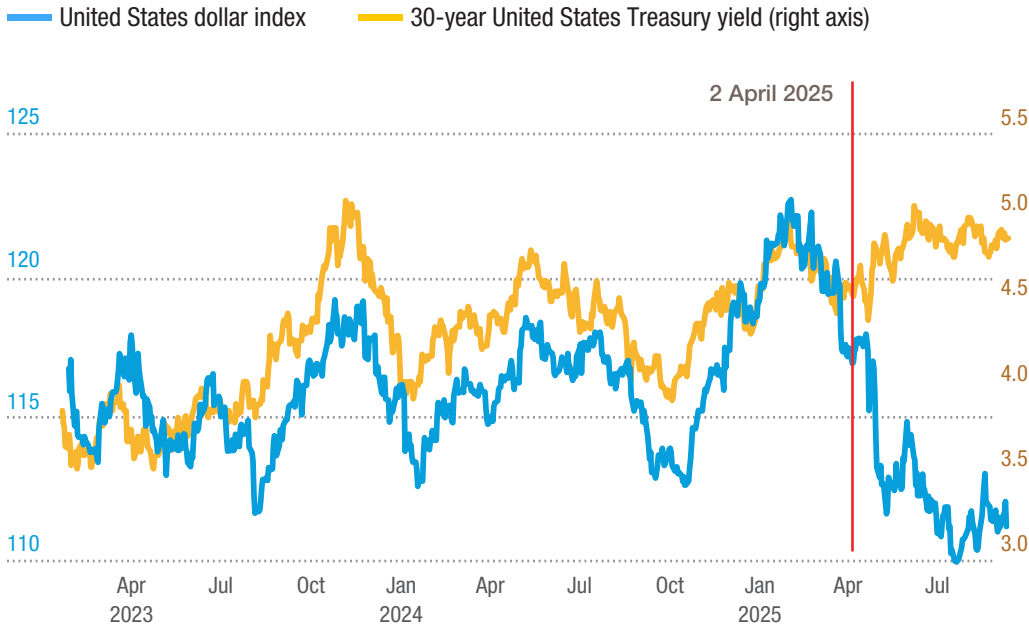




**Figure I.10**

**The distress in financial markets in April saw anomalous movements in safe-haven United States assets**

Nominal advanced foreign economies dollar index and the market yield on 30-year United States Treasury securities  
(Index January 2006 = 100, percentage)



Source: Federal Reserve Bank of St. Louis.

Note: The dollar index corresponds to a weighted average of the foreign exchange value of the dollar against a subset of broad index currencies of advanced foreign economies. Upward (downward) movement of the index indicates an appreciation (depreciation) of the dollar.

The synchronous weakening of Treasuries and the dollar would suggest a decline in the traditional safe-haven status of these assets. The recent trajectory of both has undermined their traditional hedging role in portfolio diversification. Under normal market conditions, the dollar and Treasuries exhibit a reliable negative correlation with equities, as financial capital would typically flow to them during economic stress or market downturns, causing them to appreciate as equities fall. This natural hedge has been a foundation of portfolio construction, allowing investors to mitigate risk. Yet since April 2025, the United States market experienced simultaneous declines across equities, bonds and the dollar.

It remains to be seen whether these anomalous movements correspond to cyclical factors or more significant long-term erosion in the perceived safety of

these assets. A continued and rising positive correlation among dollar assets would indicate that traditional diversification strategies within dollar-denominated portfolios are becoming less effective. It may also suggest an evolving role of the dollar in international markets.

Efforts to establish alternative arrangements for countries to reduce excessive exposure to the dollar could be increasingly important in shaping an evolving international monetary system (box I.1). Although still in early stages, such efforts could, if elaborated, pave the way towards a more diversified international monetary architecture. The institutional costs of such initiatives and required levels of policy coordination, however, are high, and risks of financial fragmentation cannot be overlooked (chapter IV).

It remains to be seen whether anomalous movements correspond to a long-term erosion in the perception of United States assets.



**Box I.1****Initiatives to diversify settlement options for international transactions gain prominence, yet institutional challenges loom large**

There are several initiatives underway that seek to provide more options for the settlement of international trade and financial transactions. The BRICS Plus<sup>a</sup> countries have proactively advocated the greater use of national currencies in the invoicing and settlement of trade among member countries – in the context of growing intra-BRICS Plus trade (chapter IV) – thereby aiming to reduce reliance on a single currency.

For cross-border payment systems, the BRICS Plus group has proposed enhancing correspondent relationships among members' own banks to diminish dependence on other correspondent banking systems. Such an alternative would have to be supported by a messaging system akin to the SWIFT system but would be controlled by banks in BRICS Plus countries. The group has begun introducing cross-border payment infrastructure such as BRICS Pay and BRICS Bridge.<sup>b</sup> For cross-border investments, it envisages a dedicated platform, BRICS Clear, that could serve as a central securities depository (BRICS, 2024).

In a similar vein, China has developed its own payment system, the Cross-Border Inter-Bank Payment System. It has also struck trading deals with other countries that enable their respective companies to settle trade in domestic currencies. China has extended loans and bilateral currency swap lines in renminbi to central banks in Argentina, Pakistan and other countries to provide an emergency lending function at times of financial distress. Subsequently, use of the renminbi in trade invoicing between China and recipient countries has significantly increased (Benguria and Novy, 2025).

African countries have advanced initiatives such as the Pan-African Payment and Settlement System to facilitate intra- and extraregional trade in local currencies, thereby overcoming issues around access to foreign currencies. Within the Southern African Customs Union, domestic currencies – particularly the South African rand – are increasingly prominent in cross-border trade and financial transactions.

Finally, countries are leveraging digital innovations to transform the mechanisms that underlie international transactions. Emerging technologies such as distributed ledger technology (DLT) and central bank digital currency (CBDC) may be critical going forward. DLT enables the secure and low-cost cross-border transfer of digital assets and payments. For example, the new BRICS Plus international payment systems use DLT for processing international payments, aiming at reducing the need for established international financial intermediaries.

There is potential for countries to share a CBDC, akin to a common currency in a monetary union, or to link the CBDCs of different countries on a single platform. Project mBridge is a collaboration among the central banks of China, Hong Kong Special Administrative Region, Saudi Arabia, Thailand and the United Arab Emirates to link CBDCs so that central and commercial banks of participating countries can carry out transactions with one another on the same platform. Once participating countries have agreed on governance and regulations, such platforms could provide a viable alternative for cross-border transactions (Eichengreen, 2025).

*Note:*

<sup>a</sup> Originally Brazil, Russian Federation, India, China and South Africa; now expanded to include Egypt, Ethiopia, Indonesia, Iran, Saudi Arabia and the United Arab Emirates.

<sup>b</sup> BRICS Pay facilitates transactions in domestic currencies and offers a viable alternative to the SWIFT system. BRICS Bridge is a settlement platform to deepen financial integration among BRICS Plus members.

Countries are leveraging digital innovations that could transform international transactions.



## D. Global imbalances

### 1. Introduction

Global trade imbalances have been growing since 2020 and have become central to policy discourse in 2025. Internationally, the imbalances are driven by large economies, partly reflecting internal economic and financial structures, but are also related to long-standing misalignments between the global trade and financial systems (chapter IV). An additional set of factors contributing to imbalances in trade is the shift of the global economy toward a system where complex services, digital and intangible assets play an increasingly central role (WIPO, 2025).

This presents a challenge to many earlier assumptions and models of the global economy, and policy research is yet to address these issues comprehensively. More specifically, while the trade literature has evolved from classical theory of trade in goods to theories of intra-industry trade, and recently to trade in tasks, trade in intangibles has not been fully integrated into the theory of international trade and macroeconomic models. In part, this is due to the lack of a systemic framework, as well as difficulties in data collection (Fu and Ghauri, 2021).

Yet services trade, digital and intangible assets increasingly shape economic trajectories. In goods trade, among large economies, the United States continues to run the largest trade deficit, while China maintains the largest surplus. The European Union recorded a significant trade surplus in 2024. Major deficit countries include India, Japan, and the United Kingdom (figure I.11A).

The picture is partly inverted when services trade balances are considered. The European Union, the United Kingdom, the United States and other advanced economies dominate the large surplus nations. Altogether, developing economies account for less than 30 per cent of all service exports globally and thus are mainly service importers (figure I.11B). The multidimensional nature of global trade and financial imbalances underscores the need for coordinated international policy measures at the multilateral level to address the deepening misalignments.

Services trade, digital and intangible assets increasingly shape economic trajectories.

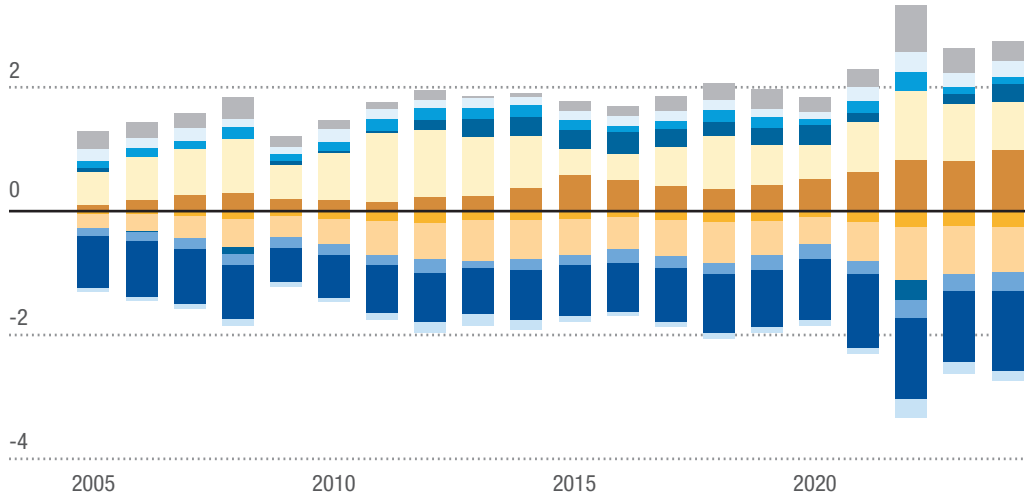


**Figure I.11**  
**Global trade imbalances have widened in recent years**

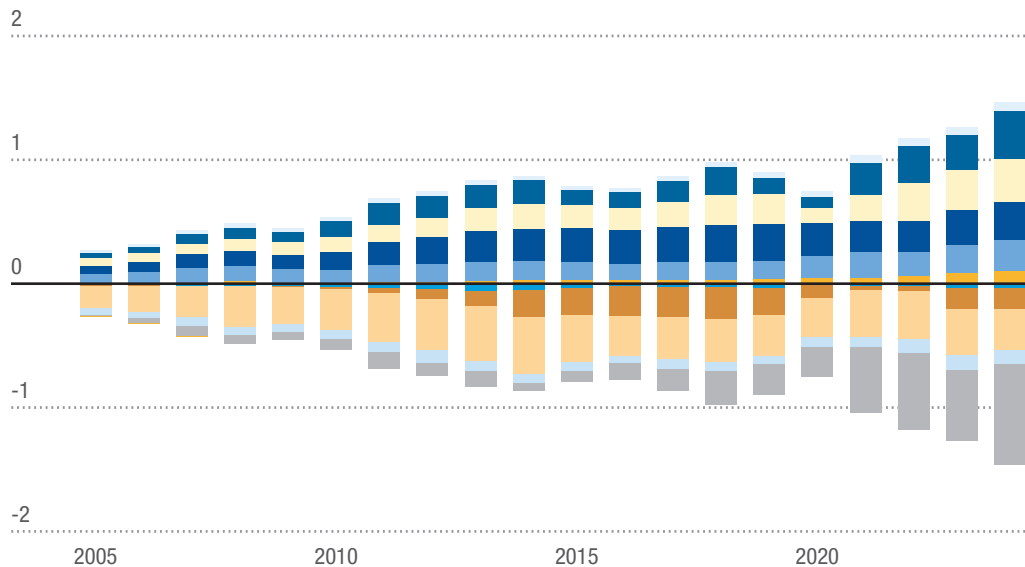
Nominal contributions to trade balances  
(Trillions of dollars)

**A. Merchandise goods**

China India Other developing deficit economies Other developing surplus economies  
European Union Russian Federation United Kingdom United States  
Other developed deficit economies Other developed surplus economies Residual



**B. Services**



Source: UNCTAD based on UNCTADstat.

Note: Residuals reflect challenges in compiling international statistics, including data availability constraints; conceptual and methodological differences; asymmetries between partner countries; reporting time lags; mode of supply estimation; exchange rate and valuation issues; timing and accrual adjustments.

External imbalances are partly driven by internal ones—since external deficits and surpluses mirror gaps between saving and investment rates (UNCTAD, 2025a). Examining how trade policy

shifts and other developments influence domestic saving and investment can provide insights into the overall effects on countries' external balances (box I.2).

**Box I.2**  
**External imbalances: a macroeconomic view**

National income accounting identities show that the current account balance<sup>a</sup> not only equals the difference between receipts and payments of international transactions, but also the difference between domestic saving and investment (Blecker, 2025; Krugman, 1991). Put differently, a current account deficit or surplus does not simply represent an imbalance in external accounts. It also reflects internal imbalances that occur when the domestic investment rate persistently exceeds or falls short of the combined rate of domestic saving by the private and public sectors (see annex I.1 for a detailed explanation).

In countries that operate a current account deficit, the gap between domestic saving and investment is bridged by foreign investment that translates into a surplus in the financial account, which is the flip side of the deficit in the current account (leaving aside the capital account, which relates to capital transfers, e.g., debt forgiveness, and non-produced, non-financial assets, e.g., intellectual property rights). Since net exports and net capital outflows must balance each other, negative net exports (a current account deficit, roughly speaking) are matched by positive net capital inflows. Conversely, in economies that run a current account surplus, the mismatch between internal saving and investment typically translates into financial outflows to the rest of the world that exceed inflows, generating a deficit in the financial account which is the counterpart of the current account surplus.

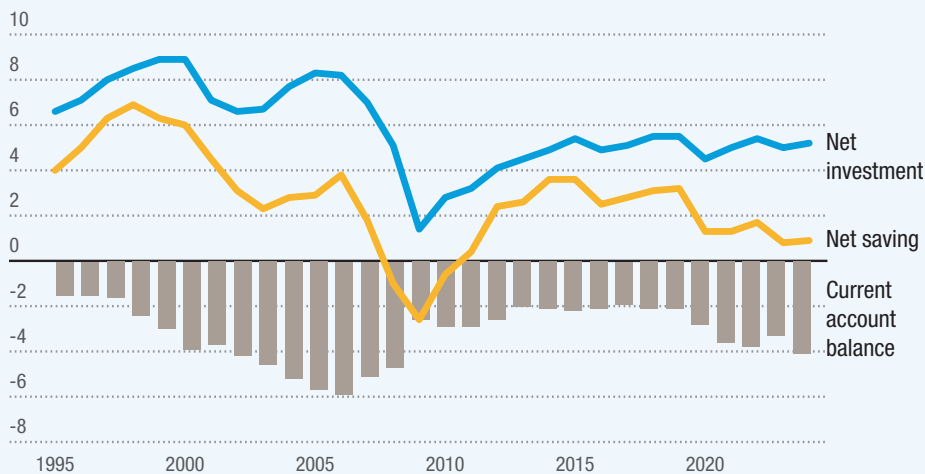
As an example, the higher investment rate relative to saving in the United States is mirrored by a negative current account balance. In contrast, in Germany, high saving together with declining investment in recent years have been reflected in a widening positive current account balance.

Foreign investments bridge the gap between domestic saving and investment, translating into a surplus in the financial account.

**Current account imbalances mirror gaps between domestic saving and investment**

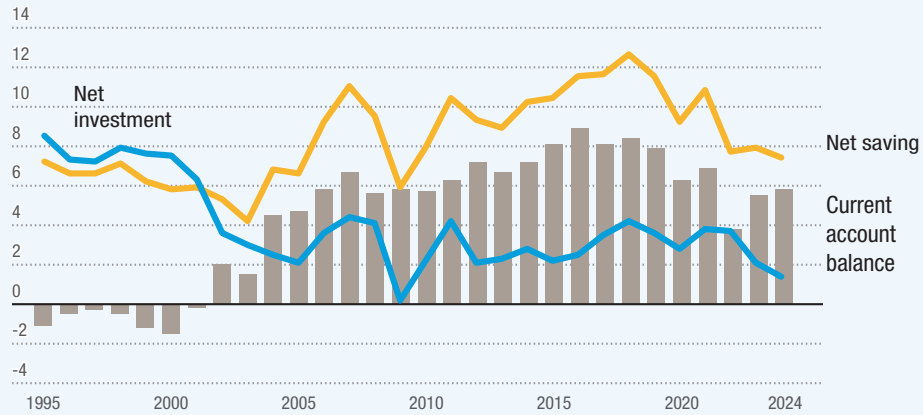
**Net saving, net investment and current account balance**  
(Percentage of GDP)

**A. United States**



## B. Germany

### Current account balance



Source: UNCTAD based on data from the United States Bureau of Economic Analysis and German Statistical Office.

Notes: Net saving is a measure of the saving available for adding to the nation's net stock of fixed assets or for lending to the rest of the world. It equals the sum of personal saving, undistributed corporate profits with inventory valuation and capital consumption adjustments, and net government saving. Net investment corresponds to new capital spending that adds to a country's capital stock, discounting depreciation of existing capital stocks.

Domestic macroeconomic trajectories can therefore be key in assessing countries' external balances. A range of factors – including domestic private demand conditions, fiscal stances, productivity paths, exchange rates, trade policy measures, among others – impact both directly and indirectly saving and investment outcomes that, in turn, underpin the trajectory of external accounts.

### Addressing external imbalances

Trade policies such as tariffs are often used to address external imbalances by boosting domestic production and closing gaps between exports and imports. But the overall impact on external balances is ambiguous: literature suggests that tariffs tend to have limited effect on trade deficits, as reduced imports are often offset by reduced exports, with resources diverted from export sectors to meet domestic demand — especially when the economy's full employment is assumed (Furceri et al., 2022; Costinot and Werning, 2025; Baldwin, 2024; UNCTAD, 2025a).

Further, since production processes increasingly involve cross-border supply chains, tariffs can raise the costs of imported inputs for export-oriented manufacturing. In this way, tariffs can effectively act as a tax on exports and imports, leading to net effects on overall external accounts that are uncertain. Tariff imposition is also typically associated with offsetting real exchange rate appreciations (Furceri et al., 2022). This is because reduced demand for imports lowers the supply of a currency to the rest of the world, which in turn pushes up its value vis-à-vis other currencies. The resulting appreciation partially offsets the increased cost of imports due to tariffs. It can also have a detrimental impact on competitiveness, which would dampen exports. However, contrary to assumptions, the dollar registered a notable depreciation between February and June 2025. As outlined previously, this trend responds to distinctive factors that have emerged this year.

The overall impact of tariff measures on aggregate external imbalances can be limited.



In evaluating the potential impact of policy shifts and other relevant developments on external balances, it can be useful to assess the dynamic effects of these changes on saving and investment rates, thereby revealing the final aggregate effects on current account balances. In economies with large and persistent current account deficits, trade policy measures, such as tariffs, can effectively reduce external imbalances through a reduction in investment, primarily by raising costs linked to imported capital goods. However, the positive outcome is accompanied by a negative impact on the wider economy. For their part, tariff receipts are also likely to increase public savings, but this tends to be compensated by concomitant decreases in private savings, often negating the aggregate impact (IMF, 2025b).

Rather, by impacting factors that lie behind domestic imbalances, policy actions can effectively bring about rebalancing in external accounts. Those economies that exhibit external deficits can look to bolster saving. In instances where external deficits are driven by excess dissaving in the public sector, for example, a reorientation of fiscal trajectories towards enhanced domestic public revenue generation can help balance external and internal disparities.

In surplus economies, policy measures that boost domestic demand and limit excess saving – such as more expansive fiscal stances, strengthening of social safety nets, and more active labour market policies that boost labour income and consumption (UNCTAD, 2017, 2019) – can serve to bring external accounts towards balance, as well as leading to positive outcomes in terms of income inequality (UNCTAD, 2024a). Similarly, domestic policies and regulations, particularly regarding the financial sector, can impact saving and investment decisions through their influence on both the conditions and allocation of credit.

Additionally, policymakers can explore alternative avenues to complement more traditional manufacturing-led development models. In the context of already subdued merchandise trade and rapid digital advances, opportunities to generate quality employment in the services sectors, including in non-tradable services, can offer viable development paths that are not as dependent on external demand (UNCTAD, 2024b; Rodrik and Sandhu, 2024; Rodrik and Stiglitz, 2024).

<sup>a</sup> The current account comprises the external balances of a country's trade in goods, trade in services, primary income and secondary income.

## 2. Rebalancing is most effective when achieved through coordinated international actions

Collective and coordinated international actions among countries operating excessively positive and negative external balances can greatly facilitate addressing such imbalances globally. In contrast, the reliance on isolated trade measures to address external imbalances can face limitations in achieving objectives, while potentially risking significant adverse domestic and international economic fallout.

A nuanced approach combining national and coordinated international actions

would be most effective in addressing external imbalances, while limiting negative fallout from macroeconomic adjustments, domestically and globally. Internationally, corrective action demands a multilateral policy response focused on a more coordinated approach to global economic governance (Rodrik, 2025).

A more cooperative approach to policy challenges – for trade, industrial policies and taxation, among others – could minimize potential negative spillover effects and avoid adverse impacts on the most vulnerable economies. Similarly, regional integration initiatives need to incorporate integrated policy mechanisms, spanning trade, financial and macroeconomic priorities.

A nuanced approach combining national and coordinated international actions would be most effective in addressing external imbalances.



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## Chapter I

### Current trends and challenges in the global economy

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## Annex I.1

National accounting identities illustrate the macroeconomic determinants of movements in the current account balance. Starting with the definition of gross national product in period  $t$  ( $GNP_t$ ) as the sum of gross domestic product ( $Y_t$ ) and net income from abroad, represented by the ex-post return ( $r_t$ ) on the stock of net foreign assets ( $B_t$ ):

$$GNP_t = Y_t + r_t B_t$$

A negative value for  $B_t$  indicates that the value of outstanding foreign assets owned by domestic residents is less than the value of outstanding domestic assets owned by non-residents.

For its part, equilibrium conditions require that GDP equal the demand for private consumption ( $C$ ), government spending ( $G$ ), investment ( $I$ ) and net demand from abroad ( $NX$ ), such that:

$$Y_t = C_t + G_t + I_t + NX_t$$

$NX$  is equivalent to the excess of exports over imports, also known as the trade balance.

From these two identities, it follows that the current account ( $CA$ ), which is conventionally defined as the sum of the trade balance and net income from abroad, can be rewritten as the excess of GNP over the sum of private consumption, government spending and investment, such that:

$$CA_t = NX_t + r_t B_t = GNP_t - (C_t + G_t + I_t)$$

Additionally, by subtracting private consumption ( $C$ ) and government spending ( $G$ ) from GNP, we get the total of private and government savings, otherwise known as national savings ( $S$ ):

$$S_t = GNP_t - (C_t + G_t)$$

As a result, the current account ( $CA$ ) is also equal to the difference between national savings ( $S$ ) and investment ( $I$ ):

$$CA_t = S_t - I_t$$

Defining the current account as the difference between domestic savings and investment helps to explain observed patterns in international capital flows. Savings at time  $t$  are equivalent to the change in wealth from the beginning to the end of period  $t$ . Since a country's wealth at the beginning of period  $t$  is given by the sum of its stock of capital ( $K_t$ ) and its net assets from abroad  $B_t$ , the preceding identity can be rewritten as:

$$CA_t = (B_{t+1} + K_{t+1} - B_t - K_t) - I_t$$

Making use of the capital accumulation equation  $K_{t+1} - K_t = I_t$ , such that:

$$CA_t = B_{t+1} - B_t$$

This final identity demonstrates that the current account over a period of time  $t$  is the change in the value of net assets relative to the rest of the world. A net inflow is registered when the increase in domestic assets held by non-residents exceeds the increase in foreign assets held by domestic residents. This essentially means that if domestic savings are insufficient to finance domestic investment, the excess of investment over savings is financed by savings from abroad. As such, the counterpart of a current account deficit is a financial account surplus, i.e., a net inflow of capital. This outcome increases a country's net borrowing position relative to the rest of the world. On the other hand, if domestic savings are larger than domestic investment, the excess savings will finance investment abroad. The current account surplus will therefore result in a net outflow of capital, which will increase the country's net lending position relative to the rest of the world.



# 2025 Trade and development report

## Chapter II

# International trade in an era of policy shifts and financialization

### KEY FINDINGS

- ▶ Pre-tariff frontloading and optimistic investment in artificial intelligence boosted merchandise trade during the first half of 2025. This momentum is expected to fade as tariff hikes bite and expectations mature around artificial intelligence.
- ▶ Growth of world trade in goods and services in volume terms is expected to hover around 3 to 4 per cent in 2025. Prospects for 2026 are clouded with even greater uncertainty. Provided overall tariff conditions remain unchanged, merchandise trade is forecast to slow down. Small firms and poor countries are especially vulnerable; many lack the capacity to respond to unpredictable trade environments.
- ▶ Multilateral trade rules must evolve to remain relevant and effective in supporting development needs. To support ongoing dialogue, UNCTAD proposes a set of broad guiding principles anchored in sustainable development, which can help shape discussions to strengthen the predictability and fairness of the trading system.
- ▶ Turning to an underexplored topic, UNCTAD research shows that trade is not immune from the global financial cycle. Changes in financial risk aversion, foreign exchange or credit conditions influence trade flows, for manufactured goods and beyond.
- ▶ In the developing world, exports from emerging Asian economies are more intricately linked to the global financial cycle, echoing findings on manufactured goods compared to primary commodities. Failing to better understand these dimensions risks placing trade flows at the mercy of negative financial spillovers, adding to an already challenging environment.



## Policy takeaways

- ▶ Waiving new United States tariffs on vulnerable economies would protect their development and have only marginal effects on the United States trade deficit.
- ▶ Leveraging networked multilateralism is one of six principles of the development agenda that UNCTAD proposes to reform the multilateral trading system. Enhancing coordination and partnerships among multilateral, plurilateral and regional platforms, towards regrouping trusted stakeholders, is key for greater coherence and inclusivity in global trade governance. Coordination and open dialogue can also help to mitigate trade policy uncertainty.
- ▶ In developing tools to tame negative financial sector spillovers on trade flows, moving from the macro to the meso level could better capture sector-specific aspects of trading operations and, ultimately, help to design more targeted and effective mitigation strategies.
- ▶ Trade and finance should not be considered separately. Policymakers should take a holistic approach because both areas of global integration – alongside others such as investment – are interrelated and central to the development process. Stable and sustainable financing should be reliable and available, even as it is essential that finance primarily supports the real economy.



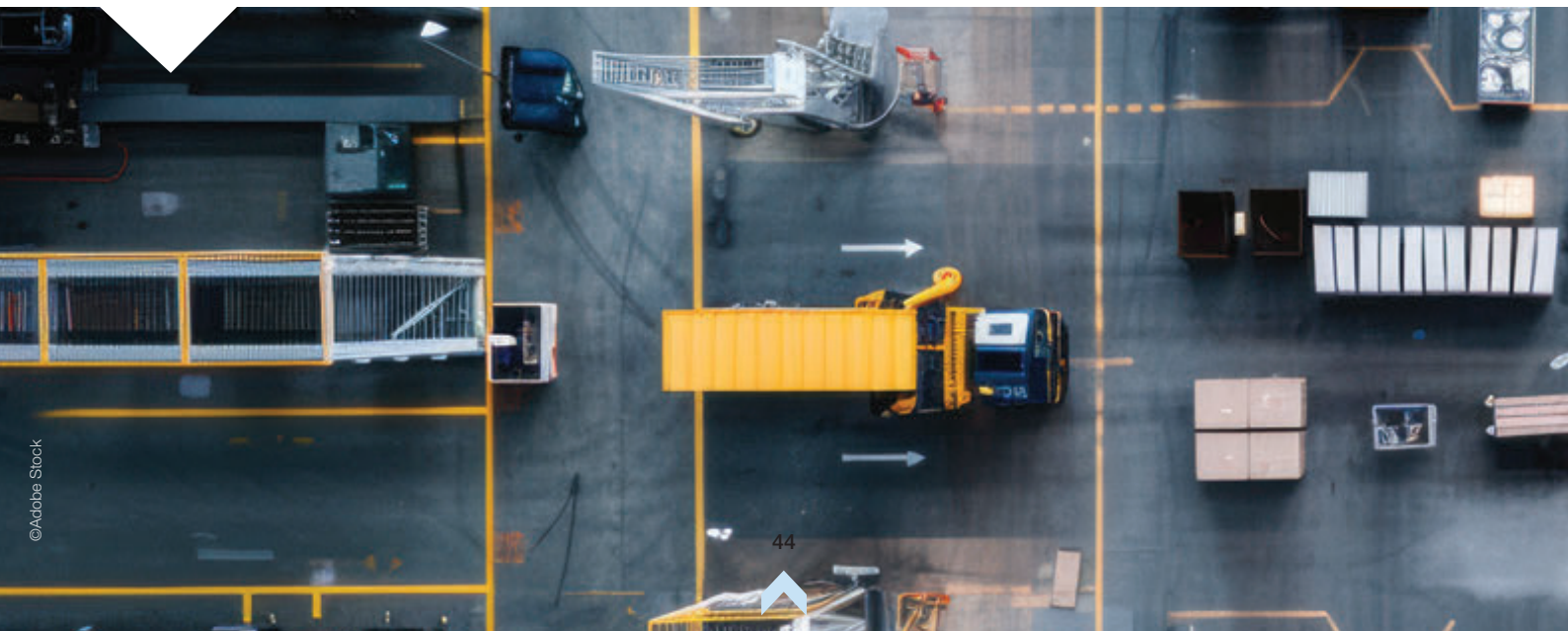
## A. Introduction

Exceptional policy shifts throughout 2025 – whether in terms of scale, scope or speed – have plunged the world trade landscape into heightened uncertainty. Merchandise flows have been in the spotlight, with numerous announcements about new tariff measures. In parallel, more profound multidimensional shifts have continued to reshape global trade (UNCTAD, 2025c). These sudden shocks and longer-term transformations both reflect a complex interplay of macroeconomic reorientation, driven by stronger government footprints, inward-looking industrial policies, geopolitical tensions and rapid technological change.

These forces will continue to shape the world economy and international trade in the years ahead. While it is premature to predict the ultimate trajectory or destination, the near-term outlook appears underwhelming. Intensifying headwinds – such as the unwinding of pre-tariff frontloading and the more tangible impacts of new tariff hikes – already started to weigh on cross-border economic activity in recent months. Moreover, heightened uncertainty per se undermines trade prospects and can even be more disruptive than new tariffs as firms can adapt to rising costs but struggle to plan around unpredictable policy shifts.

The effects will vary across countries and industries. The reconfiguration of supply chains and trade networks, as well as the deployment of new technologies, may even create opportunities for certain firms, sectors and economies. Overall, however, the current policy stance is likely to further strain an already fragile global economic environment. Against this backdrop, section B reviews recent developments in trade flows and trade policy and offers insights on the short-term outlook.

Stepping back from the financial market gyrations that dominate the daily news, section C explores the cyclical interlinkages between finance and trade – more precisely, the financial channels through which trade is affected. Understanding these dynamics is key to strengthening trade resilience as concerns mount over potential financial turbulence in the short to medium term. At a time of elevated financial asset prices, heightened stock market volatility and growing vulnerabilities in the financial system – partly compounded by efforts to reassess some safeguards introduced after the 2008 global financial crisis – it is essential to gain closer insights into how financial instability can spill over into trade. Drawing from this exploratory analysis, the chapter concludes with policy recommendations.



## B. Trade dynamics and future perspectives

### 1. Latest trends: Pre-tariff frontloading and artificial intelligence-related investment boosted merchandise trade in the first half of 2025

Amid the numerous trade policy measures announced throughout 2025, the relative trade dynamism observed during the first half of the year might seem unexpected, because such announcements typically entail significant disruptions. In the very short term, however, there was a strong incentive to export as much as possible to the United States before the new tariffs took effect. Partly for this reason, preliminary estimates point to an expansion of world trade, in real terms, in the range of 4 per cent during the first semester. Measured in dollars, export revenues from goods and services rose by \$300 billion year-on-year, reaching a total of \$16 trillion (UNCTAD, 2025a).

#### a) Goods

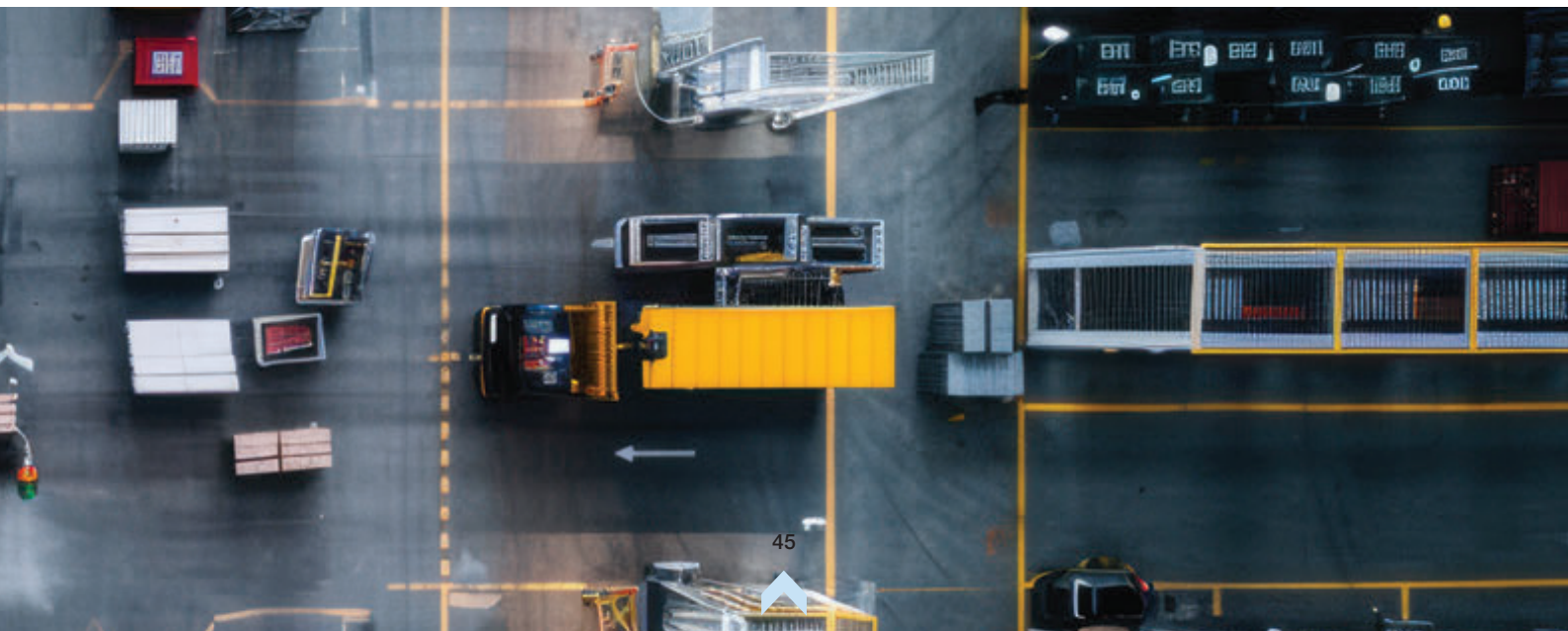
Merchandise trade volumes – defined as the average between exports and imports in constant prices – were, on average, about 4 per cent higher during the first semester

of 2025 than the equivalent period in 2024, with monthly gains peaking in March and April 2025. This surge primarily reflects a significant temporary rise in imports in the United States due to pre-tariff frontloading (figure II.1). Netting out the contribution of this spike, world trade would have grown at 2.5 to 3 per cent, roughly on par with the growth rate of global economic activities (chapter I).

The temporary hike was a key driver of the strong dynamism in exports from East, South and South-East Asia, the world's largest regional manufacturing hub. Aggregated export flows from China, India, Indonesia, Japan, Malaysia, Pakistan, Philippines, the Republic of Korea, Singapore, Thailand, Hong Kong (China) and Taiwan Province of China collectively expanded by almost 10 per cent year-on-year, in real terms, during the first semester.

Elsewhere in the world – except in Latin America – real export dynamics were relatively muted. In the United Kingdom, exports shrank by 2 per cent. In the euro area, the world's largest trading group of economies, the growth of exports was flat. Meanwhile, the exports of the United States and those of the group of other developed economies both grew about 2 per cent.

AI exuberance and pre-tariff frontloading drove a transitory pickup in trade in early 2025.



Tariffs are just one layer; tectonic changes are reshaping the global trade landscape.

Exports from Latin America, by contrast, registered 8 per cent growth, partly due to a low base. A deeper look shows that in terms of monthly export levels, this region never exceeded the all-time high of December 2024 during the first six months of 2025. This indicates that outward-oriented economic activities were less robust than the headline figure suggests.

Turning to imports, data echoed macroeconomic conditions across many economies. In China and the euro area – which together account for almost 40 per cent of global trade – imports remained subdued, continuing a prolonged pattern of weakness. More precisely, monthly Chinese import levels during the first half of 2025 oscillated from 1 to 7 per cent below their 2021 average. Similarly, euro area imports were consistently 4 to 5 per cent lower than this benchmark. The prevailing lack of internal dynamism in these two major economic hubs is primarily responsible for this outcome. Elsewhere, only a few regions experienced sustained upward trends in imports. Where such patterns did emerge, they were often driven by low-base effects rather than underlying strength.

Considering nominal revenues of merchandise trade – a timelier and more comprehensive gauge of trade momentum – globally aggregated dollar exports increased 2 per cent, or \$230 billion, during the first semester of 2025, reaching almost \$12 trillion. Fast-growing export revenues in developing Asian economies supported this expansion. Taiwan Province of China, for instance, posted 25 per cent year-on-year growth, driven by strong demand for

artificial intelligence products. Exports from the Philippines and Viet Nam expanded by approximately 15 per cent.

Beyond short-term dynamics, the reorientation of trade flows and reconfiguration of supply chains are other critical dimensions to monitor. The contours of these evolutions remain difficult to discern, as identifying consistent patterns amid noisy and fragmented data is challenging. Nonetheless, some metrics show, for instance, that Chinese exports to countries in Africa and to the Association of Southeast Asian Nations (ASEAN) have increased, while shipments from China to the United States have declined. Friendshoring and nearshoring trends appear to have stalled, or even reversed, in late 2024 and early 2025 (UNCTAD, 2025a). Relatedly, intentions in certain countries to repatriate industrial production have yet to materialize on a broad scale, partly because factory relocations and supply chain restructuring can sometimes span a decade or more.

The extremely high uncertainty that currently prevails is, moreover, not conducive to major supply chain shifts. Key planning parameters on which firm managers rely are simply too volatile and blurred at the moment to support any large-scale transformation of their operations. Rather than fast-tracking the redeployment of industry, many entrepreneurs have adopted a wait-and-see approach. In sum, while Governments' intentions to re-attract production domestically currently rank high, a volatile economic environment – largely driven by policy – hinders such efforts.



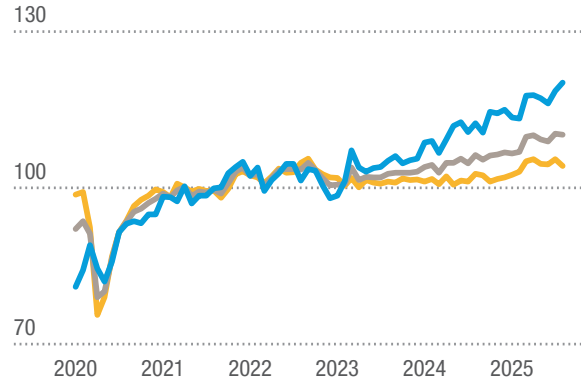
**Figure II.1**  
**Tariff anticipation triggered a short-lived boost in world trade in early 2025**

Merchandise trade flows in real terms, January 2020–August 2025

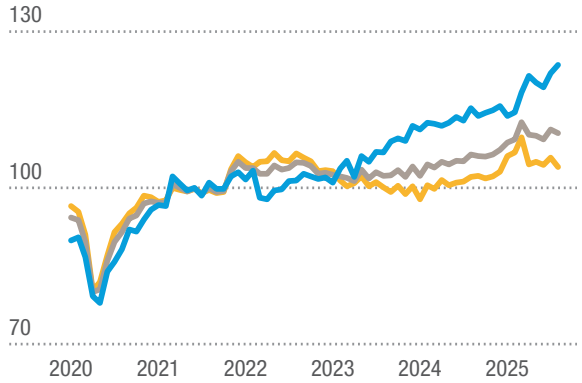
(Average 2021=100)

**A. Exports**

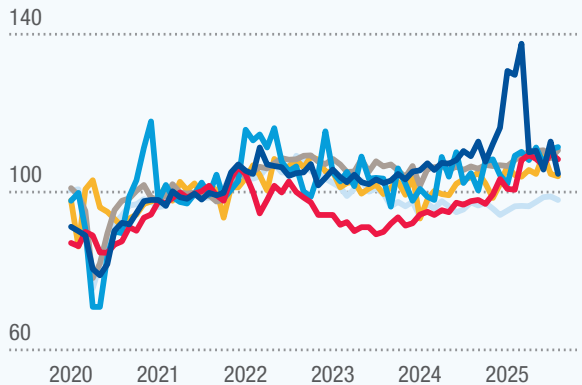
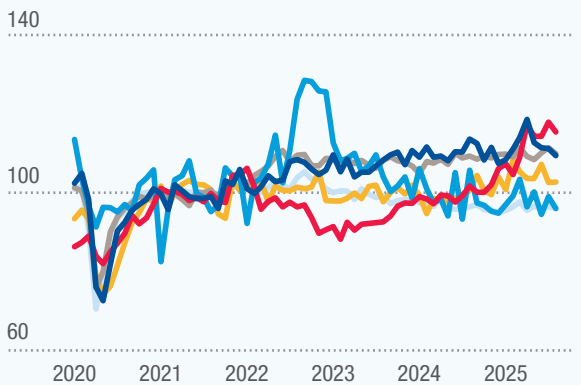
— Advanced economies — Emerging economies — World



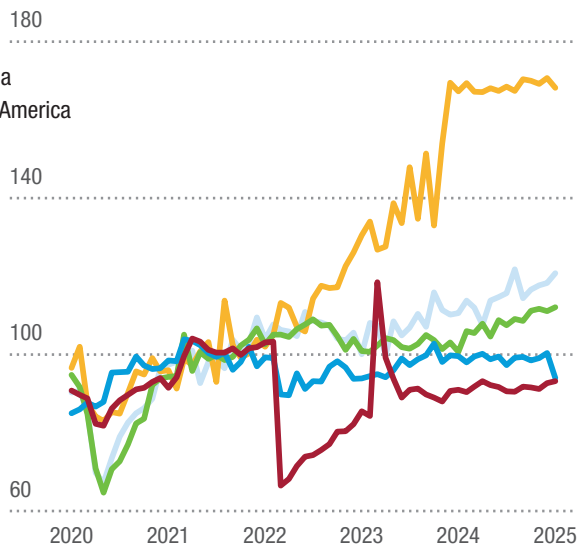
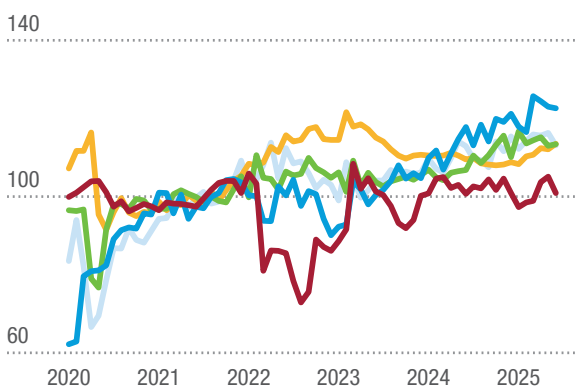
**B. Imports**



— Japan — United Kingdom — United States — Advanced Asia, excluding Japan — Euro Area — Other advanced economies



— China — Africa and Middle East — Emerging Asia, excluding China — Eastern Europe and Commonwealth of Independent States — Latin America



Source: The 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).

## Development-enhancing trade relations thrive on economic clarity and policy consistency.

If one thing appears clear amid heightened uncertainty, it is that firm managers are increasingly prioritizing markets seen as more predictable. Hence, further diversion of Chinese exports away from the United States is expected to accelerate. Such shift could exert a disinflationary influence in regions where exports are ultimately reallocated. European countries, where currencies have appreciated against both the dollar and the yuan since early 2025, are particularly well positioned to experience these dynamics. By mid-2025, however, the impact of recent frontloading activities had overshadowed the effects of trade diversion, making it difficult to isolate these patterns in the data. As these temporary distortions fade, the underlying trends should become more discernible.

One factor that could challenge this scenario is the potential for an improvement in trade relations between China and the United States. Optimism persists, especially after a meeting between the two Heads of State and Government took place in late October 2025. Still, caution is warranted: The path towards tariff levels closer to what was in place prior to 2017 remains long and uncertain. If no common ground is found, then further fragmentation of global trade cannot be ruled out – posing additional risks for many bystander economies.

### b) Services

Export revenues from services slowed down during the first quarter of 2025 before bouncing back during the second quarter. Measured in current dollars, on-year growth for the first half of 2025 stood at approximately 7 per cent. In absolute terms, global trade in services rose by about \$270 billion between January and June 2024 and the same period in 2025, reaching nearly \$4.4 trillion, according to UNCTAD data. Significant currency fluctuations partially obscured this aggregate, however.

Turning to its major components, international transport showed less dynamism, with year-on-year growth

hovering around 3 per cent during the first two quarters of 2025. By contrast, international travel and all other services (excluding transport and travel) grew almost 10 per cent during the second quarter of 2025.

Regionally, the expansion of services was stronger in Asia and Latin America compared to the developed economies of Europe and Northern America. The latter two regions, however, still account for the bulk of global services exports. Many leading services exporters from developing countries registered double-digit annual growth during the first quarter of 2025. China and India, the two largest services providers among developing countries, recorded a 17 per cent and 10 per cent on-year increase, respectively, during the second quarter of 2025.

In China, this aggregate figure was driven primarily by an increase of 50 per cent of travel and tourism exports and by transport services, which grew by 15 per cent. Yet such elevated growth rates may not be sustained beyond a few quarters. In India, by contrast, dynamism stemmed from commercial services related to finance, intellectual property, telecommunications, computing and information as well as other business subcomponents. Fast growth in these suggests that India is more likely to maintain rapid growth in services trade. Unlike transport and travel, these components are less vulnerable to sharp fluctuations caused by price changes, such as in freight rates, or shifts in passenger volumes, which until very recently were still affected by the lingering impact of the COVID-19 pandemic.

### c) Tariffs

Several months have passed since the April 2025 tariff measures announced by the United States. The new rates targeted a broad spectrum of imports – primarily manufactured products, albeit not only these. The initial announcements were often followed by carve-out provisions, upward and downward revisions, implementation





delays and various clarifications, resulting in a sequenced implementation process shaped by evolving operational conditions. These procedural adjustments postponed the actual enforcement of the tariffs, and their full economic impact has yet to materialize. The trade landscape remains volatile. Any forward-looking assessments should be approached with caution.

By early August 2025, conditions seemed to have stabilized, at least partly. On 7 August, a revised tariff schedule came into effect, imposing additional ad valorem duties ranging from 10 to 50 per cent on a broad variety of import products. This marked the end of the temporary tariff reprieve that followed the April announcements, ushering in what many view as a fundamentally new trade regime for the United States. Nonetheless, uncertainty persisted. On 29 August, a federal appeals court ruled that most new tariffs introduced by the Administration were unlawful.<sup>7</sup> The court, however, delayed the enforcement of its decision. Subsequently, the Supreme Court agreed to fast-track the proceedings. The

oral arguments took place on 5 November 2025. The final decision is expected in the following months.<sup>8</sup>

When comparing the tariff measures announced in August to those initially proposed in April, several developing countries ultimately faced more moderate increases. For instance, several economies that had originally been assigned rates exceeding 30 per cent – though not all – saw their tariffs reduced by nearly half, if not more. Those benefiting from these downward revisions included Angola, Bangladesh, Botswana, Cambodia, Côte d'Ivoire, Fiji, Guyana, Indonesia, Lesotho, Madagascar, Mauritius, Sri Lanka, Thailand, Viet Nam and Taiwan Province of China.

While no foreign economy has been entirely spared, many developing countries were notably absent from Annex I of the Executive Order of 31 July 2025.<sup>9</sup> This means they were subject to an additional ad valorem tariff of 10 per cent, the lowest an economy could get under the new regime. This rate is far from negligible.

Tariff escalation was less pronounced in several developing economies than initially projected.

<sup>7</sup> [https://storage.courtlistener.com/recap/gov.uscourts.ca9c.23105/gov.uscourts.ca9c.23105.159.0\\_1.pdf](https://storage.courtlistener.com/recap/gov.uscourts.ca9c.23105/gov.uscourts.ca9c.23105.159.0_1.pdf).

<sup>8</sup> Further updates can be found at <https://www.supremecourt.gov/docket/docketfiles/html/public/25-250.html>.

<sup>9</sup> Available at <https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/>.



Waiving new tariffs on most developing nations would spare their economies; most contribute little to the United States trade balance.

Yet an additional 10 per cent ad valorem duty should not completely jeopardize their export prospects, especially as all other exporters to the United States were subject to at least the same conditions. Compared to the April announcements, this can be seen as a partial response to an earlier call by UNCTAD asking policymakers to reconsider the additional tariffs imposed on developing countries, especially small and vulnerable ones. Still, more could be done to exclude such economies from any additional duty. A majority have almost no effect on the United States trade deficit (UNCTAD, 2025d).

A handful of countries, nonetheless, experienced a deterioration in export conditions between the initial tariff announcements in April and the measures in place by late August – reflecting the impact of a more transactional and unpredictable foreign policy environment. Brazil and India, for example, faced additional tariffs of 50 per cent on a wide range of export products by that time, compared to the 2024 baseline. These rates represent a sharp departure from initial additional tariffs of 10 and 26 per cent, respectively. While negotiations to reduce these rates are ongoing, significant uncertainty continues to cloud the outcome of these discussions.

More broadly, although it remains premature to fully discern the long-term implications of this policy shift, it is nonetheless instructive to monitor evolving patterns in tariffs and associated trade flows. Doing so not only helps to clarify the contours of the current landscape but also provides a basis for informed conjecture about future developments.

This assessment starts by showing how United States import tariffs have progressed throughout 2025. At least three broad metrics – each with their own additional

parameters – can be used to gain a sense of this evolution, namely:

- 1 Applying the different tariffs (announced or already in place) at a certain point in time on a given trade basket to compute an average effective tariff rate.<sup>10</sup>
- 2 Dividing the public revenues the United States collects from import tariffs by the value of total imports over a given period, such as months.
- 3 Elaborating models allowing for behavioural changes and other effects, such as substitutions for products and sources, as well as income effects.

Each of these approaches has its own strengths and limitations. The first technique offers a useful approximation of the cost of tariffs to United States consumers. It should be interpreted as an upper bound, however, as it does not account for substitution effects that naturally occur when relative prices shift – an omission that can lead to overstated cost estimates.

The second measure, defined as the ratio of import tariff revenues to total imports of goods to the United States, can be viewed as a lower bound. This metric overlooks several important dimensions. For instance, when tariffs begin to bite, economic agents often pivot towards second-best alternatives. These shifts – typically involving compromises in price or quality – are not captured in the simplicity of this ratio. Additionally, temporary exemptions or anticipatory frontloading of imports may distort the metric at any given point in time, making it an imperfect reflection of prevailing trade conditions (Giles, 2025).<sup>11</sup>

Third, model-based estimates typically fall between the two aforementioned bounds and are, by design, closer to the true economic cost. These models incorporate behavioural responses and general

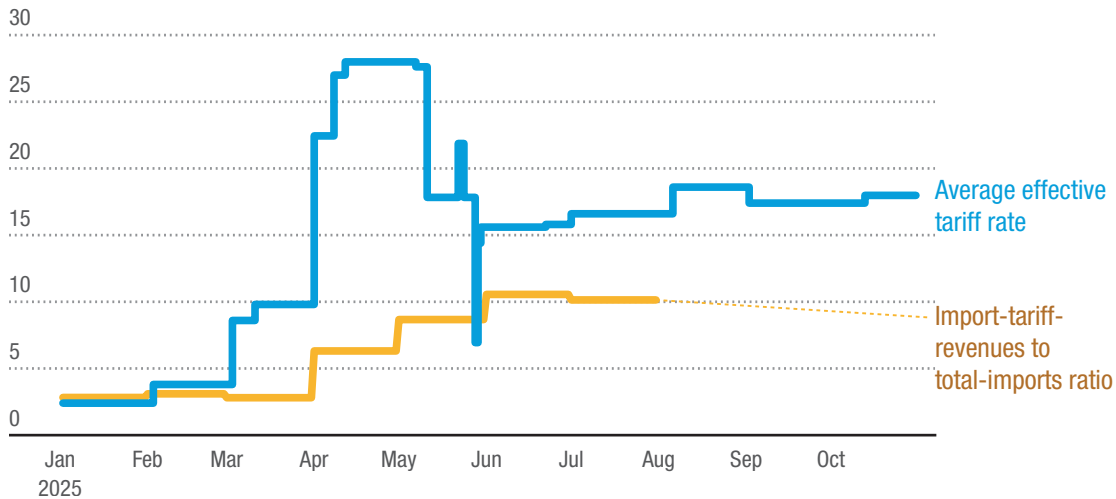
<sup>10</sup> Focusing on the effects for consumers in the United States, for instance, one could use detailed 2024 imports and apply the new tariffs for each tariff line. Alternatively, policymakers interested in having a preliminary figure for their own country exports could use their own more recent disaggregated exports.

<sup>11</sup> This element echoes recent declarations by the chief executive of Walmart, the world's biggest retailer, who declared in August that the company would continue to raise prices throughout the second semester as it will replenish inventory at post-tariff price levels (Financial Times, 2025).



**Figure II.2**  
**United States import tariffs have risen sharply in 2025**

Average effective tariff rate and the ratio of import tariff revenues to total imports for goods in the United States (Percentage)



Source: UNCTAD based on Federal Reserve Economic Data, The Budget Lab at Yale and the United States Department of the Treasury.

Note: The average effective tariff rate corresponds to the weighted average of the different tariffs announced at a certain point in time on the import trade basket of imported goods in the United States in 2024. The ratio of import tariff revenues to total imports is computed monthly.

equilibrium effects, offering a more nuanced picture. Yet they are inherently sensitive to methodological choices and assumptions, which may vary depending on the modelling framework employed.

Figure II.2 depicts the first two approaches. By the end of October, based on information available at that time, it was estimated that if the United States had continued importing the same import basket it had in 2024, its average effective tariff rate would be about 18 per cent, an eightfold increase relative to its January level. As for the ratio of import revenues to total imports, figures for August onwards will only be available when the lapse of federal funding will end. Yet this metric already shows a significant rise from April onwards and is expected to increase further from August onwards.

While tariff levels depend on the methodology employed, the increases are unequivocally substantial. For the vast majority of countries,

the hikes are disruptive and could be economically damaging. Additionally, by departing from the most favoured nation principle, the United States introduced a shift that may have implications for the broader multilateral framework. This makes the processing of imports to the United States more complicated and subject to arbitrage.

It is important to recall that the United States has accounted for approximately 13 per cent of global goods imports over the last decade. Given the general lack of tit-for-tat escalation to recent tariff measures, an overwhelming majority of all remaining trade continues to take place under predictable rules. This has allowed the world economy to avoid this year the kind of collapse in world trade witnessed in the 1930s in the context of the Great Depression and the Smoot-Hawley Act.

This is not to suggest that the international trading system and its governing rules

Regardless of how they are measured, the tariff hikes of the United States have been substantial.

Independent of the United States, other countries should preserve stability through a shared rules-based system.

should remain static. On the contrary, reform has long been overdue. In the vision proposed by UNCTAD, reform should be based on a development-oriented agenda, structured around six guiding principles to support a meaningful overhaul of the global trade architecture. If the bulk of global trade continues to operate under non-arbitrary conditions and revised, consensual rules – as outlined in the Special Focus – there would be genuine scope for trade to serve as a lever for structural transformation and climate-resilient development.

For the United States, the impact of recent tariff hikes is expected to be significant. Considering that imports of goods represent approximately 10 per cent of United States GDP – a conservative benchmark compared to recent trends – applying a 15 per cent tariff would generate a non-negligible price increase for consumers. While tariff-induced price pressures are not expected to fully derail the inflation trajectory, they have influenced the Federal Reserve’s ability to proceed with interest rate cuts as inflation risks remain elevated.

Beyond inflationary pressures, the more consequential implications of the new tariffs lie in their structural impact on supply chain organization, business investment and

global competitiveness. While short-term price increases may capture headlines, the deeper concern is that sustained trade barriers could fundamentally alter sourcing strategies, hinder productivity growth, and erode both consumer and business confidence. Taken together, these dynamics are likely to exert downward pressure on long-term GDP growth and global trade flows.

One principle of economic policy posits that for a government to achieve a given number of independent policy targets, it needs at least as many independent policy instruments to achieve them (Tinbergen, 1956). In other words, tariffs alone cannot serve as a comprehensive solution to a complex set of problems reflected in global economic asymmetries. When policymakers rely heavily on such instruments, it becomes essential to account for general equilibrium effects; failing to do increases the risk that outcomes may not align with intended goals.

To gain insights into what may lie ahead, the next section briefly outlines the near-term perspectives of UNCTAD on trade in goods and services.



## 2. Outlook: Merchandise trade set to decelerate as tariffs bite and frontloading unwinds

In many respects, the world economy has ventured into uncharted territory. The heightened uncertainty confronting economic agents only compounds the complexity of the current landscape. Adding to the challenges, numerous recently released data series may have been distorted by transient factors, making their interpretation more precarious. Under such conditions, it is both prudent and necessary to exercise caution regarding what can be realistically and accurately predicted.

Forecasting the final annual trade figures for 2025 is relatively more straightforward than projecting those for 2026, for at least two reasons. First, data from the early months of 2025 are already available, reducing the scope for future developments to significantly alter annual aggregates. Second, a wide array of indicators provides a reasonably clear picture of near-term trends. Among these, the “new export orders” subcomponents of manufacturing purchasing managers’ indices have consistently stood below the neutral threshold of 50 across numerous economies in the second and third quarters of 2025. This signals a broad-based contraction in export demand.<sup>12</sup> In several cases, these indicators have not only remained subdued but also trended downward, underscoring intensifying headwinds for manufacturing exporters globally.

Turning to trade in services, recent trends reveal a marked divergence across key sectors. In 2025, transport services are expected to remain relatively subdued. Maritime trade volume is projected to expand by just 0.5 per cent, with

containerized trade growing slightly faster at 1.4 per cent. Looking ahead, total seaborne trade is forecast to grow at an average annual rate of 2 per cent, with containerized volumes rising marginally faster (UNCTAD, 2025b).

By contrast, travel services are anticipated to show greater resilience, with growth in international arrivals for the year 2025 ranging from 3 to 5 per cent (World Tourism Organization, 2025). Other segments of the services trade are likely to maintain stronger momentum. This outlook is underpinned by the continued penetration of technological innovation, notably artificial intelligence, into economic activities, which will support the development of international trade in digitally deliverable services of all kinds, and thus the services trade in general.

Given these dynamics, global trade in goods and services is projected to grow about 3 to 4 per cent in 2025. The anticipated slowdown in the final quarter of 2025, coupled with continued subdued performance in early 2026 (chapter I), suggests a more cautious outlook, with the pace of global trade moderating in 2026. Notably, the lagged impact of recent tariff hikes is likely to exert downward pressure on trade volumes, with the risk of these effects spreading across borders through global supply chains and amplifying broader contagion in international commerce.

While the headline figure suggests moderate growth, it conceals significant heterogeneity across firms and countries. Small enterprises and low-income economies are especially vulnerable, as they mostly lack the capacity to respond to unpredictable trade environments. Their vulnerability is compounded by persistent uncertainty surrounding the extension of trade preference programmes, the specifics of transshipment conditions and evolving rules-of-origin frameworks. These uncertainties

Forward-looking manufacturing purchasing managers’ index data point to softening export activity.

Small enterprises and low-income economies are especially vulnerable in unpredictable trade environments.

<sup>12</sup> These diffusion indexes, by design, capture the breadth of change across a surveyed group of firms rather than its magnitude. And while purchasing managers’ indices are not particularly tailored to provide growth point estimates, they indicate how widespread certain economic conditions are. Also, given their forward-looking nature, these leading indicators help assess the momentum of economic activity before hard data are released.



over future market access conditions continue to undermine strategic planning, deter investment, and limit their meaningful participation in international trade and global supply chains (UNCTAD, 2025e).

In these challenging times, it is imperative for all stakeholders to closely monitor policy shifts and adapt sourcing and market strategies accordingly. In this regard, UNCTAD remains actively engaged, regularly updating its website with recent policy developments and analytical insights.<sup>13</sup>

For businesses, the path forward involves greater supply chain diversification to mitigate geopolitical and climate-related risks. Investing in digital tools will be equally critical to enhance agility and resilience. Policymakers, meanwhile, can help counter fragmentation – or at least soften its adverse effects – by reinvigorating multilateral cooperation. Given the projected dynamism of digitally deliverable services relative to merchandise trade, it is essential to

strengthen digital infrastructure in developing countries to narrow the persistent gap with advanced economies. This includes targeted investments in connectivity, skills, and regulatory frameworks. In parallel, aligning trade and climate objectives will be vital to ensure long-term sustainability. More broadly, the global community must pursue a development-oriented reform agenda for the multilateral trading system. The Special Focus offers a set of broad guiding principles anchored in sustainable development, which can help shape discussions to strengthen the predictability and fairness of the trading system.

Equally important for the future of trade is the need to move beyond immediate concerns surrounding tariffs. The next section turns to an underexamined yet highly consequential topic: the interlinkages between finance and trade, with a particular focus on financial channels that underpin international trade. These interdependencies are key to understanding how to build trade resilience.

Safeguarding the future of global trade calls for moving beyond immediate concerns around tariffs.

<sup>13</sup> See <https://unctad.org/topic/trade-analysis/tariffs> for further information and updates.



# The future of the multilateral trading system

Since its latest major transition in 1995, the multilateral trading system – with the World Trade Organization (WTO) at its core – has provided a comprehensive set of binding trade rules and processes. These have enabled member States to trade with more legal certainty and transparency. The capacity of this system to regulate the trade policy conduct of its members – numbering 166, today – has, however, been eroded. The rise in unilateral discriminatory trade measures, and the limited transparency in reporting such measures, are symptomatic of some of the fundamental challenges faced by the rules-based multilateral trading system.



Several factors are at play. The enforceability of multilateral trade disciplines has weakened as the WTO dispute settlement mechanism, a central pillar of the rules-based system, has become dysfunctional. From December 2019, the Appellate Body, the WTO appeals mechanism in dispute settlement, has been unable to hear cases due to the prolonged deadlock in appointing new members, leaving it without the quorum required to function. This paralysis has given rise to the practice of “appealing into the void”, whereby members can block the adoption and enforcement of panel rulings simply by appealing, leading to a situation where compliance with WTO norms is not systematically ensured. The question of how to restore a fully functional dispute settlement mechanism remains unresolved and has been recognized as a central pillar of the WTO reform agenda, as confirmed by the WTO ministerial conferences in 2022 and 2024.<sup>a</sup> Access to a credible and enforceable dispute settlement mechanism is essential for safeguarding WTO members’ rights.

The dynamics of multilateral trade negotiations suggests that progress has been limited to date. The Doha Round – also known as the Doha Development Agenda, launched in 2001 as the first major round of negotiations under the WTO, remains largely stalled after more than two decades. While there have been important incremental achievements over the years, such as the 2013 Agreement on Trade Facilitation, the 2022 Agreement on Fisheries Subsidies and other issue-specific outcomes, the Doha Round has not achieved its core reform objectives, notably in agriculture, development and market access, which are particularly important for developing economies.

In parallel to the stalled Doha Round, groups of WTO members have pursued new issues and rule-making through plurilateral initiatives, known as the Joint Statement Initiatives. Addressing topics such as electronic commerce, investment facilitation and domestic regulation, these negotiations are not formally part of the Doha Development Agenda and operate alongside, not within, the traditional multilateral process. Their emergence reflects both a demand for modernization of trade rules and ongoing difficulties in achieving consensus across the WTO membership.

Most WTO agreements, largely conceived and negotiated in the 1980s and the early 1990s, have not undergone significant revisions, while the Doha Round, initiated to redress systemic imbalances raised by developing countries, remains unresolved. In the meantime, new market openings and trade disciplines have arisen, mainly through regional trade agreements.

The importance of obtaining a negotiated outcome cannot, therefore, be overstated, so that multilateral trade rules do not run the risk of remaining imbalanced or becoming outdated.

At the multilateral level, also in need of attention are critical new challenges, such as governance of global value chains, the rapid expansion of digital trade and artificial intelligence and the trade implications of climate and environmental policies.



## Chapter II

International trade in an era of policy shifts and financialization

The rules-based multilateral trading system is now at a critical juncture as important economies are increasingly turning to non-multilateral solutions to fill the regulatory void. Without reform, the ongoing fragmentation of trade governance risks marginalizing developing economies and widening existing inequalities in global trade. Multilateral trade rules must evolve to remain relevant and effective in supporting development needs in a rapidly changing trading environment and a world transformed by digital trade, global value chains and climate imperatives.

While WTO members hold different views on the content and priorities of reform options as they prepare for the Fourteenth Ministerial Conference of WTO in March 2026, a set of broad guiding principles anchored in sustainable development can help shape discussions to strengthen the predictability and fairness of the trading system.

## Key considerations

- 1 Upholding of a rules-based and non-discriminatory trading system.** Future reform needs to be anchored in a renewed commitment to a universal, rules based, non-discriminatory, transparent, open, fair, equitable and predictable multilateral trading system.<sup>b</sup>
- 2 Ensuring an inclusive trade regime** will allow gains to be more evenly shared within and across countries, particularly among developing economies. Special and differential treatment has been a foundational, treaty-embedded right of a fair and equitable multilateral trading system, enabling developing countries to integrate at a pace that reflects their capacities and priorities.
- 3 Elucidation of trade rules for structural transformation in the twenty-first century.** Industrial policy has re-emerged as a key instrument for harnessing both digitalization and decarbonization to drive structural transformation. For many developing countries, leveraging the opportunities created by these twin transitions requires deliberate policy choices and sustained investment in infrastructure, innovation and skills development tailored to their specific contexts and needs.
- 4 Leveraging of networked multilateralism.** The emergence of different platforms and groupings has to be harnessed in synergy with multilateral organizations to enhance trade policy transparency and coordination and reduce trade policy uncertainty.



**5** **Development of resilience and crisis management.** In paragraph 21 of the Abu Dhabi Ministerial Declaration, members at the Thirteenth Ministerial Conference of WTO highlighted the importance of developing crisis management frameworks that strengthened the capacity of the multilateral trading system and participants in it to anticipate, respond to and recover from global shocks and disruptions.

**6** **Achievement of the meaningful participation of developing countries.** Developing countries have a unique opportunity to lead the process of WTO reform, supporting the integrity of multilateralism and promoting rules-based approaches to trade policy that allow them to leverage trade rules in support of their sustainable development priorities. Strengthening inclusive governance would provide developing countries, including the least developed countries, with real influence over agenda-setting, rule-making and dispute resolution. Achieving this requires capacity-building for effective participation.

By fostering active, transparent and inclusive policy and dialogue, UNCTAD plays a key role in addressing the challenges depicted above, as the United Nations focal point for trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development. Through its convening power and analytical expertise, UNCTAD can support all members, regardless of economic size or status, in engaging in genuine dialogue, building capacities and seeking consensus to address complex trade and development challenges.

As stated in the Geneva Consensus, “a rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system, with the World Trade Organization at its core, remains crucial for supporting developing countries in their efforts to diversify their economies, adds value to their commodities and achieves inclusive and sustainable growth.”<sup>c</sup>

<sup>a</sup> WTO, 2024 and 2025.

<sup>b</sup> Sustainable Development Goal 17, target 17.10.

<sup>c</sup> Outcome document of the sixteenth session of the United Nations Conference on Trade and Development, TD/561/Add.2, para.14..



## C. Financial channels of trade: A neglected dimension

Most economic analyses of the drivers of international trade concentrate either on trade policy or so-called “real factors”. This is understandable, in part. Policies such as tariffs and non-tariff measures matter. Further, trade is closely tied to production. Elements referring to productivity, technology, factor endowments, geography, institutional quality, transport costs and so on therefore appear prominently in the literature on the positive and negative drivers of cross-border merchandise trade.

By contrast, little attention has been paid to financial and monetary determinants, even though outside barter, any cross-border exchange of goods involves at least one financial transaction. As a basic example, a shipment of German machinery to Brazil would not be complete without Brazilian reals being transformed – via finance – into euros or dollars.

In other words, international trade would not get very far without credit and other financial transactions, the hidden or at least neglected engines of trade. In everyday life, an astonishing number of different financial activities take place alongside cross-border merchandise exchanges.

First, credit provision is essential, as there is always a need to fill the time gap between shipment and payment. By nature, trade is capital-intensive. It often involves high-value goods (such as machinery or energy products) or large quantities. Only a few companies, outside very large exporters, can afford to finance such operations without external support. Trade finance, working capital and other credit facilities thus become imperative.

Second, currency exchange and hedging instruments help to manage the risk

of currency fluctuations. Without such instruments, profits could be wiped out, and many trade activities would not take place.

Third, risk management tools – such as insurance or credit guarantees – help to mitigate dangers posed by non-payments, counterparty risks or geopolitical disruptions.

All these aspects illustrate why many banks and financial institutions are behind physical trade flows. They make flows feasible by issuing letters of credit, facilitating payments, and offering advice on compliance and documentation. Without their support, international trade would be significantly lower and riskier. Nonetheless, the critical role of a well-functioning financial system often takes a back seat among trade economists in conceptualizing international trade.

Economic historians have placed a much stronger emphasis on the financial aspects of trade. Their research documents how complex systems of credit and deferred obligation form the bedrock of commerce – and did so even in pre-monetary societies. The Mediterranean trade networks of the classical world, the Islamic financial contracts of the medieval period and the Italian merchant bankers of the Renaissance all demonstrated that finance was intrinsic to trade.

The industrial revolution and first wave of globalization after 1870 expanded the scale and complexity of both trade and finance. Innovations like the bill of exchange, letters of credit and insurance did not merely accompany trade. They enabled it. Finance was not just a lubricant of trade but a condition making it possible (DeLong, 2015).

Prior to the First World War, under British financial predominance, “haute finance”

Little attention has been paid to financial and monetary determinants of international trade.

Finance is not just a lubricant of trade but a condition making it possible.



Through a “financial accelerator”, weakened balance sheets and tighter credit amplify downturns.

operated as a transnational supervisory mechanism. Banks such as Barings and Rothschilds were not merely financiers; they were geopolitical actors whose financial instruments disciplined nation-States and stabilized trade flows. This period saw finance act as both infrastructure and governance, underwriting imperial expansions that opened new markets and secured resource flows (Polanyi, 1944).

Reverting to more contemporaneous aspects and linked with the discussion about systemic resilience, which is further developed in chapter IV, several key questions arise:

- ▶ Can developments in the financial sphere affect international trade?
- ▶ Does the procyclical nature of credit spill over to trade flows?
- ▶ Is there a risk that significant financial turmoil would harm international trade?
- ▶ And, if the answers to these questions are positive, as the rest of this section will support, what are the main transmission channels, and what could policymakers do to tame negative effects?
- ▶ Finally, could varied exposure to global financial conditions and/or certain types of export specialization lead to diverse interlinkages?

This section sheds light on these issues by focusing primarily on the cyclical dimension of international trade rather than more long-term structural relationships between, for instance, investment, financing for development and trade. Section 1 discusses three aspects that are particularly important to the topic, based on a selective survey of the literature: namely, the financial accelerator, the global financial cycle and trade finance. Section 2 introduces a stylized macrofinancial framework to conceptualize how key financial variables interact and influence trade flows, before turning to the empirical quantifications of such relationships and effects. Lastly, section 3 discusses what policymakers can do to move forward.

## 1. Three key financial aspects that matter for the quantum of trade flows

Some macrofinancial theoretical frameworks and their related empirical studies help understand how the financial realm interacts with the real economy in general, and the flows of merchandise trade in particular. Three key dimensions are especially relevant.

### a) The financial accelerator

The seminal contributions of Bernanke and Gertler (1989, 1995), which led to the notion of the “financial accelerator” (Bernanke et al., 1996), point to some key mechanisms explaining how adverse financial shocks to the economy may be amplified. While their focus was outside international trade, the authors explained how worsening credit market conditions can spread throughout the economy, partly due to balance sheet effects. As Bernanke (2007) maintains, when the net worth or liquidity of borrowers – whether households, firms or banks – erodes, lenders demand a higher risk premium, resulting in a negative feedback loop. Crucially, Bernanke extends this logic to the credit channel of monetary policy and shows how changes in interest rates can influence not just borrowing costs but also the availability of credit itself, and thus the realization of economic activities. In such a framework, the transmission channels are not limited to the cost of capital (i.e., the interest rate). They also depend on how financial intermediaries operate. In short, monetary tightening would result in more contraction of economic activity than traditional models would predict. By extension, this mechanism reverberates to foreign demand and thus trade flows.

### b) Trade finance

The global financial crisis of 2008–2009 and the temporary freeze in interbank lending at the time – together with the unprecedented fall of international trade, which occurred in parallel – prompted a strong research



interest in trade finance, highlighting how credit constraints negatively affect trade. Chor and Manova (2012) show that during the global financial crisis, firms more reliant on external finance experienced significantly larger export declines. In their analysis, a 1-percentage-point increase in the credit default swap spread of a firm's main bank led to a drop of 7 to 8 per cent in export growth. This illustrates how deteriorating credit conditions can directly impair the ability of exporters to finance working capital and fulfil international orders.

Amiti and Weinstein (2009) provide firm-level evidence from Japan demonstrating that the health of banks supplying trade credit causally affects firms' export performance. Firms more dependent on impaired banks after the Lehman collapse suffered larger export losses, particularly in sectors with higher working-capital intensity. Importantly, these financial frictions are not confined to crisis periods. Liu, Wang and Zhang (2025) show that tighter loan rollover regulations in China led to sharp reductions in firms' probability of exporting and export intensity, with the largest effects in externally dependent industries. This study highlights how uniform domestic credit tightening can disproportionately harm trade performance in financially vulnerable sectors.

Manova (2013) offers a theoretical framework for these findings, arguing that financial frictions increase both fixed and variable export costs, thereby reducing participation in international markets. More recently, Cerutti and Claessens (2024) find, for instance, that global banking flows, particularly cross-border credit from core financial centres, strongly predict trade volume fluctuations, especially in emerging economies.

Relating to this, UNCTAD (2024) stresses that a crucial but often overlooked mechanism linking credit and trade is the network of correspondent banking relationships (CBRs), which allows domestic banks to settle cross-border transactions and provide trade finance. Over 90 per cent of global trade flows rely on some form of correspondent banking to facilitate international payments

and guarantee services. Following post-2008 global financial reforms, however, especially the tighter enforcement of anti-money laundering and counter-terrorism financing rules, many global banks have engaged in "de-risking", curtailing CBRs with institutions in jurisdictions perceived as high risk. This trend has disproportionately impacted the least developed countries, landlocked developing countries and small island developing States, many of which rely on CBRs to access international finance. UNCTAD (2024) estimates that 10 of these countries most affected by CBR losses experienced an average decline in export growth of 13 percentage points between 2000–2014 and 2015–2022. By contrast, countries less affected by CBR withdrawal experienced only minor slowdowns. This shows how deteriorating global financial connectivity can deepen trade finance gaps and marginalize vulnerable economies in international markets.

### c) The global financial cycle

Rey (2013) and subsequent works from other authors on the global financial cycle (GFCy) pushed researchers to broaden their perspective when analysing credit markets, especially when dealing with cross-border operations and transactions (Miranda-Agrippino and Rey, 2020). This body of literature led researchers to reconsider some key assumptions, notably in international macroeconomics. Rey (2013) asked how the evolution of financial integration over the past five or six decades has changed the open macroeconomic landscape and made it more complex. Using a large cross-section of more than 800 risky asset prices distributed over five continents, she found that an important part of the variance of risky returns (about 25 per cent) can be explained by one global factor, which she coined the GFCy. It refers to the common fluctuations in financial activity measured by a broad range of variables relating, on a global scale, to credit creation, risk-taking, asset prices, capital flows and leverage, among others.

Over 90 per cent of global trade relies on trade finance and cross-border banking infrastructure.

The global financial cycle refers to the common fluctuations in financial activity measured by a broad range of variables.



The global financial cycle creates powerful swings in credit and capital that affect economic activities worldwide, including trade.

In the view of GFCy proponents, risky asset prices around the globe, from stocks to corporate bonds, have a strong common component. So do capital flows. Credit flows are particularly procyclical and volatile. As credit cycles and capital flows are influenced by global factors, they may be inappropriate for the cyclical conditions of many economies, partly because the GFCy can lead to excessive credit growth during boom times and excessive retrenchment during downturns. As literature has confirmed, excessive credit growth is one of the best predictors of crisis (Gourinchas and Obstfeld, 2012; Schularick and Taylor, 2012).

In other words, the GFCy is associated with surges and retrenchments in capital flows, booms and busts in asset prices and crises. The picture emerging is of a world with powerful global financial cycles characterized by large common movements in asset prices, gross flows and leverage. It is also a world with massive deviations from uncovered interest parity, and thus plausibly sharp exchange rate volatility, distorted capital flows, and, more broadly, financial instability. As Scheubel et al. (2025) note, the cycle is not country-specific but reflects common global financial forces, often originating in advanced economies and transmitting across borders through United States monetary policy, risk appetite and exchange rate adjustments, especially vis-à-vis the dollar.

Rey's influential work on the GFCy and subsequent studies have sparked a wave of debate in international macroeconomics.

On the one hand, many researchers have built on her insights. On the other, several have raised thoughtful critiques and controversies. These include whether the centrality of the GFCy in the monetary policy of the United States is overstated, given regional financial cycles, the growing influence of China and idiosyncratic shocks that can decouple local conditions from the policy of the United States. Additionally, Rey showed that the GFCy can lead to credit booms or busts that are misaligned with local macroeconomic needs. Sceptics have responded that this misalignment is not universal and that some countries have successfully used macroprudential tools to buffer against global shocks (for example, see Scheubel et al., 2025 and the references therein for a discussion). Policy space can thus remain even under financial globalization, providing that macroprudential tools can be deployed.

Finally, some critics have expressed doubts about what this common factor ultimately captures and whether more specific alternative measures (e.g., global liquidity indicators, cross-border banking data) could offer richer insights into the dynamics of the GFCy. While this critique may be valid, it is important, from a macroeconomic perspective concerned with the resilience of the globally interconnected system, to start by investigating whether some broad interlinkages between the GFCy and international trade are quantitatively significant. The next section conducts such an exploration.



## 2. International trade and the global financial cycle: A macroeconomic exploration

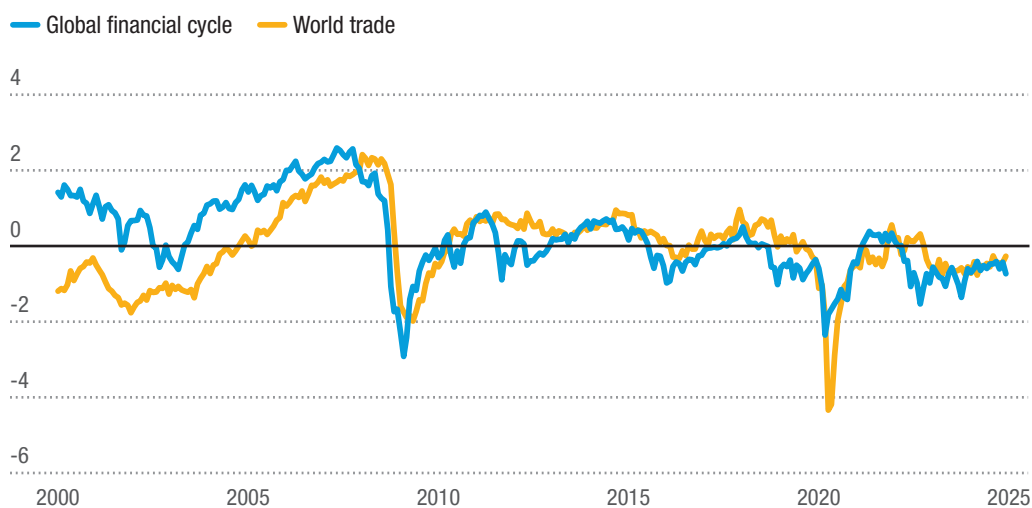
### a) Some evident interconnections

When investigating the financial drivers of trade, from a macroeconomic perspective, a natural start is to look at the evolution of the GFCy alongside world trade – or, to be more precise, a slightly transformed version of the trade series that enables comparison between two stationary variables. Figure II.3 plots the GFCy together with a detrended and standardized version of the CPB monthly world trade index, which reports trade figures in constant prices (sometimes also referred to as volumes) between January 2000 and December 2024.

The two series share some interesting commonalities. Both grew relatively steadily in the years before the 2008 global financial crisis. They then collapsed in sync in late 2008 and into early 2009. Afterwards, they rebounded in a relatively similar manner until early 2011. By contrast, the period of the euro crisis from 2011 to 2013 shows less commonality in the data. While the GFCy sharply declined during the third quarter of 2011, the decline in trade at that time was much more gradual. Also, the trade decline continued until mid-2013, while the local trough of the GFCy had already happened a year earlier. After mid-2013, the two series fluctuated together again until the second quarter of 2021. Then, for two years, their evolution diverged, before starting to trend up again, albeit at a relatively slow pace. To sum up, both the GFCy and world trade reflect responses to major global shocks (e.g., the financial crisis of 2008, the economic and financial turmoil in China in 2015 and the COVID-19 pandemic).

**Figure II.3**  
**World trade and the global financial cycle exhibit strong co-movements**

Monthly global financial cycle and detrended world trade volumes  
(Standard deviations)



Source: UNCTAD based on an updated version of Miranda-Agrippino and Rey (2020) and the CPB World Trade Monitor.

Note: The GFCy is a statistical construct that captures common fluctuations in financial activity based on more than 800 asset prices related to credit conditions, risk-taking, capital flows, leverage, etc. (see sources for more details). Trade data have been linearly detrended. The two series are standardized with a mean of 0 and a standard deviation of 1. The correlation between the two series equals 0.54.

Discussions of the determinants of trade often do not consider financial channels.

Dollar fluctuations, financial stresses and changes in interest rates in the United States ripple across the globe and affect trade flows.

The alignment in these periods suggests that global financial conditions and world trade are heavily interlinked, even if the degree of this interaction has varied over time.

Overall, the correlation between the two variables from January 2000 to December 2024 is greater than 0.5, even if month-on-month changes are not always fully synchronized. This is not negligible, although many economic textbooks do not consider this dimension when they discuss the determinants of trade flows.

This initial finding calls for further investigation, especially when it comes to identifying the main drivers that could be behind this co-movement. As the adage says, correlation is not causation. The next step is to unpack the GFCy, which critics sometimes portray as a black box. This requires more elaborated econometric approaches, for which a vector autoregressive (VAR) model can be useful. Before embarking on that, the key elements of this analytical framework are briefly presented.

### **b) Disentangling the global financial cycle**

Conceptually, figure II.4 maps how financial shocks spread from core monetary and risk dynamics into real-world trade and production outcomes. The upper part of the figure recalls the following three interlinked elements that drive the GFCy (Rey, 2013; Miranda-Agrippino and Nenova, 2022), namely:

- ▶ Foreign exchange and, because of the prominence of the dollar, the specific movement of this currency
- ▶ Monetary policy by leading central banks, which in practical terms boils down to the United States Federal Reserve, due to its capacity to influence (global) credit conditions
- ▶ Risk aversion among financial actors in key financial markets

These three dimensions interact dynamically and mutually reinforce one another. The dollar, functioning as the world's dominant invoicing and reserve currency, plays a critical amplifying role. A strengthening dollar both affects exchange rates and tightens global financial conditions directly. Because a large share of global trade and cross-border lending is denominated in dollars, a stronger dollar increases the debt burden of firms and Governments holding dollar liabilities outside the United States, thereby reducing their effective borrowing capacity. This mechanism, detailed in Bruno and Shin (2023) and Sander and Kleimeier (2024), often triggers forced deleveraging and spending cutbacks, with immediate implications for global trade flows.

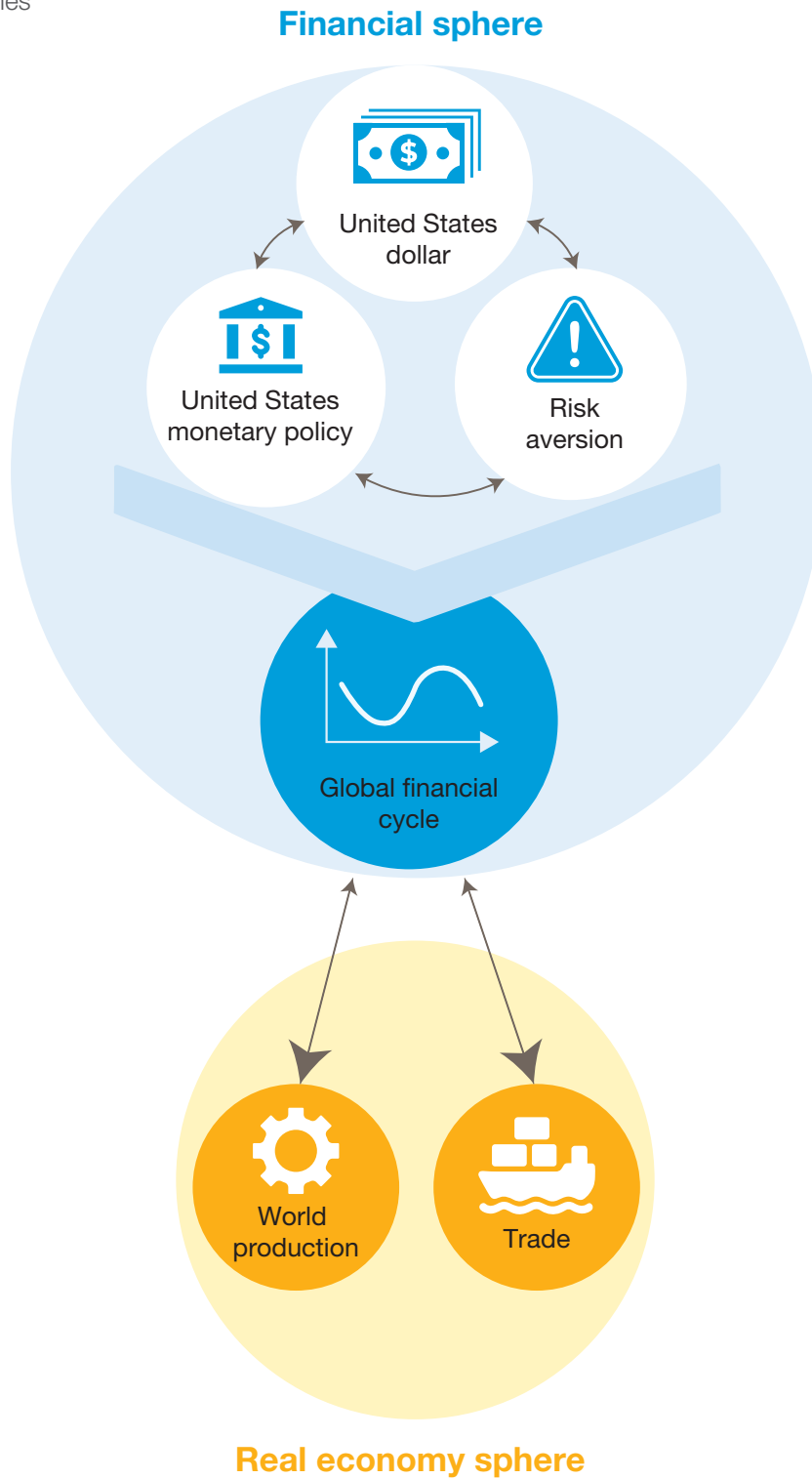
Changes in United States interest rates, typically captured by short-term instruments like the three-month Treasury Bill, ripple through the global financial system. In the context of deep financial integration, such shifts alter the cost of capital, affect global liquidity, and influence leverage decisions in both advanced and emerging economies. A tightening of monetary policy in the United States seems to result in a global tightening of credit conditions (Rey, 2013; Miranda-Agrippino and Rey, 2020).

Finally, risk aversion, proxied by the Cboe Volatility Index (VIX), represents shifts in global investor sentiment. When uncertainty spikes, whether due to geopolitical shocks, financial stress or unexpected policy changes, capital tends to retreat from higher-risk markets, particularly emerging and frontier economies. This “flight to safety” reduces access to external finance and curtails trade-related investment. The cost of hedging increases, credit lines are withdrawn, and firms may delay or cancel orders due to financing constraints (Bruno and Shin, 2023; Habib and Venditti, 2019).



**Figure II.4**  
**Financial factors also shape trade**

Schematic representation of key transmission channels linking financial factors to trade outcomes



Source: UNCTAD, partly inspired by Habib and Venditti (2019).

Note: The figure illustrates how financial drivers, such as changes in United States monetary policy, movements in the dollar and shifts in investor risk aversion, interact to shape the GFCy. This, in turn, transmits to the real economy, notably affecting trade and global industrial production. Arrows indicate the direction of influence.

As these forces interact, a common factor can be extracted from the data. The GFCy captures this dimension, which also transmits financial conditions across borders and outside the realm of the financial sector. The diagram shows how each of the three financial aspects taken individually – and thus also the GFCy – can influence real economic variables in general and world trade in particular.

In a world with price stickiness and other market frictions, various causal links could be envisaged to explain how a change in dollar valuation, for instance, could affect global industrial production.<sup>14</sup> The key takeaway from figure II.4 is that global trade and production are not shaped only by traditional real-side fundamentals (such as productivity or demand). The evolving configuration of financial conditions also matters.

### c) Econometric results

Performing a fully comprehensive econometric assessment to unravel all the elements of a framework such as the GFCy, with detailed mechanisms beyond each arrow appearing in figure II.4, is a daunting task. Given the complexity of many interlinkages, not to mention the endogeneity issues that would necessarily

arise when trying to properly measure each underlying relationship specifically, a more practical approach based on a VAR model can be applied to quantify some broad channels. Such an approach still considers that each of the six variables in figure II.4 could plausibly affect one other.<sup>15</sup>

The empirical exercise presented below follows Miranda-Agrippino and Nenova (2022) after being adjusted to align with the analytical framework in figure II.4. Apart from variables related to the financial sphere, it also considers two variables emanating from the real economy: global industrial production and world merchandise trade. The motivation to include industrial production was threefold. The first incentive was to control for such a dimension. The second was to use a more general measure linked to global production in the absence of existing monthly data to control for world gross product. A third consideration was to have a comparative benchmark in contrasting the effects that a change in one of the three financial variables could have on trade, compared to the effects they could have on broader global economic activity.

<sup>14</sup> The first one is the trade competitiveness channel: A stronger dollar makes exports of the United States more expensive and imports cheaper. This can reduce demand for industrial goods made in the United States while boosting production in countries whose currencies have depreciated relative to the dollar. A second channel goes through commodity prices. Since many commodities (such as oil, metals and agricultural products) are priced in dollars, a stronger dollar typically leads to higher local currency prices for importing countries, which could dampen industrial activity there due to increased input costs. Third, along global supply chains, a rising dollar can increase the cost of managing supply chains, especially for countries that rely on dollar-denominated trade or financing. Fourth, for capital flows and investment, a stronger dollar often attracts capital to the United States and thus tightens financial conditions elsewhere.

<sup>15</sup> In such a set-up – for example, an autoregressive model – each variable has an equation that models its evolution based on its lagged values and the ones of other variables considered in the model, plus an error term. As such, VAR models do not require much a priori knowledge about the underlying structural relationships between the variables. Unlike in a structural simultaneous equations model – which requires explicitly identifying which variables are endogenous or exogenous and imposing restrictions based on theory – a VAR approach is often presented as a theory-free method that estimates economic relationships (Sims, 1980). Such tools allow the computation of response functions. They illustrate how, historically, changes in one unit of each of the considered variables have coincided with a change in other variables of the system, albeit without necessarily implying any causal relationship. Given the complexity of financial and trade interactions and the challenge of causal identification, this empirical strategy is intentionally non-structural. Rather than isolating orthogonal shocks, IRFs are estimated based on previous historical trajectories and observed financial disturbances. More precisely, IRFs trace the effect of an identified one-unit change in a financial variable on real economy indicators over a multi-period horizon, with the line capturing the estimated path of the response and the shaded area depicting the 95 per cent confidence interval.



More precisely, the exercise includes monthly data from the financial sphere on:

- ▶ Global risk aversion, captured via the VIX
- ▶ The dollar, proxied by the nominal narrow dollar index from the Bank for International Settlements
- ▶ Short-term United States interest rates, proxied by the three-month Treasury Bill with the secondary-market rate
- ▶ The GFCy, more precisely, the factor based on asset prices from Miranda-Agrippino and Nenova (2022)

These are combined with two target variables relating to the real economy, namely:

- ▶ World industrial production
- ▶ World trade volumes (as well as further subcomponents to gauge whether results could diverge according to the trade of certain country groups, see subsection below relating to the heterogenous effects).

When a full causal identification is out of reach, this approach sheds light on what has typically happened to global trade and industrial production, on average, historically, following changes in global risk aversion and the valuation of the dollar. Unfortunately, assessing the third financial dimension, monetary policy in the United States, appears to suffer from some endogeneity bias. These aspects are discussed below.

**Global risk aversion and trade**

Figure II.5 presents the so-called impulse response functions (IRFs) of the two real variables considered in this exercise – world industrial production (left panel) and global trade (right panel) – following a rise in financial market volatility, as captured by the VIX.

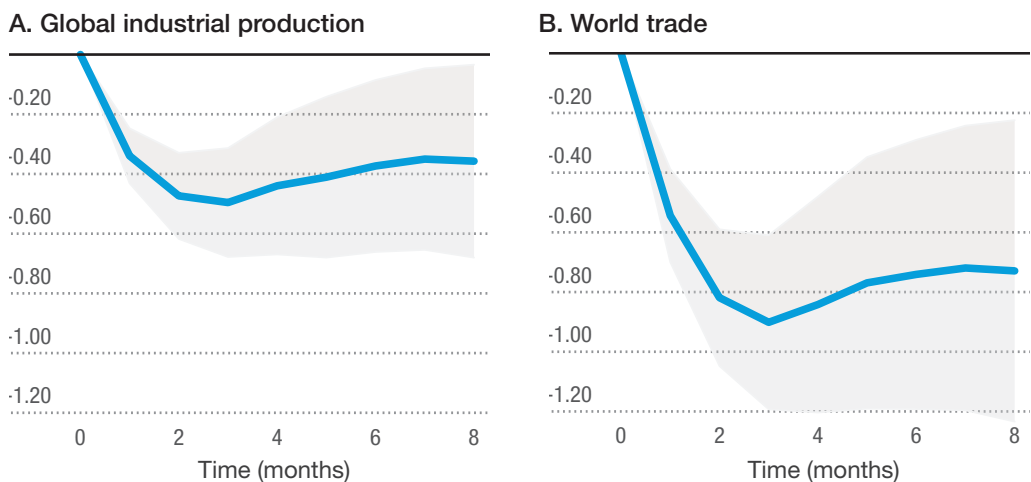
Isolating the effect of risk aversion offers a clearer view on one key transmission channel linking trade to the GFCy. The IRF suggests that financial turbulence on its own can hamper trade beyond monetary or exchange rate effects. Also,



**Figure II.5**

**A rise in financial risk aversion coincides with a decline in merchandise trade**

Impulse responses of global industrial production and world trade following a spike in global financial volatility (Percentage change)



Source: UNCTAD based on Miranda-Agrippino and Nenova (2022) and an updated version of Miranda-Agrippino and Rey (2020) and the CPB World Trade Monitor.

Note: The figure depicts the estimated response of global trade volume to a one-unit increase in the VIX. Following the shock, trade volumes decline sharply by about 0.8 to 1 per cent relative to the trend within the first two to three months. Volumes remain significantly below pre-shock levels over the entire eight-month horizon. The shaded areas depict the 95 per cent confidence interval.



comparison between the two panels shows that trade reacts more swiftly and severely than world industrial output to increased financial volatility. Specifically, a one-unit increase in the VIX triggers an immediate and persistent decline in trade volumes, with the trough approaching a 1 per cent contraction after three months. The effect on industrial production, while also negative, is quantitatively smaller. This asymmetry suggests that global trade is more sensitive to financial turmoil than global industrial output. More broadly, this finding adds to one of the main concerns UNCTAD has raised, namely, that (policy) uncertainty itself harms trade considerably as well as, more globally, economic activity (UNCTAD, 2025c).

### The United States dollar and trade

Figure II.6 focuses on the role of the dollar, a pillar of the international financial system, replicating the above methodology. While the volatility shocks discussed in the previous paragraphs reflect changes in investor sentiment, dollar movements – on top of the classical trade competitiveness channel – more directly affect global liquidity, credit provision and the costs of trade finance (Bruno and Shin, 2023). In figure II.6, the IRFs reveal how global industrial production (panel A) and world trade (panel B) react when the dollar appreciates by 1 per cent vis-à-vis a trade-weighted average of bilateral exchange rates. Looking at the right panel, the IRF shows that, historically, an appreciation of the dollar has coincided with a steady decline in global trade volumes. The response is not immediate but builds over months, reaching, *ceteris paribus*, a diminution of about 0.6 per cent after six months.<sup>16</sup>

In a way, this figure might look modest; however, it is far from insignificant, for at least three reasons. First, the value of world trade is about \$2 trillion per month; 0.6 per cent of this figure amounts to a monthly

loss of about \$12 billion. Second, at times of financial turmoil – even though recent months suggest that this is not always the case – the dollar tends to appreciate by more than 1 per cent because flight-to-safety movements can be significant. Quantitatively, this would require multiplying the 0.6-per cent coefficient by such a factor to find the overall effect. Third, the decline looks persistent. Over the eight-month horizon, no rebound is visible, suggesting that dollar appreciation can have lasting effects on trade volumes beyond short-term disruptions. This persistence is telling. It points not only to immediate liquidity shortages but also to broader, more structural consequences.

When the dollar strengthens, firms – especially in developing economies, many of which rely on short-term dollar funding for trade activities – can face deteriorating balance sheets, rising hedging costs and refinancing challenges (Bruno and Shin, 2023; Boz and Tesar, 2019). These financial frictions do not disappear rapidly. As lenders pull back and trade credit shrinks, even firms with viable orders may scale back shipments, delay investments in logistics or renegotiate terms (Chor and Manova, 2012; Amiti and Weinstein, 2009). Moreover, the impact is amplified by global banking linkages: Multinational banks, responding to tighter dollar conditions, often reduce cross-border credit in a synchronized fashion (Cerutti et al., 2017). This limits the flow of trade finance across entire regions. Thus, what begins as a nominal appreciation quickly turns into a multi-month disruption of trade activity through credit and banking channels – two key vectors of the GFCy.

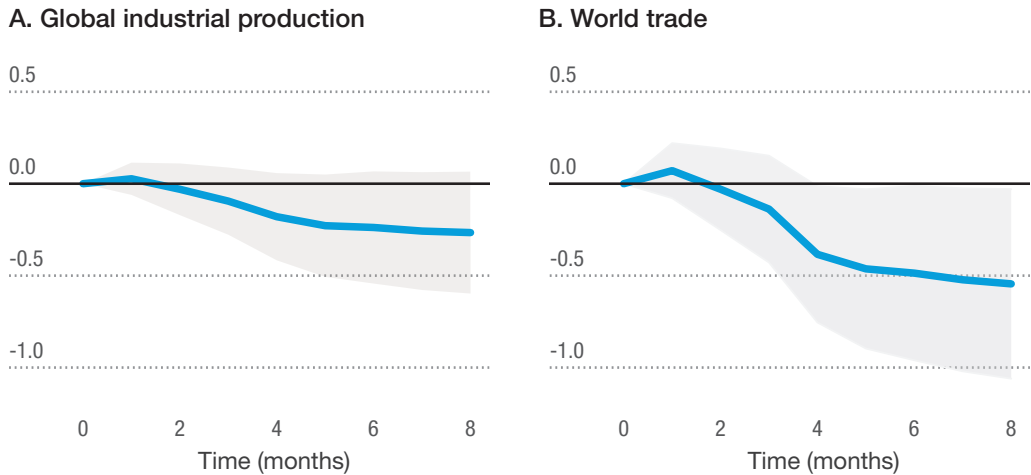
<sup>16</sup> As the empirical strategy does not consider the possibility of asymmetric effects between an appreciation and a depreciation of the dollar, an estimate of a 1 per cent depreciation would be reflected in a mirrored IRF over the x-axis.





**Figure II.6**  
**A stronger dollar dampens global trade and, to a lesser extent, economic activity**

Impulse responses of global industrial production and world trade to a 1 per cent appreciation in the dollar  
(Percentage change)



Source: UNCTAD based on Miranda-Agrippino and Nenova (2022) and an updated version of Miranda-Agrippino and Rey (2020) and the CPB World Trade Monitor.

Note: The figure shows that a 1 per cent appreciation of the dollar is followed by a steady decline in both global trade volumes, falling by around 0.8 per cent relative to trend over 6 to 8 months, and global production, albeit more gradually. The negative effects persist over the observed horizon, suggesting tightening global financial conditions after dollar appreciation. The shaded areas depict the 95 per cent confidence interval.

These empirical patterns resonate with the findings of Bruno and Shin (2023), who explore how fluctuations in the dollar operate as a global financial tightening mechanism, especially through their effects on cross-border bank lending. Their research shows that a stronger dollar is associated with reduced leverage for global banks and a declining credit supply to firms across borders. These credit contractions directly impact the financing of trade, especially for firms that rely heavily on external funding or operate in emerging markets where trade finance is more fragile. In other words, the role of the dollar as a global funding currency means that its appreciation creates financial headwinds that disproportionately affect trade-intensive sectors.

Interestingly, when looking at United States imports following a dollar appreciation, Bruno and Shin (2023) also find that the negative effects of the financial channel of

trade described above more than offset the positive ones emanating from the classical competitiveness channel. This posits that the United States should import more given that foreign goods are cheaper. In other words, the net effect of a dollar appreciation on the imports of the United States is negative rather than positive as economic textbooks would predict.

At times of dollar depreciation, as happened during the first half of 2025, such empirical findings suggest that trade flows would experience a boon. Arguably, this was one of the few tailwinds global trade experienced earlier this year.

Apart from that, figure II.6.A also shows that global industrial production is expected to decline after a dollar appreciation. Yet similar to what happens after an increase in the VIX in figure II.5, the effect is quantitatively smaller than the one on trade. While various mechanisms could explain this pattern,



disentangling them is beyond the scope of this analysis. The contrast between the two panels is in itself interesting as it shows that trade reacts faster and more intensely to dollar appreciations than industrial output does.

The revealed sensitivity of trade to dollar appreciations also underscores a broader concern. If the negative effect of the financial channel outweighs the positive aspect emanating from the competitiveness channel (even for exporting economies without a strong trading relationship with the United States), this raises concerns about plausible negative spillovers and the resilience of the global trade architecture from financial and monetary angles. It might also push policymakers to devise strategies to reduce the responsiveness of trade flows to dollars. In other words, the structure of global trade, with its reliance on a single dominant funding currency, remains fragile, such as in the face of monetary tightening in the United States. This is especially the case for economies that lack robust and diversified trade finance options.

**Monetary policy on trade: A tricky identification**

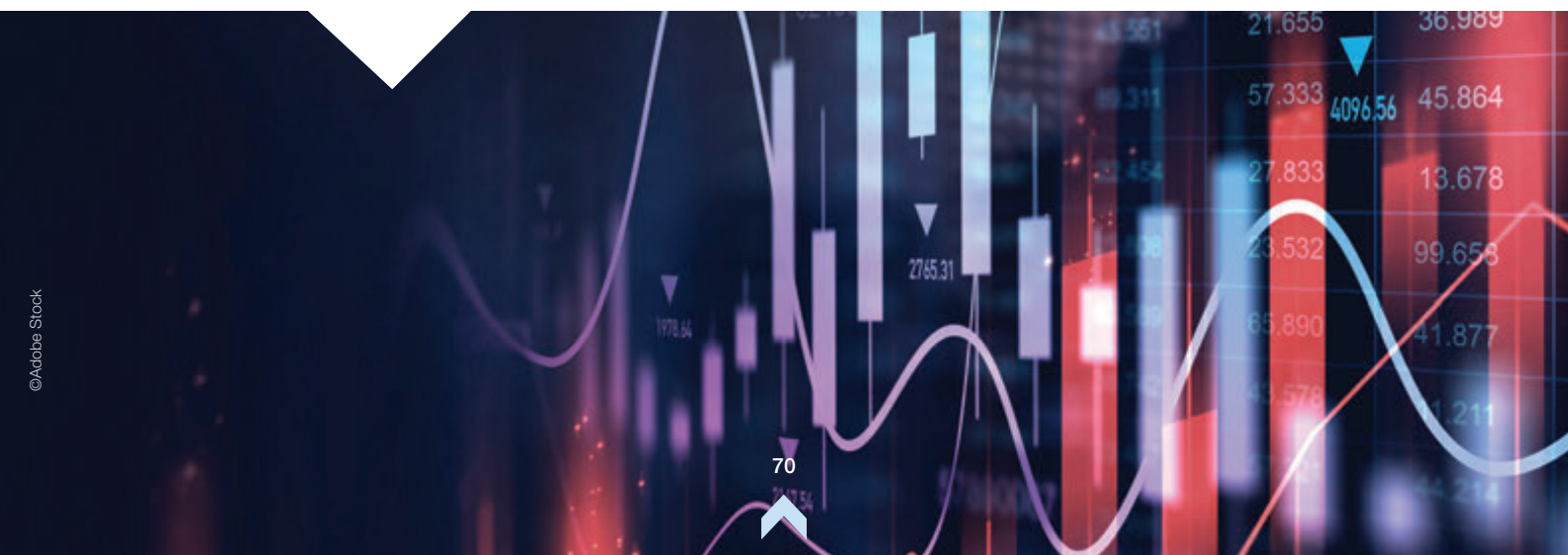
Assessing the effect of a change in United States monetary policy on global trade flows by using an approach like the ones above for the two other financial dimensions suffers from endogeneity issues and yields counter-

intuitive results, which are therefore not reported.<sup>17</sup> An explanation of these patterns can still be provided. From a methodological standpoint, capturing the effect of short-term interest rate shocks in a VAR setting is challenging because monetary decisions, by nature, are driven by expectations. Unlike VIX spikes and dollar movements, which correspond to outcome-based variables, the short-term interest rate is a policy-based variable. Thus, the risk of endogeneity bias is much higher and can lead to invalid econometric results.

To take an example, if the Federal Open Market Committee anticipates a downturn, it is likely to decide to lower the policy rate. In parallel, a gloomier economic situation is likely to be reflected in subdued trade flows in the months ahead. A VAR approach, where trade and short-term interest rates interact, could easily suggest that lowering interest rates coincides with less trade, or the other way round, that higher interest rates go along with more trade. This endogeneity problem could theoretically be addressed, such as through an instrumental variable approach. Yet practically, finding a good instrument is always challenging. Until a proper identification strategy can be defined to isolate monetary policy shocks convincingly, there is no point in drawing conclusions based on misleading IRFs.

<sup>17</sup> The trajectories of the IRFs obtained by considering an increase in the yield of three-month United States Treasury Bills stand initially in positive territories before turning negative only seven months after the shock for both trade and industrial production. This is puzzling because one should expect a clear negative relationship if the cost of credit matters. Even harder to rationalize is the initial positive response during the first six periods following the shock.

Financial frictions from a stronger dollar outweigh its traditional export competitiveness advantages.



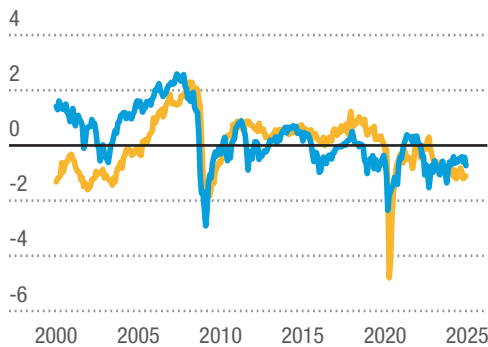


**Figure II.7**  
**Advanced and emerging market exports alike co-move with the global financial cycle**

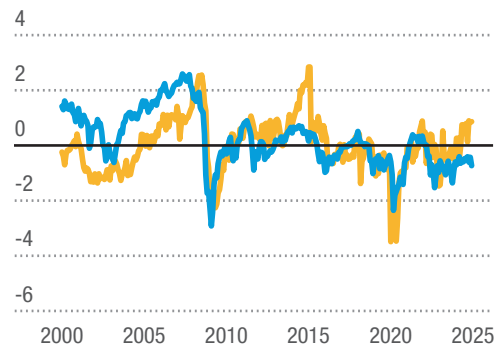
Monthly global financial cycle and detrended merchandise export volumes in advanced and emerging markets  
(Standard deviations)

**A. Advanced economies**

— Global financial cycle  
— Exports



**B. Emerging markets**



Source: UNCTAD based on an updated version of Miranda-Agrippino and Rey (2020) and the CPB World Trade Monitor. Country group classification relies on the CPB Netherlands Bureau for Economic Policy Analysis (Ebregt et al., 2024).

Note: The correlation between the GFCy and export volumes equals 0.49 for advanced economies and 0.48 for emerging markets.

**d) Beyond the aggregates:  
Unveiling the heterogeneity  
across trade flows**

**Heterogeneity among country groups**

Before closing this data-driven investigation, it is worth analysing whether the effects of the finance-related variables are relatively homogenous across economic and geographical country groups, or whether the interlinkages between the GFCy and trade

flows can vary across sectors and countries. To initiate this investigation, figure II.7 depicts the evolution of the GFCy with the export trajectories of two broad country groups: advanced economies and emerging ones. Data do not point to major discrepancies between the two. The correlation between the GFCy and export volumes is almost 0.5 in both cases. Similar conclusions are reached when looking at patterns in the IRFs.





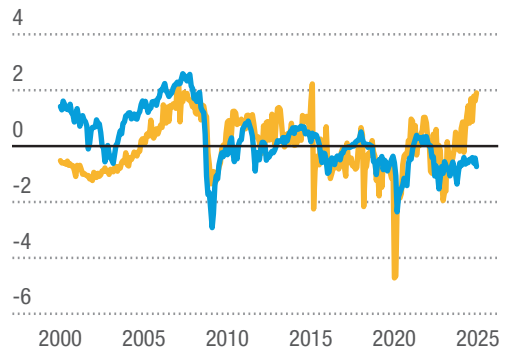
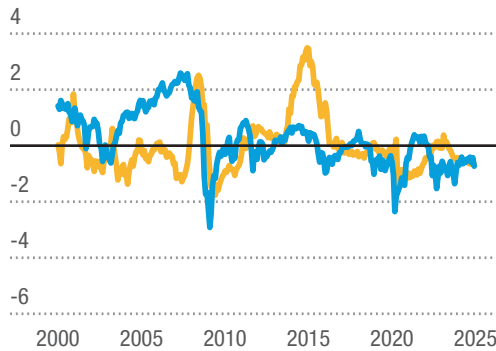
**Figure II.8**  
**Exports of some regions correlate more closely with the global financial cycle**

Monthly global financial cycle and detrended merchandise export volumes across selected developing regions (Standard deviations)

**A. Africa and the Middle East**

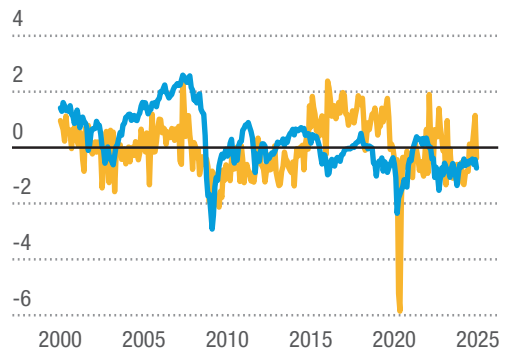
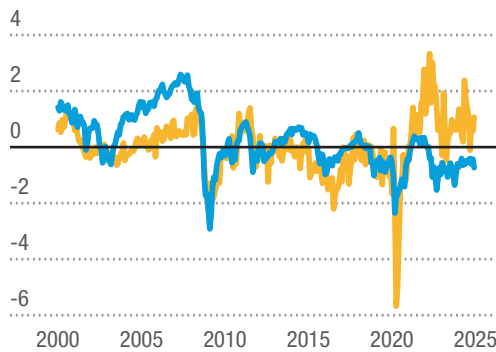
**B. China**

— Global financial cycle  
 — Exports



**C. Emerging Asia excluding China**

**D. Latin America**



Source: UNCTAD based on an updated version of Miranda-Agrippino and Rey (2020) and the CPB World Trade Monitor. Country group classification relies on the CPB Netherlands Bureau for Economic Policy Analysis (Ebregt et al., 2024).

Note: The correlation between the GFCy and export volumes equals 0.11 for Africa and the Middle East, 0.44 for China, 0.40 for emerging Asia excluding China, and 0.22 for Latin America.

When analysis is conducted at a more granular level within emerging regions, the heterogeneity becomes more striking. Figure II.8 turns to the subcomponents of these broad country groups: namely, Africa and the Middle East, China, emerging Asia excluding China and Latin America.

In Africa and the Middle East (panel A), the correlation drops significantly (0.11), but this low level masks important dynamics. More specifically, the muted average co-movement over the entire period partly reflects idiosyncratic shocks or data volatility. At times of major financial turmoil (e.g., the global financial crisis and the COVID-19



**Table II.1**  
**Trade of manufactured goods moves most in sync with the global financial cycle**

Correlations between maritime transport subsegments and the global financial cycle index, January 2015 to December 2024

Category	Segment	Correlation with the global financial cycle
<b>Manufactured goods</b>	Container	* 0.43
	Car carriers	* 0.25
<b>Dry bulk commodities</b>	Coal	0.12
	Iron ore	0.05
	Grain	-0.07
	Dry bulk	0.19
	Minor bulk	* 0.28
<b>Energy products</b>	Crude oil	-0.02
	Total gas	-0.10
	Liquefied natural gas	-0.10
	Liquefied petroleum gas	-0.03
<b>Chemicals</b>	Chemicals	0.02
<b>Aggregate/other</b>	Global total	* 0.24
	Total oil	0.10

Source: UNCTAD based on Clarksons Research Shipping Intelligence Network and an updated GFCy index (Miranda-Agrippino and Rey, 2020).

Note: The GFCy is a statistical construct that captures common fluctuations in financial activity based on more than 800 asset prices relating to credit conditions, risk-taking, capital flows, leverage, etc. (see sources for more details). Trade data have been linearly detrended. The two series are standardized with a mean of 0 and a standard deviation of 1. Correlations are pairwise Pearson coefficients. An asterisk (\*) denotes a statistical significance level at 1 per cent.

shock), however, the two series tanked in sync. Subsequently, the recovery of trade compared to the GFCy took longer. One takeaway is that this region is not always immune to the GFCy. Rather, this observation suggests non-linear or threshold effects in the transmission of financial shocks. The regional reliance on commodity exports (priced in dollars) and, for many countries, shallow domestic financial systems can still imply the acute sensitivity of trade to the GFCy, such as during the reversal of capital flows or large commodity price swings.

Turning to China (panel B), its exports face a relatively strong correlation with the GFCy (0.44), although Chinese monthly exports appear more erratic than other monthly

export patterns, especially after 2010. It is interesting to note the partial decoupling between the two series in recent years – with Chinese exports growing markedly and the GFCy being relatively flat – even though it is too early to know whether this trend will last. Similarly, exports of emerging Asia excluding China (panel C) exhibit one of the highest correlations with the GFCy (0.4). This is accompanied by pronounced export volatility during global tightening episodes. Overall, the high integration of many emerging Asian economies into global value chains and their higher export specialization in manufactured products could be factors behind the higher correlation, since the elasticity of demand of such products with respect to financial conditions is likely to

Exports from emerging Asia align most closely with global financial conditions.

Trade in manufactured goods is more tightly linked to global financial cycles than primary commodities.

be greater than for primary commodities (a point further addressed in the next subsection).

Lastly, Latin America (panel D) sits somewhere between Africa and emerging Asia, with a correlation of 0.22. An interesting question is whether the link between its exports and the GFCy could strengthen as the region tries to move towards greater trade diversification and a larger share of manufacturing products in its export basket.

#### **Heterogeneity among segments of seaborne merchandise trade**

Sectoral disaggregation hints at the need to devise more microanalyses in the future to better understand how different industries and product types respond differently to

financial conditions. Table II.1 provides the correlation between various types of seaborne merchandise trade – measured in volume terms – and the GFCy.<sup>18</sup> Results confirm significant heterogeneity across segments of seaborne merchandise trade, which accounts for the bulk of international merchandise trade, with the rest being shipped by air or land.

The analysed segments fall into four categories. Manufactured goods – shipped either via car carriers or containers – stand out with higher positive correlations of 0.25 and 0.43, respectively. Trade flows of these goods co-move more strongly with swings in global financial conditions. This corroborates earlier findings on exports in emerging Asia, which show a greater sensitivity to the GFCy given a much higher share of manufactured

<sup>18</sup> Due to constrained data availability, the analysis could only be run based on a shorter period from January 2015 to December 2024. Overall, results could not be compared with the above analysis based on global and regional trade flows.



goods than in Africa and the Middle East or Latin America.

By contrast, except for minor dry bulk commodities, all other trade segments – including dry bulk, coal, chemicals and even total oil flows – exhibit weak and statistically insignificant correlations with the GFCy. This suggests that these categories are either less exposed to financial transmission channels or are supported by structural demand that insulates them from financial shocks. Trade in commodities, such as coal and grain, may respond more to actual supply and demand factors than financial dynamics. This is likely the case as well for energy-related flows such as liquefied natural gas or total oil volumes, which also tend to operate on more long-term contractual relationships.

These contrasts suggest that considering sector-specific attributes matters in understanding the sensitivity of trade flows

to financial conditions. While further analyses would be required, it is plausible that, among other factors, variations across sectors in capital intensity, reliance on trade credit or simply demand elasticities, among others, play a role in diverging correlations.

### 3. Moving forward

The analysis presented above identifies common patterns between the GFCy and merchandise trade flows. A more granular analysis confirms that increased financial volatility and the appreciation of the dollar both coincide with diminished trade flows. Within the developing world, exports from China and other emerging Asian economies are more intricately linked to the GFCy, echoing insights on manufactured goods compared to primary commodities.

Such findings call for better understanding of how the GFCy, and financial channels



Ignoring financial drivers may leave trade vulnerabilities unexplained and unaddressed.

more broadly, affect trade flows. They also suggest that financial shocks do not impact trade outcomes uniformly but rather through channels that may depend on context, and vary by region, export structure, financial openness and institutional robustness (Scheubel et al., 2025). Failing to consider such dimensions can lead to situations that cannot be fully explained by real economy factors. Suitable alternative measures are required to recognize and counter adverse financial impacts, such as macroprudential tools that mitigate procyclical and global factors harming the external sector of domestic economies.

When devising such instruments, it is important to move from the macro to the meso level to understand the sector-specific aspects of an economy. Insights gained can then guide measures to mitigate negative spillovers from the financial sphere. Further research could assess why sectors such as agriculture, manufacturing or energy – and plausibly digitally deliverable services, an important aspect that warrants dedicated attention in future work – interrelate with the GFCy in general, and whether and how the availability and structure of trade credit, in particular, matters. Likewise, analysis could probe why some firms may find it harder to access trade finance due to product-specific risks, contract liquidity or destination markets. A growing body of literature provides valuable insights on these issues,<sup>19</sup> pointing to how policymakers can potentially influence several parameters if they gain an in-depth understanding of the diverse

pathways through which financial constraints shape trade flows.

More granular economic analyses could also develop evidence on where resilience lies (or is most at risk) in the global trading system (chapter III). While this report does not delve into these details, it underscores the need for conducting such exercises at the sectoral or national level or across regional blocs. Identifying where trade is most sensitive to financial shifts is essential in designing actionable macroprudential, trade and development plans to shield vulnerable economies or sectors.

Taken together, these insights underline that understanding the trade–finance nexus is not just an academic exercise but also a policy imperative where multilateralism play an important role. As UNCTAD reiterated during the Fourth International Conference on Financing for Development in July 2025, trade and finance should not be considered separately. Policymakers should take a holistic approach because both topics – alongside others such as investment – are interrelated and central to the development equation. Stable and sustainable financing should be available, even as it remains paramount that finance primarily supports the real economy. In parallel, instruments should be developed to tame risks emanating from financial channels. All these aspects could be best addressed through multilateralism, although policymakers can also explore domestic and regional solutions.

Understanding how financial frictions impair trade is essential for designing effective policy tools.

<sup>19</sup> Broda and Weinstein (2006) offer one of the most complete mappings of sectoral demand elasticities, estimating substitution patterns across thousands of goods, making their work a key reference for identifying which sectors are more exposed to price and financing shocks. Manova (2013) provides a theoretical and empirical framework linking financial frictions to trade participation, emphasizing how firm and sector characteristics shape exposure to external finance. In turn, Liu et al. (2025) distinguish the effects of supply and demand shocks in commodity markets, helping to explain why the energy trade may be less sensitive to financial volatility. While the empirical framework in this current report provides a macrofinancial perspective on how trade responds to broad financial shocks, it has inherent limitations. Most notably, it does not allow us to precisely disentangle the more granular mechanisms at play within the credit channel. For example, as Bruno and Shin (2023) emphasize, for global banks, dollar funding conditions and leverage cycles play central roles in amplifying shocks across borders, directly influencing trade finance availability. Other strands of the literature have explored more specific and heterogeneous effects of credit on trade, highlighting how firm size, sectoral capital intensity and financial dependence shape the sensitivity of exporters to credit shocks.



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# 2025 Trade and development report

## Chapter III

# The financial architecture of global food trading: New patterns and emerging risks

### KEY FINDINGS

- ▶ Post-2010, major commodity trading firms have evolved beyond traditional trade intermediation, becoming critical nodes not only in supply chains but also in the financial networks that connect banks, capital markets and commodity producers.
- ▶ These new financial intermediaries have transformed the institutional framework of trade finance. They work in ways that could amplify, rather than contain, financial shocks.
- ▶ Today, income from financial intermediation represents more than 75 per cent of revenues for major food trading companies globally. The pricing of food and energy commodities increasingly reflects financial strategies over economic fundamentals.
- ▶ In 2024, at least 6 of the top 11 food traders actively engaged in financial securitization – a mechanism that amplifies liquidity but also increases leverage. The scale of this leverage creates risks that transcend traditional financial stability concerns.
- ▶ Overall, the post-2010 financial architecture of global food trading is underpinned by practices that create large international counterparty risks across at least 80 countries.



## Policy takeaways

- ▶ The financialization of food trading shows that reliance on firm-based supervision and self-regulation is inadequate to address evolving systemic risks. Regulating the current structure of commodity trading requires new approaches to crisis management that can address both operational continuity and financial stability.
- ▶ Rather than focusing primarily on leverage constraints among individual entities, policymakers need to address the systemic effects that leverage creates through its interaction with market structures, the information architecture and trading networks.
- ▶ Given the new landscape of systemic risk in commodity trade, regulators must modernize oversight to protect market stability. Non-transparent financial and tax avoidance techniques in commodity sectors should come under policy scrutiny, given concerns about illicit financial flows, financial and trade integrity, and resource mobilization. Competition policy tools and cross-market approaches must play a more central role in addressing the vulnerabilities created by concentrated market structures in commodity trading.
- ▶ The stakes in developing effective approaches to systemic risks extend beyond financial stability. They encompass the resilience of commodity markets underpinning global food and energy security, as well as transparent commercial outcomes in commodities markets, such as price discovery and risk management.



## A. Introduction: The hidden foundation of global trade

Most trade  
finance is short-  
term debt.

According to WTO, about 80 to 90 per cent of international trade is financed by some form of trade credit (trade credit and insurance guarantees).<sup>20</sup> Most trade credit takes the form of short-term debt, rendering trade particularly exposed to market shocks, changes in risk perceptions, financial fragility, crises and regulatory interventions affecting the global financial system. Global trade in essential commodities, such as food and energy, fundamentally depends on the availability of trade finance. Unlike trade in goods more generally, these segments are not organized around global supply chains, where larger firms extend credit to smaller firms, supplying intermediate inputs in a value added, internationally organized manufacturing process.

Instead, commodities trade is typically mediated by a handful of commodity trading firms that source, process and transport commodities to international buyers. Particularly in agriculture, a few large companies control much of the market, from owning physical inventory to trading,

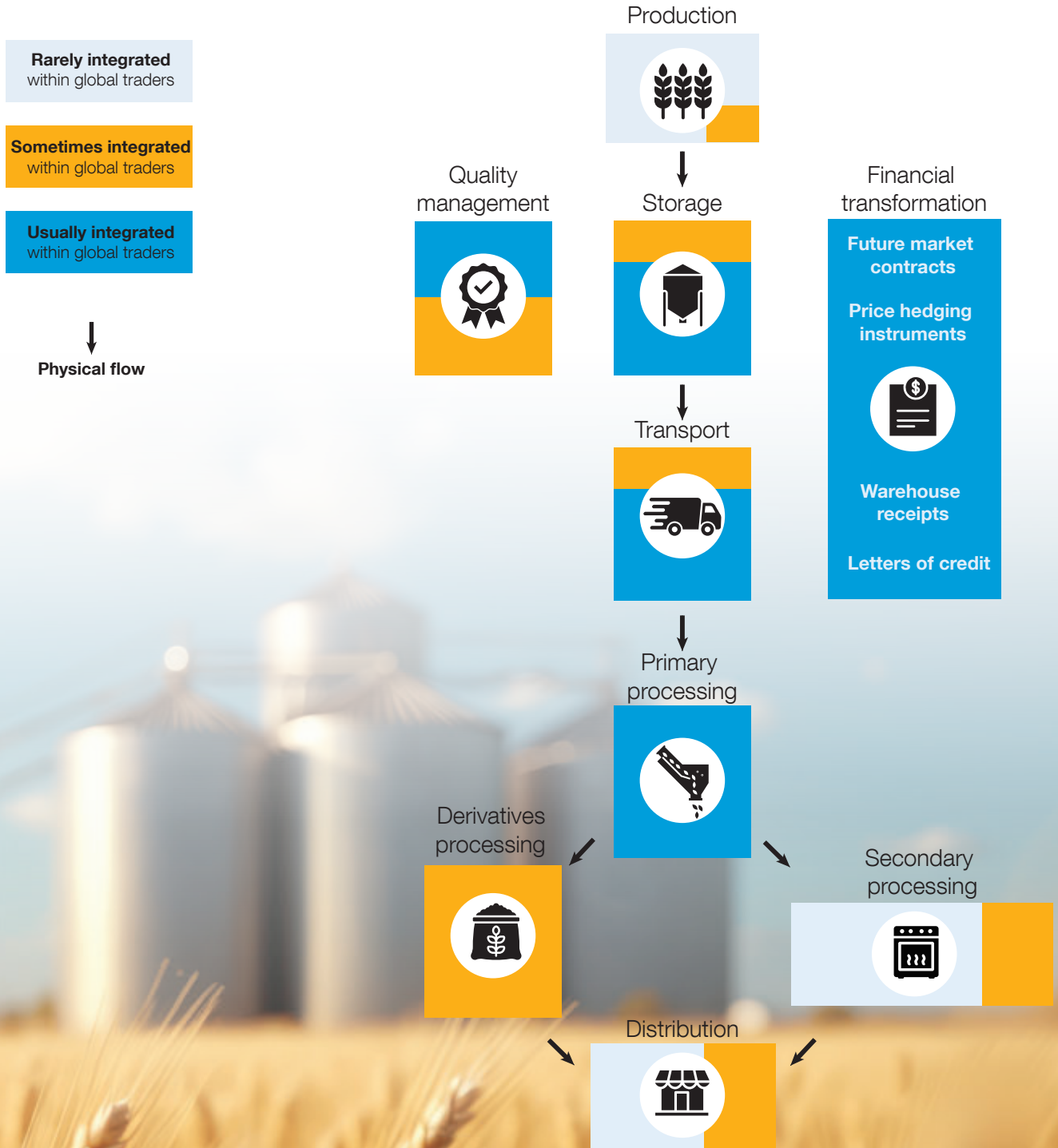
processing and retailing agricultural products (UNCTAD, 2016). Figure III.1 delineates the wheat supply chain, illustrating interactions among commodity traders, farmers, storage facilities, processors and end consumers as wheat moves from farm to table.

Unlike conventional supply chains where firms create value through physical transformation, commodity traders primarily generate value by aligning financial instruments with specific vulnerabilities inherent in the physical supply process. Each transition in the journey of wheat along the supply chain, for example, introduces distinct financial risks. These include seasonal production gaps, mitigated with futures contracts; storage risks, managed through warehouse receipts used as collateral; price volatility at processing stages, hedged via derivatives; and international transactions, secured by letters of credit replacing the need for direct bank creditworthiness. This financial architecture underpins the efficiency and stability of the global wheat trade.

<sup>20</sup> See more on trade finance at [https://www.wto.org/english/thewto\\_e/coher\\_e/tr\\_finance\\_e.htm](https://www.wto.org/english/thewto_e/coher_e/tr_finance_e.htm).



**Figure III.1**  
From farm to table: Transformation of the wheat supply chain



Source: UNCTAD.

Note: Blue areas (essential physical control for global traders) represent activities traders must control to guarantee delivery on their financial promises. Yellow areas (enhanced physical control) such as processing and production relationships strengthen financial transformation reliability by providing guaranteed demand and supply.

Globally, food accounts for 87% of total agricultural export value.

Currently, commodities represent around 34 per cent of global trade in goods. While energy products dominate, agriculture comprises around one third of global commodity exports, with food items accounting for approximately 87 per cent of total agricultural export value (UNCTAD, 2025b). In the universe of financial instruments that sustain the global commodities trade, commodity derivatives represent 4.6 per cent of all exchange-traded derivatives, with agriculture derivatives accounting for 1.4 per cent of total volume in 2024.<sup>21</sup> Most exchange-traded commodity derivatives are traded in Asia and North America (figure III.2). In Europe, commodity derivatives are predominantly traded over the counter, with this transaction type representing 77 per cent of the total notional amounts at the end of 2024 (ESRB, 2025).

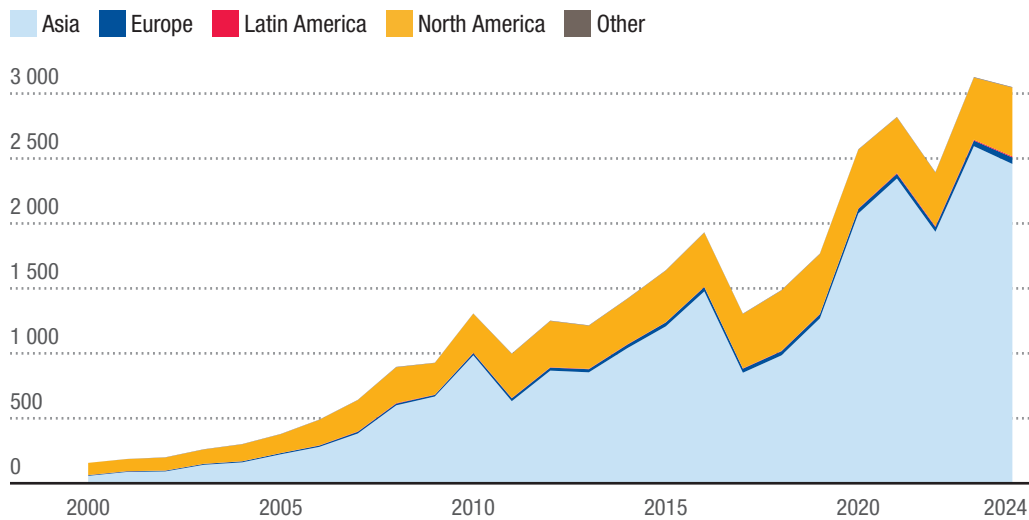
Yet the importance of commodities for macroeconomic stability extends far beyond what such magnitudes might suggest. From the wheat that feeds the world's population to the metals that power renewable energy transitions, commodity trade flows constitute critical infrastructure upon which modern economies depend. When commodity markets are disrupted, the consequences can ripple through food systems, industrial supply chains and financial markets.

This was evident in past decades, which have been marked by recurrent commodity market disruptions, especially after 2008. While each crisis has exposed new concerns about the resilience of trade finance, post-crisis revisions have seen chronic data challenges and information gaps. Similarly, although each crisis sparked analyses of commodity market stability, regulatory

**Figure III.2**  
**Financial instruments sustain the global commodity trade, including agriculture**

Exchange-traded agricultural derivatives, by region

(Millions of dollars)



Source: UNCTAD based on the ETD tracker database of the Futures Industry Association.

Note: The financial instruments traded on global exchange-traded derivative markets include futures and options. The agricultural assets included in this data are: soy meal, corn (maize), rapeseed (canola), sugar, soybeans, soy oil, palm oil (olein, palmolein), rubber, cotton, wheat, other fruit and vegetable products, pulp, eggs, beef, coffee, legumes, cocoa, pork, spices and nuts, rice, other oil and oilseed products, fibre board, dairy, block board, orange juice, lumber, potatoes, oats, other animals and animal products, seafood (shrimp, salmon), silk, sunflower, barley, jute, flaxseed, wool, other grain products, other agricultural products, sorghum, apple juice, other forest products, seed (sunflower), corn, dairy products, soybeans and beans.

<sup>21</sup> BIS derivatives statistics.

responses have targeted symptoms rather than underlying structural vulnerabilities.

Such tendencies led to disjointed regulatory frameworks in the wake of the global financial crisis of 2008–2009. As this chapter shows, fragmented regulatory attention, a paucity of data and information, and joined-up regulatory domains leave the financial architecture of food trading subject to practices creating large international counterparty risks across at least 80 countries.

In a context of geopolitical volatility and policy uncertainty, these failings are particularly concerning. On the one hand, despite growing recognition of the importance of financialized commodity sectors to the global economy and development, this area of trade and finance remains non-transparent, whilst its regulation is fragmented. On the other, the few large

companies that dominate commodity trading have continued to expand their footprint during recent years of market volatility. This has driven further concentration in the sector and the complexity of corporate groups themselves (figure III.3).

Even as food commodity prices retreat from their 2022 peaks, leading companies in the sector appear to be benefiting from market volatility. In 2024, gross profits for the industry were about \$95 billion, below 2022–2023 levels, yet still 2.5 times higher than the average during 2011–2019 (Hook and Wilson, 2025). Leading private trading houses such as Trafigura, Vitol, Gunvor and Mercuria have collectively earned more than \$57 billion in net profits since 2022. As one chief financial officer put it, his company’s financial performance had “reached a new cruising altitude” (Farchy, Hunter and Rocha, 2025).

The financial architecture of global food trading creates significant risks for at least 80 countries.

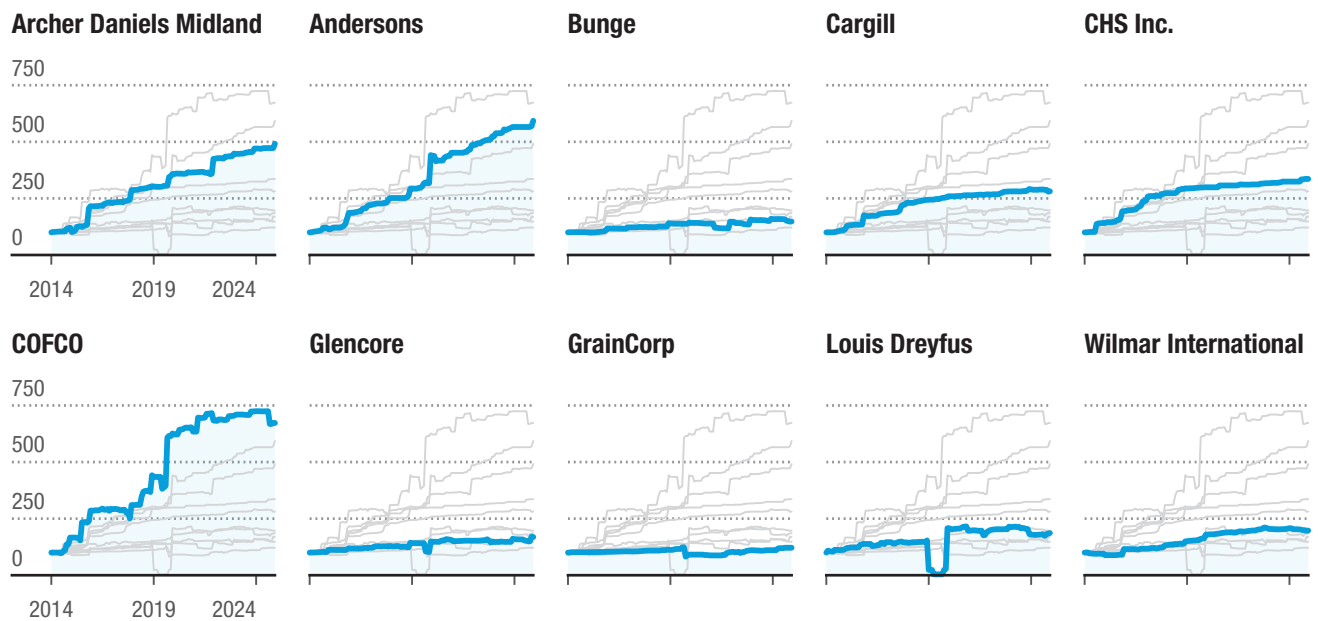


**Figure III.3**

**A few global food trading firms have expanded significantly in a concentrated global market**

Growth of corporate groups

(Index, January 2014 = 100)



Source: UNCTAD based on Orbis.

Note: The figure shows the growth of corporate groups based on the number of subsidiaries estimated to be part of them on a month-to-month basis between January 2014 and December 2024.



Where trading firms own inventory and pursue financial innovations, trade financing transforms institutionally.

Performance is distinct from resilience, however, as chapters 1 and 2 show. In commodity trading, the distinction between the financial performance of individual companies and the resilience of the sector is especially important, for two reasons.

First, even on regulated commodity exchanges, a holistic assessment of the risk exposures of trading firms is not possible. For over-the-counter trades, the scarcity of reported data makes it particularly difficult to monitor large risk exposures. There are already cases where positions can become large enough that a materialization of risks can impact the functioning of a corresponding commodity market on a regulated exchange, as occurred during the nickel market suspension in 2023 in the United Kingdom (FSB, 2023a; Desai, 2023; Onstad, 2022).

Second, within commodity trading, financial innovation and engineering tend to be viewed as processes to improve competitiveness and efficiency. The business of food trading, however, is dominated by oligopolistic firms that have advanced their control partly through financial investments (BRICS Law and Competition Policy Centre, 2025). As this chapter shows, in the current regulatory environment, financial innovation in food trading is not aimed at enhancing efficiencies but is used to enable the wider transformation of food traders into financial intermediaries.

This chapter investigates key post-2010 transformations in the trade finance system within food commodity trading. It identifies emerging risks to financial stability and economic resilience. A major premise is that in an environment where trading firms own inventory and have access to financial innovations, trade financing transforms institutionally.

The analysis is structured on two levels. Section B examines recent shifts in food trading, revealing how financialization has fundamentally changed the role of the food trader. Unlike in the earlier bank-mediated model of trade finance, today, food traders have become financial intermediaries. Trade financing relationships have shifted from direct, transaction-level arrangements to a broader system involving traders, banks and capital markets. As a result, trade finance is now a complex, integrated system of financial intermediation, unlike the traditional, project-level financing model.

Section C identifies some key consequences of this institutional transformation in the wake of the Basel III reforms. Specifically, it finds that despite concerns over the nature and risks of financial intermediation in commodity trading, including those raised over the past few years by major regulators, the wider systemic implications of the new financial intermediation are underexamined. Drawing on available evidence and the lessons of prior financial crises, the chapter outlines risks to resilience stemming from these transformations. Section D identifies emerging development policy concerns.

The analysis draws on new analytical insights and evidence to support policy and research to address concerns about the resilience of financialized commodity trading. The data set used mainly covers companies involved in global food trading, although many firms operate across different sectors and assets. Many observations presented below are potentially relevant to energy traders and mining companies, on which data are more difficult to obtain.



## B. Finance and the transformation of commodity trading

For decades, policy discussions about commodity market stability have evolved around two interconnected pillars. The first involves traditional trade finance – the letters of credit and other banking innovations that emerged over the twentieth century to enable international commodity trade. In this vision, banks serve as critical intermediaries, providing financial infrastructure so that buyers and sellers can operate across geographic distances and extended time horizons.

The second pillar encompasses the financial derivatives markets – the futures contracts, options and swap arrangements originally developed to hedge risks around agricultural commodities such as wheat and corn. These markets evolved as sophisticated risk management tools that allowed commercial actors to hedge against price volatility, currency fluctuations and other uncertainties inherent in international trade (e.g., Algieri, 2018).

The underlying theoretical foundation of policy debates is straightforward: Derivative markets pool risks among speculators who profit from price movements, effectively providing “insurance” to commercial traders who need predictable costs and revenues. This framework emphasizes the complementarity between the two pillars. Bank financing facilitates physical trade whereas derivative markets enable the hedging that makes it possible for buyers to pay spot market prices for future commodity deliveries. Together, they create a mutually reinforcing system that expands the resilience and capacity of international commodity trade.

Both assumptions about commodity market stability are flawed, however, as the next subsection shows, because they overlook

the profound impact of structured finance. Today, commodity traders, acting as financial intermediaries, are reshaping the very fabric of trade credit and financial intermediation in commodities. Structured credit is increasingly used to link individual projects, centred on physical delivery, with banks and non-banking institutions, thereby expanding the influence of structured finance into individual ventures and the sector at large.

This evolution challenges the core pillars of the commodity trade, a process that is often downplayed. The rise of “structured finance” in the hands of traders has fundamentally altered the industry’s foundation.



Commodity traders, acting as financial intermediaries, are reshaping trade credit and financial intermediation.



## 1. The financialization debate: Food speculation as a force of market disruption

Commodity market volatility has remained a persistent policy concern through repeated food crises (figure III.4).

In the aftermath of the global financial crisis, it became clear that the financialization of commodity markets and the role of financial investors in them are “the new normal commodity price determination” (UNCTAD, 2011; Adams et al., 2020). Part of this normalization has emerged from a move away from viewing speculation (or indeed, volatility) as the primary cause of instability. Speculation and derivatives markets act more as amplifiers of instabilities, reflecting (and spreading) underlying fragilities rooted in the financialization of food trading

(FSB, 2023a; UNCTAD, 2023). Two related issues are particularly relevant.

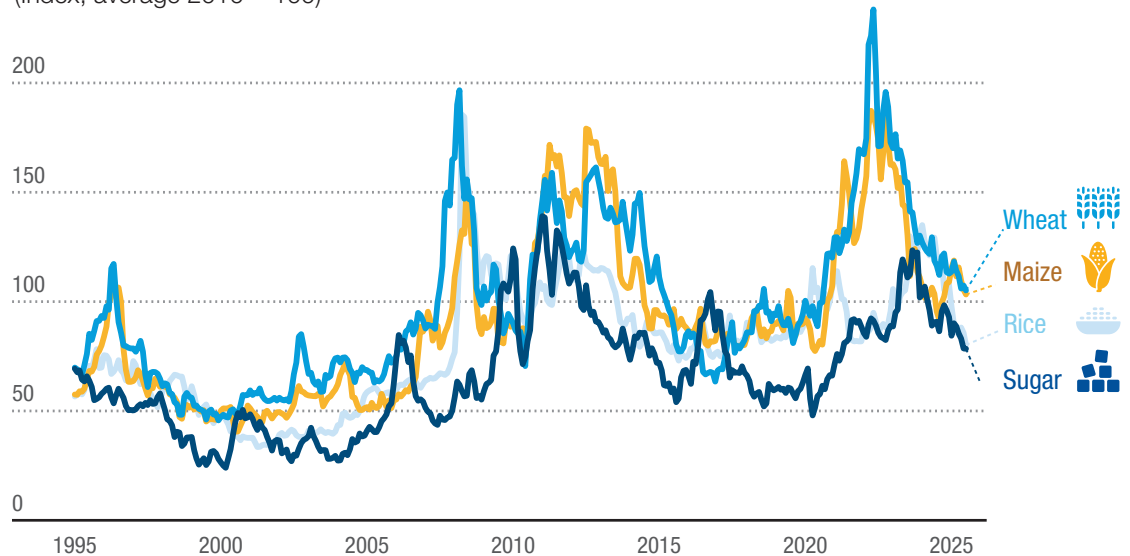
First, the last decade saw a major change in the organization of the food trading sector globally, with new players entering the market (Wion et al., 2024). In part, changing income patterns in the sector suggest shifting dynamics of concentration, with new entrants competing with the ABCD monopolies.<sup>22</sup> Crucially, important differences have emerged in the sector, particularly over the last decade. These reflect divergent patterns of financialization among trading groups. Prior to the end of the commodity supercycle in 2014, revenue growth was comparable across the major food trading firms. Trends have shifted in recent years, however, most notably in the established ABCD traders (figure III.5).

At first glance, income reports suggest that emerging players (ABCD+), many Asian, are closing the gap with the ABCD firms.

**Figure III.4**  
**Gyrating prices of selected crops point to concerning market volatility**

Monthly prices, selected commodities, January 1995–July 2025

(Index, average 2010 = 100)



Source: UNCTAD based on the World Bank, The Pink Sheet.

<sup>22</sup> Comprising the four large food-trading companies that dominate the agriculture sector: Archer Daniels Midland (ADM), Bunge, Cargill and Louis Dreyfus Holding BV.

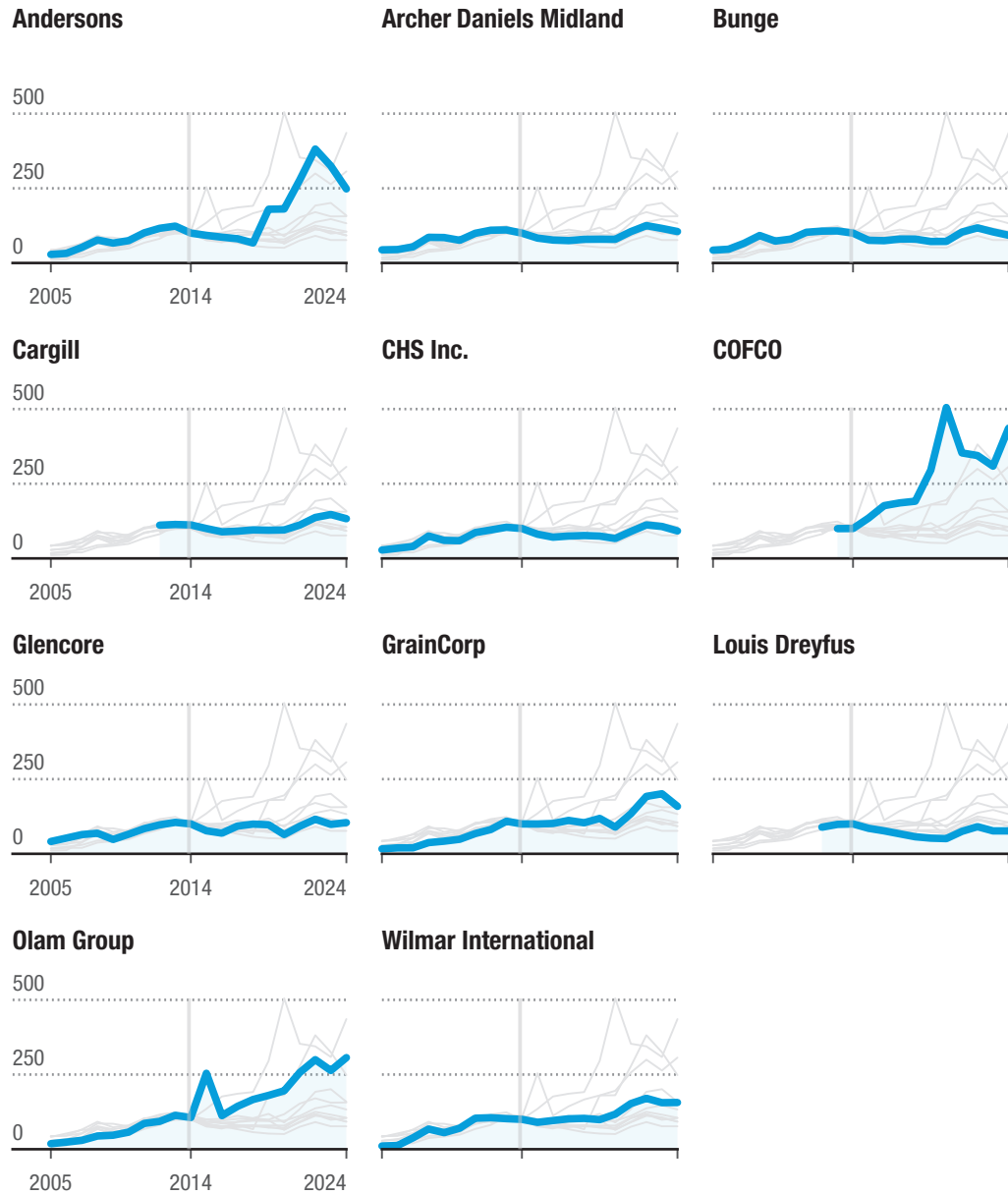


**Figure III.5**

**After the commodity supercycle, income trends among global food traders start to diverge**

Total operating revenue, global food traders

(Index, 31 December 2014=100)



Source: UNCTAD based on Compustat and Orbis.

Note: Where possible, data from publicly listed entities on Compustat were used for standardization purposes. For the state-owned trader COFCO, its publicly listed subsidiary, COFCO Joycome Food Limited, was used as a proxy given data was available on Compustat, and COFCO Corporation does not itself provide public accounts. For private traders, namely Cargill and Louis Dreyfus, data on revenue were taken from Orbis. Attempts were made to use financial reports produced by the global ultimate owner entity. The exception was Louis Dreyfus, the primary intermediate holding company of Louis Dreyfus Holding BV, which was used as a proxy. As reporting date for fiscal years can differ, the base year for each group was the reporting date closest to 31 December 2014 (the most common reporting date). Because trader revenues are sensitive to market volatility, results are presented on a calendar scale to preserve comparability around the moment of that year-end when revenues were reported. As a result, not all lines cross the x-axis at precisely the same moment in time.



Global commodity traders may be masking market concentration in how they measure and report performance.

This seems to indicate that market concentration in the United States and Europe has peaked. Yet this view is superficial.

These apparent shifts likely occlude deeper changes driven by the financialization of commodity trading. Large trading firms now generate income in ways that distort transparency, leveraging external finance and engineering tax-efficient earnings that rarely appear in official accounts. Instead of dissipating market concentration, the financing practices of global commodity traders may be masking it, based on fundamentally altering how they measure and report their performance.

Second, the nature of income for the ABCD firms has undergone a fundamental shift, heavily influenced by derivatives. Accounting standards on derivatives lagged other regulatory reforms following the financial crisis. But by 2017, regulators began using Generally Accepted Accounting Principles (GAAP) in the United States and International Financial Reporting Standards (IFRS) in Asia and Europe to challenge the opacity surrounding derivative use by industrial firms. As these regulations took hold, a new, transformative picture emerged of how the ABCD companies generate their income and the role of financial derivatives in this process (see Insight).

### Insight: Embedded derivatives

Commodities like corn, soybeans, coffee, and oil are heavily traded assets with prices that fluctuate rapidly. Profiting from these swings requires understanding market interactions over trade periods. Derivatives embody this insight – they are not just complex contracts but models of market behaviour – highlighting “if-then” relationships.

A key concept in these relationships is “volatility spillovers”, where turbulence in one asset spreads and amplifies in others, creating opportunities for mispricing. Embedded derivatives – derivative-like features within non-derivative contracts<sup>23</sup> – adjust cash flows based on measures like commodity prices, exchange rates, or weather conditions.<sup>24</sup> For example, in agriculture, a spike in energy prices due to geopolitical tensions can raise costs from fertilizers to transport, affecting wheat prices. Traders structure derivatives – like options triggered by oil volatility or weather-sensitive payoffs – to capitalize on these cascading effects.

Ultimately, all contingencies cannot be anticipated and the costs of doing so are prohibitive. Traders add value by focusing on market relationships with the highest probability of generating gains that exceed the costs of the derivative instruments. Symmetric derivative forms neutralize risk. Asymmetric structures with complex conditionalities create opportunities for skewed returns – returns based upon “mistakes” created by other participants in the marketplace. In stable predictable markets, there are less of such mistakes, in volatile markets, the odds of those mistakes, and thus of what is sometimes called “velocity arbitrage”, increases.<sup>25</sup>

<sup>23</sup> See <https://www.garp.org/hubfs/Whitepapers/a1Z1W0000054xFEUAY.pdf>

<sup>24</sup> See <https://www.tbs-sct.canada.ca/pol/doc-eng.aspx?id=32780&section=html>

<sup>25</sup> See <https://thehedgefundjournal.com/true-partner-volatility-arbitrage-and-tail-risk/>

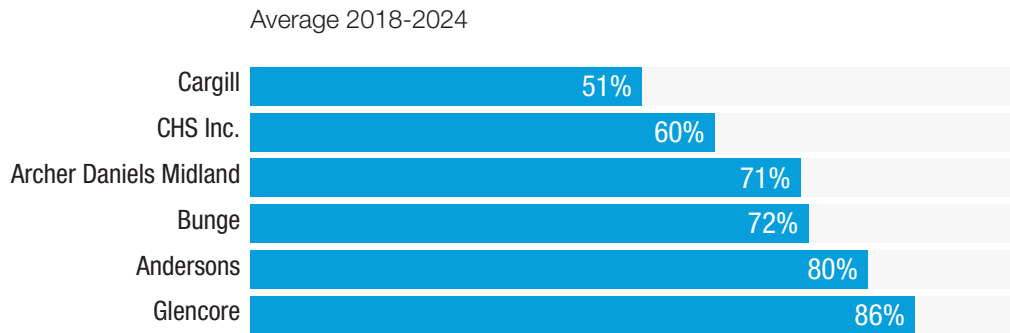


**Figure III.6**

### As financial intermediaries, commodity traders have stepped beyond simply seizing opportunities from market volatility

Mark-to-market valuation of derivatives income as a share of total revenue

(Percentage)



Source: UNCTAD based on company annual financial statements.

Note: Data reflect derivatives and total income values from audited financial statements of major commodity trading companies (2018–2024), primarily under ASC 815 (GAAP) standards. ASC 815 disclosures enable identification of mark-to-market derivatives income within total revenues. Glencore's figures, based on IFRS 9, are approximated due to less precise reporting standards.

Commodity trading is often portrayed as a high-volume, “thin-margin” business, focused on transparent “cost-plus” pricing tied to spot market prices. But this view misses the core issue: Trader incomes build on gains from derivatives. These derivatives are not directly linked to the physical trade between buyers and sellers but to financial market prices, generated through the sale of contracts to external investors (e.g., Yang et al, 2025).

A critical element is structured finance and the multitude of ways in which traders use cash flow as collateral for external investors who buy financial instruments created by trading firms. The latter's engagement in financial markets is far from transitory, going well beyond opportunities presented by market volatility (Yang et al., 2025). Since 2018, income from financial intermediation has consistently accounted for 74 to 76 per cent of the revenues of the major food trading firms (figure III.6). Although aggregate data is not available for the sector as a whole, some companies have recorded

more than 90 per cent of annual revenues from financial intermediation services.

The stabilization of this trend suggests a deep, structural integration of the food trading companies into capital markets. Generally, major changes driven by finance, technology, regulation and the rise of new players have transformed the sector. Dominant agrifood firms have the capacity to shape material conditions in food systems – from defining key technologies for food production to working conditions and the processing levels of packaged food (Clapp et al., 2025).

## 2. New financial intermediaries

Since 2010, commodity trading firms have expanded their engagement in a range of financial activities (trading, investments, securitization), having in practice transformed into the non-bank financial institutions (NBFIs), or shadow banks, that make up a growing share of the global

Global food traders are swapping gains on physical trades for gains linked to the derivative markets more directly.



financial system. Recent data suggest that in 2023, non-bank financial intermediaries (NBFIs) held a 49.1 per cent share of total global financial assets. The size of the sector increased 8.5 per cent in 2023, more than double the pace of banking sector growth (3.3 per cent) (FSB, 2024). Such expansion raises prudential, financial stability and illicit financial flow issues, and adds to the concerns of anti-trust authorities. In addition, this growing power may make it increasingly difficult for local producers in developing countries to compete against large multinational enterprises that can exploit financial markets for pricing advantages. The eroding market power of local players could affect local livelihoods.

### a) The new risk landscape

Many policy debates focus on financialization in terms of the influence of external financial actors on non-financial markets. Yet a crucial facet is often overlooked. Financialization also involves transforming existing economic agents into financial intermediaries, which introduces new risks and challenges to the resilience of the food commodity sector.

The post-2010 financial reforms have mainly sought to mitigate risks of a “contagion” and enhance transparency. In addition to measures targeting leverage and financial derivatives, the reforms also saw wide-

ranging controls on financial institutions, especially banks. Basel III reforms were specifically designed to address the sophisticated regulatory arbitrage strategies that banks had developed under Basel II.

Prior to the 2008 crisis, banks systematically exploited regulatory gaps through off-balance-sheet structures that retained economic exposure while avoiding capital charges. Jurisdictional arbitrage took place across different national implementation levels, and securitization techniques transferred assets while maintaining implicit recourse (Acharya, Khandwala and Oncu, 2013). The “originate-to-distribute” model allowed banks to circumvent capital requirements for credit risks they effectively retained; special purpose vehicles enabled regulatory capital relief without genuine risk transfer (Gorton and Souleles, 2007).

The Basel III framework fundamentally changed the economics of bank involvement in trade financing. It introduced leverage ratios, enhanced liquidity requirements and more stringent capital adequacy rules that have directly targeted pre-crisis arbitrage opportunities (BIS, 2017). Its success in constraining traditional bank-based regulatory arbitrage, however, inadvertently opened new opportunities for non-bank participants to assume financing functions under different regulatory regimes (table III. 1).

Global food commodity traders have become shadow banks.





**Table III.1**  
**Basel III has fundamentally changed commodity trading**

Selected insights on impacts

Basel III requirements	Effects on banks	Impacts on commodity finance (\$200 billion in 2023)	Overall impacts on the sector
<b>Higher capital requirements</b>	Banks must maintain higher-quality capital against their risk-weighted assets	For banks, commodity positions require dedicated capital allocation, raising the costs of facilitating commodity trades	Banks de-risk, withdrawing from financing commodity sectors
<b>Liquidity coverage ratio</b>	Banks must now hold sufficient high-quality liquid assets	Requires 100 per cent stable funding against illiquid assets	
<b>Net stable funding ratio</b>	Banks must now secure long-term, stable funding for commodity-related assets, effectively requiring dollar-for-dollar backing of positions	Increasing costs for unallocated commodity positions Reduction in the willingness of banks to finance commodity inventories Preference shifted to allocated, physical commodity holdings Potential reduction in overall liquidity in paper commodity markets	Non-bank intermediaries engage in the securitization of assets
<b>Leverage ratio</b>	The commodity trading ecosystem has historically operated with high leverage ratios, particularly in precious metals; Basel III requires more robust backing for commodity positions	Instruments with lower credit conversion factor rates face the additional burden of the non-risk-weighted capital requirement Many structured trade finance products and longer-term trade financing arrangements do not benefit from accommodations granted to traditional instruments; for banks, this has increased the costs of using derivatives	
<b>Derivatives</b>	Standardized Approach for Counterparty Credit Risk: Takes account of the creditworthiness of counterparties as well as sensitivity to the structure of derivative contracts	In the context of commodity trade financing, the exposure amounts of derivatives are included alongside lending exposures when calculating the leverage ratio	
<b>Physical delivery</b>	Transition from paper trading to physical delivery mechanisms	<b>Market participants are increasingly:</b> <ul style="list-style-type: none"> <li>▶ Investing in warehousing and physical infrastructure</li> <li>▶ Developing more robust delivery protocols</li> <li>▶ Enhancing tracking and verification systems</li> <li>▶ Shifting from unallocated to allocated commodity positions</li> </ul>	<b>A bifurcated landscape:</b> <ul style="list-style-type: none"> <li>▶ Traditional, short-term trade finance instruments have received some relief from the harshest proposed measures, while more complex or longer-term trade financing arrangements face the full weight of new regulatory requirements</li> <li>▶ Banks face a more complex cost structure that favours simpler, more traditional instruments while penalizing innovation and complexity in trade finance products</li> </ul> <b>New landscape for arbitrage:</b> <ul style="list-style-type: none"> <li>▶ A trade receivable held on a bank's balance sheet faces Basel III's full regulatory apparatus – risk-weighting, leverage ratios, liquidity requirements; the same receivable, properly “structured”, transfers the location and responsibilities for it to other counterparties</li> <li>▶ Trade financing, when pursued through an intermediary, becomes a different type of lending activity based on the creditworthiness of that group, not the particularities of the underlying trades themselves</li> </ul>

Source: UNCTAD based on Zadeh (2023) and BIS (2017).



The commodity trading sector illustrates the evolution of regulatory arbitrage under Basel III. It has not disappeared but transformed into more sophisticated forms that work with rather than against the new regulatory framework (Awrey and Judge, 2020). Specifically, Basel

III's constraints on banks have created arbitrage opportunities based on the insight that the same economic activity carries vastly different regulatory costs depending on institutional classification and jurisdictional placement (box III.1).



### Box III.1

#### Understanding how Basel III changed trade finance

The introduction of Basel III reforms following the financial crisis significantly increased the costs of trade financing by targeting two key areas: traditional trade finance instruments and derivatives used for hedging (BIS, 2011).

**Traditional trade finance impact:** Letters of credit and similar guarantees historically received favourable regulatory treatment due to their short-term, self-liquidating nature and collateral backing. Under Basel III, however, two critical changes dramatically increased costs.

- 1 The leverage ratio was introduced as a new non-risk-weighted capital requirement that applied to all exposures regardless of risk profile. This meant that even low-risk trade finance instruments faced additional capital charges simply based on their size.
- 2 The credit conversion factor regime became more discriminatory. Previously, most trade finance enjoyed a blanket 20 per cent rate. Under Basel III, this favourable treatment became the exception rather than the rule, with rates varying significantly based on transaction specifics.

**Derivatives impact:** Basel III replaced the lenient Current Exposure Method with the more stringent Standardized Approach for Counterparty Credit Risk. This new framework considers counterparty creditworthiness and contract complexity, making derivatives, essential for hedging commodity price risks, significantly more expensive for banks.

**Market response and disintermediation:** The regulatory changes have created powerful incentives for banks to reduce direct participation in trade finance. Rather than simply exiting the market, however, banks have found an alternative: regulatory arbitrage through disintermediation.

When trade receivables are held directly on bank balance sheets, they face Basel III's full regulatory burden. But when properly "structured" and transferred to other intermediaries, these same exposures can be moved off bank balance sheets entirely.

Commodity trading houses, particularly the concentrated ABCD traders in agricultural markets, emerged as ideal financial intermediaries. Unlike traditional NFBIs, these traders possess both global market reach and deep commodity expertise. They leverage "oversubscribed" bank credit through large revolving facilities to acquire physical inventories, then rapidly convert these commodities into structured financial products sold to external investors.

This approach has allowed banks to recycle credit at high velocity while transferring regulatory burdens to non-bank entities, fundamentally reshaping how trade finance operates in commodity markets.

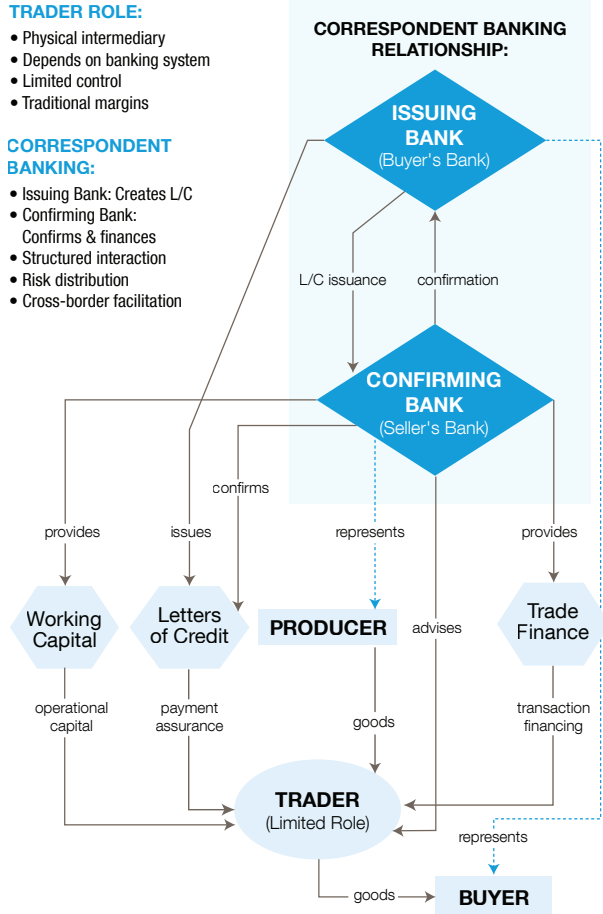
Regulatory arbitrage under Basel III has not disappeared but transformed into more sophisticated forms.



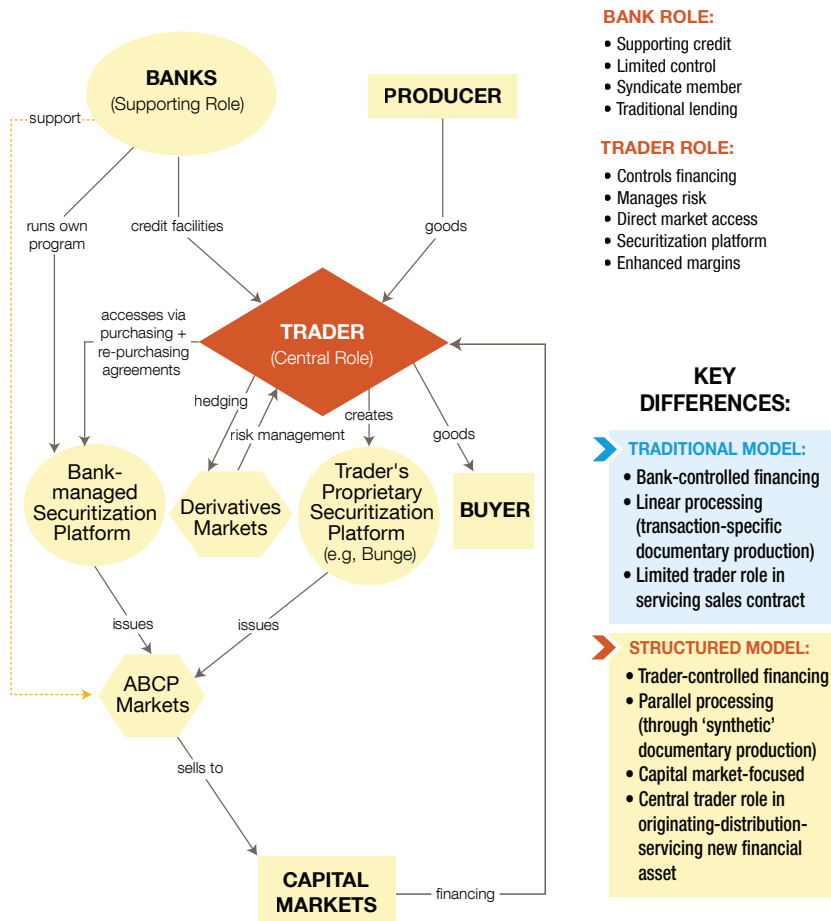
**Figure III.7**  
**Large commodity traders act like banks – without Basel III regulation**

Trade finance has moved from a bank-mediated model to a trader-intermediated system

**TRADITIONAL BANK-MEDIATED MODEL**



**TRADER-INTERMEDIATED STRUCTURED FINANCE**



Source: UNCTAD.

Note: This graphic compares a simplified commodity trade financing arrangement, using traditional bank-mediated financing through letters of credit, and the structured financing model of a major global commodity trader. The fundamental difference is that in a traditional arrangement, bank financing is transaction-specific, requiring documentary exchanges between banks at different stages of the transaction, which trigger the disbursements of funds between banks. In contrast, in a structured financing arrangement, banks are disintermediated from the trade transaction and instead allotted to the trader itself as part of a revolving credit facility. The trader uses this bank credit to acquire ownership of the inventory (which is not a necessary condition in commodity trading but a strategic one for major traders). Having ownership allows the possibility of securitizing trade receivables through the creation and issuance of a new financial instrument (a type of asset-backed commercial paper) that can be sold to capital market investors. Alternatively, the rights to cash flows can be assigned to banking partners (often through a combination of purchasing/repurchasing agreements linked to a structured loan arrangement). Banks may then monetize these assets through their own access to capital market and trade sale opportunities or may hold on to them for the trader, maintaining the structured loan arrangement until the trader seeks to reacquire the assets through a repurchasing agreement.

What has been characterized above as bank “de-risking” in fact entailed a wider transformation. Rather than simply withdrawing from trade finance, sophisticated market intermediaries, particularly large commodity traders,

developed what amounts to a “synthetic banking” model (Blas and Farchy, 2021). As figure III.7 shows, intermediaries perform traditional banking functions (origination, risk assessment, servicing) while accessing external funding, such as from capital

Reforms created powerful incentives for banks to withdraw from direct trade finance relationships.

markets, rather than through deposit-taking. Yet these intermediaries may not be subject to regulatory classification under the Basel III framework.

As banks faced higher capital charges for trade finance exposures, traditional letters of credit became increasingly expensive. Enhanced reporting requirements under Dodd-Frank in the United States and the Markets in Financial Instruments Directive II in the European Union increased the compliance costs of derivative trading and off-balance-sheet financing arrangements. Together, these reforms created powerful incentives for banks to withdraw from direct trade finance relationships, particularly with smaller counterparties, counterparties from developing countries or forms of trade (such as agricultural commodities) where there is less ability to redeploy collateral (e.g., perishable food items) in the event of defaults.<sup>26</sup>

These processes manifest differently in various regulatory discussions. In some, they reflect “de-risking”, evolving as a systematic reduction in correspondent banking relationships and trade finance provision (World Bank, 2015; BIS, 2020; FSB, 2017). In others, they appear as an increase in the trade finance gap, a measure of unfulfilled funding requests rejected by banks.

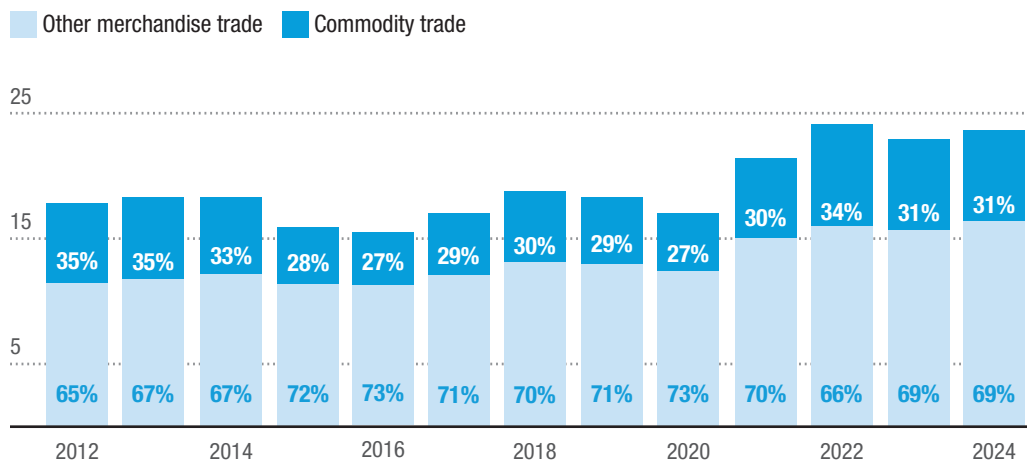
While global data for commodity trading are not available, estimates suggest that in 2022, the global trade finance gap reached \$2.5 trillion, up 47 per cent from 2020 (ADB, 2023). The gap affects small and medium-sized business in the global South most profoundly, with unmet demand for trade finance in Africa and developing Asia estimated at \$120 billion and \$700 billion, respectively (DMCC, 2024).

Although both diagnoses tend to imply a growing lack of financing for trade activities, evidence does not confirm this. As figure III.8

**Figure III.8**  
**The share of commodity exports in global merchandise trade went down slightly over the past decade**

Merchandise exports

(Trillions of dollars)



Source: UNCTAD based on UNCTADstat.

Note: Commodity are primary commodities, precious stones and non-monetary gold. Other merchandise trade is total for all allocated products, excluding commodity. Labels inside the bars correspond to the shares of total merchandise trade value.

<sup>26</sup> See Antras and Foley (2015) for a case study on how a large agricultural exporter in the United States continued to receive bank financing and even expanded during the financial crisis, even as its customers faced more restrictive financing terms.

shows, between 2012–2014 and 2021–2024, the total value of merchandise trade experienced substantial growth, although the commodity component expanded at a slower pace (UNCTAD, 2025b).

This paradox can be partly explained by general data scarcity. Despite the critical role of trade finance in supporting international trade, comprehensive macroeconomic data on trade finance remain severely limited. International organizations have repeatedly highlighted concerns around the absence of globally consistent statistics on bank-intermediated trade finance. The IMF noted as early as 2003 that “data on trade credit are not readily available, complicating efforts to carry out comprehensive empirical analysis”, a concern repeated in efforts to define a framework for data collection (IMF, 2018). In 2014, the BIS confirmed that “there are no readily available data covering the global bank-intermediated trade finance market”, a situation that has shown little improvement in recent examinations (Auboin, 2021).

Over more than two decades, this persistent statistical gap has stemmed from several structural challenges, including the removal of foreign exchange controls that previously captured trade finance information; the short-term nature of trade finance instruments that become aggregated with other banking flows; and the lack of standardized reporting frameworks across jurisdictions (Thedeen, 2025).

Yet the problems posed by trade finance, particularly since the Basel III reforms, go beyond the ostensible market for bank-mediated trade financing. They extend deep into the risk-prone area of financial intermediation. The use of NFBIs as consolidated “packagers” of assets pooled from a wide variety of external counterparties is a dominant trend in banking more generally (see Blas and Farchy, 2021; IMF, 2025). Trade financing, particularly commodity trade financing, is no exception.

After Basel III, large commodity traders developed “synthetic banking”.

### 3. Structured finance: The role of securitization in food trading

In reporting on trade financing, traditional forms of bank lending such as letters of credit have long been in decline. By contrast, structured finance and other forms of “documentary trade financing” continue to grow (ICC, 2024). Rather than abandon trade finance entirely, banks have actively participated in financial innovations, where structured financing methodologies are critical. These have helped to counteract the constraints Basel III imposed on commodity trading (Thieffry, 2016, 2019).

The attractiveness of structured finance in trade financing is not new. The first uses emerged in the 1980s, when banks and commodity traders collaborated on innovations that allowed wheat exports to dominate access to United States Government export credit guarantee schemes. These programmes persisted into the 1990s. During the Asian financial crisis, they were the only source of international finance available for most Asian banks (ITFA, 2021). When the global financial crisis took off, structured finance was already an established option for financing commodity trades, particularly in agriculture (Winn, Miller and Gegenbauer, 2009).<sup>27</sup>

<sup>27</sup> These authors similarly defined structured finance as “the advance of funds to enterprises to finance inputs, production and the accompanying support operations, using certain types of security that are not normally accepted by banks or investors and which are more dependent on the structure and performance of the transaction, rather than the characteristics (e.g., creditworthiness) of the borrower”.



**Box III.2****How structured finance changes the flow of funds**

Structured finance refers to financing techniques that repackage the rights to future cash flows, creating a new financial asset. These methods are not specific to trade finance in general nor to commodity financing in particular. At the core, their outputs take the form of a financial instrument – a highly detailed type of legal contract that allows the instrument to act as a financial asset (and thus also an asset that can be bought and sold).

Such contracts are designed around new forms of collateral, usually a future cash flow derived from a “receivable” (a debt obligation, such as a mortgage repayment, or, in a commodity context, the obligation of a buyer to pay for the successful delivery of a commodity shipment – a “trade receivable”).

A primary objective of structured finance is to obtain funding in advance of the collection of a receivable. This is typically a type of debt, one where the collateral on a loan is not the creditworthiness of a particular counterparty and its financial standing. Rather, the aim is to “structure” the cash-flow obligation to allow the underlying receivable to become collateral that is “structurally decoupled” from the creditworthiness of the counterparty that “originated” the debt obligation.

This “structuring” process can take two main forms. In securitization, receivables are transferred to legally separate entities (special purpose vehicles) that issue tradable securities backed by the cash flows from those assets. Alternatively, in asset-backed lending, receivables are “pledged” as collateral for loans, while the borrower retains ownership, creating a security interest through liens or charges that “ring-fence” specific assets.

Identifying the use of structured financing practices requires examining regulated disclosure documents, such as financial reporting offered by listed companies or even the reporting of private companies that accompanies public bond offerings. Such disclosures reveal the role of structured financing through different pathways.

Balance sheet changes: Companies must report when assets are removed from their balance sheets through “de-recognition” events, typically indicating asset transfers to special purpose vehicles in securitization transactions. They must also disclose when assets are pledged or restricted as collateral, which may indicate asset-backed lending arrangements.

Derivative income patterns: When structured finance involves hybrid instruments containing embedded derivatives, companies must separately account for these derivative components under fair value accounting. Large, stable derivative income streams relative to traditional business revenues can indicate systematic structured finance activity, as distinct from volatile patterns typical of speculative trading or routine hedging.

Repurchase (“repo”) agreement arrangements: Companies often disclose repo and reverse repo transactions within discussions of inventory financing or trade receivables arrangements. In repos, companies temporarily transfer assets to counterparties in exchange for cash, with agreements to repurchase at specified future dates and prices – functioning economically as secured borrowing using assets as collateral. These arrangements may appear in disclosures as “purchase and resale agreements” or “commodity financing facilities” rather than being explicitly labelled as repos, particularly when involving large volumes or when integrated into broader structured finance programmes.

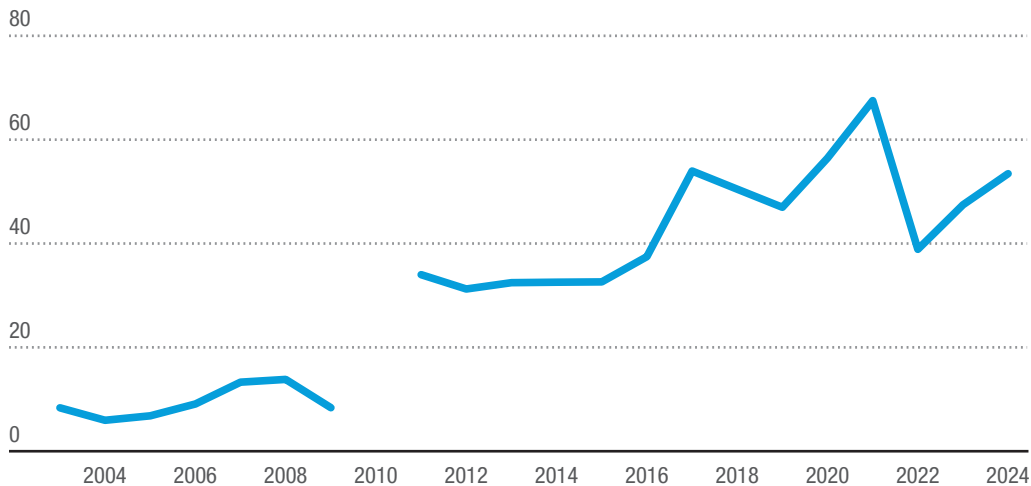
Structured  
finance  
decouples  
collateral from  
creditworthiness  
through  
structured  
cash flows.



**Figure III.9**

### After Bunge changed its securitization programme, non-securitized trade accounts took off

Securitization (derecognized receivables) as a share of total trade accounts receivable, net  
(Percentage)



Source: UNCTAD based on 10K filings (Securities and Exchange Commission).

Note: As part of its trade receivables securitization disclosure, Bunge reports the amount of “receivables sold which were derecognized from Bunge’s balance sheet”. This analysis compares this value relative to the net trade accounts receivable, which is reported in the working capital section of its liquidity and capital resources notes. Both are point-in-time, end-of-year descriptions of the balance sheet derecognition impacts of its securitization programme, relative to the net value of the remaining on-balance sheet value for the same time period.

Crucially, structured finance is not simply a “type” of trade financing, a mere option for how any international trade could be financed.<sup>28</sup> For the bank, intermediaries allow access to larger pools of deals. This can be “scaled” more efficiently if done in close collaboration with intermediaries. In commodity trade, these intermediaries are commodity trading firms, and, more specifically, a small, concentrated group of global traders.

Basel III reforms triggered a notable change in how this cohort used structured finance. For instance, Bunge, an agricultural commodity trader engaged in receivables securitization prior to the global financial crisis, restructured its securitization programme over 2010, rolling out a new programme the following year (figure III.9).

Other global food traders similarly introduced or restructured their structured financing programmes around the same time. For Bunge, the proportion of the group’s net trade receivables “processed” through its securitization programme increased from typically less than 10 per cent before Basel III reforms to over a third in its first year of implementing the new rules.

Basel III reforms triggered a notable change in how this cohort used structured finance. Securitization has become a highly regulated activity since the global financial crisis, which centred on mortgage-backed securities. The mechanics of securitizing commodity receivables differ sharply from those of the mortgages or consumer loans that inspired post-crisis regulation.

<sup>28</sup> Much of the importance of structured finance has been far less visible precisely because these methodologies are embedded within private contracting arrangements between financial institutions and market intermediaries: Trade is being financed but privately and, from the bank’s perspective, indirectly.



For global traders, derivatives now drive profit and loss reporting.

Structured finance involves private deals between institutions and intermediaries, often using off-balance sheet mechanisms.

The significance of this structural difference becomes clear when considered alongside the concentration of global commodity markets. A small number of trading houses – ADM, Bunge, Cargill, Louis Dreyfus, CHS, Wilmar and Olam as well as global players in minerals and energy like Glencore and Trafigura – control substantial portions of global commodity flows across agricultural, energy and metals markets. Compliant reporting by these groups confirms that securitization and/or other structured financing approaches are widespread. Moreover, where derivative reporting is accessible, it suggests that global traders systematically employ programmes so large that derivatives have come to drive most profit and loss reporting.

Yet securitization works differently depending on the underlying nature of how cash flows are generated. When commodity traders securitize their trade receivables, they do not simply transfer rights to future cash flows; they also retain operational obligations to execute physical deliveries. Traders cannot fully “originate and distribute” (and forget about) investors, because the cash flows themselves only materialize through the trader’s successful completion of underlying commercial transactions. Commodity traders remain operationally bound to performance outcomes that directly determine investor returns.

This difference in the role of the originator vis-à-vis the cash flows promised to investors underpins the idea, commonly evoked to distinguish commodities from other asset classes, that the safety of trade receivables lies in their short-term “self-liquidating” nature.

Trade receivables do not liquidate themselves, however. Trading firms liquidate them through the operational fulfilment of service contracts with buyers. Rather than diverging, trader and investor interests are naturally aligned. This alignment extends beyond fulfilling commercial obligations into far more substantive involvement as the designer-in-chief of the embedded derivatives bundled alongside

the instruments that package cash flow rights into marketable securities.

Across the food trading sector, such developments point to a profound consequence of regulatory reform. Rather than a retreat from trade financing, “de-risking” was a restructuring of how and with whom banks engage in trade financing. Evidence suggests that at least 6 of 11 global food traders examined here engaged in securitization schemes in 2024 (table III.2).

In March 2025, UNCTAD estimated the value of global merchandise trade at roughly \$33 trillion in 2024. This implies that the value of “trade being financed” is between \$23 trillion and \$26 trillion, the majority paid for on an “open account” trade credit basis. Bank-mediated trade financing, where bank exposures are explicitly at risk and subject to Basel III regulations, is roughly 15 to 27 per cent of these estimates (\$3.5 trillion to \$7 trillion), based on recent filings in major trade financing industry reports. True bank exposure, however, is likely many multiples greater and obscured by financial intermediation practices common in the sector.

Banks are increasingly positioned as providers of short-term credit to traders via financial intermediaries. Traders then repay these loans using trade receivables as collateral for financial instruments sold to capital markets. While bank exposure correlates with trade volume, it is now technically classified as indirect, bundled loans to corporate entities rather than direct trade financing to individual counterparties.

As a result of these shifts, commodity trade is underpinned by practices that create large international counterparty risks across multiple jurisdictions. These remain unmonitored and thus could undermine systemic resilience to a singular systemic shock or compound crises.





**Table III.2**  
How selected commodity traders use structured finance

Trader	Structured finance (methods reported)	Total revenues (billions of dollars, FY 2024)	Financial intermediation as a share of revenues (percentage)
ADM	Securitization	85.5	72
Andersons	Unclear collateralization	11.3	93
Bunge	Securitization	53.1	71
Cargill	Securitization + repos	160.0 (165 in 2022)	53 (2022)
CHS	No mention	39.3	57
COFCO	No mention	96.9	
Glencore	Unclear (subsumed within capital notes programme)	230.9	87*
GrainCorp	No mention	6.5	No mention
Louis Dreyfus	Repos	50.6	
Olam	Securitization	56.2	No mention
Wilmar	Securitization	67.4	No mention

Source: UNCTAD.

Note: Structured financing methods are derived from assessments of audited financial reporting documentation published on repositories (e.g., the Securities and Exchange Commission), company websites or as part of bond issuance funding prospectuses (e.g., the Luxembourg Stock Exchange). Derivative share calculations are explicit requirements of United States GAAP reports. IFRS standards allow for more ambiguous presentation that, depending on the group, can pre-empt making this calculation explicit. Financial reporting data snapshots are derived primarily from Capital IQ or Orbis, with reports from company websites used only when data are unavailable from standardized financial reporting data sets.

\*Best estimate as IFRS-9 standards have less strict presentation requirements.

In 2024, 6 of 11 leading food traders engaged in securitization schemes.

## C. Complexity, commodity markets and financial stability

The transformation of commodity trade finance documented in this chapter represents more than a sectoral evolution. It signals an institutional change in the system of trade finance and a fundamental shift in the distribution of systemic risk within the global financial system.

In the earlier, bank-centric model of trade finance, a commodity trading firm might never actually take ownership of inventory. Its role was to ensure the

movement of commodities while generating documentation needed by banks.

In the new, trade-centred model of commodity finance, the traditional trade financing process has largely vanished, replaced by an integrated system where traders own inventory and are responsible for the financial management of trade. In this system, trade finance has become a system-wide framework involving traders, banks and capital markets, rather than



isolated transaction-level deals. Ownership and operational details blur, transforming trade finance into a networked architecture rather than a collection of financed projects.

In this context, regulatory responses to the 2008–2009 financial crisis have inadvertently created new categories of vulnerability. These operate largely outside traditional regulatory oversight while remaining deeply integrated into critical market infrastructure.

Such vulnerabilities have emerged as central concerns for financial stability authorities globally (FSB, 2023a, 2023b, 2024 and 2025; IMF, 2023 and 2025). They manifest through repeated market stress episodes and regulatory investigations that reveal the extent to which essential commodity markets have become dependent on complex financial intermediation structures.

## 1. The liquidity illusion: External dependence masquerading as creditworthiness

Financial stability concerns about commodity trader liquidity stem from a fundamental disconnect between apparent creditworthiness and actual resilience during stress periods.

The tension between micro-level safeguards and macrofinancial stability came to the fore during the global financial crisis, reaffirming Minsky's insights on how the financial fragility of economies may be driven by financial innovations (Minsky, 1982).

In the financial crises of the twenty-first century, studies have distinguished between funding and market liquidity. At a more general level, analyses have outlined the policy challenge of discerning the artificial liquidity of a booming financial market atop fragile economic foundations (Borio, 2000; Nesvetailova, 2010; Persaud, 2003).

Traditional financial analysis focuses on equity-based leverage ratios that capture balance sheet relationships at specific points in time, missing the flow dynamics that define modern commodity trading operations. More critically, these metrics fail to capture how structured finance enables traders to present apparent financial strength while operating with extreme dependence on continued access to external financing (box III.3).

This disconnect has profound implications for financial stability because it means that entities that appear financially robust to their counterparties may represent concentrated sources of systemic vulnerability. When traders' liquidity buffers consist primarily of unused credit facilities rather than internal capital accumulation, their ability to withstand market stress depends entirely on the willingness of financial institutions to maintain these facilities during periods when traders most need them – in other words, precisely when broader financial system stress might make such support problematic.




**Box III.3**
**In global commodity trading, liquidity depends on banks, not capital buffers**

Major commodity traders operate through liquidity structures that create massive contingent liabilities for the banking system while presenting an illusion of financial self-sufficiency. Analysis of these arrangements reveals how traders exhibit core characteristics of NBFIs through systematic dependence on contingent access to banking system liquidity rather than internal capital buffers.

ADM's financial disclosures as of 31 December 2023 provide detailed insights into how the world's largest agricultural commodity trader structures its liquidity management.<sup>a</sup> The company reports "total available liquidity" of \$12.9 billion, comprising "cash and cash equivalents and unused lines of credit". This figure appears substantial and suggests robust financial buffers against market volatility.

Decomposition of this liquidity reveals a fundamentally different reality, however. Of the \$12.9 billion in total liquidity, only \$1.4 billion consists of actual cash and cash equivalents – a mere 10.8 per cent of reported total liquidity. Even this modest cash position is partially illusory: \$500 million represents "cash held by foreign subsidiaries whose undistributed earnings are considered indefinitely reinvested" – essentially, tax-optimized accumulated profits locked in overseas structures. True liquid cash available for immediate operational use amounts to only \$900 million, just 7 per cent of reported total liquidity.

The remaining 89.2 per cent of ADM's total liquidity consists entirely of unused credit lines – \$11.5 billion of the company's total \$13.2 billion in available credit facilities. This means ADM's entire liquidity buffer against market volatility depends on continued access to external financing rather than internal capital accumulation. These unused facilities represent massive contingent liabilities for the banking system – commitments that banks must honour on demand, creating the type of liquidity transformation risks that characterize NBFIs activities (FSB, 2023b). This pattern echoes the pre-crisis shadow banking model documented by the Federal Reserve Bank of New York, where "contingent lines of credit" served as "liquidity backstops" that enabled non-bank entities to perform banking-like functions while operating outside regulatory frameworks (Pozsar et al., 2013).

Analysis of actual credit utilization patterns reveals the underlying operational dependencies that create systemic vulnerabilities. Of the \$1.7 billion in credit actually used, \$1.6 billion (94.1 per cent) flows through the company's accounts receivable securitization programmes. These "provide the Company with up to \$3.0 billion in funding against accounts receivable transferred into the Programs and expand the Company's access to liquidity through efficient use of its balance sheet assets".

This pattern demonstrates that ADM meets virtually all its operational financing needs through structured finance arrangements rather than traditional credit facilities. The securitization programme operated at only 53 per cent of capacity on the reporting date but this reflects the high-velocity nature of these facilities rather than unused capacity. Trade receivables flow through such programmes continuously, with the \$3 billion facility supporting far larger volumes of underlying trade activity through rapid turnover cycles.

The remaining \$11.1 billion in completely unused credit facilities serves as ADM's primary buffer against market volatility and margin call requirements. This structure means that ADM's ability to withstand market stress depends entirely on the willingness of banking syndicates to maintain these facilities during periods when



## Box III.3 (continued)

the trader needs them most but banks themselves might be facing financial system stresses.

ADM disclosures reference an additional \$5.9 billion in “undistributed earnings of its unconsolidated affiliates” on top of 17.9 billion in “undistributed earnings of the company’s foreign subsidiaries and corporate joint ventures”. These values are notably excluded from the company’s “total liquidity” calculation even though a small fraction of this “pool” of value was explicitly earmarked as a liquidity provision. It suggests that even larger pools of capital remain outside traditional liquidity metrics while potentially serving as additional buffers through complex affiliate structures.

The liquidity policy revealed in ADM’s disclosure illustrates several concerning dynamics from a financial stability perspective.

- ▶ **Procyclical dependencies:** When market stress requires additional liquidity, traders must rely on banking relationships that may be experiencing their own stress, creating the potential for procyclical credit contraction.
- ▶ **Concentration risk:** The small number of major banks that provides large credit facilities creates concentrated exposure to commodity trader creditworthiness across the financial system.
- ▶ **Opacity:** The high-velocity nature of securitization facilities and the complex affiliate structures holding additional capital limits visibility for supervisors into actual risk concentrations and liquidity dynamics.
- ▶ **Cross-border complexity:** Substantial pools of capital held in foreign subsidiaries create potential coordination challenges for financial stability authorities during crises.

These liquidity architectures demonstrate how commodity traders create massive contingent liabilities for the banking system while operating outside NBF1 regulatory frameworks. Systematic dependence on unused credit commitments – representing 89 per cent of reported liquidity – exemplifies the liquidity transformation risks that the NBF1 monitoring framework was designed to capture.

When entities controlling essential commodity infrastructure can rapidly draw down billions in banking system liquidity through pre-committed facilities, this invokes precisely the type of systemic risk transmission from “non-bank” entities to regulated banks that justifies NBF1 classification. The concentration of such activities within entities that remain outside NBF1 monitoring represents a significant gap in current systemic risk oversight.

Note: <sup>a</sup> See <https://www.sec.gov/Archives/edgar/data/7084/000000708424000009/adm-20231231.htm>.

## 2. The contagion architecture: How traders access external finance

Financial stability concerns related to commodity trading extend beyond individual trader creditworthiness, encompassing complex networks of counterparties that connect traders to the broader financial system. Three specific channels can be identified.

### Channel 1: Direct banking relationships

The most visible form of financial system exposure comes through traditional banking relationships, but these have evolved far beyond simple bilateral credit arrangements. Modern commodity traders typically access credit through large banking syndicates involving dozens of financial institutions across multiple countries.

Major traders often maintain these banking relationships through subsidiaries as the key vehicles for acquired credit. Table III.3A presents the results of analysis of reporting by major food traders on banking relationships at the subsidiary level as of December 2024.

Post-2008 financial regulations spawned new vulnerabilities in essential market infrastructure.



**Table III.3A**

### Subsidiaries and networks of banking relationships allow large traders to expand their credit access

(Bank intensity ratio in food trading firms)

Trader	Trader's subsidiary holdings	External banking relations of trader's subsidiary holdings				Cohort
	As of December 2024	Subsidiary reporting banking relationships	No. unique bank names mentioned	Counterparty jurisdictions	Bank intensity ratio (Percentage)	
ADM	904	82	109	23	25	ABCD
Andersons	169	2	1	2	4	ABCD+
Bunge	438	35	63	16	15	ABCD
Cargill	949	91	126	25	24	ABCD
CHS	385	8	18	7	21	ABCD
COFCO	964	87	133	14	10	ABCD+
Glencore	869	70	76	17	7	ABCD
GrainCorp	68	3	5	2	7	ABCD+
Louis Dreyfus	190	26	41	15	18	ABCD
Olam	123	7	32	7	7	ABCD+
Wilmar	593	87	114	12	15	ABCD+

Source: UNCTAD based on Orbis.

Note: Bank intensity ratio is an unweighted measurement of total subsidiaries reporting banking relationships as a percentage of all subsidiaries in jurisdictions where this is reported in Orbis data service from Moody's. Subsidiaries from the United States and Brazil have been excluded as entities incorporated in these jurisdictions do not appear to have banking relationships captured by data suppliers.



**Channel 2:**  
**Shared investment networks**

Beyond direct banking, traders access external capital by partnering with other companies and investors in joint ventures and affiliate investments. These arrangements allow traders to share costs and risks while accessing resources they cannot obtain independently. Traders participate in joint ventures

and affiliate investments that often involve the same external partners, creating hidden connections between seemingly independent companies. Table III.3B describes the extent of distinct co-investors and jurisdictions participating in trader equity investments in affiliate and joint venture holdings.

**Table III.3B**  
**External counterparties link companies that seem to be independent**

Trader	External co-investors of trader's affiliate and joint venture holdings			Cohort
	Affiliates and joint venture holdings	Counterparty GUOs	Counterparty jurisdictions	
ADM	42	298	33	ABCD
Andersons	8	0	0	ABCD+
Bunge	10	40	16	ABCD
Cargill	78	964	41	ABCD
CHS	2	1 000	36	ABCD
COFCO	230	753	26	ABCD+
Glencore	241	1 309	52	ABCD
GrainCorp	12	108	8	ABCD+
Louis Dreyfus	40	112	27	ABCD
Olam	11	15	10	ABCD+
Wilmar	101	273	38	ABCD+

Traders relying on unused credit face heightened risk if banks retreat during crises.

Source: UNCTAD based on Orbis.

Note: Co-investors entities were estimated by identifying the latest value of a trader's shareholding in an affiliate or JV investment, and then identifying the unique entities with holding information on or prior this point in time, going back through time in a chronological order until the residual amount of holdings not accounted for by the trader was reached. Entities that have ever been known subsidiaries of the group were excluded. This is tantamount to a 'maximum' extent of counterparty exposure. For each immediate counterparty, identification of ultimate owners (if known) were pursued and only these ultimate owner counterparties are used here to approximate the 'true' counterparty ultimately exposed to the trader's activities. Only currently active (June 2025) counterparties were used in calculations here to moderate recursive historical analysis.

**Channel 3:****Minority shareholders**

The most complex and opaque form of access to external finance occurs through using minority shareholding

relationships in group subsidiaries.

These practices allow traders to multiply their effective borrowing capacity while spreading legal obligations across multiple countries and regulatory systems.

**Table III.3C****Traders access critical external resources through minority shareholders**

(Minority shareholders intensity ratio)

Trader	Trader's subsidiary holdings		External minority shareholders of trader's subsidiary holdings			Cohort
	As of December 2024	Subsidiaries with minority shareholders	Counterparty GUOs	Counterparty jurisdictions	Minority shareholding intensity ratio	
ADM	904	5	3	3	0.3	ABCD
Andersons	169	1	2	2	1.2	ABCD+
Bunge	438	12	16	10	3.7	ABCD
Cargill	949	11	20	10	2.1	ABCD
CHS	385	2	5	5	1.3	ABCD
COFCO	964	25	132	13	<b>13.7</b>	ABCD+
Glencore	869	24	35	17	4.0	ABCD
GrainCorp	68	1	1	1	1.5	ABCD+
Louis Dreyfus	190	8	7	1	3.7	ABCD
Olam	123	1	1	1	0.8	ABCD+
Wilmar	593	31	85	19	<b>14.3</b>	ABCD+

Source: UNCTAD based on Orbis.

*Note:* Counterparty analysis of Trader's group holdings is derived from Orbis. Minority shareholder entities were estimated by identifying the latest value of a trader's shareholding in a subsidiary, and then identifying the unique entities with holding information on or prior this point in time, going back through time in a chronological order until the residual number of holdings not accounted for by the trader was reached. Entities that have ever been known subsidiaries of the group were excluded. This is tantamount to a 'maximum' extent of counterparty exposure. For each immediate counterparty, identification of ultimate owners (if known) were pursued and only these ultimate owner counterparties are used here to approximate the 'true' counterparty ultimately exposed to the trader's activities. Only currently active (June 2025) counterparties were used in calculations here to moderate recursive historical analysis. Minority shareholding intensity ratio is an unweighted measure of the number of unique global ultimate owner (GUOs) counterparties as a percentage of total number of subsidiary holdings. There can be many entities which directly hold minor shares in a number of trader's majority owned subsidiary. We have reduced all these immediate minority shareholders to their unique number of global ultimate owners (or nearest equivalent) to better capture the extent of the 'true' counterparties involved. Jurisdictions represent those of the ultimate owners.

For highly financialized commodity trading groups, liquidity management extends beyond traditional financial metrics to encompass access to operational resources. These "hybrid" entities require not only credit facilities but also assured access to the physical infrastructure that enables their operations – sourcing relationships,

storage capacity, transportation networks and processing facilities. Traders manage both forms of resources through complex subsidiary-level arrangements that remain largely invisible in parent-company reporting.



Global food traders depend on resources from external parties across 80 countries.

These arrangements take three distinct forms: credit facilities accessed directly by trader subsidiaries, external companies where traders acquire minority shareholding positions to secure operational access, and trader subsidiaries that offer minority stakes to external partners in exchange for resource commitments. The operational dependencies created by these distinct forms of external resourcing arrangements are documented through a counterparty exposure index (table III.4). This aggregates the frequency of use of subsidiary-level relationships by these three arrangements, by jurisdiction, for major global food traders.

The index reveals that global food traders depend on access to key resources from external parties spread across 80 countries. The data suggest significant variation in the composition of these relationships. While counterparties in countries such as Germany and Spain are largely contained to bank-based exposures, others, including in Canada, Singapore and the United States, show entirely corporate-based exposures, indicating different types of transmission channels through which distress could propagate.

The mixture of debt and equity relationships at the subsidiary level means that traders' practical liquidity management extends far beyond reported bank credit facilities, encompassing a multi-jurisdictional web of relationships that create potential contagion transmission channels. When regulators assess financial stability risks from commodity trading, focusing solely on parent-level bank credit exposures misses this subsidiary-level network of operational dependencies. Distress can propagate through it in both directions, from external counterparties to the trader and vice versa.

## a) Implications for financial stability

The combination of these three financing channels creates several types of systemic risk that traditional banking supervision may not detect.

- ▶ **Hidden concentration risk:** While banks and other financial institutions may believe that they have diversified exposure to commodity markets, in fact, they are all exposed to the same core group of traders through different channels. A bank might lend directly to a trader, invest in the trader's joint ventures and provide credit to the trader's subsidiaries without recognizing these as related exposures.
- ▶ **Cascading effects:** When one major trader experiences financial stress, the impact can spread simultaneously through banking syndicates, investment partnerships and subsidiary guarantee structures. This means problems that start with one trader could quickly affect multiple banks, investment partners and other traders who share the same networks.
- ▶ **Resolution challenges:** Because these networks span multiple countries and regulatory systems, coordinating a response during crisis periods could be extremely difficult. Regulators would need to work across jurisdictions while addressing direct banking exposures, shared investment partnerships and complex corporate group structures simultaneously.
- ▶ **Regulatory blind spots:** Current financial stability monitoring typically focuses on direct banking relationships and may miss the extensive indirect connections that create additional transmission channels for financial stress.

The evidence above further corroborates how major commodity traders have evolved beyond traditional trade intermediation to become critical nodes in financial networks that connect banks, capital markets and industrial sectors in ways that could amplify rather than contain financial shocks during stress periods.



Table III.4

The extensive scale of trader integration in global financial networks means distress could spread from one to the other and back again

Economy	Counterparty exposure index	Direct bank-based exposures (percentage)	Corporate exposures (percentage)
China	395	33	67
Australia	107	9	91
United Kingdom	84	57	43
Indonesia	56	61	39
Russian Federation	52	27	73
South Africa	50	40	60
France	41	37	63
Ukraine	40	50	50
Germany	37	70	30
United States	33	0	100
Netherlands (Kingdom of the)	30	80	20
Singapore	30	0	100
Canada	28	0	100
Spain	28	82	18
Brazil	23	0	100
Malaysia	20	35	65
Peru	20	10	90
Virgin Islands, British	19	0	100
India	17	29	71
Mexico	17	82	18
Poland	17	65	35
Hong Kong, China	16	13	88
Colombia	13	85	15
New Zealand	12	58	42
Cayman Islands	11	0	100
Cyprus	10	10	90
Türkiye	10	90	10
Bermuda	9	22	78
Chile	9	0	100
Hungary	9	100	0
Switzerland	9	0	100
Japan	8	38	63
Namibia	7	0	100
Philippines	7	0	100
Serbia and Montenegro	6	83	17
Belgium	5	0	100
Bulgaria	5	80	20
Ireland	5	100	0
Norway	5	0	100
Portugal	4	75	25

Economy	Counterparty exposure index	Direct bank-based exposures (percentage)	Corporate exposures (percentage)
Argentina	3	0	100
Austria	3	100	0
Congo, the Democratic Republic of the	3	0	100
Côte d'Ivoire	3	0	100
Ghana	3	33	67
Greece	3	67	33
Kazakhstan	3	0	100
Romania	3	0	100
Zambia	3	33	67
Italy	2	0	100
Jamaica	2	0	100
Jordan	2	50	50
Mauritius	2	0	100
Morocco	2	0	100
Papua New Guinea	2	0	100
Samoa	2	0	100
Sri Lanka	2	0	100
Thailand	2	0	100
United Arab Emirates	2	50	50
Viet Nam	2	0	100
Algeria	1	0	100
Burkina Faso	1	0	100
Congo	1	100	0
Denmark	1	0	100
Ecuador	1	0	100
Egypt	1	0	100
Kenya	1	0	100
Latvia	1	0	100
Luxembourg	1	0	100
Macao	1	0	100
Mauritania	1	0	100
Myanmar	1	0	100
Nigeria	1	100	0
Pakistan	1	0	100
Paraguay	1	0	100
Saudi Arabia	1	0	100
Sweden	1	0	100
Tanzania, United Republic of	1	100	0
Togo	1	0	100

Source: UNCTAD based on analysis of trader shareholding records from Orbis, as of December 2024.

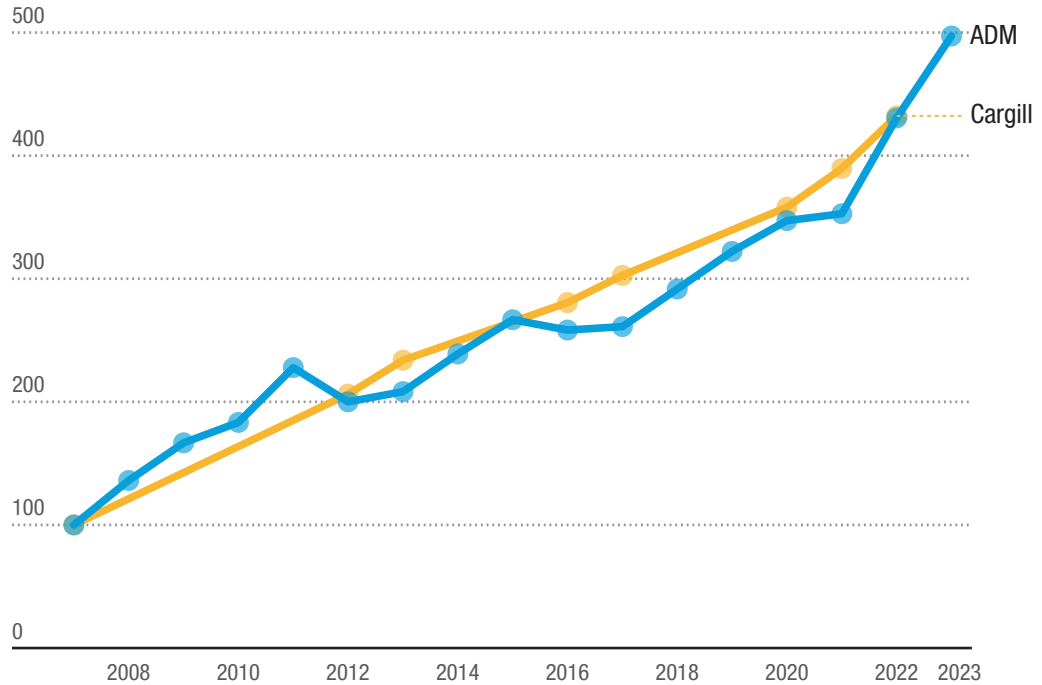
Note: The counterparty exposure index represents a summation of the frequency count of jurisdictions involved in the counterparty analysis of banking, minority shareholding and co-investments by the ultimate owners involved in trader subsidiaries and affiliate holdings. These are divided between subsidiaries with direct bank-based exposure and corporate exposures that may include, indirectly, banks and other financial institutions. Blue shading indicates economies where bank-based exposures exceed corporate exposures.



**Figure III.10**  
**Unremitted earnings continue to grow**

Growth in unremitted earnings of foreign subsidiaries

(Index, 2007 = 100)



Source: UNCTAD based on annual audited accounts.

Note: As Cargill is a private corporation, compliant financial statements are only available as part of public bond issuance prospectus documentation on the Luxembourg Stock Exchange (see <https://www.luxse.com/>).

**b) Trading your cake and keeping it too: The profit extraction problem**

From a development perspective, perhaps the most concerning aspect of the structured finance transformation in commodity trading is the way it enables the systematic extraction of capital from entities that interface with the financial system while socializing the risks of potential distress.

The generation of financial intermediation income documented above operates through regulatory frameworks that provide legal protections for systematic advantages, while the profits from these activities are captured through

sophisticated structures that minimize both tax obligations and visible capital buffers.

Maintaining large pools of capital in “undistributed earnings” of unconsolidated affiliates and “cash held by foreign subsidiaries” effectively extracts capital from operational entities (see figure III.10). These structures allow trading firms to keep lean balance sheets for tax purposes while hiding capital that could serve as a buffer in crises yet remain outside conventional resolution frameworks.

Large and growing pools of unremitted earnings persist despite external credit being positioned as the primary liquidity buffer. This indicates a strategic choice rather than a necessity, shifting immediate

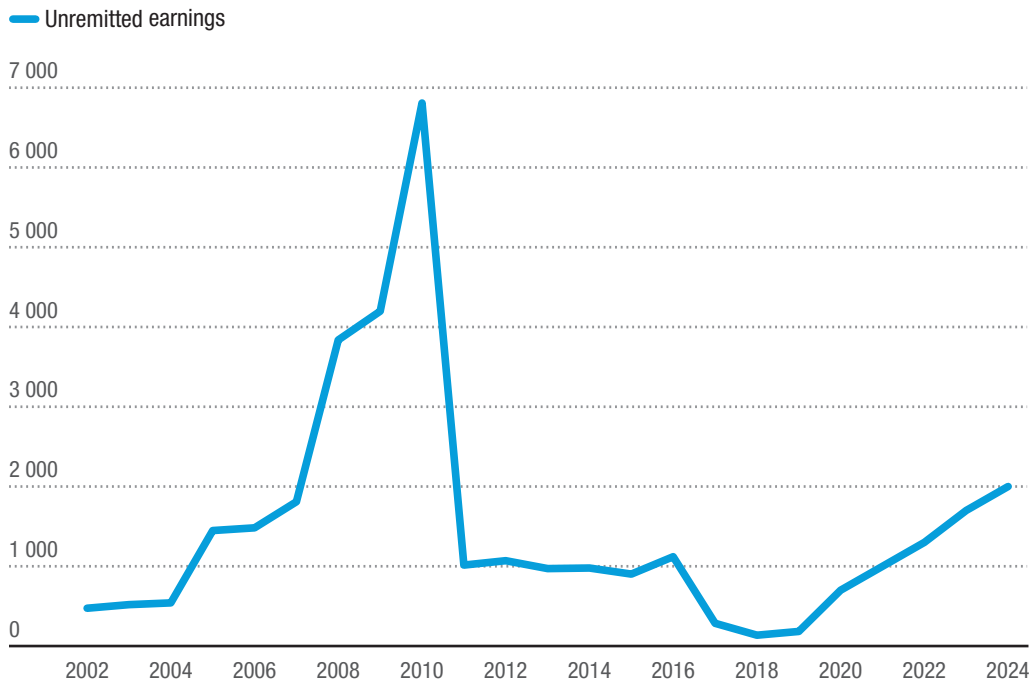
The most concerning aspect of structured finance is that it socializes risks of distress.



**Figure III.11****Unremitted earnings, locked away, may become a last resort in crises**

Bunge's unremitted earnings in foreign subsidiaries

(Millions of dollars)



Source: UNCTAD based on company 10-K filings (Securities and Exchange Commission).

risks – such as margin calls – onto banks and markets, while resilience buffers are held offshore in complex structures that are difficult to access quickly. This creates a timing mismatch: Creditors face short-term risks while profits remain locked away for tax benefits rather than crisis resilience. Opacity around access and speed heightens the uncertainty of recovery from crises; some firms have a history of tapping into these reserves at scale when needed (see figure III.11).

The financial stability implications of this arrangement are particularly concerning. In short, the apparent creditworthiness of major commodity traders may

systematically understate the risks these entities create for their counterparties.

When substantial capital buffers exist but are held in structures that may be inaccessible during stress periods, traditional credit analysis may significantly underestimate the probability and potential magnitude of losses that could be transmitted to the financial system.

Operations with financial derivatives exploit legal protections to shield profits.



## D. Conclusion and policy lessons

The analysis presented in this chapter reveals how the transformation of commodity trade finance has created new categories of systemic vulnerability. These require fundamental changes in how financial stability authorities understand and monitor risks in essential commodity markets.

The structured finance architecture that emerged in response to the post-2010 banking regulations has not eliminated systemic risk. It has, in fact, relocated and potentially amplified that risk through mechanisms that operate largely outside existing supervisory frameworks. Several issues pose particular challenges for financial stability policy.

First, commodity markets serve as essential infrastructure for global food and energy security. Disruptions in commodity trade financing can have immediate real-economy consequences that extend far beyond financial markets. The concentration of trade finance intermediation within a small number of global traders means that distress in these entities could simultaneously disrupt

multiple commodity markets and geographic regions, potentially affecting global food and energy supplies during periods when such disruption would be most damaging.

Second, the structured finance techniques that enable modern commodity trading exploit gaps between different regulatory frameworks in ways that make coordinated oversight extremely difficult. Traders use interacting position-limit exemptions, securitization disclosure requirements and market abuse protections across multiple jurisdictions and regulatory domains to create systematic advantages that may be difficult to address through traditional entity-based supervision.

Third, commodity traders have evolved beyond traditional intermediation to become sources of systematic information advantages that may distort price discovery in essential commodity markets. When derivative income consistently represents 70 to 90 per cent of revenues for major traders, the pricing of food and energy commodities increasingly reflects the

New financing channels hide risks of concentration, cascading failures and regulatory blind spots.



optimization of financial payoff structures rather than underlying supply and demand fundamentals. This potentially undermines the economic signals that guide resource allocation in these critical sectors.

Finally, the complex subsidiary structures, offshore capital accumulation and multi-jurisdictional banking relationships that characterize major commodity traders create significant coordination challenges for authorities charged with resolution during stress periods.

The challenge for financial stability policy is to develop approaches that can monitor and manage these risks while recognizing the essential role that commodity trade financing plays in enabling global food and energy flows.

This will likely require moving beyond traditional entity-based regulation and developing frameworks that can tackle systemic risks evolving through complex networks of contractual relationships and regulatory arbitrage structures. Cross-market analysis, better analytical tools and holistic frameworks can be devised on the

basis of existing models of systemic risk regulation and competition policy tools.

The legal but non-transparent financial and tax avoidance techniques outlined above should come under the radar of international organizations monitoring illicit financial flows risks. Closer multilateral policy exchange is clearly overdue.

The stakes of this challenge extend beyond financial stability to encompass food security, energy security, illicit financial flows and financial integrity, and the broader resilience of the global economy. As climate change and geopolitical tensions increase volatility in commodity markets, the resilience of commodity trade financing is increasingly critical for global economic stability.

Achieving this resilience will require fundamental changes in how regulators understand and address the intersection of commodity markets and the financial system in an era where structured finance has become the dominant architectural feature of these critical markets.

The resilience of commodity trade financing is increasingly critical for global economic stability.



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# 2025 Trade and development report

## Chapter IV

# Trade and finance: Reshaping the global South amid uncertainty

### KEY FINDINGS

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



## Policy takeaways

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



## A. Introduction: An uneven rise

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

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

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

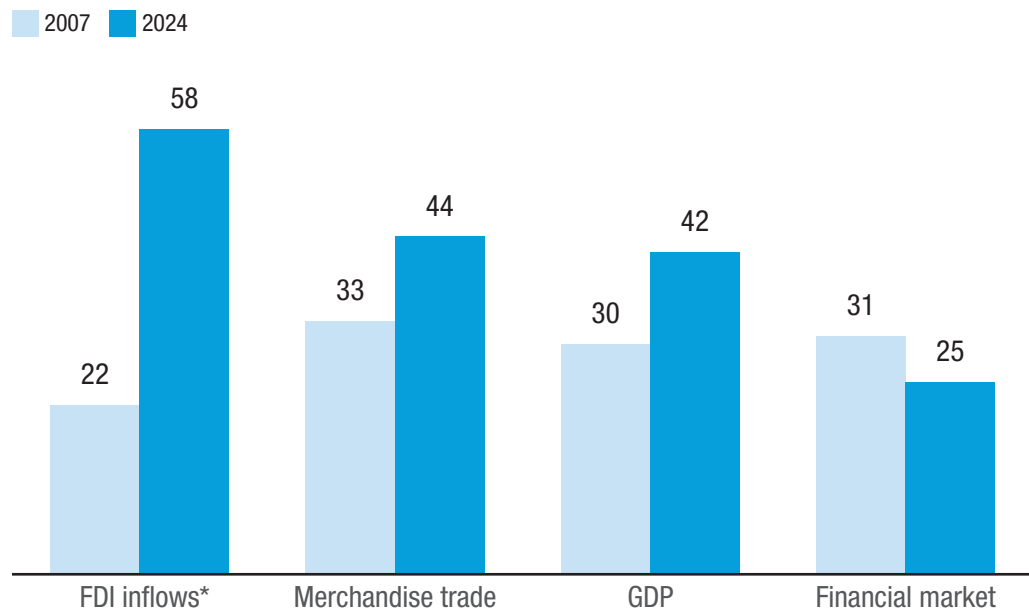
Conventionally associated with the greater power of financial markets over the interests of the real economy, financialization has driven transformative shifts across the world economy (Stockhammer, 2004; Epstein, 2005), shaping the integration of the global South. The outcomes have been uneven. Despite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



**Figure IV.1**

### The South in the global economy: An uneven rise

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



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

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

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



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

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

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

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

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

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

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

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

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

## B. Remapping global trade and foreign direct investment flows

### 1. Global trade: Diversity and decentralization

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

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

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

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

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



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

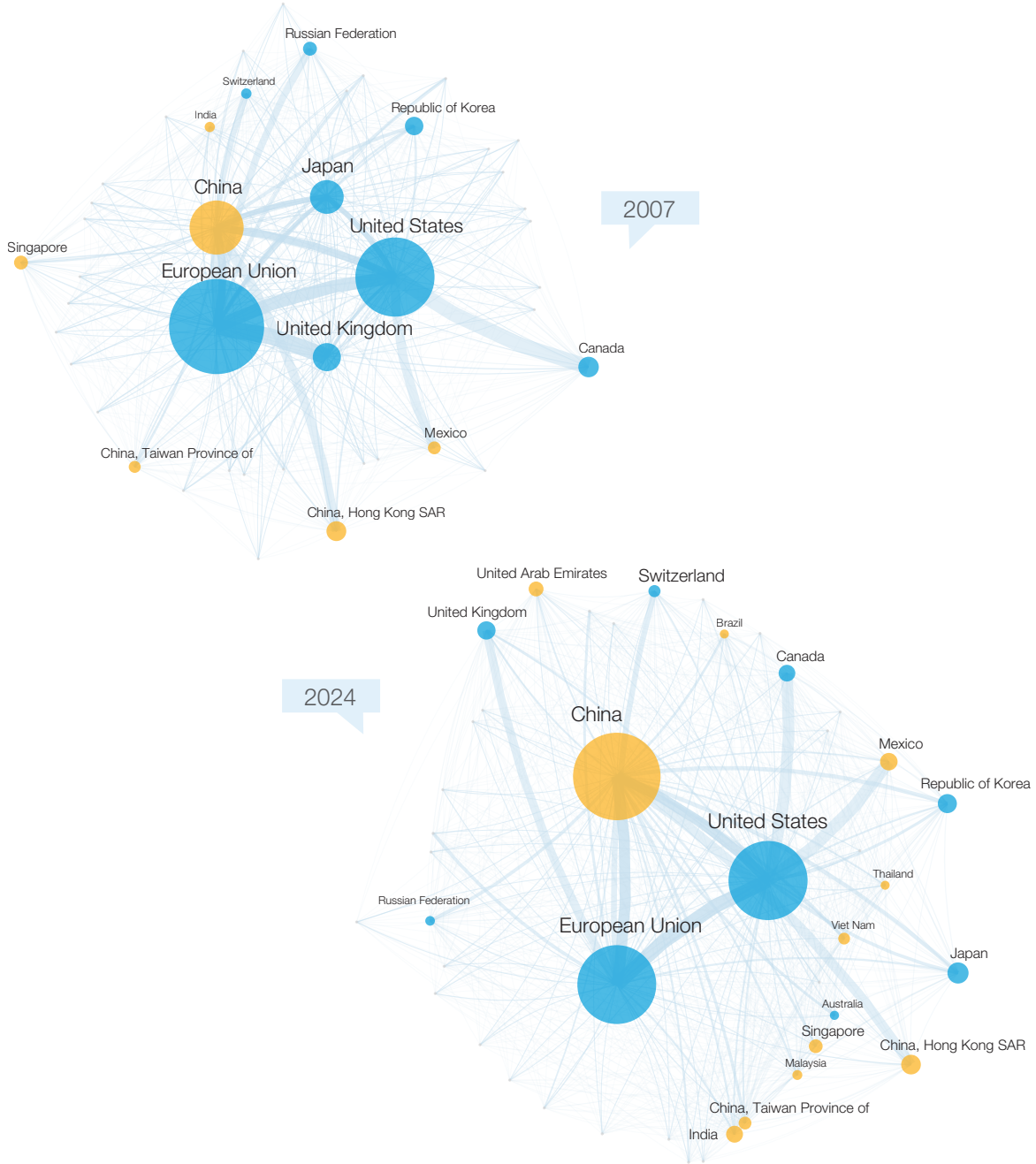
The diversification of supply chains and trade partnerships has not been confined to developing countries.



**Figure IV.2**

**Global South economies are increasingly prominent in global trade**

World network of bilateral merchandise trade



Source: UNCTAD based on UNCTADstat.

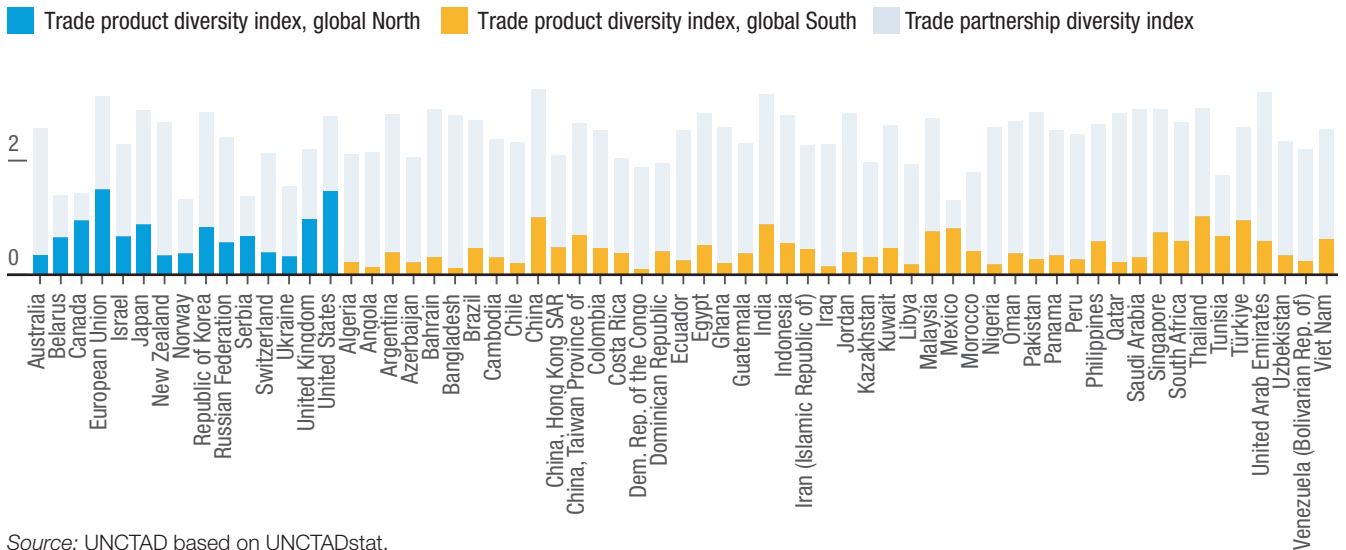
Note: Only the top 20 per cent of the world's largest economies by trade value are represented in this figure. Intra-European Union trade is not considered. For each economy, its node size is proportional to the total value of its exports and imports. Economies' names are only listed if their share in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





**Figure IV.3**  
**Trade diversification has occurred across many economies**

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



Source: UNCTAD based on UNCTADstat.

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

Many countries, developed and developing, have broadened their trade ties over the past decade. China, India and the United Arab Emirates lead trade partnership diversity rankings<sup>30</sup> among the developing countries. Japan, the Republic of Korea and the European Union are at the forefront of the advanced economies (figure IV.3). As appendix IV.1 shows, of the 15 most diversified in partnership economies in the world, 12 are in Asia.<sup>31</sup>

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

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

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

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

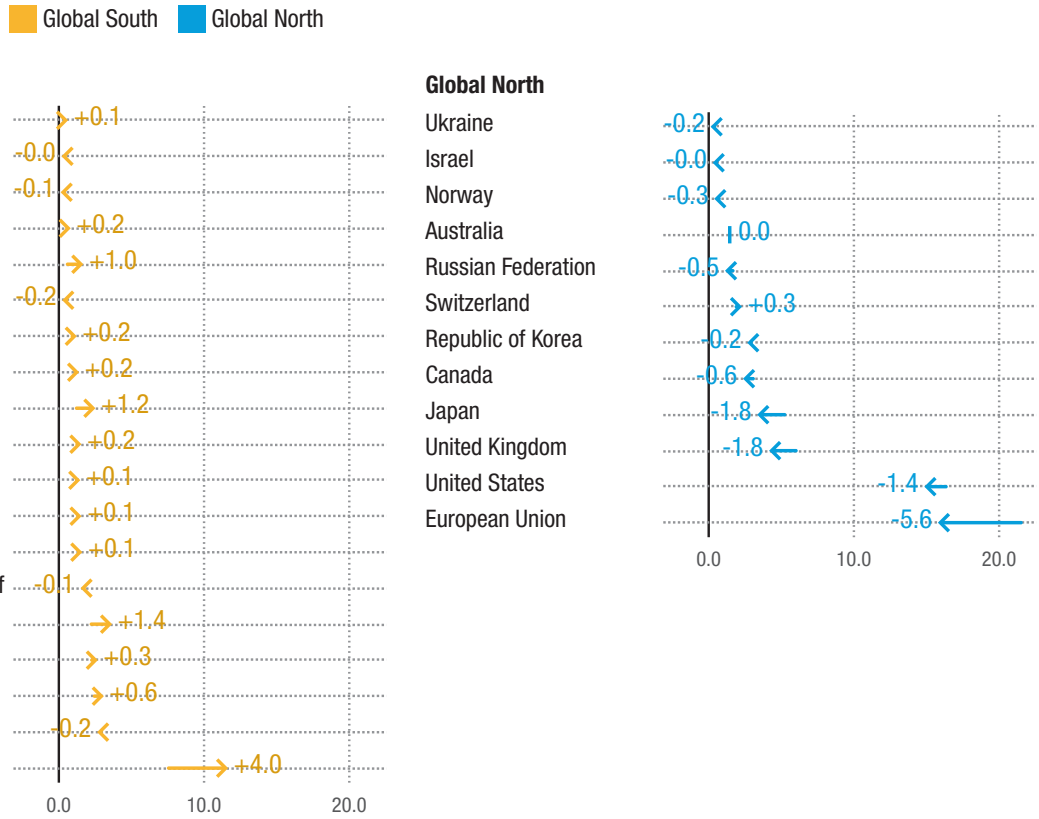




**Figure IV.4**

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

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



Source: UNCTAD based on UNCTADstat.

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

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

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

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





**Table IV.1**  
**Trade shifts have occurred among major players but not more broadly**

Changes in the global merchandise export flows

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

Source: UNCTAD based on UNCTADstat.

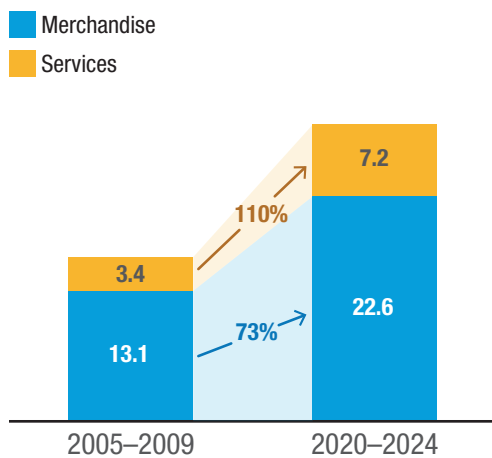
The picture changes drastically when the expanding services trade is included (figure IV. 5). In the global services trade, developing countries have increased their footprint only marginally. Overall and in

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



**Figure IV.5**  
**The changing global trade landscape: Services grow faster than merchandise trade**

Five-year averages of global exports in services and merchandise trade (Trillions of dollars)

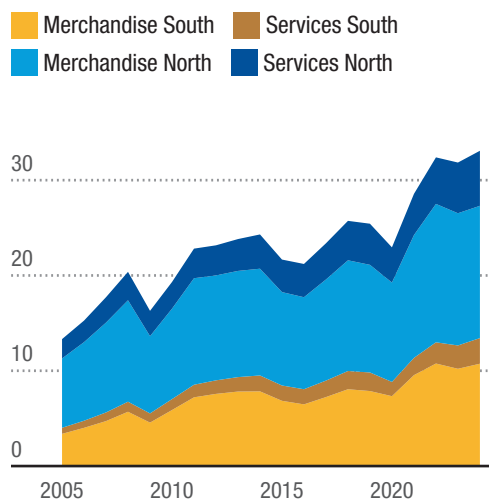


Source: UNCTAD based on UNCTADstat.

Note: Arrows show growth rates for the indicated periods.

**Figure IV.6**  
**Global South's limited role in the changing global landscape**

Merchandise and services trade in global North and global South (Trillions of dollars)

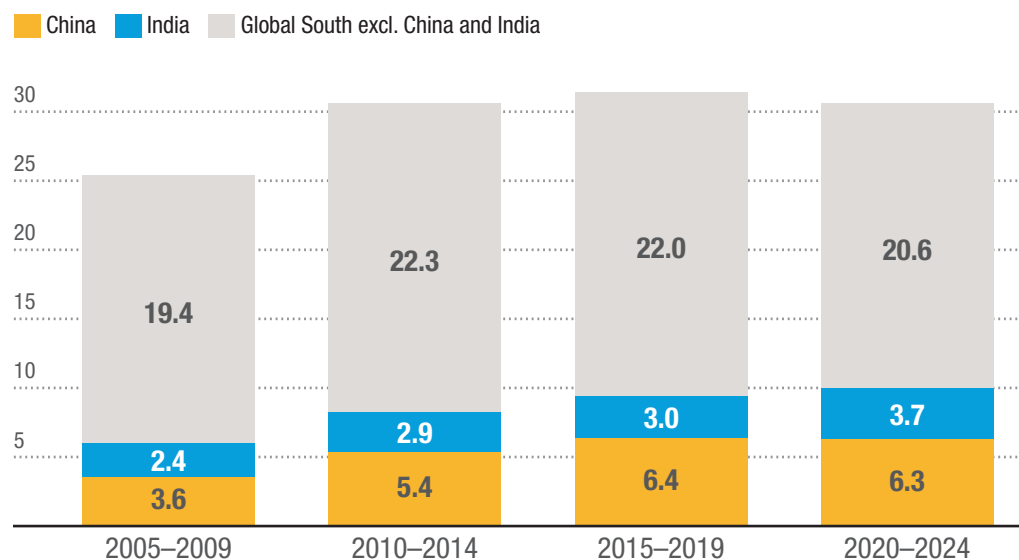


Source: UNCTAD based on UNCTADstat.



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

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



Source: UNCTAD based on UNCTADstat.

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

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

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

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

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

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

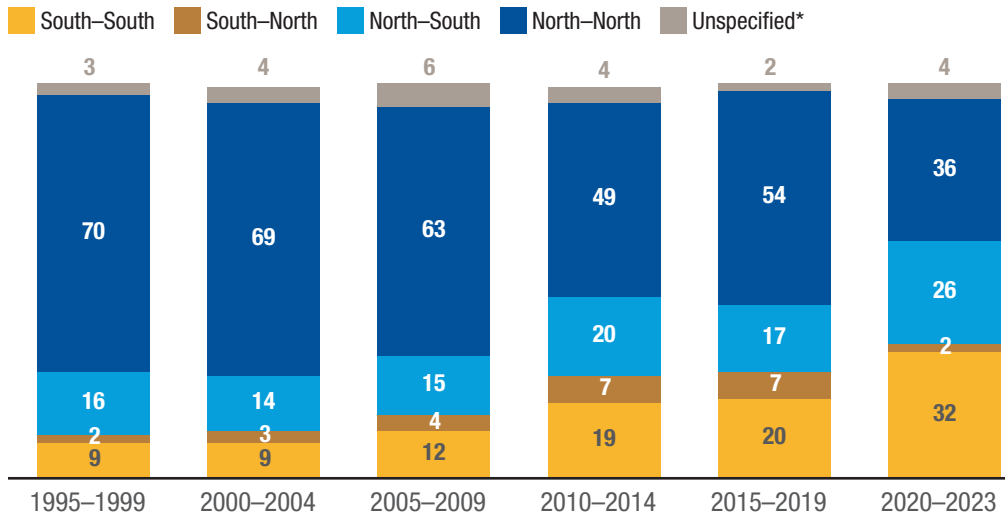
## 2. The global South and global foreign direct investment flows<sup>32</sup>

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

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

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

Bilateral FDI flows  
(Percentage)



Source: UNCTAD based on UNCTADstat.

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

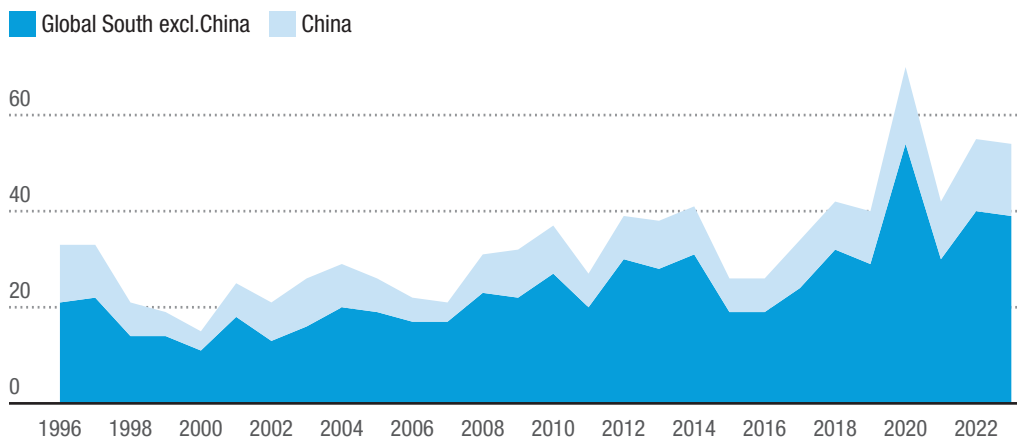
\*Unspecified are FDI inflows where the country of geographic origin could not be definitively identified in the official reporting data.

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

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

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

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



Source: UNCTAD based on UNCTADstat.

Note: The dataset refers to figure IV.1.

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

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

Yet a more granular examination reveals a different picture.

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

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

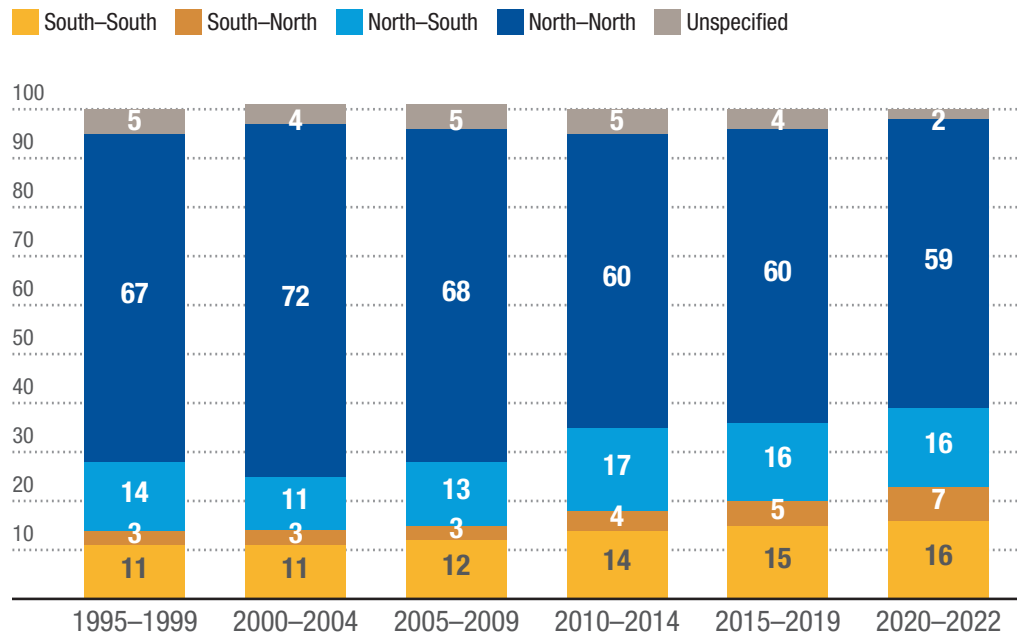
shows constant growth, suggesting a growing but still minor shift as emerging economies begin to invest more steadily in the global North (figure IV.10).

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

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

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

Bilateral FDI instock  
(Percentage)



Source: UNCTAD based on UNCTADstat.

Note: The dataset includes international financial centres.

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

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

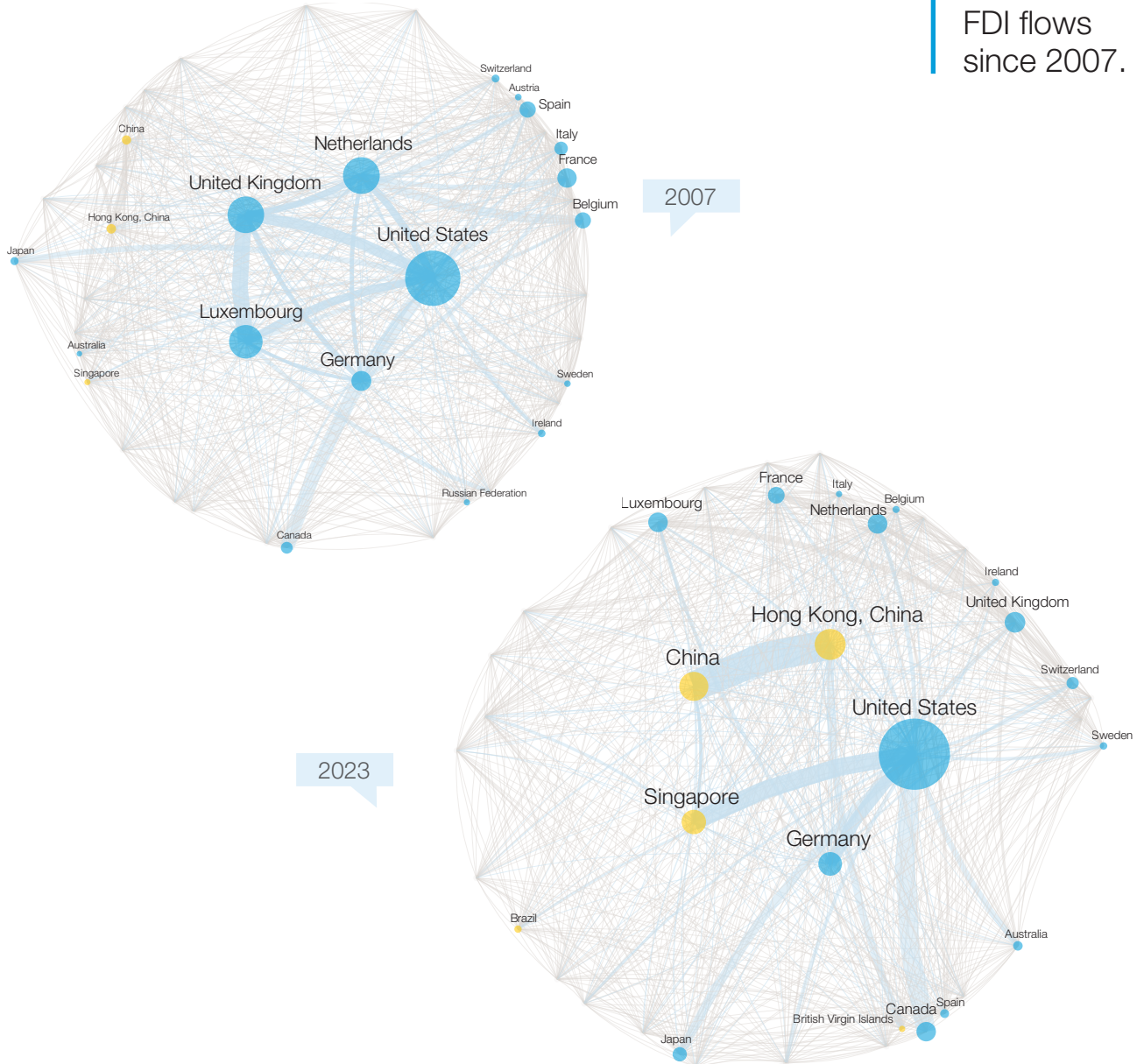
China, Singapore, and Brazil have joined the developed countries as global hubs of bilateral FDI flows since 2007.



**Figure IV.11**

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

World network of bilateral foreign direct investment flows



Source: UNCTAD based on UNCTADstat.

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



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

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

**Box IV.1**  
**Trade within BRICS**

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

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

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

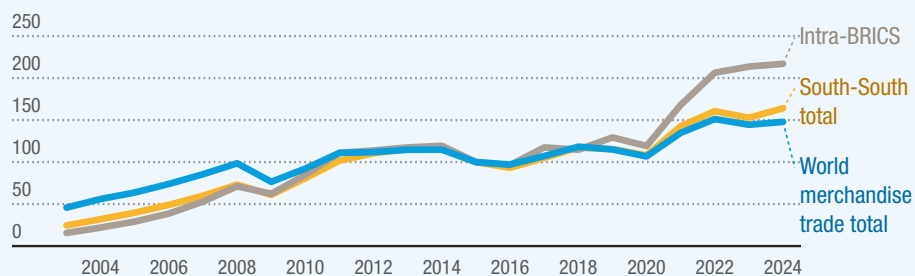
Over the past decade, the 10 full members of BRICS have enlarged their footprint in global trade. Total merchandise exports from them to the world increased dramatically, from almost \$1 trillion in 2003 to \$6 trillion in 2024. This growth has resulted in a steady expansion in their share of global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

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

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

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

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



Source: UNCTAD based on UNCTADstat.

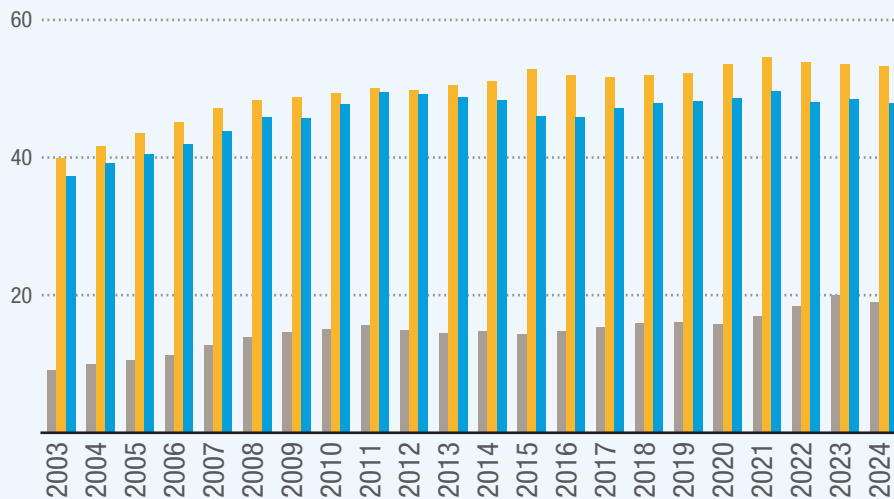
Despite rapid growth in the last two decades, the scale of intra-BRICS trade remains small compared to the economic size and trade capacity of members. Collectively, members account for 27 per cent of global GDP and 68 per cent of the GDP of the global South. In total exports, they have 24 per cent of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



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

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

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



Source: UNCTAD based on UNCTADstat.

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

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

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

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

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



### 3. The global South and financialization

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

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

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

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

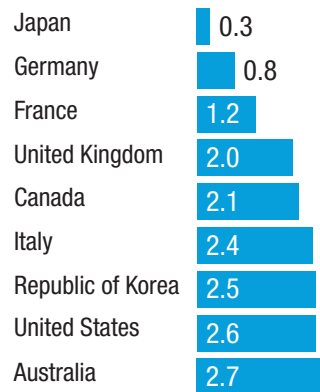


**Figure IV.12**

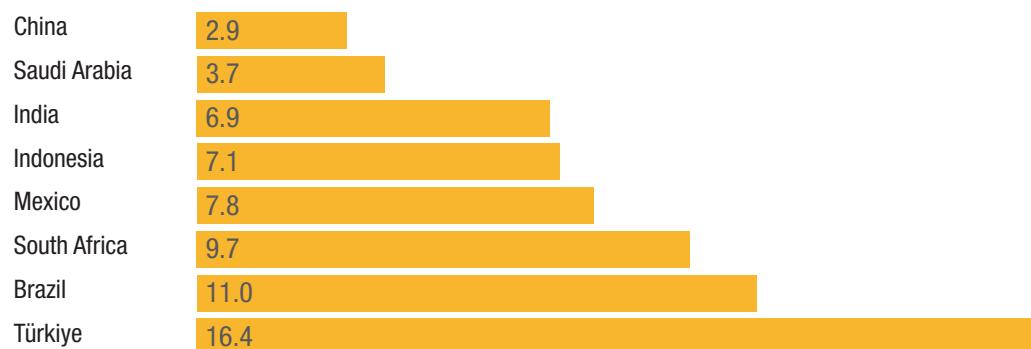
#### Global South sovereign borrowing comes with a higher cost

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

##### Global North



##### Global South



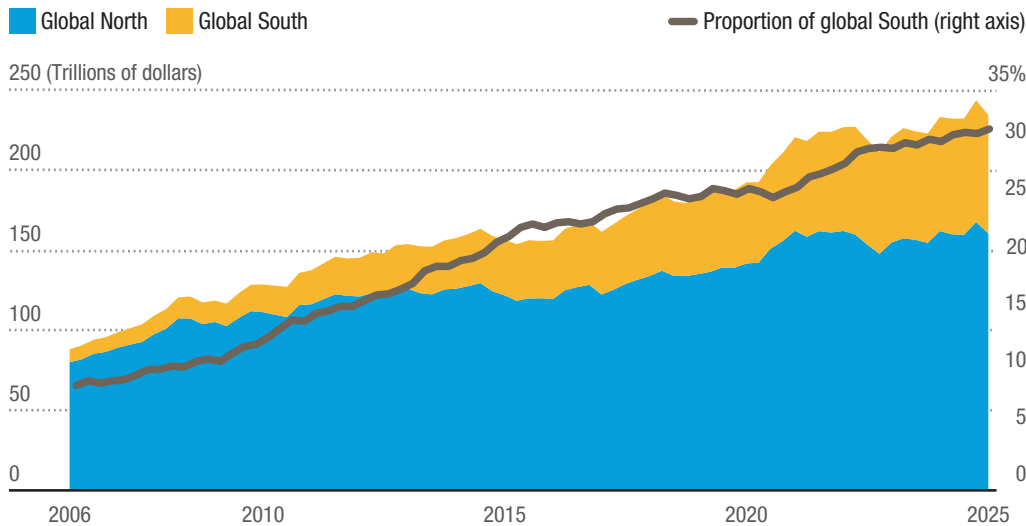
Source: UNCTAD based on LSEG Datastream.

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



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

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



Source: UNCTAD based on BIS data.

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

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

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

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

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

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

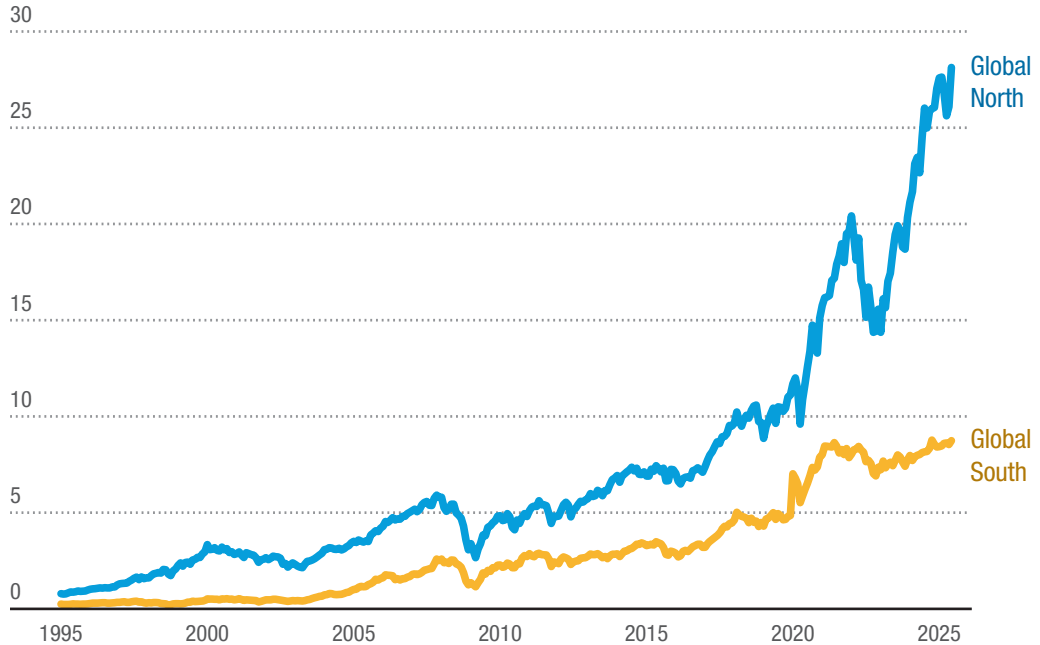
In developing economies, the credit-to-GDP ratio has grown by 80% in the past 20 years.





**Figure IV.14**  
**Raising capital remains a challenge for companies from the global South**

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



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

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

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

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

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

mechanisms of financialization and their implications for emerging markets.

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

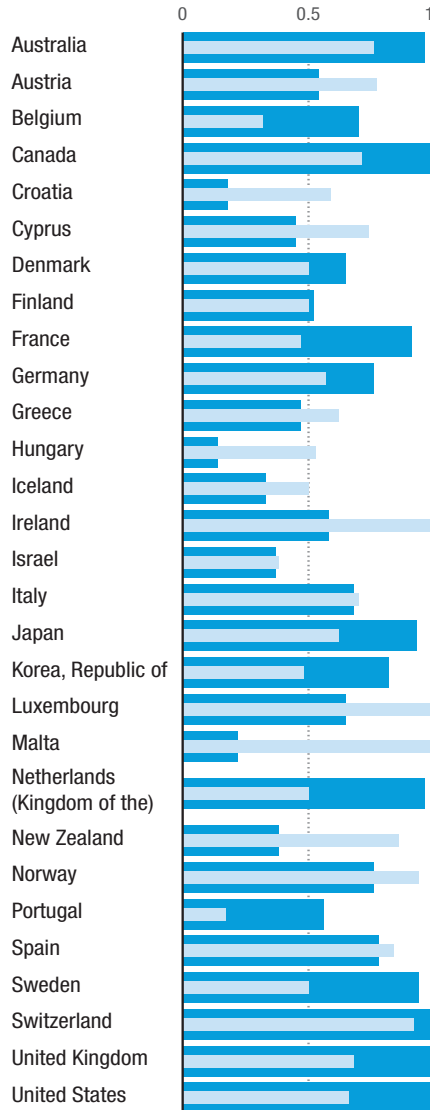


**Figure IV.15**  
**Developing economies face unequal financial access**

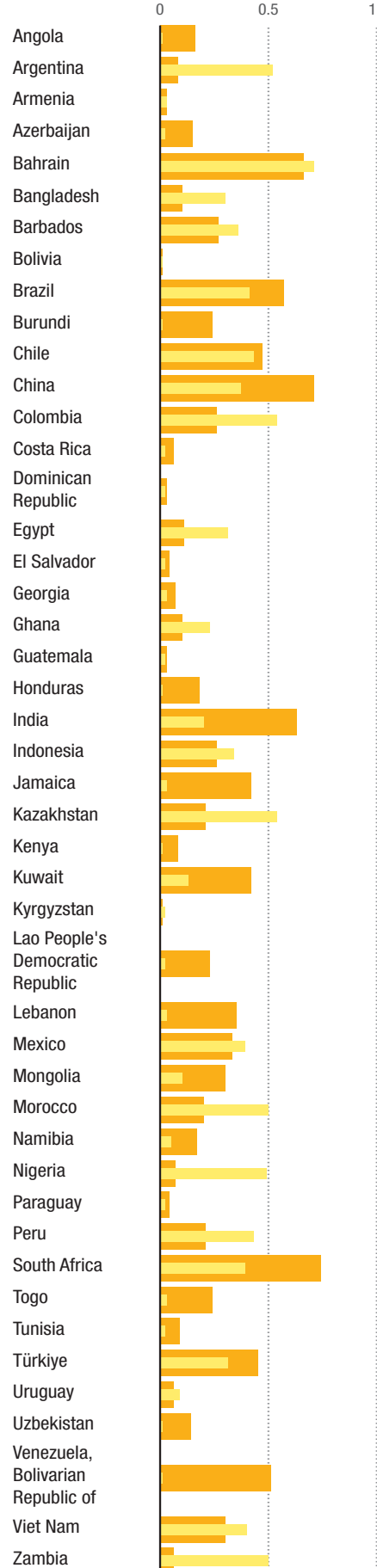
Financial Markets Access and Depth indices, selected economies, 2025

Access Depth

**Global North**



**Global South**



Source: UNCTAD based on the IMF Financial Development Index.

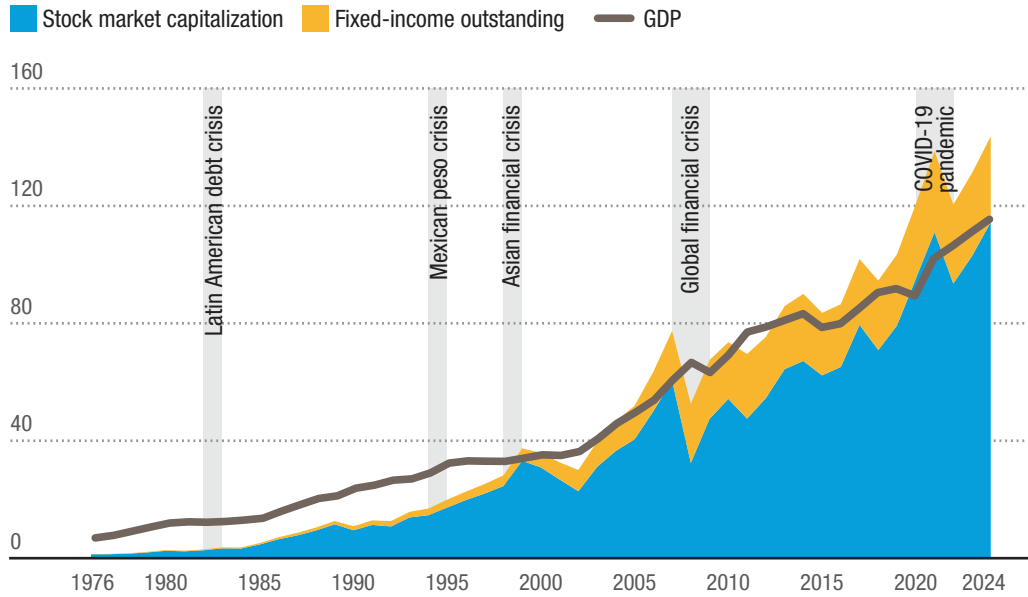
Note: Both indices are composite indicators aiming to capture financial market access (ability of individuals and companies to access financial services) and depth (size and liquidity of markets). They are based on data measuring various characteristics of financial institutions and markets. For more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



**Figure IV.16**

**Global financial market expansion has outpaced economic growth**

Global GDP, global equity market capitalization and global fixed-income outstanding (Trillions of current dollars)



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

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



**Table IV.2**

**The United States dominates global capital markets**

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

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

Source: UNCTAD based on BIS and WFE.

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

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



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

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

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

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

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

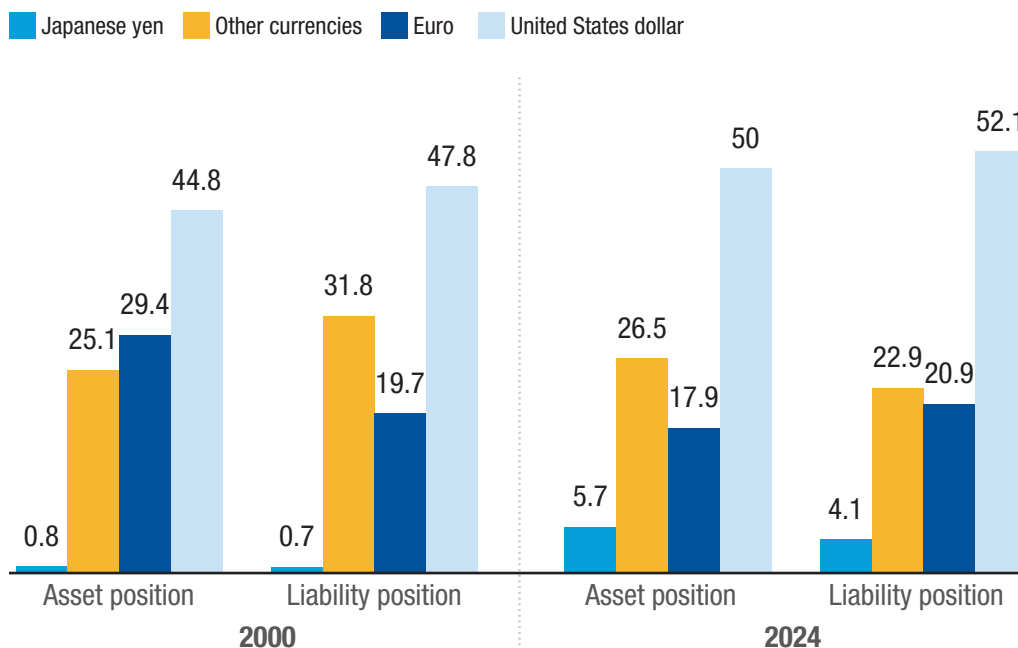
Financing strategies of private and public entities are increasingly shaped by sovereign funds, pension funds, asset managers, and banks.

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



**Figure IV.17**  
**The rising role of the dollar in global investment and borrowing**

Currency composition of international investment positions  
(Percentage)



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

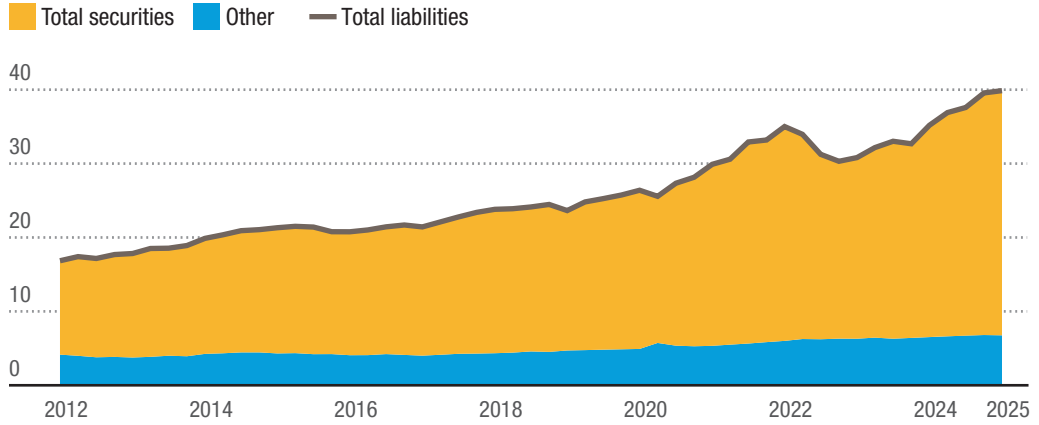
Note: The international investment asset position represents the value of a country’s financial claims on the rest of the world. The liability position reflects the value of foreign financial claims on that country. Both exclude the foreign holders’ own domestic currencies.





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

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



Source: UNCTAD based on Federal Reserve data.

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

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

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

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

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

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



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

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

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

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



Table IV.3

### Global investors show continued demand for dollar-denominated financial assets

International debt securities shares by currency

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

Source: UNCTAD based on BIS international debt securities statistics.

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



## C. The dollar as the global financial anchor

### 1. Asset capitalism and the centrality of the dollar

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

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

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

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

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

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

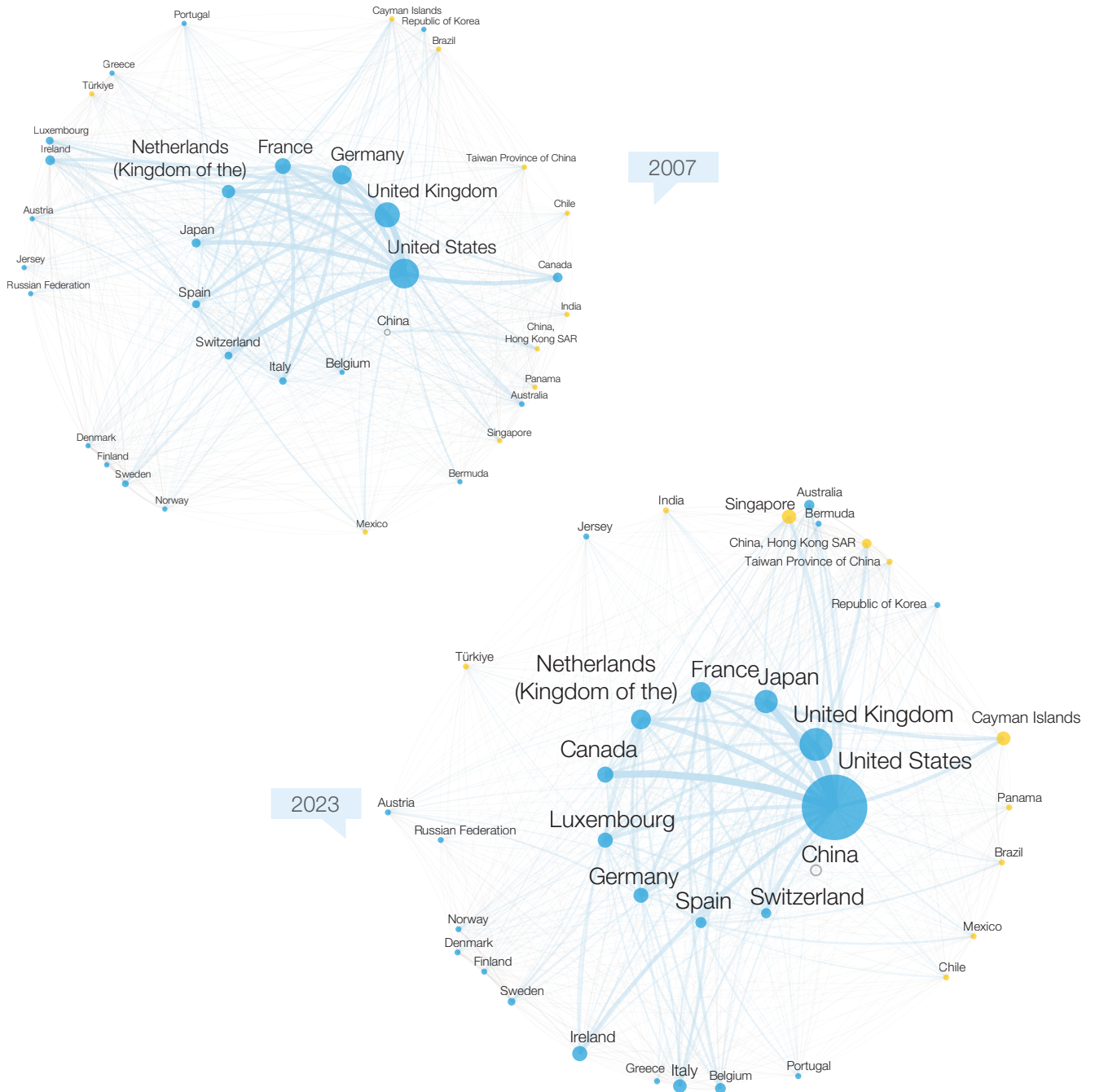
**Table IV.4**  
The financial foundations of dollar dominance

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

Source: UNCTAD based on Lysandrou (2025).

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

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



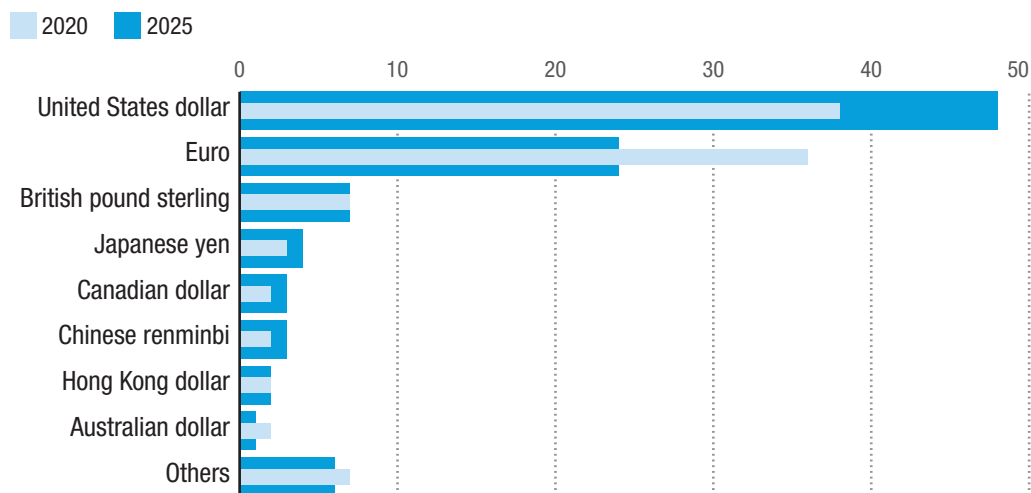
Source: UNCTAD based on UNCTADstat and BIS consolidated banking statistics.

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



### Figure IV.20 The dollar's growing role in global payments

Currency composition of SWIFT transactions, selected currencies  
(Percentage)



Source: UNCTAD based on SWIFT database.

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

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

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

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

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

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

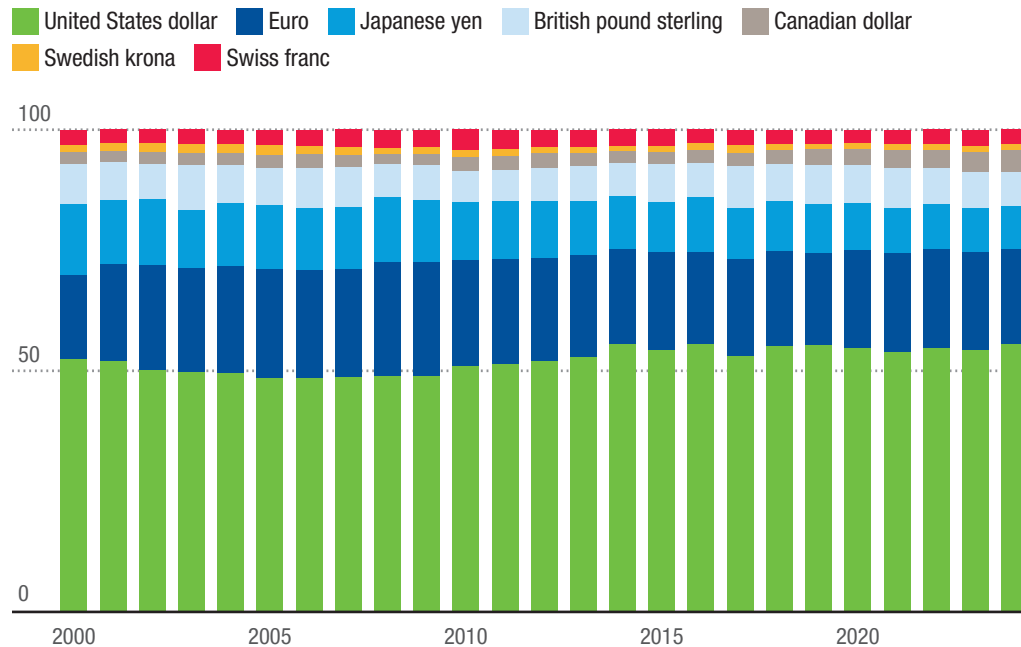
Thus the dominance of the dollar extends beyond trade, to key dimensions of the international financial system, including its role as the primary reserve currency and through its anchoring functions in global derivatives transactions, global capital markets and the infrastructure of the global financial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





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

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



Source: UNCTAD based on BIS foreign exchange derivative statistics.

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

## 2. Financial services and infrastructure

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

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

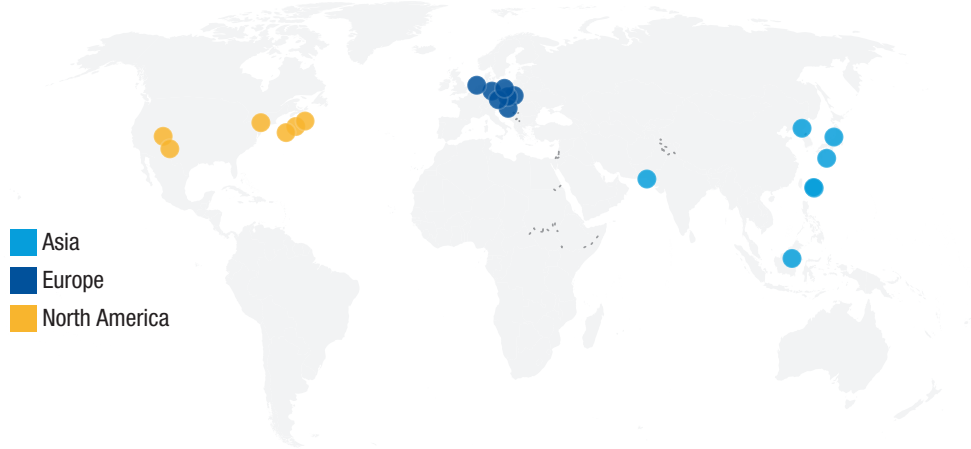
Financial institutions, including banks, law firms, consulting companies and other advanced financial services companies, offer services that help create and intermediate financial assets with the real economy (Clark and Monk, 2014; Hashimoto, 2021; UNCTAD, 2025b). Since the 1980s, the role of financial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

A robust financial infrastructure supports economic growth and integration.



**Figure IV.22**  
**Financial infrastructure concentration in North America and Europe**

Top 20 international financial centres, 2025



Source: UNCTAD based on global financial centres index by Z/Yen Group, 2025.

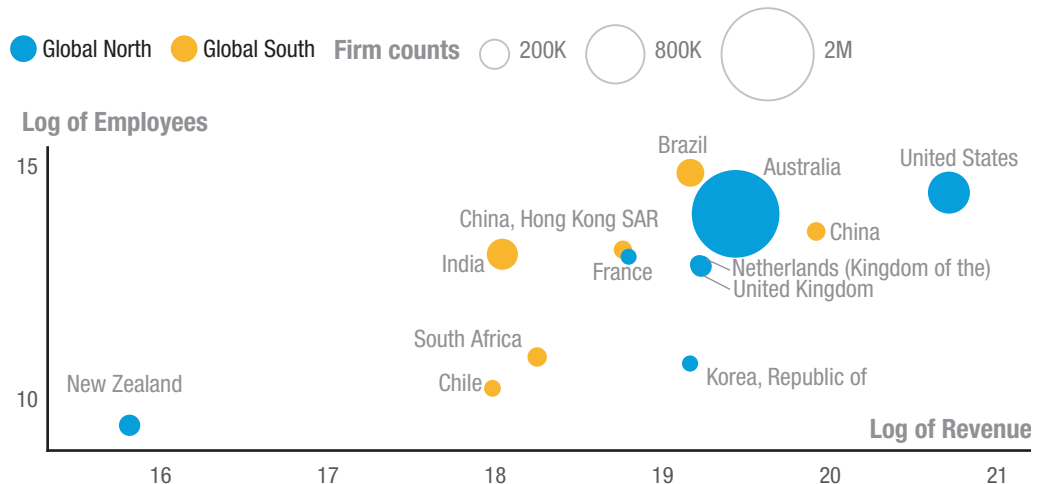
Global financial infrastructure hubs remain clustered in the global North and Asia.

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

Yet the global geography of financial infrastructure is very uneven. Despite deepening financialization across developing economies and their greater weight in the global economy, global hubs of financial infrastructure, proxied, for

**Figure IV.23**  
**An uneven global distribution of financial sectors**

Presence, revenue and employment of financial service firms in 2025, selected economies



Source: UNCTAD based on Orbis.

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



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

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

### 3. Dilemmas of diversification

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

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

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

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

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

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

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

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

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

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





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

Market capitalization  
(Billions of dollars)

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

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

Source: UNCTAD based on LSEG Datastream.

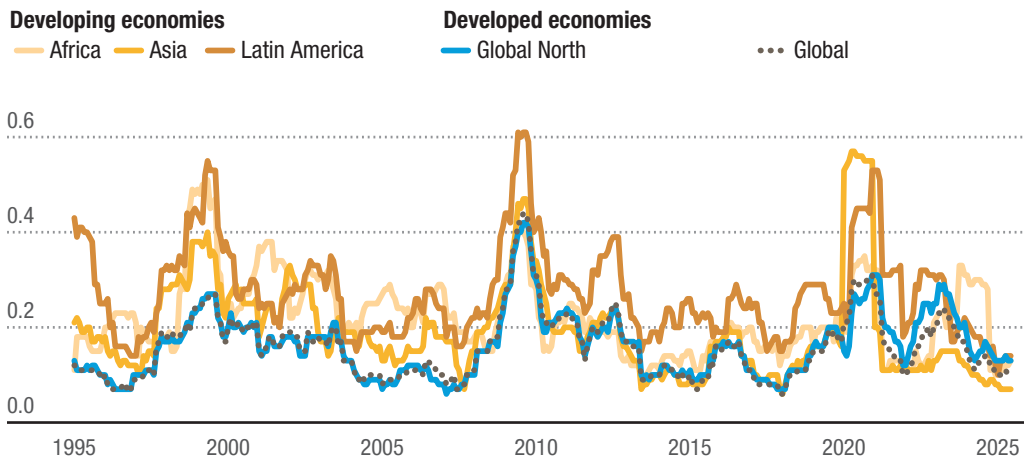
Note: Class A shares are cited as the market cap representative because they are the voting stock and their price closely tracks all other publicly traded classes. Market capitalization figures are based on data from 9 August 2025.





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

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



Source: UNCTAD based on LSEG Datastream.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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



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## Appendix IV.1

### A. Diversity index of trade partnerships, 2024

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

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



## B. Diversity index of trade products, 2024

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

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

Source: UNCTAD based on UNCTADstat.

Note: Detailed note is provided in figure IV.3





# 2025 Trade and development report

## Chapter V

# New policy frontiers: Building climate- economic resilience in the global South

### KEY FINDINGS

- ▶ Inadequate economic resilience remains a binding constraint for the global South. Climate change and other non-economic shocks aggravate the challenge even as financing shortfalls are acute. Requirements for climate finance alone in developing countries are projected to total \$1.1 trillion to \$1.8 trillion annually from 2025 to 2030.
- ▶ From 2023 to 2030, 48 developing countries face an estimated annual cost of \$5.5 trillion to combat climate change, protect biodiversity and reduce pollution, around 18 per cent of combined GDP.
- ▶ For the most vulnerable developing economies, a vicious cycle of rising climate costs and debt has set in. Climate-related shocks reduce economic growth, which diminishes fiscal revenues. At the same time, borrowing costs spike as creditors raise rates based on higher risks.
- ▶ The world's most vulnerable economies spend \$20 billion annually on higher interest payments due to climate-related risks, despite contributing little to climate change. This cost has grown from \$5 billion in 2006. By 2023, it reached a cumulative total of \$212 billion.



United  
Nations



## Policy takeaways

- ▶ Aligning development and climate goals through a successful green structural transformation should be a paramount consideration in building climate-economic resilience.
- ▶ Countries in the global South need an integrated policy framework to mobilize domestic resources, combat illicit financial flows, advance green structural transformation and design regionally oriented integration strategies.
- ▶ The role of the global North remains essential. Developed countries should take the lead in speeding up the decoupling of economic growth from environmental degradation, strengthening North–South cooperation, and addressing declining official development assistance.
- ▶ In a deeply interdependent world, viable, networked multilateralism to respond to current challenges can draw on three guiding principles: inclusivity and a development orientation, constructiveness and synergies, and pragmatism and relevance.



## A. Introduction

The apparent resilience of the global economy in 2025 should not distract from its underlying fragilities. For the global South, a lack of resilience and mechanisms to sustain growth remain core concerns.

Domestically, limited fiscal space restricts measures to absorb or mitigate economic shocks, as demonstrated during the COVID-19 pandemic, when the average relief package in developing countries was much smaller than in developed countries (UNCTAD, 2020a). Debt burdens, limited development finance and insufficient economic diversification combine to weaken resilience.

External factors compound these challenges. Over the past three decades, developing countries have diversified their trade profiles in goods and, to a lesser degree, in services. But the outcomes remain uneven, complicated by financialization and new geoeconomic realities.

### 1. The most vulnerable economies spin in a vicious climate-debt cycle

The climate crisis exacerbates current concerns, trapping vulnerable countries in a vicious cycle of climate impacts and debt. The frequency of extreme climate events is rising (figure V.1). Developing countries have seen doubling of such events from an annual average of at least 127 between 1990 and 1994 to 271 between 2020 and 2024. Meanwhile, the number in advanced economies increased by 49 per cent, from 74 to 119 extreme climate events per year during the same period.

As climate-related disasters become fiercer and more frequent, policymakers in

developing countries should deal with both immediate and long-term risks such as floods, droughts, sea-level rise and storms, demonstrated recently by devastation in Pakistan, the Philippines and the Caribbean, among many others. The economic costs are daunting. The Vulnerable Twenty Group of economies (V20), for instance, may have lost \$525 billion due to climate change effects from 2000 to 2019 (V20, 2022).

Recovery requires significant resources. Yet with international support falling well short of needs, borrowing to rebuild after a climate disaster generally increases (IMF, 2019). This causes two adverse, interrelated impacts. First, climate-related shocks reduce economic growth and depress fiscal revenue. Second, borrowing costs increase as creditors raise rates to price in higher risks (Buhr et al., 2018). More borrowing at higher costs amid lower fiscal revenue reduces the capacity of affected countries to service their debt.

Lower debt service capacity results in a deteriorating credit risk profile and credit downgrades. As a result, the cost of servicing current sovereign debt (debt with variable interest rates) and the cost of new borrowing both increase even more. Greater debt distress and reduced fiscal space leave countries unable to invest in climate adaptation and resilience-building, making them more vulnerable to climate-related shocks. Countries are effectively trapped between servicing debt and investing in resilience and climate-aligned structural transformation.<sup>35</sup>

Countries with higher exposure to climate vulnerability, such as members of the Climate Vulnerable Forum, have debt costs that are 117 basis points higher on average (Kling et al., 2025). A calculation based on this static estimate conservatively suggests

<sup>35</sup> For more details, see the Expert Review on Debt, Nature and Climate, 2024.

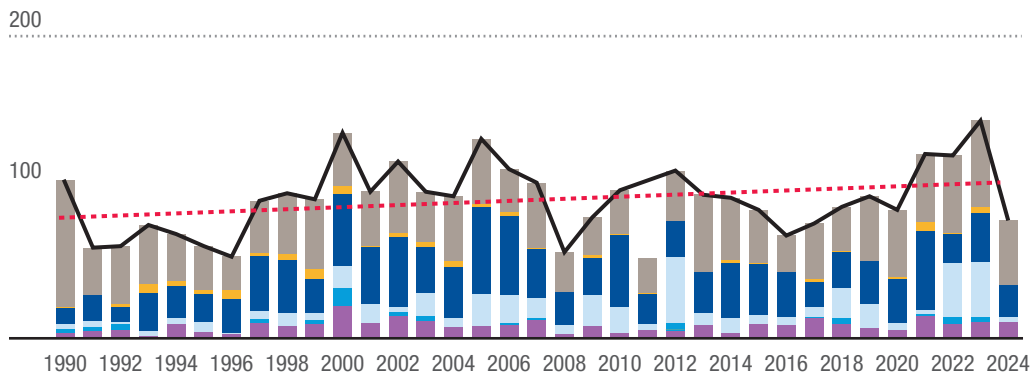


**Figure V.1**  
**The frequency of extreme climate events is rising faster in developing countries**

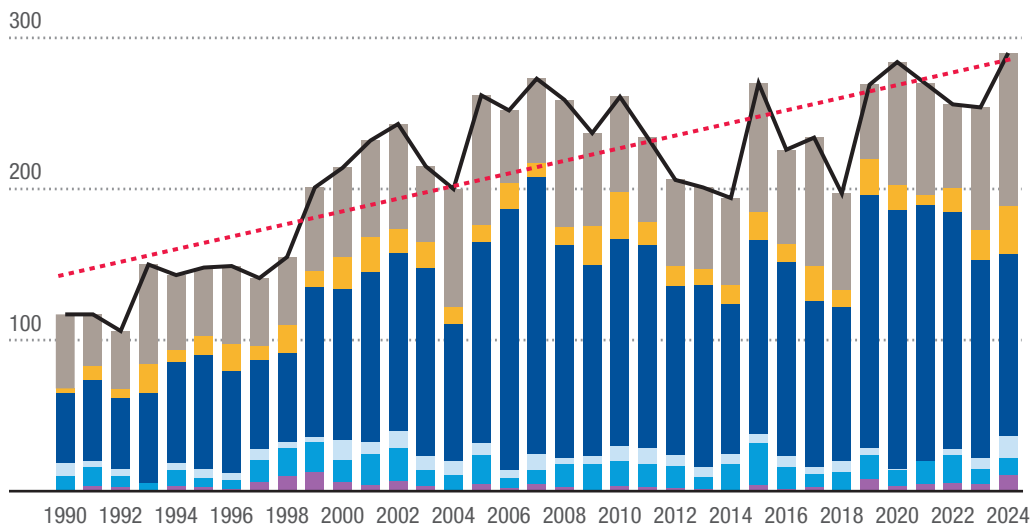
Number of climate-related natural disasters, by category

■ Wildfire 
 ■ Drought 
 ■ Extreme temperature 
 ■ Mass movement (wet) 
 ■ Flood 
 ■ Storm 
   
— Total 
 - - - Trend

**A. Developed countries**



**B. Developing countries**

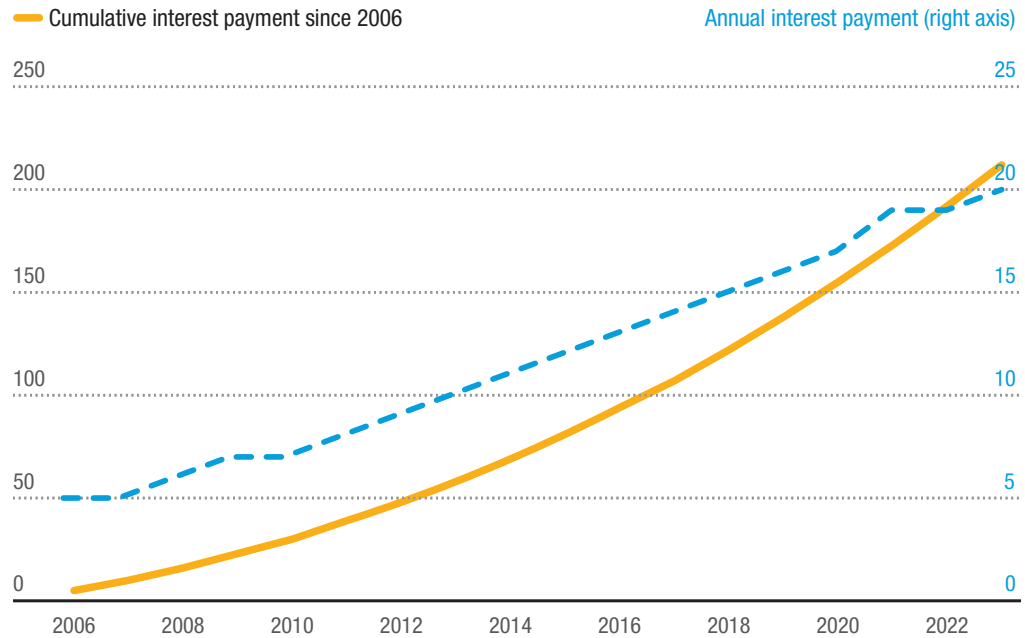


Source: UNCTAD based on the EM-DAT International Disaster Database.

Note: The count includes events that meet at least one of the following criteria: 10 or more people reported dead, 100 people reported as affected, a declaration of a state of emergency or a call for international assistance.



**Figure V.2**  
**Interest payments have soared in the most climate-vulnerable countries**  
(Billions of dollars)



Source: UNCTAD based on Buhr et al., 2018 and World Bank data.

Note: Interest payments attributable to climate vulnerability are computed by using the estimate proposed by Buhr et al. (2018) of the additional cost of sovereign borrowing in V20 countries that is attributable to climate vulnerability. This estimate is multiplied by the stock of total external debt of V20 countries.

Climate-resilient structural transformation will require *more* debt. But this is not realistic under current financing arrangements.

that these countries transfer \$20 billion per year to external creditors just to cover higher interest costs due to climate risks, even though they have barely contributed to generating that risk. This cost has risen from \$5 billion in 2006, totalling a cumulative \$212 billion by 2023 (figure V.2).

The cycle of climate and debt in a context of already high and unsustainable debt burdens suggests a new development paradox. To make the significant mitigation and adaptation investments required for climate-resilient structural transformation, many developing countries will need to take on *more* debt. But this

is neither realistic nor desirable under current financing arrangements.

This chapter explores key policy strategies to build climate-economic resilience, at the national, regional and international levels. Section B outlines several key dimensions of a broad climate and development agenda. The section proposes measures to address macroeconomic vulnerabilities and promote green structural transformation. Section C calls for international actions, focusing on North–South cooperation and suggesting some key principles for a networked multilateralism. Section D concludes.

## B. Recalibrating policy strategies to build climate-economic resilience in the global South

### 1. Aligning dual agendas for development and climate

While national contexts and development strategies differ widely across the global South, most developing countries today face a two-pronged agenda: development and climate. Broad development priorities include sustaining GDP growth, raising income levels and reducing poverty, and advancing economic diversification and structural transformation. Addressing the climate crisis, including through a sustainable green transition and adaptation, is a second task, as defined in the Paris Agreement on climate change and subsequent nationally defined contributions.

Achieving climate targets entails significant investment. UNCTAD estimates, based on 48 developing countries, that the annual cost of fighting climate change, protecting biodiversity and cutting pollution from 2023 to 2030 could top \$5.5 trillion annually, about 18 per cent of the collective GDP of these countries.<sup>36</sup> Yet climate mitigation and adaptation do not need to be an expensive drag on economic development. Managed well, they could become new levers of growth through structural transformation (productivity growth, technological upgrading, and more and better paid jobs). The many benefits of climate stabilization and environmental preservation include reducing disasters and other negative effects of global warming (UNCTAD, 2021).

Aligning development and climate goals through a successful green structural transformation should be the guiding principle in designing policies to build climate-economic resilience.

### 2. An integrated macroeconomic policy framework

While some see the green transition as being at odds with economic growth, both objectives reflect a common challenge: orchestrating a structural overhaul that leads to sustainable activities and more productive, better jobs. This dual challenge requires modernizing development policies and reforming industrial strategies, in particular, to create a framework aligned with the imperatives of a green future. It includes acknowledging that manufacturing may not guarantee job creation, even in developing countries (Rodrik, 2025).

For countries in the global South, an integrated policy framework is essential. It would harmonize priorities across sectors and polities, including climate, macroeconomics, structural reform, energy transition, economic cooperation and financial stability, and support a coordinated response to complex challenges. Amid multiple crises and pressures on development finance, macroeconomic policies must facilitate broader resource mobilization and green structural transformation in addition to the traditional aims of economic growth and financial stability.

Macroeconomic policies must facilitate broader resource mobilization and green structural transformation.

<sup>36</sup> See UNCTAD on the costs of achieving the SDGs at <https://unctad.org/sdg-costing/about>.



### a) Economic resilience starts with domestic resource mobilization

Developing countries require around \$1.1 trillion to \$1.8 trillion annually from 2025 to 2030 just for climate finance (UNCTAD, 2024c). Yet financing and investment gaps in terms of reaching the Sustainable Development Goals are already large, ranging between \$2.5 trillion and \$4 trillion for developing countries, a sum that has grown notably in recent years (United Nations Department of Economic and Social Affairs, 2024).

While external sources of funding remain crucial, minimum investment needs demand significant domestic resource mobilization. This includes measures to strengthen tax capacities and combat illicit financial flows.

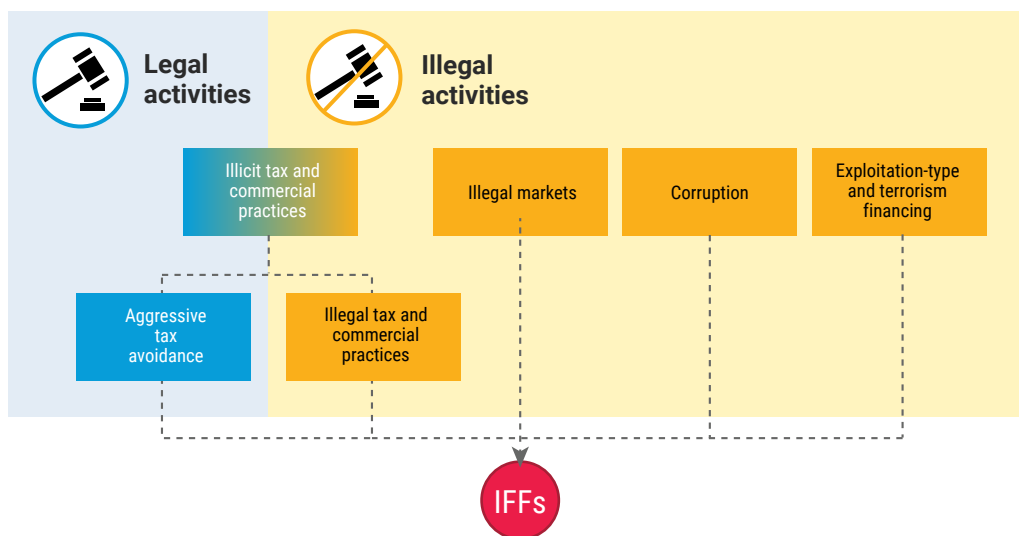
UNCTAD has discussed policies to widen tax bases and prevent revenue losses from the global South through international tax reforms or cooperation (UNCTAD, 2019, 2020a, 2021 and 2024a). Building on these proposals, country-level efforts for mobilizing additional tax revenue and stabilizing its role in the macroeconomy can complement international tax cooperation.

Tax-to-GDP ratios primarily rely on two factors: the level of economic output and the robustness of institutions. For developing countries, beyond their structural economic issues, such as informality, narrow productive sectors or commodity dependence, there is still capacity to expand revenue (United Nations Department of Economic and Social Affairs, 2024; Benitez et al., 2023). Depending on national circumstances, policy objectives could include building capabilities and strengthening institutions; designing an integrated and medium-term revenue strategy; optimizing and diversifying the tax mix, including measures to address base erosion and profit shifting by multinational enterprises (UNCTAD, 2024a); increasing the taxation of high-net-worth individuals and wealth, and digital and cross-border services (G20, 2024).

Beyond raising revenues, there is also the need to combat illicit financial flows. While there is no internationally agreed definition of these, figure V.3 depicts a spectrum of related activities, including some legal and borderline ones such as aggressive tax avoidance.

Meeting minimum investment needs requires significant domestic resource mobilization.

**Figure V.3**  
Activities that may generate illicit financial flows



Source: UNCTAD, available at <https://unctad.org/statistics/illicit-financial-flows..>

Illicit financial flows have multiple detrimental impacts on developing countries. They weaken domestic resource mobilization, exacerbate macroeconomic stability risks, drain public resources, deter private investment, perpetuate financial exclusion, undermine governance and fuel insecurity. Africa alone loses almost \$90 billion, equivalent to 3.7 per cent of regional GDP, due to illicit financial flows (UNCTAD, 2020b).<sup>37</sup>

Combating illicit financial flows first and foremost demands globally coordinated actions. As a complement, several policy actions can be appropriate at the national level. These include improving statistical capabilities for collecting data and measuring illicit financial flows. The *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows* offers methodological guidelines (UNODC and UNCTAD, 2020).

Second, it is important to prioritize the work of combating illicit financial flows in national macroeconomic policy frameworks, aiming to improve macroeconomic stability, including by enhancing risk-based financial integrity and management.

A third strategy is to adopt comprehensive policy measures to address trade and investment-related illicit financial flows, including those channelled through under- and mis-invoicing. High-risk sectors include trade in raw materials and agricultural products.

## b) Revisiting the role of fiscal policy and central banks

Macroeconomic policies shape the context for green structural transformation. Fiscal multipliers are higher where an increasing role for public banking accompanies fiscal expansion, as this may facilitate the crowding-in of private investment (UNCTAD, 2019 and 2021). Green fiscal expansion can also generate higher employment benefits. Central banks have been adapting their operations to better reflect the financial risks related to climate change and reduce the threats of a “Minsky climate moment” (UNCTAD, 2019, 2021).

The range of policy options is wide. On the fiscal policy side, both taxation and public expenditure policy can collect revenue, influence behaviour, enhance well-being and improve governance (United Nations Department of Economic and Social Affairs, 2024). Recalibrating public expenditure policies around a green dimension, for example, through procurement or investment, could effectively help advance green structural transformation across the economy. (UNCTAD, 2023a) This avenue could be especially crucial in global South countries with less developed financial markets.

As central banks around the world adapt to the financial risks of climate change (UNCTAD, 2019, 2021 and 2024b), measures to “green” the financial system

Africa loses \$90 billion, or nearly 4% of regional GDP, due to illicit financial flows.

Combating illicit financial flows requires globally coordinated actions.

Recalibrating public expenditure policies could advance green structural transformation across the economy.

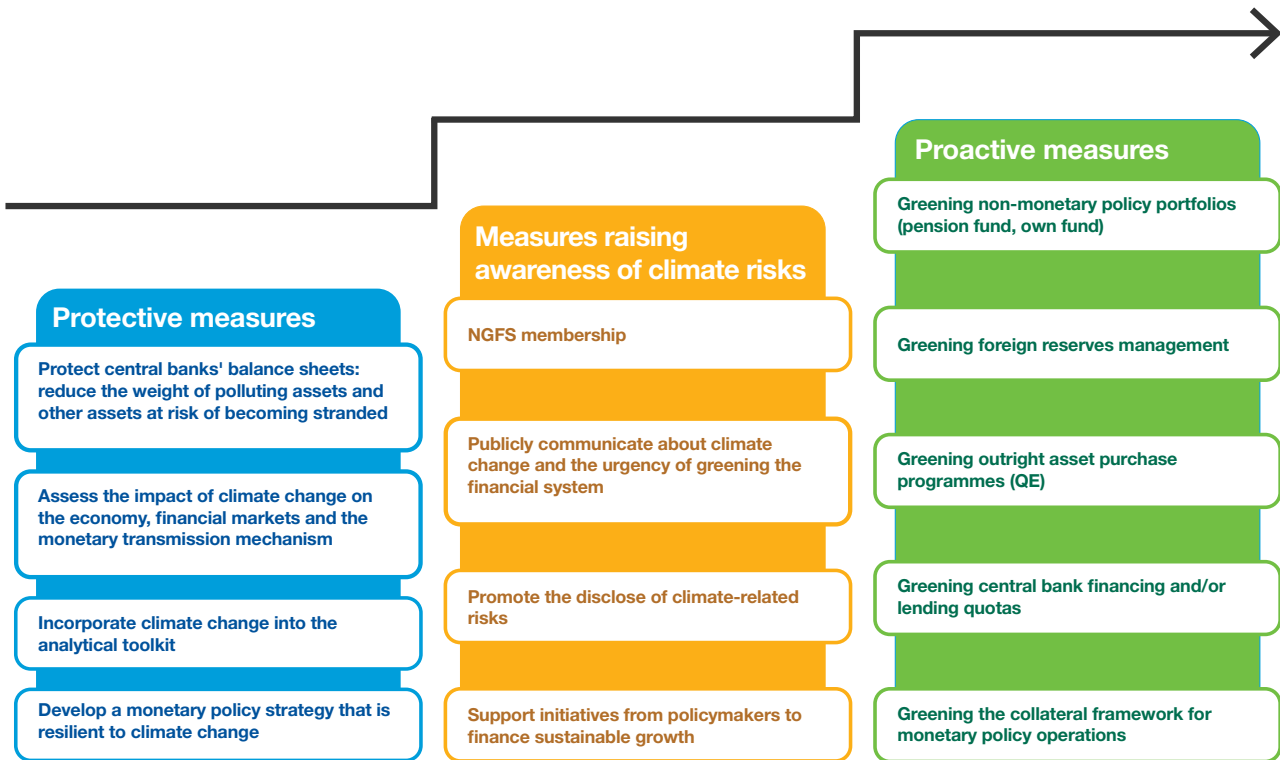
<sup>37</sup> See UNCTAD on measuring illicit financial flows for stronger domestic resources. Available at <https://sdgpulse.unctad.org/illicit-financial-flows/>.



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**Figure V.4**  
Central banks have multiple means to respond to climate change



Source: Boneva et al., 2022.

Note: NGFS refers to the Network for Greening the Financial System. QE refers to quantitative easing.

include various policy options. UNCTAD (2019) mapped out central banks' practice in supporting the green economy covering research, dissemination of policy instruments, regulations, policy instruments to safeguard financial stability, promoting structural transition to a lower carbon economy, etc. In recent years, more discussions on the role of central banks in green transition emerged. For example,

according to Boneva et al. (2022), broader policy options fall into three categories: protective measures, awareness-raising measures and proactive measures (figure V.4). Comprehensive typologies also include more mandatory approaches to reallocate capital, such as credit guidance, involving direct and indirect price and quantity-based policies (table V.1) (see also Kedward et al., 2022a, 2022b, 2024).



**Table V.1**  
**Allocative green credit options run from incentives to mandatory approaches**

	Banking system	Institutional capital
<b>Indirect price-based policies</b>	<ul style="list-style-type: none"> <li>▶ Capital requirement adjustments</li> <li>▶ Reserve requirement adjustments</li> <li>▶ Credit guarantees</li> <li>▶ Dirty-penalizing factor for G-SIBs</li> <li>▶ Large exposure limits</li> <li>▶ Countercyclical capital buffer</li> </ul>	<ul style="list-style-type: none"> <li>▶ Capital requirements for allocations to dirty (alternative) assets</li> <li>▶ Punitive leverage ratio</li> <li>▶ Collateral haircut adjustments</li> <li>▶ Margin requirement adjustments</li> </ul>
<b>[via central bank balance sheets]</b>	<ul style="list-style-type: none"> <li>▶ Sector-targeted refinancing lines</li> <li>▶ Collateral haircut adjustments</li> <li>▶ Tilting in asset purchase programmes</li> </ul>	
<b>Direct price-based policies</b>	<ul style="list-style-type: none"> <li>▶ Interest rate floors and ceilings</li> <li>▶ Subsidized credit for households/SMEs/priority sectors (e.g. through SIBs)*</li> </ul>	
<b>Direct quantity-based policies</b>	<ul style="list-style-type: none"> <li>▶ Portfolio restrictions: outright bans financing certain sectors/assets</li> <li>▶ Credit quotas</li> <li>▶ Lending ratios</li> <li>▶ Large-scale public investment (e.g. through SIBs)</li> <li>▶ Favourable loan-to-value/debt-to-income ratios*</li> </ul>	<ul style="list-style-type: none"> <li>▶ Portfolio restrictions:               <ul style="list-style-type: none"> <li>• Outright bans on financing certain sectors/alternative assets</li> <li>• 100 per cent repo haircuts on dirty collateral</li> </ul> </li> <li>▶ Mandatory exclusion of dirty assets from (ESG) indexes for passive investment</li> <li>▶ Ineligibility of certain assets for securitization</li> <li>▶ Forced sale of dirty assets to state 'bad bank'</li> </ul>

Source: Kedward et al., 2022a.

Note: \*Tools targeting demand for credit.

In general, green finance as well as fiscal and monetary policies can advance green and low-carbon transition, risk management and market pricing (UNCTAD, 2023a). Developing countries can design their fiscal and monetary strategies to facilitate green transformation. For example, China's central bank introduced two monetary policy tools in 2021: one supporting reductions on carbon emissions and a second targeting

relending for clean, efficient coal use. Both tools encourage financial institutions, through a lower relending rate, to make more loans to certain sectors, such as clean energy, carbon reduction technologies and others most relevant to reaching emissions targets. In parallel, developing countries also need to adapt their integration strategies including harnessing the potential of regional integration (box V.1).



### Box V.1

## Harnessing the potential of regionalization

Countries in the global South seek to enter global value chains to attract more foreign direct investment and international lending while gaining access to export markets and advanced technology and know-how. This can facilitate specialization under the guidance of the “lead firm” in the chain. Yet success is not guaranteed, particularly at the entry level and in raw materials and lower value-added segments.

Given constraints at both the national level (limited domestic markets, inadequate financing and technology) and in global value chains (participation and lock-in issues), regional approaches are increasingly seen as potential game-changers. They could support countries seeking to capitalize on new industrialization opportunities in critical sectors without the constraints of full integration into global value chains. Beyond the trade effects of regional cooperation, these strategies could be integrated within a broader, more balanced approach across key policy areas such as finance, infrastructure, industrial cooperation, technology transfer and sharing.

Regionalism has been increasingly important to integration strategies in the global South. The African Free Trade Agreement, for instance, aims to help African countries create and enter regional value chains, identifying priority sectors that include agribusiness for food security, the pharmaceutical and medical sector, automotives, and green energy and productive systems. National industrialization goals in these sectors should benefit from the agreement as it removes restrictions and facilitates the free continental movement of goods, services, labour and capital.

Another narrowly focused but equally ambitious example involves regional cooperation among members of the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea, aimed at expediting the uptake of renewable energy and electric vehicles. A strategy developed in 2023 seeks to create a pan-ASEAN electric vehicle value chain by pooling resources, sharing costs and coordinating production processes. It leverages the vast resources and manufacturing capabilities of 14 countries. Subsequent mechanisms to support the strategy include a plan to enhance energy security and cooperation and construct an enabling ecosystem for electric vehicles. It benefits from the proximity and involvement of the three main investment and manufacturing players in electric vehicles globally: China, Japan and the Republic of Korea.

Regionalism has been an increasingly important dimension of integration strategies in the global South.

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## C. A call for networked multilateralism

In an increasingly interconnected world, national policies alone cannot address cross-border challenges. As the United Nations marks its eightieth anniversary in 2025, the moment is now to rethink and strengthen global governance, so it remains fit for purpose.<sup>38</sup>

### 1. The role of the global North remains indispensable

International agreements, such as the 2030 Agenda for Sustainable Development, the Paris Agreement and now the Sevilla Commitment on financing for development,<sup>39</sup> commit developed countries to supporting developing nations in realizing sustainable development. In a fragile global context requiring climate-economic resilience, several areas call for renewed policy efforts.

#### a) Speed up the decoupling of economic growth from high emissions and environmental degradation

Based on current projections and patterns in global greenhouse emissions, global warming will likely exceed 1.5°C during the twenty-first century and may cross 2°C if no additional actions are undertaken (IPCC, 2023). Stabilizing the climate requires a rapid phase-out of global fossil fuel extraction, trade and consumption, and a major policy shift in fossil fuel finance. Beyond the energy transition, meeting emissions mitigation targets calls for accelerating the decoupling of economic growth from environmental degradation

and worsening climate threats. This largely depends on improving resource efficiency and promoting sustainable consumption and production, in line with the Sustainable Development Goals (SDG 8.4 and SDG 12).

Based on historical emissions trends, current production and consumption patterns, economic capacity and resource availability, and in line with the principles of common but differentiated responsibilities and respective capabilities, the global North needs to fulfil its commitment under the Paris Agreement to lead in setting economy-wide absolute emissions reduction targets.

#### b) Enhance North–South cooperation

South–South cooperation has gained traction in the last two decades with the economic rise of the global South. Yet it is not a substitute for, but rather a complement to, North–South cooperation (United Nations, 2019). The responsibilities of developed countries remain indispensable in helping developing countries to pursue climate-resilient development.

Financing, particularly official development assistance, remains at the core of North–South cooperation. Yet two worrying trends are afoot in both public and private financial flows to developing countries: declining official development assistance and worsening financial conditions.

A rapid decline stems from changing policy stances (UNCTAD, 2025a), with the OECD projecting a 9 to 17 per cent drop in 2025, on top of the 9 per cent one that already took place in 2024 (OECD, 2025).

<sup>38</sup> Based on a message from H.E. Ms. Annalena Baerbock, President of the eightieth United Nations General Assembly. Available at <https://www.un.org/pga/80/>.

<sup>39</sup> United Nations General Assembly resolution 79/323, available at <https://docs.un.org/en/A/RES/79/323>.



Beyond 2025, the outlook remains highly uncertain. By 2027, official development assistance may retreat to 2020 levels, driven downward by cuts announced by four major providers: France, Germany, the United Kingdom and the United States (OECD, 2025). This will magnify an already worrying lag in progress in reaching the Sustainable Development Goals in the global South.

In the Sevilla Commitment, United Nations Member States recognize “the urgency of undertaking sustained efforts to reverse declining trends in official development assistance and urge developed countries to scale up and fulfil their respective official development assistance commitments”. These include the longstanding official development assistance target of 0.7 per cent of gross national income.

A renewed and recalibrated North–South cooperation framework could:

**Enhance transparency and planning:**

Sudden policy shifts in development financing aggravate development obstacles in the most vulnerable countries and fuel discontent, disrupting international cooperation and stability. Midterm funding plans between donor and recipient countries, spanning three to five years, could help avoid sudden shocks and disruptions.

**Leveraging the role of official development assistance in economic growth to create dual virtuous circles.**

With budget constraints, it is more important than ever to uphold economic growth. Under the low growth context and transformation of export-led growth, investment in modern industrial policy (UNCTAD, 2024a) is needed to achieve sustained growth in developing countries. Official development assistance can play a catalytic role in encouraging productive investment and research and development in industrialization, green and digital economy, services sectors, and trade capacity building.

Through leveraging ODA role in supporting economic growth, developing countries could create two virtuous circles:

- 1 Economic-social-environmental virtuous circle: improved economic growth based on productive capacity expansion and progressive structural transformation can create more job opportunities. This, in turn, can facilitate technology development and enable larger fiscal space, to partly fill the financing gap for social development and address the climate crisis.
- 2 Domestic revenue mobilization-official development assistance circle. Economic growth will result in larger revenue mobilization which further reduces the reliance of the global South on external financing support, to build a virtuous circle between domestic resources mobilization and ODA.

## 2. Key principles for a viable networked multilateralism

In the wake of the global financial crisis, leaders of the Group of 20 in 2010 recognized that “for prosperity to be sustained it must be shared” and “narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all” (G20, 2010). Building a resilient and prosperous economy in the global South matters. The world economy needs new poles of growth to diversify global demand and investment destinations.

A cascade of crises since 2020 has not rallied political will and collective action reminiscent of the era after the global financial crisis, similar to what the G20 achieved in the London Summit (agreeing on a massive stimulus programme) or Seoul Summit (adopting Seoul Development Consensus). The past decade, most notably in recent months, has seen geopolitical tensions, trade policy shifts, rising uncertainties, disrupted supply chains and mounting costs from the



climate crisis. Yet while enduring pressures challenged multilateralism even before 2020, they do not render it irrelevant. On the contrary, compounding shocks and risks of fracture underscore the urgent need for a “more networked, more inclusive, and more effective” multilateral

system (United Nations, 2021), capable of adapting to new landscapes and emerging challenges, including as green development reshapes the global agenda (box V.2). In 2024, 193 Member States adopted the Pact for the Future, pledging a “new beginning in multilateralism”.

## Box V.2 Greening international cooperation

Growing interest in “resilience” reflects rising concerns about the economic impacts of climate change and other non-economic shocks. In the global South, three factors in particular constrain economic resilience: insufficient financial resources, a lack of required technologies and institutional capacity gaps.

Under the United Nations Framework Convention on Climate Change, new financing and technology cooperation mechanisms have emerged to address these issues. A recent example is the New Collective Quantified Goal for climate finance agreed in 2024. It calls on developed countries to mobilize at least \$300 billion per year for developing countries, with an aspirational goal of \$1.3 trillion annually by 2035 from all sources.

The impact on broader economic cooperation and integration is also evident beyond climate discussion. UNCTAD (2023c, 2025c) argued that strategic use of trade tools can help align economic development with climate goals, unlock new markets, and drive the transition to a low-carbon, sustainable future. For example, within the WTO, the Trade and Environmental Sustainability Structured Discussion has seen active engagement since 2020.

Regionally, more concrete initiatives have emerged. The Asia-Pacific Economic Cooperation (APEC) forum has been a pioneer. In 2012, APEC leaders endorsed the APEC List of Environmental Goods (including 54 products at the six-digit HS code level), with a commitment to reduce applied tariff rates to 5 per cent or less by the end of 2015. The intention was to improve access to environmental technologies and contribute to green growth and trade liberalization objectives. Further to the APEC list, Australia and Singapore signed a broader Green Economy Agreement that identifies seven key areas of cooperation.<sup>a</sup>

The most recent regional example involves South–South cooperation between China and ASEAN. An upgraded free trade agreement signed in October 2025 features a specific chapter on the green economy.<sup>b</sup>

<sup>a</sup> Available at <https://www.dfat.gov.au/geo/singapore/singapore-australia-green-economy-agreement>.

<sup>b</sup> Available at [https://fta.mofcom.gov.cn/china\\_dongmeng\\_upgrade/annex/yds3\\_f110\\_cn.pdf](https://fta.mofcom.gov.cn/china_dongmeng_upgrade/annex/yds3_f110_cn.pdf).

This report proposes three guiding principles for policy actions to help build a viable networked multilateralism: inclusivity and a development orientation, constructiveness and synergies, and pragmatism and relevance.

### a) Inclusivity and development orientation

Development deficits remain unaddressed across multilateral economic mechanisms related to finance, monetary policy, trade,

foreign direct investment, debt, etc. Recent policy uncertainties have exacerbated existing disparities among nations.

Multilateralism should address these issues through bold reforms focused on international trade and financial systems.

- ▶ Development should move to the centre of WTO reforms, including new trade negotiations (chapter II). The clarity and enforceability of the Special and Differentiated Treatment provisions need to be enhanced, coupled with

**Table V.2**

#### Linking climate and economic policies under the New Collective Quantified Goal

Issue	Decision text	Scope
<b>Reforming the financial architecture</b>	Paragraphs 4 and 6	Paragraph 4 recognizes the existence of enablers for climate action, stating that sufficient capital to address climate action exists but is hindered by barriers. Paragraph 6, rooted in the 2023 Global Stocktake decision, emphasizes the need to reform multilateral financial system to remove barriers for developing countries (called “disenablers”), such as high capital costs, limited fiscal space, unsustainable debt levels, high transaction costs and conditionalities.
<b>Debt sustainability</b>	Paragraphs 6, 23 and 27	Throughout, the text recognizes that unsustainable debt is a “disenabler” of climate action (paragraph 6). Therefore, efforts should be made to provide financing in the form of non-debt-inducing instruments (paragraphs 23.a and 27).
<b>Fiscal space</b>	Paragraphs 6, 14, 15 and 27	Fiscal space is listed among the enablers of climate actions in developing countries (paragraphs 6, 15 and 27). Paragraph 14 acknowledges the fiscal limitations of developing countries. Paragraph 27 establishes the roadmap and mandates it to scale up climate finance through a series of instruments, including “measures to create fiscal space”.
<b>Public development banks</b>	Paragraph 12	Paragraph 12 emphasizes the responsibility of countries as shareholders of multilateral development banks to make these institutions more effective in addressing global challenges, including poverty eradication, and maximizing impact in developing countries.
<b>Adaptation and loss and damage</b>	Paragraphs 14, 17 and 27	Paragraph 14 stresses the need for public concessional and grant-based financial resources for adaptation and loss and damage, specifically for least developed countries and small island developing States. It marks the first recognition in a finance-related decision of the need for grant-based finance for loss and damage, with an emphasis in paragraph 19 (Pettinotti et al., 2025). Paragraph 17 reaffirms the importance of achieving a balance between adaptation and mitigation finance, in particular, through a dramatic scale up of adaptation finance (paragraph 18).
<b>Reducing the cost of capital</b>	Paragraph 15	Paragraph 15 stresses the importance of reducing the cost of capital and boosting the ratio of public finance mobilized by 2030, while creating fiscal space in developing countries using innovative instruments and sources of finance.
<b>Climate funds</b>	Paragraph 16	Paragraph 16 recognizes the need for increasing public resources through the operating entities of the Financial Mechanism, Adaptation Fund, Least Developed Countries Fund and Special Climate Change Fund, and to at least triple annual outflows from these funds. This is one of the few measurable commitments in the new goal.
<b>Access to climate finance</b>	Paragraph 21	Paragraph 21 underscores the need to remove barriers to accessing climate finance, such as “high capital costs, co-financing requirements and burdensome application processes”, and urges further efforts to improve the fragmented climate finance access for developing countries, particularly for least developed countries and small island developing States. It directly addresses “systemic inequities”.
<b>Alignment of international financial institutions</b>	Paragraph 23	Paragraph 23 invites international financial institutions, including multilateral development banks, to align their operations and instruments to “be fit for purpose” to effectively address global climate change, development and poverty, in line with their mandates and through non-debt-inducing instruments (paragraph 23.a).

Source: UNCTAD (2025). *All Roads Lead to Reform: A Financial System Fit to Mobilize \$1.3 Trillion for Climate Finance*.

the continuation of enabling rules and non-reciprocal preferences for developing members. The recent announcement by China that it is “not seeking new special and differential treatment” (China, 2025) was seen as “a pivotal moment for the WTO”.<sup>40</sup>

- ▶ The reform of the international financial architecture that began after the global financial crisis should continue, towards increasing the voice and role of the global South. It should address disparities in quotas and votes, increase representation in governance structures, diversify the special drawing rights basket and expand lending capacity to facilitate resilient development. Such reform is closely linked to climate finance. The New Collective Quantified Goal offers the most concrete manifestation to date of linking climate and economic policy regimes, including several elements that can steer reforms in coming years (table V.2) (UNCTAD, 2025b).

## b) Constructiveness and synergy

As globalization decentralizes and new regional powers emerge (UNCTAD, 2023a), the global economic governance framework is getting more complex. It now includes the United Nations system, Group of 20, BRICS, Group of Seven, WTO, international financial institutions, OECD and various regional arrangements. Policy misalignments stemming from divergent priorities and memberships, however, undermine support for resilient development in the global South. In terms of an international taxation agreement, for example, some OECD members oppose a United Nations-led framework (UNCTAD, 2024a).

All countries should make joint efforts to foster regular, inclusive dialogues, bridging the United Nations and other platforms, to better serve development goals. A reinvigorated network of multilateral institutions and frameworks could fill governance and agenda gaps among various mechanisms to create greater coherence, synergies and build broader consensus. It could assist the global South in achieving the Sustainable Development Goals and enhancing resilience, and help de-escalate geopolitical and geoeconomic tensions while promoting North–South cooperation.

## c) Pragmatism and relevance

Several structural challenges in the global South have become more urgent recently, such as the vicious cycle of climate and debt, the misalignment of diversified trade and centralized finance, and food insecurity amid increasingly concentrated markets. Multilateral networks can offer the best and most pragmatic approaches to addressing these concerns.

- ▶ **Climate-debt nexus:** Beyond national efforts to realize green structural transformation, addressing unsustainable debt in vulnerable developing countries, where fragility is partly due to climate change, requires reforms of the global financial architecture and international development cooperation. In addition to proposals for renewing official development assistance (ODA) and reforming the international financial architecture, a transformative increase in the quantity and quality of climate finance is essential. It is achievable only through concerted efforts by all Member States and international financial institutions. A new proposal for a borrowers’ forum offers a novel approach to debt challenges (box V.3).

A transformative increase in the quantity and quality of climate finance is essential.

<sup>40</sup> See the statement by WTO Director General Ngozi Okonjo-Iweala. Available at [https://www.wto.org/english/news\\_e/news25\\_e/dgno\\_24sep25-b\\_e.htm](https://www.wto.org/english/news_e/news25_e/dgno_24sep25-b_e.htm).



### Box V.3 Proposal for Borrowers' Platform

The Sevilla Commitment, agreed at the 2025 Fourth International Conference on Financing for Development, announces the intention to “establish a platform for borrower countries with support from existing institutions, and a UN entity serving as its secretariat”. Such a platform would address a long-standing gap in the international debt and financial architecture. Bilateral creditors coordinate their efforts through the Paris Club and other forums. But borrower countries of the global South lack a similar recognized institutional space. Having such a forum could encourage discussion of technical issues and the sharing of information and experiences related to debt challenges.

Members of the platform should decide on its mandates. These could include establishing a knowledge repository to facilitate South–South peer learning on debt-related issues; promoting the adoption of responsible sovereign borrowing and lending practices; strengthening borrower perspectives in negotiations to reform the international financial and debt architecture; creating a technical assistance hub to promote innovative financial instruments; and enhancing debt transparency and debt management practices through partnerships and mechanisms including the UNCTAD Debt Management and Financial Analysis System programme.

UNCTAD has convened and hosted several meetings of developing borrower countries where a growing number of country representatives shared debt challenges and solutions. They indicated a pronounced need for a permanent rather than ad hoc structure. Discussions covered debt restructuring, fiscal consolidation, boosting local capital markets, enhancing transparency, credit instruments, legal frameworks, investor communication, revenue mobilization, and innovative tools like debt swaps. Based on this experience, UNCTAD has been proposed as the secretariat of a borrowers' forum, supported by the United Nations system as required.



- ▶ **Trade–finance divide:** As chapter IV indicates, advancing the financial integration of the global South is a complex challenge. Regional financial arrangements can serve as a starting point for lowering the costs of borrowing, facilitating capital formation, supporting investment and advancing the energy transition (UNCTAD, 2015 and 2022). Building financial infrastructure and regional capital markets, with support from the multilateral development banks, should proceed in parallel with trade integration. Essential elements include regional funds to tackle short-term balance-of-payments gaps; regional payment systems to reduce exposure to the global financial cycle and support intraregional trade; and coordinated exchange rate policies to prevent beggar-thy-neighbour macroeconomic practices.
- ▶ **Risks in shadow banking:** The post-2008 reforms of the financial system focused on sources of systemic risks in banking, introducing measures to enhance disclosure requirements and reporting transparency; stress-testing for specific vulnerabilities and exposures; designing new tools for macroprudential supervision; and adapting economic models from linear projections to scenarios with complex trade-offs (Awrey and Judge, 2020). The reform has generated endogenous developments that carry their own new risks, however (chapter III). Available tools should be monitored and discussed in the context of building resilience beyond the banking system.

Regulations of systemic risk in finance can be adapted to test resilience in other economic sectors.

## D. Conclusion

The strategies outlined here seek to build resilience across the diverse countries of the global South amid ongoing structural challenges, including climate change. No single blueprint will suit all developing economies. For that reason, this report does not prescribe specific policies.

Instead, it highlights directions to guide their formulation. It underscores that prosperity must be shared, and towards that end, multilateralism is more vital than ever to address persistent development gaps.



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## Chapter V

### New policy frontiers: Building climate-economic resilience in the global South

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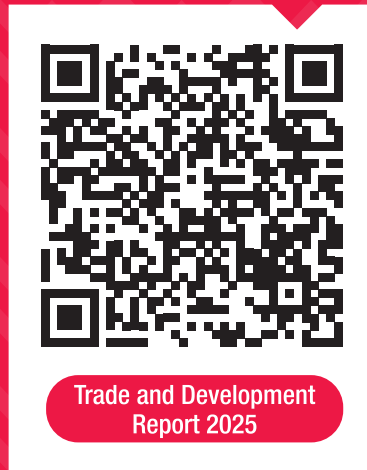




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