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2026
Trade and
Development
Report

The geoeconomics of development



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Foreword

The global economy has absorbed the pressures of 2026 with more resilience than expected. The conflict in the Middle East disrupted transit through the Strait of Hormuz, sending oil prices to around \$100 a barrel and pushing inflation back up. Yet world trade, which reached a record \$35 trillion last year, is on track to grow by about 4 per cent in 2026. That resilience conceals a widening divergence. Global growth is slowing to 2.6 per cent, and outside a few fast-growing Asian economies, the developing world as a whole is no longer catching up with developed economies.

This year's *Trade and Development 2026: The Geoeconomics of Development* traces these contradictions to the rise of geoeconomics: States using trade, finance and technology to pursue strategic ends, above all, in sectors they deem critical to national security and technological leadership. Digital technologies and artificial intelligence have blurred the line between economic and national security. Geography weighs heavily on supply chains. Globalization continues, but along new contested lines.

For developing countries, the shift reaches the foundations of development. Industrialization, merchandise trade and integration into global value chains have long served as a ladder towards higher incomes. Each rung of this ladder is now less reliable. Value creation is moving into strategic sectors – semiconductors, artificial intelligence, clean technologies – where the cost of entry is high. Developed economies capture around 70 per cent of greenfield investment in all of them except critical minerals, where developing economies lead but struggle to add value.



Finance adds to the pressure. Official development assistance is set to fall for a third year in a row. Volatility in portfolio flows to emerging markets has doubled. And developed economies now run much of their industrial policy through fiscal instruments – grants, State loans, rules on foreign investment – at a scale few developing countries can match.

The report also shows where developing countries can act. Industrial policy works over decades and should be judged against that horizon. Financial policy belongs at its core. Capital flow management can contain volatility and give domestic finance room to serve industrial goals. The energy shock points the same way. Renewables now undercut the cheapest new fossil fuel alternative in more than 90 per cent of cases, making the transition a matter of energy security as much as climate.

Regional cooperation widens the room for manoeuvre. Rising economies of the global South are becoming regional anchors, often by sharing what they have built. India has agreed to share its digital public infrastructure with 23 countries. Brazil is extending Pix, its instant payment system, across South America. Such networks extend what national policy can achieve, and they work best alongside a multilateral trading system that keeps non-discrimination and special and differential treatment at its core.

UNCTAD was founded to help developing countries turn integration into development. In a geoeconomic world, that mandate carries new weight. The rules and routes of the world economy are being redrawn. Their measure will be the room they leave every country to build, trade and grow.



Pedro Manuel Moreno
Acting Secretary-General
United Nations Conference on Trade and Development



Abbreviations

ADB	Asian Development Bank
AfCFTA	African Continental Free Trade Area
AI	artificial intelligence
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
CAPE	cyclically adjusted price earnings ratio
CIS	Commonwealth of Independent States
DAC	Development Assistance Committee
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
EME	emerging market economies
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
FME	frontier market economies
GCC	Gulf Cooperation Council
GDP	gross domestic product
GNI	gross national income
ICT	information and communications technology
IEA	International Energy Agency
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
LDC	least developed country
LNG	liquefied natural gas
LPG	liquefied petroleum gas
NIPO	New Industrial Policy Observatory
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PAPSS	Pan-African Payment and Settlement System
SADC	Southern African Development Community
SIPRI	Stockholm International Peace Research Institute
SPS	sanitary and phytosanitary
TBT	technical barriers to trade
VIX	Chicago Board Options Exchange Volatility Index
UNWTO	United Nations World Tourism Organization
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization



Explanatory notes

The analysis in the present report is consistent with information and data available as of 15 September 2026. 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 at 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. For these two major country groupings, the classification followed in this report is as defined in the UNCTAD *Handbook of Statistics 2025*.

For more details concerning the grouping of economies, see the classifications page of the handbook and the classifications webpage available at <https://unctadstat.unctad.org/EN/Classifications.html> (accessed on 28 September 2026), 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/>).

Likewise, for statistical purposes, regional groupings used in this report follow generally those employed in the UNCTAD *Handbook of Statistics 2025*, unless otherwise stated. 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.

In chapter 1, developing economies are at times further disaggregated into three groups, according to their levels of integration into the global capital market. The first group consists of developing economies considered as emerging market economies and are mostly upper-middle-income developing economies that have been integrated into the global capital market since the 1990s and early 2000s. They correspond to the developing economies included in the J.P. Morgan Emerging Market Bond Index, Global Diversified category. The second group are frontier market economies, comprising mainly low-income and lower-middle-income economies that integrated into the global capital market after the global financial crisis of 2008. They correspond to the developing economies included in the J.P. Morgan Next Generation index. The final group, “other developing economies”, are those that are neither emerging market economies nor frontier market economies, tend to have lower degrees of integration into the global capital market and rely mainly on external public financing from official sources.

In the text, advanced economies and developed economies are used interchangeably.



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.





2026 Trade and development report

Chapter I

Resilience and its limits

KEY FINDINGS

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



Policy takeaways

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

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

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

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

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

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

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

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



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

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

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

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

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

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



What is geoeconomics?

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

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

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

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

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

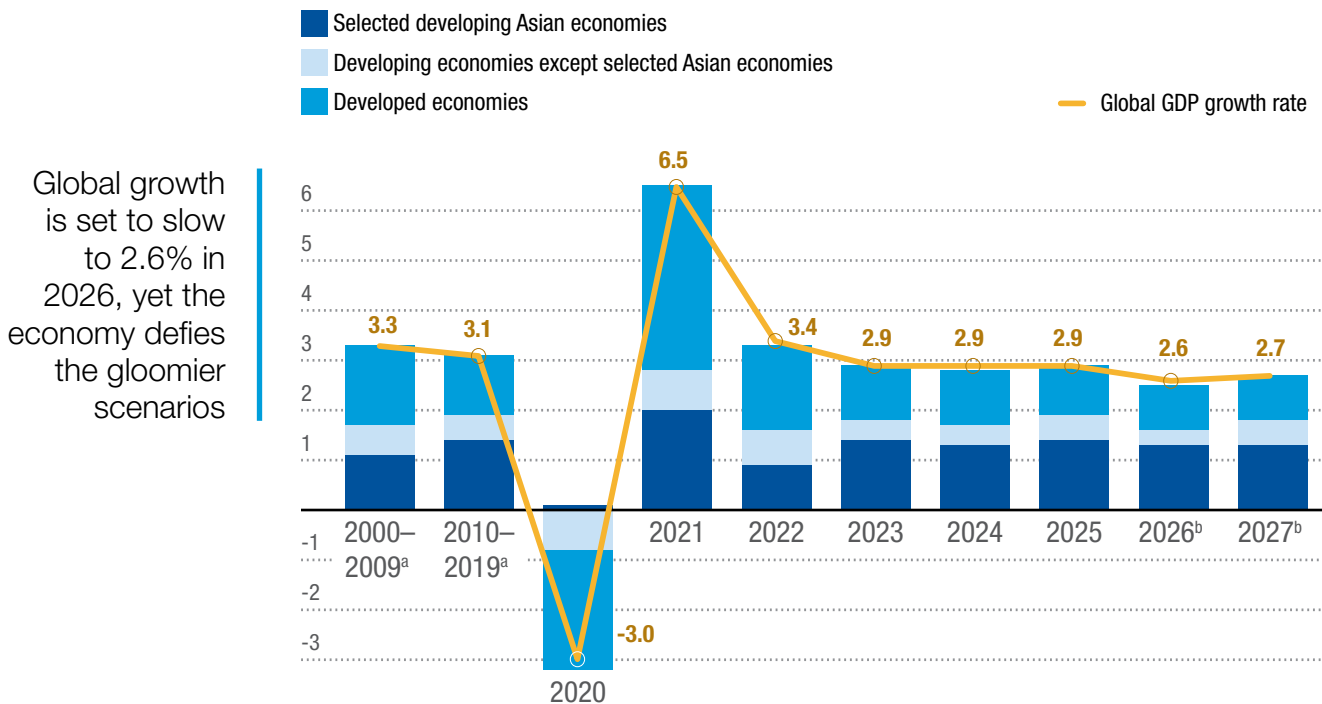


B. Global economic outlook: Growth in a bifurcated world

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

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

Figure I.1
Global growth is slowing



Source: Table I.1.

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

^a Compound annual growth rates.

^b Projection.

Table I.1
World output growth, 1991–2027

GDP growth rate
(Annual percentage change)

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

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

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

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

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

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

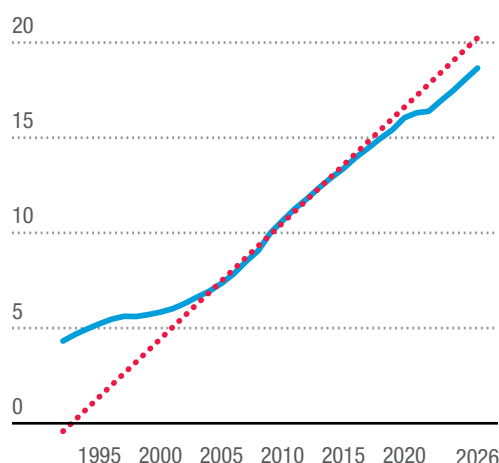
world is bifurcated between dynamic growth leaders (figure I.2.A) and the vast majority of developing economies where convergence in per capita GDP has collectively receded since the mid-2010s (figure I.2.B).



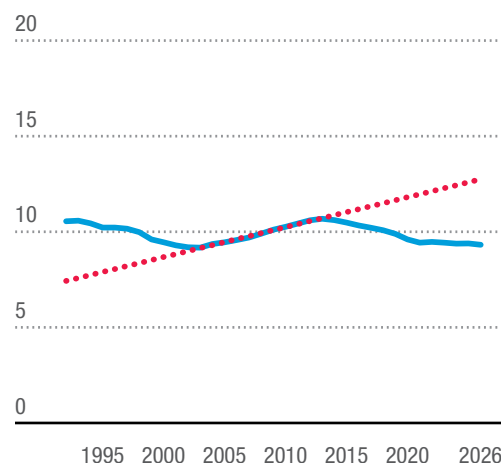
Figure I.2
Developing world stopped catching up outside a few Asian frontrunners

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

A. Selected Asian economies



B. Developing economies except selected Asian economies



Source: UNCTAD based on table I.1.

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

Convergence towards developed economies remains elusive for most developing countries

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

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

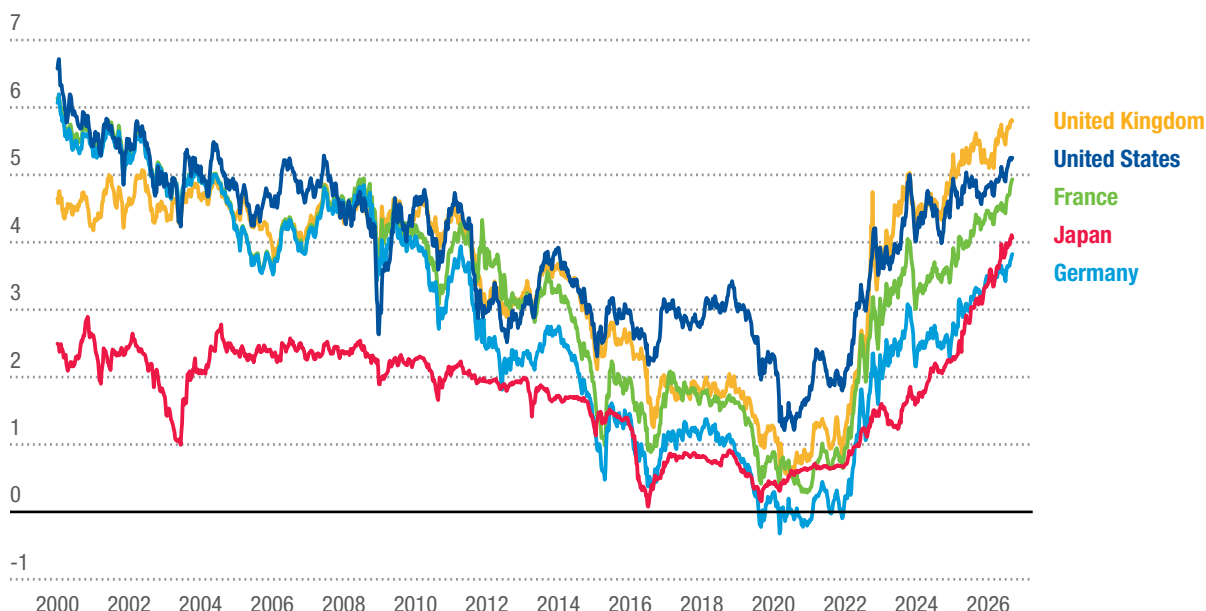




Figure I.3

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

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



Source: UNCTAD based on LSEG Datastream.

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

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

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

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

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



Chapter I

Resilience and its limits

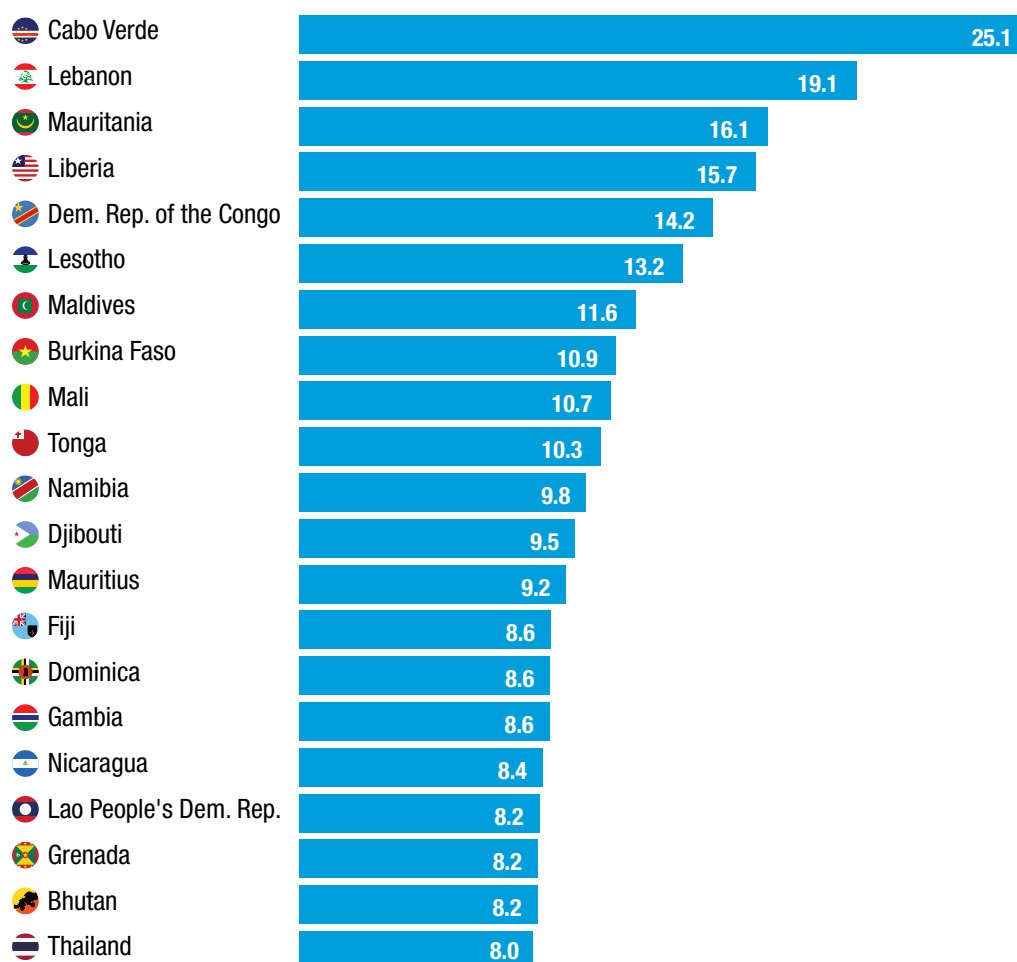
Conditions across other major developing economies remain uneven. Argentina has benefited from resilient agricultural exports and an improving outlook for shale, hedging the cost of energy imports. Brazil has drawn on strong household consumption and private investment, which have lifted imports, alongside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

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



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

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



Source: UNCTAD based on United Nations Comtrade data.

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

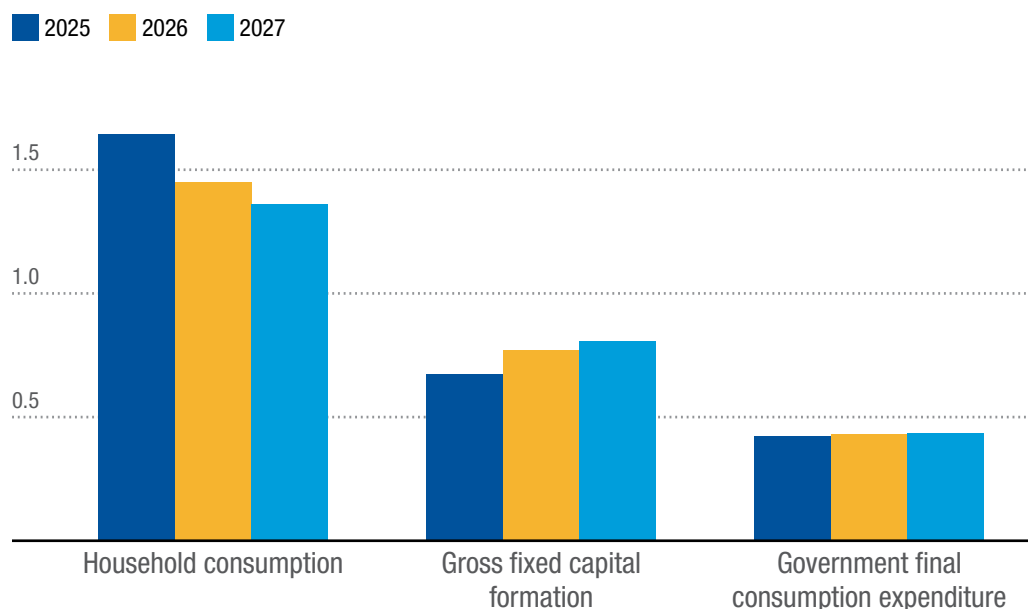
Trends in global spending components

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

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

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

Absolute contributions to global growth by component
(Percentage points)



Source: UNCTAD based on table I.1.

1. Waning private consumption amid the energy shock

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

a) The energy shock: Transmission and absorption

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

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

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

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



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

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

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

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



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

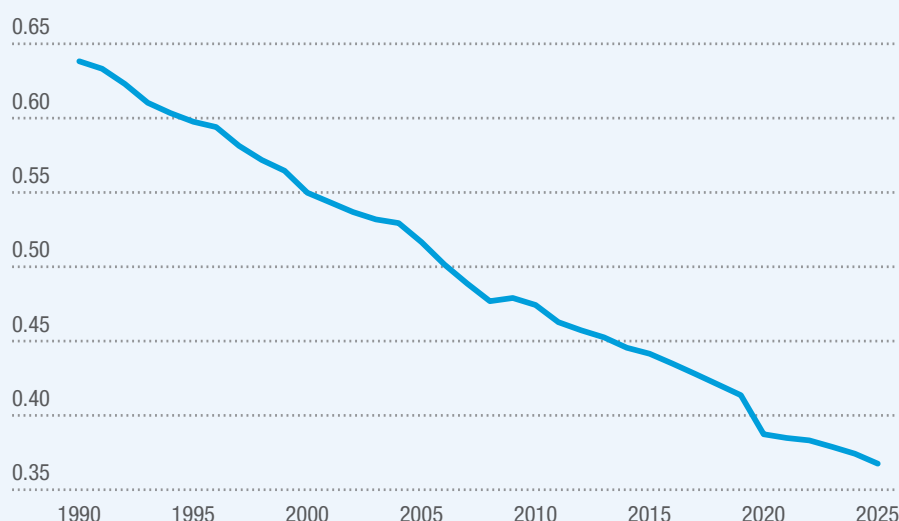


Box figure I.1.1

Oil intensity of production has declined steadily since 1990

Ratio of global oil consumption over world gross product

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



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

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

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

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

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

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



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

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

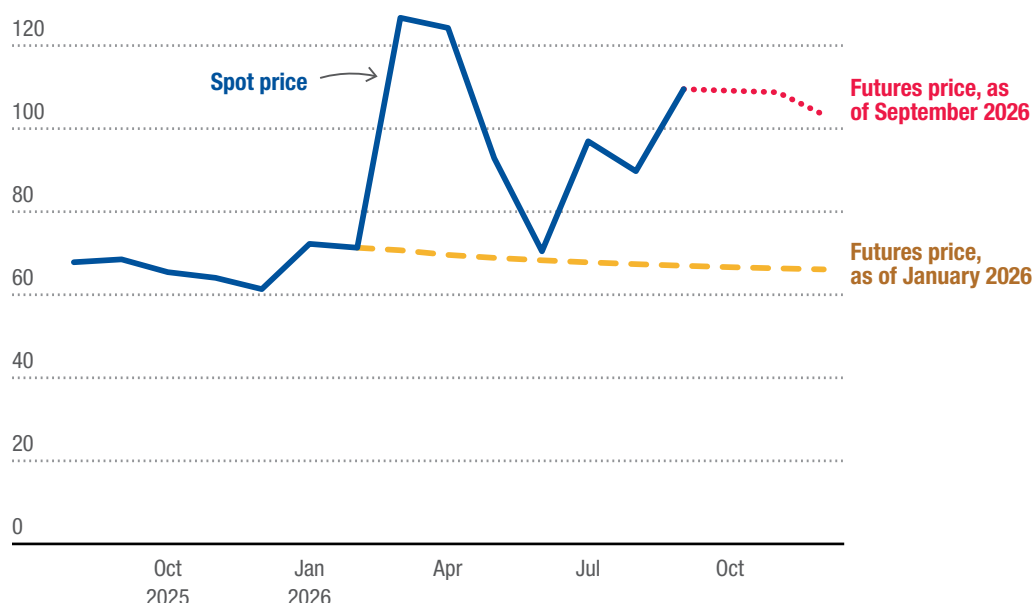
^a Including the disruptions in global energy markets emanating from the conflicts in Ukraine in 2022 and the Middle East in 2026.

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

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

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

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



Source: UNCTAD based on LSEG Datastream.

The shock is global, but the effects are uneven

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

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

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

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

A. Gasoline

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

B. Diesel

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

Source: GlobalPetrolPrices.

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

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

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

Higher retail energy prices have driven the pickup in inflation rates

Inflationary pressures on the rise

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

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

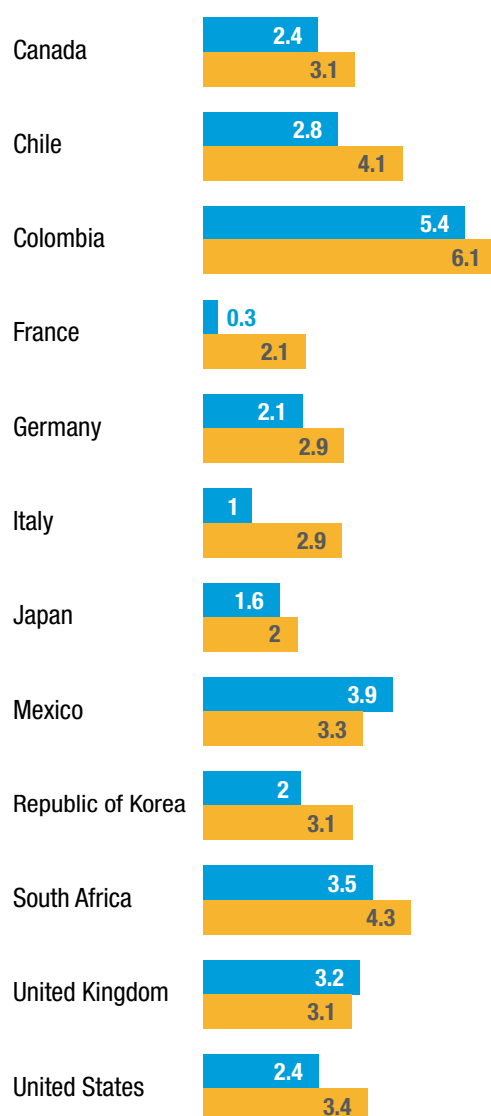


Figure I.8 The energy price shock swiftly passed through to consumer price inflation

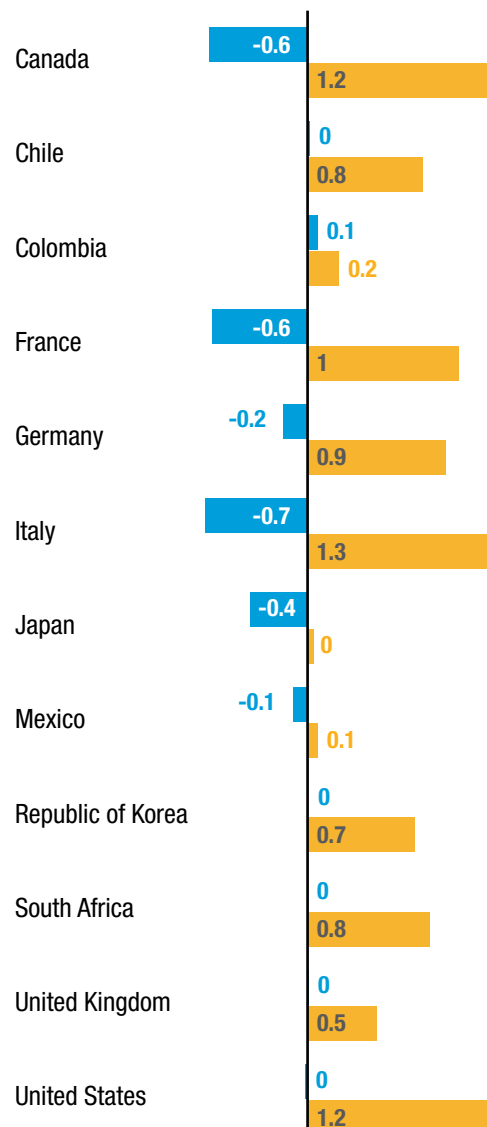
Year-on-year consumer price index inflation and contribution from energy, selected countries

A. Headline consumer price index inflation (Percentage)

January 2026 August 2026



B. Contribution to inflation from energy (Percentage points)



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



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

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

Tightening credit conditions

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

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

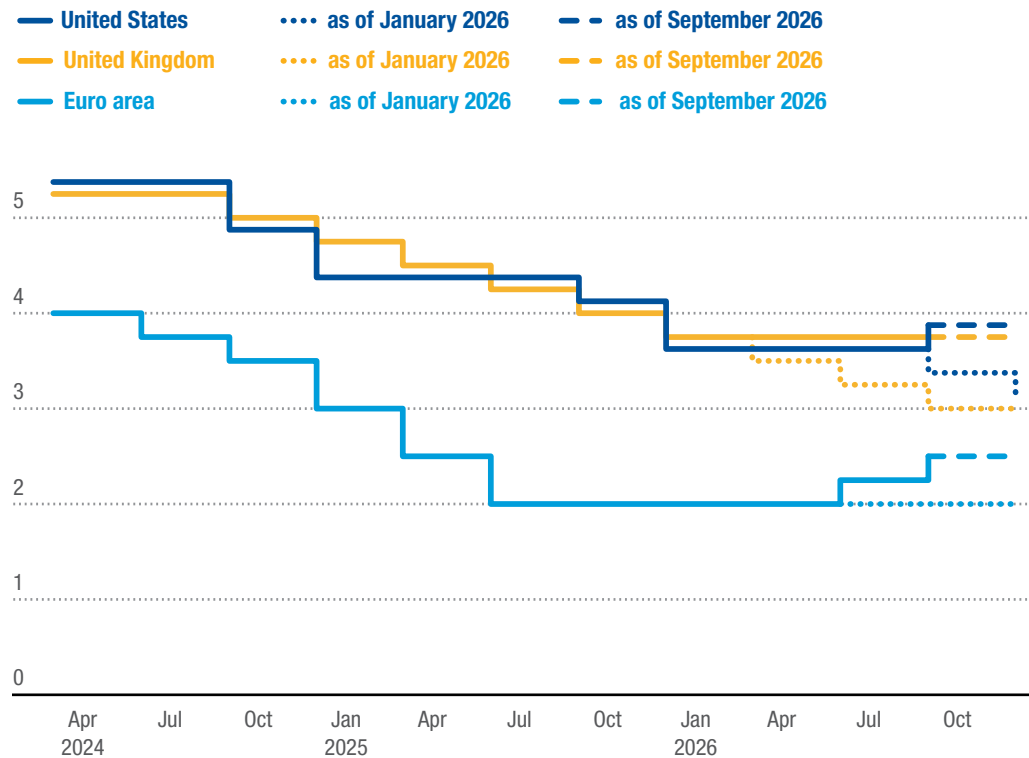
Unlike 2022, the current shock has not struck amid rapidly recovering demand, tight labour markets, nor outsized financial surpluses

Monetary policy is ineffective in neutralizing protracted supply shocks



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

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



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

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

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

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

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

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

2. Artificial intelligence boom, bubble and concentration

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

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

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

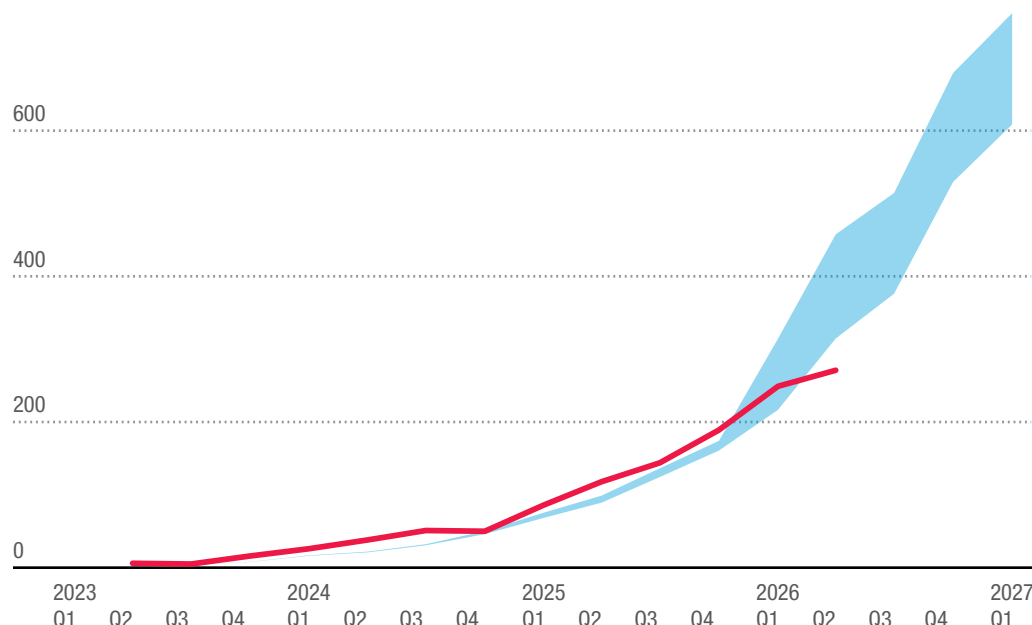
Artificial intelligence investment is concentrated in China and the United States, although some developing economies are benefiting

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



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

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



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

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

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

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

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



Box I.2

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

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

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

Key findings

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

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



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

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

Implications for asset pricing and macrofinance

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

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

Policy takeaways

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





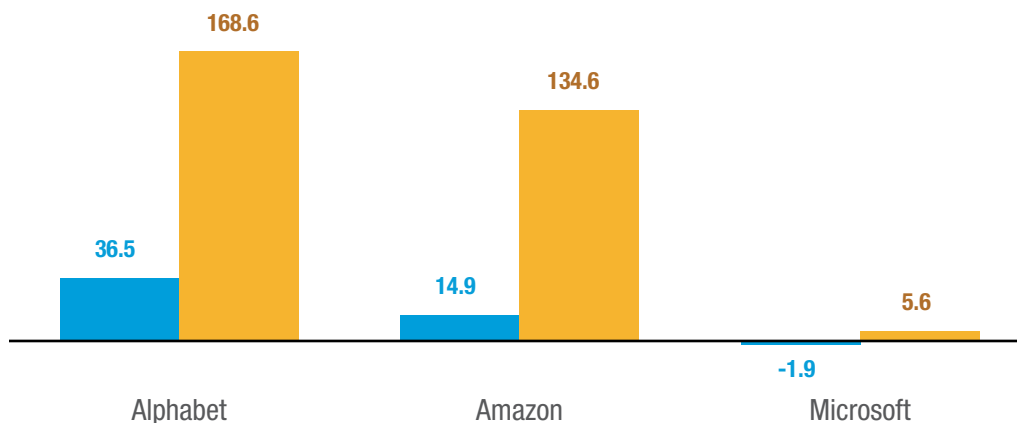
Figure I.11

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

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

(Percentage)

■ 2025 ■ 2026



Source: UNCTAD based on company disclosures.

Note: Data for 2026 refers to the first semester.

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

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

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

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

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

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





Figure I.12

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

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



Source: UNCTAD based on LSEG Datastream.

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

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

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

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



Table I.2
Indicators of market euphoria are flashing red

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

Source: UNCTAD based on LSEG.

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

3. Fiscal reprioritization

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

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

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

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

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

a) New fiscal priorities

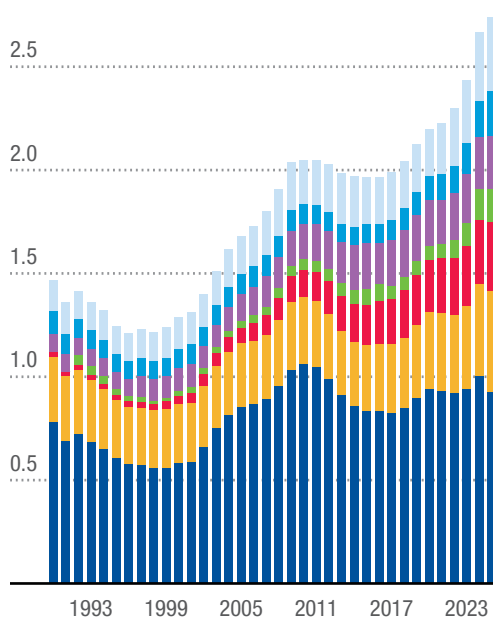
Real defence spending has climbed almost continuously since 1990. In constant dollars, it grew from under \$1.5 trillion in 1990 to more than \$2.7 trillion in 2025 (figure I.13.A), equivalent to \$334 per person worldwide, or

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

Figure I.13
Defence spending has risen continuously since 2016

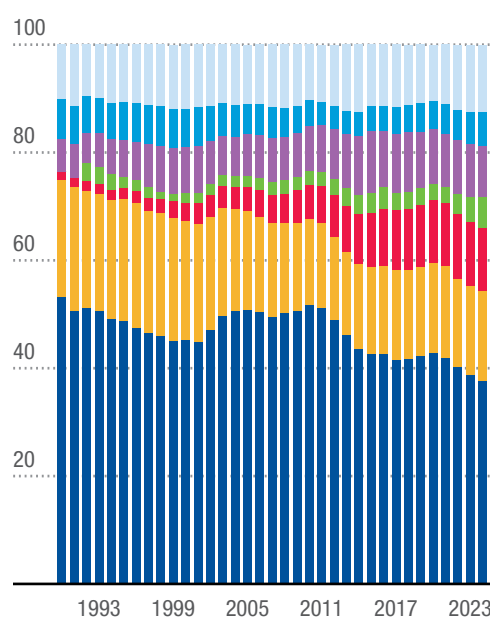
A. Absolute total values

(Trillions of constant 2024 United States dollars)



B. Share of countries and groups

(Percentage)



United States Group of 20: Other Group of Seven + Australia and Republic of Korea China
Russian Federation Group of 20: Other developing countries Other European countries
Other developing countries

Source: UNCTAD based on the SIPRI Military Expenditure Database.

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

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

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



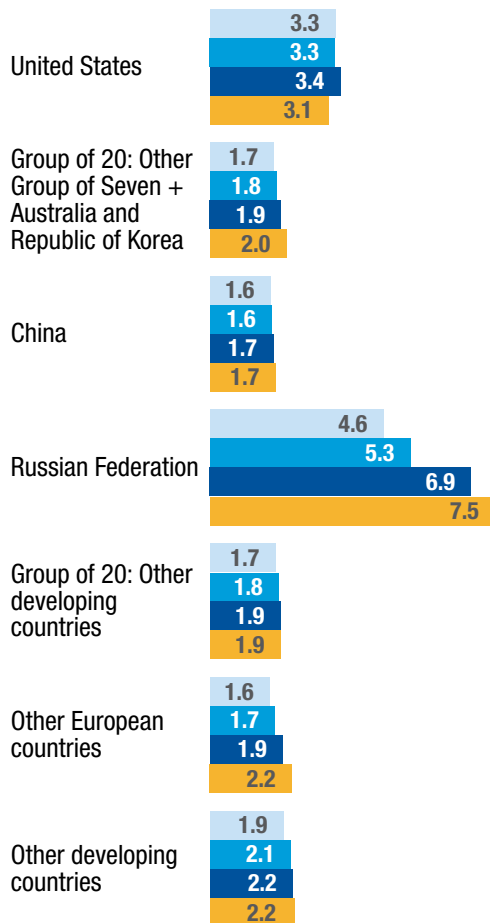
Figure I.14

The pickup in defence expenditure has been pronounced since 2022

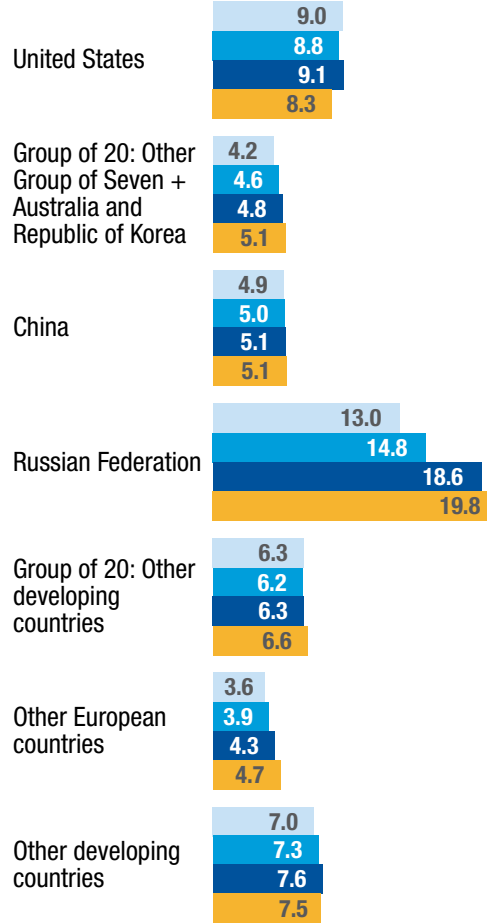
Defence expenditure
(Percentage)

A. Share of GDP

2022 2023 2024 2025



B. Share of government spending



Source: UNCTAD based on the SIPRI Military Expenditure Database.

Note: Shares of country groups are measured as averages.

Spending in defence and fiscal stimulus

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

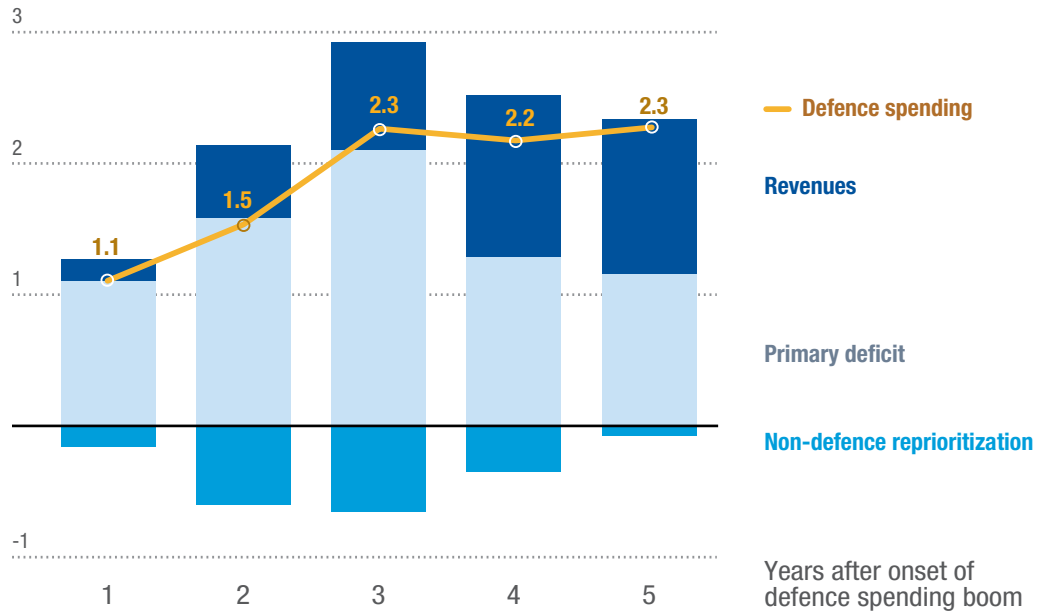
taxes and revenues. According to the IMF (2026a), on average, five years after defence expenditure begins to expand, it remains half funded by public deficits and half by new taxes and revenues (figure I.15). This suggests that defence spending booms impose long-lasting fiscal pressures and nurture growing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

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



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

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



Source: IMF (2026a).

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

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

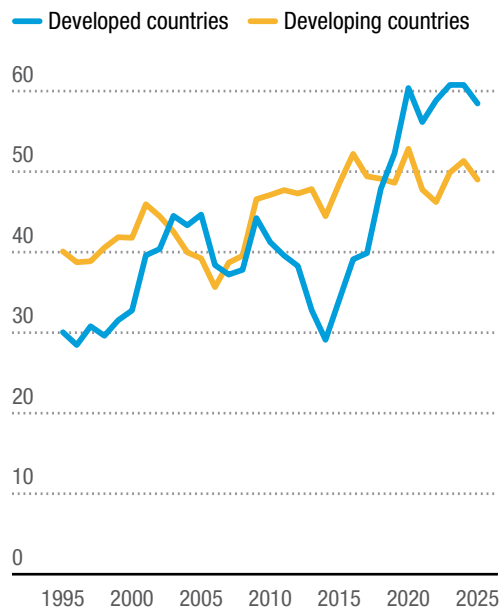
higher defence expenditure relative to GDP has been accompanied by declining shares for health and education (figure I.16.B). The shifts remain small relative to GDP, but the increases now announced point to a larger reprioritization over the medium term.



Figure I.16

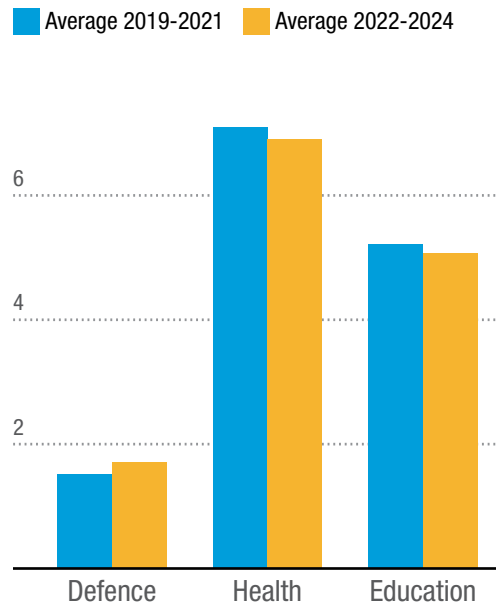
Rising government spending on defence increasingly crowds out social investments

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



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

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



Source: UNCTAD based on the OECD Data Explorer.



Fiscal multipliers of defence spending

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

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

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

b) Shrinking development assistance

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

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

Fiscal reprioritization has come at the cost of international development cooperation

Half of DAC members announced ODA cuts in 2026

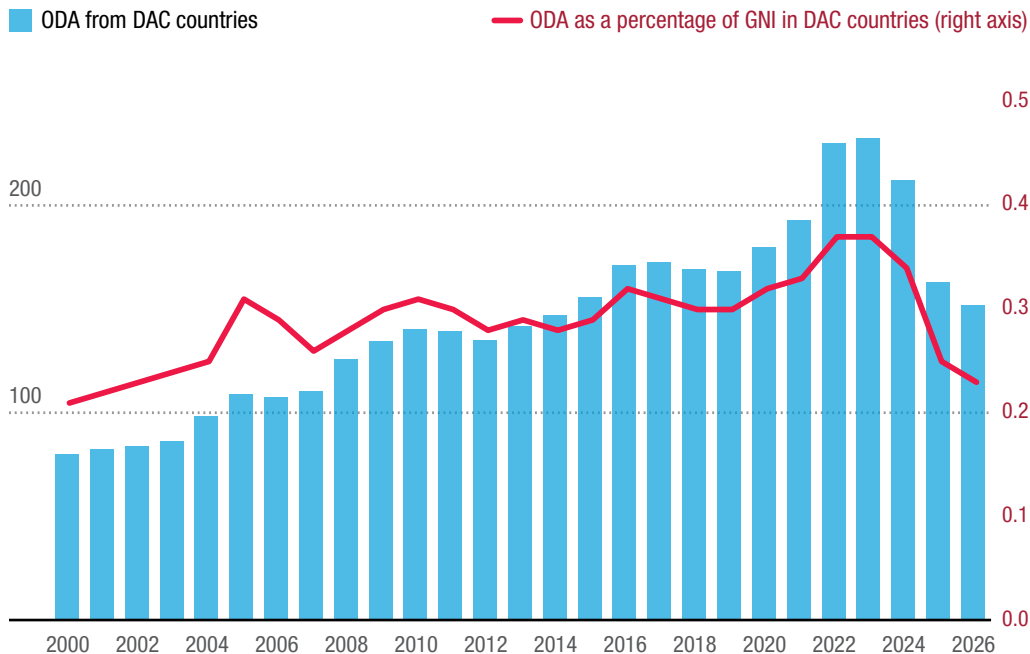




Figure I.17

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

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



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

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

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

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

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





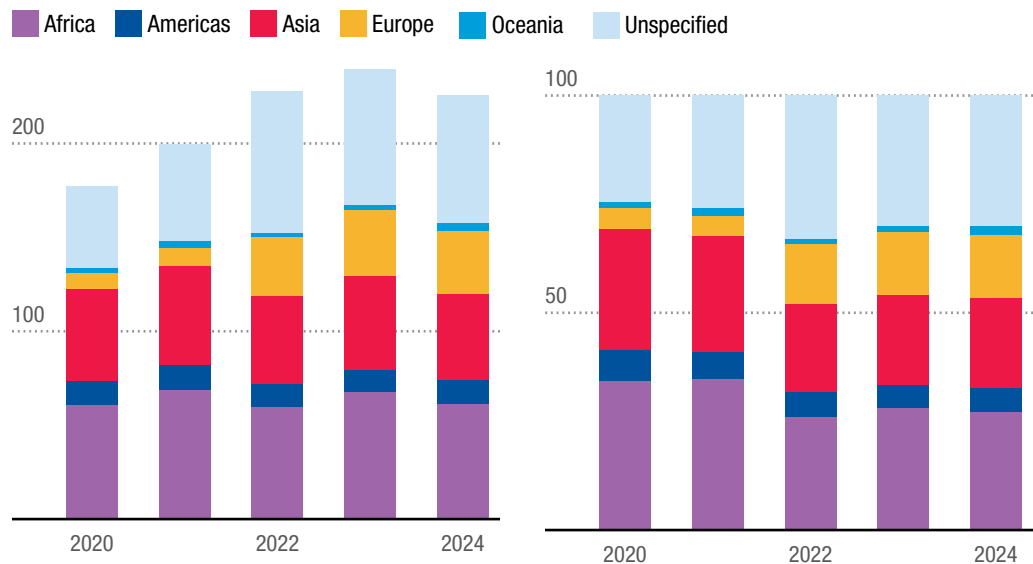
Figure I.18

The diversion of assistance from developing regions since 2022

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

A. Billions of United States dollars

B. Percentage



Source: UNCTAD based on OECD Data Explorer.

Official development assistance in the geoeconomic context

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

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



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

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

From dependence to resilience: Rethinking the aid architecture

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

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

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

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

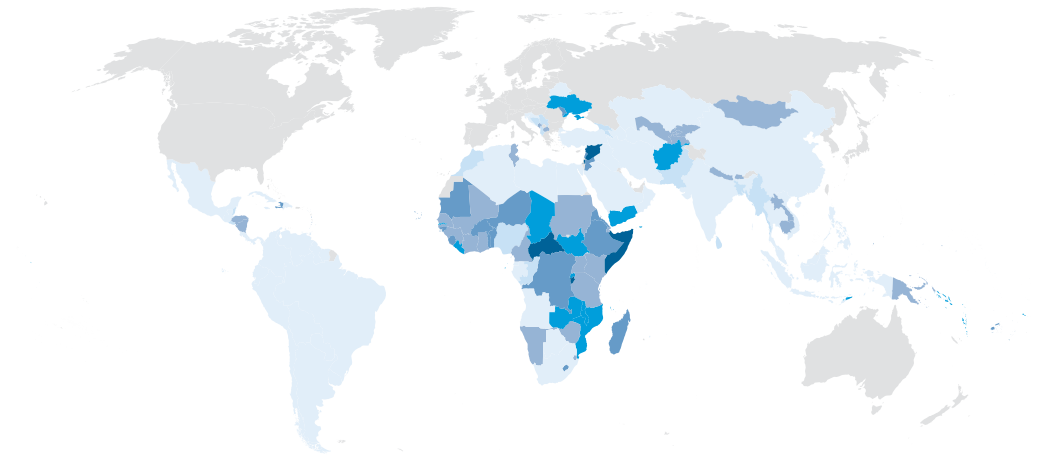
Domestic financing capacity depends on the development process it is expected to finance



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

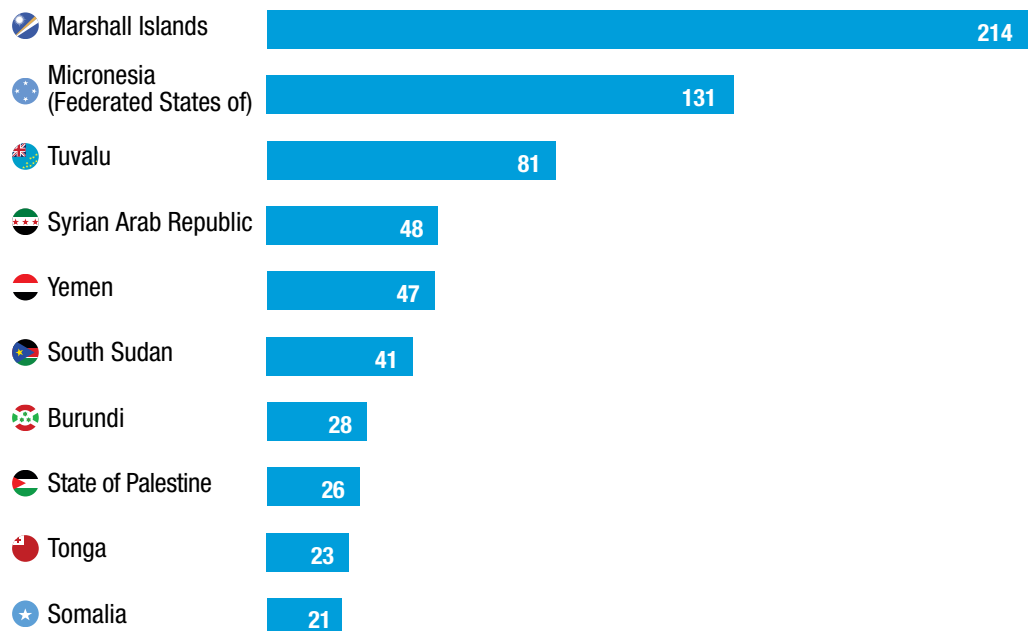
A. World

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



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

B. The 10 countries most dependent on official development assistance



Source: UNCTAD based on OECD data.

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

C. International markets

1. Trade: Strong yet deeply unbalanced

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

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

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

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

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

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

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

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

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

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

a) Trade in goods: Price increases conceal weaker volume

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

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

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

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

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

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

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

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

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



Table I.3

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

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

Exports

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

Imports

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

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

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



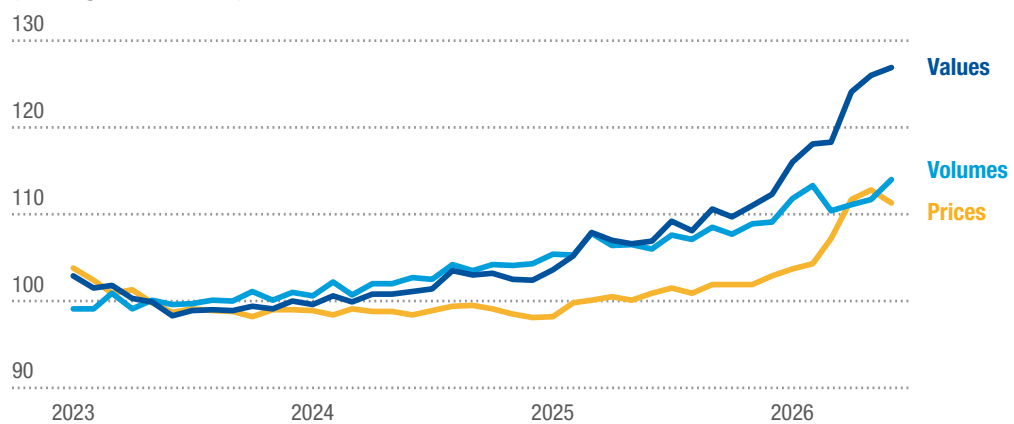
Beyond the first half of 2026, it remains unclear which forces will dominate between the tailwinds relating to artificial intelligence and the headwinds emanating from the conflict in the Middle East. The annual growth forecast is largely unaffected either way, since late-year movements bear comparatively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

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



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

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



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

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

Technology and artificial intelligence-enabling goods: The main support

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

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

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

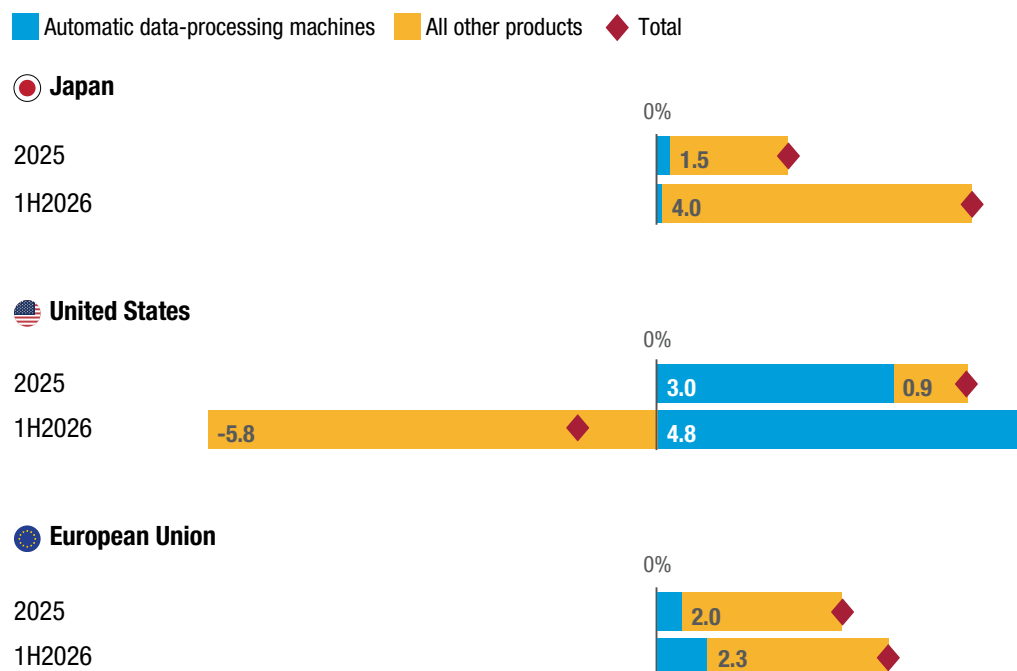


Within these specific products, artificial intelligence compute hardware and its supply chain deserve particular attention. Automatic data-processing machines – one of over 5,500 categories within the six-digit HS merchandise products classification – contributed significantly to the growth of imports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

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

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

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



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

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

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

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



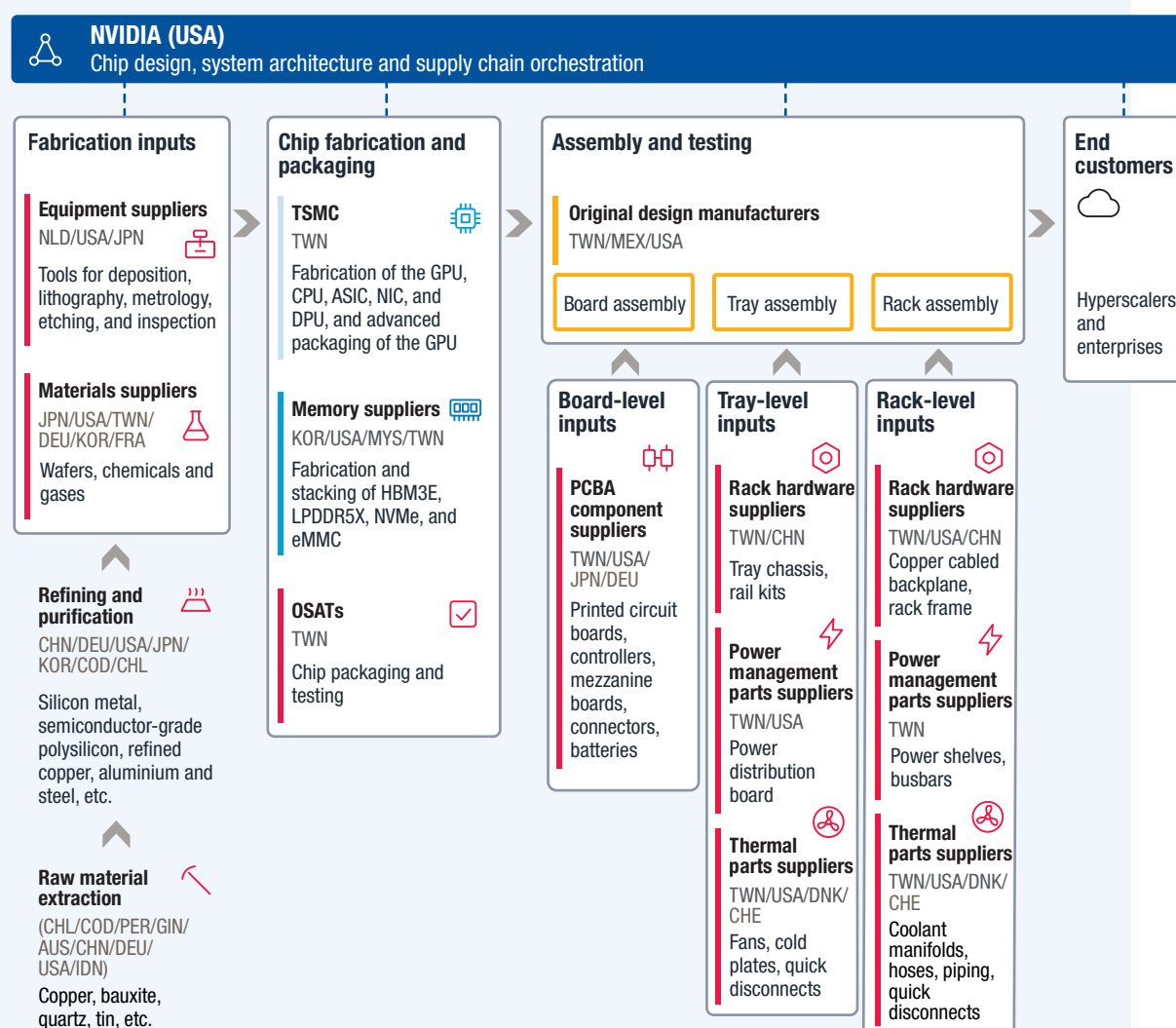
¹ Such concerns echo the findings by Rishabh and Shreeti (2026), which mapped the geography of artificial intelligence firms across five primary role layers: compute, infrastructure, data tools, models and applications. It goes beyond UNCTAD analysis of compute alone. The study surveyed more than 1,200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



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

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

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



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

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

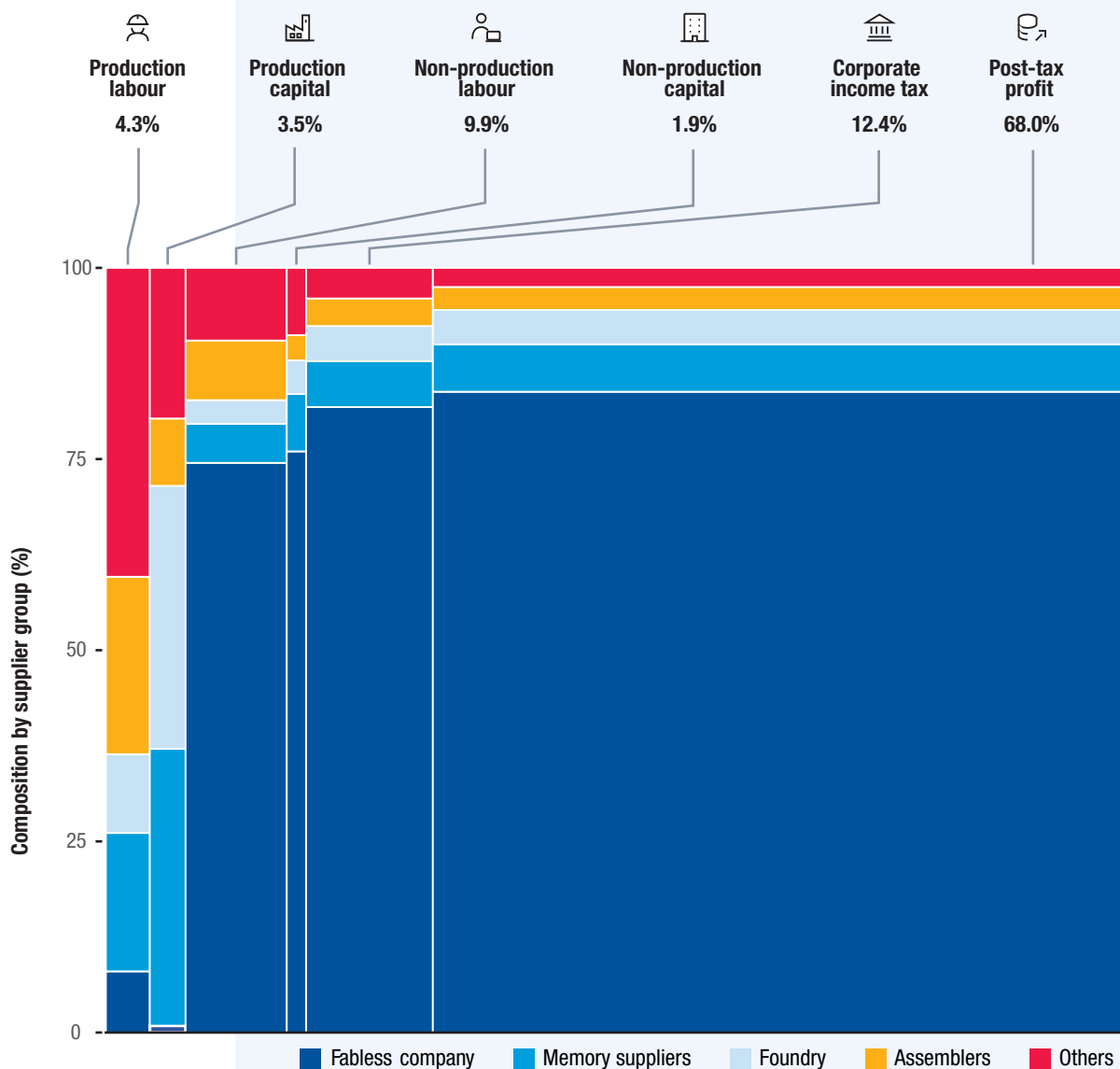
By estimating a detailed bill of materials and combining this with financial statement disclosures of major firms across the value chain, the analysis mapped more than 87 per cent of the overall value added by type of supplier, and decomposed this traced value added between production workers; non-production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



Box figure I.3.2

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

(Percentage)



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

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



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

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

Source: UNCTAD.

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

Other goods categories: Divergent fortunes

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

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

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

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

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

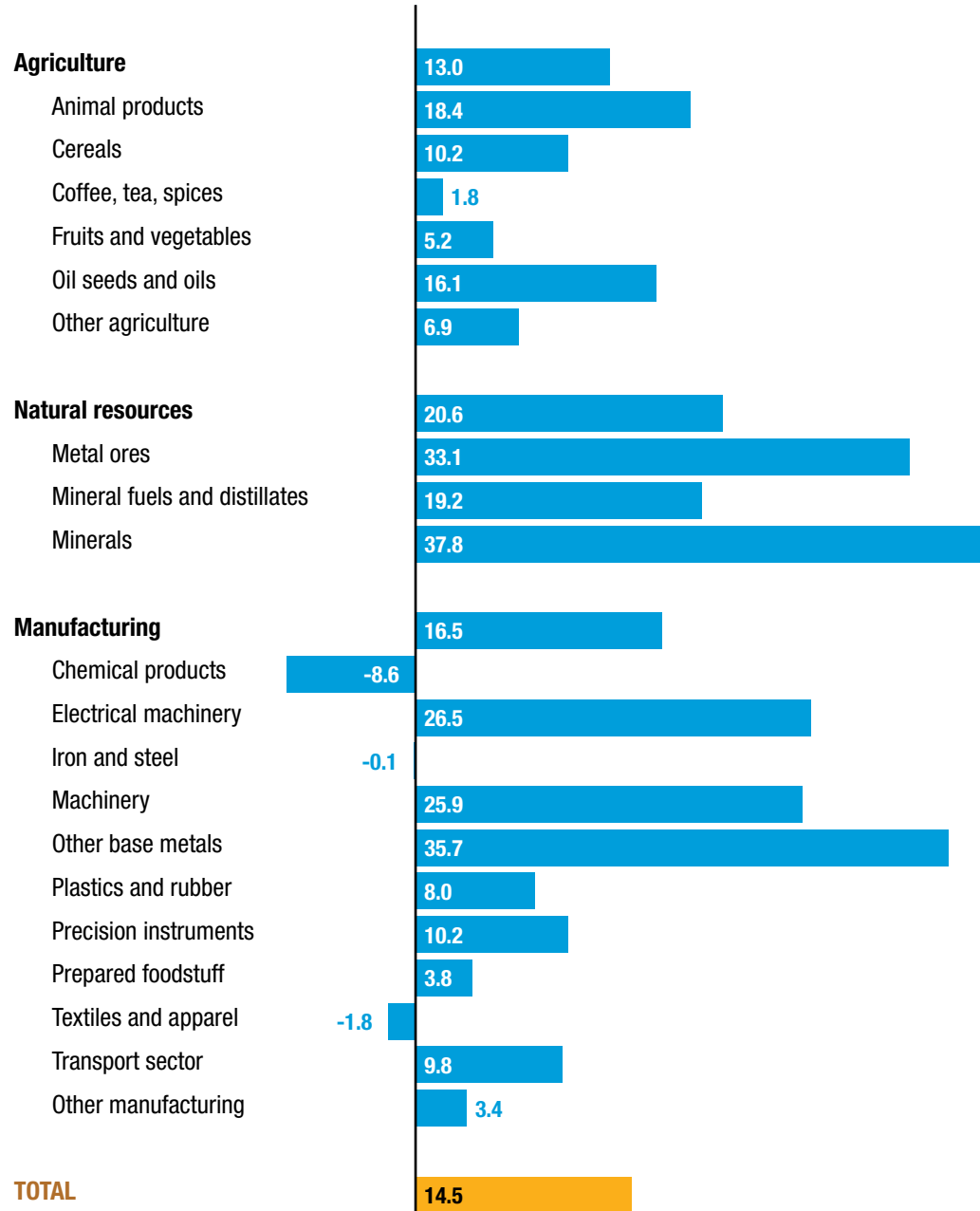


Figure I.22

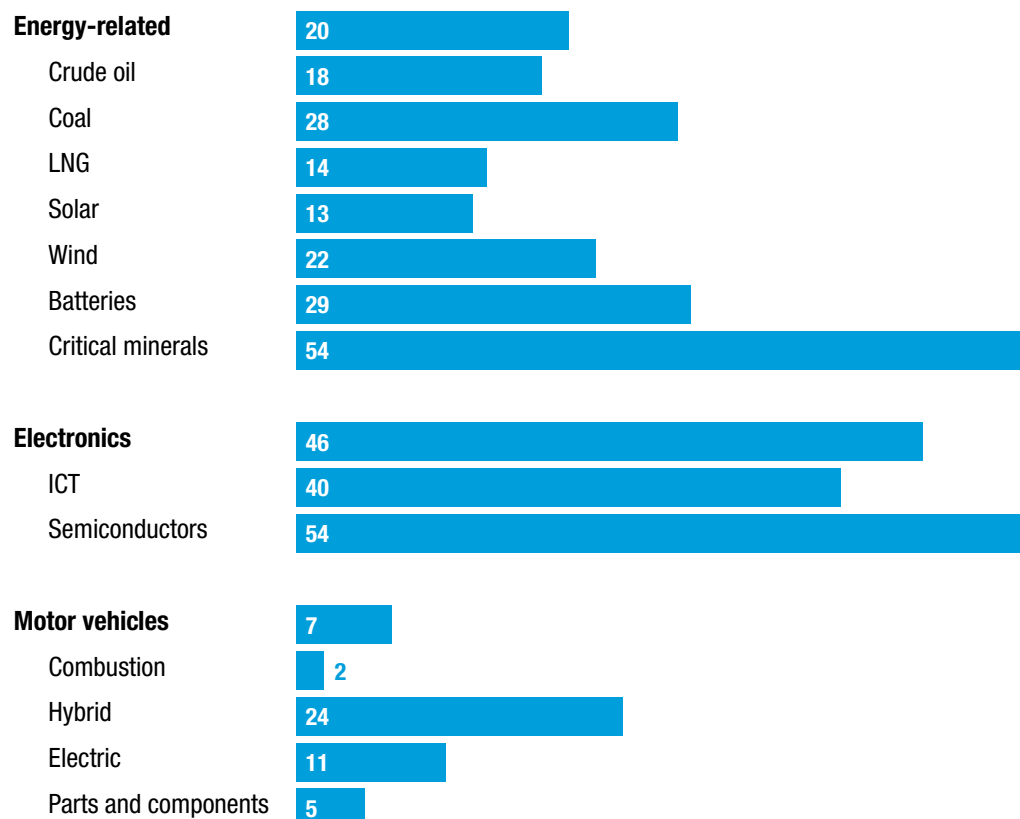
Manufacturing performed well in the first half of 2026, but many subsectors lagged

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

A. Main aggregates and components



B. Selected specific subsectors



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

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

Regional goods trade: Exporters and importers

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

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

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



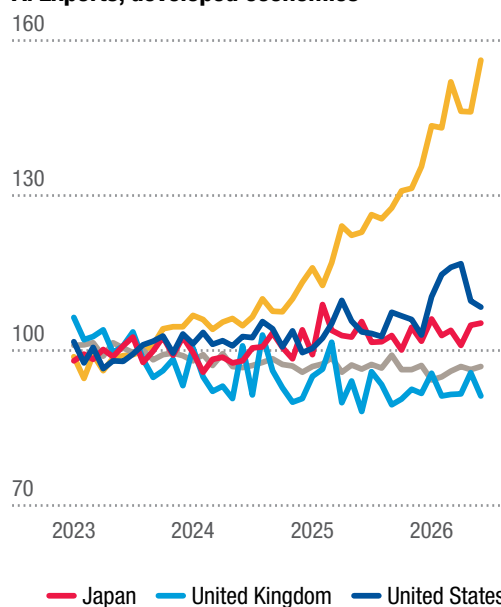


Figure I.23

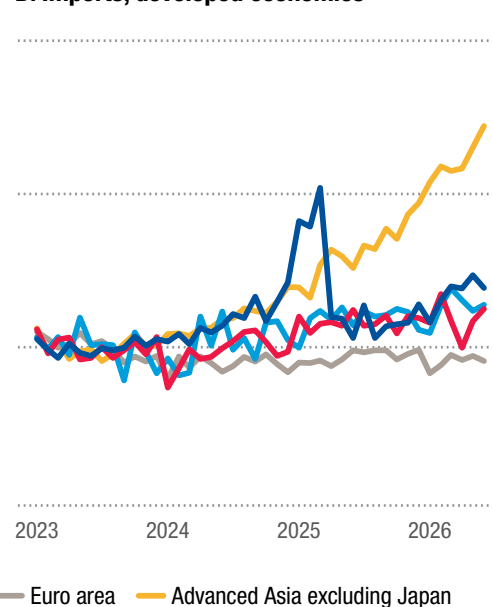
Merchandise trade performance has diverged

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

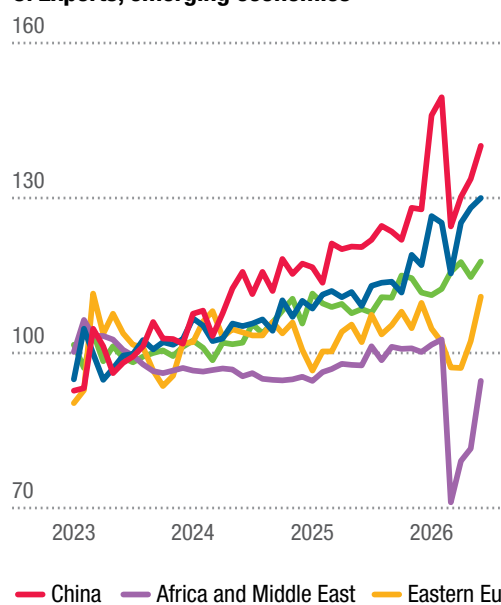
A. Exports, developed economies



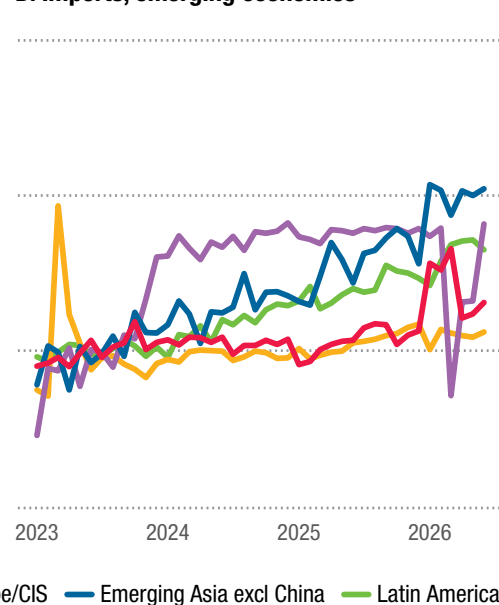
B. Imports, developed economies



C. Exports, emerging economies



D. Imports, emerging economies



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

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



b) Trade in services: Resilient but moderating

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

Transport services: Under pressure

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

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

Travel services: Post-pandemic normalization slows

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

Other commercial services: Steady, with digitally delivered services outperforming

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

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

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

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

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

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

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

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

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

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

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

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





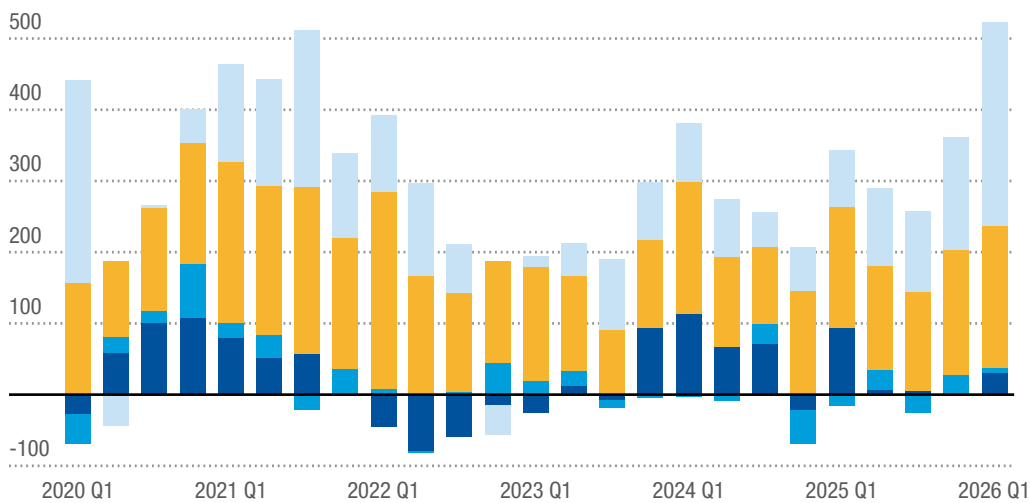
Figure I.24

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

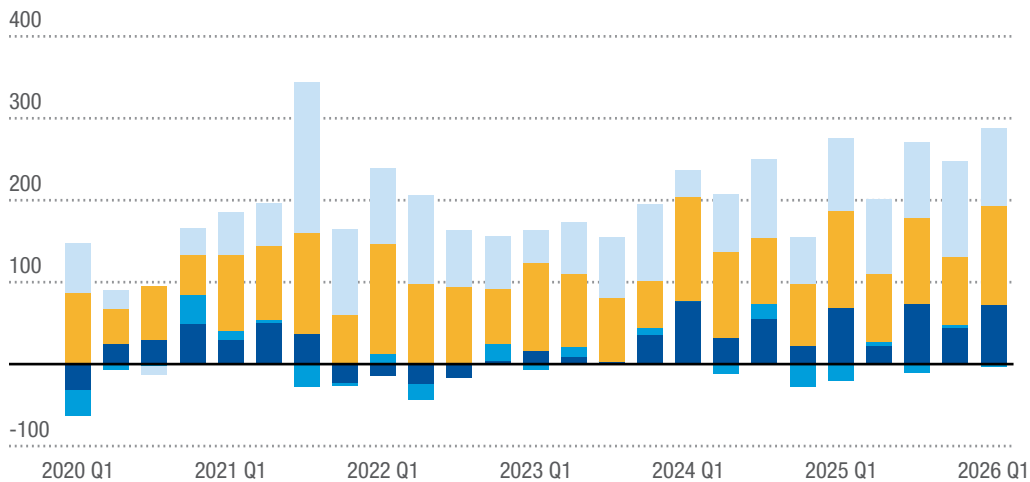
Non-resident capital flows to developing countries
(Billions of United States dollars)

A. All developing countries

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



B. Developing countries excluding China



Source: UNCTAD based on IMF balance of payments statistics.

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

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

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

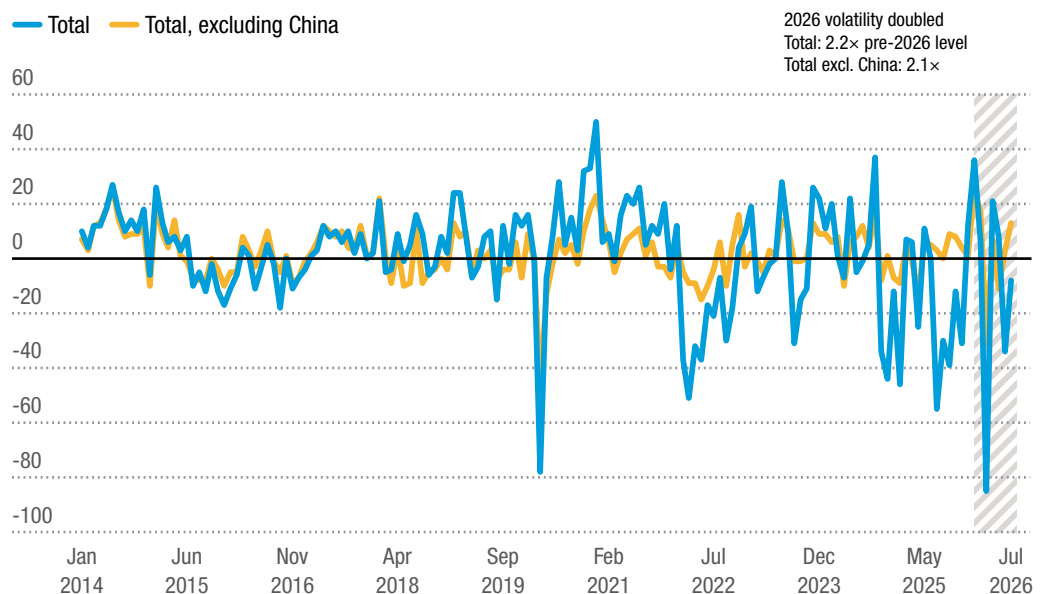


Outflows slightly exceeded those at the onset of the pandemic in March 2020, which until then was the largest since these economies integrated into global capital markets (UNCTAD, 2020). The rebound in April suggested that March outflows may have overshoot, although the oscillation between inflows and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

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

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

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



Source: UNCTAD based on LSEG.

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

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

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

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

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

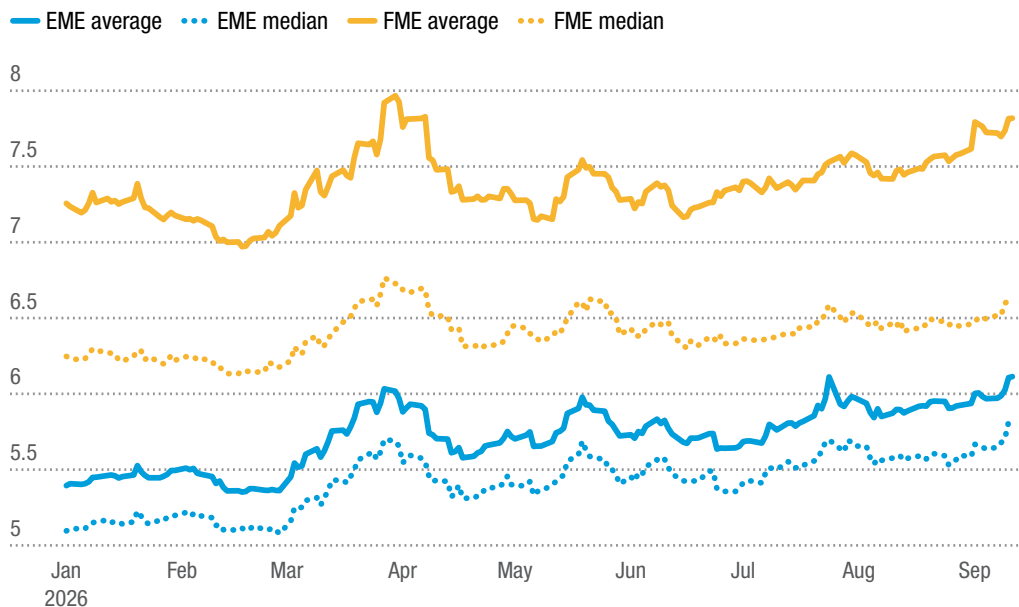
In frontier market economies, volatile global financial conditions weigh heavily on fiscal space



Figure I.26

Sovereign bond yields increased amid tightened global financial conditions

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



Source: UNCTAD based on LSEG.

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

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

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



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

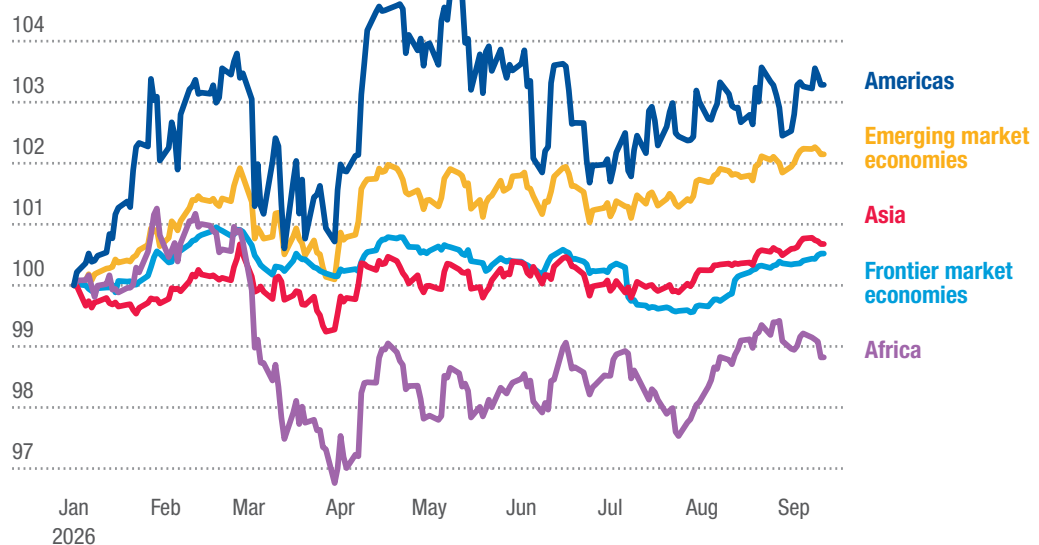
Non-resident capital flow dynamics have influenced developing countries' exchange rates, which followed a similarly volatile path: widespread depreciation across all developing regions in March, a synchronized but uneven appreciation in April, and oscillation from May onwards. Cumulative changes over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

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

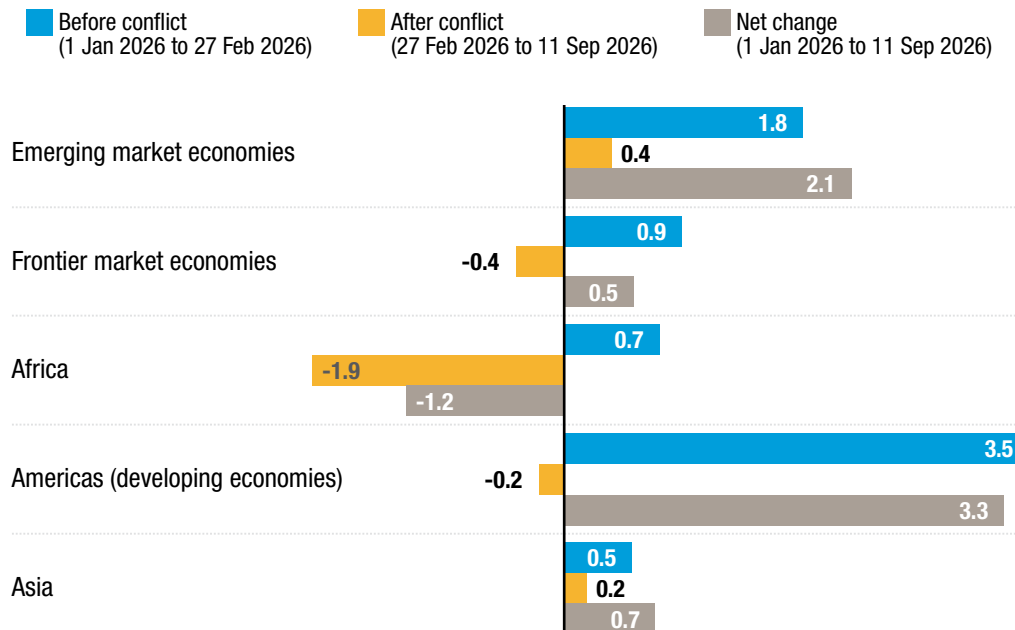
These averages conceal considerable country-level variation, reflecting the extent of appreciation before the conflict, the monetary policy stance, debt sustainability risks and the exchange rate regime. Investors also differentiated by exposure to the energy shock and its effect on the trade balance.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

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

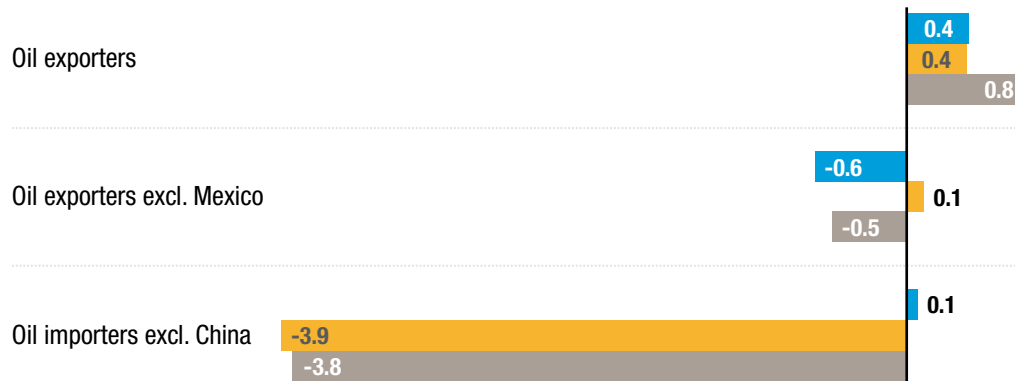
A. Exchange rate index against the dollar
(January 2026 = 100)



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



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



Source: UNCTAD based on LSEG Datastream.

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

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

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

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Chapter II

Selective fragmentation: The new geography of trade

KEY FINDINGS

- ▶ Global trade remains resilient, but its geography is being selectively reorganized. Bilateral trade relationships and production corridors are shifting without a generalized retreat from global integration.
- ▶ Market access is becoming more differentiated and policy dependent. Trading-partner- and sector-specific requirements increasingly shape participation, particularly in technologically advanced and strategically sensitive sectors where geoeconomic factors matter most.
- ▶ Developing countries will be affected unevenly by trade reconfiguration. Some may emerge as alternative suppliers or intermediary hubs, but realizing and sustaining these gains will require stronger productive, regulatory and institutional capabilities.



Policy takeaways

- ▶ **Coordinate trade policies to prevent fragmentation from deepening trade asymmetries.** Governments are increasingly using trade policy to pursue supply-chain resilience, industrial competitiveness, energy transition, technological leadership and national security. Sought through unilateral, discriminatory or weakly coordinated instruments, these objectives can weaken trade predictability, raise trade costs and reinforce existing asymmetries, especially for smaller exporters and least developed countries.
- ▶ **Assess emerging trade opportunities in light of geoeconomic shifts and factors shaping supply-chain resilience.** Trade reconfiguration may create new entry points for some developing economies as alternative suppliers, production locations or connector economies. Trade opportunities will depend not only on conventional productive capacities, however, but also on geoeconomic positioning, perceived reliability, policy stability and exposure to trade restrictions. These factors are especially important in strategic and technologically advanced sectors.
- ▶ **Preserve development safeguards in multilateral trade cooperation.** The World Trade Organization (WTO) remains essential for transparency, predictability, non-discrimination and baseline disciplines. But its role should adapt to emerging trade policy areas such as industrial policy, economic security, climate measures and digital regulation. Preserving non-discrimination and special and differential treatment, while strengthening capacity-building and the participation of developing countries in rule-shaping, is essential to making policy space and market access mutually reinforcing.
- ▶ **Strengthen regional and South–South cooperation as a complement to multilateral rules.** Where WTO-wide agreement remains difficult, developing countries should use open, development-oriented regional and South–South arrangements to improve market access, simplify rules of origin, improve trade facilitation and strengthen their collective bargaining power. These arrangements should remain transparent and interoperable so that they support, rather than deepen, fragmentation.
- ▶ **Strengthen capabilities to meet increasingly complex market access conditions.** Developing countries need targeted support for standards infrastructure, certification, traceability, digital customs systems and regulatory compliance. Without such capabilities, firms may be excluded from trade opportunities not because they lack competitiveness in price or quality, but because they cannot effectively comply with environmental, labour, security or origin requirements.

A. Introduction

This chapter examines the forces, policy instruments and trade implications associated with the shift in the global trading system from a broad-based model of multilateral integration towards a more selective, fragmented and politically conditioned form of trade governance.

Cross-border exchange requires shared expectations about how governments will treat internationally traded goods and services. International trade depends on rules that define market access, limit discrimination, clarify procedures, discipline subsidies and provide mechanisms for resolving disputes. Without commonly agreed rules, trade is vulnerable to abrupt policy changes, political pressure and power asymmetries. The multilateral trading system of the 1990s and 2000s broadly reflected this logic, providing a relatively stable framework for deeper economic integration, the expansion of global value chains and the growth of international trade. Yet even during this period of heightened multilateral cooperation, important development concerns remained unresolved. Many developing countries continued to face structural barriers to market access, limited productive capacities and persistent difficulties in capturing greater value from global trade (UNCTAD, 2018).

Over the past decade, deeper structural changes in trade policymaking have compounded the limitations of this earlier model of integration. Geoeconomic competition has intensified the use of trade policy for strategic purposes, especially in sectors linked to technology, the energy transition, critical inputs and advanced manufacturing. At the same time, governments are increasingly deploying trade-related measures to support industrial transformation, strengthen resilience and pursue regulatory objectives. Together, these dynamics have made it more difficult for multilateral trade rules to absorb policy tensions, sustain coordination and support convergence around shared disciplines.

These shifts reflect tensions created by the success of earlier phases of globalization. Lower trade costs, technological change and rules-based integration enabled deeper specialization, expanded global value chains and generated substantial efficiency gains. Yet they also increased concentration in some production networks and created new forms of dependence on a limited number of suppliers, technologies, inputs and markets. Today, interdependence is increasingly viewed as a source of strategic exposure, although it can still foster significant efficiency gains.

Geoeconomic competition increasingly shifts trade policy priorities toward technology, energy transition, critical inputs and advanced manufacturing



This changing perception has strengthened support for diversification, industrial policy and supply chain security, while making it harder for the multilateral trading system to manage tensions, update rules and maintain consensus. Policy discretion now plays a larger role in determining market access, investment and participation in global value chains. Looking ahead, the forces driving trade policy fragmentation are likely to remain a defining feature of the global trading system.

The key challenge is to prevent trade fragmentation from undermining growth, structural transformation and sustainable

development. This requires adapting multilateral cooperation to more diverse national priorities while preserving core principles such as non-discrimination, transparency, predictability, rules-based discipline and special treatment for developing countries. More flexible, development-oriented cooperation is also needed to address specific policy challenges and avoid a situation where greater policy discretion deepens fragmentation or exclusion. Developing countries should be able to participate effectively in drafting the rules, regulations and institutions that will affect their future trade and development.

Developing countries must be able to participate in drafting the rules affecting their future trade and development

B. Trade policy fragmentation: Causes and dynamics

Since the creation of the post-1945 economic order, multilateral trade governance has rested on non-discrimination, reciprocity and rules-based cooperation. These rules help limit protectionism and policies that shift domestic costs onto trading partners (Bagwell and Staiger, 1999 and 2002). The most-favoured nation principle reduces discrimination and the risk of competing trade blocs, while common disciplines improve regulatory compatibility and

lower transaction costs (Hoekman and Kostecki, 2009). For smaller economies, multilateralism also reduces power asymmetries by providing legal predictability, dispute settlement mechanisms and access to concessions negotiated by larger economies (Jackson, 1997). Together, these features supported the integration of developing countries, the expansion of global value chains and rapid trade growth from the 1990s to the early 2010s.



Increasingly, governments view trade policy as an instrument for achieving broader strategic objectives

Market access depends on competitiveness and firms' ability to navigate trade policies and regulatory divergence

Over the past decade, global trade and trade policymaking have undergone a marked structural transformation. Escalating geopolitical tensions, concerns over economic resilience, renewed industrial policy activism and the proliferation of regulations linked to environmental objectives, technological competition, labour standards and national security have altered the policy environment (Baldwin, 2022; Evenett and Fritz, 2024). Increasingly, governments view trade policy not merely as a mechanism for promoting efficiency and securing market access but as an instrument for achieving broader strategic objectives, including technological leadership, supply chain security, climate transition and economic resilience (WTO, 2023).

For developing countries, the key question is whether this transformation will make participation in international trade more conditional and uneven. Market access increasingly depends not only on price, productivity and production capacity but also on firms' ability to navigate trade policy changes and diverging regulatory requirements. These changes may create opportunities to attract investment, diversify exports and become alternative suppliers in reconfigured value chains. They may also raise entry costs and uncertainty for countries and firms with limited institutional, productive or compliance capacity, reinforcing unequal access to trade opportunities. Fragmentation reflects the interaction of several mutually reinforcing drivers, summarized in table II.1 and examined below.





Table II.1
Drivers of trade policy fragmentation

Driver	Core mechanism	Main policy manifestations	Contribution to fragmentation
Political economy and geoeconomic changes	Trade policy reflects domestic political incentives, organized interests and geoeconomic competition rather than aggregate welfare alone. International competition can intensify lobbying by allowing sectoral interests to be framed as national competitiveness, resilience or security concerns.	Sectoral protection, subsidies, export controls, investment screening, national security restrictions, strategic trade measures.	Shifts trade policy away from universal market access towards country-specific, sector-specific and security-oriented interventions. This increases discrimination among trading partners and encourages reciprocal policy responses.
Domestic incentives for industrial support	Governments increasingly use trade and industrial policy to secure resilience, employment, technological leadership and future comparative advantage.	Local content requirements, procurement preferences, green subsidies, semiconductor support, critical minerals strategies, strategic sector investment incentives.	Makes trade policy increasingly subordinate to national industrial strategies. As governments target similar strategic sectors, subsidy races, retaliatory measures and regulatory divergence become more likely.
Global value chains, rebalancing efficiency and risk	Firms reassess efficiency-oriented globalization in response to supply chain disruptions, policy uncertainty, automation and changing production technologies.	Geoeconomic supply diversification, regionalization, automation-enabled relocation, artificial intelligence-enabled supply chain management.	Weakens globally integrated production networks organized largely around cost differentials. Integration becomes more selective and conditional, depending increasingly on perceived geoeconomic risk, regulatory compatibility, security relationships and policy stability.
Use of trade policy for non-trade objectives	Governments increasingly use trade policy to advance socioeconomic and public policy objectives, including climate, labour, human rights, sustainability and corporate accountability goals.	Carbon border measures; supply chain due diligence laws; labour-related restrictions; sustainability standards; labour provisions; environment, social and governance-linked market access conditions.	Creates differentiated regulatory conditions for market access. Countries vary in standards, enforcement capacity and definitions of acceptable production practices, increasing compliance costs and regulatory divergence.
Weakening multilateralism and reduced constraints on intervention	The multilateral system is not only affected by the above drivers; its weakening also reduces the constraints that previously limited unilateral or discriminatory action.	WTO rule-making stagnation, weakened dispute settlement, greater reliance on unilateral measures, preferential agreements, plurilateral initiatives.	Functions as an enabling condition for fragmentation. As common rules become less able to absorb policy tensions and sustain convergence, governments have greater space to act outside shared disciplines, making fragmentation self-reinforcing.

Source: UNCTAD.



1. Political economy and geoeconomic changes

Political economy and geoeconomic changes are intertwined sources of trade policy fragmentation. At the domestic level, trade policy is shaped by interest groups, distributional pressures, domestic priorities and political demands for greater control over economic outcomes. At the international level, these pressures are increasingly reinforced by strategic competition among major economies. Three interrelated factors are particularly important: political dynamics, the erosion of the political consensus supporting globalization, and growing links between trade policy and security concerns in strategic sectors.

a) Political dynamics

The political economy literature has long emphasized that trade policy outcomes reflect domestic political incentives rather than purely aggregate welfare considerations (Grossman and Helpman, 1994). Contemporary international competition can intensify this dynamic. Claims of unfair foreign support may provide domestic firms with a justification for mobilizing political support, allowing sectoral interests to be framed as national competitiveness or strategic resilience concerns. Once governments respond with supportive measures or trade restrictions, trading partners may adopt similar measures, creating a self-reinforcing cycle of domestic advocacy for policy intervention, contributing to greater policy fragmentation.

b) The erosion of the political consensus supporting globalization

Many current tensions reflect the failure of earlier globalization frameworks to integrate social, environmental and distributional concerns into trade governance, treating them instead as issues for later domestic policy action (Rodrik, 2024). Deep integration can also constrain national

sovereignty and democratic choice, particularly when international commitments limit regulation, redistribution or social protection. Moreover, as globalization has produced uneven and persistent outcomes across workers, sectors and regions, public support for trade liberalization has weakened in many instances (UNCTAD, 2019). The revival of industrial policy, reshoring and trade restrictions can therefore be seen as an effort to restore policy autonomy in response to discontent with inequality, deindustrialization, job insecurity and strategic dependence (UNCTAD, 2024b).

c) Geoeconomic competition and strategic sectors

These domestic political dynamics are reinforced by geoeconomic competition. Trade policy is increasingly intertwined with strategic industrial considerations, especially in sectors such as semiconductors, critical minerals, energy technologies, telecommunications infrastructure and advanced manufacturing. Governments now frequently justify export controls, investment screening, subsidies and trade restrictions on national security or resilience grounds (UNCTAD, 2026a). This securitization of economic policy expands the scope of industrial policy interventions and shifts trade policy away from universal market access towards country-specific, sector-specific and security-oriented measures, thereby contributing to fragmentation (UNCTAD, 2025a).

2. Domestic incentives for industrial policy intervention

The second driver of trade policy fragmentation is the renewed centrality of government intervention in support of productive activity (Evenett et al., 2024). From a development perspective, the return of industrial policy should not be understood only as a departure from market-oriented trade governance. Industrial policy has

The revival of industrial policy, reshoring and trade restrictions can be seen as an effort to restore policy autonomy in response to discontent



long been central to debates on structural transformation, productive capacity-building, technological upgrading and economic diversification (chapter III). Historically, one of its main justifications was the infant industry argument: temporary support could help emerging sectors develop capacities, achieve scale, absorb learning costs and become internationally competitive. In this sense, industrial policy remains an important instrument for countries seeking to move into higher-productivity activities and strengthen domestic linkages.

In the current context, however, the rationale for industrial policy has broadened. Modern industrial policy increasingly seeks to shape future comparative advantage by supporting innovation, technological upgrading and strategic production capacities, including by addressing market failures, coordination problems, learning spillovers and the requirements of structural transformation (Juhasz et al., 2024). Financial crises, the pandemic and geopolitical factors have further expanded its role: industrial policy is now used not only to promote development but also, through trade policy instruments, to reduce strategic dependencies, strengthen supply chain resilience, and safeguard access to critical goods and technologies.

The renewed use of industrial policy has important implications for trade governance. Developed and emerging developing economies can often draw on larger fiscal resources, deeper capital markets, stronger technological capabilities and greater institutional capacity to support strategic sectors. Many developing countries face tighter financing constraints and more limited capacity to design, implement and monitor comparable measures. As a result, formally available policy space may not translate into an equal ability to pursue industrial transformation. Large-scale support in major economies can redirect investment, alter competitive conditions and narrow the development options available elsewhere. This asymmetry reinforces the need for common, development-sensitive trade disciplines that preserve industrial policy

flexibility while limiting measures that impose disproportionate costs on trading partners.

3. Global value chains: Rebalancing efficiency and risk

The third driver of trade fragmentation concerns global value chain participation. Increasingly, this is determined by a broader set of considerations than cost efficiency alone. Firms and governments now place greater weight on supply chain resilience, regulatory compliance, security relationships and geoeconomic compatibility when deciding where to source, invest in and locate production.

The expansion of global value chains during the late twentieth and early twenty-first centuries was enabled by declining trade costs, advances in information and communication technologies, and firm strategies focused on efficiency and cost minimization (Baldwin, 2016). In the current geoeconomic context, firms are reassessing their exposure to supply chain risks and seeking greater resilience, encouraging supplier diversification, regionalization and enhanced reliance on jurisdictions perceived as less vulnerable to abrupt policy shifts (Crowe and Rawdanowicz, 2023).

Technological change is reinforcing this shift: automation, artificial intelligence and digital technologies reduce the importance of labour cost differences in offshoring decisions (Artuc et al., 2018). Resilience and policy risk management make regulatory compatibility, security ties and predictable rules more important in sourcing and investment decisions.

4. Use of trade policy for non-trade objectives

The fourth driver of trade policy fragmentation is the growing use of trade policy to pursue socioeconomic and domestic policy objectives. Earlier liberalization largely treated environmental

Financial crises, pandemics and geopolitical tensions have made economic security a central objective of industrial policy alongside development

Supply chain resilience concerns encourage diversification, regionalization and reliance on jurisdictions perceived as safer



Governments have increasingly responded to the social and environmental costs of globalization through trade policy

protection, labour standards, inequality and corporate accountability as separate domestic concerns. As the social and environmental costs of globalization have become more visible, governments have increasingly incorporated these issues into trade policy. Evidence of concentrated labour market losses has strengthened demands for rules that address inequality, employment security and social protection (Autor et al., 2013). Climate and accountability concerns have increased support for environmental standards and responsible business conduct (UNCTAD, 2024a).

Issues advancing faster than multilateral rule-making have pushed governments towards unilateral measures, preferential agreements and plurilateral initiatives

These measures may help sustain domestic support for open trade by addressing concerns previously treated as external to the trading system. Rather than simply representing protectionist departures from liberalization, they may reflect efforts to align trade with domestic social contracts, climate commitments, and expectations of fairness and accountability (Rodrik, 2025). As these objectives are pursued through differing national and regional rules, however, trade becomes less centred on uniform liberalization and more shaped by regulatory compatibility, social conditionality and contested public policy goals, thereby contributing to fragmentation.

5. Weakening multilateralism and reduced constraints on intervention

The weakening of the multilateral trading system is both a driver and consequence of trade policy fragmentation. Geopolitical factors, industrial policy, global value chain restructuring and new socioeconomic objectives are placing growing strain on existing rules. Although WTO continues to provide core principles, transparency, monitoring and baseline legal disciplines, its capacity to update rules, build consensus and manage emerging tensions has weakened. Issues such as industrial subsidies, climate measures, digital trade, supply chain security and national security restrictions have advanced faster than multilateral rule-making, pushing governments towards unilateral measures, preferential agreements and plurilateral initiatives.

This dynamic makes fragmentation self-reinforcing. Weaker reliance on common rules reduces constraints on discriminatory action, while such action further erodes multilateral cooperation (Hoekman and Sabel, 2021). The multilateral system is therefore best understood not as an independent source of fragmentation but as a constraint on fragmentation, one whose effectiveness has weakened over time.

C. Trade policy instruments behind fragmentation

Recent evidence suggests a structural intensification of trade policy activity. The Trade Policy Activity Index points to an increase since 2017, indicating a wider use of trade policy instruments and stronger interconnections among them (figure II.1).

WTO trade monitoring also shows a sharp increase in the value of trade affected by new trade and trade-related measures in 2024–2025, including measures justified on national and economic security grounds.

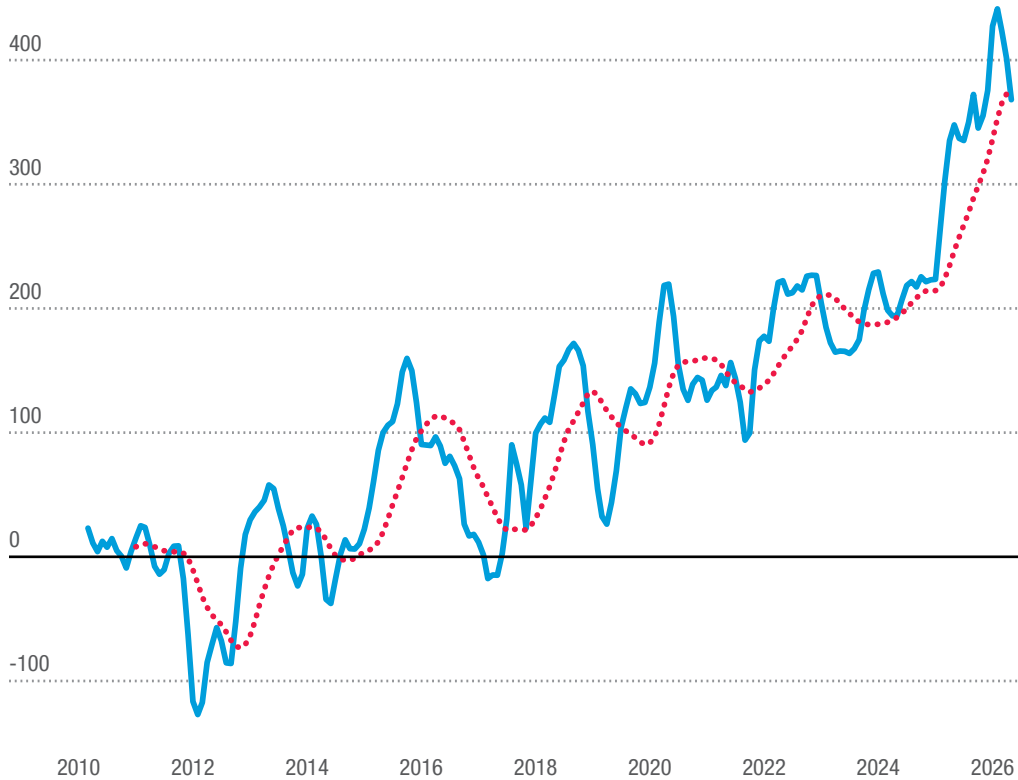




Figure II.1

Trade policy activity has increased over the last decade

Trade Policy Activity Index
(Average in 2010–2011=0)



Source: Centorrino et al. (2025).

Note: The dotted line represents the 12-month moving average. The Trade Policy Activity Index summarizes the common intensity of global trade policy changes, including facilitating measures and restrictive or potentially distortive measures such as tariffs, import and export restrictions, trade remedies, customs reforms, local content requirements, export controls and subsidies. The index is normalized so that average activity in 2010–2011 equals zero; positive (negative) values indicate activity above (below) that reference level. Values are expressed in index points and should not be interpreted as percentage changes.

This expansion reflects a broader change in the purpose of trade policy. It is no longer used primarily to protect domestic producers from foreign competition but increasingly to pursue industrial competitiveness, geoeconomic positioning, supply chain resilience, climate objectives, technological leadership and national security. Fragmentation therefore concerns not only whether measures restrict imports but also how they shape firms’

ability to trade, source inputs, invest, qualify for support and access markets. Traditional market access measures remain important but are increasingly embedded in broader policy packages combining industrial support, regulatory requirements, security controls, environmental conditions and preferential rules. Table II.2 summarizes the main instruments that operationalize fragmentation.

Traditional market access measures remain important but are increasingly embedded in broader policy packages





Table II.2
Trade policy instruments and channels of fragmentation

Instrument group	Main policy forms	Fragmentation channel	Operational and structural challenges
Market access instruments	Tariffs, tariff quotas, trade remedies and partner-specific duties.	Differentiate access by product or partner and redirect sourcing.	Input costs, tariff classification, diversion and retaliation risk.
Regulatory and compliance instruments	Regulations, TBT/SPS measures and conformity assessment.	Create market-specific entry conditions, often behind the border.	Documentation, testing, certification and compliance costs.
Preferential access and origin rules	Rules of origin, regional value content thresholds and tariff shift rules.	Encourage intra-bloc sourcing and supply chain governance.	Origin documentation, supplier tracing and exclusion risk.
Government support and production location instruments	Subsidies, tax credits, procurement preferences, local content requirements and reshoring incentives.	Condition support or market opportunities on production location or sourcing.	Eligibility rules, reporting burdens, relocation pressures and fiscal asymmetries.
Security, technology and strategic control instruments	Export controls, investment screening, procurement exclusions and cybersecurity requirements.	Separate markets by geoeconomic compatibility and strategic sensitivity.	Licensing, end-use checks, legal risk and policy uncertainty.
Institutional and regulatory architecture	Deep regional trade agreements, plurilateral initiatives, WTO+ and WTO-X provisions, digital rules and regulatory cooperation.	Create differentiated rule systems for members and outsiders.	Multiple regimes, regulatory divergence and rule-taker costs.
Socioenvironmental conditionality	Carbon measures, due diligence laws, labour-related restrictions, deforestation rules and green procurement.	Condition market access on production methods and certification capabilities.	Carbon data, audits, geolocation evidence and capacity constraints.

Source: UNCTAD.

Note: SPS: sanitary and phytosanitary; TBT: technical barriers to trade. WTO+ provisions concern areas subject to some form of commitment in WTO agreements. They reconfirm existing commitments and include additional obligations. WTO-X provisions cover areas outside the current mandate of WTO.

The key challenge of trade policy is to design measures safeguarding resilience, sustainability and security while minimizing uncertainty and exclusion

The growing use of overlapping trade policy instruments is making trade integration increasingly complex, including in services (box II.1). Firms must not only compete efficiently but also comply with rules of origin, environmental and labour standards, local content requirements, cybersecurity rules, and other regulations. These overlapping and evolving requirements raise participation costs. They may favour larger firms and countries with stronger institutions, and reduce certainty around future market

access (UNCTAD, 2026b). Moreover, the risk of abrupt policy changes raises the risk premium associated with trade, increasing operating costs and weakening the competitiveness of smaller and less diversified firms and economies (United Nations, 2026). The central challenge is therefore to design measures to pursue resilience, sustainability and security in ways that minimize unnecessary uncertainty and avoid making trade more exclusionary.





Box II.1

Trade in services: The risk of policy fragmentation

Services trade provides an important development opportunity for developing countries. It can support diversification by expanding direct services exports, increasing the services content embodied in manufactured goods and agricultural exports, and helping firms move into higher-value segments of value chains. Realizing these gains, however, depends not only on market access but also on regulatory conditions that allow services suppliers to operate, move data, establish commercial presence and deliver services across borders. Trade policy can support this process through stronger competition in backbone services, commercial presence abroad, the temporary movement of professionals, lower administrative and regulatory trade costs, and regulatory cooperation. Where these rules evolve unevenly across jurisdictions, however, services trade may become increasingly fragmented.

This risk is particularly visible in digitally deliverable services. Digitalization expands cross-border services trade. It enables goods and services to be bundled more closely, including through software, digital content, connected devices and cloud-based services. Yet the multilateral framework has not fully adapted to these changes. Under the WTO Work Programme on Electronic Commerce, the classification of digitally delivered products remains unresolved, while discussions on the moratorium on customs duties on electronic transmissions address only one part of the policy environment. The moratorium historically supported predictability for digital delivery models but did not cover many regulatory measures shaping market access and competition. Following the failure of WTO members to achieve consensus at the 14th Ministerial Conference, the long-standing multilateral moratorium officially expired on March 30, 2026. This post-moratorium landscape shifts digital trade governance from a unified standard to a fragmented regime, forcing developing economies to balance digital industrial policy space and domestic revenue generation against the rising threat of localized digital trade barriers.

Fragmentation may arise from divergent rules on data governance, cybersecurity, investment screening, digital infrastructure, privacy, professional mobility and recognition of qualifications. These rules are often designed to pursue important public policy objectives, including data protection, national security and critical infrastructure resilience. Differences in design and implementation, however, can raise compliance costs, restrict cross-border delivery and create market-specific conditions that are difficult for smaller firms and most developing country suppliers to meet.

Trade agreements increasingly address digital trade, telecommunications, data flows, digital transactions and the temporary movement of natural persons. These provisions can support “servicification” but may also contribute to fragmentation if they generate competing regulatory models or de facto standards negotiated by limited groups of countries. For developing countries, the central challenge is to design services-related rules that support diversification rather than creating new barriers linked to regulatory capacity, digital infrastructure and data governance. A development-oriented approach should combine market access with regulatory cooperation, interoperability, transparency, capacity-building and meaningful participation in emerging services and digital trade rules.

Source: UNCTAD (2026c and 2026d).



The appeal of tariffs lies in their administrative simplicity and political visibility

1. Market access and compliance instruments

a) Import restrictions: Tariffs and trade remedies

Import restrictions, such as tariffs and quotas, remain the most visible market access instrument. Although their use declined during earlier globalization, recent years have seen the renewed use of tariffs,

especially as bargaining tools, defensive instruments and geopolitical signals. This became more evident in 2025 when the global average tariff rose, particularly in manufacturing, reflecting increases introduced by a major economy (figure II.2). Tariffs have been used in disputes over technology, industrial capacity, labour practices, migration, national security and trade imbalances. Their appeal lies in their administrative simplicity and political visibility.

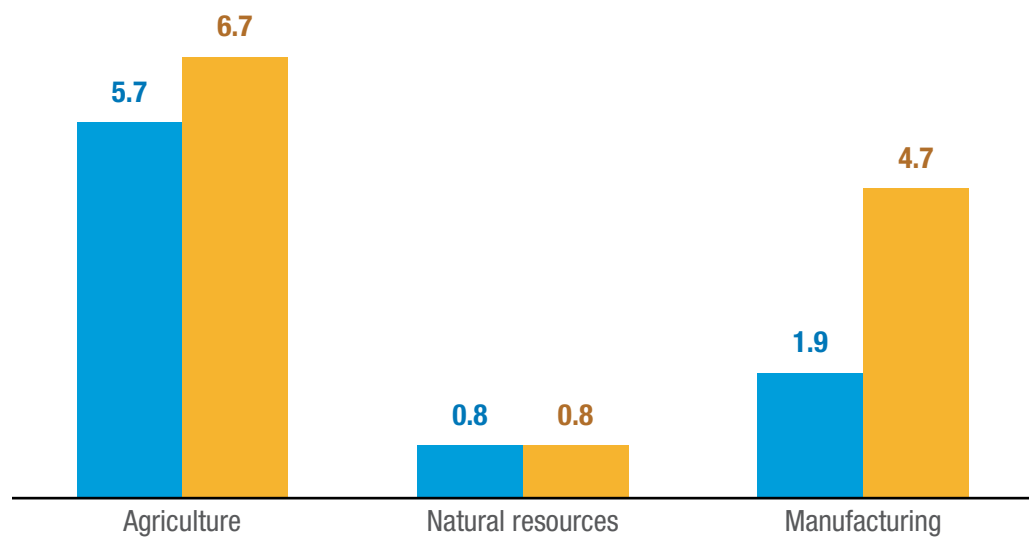


Figure II.2

The average global tariff rose significantly in 2025, especially in manufacturing

Trade-weighted average tariff on global trade
(Per cent)

■ 2024 ■ 2025



Source: UNCTAD based on the TRAINS database.

The effects of tariffs are rarely confined to the targeted product or sector. In a very integrated global economy, tariffs on intermediate inputs often raise costs for downstream firms, encourage trade

diversion and create incentives to redesign sourcing patterns (box II.2). Tariff changes can fragment trade as firms reorganize supply chains around preferential, exempted or lower-risk jurisdictions (WTO et al., 2025).





Box II.2

Unilateral preferential schemes and trade policy uncertainty

Trade policy fragmentation affects developing countries not only through new restrictions but also through the weakening of predictable preferential market access. Non-reciprocal trade preferences have long supported export growth, industrialization and participation in global value chains, particularly in the least developed countries. By granting duty-free or reduced tariff access to major markets, these schemes have facilitated the integration of otherwise marginalized developing economies into global markets and helped offset competitiveness constraints in sectors such as apparel, footwear and processed food products. As preferential access is central to export competitiveness for many beneficiary countries, however, uncertainty surrounding these arrangements can be particularly damaging.

Since non-reciprocal preferences are unilateral arrangements, they can be modified, suspended or withdrawn more easily than negotiated reciprocal commitments. In a more fragmented policy environment, this creates an additional source of uncertainty for countries whose firms, investors and supply chains have developed around unilateral preferential access. Recent developments illustrate this risk. The expiration or non-renewal of major preference schemes, together with the increasing use of unilateral tariffs, have abruptly raised the applied tariffs faced by vulnerable exporters. The impact is likely to be greatest where countries are highly dependent on a single preference-granting market, have concentrated export structures, or export manufactured or agricultural goods facing high most-favoured nation tariffs. Historical experience suggests that the loss of preferences and even heightened uncertainty about preference eligibility can reduce exports, weaken investor confidence, disrupt value chains and slow diversification.

Preference erosion and trade preference uncertainties represent a specific development channel of fragmentation. Over the past 45 years, exports from the least developed countries grew much faster during periods of low trade policy uncertainty and geopolitical tension (7.6 per cent) than during high-uncertainty periods (2.4 per cent). Similarly, foreign direct investment (FDI) inflows to the least developed countries rose by 11.3 per cent annually during 1994–2014 but declined by 1.2 per cent a year from 2015 to 2023 as uncertainty increased.

Global trade fragmentation could further change the terms on which vulnerable economies participate in global trade. As market access becomes less predictable, multilateral responses should seek to preserve the development value of preference schemes while making them more stable, transparent and predictable. This requires a renewed framework or coordinated dialogue between preference-granting and preference-receiving economies, so that trade relationships, production capacities and investment flows built under preferential arrangements are not abruptly undermined.

Source: UNCTAD (2025b).



Measures designed to protect consumers increasingly serve to differentiate between suppliers

b) Regulatory requirements

Non-tariff measures, particularly technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures, are increasingly behind trade fragmentation. TBT and SPS measures are central to modern trade because they determine whether products can legally enter a market, even

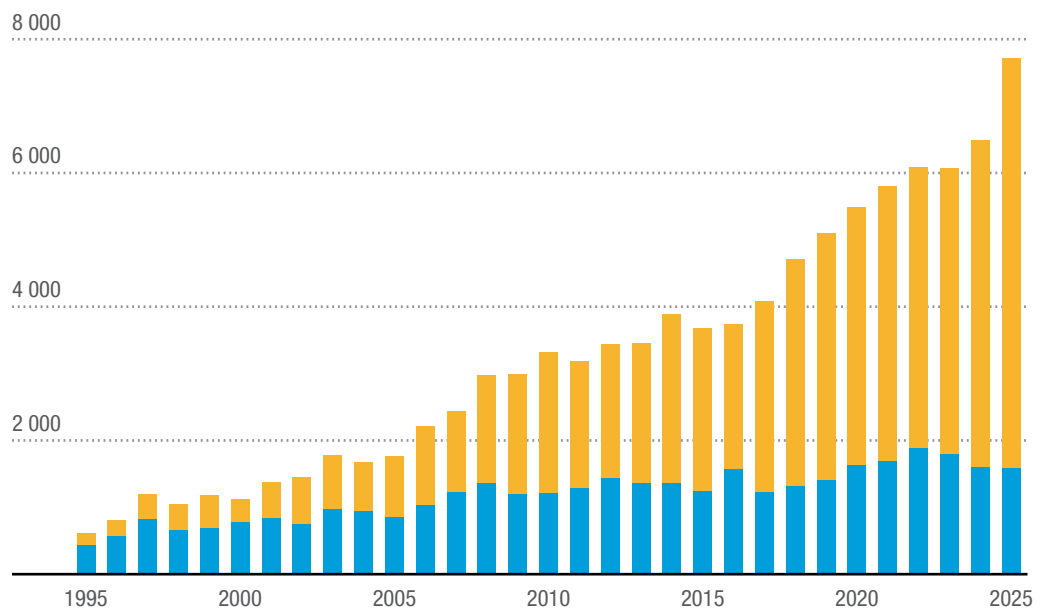
when tariffs are low. Their expansion reflects the spread of regulatory requirements, including among developing economies (figure II.3). Many non-tariff measures serve public policy objectives, including consumer protection and compliance with health, safety and environmental standards. Their growing scope and complexity, however, also make them powerful instruments of differentiation.



Figure II.3
Regulations are increasingly central to world trade

Use of SPS and TBT by developed and developing countries
(Number of notifications per year)

■ Developing countries
■ Developed countries



Source: UNCTAD, WTO and International Trade Centre.

c) Rules of origin and preferential access requirements

Rules of origin are an important but often overlooked source of fragmentation. In preferential trade agreements, they determine whether products qualify for tariff preferences. Their significance has grown as such agreements have proliferated. In complex manufacturing,

requirements such as regional value content thresholds or specific production processes can shift sourcing towards suppliers within the trade bloc rather than the most efficient global producers. Rules of origin can support regional integration and supply chain governance; they also increase administrative costs and may burden smaller firms struggling to source qualifying inputs or document compliance.



2. Government support

a) Subsidies and industrial support

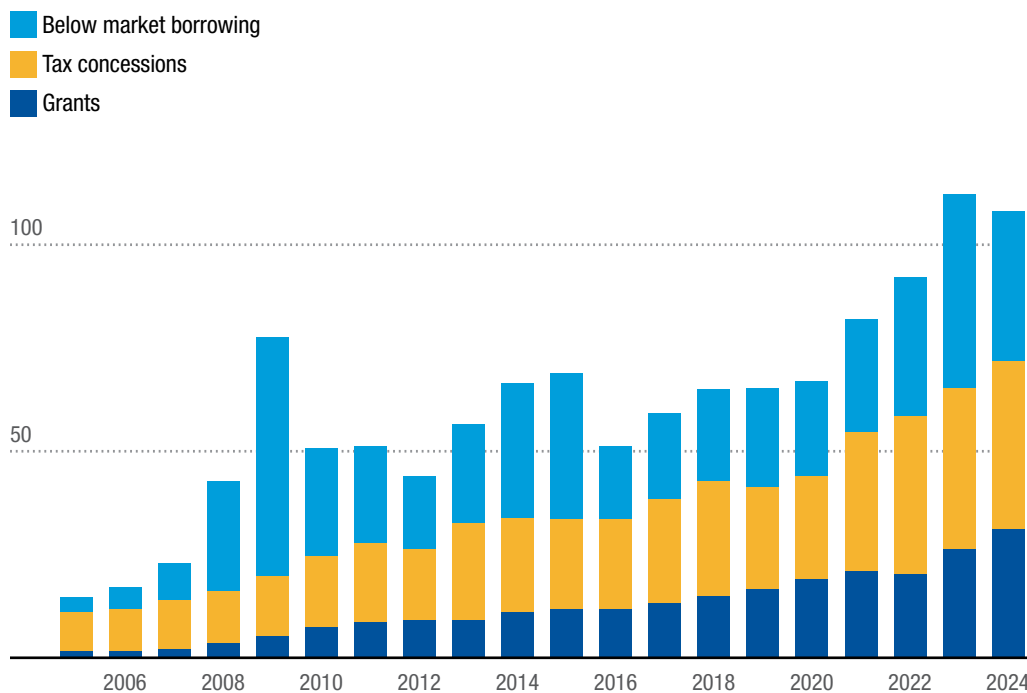
A second group of instruments shapes both market access and the location and

competitiveness of production. These include subsidies, tax credits, state aid, concessional finance, public guarantees, procurement preferences, reshoring incentives and manufacturing mandates. Their use has expanded with the revival of industrial policy and growing support for strategic sectors (figure II.4).

Industrial support can deepen fragmentation when eligibility depends on production location, input origin or firm nationality

Figure II.4
Industrial subsidies reached their highest levels in 2023 and 2024

Global industrial subsidies in 15 key sectors, by type of subsidy
(Billions of dollars)



Source: UNCTAD based on the OECD MAGIC database of industrial subsidies.

Note: The 15 key sectors are: aerospace and defence; aluminium; automobiles; cement and other building materials; chemicals; fertilizers; glass, ceramics and refractories; heavy machinery; semiconductors; shipbuilding; solar photovoltaic cells and modules; steel; telecommunications network equipment; rolling stock and signalling; and wind turbines. Data are based on 525 of the largest manufacturing groups globally (including Chinese and other non-OECD companies).

Industrial support can address market failures, promote innovation, accelerate the green transition and build productive capacity. Yet it can also deepen fragmentation when eligibility depends on production location, input origin or firm nationality. These effects can induce competing subsidies, trade remedies, local content requirements and other measures.

b) Local content requirements and domestic preference rules

Local content requirements and domestic preference rules reinforce fragmentation by linking access to subsidies, procurement, tax incentives or markets to the use of domestic inputs, labour or production. Common in sectors such as renewable

A development asymmetry results when large economies can use fiscal support and market size to attract investment and supply chains

energy, electric vehicles, defence, pharmaceuticals, infrastructure and digital technologies, these measures are often justified by employment, resilience, technological upgrading or national security. They can discriminate against foreign suppliers and redirect production, however, according to policy boundaries rather than efficiency. They also risk creating a development asymmetry: large economies can use fiscal support and market size to attract investment and supply chains, while smaller and poorer countries often lack comparable resources (UNCTAD, 2026e).

3. Security, technology and strategic control instruments

A third group of instruments concerns security, technology and strategic control, including export controls, investment screening, procurement exclusions, cybersecurity requirements, technology restrictions and end-use monitoring. Their deployment has expanded as trade policy has become more closely tied to national security and geopolitical competition (chapter III).

These measures are particularly fragmenting because they differentiate trade not only by product but also by partner, ownership, end-use and perceived strategic risk.

Security-related restrictions in strategic sectors increase trade dependency on relationships and licensing, raising policy risks

They can restrict access to sensitive technologies, limit foreign participation in strategic sectors, exclude firms from procurement, and disrupt established trade and financial relationships. Although often justified by security concerns in sectors such as semiconductors, telecommunications, critical minerals, artificial intelligence, defence and advanced manufacturing, they also make trade increasingly dependent on established commercial relationships and licensing decisions, while raising legal and policy hazards. Firms may redesign supply chains not only to reduce costs but also to limit exposure to geoeconomic risk.

4. Institutional and regulatory fragmentation beyond WTO

A further source of fragmentation is the changing institutional architecture of trade governance. As multilateral rule-making has struggled to address new policy issues, governance has shifted towards bilateral, regional and megaregional agreements (figure II.5). These arrangements increasingly cover investment, services, procurement, standards, labour, the environment, digital trade, subsidies and regulatory cooperation. They may reduce uncertainty among members but also create differentiated rule systems that disadvantage outsiders.

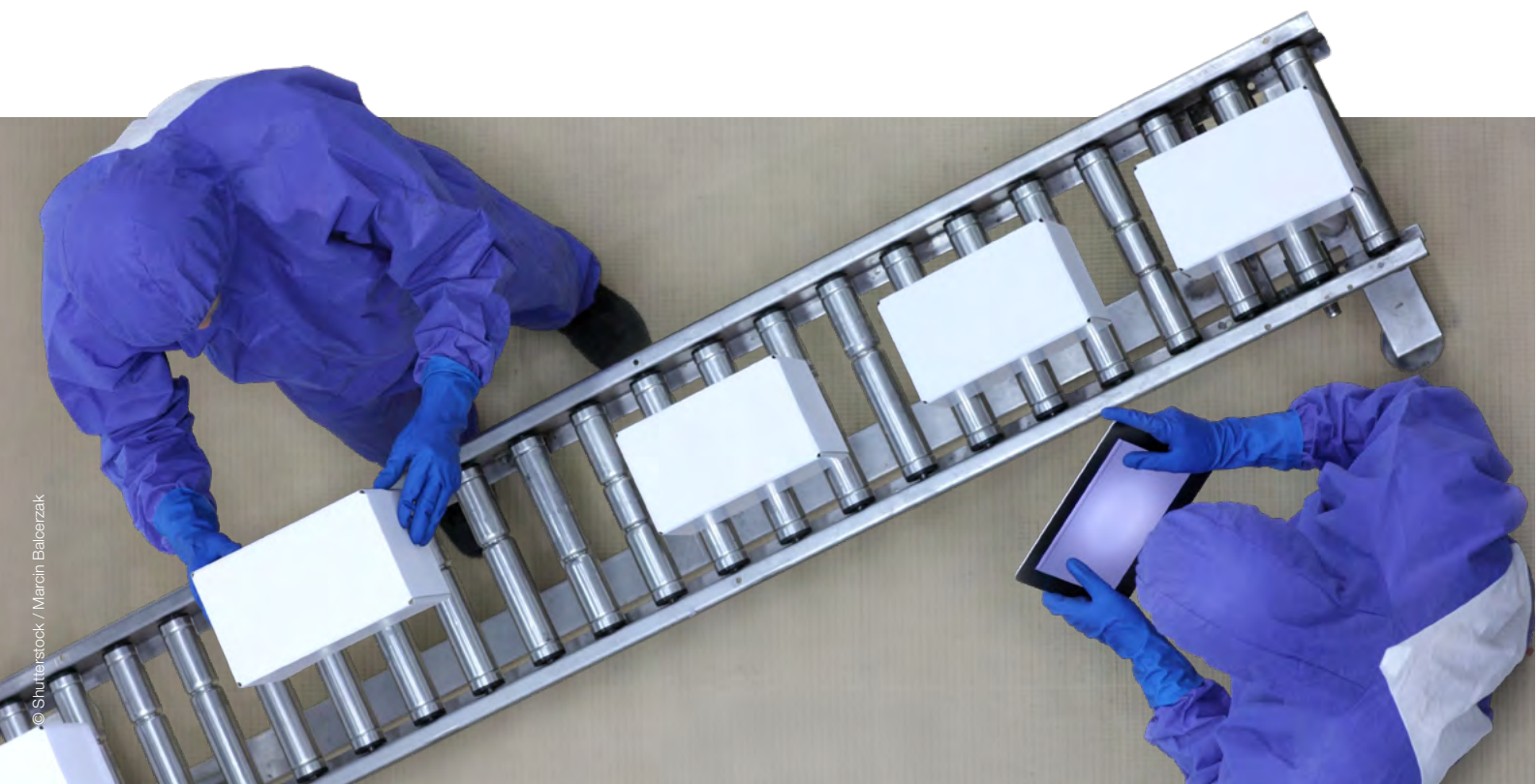
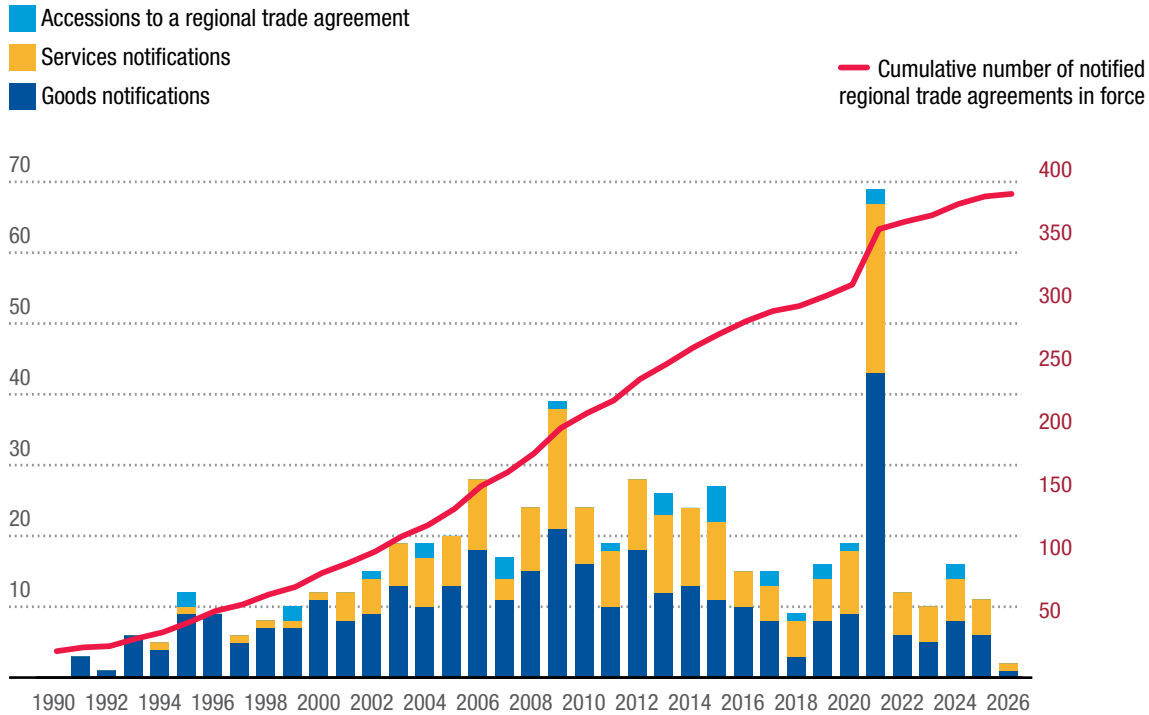




Figure II.5 Regional trade agreements have multiplied and become deeper

Regional trade agreement notifications and agreements in force
(Number notified to WTO)



Source: UNCTAD based on the WTO RTAIS database.

Note: The figure for 2026 includes only notifications received by June.

This fragmentation is reflected in WTO+ provisions, which deepen commitments in areas already covered by WTO rules, and WTO-X provisions, which extend cooperation into areas not fully covered by existing multilateral disciplines such as data governance, cybersecurity, labour, the environment, investment screening and digital trade. When negotiated outside the multilateral framework, these rules can produce overlapping regulatory regimes. Most developing countries and small firms may face higher compliance costs while having limited influence over standards set elsewhere, reinforcing the divide between rule-makers and rule-takers.

5. Socioenvironmental conditionality

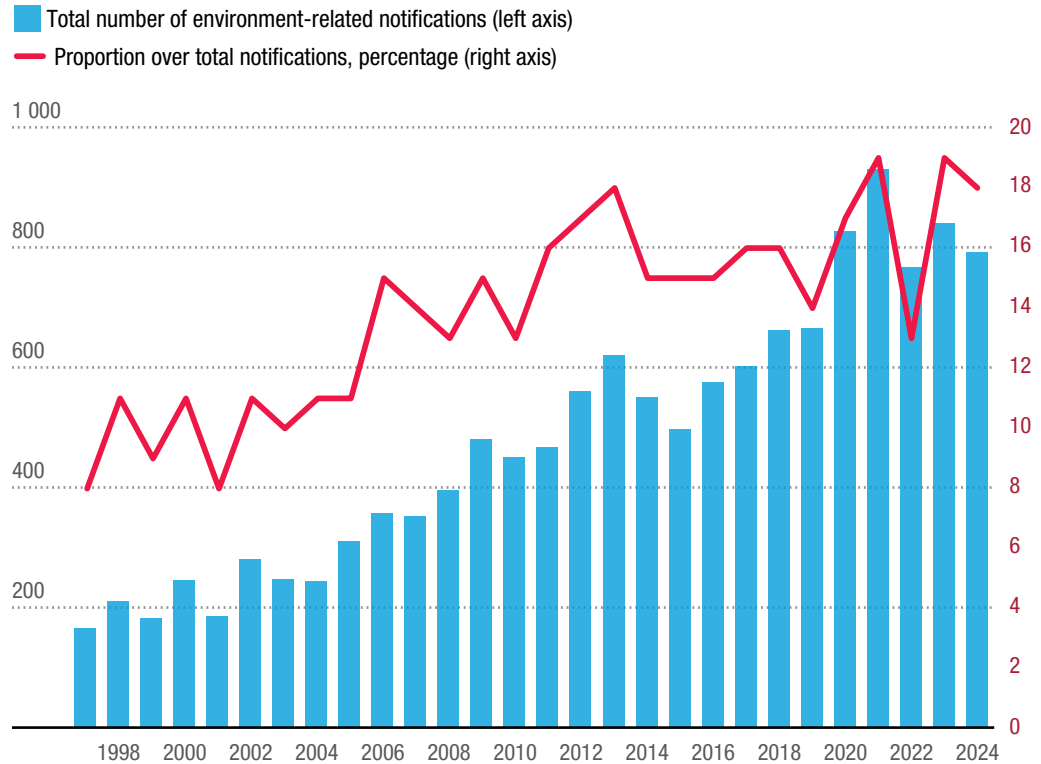
A final group of instruments concerns the socioenvironmental dimension of trade policy. The growing recognition of trade's social and environmental implications has spurred the increasing incorporation of climate, labour, human rights and supply chain due diligence requirements into trade agreements and domestic legislation with cross-border effects on trade and global supply chains (World Bank, 2020a). Examples include carbon border measures, labour-related import restrictions, deforestation-free supply chain rules, battery sustainability standards, corporate due diligence obligations and green public procurement. This trend is reflected in the rising number of environment-related notifications submitted to WTO (figure II.6).

Developing countries may face higher compliance costs with limited influence over standards set elsewhere



Figure II.6 Environment-related measures affecting trade are on the rise

Environment-related measures notified to WTO
(Number of notifications and share of total notifications)



Source: UNCTAD based on WTO Environmental database.

Managing sustainability and development tensions requires transition periods, technical assistance, mutual recognition and capacity-building

The design, implementation and verification of these measures determine their fragmenting effects. Differences in carbon accounting, due diligence obligations, traceability rules, audit standards and definitions of acceptable production practices mean that market access increasingly depends on exporters' ability to provide market-specific evidence of compliance. Because many compliance costs are fixed, they weigh more heavily on smaller firms and on many exporters from developing countries, especially where certification systems, data infrastructure

and traceability mechanisms remain weak. Firms may be excluded not because their production is non-compliant but because they cannot document compliance in the required form. The key development challenge is to avoid creating unnecessary barriers while pursuing sustainability objectives. This may call for measures such as transition periods, technical assistance, mutual recognition, interoperable reporting systems, and support for domestic certification and traceability capacity.

D. Changing trade patterns and geoeconomic shifts

This section examines whether rising policy intervention is already reshaping global trade flows. The evidence points not to generalized deglobalization but to a selective reorientation. Aggregate trade remains resilient, while bilateral relationships, strategic sectors and production corridors are increasingly shaped by geoeconomic considerations.

1. Trade resilience amid volatility and unequal outcomes

The historical resilience of trade openness through repeated systemic shocks suggests that current tensions are reshaping the geography and organization of trade rather than producing a generalized reversal of global integration. Despite intensifying trade policy fragmentation, global trade

continues to expand. Goods and services trade reached about \$33 trillion in 2024 and exceeded \$35 trillion in 2025, with merchandise trade surpassing \$26 trillion in 2025 and services trade rising above \$9 trillion (figure II.7). During the first half of 2026, it continued to grow (chapter I).

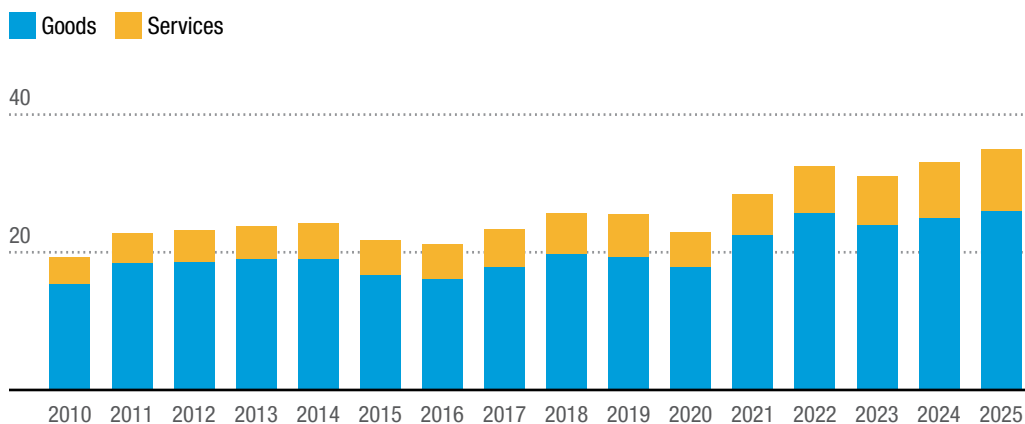
Trade resilience at the aggregate level conceals important changes in the geography, sectoral composition and organization of trade. Since 2021, the concentration of bilateral trade flows – which is highly sensitive to developments in the largest bilateral trade relationships – appears to have declined, suggesting a relative weakening or rebalancing of the largest trade links (figure II.8). At the same time, the Gini coefficient of the distribution of bilateral trade flows – which is most sensitive to changes in the middle of the distribution – has increased, reflecting growing trade asymmetries internationally.¹

Geoeconomic factors are reshaping the geography and organization of trade rather than reversing globalization



Figure II.7
Global trade in goods and services continues to expand

Trade in goods and services
(Trillions of current dollars)



Source: UNCTADStat.

¹ A similar pattern is visible in international investment, where recent growth has been concentrated in a relatively narrow group of economies and sectors, limiting development impact (UNCTAD, 2026a).

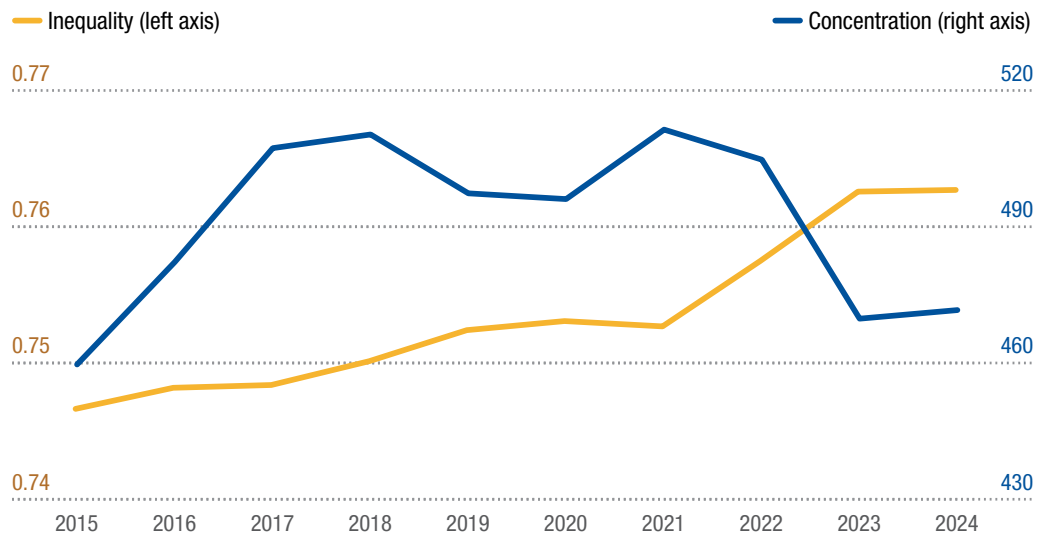


Taken together, these trends suggest that fragmentation is neither simply reducing trade nor dispersing it evenly across partners. Instead, large

trade relationships are losing weight, selected corridors are expanding and smaller trade links are languishing.

Figure II.8 Trade fragmentation is uneven, driven by shifts in concentration and distribution

Gini and Herfindahl-Hirschman concentration indices for global trade
(Index numbers)



Large relationships are losing weight, selected corridors are expanding and smaller links are languishing

Source: UNCTAD based on United Nations Comtrade database.

Note: Inequality refers to the Gini coefficient; concentration is captured by the Herfindahl-Hirschman index. Both indices are based on the dollar values of bilateral merchandise trade flows, aggregated across products at the country-pair level.

2. Trade patterns, geographic distance and geoeconomic compatibility

The recent reorganization of global trade has followed geoeconomic rather than purely geographic patterns. Geographic factors, such as physical distance and associated transport and logistics costs, remain important in global value chain sourcing decisions.

They must still be considered alongside differences in production capacities, specialization and costs across the global economy. But geoeconomic compatibility, which concerns potential exposure to policy shifts, is increasingly important as firms seek to mitigate policy risks and trade restrictions.²

Figure II.9 shows that the trade-weighted geographic distance of global trade increased from 2015 to 2025, alongside a rise in geoeconomic compatibility.³

² Geoeconomic tensions are also selectively reallocating greenfield FDI across sectors and destinations, rather than reversing cross-border investment (Avendano et al., 2026).

³ Geographic distance is measured as the bilateral trade-weighted average geodesic (great circle) distance, in kilometres, between countries' capitals. Geoeconomic compatibility is proxied by similarity in United Nations General Assembly voting patterns (Bailey et al., 2017). This index is a statistical measure developed by independent academic researchers using publicly available UN General Assembly voting records; it does not constitute a UN classification, position or assessment of Member States.

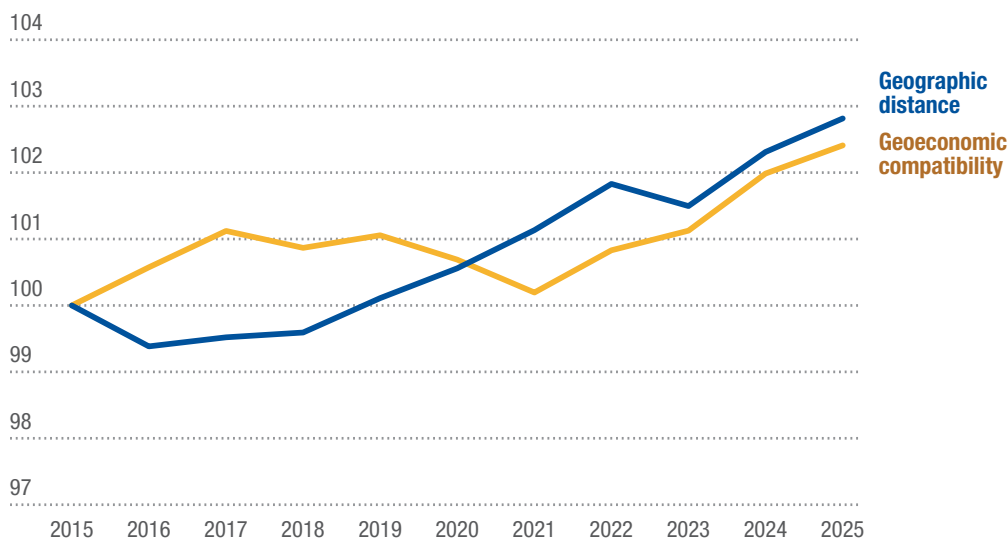
This indicates that firms continue to rely on distant suppliers, where cost, scale or specialization advantages remain strong, while using alternative hubs and intermediary economies to manage strategic exposure. The literature points not to straightforward regionalization or nearshoring but to trade becoming more geoeconomically filtered

while remaining geographically dispersed (Blanga-Gubbay and Rubinova, 2024; Campos et al., 2024). This pattern is consistent with firms strengthening resilience within existing production networks through supplier diversification, greater redundancy and the selective relocation of activities, rather than through widespread nearshoring.

Trade is being filtered by geoeconomics while remaining geographically dispersed

Figure II.9 Global trade, still geographically dispersed, is increasingly geoeconomically filtered

Geographic distance and geoeconomic compatibility indices
(Index numbers, 2015 = 100)



Source: UNCTAD based on United Nations Comtrade database.

Note: Geographic distance is measured as the bilateral trade-weighted average geodesic (great circle) distance, in kilometres, between countries' capitals. Geoeconomic compatibility is proxied by similarity in United Nations General Assembly voting patterns (Bailey et al., 2017).

Recent changes across major trade corridors reinforce this interpretation (table II.3). Between 2019 and 2024, trade expanded across most major relationships, despite the pandemic, logistics disruptions and growing strategic competition. China–United States integration weakened but remained substantial, while developing economies recorded relatively strong trade growth. The 2024–2025 pattern shows a sharper reorientation.

Trade between China and the United States fell by more than 20 per cent. As China's imports from the United States

and Europe weakened, its links with the rest of East Asia continued to expand. Europe remained connected to both the transatlantic economy and Asian production networks. The rest of East Asia emerged as a major beneficiary, with strong growth in trade involving China and North America. This is consistent with firms diversifying assembly, sourcing and logistics across the region while continuing to rely on China-centred inputs and industrial capacities.

Other developing economies present a less favourable picture. Trade among them grew in nominal terms by around

Developments show selective reorientation around strategic relationships, regional systems, intermediary hubs and separated trade blocs

8 per cent annually between 2019 and 2024 but increased by only about 2.5 per cent in 2025. In comparison, global merchandise trade expanded by approximately 7 per cent. The trade dynamism of other developing economies, therefore, became more dependent on links with the major economic poles than on stronger integration among themselves.

Taken together, these developments do not yet indicate the formation of fully separated trade blocs. They instead point to selective reorientation around strategic relationships, regional production systems and intermediary hubs. The structure of interdependence is changing even as global trade growth remains widespread.



Table II.3
Global trade is reorganizing along selective bilateral lines

Growth in imports and exports between 2019 and 2025, selected flows
(Annual percentage change)

Annual growth 2019–2024 (importer)	Exporter						Average growth in imports
	China	Rest of East Asia	Europe	United States	Rest of North America	Other developing economies	
China		4.0	1.9	6.1	7.8	7.3	4.8
Rest of East Asia	5.3	4.9	1.9	3.5	3.5	4.1	4.4
Europe	6.4	3.2	4.3	5.6	3.8	2.0	4.2
United States	2.1	8.8	5.6		6.2	5.6	5.9
Rest of North America	8.2	7.9	4.9	4.4	4.8	9.1	5.7
Other developing economies	11.7	4.8	3.2	3.6	2.0	8.1	6.7
Average growth in exports	6.7	5.1	4.1	4.5	5.7	5.7	

Annual growth 2024–2025 (importer)	Exporter						Average growth in imports
	China	Rest of East Asia	Europe	United States	Rest of North America	Other developing economies	
China		6.3	-4.0	-20.1	-0.8	1.4	1.5
Rest of East Asia	12.8	13.5	5.9	8.0	18.9	0.5	10.4
Europe	11.6	11.9	7.9	19.8	20.2	5.8	9.0
United States	-24.3	23.3	11.4		0.5	4.6	4.9
Rest of North America	1.6	32.2	3.3	-3.5	9.2	6.1	3.4
Other developing economies	11.1	9.9	5.5	10.8	11.0	2.4	6.7
Average growth in exports	6.3	13.5	7.3	5.5	3.3	3.0	

Source: UNCTAD based on United Nations Comtrade database.



Box II.3 Trade reconfiguration at the extensive margin

Trade fragmentation is not only influencing changes in trade values among existing partners. It also affects the creation and disappearance of bilateral trade relationships. This margin is important because trade expansion depends not only on increasing exports within existing relationships but also on the ability of countries and firms to enter new markets, diversify partners and sustain newly established trade links.

Box figure II.3.1 Trade reconfiguration is creating and erasing export partnerships

Top 10 increases and decreases in active bilateral merchandise export relationships by regional corridor, 2019–2025
(Change in the number of active bilateral export flows)



Source: UNCTAD based on UNCTADStat.

Note: Positive values indicate newly created bilateral export relationships; negative values indicate discontinued bilateral export relationships. Corridor labels are presented as exporter–importer. Active bilateral merchandise flows are defined as flows larger than \$1 million.

Export promotion,
market
information,
export finance and
support for
smaller firms can
help transform
new bilateral links
into long-term
partnerships

Box figure II.3.1 shows that the period 2019–2025 was characterized by considerable churn in merchandise trade partnerships. The largest increases were concentrated in export relationships involving developing Asia, particularly exports to Europe. Africa recorded substantial growth in new relationships, notably with Europe and within the region. This suggests that developing Asian economies found new opportunities, particularly where countries and firms could reposition within changing value chains. At the same time, some partnerships disappeared, especially across more peripheral or lower-density trade links.

The policy implication is that fragmentation should be assessed not only through aggregate trade values but also through its effects on the formation and durability of trade relationships. For developing countries, the challenge is to capture new opportunities created by reconfiguration while reducing the risk that emerging partnerships remain shallow and short-lived. In this context, export promotion, market information, export finance and support for smaller firms can help transform new bilateral links into more durable trade relationships. Monitoring the extensive margin can therefore provide an early indication of whether trade reconfiguration is supporting diversification or reinforcing exclusion.

Geoeconomic
filtering matters
least for
standardized
goods – and most
where technology,
intellectual
property and
strategic
competition
converge

3. Technological content of trade and strategic products

Trade fragmentation is not uniform across sectors. Geoeconomic considerations, for instance, are less likely to matter for low-technology, standardized products. They

are more likely to apply to technologically advanced or strategically sensitive goods, where specialized production capacities and security concerns play greater roles. Table II.4 examines changes between 2019 and 2024 across manufacturing categories classified by technological content as well as selected groups of strategic and sensitive products.⁴



⁴ The technological content of products is measured by the PRODY index. It assigns each product an income-based score according to the per capita income of the countries that export it, weighted by the product's importance in each country's export basket.



Table II.4
Trade patterns evolved differently by technology level and for critical products

Change in selected indicators between 2019 and 2024

(Percentage change, except for changes in the Herfindahl–Hirschman and Gini indices)

	Geographic distance	Goeconomic compatibility	Global reallocation of market shares	Change in trade concentration (Herfindahl–Hirschman)	Change in trade inequality (Gini)
Manufacturing, very low tech	-2.6	-3.3	10.5	7.9	0.014
Manufacturing, low tech	2.5	-0.2	6.8	8.6	0.007
Manufacturing, high tech	3.7	1.2	6.5	9.3	0.005
Manufacturing, very high tech	3.6	2.4	6.1	-4.4	0.005
Strategic goods	4.6	4.9	7.2	-3.2	0.003
Common high-priority goods	3.6	28.9	6.7	2.4	0.004
Critical supply chain goods	2.6	6.3	7.4	0.5	0.000

Source: UNCTAD based on United Nations Comtrade database.

Note: The technological content of products is measured by the PRODY index. Strategic goods are identified using the European Commission Joint Research Centre's Strategic Trade Atlas; common high-priority goods are based on the February 2024 Common High-Priority Items List; and critical supply chain goods are based on the United States Department of Commerce's Draft Harmonized System Code List of Critical Supply Chains.

The results provide little evidence of a generalized shortening of manufacturing supply chains. Geographic distance increased in low-, high-, and very high-technology manufacturing and declined only for very low-technology products. Strategic and sensitive goods also continued to rely on geographically dispersed production networks.

The more significant change is the growing role of goeconomic factors. The importance of goeconomic compatibility strengthened with technological intensity and was most pronounced for strategic goods. This points to a selective reorganization of global trade: goeconomic pressures are filtering trade most strongly in products linked to technology, security and strategic dependence. These products are more exposed to export controls,

investment screening, industrial policy, and supply chain risks, while access to suppliers, technologies, standards and critical inputs increasingly depends on long-term reliability as well as cost and efficiency.

Market shares have also shifted across manufacturing sectors. But this has not produced a more even distribution of trade opportunities. Concentration increased in very low-, low-, and high-technology manufacturing, while trade inequality rose across all technological categories. For developing countries, this may create additional barriers to entering higher-value segments of global value chains as trade in advanced and sensitive products becomes increasingly organized around a narrower group of trade partners perceived as more reliable in terms of supply security and policy risk.

Goeconomic pressures filter trade flows most strongly in products associated with technology, security and strategic dependencies



4. Regional trade agreements

Stronger regional trade growth may reflect both trade agreements and geoeconomic compatibility

Regional trade agreements provide an institutional lens through which to assess trade reconfiguration. Shallow agreements generally focus on tariff preferences and basic market access commitments. Their disciplines are therefore concentrated mainly at the border, reducing the direct costs of trade without substantially harmonizing or coordinating domestic regulatory frameworks. Deep agreements also cover services, investment, standards, procurement, digital trade, regulatory cooperation and dispute settlement.

By addressing these “behind-the-border” policies and reducing regulatory and institutional frictions, deep agreements can support closer and more complex forms of economic integration. They may therefore provide a stronger framework for integrated production networks and more predictable trade relationships.

From 2019 to 2024, aggregate trade among regional trade agreement partners grew only slightly faster than trade among countries without such an agreement. Regional trade agreement membership alone therefore does not explain the broader pattern of trade reconfiguration. The differences are clearer in manufacturing, where trade growth was generally stronger among partners in deep regional agreements than among countries without agreements or in shallow arrangements (figure II.10). This pattern applies across technological categories, suggesting that deep agreements support manufacturing trade broadly by reducing uncertainty, improving regulatory compatibility and facilitating cross-border production.

The association is also relatively strong for selected strategic products. These goods are particularly sensitive to policy risk, export controls, security concerns and the need for reliable supply chains. Countries participating in deep agreements may already share closer institutional, regulatory or geoeconomic relationships, however. Stronger trade growth may therefore reflect both the effects of the agreements and the geoeconomic factors that encouraged countries to negotiate them.

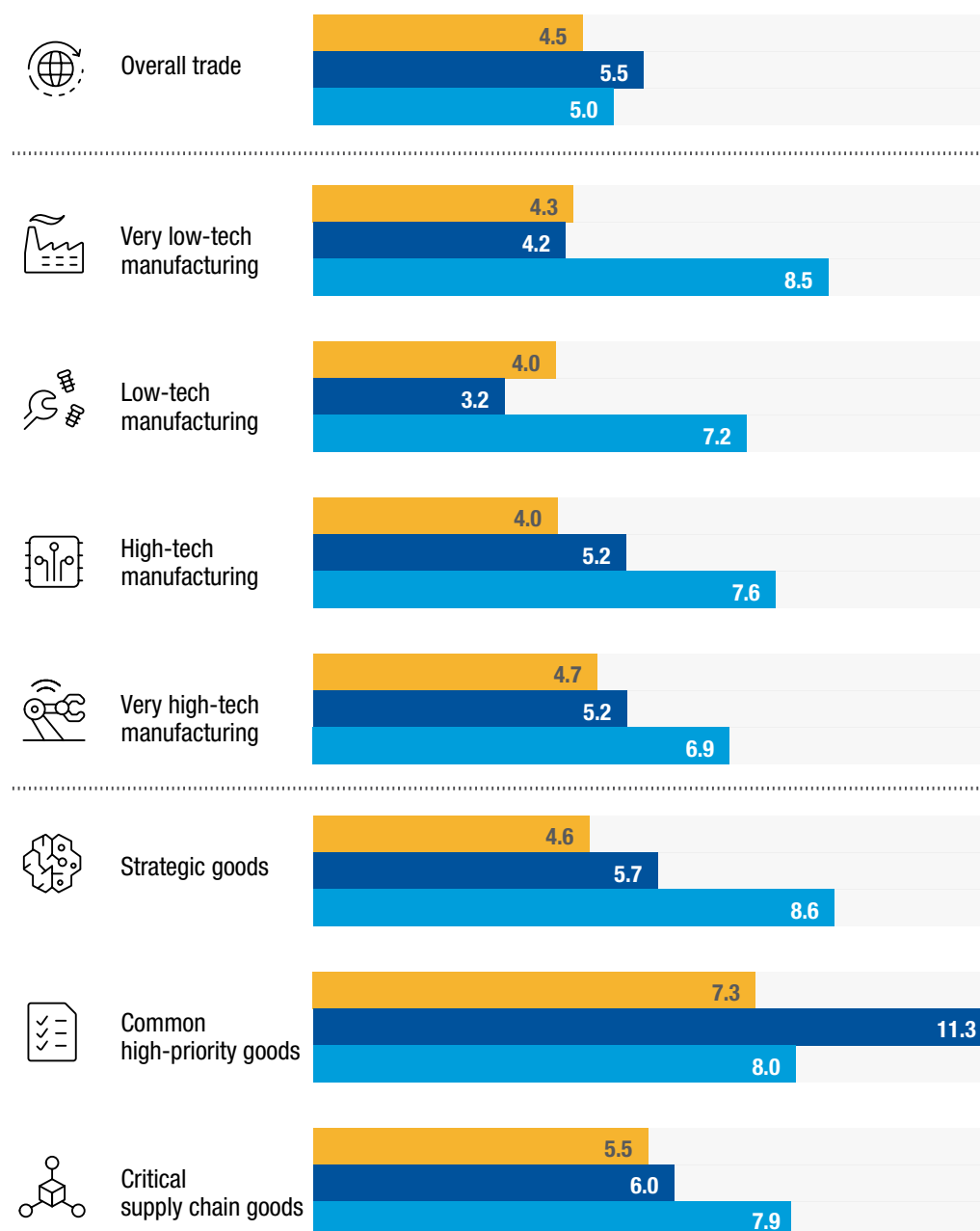
Overall, regional trade agreements facilitate some forms of trade reconfiguration, particularly in manufacturing and selected strategic goods, but do not fully explain recent changes in global trade. The generally stronger performance of trade within deep agreements points to the importance of institutional depth, regulatory compatibility and established commercial relationships, rather than formal agreement membership alone.



Figure II.10 Regional trade agreements broadly support growth in manufacturing trade

Growth in overall trade and within regional trade agreements, 2019–2024, by technological intensity and strategic product group
(Annual percentage change)

- Outside regional trade agreements
- Within shallow regional trade agreements
- Within deep regional trade agreements



Source: UNCTAD based on United Nations Comtrade database.

Note: The technological content of products is measured by the PRODY index. Strategic goods are identified using the European Commission Joint Research Centre's Strategic Trade Atlas; common high-priority goods are based on the February 2024 Common High-Priority Items List; critical supply chain goods are based on the United States Department of Commerce's Draft Harmonized System Code List of Critical Supply Chains.

E. Policy implications: Managing fragmentation while preserving development opportunities

The policy challenge is to accommodate governments' growing demand for flexibility in trade policy while preserving trade and development opportunities, particularly for developing countries

Current trade policy dynamics are best understood less as a retreat from international economic integration than as a shift towards more flexible, conditional and politically mediated integration. Although its full trade and development implications remain uncertain, this shift is likely to produce selective and uneven outcomes, both across countries and among firms. Differences in market access conditions, including applied tariffs, preference margins, rules of origin and exposure to trade remedies, will shape which countries, sectors and firms are able to benefit – and which risk losing market share or being excluded from emerging trade opportunities. Beyond market access conditions, outcomes will also depend on geoeconomic positioning and on how trading partners use trade policy to pursue broader strategic, industrial and environmental objectives.

For the multilateral trading system, the central challenge is to accommodate governments' growing demand for flexibility in trade policy while preserving trade and development opportunities, particularly for developing countries. As government priorities have evolved, trade policy is increasingly expected to support not only market integration, but also resilience, industrial upgrading, energy transition,

technological capacity and national security. This broader agenda also raises questions about how existing multilateral frameworks can accommodate policy areas in which negotiated outcomes have proved difficult to achieve. Where multilateral agreement within WTO remains difficult, developing countries may need complementary pathways to support trade integration and diversification. These arrangements should not be viewed as substitutes for multilateralism but as complementary mechanisms to help maintain development opportunities, while WTO continues to provide the core framework for transparency, non-discrimination and baseline disciplines.

The absence of common rules in emerging trade-related policy areas can itself tighten development policy space. Developing countries may be less formally constrained by multilateral disciplines but, in practice, more exposed to standards and conditions set elsewhere, particularly as trade governance shifts towards bilateral, regional and plurilateral arrangements. The challenge is therefore not only to preserve policy space, but also to uphold the meaningful participation of developing countries in shaping rules determining market access and value chain participation (box II.4).⁵

⁵ For instance, a recent proposal by the Least Developed Countries Group emphasizes that meaningful participation requires not only formal inclusion but also timely access to information, manageable negotiating processes, and a substantive role in agenda-setting and rule-shaping (WTO, 2026).





Box II.4

An agenda for a rules-based multilateral trading system

Trade policy fragmentation raises a central institutional question: how can the multilateral trading system preserve predictability, non-discrimination and development opportunities when trade measures are increasingly shaped by industrial policy, economic security and selective cooperation?

The WTO Agreements establish a system based on binding market access commitments, reciprocity, non-discrimination through the most-favoured nation principle, transparency and legally enforceable obligations supported by dispute settlement. The functioning of this framework, however, has gradually declined as members have increasingly adopted unilateral, uncoordinated or non-compliant measures. These comprise partner-specific tariffs, security-related restrictions and trade-related industrial policy instruments. Strengthening “the rules-based, non-discriminatory, open, fair, inclusive, equitable and transparent multilateral trading system with the World Trade Organization at its core”, as reaffirmed in the Sevilla Commitment adopted at the Fourth International Conference on Financing for Development in 2025, remains essential for sustainable development.

A priority is to preserve the most-favoured nation principle. By requiring trade advantages granted to one WTO member to be extended to all others, the principle limits discrimination and prevents market access from being determined mainly by bargaining power or geopolitical factors. This is particularly important for developing countries, many of which lack the leverage to negotiate favourable bilateral arrangements with major trading partners due to their smaller market size and weaker bargaining power. Even where enforcement is constrained, most-favoured nation disciplines help preserve predictability, transparency and a degree of protection against arbitrary discrimination.

A second priority is to clarify the relationship between trade rules and economic security. Economic security considerations now cover supply chain resilience, access to strategic technologies and natural resources, critical infrastructure and geopolitical risk. This has encouraged greater use of export controls, investment screening, procurement exclusions and other measures that distinguish trading partners based on perceived strategic risks. Yet the WTO legal architecture has not formally changed to accommodate this shift. Greater transparency, clearer principles for using security-related measures and stronger dialogue among members would help prevent economic security from becoming a broad justification for discretionary or discriminatory restrictions that could ignite a vicious cycle of retaliatory trade restrictions among major economies.

A third priority is to manage plurilateral initiatives so they support the multilateral system. Such initiatives can help willing members advance rule-making where consensus is not yet possible although their systemic effects depend on their design. Open-ended plurilateral agreements extending benefits to all WTO members can support wider liberalization and reduce the risk of exclusion. Closed agreements may deepen cooperation among participants but create differentiated legal regimes and new divisions between rule-makers and rule-takers. From a development perspective, while plurilateral initiatives may offer a pragmatic response to negotiating deadlocks, they remain a second-best solution where multilateral agreement is not yet possible.

Source: United Nations (2026).



Regional trade agreements can provide one such pathway when they expand market scale, reduce trade costs and support regulatory cooperation without becoming exclusionary blocs. From a development perspective, the African Continental Free Trade Area is especially relevant because it links market integration directly to diversification, regional value chain development and poverty reduction. By connecting 1.3 billion people across 55 countries with a combined GDP of \$3.4 trillion, full implementation of the agreement could raise regional income by 7 per cent, or \$450 billion, and lift 30 million people out of extreme poverty by 2035 (World Bank, 2020b).

The Regional Comprehensive Economic Partnership illustrates a different dimension of the same trend: the emergence of large regional agreements that combine market access with broader regulatory disciplines. Bringing together 15 economies accounting for about 30 per cent of global GDP and roughly a third of the world's population, the partnership is expected to boost intraregional exports through tariff concessions. Its provisions on rules of origin, services, investment, e-commerce, customs procedures, standards and trade facilitation show how large regional trade agreements can extend beyond tariff liberalization (UNCTAD, 2021).

The Global System of Trade Preferences among Developing Countries provides a specifically South–South channel. As an interregional agreement for preferential South–South trade liberalization among developing countries, it is legally covered under WTO's 1979 Enabling Clause. Implementation of the São Paulo Round Protocol could generate welfare gains of up to \$27 billion and tariff reductions of at least 20 per cent on about 6,000 products. Yet its trade and development impact would be stronger if tariff preferences were accompanied by simplified rules of origin, digital customs procedures, standards cooperation, trade finance and support for small firms (UNCTAD, 2025c and 2026f).

Softer forms of cooperation can play a complementary role. Asia-Pacific Economic Cooperation (APEC) illustrates how flexible, non-binding regional cooperation can preserve dialogue, support issue-specific coordination and reduce unnecessary regulatory divergence without being presented as a substitute for the multilateral trading system.

A central caveat is that these arrangements should reinforce the multilateral trading system by operating as building blocks for more inclusive integration (box II.5). They are most credible when they expand effective market access, reduce avoidable compliance costs, support productive transformation, preserve policy space and remain compatible with broader multilateral principles, including transparency, non-discrimination, and special and differential treatment. They become more fragmenting when they operate as exclusive arrangements, restrict opportunities for outsiders, generate complex or exclusionary rules of origin or deepen rule-taker dynamics for countries with limited influence over emerging standards.

Overall, the extent to which global trade can continue to support developing countries' development-oriented integration into the global economy will depend on whether governments can make policy flexibility and shared commitments mutually reinforcing rather than opposing objectives. Greater flexibility should be accompanied by safeguards that limit discrimination and uncertainty and prevent adjustment costs from falling disproportionately on countries with less economic power. Preserving an open, inclusive and rules-based trading system will also require greater transparency and coordination in the use of trade measures, together with development-sensitive disciplines, including, where appropriate, special and differential treatment, as well as capacity-building and meaningful participation by developing countries in rule-shaping.





Box II.5

Economic cooperation in Asia and the Pacific amid trade policy fragmentation

In May 2026, the APEC Ministers Responsible for Trade met in Suzhou, China; the heads of international organizations, including UNCTAD and WTO, also participated. The meeting produced two ministerial outcomes: the Suzhou Statement and the APEC Roadmap for Innovative, Competitive and Resilient Services. These indicate that APEC cooperation remains active despite rising trade policy fragmentation.

Established in 1989, APEC is the premier economic forum in Asia and the Pacific. It brings together 21 member economies with widely differing economic sizes, levels of development and strategic interests. While this diversity exposes cooperation within APEC to potential geoeconomic risks, the forum has remained an important platform for dialogue, confidence-building and practical economic cooperation.

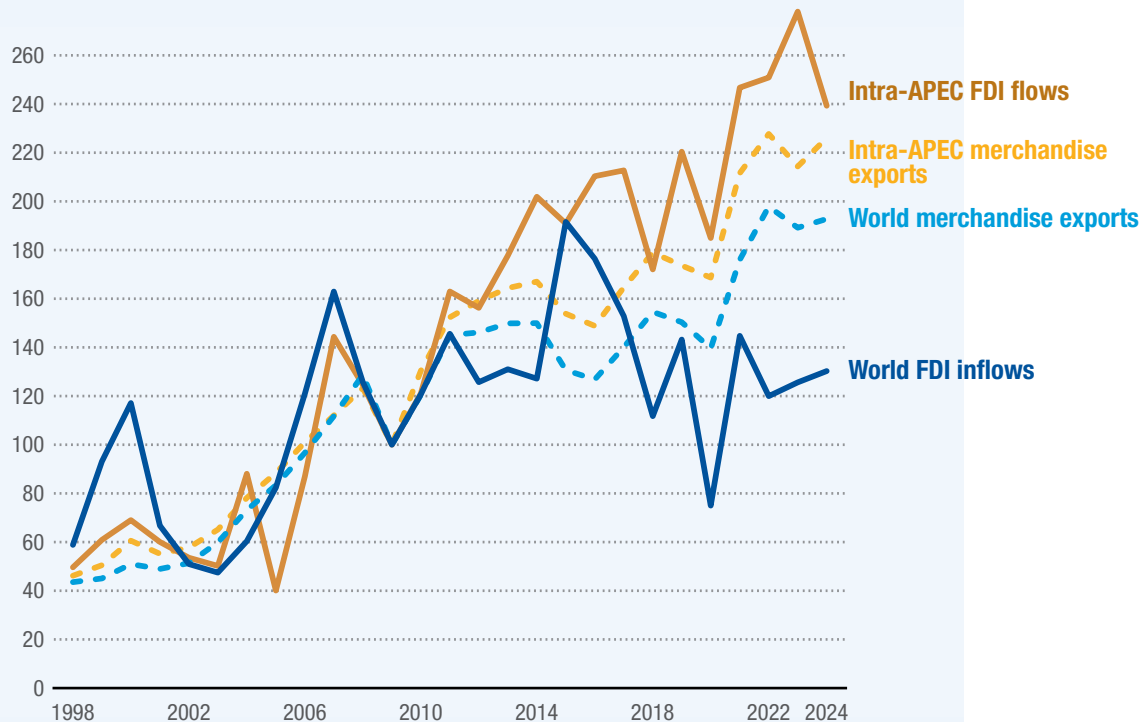
Trade and investment data reflect the resilience of economic integration within the region. From 1998 to 2024, intra-APEC merchandise trade grew at an average annual rate of 6.3 per cent, slightly faster than global merchandise trade, which expanded by 5.9 per cent annually. The difference was more pronounced for FDI. Intra-APEC flows increased by 6.5 per cent annually, compared with 3.1 per cent globally. From 2009 to 2024, global FDI inflows grew by only 1.8 per cent annually; intra-APEC flows rose by 4.6 per cent (box figure II.5.1).



Box figure II.5.1

Intra-APEC trade and FDI flows have remained strong since the 2008 financial crisis

FDI flows and merchandise trade, 1998–2024
(Indices, 2009 = 100)



Source: UNCTAD based on FDI inflow data from UNCTADstat and bilateral FDI statistics.



APEC's continuing relevance rests first on its members' commitment to economic cooperation. In 1994 and 2020, members adopted the Bogor Goals and the Putrajaya Vision 2040, respectively. These frameworks reflect a shared commitment to a free, open, fair, non-discriminatory, transparent and predictable trade and investment environment. Such common objectives have helped sustain the regional cooperation agenda despite growing economic and geopolitical tensions.

A second distinguishing feature is APEC's flexible and pragmatic approach. Cooperation is based on a combination of collective and individual actions, allowing members to work towards shared objectives while retaining substantial policy autonomy. This approach has supported measurable progress. The simple average most-favoured nation tariff applied in the APEC region declined from 13.9 per cent in 1994 to 5.2 per cent in 2019, while the share of tariff lines subject to zero duties nearly doubled over the same period.

APEC has also contributed to regional cooperation by incubating issue-specific initiatives. It has advanced work on information technology, environmental goods, services and digitalization, among other areas. Some initiatives first developed within APEC subsequently informed broader plurilateral or multilateral processes, including the Information Technology Agreement. In 2012, APEC members agreed on a list of 54 environmental goods at the six-digit Harmonized System level.

The private sector has played an important role in shaping APEC's cooperation agenda. Regular dialogue between policymakers and business representatives, including through the APEC Business Advisory Council and the APEC CEO Summit, has helped connect regional initiatives with commercial priorities and implementation challenges.

APEC nevertheless faces important limitations. Trade relations among its members are shaped by overlapping preferential agreements, including megaregional arrangements with substantially overlapping memberships. These "spaghetti bowl" effects can increase transaction costs and complicate regulatory coherence. APEC has provided an important platform for dialogue across these arrangements, although further coordination could help reduce complexity and enhance regulatory coherence.

Overall, APEC complements but does not substitute for the multilateral trading system. Its shared objectives, flexible methods, issue-based initiatives and engagement with the private sector provide a pragmatic model of regional cooperation. In a period of selective fragmentation, such platforms can help preserve dialogue, reduce unnecessary regulatory divergence and support gradual convergence across economies with differing priorities and levels of development.



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Chapter II

Selective fragmentation: The new geography of trade

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2026 Trade and development report

Chapter III

Development in the age of geoeconomics

KEY FINDINGS

- ▶ **Geoeconomic competition is destabilizing traditional development mechanisms:** industrialization, upgrading through merchandise trade and integration into global value chains. Value creation is reorganizing around new strategic sectors critical to national security and technological leadership. The most contested sectors, such as semiconductors, energy transition technologies and artificial intelligence infrastructure, are also among the most developmentally consequential. Developed economies capture 70 per cent of global greenfield investments in these sectors; developing economies lead only in critical minerals.
- ▶ In developed countries, industrial policy relies mainly on financial policy instruments (such as financial grants, state loans, regulations on foreign direct investment and capital controls on financial flows). Developing countries, outside China, emphasize trade policy.
- ▶ Case studies of the Democratic Republic of the Congo, Mexico and Malaysia show how geoeconomic competition shapes conditions for upgrading within global value chains, across commodity sectors, manufacturing and advanced manufacturing. Ownership and market concentration are the greatest hurdles for developing economies.
- ▶ Through strategic alignment across multiple sectors, rising economic powers in the global South are emerging as anchors of regional integration in trade, payment systems and beyond.



**United
Nations**



Policy takeaways

- ▶ **Industrial policy should be gauged over a long horizon.** Its purpose is to build what countries lack at each stage of development. It works sequentially, drawing on a broad framework of policy instruments to absorb early losses and create conditions where markets can take over as the industrial sector matures.
- ▶ **Financial policy is a key tool of economic statecraft, combining domestic financial policy with capital flow regulation.** Capital controls both mitigate macrofinancial volatility and allow countries to use domestic financial policy to pursue industrial goals. Developing countries can condition foreign direct investment on linkages, technology and capability transfer as well as local value added.
- ▶ **Integration into global value chains does not automatically translate into development gains.** Industrial policy, applied with a sectoral focus, can actively shape the terms of integration, creating room for upgrading and helping to avoid the risk of countries becoming structurally locked into low value-added nodes.
- ▶ **Strategic alignment across multiple sectors can support development regionalism.** Regional cooperation through trade, payment systems, technology transfers and coordinated industrial strategies creates conditions and opportunities that national policies alone do not provide.



A. Introduction

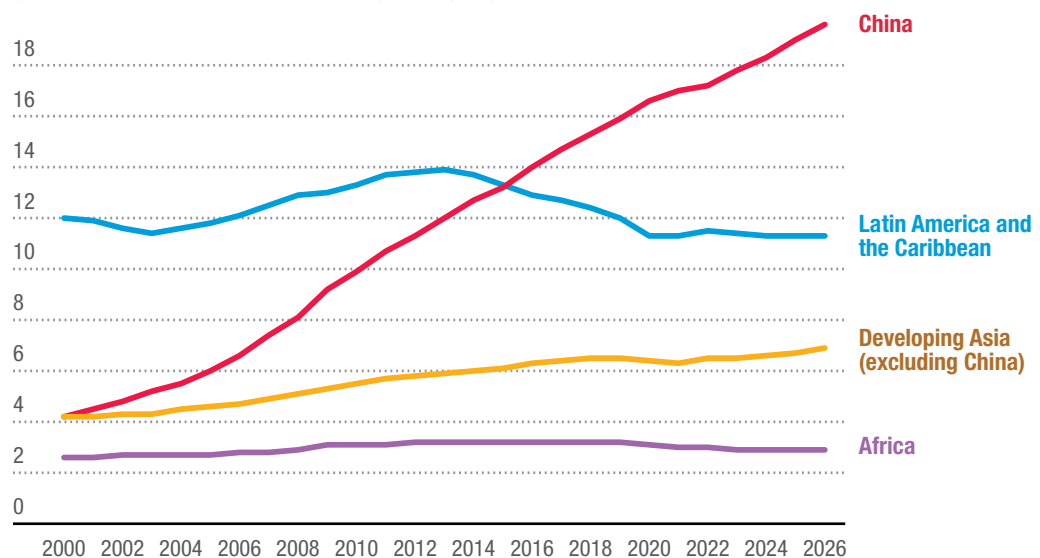
Globalization has been a powerful engine of development. But its gains have been deeply uneven between developed and developing economies. Even across developing regions, progress has diverged: developing Asia and Oceania have continued to advance, while Africa and Latin America and the Caribbean have lagged behind (figure III.1). Yet this divergence tells only part of the

story. Today, the traditional mechanisms of development – industrialization, upgrading through merchandise trade and integration into global value chains – are increasingly destabilized by rapid technological change and geoeconomic shifts. These are reshaping development opportunities for developing countries (UNCTAD, 2025a, 2026a).



Figure III.1
A long road to convergence

GDP per capita, selected country and regions
(Per cent of United States GDP per capita)



Source: UNCTAD based on table I.1.

Among the drivers of growth, manufacturing is retreating while merchandise trade is losing momentum. Conversely, the global service trade is gaining speed (figure III.2). These trends raise questions about the continued viability of export-led catch-up strategies to achieve structural transformation or the shift of productive resources from lower- to higher-productivity activities (UNCTAD, 2024b). Developing manufacturing capacities in traditional sectors such as consumer goods, textiles

and transport equipment no longer offers the same potential for progress as it once did. Investment is increasingly concentrating in a handful of new strategic sectors – including semiconductors, critical minerals, energy transition technologies, artificial intelligence, digital infrastructure and other advanced or sensitive technologies – deemed critical for national security, technological leadership and long-term economic growth. This is unfolding amid a geoeconomic race among major powers (UNCTAD, 2026c).



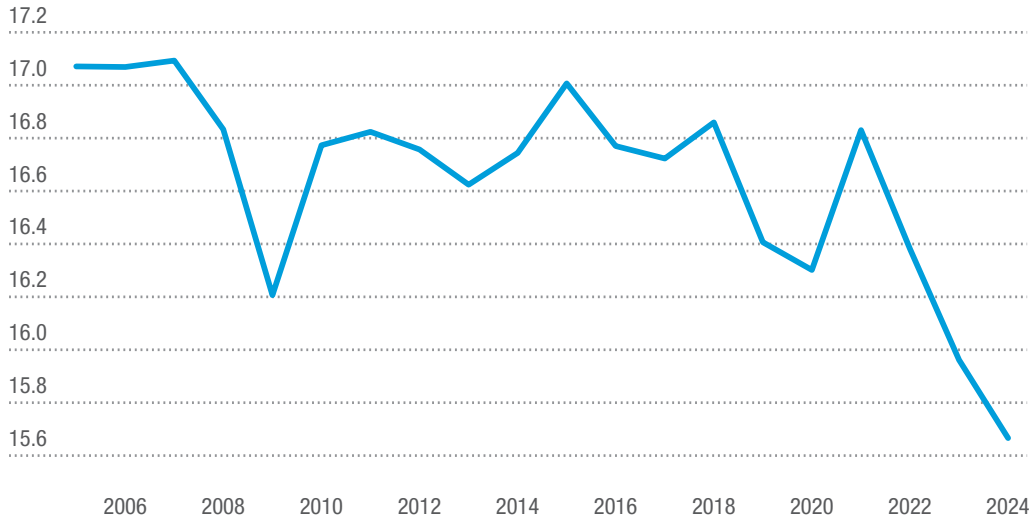


Figure III.2

Diminishing manufacturing and stagnating global merchandise trade as drivers of GDP growth

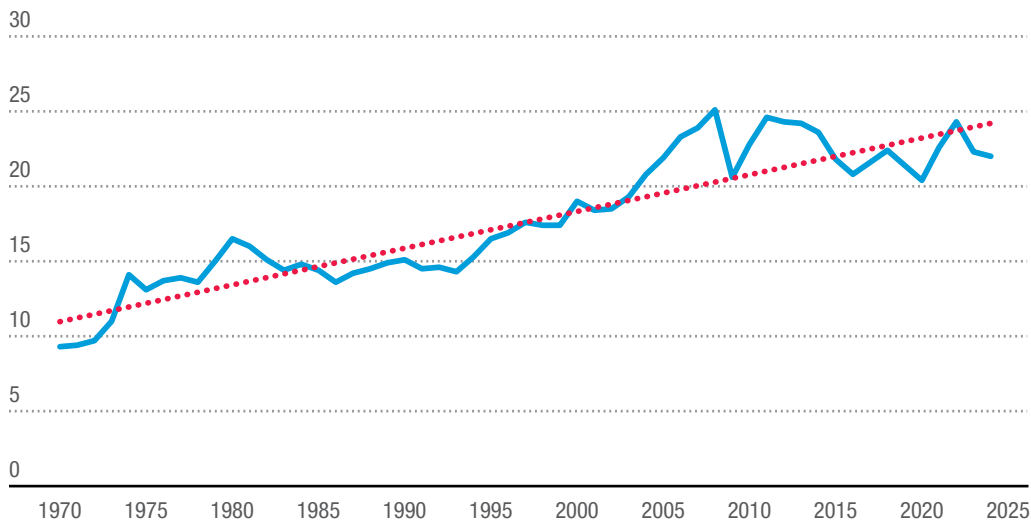
A. The manufacturing sector is contributing less to global value added

Share of manufacturing in global value added at current prices
(Percentage)



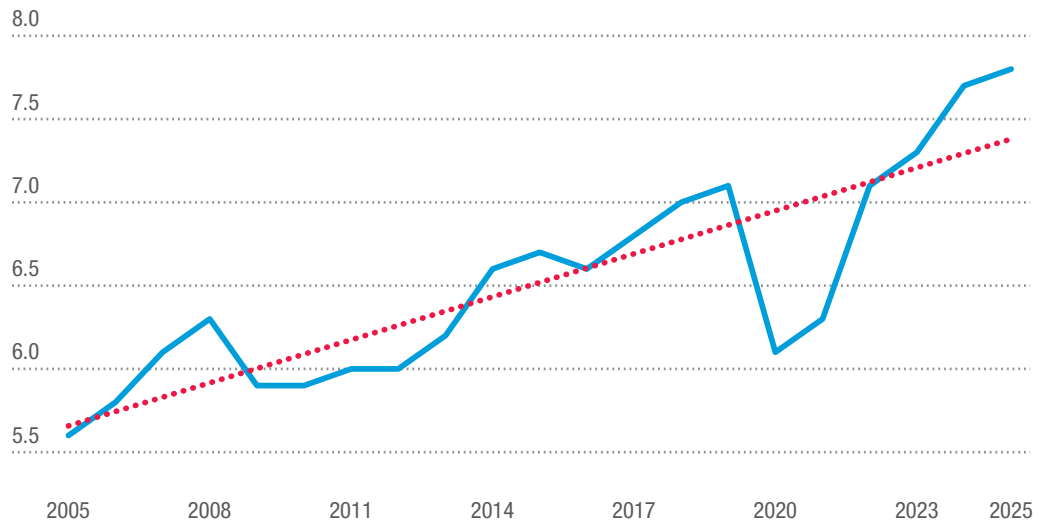
B. The global merchandise trade is losing momentum

World merchandise trade as a share of global GDP
(Percentage)



C. The global service trade is gaining speed

World service trade as a share of global GDP
(Percentage)



Source: UNCTAD based on UNCTADstat.

Note: The dotted line represents the linear trend over the period.

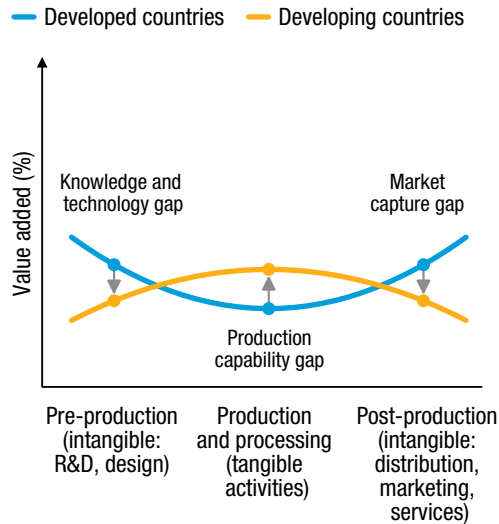
The resulting technological and financial stakes have considerably raised the barriers to entering leading sectors for structural transformation. Where, and how, can developing countries participate – and benefit from – this changing landscape and achieve sustainable development? This chapter addresses this question by examining the rise of current strategic sectors and how geoeconomic dynamics surrounding them are reshaping conditions for development.

Figure III.3 helps explain why this reshaping is taking place. It illustrates how value added is distributed across the production process for traditional manufacturing sectors (figure III.3.A) and sectors with new technology manufacturing (figure III.3.B), which include today's strategic sectors. It compares developed and developing countries across the pre-production (research and development [R&D] and design), production and processing (purchasing and production) and post-production (distribution, marketing and services) phases.

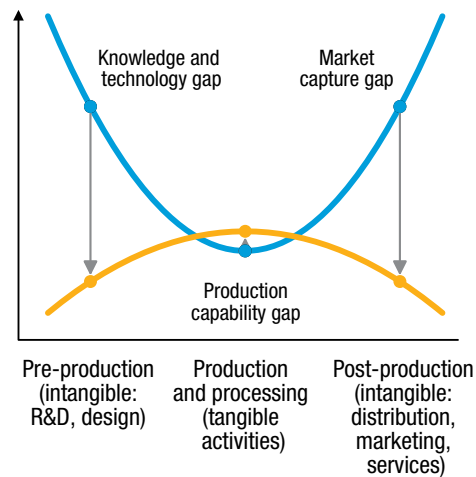


Figure III.3
Global value chains are shifting from traditional to new technology manufacturing
(Percentage)

A. Traditional technology manufacturing



B. New technology manufacturing



Source: UNCTAD based on Gereffi and Frederick (2010) and Shih (1996).

Table III.1 summarizes the differences between traditional and new technology manufacturing over the three production phases. Historically, pre- and post-production phases have concentrated in advanced economies. Successive technological waves, however, have amplified the knowledge and technology gap in the pre-production phase. Today's frontier technologies¹ are more capital- and finance-

intensive than in the past, as reflected in the growing weight of intangible assets in global investment, which now vastly exceeds investment in tangible assets (figure III.4). This shift also indicates changes in the post-production phase, which increasingly depends on intangible investment as the market capture gap has widened in new technology manufacturing (UNCTAD, 2019 and 2021; WIPO, 2017 and 2026).

¹ Frontier technologies refer to a group of new and rapidly developing technologies that take advantage of digitalization and connectivity to combine with one another, multiplying their impacts. Their supply remains concentrated in a few places, namely, China, the United States and Western Europe (UNCTAD, 2023).

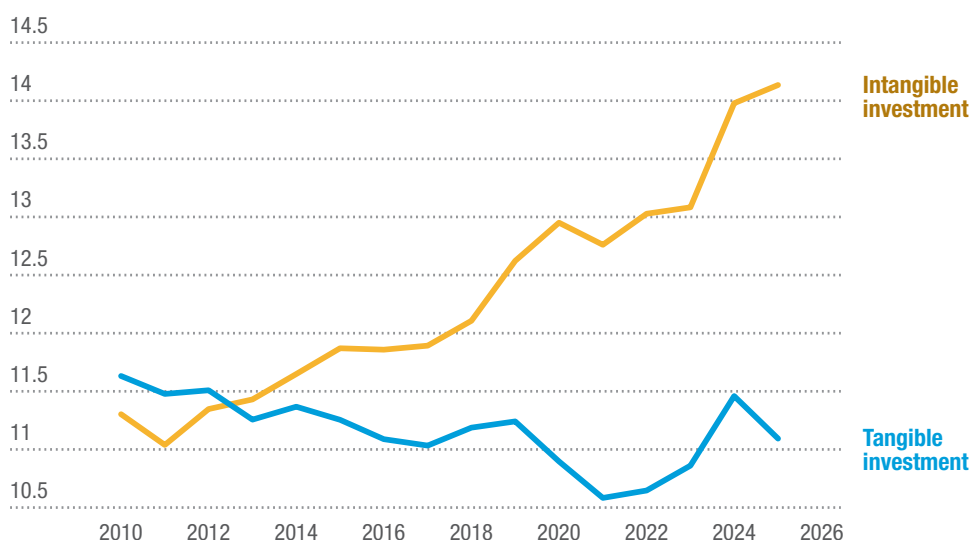




Figure III.4

Intangible assets have become an increasingly important component of investment

Share of intangible and tangible investment in GDP, selected economies
(Percentage)



Source: UNCTAD based on UNCTADstat and WIPO-LBS Global INTAN-Invest Database.

Note: Country coverage varies after 2022. The series reflects an evolving sample rather than a fixed panel. Coverage starts from 2015 and extends until 2025 for the 22 European Union economies, the United Kingdom and the United States; until 2024 for Canada and Japan; until 2023 for Brazil and India; and until 2022 for the Philippines. The 22 European Union economies are Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Kingdom of the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Beyond China and India, Malaysia, the Philippines, Singapore and Viet Nam are carving out strategic sector niches

The production stage of traditional manufacturing has long been an entry point for developing countries, given lower labour costs relative to developed countries. This phase, however, has also become increasingly technology intensive. The integration of digital and computational skills into manufacturing (the so-called “Industry 4.0”)² raises both the cost and skills thresholds to entry and shrinks the production capability gap. The UNCTAD Frontier Technology Readiness Index, which measures countries’ capacity to adopt frontier technologies

underpinning Industry 4.0, captures this change. Developed economies rank at the top, with only a handful of developing country outperformers (China, India and Singapore). Nonetheless, the industry subcomponent, which includes high-technology manufacturing and digitally deliverable services³ exports, suggests that the set of Asian economies that has carved out a manufacturing and export niche within the supply chains for strategic sectors is broader. Besides China, India and Singapore, it includes Malaysia, the Philippines and Viet Nam (UNCTAD, 2025a).

² Industry 4.0 refers to the fourth industrial revolution, defined by the technological processes being integrated into manufacturing: the industrial Internet of Things and networked sensors, robotics and automation, big data analytics, artificial intelligence/machine learning for process optimization, digital twins (virtual simulations of production lines), 3D printing and cloud connected/cyberphysical production systems (UNCTAD, 2024b).

³ Digitally deliverable services are embedded within manufacturing global value chains at multiple stages, including pre-production (e.g., R&D and engineering design services), production (e.g., cloud-based industrial software, Internet of Things platforms and other digital inputs underpinning Industry 4.0) and post-production (e.g., distribution, marketing and after-sales services) (UNCTAD, 2023).





Table III.1

Traditional manufacturing and new technology manufacturing by production phases

Phase	Traditional manufacturing	New technology manufacturing
Pre-production (R&D, design)	Knowledge and technology gap, R&D concentrated in advanced economies.	Gap widens • Frontier technologies are more capital and finance intensive • Higher R&D investment, increasing the importance of intangible investment • Competitive advantage increasingly hinges on innovation leadership, raising the stakes of R&D investment
Production (purchasing, production)	Entry point for developing countries due to labour cost advantage in labour-intensive nodes (garments, auto assembly, etc.)	Gap shrinks • Increasingly technology intensive, raising both the cost and skills thresholds to entry, driven by Industry 4.0 and growing integration of digital/computational skills in manufacturing • Firms in developing countries still rely on manual or mechanically automated production • Comparative advantage from low-cost labour erodes as production becomes more capital intensive, shrinking room to participate
Post-production (distribution, marketing, services)	Market capture gap: advanced economy firms capture more value	Gap widens • Value capture increasingly runs through digital services: distribution platforms, cloud services and data intermediation, reinforcing the importance of intangible investment • Royalty and licensing flows remain concentrated in developed economies • Same firms dominate pre- and post-production infrastructure (for example, Alibaba, Alphabet, Amazon, Meta, Microsoft, NVIDIA and Tencent in the artificial intelligence value chain)

Source: UNCTAD based on UNCTAD (2019, 2021, 2023, 2025a, 2025b and 2026) and WIPO (2024).

Developed economies increasingly compete for technological leadership and production capabilities through expanded industrial policy targeting these strategic sectors. This wave of industrial policy includes the significant leveraging of financial policy, spanning domestic financial instruments (such as grants and loan guarantees) and foreign direct investment regulations (section B). For most developing countries, however, geoeconomic competition in these sectors, compounded by technological and financial asymmetries, has pushed development opportunities further out of reach. Emerging

technologies and financialization are also increasingly permeating other sectors, such as agriculture and services (UNCTAD, 2025a) and narrowing development opportunities, a trend amplified by shrinking development aid (chapter I).

Development frontiers: An analogy

The current development challenge can be illustrated with an analogy. Suppose each developing economy faces a frontier it crosses once it completes its development



catch-up. Countries may reach their frontier through a range of development pathways that lead to green structural transformation and climate-resilient development. But the frontier is neither static nor uniform across countries. It is an evolving boundary that shifts as value creation in the global economy reorganizes around new sectors and requires new forms of engagement to achieve development gains.

A country's position relative to its frontier is inherently unstable, depending on its capacity to integrate into sectors and appropriate value over time. That capacity rests on internal conditions: macroeconomic performance, resource endowments, productive and technological capacities, institutional strength, financial depth (a domestic system providing affordable local currency credit and climate and development finance) and human capital.

Widening technological and financial asymmetries, compounded by the geoeconomic dynamics described above, have now effectively pushed development frontiers further away, making development pathways longer and harder to traverse than before. The development gains from integrating into the production stage of some value chains have shrunk, as have those from holding a critical mineral with falling demand due to technological progress. For most developing countries, the frontier has receded. Closing the distance now

means moving fast enough to keep pace with an unstable, faster-shifting boundary.

Section B traces the rise of strategic sectors, examining how their emergence, bound up with a multidimensional notion of national security spanning economic, financial and technological concerns, is reshaping global competition and raising new barriers to value chain integration. It then turns to the resurgence of industrial policy as an instrument of economic statecraft, and to the range of finance, trade and technology policy types it draws on.

Section C sets out the integration strategies now available to developing countries, referring to case studies across sectoral domains. These are not intended to generalize across the developing world but to show the complexities countries face in navigating external and internal constraints under the new geoeconomic configuration.

Section D discusses one pathway for addressing today's development challenges, referred to here as "sectoral multi-alignment." This approach entails deploying different trade, finance, technology and energy strategies across sectors, while drawing on an array of partners, financing sources and technological partnerships shaped by specific constraints and opportunities. After detailing how Türkiye has deployed this approach, the section discusses its emerging use among some of the rising economies of the global South.

B. Economic policy, security and strategic sectors

While global economic governance has historically been intertwined with security issues, the link became particularly pronounced in financial and economic relations during the first decades of the twenty-first century. Two shifts ensued. First, as geoeconomic competition intensified,

a multidimensional notion of security, encompassing economic, financial and technological dimensions, began to inform countries' strategic choices. Second, as global economic interdependencies have grown more complex, the range of economic activities deemed sensitive on



national security grounds has expanded (UNCTAD, 2024d). It now includes technological competitiveness, supply chain resilience, strategic infrastructure and, in some cases, media (UNCTAD, 2026a).⁴ This broad securitization of the economic agenda, targeting specific sectors, critical inputs and infrastructure, and determining access to particular markets, includes a wide range of economic policy instruments, such as investment screening regimes (see section B.2). Several countries have recently introduced these regimes, including Albania, Cyprus, Croatia, Greece, Ireland and Switzerland, bringing the total number applying them to 52, up from 21 in 2016 (UNCTAD, 2026c).

Economic security considerations increasingly inform how countries engage in global value chains, notably by shifting from maximizing efficiency to pursuing resilience, autonomy, sovereignty and control over critical nodes (United States, 2022b, 2025; European Commission, 2023b). The European Union operationalizes this based on four risk categories: supply chain disruption, technology leakage, economic coercion and critical infrastructure dependence. Policies also acknowledge the risk of using economic security arguments to justify protectionism (European Commission, 2023b; García Bercero and Poitiers, 2025; European Parliamentary Research Service, 2025).

This dual nature of security, aimed at both protection and economic advantage, is fundamental to understanding geoeconomics as an evolving process. UNCTAD (2026c) identifies five strategic sectors at the centre of current global investment competition and security-related policy intervention, namely: semiconductors, artificial intelligence, cloud computing, energy transition technologies and critical minerals.⁵ Many leading economies identify these as areas of national security concern⁶ and put a focus on state regulation through industrial policy. These sectors are characterized by frontier technology, high barriers to entry, significant economies of scale, network externalities and dual-use potential,⁷ making them, simultaneously, engines of future productivity growth and pillars of geoeconomic leverage (Clayton et al., 2024).

Geoeconomic competition partly explains why development frontiers are receding for most developing economies. While global value chain integration offers market access and technology spillovers, it risks locking countries into low-value nodes and eroding terms of trade (UNCTAD, 2014 and 2025c; Hauge, 2023). Positions in global value chains depend on factors such as geography; critical minerals and other resource endowments; existing industrial and technological capacities; financial, legal and institutional infrastructure; and, crucially, the industrial policy strategies of leading economies.

Security considerations may inform a recalibration of how countries engage in global economic networks

For developing economies, the evolution of global competition along geoeconomic lines partly explains why development frontiers are receding

⁴ This redefinition has been institutionalized through the national security strategies of several countries, including the United States in its 2022 National Security Strategy, which places economic strength at the centre of national power (United States, The White House, 2022), and Japan in its 2022 Act on the Promotion of National Security Through Integrated Economic Measures (Economic Security Promotion Act). The European Union 2023 Economic Security Strategy treats economic and security policy as inseparable (European Commission, 2023; European Parliamentary Research Service, 2025). Canada has expanded the list of technologies deemed sensitive to national security and defence (UNCTAD, 2026b).

⁵ For more details on criteria for identifying the main strategic sectors and on foreign direct investment trends in them, see UNCTAD (2026b, chapter III).

⁶ Key official documents include: China, “Made in China 2025” (2015, still operative), the Fourteenth Five-Year Plan (2021–2025) and the 2023 updated semiconductor self-sufficiency targets; United States, CHIPS and Science Act (2022), National Security Strategy (2022), Executive Order on AI (2023) and Inflation Reduction Act (2022); and European Union, European Union Chips Act (Regulation (EU) 2023/1781), European Economic Security Strategy (2023) and Critical Raw Materials Act (2024).

⁷ Dual use refers to technologies and goods with both civilian and military applications. Commercial dominance in these industries translates directly into military and intelligence advantages (such as advanced semiconductors powering both consumer electronics and artificial intelligence-guided weapons systems, or communications infrastructure serving both civilian networks and signals intelligence).

1. The rise of strategic economic sectors

The rise of strategic economic sectors has two consequences for development. First, state regulation can structurally transform a national economy by targeting specific sectors with cutting-edge technology and more value added within national borders. Such measures are not new. The industrial policy of China, the chaebol system of the Republic of Korea, the sovereign wealth fund of Singapore and TSMC in Taiwan Province of China are examples of State-led economic development strategies. What is new today is the resurgence of industrial policy at scale in developed economies (UNCTAD, 2026c; World Bank, 2026a; IMF, 2025b), which has important spillovers on trade, innovation and overall development prospects (chapter II).

According to New Industrial Policy Observatory (NIPO) data,⁸ from 2022 to 2025, developed countries adopted 7,482 industrial policy measures, an annual average of almost 2,500. This was 1.5 times more than the annual average of 986 from 2008 to 2021, when they implemented 12,822 measures in total. In developing countries, the annual average number almost doubled, from 784 (2008–2021) to 1,562 (2022–2025), with totals of 10,191 and 4,685 in the two periods, respectively (figure III.5). In developed economies, the share of implemented measures rose while the developing countries' share fell. This gap owes much to the fact that most developing countries lack the fiscal capacity, domestic financial systems and institutional frameworks that major economies possess and that financing and managing industrial policy strategies require (UNCTAD, 2024d).

Figure III.5
Industrial policy has taken off in developed countries

Annual average number of industrial policies, by country groups and China

	2008–2021	2022–2025
Developed economies	986	2 494
China	323	562
Developing economies excluding China	461	1 000

Source: UNCTAD based on NIPO.

A second consequence has been a deepening of existing asymmetries, as revealed by data on cross-border greenfield foreign direct investment. Overall, total greenfield investment appears relatively balanced between the global North (54.4 per cent) and the global South

(45.6 per cent), with non-strategic sectors split almost evenly (49.2 and 50.8 per cent, respectively) (UNCTAD, 2026c).

There is a significant gap in strategic industries, however (figure III.6). Advanced economies capture approximately 70 per cent of high-value investments in

⁸ NIPO, introduced by Evenett et al. (2024), is a subset of the Global Trade Alert (GTA) database of policy interventions, classifying industrial policy measures. A measure is included if it meets at least one of three criteria: it is linked to a predefined set of stated motives (national security, geopolitical concerns, supply chain resilience, strategic competitiveness or climate change mitigation); it covers a strategically defined product category; or it constitutes an industrial strategy or plan. NIPO distinguishes three levels of intervention: plans and strategies, policies and regulations and firm-specific interventions. It covers 75 jurisdictions accounting for 94 per cent of global GDP.

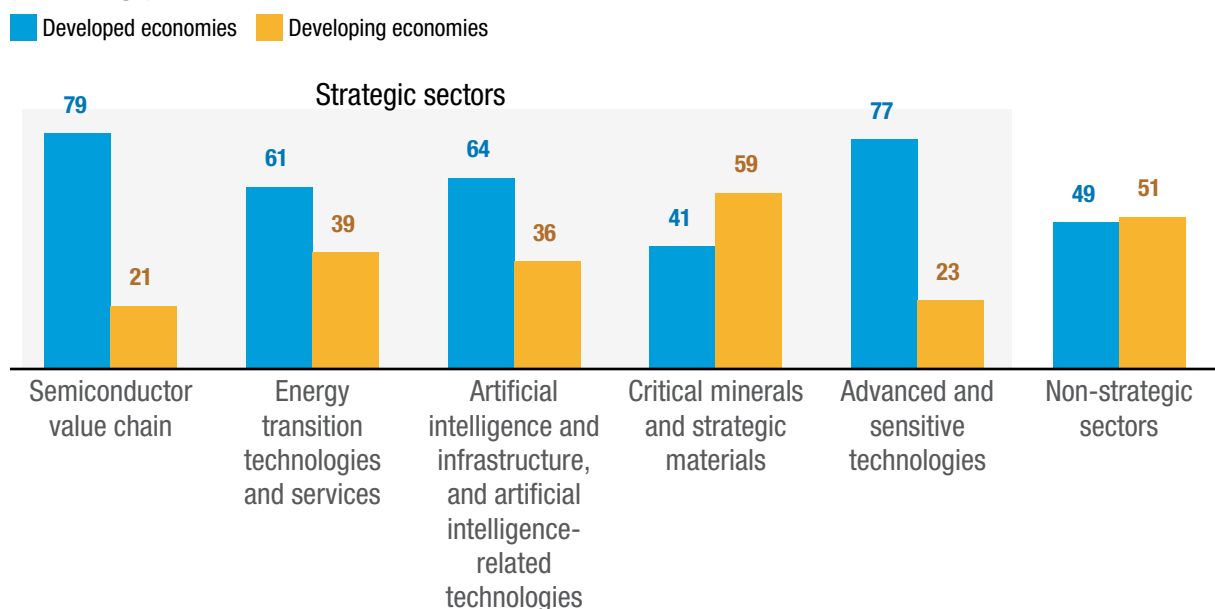
the semiconductor value chain, energy transition technologies and services, artificial intelligence infrastructure and related technologies, and advanced and sensitive technologies. The only strategic sector where developing economies have received more greenfield investment is critical minerals and strategic materials (59 per cent). But leading in investment is not the

same as capturing value: Africa mines most of the world's cobalt and retains under 1 per cent of the value in green supply chains. This asymmetry becomes even sharper among lower-income developing economies once major hubs such as China, India and the Gulf States are excluded from the aggregate for developing economies (UNCTAD, 2026c).

Advanced economies capture around 70 per cent of high-value strategic sector investment; the global South leads only in critical minerals

Figure III.6
Global greenfield investment in strategic sectors remains concentrated in developed economies

Developed and developing economies' shares of inward announced greenfield project value, by sector, 2020–2025
(Percentage)



Source: UNCTAD based on information from The Financial Times Ltd. and fDi Markets (www.fdimarkets.com).

From 2020 to 2025, strategic sectors grew from 16 to 44 per cent of global greenfield investment, which captures both their rapid progression and current importance. Among them, artificial intelligence infrastructure and related technologies attracted the largest share, representing 12.4 per cent of overall global greenfield investment (\$845.7 billion). This was followed by the semiconductor value chain (8.1 per cent) and energy transition technologies and services (7.8 per cent), signalling how digital transformation and green energy adoption have become global priorities (UNCTAD, 2026c).

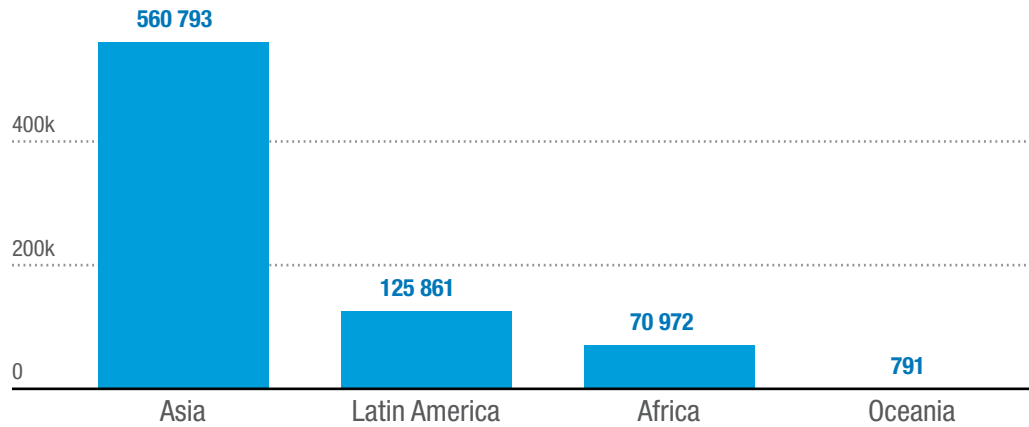
The geographic disparity in strategic investment underscores the growing integration challenges for the global South, especially for the least developed countries. Strategic investment is concentrated in Europe (28.4 per cent) and North America (28.0 per cent). Even among developing economies, capital is primarily funnelled into developing Asia (26.5 per cent), with China, India, Indonesia, Malaysia and Singapore as leading jurisdictions for new investments (figure III.7).

Europe (28.4%) and North America (28%) lead in strategic investment; developing Asia absorbs 26.5%

Figure III.7
Greenfield investment in developing economies largely flows to Asia
Inward announced greenfield project value in strategic sectors within developing economies, 2020–2025

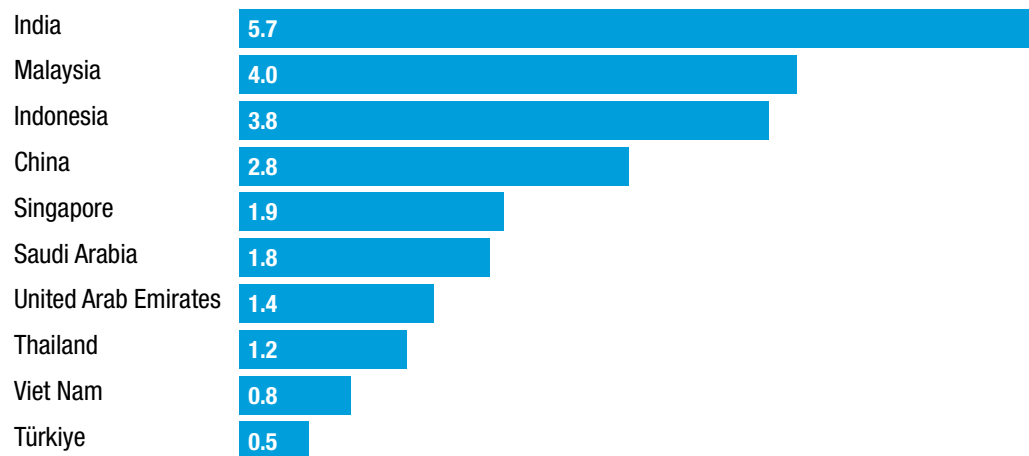
A. Developing economies

(Millions of United States dollars)



B. Global share of top 10 Asian developing economies

(Percentage)



Source: UNCTAD based on information from The Financial Times Ltd. and fDi Markets (www.fDimarkets.com).

Sectoral allocation among developing regions reveals a further contrast. Developing Asia exhibits a diversified portfolio, more evenly distributed across four strategic sectors, positioning the region to move up the value chain into advanced manufacturing and tech infrastructure. For Africa and Latin America, greenfield

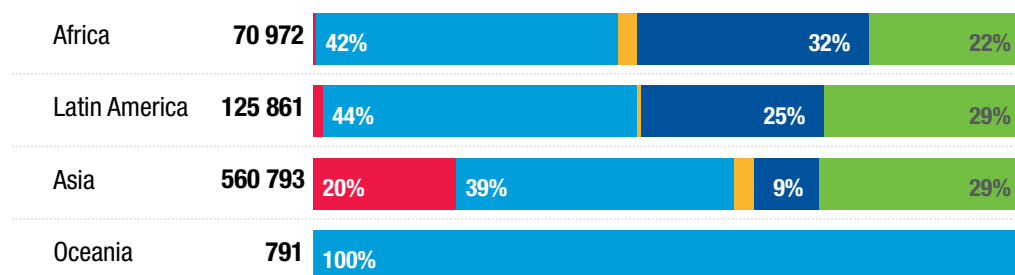
investment remains more concentrated in the energy transition and critical material sectors. This concentration risks reinforcing economic reliance on raw commodity exports rather than fostering systemic diversification and technological spillovers (figure III.8).

Figure III.8 Strategic greenfield investment concentrates in different sectors across regions

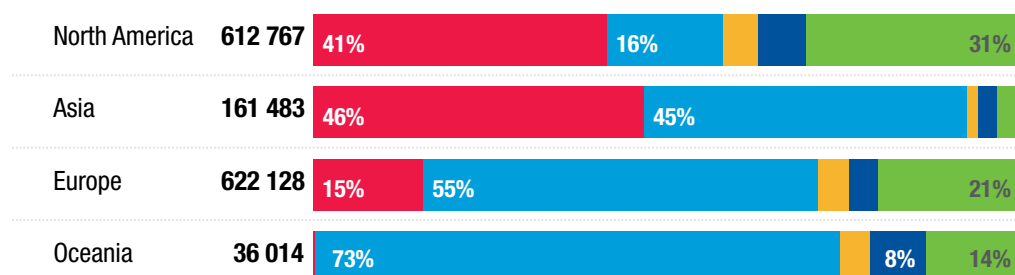
Sectoral share of regional strategic greenfield investment, 2020–2025
(Millions of United States dollars)

■ Semiconductors
 ■ Artificial intelligence and infrastructure
 ■ Advanced technologies
■ Critical minerals
 ■ Energy transition

Developing Economies



Developed Economies



Source: UNCTAD based on information from The Financial Times Ltd. and fDi Markets (www.fDimarkets.com).

The development gap progressively widens as geoeconomically contested sectors are precisely those with the highest potential to drive green structural transformation and climate-resilient development (Hauge,

2023). Within sectors and value chains, disparities may be even greater for women, given the barriers of gender discrimination and ingrained labour hierarchies (box III.1).

Geoeconomically contested sectors have the highest potential to drive green structural transformation and climate-resilient development

Box III.1 The gender dimensions of the industrial policy landscape

The industrial policy race carries a distinct gender dimension. The policies of leading economies, such as the semiconductor strategy of China, the CHIPS and Science Act in the United States or the Chips Act in the European Union, concentrate investment not only in strategic sectors where women are already underrepresented but also in specific nodes where women's representation is lowest (IFC, 2026; Hartwich et al., 2026).

This is illustrated by the semiconductor global value chain, where women account for just 20 to 29 per cent of the workforce (Accenture and GSA, 2024). Only 54 per cent of semiconductor companies publicly commit to equal opportunity measures for women, suggesting it is not an industry priority (Chu and Chen, 2025). At the production end, many developing economies engage in lower-value functions in assembly, testing and packaging, with limited scope for women to develop skills and earn higher incomes (Pham and Jinjarak, 2023; UNCTAD, 2024c).

In electronics manufacturing more broadly, women make up most of the labour force but work mainly in assembly line jobs marked by long hours, high shares of temporary and contract employment, limited training and low pay (UNCTAD, 2024c). Design, fabrication and engineering roles remain male-dominated and concentrated in higher-income economies (ILO, 2025). At the other end of the value chain, women are similarly marginalized in the extraction of raw minerals that feed digital and semiconductor production. Of some 21.4 million workers in mining and quarrying globally, only 3.1 million, or less than 15 per cent, are women. Those in the sector are underrepresented in technical, professional and managerial roles despite higher average educational attainment. They face greater risks of job losses in downturns and a persistent, significant pay gap. Facilities and equipment designed around men, weak enforcement of parental leave and prevalent gender-based discrimination further constrain their participation and retention (UNCTAD, 2024c).

Gender asymmetries extend beyond the production chains of these strategic sectors. For example, an estimated 12.9 million women, alongside many children, work informally managing the e-waste generated by digitalization, exposing them disproportionately to the associated health risks (UNCTAD, 2024b). In supply chains and transportation globally, while women's representation has grown faster in senior management than in middle management, they still account for only 32.5 per cent of employees overall (World Economic Forum, 2025).

A gender-responsive approach to industrial policy would link upgrading strategies to gains in decent employment that are equally accessible to women, across skill levels, including in science, technology, engineering and mathematics (STEM) and other fields where they traditionally lag (UNCTAD, 2021, 2023a and 2025a). Such an approach would also stipulate enforceable labour standards on equal pay and non-discrimination, including in any fiscal incentives.

Besides the three leading economies, a few developed and developing countries are active participants in the industrial policy race

The breakdown of industrial policy measures by implementing jurisdiction shows shifts in positions as geoeconomic competition has gained speed (figure III.9). The United States has moved to the top, doubling the average annual number of measures, while China has moved to the second position, with an increase of only 74 per cent. The European Union, which joined the race

later, has climbed from tenth to sixth; its average annual number of supranational measures has more than tripled. Besides the three leading economies, a few other developed and developing countries are active participants in the race: the first group includes Australia, Canada, Japan and the United Kingdom, and the second comprises Brazil, India and the Russian Federation.



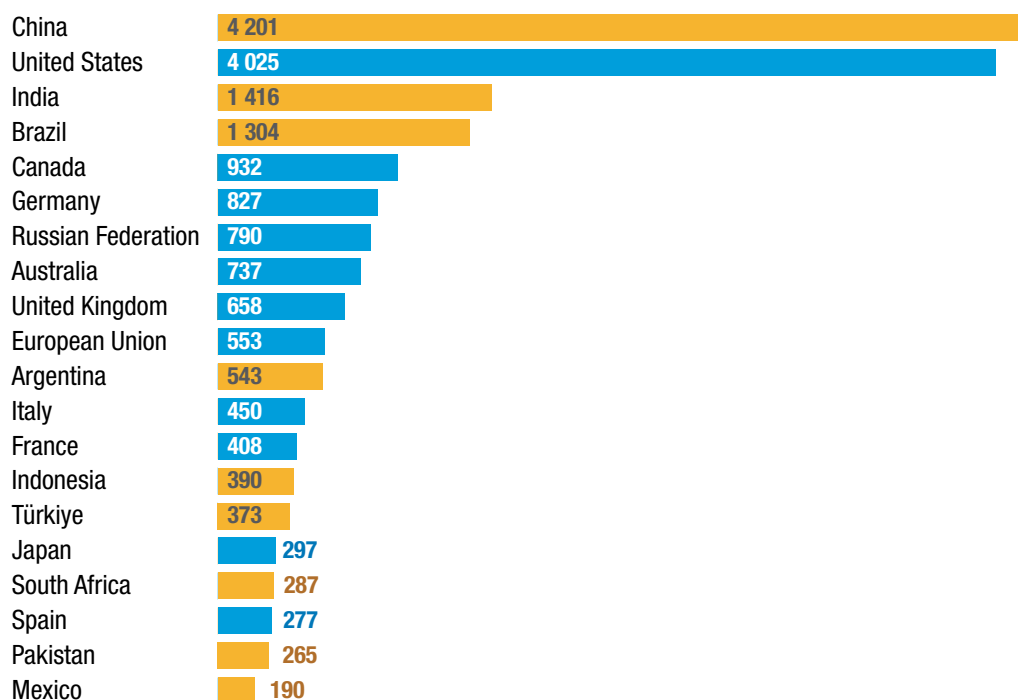


Figure III.9

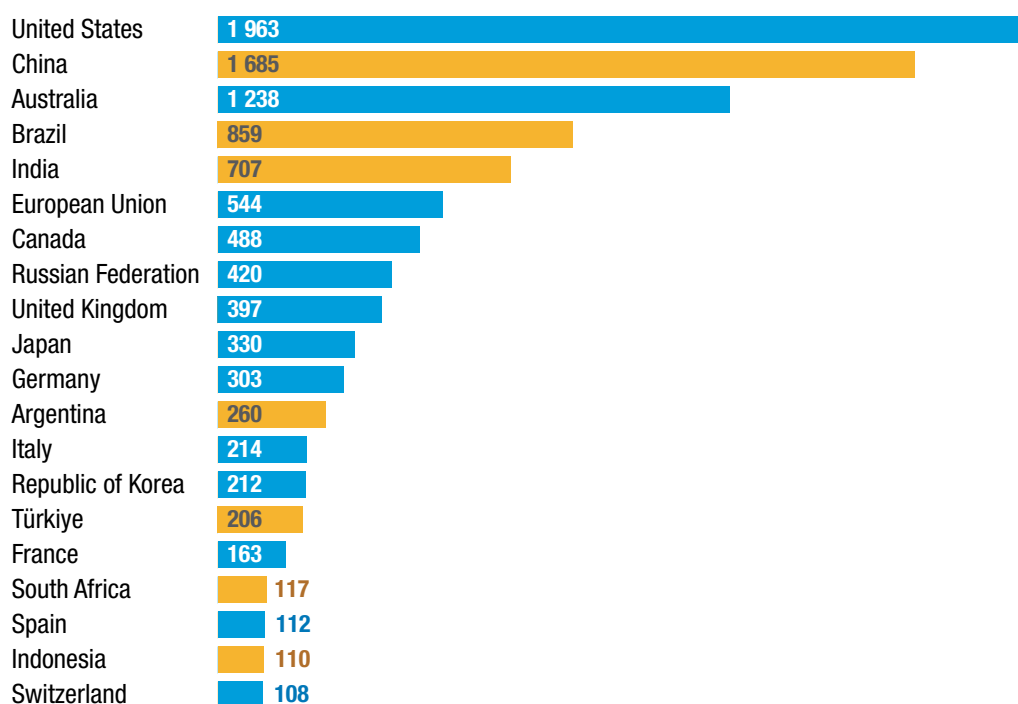
Some new leaders have emerged in deploying industrial policy as a strategic tool

Top 20 jurisdictions implementing industrial policy
(Number of measures)

A. 2008–2021



B. 2022–2025



Source: UNCTAD based on NIPO.

Note: The European Union refers to supranational measures. Observations for member States refer to national measures. Blue bars refer to developed economies and yellow ones to developing economies.



2. Industrial policy and geoeconomics

The renewed interest in industrial policy as a development tool marks an intellectual shift in policy discourse (IMF, 2025b; Fernandes and Reed, 2026; World Bank, 2026a). Selective interventions were regarded with deep scepticism for nearly three decades, but a growing body of empirical evidence now shows how well-designed industrial policy can accelerate structural transformation by shifting productive resources from lower- to higher-productivity activities, broadening productive capacity and demand, deepening technological capabilities and facilitating diversification into innovative, higher-value activities (UNIDO, 2024; OECD, 2025; UNCTAD, 2012, 2016a, 2025a).

At the same time, while conceptually interesting, the current revival risks settling for more modest ambitions than today's development challenges demand. One example centres on efforts to determine "feasible" industrial policies (Fernandes and Reed, 2026). They condition ambition on three factors – government bandwidth, market size and fiscal space. Accordingly, they steer low-capacity countries towards what they call "low-risk instruments of industrial policy" (such as industrial parks and commodity export bans). Yet the purpose of industrial policy, by design, is to build the institutions and resources that countries currently lack. Treating existing constraints as permanent would restrict low-income countries to a narrow menu of options, just when they most need transformative change.

UNCTAD analytical framework applies a longer-term lens to industrial policy, viewing

it not simply as a tool for supporting specific sectors but as an instrument for building capabilities and linkages to construct a diversified production base fit for a rapidly changing world (UNCTAD, 2012, 2016 and 2025c). The impact of structural transformation is cumulative and thus necessarily backloaded over decades. Short-run cost-benefit analysis, therefore, understates the capability gains that justify proactive interventions, as illustrated, for instance, by lessons from the Malaysian semiconductor trajectory (section C).

The historical record of successful industrialization suggests that countries that have graduated to more sophisticated industrial strategies did so by strategically exceeding their initial structural conditions. The Republic of Korea and Taiwan Province of China, at moments analogous to those of many developing countries today, accumulated capabilities in design and fabrication precisely where the technological frontier was most contested. They absorbed losses and technological risks that no static feasibility assessment would have sanctioned (Wade, 2015).

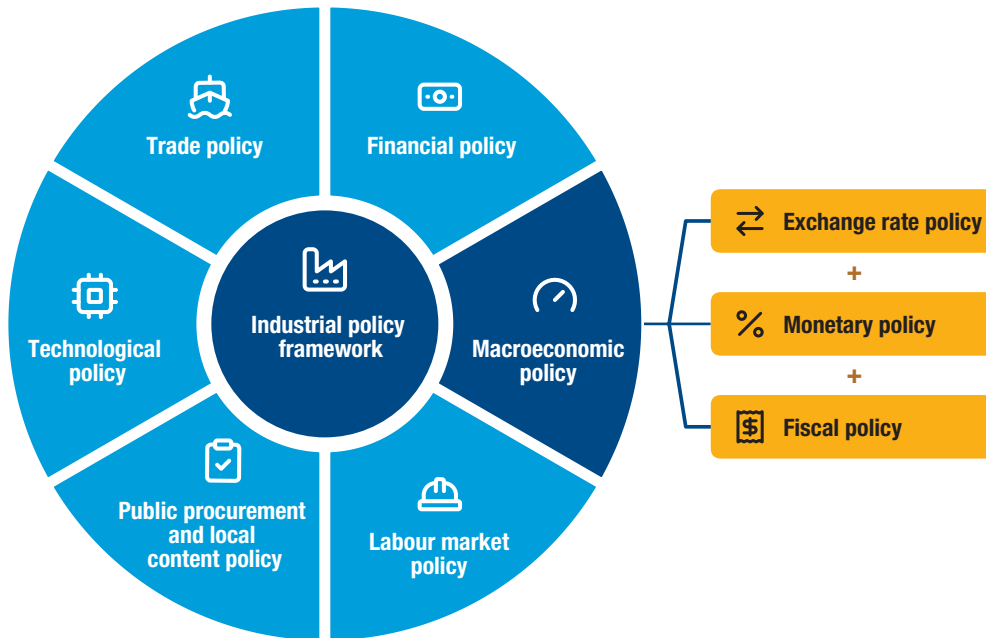
Feasibility diagnostics limited by static assumptions may also fail to capture the dynamic evolution of market forces and technological innovation, which can influence the long-term viability of sectors (UNCTAD, 2025b). The analytical task is to identify how countries can relax their constraints, both domestic and systemic, through regional integration, climate and development finance, technology cooperation and carefully sequenced intervention. This calls for reconceptualizing industrial policy as a framework of cross-sector initiatives spanning several policy domains (figure III.10).





Figure III.10

Reconceptualizing industrial policy as a framework of cross-sector initiatives spanning several policy domains



Source: UNCTAD.

UNCTAD approach offers a complementary perspective on evaluating industrial policy over the time horizon that its logic requires. Feasibility should be assessed dynamically with explicit attention to both the domestic constraints that policy may mitigate and the systemic ones it cannot reshape alone.

Instruments of industrial policy

The NIPO classification of industrial policy instruments (Evenett et al., 2024) applies multiple categories based on trade policy instruments (export barriers, import barriers,

domestic subsidies and so forth). Based on the NIPO database, UNCTAD (2026c, chapter III) classifies industrial policy along two dimensions to clarify differences in design, scale and potential investment effects. First, they may be promotional (e.g., subsidies or tax incentives) or defensive (e.g., import and/or export restrictions). Second, they may be general (industry-wide) or selective (firm-specific).

This chapter extends this analysis to the macroeconomy, highlighting the dimensions and complementarities of the different policy types on which industrial policy relies in the current geoeconomic context (table III.2).⁹

⁹ NIPO “technology policy” category is not exhaustive: it classifies measures by instrument form, not intent. A technology-targeted measure delivered as a subsidy, for instance, is coded as financial rather than technology policy.





Table III.2
Emerging arenas for geoeconomic statecraft

Policy type	Category	Instruments
Trade policy	Exports	Export bans Export licensing requirements Export quotas Export tariff quotas Export tax Local supply requirements for exports Export-related non-tariff measures Foreign customer limit
	Imports	Anti-dumping Anti-subsidy Import ban Import licensing requirements Import monitoring Import quotas Import tariffs Import tariff quotas Internal taxation of imports Import-related non-tariff measures Special safeguards Anti-circumvention
Financial policy	Domestic financial policy	Capital injection and equity stakes (including bailouts) Financial grants Production subsidies Interest payment subsidies Loan guarantees State loans State aid, unspecified
	Regulations on foreign direct investment	Entry and ownership rules Financial incentives Treatment and operations
	Capital controls on financial flows	Controls on commercial transactions and investment instruments Controls on credit operations Controls on personal transactions
Public procurement and local content policy	Public procurement	Public procurement access Public procurement Public procurement localization
	Localization content	Local content incentives Local content requirements Local operations incentives Local operations requirements Local value-added incentives Localization
Technological policy		Intellectual property protection
Labour market policy		Labour market access Post-migration treatment
Fiscal policy		In-kind grants Tax or social insurance relief State aid
Exchange rate policy	Exchange controls	Repatriation and surrender requirements Trade payment measures
Monetary policy		Price stabilization

Source: UNCTAD based on Evenett et al. (2024).



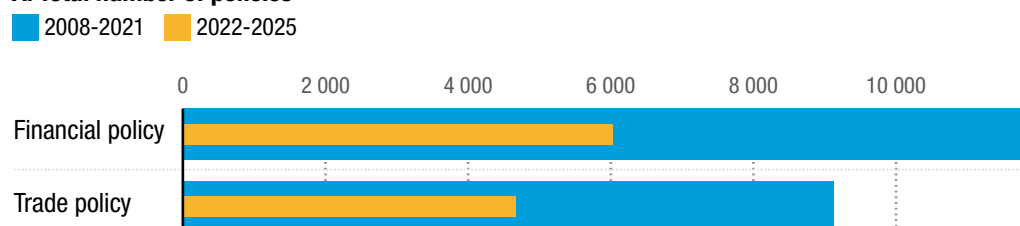
Such recategorization confirms trade policy's role as a core element of economic statecraft in both developed and developing countries. It also reveals the central, albeit often overlooked, role of financial policy.

Between 2008–2021 and 2022–2025, the annual average numbers of both trade and financial policy measures were multiplied by 2.2, from 702 to 1,556 and from 915 to 2,009, respectively (figure III.11).

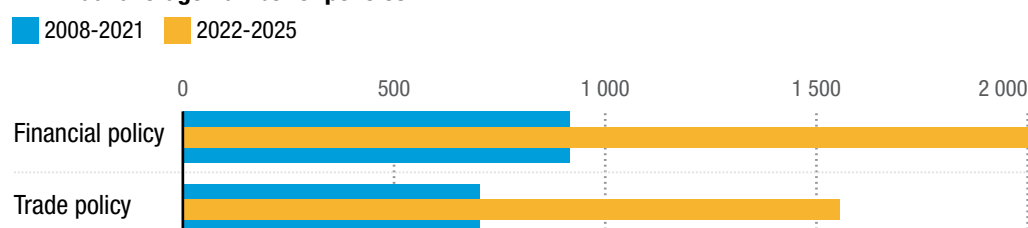
Figure III.11 The rising use of financial and trade policies

Industrial policy observations by policy category
(Number)

A. Total number of policies



B. Annual average number of policies



Source: UNCTAD based on NIPO.

Since 2010, financial policy has been comparatively more important in developed economies; trade policy has featured more prominently in developing countries (figure III.12). Yet the two groups differ internally. In developed countries outside the United States and European Union, financial policy shares fell slightly between 2008–2021 and 2022–2025, while trade policy shares rose. In the United States, financial policy led in the first period but lost ground in the second to public procurement and local content

measures. In the European Union, financial policy became even more prominent.

In developing countries (excluding China), the share of financial policy increased modestly, along with the shares of fiscal policy, public procurement and local content. The trade policy share fell but remained dominant. Conversely, for China, financial policy not only remained the main pillar but expanded to around 90 per cent (figure III.13).



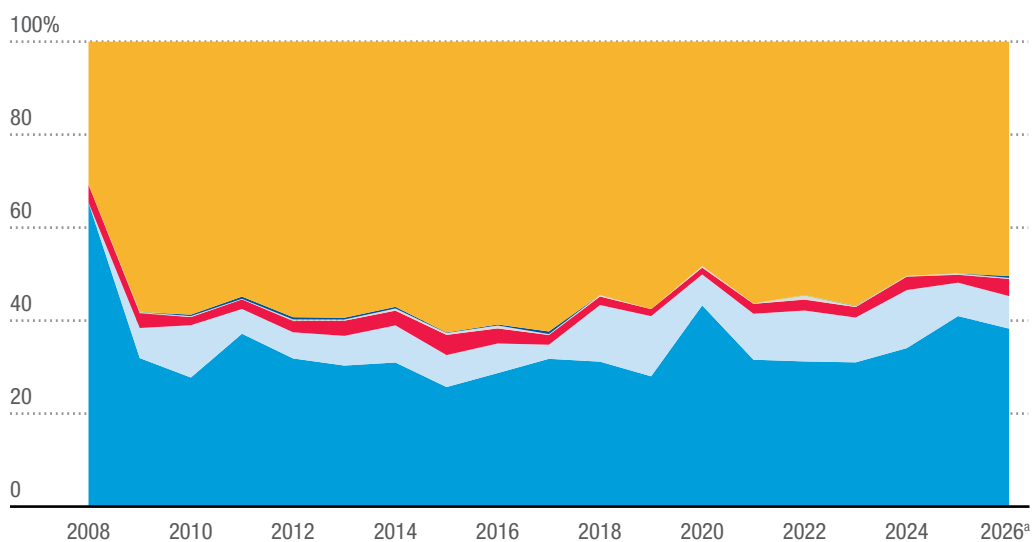
Figure III.12

The importance of each industrial policy type varies among economies

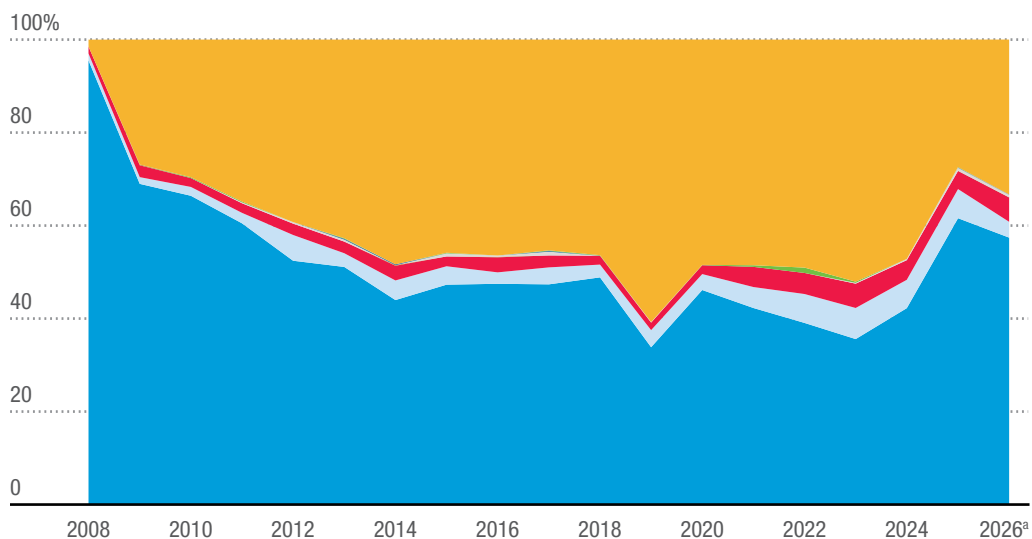
Policy shares
(Percentage)

A. Developed economies

Trade policy Public procurement and local-content measures Fiscal policy Technological policy
Other Labour market policy Exchange rate policy Financial policy



B. Developing economies



Source: UNCTAD based on NIPO.

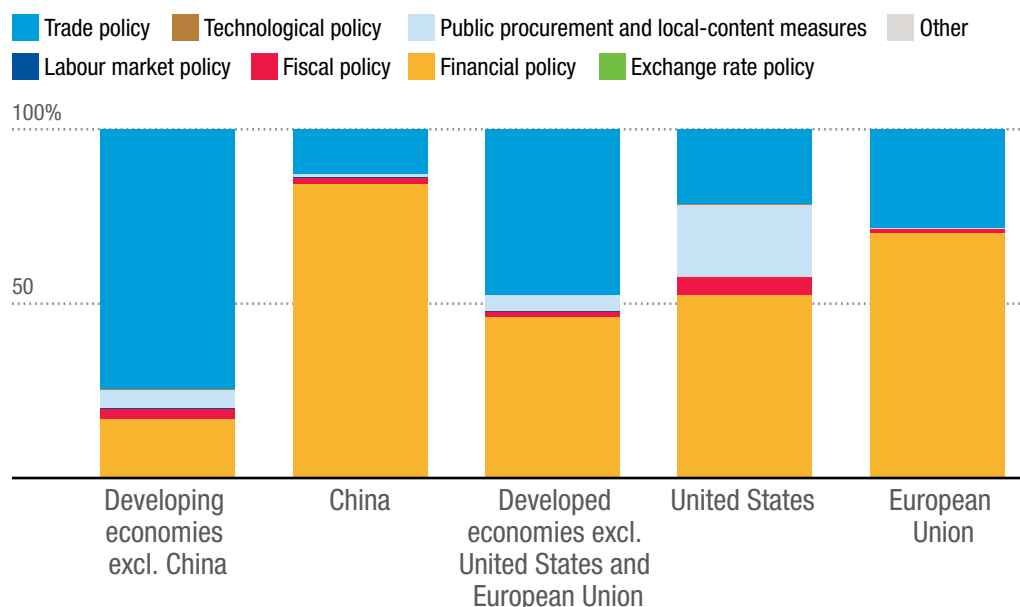
^a Projection.



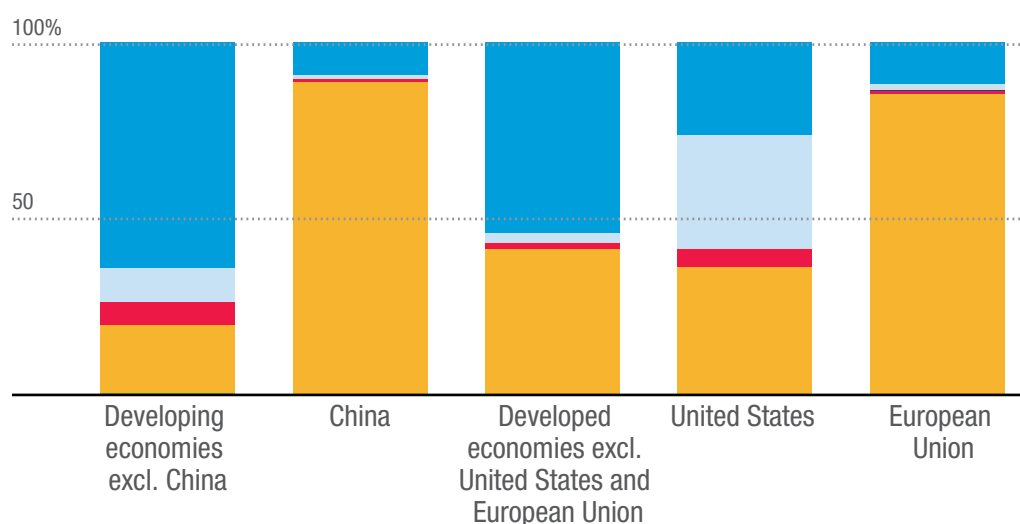
Figure III.13
Financial policy is more pronounced in developed countries; developing countries, outside China, emphasize trade policy

Policy shares, by country group
(Percentage)

A. 2008–2021



B. 2022–2025



Source: UNCTAD based on NIPO.

The use of different categories of financial policy varies across groups, countries and between the two periods. Financial policy combines external (regulations on foreign direct investment and capital controls on financial flows) and internal (domestic financial policy) dimensions.

Domestic financial policy measures predominated, across the board, in both periods. From 2008 to 2021, regulations on foreign direct investment were irrelevant for most countries and groups, except for “other developing countries” (figure III.14.A). In the following period,

Among capital control measures, advanced economies turned to equity caps; Brazil and least developed countries rely on domestic measures

from 2022 to 2025, as the geoeconomic race accelerated, the European Union began to use this instrument, increasing its share. Similar patterns were evident in the United States and other developed countries, where foreign direct investment screening expanded largely on national security grounds (UNCTAD, 2025b). Moreover, capital controls on financial

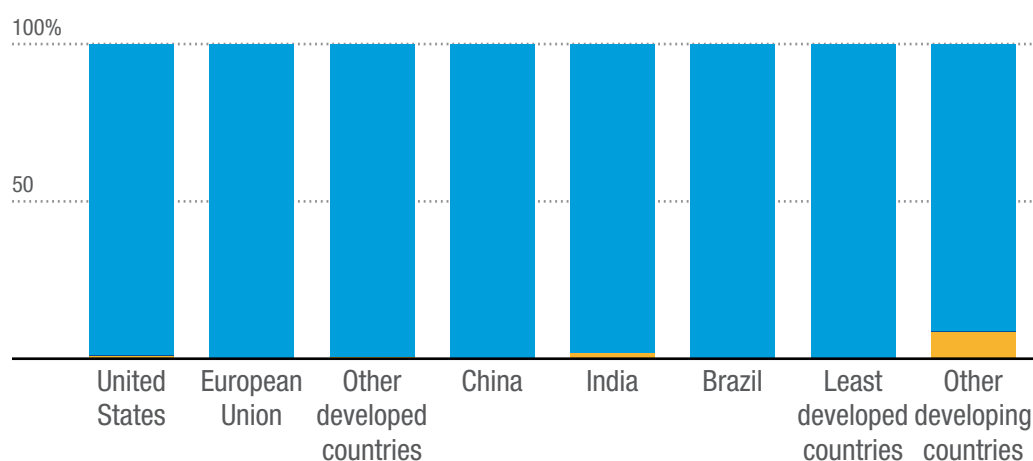
flows (such as on equity participation) started to be used as an instrument of economic statecraft, mainly in the United States and European Union. Brazil, China, India, other developing countries and the least developed countries continued to rely totally or mainly on domestic financial policy measures (figures III.14 and III.15).

Figure III.14 The use of capital controls as an instrument of industrial policy has increased in developed economies

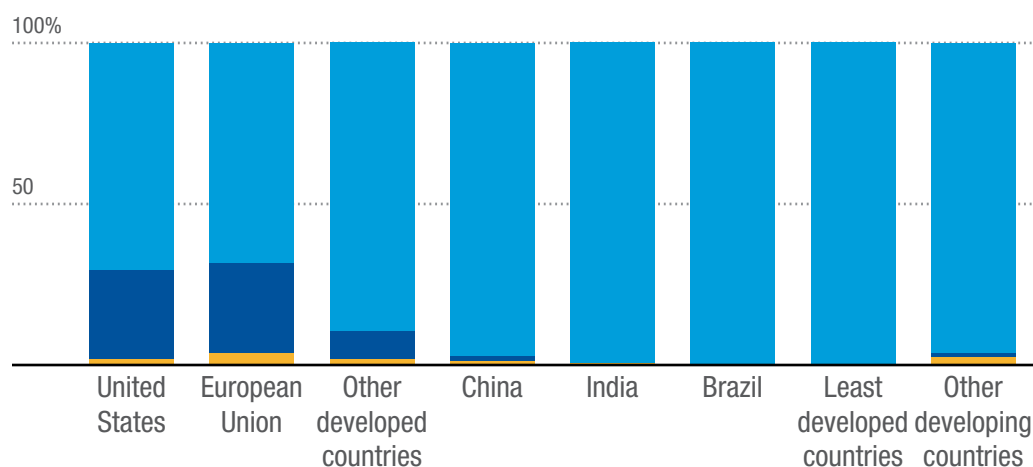
Composition of financial policy types by country and country grouping
(Percentage)

A. 2008–2021

- Domestic financial policy
- Capital controls on financial flows
- Regulations on foreign direct investment



B. 2022–2025



Source: UNCTAD based on NIPO.



Figure III.15

Developing countries continue to rely on domestic financial policy measures

Intensity of financial policy choices by country and country grouping
(Number of measures)

A. 2008–2021

	United States	United Kingdom	European Union	Other developed countries	China	India	Brazil	Other developing countries
Domestic financial policy	2 086	254	136	4 801	3 532	243	335	398
FDI: Entry and ownership rule	13	1		23	6	5		15
FDI: Treatment and operations, nes	5			3	1			20
Capital controls on financial flows	11							1
FDI: Financial incentive				5				2

Corporate control order

B. 2022–2025

	United States	United Kingdom	European Union	Other developed countries	China	India	Brazil	Other developing countries
Domestic financial policy	501	212	193	2 433	1 455			230
Capital controls on financial flows	198	61	79	195	23			3
Corporate control order	1	2		7		157	178	
FDI: Treatment and operations, nes	6		7	34	6	1		1
FDI: Entry and ownership rule	4		4	12	15			4
FDI: Financial incentive	3	1						1

Source: UNCTAD based on NIPO.

Note: FDI refers to foreign direct investment.



Seen this way, industrial policy, and its financial dimension in particular, takes on a clear geoeconomic role. It is a toolkit that developed economies deploy ever more actively, while most developing countries, the least developed ones above all, are held back by structural constraints that are macroeconomic, financial and institutional. In developing countries, the external and internal dimensions of financial policy are closely linked. Capital controls mitigate macrofinancial volatility from the dollar-anchored financial system (UNCTAD, 2025b) and allow them to use domestic financial

policy to pursue industrial goals. Foreign direct investment regulation, in turn, can serve skills development, access to new technologies and the creation of domestic linkages, all essential to diversifying into more dynamic, productive sectors and moving up the value chain. This matters most for commodity-dependent developing countries, which account for 66 per cent of the total (UNCTAD, 2025c). The next section turns to sectoral case studies for policy lessons on value chain integration in the current geoeconomic context.

C. Integration strategies in the current geoeconomic context

Section C focuses on three country case studies on the Democratic Republic of the Congo, Mexico and Malaysia. They explore lessons from different sectoral domains in value chain integration.¹⁰ Each case emphasizes that internal conditions matter for development trajectories. Yet throughout the macroeconomy, geoeconomic competition increasingly shapes countries' ability to sustainably convert international integration into development gains and, thus, progress towards their development frontier.

1. Democratic Republic of the Congo: The dilemmas of a resource advantage

The Democratic Republic of the Congo illustrates the constraints of resource-based development. It also points to the importance of appropriate industrial

policies for resource-rich developing countries to leverage integration into global value chains amid technological innovation and geoeconomic shifts.

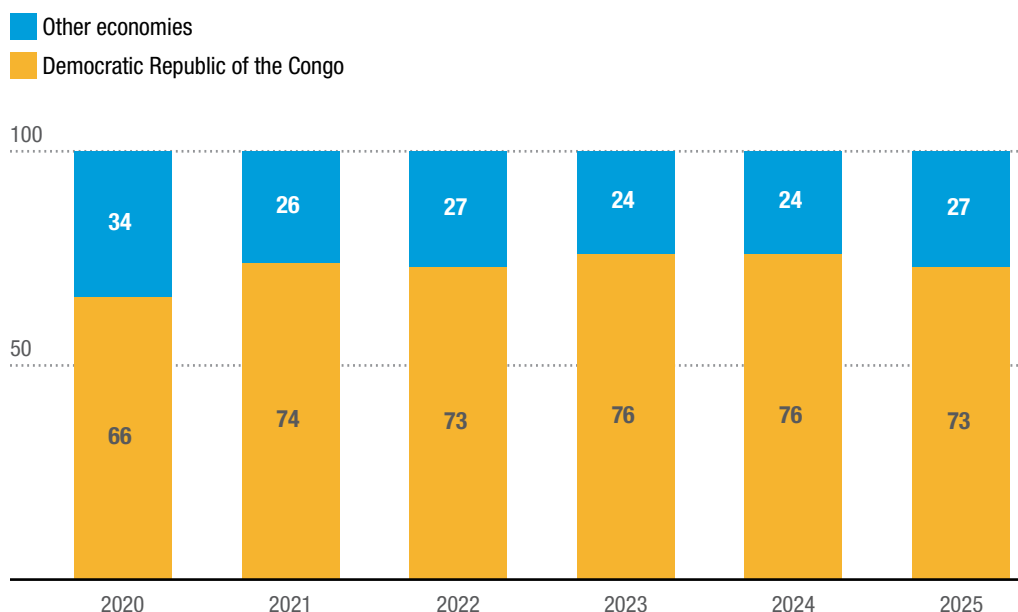
Cobalt is an essential input in lithium-ion battery manufacturing, making this endowment critical to producing electric vehicles, consumer electronics and grid-scale energy storage, all products of the green transition. The Democratic Republic of the Congo accounted for approximately 73 per cent of global cobalt mine production in 2025 (figure III.16) and holds more than half of proven reserves (U.S. Geological Survey, 2025). Yet the country and Africa as a continent capture less than 1 per cent of the value embedded in green supply chains (IEA, 2025b). Among the structural asymmetries that persist along the cobalt value chain, two dimensions are particularly relevant for the Democratic Republic of the Congo: its position and industrial ownership.

Most of the world's cobalt is mined in Africa; almost none of its value stays there

¹⁰ Countries were chosen based on two criteria. The first was their position in terms of domestic capabilities and external exposure to geoeconomic dynamics, with the Democratic Republic of the Congo illustrating a resource-dependent economy facing acute technological and financial constraints amid intensifying geoeconomic competition over critical minerals; Mexico illustrating an economy leveraging preferential market access amid changing trade dynamics; and Malaysia illustrating technological upgrading efforts from an established global value chain position. The second consideration was regional diversity across Africa, Asia and Latin America. The cases are non-exhaustive and not intended to support cross-case inferences.

Figure III.16 The Democratic Republic of the Congo dominates global cobalt mine production

Share of global mined cobalt supply
(Percentage)



Source: UNCTAD based on Cobalt Institute.

On positioning, the economy remains concentrated in the low-value upstream node of cobalt's global value chain, primarily through raw ore extraction. Production processes, such as precursor chemical manufacturing, cathode material production, battery cell fabrication and final assembly, require advanced chemical engineering, precision manufacturing capabilities and specialized technological expertise. The higher value-added stages of processing and manufacturing are concentrated in economies with strong industrial and technological capabilities, notably, China, Finland and Indonesia.¹¹ Given limited domestic refining and processing capacity, the Democratic Republic of the Congo

captures only a limited share of the value generated along the cobalt value chain, despite its substantial resource endowment (Cobalt Institute, 2026).

On ownership, foreign multinational corporations control nearly all Congolese cobalt mining, with the share of domestic-owned production shrinking to 1 per cent in 2025 (figure III.17). These asymmetries carry externalities. While most value addition occurs further along the chain, many environmental and social costs concentrate at the extraction stage, including documented impacts on local livelihoods, working conditions and public health (OECD, 2019 and 2023a).

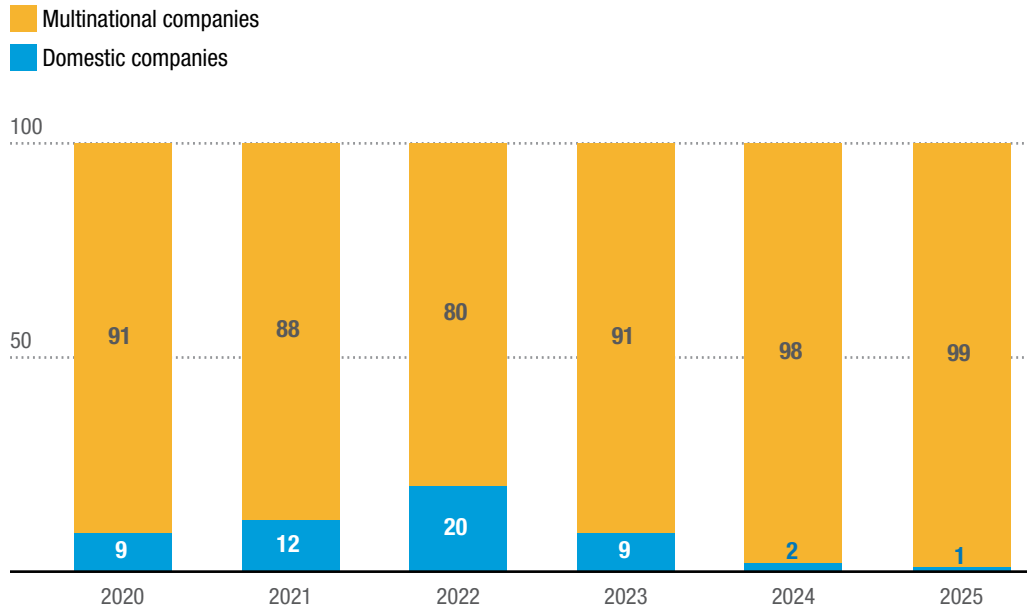
¹¹ In 2025, Chinese mining enterprises (notably CMOC and CNMC) accounted for the largest share of mined cobalt extraction in the Democratic Republic of the Congo. CMOC alone represented 39.5 per cent of national output, followed by the Swiss-based Glencore and Kazakhstan-headquartered Eurasian Resources Group. In terms of downstream processing, China remained the dominant global producer of refined cobalt, accounting for 78.6 per cent of total output, followed by Finland (6.6 per cent) and Indonesia (3.2 per cent) (Cobalt Institute, 2026).



Figure III.17

International mining companies dominate cobalt mining in the Democratic Republic of the Congo

Share of cobalt mine production, by company type
(Percentage)



Source: UNCTAD based on Cobalt Institute.

Note: Domestic companies refer to domestic firms engaged in cobalt production through artisanal and small-scale mining. Multinational companies refer to multinational firms engaged in cobalt production through large-scale mining operations.

Beyond these structural constraints, the Congolese cobalt sector faces acute external exposure to market volatility and technological disruption. While long-term global demand forecasts remain robust, cobalt prices are subject to cyclical instability and downturns that weaken export revenues. At the same time, the rapid evolution of downstream battery manufacturing widens the technological threshold required for entry, making it increasingly difficult for the country to integrate into higher-value processing nodes.

Critically, the emergence of alternative battery technologies poses a major substitution risk to cobalt-intensive products. Cobalt-free chemistries, such as lithium iron phosphate and sodium-ion, are under active commercial development. Should these scale up, global cobalt demand could potentially contract, diminishing the strategic position of the Democratic Republic

of the Congo before any downstream upgrading strategy might be implemented. This illustrates how the planning horizon can become compressed. Technological instability diminishes the window for a resource-based upgrading strategy to deliver results. Limited institutional and industrial capacities compound the risks.

In response to persistent cyclical downturns and variations in the international price of cobalt, the Democratic Republic of the Congo has adopted a range of trade restrictions and regulatory instruments to embed local benefits and domestic value addition. Since 2013, it has periodically restricted exports of unprocessed cobalt concentrates, including through export bans introduced or renewed in 2013, 2019, 2023, 2025 and 2026 (*Reuters*, 2026; World Bank, 2026b). The objective has been twofold: to curtail raw material leakage by forcing multinational operators to develop

Technological instability shortens the window for a resource-based upgrading strategy to deliver results



in-country smelting and refining capacity, and to exert sovereign control over supply flows to support global market benchmarks.

Implementing these measures, however, has run up against severe structural challenges. Constrained by acute domestic smelting deficits and energy shortages, the Government was repeatedly forced to grant exemptions and temporary waivers to prevent widespread shut-ins and safeguard fiscal revenues. The regulatory stance has accordingly evolved towards a diversified policy toolkit (IEA, 2026a).¹² While the country maintains baseline bans on unprocessed concentrates, it has selectively deployed company-specific export freezes as a targeted compliance mechanism to discipline non-compliant operators and renegotiate key contractual terms (Natural Resource Governance Institute, 2024).¹³ Concurrently, regulations have transitioned from open-ended blanket suspensions towards centralized, managed export quota regimes, using volume caps to actively steer physical supply balances and stabilize international price dynamics (*Reuters*, 2022; IEA, 2026a; Natural Resource Governance Institute, 2024; Democratic Republic of the Congo Ministry of Mines, 2023).¹⁴ Complementing these trade measures, the Government has restructured fiscal and valuation frameworks governing mining by-products to curb transfer pricing,

capture ancillary revenue streams and ensure that the economic returns from co-extracted critical minerals accurately reflect real market benchmarks (IMF, 2025a).

As in many resource-rich countries, the experience of the Democratic Republic of the Congo shows that global competition for critical minerals can intensify, rather than resolve, contestation over extraction. This compounds the long-standing challenge of translating resource endowments into development gains in four ways.

First, it increasingly requires an alignment between external positioning within value chains and internal capacity. Second, the availability of policy instruments is not in itself enough for sustained structural transformation, which requires an industrial policy framework and cross-sector coordination to build productive capacity, generate decent employment, and create targeted opportunities for women's economic empowerment and entrepreneurship.

Third, identifying realistic pathways to pursue diversification and support long-term development requires minimizing the additional risks of a “finance curse” associated with many commodity-dependent economies. The finance curse describes how an oversized financial, insurance and real estate sector draws capital, talent and policy attention away from

¹² Democratic Republic of the Congo, Mining Code (Law No. 007/2002, amended by Law No. 18/001 of 2018) governs all mineral prospecting, exploration and exploitation. Article 108bis mandates that holders of mining exploitation rights or permanent quarry authorizations must process their extracted mineral substances into marketable products within the national territory, either in their own facilities or through approved local processing entities. Article 7 sets the broader foundational definitions and state objectives for developing local processing capacity and national value addition. See <https://www.a-mla.org/country/democratic-republic-congo>.

¹³ A prominent example of this compliance mechanism was the temporary customs and export suspension enforced against Tenke Fungurume Mining between July 2022 and May 2023. State-owned enterprise Gécamines and regulatory authorities leveraged targeted export blocks during a dispute over mineral reserve declarations, local processing compliance and royalty valuations, ultimately securing an \$800 million settlement agreement, enhanced state profit-sharing and updated commercial terms (Natural Resource Governance Institute, 2023; Extractive Industries Transparency Initiative, 2023).

¹⁴ Regulatory and Control Authority for Strategic Mineral Substances (Autorité de Régulation et de Contrôle des Marchés des Substances Minérales Stratégiques – ARECOMS), Decision n° 004/ARECOMS/2025 established an annual quota allocation mechanism (capped at 96,600 metric tons for cobalt) to actively regulate physical export flows and counter international price volatility. See <https://www.iea.org/policies/29138-drc-arecoms-decision-no-0042025-cobalt-quota-system>. The Interministerial Decree of June 2026/August 2026 Orders (signed by Ministers of Mines, Foreign Trade, and Economy) prohibited the export of raw copper and cobalt concentrates while establishing discretionary, time-bound waiver systems, replacing prior 2020/2023 exemptions (Kasongo and Adombila, 2026)



productive activity, entrenching commodity dependence rather than enabling diversification. By analogy to the “resource curse”, beyond a certain point, the growth of finance ceases to support development and begins to constrain it. The more a financial sector expands around commodity rents and short-term returns, the less an economy diversifies into higher-productivity sectors (UNCTAD, 2024b and 2026b).¹⁵

Fourth, viable diversification pathways must operate across multiple geographic and institutional scales. In critical minerals, globally, the priority is upgrading intermediate mineral processing to export higher-value, battery grade chemical inputs in expanding clean energy supply chains. In the Democratic Republic of the Congo, the country can leverage regional frameworks under the Southern African Development Community (SADC) and African Continental Free Trade Area (AfCFTA) to develop integrated cross-border value chains, such as joint battery precursor manufacturing and shared energy infrastructure with neighbouring States. Least developed countries near the Democratic Republic of the Congo could build productive capacities and foster structural transformation by integrating into regional supply networks for maintenance, light assembly and cross-border transport corridors tied to downstream processing (UNCTAD, 2026b). Domestically, cultivating local supplier ecosystems and industrial manufacturing offers critical opportunities for import substitution, potentially enabling the country to replace foreign-sourced mining consumables, light industrial inputs and consumer goods while building broader productive resilience.

2. Mexico: Balancing cross-border manufacturing networks

Mexico illustrates a pathway to upgrading that runs through deeper participation in regional value chains and the reorganization of global production. Geographical proximity and a preferential regional trade architecture have established Mexico as an indispensable node within North American production systems. The country is deeply embedded within cross-border manufacturing networks, particularly across the automotive, electronics and agribusiness sectors (UNCTAD, 2026c).

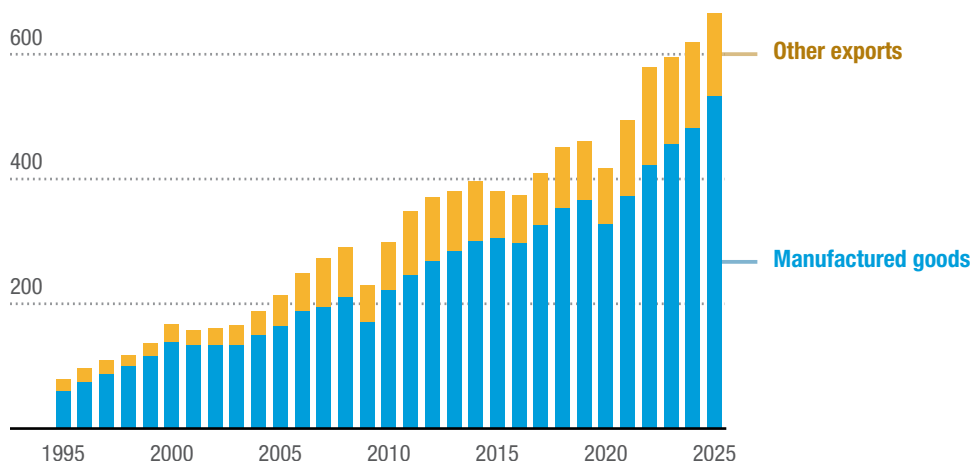
In recent decades, this trajectory has been reinforced by sustained integration into North American supply networks, a diversified manufacturing base and targeted initiatives to attract foreign investment into strategic industrial corridors. As an outcome of this structural orientation, manufactured goods have constituted the overwhelming anchor of the country’s external trade. Since the mid-1990s, when the North American Free Trade Agreement first came into force, manufactures have consistently accounted for the vast majority of Mexican total merchandise exports, regularly exceeding 80 per cent in recent years (figure III.18).

To leverage this positioning and capture emerging opportunities from regional value chain realignment, the Government has advanced targeted industrial policies. These aim to upgrade the national export portfolio towards technologically intensive sectors and deepen integration into higher-value segments of global production networks. One strategy is Plan México, which seeks to attract \$100 billion in annual foreign direct investment across priority sectors, notably automotive and semiconductors. It is backed by a \$1.5 billion fiscal incentive package (UNCTAD, 2025b).

¹⁵ UNCTAD developed a rapid assessment methodology that supports governments in identifying opportunities for value addition and diversification within and beyond critical mineral value chains. Implemented in Madagascar, Namibia and Zambia, the approach provides governments with a practical tool for strategic diversification by linking global market opportunities to existing domestic productive capabilities and policy priorities. See more at <https://unctad.org/project/critical-energy-transition-minerals-in-southern-africa>.

Figure III.18 Manufactured goods continue to dominate the Mexican export basket

Exports by product category
(Billions of United States dollars)



Source: UNCTAD based on UNCTADstat.

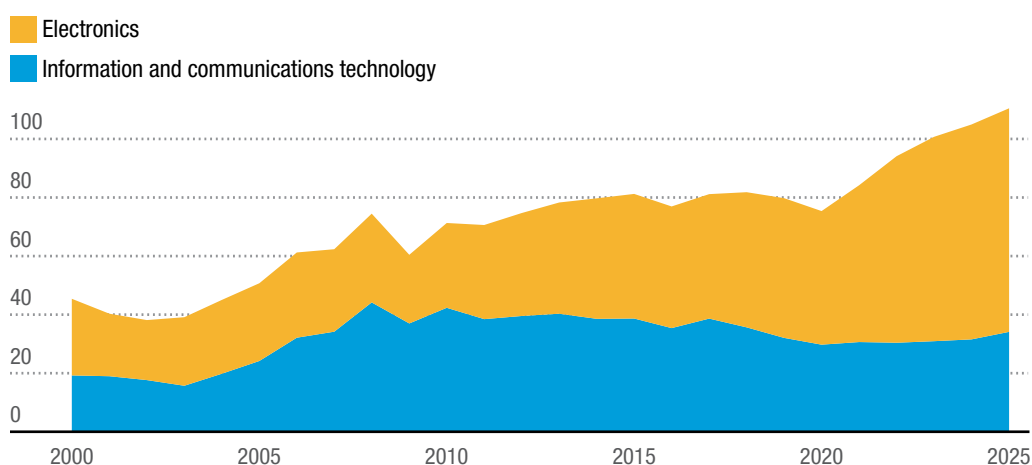
Note: Manufactured goods, based on the Standard International Trade Classification (SITC), include SITC sections 5–8, excluding division 68 and group 667.

These policy initiatives, along with expanding cross-border integration, have supported growth in higher-value manufacturing exports. Between 2000 and 2025, exports across the information and communications

technology (ICT) and electronics sectors expanded from \$45 billion to \$110 billion (figure III.19), positioning Mexico as the sixteenth largest exporter of semiconductor devices globally in 2025.

Figure III.19 Mexican export transition towards higher-value products

Exports of information and communications technology and electronics products
(Billions of United States dollars)



Source: UNCTAD based on UNCTADstat.

Note: Electronics products include SITC 77 (electrical machinery, apparatus and appliances, and electrical parts thereof); information and communications technology (ICT) includes SITC 76 (telecommunications and sound-recording and reproducing apparatus and equipment).

In Mexico, rapid export growth has not translated into commensurate domestic value creation in ICT and electronics

Rapid export growth, however, has not translated into commensurate domestic value creation. The ICT and electronics sectors in Mexico remain fundamentally reliant on imported intermediate components, recording one of the highest intermediate import intensities (85.3 per cent) in the country's manufacturing (OECD, 2023b). Foreign value added accounts for 70.7 per cent of the gross value of these exports, underscoring that headline trade performance continues to be driven primarily by imported content rather than local industrial linkages (INEGI, 2023; OECD, 2026). Consequently, the surge in high-value exports has largely bypassed domestic production chains, with limited impacts in stimulating backward linkages, catalysing

industrial upgrading or establishing an integrated domestic supplier base.

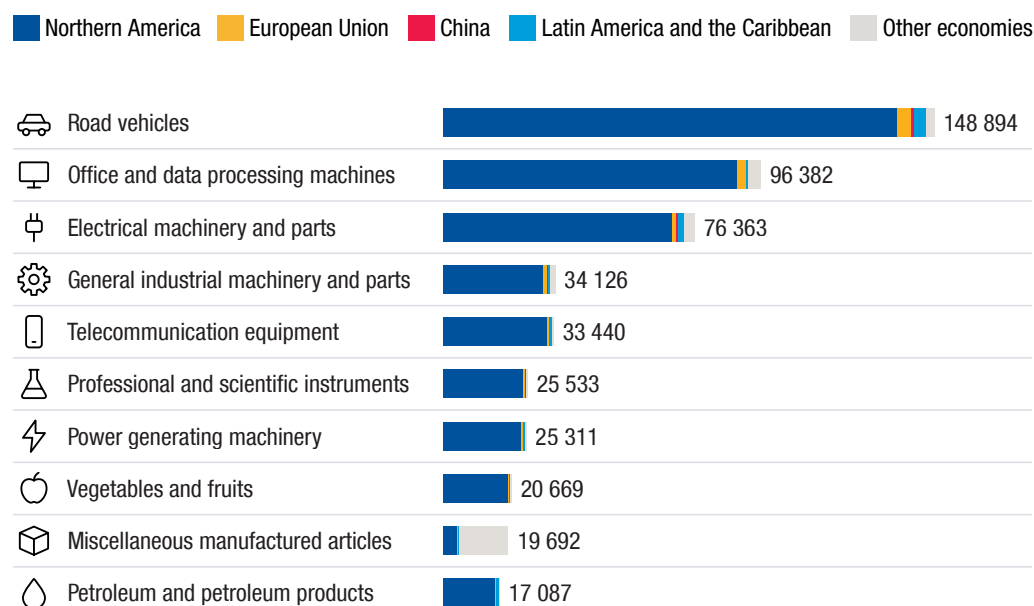
The automotive sector reflects this same structural tension between deepening cross-border integration and persistent external vulnerability. Mexico has consolidated its standing as a specialized assembly platform tied to the North American market (figure III.20), with the United States market absorbing nearly 80 per cent of Mexican light vehicle exports in 2024 (United States, International Trade Administration, 2026). As global automotive production reorganizes around electric vehicles and advanced mobility supply chains, the established industrial ecosystem of Mexico offers an advantageous base for attracting new manufacturing.



Figure III.20

Automotive manufacturing reinforces the position of Mexico in globally bound export supply chains

Top 10 merchandise categories in exports of Mexico, 2025
(Millions of United States dollars)



Source: UNCTAD based on UNCTADstat.



Nevertheless, gross export growth does not equate to domestic value creation. Both the electronics and automotive sectors remain highly dependent on imported intermediate inputs, while high market concentration leaves the Mexican economy exposed to geoeconomic shocks and trade uncertainty. The ongoing renegotiation of integration terms, most notably through the 2026 United States–Mexico–Canada Agreement Joint Review, has placed automotive rules of origin, regional value content thresholds and economic security criteria at the centre of bilateral negotiations, narrowing domestic industrial policy space and introducing regulatory uncertainty.

Beyond trade policy dynamics, industrial upgrading in Mexico is constrained by the industrial policies of its primary trading partners and persistent domestic capability deficits. Technology transfer is circumscribed by the home jurisdictions and proprietary strategies of leading multinational enterprises, which retain core technological assets and intellectual property within parent entities, effectively precluding the cross-border dissemination of critical production know-how to host economies (WIPO, 2017; Sampath and Vallejo, 2018; World Bank, 2020; Rikap, 2022; Grimes and Du, 2024).

This external technological enclosure is reinforced by domestic bottlenecks. Low levels of investment in intangible capital, such as indigenous intellectual property creation, software and proprietary design, continues alongside the chronic underfunding of domestic R&D and engineering capabilities. Without an autonomous innovation ecosystem, domestic firms cannot absorb foreign technologies or develop competitive upstream alternatives. The integration of Mexico into the semiconductor global value chain risks remaining structurally confined to lower-margin, labour-intensive, back-end activities, predominantly assembly, testing and packaging (OECD, 2026).

Beyond external trade challenges, Mexican long-term developmental prospects are increasingly imperilled by qualitative and quantitative deficits in capital formation, spanning both domestic and international investment channels. Domestic gross fixed capital formation has stagnated since 2012, severely impairing the economy's capacity to renew its capital stock, modernize manufacturing infrastructure and sustain productivity gains (figure III.21). Foreign investment inflows remain concentrated in the reinvestment of earnings and intercompany loan adjustments by incumbent multinational enterprises; greenfield investments and outlays for new manufacturing facilities account for only a marginal share of the total. As a result, international capital has functioned primarily as a stabilizing financial mechanism for established assembly operations rather than an engine for structural upgrading or new capital formation (INEGI, 2021, 2023 and 2025).

Technology transfer is circumscribed by home jurisdictions and the proprietary strategies of leading multinationals





Figure III.21

Mexico faces challenges in sustaining labour productivity growth

Quarterly labour productivity index, seasonally adjusted
(Average 2013 = 100)



Source: UNCTAD based on Mexico Como Vamos (2026).

The Mexican diversified manufacturing base and its deep integration into North American production networks have delivered robust export growth. Yet the gains stop short of development: weak technological transfer and domestic bottlenecks, chief among them low investment in tangible and intangible capital, continue to constrain long-term objectives. The lesson is that external trade and production networks work only when paired with domestic policies for technological upgrading, domestic value creation and broad-based capital formation.

3. Malaysia: A structural ceiling on advanced industrialization?

Malaysia, one of the leading newly industrialized countries in East Asia, shows how a developing economy can push against structural ceilings through pragmatic, state-directed industrial policy. Its long-term strategy has combined targeted fiscal incentives, domestic capability-building and public infrastructure investment sustained over five decades, starting with the establishment of export-oriented free industrial zones in Penang in the early 1970s. Since then, Malaysia

has pursued a long-term strategy of deepening its integration within the electrical and electronics global value chain while maintaining balanced economic relationships across economic partners (UNCTAD, 2002).

This multidecade industrial commitment has generated substantial macroeconomic returns. By 2025, total electric and electronic shipments reached approximately \$166.2 billion, accounting for 44.3 per cent of Malaysian total merchandise exports. Within this broader category, semiconductors are the largest segment. Malaysia has become an exporter of semiconductors and an indispensable node in global semiconductor manufacturing (Malaysia, Ministry of Investment, Trade and Industry, 2026). Building on this mature electrical and electronics foundation, Malaysia has used targeted national industrial policies to pivot its manufacturing base towards higher-value technological segments. A central pillar of this upgrading agenda is the 2024 National Semiconductor Strategy, which commits \$5.3 billion to train 60,000 engineers, expand domestic R&D and enhance industry-academia links through platforms such as the Collaborative Research in Engineering, Science and Technology Centre.



Technological deepening in Malaysia has been reinforced by deliberate spatial planning, linking dedicated industrial parks with established special economic zones to cultivate mature agglomeration clusters and cross-border corridors. The northern Penang–Kulim corridor, anchored by the Bayan Lepas industrial ecosystem and the Kulim Hi-Tech Park, remains the country's pre-eminent semiconductor and advanced packaging hub. To capture emerging opportunities on the digital and high-tech frontier, Malaysia significantly expanded its spatial policy in 2025 by formalizing the Johor–Singapore Special Economic Zone. Covering more than 3,500 square kilometres, it mobilized \$17.3 billion in investment commitments within its first nine months of operation (UNCTAD, 2026c).

With this strategy, Malaysia has secured substantial commitments by companies such as Google, Microsoft and Amazon Web Services, attracted by favourable geographical positioning, reliable energy infrastructure and an accommodating regulatory framework¹⁶ (*Malaysian Investment Development Authority*, 2024a and 2024b; Malaysia, Ministry of Investment, Trade and Industry, 2025).

While this expansion diversifies the national asset base and enhances the appeal of Malaysia as a regional technological node, it raises a development dilemma: does becoming a premier destination for data centre infrastructure generate the structural conditions for semiconductor value chain upgrading?

Data centres function as enabling platforms rather than automatic upgrading mechanisms. Their development impact hinges on whether they generate domestic technological capabilities and productive linkages. It is thus contingent on the State's capacity to convert foreign investment into domestic technological capabilities, local research linkages and integrated productive ecosystems (UNCTAD, 2024c). At the same time, this trajectory reveals an enduring constraint: a persistent concentration in downstream segments that generate high physical export volumes without bringing productivity gains (figure III.22). The upstream nodes that command the largest technological and economic rents – notably, frontier chip design, proprietary intellectual property and advanced front-end wafer fabrication – remain anchored in incumbent semiconductor powerhouses (Semiconductor Industry Association and Boston Consulting Group, 2021). This division of labour represents a structural ceiling against which the efficacy and ambition of the contemporary industrial strategies of Malaysia may be evaluated (Malaysia, 2025).

Questions arise around whether becoming a premier destination for data centre infrastructure generates value chain upgrading or entrenches technological dependence

¹⁶ Google is set to invest \$2 billion (MYR 9.4 billion) in Malaysia, including the development of its first local Google data centre and Google Cloud region. Microsoft announced a \$2.2 billion investment to advance new cloud and AI infrastructure in Malaysia. AWS is planning to invest an estimated \$6.2 billion (about MYR 29.2 billion) in Malaysia through 2038.



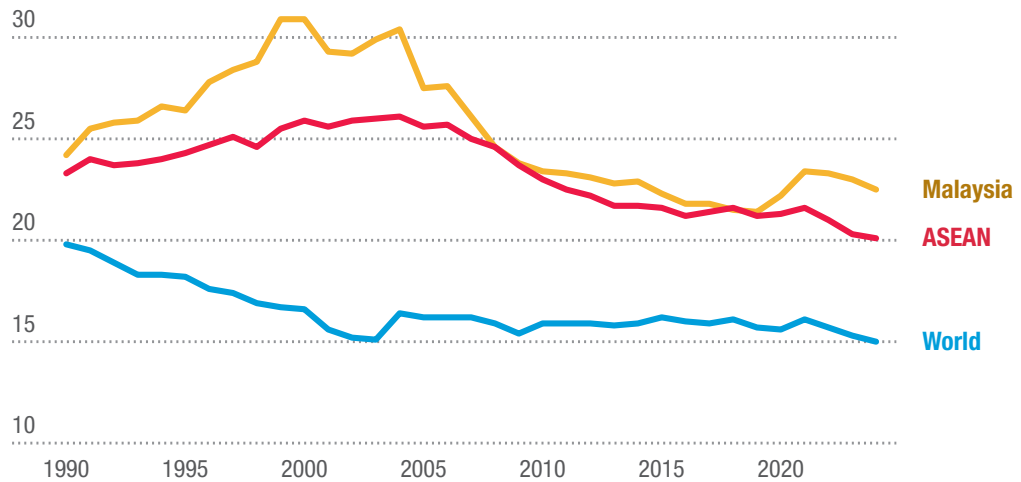


Figure III.22

Improved manufacturing value added has not been matched by productivity gains

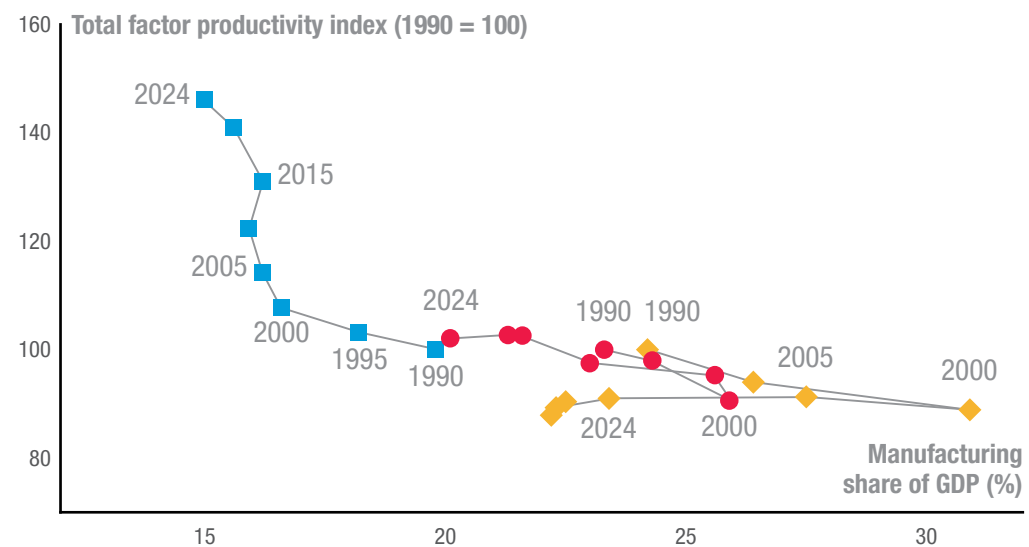
A. Manufacturing share of GDP

(Percentage)



B. Total factor productivity and manufacturing value added

■ ASEAN ■ World ■ Malaysia



Source: UNCTAD based on UNCTADstat and Penn World Table version 11.

Malaysia presents a case of a framework for structural transformation now being tested by technological and geoeconomic shifts. Diversification into data centre infrastructure has delivered sustained growth and development gains. Yet amid geoeconomic competition, the main obstacle to upgrading to upstream nodes is often not what a country can do at home,

but what a global production architecture will allow, since market leaders have both the incentive and the capacity to control the highest-value nodes. Policy frameworks designed around domestic endowments remain underequipped to overcome the geoeconomic barriers governing the upgrading to cutting-edge technologies.



D. Sectoral multi-alignment, regionalism and rising economies from the global South

In the current geoeconomic context, one pathway to address development challenges is sectoral multi-alignment. This refers to deploying different trade, finance, technology and energy strategies across sectors, and drawing on an array of partners, financing sources and technological partnerships shaped by specific constraints and opportunities. Türkiye illustrates this approach, as detailed below, followed by a discussion of its emerging use by some of the rising economies in the global South.

1. Türkiye: Integration and sectoral multi-alignment

In analysing sector policies, Türkiye is illustrative. Rather than adopting one overarching angle, it has pursued different integration approaches across trade (multi-alignment), financial (counterbalancing), technological (hedging) and energy sectors (internal rebalancing), simultaneously.

Trade: Multi-alignment

The institutional ties of Türkiye with Europe, anchored in the 1995 customs union, have proved resilient, despite a deliberate turn to new markets, prompted

by stalled accession negotiations and the 2008 global financial crisis.

Between 2016 and 2025, Turkish total merchandise exports expanded significantly, from \$149 billion to \$273 billion, driven by the active diversification of its international trade partnerships. Over this period, its combined export value to China and the Russian Federation grew from \$4 billion to \$10 billion. Overall, the share of Asia in Turkish exports has declined marginally between 2016 and 2025; while Europe remains its preeminent trading partner and export market (figure III.23).

Structurally, Turkish export basket remains heavily concentrated in resource-based manufactures, which increased by 73 per cent between 2016 and 2025 (figure III.23.B). Concurrently, the share of high-technology manufactures, the highest value-added segment in global production networks, has expanded. Persistent competitiveness deficits in Asian markets and ongoing balance-of-payments vulnerabilities, however, continue to constrain external performance. In response, Türkiye recently reverted to its traditional trading partners with greater regional diversification (World Bank, 2024; Türkiye, 2025).



Figure III.23 Turkish exports across key sectors remain concentrated in European markets

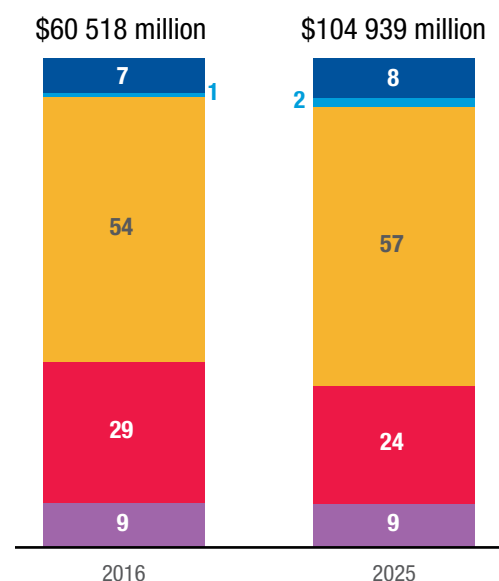
Export shares and values by sector and destination region, 2016 and 2025
(Percentage)

Oceania Northern America Latin America and the Caribbean Europe Asia Africa

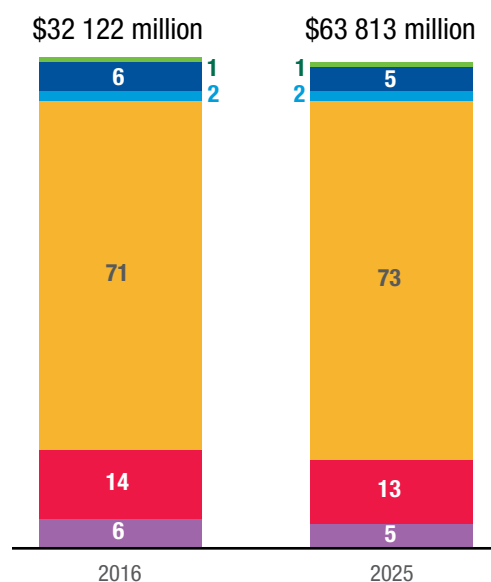
A. Primary commodities and agriculture



B. Resource-based manufactures



C. Advanced engineering manufactures



D. High-tech manufactures



Source: UNCTAD based on UNCTADstat.

Note: Trade product categories are based on SITC definitions, including primary commodities and agriculture (SITC 04, 05 and 33), resource-based manufactures (SITC 55, 58, 62, 65, 66, 67, 68, 69, 82, 84 and 89), advanced engineering manufactures (SITC 71, 72, 74, 78 and 79), and high-tech manufactures (SITC 77).

Finance: Counterbalancing

Finance is where counterbalancing has gone furthest. Türkiye ended its long relationship with the IMF in 2013, making its final payment that year, and chose not to sign an agreement with the fund in 2018 (IMF, 2026). Since mid-2010, China and the Gulf States have become central financial partners through public borrowing, project finance and central bank swaps. Türkiye joined the Belt and Road Initiative in 2015, became a founding member of the Asian Infrastructure and Investment Bank in 2016, and initiated yuan-denominated borrowing through successive China Action Plans, including \$3.75 billion in credit lines from Chinese state banks (Uluyol, 2024). The Asian Infrastructure Investment Bank

approved \$5.3 billion and €1.4 billion in project financing (table III.3). Since 2010, Türkiye has also signed currency swap agreements worth over \$26 billion with the central banks of China, Qatar, the Republic of Korea and the United Arab Emirates, helping to ease liquidity and foreign exchange pressures on the Central Bank of the Republic of Türkiye. It developed an external liquidity facility through public borrowing with Saudi Arabia in the form of a deposit in United States dollars in the Turkish Central Bank (*Reuters*, 2023; the Central Bank of the Republic of Türkiye, 2026).¹⁷ While these facilities boosted reserves and provided external liquidity support during external shocks, the country continued to face heavy debt servicing costs amid chronic inflation and currency volatility.

 **Table III.3**
Asian Infrastructure Investment Bank project lending to Türkiye
(2018–2026)

Year of approval	Financing amount, United States dollars
2018	800 million
2019	700 million
2020	739 million
2021	908 million
2022	500 million
2023	687 million
2024	1 061 million
2025	1 574 million
2026 (January–August)	2 075 million
Total	9 044 million

Source: UNCTAD based on Asian Infrastructure Investment Bank data.

Note: Amounts include sovereign and non-sovereign financing.

¹⁷ According to official disclosures from the Central Bank of the Republic of Türkiye, Türkiye has entered into bilateral currency swap agreements with several partner nations, including China (CNY 35 billion), Qatar (\$15 billion), the Republic of Korea (KRW 2.3 trillion) and the United Arab Emirates (AED 18 billion). Amounts are converted using respective annual average exchange rates for comparison. For complete transaction announcements and facility limit revisions, refer to annex 2.

Artificial intelligence and fifth-generation technology: Hedging¹⁸

In technology sectors, Türkiye has hedged between Western and Chinese digital ecosystems

In designing its technological sectors, Türkiye has hedged between Western and Chinese digital ecosystems. It is embedded in European Union research frameworks (such as Erasmus and Horizon) and hosts major United States platforms. From 2018 to 2023, Amazon invested \$189 million (Türkiye, 2023). Simultaneously, it has deepened ties with China. Huawei runs its second-largest R&D centre in Istanbul, and by 2019, the company controlled an estimated 75 per cent of Turkish telecommunications infrastructure. Further, Alibaba has invested over \$4 billion in the e-commerce platform Trendyol (*Investopedia*, 2023). The national 2030 Industry and Technology Strategy (2025) codifies this hedge – United States digital corporations atop Chinese network infrastructure – as the best available mitigation approach, given the country's limitations on developing independent artificial intelligence and fifth-generation technology capabilities.

Energy: Internal rebalancing

Türkiye has long faced external energy dependency, relying on imports to satisfy over 70 per cent of its primary fossil fuel supply (IEA, 2026b). Since the 2000s, rapid industrialization and growing urbanization have spurred energy demand with a growing reliance on Eurasian suppliers (figure III.24).

To reduce vulnerabilities from energy import exposure, Türkiye initially relied on a hedging strategy built on its position as an energy corridor between the Caspian basin, Europe and the Middle East. This model centred on major cross-border transit arteries, such as

the Baku–Tbilisi–Ceyhan pipeline for crude oil and the Southern Gas Corridor for natural gas, aiming to secure diversified volumes while managing balance-of-payments pressures. Changing global energy market dynamics and heightened price volatility, however, have eroded geopolitical and economic rents from passive transit status. Consequently, authorities recognized that transit leverage alone could not insulate the economy from external shocks, prompting a strategic shift from external hedging towards internal rebalancing and domestic resource mobilization.

The Türkiye National Energy Plan (2022) established long-term sectoral targets through 2035 to reach a 2053 net-zero objective. Actionable five-year delivery mechanisms are operationalized through the Twelfth Development Plan (2024–2028), the Ministry of Energy and Natural Resources' Strategic Plan (2024–2028), and the Second National Energy Efficiency Action Plan (2024–2030). Under this framework, the drive for national energy independence rests on three pillars: scaling up domestic extraction and baseload capacity (notably, developing the deepwater Sakarya gas field to cover up to one third of national consumption, alongside the commissioning of the Akkuyu nuclear plant); expanding upstream international exploration via state-owned partnerships across the Eastern Mediterranean, North Africa and Somalia; and consolidating domestic gas trading hub infrastructure. While accelerating non-hydro renewables remains vital for climate-aligned structural change, the prevailing strategy treats clean energy as a complement to, rather than a substitute for, heavy ongoing investments in baseload nuclear power and domestic gas exploitation (IEA, 2021 and 2026b).

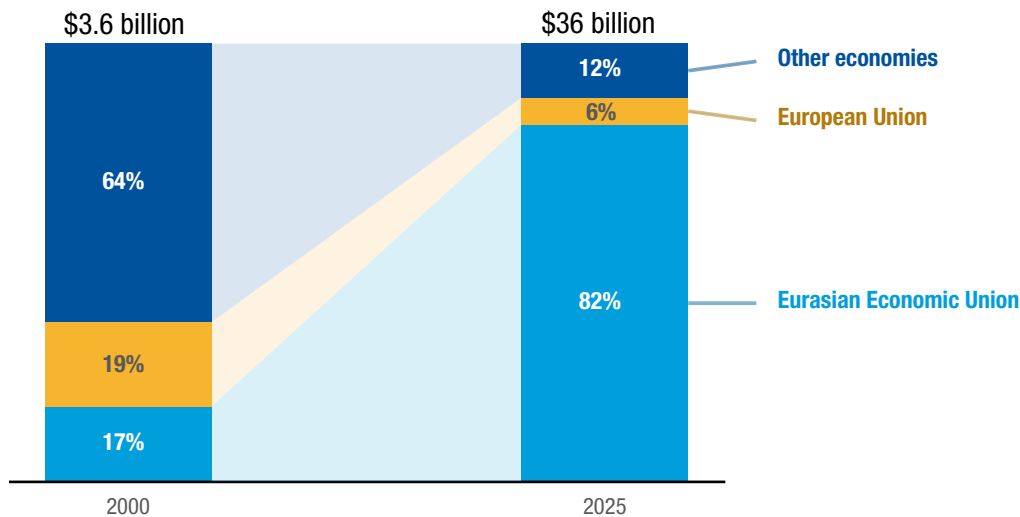
¹⁸ Hedging refers to “an insurance seeking behaviour under situations of high uncertainty and high stakes” (Kuik, 2021).



Figure III.24

Growing energy demand in Türkiye has increased its reliance on imports from Eurasian suppliers

Share and value of imports of fossil fuel energy products by selected groups of suppliers (Percentage)



Source: UNCTAD based on UNCTADstat.

Note: Energy products refer to SITC 33: Petroleum, Petroleum Products and Related Materials under the Standard International Trade Classification.

Overall therefore, the economic multi-alignment of Türkiye varies sharply by sector. In trade, efforts to diversify away from traditional trading partners were later reversed. In finance, counterbalancing built successful partnerships, although high debt-servicing costs added to macroeconomic volatility. In the digital domain, geoeconomic competition exposed the limits of hedging, potentially confining Türkiye to the status of a digital consumer. In energy, the strategy to reduce import dependence, currently at 70 per cent, is promising, although clean energy so far complements rather than replaces other sources. While still evolving, the country's experience with sectoral multi-alignment sheds light on the factors and risks that other developing countries could weigh when calibrating their own integration strategies.

2. Rising economies in the global South: anchoring regionalism amid geoeconomics

Emerging patterns of sectoral multi-alignment extend beyond Türkiye, deployed through different institutional arrangements and regional frameworks. An illustrative group of developing economies – Brazil, India, Indonesia, Nigeria, Saudi Arabia and South Africa – shows the potential of such strategies in other regions of the global South.¹⁹ These economies represent an evolving group, both conceptually and economically.²⁰ What they share is less a common growth model than a structural position: sufficiently large domestic markets, pivotal geographic locations and relatively developed administrative capacity to sustain multiple external economic relationships

¹⁹ See, for example, Rodrik (2024) and Shin et al. (2026).

²⁰ Some authors refer to these economies as “rising middle powers of the global South” (ibid.).

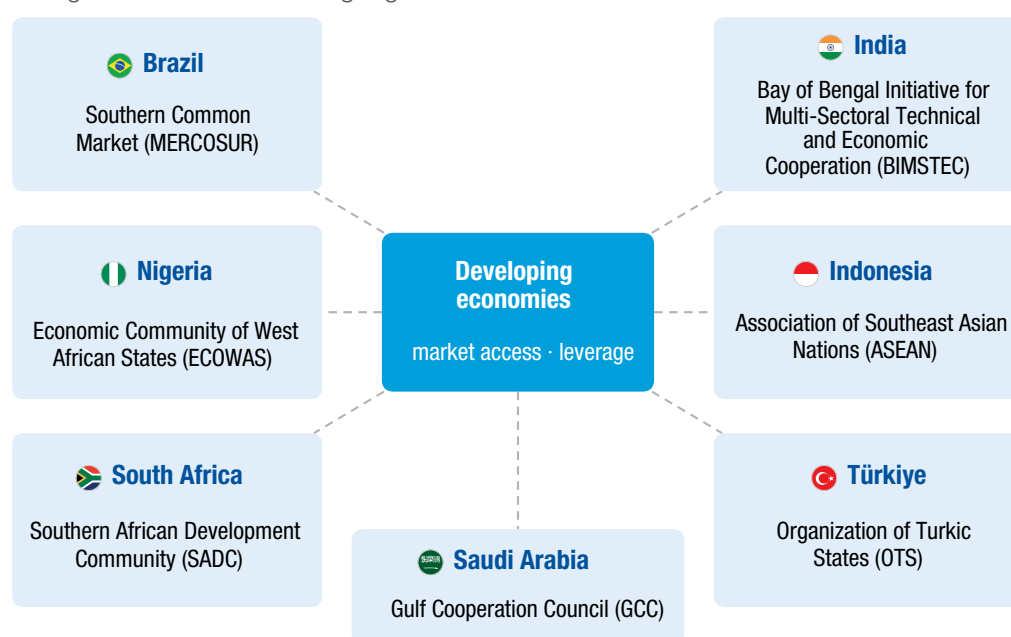


simultaneously. All but Nigeria²¹ are members of the Group of Twenty, and all are active in multilateral forums and rely on integration and partnerships to secure economic growth and prosperity (UNCTAD, 2022a and 2022b, 2024b, 2025b).

While these rising economies differ from one another considerably in size, profile and macroeconomic conditions, each retains a central role in its own region, a hub function reinforced by open developmental regionalism (UNCTAD, 2022). Brazil anchors the Southern Common Market (MERCOSUR); India, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC);

Indonesia, the Association of Southeast Asian Nations (ASEAN); Nigeria, the Economic Community of West African States (ECOWAS); Saudi Arabia, the Gulf Cooperation Council (GCC); South Africa, the Southern African Development Community (SADC); and Türkiye, the Organization of Turkic States (OTS). These bodies provide a network of regional institutions through which member countries pool bargaining possibilities and access wider markets. Emerging interregional links, such as the MERCOSUR–ASEAN Chamber of Commerce,²² point to a further layer in which the rising economies act as the connective tissue between regional integration and multilateralism (figure III.25).

Figure III.25
Regional bodies pool bargaining potential and open access to markets
Rising economies and leading regional bodies



Source: UNCTAD.

Within sectoral integration, these economies are emerging as regional anchors, making their digital payment technology and infrastructure systems interoperable, often through knowledge-sharing rather than

single products. The Indian digital public infrastructure model, for example, involves agreements with 23 countries to share its architecture; technical cooperation is already operational in eight countries,

²¹ The African Union represents Nigeria in the Group of 20.

²² This is a private chamber of commerce, not an official intergovernmental organization.

including Sri Lanka and the United Arab Emirates.²³ In Brazil, Pix (its fast retail digital payment system), launched in 2020, shares a similar approach. The Central Bank of Brazil, which captures the majority of South America's fintech market, leverages this position to export Pix, regionally and internationally. Argentina, Chile, Colombia, Paraguay and Uruguay are already integrated, and negotiations are underway with Mexico and Portugal (Drakopoulos et al., 2024). The Nigerian fintech ecosystem plays a comparable role for West Africa, drawing over a third of total African fintech investment (Khalifa, 2024). The Turkish construction sector offers a parallel case in a different register: its contractors have exported infrastructural rather than digital capacity, delivering over 1,800 projects across Africa worth \$85.4 billion by the end of 2023 (Öniş and Yalikul, 2021). During its 2023 ASEAN chairmanship, Indonesia

drove both the ASEAN Blue Economy Framework and the Digital Economy Framework Agreement, the world's first region-wide digital economy pact, while advancing cooperation with other partners on agriculture, food security and the electric vehicle ecosystem (ASEAN, 2023a and 2023b). Most recently, the country proposed new initiatives in urban economic, social and environmental cooperation.²⁴

These sectoral developments lay the foundation for broader regional economic integration beyond trade. As rising economies consolidate their regional markets, they are pivoting towards monetary and financial mechanisms that can further support South-South cooperation (UNCTAD, 2019; Fritz et al., 2023). Regional financial integration initiatives complement this sectoral deepening (see box III.2).

Rising economies are emerging as anchors of strategic sectoral integration, often based on knowledge-sharing



²³ This diffusion was reinforced institutionally through the Indian 2023 Group of 20 presidency. It is being further scaled up through NPCI International Payments, which aims to embed Universal Payments Interface-based systems in 20 countries by 2028–2029.

²⁴ See: <https://opengovasia.com/indonesia-smart-cities-to-foster-asean-pacific-alliance-cooperation/?c=ch>

Box III.2 Regional financial integration initiatives

The asymmetry of the international monetary and financial system exposes developing countries to exchange rate volatility, costly external borrowing and recurrent balance-of-payments pressure. Regional financial integration, including settling cross-border transactions in local currencies, has emerged as one response to these constraints, potentially reducing them rather than merely absorbing them. It is unlikely to come from the market: private economic actors have little incentive to move away from dominant hard currencies, which remain more liquid, more profitable and less risky than local currency alternatives (UNCTAD, 2025b). Building local currency markets therefore requires deliberate policy and cooperation among States. Three regional cases illustrate a state-led response.

Latin America. At the beginning of the twenty-first century, a new regional payment and settlement system, Sistema Moeda Local (SML), emerged among the MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay, with some partial participation by Chile), alongside the MERCOSUR Structural Convergence Fund. The SML, an initiative of the Brazilian Central Bank that started operating between Argentina and Brazil in September 2008, explicitly establishes local currencies as units of account and private settlement currencies in regional trade. It allows both parties in cross-border trade to pay in their respective local currencies via SML-registered financial institutions, while the respective central banks settle net operations in foreign exchange. Although technological and operational issues persist, public digital infrastructure such as cross-border central bank digital currencies and fast retail payment systems could resolve them. The significant success of Pix could encourage other MERCOSUR countries to introduce interoperable payment systems that could be used in the SML (Drakopoulos et al., 2024).

Africa. Africa has several subregional payment and settlement platforms with an explicit mandate to enhance the use of local currencies in regional trade. The most ambitious, the Pan-African Payment and Settlement System (PAPSS), was launched by Afreximbank, which developed the system, and the African Union in January 2022. Its implementation is closely linked to efforts to create AfCFTA. Currently, only 15 per cent of African trade is intraregional, partly due to barriers to local payment. PAPSS seeks to address this constraint by connecting 42 African currencies (UNECA, 2026). A regional mechanism that pools access to foreign exchange and supports liquidity and exchange rate stability is essential for sustainable local currency promotion. Afreximbank's \$3 billion liquidity support for PAPSS is an important initiative in this direction, complemented by the recently announced African Financial Stability Mechanism hosted at the African Development Bank. Since its commercial launch, PAPSS has expanded its reach, connecting 14 national switches and over 150 commercial banks across 17 countries (PAPSS, 2025).

Asia. Within ASEAN, the Regional Payment Connectivity (RPC) initiative and the ASEAN Local Currency Transaction Framework, both launched in 2022, have established multiple bilateral cross-border payment linkages, building on existing domestic fast payment and QR systems. Currently, eight countries – initially Indonesia, Malaysia, the Philippines, Singapore and Thailand, later joined by Brunei Darussalam, Lao People's Democratic Republic and Viet Nam – are part of RPC. As with PAPSS, settlement in bilateral QR-based payment links is instantaneous and real-time, significantly increasing the speed and ease of payment in local currencies. Unlike PAPSS, there is no multilateral, centralized clearing and settlement mechanism that nets out operations or takes on temporary credit and settlement risk. Moreover, unlike in Africa and Latin America, ASEAN economies benefit from a dedicated regional

financial safety net: Chiang Mai Initiative Multilateralization (CMIM). Born out of the Asian financial crisis, it is a \$240 billion multilateral currency swap arrangement with members including ASEAN plus China, Japan and the Republic of Korea. CMIM has never actually been drawn on, as members have preferred other external liquidity sources such as reserves or bilateral swap lines (UNCTAD, 2016; Pande et al., 2025). Yet it may have played an important role in deterring larger runs on local currencies from the region.

Across all three regions, public actors are driving efforts to widen the use of local currencies. These systems remain uneven in reach, and in most cases, they advance payment functions while local-currency trade financing is still nascent. Their emergence nonetheless confirms that financial ecosystems are not built by markets alone: they require active state intervention and regional collaboration.

The rising economies of the global South are well placed to serve as hubs for integrated networks, supporting a regionalism in which development is a collaborative undertaking, intraregional and South–South trade weigh as heavily as links to established centres of the world economy, and partnerships

extend beyond a single dominant partner (UNCTAD, 2022). In the last two decades, these economies have deepened the scope of regional economic integration, including in transport and infrastructure, industrial development, services trade and market access (figure III.26).

A broader regionalism among developing countries maintains development as a collaborative undertaking; it prioritizes intraregional and South–South trade as much as connections to established global economic centres



Figure III.26

Rising economies are steering integration across regions

Economic development-related agreements among seven regional groups since 1980 (Number)

	1980-1995	1996-2010	2011-2026
Transport & Infrastructure	2	13	10
Competition Policy	0	6	0
Consumer Protection	0	2	1
Customs & Border Management	1	7	5
Economic Integration & Cooperation	5	54	16
Finance, Monetary & Tax Cooperation	2	3	4
Industrial Development & Standards	12	14	12
Intellectual Property	1	1	2
Investment	4	10	6
Public Procurement	0	3	1
Services Trade	0	16	18
Trade & Market Access	4	25	18
Agriculture, Food & Fisheries	2	6	2
Energy & Natural Resources	2	9	9
Environment, Climate & Disaster Management	0	6	7
Digital Economy & Technology	0	3	5
Research, Science & Innovation	0	1	1

Source: UNCTAD based on ASEAN, BIMSTEC, ECOWAS, GCC, MERCOSUR, OTS and SADC.

Note: For standardized categories for agreement classification, please refer to annex 3.



In services, many potential regional trade gains remain untapped

Renewed policy should strengthen intellectual property regimes, enable equitable technology transfer and coordinate industrial strategies regionally

Much of the potential for regional gains remains untapped. Despite its growing importance as an engine of economic development, services trade integration varies sharply across regions. Blocs anchored by Brazil (MERCOSUR) and Indonesia (ASEAN) have actively spearheaded integration in this area, signing 35 targeted agreements to boost cross-border service flows since 1985 (figure III.26). Yet the services trade overall remains relatively underdeveloped.

Beyond services, the rapid rise of artificial intelligence and high-tech manufacturing

requires urgent institutional adaptation. A renewed policy approach should focus on strengthening intellectual property regimes, developing financial ecosystems and establishing coordinated industrial strategies across the member States of regional organizations. In the current geoeconomic context, building new networks and alliances at the sectoral level, anchored where possible in regional cooperation, gives countries the agency to loosen external constraints and advance towards their development frontiers.

E. Conclusion and policy lessons

Geoeconomic competition has shifted the terms of integration into the global economy. Securitized economic agendas and industrial, trade and financial statecraft have raised the barriers to upgrading in value chains in strategic sectors, while traditional manufacturing and trade have lost potency as levers of growth.

Industrial, innovation and financial policies are now tools of economic statecraft. For the countries able to deploy them, financial policy can serve industrial goals and open a path up the value chain. This matters especially for commodity-dependent economies, which most need to diversify and make up two-thirds of the developing world.

Sectoral multi-alignment can help to address, at least partially, current development challenges. As production grows more specialized, integration operates in sectoral domains rather than at the national level. Countries can hedge

across sectors and with established trade partners, cooperating with competitors on technology and pursuing autonomy in energy. Timing matters as much as the match: the regulatory requirements of target markets weigh more than short-term gains.

National strategies alone cannot level the playing field. Most developing countries, particularly the least developed countries, lack the fiscal, financial, institutional and technological capacity. As chapter II shows, fragmentation is selective rather than generalized, pointing not to separate blocs but to reorientation around priority partnerships, regional production systems and intermediary hubs. As the experience of many rising economies in the global South shows, positioning within that landscape is itself a form of agency: countries can advance their development prospects by pairing productive capacities and resource endowments with effective governance, including through regional networks.



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Chapter III

Development in the age of geoeconomics

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Annex 1

Sector classification

Sector	SITC code	Product category
Advanced engineering manufactures	71	Power-generating machinery and equipment
	72	Machinery specialized for particular industries
	74	General industrial machinery, equipment and machine parts
	78	Road vehicles
	79	Other transport equipment
High-tech manufactures	77	Electrical machinery, apparatus, appliances and electrical parts thereof
Primary commodities and agriculture	4	Cereals and cereal preparations
	5	Vegetables and fruit
	33	Petroleum, petroleum products and related materials
Resource-based manufactures	55	Essential oils, perfume materials, toilet and cleansing preparations
	58	Plastics in non-primary forms
	62	Rubber manufactures, not elsewhere specified
	65	Textile yarn, fabrics and related products
	66	Non-metallic mineral manufactures, not elsewhere specified
	67	Iron and steel
	68	Non-ferrous metals
	69	Manufactures of metals, not elsewhere specified
	82	Furniture and parts thereof, bedding and similar furnishings
	84	Articles of apparel and clothing accessories
	89	Miscellaneous manufactured articles, not elsewhere specified



Annex 2

Bilateral currency swap arrangements involving Türkiye, 2010–2025

Year	Country	Previous limit (billions of United States dollar-equivalent)	Revised limit (billions of United States dollar-equivalent)	Increase (billions of United States dollar-equivalent)
2010–2011	All four countries (China, Qatar, Republic of Korea, United Arab Emirates)	0	No agreements yet	0
2012	China: initial agreement	0	1.43	1.43
2015	China: limit increase	1.43	1.716	0.286
2018	Qatar: initial agreement	0	3	3
2019	China: renewal	1.716	1.716	0
2019	Qatar: limit increase	3	5	2
2020	Qatar: limit increase	5	15	10
2021	China: limit increase	1.716	5.006	3.29
2021	Republic of Korea: initial agreement	0	1.594	1.594
2021	Qatar: renewal	15	Not restated	Not confirmed
2022	China: renewal	5.006	5.006	0
2022	United Arab Emirates: initial agreement	0	4.901	4.901
2024	Republic of Korea: renewal	1.594	1.594	0
2024	Qatar: renewal	Last disclosed: 15.000	Not restated	Not confirmed
2025	China: renewal	5.006	5.006	0
2025	United Arab Emirates: agreement update	4.901	4.901	0

Source: UNCTAD based on official announcements of the Central Bank of the Republic of Türkiye.

Note: Swap amounts are presented in United States dollar equivalents, converted using the exchange rates on 31 December 2025. The original agreement currencies were Chinese yuan for China, United States dollars for Qatar, Korean won for the Republic of Korea and United Arab Emirates dirhams for the United Arab Emirates.



Annex 3

Standardized regional categories

Standardized category	Agreement areas
Transport and infrastructure	Transport, transportation, international transport contracts, maritime transport, shipping cooperation, connectivity, infrastructure, digital transport permits, logistics
Consumer protection	Consumer protection, international consumer contracts
Customs and border management	Customs, customs code, customs union, common market and customs union, transit, customs and trade facilitation
Economic integration and cooperation	Economic integration, economic cooperation, regional economic cooperation, business cooperation, general cooperation
Finance, monetary and tax cooperation	Finance, financial administration, finance and taxation, monetary union, monetary integration, monetary cooperation, green finance
Industrial development and standards	Industrial cooperation, industrial policy, standards and mutual recognition, metrology and standards
Intellectual property	Intellectual property, patents, industrial designs
Investment	Investment and trade
Public procurement	Public procurement
Services trade	Trade in services, services, services and trade
Trade and market access	Trade, trade in goods, trade preferences, free trade area, economic (free trade area), trade facilitation, free trade area establishment, free trade area implementation
Agriculture, food and fisheries	Agriculture, regional agricultural policy, agriculture forestry and fisheries, food security, food safety
Energy and natural resources	Energy, renewable energy, biofuels, energy efficiency, electricity grid interconnection, power trade, water resources
Environment, climate and disaster management	Environment, climate change, environment and sustainability, weather and climate cooperation, disaster management and emergency response
Digital economy and technology	Digital economy, e-commerce, digital trade, data protection, digital rights, digital signature, technology transfer, innovation cooperation
Research, science and innovation	Science and technology, technology transfer and innovation cooperation, technical cooperation



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