DEVELOPMENT AND GLOBALIZATION:

Facts and Figures

2008

UNITED NATIONS
CONFERENCE ON TRADE
AND DEVELOPMENT

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UNITED NATIONS
New York and Geneva, 2008

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NOTE

Development and Globalization: Facts and Figures was prepared under the auspices of UNCTAD's Division on Globalization and Development Strategies, in collaboration with all UNCTAD divisions.

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UNCTAD/GDS/CSIR/2007/1

UNITED NATIONS PUBLICATION

Sales No. E.07.II.D.20

ISBN 978-92-1-112730-0

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FOREWORD

This second issue of UNCTAD's "*Development and Globalization: Facts and Figures*" is more than an update of the 2004 edition. With economic globalization challenging much of our traditional wisdom, the 2008 edition is meant to increase the analytical emphasis and to offer some explanation for new and emerging economic trends.

In recent years it is remarkable how quick and how fundamental the role of developing economies in the global economy has changed. The biggest and the fastest-growing developing countries nowadays are considered to stabilize the world economy due to their dynamism and their openness. Developing countries accounted for 37 per cent of world merchandise exports in 2006 on a rising trend. Moreover, as many developing countries have achieved current account surpluses they have become important providers of capital for the rest of the world.

As I said in my report to UNCTAD XII, which will take place in Accra in spring 2008: A "second generation" of globalization is thus emerging. A distinctive characteristic of this phase of globalization is economic multipolarity, in which the South plays a significant role. Today, no negotiation of an international economic agreement is conceivable without the presence of China, India, Brazil and South Africa at the table. The new economic weight of some developing countries creates significant opportunities for the rest of the developing world. It also highlights the need for policy diversity rather than uniformity.

The brief synopsis of data and information covered by this new volume of *Development and Globalization: Facts and Figures* very well illustrates UNCTAD`s independent research in the areas of its core mandate, namely the integrated treatment of trade, development and interrelated issues in the areas of finance, technology, investment and sustainable development, and its endeavours in the area of statistics. It is my hope that this snapshot of globalization will increase readers' desire TO LEARN MORE about the topics tackled by *the Trade and Development Report* and the other major publications of UNCTAD.

Supachai Panitchpakdi

Secretary-General of UNCTAD

ACKNOWLEDGEMENTS AND EXPLANATORY NOTES

Development and Globalization: Facts and Figures 2008 was jointly prepared by UNCTAD's Division on Globalization and Development Strategies; Division on Investment, Technology and Enterprise Development; and Division on International Trade in Goods and Services, and Commodities. The Central Statistics and Information Retrieval Branch ensured the general coordination.

Numerous international organizations contributed to *Development and Globalization: Facts and Figures 2008*, especially by providing statistical data and other information. Their cooperation is gratefully acknowledged.

Explanations and symbols:

- Because of rounding, details and percentages in tables do not necessarily add up to totals.
- "Dollars" and "$" refer to United States dollars.
- A zero (0) means that the amount is nil or negligible.
- The symbol underscore (_) indicates that the item is not applicable.
- Two dots (..) indicate that the data are not available or are not separately reported.
- Use of a hyphen (-) between years (e.g. 1965-1970) signifies the full period involved, including the initial and final years.

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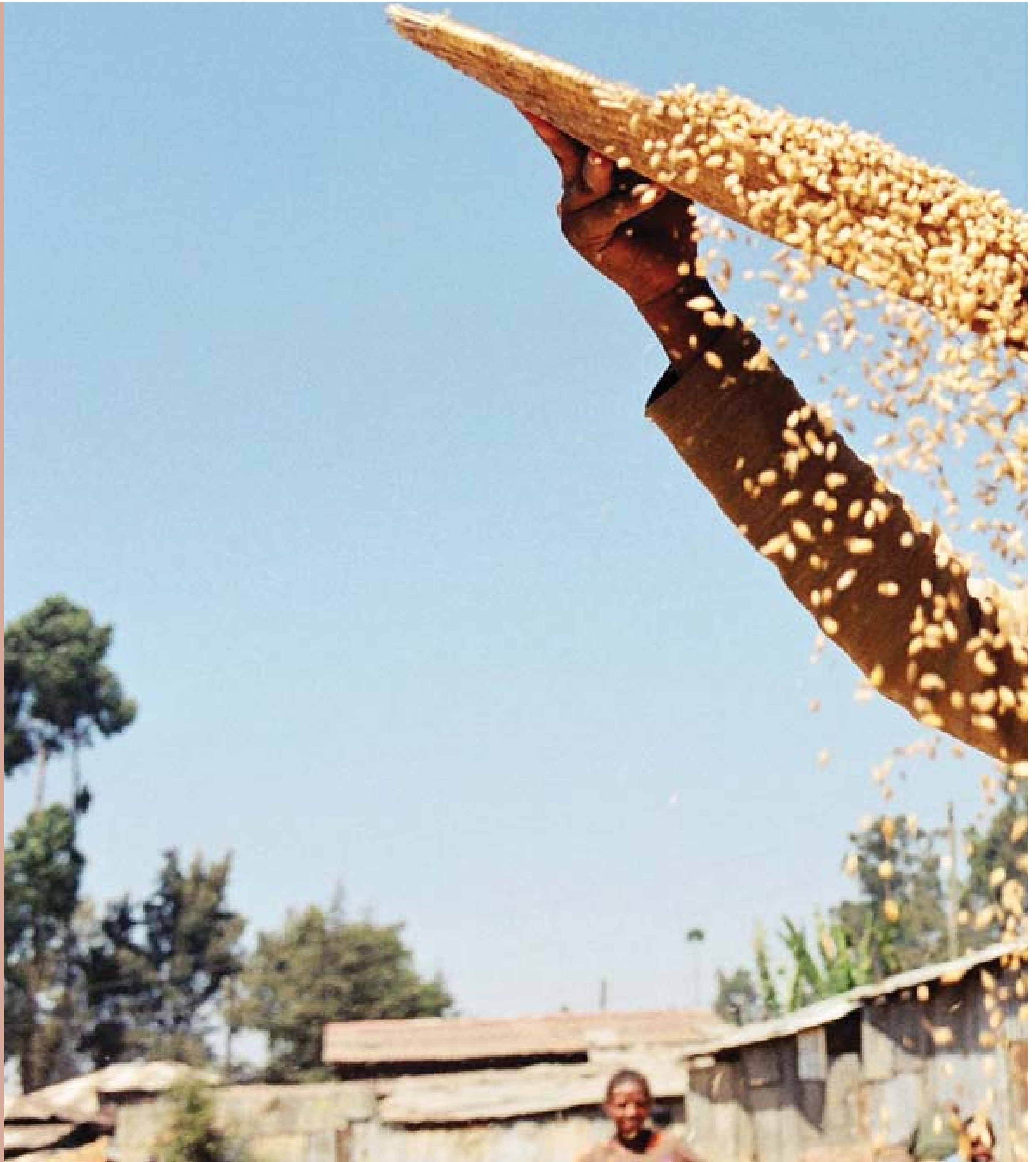
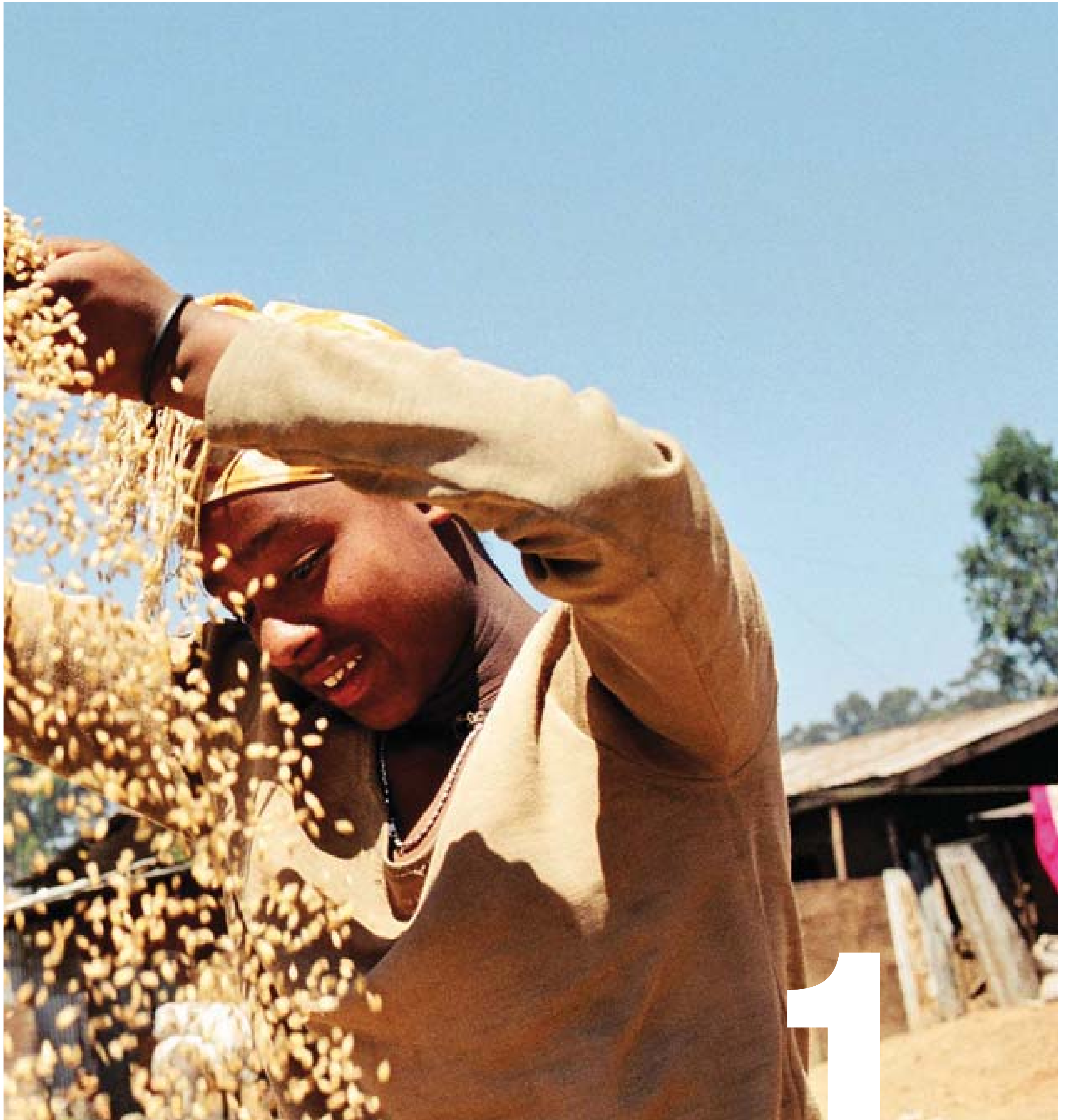




1

GLOBAL GROWTH AND COMPOSITION OF DEMAND

1.1 Growth trends
1.2 Gross domestic product by economic activity and expenditure
1.3 Growth and trade balance
1.4 Primary commodity prices
1.5 Terms of trade and impact on gross national income

1.1 GROWTH TRENDS

Overview

Gross domestic product (GDP) is the key economic indicator: its growth rate in real terms over time indicates an economic expansion or recession, while its (per capita) level gives a rough indication of the average living standard. Moreover, the comparison of the evolution of real GDP in different regions is an important measure of convergent or divergent trends, for example, for the catching up or falling behind of developing countries.

Regarding catching-up processes of developing countries, diverging trends dominated for more than two decades (between 1980 and 2002). During that period, per capita GDP growth in developing countries of Africa, the Americas, Western Asia and Oceania (and transition economies later) was very slow or even negative, thereby widening the income gap with developed economies. Only Eastern, Southern and South-Eastern Asia could significantly diminish the gap with developed economies in terms of per capita GDP in the last 20 years of the twentieth century. Per capita real GDP in that region almost tripled between 1980 and 2007 (although from very low levels), while it stagnated in other developing regions. In Latin America and Western Asia, economic growth was also unstable, with frequent and deep economic recessions (1981-1989 and 1998-2002) and rather short and shallow recoveries (1991-1997). Transition economies in Eastern Europe suffered a major economic contraction after 1990. In 1999, they resumed growth and meanwhile became the group with the most rapid growth in the world. But, as measured by per capita GDP, they recuperated their 1990 standard of living only in 2006.

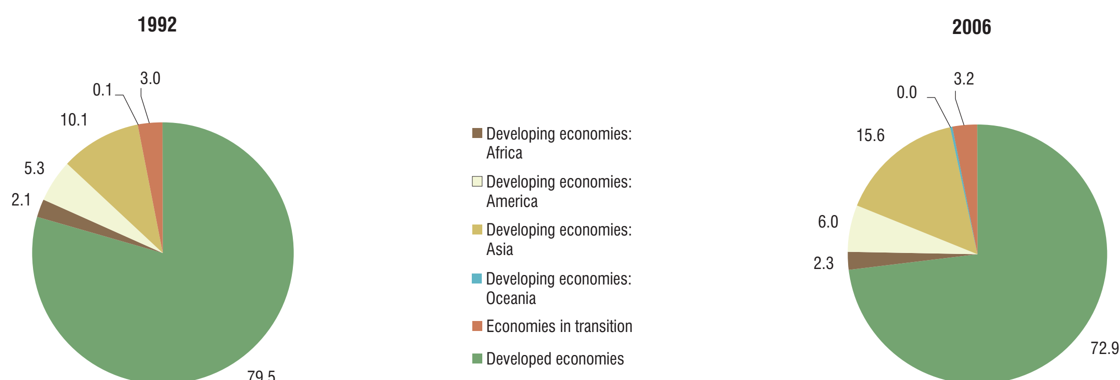
Since 2002, both transition and developing economies posted a strong and broad-based economic expansion, including most of the least developed countries (LDCs). This has meant a notable improvement in their catch-up efforts with developed countries. Since 2003, per capita GDP has been growing in developing and transition economies at an annual rate of 5.1 and 7.5 per cent, respectively, compared to 2.0 per cent in developed economies. All developing regions have benefited from this recovery, although at different rates: between 2003 and 2007, GDP per capita expanded at 6.2 per cent in Asia, 3.7 per cent in Latin America and the Caribbean and 3.0 per cent in Africa.

However, the bulk of global income, as expressed by world GDP, remains in the hands of the developed countries. With only 16 per cent of world's population, developed countries generated 73 per cent of world's nominal GDP in 2006, compared to 80 per cent in 1992. As a result, the difference in per capita income between developed countries on one side and developing and transition economies on the other remains huge. This gap has diminished slightly in relative terms: the ratio between the per capita GDP in developed and developing countries passed from 20.4 times in 1990 to 16.1 times in 2006; however, it has widened in absolute terms, from $20 000 to $26 000 in current dollars.

TO LEARN MORE

UNCTAD presents in its yearly *Trade and Development Report* the evolution of GDP for different regions. A more detailed analysis of GDP growth and economic forecasts may be found in the *World Economic Situation and Prospects (WESP)*, a joint publication by the United Nations Department of Economic and Social Affairs (DESA), UNCTAD and the United Nations Regional Commissions.

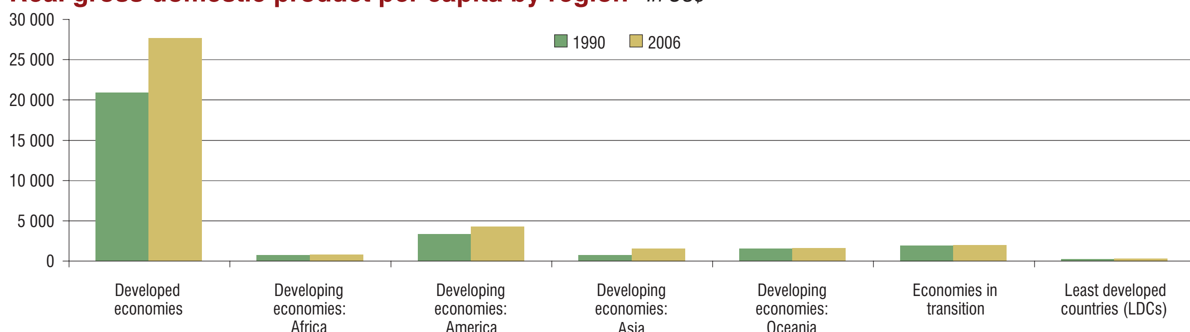
Share of nominal gross domestic product by region - *In %*



Total and per capita gross domestic product

Region	Total GDP: Real growth (In %) 1981-1990	1991-1997	1998-2002	2003-2007	Nominal (Million US$) 2006	GDP per capita: Real growth (In %) 1981-1990	1991-1997	1998-2002	2003-2007	Nominal (US$) 2006
World	**3.1**	**2.7**	**2.7**	**3.6**	**47,815,519**	**1.3**	**1.1**	**1.4**	**2.3**	**7,253**
Developing economies	**3.9**	**5.4**	**3.6**	**6.6**	**11,437,157**	**1.8**	**3.5**	**2.0**	**5.1**	**2,164**
Least developed countries (LDCs)	*2.4*	*2.6*	*4.7*	*6.8*	*339,917*	*-0.2*	*-0.1*	*2.2*	*4.3*	*433*
Developing economies: Africa	**2.6**	**2.3**	**3.3**	**5.4**	**1,076,751**	**-0.3**	**-0.3**	**0.8**	**3.0**	**1,142**
North Africa	2.6	2.9	3.5	5.2	368,271	0.1	1.0	1.9	3.6	2,382
Sub-Saharan Africa	2.5	1.9	3.1	5.5	708,479	-0.4	-0.9	0.5	3.0	899
Sub-Saharan Africa excluding South Africa	*3.2*	*2.0*	*3.3*	*6.0*	*456,602*	*0.2*	*-0.8*	*0.6*	*3.3*	*617*
Developing economies: America	**1.7**	**3.4**	**1.5**	**5.0**	**2,878,234**	**-0.3**	**1.7**	**0.0**	**3.7**	**5,139**
Central America	1.1	2.4	3.3	3.6	948,375	-0.9	0.5	1.8	2.4	6,513
Caribbean Islands	2.2	0.0	3.9	5.9	141,530	0.8	-1.2	2.8	4.8	3,923
South America	1.8	4.1	0.4	5.7	1,788,329	-0.2	2.4	-1.1	4.3	4,727
Central America excluding Mexico	*2.1*	*4.5*	*3.3*	*4.8*	*107,545*	*0.3*	*2.2*	*1.2*	*2.8*	*2,671*
Developing economies: Asia	**5.7**	**7.1**	**4.8**	**7.5**	**7,461,059**	**3.7**	**5.4**	**3.4**	**6.2**	**1,977**
Western Asia	1.6	4.1	2.1	6.3	1,240,819	-1.4	1.5	-0.2	4.2	6,444
Southern Asia	4.7	5.1	4.7	7.8	1,394,612	2.3	2.9	2.9	6.1	865
Eastern Asia	9.1	8.9	6.3	8.1	3,772,462	7.6	7.8	5.4	7.4	2,689
South-Eastern Asia	5.3	7.3	2.6	6.0	1,053,166	3.1	5.5	1.1	4.6	1,864
Developing economies: Oceania	**3.7**	**3.2**	**2.1**	**2.4**	**21,114**	**1.3**	**0.8**	**-0.1**	**0.4**	**2,301**
Economies in transition	**..**	**-7.2**	**4.5**	**7.3**	**1,509,814**	**..**	**-7.2**	**4.7**	**7.5**	**4,552**
Asia	..	-7.6	7.0	10.7	137,598	..	-8.1	6.4	9.7	1,836
Europe	..	-7.1	4.2	6.8	1,372,216	..	-7.0	4.7	7.3	5,345
Developed economies	**3.2**	**2.3**	**2.4**	**2.6**	**34,868,548**	**2.5**	**1.7**	**1.9**	**2.0**	**34,683**
America	3.6	3.0	3.0	2.9	14,648,108	2.5	1.9	2.0	1.9	43,144
Asia and Oceania	3.8	1.8	0.8	2.2	5,365,366	3.1	1.2	0.4	1.9	33,653
Europe	2.5	1.8	2.7	2.3	14,855,074	2.3	1.4	2.4	1.9	31,132

Real gross domestic product per capita by region - *In US$*



Sources: UNCTAD secretariat calculations, based on Handbook of Statistics; United Nations Department of Economic and Social Affairs (UN/DESA), World Economic Situation and Prospects 2008; national sources.

1.2 GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AND EXPENDITURE

Overview

Economic development is accompanied by permanent structural transformations. The relative contributions of agriculture, industry and services to global output change in the process of development; in the long run, the relative weight of agriculture tends to fall, and that of services tends to increase.

In the last decades, the part of agriculture, fishing and forestry in GDP has declined in all regions. In the developed countries, this sector represents less than 2 per cent of GDP. On the other hand, it still generates 28 per cent of GDP in the LDCs. The contribution of industry – which includes manufacturing, mining, utilities and construction – has decreased to 25 per cent of GDP in developed countries, but remains at relatively high levels in most developing and transition economies. In developing countries of Southern, Eastern and South-Eastern Asia, the share of industry in total GDP even increased between 1980 and 2006, mainly due to the expansion of manufacturing in China and South-Eastern Asian countries. In Western Asia, developing Africa and the economies in transition, mining (which includes oil and gas extraction) has been the most dynamic subsector within “industry”, while the part of manufacturing has decreased significantly.

Globally, the share of services has increased, reaching almost three quarters of GDP in the more advanced economies. However, the economic implications of this trend very much depend on the type of services: high-productivity services in mature industrial economies can hardly be compared to low-productivity services in poor economies, where informal activities absorb most of the working force coming from rural migration.

A general trend in developed and in developing regions is increasing trade openness, which is reflected in a greater share of exports and imports as percentage of GDP in all countries. This tendency has been most accentuated in Southern, Eastern and South-Eastern Asia, owing to the expansion of foreign trade in previously rather closed big economies such as China and India, and to the expansion of production networks across the region. In transition economies, the relative weight of imports and exports has rapidly increased between 1994 and 2000. This is partly the (statistical) result of currency depreciations that reduced total GDP in foreign currency terms.

Despite the increasing share of exports, domestic demand remains the most important component of global demand in most countries. Final consumption – composed of Government and household consumption – represents on average 80 per cent of GDP in developed economies and more than two thirds of GDP in developing and transition economies. However, in countries with very high investment rates (such as China) or huge structural trade surpluses (such as most of Western Asian), household consumption share may fall below 50 per cent of GDP. By contrast, in regions that run substantial trade deficits, such as developing Oceania and the LDCs, domestic expenditure exceeds total GDP, which is reflected in high rates of final consumption rather than in high investment rates.

Gross capital formation is the key to sustainable long-term growth, since it incorporates the potential to expand production capacity and technological change. In mature economies, its share in total GDP (i.e. the gross investment ratio) has steadily declined over recent decades. In developing America, Africa and the transition economies, this investment rate declined between 1980 and 2000, owing to financial crises and costly economic reforms. In Southern, Eastern and South-Eastern Asia, the remarkable expansion of fixed investment in China (and to a lesser extent in India) even compensated for the significant reduction of the investment rate in the Asian economies that were affected by the 1997-1998 financial crisis. Since 2003, improving economic conditions in most developing regions and transition economies have been accompanied – and supported – by a recovery in capital formation.

TO LEARN MORE

UNCTAD conducts policy-oriented analysis on economic growth and structural transformation; the results of such studies are published every year in the *Trade and Development Report*. Moreover, a country-by-country presentation of the composition of GDP is available in the *UNCTAD Handbook of Statistics*.

1.2 GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AND EXPENDITURE

Gross domestic product by economic activity - *In %*

Gross domestic product by expenditure - *In %*

		Final consumption				Exports	Less imports
		Total	Government	Household	Gross capital formation	Of goods and services	
Developing economies	1980	100.0	13.8	58.4	26.7	27.9	25.8
	1990	100.0	14.1	59.0	25.7	27.3	26.0
	2000	100.0	14.3	57.9	24.9	36.0	33.3
	2006	100.0	14.0	52.9	27.3	44.0	38.4
Africa	1980	100.0	18.8	58.2	22.6	41.2	40.3
	1990	100.0	15.9	64.0	19.1	32.0	30.0
	2000	100.0	14.8	62.5	17.4	32.6	27.2
	2006	100.0	14.9	58.7	20.7	38.2	32.1
America	1980	100.0	11.1	66.0	27.2	16.0	17.2
	1990	100.0	14.1	62.8	21.1	16.5	14.7
	2000	100.0	15.0	65.7	20.1	21.3	22.2
	2006	100.0	15.2	62.2	20.1	26.3	23.9
Western Asia	1980	100.0	14.1	40.3	21.9	51.8	28.2
	1990	100.0	20.2	55.5	19.8	36.0	31.6
	2000	100.0	19.0	51.3	21.0	43.7	34.3
	2006	100.0	15.1	46.7	21.9	55.0	39.5
Southern, Eastern and South-Eastern Asia	1980	100.0	13.2	58.9	30.1	21.7	24.0
	1990	100.0	12.1	56.0	31.7	30.7	30.5
	2000	100.0	13.1	54.4	29.1	43.4	40.1
	2006	100.0	13.0	48.6	33.2	50.9	46.0
Economies in transition	1994	100.0	21.1	52.1	25.6	30.7	29.8
	2000	100.0	16.2	54.2	19.3	44.4	34.1
	2006	100.0	17.5	53.1	22.7	37.8	31.8
Developed economies	1980	100.0	18.3	59.3	24.0	19.0	20.4
	1990	100.0	17.9	59.7	22.9	18.1	18.6
	2000	100.0	17.0	62.1	21.7	21.8	22.6
	2006	100.0	18.3	62.2	20.9	25.9	27.4

Sources: United Nations Department of Economic and Social Affairs (UN/DESA)

1.3 GROWTH AND TRADE BALANCE

Overview

Trade and GDP growth are closely related. Exports expansion supports economic growth, and exports are very often the main source for foreign exchange, needed for funding imports of goods and services, which constitute an important component of overall supply. However, the relationship between trade and GDP may differ significantly according to circumstances. In developing countries, imported capital goods and intermediary inputs can be vital for investment and industrialization, and running a trade deficit may promote long-term growth. On the other hand, the persistence of trade deficits generates foreign liabilities that may eventually lead to a "debt trap", inhibiting investment and growth. Furthermore, excessive or premature exposure to some imports can preclude the development of domestic production capacities but an export expansion driven by higher export prices or enhanced competitiveness may support growth and generate trade surpluses. Hence, trades surpluses or deficits may co-exist with economic expansion or recession depending on the circumstances.

For example, Latin America recorded for many years a negative relationship between GDP growth and the trade balance: sustained economic growth frequently led to trade deficits, and an economic recession was generally needed to reduce imports and to restore trade surpluses. This was the case in the early 1980s, when the region shifted from trade deficits to surpluses in the face of the "debt crisis". Between 1990 and 1997, constraints on imports were relaxed and the trade balance turned to deficit again; economic growth resumed, although at a slower rate than in the 1970s. Since 2003, currency devaluation and improvements in the terms of trade have yielded both economic growth and trade surpluses. These surpluses are no longer driven by shrinking imports, but by expanding exports, making economic growth more sustainable since it does not depend on volatile capital inflows.

South-Eastern Asian economies have shown an impressive growth record since the 1970s. The countries in this subregion pursued active policies for encouraging capital accumulation and exports of manufactures, together with cautious policies regarding imports and capital movements. As a result, they managed to grow for two decades with roughly balanced trade flows. After the liberalization of capital inflows and imports in the beginning of the 1990s, these countries ran sizeable trade deficits while economic growth accelerated. The financial crisis of 1997 led to a dramatic economic adjustment, with slower growth and an extraordinary shift from trade deficit to surplus due to huge currency devaluations. The concomitant gains in competitiveness allowed the subregion to quickly recover and to return to a path of high growth rates without reducing trade surpluses.

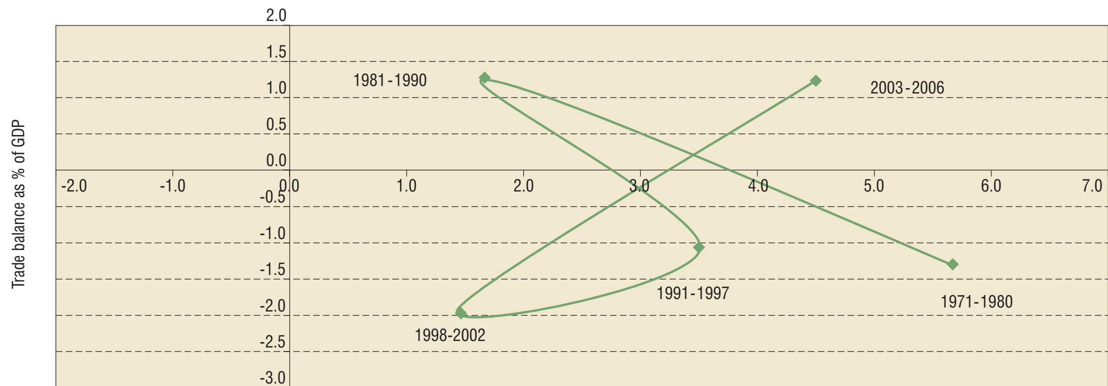
In Africa, where economic performance to a great extent relies on commodity revenues, growth is normally positively correlated with trade balances. For example, deteriorating terms of trade in the 1980s were accompanied by slow growth and trade deficits. Since 2003, steep improvements of the terms of trade brought sizeable gains in the domestic income in several countries, expanding domestic demand – including investment in extractive industries – and growth rates, while at the same time generating trade surpluses. These gains, however, did not benefit a number of oil- and food-importing countries, many of which belong to the Eastern part of the continent. In these relatively closed economies, trade deficits are a structural feature and are mainly financed by remittances and aid flows.

TO LEARN MORE

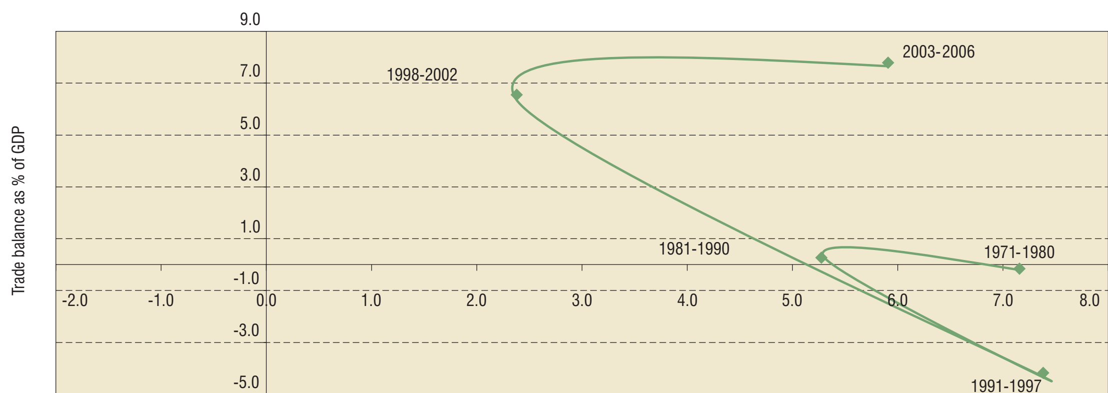
International trade and its relationship with growth and development are a central aspect of UNCTAD's analytical work. A general view on these topics is presented in the *Trade and Development Report*. Detailed data on countries' international trade is available in the *UNCTAD Handbook of Statistics*.

Relationship between gross domestic product growth and trade balance in selected regions and periods

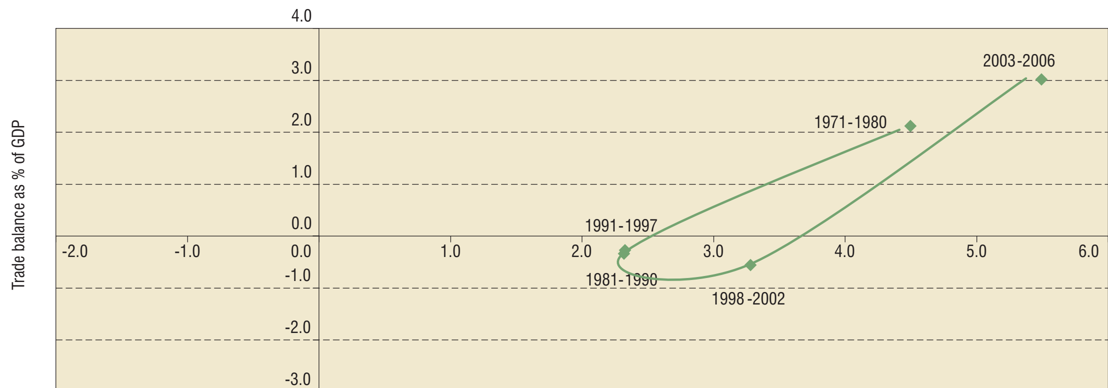
Latin America and the Caribbean



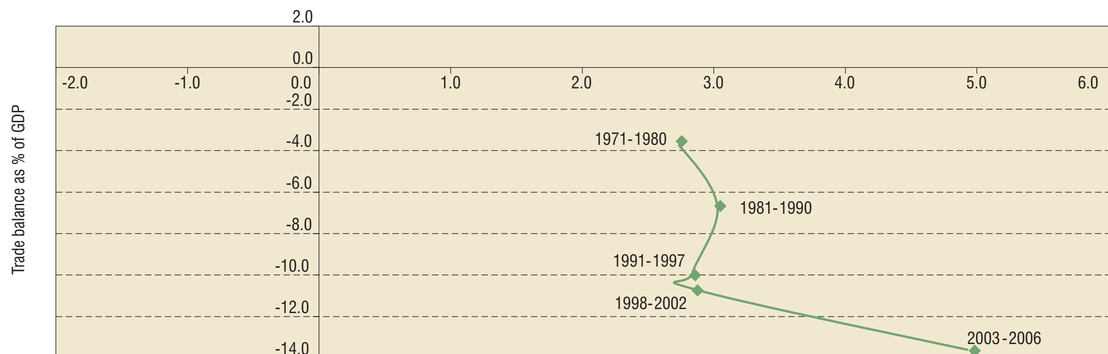
South-Eastern Asia



Africa



Eastern Africa



Sources: UNCTAD Handbook of Statistics

1.4 PRIMARY COMMODITY PRICES

Overview

During the last decades of the twentieth century, the evolution of commodity prices generally confirmed the Prebisch-Singer hypothesis of the long-term deterioration in the terms of trade of developing countries exporting primary commodities. This long-term downward trend of real prices for commodities is related to the relatively low income elasticity of demand characterizing them in comparison to manufactures, and to the transmission of productivity growth in primary production to lower prices in commodity-consuming industrialized countries, rather than to higher wages in commodity-producing developing countries. It has also been the result of substitution of raw materials by synthetics as well as of sharp increases in primary commodities supply, particularly since the mid-1980s, in order for developing countries to maintain export revenues to service their debt obligations. Structural change in developed countries away from raw-material-intensive industrial production has also contributed to this long-standing price decline of primary commodities. More recently, the growing importance of manufacturing in a number of developing countries is poised to have the opposite effect.

Since 2002, commodity markets have witnessed a boom which has resulted in the UNCTAD price index for non-fuel commodities reaching its highest level in nominal terms. However, even though the nominal price indices for all non-fuel commodity groups have been above their declining long-term trend in real terms in recent years, most real commodity prices – resulting from deflating nominal prices by the export unit value of manufactured goods of developed countries – are still far below their levels of the 1970s and early 1980s. Only the real prices for mineral, ores and metals group and for crude petroleum have exceeded those levels. In particular, the nominal price of crude petroleum has reached historical record highs, hitting the $100 per barrel level early in January 2008.

The driving forces behind the upward movement in commodity prices since 2002 have been the tight market fundamentals stemming from very robust demand growth and slower-than-expected supply response. Financial markets have added upward pressure in the form of heavy investment in commodities as a financial asset. Strong demand for commodities has resulted from robust global economic growth, especially in the United States and the rapidly expanding developing economies, such as China and India. In these developing countries, the dynamic pattern of growth, industrialization and urbanization is highly intensive in commodity use. Supply constraints have been a feature mainly of energy and minerals and metals markets, where investment and capacity growth have been slow for many years due to a long period of low prices in the 1990s. In agricultural commodities, prices have also been boosted as a result of rapidly growing demand for biofuels.

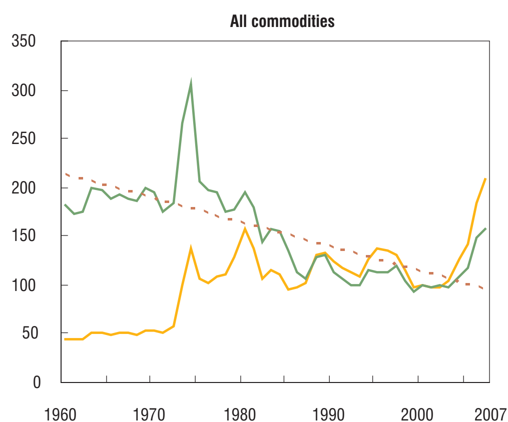
The strong demand for primary commodities in a number of developing countries may persist for several years to come. However, it is unlikely that the present price rally will lead to a break in the long-term declining term in real terms for many commodities of interest for developing countries. Supply may eventually react to the higher prices, while developed countries retain a dominant part of demand, and China and India may move to less energy- and commodity-intensive types of growth. Therefore, developing countries and the international community should avoid complacency on the current commodity bonanza and seize this opportunity to increase investment in infrastructure, education and productive capacity in order to achieve higher productivity and greater diversification, industrialization and structural change.

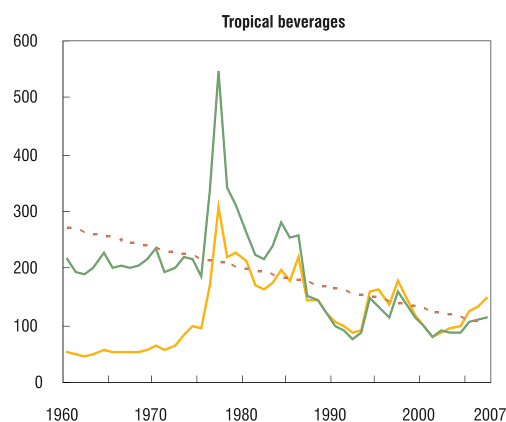
The reduction in developing countries' dependence on commodities will also make their export earnings less vulnerable to the volatility in commodity prices. Although overall price volatility appears to have declined since the price shocks of the 1970s, for several commodities which are important for developing countries, price instability has remained high. The international community might consider reviewing mechanisms at the global as well as the regional level to reduce commodity price instability, thereby mitigating its impact on national income in the exporting countries.

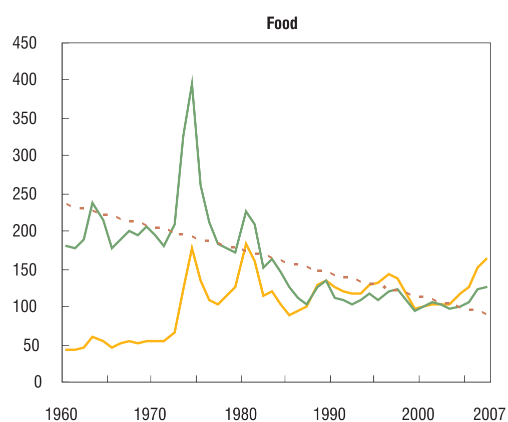
TO LEARN MORE

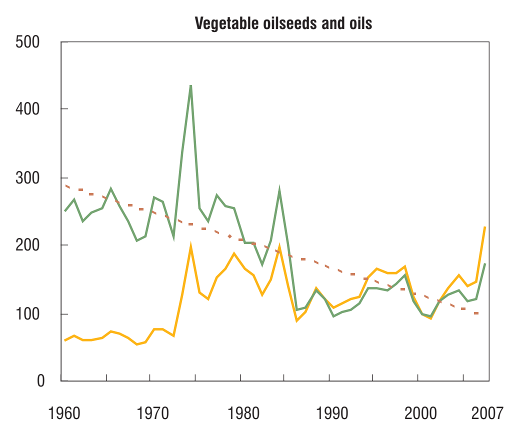
For more information on short-term and structural developments in commodity prices, see UNCTAD´s annual *Trade and Development Report*, especially the 2005, 2006 and 2007 issues. UNCTAD also publishes detailed statistics on commodity prices through the Commodity Price Statistics website and the *UNCTAD Handbook of Statistics* (see www.unctad.org/statistics). It also prepares the analysis on developments in commodity markets for the joint publication with DESA and the United Nations Regional Commissions, World Economic Situation and Prospects. The UNCTAD e-portal INFOCOMM at www.unctad.org/infocomm provides additional information on specific commodity price-related issues.

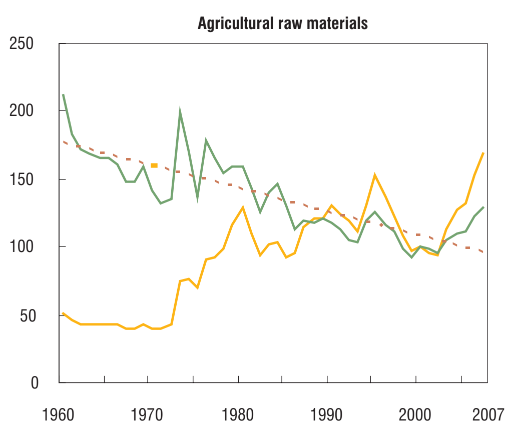
Non-fuel commodity price indices - *2000=100*

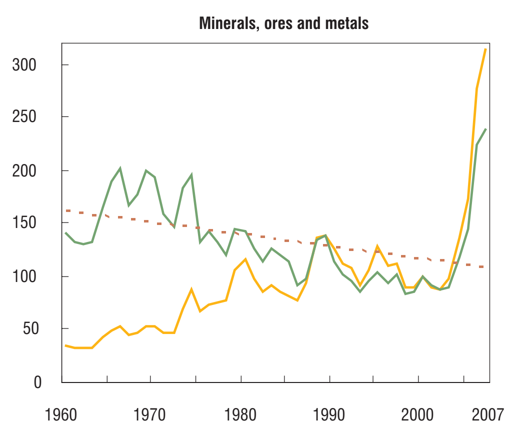






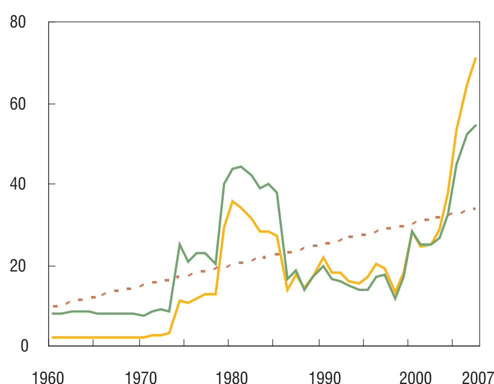






Crude petroleum prices in US$ per barrel

(Average of Dubai/Brent/Texas equally weighted)



Nominal price

Real price

Real price trendline

Price instability indices

	2002-2006
All commodities (non fuel)	5.0
Food and tropical beverages	4.4
Sugar	16.8
Bananas	19.1
Coffee	9.7
Vegetable oilseeds and oils	7.7
Cottonseed oil	20.2
Agricultural raw materials	4.4
Cotton	11.5
Minerals, ores and metals	8.6
Zinc	19.9
Crude petroleum	8.6

UNCTAD, Commodity Price Statistics online; UNCTAD Handbook of Statistics 2006-07; and United Nations Statistics Division, Monthly Bulletin of Statistics, various issues.

1.5 TERMS OF TRADE AND IMPACT ON GROSS NATIONAL INCOME

Overview

The terms of trade of a country or group of countries is the ratio between the prices (a unit price index is normally used) of their exports and the prices of their imports. Terms of trade can be quite volatile in countries where the structure of exports differs considerably from that of imports, for example in countries mostly exporting primary commodities and importing manufactures. The variability is particularly high when exports consist of a small number of products. During most of the twentieth century, developing countries suffered from a long-term trend of deteriorating terms of trade.

However, in recent years, the terms of trade of many developing countries have improved, owing to the slower growth in the prices of a significant number of manufactures, together with the steep increase in the prices of several primary commodities. As a result, exporters of fuels and mining products experienced large improvements in the terms of trade. On the other hand, exporters of manufactures endured a persistent deterioration of their terms of trade, especially those who specialized in labour-intensive manufactures and are net oil importers. The record is mixed for exporters of agricultural products. For this group of countries as a whole, the terms of trade have remained stable in the last few years; however, aggregate figures conceal diverging evolutions, depending on the specific products each country exports and on its dependency on imports of food and energy.

The diverging trends of terms of trade among developing countries are also noticeable by comparing geographical regions. Western Asia, which includes major petroleum exporters, is the region that presents the most impressive improvement in terms of trade. The African continent has benefited not only from the rise in the prices of oil and mining products, but also from the fact that in recent years a number of exporters of agricultural products have begun exporting fuels and minerals. However, the gains for the region are not evenly distributed. The situation of 24 sub-Saharan countries that do not export fuels or mining products has actually deteriorated, as the prices of their exports (tropical agricultural products or labour-intensive manufactures) have been outpaced by those of their imports (fuels, food and more elaborated manufactures).

Latin America and the Caribbean recently had significant terms of trade gains, although more moderate than those of Africa and Western Asia. Gains have been bigger in South America, while most Central American and several Caribbean countries (most of which depend heavily on the import of fuel and the export of labour-intensive manufactures) have suffered losses from their terms of trade. Finally, Eastern, South-Eastern and Southern Asian countries show a significant deterioration in their terms of trade, owing to their specialization in labour-intensive manufactures exports and their dependence on the imports of energy and industrial raw materials.

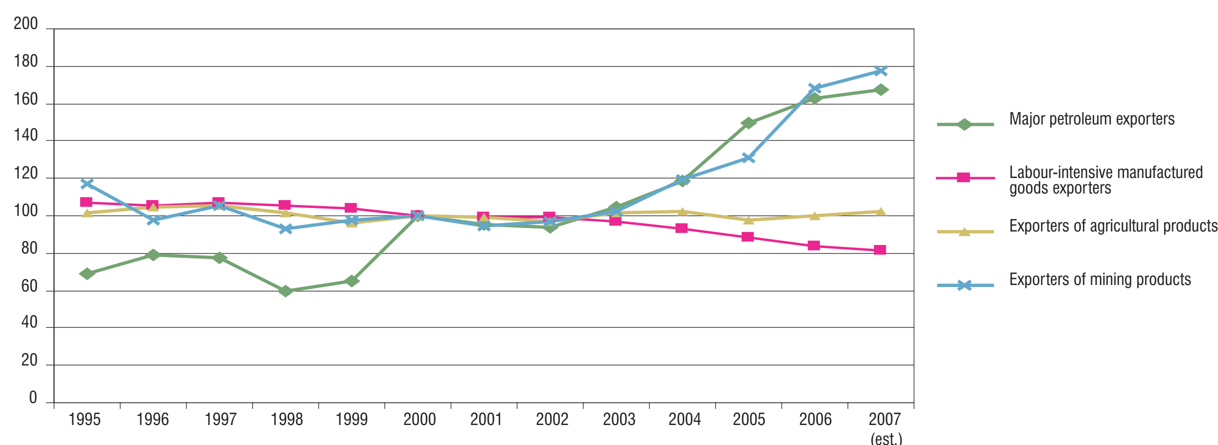
The changes in the terms of trade lead to significant gains or losses in the real income of trading countries. In fact, between 2004 and 2006, developing manufactures exporters suffered losses from changes in their terms of trade equivalent to 1.2 per cent of GDP per year. On the other hand, oil exporters and exporters of mining products obtained windfall revenues from improving terms of trade, exceeding 7 and 5 per cent of GDP per year, respectively. In some cases, however, the windfall profits accruing from terms of trade changes have been offset by increased profit remittances by transnational corporations (TNCs) involved in the exploitation of natural resources. In those cases, gross national income (GNI) has grown less than gross domestic income. This can be observed, in particular, for a number of mineral exporters between 2004 and 2006.

The main challenge for countries that benefit from improving terms of trade is to put the supplementary income revenues at the service of long-term development strategies. To do so, it is important that a significant part of the windfall income is captured by the producing countries, either through the property of producing firms or from a well-designed taxation system. A second condition is to use these resources for financing infrastructure, social and productive investment in a sustainable way.

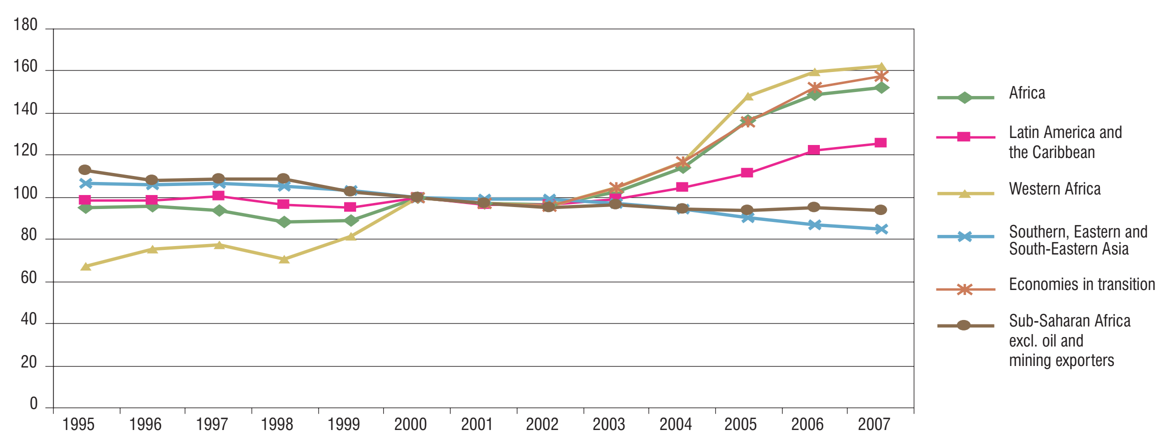
TO LEARN MORE

For more information, see (a) UNCTAD's *Trade and Development Report 2002: Developing countries in world trade*, chapter IV; (b) *Trade and Development Report 2005: New features of global independence,* chapter III; and (c) *Trade and Development Report 2007*: *Regional cooperation for development*, chapter I.

Terms of trade indices of selected developing country groups - *2000=100*



Terms of trade indices of developing economies and economies in transition - *2000=100*



Impact of changes in terms of trade and net income payments on national income in selected developing country groups - *As % of GDP*

	Average 2004-2005-2006		
	Gains or losses from terms of trade	Effects of net income payments	Net impact
Manufactured goods exporters	-1.2	-0.1	-1.2
Oil exporters	7.3	-0.2	7.0
Exporters of mineral and mining products	5.7	-4.6	1.2
Other commodity exporters	-0.2	-0.1	-0.3

Sources: UNCTAD secretariat calculations, based on United Nations Statistics Division, United Nations Common Database (UNCDB); IMF, Balance of Payments Statistics Database; ECLAC, Balance of Payments Statistics Database; national sources; and UNCTAD estimates of unit value of exports and imports.

2 PAYMENTS BALANCES AND DETERMINANTS

2.1 Current account balance
2.2 Capital flows
2.3 Inflation rates and interest rates
2.4 Unit labour costs
2.5 Nominal exchange rates
2.6 Competitiveness and real effective exchange rates

2.1 CURRENT ACCOUNT BALANCE

Overview

Large current account balances, the "global imbalances", are a standing feature of international economic policy debates. With a persistent deficit in the United States and rising surpluses in some big developing countries, including China, the question of who has to adjust and by what means has taken centre stage. Recently, increasing volatility on stock, commodities and currency markets has shown that global policies are far from offering a solution. As a result, the dollar is weak and highly vulnerable. The so-called subprime crisis and the massive interventions of central banks in illiquid money markets to stabilize interest rates have added to the nervousness.

However, from a global perspective, these turbulences are limited to some areas and do not effect the big developing countries yet. There is hardly any evidence that a major financial crisis, comparable to the Asian or Latin American crisis some 10 years ago, is looming. Taking the current account as an indicator of external vulnerability, it is obvious that most emerging-market economies show surpluses and they are much less vulnerable than at the time of the big shocks during the past two decades. In 1996, for example, the current account deficit of a group of 22 countries in Asia affected by the financial crisis had turned slightly into deficit (-1.2 per cent of GDP) after a decade of consistent surpluses. Seventeen of the 22 countries recorded deficits. Latin America, one year before its 1998 crisis, had increased its traditional deficit to 4.5 per cent, with all the 19 countries recording current account deficits.

Despite the actual surpluses in the developing world, to address the large global imbalances, trade relations between the United States and a small number of big surplus countries - including Japan, Germany and China - have to be altered. Unfortunately, the international community seems to be far away from a viable multilateral solution to the imbalances problem. In fact, so far there is no consensus among policymakers and experts on the reasons and the gravity of the imbalances, let alone on multilateral policies to correct them.

In general, conclusive explanations for current account imbalances are not easy to find. In particular, it is not always clear whether they are mainly caused by trade flows or capital flows. The first view stresses the fact that, by definition, a current account balance describes the difference between current receipts and expenditures for internationally-traded goods and services and income payments. The second view focuses on the fact that - at the same time, but from a national perspective - the current account balance by definition always exactly equals the gap between national saving and domestic investment. Although it should be clear from the outset that a tautological relationship does not provide, by itself, any explanation or imply certain causality, it is very often a starting point for analysis.

Indeed, there are many indications that the underlying causes of the global imbalances are rather complex. Today's global imbalances are to an important extent a reflection and consequence of vital systemic deficiencies. The lack of a viable multilateral financial system is the most important one. In the past, flexibility and pragmatism of United States macroeconomic policy management has prevented the systemic deficiencies in the global economic order to fuel a global deflation. But with a recession in the United States looming, the global structure of production, trade and finance has become precarious.

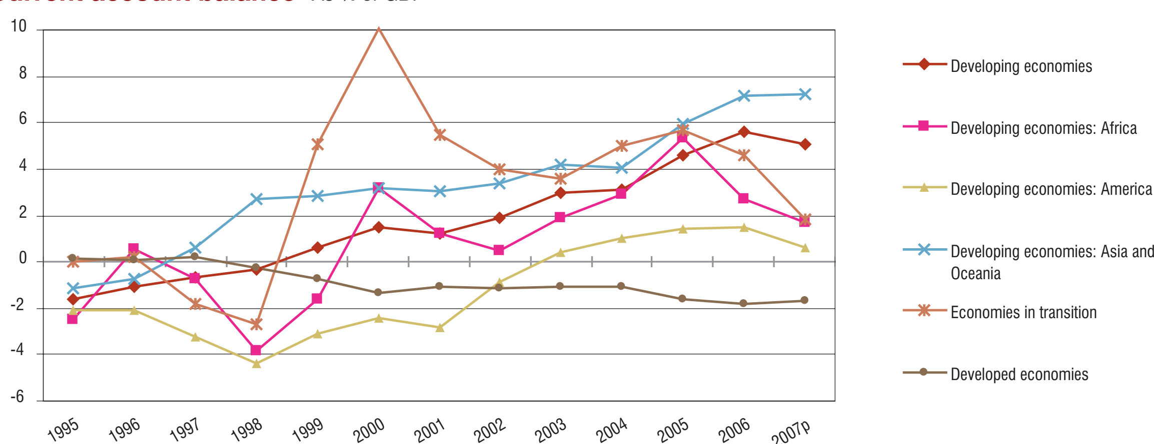
After the Asian and the Latin American crises, more and more developing countries have come to follow a similar path of adjustment by stabilizing their exchange rates at a rather low level, running sizeable current account surpluses and accumulating huge dollar reserves. While this practice is widely suspected as being suboptimal, in many respects it represents the only feasible way in which developing countries can successfully adapt to the systemic deficiencies afflicting today's global economic order, i.e. the absence of symmetric obligations of surplus and of deficit countries.

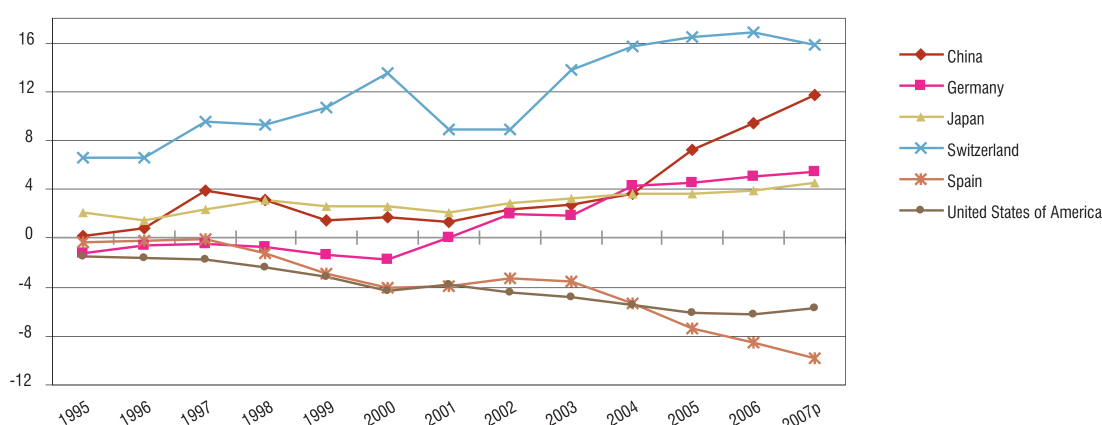
Crucially, what is needed for a benign unwinding of global imbalances is a responsible multilateral effort rather than pressure on parts of the developing world. A well-coordinated international macroeconomic approach would considerably enhance the chances of the poorer countries to consolidate the recent improvements in their growth performance.

TO LEARN MORE

See UNCTAD's *Trade and Development Report 2006: Global imbalances as a systemic problem*, chapter I.

Current account balance - *As % of GDP*





p = provisional

Current account balance - *As % of GDP*

Region	1980	1985	1990	1995	2000	2005	2006	2007p
Developing economies	**1.3**	**-0.5**	**0.1**	**-1.6**	**1.5**	**4.6**	**5.6**	**5.1**
Developing economies excluding China	*1.4*	*-0.1*	*-0.3*	*-1.8*	*1.5*	*3.9*	*4.4*	*3.0*
Least developed countries (LDCs)	*-6.2*	*-5.2*	*-5.0*	*-4.7*	*-3.3*	*-2.3*	*-0.5*	*-2.5*
Developing economies: Africa	**1.4**	**0.3**	**0.9**	**-2.5**	**3.2**	**5.3**	**2.7**	**1.7**
North Africa including Sudan	4.3	-0.2	2.7	-1.6	5.6	10.5	10.0	8.6
Sub-Saharan Africa	0.1	0.5	-0.3	-3.1	1.2	1.6	-3.8	-3.1
Developing economies: America	**-3.4**	**-0.3**	**-0.1**	**-2.1**	**-2.4**	**1.4**	**1.5**	**0.6**
Central America	-5.2	-0.1	-2.9	-1.2	-3.5	-1.1	-0.8	-1.3
Caribbean	-4.5	-2.6	-1.1	-1.4	-3.8	0.4	-0.4	-0.9
South America	-2.6	-0.3	0.9	-2.4	-1.8	2.8	2.7	1.4
Developing economies: Asia and Oceania	**4.0**	**-0.7**	**0.4**	**-1.1**	**3.2**	**6.0**	**7.2**	**7.2**
Western Asia	22.1	0.0	1.6	-1.1	6.5	12.6	13.0	10.2
Southern Asia	-2.4	-2.0	-2.8	-1.1	0.9	0.5	0.3	-0.6
Eastern Asia	-1.7	-0.3	2.8	-0.6	2.2	5.9	7.4	9.0
South-Eastern Asia	-2.1	-0.1	-2.5	-2.5	6.2	5.3	8.2	7.5
Economies in transition	**–**	**–**	**–**	**0.0**	**10.1**	**5.7**	**4.6**	**1.8**
Developed economies	**-1.0**	**-0.7**	**-0.6**	**0.1**	**-1.3**	**-1.6**	**-1.8**	**-1.7**

p = provisional
Sources: UNCTAD calculations based on data from IMF and UN/DESA

2.2 CAPITAL FLOWS

Overview

For a number of years, global capital flows have reversed as current accounts have swung around and developing countries have become net exporters of capital and developed countries net importers. In 2007, developing countries as a whole received a net inflow of $196.9 billion, the balance of private net inflows of $325.3 billion and net official outflows of $128.5 billion. However, at the same time, these countries piled up reserves (which is a net outflow) of $918.8 billion, amounting to an overall export of capital of $722 billion.

Although unevenly distributed between regions and between emerging and poor economies, developing countries as a group have attained independence from international capital markets in the new century. The capital surplus position could be used to lower interest rates through national monetary policy measures and has further stimulated domestic investment.

Orthodox development theories would consider such net export of capital from poorer countries as a constraint on domestic investment. Yet the rising domestic investment in most capital-exporting developing countries cannot be denied. The fact that the export capital of poor developing countries' – supposedly endowed with little capital – to the rich North – supposedly endowed with plenty of capital – has not constrained their ability to invest larger sums in fixed capital at home than at any time in the last 30 years. This fact challenges orthodox development theory. It implies a need for a rethinking of the most crucial assumptions about the functional relation between savings, investment, capital flows (including both foreign direct investment (FDI) and official development assistance (ODA)) and the alternate policies and paths for catching up. Clearly, the belief held in many development circles over many years that poorer countries have a chronic "savings gap" due to the inability of their private households to save and that they need permanent net inflows of capital for catching up is refuted by these facts for a large number of emerging economies in all regions. While this development has been driven mainly by emerging economies in different regions, and could be sustained and emulated by other economies, its relevance for poor and other lower-middle-income countries should not be underestimated.

The implications for development policy and the future of the open global market are remarkable. If developing countries are able to create (and export) capital in a process of booming investment, the so-called "profit-investment nexus", this should allay growing apprehensions in developed countries about offshoring and alleged capital scarcity in developing countries. These processes are held responsible for triggering a fall in the capital–labour ratio and hence downward pressure on wages in developed economies.

Quite the opposite is actually happening. Developing countries such as China and India are on a similar path to that pursued by countries such as Japan and the Republic of Korea when they were developing 30 years ago: catching up by applying high technology in a low-wage environment, thereby lowering unit labour costs. The leapfrogging of stages of the usual domestic technological evolution and the improvement of overall competitiveness by realizing temporary monopoly rents are made possible through the combination of high productivity with low wages. This model has come into full swing in more regions and countries since the crisis-driven devaluation corrected the exchange rate misalignments of the 1990s.

But it is also noted that the share of FDI participating in this process in China in particular is higher than it was in Japan and the Republic of Korea in the past. However, the fact that developing countries, despite higher inflows of FDI, are net exporters of capital raises the question as to whether it is the capital import as such that is critical, or more significantly, the import of know-how that makes the difference. Whether the owner of the plant in a developing country is a domestic or a foreign investor is a question of secondary importance in capital-surplus countries. In other words, the impact of today's off-shoring need not be different from the impact of former catching-up processes, namely catching up driven by imitation and the import of technology. The economic consequences are more or less the same for developing as for developed economies.

TO LEARN MORE

See the Report of the Secretary-General of UNCTAD to UNCTAD XII, *Globalization for Development: Opportunities and Challenges, July 2007: The capital flow paradox*.

Net financial flows to developing countries and countries in transition, 1995 - 2007 - *In billion US$*

Country groups	Financial flows items	Annual average 1995 - 2000	Annual average 2000 - 2005	2005	2006	2007
Developing economies	Private capital flows net	113.9	104.8	175.1	88.9	325.3
	Direct investment net	123.0	153.6	207.7	188.6	243.7
	Portfolio investment net	34.0	-55.0	-40.0	-210.4	-105.1
	Other private cap flows net	-43.0	6.2	7.4	110.7	186.7
	Official capital flows net	7.1	-38.4	-123.3	-134.6	-128.5
	Total capital flows net	121.1	66.4	51.8	-45.7	196.9
	Change in reserves	-76.4	-273.2	-492.0	-617.2	-918.8
	Current account net	*-12.9*	*212.6*	*474.6*	*653.8*	*695.9*
Developing economies: Africa	Private capital flows net	6.9	12.7	29.7	14.8	42.5
	Direct investment net	6.8	20.1	29.6	27.9	39.7
	Portfolio investment net	4.3	-0.6	5.5	11.6	10.5
	Other private cap flows net	-4.1	-6.9	-5.4	-24.7	-7.6
	Official capital flows net	4.6	-0.7	-7.2	-12.9	5.1
	Total capital flows net	11.6	12.0	22.5	1.8	47.7
	Change in reserves	-7.4	-24.7	-63.3	-76.6	-78.0
	Current account net	*-5.4*	*12.0*	*36.6*	*53.8*	*20.7*
Developing economies: America	Private capital flows net	64.4	30.8	35.3	9.9	83.8
	Direct investment net	53.5	53.8	50.4	28.0	71.9
	Portfolio investment net	18.6	-2.4	26.5	-16.3	19.1
	Other private cap flows net	-7.7	-20.6	-41.5	-1.9	-7.3
	Official capital flows net	4.1	0.3	-30.5	-18.4	-0.4
	Total capital flows net	68.4	31.1	4.8	-8.5	83.3
	Change in reserves	-6.3	-15.2	-32.4	-48.6	-113.0
	Current account net	*-56.3*	*-9.0*	*34.9*	*44.9*	*19.5*
Developing economies: Asia and Oceania	Private capital flows net	42.6	61.3	110.1	64.3	199.1
	Direct investment net	62.7	79.7	127.7	132.6	132.1
	Portfolio investment net	11.1	-52.0	-72.0	-205.7	-134.6
	Other private cap flows net	-31.2	33.6	54.4	137.3	201.6
	Official capital flows net	-1.5	-38.0	-85.7	-103.3	-133.2
	Total capital flows net	41.1	23.3	24.5	-39.0	65.9
	Change in reserves	-62.7	-233.2	-396.3	-491.9	-727.9
	Current account net	*48.8*	*209.7*	*403.1*	*555.1*	*655.7*
Western Asia	Private capital flows net	9.6	3.1	29.1	34.4	52.8
	Direct investment net	3.9	9.4	19.3	30.6	34.2
	Portfolio investment net	-4.5	-34.3	-53.1	-75.8	-95.4
	Other private cap flows net	10.2	28.1	62.9	79.5	114.0
	Official capital flows net	-3.8	-27.7	-64.9	-80.7	-115.5
	Total capital flows net	5.8	-24.6	-35.9	-46.3	-62.7
	Change in reserves	-7.7	-32.1	-93.5	-103.1	-86.5
	Current account net	*5.0*	*55.9*	*137.1*	*163.0*	*147.0*
Southern Asia	Private capital flows net	4.0	14.3	18.3	35.0	62.3
	Direct investment net	3.7	6.4	7.6	11.6	17.6
	Portfolio investment net	1.7	7.1	13.6	7.6	21.6
	Other private cap flows net	-1.4	0.8	-3.0	15.8	23.0
	Official capital flows net	2.2	1.3	4.5	3.7	4.2
	Total capital flows net	6.1	15.6	22.7	38.7	66.5
	Change in reserves	-3.3	-24.0	-27.1	-47.5	-59.1
	Current account net	*-3.9*	*8.4*	*6.4*	*4.1*	*-10.1*
Eastern Asia	Private capital flows net	19.1	48.1	53.4	-10.7	82.3
	Direct investment net	37.7	48.5	72.1	56.5	45.8
	Portfolio investment net	23.8	-19.1	-37.1	-137.3	-61.3
	Other private cap flows net	-42.3	18.7	18.4	70.0	97.8
	Official capital flows net	5.9	-1.9	-5.5	0.2	0.3
	Total capital flows net	25.0	46.2	47.9	-10.5	82.5
	Change in reserves	-39.3	-157.8	-248.4	-281.6	-507.8
	Current account net	*32.2*	*104.6*	*212.1*	*301.4*	*428.7*
South-Eastern Asia	Private capital flows net	10.2	-4.2	9.4	5.1	1.4
	Direct investment net	17.2	15.3	28.5	33.7	34.3
	Portfolio investment net	-9.7	-5.6	4.7	-0.3	0.5
	Other private cap flows net	2.8	-13.8	-23.9	-28.4	-33.4
	Official capital flows net	-5.8	-9.7	-19.8	-26.6	-22.2
	Total capital flows net	4.4	-13.9	-10.4	-21.5	-20.9
	Change in reserves	-12.5	-19.3	-27.3	-59.4	-74.6
	Current account net	*15.3*	*40.9*	*47.7*	*87.1*	*90.6*
Economies in transition	Private capital flows net	-4.7	24.0	62.6	102.8	129.1
	Direct investment net	6.9	14.7	26.4	48.6	34.4
	Portfolio investment net	-0.7	-3.2	-8.0	6.6	8.8
	Other private cap flows net	-10.9	12.5	44.1	47.7	86.0
	Official capital flows net	-1.2	-9.8	-21.9	-29.7	-4.7
	Total capital flows net	-5.9	14.3	40.7	73.1	124.4
	Change in reserves	-4.3	-41.4	-89.5	-145.6	-160.0
	Current account net	*7.0*	*40.0*	*68.9*	*71.8*	*34.1*

Sources: IMF, World Economic Outlook Database

2.3 INFLATION RATES AND INTEREST RATES

Overview

Interest rates, both long-term market rates and short-term policy rates, have been extraordinary low in recent years in developed and developing countries.

After the major financial crises in Asia and Latin America, the macroeconomic situation in Japan and the euro area, as well as in countries in Eastern Asia and Latin America, has been characterized by a low inflation environment despite rising commodity prices. Obviously, the steep real devaluation in Eastern Asian countries after their crises and the expansion of the Chinese industrial supply introduced a deflationary bias in manufacture markets of developed markets that has more than compensated the rising demand pressure on several commodity markets. Moreover, higher commodity prices including oil have not spoiled the benign inflation outlook as wage growth has remained moderate in the face of high unemployment rates in many important countries. Finally, the financial turmoil generated by the United States sub-prime mortgage market meltdown in the summer of 2007 has spurred significant cuts in policy rates by several central banks.

Inflation has been remarkably low, less volatile and less persistent in both industrial countries and most emerging market economies in recent years. This can be partly explained by the reduction of inflationary inertia, which was mainly due to implicit or explicit forms of wage indexation and persistent inflationary expectations. The disruptive effects of commodity and oil price shocks on price stability in the 1970s and 1980s were the result of (a) a first-round effect generated by a first pass-through of rising costs of petroleum products, such as gasoline and heating oil, on prices due to the low price elasticity of their demand at most stages of the production chain; and (b) an inflationary acceleration triggered by workers' attempts to compensate their real income loss by bargaining for higher nominal wages and firms' attempts to preserve profit margins by adjusting prices. Eventually, this generated a wage–price spiral resulting in inflationary expectations embedded in many economies' wage bargaining processes. Meanwhile, it seems that workers and trade unions have learned the lesson that they cannot win both the direct confrontation with employers and the indirect one with central banks at the same time, particularly in the case of an oil shock.

In addition, the rising importance of traded goods in consumption and production processes has put pressure on pass-through from costs to prices. Finally, during the 1990s many developed economies and emerging market countries adopted "inflation targeting" monetary frameworks, which require a commitment to achieve a pre-announced inflation rate as a way to anchor inflation expectations. This has contributed to lowering inflationary expectations and has given central banks a chance to lower interest rates consistently.

During the 1970s, nominal short-term interest rates set by the Group of Seven (G7) central banks soared to 10 per cent and even reached 14 per cent in the early 1980s; they subsequently declined to around 5 per cent by 1993 and were cut below 2 per cent 10 years later. The picture for yields on G7 government bonds with a maturity of 10 years is very similar: declining below 4 per cent in recent years compared with their peak of 13 per cent in the early 1980s. The tight monetary policy of the early 1980s, in response to the preceding inflationary experience of the 1970s, caused a severe recession in industrial countries and those developing countries that had accumulated large amounts of dollar-denominated debt at variable interest rates. Subsequently, interest rates in developed countries progressively declined. The United States Federal Reserve Funds rate peaked at only 6.5 per cent in May 2000, following a mild rise in inflation. As the investment boom turned into bust, interest rates were slashed aggressively. The United States Federal Reserve's aggressive monetary easing led the way to historically-low interest rates worldwide and global liquidity surged.

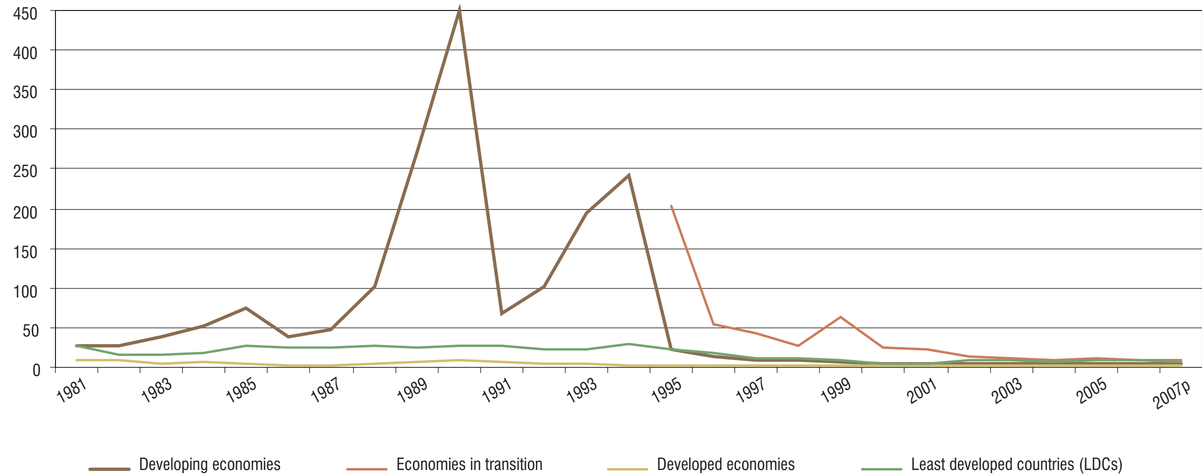
Monetary tendencies in developing countries followed conditions in industrial countries with a time lag. Short-term interest rates set by central banks in developing countries were quite high at the beginning of the 1980s, but ranged from 2 to 10 per cent in the majority of developing countries in 2005. Long-term government bond yields declined to low levels as well in recent years as yield spreads of emerging-market debts over G7 debts shrank markedly and across the maturity spectrum. Global investors' search for yield raised the demand for high-yielding emerging-market instruments, especially as their issuers' trade positions and balance sheets started to look healthier. This was reinforced as emerging market economies used the current account surpluses for repayment of debts, i.e. reductions in the supply of what global investors were keen to buy.

TO LEARN MORE

For an extension on the effect of oil price shocks on inflation and monetary policies see UNCTAD, *Trade and Development Report 2005*, chapter I, section D. For complete analysis of the declining trend of the interest see *Trade and Development Report 2006*, chapter I, section D. For the monetary policy response to the summer 2007 financial turmoil see *"Coping with financial market crisis"*, UNCTAD Policy Brief, n. 1, October 2007 and Flassbeck and La Marca (2007), *"Coping with globalized finance"*, UNCTAD/GDS/2007/2, New York and Geneva. For the role of interest rate differentials on capital flows and exchange rate see also section 3.3 of this publication, Flassbeck and La Marca (2007).

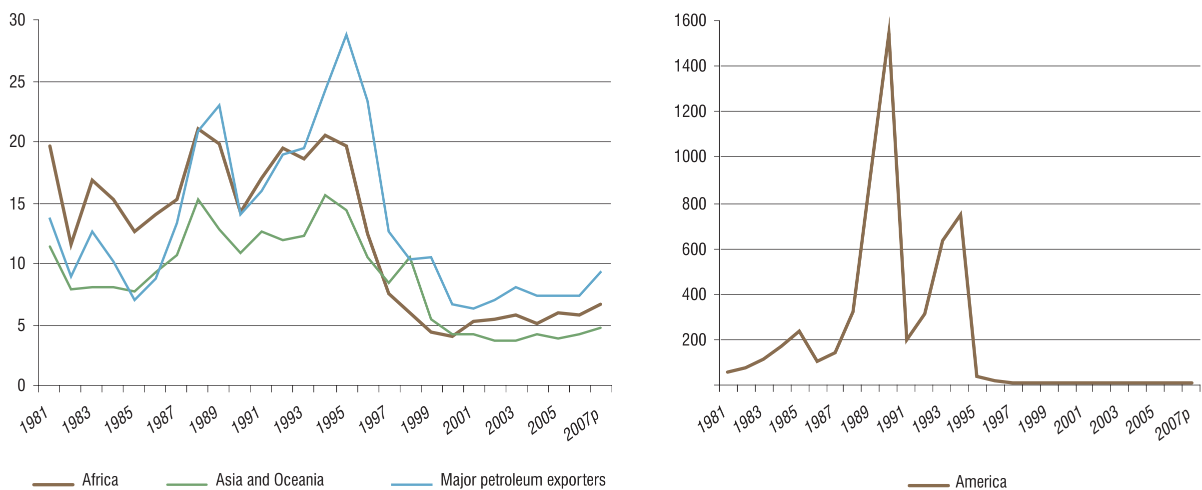
Inflation (CPI)

Annual change in %



Inflation (CPI): Developing countries by region and major petroleum-exporting developing countries

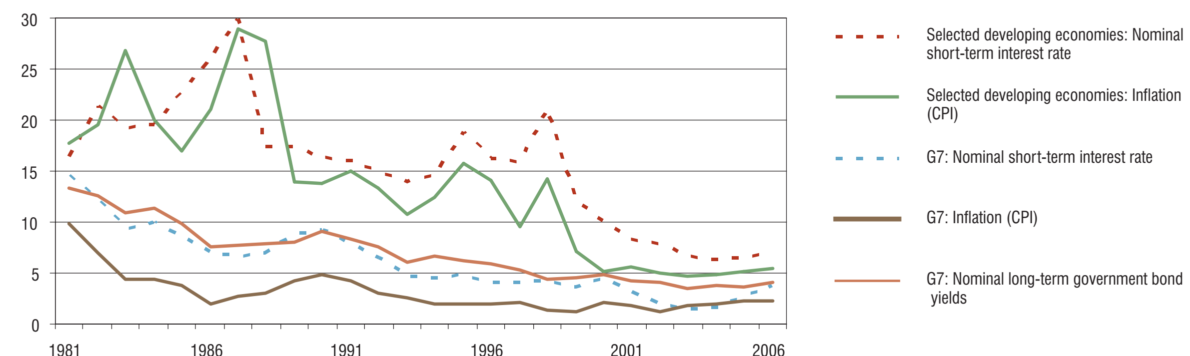
Annual change in %



Source: UNCTAD secretariat calculations based on IMF International Financial Statistics and IMF World Economic Outlook database.

Interest rates and inflation in selected economies

In % (GDP weighted average)



Notes: UNCTAD secretariat calculations for developing countries are based on 36 economies excluding countries that went through a period of hyperinflation (Argentina and Brazil).

Sources: IMF, International Financial Statistics Database; Thomson Financial Database, United Nations Common Database, and OECD Economic Outlook Database.

2.4 UNIT LABOUR COSTS

Overview

Unit labour costs provide a link between labour productivity and the cost of labour used in generating output. A rise in unit labour costs represents an increased reward to the contribution of the production factor labour to output. But it also represents a rise in labour cost. If the rise in labour cost exceeds the rise in labour productivity, then the cost competitiveness of an enterprise declines. Wages are a key determinant of labour costs with wage developments, in turn, being strongly influenced by the inflation rate.

Over the past few years, rising energy prices and in particular rising oil prices have had a strong influence on consumer prices. The price and wage impact of a rise in oil prices is often separated into first- and second-round effects. Regarding first-round effects, consumer prices normally rise (or stop falling) immediately after petroleum products become more expensive because the elasticity of demand is relatively low at most stages of the production chain. This leads to a loss in real income of labour. Second-round effects occur when workers try to compensate their real income loss by bargaining for higher nominal wages. They are more likely to succeed in obtaining nominal wage increases the larger the impact of a rise in oil prices on the overall price level. However, if workers successfully bargain for higher nominal wages in order to compensate for real income losses, unit labour costs will rise.

The evolution of unit labour costs in the industrialized countries during the 1970s and early 1980s demonstrates the role and weight of second-round effects. The rise in unit labour costs was especially pronounced in the wake of the first oil-price shock: unit labour costs grew by 15 per cent in the first year and 12 per cent in the second year, and growth rates subsequently remained around 7 per cent. Unit labour cost increases were less pronounced during the second oil-price shock, although they were still quite considerable. The development of unit labour costs in the major oil-consuming countries since 2000 indicates that second-round effects have been practically absent. Unit labour costs rose by just over 2 per cent in 2000 and have been growing more slowly ever since. There has been no compensation for workers' real income losses.

Exposure of oil-importing developing countries to oil price hikes frequently differs from that of the developed world. First-round effects tend to be more severe, as the energy intensity of output is generally higher at earlier stages of industrialization and urbanization. In contrast to the substantial reduction of oil dependency in developed countries, reliance on oil imports has increased in the developing world. In 1972, the oil import bill in developing countries (excluding the Organization of Petroleum Exporting Countries (OPEC)) represented 0.8 per cent of current GDP, while it now exceeds 3.5 per cent, roughly twice the oil import bill paid in the main Organization for Economic Cooperation and Development (OECD) countries. Moreover, the share of taxes in the final price of fuels is usually much lower in developing than in most developed countries. As a consequence, in developing countries, changes in the world market price of energy products have a more direct impact on final consumer prices.

Indeed, the evolution of unit labour costs in developing countries and Eastern European economies over the past few years more closely resembles the experience of the developed countries in the 1970s. However, different regions present different pictures which at least in part reflect their different exposure to the global hike in energy prices. For example, Latin American countries as a group have a relatively low exposure. Among the countries included in the figure, Ecuador and Mexico are oil exporters, while Brazil has aimed at substituting oil with national energy sources (hydroelectricity and alcohol) and at increasing the domestic production of hydrocarbons. In China, by contrast, rising energy imports related to rapid industrialization and urbanization and steps towards liberalization of domestic energy prices have combined to increase price and cost pressure.

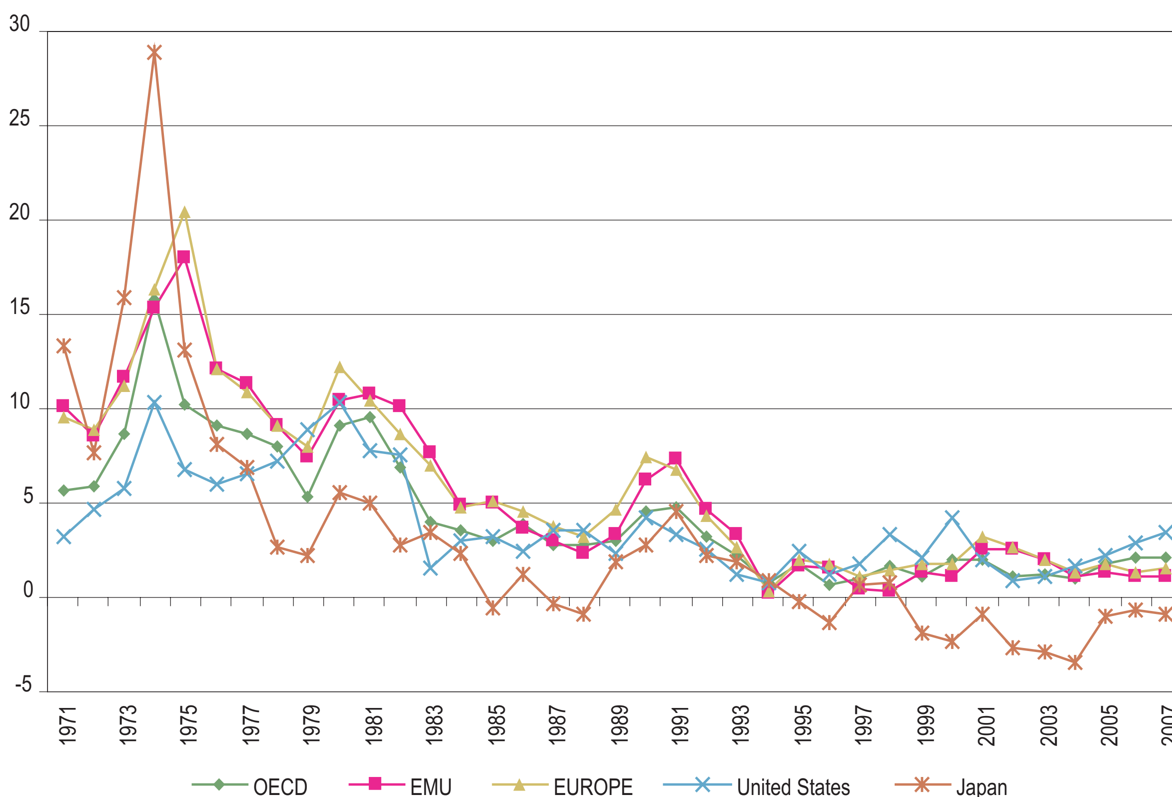
In some developing countries, high energy prices have caused concern about inflationary pressures, and prompted a tightening of monetary policies in order to prevent second-round effects. This is in stark contrast to the reaction in developed countries. There the lesson has been learned that monetary policy instruments, which almost exclusively operate through the impact on aggregate demand and the absolute price level, should not be used to abate price increases originating in changes of relative prices. Monetary policy should remain supportive to investment and growth so that price and cost pressures can be contained by improvements in labour productivity and capacity expansion.

TO LEARN MORE

For further discussion, see UNCTAD *Trade and Development Report 2005*, chapter I, section D.

Unit labour cost development in developed countries

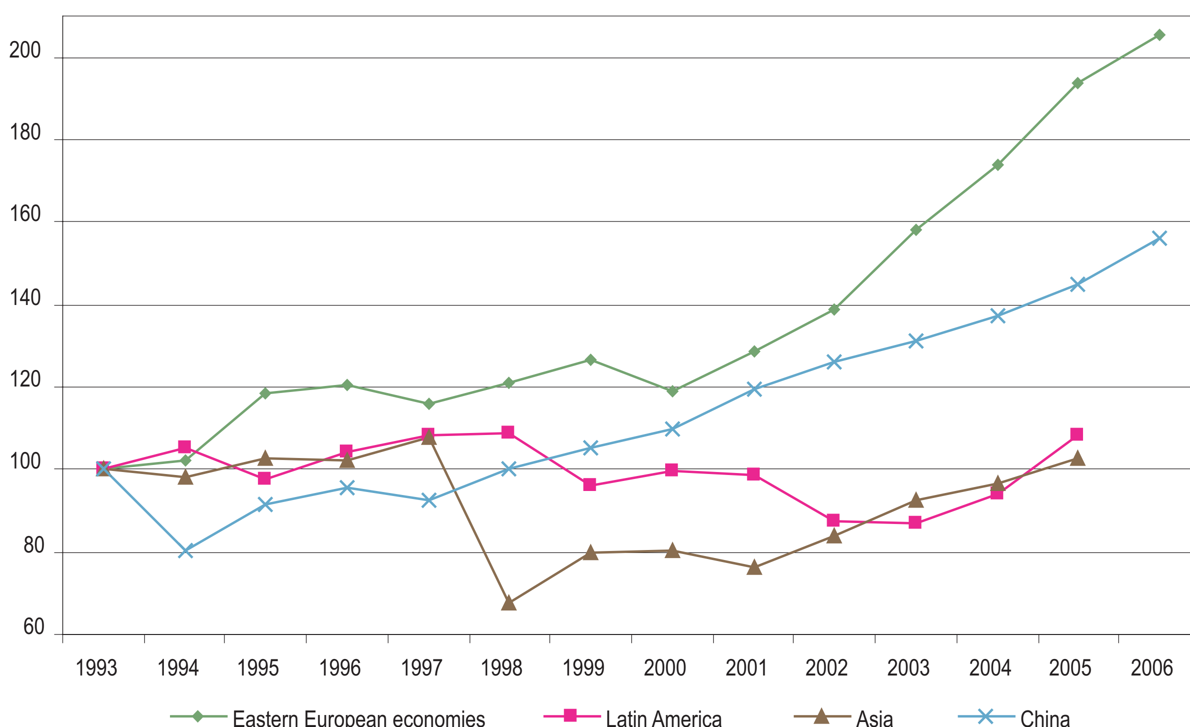
Annual growth rates in %



Notes: Unit labour cost of the whole economy
EMU group excludes Portugal.
OECD excludes Mexico, New Zealand, Portugal and Turkey.
Sources: UNCTAD Secretariat calculations based on OECD Main Economic Indicators and EIU.

Unit labour cost development in selected groups of developing and Eastern European economies

Index numbers 1993 = 100



Notes: Unit labour costs: whole economy except Kazakhstan, Slovakia and Taiwan Province of China (industry).
Eastern European economies: Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovakia and Slovenia.
Asia: China, Taiwan Province of, Indonesia, Philippines, Republic of Korea, Singapore, and Thailand.
Latin America: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru.
Sources: UNCTAD secretariat calculations, based on ILO, Key Indicators of the Labour Market (KILM); OECD; and Economist Intelligence Unit.

2.5 NOMINAL EXCHANGE RATES

Overview

Nominal exchange rate dynamics have recently been strongly influenced by speculation based on interest rate differentials. Differences between nominal interest rates can offer significant profit potentials. But speculation on international interest rate differentials that is not covered in the forward currency market, involves a currency risk. A floating exchange regime was expected to increase the risk and to discourage such operations, while a fixed exchange regime provides a (partial) guarantee of exchange stability, and therefore was expected to encourage speculation. However, floating exchange rates will even stimulate speculative operations if the amounts available to investors are big enough to drive the currency market temporary in the "wrong" direction and thereby induce exchange rate changes which add to the speculative profit expected from interest rate arbitrage.

The analysis of some pre- and post-crisis periods for selected emerging market economies sheds light on the relationship between risk and return. Large gains entailing relatively low risk were possible in the 1990s in the case of Brazil and Mexico before their respective crises. Turkey, on the other hand, offered spectacular returns in both periods, but these were associated with relatively high risk. The Republic of Korea provided much smaller but more stable returns, while China attracted no capital inflows. The more recent periods display higher risk in the case of Brazil and the Republic of Korea, but still very high returns in Brazil. In Turkey and Mexico, the uncovered return decreases, but the risk remains largely unchanged. Both countries and Brazil remained attractive places for international speculators even after a regime change to floating and lower interest rates. In general, there has been either an increase in risk, as in Brazil and the Republic of Korea, due to a switch to a floating exchange rate, or a fall in the return, as in Mexico and Turkey, due to a reduction in the interest rate differentials after the change in the monetary regime. Given their specific combination of return and risk, Brazil, Mexico and Turkey remained subject to the same kind of speculation before and after changes in their monetary regime.

The case study of four regional country groups shows how alternative exchange-rate regimes and different monetary policies can generate varying degrees of profit opportunities for international speculators. The group of Asian developing countries includes China, which has adopted a pegged exchange rate, and 10 other economies that have followed managed or independent floating. Experience of the group as a whole has been characterized by moderate inflation and low interest rates, which has stabilized expectations of investors in fixed capital and limited short-term speculative capital inflows. Regarding China, its exchange rate, capital market and monetary regimes have been very stable over a long period of time. A pegged exchange rate, low inflation and low interest rates have led to expectations of stability by investors in fixed capital. Low interest rates have caused short-term speculative profit returns to be nil or even negative, thereby discouraging speculative capital inflows.

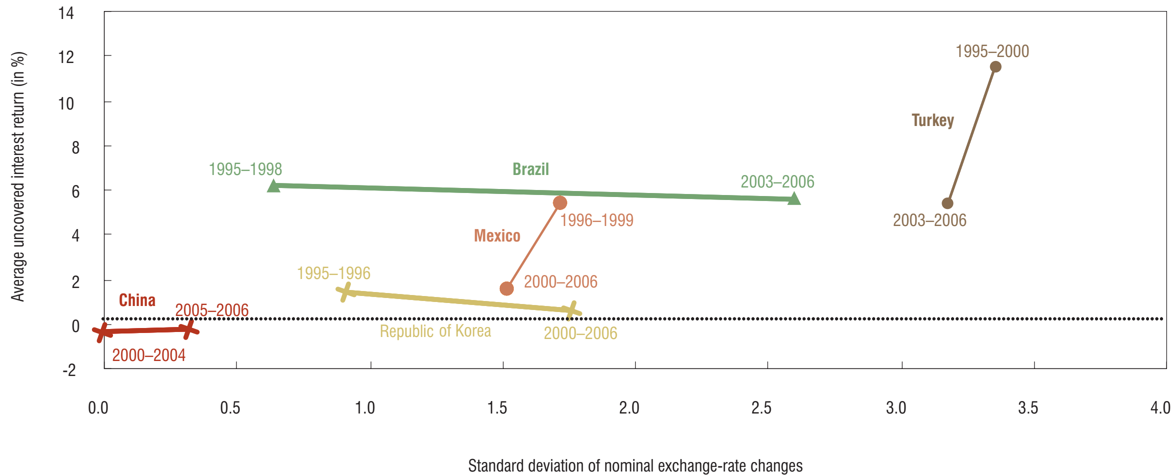
The experience of Mexico and Brazil has dominated the picture of the group of Latin American developing countries. Prior to the 1999 crisis, the situation in Brazil was characterized by a currency overvaluation and a large differential between domestic and international interest rates (aimed at maintaining capital inflows). During the same period, Mexico also had high domestic interest rates and relatively high inflation rates. Brazil's 1999 crisis forced a large nominal depreciation of the real and led to an interest rate hike that also affected interest rates in Mexico and Argentina. After the 1999 crisis, Brazil adopted a floating exchange rate regime and implemented an inflation-targeting monetary policy. The 2002 depreciation of the Brazilian real triggered a surge in inflation rates followed by a rise in interest rates. While interest rate differentials aimed at curbing inflation have been significantly reduced in Mexico. In Brazil, interest rates are still very high and the tendency towards currency appreciation persists.

The picture for the group of African developing countries is dominated by South Africa. Following the recent adoption of inflation targeting, South Africa has experienced large currency appreciation. Interest rate differentials have declined after the upswing of 2001, but significant outflows in 2005 and 2006 have led to large depreciations followed by sharp appreciation and a reversal of portfolio flows. The picture for Eastern Europe, dominated by the Russian Federation, has been characterized by large interest rate differentials, the inflow of speculative capital and real appreciation of the domestic currency.

TO LEARN MORE

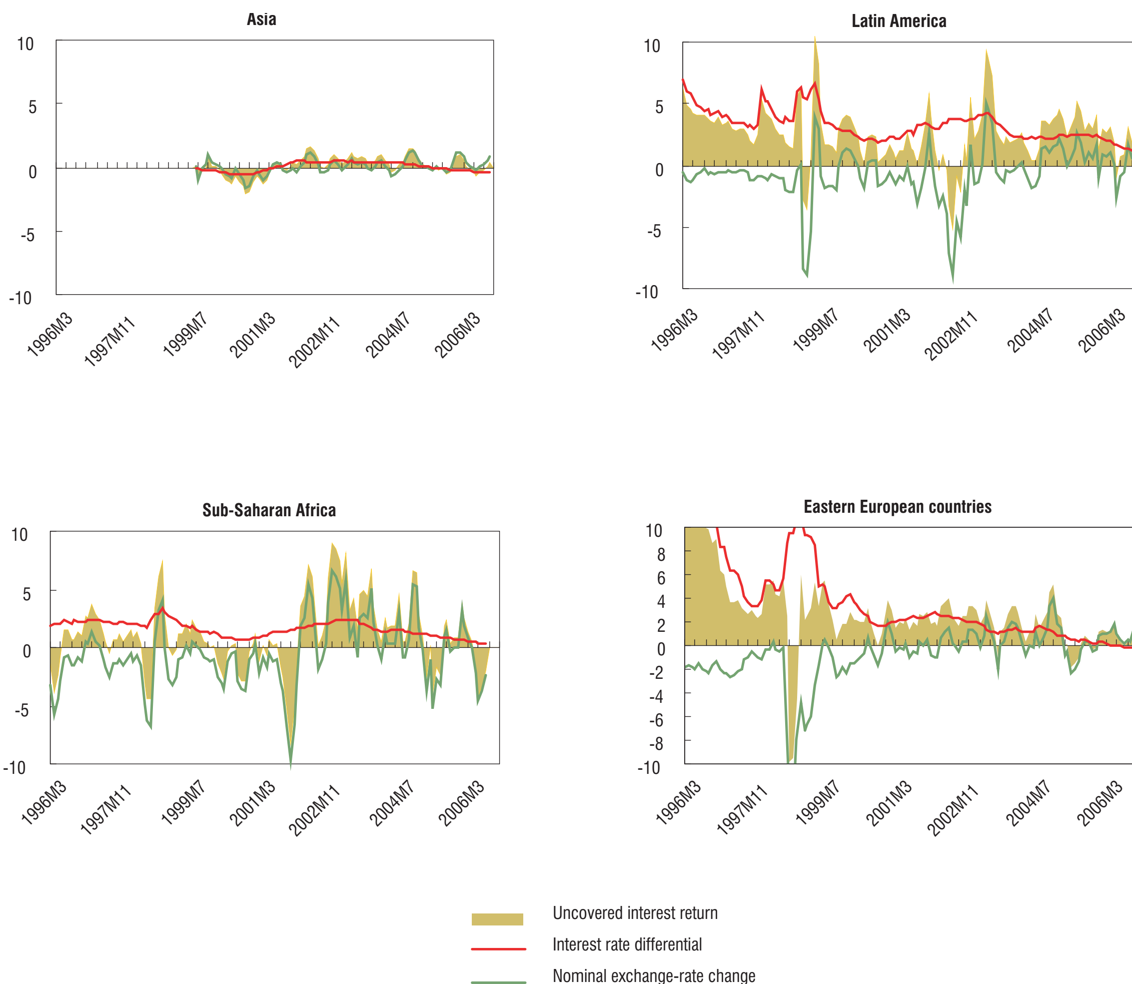
For further discussion and country-specific examples, see UNCTAD *Trade and Development Report 2007*, chapter I, section B, Global imbalances and destabilizing speculation.

Average uncovered interest return and currency volatility, selected countries and periods



Notes: The uncovered returns are the averages of the quarterly returns for the selected periods.The figure gives an idea of the possible relationship between risk and returns for some pre- and post-crisis periods for selected emerging market economies. The average quarterly returns created by the exploitation of interest rate differentials (vertical axis) are plotted against the volatility of the nominal exchange rate (horizontal axis). The two points for each country compare the situation before and after crisis episodes (i.e. periods of exceptional volatility and change).

Uncovered interest return, exchange-rate changes, and interest rates differentials, selected regions



Notes: A positive change in the exchange rate indicates an appreciation of the currency concerned.
The shaded area is the sum of the inflation rate differential and the change in the nominal exchange rate vis-à-vis the dollar (green line).
Asia: China, Hong Kong SAR, China, Taiwan Province of, India, Indonesia, Malaysia, Pakistan, Philippines, Republic of Korea, Singapore, and Thailand
Latin America: Argentina, Bolivia, Brazil, Colombia, Dominica, Mexico, Uruguay and Venezuela (Bolivarian Republic of)
Eastern European Countries: Bulgaria, Czech Republic, Hungary, Lithuania, Poland, Russian Federation
Sub-Saharan Africa: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Kenya, Mali, Mauritius, Niger, Senegal and South Africa
Sources: UNCTAD secretariat calculations, based on IMF, International Financial Statistics Database; and national sources.

2.6 COMPETITIVENESS AND REAL EFFECTIVE EXCHANGE RATES

Overview

Compared to the nominal exchange rate, the real effective exchange rate (REER) takes account of price level differences between trading partners. Movements in REERs provide an indication of the evolution of a country's aggregate external price competitiveness*. While international price competitiveness can increase as a result of a relatively strong productivity performance of companies or the national economy as a whole (assuming wages and exchange rates to remain unchanged), greater competitiveness can result also from a depreciation of a country's REER following either a depreciation of its nominal effective exchange rate or a smaller rise in wages compared to productivity growth (i.e. falling unit labour cost growth) than in other countries.

Under normal circumstances, a depreciation of the REER leads to an expenditure switch from demand for foreign goods to demand for domestic goods. This will tend to reduce deficits or induce swings in the trade and current balances from deficit to surplus. In fact, declining current-account deficits or swings from deficit to surplus in many crisis-stricken countries in Asia (in 1997 and 1998), Latin America (Argentina in 2002, Brazil in 1999) and the Russian Federation (1998–99) were associated with sizeable depreciations of their currencies and large gains in the international price competitiveness for their economies as a whole.

The evolution of the REER following the financial crises has strongly diverged across the different countries and thus has influenced the positions of these countries in the global division of labour. Regarding countries that were subject to the Asian financial crisis in 1996 and 1997, Indonesia, the Republic of Korea and Thailand have fallen back to the level of competitiveness held in 1996 due to massive appreciation of their currencies in recent years, in particular 2006. By contrast, Malaysia's REER is still 20 per cent below the level held 10 years ago. In the Republic of Korea and Thailand the real appreciation is mainly due to the nominal appreciation of the currency. In Indonesia, with the nominal exchange rate largely constant for the last decade, the loss of competitiveness has to be attributed to much higher inflation rates than elsewhere. Regarding non-Asian countries, Argentina has maintained its strongly improved international price competitiveness since the 2002 crisis. By contrast, both Brazil and the Russian Federation have recently experienced a strong appreciation of their REER. The fact that primary commodities are of key importance for both these countries' exports and the sizeable improvement of their current-account position since 2002 indicates that strong foreign exchange inflows associated with the current commodity price boom may have had adverse effects on these countries' international price competitiveness (an effect known as "Dutch disease").

However, part of the recent appreciation of the REER in these countries probably also stems from financial speculation. Floating exchange rates and high capital mobility can move the nominal and real exchange rates in the wrong direction from a balance-of-payments point of view, thereby temporarily hindering the usual adjustment process of current account imbalances. Such "false pricing", i.e. an appreciating REER of deficit countries and a depreciating REER of surplus countries, has occurred in many regions of the world over the past few years. For example, the worsening of Hungary's international price competitiveness in 2001–2004 was accompanied by an increase in the country's current-account deficit. Various forms of domestic and international financial speculation have been associated with episodes of consumption booms, current-account deficits and overvalued currencies. If speculation is an important source of real exchange rate misalignments and of persistent diverging patterns of global real balances, domestic and international regulations and policies have to provide the conditions for generating converging patterns of trade balances and a coherent adjustment of the imbalances.

TO LEARN MORE

See UNCTAD *Trade and Development Report 2007*, Chapter I, Section B, Global imbalances and destabilizing speculation.

** The concept of competitiveness as defined here is mainly relevant for middle income countries where economic success depends on investment that leads to sustained improvements in productivity. This excludes many of the poorest countries, where capital accumulation can help raise per capita income and living standards simply by allowing a fuller use of underutilized labour and natural resources without altering the efficiency with which resources are utilized.*

Real effective exchange rates and current-account balance, selected economies, 1996-2006

Sources: UNCTAD secretariat calculations, based on IMF, Balance of Payment Statistics; and IMF, International Financial Statistics Database; and JP Morgan through Thomson Financial DataStream Database.

3 EXTERNAL RESOURCES

3.1 Foreign direct investment trends
3.2 Industrial pattern of foreign direct investment
3.3 Official development assistance and debt relief
3.4 Migrants' remittances
3.5 External debt trends
3.6 External debt indicators
3.7 International reserves

3.1 FOREIGN DIRECT INVESTMENT TRENDS

Overview

Global foreign direct investment (FDI) flows have risen steadily over the past 30 years, with some declines in the early 1980s, 1990s and 2000s. In 2006, global FDI inflows rose for the third consecutive year to reach $1.306 trillion, close to the record level of $1.411 trillion reached in 2000. The growth of FDI occurred in all regions and was partly driven by increasing corporate profits worldwide and resulting higher stock prices that raised the value of cross-border mergers and acquisitions (M&As).

While FDI inflows in developed countries rose by 45 per cent, well over the rate of the previous two years, to reach $857 billion, flows to developing countries and transition economies of South-East Europe and the Commonwealth of Independent States (CIS) attained record levels of $379 billion and $69 billion, respectively. The United States regained its position as the largest single host country, followed by the United Kingdom and France. Among developing economies, apart from traditional largest recipient as Hong Kong (China) and Singapore, Turkey ranked fourth after large FDI increase in 2006, while in the transition economies, inflows doubled to $29 billion in the Russian Federation. The European Union (EU) as a whole remained the largest host region with $531 billion accounting for 41 per cent of total FDI inflows in 2006, followed by North America with $244 billion or an 88 per cent increase from 2005. South, East and South-East Asia with $200 billion became the third largest recipient region, accounting for 15 per cent of total FDI inflows.

Developed countries still remained the leading source of FDI, accounting for 84 per cent of global outflows. Global FDI outflows registered a significant upsurge in 2006, reaching $1.216 trillion. While there was a rebound of outward FDI from the United States with $217 billion, almost half of the world outflows came from 25 EU countries, with France, Spain and the United Kingdom in that order accounting for the bulk of that share. The outward FDI from developing and transition economies increased significantly, led by Hong Kong (China) and the Russian Federation.

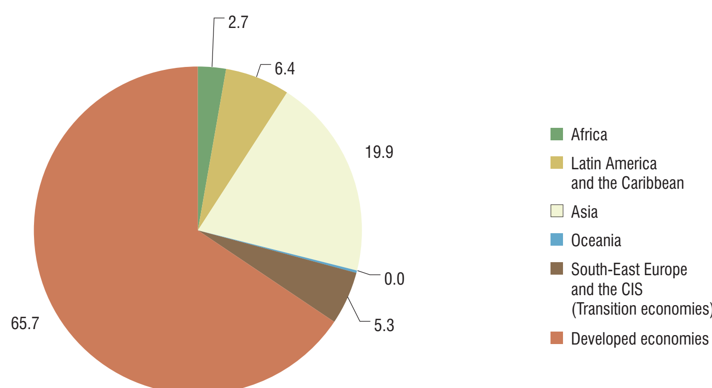
In past decades, world inward foreign direct investment (FDI) stock has grown more than 10-fold from a trifle $1.2 trillion to $12 trillion in 2006. Despite the economic downturn in the early 2000s FDI continues to be important in the integration of global production activities. Developed countries hosted about three fourths of world inward FDI stock, although the share of developing countries has increased. However, the least developing countries (LDCs) still remain marginal.

Outward FDI stock originating from developing countries accounted for 13 per cent of the global total in 2006. South, East and South-East Asia constitute the most important developing-country home region, whose stock almost doubled from 2000 to 2006 to nearly half of the United States. Africa and Latin American and Caribbean regions also registered a significant increase between 2000 and 2006 (36 per cent and 90 per cent, respectively). South-East Europe and the CIS outperformed all regions during this period with an eight-fold increase. The European Union maintains its position as the largest source of outward FDI stock, reaching $6.4 trillion in 2006, 2.7 times that for the United States.

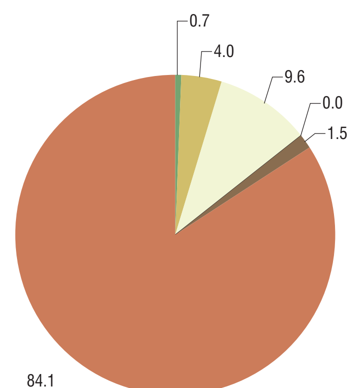
TO LEARN MORE

In its annual *World Investment Report*, UNCTAD analyses current FDI trends and the activities of TNCs and provides policy recommendations. The report is available at www.unctad.org/wir. UNCTAD's databases on FDI and TNCs contain data on inward and outward flows and stock of FDI for almost 200 countries and economies since, respectively, 1970 and 1980. UNCTAD, in collaboration with Erasmus University (Rotterdam), also compiles key data on TNCs. The UNCTAD/Erasmus database includes data about the companies' foreign assets, total assets, foreign sales, total sales, and foreign and total employment. Based on the key variables, a Transnationality Index (TNI) is calculated. The data can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained at statfdi@unctad.org.

2006 FDI inflows by region - *In %*



2006 FDI outflows by region - *In %*



FDI inflows - *In million US$*

Region	1970	1980	1990	2000	2005	2006
World	**13,418**	**55,262**	**201,594**	**1,411,366**	**945,795**	**1,305,852**
Developing economies excluding China	*3,854*	*7,607*	*32,405*	*215,373*	*241,910*	*309,602*
Least developed countries	*154*	*536*	*579*	*4,026*	*7,326*	*9,375*
Developing economies	**3,854**	**7,664**	**35,892**	**256,088**	**314,316**	**379,070**
Africa	**1,266**	**400**	**2,806**	**9,685**	**29,648**	**35,544**
North Africa [1]	436	152	1,116	3,456	13,528	23,324
Other Africa [2]	830	248	1,690	6,229	16,120	12,221
Other Africa [2] excluding South Africa	*497*	*258*	*1,768*	*5,341*	*9,869*	*12,544*
Latin America [3] and the Caribbean	**1,599**	**6,483**	**9,748**	**97,803**	**75,541**	**83,753**
Asia	**854**	**663**	**22,642**	**148,333**	**208,744**	**259,434**
West Asia [4]	147	-3,247	456	3,509	41,554	59,902
South, East and South-East Asia [5]	706	3,909	22,187	144,824	167,190	199,531
East Asia	178	950	8,791	116,625	116,253	125,774
South Asia [6]	68	203	575	4,658	9,866	22,274
South-East Asia	460	2,756	12,821	23,540	41,071	51,483
Oceania	**136**	**118**	**696**	**268**	**383**	**339**
Economies in transition	**_**	**24**	**75**	**9,040**	**41,169**	**69,283**
Commonwealth of Independent States (CIS)	_	_	4	5,335	26,045	42,934
South-East Europe [7]	_	24	71	3,705	15,123	26,348
Developed economies	**9,564**	**47,575**	**165,627**	**1,146,238**	**590,311**	**857,499**
Europe	**5,226**	**21,578**	**97,044**	**721,931**	**494,980**	**566,389**
European Union (25)	5,158	21,494	90,499	695,277	486,409	530,976
Other developed Europe [8]	68	84	6,545	26,655	8,571	35,414
North America [9]	**3,083**	**22,725**	**56,004**	**380,802**	**129,947**	**244,435**
Other developed countries [10]	**1,255**	**3,271**	**12,579**	**43,504**	**-34,616**	**46,675**

FDI outflows - *In million US$*

Region	1970	1980	1990	2000	2005	2006
World	**14,151**	**53,829**	**229,598**	**1,239,190**	**837,194**	**1,215,789**
Developing economies excluding China	*51*	*3,153*	*11,083*	*132,425*	*103,599*	*158,259*
Least developed countries	*..*	*229*	*-7*	*766*	*658*	*487*
Developing economies	**51**	**3,153**	**11,913**	**133,341**	**115,860**	**174,389**
Africa	**19**	**1,090**	**655**	**1,526**	**2,272**	**8,186**
North Africa [1]	2	87	135	227	464	834
Other Africa [2]	17	1,003	519	1,299	1,808	7,352
Other Africa [2] excluding South Africa	*..*	*248*	*492*	*1,028*	*878*	*679*
Latin America [3] and the Caribbean	**31**	**899**	**300**	**49,577**	**35,743**	**49,132**
Asia	**1**	**1,146**	**10,948**	**82,230**	**77,747**	**117,067**
West Asia [4]	..	598	-963	1,507	13,413	14,053
South, East and South-East Asia [5]	1	548	11,911	80,723	64,333	103,014
East Asia	1	150	9,574	71,973	49,836	74,099
South Asia [6]	..	4	9	524	2,579	9,820
South-East Asia	..	394	2,328	8,225	11,918	19,095
Oceania	**..**	**18**	**11**	**8**	**99**	**5**
Economies in transition	**_**	**_**	**35**	**3,183**	**14,620**	**18,689**
Commonwealth of Independent States (CIS)	_	_	35	-3	588	563
South-East Europe [7]	_	_	_	3,186	14,032	18,126
Developed economies	**14,100**	**50,676**	**217,649**	**1,102,666**	**706,713**	**1,022,711**
Europe	**5,095**	**24,126**	**129,857**	**866,241**	**691,217**	**668,698**
European Union (25)	5,063	23,872	121,238	811,669	608,799	572,440
Other developed Europe [8]	32	253	8,618	54,572	82,418	96,258
North America [9]	**8,521**	**23,328**	**36,219**	**187,305**	**5,806**	**261,857**
Other developed countries [10]	**484**	**3,222**	**51,574**	**49,120**	**9,690**	**92,155**

Notes: [1] North Africa including Sudan and [2] Sub-Saharan Africa excluding Sudan. [3] South America plus Central America. [4] Western Asia including Iran [5] Southern, Eastern and South-Eastern Asia excluding Iran [6] Southern Asia excluding Iran [7] Economies in transition excluding Commonwealth of Independent States (CIS). [8] Andorra, Gibraltar, Guernesey, Iceland, Isle of Man, Jersey, Monaco, Norway, San Marino and Switzerland. [9] United States of America and Canada. [10] Australia, Bermuda, Israel, Japan, and New-Zealand.
Sources: UNCTAD, World Investment Report 2007

3.2 INDUSTRIAL PATTERN OF FOREIGN DIRECT INVESTMENT

Overview

The most important change in the industrial pattern of FDI over the past quarter century has been the shift towards services, accompanied by a decline in the share of FDI in natural resources and manufacturing. Recently, however, FDI in extractive industries of resource-rich countries has rebounded, and its importance in infrastructure services is also rising.

The services sector represented nearly two thirds of the global FDI stock (61 per cent) in 2005, up from 49 per cent in 1990, while the share of manufacturing accounted for slightly less than a third of total stock (30 per cent). FDI in manufacturing is increasingly geared to capital- and technology-intensive activities, while FDI in services has generally been growing in both capital-intensive and human resource-intensive industries.

Developed countries accounted for more than 70 per cent of the inward stock of FDI in the manufacturing sector in 2005, compared with a 79 per cent share in the services sector. Inward FDI flows and stocks in the primary sector more than tripled between 1990 and 2005, but the larger share continues to originate from developed countries. FDI driven by rising demand for various commodities, particularly oil and metal minerals, started to grow significantly in some regions in 2004, especially in mining and oil-related industries in Africa and Latin America.

TNCs from developed countries have been driving this growth. From 1990 to 2005, the value of assets of foreign affiliates of the world's TNCs has increased by a factor of five and sales and employment have multiplied by factors of, respectively, three and two. After years of rapid expansion fuelled by economic growth, stock market booms and a wave of cross-border merger and acquisitions, the growth of most of the largest TNCs from developed as well as developing countries came to a sudden halt at the end of the1990s, reflecting the recession of the world economy. Since 2002, however, activities of the largest TNCs appear to be picking up again.

Based on foreign assets of the companies, there is a large disparity in size between the firms. The top five, with about $1.1 trillion in foreign assets, accounted for almost 30 per cent of the total foreign assets of the top 50. Two industries dominate: motor vehicles and petroleum together accounted for more than one third of the top 50 companies. A large group of new TNCs has emerged in recent years in service industries that are relatively new to FDI – notably telecommunications, electricity, gas and water services – many of which were former State-owned monopolies.

In 2005, all companies but four of the top 50 TNCs were headquartered in the Triad (The EU, Japan and the United States). In recent years, the number of TNCs originating from developing economies and ranked among the largest TNCs has increased. In 2005, foreign assets of the top 50 largest non-financial companies from developing economies climbed to $400 billion, from $195 billion in 2002. The geographic repartition of origin of these TNCs is still in favour of South, East and South-East Asia, followed by Latin America and South Africa. They operate in a wide range of industries: the electrical/electronic equipments, computer industry, petroleum industry, telecommunications and transport sector. For the time being, though, the large gap between TNCs from the developed and developing groups remains. For instance, the total foreign assets of the top 50 TNCs from developing economies in 2005 amounted roughly to the amount of foreign assets of General Electric, the largest TNC in the world.

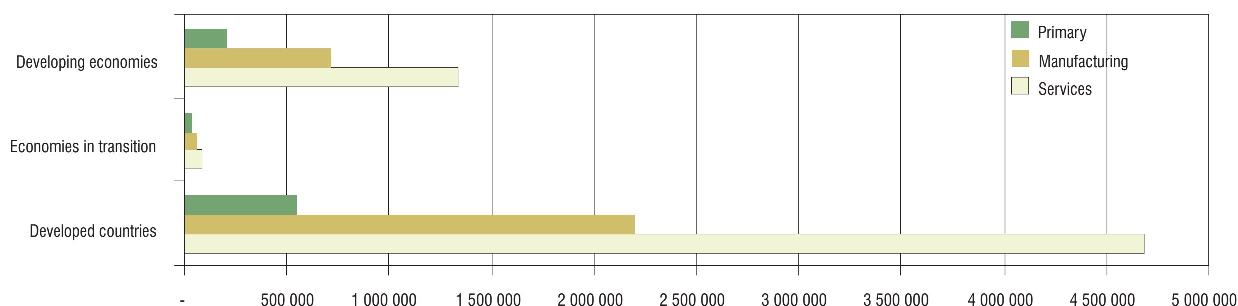
Today, there are an estimated 78,000 TNCs in the world, with more than 780,000 foreign affiliates. The number of employees in foreign affiliates worldwide has grown dramatically: it reached 73 million in 2006, up from 25 million in 1990. Also, in a number of developing economies, the share of employment in foreign affiliates compared to total employment rose during the same period. Sales by foreign affiliates quadrupled during the same period, from $6 trillion in 1990 to $25 trillion in 2006. Their assets reached $51 trillion.

TO LEARN MORE

In its *World Investment Directory* series, UNCTAD provides (a) comprehensive data and information on FDI; (b) operations of TNCs; (c) basic financial data on the largest TNCs; (d) legal framework in which investment takes place; (e) and selected bibliographic information about FDI and TNCs. Each volume contains FDI country profiles for a particular region. The data can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained at statfdi@unctad.org.

World 2005 inward FDI stock

In million US$



Estimated world inward FDI stock by sector and industry

In million US$

Sector and industry	1990						
	Developing economies	Developed economies	World	Developing economies	Economies in transition	Developed economies	World
Total	332,733	1,446,465	1,779,198	2,306,553	195,357	7,546,056	10,047,966
Primary	27,847	139,013	166,860	201,559	37,717	551,202	790,478
Agriculture, hunting, forestry and fishing	4,194	3,180	7,374	8,707	1,231	8,341	18,279
Mining, quarrying and petroleum	21,792	135,833	157,625	179,259	36,486	539,421	755,166
Unspecified primary	1,861	-	1,861	13,593	-	3,440	17,033
Manufacturing	144,996	584,069	729,065	716,624	61,927	2,196,968	2,975,519
Food, beverages and tobacco	9,901	64,173	74,075	39,938	10,331	222,375	272,644
Textiles, clothing and leather	5,067	21,356	26,424	13,475	1,217	86,740	101,432
Wood and wood products	4,536	18,433	22,968	17,793	2,952	59,889	80,634
Publishing, printing and reproduction of recorded media	,543	13,810	14,353	,247	,85	42,963	43,295
Coke, petroleum products and nuclear fuel	3,011	49,995	53,005	32,137	7,524	51,283	90,944
Chemicals and chemical products	44,256	113,790	158,046	87,649	3,050	480,966	571,665
Rubber and plastic products	1,758	11,876	13,634	8,733	653	42,566	51,951
Non-metallic mineral products	2,721	15,484	18,205	13,957	3,724	60,633	78,315
Metal and metal products	14,450	46,159	60,609	35,812	19,189	200,067	255,068
Machinery and equipment	9,460	48,757	58,218	27,845	1,979	137,988	167,812
Electrical and electronic equipment	16,727	65,290	82,017	88,023	1,286	195,130	284,439
Precision instruments	,457	10,814	11,271	4,037	167	74,863	79,067
Motor vehicles and other transport equipment	7,681	43,103	50,784	38,772	2,698	268,979	310,449
Other manufacturing	2,826	17,612	20,438	14,400	,328	94,766	109,494
Unspecified secondary	21,602	43,416	65,018	293,806	6,743	177,762	478,310
Services	155,123	713,721	868,844	1,339,703	87,484	4,683,574	6,110,761
Electricity, gas and water	2,641	6,505	9,146	52,655	3,607	170,537	226,798
Construction	5,047	15,296	20,343	18,961	2,547	58,572	80,080
Trade	24,331	187,282	211,614	182,738	16,779	870,989	1,070,507
Hotels and restaurants	3,764	19,379	23,142	21,592	1,805	69,141	92,538
Transport, storage and communications	12,197	15,070	27,267	131,111	17,669	406,639	555,418
Finance	87,431	271,612	359,043	341,036	20,654	1,515,866	1,877,556
Business activities	14,045	103,363	117,407	516,536	23,320	1,068,893	1,608,749
Public administration and defence	54	-	54	321	17	19,194	19,532
Education	-	86	86	91	108	3,300	3,499
Health and social services	0	910	910	749	41	7,845	8,635
Community, social and personal service activities	18	12,233	12,251	6,213	680	76,698	83,591
Other services	3,905	65,528	69,432	36,389	16	66,248	102,653
Unspecified tertiary	1,690	16,458	18,148	31,309	242	349,653	381,205
Private buying and selling of property	-	-	-	-	-	6,210	6,210
Unspecified	4,767	9,662	14,429	48,668	8,230	108,101	164,998

[a] A considerable share of investment in this industry is in China, Hong Kong SAR, which accounted for 77% of developing economies and 25% of the world total in 2005. China, Hong Kong SAR data include investment holding companies.

Notes: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 54 economies in 1990 and 82 economies in 2005, or latest year available. They account for about four-fifths of world inward FDI stock in 1990 and 2005. Only economies for which data for the three main sectors were available were included. The distribution share of each industry of these economies was applied to estimate the world total in each sector and industry. In the case of some economies where only approval data are available, the actual data was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (56% in 1994 for Japan, 10% in 1990 and 7% in 1999 for Lao People's Democratic Republic, 72% in 2005 for Malaysia, 44% in 2002 for Mongolia, 39% in 1990 and 35% in 2005 for Myanmar, 41% in 1990 and 35% in 1999 for Nepal, 62% in 1995 for Sri Lanka, 73% in 1990 and 66% in 2005 for Taiwan Province of China).

The world total in 1990 includes the economies in transition, although data by sector and industry are not available for that region.

Selected indicators of international production, 1991-2006

Value in billion US$ and growth rate in %

Production indicator	Value	Average annual growth rate					
	2006	1991-1995	1996-2000	2003	2004	2005	2006
Sales of foreign affiliates	25,177	8.8	8.4	26.6	15.0	3.0	17.7
Gross product of foreign affiliates	4,862	6.7	7.3	21.1	15.9	6.3	16.2
Total assets of foreign affiliates	51,187	13.7	19.3	26.0	-1.0	9.3	20.1
Exports of foreign affiliates	4,707	8.5	3.3	16.1	20.5	10.7	12.2
Employment of foreign affiliates (thousands)	72,627	5.5	11.5	5.7	3.7	16.3	13.9

Sources: UNCTAD, World Investment Report 2007

3.3 OFFICIAL DEVELOPMENT ASSISTANCE AND DEBT RELIEF

Overview

Official development assistance (ODA) is an essential component of financing for development. In the second half of the 1980s, ODA increased rapidly and peaked at $59 billion in 1991. This trend reversed in the 1990s, with aid flows declining during the decade and reaching a trough of $45 billion in 2000. From 2000, nominal ODA started increasing rapidly, surpassing $100 billion in 2005. However, these are nominal trends that mask large increases in ODA associated with exceptional debt relief initiatives.

In real terms things look different. ODA delivered by the 23 member countries of the Development Assistance Committee (DAC) stands at about 0.25 per cent of donors' GNI*. This is similar to the level prevailing in 1990 and well below the 0.7 per cent target. Additionally, most of the recent increase in ODA is linked to debt relief, including exceptional levels of debt relief to Iraq and Nigeria. Real total net ODA from DAC members declined by 5 per cent in 2006. Moreover, real ODA less debt forgiveness is well below its pre-Heavily Indebted Poor Countries (HIPC) Initiative levels. ODA less debt forgiveness went from 0.2 per cent of donor countries' GNI in 1990 to an estimated 0.17 per cent of donor countries' GNI in 2005. This suggests that debt relief under the HIPC Initiative has not been additional.

Debt relief, which amounted to about $2 billion in 2000, reached almost $25 billion in 2005, with most debt relief going to sub-Saharan Africa and Western Asia (especially Nigeria and Iraq). However, 2005 was an exceptional year. In 2004, total debt relief amounted to $7 billion and in 2006 it amounted to $19 billion, but this figure still included some exceptional debt relief for Nigeria and Iraq. In 2000, more than 60 per cent of total debt relief went to LDCs, whereas in 2005, the LDCs received less than 10 percent of total debt relief.

In examining the regional distribution of ODA, Asia receives the largest amount of ODA, followed by Africa. Latin America and the Caribbean are a distant third, with ODA levels below 15 per cent of ODA received by Asian countries. Within Asia, 60 percent of ODA goes to Western Asia. Within Africa, almost 90 percent of ODA goes to sub-Saharan African countries.

In addition to these regional trends, the share of ODA donors directed to LDCs has been decreasing steadily, going from 27 percent of DAC ODA (30 per cent of total ODA) in 1990 to 20 per cent of DAC ODA (25 per cent of total ODA) in 2005.

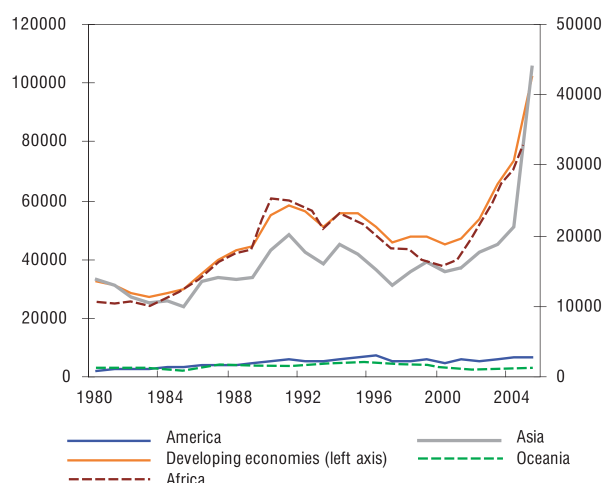
TO LEARN MORE

For more information, see the *External Debt Crisis and Development Report* by the Secretary-General of the United Nations to the General Assembly at its sixty-second session, and the UNCTAD e-learning course on debt sustainability analysis.

** These data only include direct ODA to developing countries and not ODA delivered to multilaterals. Including multilaterals would push the ODA to donors' GNI ratio to 0.33 per cent, but would not alter the basic trends discussed here.*

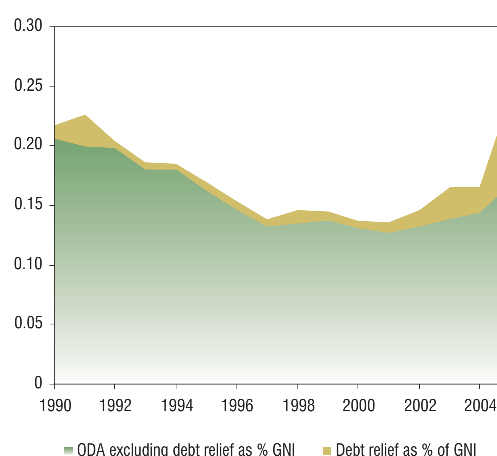
Official development assistance from all donors

In million US$



DAC Official development assistance and debt relief to developing economies

As % of GNI



Official development assistance

In million US$

Region	ODA from all donors				ODA from DAC donors			
	1990	1996	2000	2005	1990	1996	2000	2005
Developing economies	**55,323**	**50,738**	**45,101**	**101,827**	**36,862**	**35,185**	**33,313**	**78,797**
Least developed countries	*16,623*	*13,982*	*12,621*	*26,114*	*9,888*	*8,146*	*7,947*	*16,265*
Africa	**25,077**	**19,895**	**15,489**	**35,424**	**15,817**	**12,841**	**10,373**	**24,717**
North Africa	7,005	3,272	2,170	2,448	4,081	2,638	1,648	1,524
Sub-Saharan Africa	17,170	15,153	12,287	31,024	10,896	9,225	7,877	21,601
America	**5,190**	**7,499**	**4,832**	**6,299**	**4,146**	**5,762**	**3,846**	**4,574**
Central America	1,840	2,122	1,440	2,122	1,599	1,611	1,002	1,557
Caribbean islands	809	893	421	846	625	444	279	583
South America	2,031	2,602	1,854	2,437	1,569	1,955	1,562	1,807
Asia	**17,828**	**15,204**	**14,996**	**43,954**	**10,545**	**9,207**	**10,322**	**36,432**
Western Asia	3,709	2,493	2,352	24,578	1,350	1,256	1,255	22,777
Southern Asia	6,063	5,300	4,324	9,392	3,318	2,808	2,461	5,814
Eastern and South-Eastern Asia	6,961	6,805	7,687	8,126	5,639	4,727	6,175	6,428
Oceania	**1,373**	**1,780**	**816**	**1,144**	**1,215**	**1,698**	**710**	**977**
Economies in transition: Asia	**..**	**1,267**	**1,269**	**1,683**	**..**	**572**	**763**	**978**

Debt relief

Region	Debt relief from DAC *(Million US$)*				DAC assistance *As % of GNI*			
	1990	1996	2000	2005	1990	1996	2000	2005
Developing economies	**2,191**	**2,080**	**1,917**	**24,781**	0.22	0.15	0.14	0.24
Least developed countries	*935*	*605*	*1,233*	*2,079*	*0.06*	*0.04*	*0.03*	*0.05*
Africa	**2,157**	**1,320**	**1,507**	**9,653**	**0.09**	**0.06**	**0.04**	**0.08**
North Africa	3	399	272	188	0.02	0.01	0.01	0.00
Sub-Saharan Africa	2,068	920	1234	9,464	0.06	0.04	0.03	0.07
America	**13**	**598**	**86**	**1,058**	**0.02**	**0.03**	**0.02**	**0.01**
Central America	2	420	40	912	0.01	0.01	0.00	0.00
Caribbean islands	6	9	8	28	0.00	0.00	0.00	0.00
South America	5	169	38	118	0.01	0.01	0.01	0.01
Asia	**22**	**128**	**323**	**14,069**	**0.06**	**0.04**	**0.04**	**0.11**
Western Asia	0	29	24	13,974	0.01	0.01	0.01	0.07
Southern Asia	18	58	209	75	0.02	0.01	0.01	0.02
Eastern and South-Eastern Asia	4	41	90	20	0.03	0.02	0.03	0.02
Oceania	**0**	**1**	**0**	**0**	**0.01**	**0.01**	**0.00**	**0.00**

Sources: UNCTAD secretariat calculations, based on the Organisation for Economic Co-operation and Development (OECD) online statistical database.

3.4 MIGRANTS' REMITTANCES

Overview

Remittance inflow to industrial countries used to be larger than that to developing countries before 1993. From the 1990s up to now, flows to developing countries have witnessed a staggering increase, more than five-fold between 1990 and 2006, reaching $177 billion. Meanwhile, the composition of financial flows to developing countries has also undergone a significant change in their relative weight. In 1990, official development assistance (ODA) was about twice as much as remittances, which was followed closely by FDI. By 1996, remittances had eclipsed official development aid and become the second most important source of external finance, next to FDI, for developing countries. As figures of remittances are invariably underestimates, owing to the existence of informal channels and the minimum thresholds for official recording. The actual amount of remittances could be much higher. This means remittances have the potential to become an even more important source of foreign finance for developing countries.

This dramatic increase of remittances is largely attributable to three reasons. Firstly, migration has been increasing from developing countries, owing to confluent factors such as greater structural demand with population ageing in OECD countries, wage differentials between source and destination countries and falling costs of migration including transportation. Secondly, alongside the fast expansion of remittances, both recipient and source countries have improved significantly their remittances tracking and recording in recent years. In addition, a shift from informal to formal channels induced by lower costs of remittance transfer has also boosted the recorded amount of remittances. Therefore, the actual year-on-year increase of remittances may not be as dramatic as what the numbers suggest. Thirdly, the share of skilled workers and immigrants with higher education attainment has risen significantly in the past three decades. The resultant higher earning power by migrants has also contributed to more remittances.

On the whole, remittances, though varying a great deal among countries, are more evenly spread among developing countries than are FDI flows. Like international trade, developing countries sharing borders with more advanced countries – such as OECD countries and OPEC countries – tend to receive a greater amount of remittances. Proximity to countries with much higher per capita income is an important factor for high remittance inflows. While in absolute terms, the largest remittance-receiving countries are a number of countries large in size and population, when measured in terms of percentage of GDP, small countries and island states in the Caribbean Sea, the Atlantic Ocean and Pacific Ocean would be considered as exceptionally high remittance recipient countries. For some small and island countries, remittances have been the largest inflow of external finance, surpassing private investment flows by a wide margin.

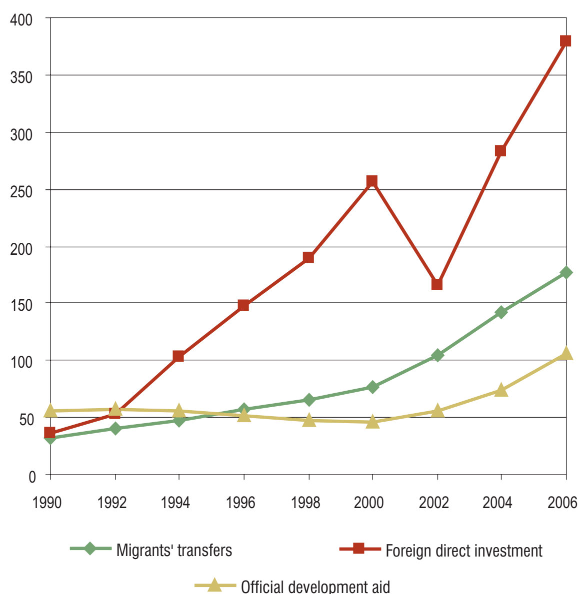
Views largely converge on their poverty alleviation impact, since remittances frequently go directly to poor and often isolated populations to meet basic needs such as food and clothing, along with other consumer goods. On top of that, remittances represent an increasingly important source of external funding for many developing countries and an important source of foreign exchange for imports that cannot be funded from domestic sources. However, remittances are not a free gift without social and economic costs, as the other part of the equation of remittances is migration. The composition and scale of emigration from a country has a major bearing on whether remittances have enlarged or reduced the policy autonomy for developing migrant source countries. Migrants are not homogeneous. Unskilled labourers who emigrate to escape unemployment or seek higher economic returns are most likely to prove to be a net gain to the developing source countries. Even they represent a loss of labour, as the ensuing remittances may more than offset the loss of human power or taxation revenue. On the other hand, the permanent departure of the highly skilled represents a net benefit for the recipient countries. However, since 1990, the share of the low-skilled labourers has been decreasing while skilled and talented workers in total migration has risen dramatically.

TO LEARN MORE

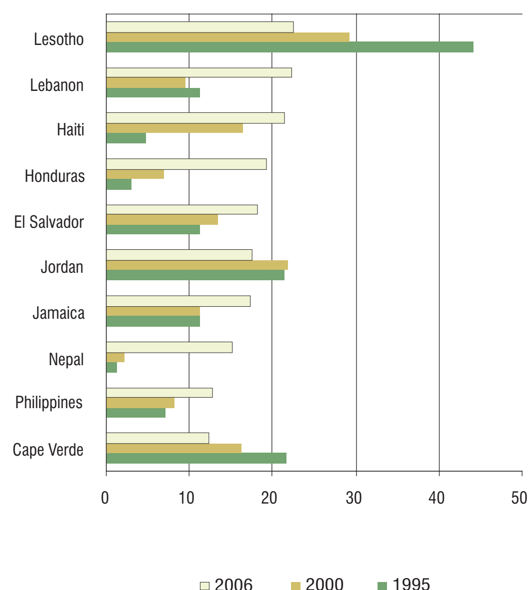
For more information, see UNCTAD's *Trade and Development Report 2006*: *Global partnership and national policies for development*, chapter III.

Migrants' remittances and financial flows to developing countries, 1990 - 2006

In billion US$



Top 10 remittances-receiving developing countries, ranked by remittances as percentage of GDP in 2006



Top 20 remittances-receiving developing countries, ranked by remittances received in 2006

	1995		2000		2006	
	Million US$	% of GDP	Million US$	% of GDP	Million US$	% of GDP
India	6,223	1.7	12,890	2.8	25,700	2.9
Mexico	4,368	1.5	7,525	1.3	24,732	3.0
China	1,053	0.1	6,244	0.5	22,492	0.8
Philippines	5,360	7.2	6,212	8.3	14,923	12.8
Bangladesh	1,202	2.9	1,968	4.0	5,485	8.0
Pakistan	1,712	2.1	1,075	1.4	5,400	3.7
Morocco	1,970	5.3	2,161	5.8	5,048	7.7
Egypt	3,226	4.7	2,852	2.9	5,017	4.6
Lebanon	1,225	11.2	1,582	9.5	4,924	22.3
Viet Nam	..	..	..	..	4,800	8.3
Colombia	815	0.9	1,610	1.9	3,925	3.0
Guatemala	358	2.7	596	3.5	3,626	11.9
Brazil	3,315	0.5	1,649	0.3	3,540	0.3
Nigeria	804	1.8	1,392	2.1	3,329	2.5
El Salvador	1,064	11.2	1,765	13.4	3,320	18.1
Dominican Republic	839	7.0	1,839	9.3	2,717	8.6
Algeria	1,120	2.7	790	1.4	2,527	2.2
Jordan	1,441	21.4	1,845	21.8	2,500	17.4
Sri Lanka	809	6.0	1,166	7.0	2,088	7.6
Ecuador	386	1.9	1,322	8.3	2,038	5.0

Top 20 remittances-paying countries, ranked by remittances paid in 2006

	1995	2000	2006
	Million US$		
United.States	22,181	30,961	42,794
Saudi Arabia	16,594	15,390	14,318
Switzerland	10,114	7,591	13,871
Germany	11,270	7,761	12,345
Russian Federation	3,939	1,101	11,438
Spain	868	2,059	11,004
Luxembourg	..	2,720	7,533
Netherlands	2,802	3,122	6,662
Italy	1,824	2,582	5,815
Malaysia	1,329	599	5,527
France	4,935	3,791	4,268
Korea, Republic of	634	972	4,244
Lebanon	..	..	4,018
Japan	1,820	3,167	3,476
United Kingdom	2,581	2,044	3,425
Kazakhstan	503	440	3,037
Australia	700	1,053	2,681
Kuwait	1,354	1,734	2,648
Czech Republic	101	605	2,645
Norway.	603	718	2,620

Sources: UNCTAD calculations based on UNCTAD Handbook of Statistics, IMF Balance of Payments CD-ROM, World Bank World Development Indicators online, UNSD National Accounts Main Aggregates Database, and OECD Database.

3.5 EXTERNAL DEBT TRENDS

Overview

When measured in nominal United States dollars, total external debt of developing and transition economies grew considerably over the 1990s. It went from approximately $1.1 trillion to approximately $1.9 trillion, corresponding to an average annual increase of 5 per cent. In the first decade of the twenty-first century, external debt of developing and transition countries grew at a much slower pace, reaching $2.08 trillion in 2005 (corresponding to an average yearly increase of approximately 1.8 per cent). This recent trend was made possible by debt relief and favourable external conditions. High commodity prices, high liquidity, low risk aversion, and low spreads allowed several middle-income countries to buy back their external debt, and to refinance their external obligations and substitute external debt with domestic debt. This highlights the improved debt management capacity of a number of developing countries, and the important interplay between the external and domestic components of viable public debt strategies.

Debt relief initiatives contributed to a decrease of external debt in sub-Saharan Africa. Debt relief initiatives together with debt buybacks and increasing reliance on domestic financing contributed to decreasing external debt levels in South America and Eastern and South-Eastern Asia. The economies in transition of both Europe and Asia observed a net increase in external debt, which went from $254 to $438 million (a 70 per cent increase) over the 2000–2005 period.

The share of short-term external debt remained more or less constant, hovering around 20 per cent of total external debt. The only country that observed a net increase in short-term external debt was China. However, this increase is not likely to be the source of any vulnerability because Chinese external debt remains low and the increase in short-term debt has been matched by a much larger increase in international reserves.

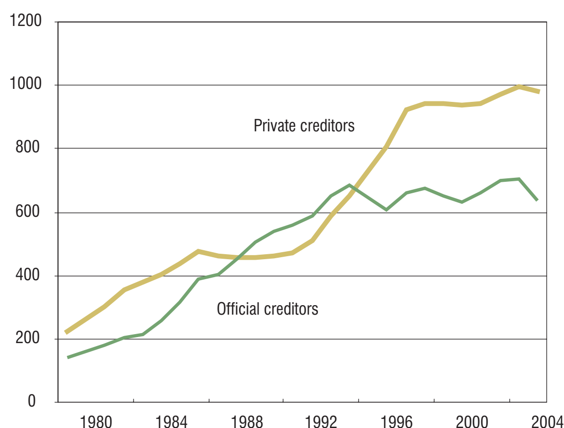
These broad trends in total external debt mask diverging patterns between borrowing from official lenders (bilateral and multilateral creditors) and private creditors. Although borrowing from official lenders has been flat since the mid 1990s and has been decreasing over the last few years (over 2005–2006, repayments of bilateral debt to Paris Club countries and of multilateral debt to the international financial institutions exceeded new lending by approximately $145 billion), private lending increased at a fast pace until the year 2000 and kept growing, albeit a slower rate, since then. The transition economies almost tripled their borrowing from private creditors over 2000–2005.

Bonded debt, which was negligible before the 1990s, now accounts for over a quarter of developing countries' debt stock. This poses several challenges to debt policy planning as external factors play a role in determining the spreads on emerging markets' external debt and this leads to sources of volatility which are beyond the direct control of domestic financial authorities. It would be misleading, however, to focus on bonded debt without examining the evolution of the stock of bank debt, which remains an important source of financing for several developing countries. The majority of developing countries (60 per cent) never accessed the international bond market between 1980 and 2006, and only around 20 emerging market countries regularly issue bonds in international capital markets. In this connection, South–South syndicated bank loans are increasingly important. Although this form of finance only accounts for approximately 5 per cent of bank lending to developing countries, it is growing rapidly and it is has become an important source of finance in sub-Saharan Africa, where South–South lending represents 20 per cent of total syndicated bank loans.

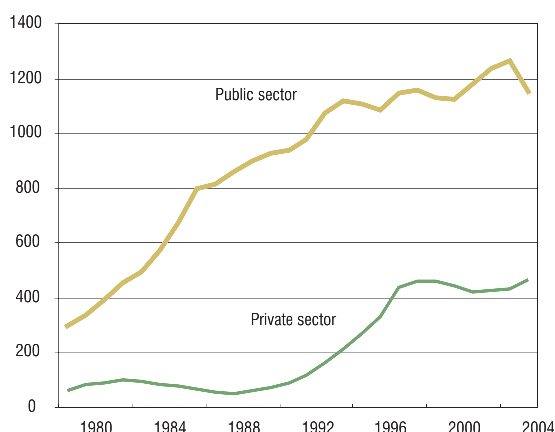
TO LEARN MORE

For more information, see the *External Debt Crisis and Development Report* by the Secretary-General of the United Nations to the General Assembly at its sixty-second session, and the UNCTAD e-learning course on debt sustainability analysis. Also visit UNCTAD's Debt Management and Financial Analysis System (DMFAS) website at www.unctad.org/dmfas.

Long-term debt of developing economies by type of creditor - *In billion US$*



Long-term debt of developing economies by type of debtor - *In billion US$*



Total and long-term external debt - *In billion US$*

Region	Total debt				Long-term debt			
	1985	1990	2000	2005	1985	1990	2000	2005
Developing economies	**810.3**	**1,168.6**	**1,893.8**	**2 079.0**	**659.6**	**962.2**	**1,590.4**	**1,618.7**
Developing economies excluding China	793.6	1,113.3	1,748.1	1,797.3	649.7	916.7	1,457.8	1,485.4
Least developed countries	73.6	124.7	142.8	157.4	59.0	106.3	120.2	134.1
Africa	**179.4**	**270.6**	**298.0**	**300.9**	**144.9**	**235.4**	**250.1**	**252.5**
North Africa	75.3	93.9	86.5	85.6	64.4	85.9	77.2	75.4
Sub-Saharan Africa	104.1	176.8	211.5	215.3	80.4	149.6	172.9	177.1
South Africa	..	..	24.9	30.6	..	..	15.3	20.9
Sub-Saharan Africa excluding South Africa	..	..	186.6	184.6	..	..	157.6	156.2
America	**387.8**	**444.6**	**762.5**	**727.6**	**328.8**	**352.7**	**641.8**	**621.9**
Central America	119.2	134.3	183.0	207.0	106.8	105.3	158.0	193.4
Mexico	96.9	104.4	150.3	167.2	88.4	81.8	131.4	160.6
Central America excluding Mexico	22.3	29.9	32.7	39.8	18.4	23.5	26.7	32.7
Caribbean islands	10.5	13.6	14.5	20.2	8.5	11.3	11.3	16.7
South America	258.2	296.7	565.0	500.4	213.5	236.2	472.5	411.8
Argentina	50.9	62.2	147.4	114.3	41.9	48.7	114.0	85.5
Brazil	103.6	120.0	243.7	188.0	89.6	94.4	210.9	164.0
Asia	**240.3**	**450.1**	**830.2**	**1,047.4**	**183.4**	**371.0**	**695.4**	**742.1**
Western Asia	47.4	85.9	167.6	216.5	37.9	70.2	122.8	156.2
Southern Asia	71.4	133.4	168.0	212.7	54.4	109.3	157.0	188.0
India	41.0	83.6	99.1	123.1	31.8	72.5	95.6	114.3
Eastern and South-Eastern Asia	121.6	230.8	494.6	618.2	91.1	191.5	415.6	397.9
China	16.7	55.3	145.7	281.6	9.9	45.5	132.6	133.3
Eastern and South-Eastern Asia excluding China	104.9	175.5	348.8	336.5	81.2	146.0	283.0	264.6
Oceania	**2.7**	**3.3**	**3.2**	**3.1**	**2.5**	**3.1**	**3.1**	**2.3**
Economies in transition	_	_	**254.0**	**438.1**	_	_	**208.9**	**365.2**
Asia	_	_	26.4	57.4	_	_	23.2	47.7
Kazakhstan	_	_	12.4	43.4	_	_	11.5	35.3
Europe	_	_	227.7	380.7	_	_	185.7	317.5
Russian Federation	_	_	160.0	229.0	_	_	132.8	204.9

Region	Official debt				Private debt			
	1985	1990	2000	2005	1985	1990	2000	2005
Developing economies	**258.2**	**505.5**	**649.4**	**636.5**	**401.4**	**456.7**	**941.1**	**982.3**
Developing economies excluding China	253.5	491.0	599.0	584.2	396.2	425.7	858.8	901.2
Least developed countries	50.8	90.6	107.9	119.5	8.3	15.6	12.3	14.5
Africa	**89.8**	**158.0**	**195.9**	**188.9**	**55.1**	**77.4**	**54.3**	**63.6**
North Africa	39.1	49.3	60.3	54.8	25.3	36.6	16.9	20.5
Sub-Saharan Africa	50.6	108.8	135.6	134.0	29.8	40.8	37.3	43.1
South Africa	..	..	0.1	0.3	..	..	15.2	20.6
Sub-Saharan Africa excluding South Africa	..	..	135.4	133.7	..	..	22.2	22.5
America	**60.9**	**121.5**	**140.7**	**133.7**	**267.9**	**231.3**	**501.1**	**488.1**
Central America	19.5	39.7	38.1	35.4	87.4	65.5	120.0	158.0
Mexico	8.8	22.6	20.8	19.1	79.7	59.2	110.5	141.5
Central America excluding Mexico	10.7	17.1	17.2	16.2	7.7	6.3	9.4	16.5
Caribbean islands	5.5	7.8	7.6	7.9	3.0	3.5	3.7	8.8
South America	35.9	73.9	95.0	90.5	177.6	162.3	377.5	321.3
Argentina	4.8	11.2	20.5	20.3	37.1	37.4	93.5	65.2
Brazil	12.8	29.3	29.4	25.5	76.8	65.1	181.6	138.5
Asia	**106.7**	**224.4**	**310.9**	**312.0**	**76.7**	**146.6**	**384.5**	**430.1**
Western Asia	26.3	39.5	39.1	30.6	11.6	30.6	83.6	125.5
Southern Asia	41.7	81.7	102.4	111.7	12.7	27.6	54.6	76.3
India	22.7	48.3	50.6	51.0	9.0	24.1	45.0	63.4
Eastern and South-Eastern Asia	38.7	103.1	169.4	169.7	52.4	88.4	246.3	228.2
China	4.7	14.5	50.4	52.2	5.2	31.0	82.3	81.1
Eastern and South-Eastern Asia excluding China	34.0	88.6	119.0	117.5	47.2	57.4	164.0	147.1
Oceania	**0.8**	**1.6**	**1.9**	**1.8**	**1.7**	**1.5**	**1.1**	**0.5**
Economies in transition	_	_	**102.8**	**75.3**	_	_	**106.1**	**289.9**
Asia	_	_	9.7	11.0	_	_	13.6	36.6
Kazakhstan	_	_	2.2	1.8	_	_	9.2	33.5
Europe	_	_	93.1	64.3	_	_	92.6	253.3
Russian Federation	_	_	70.9	34.7	_	_	61.9	170.2

Sources: UNCTAD secretariat calculations, based on World Bank, Global Development Finance online database.

External resources

3.6 EXTERNAL DEBT INDICATORS

Overview

The beginning of the millennium brought continued improvement of developing countries' debt indicators. The debt overhang continued decreasing, both measured as a percentage of debt to exports of goods and services, and debt as a percentage of gross national income. The debt-servicing burden of developing countries as a group decreased substantially in the period 2000–2005, in particular for Latin America, as exports grew by 25 per cent during the period. Argentina restructured its debt* and Brazil, Mexico and Peru prepaid debts to their official creditors. Moreover, Latin American countries that have access to the international capital market benefited from a lower debt servicing burden associated with historically low interest rates and spreads during 2002–2004.

In the first five years of the new millennium, total debt as a share of GNI decreased by 10 per cent for developing countries as a group, the most noticeable improvements taking place in Africa and in the economies in transition. The decrease for Africa was driven by the decrease in the stock of debt as a result of the implementation of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), coupled with strong GNI growth in a number of African countries. The driving factor for the decrease of the share of debt to GNI in the economies in transition was the large buyback operation of the Russian Federation with its official bilateral creditors coupled with exceptionally high GNI growth. Another significant Paris Club debt buyback was engineered by Poland, although the net effect of that operation was smaller compared to the Russian prepayment, as Poland issued bonds at low interest rates to eliminate its high-interest debt with official creditors.

Another welcome development is the decrease of the debt service to exports ratio for Africa. Most HIPCs are located in Africa and the HIPCs' debt servicing indicators are expected to further improve in the coming years, as the full impact of MDRI, which will lead to 100 per cent cancellation of debt owed by the poorest countries, takes full effect. The issue of the poorest countries being unable to meet Millennium Development Goals in spite of improvements in their debt indicators remains a matter of concern, pointing to the need to increase ODA flows to developing countries in order to spur their poverty alleviation efforts.

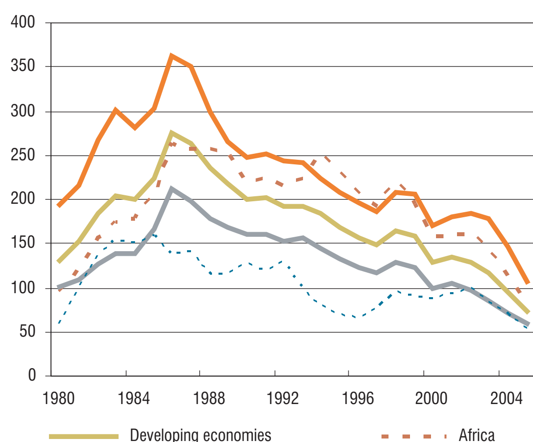
TO LEARN MORE

For more information, see the *External Debt Crisis and Development Report* by the Secretary-General of the United Nations to the General Assembly at its sixty-second session, and the UNCTAD e-learning course on debt sustainability analysis. Also visit UNCTAD's Debt Management and Financial Analysis System (DMFAS) website at www.unctad.org/dmfas.

** The effects of the landmark debt restructuring that Argentina achieved in 2005 will be reflected in the data for 2006.*

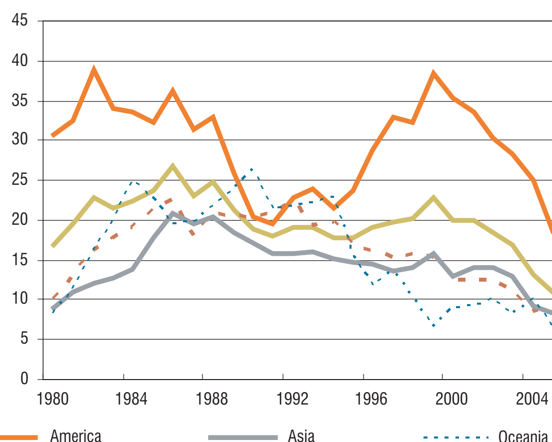
Total debt of developing economies

As % of exports of goods and services



Debt service of developing economies

As % of exports of goods and services



Developing economies · Africa · America · Asia · Oceania

Total external debt and debt service

Region	Total debt, as % of exports of goods and services				Total debt, as % of gross national income			
	1985	1990	2000	2005	1985	1990	2000	2005
Developing economies	**224.1**	**199.8**	**128.2**	**74.2**	**39.4**	**39.2**	**36.8**	**26.1**
Least developed countries	*545.1*	*559.3*	*338.2*	*210.9*	*68.5*	*84.0*	*79.6*	*55.4*
Africa	**203.3**	**217.9**	**159.1**	**83.5**	**45.9**	**58.7**	**52.7**	**33.3**
North Africa	280.0	261.4	141.5	73.6	74.7	67.8	41.3	29.9
Sub-Saharan Africa	165.8	197.0	169.5	89.2	35.6	54.5	60.1	35.1
South Africa	..	..	*62.9*	*43.1*	..	..	*19.2*	*12.9*
Sub-Saharan Africa excluding South Africa	..	..	*235.4*	*114.6*	..	..	*87.5*	*51.2*
America	**302.8**	**246.7**	**170.3**	**107.5**	**56.1**	**41.8**	**40.0**	**30.8**
Central America	264.4	209.7	85.0	75.1	54.3	47.6	28.9	24.5
Mexico	*286.2*	*200.5*	*80.9*	*70.8*	*51.6*	*41.1*	*26.5*	*22.1*
Central America excluding Mexico	*198.7*	*249.3*	*110.9*	*100.6*	*70.1*	*106.1*	*49.8*	*44.1*
Caribbean islands	159.4	167.0	68.4	67.6	60.8	65.6	34.3	32.8
South America	337.7	274.5	267.0	134.7	56.8	39.1	45.8	34.3
Argentina	*493.2*	*373.7*	*380.9*	*224.0*	*61.3*	*44.7*	*53.2*	*64.6*
Brazil	*353.5*	*330.2*	*357.3*	*136.6*	*49.1*	*27.1*	*41.7*	*24.4*
Asia	**166.5**	**160.6**	**98.8**	**59.2**	**24.8**	**30.8**	**31.2**	**22.3**
Western Asia	210.8	224.4	195.5	127.7	47.8	46.4	61.5	46.8
Southern Asia	202.3	239.7	141.6	104.3	19.1	25.8	23.4	17.4
India	*306.1*	*358.2*	*158.7*	*75.5*	*18.1*	*25.8*	*21.4*	*15.5*
Eastern and South-Eastern Asia	140.5	120.5	77.8	44.5	24.5	30.4	29.6	20.5
China	*56.3*	*91.6*	*49.9*	*32.2*	*5.4*	*14.1*	*12.3*	*12.5*
Eastern and South-Eastern Asia excluding China	*184.7*	*136.5*	*103.2*	*68.3*	*55.8*	*52.6*	*77.0*	*47.6*
Oceania	**158.7**	**127.4**	**86.2**	**53.9**	**80.9**	**73.3**	**54.1**	**33.0**
Economies in transition	**–**	**–**	**125.9**	**90.3**	**–**	**–**	**57.6**	**36.7**
Asia	–	–	126.4	109.4	–	–	57.3	56.1
Kazakhstan	–	–	*118.6*	*138.9*	–	–	*72.5*	*83.8*
Europe	–	–	125.8	88.1	–	–	57.7	34.8
Russian Federation	–	–	*134.1*	*80.0*	–	–	*63.3*	*30.7*

Region	Debt service, as % of exports of goods and services				Debt service, as % of gross national income			
	1985	1990	2000	2005	1985	1990	2000	2005
Developing economies	**23.8**	**18.8**	**19.9**	**11.1**	**4.2**	**3.6**	**5.6**	**3.9**
Least developed countries	16.3	15.3	8.8	5.4	1.9	2.1	1.8	1.3
Africa	**21.2**	**20.4**	**12.4**	**9.3**	**4.6**	**5.3**	**3.9**	**3.5**
North Africa	33.3	39.0	16.9	10.6	8.9	10.1	4.9	4.3
Sub-Saharan Africa	15.3	11.4	9.7	8.5	3.1	2.9	3.2	3.1
South Africa	..	..	*8.5*	*6.2*	..	..	*2.6*	*1.9*
Sub-Saharan Africa excluding South Africa	..	..	*10.5*	*9.8*	..	..	*3.6*	*4.0*
America	**32.3**	**20.3**	**35.4**	**18.8**	**6.0**	**3.4**	**8.3**	**5.4**
Central America	35.7	15.5	24.9	17.3	7.3	3.5	8.5	5.6
Mexico	*42.7*	*16.5*	*27.4*	*18.4*	*7.7*	*3.4*	*9.0*	*5.8*
Central America excluding Mexico	*14.5*	*11.1*	*9.4*	*10.8*	*5.1*	*4.7*	*4.2*	*4.7*
Caribbean islands	14.1	14.9	8.2	8.1	5.4	5.9	4.1	3.9
South America	31.8	23.5	48.6	20.6	5.3	3.4	8.3	5.3
Argentina	*52.4*	*29.7*	*62.3*	*12.2*	*6.5*	*3.6*	*8.7*	*3.5*
Brazil	*32.9*	*19.8*	*82.7*	*26.1*	*4.6*	*1.6*	*9.7*	*4.7*
Asia	**17.8**	**17.1**	**12.9**	**8.4**	**2.6**	**3.3**	**4.1**	**3.2**
Western Asia	21.2	24.9	25.5	22.2	4.8	5.1	8.0	8.0
Southern Asia	12.7	16.1	14.9	14.6	1.2	1.7	2.5	2.4
India	19.3	27.5	17.1	14.7	1.1	2.0	2.3	3.0
Eastern and South-Eastern Asia	19.0	15.8	10.8	5.8	3.3	3.9	4.1	2.7
China	*6.4*	*9.7*	*8.9*	*2.7*	*0.6*	*1.5*	*2.2*	*1.1*
Eastern and South-Eastern Asia excluding China	*25.6*	*19.1*	*12.6*	*11.7*	*7.7*	*7.3*	*9.4*	*8.2*
Oceania	**22.7**	**26.3**	**9.1**	**6.6**	**11.6**	**15.1**	**5.7**	**4.0**
Economies in transition	**–**	**–**	**11.0**	**15.6**	**–**	**–**	**5.2**	**6.5**
Asia	–	–	24.8	28.9	–	–	9.7	14.3
Kazakhstan	–	–	*27.3*	*41.6*	–	–	*16.7*	*25.1*
Europe	–	–	9.6	14.0	–	–	4.6	5.8
Russian Federation	–	–	*6.4*	*13.2*	–	–	*3.0*	*5.1*

Sources: UNCTAD secretariat calculations, based on United Nations Common Database; World Bank, Global Development Finance and World Development Indicators databases; IMF, Balance of Payments Statistics Database, and the Economist Intelligence Unit online database.

3.7 INTERNATIONAL RESERVES

Overview

The last few years witnessed record financial inflows to developing countries, but these inflows were more than compensated by large current account surpluses and unprecedented accumulation of international reserves. By the end of 2006, international reserves of developing and transition economies reached $2.8 trillion. By the end of 2006, China alone was holding reserves of approximately $1.07 trillion. In mid 2007, China's reserves were estimated to be above 1.3 trillion. This is a six-fold increase with respect to the level of 2000 ($169 billion). Among developing and transition countries, the Russian Federation has the second-largest foreign reserves. In 2006, Russian reserves were estimated to be close to $300 million, 10 times their 2000 level (in mid 2007, Russian reserves surpassed $400 million).

On average, developing and transition economies have reserves to import coverage ratios which are well above the three-month threshold. However, the group of LDCs tends to have fairly low import coverage ratios (just above the three-month threshold). Countries in Central America and transition economies in Asia have even lower reserves to import ratios.

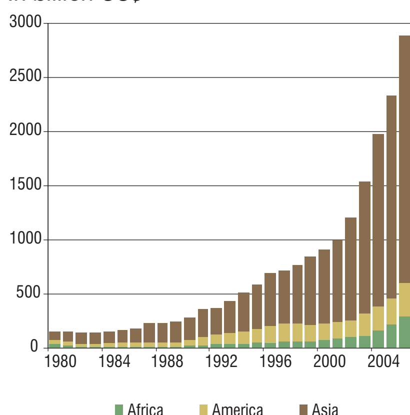
Measuring optimal reserve coverage in terms of months of imports implicitly assumes that balance of payment crises tend to occur in the trade balance. However, recent balance of payment crises were linked to disturbances in the capital account and more recently the focus has been on the ratio between reserves and short-term debt. The, so-called, Guidotti-Greenspan rule of thumb suggests that reserves should be (at least) equal to short-term debt. Most developing countries hold international reserves which are well above their levels of short-term debt (on average, four times the level of short-term debt, with a peak in India, where reserves are 15 times short-term debt). Only in the transition countries of Asia are reserves to short-term debt close to the Guidotti-Greenspan rule, and in Kazakhstan international reserves are lower than short-term debt.

Although the high reserves to short-term debt ratio suggests that most developing and transition economies are in a very solid position and can sustain large shocks to their capital accounts, countries with a weak banking system may want to accumulate reserves to deal with a possible banking crisis. If this is the case, the relevant prudential ratio is international reserves scaled by bank liquid liabilities which can be proxied by M2 (coins and notes and personal money in current and deposit accounts). Although the ratio of reserves to M2 has grown considerably over the last 15 years (going from 11 to 29 per cent), it is only now close to the 30 per cent threshold which some analysts consider as a prudent level of reserves for countries with weak banking systems. Moreover, Eastern Asian countries, which exhibit some of the highest rates of reserve accumulation, have a reserve to M2 ratio which is lower than the developing country average.

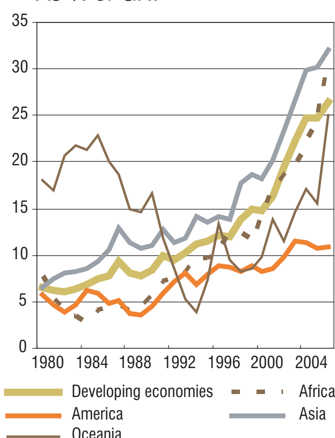
TO LEARN MORE

International reserves and capital flows were discussed in detail in UNCTAD's *Trade and Development Report 2004*, chapter II, International Trade and Finance, Capital Flows and Finance. Otherwise, international reserves are dealt with in chapter I of the various *Trade and Development Reports*.

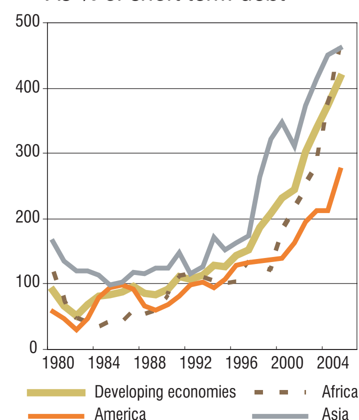
International reserves
In billion US$



International reserves
As % of GNI



International reserves
As % of short-term debt

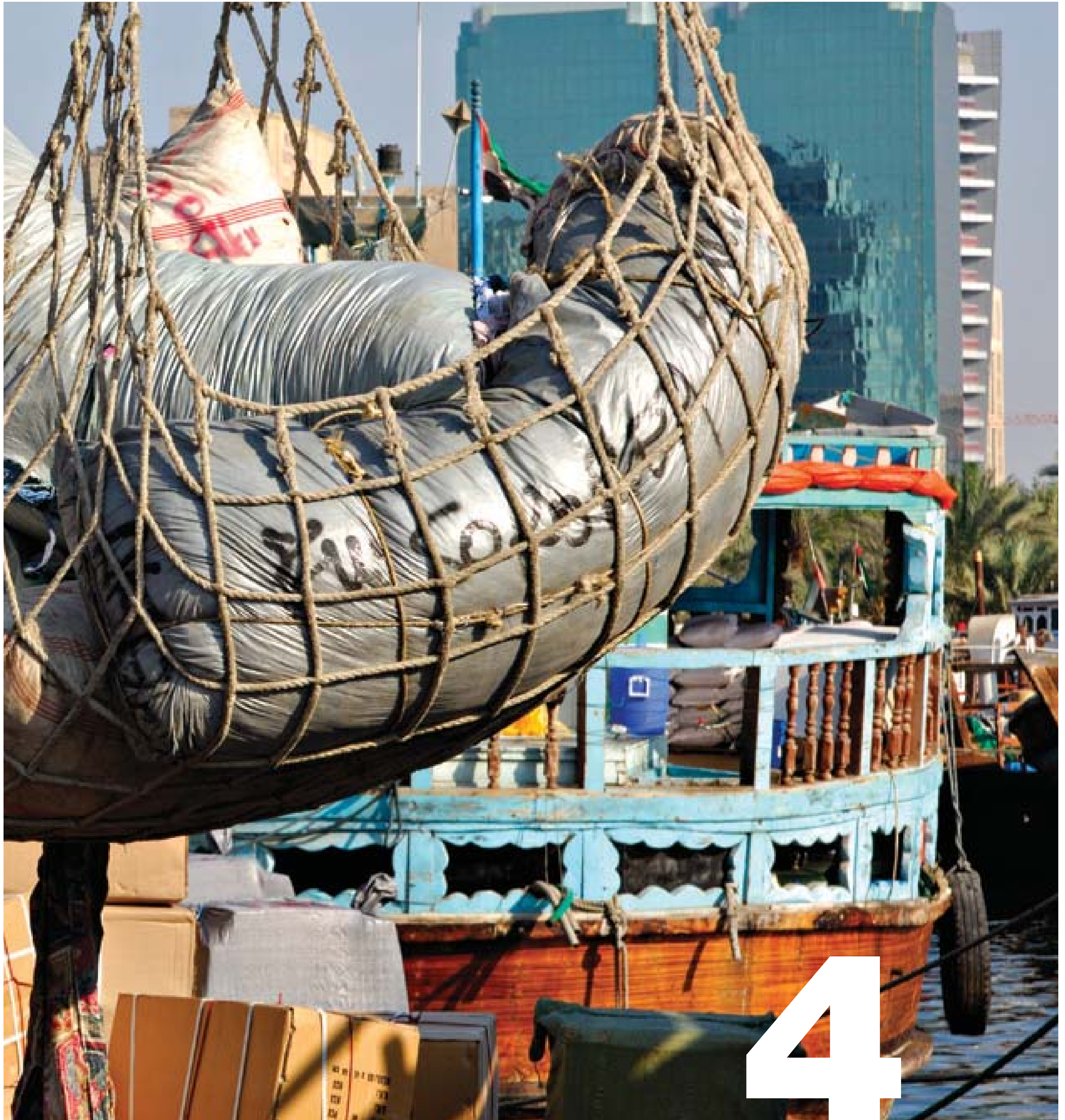


International reserves

Region	Total reserves (billion US$)				Total reserves As months of imports of goods and services			
	1980	1990	2000	2006	1980	1990	2000	2005
Developing economies	**149.1**	**285.8**	**910.9**	**2,881.3**	**3.0**	**3.9**	**5.1**	**7.7**
Developing economies excluding China	*146.0*	*255.6*	*742.0*	*1,811.8*	*3.1*	*3.7*	*4.8*	*6.3*
Least developed countries	*1.5*	*3.7*	*10.4*	*27.3*	*0.9*	*1.9*	*3.3*	*3.6*
Africa	**33.5**	**25.1**	**76.6**	**289.8**	**3.2**	**2.4**	**5.4**	**7.9**
North Africa	19.4	12.7	44.9	189.5	4.8	2.9	7.8	13.6
Sub-Saharan Africa	14.1	12.4	31.7	100.3	2.2	2.0	3.8	4.5
South Africa	*1.3*	*1.2*	*6.4*	*23.3*	*0.6*	*0.6*	*2.0*	*2.9*
Sub-Saharan Africa excluding South Africa	*12.8*	*11.2*	*25.4*	*77.1*	*3.0*	*2.8*	*5.0*	*5.5*
America	**40.3**	**48.8**	**156.5**	**310.2**	**2.8**	**3.0**	**3.6**	**4.4**
Central America	4.1	11.6	42.5	89.2	1.0	1.8	2.1	3.3
Mexico	*3.1*	*9.9*	*35.5*	*76.3*	*1.0*	*1.9*	*2.0*	*3.4*
Central America excluding Mexico	*1.0*	*1.7*	*7.0*	*12.9*	*0.8*	*1.5*	*2.4*	*2.7*
Caribbean islands	3.4	1.4	4.6	13.4	1.9	1.2	1.7	3.3
South America	32.8	35.8	109.3	207.6	4.0	4.1	5.4	5.6
Argentina	*6.9*	*4.8*	*25.1*	*31.0*	*5.2*	*4.4*	*6.3*	*7.1*
Brazil	*5.9*	*7.7*	*32.6*	*85.6*	*1.9*	*2.2*	*4.2*	*5.1*
Venezuela (Bolivarian Republic of)	*7.1*	*8.9*	*13.6*	*30.0*	*5.0*	*8.3*	*6.3*	*8.3*
Asia	**74.9**	**211.4**	**677.4**	**2,279.7**	**3.1**	**4.6**	**5.6**	**8.6**
Western Asia	36.6	29.6	79.4	167.9	4.3	3.0	4.6	4.5
Southern Asia	8.5	3.5	42.7	189.9	3.4	0.8	4.7	7.0
India	*7.3*	*2.1*	*38.4*	*171.3*	*5.0*	*0.7*	*6.0*	*8.2*
Eastern and South-Eastern Asia	29.8	178.2	555.3	1,921.9	2.3	5.4	5.9	9.4
China	3.1	30.2	168.9	1,069.5	1.8	7.5	7.3	13.3
Eastern and South-Eastern Asia excluding China	*26.7*	*148.0*	*386.5*	*852.4*	*2.4*	*5.2*	*5.4*	*7.1*
Oceania	**0.5**	**0.5**	**0.4**	**1.6**	**3.2**	**3.1**	**2.1**	**2.9**
Economies in transition	**_**	**_**	**40.9**	**411.5**	**_**	**_**	**3.3**	**7.4**
Asia	_	_	3.1	23.3	_	_	2.3	2.3
Kazakhstan	_	_	*1.7*	*17.9*	_	_	*1.9*	*2.3*
Europe	_	_	37.7	388.2	_	_	3.4	8.1
Russian Federation	_	_	*24.8*	*296.2*	_	_	*4.1*	*10.6*

Region	Total reserves As % of gross national income				Total reserves As % of short-term debt			
	1980	1990	2000	2005	1980	1990	2000	2005
Developing economies	**6.6**	**8.3**	**14.7**	**24.8**	**89.2**	**93.3**	**230.8**	**417.4**
Developing economies excluding China	*7.4*	*8.4*	*14.8*	*21.0*		*78.6*	*171.9*	*334.8*
Least developed countries	*1.9*	*3.4*	*7.8*	*10.4*	*81.1*	*43.8*	*84.4*	*175.4*
Africa	**7.8**	**5.7**	**14.1**	**24.7**	**117.9**	**83.9**	**179.2**	**460.7**
North Africa	15.2	7.6	18.4	42.5	85.4	106.4	429.7	956.3
Sub-Saharan Africa	4.7	4.6	10.5	13.9	140.8	75.4	112.6	273.3
South Africa	*1.6*	*1.1*	*4.9*	*7.9*	..	..	*66.5*	*193.4*
Sub-Saharan Africa excluding South Africa	*5.7*	*6.8*	*14.8*	*18.7*	..	..	*136.3*	*318.0*
America	**5.8**	**4.6**	**8.2**	**10.8**	**58.5**	**67.8**	**140.0**	**275.3**
Central America	1.8	4.1	6.8	10.1	22.2	59.1	180.3	671.4
Mexico	*1.5*	*3.9*	*6.3*	*9.8*	*18.9*	*61.6*	*187.6*	*1125.8*
Central America excluding Mexico	*4.4*	*6.3*	*11.3*	*13.3*	*47.6*	*47.6*	*150.8*	*184.6*
Caribbean islands	17.3	5.2	9.3	16.1	441.7	56.4	113.5	313.6
South America	7.3	4.7	8.9	10.9	66.5	71.5	129.6	207.8
Argentina	*12.6*	*3.4*	*9.1*	*15.4*	*66.6*	*45.9*	*88.8*	*140.9*
Brazil	*2.8*	*1.7*	*5.6*	*7.0*	*43.2*	*32.3*	*105.2*	*223.4*
Venezuela (Bolivarian Republic of)	*10.3*	*19.5*	*11.7*	*17.3*	*45.8*	*444.6*	*165.6*	*239.7*
Asia	**6.6**	**11.0**	**18.2**	**30.1**	**165.3**	**125.5**	**347.6**	**461.4**
Western Asia	11.7	8.5	13.7	13.9	180.4	76.9	110.3	178.1
Southern Asia	3.4	0.8	7.0	14.5	353.2	31.1	721.6	1267.4
India	*3.9*	*0.6*	*8.3*	*16.7*	*576.5*	*24.0*	*1110.0*	*1507.7*
Eastern and South-Eastern Asia	5.1	15.5	21.9	37.9	128.5	176.9	442.8	475.8
China	*1.0*	*7.7*	*14.3*	*36.6*	..	*324.3*	*1291.0*	*554.7*
Eastern and South-Eastern Asia excluding China	*9.6*	*19.6*	*28.5*	*39.4*	..	*124.2*	*213.0*	*282.5*
Oceania	**18.0**	**16.7**	**9.7**	**15.6**	**606.4**	**750.8**	**673.0**	**152.9**
Economies in transition	**_**	**_**	**10.1**	**22.6**	**_**	**_**	**146.6**	**361.7**
Asia	_	_	10.5	11.4	_	_	161.7	104.6
Kazakhstan	_	_	*9.8*	*11.9*	_	_	*174.6*	*77.1*
Europe	_	_	10.1	23.4	_	_	145.5	399.7
Russian Federation	_	_	*9.8*	*23.7*	_	_	*158.8*	*731.5*

Sources: UNCTAD secretariat calculations, based on United Nations Common Database; World Bank, Global Development Finance and World Development Indicators databases; IMF, Balance of Payments Statistics Database, and the Economist Intelligence Unit online database.



4 INTERNATIONAL TRADE IN MERCHANDISE AND SERVICES

4.1 Geography of merchandise trade
4.2 South-South merchandise trade
4.3 Trade of primary commodities
4.4 Primary commodity dependence
4.5 Market access
4.6 Patterns in services trade of developing countries
4.7 Services trade performances of developing countries by category of services

4.1 GEOGRAPHY OF MERCHANDISE TRADE

Overview

In 2006 the value of total merchandise exports from all countries of the world was $12,065 billion (in current United States dollars). 60% of these exports were from developed countries. In 1960, the share of world merchandise exports in the world's GDP was 10 per cent. By 2006, it had climbed to 35 per cent.

The dynamic growth in developing countries in recent years has been stimulated by extraordinary export growth. Real exports of developing economies grew by a factor of 2.5 from 1995 and 2006. Asia clearly dominated the picture, with transition economies and Latin America coming in second, and Africa showing exactly the same increase as the G7. In terms of imports, the expansion in different regions was much closer. Asia was the strongest importer, with a 130 per cent increase, while the transition economies had a 150 per cent increase. Africa's outcome was quite balanced, with real exports increasing (80 per cent) almost as much as imports (100 per cent). Since 1995, world merchandise trade has been growing at an annual average rate of 7.5 per cent, sustaining the strong growth rates that emerged in the early 1990s, though still not matching the averages of more than 10 per cent witnessed through the 1960s and 1970s.

Despite the impressive performance of developing countries as a whole in recent years, progress in LDCs and other low-income economies, has been slow and has continued to rely primarily on exports of low value added primary commodities. These countries have suffered from worsening terms of trade, highly volatile world prices and a decline in their share in world trade. The export share of the 50 LDCs, the majority of which are in sub-Saharan Africa and commodity-dependent, fell from 1.8 per cent in 1960 to about 0.5 per cent in 1995, and have since hovered around this level, though the improvement in commodity prices helped raise their share to 0.9 per cent in 2006.

Trade among developed countries as a share in world trade slightly decreased, while trade within economies in transition substantially fell.

The percentage of exports from developing countries directed to developed States decreased during the 1980s and has since diminished to around 50 per cent in 2006. During the past almost four decades, the aggregate share of exports from developed States to developing parts of the world remained between 20 and 26 per cent.

The share of exports from developed economies to economies in transition increased significantly during the last 10 years. The trend is a result of substantial growth in trade between these countries and the European Union. On the other hand, the share of developing countries' exports to economies in transition fell in general in the 1990s, but visibly revived since 2000, representing 1.7 per cent in 2006.

The past 15 years have seen a substantial increase in the number of regional and subregional trade agreements (RTAs) signed worldwide. While this trend has helped many areas to intensify their mutual trade and allowed various countries to profit from expanding exports, it has not systematically resulted in increased intra-trade within the trade groupings that have been created. The number of operational RTAs, whether South–South, North–North or North–South, is expected to grow to 400 by 2010. Currently, trade between RTA partners accounts for more than 45 per cent of global merchandise trade. Given the growing number, membership and trade coverage of RTAs, their impact on the international trading system will be significant. Therefore, careful attention needs to be paid to the scope of such agreements and their development impact on developing countries, especially the tendency towards deeper liberalization, a WTO-plus agenda, and an inward-looking approach that hampers trade with third parties and undermines the multilateral trading system.

TO LEARN MORE

Trade and Development Report 2007. UNCTAD/TDR/2007, United Nations, New York and Geneva, 2007. World Economic Situation and Prospects 2008. Joint UNCTAD/DESA publication, ISBN 978-92-1-109155-7, United Nations, New York, 2008. UNCTAD *Handbook of Statistics* 2006-07, TD/STAT.31, ISBN 978-92-1-012063-0, United Nations, 2007.

Distribution of exports by destination

In %

Year	Developing economies					Economies in transition	Developed economies	Total
	Africa	America	Asia	Oceania	Total			
World								
1960	6.1	8.5	9.7	0.1	24.3	2.4	71.1	100
1980	4.8	6.0	13.9	0.1	24.8	3.7	69.1	100
1990	2.6	3.6	15.6	0.1	22.0	2.5	73.8	100
2000	2.0	5.5	20.1	0.1	27.7	1.7	69.4	100
2006	2.4	4.9	23.7	0.1	31.1	3.2	64.4	100
Developing economies								
1960	2.8	8.1	7.8	0.0	18.7	2.0	75.1	100
1980	2.3	6.7	16.5	0.1	25.6	1.9	67.8	100
1990	2.3	3.8	25.7	0.1	31.9	1.9	61.7	100
2000	2.2	5.1	32.1	0.1	39.5	0.7	57.3	100
2006	2.9	5.2	37.6	0.1	45.9	1.7	50.4	100
Developing Africa								
1960	5.5	0.5	6.5	0.0	12.5	4.2	77.1	100
1980	2.3	3.1	3.6	0.0	9.1	2.5	71.5	100
1990	5.9	1.0	4.9	0.0	11.8	2.6	71.8	100
2000	8.3	3.1	14.3	0.0	25.7	0.5	65.9	100
2006	8.4	3.7	16.0	0.0	28.1	0.7	69.4	100
Developing America								
1960	0.7	16.7	0.6	0.0	18.1	0.6	78.7	100
1980	2.1	21.5	3.0	0.1	26.7	2.7	68.1	100
1990	1.5	14.9	6.5	0.0	23.0	1.2	72.4	100
2000	0.8	17.6	4.3	0.0	22.7	0.5	72.7	100
2006	1.7	19.1	8.9	0.0	29.7	1.1	66.3	100
Developing Asia								
1960	3.7	1.4	19.3	0.1	24.5	2.4	68.4	100
1980	2.3	3.0	24.5	0.2	29.9	1.5	66.6	100
1990	1.9	1.9	33.3	0.1	37.3	1.9	57.6	100
2000	2.0	2.3	40.7	0.1	45.0	0.7	52.7	100
2006	2.6	2.5	45.9	0.1	51.1	2.0	45.2	100
Developing Oceania								
1960	..	..	2.3	4.6	6.9	..	84.2	100
1980	0	0.3	4.4	3.5	8.2	..	89.3	100
1990	0	0.0	12.7	0.6	13.3	0.0	80.3	100
2000	0	0.0	15.8	2.3	18.1	0.0	58.8	100
2006	1	0.1	17.6	3.2	21.4	0.2	49.3	100
Economies in transition								
1960	2.4	1.0	7.0	..	10.5	25.8	52.3	100
1980	6.5	1.0	15.1	0.0	22.6	26.0	50.4	100
1990	2.7	0.7	11.7	0.0	15.1	14.1	70.8	100
2000	1.7	1.0	13.0	0.0	15.7	20.7	61.6	100
2006	1.6	1.0	15.4	0.0	17.9	18.5	62.0	100
Developed economies								
1960	6.9	8.7	10.2	0.2	25.9	2.1	70.4	100
1980	5.8	5.8	12.8	0.1	24.6	4.0	69.9	100
1990	2.7	3.7	12.4	0.1	19.0	2.4	77.9	100
2000	1.9	5.9	14.5	0.1	22.4	1.5	75.5	100
2006	2.2	5.0	15.4	0.1	22.7	3.2	73.4	100

Sources: UNCTAD calculations based on IMF Direction of Trade data

4.2 SOUTH-SOUTH MERCHANDISE TRADE

Overview

Developing countries' participation in world trade has dramatically increased in the last two decades. Exports from the South to the world in 2005 amounted to $3.7 trillion, which accounted for 36 per cent of total world exports. While the share of exports to developed countries declined in the period 1995–2005 from 56 per cent to 48 per cent, the share of exports to other developing countries in the same period rose from 40 per cent to 45 per cent, with the volume of exports in 2005 showing a three-fold increase from the level in 1995. This phenomenon of dynamic growth in trade among developing countries (or South–South trade) has been coined as the "new geography of international trade".

South–South trade flows reveal a pattern of a "hub-and-spoke" network, where Asia decisively plays the role of the hub, being both the largest exporter and the importer (share of roughly 84 per cent in 2005). The mainstay of South–South trade is intraregional trade (85 per cent in 2005) where Asia is the main player (91 per cent share in South–South intra-regional trade). As for the Americas, the intraregional trade amounts to 57 per cent of their total trade with the South. Only in Africa does the value of intraregional trade fall behind that of trade with Asia. While China is a main driver of South–South trade expansion, India, Brazil, South Africa and South-Eastern Asian countries are also potential regional and interregional drivers.

The sectoral analysis of South–South trade reveals that the industrial products dominate this trade, with 73 per cent exports market share and exports value nearly tripled in the period 1995–2005. The most traded industrial sectors include electrical machinery and equipment (including electronics), where exports value more than tripled in the reference period (1995–2005) and the respective market share rose from 18 per cent to 22 per cent. An industrial sector which showed a decline in the sectoral ranking is textiles and clothing, which decreased its share almost by half, from 13 per cent to 7 per cent. Mineral products (including fuels) increased their share from 12 per cent to 22 per cent and showed exports value growth rate of 439 per cent. This phenomenon may be partly attributed to the rising prices of petroleum oil and other energy products.

As for the agricultural products, their market share declined from 10 per cent to 6 per cent.

Among the main factors that drive the expansion of South-South trade are:

- Substantial increase in demand for natural resources by developing countries, particularly those in Asia, impelled by its rapid economic growth;
- An increasing demand for new markets, particularly in exports of manufactured goods, that requires deepening of bilateral and regional free trade agreements;
- Strategies for establishing regional and global supply chains of multinational companies of the North, as well as increasingly those of the South; and
- Increased access to market information networks via, *inter alia*, access to Internet.

The new South's ascent, capacity and persistent challenges require support in such areas as productive capacity, value addition, infrastructure-building and linkages, and transfer of appropriate technologies. Institutional adaptation and innovation at national, regional and global levels are also crucial.

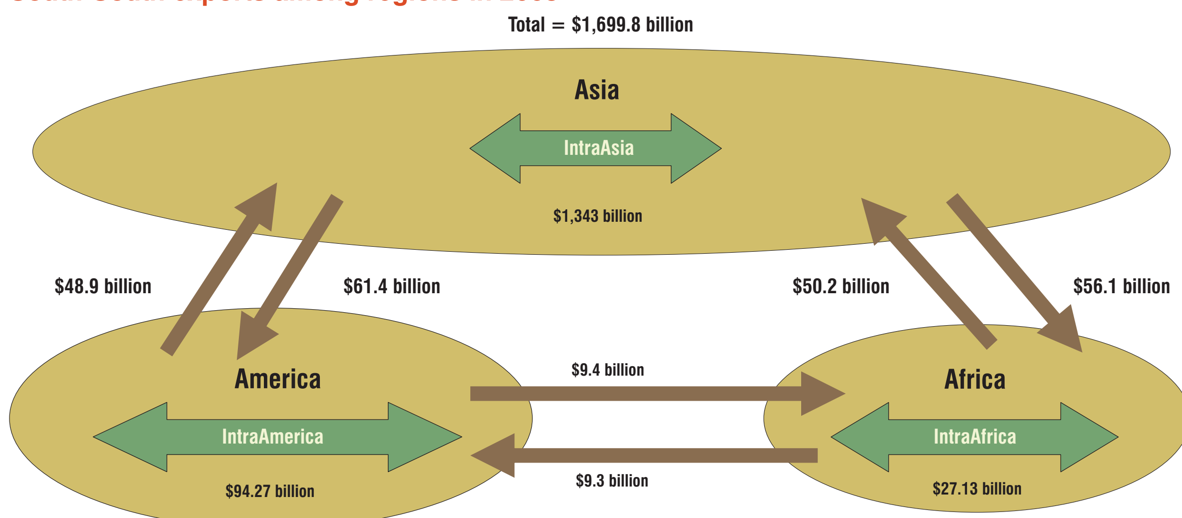
South–South trade will therefore need continuous nurturing through appropriate sequencing of trade and investment liberalization and facilitation, as well as infrastructure and financing arrangements, macroeconomic and regulatory policy coordination, and coherent consultative mechanisms. Furthermore, the North can play an important supportive role, including by providing preferential market access and South–South cumulation in rules of origin. Northern enterprises have been continuously contributing to Southern regional and interregional value and supply chains.

The promotion of South–South trade remains a desirable objective because of the market and investment opportunities that it offers to low-income developing countries. On the other hand, enhancement of the South's individual and collective purchasing power, productive capacity and demand growth is bound to be beneficial for all countries. Aid for Trade packages, which are under discussion, should be therefore specifically targeted to support South–South trade for a multiplier effect.

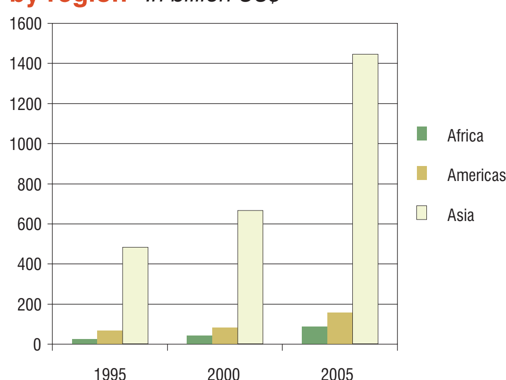
TO LEARN MORE

For more information on the dynamics of South–South trade and strategies for further trade integration among developing countries, see the following. *"Assessing South–South regional integration: Same issues, many metrics"*. Policy Issues in International Trade and Commodities Study Series No. 21, Lucian Cernat, UNCTAD. "A South–South survival strategy: The potential for trade among developing countries". Policy Issues in International Trade and Commodities Study Series No. 33, Marco Fugazza and David Vanzetti, UNCTAD. "South–South trade: the reality-check". (To be published in 2008), Ana Cristina Molina and Miho Shirotori, UNCTAD.

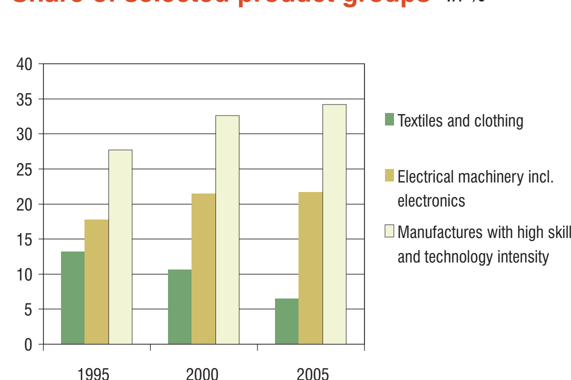
South-South exports among regions in 2005



South - South merchandise exports by region - *In billion US$*



South - South merchandise exports Share of selected product groups - *In %*



South - South merchandise exports by product group

Product sector	1995		2000		2005		Growth rate 1995 - 2005 (%)
	Value (Million US$)	Share in total (%)	Value (Million US$)	Share in total (%)	Value (Million US$)	Share in total (%)	
Total all products	570,178.4	100.0	786,621.4	100.0	1,683,525.5	100.0	195.3
Agricultural products (HS Chapters 01 - 24)	57,485.8	10.1	56,455.8	7.2	100,555.2	6.0	74.9
Mineral products (HS Chapters 25 - 27)	67,340.8	11.8	147,645.3	18.8	363,089.0	21.6	439.2
Industry products (HS Chapters 28 - 99)	445,351.7	78.1	582,520.3	74.1	1,219,881.3	72.5	173.9
Mineral fuels	59,243.4	10.4	138,011.7	17.5	330,267.2	19.6	457.5
Manufactured goods with high skill and technology intensity	158,104.3	27.7	256,731.5	32.6	575,716.8	34.2	264.1
Textiles and clothing (HS Chapters 50 - 63)	75,333.3	13.2	83,669.8	10.6	110,140.0	6.5	46.2
Electrical machinery incl. electronics (HS Chapter 85)	101,174.2	17.7	169,198.0	21.5	366,131.3	21.7	261.9

South - South merchandise exports by product group excluding Eastern Asia and South-Eastern Asia

Product sector	1995		2000		2005		Growth rate 1995 - 2005 (%)
	Value (Million US$)	Share in total (%)	Value (Million US$)	Share in total (%)	Value (Million US$)	Share in total (%)	
Total all products	147,932.7	100.0	228,165.0	100.0	549,110.5	100.0	271.2
Agricultural products (HS Chapters 01 - 24)	28,047.7	19.0	31,078.8	13.6	61,100.5	11.1	117.8
Mineral products (HS Chapters 25 - 27)	43,872.5	29.7	107,024.5	46.9	273,504.2	49.8	523.4
Industry products (HS Chapters 28 - 99)	76,012.5	51.4	90,061.7	39.5	214,505.7	39.1	182.2
Mineral fuels	38,918.8	26.3	101,073.6	44.3	251,289.7	45.8	545.7
Manufactured goods with high skill and technology intensity	18,036.4	12.2	23,656.7	10.4	55,597.7	10.1	208.3
Textiles and clothing (HS Chapters 50 - 63)	10,788.1	7.3	13,614.9	6.0	20,647.7	3.8	91.4
Electrical machinery incl. electronics (HS Chapter 85)	2,711.4	1.8	4,928.9	2.2	13,826.2	2.5	409.9

Sources: UNCTAD's South-South Trade Information System

4.3 TRADE OF PRIMARY COMMODITIES

Overview

In most of the commodity trade, developing countries export for smaller proportion of world trade than developed countries. On average over the period 2003-2005, shares of developing countries' exports in world exports were 34 per cent for agricultural raw materials, 36 per cent for ores and metals, 21 per cent for forestry and forestry products and 30 per cent for food items excluding fish. Exceptions were the fishery sector, where exports from developing and developed countries were approximately equal, and fuels where exports from developing countries were 58 per cent of world exports. At the same time, developing countries were more endowed in natural resources and land availability than developed countries. This is especially true for Africa, where commodity production potential is particularly underexploited.

World trade of food including fish increased significantly over the period. Regarding food items excluding fish, the increase comes from a shift in the type of food consumed in American and Asian developing countries. The increase in population revenues changed the population diet. Food consumed became richer in proteins, which is more expensive. In addition, agricultural subsidies in developed countries support production and exports of food, which partly explains the poor result of developing countries' food exports. Regarding fish and fish products' world trade pattern, the increase of fish trade is supported by fish consumption in developed countries where fish is valued as a healthy product. Paradoxically, the poorest are extremely dependent on fish, as it provides their unique source of proteins. Prospects for fish stocks in the world are alarming since 75 per cent of the stocks are exploited at full capacity or already depleted.

From 1993–1995 to 2003–2005, exports of agricultural raw materials from developing countries increased essentially with internal Asian trade where China increased its imports. While exports from Africa have increased by 41 per cent, they are still much lower than exports from Asian developing countries. Imports by China of forestry products have increased within all regions. The demand in China is supported by the furniture sector and secondary wood products (such as plywood). The most spectacular evolution is for economies in transition, essentially supported by logs exports from the Russian Federation to Europe and China.

Developing countries have doubled their export value of ores and minerals, which tends to reduce the gap between Northern and Southern countries. Developing countries have also increased their share in world ores and metals imports, reinforcing South–South trade, under the lead of Chinese imports (+400 per cent in 10 years), supported by the enormous demand from its industrial and building sectors. However, the metals and minerals sectors of developed countries are still predominant. Historical factors such as the need of physically close mineral markets to produce metals for industrial development explains the settlements of the minerals and metals industries in developed countries. The need of supply security led investors during the 1980s and 1990s to invest mainly in countries which were perceived to have low political risk.

The dynamism of the energy sector (+145.7 per cent since mid-1990s), natural gas and oil in the lead, have supported the increase of world commodity trade since the mid-1990s (+75 per cent). The share of developing countries in world energy exports has remained stable (58 per cent) between 1995-1997 and 2003-2005, while their imports have dramatically increased, essentially under the influence of Asian imports (+279 per cent over the period) to feed the sustained economic growth of this region.

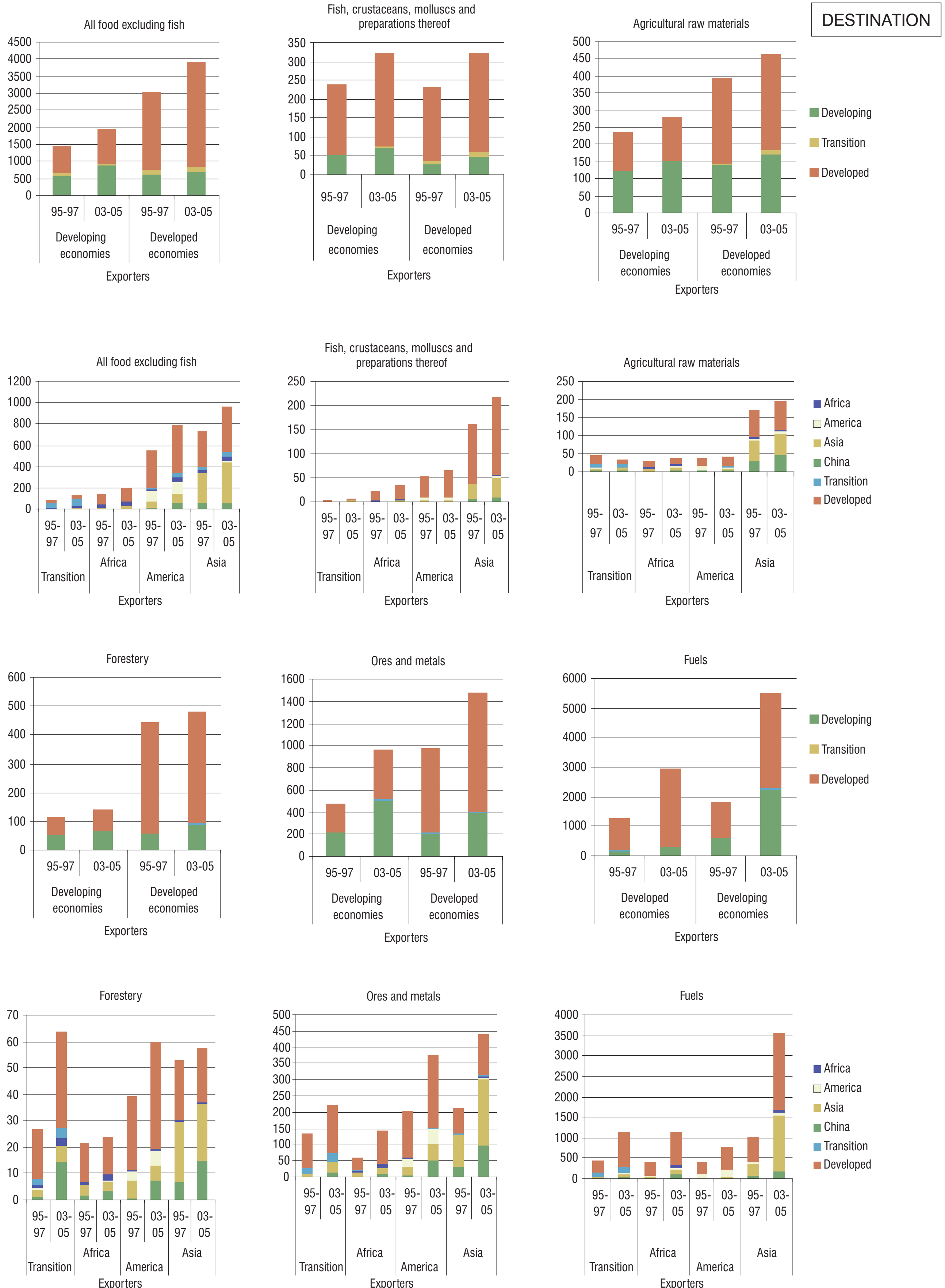
Most of the increase in commodity exports by developing countries results in commodity price increases fuelled by the growing demand from Asian developing countries (China and India). Price prospects look promising, since changes in the food sector, such as the diet for instance, are not easily reversible. The development of biofuels may also exert pressure on agricultural productivity and the need for new and better exploited lands. The increasing scarcity of fish resources would maintain high prices. Finally, the energy sector is in desperate need of alternatives to crude oil and natural gas, since world production can hardly cope with a still-growing demand.

TO LEARN MORE

UNCTAD provides detailed and comprehensive data on commodities production and trade. The UNCTAD Internet portal INFOCOMM at www.unctad.org/infocomm gives information in English, French and Spanish on a large number of commodities, as well as documents and studies on commodity-related issues and links to other sites with commodity information.

Export of primary commodities by destination

In US$, 100 million, 3 years average



Notes:
Transition: Economies in transition *Developing: Developing economies* *America: Developing America*
Developed: Developed economies *Africa: Developing Africa* *Asia: Developing Asia excluding China*
Trade from and to Oceanian developing countries is not included since it is too small to appear graphically
Sources: UNCTAD Handbook of Statistics 2006-07

4.4 PRIMARY COMMODITY DEPENDENCE

Overview

Developing countries' exports dependency on commodities is an issue that has lasted for decades and constrains economic development of such countries. For the purpose of this publication, the dependency rate is defined as the average share of the four main commodity exports value as of total exports value for the period 2003–2005. A dependency rate above 50 per cent implies that more than 50 per cent of national earnings from exports come from the four commodities. The economies of such countries are highly vulnerable to commodity market fluctuations.

More than half (78) of all developing countries rely on four commodities for 50 per cent of their exports earnings; 31 per cent rely on four commodities for more than 75 per cent of their export earnings. Among the 45 LDCs, 30 show a dependency rate above 50 per cent. In Africa, 34 of the 52 countries are more than 50 per cent dependent; while in South America, 8 of 13 are more than 50 per cent dependent. The picture of dependency is contrasted, however. The highest dependent countries with a dependency rate above 80 per cent are West African countries and Western Asian countries, because of their exports of petroleum. A few agricultural products such as cotton, cocoa and coffee also created high dependence in some African countries such as Benin and Burkina Faso, with a dependency rate above 65 per cent.

The boom of commodity prices seems to have increased dependency, since commodity exports represent a higher value of total export of developing countries due to higher prices.

Among the 78 countries identified above, a relatively small number of commodities play a role in dependency. In the four main commodities exported by these countries, oil and oil products appear in 41 countries, fish in 35 countries, natural gas in 15, forestry product in 13, cotton in 11, sugar in 10 and cocoa and coffee in 8. These commodities contribute to create and perpetuate dependency for several reasons.

Known mechanisms have perpetuated dependency. In the case of energy commodities, where earnings are so important that the whole nation lives thanks to energy exports, no other sector looks attractive unless strong incentives and adequate policies are put in place to diversify other commodity sectors, industries or services. Metals and minerals show almost the same pattern, especially for the last decade, when earnings have considerably increased. Often, the origin of dependency on agricultural products comes from colonial history, when countries were dedicated to specific production for developed countries. So far, agricultural products have not generated a critical mass in earnings in order to allow these countries to invest in other sectors. Indeed, new agricultural productions mean investments in human resources, new infrastructures and new value chain.

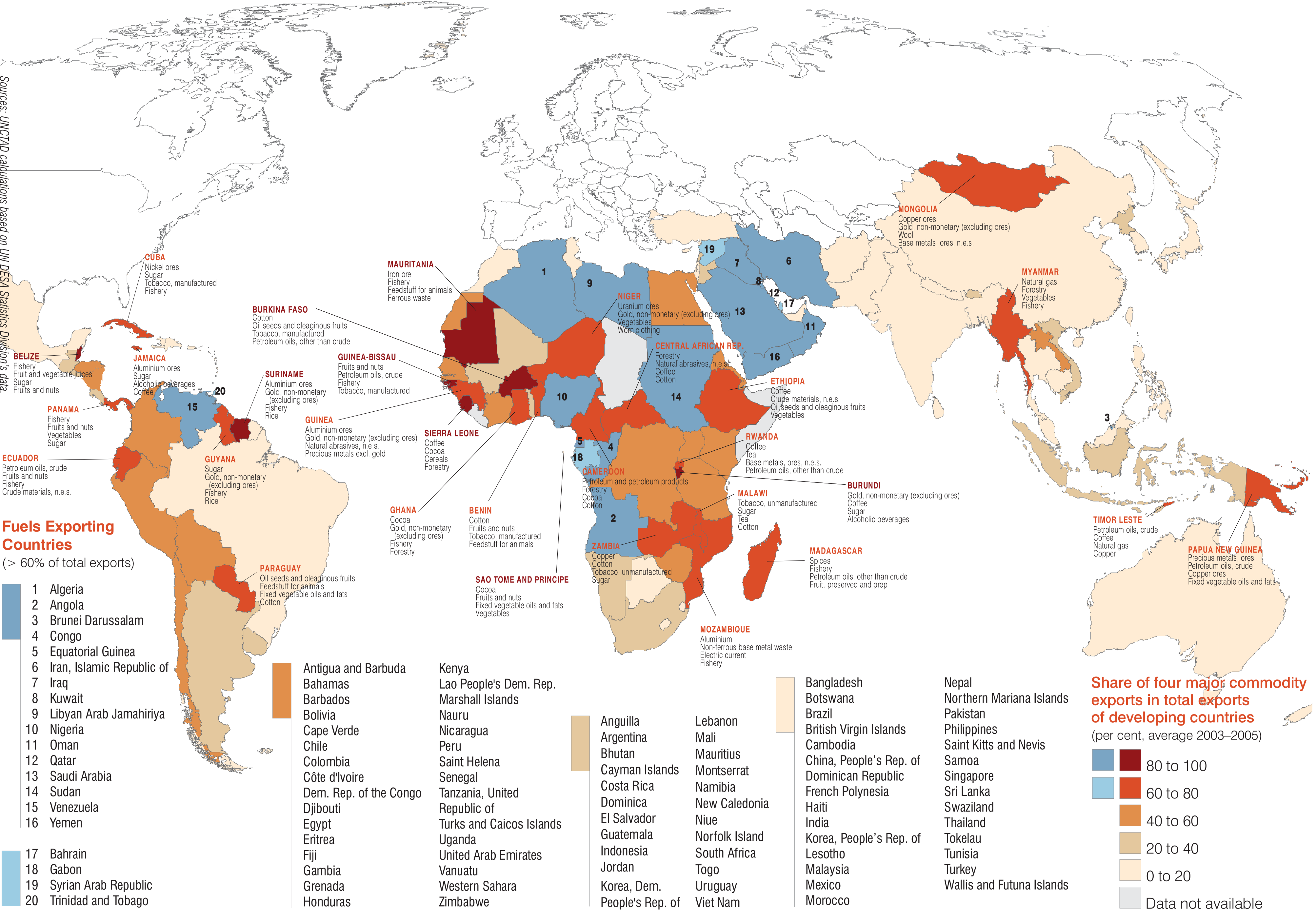
The current commodity boom should provide new possibilities to countries to come out of dependency. Diversification in other commodity sectors, in industries and services have shown the way out. Governments would be the main actors to give incentives to commodity stakeholders to diversify.

Dependency is not the only factor contributing to the vulnerability of countries – the capacity to sustain shocks (called resilience) also plays an important role. Although resilience and dependency go together, the more dependent a country is, the less resilient it is and thus the more vulnerable it is.

TO LEARN MORE

UNCTAD conducts a wide range of activities to reduce developing countries' dependence on a small number of commodities. These activities include support for efforts to diversify the range of products exported by these countries. *World commodity trends and prospects*, note by the Secretary-General of UNCTAD, 28 July 2006 (A/61/202). *Final report of the Global Initiative on Commodities*, Brasilia, 7–11 May 2007.

4.4 PRIMARY COMMODITY DEPENDENCE



Sources: UNCTAD calculations based on UN DESA Statistics Division's data.

4.5 MARKET ACCESS

Overview

Tariffs of developed countries have been falling steadily over the last two decades. Current simple effectively applied tariff average is as low as 3.91 per cent. Current trade-weighted effectively applied tariff is as low as 2.1 per cent.

However, tariffs effectively applied on agricultural products remain significantly higher than those effectively applied on non-agricultural products. The former (trade-weighted) are on average as high as 12.6 per cent, while the latter remain on average below 1.5 per cent.

Some disparities across trading partners are also observed. On average, developed countries impose higher effectively applied tariffs (trade weighted) on developing countries than on other developed countries, while the reverse is true for simple tariffs averages. This is also the case when considering only non-agricultural goods. However, the rate of protection effectively applied on agricultural goods is on average higher for developed trade partners than for developing trade partners, whether simple or trade-weighted tariffs are the reference figure. For non-agricultural goods, sub-Saharan African countries enjoy on average the largest preferences from developed countries, whether simple or trade-weighted tariffs. For agricultural goods, Southern Asian countries enjoy on average the largest preferences from developed countries, whether on simple or trade-weighted average basis.

Data are based on both most-favoured-nation and effectively applied tariffs. The former provide a ceiling reference for those countries in the absence of preferential treatment. Effectively applied rates include preferential tariffs. Their inclusion further reduces the tariff levels facing least developed and developing countries. With respect to the previous edition, data also include ad-valorem equivalents of specific tariffs. This explains why some tariff rates are higher than those previously published.

Non-tariff barriers (NTBs) of concern to developing countries can be summarized as follows. Firstly, in their access and entry to developed countries' markets, technical measures – including technical regulations, standards and sanitary/phytosanitary regulations, and price control measures such as anti-dumping actions – are the most typical barriers faced by developing countries' exporters. Secondly, in trade between developing countries, customs and administrative entry procedures, para-tariff measures (e.g. import surcharges and additional charges), and other regulatory measures affecting infrastructure and institutions are among constraining trade obstacles. Thirdly, products of export interest to developing countries, such as agricultural and fisheries products, electrical equipment, pharmaceutical, textiles and clothing are the most affected by NTBs.

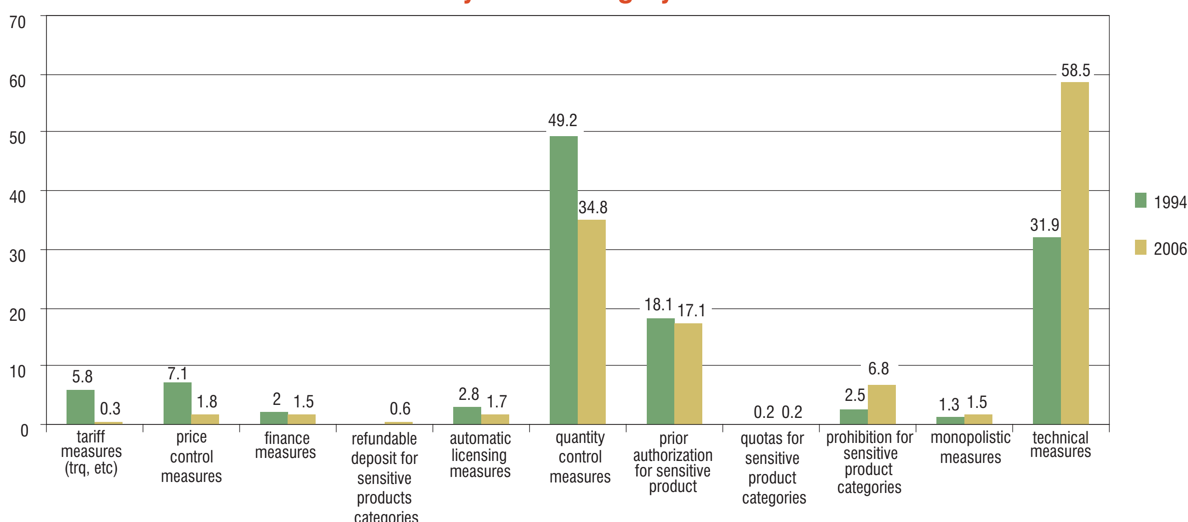
The most recent trend indicates increasing use of technical measures, as well as quantitative measures associated with technical measures, and decreasing use of all other measures. To illustrate this trend, the tariff lines affected by each type of NTB, as defined by each chapter of the UNCTAD Coding System of Trade Control Measures (TCMCS), were counted and the percentage distribution calculated for all countries for which data were available at the end of 1994 and 2004, or latest available data. The Uruguay Round, concluded in 1994, made most quantitative restrictions (QRs) illegal, especially for agricultural products. With regard to chapter 6: Quantity Control Measures (QCMs), subcategories defined by TCMCS codes 617, 627 and 637 were singled out from the rest of the items, as they represent those QRs that were closely associated with technical measures and were applied, at least in principle, to protect the well-being of consumers and not domestic producers.

The rise in the relative importance of NTBs as an instrument of trade policy has required updating the TCMCS in order to streamline the items within the core categories of NTBs, expand the categories of technical measures and other non-core categories, and add new measures such as procedural obstacles to trade. This work is in progress in close collaboration with the Food and Agricultural Organization of the United Nations (FAO), the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Industrial Development Organization (UNIDO), the World Bank, the World Trade Organization (WTO) and OECD.

TO LEARN MORE

See *"World Tariff Profiles 2006"*, joint UNCTAD/WTO/ITC; *"Market Access, Market Entry and Competitiveness"*, background note, UNCTAD, doc. TD/B/COM.1/83, 14 February 2007; and *"Methodologies, Classifications, Quantification and Development Impacts of Non-Tariff Barriers"*, Background note, UNCTAD, doc. TD/B/COM.1/EM.27/2, 23 June 2005.

Evolution of non-tariff barriers use by broad category - *In %*



Trade weighted applied tariff average, in most recent year - *In %*

	All products		Non-agricultural		Agricultural	
	Effectively applied tariff (1)	Most-Favoured-Nation tarif	Effectively applied tariff (1)	Most-Favoured-Nation tarif	Effectively applied tariff (1)	Most-Favoured-Nation tarif
Applied by developed countries on imports from:						
World	**2.1**	**3.3**	**1.5**	**2.6**	**12.6**	**14.9**
Developing economies	**2.3**	**3.7**	**1.8**	**3.1**	**10.3**	**13.4**
Developing economies excluding China	*1.9*	*3.7*	*1.4*	*3.0*	*10.1*	*13.5*
Least developed countries	*2.2*	*7.2*	*1.7*	*6.7*	*9.8*	*13.1*
Africa	**1.3**	**3.3**	**0.4**	**2.1**	**13.1**	**16.8**
North Africa	0.8	2.6	0.4	2.2	13.6	16.9
Sub-Saharan Africa	1.6	4.0	0.4	2.0	13.0	16.8
Sub-Saharan Africa excluding South-Africa	*1.6*	*5.2*	*0.2*	*2.4*	*13.6*	*18.1*
America	**1.9**	**5.0**	**0.7**	**3.4**	**10.2**	**13.9**
Central America	0.8	4.2	0.5	3.8	4.6	8.3
Caribbean islands	2.9	5.3	1.9	3.8	16.1	23.4
South America	3.2	6.0	0.7	2.5	12.6	16.1
Central America excluding Mexico	*6.9*	*8.9*	*6.0*	*7.2*	*9.08*	*13.1*
Asia	**2.6**	**3.5**	**2.3**	**3.3**	**9.2**	**11.0**
Western Asia	0.9	3.8	0.7	3.5	6.1	11.5
Southern Asia	3.2	5.3	3.1	5.3	3.8	5.3
Eastern Asia	2.9	3.4	2.7	3.3	11.9	12.6
South-Eastern Asia	2.1	2.9	1.8	2.5	9.4	11.1
Eastern and South-Eastern Asia excluding China	*2.3*	*2.9*	*2.0*	*2.5*	*9.7*	*11.3*
Oceania	**3.6**	**4.7**	**0.5**	**1.4**	**22.6**	**24.3**
Economies in transition	**0.9**	**2.3**	**0.6**	**1.9**	**13.4**	**19.4**
Asia	**0.5**	**1.0**	**0.4**	**0.9**	**3.9**	**5.3**
Europe	**0.9**	**2.4**	**0.6**	**2.0**	**14.3**	**20.7**
Developed economies	**2.0**	**3.0**	**1.2**	**2.2**	**14.8**	**16.2**
Applied by developing countries on imports from:						
World	**4.9**	**6.1**	**4.3**	**5.4**	**15.5**	**18.3**
Developing economies	**4.3**	**5.2**	**3.8**	**4.5**	**14.7**	**17.4**
Developing economies excluding China	*4.3*	*5.4*	*3.7*	*4.8*	*13.0*	*15.8*
Least developed countries	*3.2*	*4.4*	*1.9*	*2.7*	*15.8*	*19.4*
Africa	**3.9**	**5.3**	**3.0**	**4.1**	**12.9**	**17.1**
North Africa	2.7	5.4	2.4	4.7	5.3	13.8
Sub-Saharan Africa	4.1	5.2	3.1	4.0	14.3	17.7
Sub-Saharan Africa excluding South-Africa	*3.2*	*4.2*	*2.0*	*2.8*	*14.6*	*17.9*
America	**4.6**	**9.2**	**2.8**	**8.0**	**12.0**	**15.2**
Central America	6.3	7.8	5.6	7.1	12.8	14.1
Caribbean islands	5.8	8.0	4.4	5.9	20.7	30.8
South America	4.2	9.5	2.2	8.0	11.7	15
Central America excluding Mexico	*6.1*	*7.1*	*4.6*	*5.5*	*12.5*	*14.2*
Asia	**4.1**	**4.5**	**3.7**	**4.0**	**17.2**	**19.1**
Western Asia	3.7	4.2	3.6	4.0	7.1	10.7
Southern Asia	5.6	5.9	4.8	5.0	12.5	13.7
Eastern Asia	4.4	4.5	4.1	4.2	29.3	29.8
South-Eastern Asia	3.3	4.4	2.6	3.5	16.1	18.5
Eastern and South-Eastern Asia excluding China	*3.9*	*4.6*	*3.4*	*4.0*	*16.0*	*18.4*
Oceania	**6.0**	**5.7**	**5.4**	**5.5**	**8.1**	**8.2**
Economies in transition	**4.8**	**5.2**	**4.3**	**4.7**	**14.0**	**14.1**
Asia	5.1	5.2	2.6	2.7	18.7	18.7
Europe	4.8	5.2	4.5	5.0	11.9	11.9
Developed economies	**5.7**	**7.3**	**5.0**	**6.5**	**16.2**	**19.4**

(1) Including all available and applicable preferential schemes
Sources: TRAINS/WITS

4.6 PATTERNS IN SERVICES TRADE OF DEVELOPING COUNTRIES

Overview

Across countries, services' contribution to income generation, employment creation and foreign exchange earnings has increased significantly over the last two decades. Between 1990 and 2006, the share of services in GDP grew continuously, from 65.4 per cent to 73.0 per cent in developed countries, and from 49.6 per cent to 50.8 per cent in developing countries. Services now account for about 72 and 35 per cent of employment in developed and developing economies respectively.

Growing much faster than both world GDP and merchandise trade, between 1980 and 2006, international trade in services expanded rapidly, with total exports increasing from about $400 billion to $2.8 trillion. Developed countries currently dominate world services trade; however, developing economies have achieved strong growth in their services exports since 1990, boosting their share of world exports from 18.7 per cent in 1990 to 25 per cent in 2006, with developing Africa and Asia recording the sharpest growth. While indicating improved export performance, to some extent these figures also reflect improvements in data collection.

The bulk of developing country services exports remain concentrated in a relatively small number of economies, mostly in Asia, which have emerged as the most active and successful developing countries in world services trade. In 2006, the top five exporters supplied just over half of all developing country services exports, and the top 15 accounted for 80 per cent. Nevertheless, although exports stand at lower levels for developing countries with smaller economies, some have comparable services export performance relative to GDP as the leading developing country services exporters, while others continue to build their export capacities.

The integration of developing countries into the global services economy requires their designing and implementing appropriate policies and regulatory frameworks, establishing institutional structures, creating an enabling environment for entrepreneurship, and building competitive services supply capacities. Equally important, both multilateral and regional negotiations should enable developing countries to benefit from fast-growing services trade, by providing increased market access for their exports and improved access to imported services. Services should also contribute to their overall national development by ensuring universal access to basic services. However, to ensure gains from services trade liberalization, adequate content, pacing and sequencing of domestic reforms, and regional and multilateral liberalization, remain essential.

Transport and travel services continue to represent the major proportion of developing country services exports, accounting for about 27 and 36 per cent of their services exports in 2005. However, many developing economies are now placing increased emphasis on building supply and export capacity in new and emerging services sectors with higher value added, including (a) computer and information; (b) financial and insurance; and (c) other business services which together accounted for over one third of developing countries' $606 billion of services exports in 2005. Although not included as services exports in national balance of payments, workers' remittances from developing country nationals working abroad to their home economies were $177 billion in 2006. Many of these workers are employed in the services sector, including through mode 4 services supply. Workers' remittances are the largest source of external financing in many low-income developing countries.

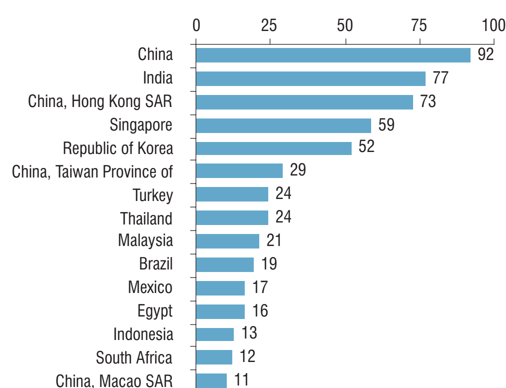
Recent analyses suggest that South–South services exports, predominantly intraregional in nature, account for about 10 per cent of world services exports. Particular attention in national strategies should be focused on increasing South–South services trade and cooperation aimed at strengthening regional services economies, institutional arrangements and physical infrastructure to facilitate services trade. Attention also needs to be given to North–South services trade and RTAs in terms of their impact on developing countries' domestic services capacity, services exports and access to efficient imports of producer services. Effectively monitoring and assessing services trade will require improved services trade data collection, analysis and dissemination.

TO LEARN MORE

The data presented here are collected mainly from balance-of-payments statistics compiled in accordance with definitions described in the *IMF Balance of Payments Manual* (1993). The *Manual on Statistics of International Trade in Services* (2002) – a joint publication by the United Nations, the European Commission, IMF, OECD, UNCTAD and WTO – provides an extended framework for international trade in services by including services supplied by foreign affiliates and through the movement of natural persons. Revised editions of both manuals are planned for release in 2008 and 2009, respectively.

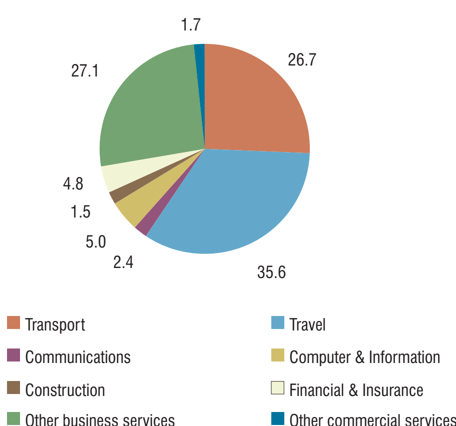
Main developing-country exporters in 2006

In billion US$



Developing country commercial services exports in 2005, by category of services

As % of total commercial services exports



Total services exports

Region	% of the world total			Average annual growth rate		Million US$
	1990	2000	2006	1990 - 2000	2000 - 2006	2006
World	**100.0**	**100.0**	**100.0**	**6.6**	**11.8**	**2,812,815**
Developing economies	**18.7**	**23.3**	**25.0**	**9.1**	**12.9**	**702,672**
Developing economies excluding China	*18.0*	*21.3*	*21.7*	*8.6*	*12.0*	*610,673*
Least developed countries	*0.5*	*0.5*	*0.5*	*6.9*	*11.4*	*13,985*
Developing economies: Africa	**2.6**	**2.1**	**2.4**	**4.7**	**14.3**	**68,128**
North Africa	1.2	1.1	1.2	5.0	13.3	32,519
Sub-Saharan Africa	1.3	1.1	1.3	4.4	15.3	35,609
Developing economies: America	**3.8**	**4.1**	**3.5**	**7.0**	**8.4**	**97,249**
Central America	1.3	1.3	1.0	5.4	6.1	27,638
Caribbean	0.9	1.0	0.8	8.4	7.6	23,872
South America	1.6	1.7	1.6	7.5	10.4	45,739
Developing economies: Asia	**12.2**	**17.0**	**19.0**	**10.5**	**13.7**	**535,812**
Western Asia	2.7	3.0	2.0	9.8	4.9	57,033
Southern Asia	0.9	1.4	3.3	11.4	28.6	91,695
Eastern Asia	5.1	8.1	9.1	11.3	13.6	256,900
South-Eastern Asia	3.5	4.5	4.6	9.4	12.6	130,183
Developing economies: Oceania	**0.1**	**0.1**	**0.1**	**2.9**	**9.3**	**1,484**
Economies in transition	**_**	**1.8**	**2.9**	**_**	**20.6**	**81,046**
Developed economies	**80.4**	**75.0**	**72.1**	**5.7**	**11.2**	**2,029,097**

Total services imports

Region	% of the world total			Average annual growth rate		Million US$
	1990	2000	2006	1990 - 2000	2000 - 2006	2006
World	**100.0**	**100.0**	**100.0**	**6.0**	**11.0**	**2,696,436**
Developing economies	**21.8**	**26.5**	**29.2**	**7.6**	**12.6**	**788,248**
Developing economies excluding China	*21.3*	*24.2*	*25.5*	*6.8*	*11.8*	*687,415*
Least developed countries	*1.2*	*0.9*	*1.2*	*3.7*	*15.6*	*32,856*
Developing economies: Africa	**3.5**	**2.6**	**3.3**	**3.2**	**15.0**	**89,617**
North Africa	1.0	0.9	1.0	3.0	13.1	26,346
Sub-Saharan Africa	2.4	1.8	2.3	3.3	15.9	63,270
Developing economies: America	**4.3**	**4.9**	**4.0**	**7.0**	**6.6**	**108,328**
Central America	1.5	1.5	1.2	4.6	5.9	31,416
Caribbean	0.5	0.5	0.4	7.5	6.2	11,316
South America	2.3	2.9	2.4	8.3	7.0	65,596
Developing economies: Asia	**14.0**	**18.9**	**21.8**	**8.5**	**13.7**	**587,838**
Western Asia	4.4	3.7	3.5	2.0	10.9	95,020
Southern Asia	1.6	1.5	3.4	5.7	26.4	92,381
Eastern Asia	4.7	8.0	9.1	11.4	13.3	244,078
South-Eastern Asia	3.3	5.7	5.8	12.2	11.1	156,359
Developing economies: Oceania	**0.1**	**0.1**	**0.1**	**4.1**	**12.7**	**2,466**
Economies in transition	**_**	**2.0**	**3.4**	**_**	**20.3**	**92,315**
Developed economies	**76.3**	**71.5**	**67.3**	**5.3**	**10.1**	**1,815,873**

Sources: UNCTAD Handbook of Statistics.

4.7 SERVICES TRADE PERFORMANCES OF DEVELOPING COUNTRIES BY CATEGORY OF SERVICES

Overview

The main developing country exporters of services, as well as many smaller economies with strong export performance relative to GDP, continue to reap development benefits from strengthening and diversifying their services sector. In these countries, deepening the services sector is an important development objective. Cross-country analyses show that countries with competitive services economies with strong backward and forward intersectoral linkages, are also competitive services and manufactures exporters. Moreover, a developed services economy generates employment in occupations spanning many disciplines and skill levels and attracts investment and technology transfer.

As a group, developing countries have recently achieved double-digit growth in exports of most services categories, with particularly strong growth in computer and information (33 per cent) and construction services (16 per cent). However, not all developing countries are participating in this trend. There is thus a need for more developing economies to promote services exports within the context of national trade and development strategies by building the quality and capacity of services supply in categories where they have comparative and competitive advantage. In addition, it is important that developing countries secure improved market access for services exports across the four modes of services supply, particularly mode 1 (cross-border supply) and mode 4 (movement of natural persons).

The top five exporters of financial and insurance services – Hong Kong (China), Singapore, India, Taiwan Province of China and the Republic of Korea – accounted for nearly 70 per cent of all developing country exports in this category in 2005. Other major players are Mexico, followed by China, Turkey, South Africa and Brazil. The top 10 developing country financial and insurance services exporters account for 95 per cent of total developing country exports.

With over $22 billion of computer and information services exports in 2005, India outperforms all other developing countries combined (exports of $5 billion). Other main exporters include Singapore, Costa Rica, Argentina, Indonesia and South Africa. A major component of developing countries' computer and information services exports is information and communications technology (ICT)-enabled services to support business process outsourcing (BPO).

Among the top travel services exporters, South Africa and Turkey had annual export growth rates of over 20 per cent between 2000 and 2005. China, Hong Kong (China), Egypt and India also achieved double-digit growth during this period. But at nearly $30 billion in 2005, China's total exports of travel services remain far larger than those of other developing countries. Closely related to travel services are international tourism services which include a slightly broader range of services in their definition and are measured in terms of international tourism receipts and tourist arrivals. Among developing countries, international tourism volumes are greatest in China. Mexico, Turkey, Malaysia and Thailand also rank highly. Additionally, over 20 other developing economies figure among the world's top 50 exporters of tourism services and many of them boast high growth rates for international arrivals.

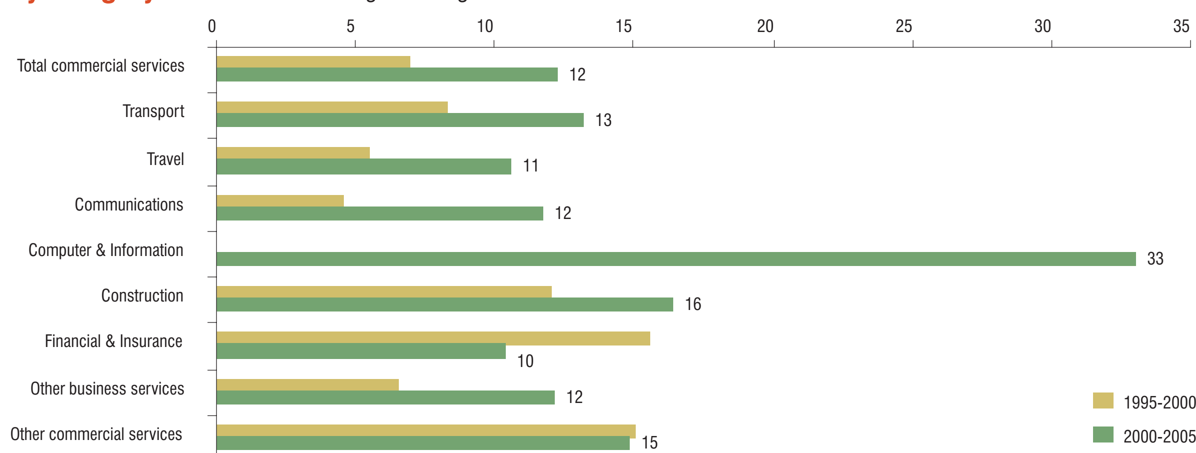
The largest and fastest-growing exporter of transport services is the Republic of Korea, which also has a high concentration of exports in this category. China's exports of transport services would be nearly 50 per cent higher than the Republic of Korea's if the figures included statistics from Hong Kong (China). Other large transport services exporters are Singapore, Taiwan Province of China, India and Turkey. Transport is the main component of logistics services and it is estimated that many of these developing countries are also leading exporters of logistics services.

India, Kuwait and Indonesia were the top exporters of communication services in 2005, overtaking China and Mexico, which had the highest export levels in 2000. Other major players are Malaysia, Philippines, Morocco and the Republic of Korea. China is the dominant exporter of construction services, with exports of nearly $2.6 billion in 2005. Other major exporters are India, Turkey, Malaysia, Singapore and Egypt, each with over $500 million in exports in 2005.

TO LEARN MORE

A discussion of recent trends in developing countries' services trade is available in *Trade in Services and Development Implications*, focusing on regional services trade in 2007 (UNCTAD, TD/B/COM.1/85); strengthening supply capacity in 2006 (UNCTAD, TD/B/COM.1/77); and infrastructure services in 2005 (UNCTAD, TD/B/COM.1/71). Issues notes prepared for UNCTAD expert meetings on services – including on construction, distribution, energy, environmental, financial, insurance, logistics, professional and tourism services, and on cross-cutting issues such as mode 4 services supply and universal access – provide more detailed information on the trends and performance of developing countries in specific services sectors (see www.unctad.org/tncd).

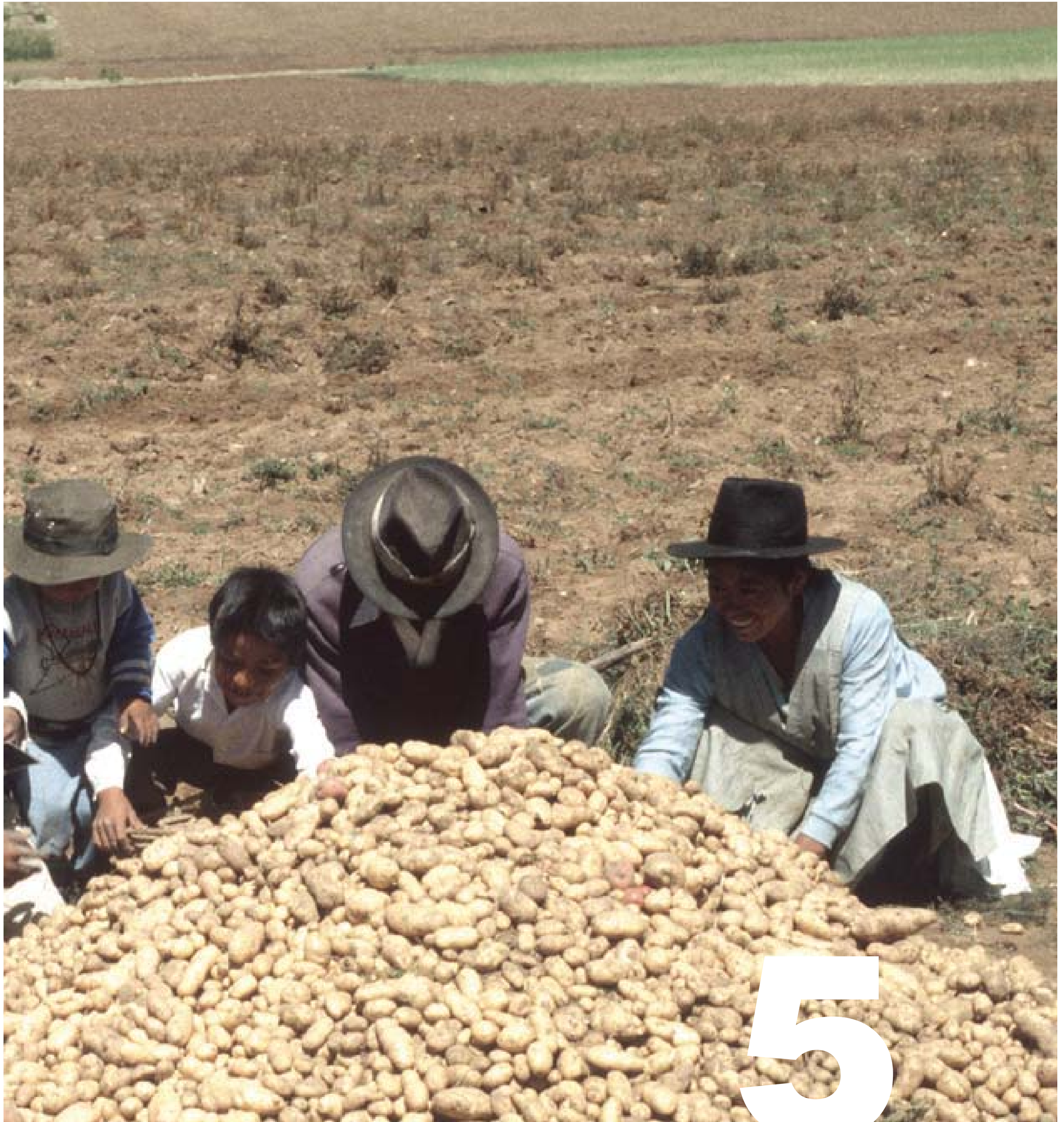
Developing-country commercial services exports growth, by category of services - *Average annual growth rate in %*



Top 10 developing-country exporters, by category of service - *Ranked by 2005 export values*

Services category	Economy	Million US$ 1995	2000	2005	2006	% of country's total 2005	Average annual growth rate in % 2000 - 2005
Financial and insurance services	China, Hong Kong SAR	..	4,814.6	6,735.7	9,373.0	10.6	4.6
	Singapore	2,161.3	2,027.4	4,816.9	..	9.4	21.6
	India	170.2	533.0	2,397.8	3,280.0	4.3	30.9
	China, Taiwan Province of	418.0	1,412.0	1,882.0	1,764.0	7.3	8.8
	Republic of Korea	85.1	773.0	1,819.6	2,922.8	4.0	20.2
	Mexico	640.6	1,799.3	1,550.2	1,329.8	9.6	-5.9
	China	1,852.1	185.6	694.6	693.6	0.9	26.8
	Turkey	221.0	400.0	668.0	497.0	2.5	14.2
	South Africa	438.9	450.9	658.8	865.9	5.9	12.0
	Brazil	1,013.0	688.1	641.3	1,062.2	4.0	-1.1
Computer and information	India	..	4,727.4	22,005.1	27,708.4	39.4	34.4
	China	..	355.9	1,840.2	2,957.7	2.5	43.2
	Singapore	269.2	247.2	475.9	..	0.9	13.2
	Malaysia	..	81.6	435.3	535.4	2.2	35.4
	China, Hong Kong SAR	..	59.7	264.8	..	0.4	29.3
	Costa Rica	..	59.7	254.8	340.7	9.7	28.5
	Argentina	12.7	147.1	230.3	328.2	3.6	7.5
	Indonesia	..	..	147.4	..	1.1	..
	South Africa	..	..	109.4	128.8	1.0	..
	China, Taiwan Province of	..	117.0	105.0	186.0	0.4	-4.5
Transport	Republic of Korea	9,272.1	13,687.3	23,876.9	25,858.1	52.9	14.2
	China, Hong Kong SAR	..	12,772.0	20,318.5	22,281.0	31.9	10.4
	Singapore	8,296.0	11,889.0	17,904.3	22,939.1	34.9	9.9
	China	3,352.1	3,671.0	15,426.5	21,015.3	20.7	34.5
	China, Taiwan Province of	4,548.0	4,121.0	5,924.0	6,259.0	22.9	9.4
	India	1,890.4	1,978.7	5,719.7	7,216.1	10.2	24.9
	Turkey	1,712.0	2,955.0	4,797.0	4,159.0	18.0	7.7
	Egypt	3,202.0	2,645.0	4,745.6	5,489.1	32.4	12.9
	Thailand	2,454.6	3,250.4	4,626.2	5,377.2	22.9	8.6
	Chile	1,194.0	2,187.6	4,272.0	4,468.6	60.9	14.7
Travel	China	8,730.0	16,231.0	29,296.0	33,949.0	39.4	11.8
	Turkey	4,957.0	7,636.0	18,152.0	16,853.0	68.1	21.4
	Mexico	6,178.8	8,294.2	11,803.3	12,176.7	73.2	7.6
	China, Hong Kong SAR	..	5,906.4	10,295.6	11,630.1	16.2	12.0
	Thailand	8,035.0	7,482.9	9,576.7	12,432.1	47.5	6.7
	Malaysia	3,968.6	5,011.3	8,846.0	9,632.3	45.2	9.5
	China, Macao SAR	..	..	7,980.1	..	92.6	
	India	2,581.5	3,459.9	7,492.9	9,824.9	13.4	19.4
	South Africa	2,126.2	2,676.5	7,335.2	7,875.8	65.7	27.1
	Egypt	2,684.0	4,345.0	6,850.6	7,590.8	46.8	11.8
Communications	India	..	598.8	1,972.9	..	3.5	19.2
	Kuwait	..	..	1,294.5	3,397.9	27.4	
	Indonesia	113.0	86.0	998.1	..	7.7	74.4
	China, Hong Kong SAR	..	362.3	942.0	..	1.5	20.1
	Malaysia	..	180.8	614.8	725.7	3.1	23.5
	Mexico	860.0	1,212.9	547.9	485.4	3.4	-16.0
	Philippines	..	182.0	522.0	575.0	11.5	20.7
	China	755.7	1,345.5	485.2	737.9	0.7	-9.5
	Morocco	54.4	113.5	446.1	..	5.5	29.4
	Republic of Korea	560.7	387.4	443.0	466.3	1.0	2.6
Construction	China	..	602.3	2,592.9	2,752.6	3.5	29.5
	India	..	501.9	1,008.8	..	1.8	32.6
	Turkey	1,863.0	1,033.0	882.0	936.0	3.3	-1.9
	Malaysia	..	314.5	811.2	801.7	4.1	12.6
	Singapore	289.0	134.4	565.6	..	1.1	35.9
	Egypt	1.0	93.0	502.9	430.1	3.4	40.4
	Indonesia	..	..	484.1	..	3.8	
	China, Hong Kong SAR	..	337.6	313.2	..	0.5	-0.7
	Thailand	19.2	229.7	255.1	336.1	1.3	-1.2
	Tunisia	10.6	50.3	143.4	..	3.6	24.8

Source: UNCTAD Handbook of Statistics



5

POPULATION

5.1 Population and poverty
5.2 Employment

5.1 POPULATION AND POVERTY

Overview

World population reached 6.7 billion in 2007 and is expected to increase to 9.1 billion in 2050. It is currently growing at 1.2 per cent annually. But considerable diversity in population size and growth lies behind these numbers. Particularly rapid growth is expected in the group of the 50 LDCs. The populations of many countries, particularly those in Africa and Asia, will increase greatly in the coming decades. During 2005–2050, eight countries are expected to account for half of the world's projected population increase: India, Nigeria, Pakistan, the Democratic Republic of the Congo, Ethiopia, the United States of America, Bangladesh and China, listed according to the size of their contribution to global population growth. As a result of its relatively rapid growth, India is expected to overtake China as the most populous country in the world by 2030. In contrast, owing to below-replacement fertility levels, some developed countries are expected to experience a significant population decline. Other developed countries' populations will continue to grow because of their fertility levels being closer to replacement levels and because of significant flows of international migration.

Globally, the population of older persons is growing by 2.0 per cent each year, considerably faster than the population as a whole. For at least the next 25 years, the older population is expected to continue growing more rapidly than other age groups, which will require far-reaching economic and social adjustments in most countries. Marked differences exist between regions in the number and proportion of older persons. Although the highest proportions of older persons are found in developed countries, the population aged 60 or over is growing more rapidly in the less developed regions. Therefore, the developing economies will have to adjust to the consequences of population ageing.

International migration consisted of 191 million people in 2005, 115 million of which lived in developed countries and 75 million in developing countries. About a third of world migrants have moved from one developing country to another, and another third have moved from a developing country to a developed country. That is to say, "South-to-South" migrants are about as numerous as "South-to-North" migrants. Between 1990 and 2005, high-income countries as a whole registered the highest increase in the number of international migrants (41 million). Nearly 6 of every 10 international migrants live in high-income economies. These include 22 developing countries, including Bahrain, Brunei Darussalam, Kuwait, Qatar, the Republic of Korea, Saudi Arabia, Singapore and the United Arab Emirates. Migrants constitute at least 20 per cent of the population in 41 countries, 31 of which have less than 1 million inhabitants.

Worldwide, the number of people in developing countries living on less than $1 a day fell to 980 million in 2004, down from 1.25 billion in 1990. However, success is unequally shared. Poverty reduction has been significant in Eastern and South-Eastern Asia mostly due to rapid economic growth in Asia. India has also put Southern Asia on track to achieve the Millennium Development Goal of halving, between 1990 and 2015, the proportion of people whose income is less than $1 a day.

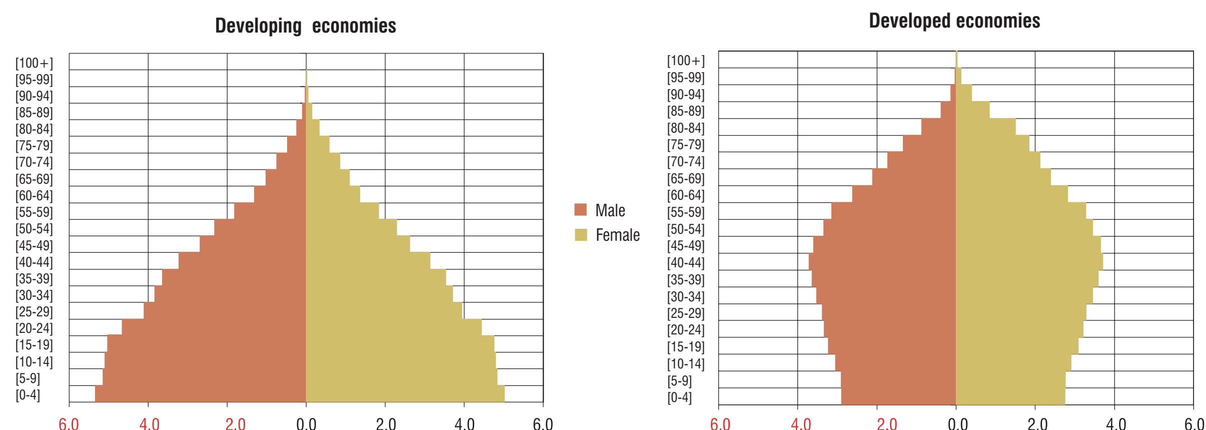
In contrast, poverty rates in Western Asia more than doubled between 1990 and 2005. Extreme poverty rose sharply in the early 1990s in the CIS and the transition countries of South-Eastern Europe. However, poverty rates in those regions are now dropping and approaching the levels of the 1980s. In sub-Saharan Africa, the proportion of people living in extreme poverty fell from 46.8 per cent in 1990 to 41.1 per cent in 2004. Most of this progress has been achieved since the year 2000.

The benefits of economic growth in the developing world have been unequally shared, both within and among countries. Between 1990 and 2004, the share of national consumption by the poorest fifth of the population in developing regions decreased from 4.6 per cent to 3.9 per cent. Widening income inequality was particularly noticeable in Eastern Asia, where the share of consumption among the poorest people declined dramatically during this period. Latin America and the Caribbean and sub-Saharan Africa, where the poorest fifth of the people account for only about 3 per cent of national consumption or income, concentrate the highest income inequality.

TO LEARN MORE

For more information, see *World Population Prospects: The 2006 Revision, Population Challenges and Development Goals* by Department of Economic and Social Affairs, Population Division, *International Migration and development Report* by the Secretary-General to the United Nations General Assembly at its sixtieth session; and *The Millennium Development Goals Report, 2007*, United Nations.

Population structure by age, 2007 [1] - *In % of total population*

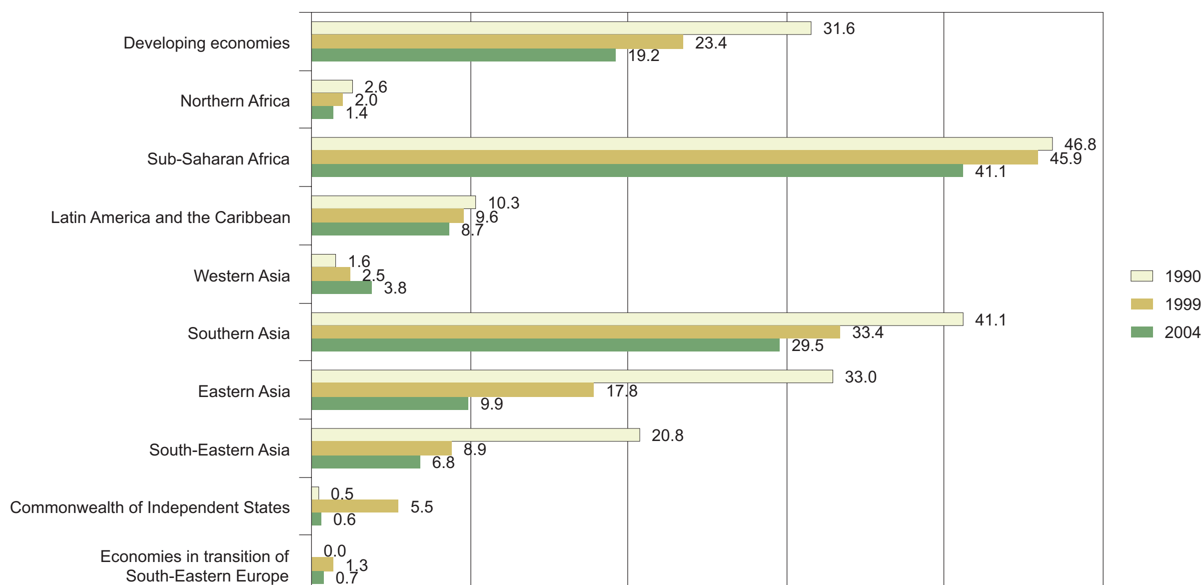


Demographic indicators - *Growth rate in %; demographic rate per 1,000 inhabitants; total population in million*

	Population growth rate		Natural increase rate		Net migration rate		Total
	1995-2000	2000-2005	1995-2000	2000-2005	1995-2000	2000-2005	2007
World	**1.4**	**1.2**	**13.7**	**12.4**	**0.0**	**0.0**	**6,671**
Developing economies	**1.6**	**1.5**	**17.0**	**15.2**	**-0.4**	**-0.6**	**5,359**
Developing economies excluding China	*1.9*	*1.7*	*19.7*	*18.0*	*-0.4*	*-0.7*	***4,053***
Least developed countries	*2.5*	*2.4*	*25.0*	*24.3*	*-0.6*	*-0.1*	***804***
Africa	**2.4**	**2.3**	**25.2**	**24.0**	**-0.4**	**-0.5**	**964**
North Africa	1.6	1.6	18.3	17.5	-1.8	-1.7	**157**
Sub-Saharan Africa	2.6	2.5	26.6	25.3	-0.1	-0.3	**807**
Sub-Saharan Africa excluding South Africa	*2.7*	*2.6*	*27.4*	*26.4*	*-0.2*	*-0.3*	***758***
America	**1.6**	**1.3**	**17.3**	**15.6**	**-1.6**	**-2.6**	**567**
Central America	1.8	1.2	20.8	18.5	-2.9	-6.8	**147**
Caribbean	1.1	1.0	14.6	13.2	-3.2	-3.0	**36**
South America	1.5	1.4	16.2	14.7	-0.9	-0.9	**383**
Central America excluding Mexico	*2.1*	*1.9*	*25.5*	*23.4*	*-4.0*	*-3.8*	***41***
Asia	**1.5**	**1.3**	**15.1**	**13.1**	**-0.3**	**-0.3**	**3,818**
Western Asia	2.4	2.1	23.0	20.5	1.0	1.1	**196**
Southern Asia	1.9	1.7	19.5	17.2	-0.5	-0.5	**1,638**
Eastern Asia	0.9	0.7	9.3	6.9	-0.2	-0.2	**1,411**
South-Eastern Asia	1.5	1.4	15.9	14.7	-0.3	-0.6	**572**
Eastern and South-Eastern Asia excluding China	*1.4*	*1.3*	*14.4*	*13.0*	*0.1*	*-0.3*	***678***
Oceania	**2.3**	**2.1**	**24.3**	**21.9**	**-1.6**	**-0.9**	**9**
Economies in transition	**-0.2**	**-0.2**	**-0.7**	**-1.4**	**-1.2**	**-0.9**	**331**
Asia	0.5	0.8	13.2	12.1	-8.1	-3.8	**76**
Europe	-0.4	-0.5	-4.4	-5.1	0.6	0.0	**255**
Developed economies	**0.5**	**0.6**	**2.8**	**2.6**	**2.6**	**3.5**	**981**

Source: UN DESA Population Division, World Population Prospects: The 2006 Revision

Proportion of people living on less than US$1 a day - *In %*



Notes: High-income economies, as defined by the World Bank, are excluded.
Sources: The Millennium Development Goals Report 2007, United Nations

5.2 EMPLOYMENT

Overview

Employment represents, for the majority of the population, the main source of personal income, the other sources being the revenues from capital and social transfers. It also provides to working populations an essential way of participating in social life. The generation of a number of employment posts sufficient to cover the population's requirements is therefore of the utmost importance for an economy, as the lack of jobs would cause rising unemployment, poverty and social exclusion. The quality of the employment created, in terms of income, productivity and stability, is no less important: precarious and poorly paid employment leads to dual economies, undermines domestic demand and discourages the accumulation of human capital. It also generates the phenomenon of "working poverty", e.g. the situation of employed persons living in households that do not earn enough revenues to emerge out of poverty. Unlike informal or precarious jobs, "decent work" is defined as a "productive work for women and men in conditions of freedom, equity, security and human dignity and the primary means for individuals to lift themselves and their families out of poverty in a sustainable manner".

In recent years, world economy has grown at relatively high rates. In this favourable external economic climate, most developing economies have seen a significant growth in employment, although not always strong enough to cope with employment demand. Jobs creation has been most responsive to income changes in the last decade in Middle East and Sub-Saharan Africa, with an increase of 0.9 and 0.7 per cent in employment for each percentage point of GDP growth, respectively. This responsiveness ("elasticity") of employment to economic growth has been lower in Latin America and the Caribbean (0.6), North Africa and South-East Asia and the Pacific (0.5 in both cases), and has not exceeded 0.3 in the rest of Asia and the transition economies of South-Eastern Europe and the CIS.

The absorption of unemployed or underemployed workers in productive jobs is the only way to bring about a sustainable reduction of poverty. Yet the process of absorption in developing regions is sometimes slow, due to the huge and fast-growing reserve of labour, combined with considerable productivity growth. In countries where recent growth is based on increased earnings in the oil and mining sector, the enclave character of those activities also circumscribes employment effects. But even in some countries that are in a process of rapid industrialization, it takes many years of high and sustained growth to create the necessary employment opportunities.

These are the main reasons for the weak response of unemployment to the high growth rates. The last few years have seen a slight decrease in total unemployment rates, from 6.5 per cent in 2002 to 6.0 per cent in 2007. Within that period, the unemployment rate diminished significantly in developed economies, from 7.3 to 6.4 per cent. South-East Asia and the Pacific and South Asia countries even recorded a slight increase in unemployment rates, although they remain well below their levels in Africa, Latin America and the Caribbean, Middle East and Central and South Eastern Europe (non-EU) and CIS.

The structure of employment changes with the development process. The share of agriculture in the labour force declined from 55 per cent to less than 45 per cent between 1980 and 2005; in developed economies, the labour force in agriculture was less than 4 per cent of the total in 2005.

The prevalence of low-productivity or informal employment is still important in developing countries: it affects between 40 and 60 per cent of urban employment in most Latin American, Middle Eastern and North African countries, more than 60 per cent in Southern and Eastern Asia, and more than 70 per cent in sub-Saharan Africa. In general, employment precariousness affects women more than men.

The challenges faced by different regions in terms of jobs creation are quite dissimilar: in developed and transition economies, the labour force increased at only 0.7 and 0.6 per cent a year between 1997 and 2007. By contrast, the need for job creation was much higher in most developing regions, where the labour force expanded at annual rates between 2.4 per cent in South Asia, 3.3 per cent in North Africa and 4.9 per cent in the Middle East. The only exception was East Asia, where the slow demographic growth in China kept the growth of the labour force close to 1 per cent a year. Social, as well as demographic factors, command the growth of labour force and the structure of active population. In particular, the incorporation of women into the labour market varies greatly from region to region. In all the regions, the employment-to-population ratio is lower for women; this ratio is especially low in South Asia, the Middle East and North Africa.

TO LEARN MORE

For more information, see Key Indicators of the Labour Market (KILM), ILO; Global Employment Trends, International Labour Organization (ILO) January 2008; The Decent Work Agenda in Poverty Reduction Strategy Papers (PRSPs): Recent developments, ILO October 2007; Women and Men in Informal Economy, ILO 2002; Chen, Martha Alter, "Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment", DESA Working Paper No. 46, July 2007.

Labour force by gender in all sectors and agriculture - *Total in thousands, share and ratio in %*

Region	1980				2005				2007*
	All sectors		Agriculture		All sectors		Agriculture		All sectors
	Total	Female ratio	Share of total	Female ratio	Total	Female ratio	Share of total	Female ratio	Total
World	**1,929,495**	**38.6**	**55.3**	**23.4**	**3,050,342**	**40.1**	**44.6**	**19.6**	**3,019,851**
Developing economies	**1,379,837**	**37.2**	**72.2**	**30.6**	**2,406,840**	**38.6**	**54.8**	**24.3**	**3,019,851**
Developing economies excluding China	*867,406*	*33.5*	*68.0*	*27.2*	*1,624,058*	*35.8*	*49.9*	*21.0*	*1,576,616*
Least developed countries	*171,523*	*42.6*	*88.9*	*41.9*	*325,802*	*42.2*	*75.1*	*36.5*	*292,724*
Developing economies: Africa	**182,500**	**39.9**	**77.2**	**35.4**	**363,587**	**39.7**	**60.1**	**28.7**	**337,527**
North Africa	24,709	19.8	61.9	24.9	54,116	25.4	31.1	16.0	68,358
Sub-Saharan Africa	157,791	43.1	79.6	37.1	309,471	42.2	65.1	30.9	22,020
Sub-Saharan Africa excluding South Africa	*146,384*	*43.0*	*84.5*	*39.6*	*289,685*	*42.4*	*69.0*	*32.9*	*260,562*
Developing economies: America	**124,077**	**29.3**	**35.9**	**6.1**	**255,178**	**40.6**	**16.7**	**2.9**	**265,675**
Central America	28,185	27.7	41.0	5.2	59,428	35.2	21.9	2.6	61,890
Central America excluding Mexico	*7,477*	*28.0*	*48.2*	*4.2*	*15,540*	*35.2*	*29.0*	*3.2*	*16,536*
Caribbean	9,376	35.4	40.5	10.5	15,266	38.9	25.4	7.3	15,749
South America	86,516	29.2	33.8	6.0	180,484	42.5	14.3	2.7	188,036
Developing economies: Asia	**1,071,303**	**37.6**	**75.6**	**32.6**	**1,784,419**	**38.1**	**59.2**	**26.4**	**1,766,032**
Western Asia	31,617	27.8	54.0	24.5	66,888	24.0	32.6	19.3	64,136
Southern Asia	353,329	28.8	78.2	31.2	618,573	29.6	61.1	24.3	616,225
Eastern Asia	537,989	43.1	77.5	35.4	822,818	44.3	62.5	29.8	797,773
South-Eastern Asia	148,367	40.8	67.1	27.3	276,140	41.9	51.5	22.7	287,898
Eastern and South-Eastern Asia excluding China	*173,926*	*40.3*	*62.8*	*26.1*	*316,176*	*41.8*	*46.6*	*20.5*	*289,203*
Developing economies: Oceania	**1,957**	**44.5**	**84.8**	**37.1**	**3,656**	**44.9**	**70.1**	**33.1**	**3,851**
Economies in transition	**163,866**	**48.3**	**23.4**	**11.0**	**160,792**	**47.8**	**13.8**	**4.9**	**158,890**
Asia	–	–	–	–	33,750	46.3	23.0	9.9	35,208
Europe	–	–	–	–	127,042	48.2	11.3	3.5	123,682
Developed economies	**385,792**	**39.7**	**9.0**	**3.4**	**482,710**	**44.7**	**3.7**	**1.3**	**487,876**

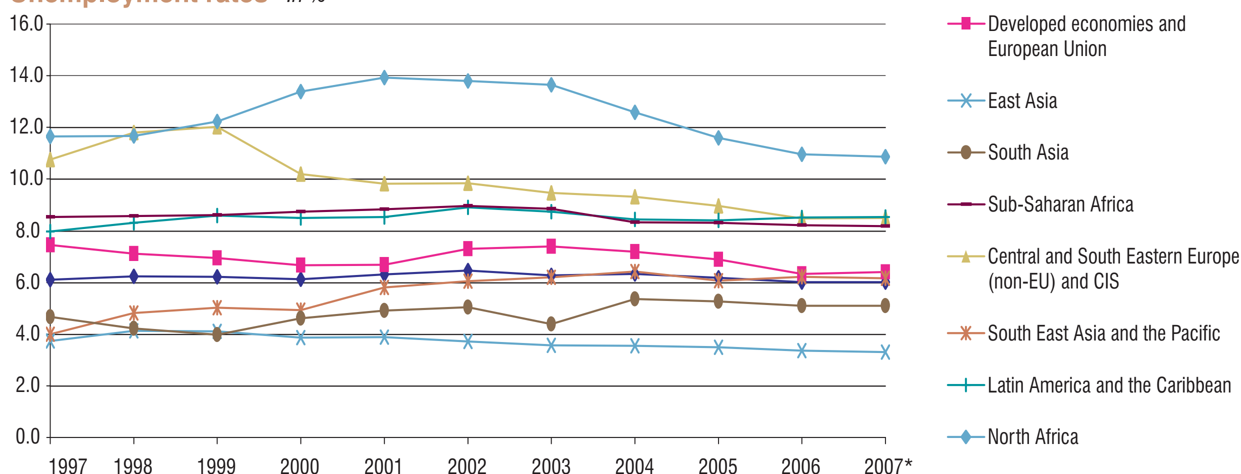
Sources: ILO, online database; FAO, online database

Employment-to-population ratio - *In %*

Region	Total			Male			Female		
	1996	2002	2007*	1996	2002	2007*	1996	2002	2007*
World	**62.6**	**61.7**	**61.7**	**75.7**	**74.5**	**74.3**	**49.5**	**49.0**	**49.1**
North Africa	42.9	42.7	45.3	66.7	66.0	69.1	19.2	19.7	21.9
Sub-Saharan Africa	68.6	68.0	68.1	79.3	79.6	79.7	58.4	56.7	56.9
Latin America and the Caribbean	58.4	59.3	60.0	76.3	75.1	73.7	41.2	44.2	47.1
Middle East	46.0	47.6	50.1	69.0	69.1	70.3	20.5	23.9	28.1
South Asia	58.4	57.3	56.7	80.3	78.8	78.1	34.9	34.4	34.1
East Asia	75.0	73.1	71.9	81.0	79.2	78.4	68.8	66.8	65.2
South-East Asia and Oceania	67.5	66.2	66.4	80.0	78.2	78.1	55.3	54.4	55.1
Central and South Eastern Europe (non-EU) and CIS	**54.6**	**53.1**	**54.1**	**64.3**	**61.9**	**63.8**	**46.0**	**45.3**	**45.6**
Developed economies and European Union	**55.9**	**56.0**	**56.4**	**65.8**	**64.7**	**64.0**	**46.7**	**47.9**	**49.1**

Sources: ILO, Global Employment Trends Models, 2006 and ILO, Global Employment Trends January 2008

Unemployment rates - *In %*



Notes: The composition of the groups of the table 'Employment-to-population ratio' and graph 'Unemployment rates' corresponds to that used in ILO, Global Employment Trends January 2008
** 2007 are preliminary estimates*
Sources: ILO, Global Employment Trends Model, 2008, ILO, Global Employment Trends January 2008 and ILO, Key Indicators of the Labour Market, 5th Edition, Geneva (2005).

ANNEXES

Economies of the world
Definitions
Abbreviations
Feedback questionnaire

ECONOMIES OF THE WORLD

Developing economies 168

Africa 58

North Africa 6
Algeria
Egypt
Libyan Arab Jamahiriya
Morocco
Tunisia
Western Sahara

Sub-Saharan Africa 52
Angola
Benin
Botswana
British Indian Ocean Territory
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Comoros
Congo
Côte d'Ivoire
Democratic Republic of the Congo
Djibouti
Equatorial Guinea
Eritrea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mayotte
Mozambique
Namibia
Niger
Nigeria
Rwanda
Saint Helena
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
Sudan
Swaziland
Togo
Uganda
United Republic of Tanzania
Western Sahara
Zambia
Zimbabwe

Americas 42

Central America 8
Belize
Costa Rica
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama

Caribbean islands 21
Anguilla
Antigua and Barbuda
Aruba
Bahamas
Barbados
British Virgin Islands
Cayman Islands
Cuba
Dominica
Dominican Republic
Grenada
Haiti
Jamaica
Montserrat
Netherlands Antilles
Saint Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Trinidad and Tobago
Turks and Caicos Islands
United States Virgin Islands

South America 13
Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador
Falkland Islands (Malvinas)
Guyana
Paraguay
Peru
Suriname
Uruguay
Venezuela (Bolivarian Republic of)

Asia 40

Western Asia 13
Bahrain
Iraq
Jordan
Kuwait
Lebanon
Occupied Palestinian territory
Oman
Qatar
Saudi Arabia
Syrian Arab Republic
Turkey
United Arab Emirates
Yemen

Southern Asia 9
Afghanistan
Bangladesh
Bhutan
India
Iran (Islamic Republic of)
Maldives
Nepal
Pakistan
Sri Lanka

Eastern Asia 7
China
China, Hong Kong SAR
China, Macao SAR
China, Taiwan Province of
Democratic People's Republic of Korea
Mongolia
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DEFINITIONS

Agriculture includes agriculture, hunting, forestry and fishing and corresponds to International Standard Industrial Classification (ISIC) divisions 01–05.

Average annual growth rates are calculated as trend growth rates over a period.

Bilateral investment treaties are agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country. Treaties typically cover the following areas: (a) scope and definition of foreign investment; (b) admission and establishment; (c) national treatment in the post-establishment phase; (d) most-favoured-nation treatment; (d) fair and equitable treatment; (e) guarantees and compensation in the event of expropriation; (f) guarantees of free transfers of funds and repatriation of capitals and profits; and (g) dispute settlement provisions, both State–State and investor–State.

CIF (cost, insurance and freight) price is the price of merchandise delivered at the frontier of the importing country, including any insurance and freight charges incurred up to that point.

Coding System of Trade Control Measures (TCMCS). Since the early 1980s, the secretariat of UNCTAD has been collecting and analyzing on a systematic basis the import regimes of its member States. For this purpose, UNCTAD designed the appropriate classification – the Coding System of Trade Control Measures (TCMCS). These measures are applied by Governments. TCMCS comprise measures that, either in practice or potentially affect international trade flows, whether because of the basic nature of these measures or because of the way they are applied. These, among others, include customs tariffs, goods subject to quantitative restrictions, technical measures such as technical regulations and standards, etc., as well as bibliographic data of each collected document with a summary of its contents listed in an inventory. The inventory has been further developed into comprehensive descriptive notes of the import regimes of individual countries. Within the TCMCS, since 1988, the UNCTAD secretariat has also been classifying information on trade measures applied by countries, according to the Harmonized Commodity Description and Coding System (HS) nomenclature. TCMCS contain the following broad categories of trade measures: (a) tariff measures (TMs); (b) para-tariff measures (PTMs) such as other duties and charges; and (c) non-tariff measures (NTMs), which are further divided into price control measures, finance measures, automatic licensing measures, quantity control measures, monopolistic measures and technical measures.

Commercial services exclude government services and cover all other services categories

Commodity dependence is generally measured by the share of the leading commodities in a given country's total exports. The bigger the share, the more dependent the country is.

Communication services include postal and courier services, and telecommunications services. The first group comprises transport and delivery of letters, other printed matter and packages, plus post office counter and mailbox rental services. Telecommunications services include transmissions of sound, images or other information by telephone, telex, telegram, facsimile, radio and television cables, e-mail, satellite and other means, including business networks and support services.

Compensatory Financing Facility. In 1963, IMF began offering a Compensatory Financing Facility that later became the Compensatory and Contingency Financing Facility. In 1988, it introduced a Buffer Stock Financing Facility; this was discontinued in the early 2000s.

Computer and information services cover computer data service and news-related service transactions between residents and non-residents. Included are (a) database services, such as development, storage, and online time series; (b) data processing, including tabulation, provision of processing services, and management of facilities of others on a continuing basis; (c) hardware consultancy; (d) software implementation, including design, development and programming of customized systems; (e) maintenance and repair of computers and peripheral equipment; (f) news agency services, including provision of news, photographs and feature articles to the media; and (g) direct, non-bulk subscriptions to newspapers and periodicals.

Construction services cover work performed on construction projects and installation by employees of an enterprise in locations outside the economy in which the enterprise is a resident.

Cross-border mergers and acquisitions (M&A) involve FDI in a host country by merging with or acquiring an existing local firm. In the latter case, the acquisition involves an equity stake of 10 per cent or more. The share

of FDI accounted for by cross-border M&As is difficult to determine, since data sets are not directly comparable. Firstly, the value of cross-border M&As includes funds raised in local and international financial markets. Secondly, FDI data are reported on a net basis, using the balance-of-payments concept, while data on cross-border M&A purchases or sales report only the total value of the transaction. Finally, payments for cross-border M&As are not necessarily made in a single year but may be spread over a longer period.

Debt service includes interest payments and repayments on outstanding debt.

Decent work is defined as being productive work for women and men in conditions of freedom, equity, security and human dignity and the primary means for individuals to lift themselves and their families out of poverty in a sustainable manner. The multiple dimensions of decent work are reflected in the four pillars of the International Labour Organization's Decent Work Agenda:

- Employment creation and enterprise development;
- Social protection;
- Standards and rights at work; and
- Governance and social dialogue.

Four indicators are used to measure the new target on decent work. These focus mainly on the income component of decent work: (a) the employment-to-population ratios which indicate "the efficiency of an economy to provide jobs for those who want to work"; (b) the status of employment, namely vulnerable employment; (c) the share of working poor (those living below the poverty line of $1 or $2 per day) in total employment; and (d) labour productivity.

Employees are "vulnerable" if they risk working under inadequate conditions, in other words if they are at risk of lacking decent employment. The share of vulnerable employment is calculated as the sum of contributing family workers and own-account workers (who are less likely to have formal work arrangements) as a percentage of total employment.

The "working poor" are defined as the proportion of employed persons living in a household whose members are estimated to earn below the $1 or $2 a day poverty line.

Double taxation treaties are agreements between two countries to relieve the double taxation that occurs when income or gains are taxable in both countries. The treaties are designed to (a) avoid double taxation; (b) prevent tax evasion; (c) promote international trade; (d) create certainty and tax stability; (e) provide mechanisms for resolving international tax disputes; (f) promote tax incentives to developing countries; (g) allocate taxing rights between contracting states; and (h) prevent tax discrimination.

Employment should include full- and part-time employees on the payroll, but not contract and temporary employees. Ideally, figures for part-time employees should be reported on a full-time equivalent basis.

The **employment-to-population ratio** is defined as the proportion of an economy's working-age population that is employed.

Export processing zone is a delimited geographical area or an export-oriented manufacturing or service enterprise, located in any part of a country that benefits from special investment promotion incentives, including exemptions from customs duties and preferential treatment with respect to various fiscal and financial regulations.

Financial services and insurance services consist of financial intermediation and auxiliary services, mainly related to banking, securities transactions and credit companies. They also include insurance services provided by enterprises of one economy for residents of another. Insurance services are valued according to service charges included in premiums.

FOB (free on board) price equals the CIF price less transportation costs and insurance charges between the customs frontier of the exporting (importing) country and that of the importing (exporting) country.

A foreign affiliate or direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign direct investor, resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise).

Foreign direct investment (FDI) is investment involving a long-term relationship and lasting interest in and control by a resident entity in one economy in an enterprise resident in another economy. In FDI, the investor exerts significant influence on the management of the enterprise resident in the other economy. The ownership level required in order for a direct investment to exist is 10 per cent of the voting shares. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated.

FDI may be undertaken by individuals or by business entities. (Some countries use a definition of FDI that differs from the preceding one.)

Foreign direct investment (FDI) stock is the value of the share of the capital and reserves, including retained profits, attributable in an affiliate enterprise to the parent enterprise, plus the net indebtedness of the affiliate to the parent enterprise. For branches, it is the value of fixed assets and current assets and investment, excluding amounts due from the parent, less liabilities to third parties. Data on FDI stocks are not always readily available. For many economies, stocks are estimated either by cumulating FDI flows over a period of time or by adding flows to or subtracting them from an FDI stock figure obtained for a particular year from national official data sources or the IMF data series on assets and liabilities of direct investment. Estimating FDI on the basis of flows can be misleading, and in some countries FDI stock surveys are performed regularly. It is recommended that FDI stock data be valued at market prices. If market prices are not available, book values from the balance sheets of direct investment enterprises can be used to determine the value of stocks. Changes in the stock of an economy's external financial assets and liabilities result from transactions recorded in the financial account (FDI inflows and outflows). In addition, price changes, exchange rate variations and other adjustments affect the estimated amount of financial assets and liabilities. **FDI stock inward** reflects the position at the end of a reporting period of a country's external financial liabilities, owned by direct investors either directly or through other related enterprises, in foreign affiliates. **FDI stock outward** reflects the position at the end of a reporting period of a country's external financial assets, owned by direct investors either directly or through other related enterprises, in foreign affiliates.

Foreign direct investment (FDI) flows have three components: equity capital, reinvested earnings, and other capital (including short- and long-term intra-company loans as well as trade credits). **FDI inflows** are capital received, either directly or through other related enterprises, in a foreign affiliate by a direct investor. **FDI outflows** are capital provided by a direct investor to its affiliate abroad.

Foreign reserves consist of those external assets that are readily available to and controlled by a country's authorities for direct financing of international payments imbalances, for indirect regulation of the magnitude of such imbalances through intervention in foreign exchange markets to affect their currency's exchange rate, and for other purposes. The category of reserve assets defined in the IMF Balance of Payments Manual (BPM5) comprises monetary gold, special drawing rights (SDRs), reserve position in the IMF, foreign exchange assets (consisting of currency, and deposits and securities), and other claims.

Government final consumption expenditure consists of expenditure, including imputed expenditure, incurred by general Government with regard to individual consumption goods and services and collective consumption services.

Gross domestic product (GDP) is an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). It is the sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units.

Gross fixed capital formation is measured by the total value of a producer's acquisitions (less disposals) of fixed assets during the accounting period, plus certain additions to the value of non-produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realized by the productive activity of institutional units.

Gross national income (GNI) is gross domestic product (GDP) less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world plus the corresponding items receivable from the rest of the world (in other words, GDP less primary incomes payable to non-resident units plus primary incomes receivable from non-resident units).

HIPC Initiative was launched by the World Bank and IMF in 1996 to coordinate and harmonize official debt relief by the multilateral financial institutions and bilateral creditors for heavily indebted poor countries (HIPC).The HIPC Initiative constituted a radical departure from previous initiatives because it included cancellation of debt owed to multilateral institutions, a first in the history of debt relief. At the G7 meeting held in Cologne, Germany, in the fall of 1999, donors and multilaterals agreed that debt relief was moving slowly

and decided on a major expansion of the HIPC Initiative. The enhanced HIPC Initiative more than doubled the amount of debt relief provided under the original HIPC, reduced the debt ratios that qualified a country's debt as unsustainable, and adopted procedures for faster and easier debt relief.

An **index** reflects changes over time in a quantity that cannot itself be directly measured or observed. Important features of index construction are the coverage, the base period, the weighting system and the method of averaging observations.

Industry includes mining and quarrying, manufacturing, electricity, gas and water supply, and construction and corresponds to International Standard Industrial Classification (ISIC) divisions 10–45.

International trade in services is conventionally seen as trade in services between residents and non-residents of an economy. Since services require an immediate relationship between suppliers and consumers and in many cases are non-transportable: either the customer must go to the supplier or vice versa (for example, to get a haircut). International trade agreements concerning services often include provisions for suppliers' moving to the country of consumers. In such cases the traditional definition of "residents" and "non-residents" of an economy may not cover some important aspects of the international trade, such as services provided by foreign affiliates established abroad, many of which are considered "residents".

The **four modes of international services** supply, as defined by the WTO General Agreement on Trade in Services, include (a) mode 1: cross-border trade; (b) mode 2: consumption abroad; (c) mode 3: commercial presence; and mode 4: presence of natural persons. Further details are provided in the Manual on Statistics of International Trade in Services (2002).

Labour force, or **economically active population**, includes all persons who meet the requirements for inclusion among the employed or the unemployed as defined in the relevant resolution adopted by the 13th International Conference of Labour Statisticians (October 1982).

Labour productivity is defined as output per unit of labour input (persons employed or hours worked). For a substantial number of economies, the productivity measures for the total economy and manufacturing are complemented with measures of unit labour cost, which stands for labour cost per unit of output.

Least developed countries (LDCs). In the 2006 triennial review of the list of least developed countries (LDCs) by the United Nations, criteria for inclusion were (a) low income based on a three-year average estimate of the gross national income per capita (under $750 for inclusion, above $900 for graduation); (b) human resource weakness, involving a composite human assets index (HAI); and (c) economic vulnerability, involving a composite economic vulnerability index (EVI). Benefits derived from LDC status include (a) development financing from bilateral, regional, and multilateral donors and financial institutions, including grants and loans at very favourable terms; (b) benefits in the multilateral trading system in the form of special concessions under several Agreements in the World Trade Organization and preferential market access granted by several trading partners; and (c) technical assistance, including priority programmes in the United Nations system and with bilateral and multilateral development partners.

Logistics services lack a clear and agreed definition; however, they include a combination of contributions from the above services categories. They comprise, for example, contributions from transport, computer, and other business services. Maritime transport services are a major component of logistics services. Logistics services play a major role in facilitating international merchandise trade.

Manufactured goods are classified in accordance with the United Nations Standard International Trade Classification (SITC Revision 3):
- Chemicals and related products: SITC 5
- Machinery and transport equipment SITC 7
- Other manufactured goods: SITC 6 less 68, plus SITC 8

Multilateral Debt Relief Initiative (MDRI) was launched at the July 2005 G8 summit held in Gleneagles, Scotland. MDRI implies the cancellation of all the debt owed to IMF, the International Development Association, and the African Development Fund by all countries that reached or will reach the completion point of the HIPC initiative. Unlike the HIPC initiative, the MDRI does not propose any contemporaneous debt relief by other creditors beyond those mentioned above.

Merchandise exports are goods leaving the statistical territory of a country. It is recommended that merchandise exports be reported FOB. **Merchandise imports** are goods that add to a country's stock of material resources

by entering its statistical territory. It is recommended that merchandise exports be reported CIF. The statistical territory of a country coincides with its economic territory in the general trade system. In the special trade system, the statistical territory corresponds to the area within which goods circulate freely and comprises only a particular part of the economic territory. Data on exports towards countries may differ considerably from data on imports as reported by these countries of destination. The differences are accounted for by a variety of factors, of which the following may be particularly important:

- Most import data are reported on a CIF rather than an FOB basis. Imports arrive at their destination and are registered with some time lag from the date they were recorded as exports.
- There may be considerable differences between the recorded destination of exports and the actual destination as shown in import statistics.
- Both exports and imports may be over- or under-invoiced for various reasons (for example, to avoid taxes or controls or facilitate capital flight).

Net migration rate is the number of immigrants minus the number of emigrants over a period, divided by the population of the receiving country over that period. It is expressed as net number of migrants per 1,000 population.

Natural increase rate represents the portion of population growth or decline determined exclusively by births and deaths. It is the crude birth rate minus the crude death rate.

Net private capital inflows include inflows of FDI, portfolio equity investment flows, bank lending, bonds, and trade-related lending from private creditors, less repayments on outstanding debt.

Nominal exchange rate is the price at which one currency trades for another. The determination of the nominal exchange rate depends on a country's exchange rate regime. Under a fixed exchange rate regime, the central bank sets the nominal exchange rate, while under a flexible exchange-rate regime, the exchange rate is determined through supply and demand on the foreign-exchange market. In a managed floating regime, the central bank intervenes in the foreign exchange market to influence the evolution of the nominal exchange rate. Past and expected values of the nominal exchange rate itself can impact on the current nominal exchange rate, for example through expectations formed by extrapolating past trends. Apart from such expectations, there are two main determinants of changes in the nominal exchange rate. The first refers to variables on the real side of the economy. The balance between exports and imports influences the supply and demand of currency aimed at real transactions. A rising trade surplus will increase the demand for a country's currency by foreigners and exert pressure for appreciation. A trade deficit should weaken the currency. The second determinant is monetary and financial variables that provide a link between various domestic financial markets. The difference between domestic and foreign interest rates influences the decision of foreigners to sell or demand foreign currency. Higher domestic interest rates attract capital from abroad, and the currency should appreciate. The inflation rate is often also considered as a determinant of the exchange rate. The difference between domestic and foreign inflation rates determines the direction and the scale of exchange rate movements, where a relatively high domestic inflation rate should be accompanied by currency depreciation.

Nominal GDP is defined in current prices and current exchange rates.

Official development assistance as reported by the OECD, includes concessional loans (with a grant element of at least 25 per cent) and grants by members of the OECD Development Assistance Committee. The main objective of such aid is to promote the economic development of developing countries (official development assistance) or of countries in Central and Eastern Europe (official aid).

Other business services include (a) merchanting (i.e., retailing, wholesaling and distribution) and other trade-related services; (b) operational leasing services; and (c) miscellaneous business, professional and technical services.

Per capita GDP is GDP divided by population.

Prebisch-Singer thesis, proposed in 1950, suggests that prices for primary commodity exports fall in relation to manufactured imports. According to the hypothesis, this drop results from a number of factors, including divergence between the income elasticity of demand for primary products and the income elasticity of demand for manufactured products. Thus, the net barter terms of trade for commodity-producing developing countries are declining.

Primary commodities are classified in accordance with the United Nations Standard International Trade Classification (SITC Revision 3):

- All food items: SITC 0 + 1 + 22 + 4;
- Agricultural raw materials: SITC 2 – 22 – 27 – 28;
- Ores and metals: SITC 27 + 28 + 68; and
- Fuels: SITC 3.

Private final consumption expenditure consists of expenditure (including imputed expenditure) by resident households with regard to individual consumption of goods and services, including those sold at prices that are not economically significant.

Real GDP and real per capita GDP are based on GDP at constant 1990 market prices in 1990 United States dollars.

Services, according to the International Monetary Fund's *Balance of Payments Manual*, are economic output of intangible commodities that may be produced, transferred and consumed at the same time. However, services cover a heterogeneous range of intangible products and activities that are difficult to capture within a single definition and are sometimes hard to separate from goods. Services are outputs produced to order, and they typically include changes in the condition of the consumers realized through the activities of the producers at the demand of customers. Ownership rights over services cannot be established. By the time production of a service is completed, it must have been provided to a consumer. Examples of services are wholesale, hotel and other lodging services, catering, transport, insurance, education, property rental, telecommunications, marketing, health and dental services, and cultural and recreational services, among many others.

Tariffs are the most common tool for regulating imports. They are used to protect domestic industries from foreign competition, to protect balances of payments, or to raise revenues. Tariff measures are applied when a product crosses the boundary of a customs area. These measures increase the import price by a fixed percentage or amount, which is calculated on the basis of the product's value (ad valorem tariffs) or physical quantity (specific tariffs). In addition to tariffs, **non-tariff barriers** (NTBs) are often used to control imports. Typical non-tariff measures include quantity control measures such as licensing, quotas and prohibitions, as well as price control measures and health and safety measures. **Applied tariff simple averages** are non-weighted averages calculated from the simple average rates (at 6-digit level of the Harmonized Commodity Description and Coding System) of each country in the group (developed or developing) and then aggregated across all corresponding items where bilateral trade has taken place. **Weighted tariffs averages** are calculated from the simple average rates obtained at the HS 6-digit level for each country and aggregated across products and countries using bilateral trade with trading partner regions as weights. **Effectively Applied Tariffs Averages** are computed by taking into account all available and applicable preferential tariffs that a country may apply to some trading partners. The **Ad Valorem Equivalent** or AVE is the equivalent in ad valorem (percentage of the value of the imported good) of a tariff originally expressed as a specific duty (e.g. $2/kg). Converting specific duties into their ad valorem equivalents is a necessary step without which the comparison of countries' tariff averages becomes difficult, especially when the number of tariff lines with specific duty is very high, as it is the case in the agricultural sector for a number of countries. **Most-favoured-nation** (MFN) tariff rates are the "normal", non-discriminatory rates charged on imports. The term "most favoured nation" comes from the GATT negotiations in which participants agreed to treat all members equally, without discrimination. Today the term is misleading: in practice, a country's MFN rates are sometimes its highest tariff rates, since the country may apply lower rates to imports of certain products from selected countries.

Terms of trade or "net barter" terms of trade are defined as the ratio of the export unit value index to the import unit value index. Export and import unit value indices are indicators reflecting changes in the price levels of exports and imports during the reporting period in comparison with the base period.

Total assets of foreign affiliates may be tangible (having physical substance, such as land and buildings) or intangible (without physical substance, such as patents and rights granted by a Government). The assets of a direct investment enterprise include all the assets on the enterprise balance sheet, regardless of how they are financed (whether by direct investors, other non-resident sources or resident sources).

Total external debt comprises long-term debt, short-term debt and use of IMF credit.

Total population refers to the de facto population, which includes all people actually present in a given area at a given time.

DEFINITIONS

Tourism services, like logistics services, include a combination of contributions from several of the above services categories. In addition to travel services, they cover (a) contributions from transport; (b) personal, recreational, cultural services; and (c) other business services such as retail and distribution services. Tourism services exports are measured in terms of tourism receipts from international visitors and may include income from passenger transportation when provided by national transport enterprises.

Trade balance is the difference between exports and imports. **Trade deficit** is a negative trade balance. The trade balance as a percentage of imports is calculated to indicate the relative magnitude of the trade balance.

Transnational corporations (TNCs) are enterprise that control assets of other entities in economies other than their home economy, usually by owning a certain equity capital stake. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or the equivalent for an unincorporated enterprise, is normally considered a threshold for the control of assets.

Transport services trade covers all transportation performed by residents of one economy for residents of another that involves the carriage of passengers or goods (freight), rentals of carriers with crew, or related services. Transport insurance is not included.

Travel services include goods and services acquired from an economy by travelers during visits of less than one year. Transportation of passengers is excluded, as are goods purchased by travelers for resale in any economy.

Workers' remittances cover current transfers by migrants who are employed in countries other than their country of origin and considered residents there. A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.

ABBREVIATIONS

BPM Balance of Payments Manual (World Bank)
CIF Cost, Insurance And Freight
CIS Commonwealth of Independent States
DAC Development Assistance Committee (of OECD)
ECLAC Economic Commission for Latin America and the Caribbean
EU European Union
FDI Foreign Direct Investment
FOB Free On Board
GATT General Agreement on Tariffs and Trade
GDP Gross Domestic Product
GNI Gross National Income
HIPCs Heavily Indebted Poor Countries
HS Harmonized Commodity Description and Coding System
ILO International Labour Organization
IMF International Monetary Fund
ISIC International Standard Industrial Classification
IT Information Technology
LDC Least Developed Country
M&A Mergers and Acquisition
MDG Millenium Development Goal
MFN Most Favoured Nation
NIE Not Included Elsewhere
ODA Official Development Assistance
OECD Organization for Economic Cooperation and Development
OPEC Organization of the Petroleum Exporting Countries
REER Real Effective Exchange Rate
RTA Regional Trade Agreement
SAR Special Administrative Region
SDR Special Drawing Right
SITC Standard International Trade Classification
TDR Trade and Development Report
TNC Transnational Corporation
UNCTAD United Nations Conference on Trade and Development
UN/DESA United Nations Department of Economic and Social Affairs
WIR World Investment Report
WTO World Trade Organization

FEEDBACK QUESTIONNAIRE

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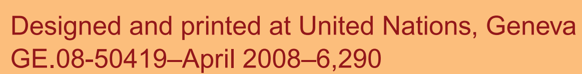

Designed and printed at United Nations, Geneva
GE.08-50419–April 2008–6,290

UNCTAD/GDS/CSIR/2007/1

United Nations publication
Sales No E.07.II.D.20
ISBN 978-92-1-112730-0

Credit photos: © ILO/M. Crozet pp. vi-1, 12-13, 26-27;
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