

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**DEVELOPING COUNTRIES IN  
INTERNATIONAL TRADE  
2005**

TRADE AND DEVELOPMENT INDEX



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# PREFACE

by Dr. Supachai Panitchpakdi, Secretary-General, UNCTAD

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Development is the fundamental vocation of UNCTAD. In the context of growing interdependence among nations in today's globalizing world economy, trade and development are becoming increasingly interrelated. The contribution of trade to development depends greatly on the context in which it works and the ends it serves. To act as a genuine engine of development, trade must lead to steady improvements in human conditions by expanding the range of people's choices. This is the central concern of this new publication entitled *Developing Countries in International Trade*.

The trade and development index (TDI), which is the heart of the report, is an attempt by the UNCTAD secretariat to capture the complex interaction between trade and development and, in the process, to monitor the trade and development performance of countries. Such performance is not merely the sum of trade expansion and economic growth. Instead, it is a composite notion, reflecting the interplay among the many factors that determine trade outcomes and development outcomes.

The TDI is designed as a mechanism for monitoring the trade and development performance of countries, a diagnostic device to identify factors affecting such performance, and a policy tool to help stimulate and promote national and international policies and actions for development and poverty reduction. It will also contribute to the follow-up of the Millennium Development Goals and the outcome of the 2005 World Summit.

In addition, the framework will allow comparison of the TDI scores of developing countries with those of developed OECD countries, which should serve as a long-term trade and development benchmark for developing countries, and with the newly acceded EU member countries as medium- to long-term benchmarks.

We hope that the TDI, which is a work in progress, will contribute to fulfilment of the relevant mandate given to the UNCTAD secretariat by the São Paulo Consensus. Further work on the TDI will require country-level analysis, which will help UNCTAD to concentrate more on national trade and development policies. It will also provide a broad frame of reference for the overall activities of the secretariat, thereby enhancing the coherence of our work.

Finally, I am proud that the TDI is entirely the result of work by UNCTAD secretariat staff members, and I warmly commend those involved for their efforts. I am also deeply grateful to Nobel Laureate Professor Lawrence R. Klein for his wise and generous guidance in connection with this work.



Supachai Panitchpakdi



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# FOREWORD

by Professor Lawrence R. Klein, Nobel Laureate in Economic Sciences

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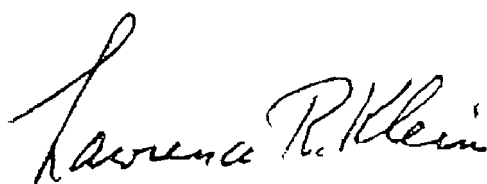
The world economy is a many-faceted thing. The traditional way of describing its magnitude and role of expansion is through valuation of its total volume of production, often as a rate-of-change and often in per capita terms. Real per capita gross world product is not the only key concept for such measurement, although it has served economists well, in increasingly refined calculations, but it behooves economic analysts to move on to other dimensions for judging world economic health and the very name of UNCTAD, the United Nations Conference on Trade and Development provides an immediate thought of a new step for more revealing measurement, namely, through a quantitative Trade and Development Index (TDI). I fully support this step forward by the Secretariat and congratulate them for undertaking the formidable task of analyzing the complex array of trading activities among, effectively, all the nations of the world.

In familiar summaries of the World economic situation, we have become accustomed to examining Gross World Product (GWP) as an appropriate average of the Gross Domestic Product (GDP) of the individual economies. GWP or GDP are not the only measures that we need to consult in order to gain an immediate description of the world economic situation. The next major indicator should be the volume of world trade, made up of all the export volumes flowing in a chosen period of time, or, what should be equivalent, all the corresponding import volumes.

To throw more light on the complex world economic situation the TDI should be prepared for developing and more advanced economies to show the paths along which trade moves from country-to-country, among the trading partners, at various important stages of economic development. This promises to add immensely to our understanding of the functioning of the world economy.

It will serve to promote understanding world economic performance in terms of structural and institutional factors, trade policies and processes, and level of development.

In order to appreciate the working of the world's system of trading activities, in both goods and services, it will be important to use quantitative methods that distill the key underlying forces of a very complex process. In this respect, the indices to be computed will be based on a multivariate statistical approach known as principal component analysis. This will enable one to compose time periods, regions of the total world economy, and the identification of the sources of healthy economic development. It will enhance our understanding of what is taking place in the intricate pattern of trading relationships, and thus provide guidance for international economic policy.



Lawrence R. Klein

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# ACKNOWLEDGEMENTS

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*Developing Countries in International Trade 2005* was prepared under the general direction of Lakshmi Puri, Director of the Division on International Trade in Goods and Services, and Commodities. Khalil Rahman, Chief of the Trade Analysis Branch, led the team of staff members responsible for preparing this report. Chapter 1, on the trade and development index (TDI) was prepared by Sudip Ranjan Basu, Marco Fugazza and Khalil Rahman. Chapter 2, on the determinants of export performance is based on empirical work by Marco Fugazza. Chapter 3, on adjusting to trade reforms, derives from work by Santiago Fernández de Córdoba and Sam Laird drawing upon a number of country case studies.

Support and guidance by Professor Lawrence R. Klein in developing the TDI are gratefully acknowledged. Professor A. L. Nagar made technical comments on the methodology of the TDI and its statistical properties. Comments on the concept, methodology and results of the TDI were also received from Professor Patrick Conway, Andrew Cornford, Victor Ognivtsev, Taffere Tesfachew, Hiroaki Kuwahara, Bonapas Onguglo, Robert Hamwey and Lucian Cernat. Fabien Dumesnil provided statistical assistance.

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Desktop publishing was done by Jenifer Tacardon-Mercado. Diego Oyarzun-Reyes designed the cover. Graham Grayston edited the report. Chris MacFarquhar, Brigitte Ruby, Jean-Marc Humblot, Tadib Muqtada and Josie Maximo provided support to the preparation of the report.

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