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Trade and Investment Convergences in Global North and Global South: Implications for WTO MC14

S.K. Mohanty, Sabyasachi Saha and
Pankhuri Gaur



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RIS-DP # 323

March 2026

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Trade and Investment Convergences in Global North and Global South: Implications for WTO MC14

S.K. Mohanty, Sabyasachi Saha
and Pankhuri Gaur*

Abstract: The global economy has remained in a subdued growth phase since 2023, registering 2.7 per cent growth in 2025, below the pre-pandemic average of 3.2 per cent. Trade continues to serve as the primary engine of global growth, while foreign direct investment (FDI) continues to supplement and sustain this dynamic. Over the past five and a half decades, merchandise trade has consistently expanded at a faster pace than services trade. Rapid advances by the Global South (GS) have driven convergence with the Global North (GN), most sharply in goods trade, though less so in services. In recent years, episodes of complete yet unstable convergence between GS and GN have emerged in both FDI inflows and outflows. Evidence of convergence in end-use trade and technology-intensive trade is observable among country groupings within the GS. At the same time, divergences persist among groupings in the GN. The paper identifies some of the most influential groups within GN and GS to lend their support during trade and investment negotiations at MC14 to accelerate the recovery of the global economy.

Keywords: Global South, Global North, WTO, Trade, FDI, World Recovery

1. Introduction

The commencement of MC14 coincides with a period in which the world economy is forecast to expand by 2.7 per cent in 2026, a rate lower than that recorded in 2025 and below the pre-pandemic average of 3.2 per cent (UNCTAD, 2026). The world economy is forecast to expand by only 2.9 per cent in 2027, a subdued pace that highlights the imperative for coordinated international measures to redress the prevailing imbalance.

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Resurgent domestic demand, coupled with prudent national policy measures, is invigorating economic activity in the United States and select Asian economies. In contrast, growth across Europe remains subdued, constrained by persistent conflict and restrictive monetary and fiscal conditions. For developing nations, limited access to affordable finance, mounting debt burdens, and weak global demand continue to erode export opportunities. Trade growth in 2026 is expected to remain sluggish, limited to around 2.6–2.7 per cent. Protectionism, geopolitical strains on supply chains, and unpredictable policy frameworks are among the key factors constraining global expansion. The deceleration of global economic growth has emerged as a major cause of the underperformance of international trade sectors. The tariff war initiated under the Trump administration triggered significant realignments in global trade relations and ushered in a new wave of regionalism, manifested through the proliferation of free trade agreements (FTAs). In response, numerous countries adopted reciprocal measures to safeguard their domestic markets (McKibbin, Noland, & Shuetrim, 2025).

Macroeconomic imbalances have contributed to pronounced regional disparities in growth among developing economies, while signs of deceleration have also emerged within certain segments of industrialised economies. The asymmetry of global growth has complicated efforts by developing countries to honour their SDG commitments, undermining progress in recent years. Evidence indicates that global trade patterns are increasingly shifting toward regionalisation. The year 2025 marked a milestone for global commerce, as services trade reached to unprecedented levels, exceeding the growth trajectory of goods trade. In 2025, services exports recorded robust growth of approximately 9 per cent, driven by the expansion of cross-border digital trade and the adoption of artificial intelligence. This marks a sharp rise compared to the 3.7 per cent growth observed in 2004. Foreign direct investment (FDI) flows expanded by 14 per cent in 2025, reaching \$1.6 trillion. This growth was largely driven by developed economies, though performance remained weak across most other regions (UNCTAD, 2026). The outlook for FDI in 2026 suggests only modest gains, constrained by

persistent global uncertainty and weak project pipelines. This trajectory persists despite favorable prospects in high-technology sectors such as artificial intelligence, semiconductors, and green energy. The global economic slowdown in 2025, coupled with downgraded projections for growth, trade, and FDI flows, paints a bleak outlook for 2026. Addressing these pressing challenges at MC14 will be essential to catalyse a timely turnaround in the world economy.

Therefore, at MC14, the world economy faces pressing challenges such as strengthening growth prospects, boosting trade in goods, especially intermediate and technology-intensive sectors, introducing structured reforms in dynamic industries, and reinvigorating FDI flows. How these issues are handled will be critical in determining whether the global economy can achieve a swift and sustainable recovery. The WTO is grappling with significant challenges, including departures from MFN-based trade principles, shifts in technological composition and the rise of digital trade, evolving supply chain patterns, and the emergence of overcapacity in certain sectors. In reviewing current trends in global economic growth, the paper underscores several critical dimensions, including trade in goods, trade in services, the expansion of foreign direct investment encompassing both inflows and outflows, and the broader performance of the world economy. Particular attention is devoted to the Global North (GN) and Global South (GS), as well as the technically determined sub-groups within each for our analysis, all of which hold significant implications for the deliberations at MC14. The issues highlighted in this discussion are expected to be taken up in distinct forums of the WTO negotiations, reflecting the multifaceted nature of the agenda.

The global economy continues to face challenges in regaining its pre-pandemic growth trajectory, underscoring the need for structured reforms within the WTO. This matter is scheduled for deliberation in the Plenary of the General Council. LDCs are well on their path of integration with the global economy. To support this process, discussions on preferential market access, capacity building, aid for trade, and the strengthening of South–South trade frameworks as safeguards against slowdown may be

undertaken in the Committee on Trade and Development (CTD). Key issues, including the recent wave of tariff hikes, the need for stricter discipline in industrial subsidies, and efforts to strengthen resilience in global supply chains, etc., have shaped the current state of the world economy. These matters are expected to be taken up for discussion in the Council for Trade in Goods (CTG). The Committee on Agriculture (CoA) is expected to deliberate on critical global issues, including disciplines on export restrictions, subsidy reforms, and measures to secure stable food supply chains, with a view to strengthening international agricultural trade. Among the pressing themes likely to arise in the Committee on Trade and Environment (CTE) are the dynamics of trade in clean energy technologies, the strategic importance of critical minerals as intermediate goods, and the advancement of the Blue Economy framework.

In order to unlock the vast potential of the services sector in shaping global trade, the Council for Trade in Services (CTS) will address certain key priorities, particularly on fostering sectoral expansion, advancing digital trade facilitation, and ensuring secure cross-border data flows. Together, these measures are expected to provide fresh impetus to a flourishing trade landscape. There have been various WTO submissions that would stimulate the WTO process to sustain fair and healthy trade and investment growth, including enhanced transparency in trade measures, strengthening trade and investment monitoring systems, advancing durable solutions for dispute settlement reforms, etc. A range of trade and investment issues will be addressed across specialised committees. To ensure informed negotiations, country groupings focusing on these areas should have access to insights into prevailing global trends. The latest assessment suggests that the Global South is evolving into a relatively homogeneous group of economies, marked by strong convergence in growth, trade, and foreign direct investment (FDI). In contrast, the Global North remains a heterogeneous grouping, with economic outcomes varying significantly across its members, leading to potentially divergent interests within the group.

The paper begins by discussing the trends in Gross World Product (GWP) shaped by the combined forces of global trade and investment

in Section 2. Section 3, it examines the patterns of resurgence in global trade in goods (TIG) and trade in services (TIS). Section 4 discusses convergence between the Global North (GN) and the Global South (GS) in TIG and TIS. Section 5 examines the degree of homogeneity across GS country groupings in different product categories, including end-use and technology-intensive goods. Section 6 presents the changing dynamics of FDI, both inward and outward, between the GN and GS. Section 7 analyses narrow forms of convergence between the GN and GS, along with asymmetries within the GN in the TIS sector. The concluding section summarises the key findings.

2. Global Trends in Trade and Investment

Growth in the world economy slowed in 2025, which is expected to remain moderate in 2026 compared with 2010–19. Sustaining growth above 3 per cent is a major concern for the global economy. The deterioration in growth conditions in 2025 extended across both advanced economies and emerging economies (World Bank, 2025). Global experience suggests that trade and foreign direct investment (FDI) are key drivers of growth, and both can strengthen global growth prospects in 2026. Strong trade growth was observed during the global buoyancy period (2003–07) and again in the 2010s, which reinforced the central role of trade in supporting overall economic growth. A weak dollar supported global trade and reduced pressures associated with inflation through exchange-rate pass-through effects (IMF, 2025). Since the 1970s, trade and FDI have played an important role in supporting growth in developing countries, and the two are closely linked in their effects and transmission channels (Makki and Somwaru, 2004). Similar evidence has been reported for low-income countries, where long-run relationships have been observed between economic growth, trade openness, and FDI, alongside other macroeconomic variables (Radmehr *et al.*, 2022).

Over the years, the Global South became more proactive in catching up with the Global North by narrowing the gap in their respective shares of world trade. Since the 1990s, the Global South has experienced trade dynamism, particularly through rapid expansion in South-South trade

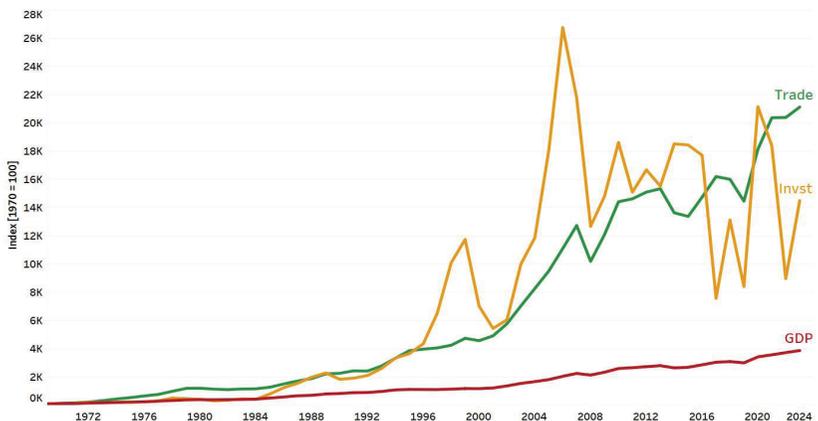
(Athukorala, 2011). This was driven by sharp increases in both trade and investment, which, in turn, deepened economic integration among southern economies (Dahi and Demir, 2008). With the acceleration of globalisation, trade became vital for expanding multiple economic activities, including FDI inflows, technology transfer, and knowledge spillover in developing economies (Ngundu and Matemane, 2023). In particular, rising South-South FDI inflows became important in stimulating trade flows within the South as well as between the South and the North. For example, Indonesian FDI in Africa and South Asia marked an important phase in South-South investment flows and increasingly competed with traditional investors such as the United States, the European Union, Japan, and multilateral institutions (Smolaga, 2022).

However, rising trade tensions since 2018, along with a series of global exogenous shocks, have increased policy uncertainty worldwide (World Bank, 2025). This has also prompted a realignment of trading arrangements among countries, both developed and developing, to respond to emerging conditions. It is often argued that assistance is needed to manage the short-term adjustment costs of regional integration, particularly for developing countries (Razeq, 2022). Others contend that improving the management of domestic economic forces, such as structural change, the macroeconomic environment, and logistics quality, is more effective than relying primarily on regional trade agreements (RTAs) (Athukorala and Nasir, 2012). Nevertheless, restoring global growth to a pace above 3 per cent may be a key objective for MC14, supported by trade- and investment-enhancing agreements currently under negotiation.

The global economy is passing through a critical phase, with Gross World Product (GWP), trade, and FDI flows under stress; highlighted in Figure 1, demonstrate impressive resilience and growth. The onset of systemic turbulence in 2018, marked by the US-China trade war, initiated a sequence of global disruptions: Brexit-related uncertainties (2018), the Covid-19 pandemic (2020), semiconductor supply chain crises (2021), the Russia–Ukraine confrontation (2022), energy price surges (2022), and the Israel-Palestine conflict (2023). Moreover, the

imposition of tariffs in 2025 by the Trump administration intensified these challenges, undermining the stability of global trade and investment. Concurrently, inflationary pressures, recurrent food insecurity linked to grain export disruptions, financial market volatility, sovereign debt distress in emerging economies, and climate-induced disasters have significantly weakened the world economic situation. Despite recurrent global shocks, the world economy demonstrated resilience in 2024, with GWP reaching \$109.9 trillion, total trade expanding to \$35 trillion, and Foreign Direct Investment (FDI) flows amounting to \$1.7 trillion. For a systematic evaluation of relative trends in global GDP, trade, and FDI over the period 1970–2024, index values have been generated, assigning 1970 as the base year with a value of 100. An examination of the relative growth profiles of world GDP, trade, and FDI from 1970 to 2024 reveals an exponential expansion of GDP, largely facilitated by the intensification of trade and investment linkages. From a modest 0.7 per cent in 1960 to 31.8 per cent in 2024, the trade-to-GDP ratio reflects the remarkable

Figure 1: Comparative Trends in Global Trade, Investment, and GDP (Index 1970=100)



Source: Authors' calculation based on World Trade Indicators, World Bank, Washington DC

deepening of global economic integration. While the long-term trend of international trade reflects a steady and relatively stable progression, the growth path of FDI has been marked by significant fluctuations and an uneven pattern.

The evolution of the global economy indicates that trade became a major stabilising factor beginning in the mid-1970s, while investment assumed comparable significance from the mid-1980s. From the late 1980s until the onset of the Asian Financial Crisis in 1996, trade and investment advanced in tandem, reflecting a period of synchronised growth. Following the Asian Financial Crisis, FDI trends became increasingly unstable, whereas global trade maintained a consistent growth trajectory until the disruption caused by the U.S. real estate housing market collapse in 2008. Between 1996 and 2016, global trade and investment registered strong growth, though marked by significant instability. The year 2016 marked a watershed moment, as FDI became subdued and subsequently displayed heightened volatility in the years that followed. Although FDI has historically been smaller in scale than trade, it remained a significant driver of global GDP growth until 2016. FDI functioned as a critical push factor for GWP during the period 1996–2016. Following 2016, its role diminished considerably, with trade supplanting investment as the dominant driver of global GDP. During the period 2016–2024, trade functioned as the principal driver of global GDP growth, while foreign direct investment remained relatively subdued and volatile. Over recent decades, trade has consistently served as the dominant pull factor for GWP, despite fluctuations in the strength of foreign direct investment. However, within trade, merchandise trade and services trade have been showing different trends.

3. Global Perspectives: The New Landscape of Trade and Services

In the aftermath of the pandemic, the world economy has been marked by subdued growth and flattening trade trends, reflecting persistent imbalances across global markets. Developing countries, which represent the largest share of the global economy, face mounting pressures from

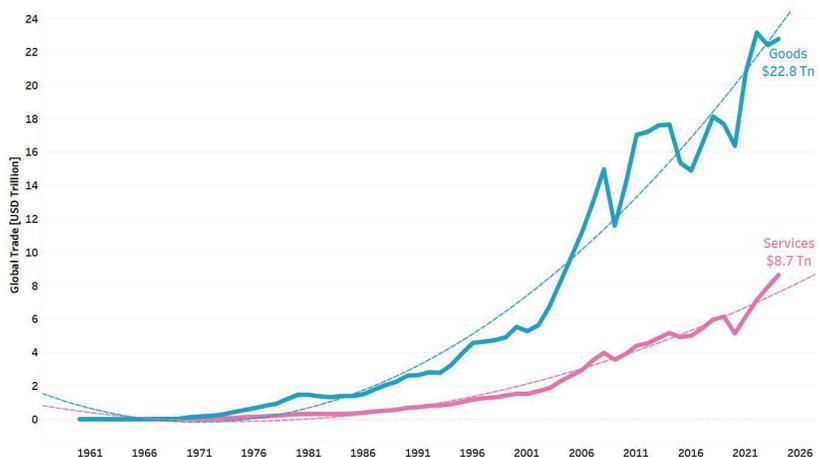
debt distress, capital outflows, weak investment inflows, and austerity policies, underscoring significant vulnerabilities in the current global landscape. The World Bank (2025) notes that debt crises affect more than half of low-income economies, each confronting the challenge at differing intensities. The global economy is witnessing a renewed wave of protectionism, reflected in the reintroduction of industrial policies, the rise of multipolar trade dynamics, and accelerating progress in technological innovation (UNCTAD, 2024). Beginning in 2025, the Trump administration introduced sweeping protectionist policies that sent shockwaves through the global economy, marking a level of disruption unparalleled in the 21st century. This development has generated a complex array of trade barriers and significantly undermined the predictability of global trade policies. Growing trade barriers risk setting off ripple effects that destabilise supply chains across multiple parts of the world, posing significant challenges to economic resilience (OECD, 2025). At a time when low-income countries require greater financial support, development aid fell by 9 per cent in 2024, and projections suggest this decline will persist into 2025, thereby intensifying existing vulnerabilities (IMF, 2025).

At such critical junctures, the experience of the Global South in trade, marked by dynamic gains, technology diffusion, efficiency improvements, and scale advantages, provides a compelling foundation for enhancing the role and dependability of Southern economies. The literature provides substantial evidence that South–South collaboration in trade and technology has been instrumental in broadening technological access, primarily through capacitybuilding initiatives and institutional strengthening (Saha, Bontadini and Cowan, 2023). Behar and Cirera-i-Crivillé (2013) demonstrate that free trade agreements, irrespective of whether they involve developed or developing countries, can generate enhanced bilateral trade gains. Following the pandemic year, service trade growth weakened in key sectors, particularly travel services, which are directly linked to the performance of goods trade (World Bank, 2026). To place the world economy on a higher growth trajectory, both goods and services trade must be steered through comprehensive structural and

institutional reforms (Razeq, 2022). Against this backdrop, the MC14 assumes critical importance in shaping the global economic order through targeted institutional interventions.

Trade has consistently served as a stronger driver of global economic growth than FDI, despite passing through several turbulent phases since the 1960s. In 2024, global trade in goods (TIG) stood at \$22.77 trillion, while trade in services (TIS) reached \$8.65 trillion. It is important to note that overall trade in nominal terms grew at annual rates of 15.41 per cent during 1960-69 and 16.74 per cent during 1970-89, providing a major impetus for rapid global economic expansion. Both TIG and TIS expanded at broadly similar growth rates during 1960-89. The 1990s, widely regarded as a lost decade in the aftermath of the Latin American debt crisis following the oil boom, witnessed a sharp decline in growth rates, with TIG falling to 6.61 per cent and TIS to 7.51 per cent during 1990-2000. The period from 2002 to 2007 marked a renewed surge in

Figure 2: Evolving Trends in World Trade and Growth Pathways (US\$ Trillion)



Source: Authors' calculation based on World Trade Indicators, World Bank, Washington DC

global trade as the world economy regained momentum. Overall, trade grew by 17.7 per cent, with TIG and TIS registering growth rates of 18.2 per cent and 16 per cent, respectively. However, with the onset of the global recession in 2008 and during the subsequent post-recession period, the rate of trade expansion slowed considerably.

To track the expansionary path of trade in goods and trade in services over time, a common base value has been used for both series, as represented in Figure 2. The year 1970 has been selected as the base year, with the base index fixed at 100. Trade trends show exponential growth for both sectors, although trade in goods has expanded more rapidly than trade in services. Trade played a central role in driving the rise of GWP by expanding exponentially between 1970 and 2024, although the growth trajectory of goods trade was more pronounced than that of services trade. The relative growth trajectories of trade in goods and trade in services continued to expand until recent years. Following the successive oil crises of 1973 and 1980, buoyancy returned to the world economy and persisted until around 1985.

The world economy experienced subdued growth after 1985 due to the weak economic performance of the U.S., only partial recovery in industrialised economies, severe debt crises in Africa and Latin America, and persistent current account deficits in many net-importing countries. Since 1985, both TIG and TIS remained below their long-term exponential growth path until 2006. During 2011-24, trade in goods recorded strong but unstable growth compared to trade in services, indicating that TIS was relatively more insulated from global shocks than TIG. The TIG curve grew steadily after 2011 and crossed its exponential growth path by 2022, thereby strengthening the role of trade in driving global GDP growth, although the gap between goods and services trade continued to widen without showing signs of convergence. Conversely, classifying trade in goods and services among the developed and developing countries represents a convergence in the share of both.

4. North-South Convergence in Goods and Services Trade

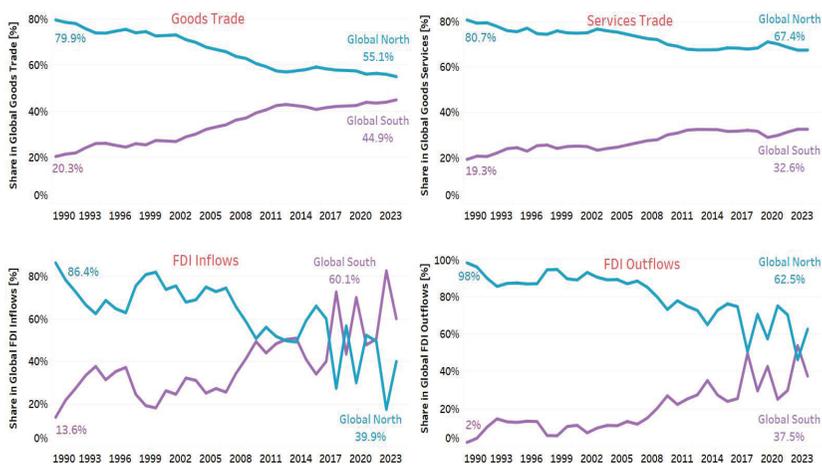
Over the past six decades, economic activity has exhibited increasing polarisation, while simultaneously experiencing an expansion and convergence across multiple domains, including trade in goods and trade in services. This convergence is not confined solely to different categories of economic activity but also extends across regional and geographical groupings of countries. The integration of TIG and TIS has progressed between the Global North and the Global South in terms of their respective participation in the global economy, although notable differences persist in both the pace and scale of this convergence. The recent deceleration in global economic growth has affected both the Global North and the Global South, and high-income countries are expected to regain their per capita income levels by 2027 (World Bank, 2025). To overcome the current impasse, sustained and constructive dialogue is required to ease trade tensions and support the stable functioning of international markets (OECD, 2025). In this setting, countries of the Global South have strengthened trade linkages with other southern economies, particularly in capital-intensive and skill-intensive manufacturing sectors, compared to their trade with the Global North (Dahi & Demir, 2018).

The surge in global trade during 2010-19 was largely associated with the expansion of free trade agreements, and South-South agreements that were found to generate greater proportional increases in bilateral trade than North-South agreements, primarily through deeper regional integration mechanisms (Behar & Cirera-i-Criville, 2013). Nevertheless, North-South FTAs remain important, as they facilitate technology transfer and enhance productivity, thereby complementing South-South trade flows (Athukorala, 2011). In both North-South and South-South trade agreements, developing countries benefit from comparative advantage due to their lower production costs and favourable natural resource endowments (Razeq, 2022). Trade flows from the Global South to the Global North have played an increasingly important role in restructuring global trade patterns and redefining the international division of labour.

While exports from the South to the North have largely consisted of finished goods (48.4 per cent), trade within the South has been dominated by intermediate goods and components (49.1 per cent) in 2024, replacing earlier supply relationships from the North to the South in these sectors (Lee, 2016). The expansion of South-South trade is also closely linked to demand generated in the Global North for final manufactured goods (Athukorala & Nasir, 2012). Global trade is expected to decline gradually over the next five years (IMF, 2025). This growing pessimism in global trade reflects concerns over trade diversion, inefficient resource allocation, technological fragmentation, geopolitical tensions, armed conflicts, protectionist policies, and climate-related disruptions. Consequently, the global economy is entering a phase in which previously converging economic forces are showing signs of reversal (World Bank, 2025).

The convergence hypothesis between the Global North (GN) and the Global South (GS) is well established in the literature, but the

Figure 3a: Assessing Divergences in Trade and Investment between GN and GS (per cent)

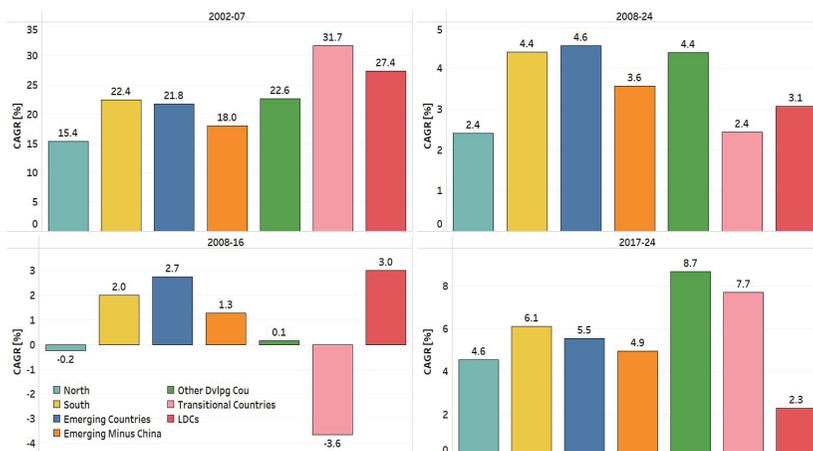


Source: Authors' calculation based on Comtrade, United Nations, Washington DC and World Investment Report, UNCTAD, Geneva.

intensity and speed of convergence have become especially important in an increasingly turbulent global economic environment. It is observed that the nature of convergence between the GN and GS varies across sectors such as trade in goods (TIG), trade in services (TIS), and Foreign Direct Investment (FDI), and even the convergence patterns between outward and inward FDI differ significantly. Nevertheless, convergence is occurring across all major economic dimensions, although certain segments are advancing at a faster rate than others, and the long-term sustainability of convergence depends critically on the pace at which it unfolds. Convergence in the goods sector has progressed much faster than in the services sector, as shown in Figure 3a. In the goods sector, there were persistent signs of inertia in trade convergence from the 1990s, which limited the reduction of the global share gap between the GN and GS, and this trend continued until the onset of global economic buoyancy in 2003. The share of the GS in global trade in services increased steadily from 28.9 per cent in 2003 to 42.9 per cent in 2013, reflecting a sustained and uninterrupted rise in its participation. The global recession of 2008 marked a critical turning point in narrowing the gap between the GN and GS in global trade in goods, and this convergence process continued with moderate growth until 2011. Since then, the gap between the two groups remained largely unchanged during the period 2012-15, with only marginal fluctuations, while convergence in trade in goods resumed during the period 2019-24.

The convergence trends in trade in services have not followed a pattern similar to that observed in trade in goods. The degree of convergence in trade in services has been significantly slower compared to the convergence observed during and after periods of global economic buoyancy. Indeed, the global recession played a decisive role in reducing the structural divide between the GN and GS. The global buoyancy period had only a limited effect on convergence, whereas a noticeable narrowing of the share gap between the GN and GS in global services trade occurred during the recession. The onset of another global slowdown during 2018 and 2019, driven by the U.S.-China trade conflict, temporarily widened the gap between the GS and GN before the convergence process resumed

Figure 3b: North Vs South and Converging TIG Growth Pathways within the Global South (Compound Annual Growth Rate (CAGR), %)



Source: Authors' calculation based on Comtrade, United Nations, Washington DC.

in recent years. Overall, convergence in trade in goods has been more pronounced than in trade in services, and the share of the GS in global services trade remained within the range of 31 per cent to 33 per cent during the period 2012–24. The resurgence of the GS cannot be attributed solely to the rise of emerging economies or the grouping without China, but rather reflects the broad-based growth of all country groupings within the GS, with only modest variations in their growth performance. The global trade share gap between the GN and GS has narrowed significantly, and the disparities among different GS country groupings, including emerging economies, emerging economies excluding China, least developed countries (LDCs), transitional economies, and other developing countries, have also declined.

During the global buoyancy period (2002-07), GDP in the GN grew at a rate of 15.4 per cent, while the GS recorded a higher growth rate of 22.4 per cent, as shown in Figure 3b. Emerging economies excluding China grew at a rate of 18 per cent, while LDCs, transitional economies,

and other developing countries recorded even higher growth rates of 27.4 per cent, 31.7 per cent, and 22.6 per cent, respectively. The global recession of 2008 resulted in a sharp slowdown in economic growth across most major country groupings. Despite this downturn, the GS continued to demonstrate stronger growth performance than the GN during the post-buoyancy period from 2008 to 2024. Furthermore, different country groupings within the GS consistently registered higher growth rates than the GN during this period. Although the recession severely affected all segments of the global economy, most GS country groupings performed better than their GN counterparts. During both post-buoyancy phases (2008-16 and 2017-24), the GS maintained improved growth performance relative to the GN, and there was a noticeable degree of convergence among GS country groupings. During the buoyancy phase, LDCs, transitional economies, and other developing countries displayed stronger growth performance than emerging economies and emerging economies excluding China. However, their growth performance moderated during the post-buoyancy period, although it remained broadly aligned with that of emerging economies excluding China.

5. How Divergent is the Global South?: End-Use and Technology Sectors

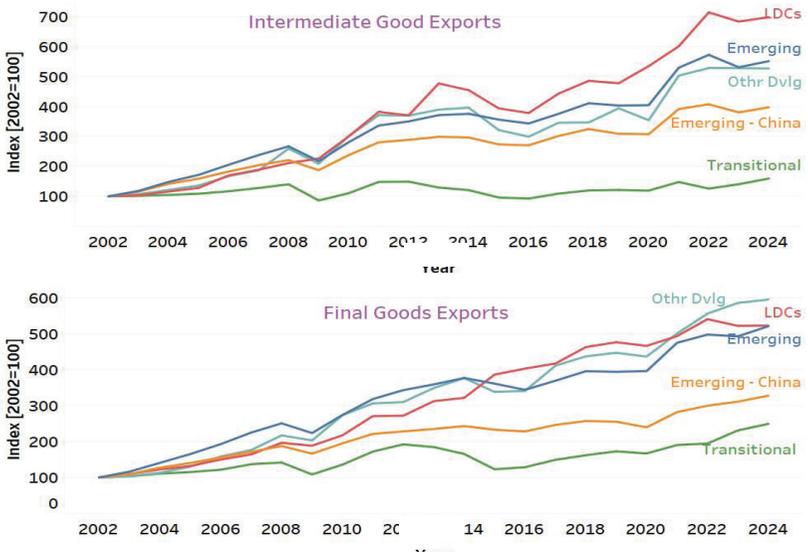
The trade in the Global South passed through a rapid transformation from rhetoric into reality, exhibiting mutual interdependence and shared interests (Smolaga, 2022). South-South trade has witnessed substantial growth across diverse sectors since the early 1990s, most notably within manufacturing (Athukorala & Nasir, 2012). The resilience of South-South trade is evident in its ability to remain dynamic, accommodate production fragmentation, and uphold the quality of trade logistics. In this process, major economies such as China and India achieved significant trade milestones, while smaller economies sustained comparable dynamism (Ngundu & Matemane, 2023). During its ‘catching up’ phase with the Global North, the Global South progressively dismantled tariff barriers, attaining historically low levels through deliberate strategies. Unlocking the potential of South-South trade requires further liberalisation of trade

and investment regimes, supported by strong infrastructure, efficient logistics, and a multilateral approach to market access (Athukorala, 2011).

The resurgence of the Global South in international trade stems from its growing participation in both intermediate and final goods markets (Horner & Nadvi, 2018). In global trade, intermediate goods constitute the dominant component of exports, comprising between 60 per cent and 80 per cent of total trade flows (World Bank, 2017; UNCTAD, 2013). The impact of trade is significantly stronger when production inputs are sourced from emerging or less-industrialised Global South economies (Ndubuisi, Owusu, & Kassa, 2026). East Asia's integration into global production networks has significantly strengthened the role of South-South trade within world trade (Horner, 2016). In the post-2012 period, intermediate goods sectors, including textiles and electronic components, have sustained robust global growth (Lee, 2016). Through collaborative efforts in value addition across global value chains, Southern economies have bolstered their export capacities, with notable success in industries such as spices (Saha, Bontadini & Cowan, 2023). There are evidences to show that the rising global division of labour within the Global South has stimulated greater activity across both upstream and downstream segments of global value chains (Lee, 2016). The growing alignment of trade between the Global North and South has been propelled by the latter's active role in technology-intensive products. Within the South, least developed countries, transitional economies, and other developing nations have consistently posted stronger results than emerging economies, with or without China (Mohanty, Franssen and Saha, 2019).

There is considerable debate in the literature regarding the Global South (GS) as a heterogeneous group of countries, with substantial developmental gaps persisting between emerging economies and other developing countries in trade and broader economic activities (Pavcnik, 2017; Majeed, 2016; Meschi & Vivarelli, 2009). These developmental gaps, particularly between emerging economies and other groups such as LDCs, transitional economies, and developing countries, were especially pronounced during the post-colonial period, although they have gradually narrowed over time as these economies have accelerated their catching-

Figure 4a: Convergence in Specialised Trade: Developing Countries Advancing Toward Emerging Economies (Index 2002=100)

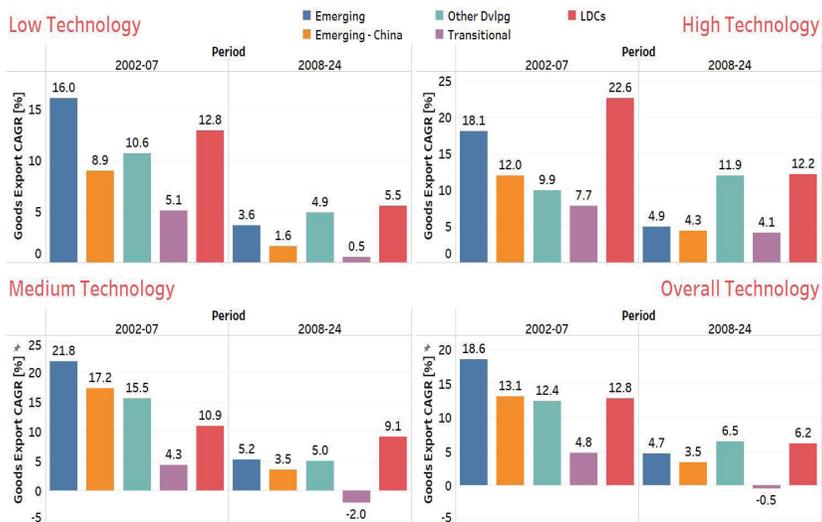


Source: Authors' calculation based on Comtrade, United Nations, Washington DC.

up process. The widely held view that emerging economies excluding China have progressed significantly different from emerging economies including China is not fully supported by empirical evidence, as both groups have shown broadly similar growth trajectories despite China's strong growth performance. This trend reflects the growing dynamism of different country groupings within the GS in expanding their engagement with global trade and other economic activities. As a result, countries across the world may increasingly find limited distinction between different GS country groupings when engaging in trade.

Consequently, different country groupings within the GS are becoming more homogeneous in trade performance, although their performance in specialised sectors such as end-use and technology-intensive trade requires closer examination. Figure 4a and 4b illustrate the pace at which non-emerging country groupings have progressed

**Figure 4b: Assessing Growth Performance of Tech-Driven Trade Sectors within the GS
(Compound Annual Growth Rate (CAGR), %)**



Source: Authors' calculation based on Comtrade, United Nations, Washington DC.

in specialised trade sectors in their effort to catch up with emerging economies over the past two decades. Figure 4a presents trends in trade flows for the GS and its major country groupings, including emerging economies, emerging economies excluding China, LDCs, transitional economies, and other developing countries, particularly within end-use trade sectors. Convergence occurs when country groupings at relatively lower levels of development, experience faster and sustained economic growth compared to more advanced country groupings over an extended period. In the end-use sectors, growth indices have been constructed for intermediate and final goods export sectors for different country groupings since 2002. To measure relative growth performance, export values have been converted into indices, with 2002 serving as the base year and index value set at 100.

In the intermediate goods export sector, LDCs recorded the fastest growth, followed by emerging economies and other developing countries from the onset of the global recession until 2024. The strong growth performance of LDCs indicates their gradual convergence toward the average growth trajectory of the GS. In contrast, emerging economies excluding China recorded moderate growth, while transitional economies experienced relatively weak performance in intermediate goods exports. In the final goods export sector, LDCs, emerging economies, and other developing countries exhibited broadly similar growth trends during 2002–24. Emerging economies excluding China showed moderate growth in final goods exports but performed better than transitional economies. Overall, LDCs and other developing countries have consistently narrowed the gap with emerging economies, with or without China, thereby strengthening their share in global trade. However, the level of trade performance continues to vary across different country groupings and trade regimes.

In technology-intensive export sectors, performance during the global buoyancy phase indicates that LDCs, emerging economies excluding China, and other developing countries grew at broadly similar rates, although emerging economies overall maintained stronger positions. Figure 4b presents the growth performance of the GS and its sub-groupings in various technology-intensive export sectors in goods. During the buoyancy phase, LDCs and transitional economies emerged as the leading performers among GS country groupings, while other emerging economies ranked lower in the growth of technology-intensive exports. Furthermore, during the post-buoyancy period, LDCs and other developing countries demonstrated stronger growth performance compared with emerging economies, even excluding China. Transitional economies, however, continued to show relatively weak performance during the post-buoyancy period. Within the emerging economy group, China played a significant role in shaping overall performance, although growth in emerging economies excluding China remained relatively comparable.

Overall, the GS has moved toward greater homogeneity over time, as LDCs and other developing countries have grown faster than emerging economies and reduced long-standing developmental gaps. This process has enabled the GS to narrow its trade gap with the GN, particularly in goods exports. It has also strengthened both intra-regional trade within the GS and extra-regional trade linkages with the GN.

6. Shifting FDI Dynamics and the New Trade Landscape

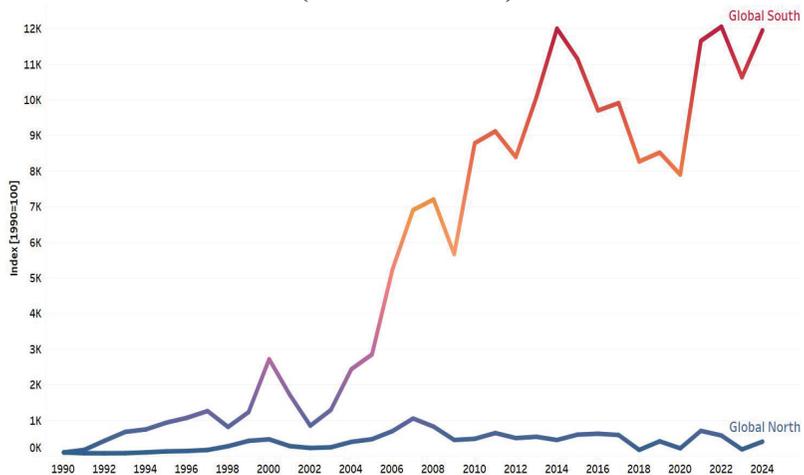
The integration of FDI and trade is being increasingly witnessed in the new-age trade, where, on one hand, investment flows are following enhanced trade flows through expanded and deeper market access, and on the other hand, standalone chapters on investment are being included alongside tariff reduction in trade agreements. Countries have been negotiating provisions on investment protection, facilitation and dispute resolution mechanisms (Choudhary *et al.* 2025) in several bilateral, regional and mega-regional trade agreements. At the global platform, many countries, under the Investment Facilitation for Development Agreement, have been working towards a JSI-led plurilateral initiative to ensure transparency and predictability, streamline procedures and promote sustainable investment. As MC14 is nearing the corner, it becomes important to analyse the global FDI trends for evolving global trade governance and policy-making, given the intertwined nature of both trade and investment.

The current geopolitical landscape has been influencing global FDI trends, which are being characterised by a high degree of volatility, uneven recovery patterns, and sectoral shifts towards technology and digital services, green energy and sustainability projects, while simultaneously being away from concentrated global supply chains (UNCTAD, 2025; WTO, 2025). The convergence of inward and outward FDI between the Global North (GN) and the Global South (GS) has emerged as a defining feature of structural change in the world economy since the late 2010s (UNCTAD, 2010). In FDI inflows, the role of GS has increased threefold in the past two decades, from 22 per cent in 2007

to 58 per cent in 2024 (UNCTAD, 2025). Similarly, the share of GS in FDI outflows has also been increasing, with emerging countries playing a critical role (Liu *et al.* 2023). The pattern of convergence between the GN and the GS has differed substantially between inward FDI (IFDI) and outward FDI (OFDI), both in terms of intensity and timing.

For inward FDI flows, convergence began immediately after the global recession in 2008. In contrast, outward FDI convergence was delayed and only began to take shape around 2018. A notable characteristic of the GN and the GS has been the alternation between convergence and divergence over relatively short periods, which differs from trends observed in trade flows. The convergence observed in inward and outward FDI between the GN and GS may be characterised as unstable, as the GS reached the halfway mark in certain years but experienced renewed divergence in subsequent periods. The early convergence in FDI occurred largely because the GS expanded at a

Figure 5a: Impressive FDI Performance of the Global South (Index 1990=100)



Source: Authors' calculation based on Comtrade, United Nations, Washington DC and World Investment Report, UNCTAD, Geneva.

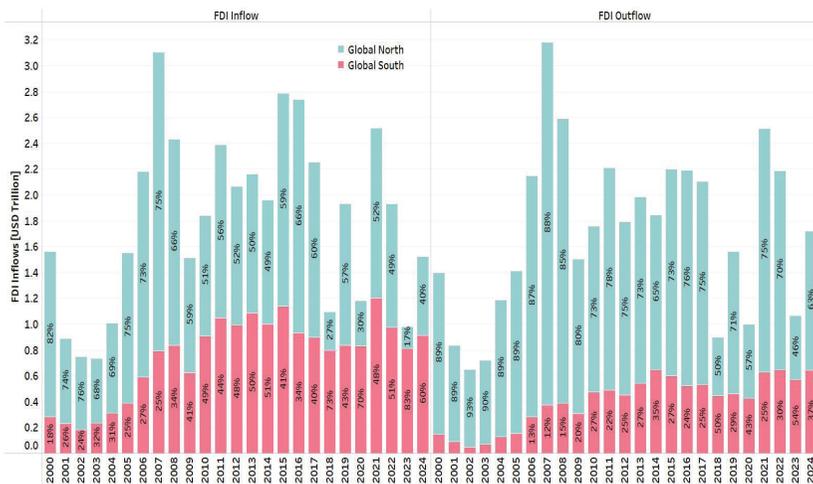
faster pace than the GN, as illustrated in Figure 5a, particularly during the aftermath of the global recession.

To analyse the expansion paths of the GN and GS in FDI, both were assigned an equal starting point in index form, despite their substantial differences in actual values in 1990. Accordingly, the index values for both the GS and GN were set at 100 in 1990, and the growth path shown in Figure 5a illustrates how the FDI indices of the GS and GN evolved over the subsequent three and a half decades. The indexed FDI of the GN remained largely flat over the decades in volume terms, although the absolute magnitude of FDI in the GN remained several times higher than that of the GS. In contrast, FDI flows from the GS expanded sharply during the post-Asian Financial Crisis. This upward trajectory of FDI from the GS continued steadily between 2002 and 2014, although temporary slowdowns occurred in 2008 and 2012. After peaking in 2014, FDI from the GS declined until 2020, then recovered strongly in the post-pandemic period.

Beyond the trend analysis, the actual inward and outward FDI flows between the GN and GS reveal important structural insights, as presented in Figure 5b. A year-by-year comparison between the GS and GN during the period 2000-2024 shows rapid convergence in FDI, though this convergence remained unstable for both inward and outward FDI, unlike the more stable convergence observed in trade in goods. Of the total global inward FDI of \$1564.4 billion in 2000, the GS accounted for only 18 per cent, increasing to 34 per cent in 2008. Following the global recession of 2008, global inward FDI rose significantly to \$2791.1 billion in 2015, reaching an all-time high after the global recession. The GS accounted for half of global inward FDI for the first time in 2013, and its share reached a peak of 83 per cent in 2023. The share of the GS in inward FDI crossed the halfway mark seven times between 2000 and 2024, including the years 2013, 2014, 2018, 2020, 2022, 2023, and 2024.

Figure 5b also shows that the GS remained in a relatively weaker position than the GN in outward FDI, particularly relative to inward FDI performance. In 2000, the GS accounted for 11 per cent of global outward FDI, and this share declined further to 7 per cent in 2002. The

Figure 5b: Convergence between Global North and Global South in FDI (US\$ Trillion)



Source: Authors’ calculation based on Comtrade, United Nations, Washington DC and World Investment Report, UNCTAD, Geneva.

global share of the GS in outward FDI increased to 12 per cent in 2007, coinciding with a peak in global investment flows of \$3182.7 billion in the same year. Outward FDI from the GS crossed the 50 per cent mark for the first time in 2018 and reached similar levels again in 2023. In 2024, global outward FDI stood at \$1,723.8 billion, which was only 54.2 per cent of the peak level of \$3,182.7 billion recorded in 2007, implying huge potential for GS in FDI outflows. In both inward and outward FDI flows, the GS exhibited relatively lower volatility compared with the GN, indicating that investment flows from the GS were more stable and predictable. Several studies, including Sah and Malik (2024), suggest that FDI in the GS contributes to trade expansion, and outward FDI from both the GN and the GS may stimulate global trade by encouraging complementary investment. Hence, it is important to have a holistic overview, encompassing trade and investment, while forming global trade policies.

7. Services Sector Dynamics: Uneven Trajectories in North-South Trade

Trade in services grew at a markedly faster pace in the post-pandemic period, registering a 9 per cent expansion, well above the growth of merchandise trade in 2025 (UNCTAD, 2026; Ilie, 2025). The sector accounted for 27 per cent of global trade and is projected to surpass the growth trajectory of the trade in goods sector in 2026. Trade in services has emerged as a defining feature of the contemporary economic landscape, exerting a critical influence on production, investment, and international trade in both advanced and developing economies (Parameswaran, 2004). Global demand is rising across multiple service trade sectors, including intellectual property, telecommunications, computer and information services, business services, and personal, cultural, and recreational activities, alongside emerging areas such as professional services, tourism, healthcare, and creative industries (Chaitoo, 2020). Digital Service Trade (DST) has developed into a prominent segment of international services trade, defined by unique characteristics in the way services are produced, delivered, and consumed across borders. Its traceability, linkage with global value chains, AI-related competitive advantages, and resilience during global disruptions underscore its growing importance (Jiang & Jia, 2022).

AI-driven transmission is pivotal to expanding cross-border services trade, enabling international delivery with speed and scalability (Trivedi & Gautam, 2025). The expansion of services trade is becoming closely tied to cross-border data flows, including cloud computing, fintech, and e-commerce. Artificial intelligence plays a critical role by managing vast databases, enabling efficient data transmission, and providing sophisticated analytical capabilities (Sun & Treffer, 2023). Evidence shows that services trade and cross-border data flows powered by AI have stimulated development, with demand for AI-driven transformation rising rapidly since 2015 in knowledge-intensive sectors (Nordas & Tang, 2022). Digital trade has expanded rapidly, contributing about 60 per cent to global services trade, and its share has doubled between

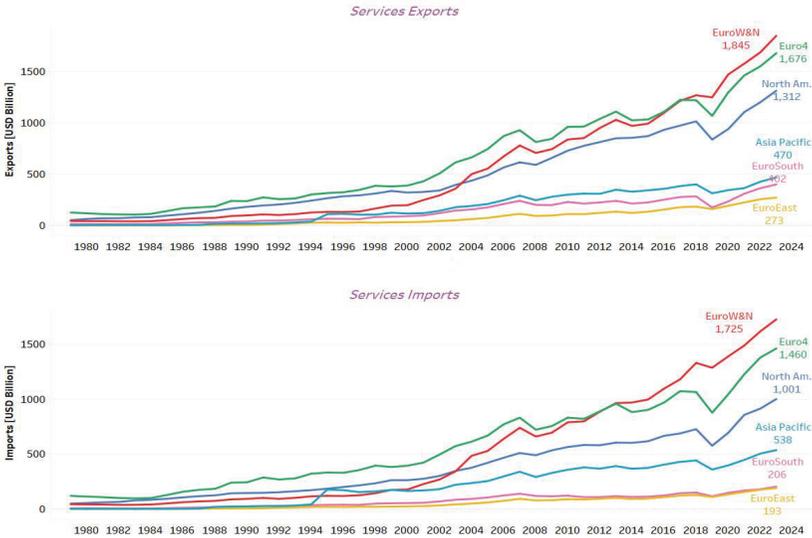
2005 and 2024. Developed countries maintain a competitive edge both in traditional services trade and in the digital domain. The services trade sector continues to encounter a wide range of non-tariff barriers across advanced and emerging economies. Addressing these challenges demands coordinated multilateral action within the framework of the WTO. Services Domestic Regulation (SDR) is expected to feature prominently as a Joint Statement Initiative (JSI) at MC14, advancing disciplines aimed at enhancing transparency and reducing regulatory barriers in global services trade. The services trade sector continues to encounter a wide array of non-tariff barriers, ranging from market access limitations and regulatory challenges to restrictions on the movement of natural persons, sector-specific restrictions, and emerging challenges in digital trade (Dincer & Tekin-Koru, 2020). Among the key negotiating priorities in digital trade are the continuation of the e-commerce moratorium, the regulation of cross-border data flows, and policies on data localisation. For trade in services to thrive in the coming years, comprehensive reforms may need to be pursued outside the Joint Statement Initiative framework (Fiorini & Hoekman, 2018).

In TIS, the rate of convergence between the GN and GS has remained slow compared with trade in goods and FDI, despite the rapid expansion of TIS involving the GS relative to the GN. Global TIS was estimated at \$8.7 trillion in 2024, representing an increase of approximately 12½ times during 1990–2024. During this period, GN exports increased by about 10½ times to reach \$5.98 trillion, while imports rose by nearly 9½ times to reach \$5.12 trillion in 2024. In contrast, GS exports expanded by 23 times to reach \$2.67 trillion in 2024 over the past three and a half decades, while imports increased by about 18¼ times to reach \$2.69 trillion during the same period. The convergence pattern between exports and imports of TIS also differs, with convergence being more pronounced in imports than in exports. Across different phases of global trade regimes, the responses of the GN and GS have been substantial and clearly observable. With the onset of the global recession, the declining trend in the GN's share of world services trade is immediately reversed,

resulting in a temporary increase, before gradually declining again in subsequent years. The GN's import share in the world declined from 26.4 per cent in 2001 to 25.8 per cent in 2002, while its export share declined from 24.2 per cent in 2002 to 21.5 per cent in 2003. A similar pattern re-emerged in 2020 during the global pandemic, when the GN's relative shares in both exports and imports increased compared to the preceding period. With the recovery of the global economy, the GS's share tends to increase again in both exports and imports within the world economy. The rising frequency of global uncertainties has generally favoured the GN, enabling it to recover lost shares in global services trade and thereby slowing the convergence process between GN and GS.

However, the advantage enjoyed by the GN in the services sector has not been evenly distributed across its various regional groupings. The GN is divided into six regional groups-Euro-4, Euro-West & North, Euro-South, Euro-East, North America, and Asia-Pacific- and

Fig 6a: Unequal Pathways: Services Trade within the Global North (US\$ Billion)



Source: Authors' calculation based on Balance of Payments, IMF.

Fig 6b: Sectoral Leadership in Services Trade: Driving Divergence within the Global North (US\$ Billion)



Source: Authors' calculation based on Balance of Payments, IMF.

their performance in TIS exports and imports is illustrated in Figure 6a. In exports, two distinct clusters have emerged among the GN: (a) Euro-West & North, Euro-4, and North America; and (b) Euro-South, Euro-East, and Asia-Pacific, reflecting differences in trade performance. Among the stronger performing regions in TIS exports, Euro-West and North demonstrated remarkable performance, surpassing North America in 2004 and Euro-4 in 2017 to become the leading grouping globally. The relative advantage of North America began to weaken gradually after 2000 and declined more sharply after 2020. Among the remaining GN groupings, including Euro-South, Euro-East, and Asia-Pacific, the Asia-Pacific region exhibited exceptional performance, surpassing Euro-East and Euro-South in 1994, reaching Euro-West and North levels in 1995, and stabilising thereafter. Euro-South experienced a significant decline during the pandemic but recovered strongly by

2024. In the import sector of TIS, the relative rankings of GN regional clusters remained largely unchanged, with performance gaps among the six regions remaining broadly similar in 2024. The outstanding performance of Euro-West & North and Asia-Pacific in imports closely mirrored their export performance.

Differences in trade performance among GN regional groupings can largely be attributed to their sectoral specialisation choices in TIS. Identifying leading TIS sectors is essential for understanding the drivers of services trade performance among specific countries and regional groupings. Accordingly, an empirical decomposition analysis of the global TIS sector was undertaken using 12 major sub-sectors to identify leading sectors during 2016–2024. The findings indicate that the leading sub-sectors globally include telecommunications, travel, other business services, transportation, intellectual property services, financial services, and maintenance services. The top four sub-sectors, including telecommunications, travel, other business services, and transportation, accounted for nearly three-fourths of total global services trade during 2016-24. Among the large sectors with strong growth potential are telecommunications, computer and information services, and travel services, while smaller sectors such as maintenance and repair services, insurance, personal services, and intellectual property services are also emerging. At the same time, several traditionally large sectors, including other business services and transportation, have gradually declined in relative importance, along with smaller sectors such as manufacturing services and cultural and recreational services. Based on global experience, the factors contributing to the superior performance of certain GN regions are illustrated in Figure 6b. Better-performing GN regions have strategically focused on large and fast-growing service sectors. Several rapidly growing GN regions have concentrated on major high-growth services sectors, resulting in noticeable regional disparities. In recent years, GS regions have adopted a similar strategy to accelerate their participation in global services trade.

These evidence-based trends in trade and investment and their different sectors not only represent their growing role in providing

stability in the world economy but also point out the growing convergence of the Global South and Global North with rising homogeneity among the Global South country groups and heterogeneity among the Global North country groupings. The increasing role of the Global South in international trade and finance has also raised the power of the developing countries to put forth their demand on the WTO negotiating table, either through Special and Differential Treatment (S&DT) provisions or opting for JSI-led initiatives in different sectors. Hence, it is important to mark the developments and challenges in the developed and developing countries in trade and FDI before the next WTO Ministerial Conference in March 2026.

8. Conclusions

The recent global economic turmoil has been driven by continued disruptions to supply chains, higher inflation and debt, geopolitical tensions, rising trade wars and protectionism, and uncertainty about government policies. This is characterised by slower growth in economic activity, which has put immense pressure on gross world product, with stagnation in international trade and a sharp decline in FDI to nearly half the 2008 level. Though trade in goods and services has grown exponentially, there is a huge difference in quantum between the two. However, it is important to note that the Global South has supported in a major way the stability in these economic trends. Interestingly, the share of the Global South in trade and investment has increased over the year, implying a natural convergence in the gap between the Global South and Global North. The gap between the share of the Global South and Global North has been reducing, in both trade and investment, though showing different trends across distinct components. On the one hand, the magnitude of the difference in the share of Global South and Global North is smaller for trade in services in comparison to trade in goods. On the other hand, the share of the Global South in global FDI inflows has crossed the halfway mark seven times, relative to twice in global FDI outflows.

It is important to note that it is not a single country dominating the Global South trade, investment and GDP trends. There is vivid convergence among the different Global South country groupings, including emerging countries (excluding China), LDCs, transitional economies and other developing countries. This homogeneity has been increasing over the years, which has helped in reducing the divergence between the Global South and the Global North. However, in the case of services trade, the convergence of the Global South and the Global North, in terms of their share in the world, has not been to the extent visible in merchandise trade and FDI. Global North regions like Euro-West and North, Euro-4 and North America have been contributing the majority of services trade, with high-performing sectors like transport, travel, telecommunications, computer and information services, and other business services. These sectors are also observed to be contributing a higher share of the Global South services exports, which further require a push to bridge the gap between the Global North.

Given these changing structural and compositional dynamics, it becomes important to understand the state of play of trends in merchandise trade, services trade, and FDI to achieve transparent and resilient international trade with WTO at the core. WTO negotiations and plurilateral initiatives, like Investment Facilitation for Development, issues relating to Services Domestic Regulations, Moratorium on Custom Duties on Electronic Transmissions, etc., are quite critical for MC14, and the increasing role of developing countries in stabilising global trade and investment would provide the necessary push for S&DT provisions demanded by them to get market access. Given the heterogeneity in the Global North, it is important for the countries of the Global South to firmly put their demands on the table based on their interests. An evidence-based approach on various WTO agreements would enable the Members to move towards establishing a roadmap for further negotiations, if not finalising the agreements in March 2026.

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Acknowledgements

Authors are grateful for the comments and suggestions received from reviewers for finalising the Discussion Paper. Thanks are also due to the publications team at RIS, comprising, Mr Sanjay Singh, Mr Sachin Singhal, Mr Sanjeev Karna and Ms Karpreet Kaur for arranging the production of this Discussion Paper.

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BEF

BLUE ECONOMY FORUM

BEF aims to serve as a dedicated platform for fostering dialogue on promoting the concept in the Indian Ocean and other regions. The forum focuses on conducting studies on the potential, prospects and challenges of blue economy; providing regular inputs to practitioners in the government and the private sectors; and promoting advocacy for its smooth adoption in national economic policies.

FIDC

FORUM FOR
INDIAN DEVELOPMENT
COOPERATION

भारतीय विकास सहयोग मंच

FIDC, has been engaged in exploring nuances of India's development cooperation programme, keeping in view the wider perspective of South-South Cooperation in the backdrop of international development cooperation scenario. It is a tripartite initiative of the Development Partnership Administration (DPA) of the Ministry of External Affairs, Government of India, academia and civil society organisations.



Forum for Indian Science Diplomacy

FISD aims to harness the full potential and synergy between science and technology, diplomacy, foreign policy and development cooperation in order to meet India's development and security needs. It is also engaged in strengthening India's engagement with the international system and on key global issues involving science and technology.



As part of its work programme, RIS has been deeply involved in strengthening economic integration in the South Asia region. In this context, the role of the South Asia Centre for Policy Studies (SACEPS) is very important. SACEPS is a network organisation engaged in addressing regional issues of common concerns in South Asia.



Knowledge generated endogenously among the Southern partners can help in consolidation of stronger common issues at different global policy fora. The purpose of NeST is to provide a global platform for Southern Think-Tanks for collaboratively generating, systematising, consolidating and sharing knowledge on SSC approaches for international development.



DST-Satellite Centre for Policy Research on STI Diplomacy at RIS aims to advance policy research at the intersection of science, technology, innovation (STI) and diplomacy, in alignment with India's developmental priorities and foreign policy objectives.

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