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Financing for Low-Income Countries: Collateral Damage of Global Imbalances

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The issue of global imbalances, as measured by the current account balance and, consequently, the savings and investment balance, external positions, and their financing, remains at the heart of international economic and financial discussions, and is unsurprisingly an important issue for the French G7 Presidency[1]. However, in these discussions on the effects of global imbalances and on solutions to reduce them, little attention is paid to low-income countries (LICs). Although these countries do not contribute significantly to global imbalances and are therefore not directly involved in them, they nevertheless bear many of their adverse consequences, as such imbalances affect both their trade in goods and services and their access to external financing. In fact, by distorting the balance between savings and investment, these global imbalances often simultaneously hinder both the integration of LICs into global value chains and capital flows to countries that should naturally be net importers of capital. Even the most favorable adjustment path, advocated by the G7, could reinforce these ill-effects if higher investment in surplus economies and lower capital imports by deficit economies fail to benefit LICs.

Furthermore, the weaker capacity of LICs to influence global markets makes them particularly vulnerable to external shocks and thus, to trade, fiscal, monetary, and prudential policies pursued by major economic powers, for whom global imbalances are both a cause and a consequence. Consequently, there is a risk that unilateral or bilateral rebalancing strategies for global imbalances, led by the world's major economies (with China and the United States at the forefront), could negatively impact the trade balances and external financing sources of LICs. Indeed, some of the policies currently being pursued by industrialized countries to reduce these imbalances, such as increased tariffs and bilateral agreements, are already impacting LICs, both in the short and long-term. This situation is all the more problematic given that in the coming years, external financing needs of these countries will be growing due to the energy transition and the challenges of rapid population growth and adaptation to climate change, whose effects are already being felt.

The purpose of this report is therefore to analyze recent developments in the balance of payments of LICs, in order to identify the main external financing constraints they face in relation to global imbalances, and to propose policy recommendations aimed at strengthening their access to sustainable sources of external finance.

It should be noted that the term "low-income country" is ambiguous, as the list of countries the term applies to varies across institutions. A well-defined list of such countries needs to be established, but would inevitably be arbitrary. Here, we have chosen to adopt a broad definition of LICs and refer to the 57 countries defined by the IMF as "*low-income countries*" eligible for the *Poverty Reduction and Growth Trust* (PRGT) (IMF, 2024). Throughout the report, the term low-income countries (LICs) refers to this group. We also examine differences across LICs by region, with particular attention to African LICs, which make up 38 of the 57 countries in this list. The list of countries is provided in Table A1 in the Appendix.

1. Structure of the current account and external financing constraints in low-income countries

This section aims to provide an overview of the evolution of current account deficits in LICs as well as their sources of external financing. Since the 2000s, LICs have been experiencing a growing trade deficit (goods + services) as well as a primary income deficit, what we call here

[1] See the G7 Finance Ministers' Communiqué of May 19, 2026.

an “external resource gap”. The sluggish growth rate of foreign trade, resulting from slow export and import growth, is both a cause and a consequence of LICs’ limited participation in international trade.

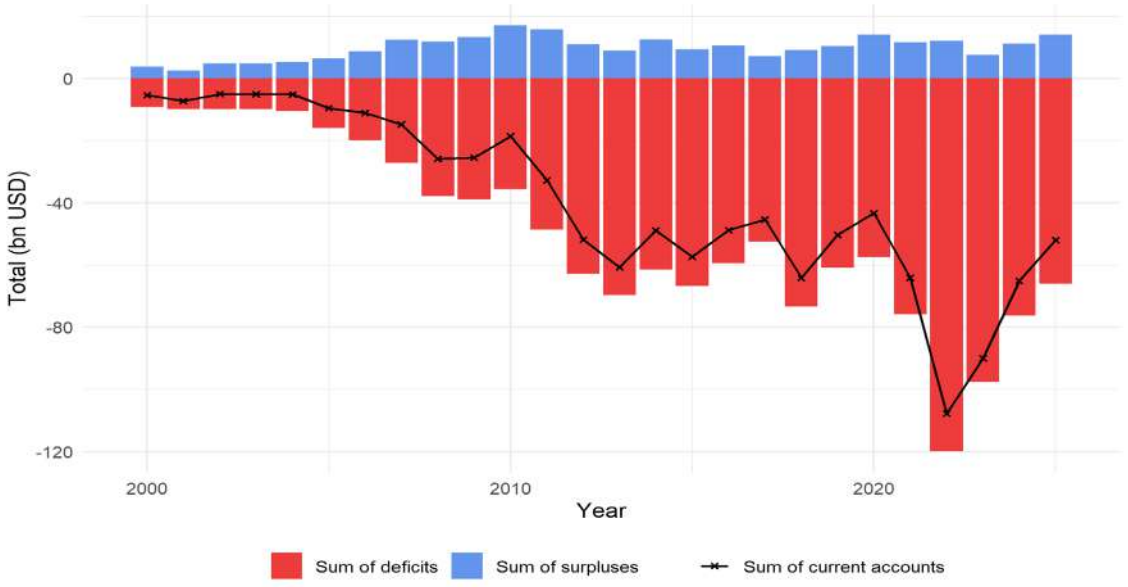
This deficit has been constrained by limited external financing capacity. Thus far, it has been financed primarily by (i) official development assistance (ODA) flows and remittances from abroad, and (ii) capital inflows in the form of debt or equity (FDI). External financing constraints will continue to be one of the main obstacles to economic development in LICs. The potentially long-term decline in ODA flows (grants and concessional loans) is likely to further exacerbate this problem.

1.1 Key facts on the evolution of the current account deficit in LICs

The widening global current account imbalances over the past few decades have taken the form of a lasting divide between countries with a structural current account deficit (the United States, the United Kingdom) and those with a structural surplus (China, Japan, the EU as a whole, including notably Germany, the Netherlands, Sweden, and others). For LICs, the current account balance remained negative overall during this period, with a sharp but short-lived deterioration during the COVID-19 crisis. The evolution of the combined current account of all LICs in surplus and all LICs in deficit separately between 2000 and 2025 is shown in Figure 1. Two clear conclusions can be drawn here. First, while there are indeed LICs with a current account surplus throughout the period, these surpluses account for only a small share of the total current accounts of all LICs. Throughout the reference period, the sum of all current account surpluses peaked in 2010 at $17 billion, while the sum of deficits generally ranged between $60 billion and $80 billion over the past ten years, peaking at $120 billion in 2022. This is primarily due to the smaller number of countries with a current account surplus over the period (only 11 out of the 55 countries for which we have data in 2025). The surpluses are also driven by only a small number of countries, as just three (Papua New Guinea, Nepal, and Ghana) account for more than 60% of the total surplus of the 11 LICs with surpluses in 2025. In the case of Ghana, however, this surplus followed a default in 2022–2023, as the country’s current account had been running at a significant deficit up to that point (–2.3% of its GDP in 2022). This is because, following a default, the defaulting country can no longer borrow on external markets, and its current account must therefore be in surplus. From 2024 onward, Ghana saw an improvement in its trade balance, driven in particular by rising gold prices, allowing it to continue boosting its surplus. Subsequently, the evolution of the total aggregate current account went through several phases over this period. After remaining relatively stable up to 2005, the total current account of LICs deteriorated significantly until the mid-2010s, before stabilizing again until 2021. This partly reflects an improvement in financing capacity, thanks to debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). Finally, after a very sharp deterioration in the overall balance in 2022, which can be attributed to exceptional financing measures implemented in the wake of the pandemic, the current account returned to its pre-crisis level in 2025.

LICs tend to have structural current account deficits, the magnitude of which is somewhat limited by their access to external financing. The few LICs that do run current account surpluses often do so because they are unable to secure external financing, especially following a debt default.

Figure 1: Trends in current account surpluses and deficits of LICs



Source: International Monetary Fund.

This initial overview, however, does not reflect the significant differences between countries. Figure 2 shows the evolution of the simple average of current account balances for LICs [2](as a share of GDP), differentiating between African and non-African LICs, as well as between the major exporters of extractive resources and other countries. Overall, the different stages of the current account evolution observed in Figure 1 also hold true when looking at Figure 2 for all groups of countries, with varying degrees of intensity. However, there is some heterogeneity between categories of countries. For instance, the current account deficits of African LICs were lower as a percentage of GDP than for the rest of the LICs only in 2022 and 2023, but were structurally higher for the remainder of the period, often with substantial differences, particularly between 2014 and 2020.

Furthermore, it appears that mineral-exporting countries generally run larger deficits than countries that do not export (or export only small amounts of) extractive resources. From an intertemporal optimization perspective, countries that export non-renewable extractive resources should, in theory, build up physical capital to offset the decline in natural capital caused by extraction (Hotelling, 1931). A high external deficit is therefore particularly concerning for a resource-depleting country, and raises questions about the long-term sustainability of financing that deficit. Oil-exporting countries, however, differ from mineral-exporting countries and are characterized by much greater volatility in their current accounts. These countries tend to oscillate between years of massive deficits (2002, 2016, and 2017) and years of surpluses or deficits much smaller than those of other countries (the 2010–2014 period and in 2022), following fluctuations in oil prices. This pattern appears to indicate substantial import spending, financed by oil export revenues during periods of high oil prices, but leading to a widening deficit when prices decline. In addition, oil-exporting LICs generally have easier access to external financing, particularly when borrowing is collateralized by oil resources. It should be noted that Timor-Leste (an oil exporter) is excluded from this analysis because its exceptionally large current account surpluses prior to 2008 (exceeding 300 percent of GDP) would make interpreting the graph difficult.

[2] The figure shows the simple average of country-level current account balances expressed as a percentage of GDP, rather than the current account balance as a share of regional GDP to prevent the results for each group from being driven by any particular country.

Nevertheless, its current account appears even more volatile than those of the other oil exporters because the production boom is relatively recent.

Figure 2: Changes in the average current account balance of LICs by region and type of exported natural resources (% of GDP)

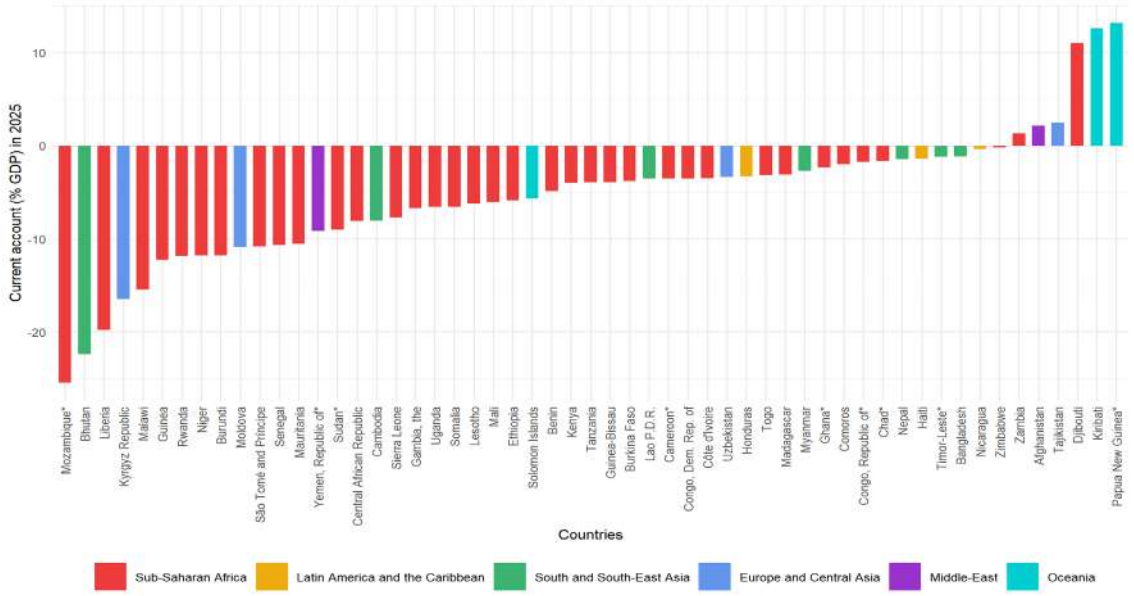
Note: Timor-Leste is excluded from this analysis because of its exceptionally large current account surplus between 2005 and 2015 (peaking at 315% of GDP in 2008). Countries are classified as oil or mineral exporters if oil/gas or mineral exports account for more than 20% of their total exports on average over the period (excluding re-exports). In cases where a country is a major exporter of both oil and minerals (e.g., Papua New Guinea), it is classified in the category that accounts for the largest share of its exports. *Source*: International Monetary Fund and BACI database (CEPII).

Current account balances among LICs differ across country groups (African LICs, oil exporters, mineral exporters, etc.). Surprisingly, mineral- and oil-exporting countries tend to have larger current account deficits over the long-term, likely because of their

greater financing capacity. However, this a very concerning situation when considering the depletion of their natural resources. These countries generally figure among the small group of nations with negative long-term aggregate savings, including natural and human capital (World Bank, 2024).

To provide a detailed picture of the differences between countries, Figure 3 displays the current account balance for each country over the 2015–2025 period, broken down by region. Current account balances range from -25% of GDP (Mozambique) to +13% of GDP (Papua New Guinea). Several key trends can be observed. Firstly, while some regions tend to record smaller current account surpluses or deficits than others (such as Oceania), there is still significant variation between countries within the same region across the board. Second, hydrocarbon exporters are scattered throughout the sample and exhibit particularly pronounced variation in their current account positions. Indeed, the two most extreme observations in the sample are both oil or natural gas exporting countries.

Figure 3: Current account for each LIC (2015–2025 average)



Note: * Countries for which oil and gas exports accounted for more than 20% of total exports on average over the period. Eritrea is excluded due to a lack of data for the years 2020–2025. *Source*: International Monetary Fund and BACI (CEPII).

Current account imbalances are not necessarily problematic in themselves. In fact, many structural or cyclical factors can explain external surpluses and deficits (Devadas and Loayza, 2018). For example, it is not unusual for an economy with limited physical capital to finance part of its investments through external savings. In this case, a current account imbalance can more efficiently allocate global capital: countries with high savings can finance investments in countries with high investment needs and, in return, benefit from high returns (Bénassy-Quéré, 2025). Similarly, it is also common for a country in the early stages of its demographic transition to run a current account deficit, which is expected to gradually narrow as the dependency ratio declines (Obstfeld, 2017). However, in many LICs, not only is the stock of capital very low[3],

[3] The average per capita capital in 2019 is $1,600 for LICs and $1,200 for African LICs, compared to a global average of $32,000 (World Bank, 2024)

but the population tends to be very young, particularly among African LICs, which account for two-thirds of all LICs worldwide.

Conversely, a balanced current account may simply reflect a country's inability to access external financing. Thus, for countries with limited physical capital but a growing population, a balanced current account could signal structural weaknesses and vulnerabilities that can constrain access to external financing. The extraction and export of non-renewable resources, especially oil, warrant particular attention. The depletion of natural capital should, in principle, be offset by the accumulation of financial or physical capital, through domestic or foreign investment.

In most cases, particularly among non-oil-exporting LICs, relatively small current account deficits are more indicative of limited access to external financing (other than aid and remittances) than of sound management of external balances. By contrast, oil and mineral exporting LICs generally enjoy better access to external financing. Their ability to sustain larger deficits is nevertheless a source of concern in the medium to long-term, owing both to the depletion of non-renewable natural resources and to the risks posed by the energy transition.

In addition to the size of the external deficits, it is also their persistence over the long-term that raises concerns. It appears that of the 57 countries in the sample, 19 did not experience even a single year of surplus during the 2000–2025 period, and 40 countries had fewer than five years of positive balances. This is even more pronounced for the 38 African LICs, 18 of which have never recorded a surplus since 2000, and 30 of which have had fewer than five years of positive balances. This is to be expected given the characteristics of these economies, where investment exceeds savings. However, these net inflows of foreign savings have not translated into convergence in terms of capital stock per capita. Capital per capita has stagnated in most developing economies and has even declined in Sub-Saharan Africa (World Bank, 2024). Between 2000 and 2019, the domestic wealth index per capita increased in 93 of the 108 non-LIC countries for which data are available (86 percent of the sample). In contrast, it increased in only 7 of the 11 non-African LICs and 13 of the 30 African LICs[4]. This suggests that balance-of-payments constraints may have hampered economic development in LICs.

Conversely, an accumulation of deficits can cause macroeconomic and financial instability and make economies more vulnerable to external shocks. Indeed, an accumulation of current account deficits (and thus a deteriorating net external position) increases the risk of a balance of payments crisis (Pierri et al., 2023). Furthermore, structural deficits make countries particularly vulnerable to the possibility of a sudden stop in capital inflows during crises, further exacerbating the deficit (Obstfeld, 2017; Bénassy-Quéré, 2025).

Finally, a high initial level of external debt reduces the policy space available to governments and may make it more difficult to implement countercyclical policies in response to crises. The external debt stock of LICs fell sharply during the 2000s, owing to debt-relief initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), declining from over 100% of GNI on average in 2000 to 36% in 2012. Since then, however, external indebtedness has increased once more, reaching 55% of GNI in 2024 (data from the World Development Indicator). External debt was then above the 40% threshold in 28 of the 52 LICs for which we have data, and in 19 of 35 African LICs. In March 2025, more than half of the LICs were in a situation of over-indebtedness or at high risk of over-indebtedness according to the International Monetary Fund's (IMF, 2025) criteria. Such debts impose a high cost on indebted countries: debt interest payments, for example, are estimated to

[4] Data from the Changing Wealth of Nations database (World Bank, 2024)

represent 30% of Kenya's total government revenue (Banque de France, 2025). These costs are also highly volatile due to exogenous factors (such as interest rate fluctuations). **For LICs, the net inflow of foreign savings has been simultaneously both insufficient to generate convergence in per capita capital and sufficient enough to generate unsustainable debt levels in many countries.**

The central challenge is therefore to identify the factors underlying these adverse balance-of-payments trends and to understand how these deficits are financed, so as to assess risks to the long-term sustainability of LICs' external balances.

Box 1: The Financing Needs of Low-Income Countries

Given the high degree of heterogeneity among LICs and their specific characteristics, it is difficult to accurately quantify these countries' investment needs and, by extension, their financing gap (the difference between a country's financing needs and the actual financing available). A standard approach for estimating external financing needs is to calculate the difference between domestic savings, defined as the capacity to mobilize domestic resources for investment, and an "optimal" investment target. This difference corresponds to the level of investment that must be financed by external flows in order to achieve a set objective. An article by the *Brookings Institute* (https://www.brookings.edu/articles/mobilizing-africas-resources-for-development/) estimates this need at a minimum of 30% of GDP for developing countries in sub-Saharan Africa. For comparison, this is roughly the same as the investment rate observed in China and Southeast Asian economies during the period of strong economic growth between 1976 and 2016[1]. By taking this target of 30% annual investment and comparing it to the IMF's projected savings rates for the 2025–2030 period, we arrive at a lower-bound estimate of the external investment required to ensure short- and medium-term economic development of LICs. For the 48 LICs for which we have estimates of projected savings rates and GDP[2], this results in a target for external investment of $209 billion per year on average over the 2026–2030 period, and $165 billion for African LICs alone. With the total annual deficit in 2025 amounting to approximately $52 billion for LICs and $45 billion for African LICs, this corresponds to an annual external financing gap of approximately $157 billion for LICs and $120 billion for the African LICs for the year 2026 (assuming a constant deficit between 2025 and 2026). In comparison, the savings surplus (the difference between gross domestic investment and domestic savings) amounts to $669 billion for China and $909 billion for the European Union in 2024. **The annual financing gap for LICs over the coming years thus represents slightly less than 10% of the total savings surplus of these two economic blocs, and 17% of the European Union's surplus alone. Were the financing burden to be shared between several actors, with the EU covering half of LICs' financing needs, redirecting just 8.5% of the EU's excess savings (whether public or private) towards LICs would be sufficient to finance the minimum investment required through 2030.** It is also worth noting that a reduction in the U.S. deficit would lead to a decline in capital flows from the EU's savings surplus to the U.S., which could then easily be reallocated to other regions of the world.

[1] More specifically, for each of the following countries (Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand, Timor-Leste, Vietnam, and China), we identify the decade during which it experienced its strongest per capita GDP growth and estimate the country's average annual investment rate as a percentage of GDP during that

decade. This methodology results in average investment rates ranging from 18% to 40%, with an overall average of 29%.

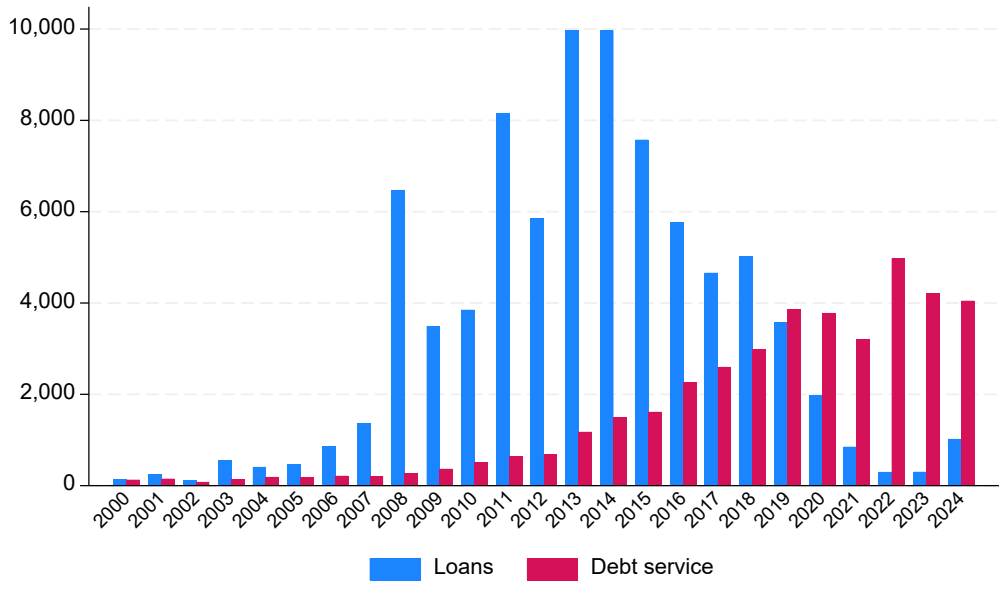
[2] That is, all LICs except the following countries: Afghanistan, Eritrea, Kiribati, Lao PDR, Liberia, Papua New Guinea, Somalia, Timor-Leste, and Yemen.

Box 2: China's Role in the Indebtedness of African Low-Income Countries

Over the years, China has gradually established itself as a major creditor to many developing countries around the world, although its influence varies significantly by region. While China is only a small-scale lender to most LICs in Latin America and the Caribbean, it is the main bilateral lender to LICs in Central Asia (Kyrgyzstan, Uzbekistan, Tajikistan), certain LICs in Southeast Asia (Cambodia and Lao PDR), and many African LICs (World Bank, 2025). In 2024, China thus accounted for 10% of the total external debt of African LICs and more than half of their bilateral debt. Out of 38 African LICs, it is the leading bilateral creditor for 23 of them and the leading overall creditor (i.e., including multilateral lenders) for 8 of them. Moreover, China's share of external debt reaches extreme levels for certain countries, such as the Democratic Republic of the Congo (95% of its bilateral debt and 35% of its total external debt) or Djibouti (75% of its bilateral debt and 50% of its total debt).

While China's new loans to African LICs rose until 2015, they have since declined sharply (see Figure B1). In fact, the rise in debt service costs (driven by high external debt owed to China) and the drying up of new loans mean that China's debt-related flows to LICs are now negative: the average cost of debt service exceeded the value of new loan commitments in 2019 and is now four times that amount. This led Kenya to convert $3.5 billion of US dollar-denominated debt into yuan-denominated debt in October 2025, citing a reduction in the associated debt service costs as the rationale for this decision (Yue et al., 2026).

Figure B1: Evolution of new loan commitments and debt service payments between China (creditor) and the African LICs (debtors) (in million USD)



1.2 What are the drivers of these unfavorable balance of payments dynamics?

In this section, we decompose the current account into its various components. Figures 4 and 5 show the changes in the various components of the current account balance between 2005 and 2023 for all LICs and for African LICs respectively. It is clear that the trade balance, which shows a structural deficit throughout the period, is the main cause behind the LICs' current account deficit. However, while both goods and services balances are negative, the balance of goods accounts for a much larger share of the deficit than the balance of services, for all LICs in general and for African LICs in particular, because of the larger share of goods trade in total trade[5]. The relative importance of goods over services in the total deficit has in fact increased over time, as the goods trade deficit was twice that of the services trade deficit in 2005, but more than three and a half times the latter in 2023.

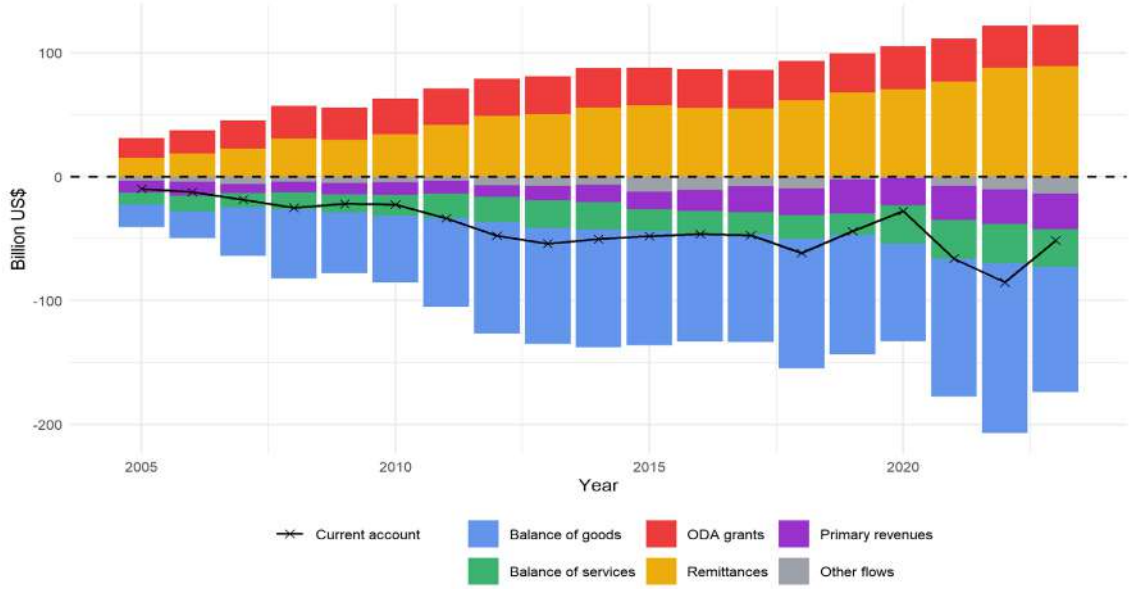
Interestingly, exports and imports grew at a similar rate overall between 2005 and 2024. Indeed, total exports (of goods and services) from all LICs increased by a factor of 3.93 between 2005 and 2024, while imports increased by a factor of 4.13 over the same period. Additionally, the terms of trade improved overall for LICs during the same period, driven largely by commodity prices. The terms of trade thus increased by 25% between 2005 and 2024 for LICs that export mineral resources, and by 5% for non-resource exporting countries. Oil-exporting countries present a special case given the volatility of oil prices. On average, their terms of trade deteriorated by 8% between 2005 and 2024, although this masks large fluctuations over the period. More generally, the fact that exports and imports have grown at similar rates in value terms, despite an improvement in the terms of trade, points to weak export growth and a declining integration of LICs into international trade. These trends stand in sharp contrast to the experience of the Asian Tigers and emerging Asian economies during their periods of rapid growth[6]. Moreover, the growth of LIC exports over the past two decades has lagged far behind the accumulation of external debt, as highlighted in the *International Debt Report* (World Bank, 2025).

Primary income is another important source of current account deficits in LICs. After remaining relatively stable between 2005 and 2012 (at between $8 billion to 12 billion), the primary income deficit widened continuously, reaching $28 billion in 2023, largely as a result of rising external debt. The persistence of these negative primary income balances has contributed to the deterioration of LICs' net international investment position.

[5] For most countries, trade in goods exceeds trade in services. This is even more pronounced in LICs. Indeed, the ratio of the total value of foreign trade (exports + imports) in goods to that of services is 2.7 at the global level, but 3.9 for all LICs and 3.3 for African LICs alone in 2024 (calculation based on UNCTAD data).

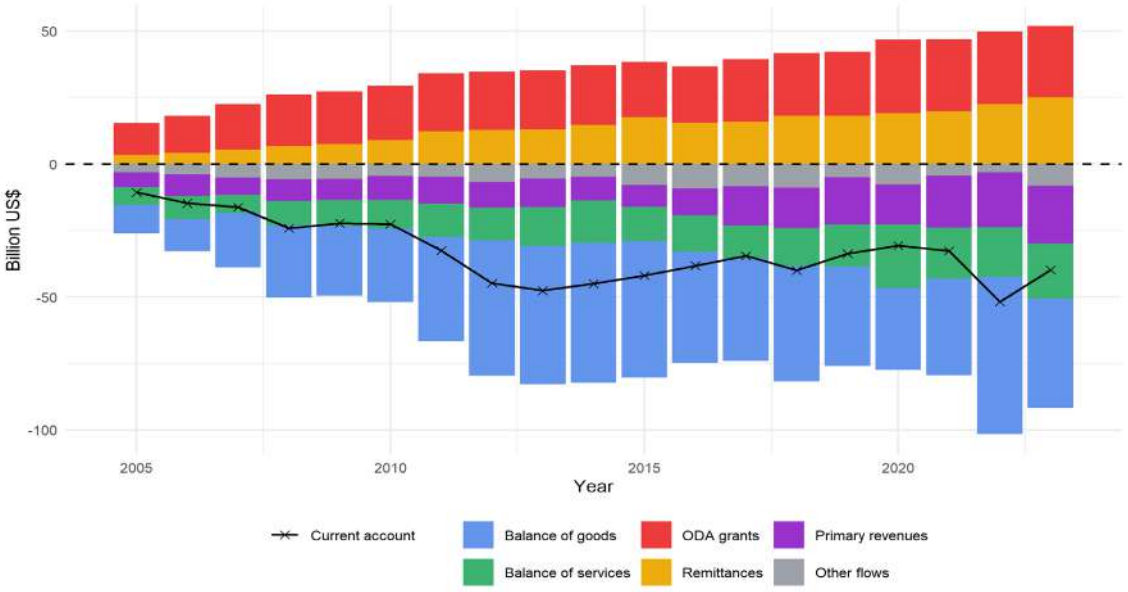
[6] For example, exports from South Korea and Thailand increased by a factor of 3.8 and 3.7, respectively, during the 1980s, then again by 2.3 and 2.5 between 1990 and 1997, while Vietnam's exports increased sevenfold between 1986 and the 1997 Asian financial crisis.

Figure 4: Disaggregated current accounts of LICs



Note: This graph excludes observations for which we do not have complete data. Therefore, Afghanistan, Eritrea, Mauritania, the Central African Republic, Somalia, and Chad have been completely excluded from the sample. *Sources*: International Monetary Fund, World Bank, and UNCTAD.

Figure 5: Disaggregated current accounts of African LICs



Note: This graph excludes observations for which we do not have complete data. Therefore, Eritrea, Mauritania, the Central African Republic, Somalia, and Chad have been completely excluded from the sample. *Sources*: International Monetary Fund, World Bank, and UNCTAD.

ODA grants and remittances play a major role in financing the trade deficit and the primary income balance. Over the past two decades, ODA grant flows and remittances have increased, in parallel with the trade deficit, which has also been growing. However, despite a doubling of ODA flows and a sixfold increase in remittances towards LICs between 2005 and 2023, the aggregate current account balance actually deteriorated over the period. It is worth noting that while both ODA grants and remittances contribute positively to the current account for all LICs,

remittances play a much more significant role than ODA for LICs as a whole. However, the two flows are roughly the same for African LICs. This is primarily due to the relatively larger share of grants as compared to remittances: in 2023, African LICs received 80% of all ODA grants sent to LICs, but only 28% of remittances. The period of analysis ends in 2023 as it as the last year with data available for a sufficiently large number of countries.

The main source of LICs' adverse external balance dynamics lies in their trade balance. Export growth has been insufficient for countries in the early stages of development, reflecting persistent difficulties in integrating into global trade[7]. While ODA and remittance inflows finance a substantial portion of the resulting trade deficits, their growth, especially in the case of ODA, has been relatively modest.

1.3 Financing the deficit of LICs

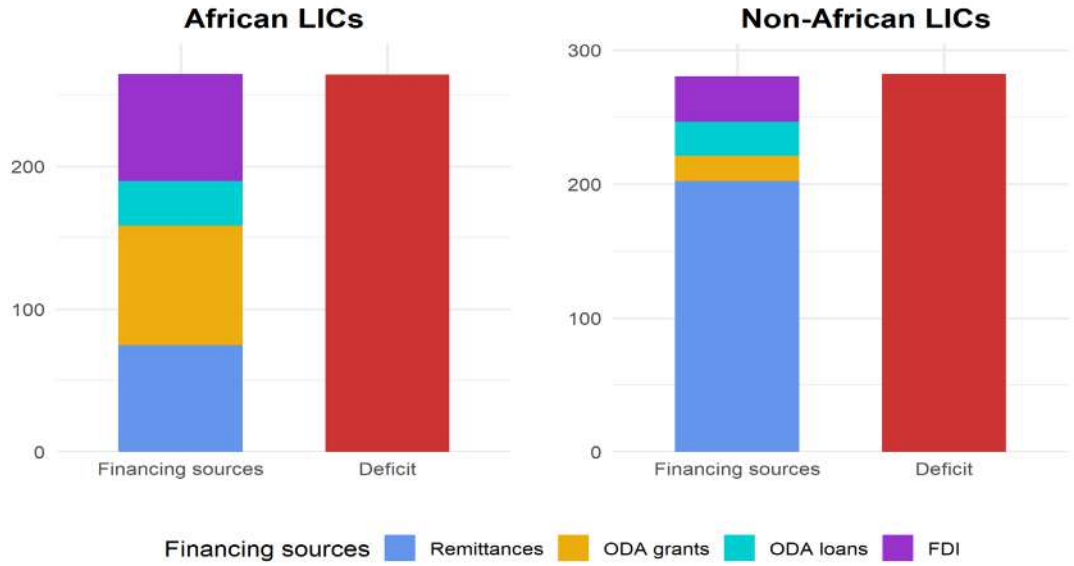
These facts raise questions about the sustainability of this deficit, even though it is smaller than expected given the need for net savings. Figure 6 below shows the main sources of financing for the key components of the current account deficit (primary income, goods balance, and services balance) for LICs with deficits between 2022 and 2024. Taken together, the four main sources of external financing identified (remittances, ODA grants, ODA loans, and net FDI inflows) cover, approximately 99% of the combined trade and primary income deficits of LICs. This aggregate figure, however, conceals substantial cross-country heterogeneity, with coverage ratios ranging from 25% in Lesotho to 560% in São Tomé and Príncipe, reflecting the importance of ODA grants and FDI inflows in the latter case. For countries with the lowest coverage ratios, external borrowing is a necessity. This is the case, for example, in Lesotho, where the ratio stands at 25% and external debt reached 69% of GNI in 2023 (compared with 55% for the average of LICs), and in Bhutan, where the ratio is 33% and external debt amounts to 115% of GNI. For countries that lack access or have lost access to external borrowing, accelerating the growth of goods and services exports is therefore a central challenge for development financing.

As highlighted above, remittances play a key role in financing the deficits of non-African LICs (72% of total financing for the trade and primary income deficits) and a more modest, though still significant, role for African LICs (28% of financing). For the latter, ODA ranks first among sources of external financing (32% for grants and 12% for concessional loans). Although it is generally considered a stable source of external deficit financing, ODA flows have been declining since 2024, and this downward trend is expected to continue in the coming years (UNCTAD, 2025a). This decline and the relatively small share of ODA flows in financing African LICs' deficits together raise concerns about these countries' ability to finance themselves. The need to find alternative sources of financing is thus a crucial challenge for African LICs. FDI also contributes to external financing in African LICs, accounting for a share equivalent to that of remittances (28%), but it plays a much smaller role in other LICs (12%). However, while FDI can finance substantial structural investments, it can also increase the primary deficit, both by financing imports of capital goods and because it generates dividends that subsequently make their way back to the investors' home countries. In addition, although it is difficult to analyze FDI flows by sector, available evidence suggests that these flows are heavily concentrated in countries endowed with extractive resources (UNCTAD, 2025a). This raises questions about the extent to which current FDI patterns can support economic

[7] The 57 LICs examined together account for less than 4% of total global exports in 2024.

development beyond the extractives sector and the reinforcement of a pattern of specialization that may be detrimental to long-term development prospects in LICs.

Figure 6: Financing sources for the external deficit excluding secondary income (primary income + trade balance) of LICs for the period 2022–2024 (in billion USD)



Note: This graph excludes observations for which we do not have complete data. Therefore, Afghanistan, Eritrea, Mauritania, Myanmar, the Central African Republic, the Republic of the Congo, Somalia, Sudan, Chad, Togo, and Yemen have been completely excluded from the sample. *Sources*: International Monetary Fund, World Bank, and UNCTAD.

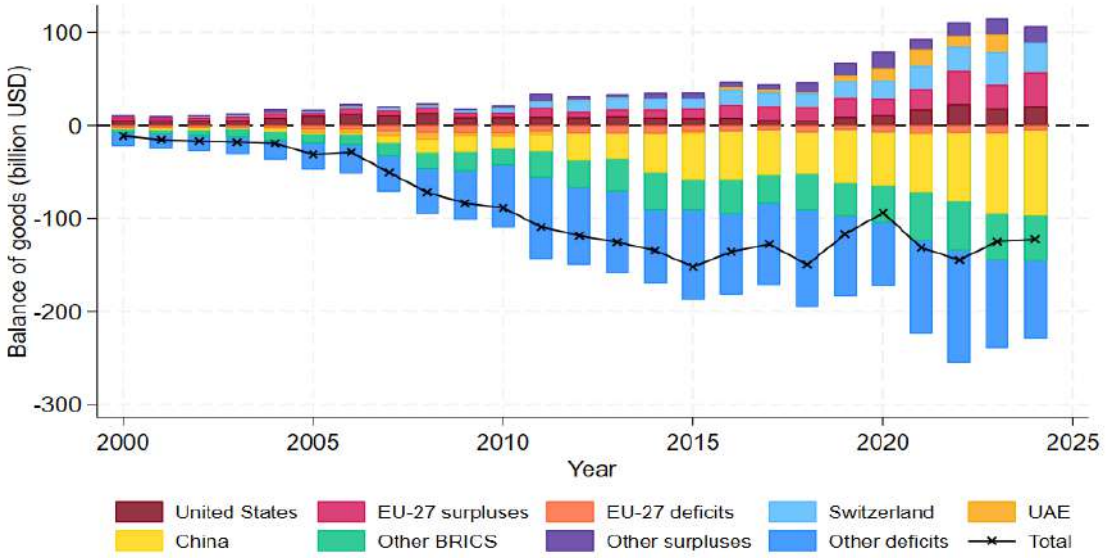
Analyzing current accounts thus highlights structural external imbalances linked to the financing needs of LICs' economic development, exacerbated by a continuing dependence on specific sources of financing that are vulnerable to exogenous shocks (ODA in particular). Given the significant investment needs of LICs to achieve economic development, it is essential to examine the causes of their weak trade performance.

2. Trade asymmetries and the persistence of commodity-based specialization

2.1 Asymmetry among trading partners in the merchandise trade

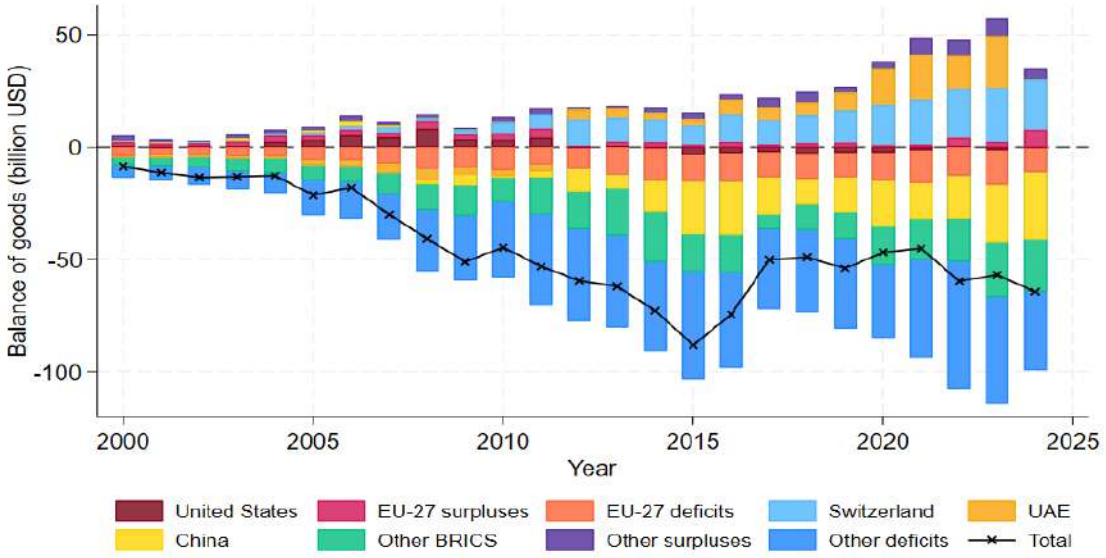
Taken as a whole, LICs run a trade deficit in goods. However, an examination of bilateral trade balances by trading partner reveals a more nuanced picture (Figures 7 and 8). Overall, LICs record a very large trade deficit vis-à-vis China ($91 billion in 2024, equivalent to 75% of their total trade deficit) and other emerging economies, most notably India. In contrast, they maintain a small trade surplus with the major high-income economies, with the exception of the high-income Asian economies (Japan and the Republic of Korea). This apparent surplus with high-income economies, however, disappears when the analysis is restricted to African LICs, which record a small trade deficit with the European Union and, since the early 2010s, with the United States.

Figure 7: Changes in the trade balance of goods between LICs and various regions of the world



Source: BACI database (CEPII). The data presented here cover the 57 LICs.

Figure 8: Changes in the trade balance of goods between African LICs and various regions of the world



Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

Despite the existence of persistent goods trade deficits vis-à-vis most regions of the world, the nature of these imbalances and the underlying trade relationships differ markedly across trading partners. China accounts for the largest bilateral trade deficit, and is not only the leading source of imports for LICs but also their largest export market (Table 1). In 2024, China absorbed 19.5% of LICs' exports, outranking the United States and Switzerland, while supplying 32.3% of their imports, far exceeding the shares of India (8.3%) and Thailand (4.2%).

China's importance as a trading partner is even more pronounced for African LICs. In 2024, it accounted for 28.5% of their exports, compared to 12.6% for Switzerland and 8.5% for India, while providing 33% of their imports, well ahead of South Africa (7.9%) and India (7.8%) (Table 2).

Other emerging economies, particularly India and South Africa, exhibit a trade pattern similar to that observed with China. Indeed, they are both major export destinations and major sources of imports for LICs and African LICs, with imports consistently exceeding exports, resulting in sizeable bilateral trade deficits.

The European Union presents a different picture. Taken as a whole, it is the second-largest trading partner of LICs. It only slightly surpasses China as a destination for LIC exports; but remains far behind China as a source of imports. The EU is also the second-largest trading partner of African LICs, both as an export market and as a supplier of imports and remains an important trading partner for LICs in general. However, bilateral trade with the EU is considerably more balanced than trade with China and other emerging economies, generating a modest surplus for LICs as a whole and only a small deficit for African LICs.

The limited contribution of the United States to LICs' trade surpluses, and its even smaller role in African LICs' trade deficits, largely reflects its relatively modest weight in merchandise trade. The United States account for only 3.7% of African LIC exports and 3% of their imports. Broadly speaking, with the exception of the EU, the G7 economies play only a minor role in trade with LICs: the United Kingdom accounts for 1.3% of African LIC exports, Japan for 0.7%, and Canada for just 0.4%.

Finally, the prominent role of Switzerland and the United Arab Emirates in African LICs' exports[8] is primarily explained by mineral exports. Both countries serve as major hubs in the global gold trade. In 2024, four countries accounted for 90% of African LICs' exports to Switzerland, and exports from each of these countries were overwhelmingly concentrated in a single unprocessed mineral commodity: Burkina Faso (gold), Côte d'Ivoire (gold), Zambia (copper), and Ghana (gold), with more than 97% of these exports consisting of that particular commodity alone.

Table 1: Share of major partner countries in international trade with LICs in 2024

All LICs	5 main destination countries for exports		5 main countries of origin for imports	
Rank	Country	% of total exports	Country	% of total imports
1	China	19.5%	China	32.3%
2	United States	10.7%	India	8.3%
3	Switzerland	8.8%	Thailand	4.2%
4	India	5.8%	United States	4.1%
5	Germany	4.8%	South Africa	4.0%
EU-27 share	22.1%		10.8%	

Source: BACI database (CEPII). The data presented here cover the 57 LICs.

[8] In 2023, African LICs' surplus with Switzerland and the United Arab Emirates accounted for more than 80% of their total bilateral surpluses. The apparent disappearance of the United Arab Emirates in 2024 is likely due to a reallocation of some of these flows, which would then pass through other countries (including Switzerland).

Table 2: Share of major partner countries in international trade with African LICs in 2024

All LICs	5 main destination countries for exports		5 main countries of origin for imports	
Rank	Country	% of total exports	Rank	Country
1	China	28.5%	China	33.1%
2	Switzerland	12.6%	South Africa	7.9%
3	India	8.5%	India	7.8%
4	United Arab Emirates	4.9%	United Arab Emirates	3.7%
5	Netherlands	4.3%	France	3.1%
EU-27 share	17.8%		14.4%	

Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

Box 3: Obstacles Faced by Low Income Countries in Implementing Trade Barriers

Despite the pronounced trade asymmetries between LICs and the rest of the world, particularly with China, the use of tariff and non-tariff trade barriers to shield domestic industries from Chinese competition remains extremely limited. This can be explained by several factors.

First, the high degree of both trade and financial dependence on China limits the scope for implementing such policies. Most LICs, and especially African LICs, are highly specialized in the export of primary commodities and rely heavily on imports from Asia for manufactured goods. Domestic manufacturing capacity is often limited, leaving few short-term alternatives should imports become more costly or disrupted. Under these conditions, higher tariffs would primarily translate into higher import prices in countries where per capita incomes are already low. In addition, China is, on average, both the leading investor and the largest creditor of African LICs. Trade restrictions could therefore trigger retaliatory measures with potentially devastating economic consequences. Second, many LICs lack the administrative, technical, and financial resources required either to implement unilateral trade protection measures or to pursue anti-dumping cases through WTO procedures. Of the 3,224 anti-dumping investigations notified to the WTO, whether ongoing or completed, including 1,121 targeting China, only 39 were initiated by individual LICs. These cases originated from just two countries: Kyrgyzstan, which launched 38 investigations, including 20 against China, and Ghana, which initiated a single investigation against China. In addition to these 39 cases, 52 anti-dumping investigations have been brought by the Southern African Customs Union (SACU)[1], including 14 against China and 14 against EU member states. These measures therefore also benefit Lesotho, the only LIC within the union, although it was not necessarily the original proponent of the cases. By enabling collective action among member states, regional trade and customs unions can provide LICs with an effective means of reducing excessive dependence on specific trading partners.

[1]South Africa, Botswana, Eswatini, Lesotho and Namibia.

Overall, LICs are characterized by a very large trade imbalance and a very high degree of trade dependence on a few key economies, most notably China, followed by European countries and emerging economies. This dependence appears to be even greater for African LICs, whose exports are driven by trade in extractive resources.

To better understand this international trade structure, it is necessary to examine the composition of trade flows based on the type of goods traded.

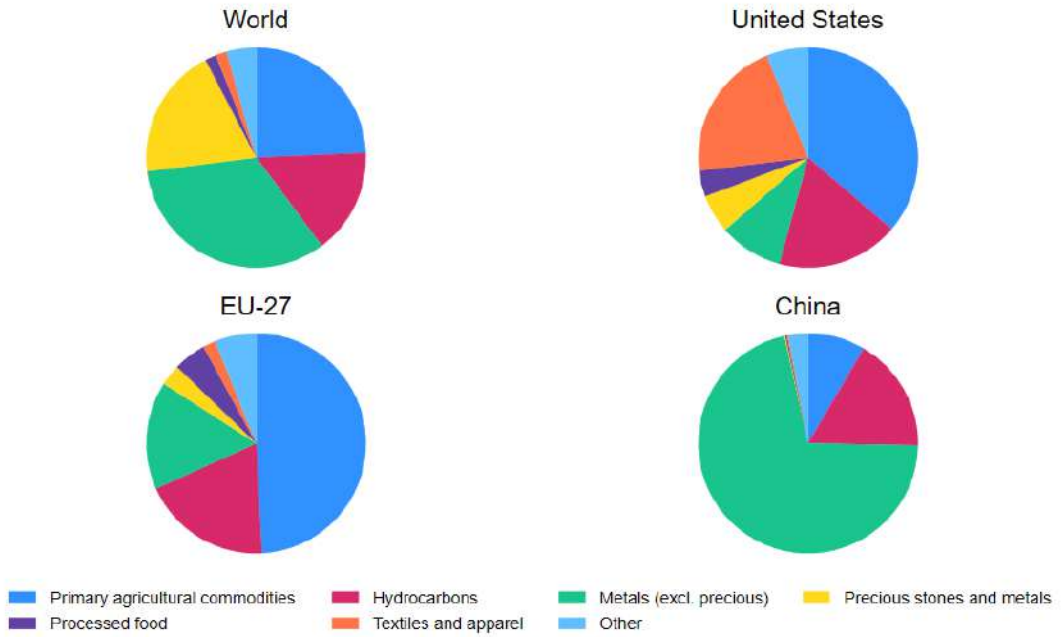
2.2 Asymmetries in Export Structures and Dependence on Extractive Resources

In 2024, for African LICs, exports of extractive resources (minerals and hydrocarbons) accounted for 68% of total exports to the rest of the world (Figure 9). However, the relative importance of extractive products varies considerably across export destinations, with China occupying a particularly prominent position. Exports to China consist overwhelmingly of raw minerals and hydrocarbons, which together accounted for 88% of total exports in 2024. These exports are themselves heavily concentrated in a small number of non-precious minerals, most notably copper (56% of mineral exports to China in 2024), aluminum (20%), cobalt (8%), iron ore (6%), and titanium (2%). Thus, China accounts for approximately 29% of African LICs' total exports, absorbing 36% of their extractive exports and 61% of their non-precious mineral exports, far ahead of the European Union, which accounts for only 8% of the latter. Precious minerals follow a different pattern. As noted in Section 2.1, exports of precious minerals[9] are directed primarily towards Switzerland and, until 2023, the United Arab Emirates, which largely act as trading and transit hubs rather than final destinations. The predominance of raw strategic mineral exports[10] to China reflects the country's long-standing strategy of developing domestic refining and processing industries. These refined metals are subsequently used primarily in Chinese manufacturing, including the automotive industry, solar photovoltaic panels, and electric batteries. China is now estimated to account for around 70% of global refining capacity for the minerals considered critical to the green transition (IEA, 2025). Despite the country's own mineral reserves, it relies heavily on large-scale imports of raw minerals.

[9] Precious stones and metals include all gemstones, as well as gold, silver, and platinum group metals.

[10] The definition of what constitutes a "strategic" mineral is ambiguous, differing between countries and institutions depending on the criteria used or national needs. It should nevertheless be noted that the five main raw minerals exported to China by African LICs (copper, aluminium, cobalt, iron, and titanium) are on the World Bank's list of minerals identified as critical for the energy transition (Hund et al., 2023).

Figure 9: Distribution of African LIC exports by commodity category and destination in 2024



Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

By contrast, the United States stands out as the destination where African LIC exports are the most diversified, with manufactured goods, agricultural products, and extractive commodities each accounting for roughly one-third of exports. This pattern may partly reflect the impact of the African Growth and Opportunity Act (AGOA) (see Section 3.1), which grants many African countries preferential access to the US market for a range of products, including textiles and apparel. As a result, the United States has become one of the main export markets for manufactured goods produced by African LICs. Although the United States accounts for less than 4% of African LICs' total exports, ranking only seventh among export destinations, it absorbs 17% of their manufactured exports (ranking first, ahead of China). It also accounts for half of all textile and apparel exports from African LICs (Table 3). The European Union and the United Kingdom form a third group of trading partners, distinguished by the much greater importance of primary agricultural products, which account for roughly half of their imports from African LICs. The European Union is the main export market for African LIC agricultural exports, absorbing 36% of primary agricultural exports, compared to only 11% for China. The relatively small share of Western economies in African LIC trade compared with China therefore masks their importance as markets for non-extractive exports and, by extension, for the diversification of African economies. Failing to take into account the structure of exports in terms of goods traded would therefore lead to an underestimation of the impact of a closure of Western markets on the economic development of these countries.

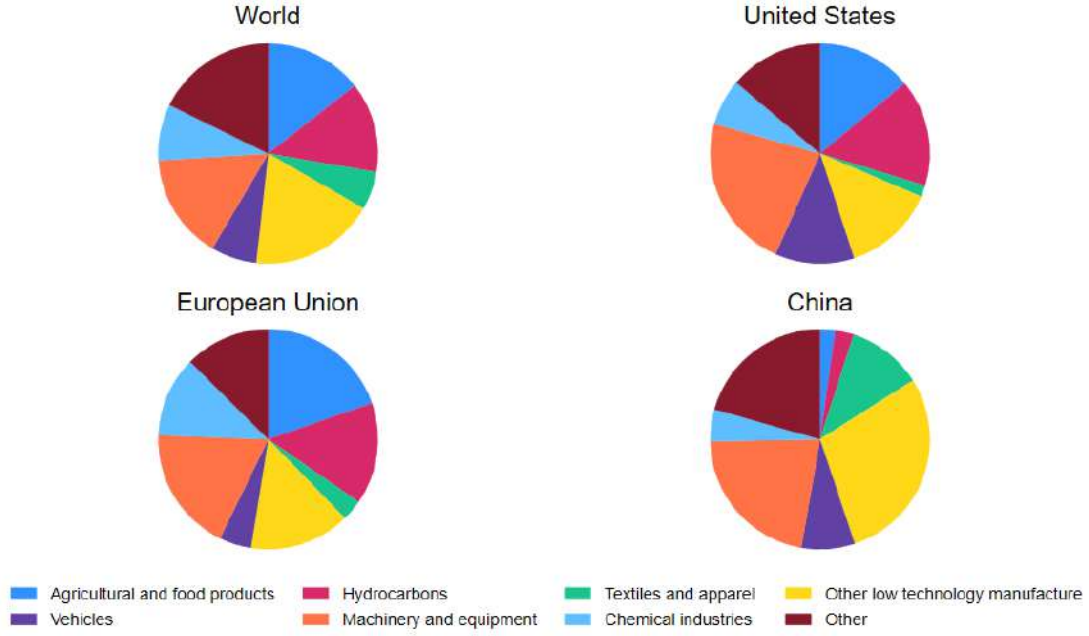
Table 3: Share of China and the G7 economies in exports from African LICs to the rest of the world in 2024, by commodity

% of flows	United States	United Kingdom	Canada	Japan	France	Germany	Italy	EU-27	China
Total exports	3.6%	1.3%	0.9%	0.7%	2.6%	2.8%	2.2%	17.7%	28.3%
Agricultural exports	5.3%	3.0%	1.0%	1.5%	5.1%	5.3%	2.7%	35.9%	10.6%
Manufacturing exports	17.3%	2.6%	1.0%	1.2%	10.3%	4.1%	2.2%	29.3%	10.2%
of which textiles and clothing	49.9%	2.1%	1.9%	0.3%	9.0%	3.3%	2.3%	20.9%	1.4%
Extractive exports	1.8%	0.6%	0.9%	0.4%	1.0%	1.7%	2.0%	9.9%	36.6%

Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

The uneven structure of trade is also evident in imports (Figure 10). Imports by African LICs from the rest of the world consist of 74% manufactured goods, but this figure rises to 93% for imports from China. In recent decades, China has effectively established itself as the main supplier to African LICs for virtually all categories of manufactured goods, with often a very considerable share for certain types of goods. It accounts for 26% of African LICs' imports of wood and paper products and 20% of their chemical industry imports (ranking first in each case), as well as two-thirds of their imports of textiles and clothing and of their imports of household appliances.

Figure 10: Distribution of imports from African LICs by commodity and destination in 2024

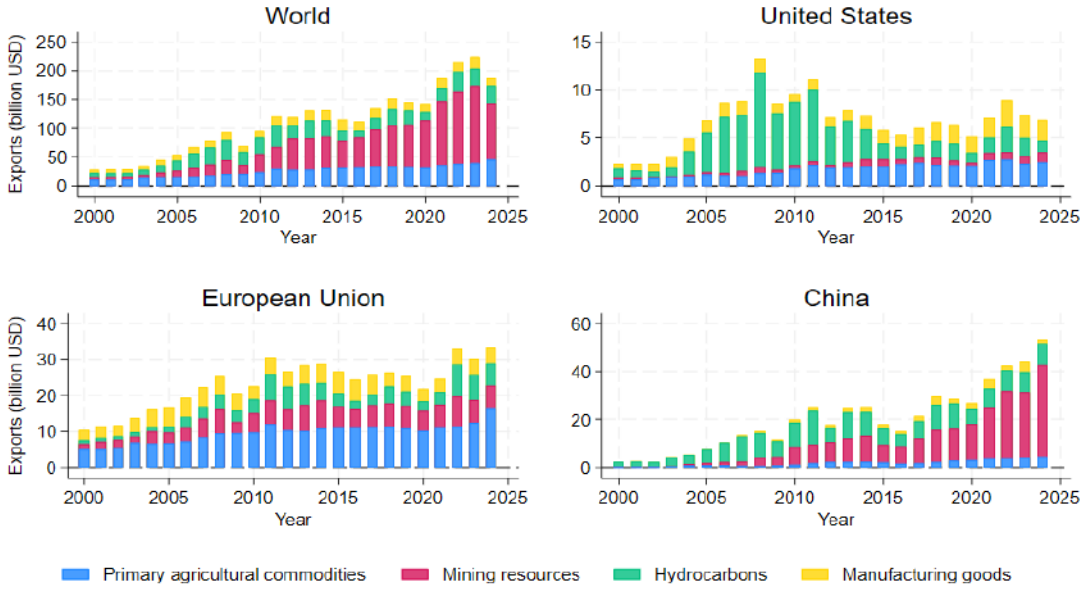


Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

However, China lags behind other emerging economies for agricultural sector, imports ranking only third (6.3% of African LICs' imports in 2024) behind India (17.7%) and South Africa (8.4%). In both cases, agricultural trade flows are largely dominated by grains (rice for India, corn and wheat for South Africa).

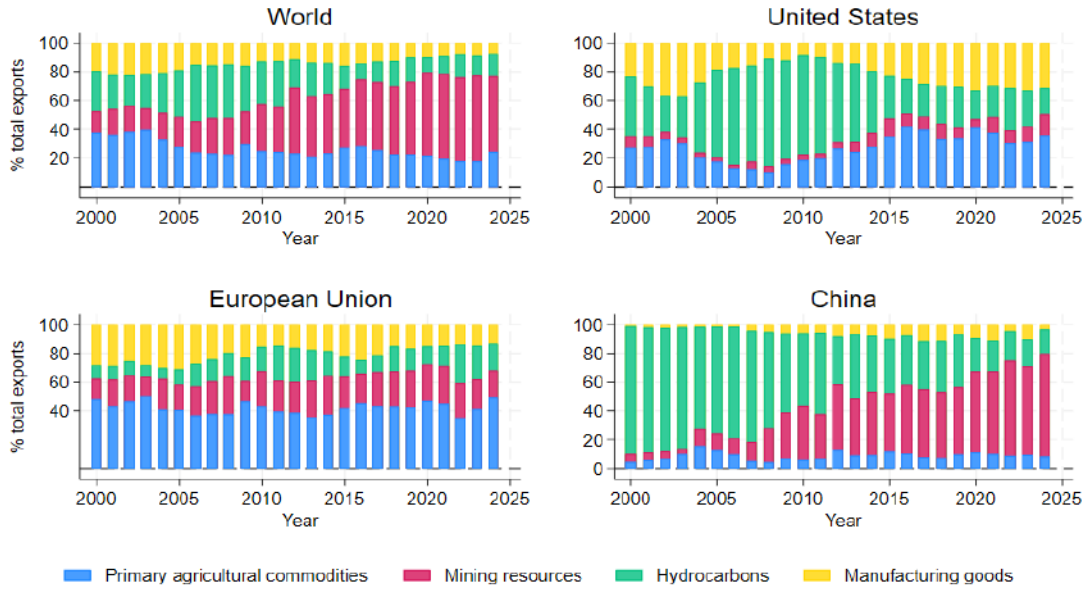
It should be noted that, while exports of extractive resources have always accounted for a significant share of African LICs' exports, this phenomenon has largely intensified over the past two decades, with China playing a major role in this process (Figures 11 and 12). The composition of exports to the European Union has remained relatively stable over time, with agricultural products and mineral resources maintaining broadly similar shares. However, in the United States, the sharp increase in hydrocarbon exports between 2005 and 2010 was followed by a gradual decline in the importance of this sector from the early 2010s onwards, creating greater room for agricultural and manufactured exports. In absolute terms, while exports of primary agricultural products to Western markets have increased, manufactured exports to the United States have also tended to grow. The opposite trend can be observed in trade with China, where mineral exports have gained importance both in absolute terms and as a share of total exports. Similar developments can be observed in trade with other regions of the world, but Chinese demand has been the single most important driver of the expansion of extractive exports from African LICs during this period. The increase in exports to China between 2000 and 2024 accounts for 64% of the total growth in exports of non-precious minerals to the rest of the world and 32% of the increase in hydrocarbon exports. China has therefore played a decisive role in shaping the evolving export specialization of African LICs towards extractive exports.

Figure 11: Evolution of the distribution of exports from African LICs by sector and destination (in billions USD)



Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

Figure 12: Evolution of the distribution of exports from African LICs by sector and destination (% of total exports)



Source: BACI database (CEPII). The data presented here cover the 38 African LICs.

The external trade of LICs, and particularly African LICs, is therefore characterized by a triple asymmetry. First, persistent trade deficits vis-à-vis the rest of the world. Second, an asymmetry in the geographical distribution of trade, marked by growing dependence on a limited number of partners, foremost among them China, both as an export market and as a source of imports. Third, an asymmetry in the composition of trade flows, with exports dominated by primary products, particularly extractive commodities and unprocessed agricultural goods, while imports consist predominantly of manufactured products. The rise of China within the global trading system, in a context already marked by such asymmetries, has played a major role in reinforcing each of these imbalances.

The trade dependence of most African LICs on China is accompanied by growing financial dependence, as observed by the external debt figures (see Box 2), which the nature of their trade relationship helps to reinforce. China's growing role as a trading power has also contributed to the increasing importance of the renminbi in Sub-Saharan Africa. One illustration is Zambia's 2025 decision to allow mining companies to pay taxes in renminbi rather than in kwacha.

Beyond the well-established pattern of recurring trade deficits, the situation raises important questions regarding both macroeconomic sustainability and long-term development prospects. The concentration of exports in a small basket of non-renewable extractive commodities, such as copper, gold, and hydrocarbons, combined with dependence on a limited number of trading partners, creates significant vulnerabilities in an increasingly uncertain global economic environment. The specialization of African LICs in extractive industries also raises fundamental long-term sustainability concerns for two main reasons. First, these activities rely on the exploitation of non-renewable resources and therefore entail the gradual depletion of natural capital. In fact, the value of non-renewable natural capital stocks in African LICs declined by approximately 17% in real terms between 2000 and 2019, while increasing by an average of

29% in the rest of the world (World Development Indicators). From an intertemporal perspective, the extraction of exhaustible resources should be accompanied by a compensatory accumulation of productive assets, whether through domestic investment or the acquisition of foreign assets, in order to preserve future productive capacity. Available evidence suggests that this transformation of natural capital into reproducible forms of capital remains insufficient in most African LICs (World Bank, 2024). Second, this pattern of specialization offers limited prospects for self-sustaining growth. Growth in extractive sectors is largely determined by exogenous factors, notably available reserves and international commodity prices. They have limited spillover effects on the rest of the economy, both in terms of employment and technology sharing. They also do not offer many opportunities for upgrading within global value chains. As a result, they tend to trap countries into growth models that are generally undiversified and associated with weaker long-term growth performance, dependence on external factors, and heightened vulnerability to external shocks, particularly commodity price fluctuations. Finally, there are the negative effects on governance, which are even more pronounced in LICs and have been extensively documented in the literature (see, for example, Alssadek and Benhin, 2021, for a literature review).

The increasing specialization of LICs in extractive industries, driven in largely by the rise of China as the world's leading manufacturing hub, is unlikely to foster endogenous growth in these countries. A reduction in China's external surplus through lower savings and/or higher domestic investment would be unlikely, by itself, to benefit LICs through stronger productive capacity or reduced capital exports. Such benefits would require specific measures enabling LICs either to gain greater access to the Chinese market or to capture a larger share of Chinese FDI.

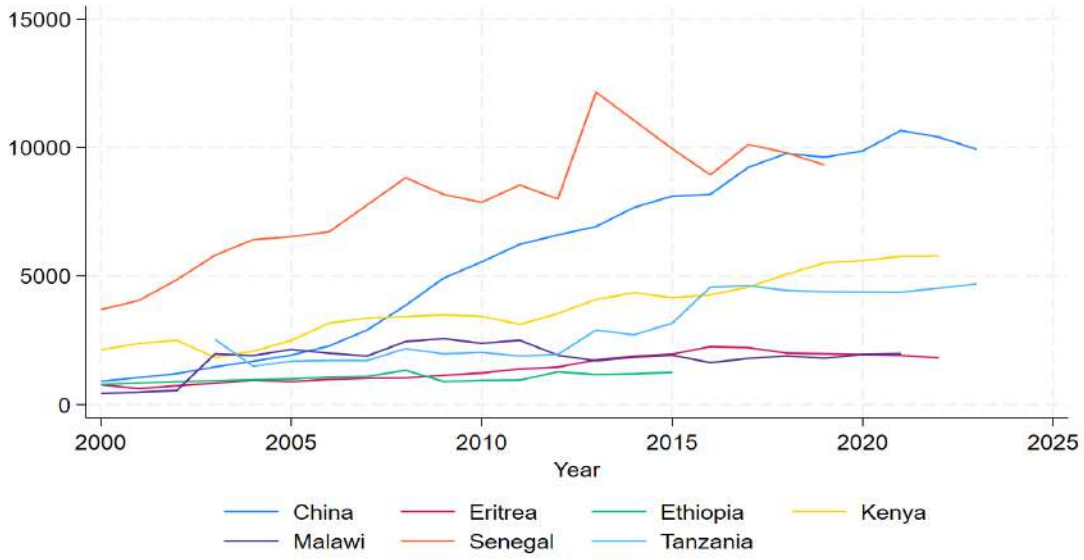
2.3 The Origins of Forced Specialization in Extractive Industries: The Role of Chinese and Asian Competition in Manufacturing Markets

As discussed above, China accounts for a large share of African LICs' trade deficit, although the role of other emerging economies, particularly India and South Africa, should not be overlooked. The strong concentration of African exports to China in extractive products also points to the intense competitive pressures exerted by Chinese manufacturing and, more broadly, Asian production networks, both in African domestic markets and in global manufacturing markets. This largely reflects China's development model, which has relied heavily on export-led growth supported by a combination of exchange-rate competitiveness, an interventionist industrial policy, and substantial economies of scale (Unkovska and Konoplyov, 2025). This model has in turn been sustained by exceptionally high domestic savings, a portion of which has been invested in foreign assets, particularly in the United States.

Yet, the rapid increase in Chinese wages from the mid-2010s onwards had raised hopes that African countries could develop export-oriented manufacturing sectors and become more competitive in labor-intensive industries traditionally dominated by China (Balchin et al., 2016). Understanding why this expected shift has not materialized requires examining the evolution of competitiveness in both China and African LICs. Competitiveness is inherently difficult to measure directly. One common approach is to compare labor costs across countries.

Using this method, a clear divergence emerges between China and the main African LICs from 2007-2008 onwards (Figure 13).

Figure 13: Evolution of annual labor costs in China and six African LICs in the manufacturing sector (current dollars)



Source: UNIDO.

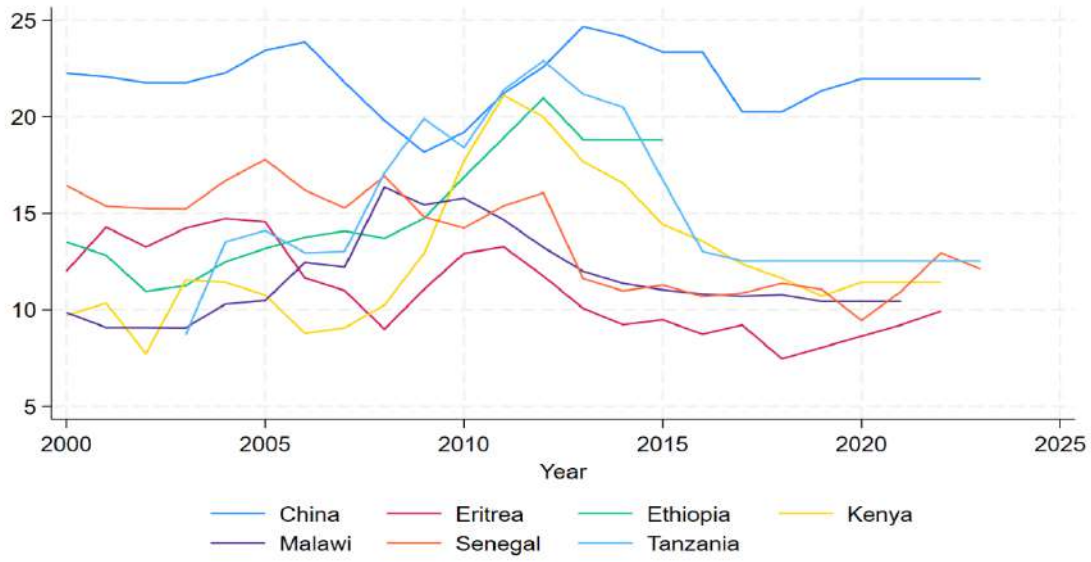
The cost of a Chinese manufacturing worker, which in 2000 was broadly comparable to that of an Ethiopian worker and more than two times lower than that of a Kenyan worker, had become substantially higher than labor costs in East African LICs by the early 2020s, with ratio ranging from 1.8 in Kenya to 5 in Malawi and Eritrea. These findings are consistent with other studies on the subject. According to Jacquemot (2018), manufacturing wages in China were 5.5 times higher than in Ethiopia in 2016 for unskilled workers and 4 times higher for skilled workers. Senegal, the only West African country included in our sample, differs from the other African LICs considered here, largely because of its substantially higher labor costs throughout most of the period. Chinese manufacturing wages nevertheless surpassed those in Senegal in 2018, although the absence of data after 2020 does not allow us to determine whether this trend has continued.

However, the sharp increase in Chinese wages relative to African LICs conceals even larger differences in productivity. Competitiveness ultimately depends on the relationship between labor costs[11] and productivity, typically measured through unit labor costs. Unfortunately, such data are unavailable for most African countries. An alternative indicator, calculated as the ratio of gross manufacturing output to the sum of wages in the manufacturing sector[12], reveals a very different picture (Figure 14). Using this measure, Chinese productivity growth has consistently outpaced that of its African competitors, with the exception of a temporary decline during the 2008-2009 global financial crisis. The output-to-wage ratio is 1.8 times higher in China than in Tanzania and 2.3 times higher than in Senegal. It is also noteworthy that this ratio remained

[11] Unit labour costs are equal to total real wage costs divided by total output in volume.
[12] Used here as an imperfect but approximate measure of unit labour costs.

broadly stable in China over the period, apart from a temporary drop during the global financial crisis. This suggests that productivity growth largely kept pace with rising wages. Higher wage levels in China relative to African LICs therefore appear to reflect higher labor productivity, itself likely driven by greater capital intensity and stronger economies of scale.

Figure 14: Evolution of the ratio of gross output to total wages for China and six African LICs in the manufacturing sector (current dollars)



Source: UNIDO.

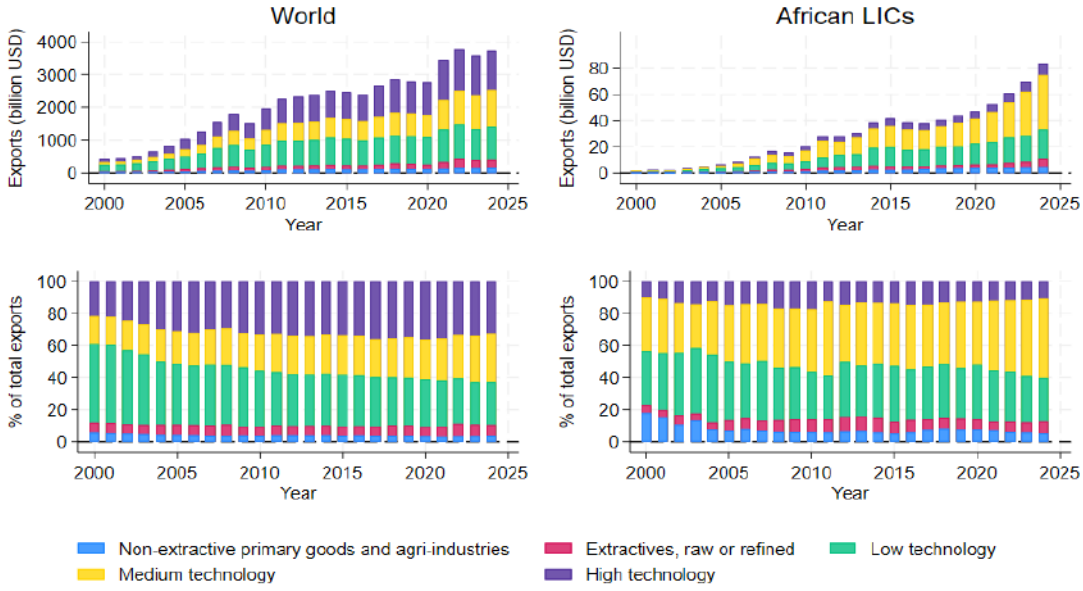
While these figures should be treated with some caution given the limitations of the available data, they are broadly consistent with the existing economic literature on the subject. There is a relatively broad consensus that unit labor costs tend to be higher in Africa than in other regions of the world at comparable levels of income. Gelb et al. (2016, 2017), for example, find that average unit labor costs in a sample of 25 Sub-Saharan African countries are around 90% higher than in other regions with similar levels of GDP per capita. Golub et al. (2018) likewise estimate that the ratio of labor costs to GDP per capita is between 3 and 4 times higher in Tanzania and Kenya than in China, and up to 15 times higher in Burundi. Within Sub-Saharan Africa, Mauritius appears to be the only country with a ratio below that of China. However, Mauritius is a unique case and is not representative of the average manufacturing production costs in the region, especially since its economy is now largely oriented towards services[13].

While China initially established its position in global value chains on the basis of low production costs (Lemoine and Unal, 2017), the sharp increase in wages since the 2000s has been accompanied by substantial productivity gains, preventing any significant loss of competitiveness. In contrast, during the same period, wages and productivity increased much more slowly, and in some cases stagnated, across most African economies (Golub et al., 2018). The productivity gains in China were also accompanied by a move up the value chain and a gradual shift in the country's export structure towards more sophisticated, higher value-added products. This strategy of industrial upgrading is reflected in the *Made in China 2025* plan, officially released in 2019, which prioritized a number of advanced technology sectors,

[13] The value added by the services sector accounted for two-thirds of Mauritius's total GDP in 2024, compared to just under half on average in the rest of sub-Saharan Africa (data from World Development Indicators).

including solar photovoltaics, electric vehicles, lithium batteries, and biotechnology. By contrast, there has been little evidence of a similar process of technological upgrading in African LICs. In 2000, the highest Economic Complexity Index score among African LICs (based on data from the Observatory of Economic Complexity) was recorded by Kenya, with a score of -0.15, ranking 53rd out of 96 countries. At that time, Kenya's score exceeded China's, which stood at -0.30 and ranked 60th. By 2024, Kenya remained the highest-ranked African LIC, but with a score of -0.51, placing it 85th out of 130 countries, while China had risen to 1.14 and ranked 21st globally. This shift in China's position can be observed in Figure 15, which shows the evolution of exports by technological intensity according to the UNCTAD classification. Low-technology manufactured goods accounted for around half of Chinese exports in 2000 but only one-quarter in 2024, while high-technology goods represented roughly one-third of total exports by the end of the period.

Figure 15: Evolution of Chinese exports to the rest of the world and to the African LICs by technology intensity



Note: The sectors follow the UNCTAD classification (based on Lall, 2000). Low-technology goods include textiles and goods with a low level of processing in wood, paper, glass, metal, ceramics, or plastic. Medium-technology goods include vehicles, household equipment, certain synthetic fibers, chemical products, and professional instruments (optical, wiring, plumbing, etc.). High-tech goods include advanced electrical, electronic, and computer equipment; certain medical, optical, or cinematographic devices; aircraft parts; and engines and turbine parts. *Source*: BACI (CEPII).

This new pattern of specialization in China could have created opportunities for African LICs to expand low-value-added manufacturing activities as Chinese firms moved up the value chain. However, such a process has not materialized, for two main reasons. First, China's technological upgrading has not been accompanied by a decline in exports of lower-technology goods. Rather, exports from more technology-intensive sectors have been added to existing exports of lower-technology products. As a result, China remains the world's leading exporter in many low-technology industries, particularly textiles and clothing. Given the relatively low levels of income in African LICs, Chinese exports to these countries continue to be dominated

by low- and medium-technology goods, thereby maintaining strong competitive pressure on domestic markets.

Second, in many low-value-added industries, the slowdown in Chinese export growth has primarily benefited other Asian economies rather than African producers. Between 2000 and 2024, Vietnam's share of global exports of low-technology manufactured goods increased eightfold, rising from 0.59% to 4.62%, while Bangladesh's share nearly tripled, from 0.58% to 1.73%. The textile industry, one of the main manufacturing export sectors in many Asian economies, provides a particularly illustrative example of this trend (see Box 4).

Box 4: The Case of the Textile Industry

Chinese textile and apparel exports grew much faster than global trade during the 2000s, increasing from $102 billion in 2000 (20.8% of world exports) to $343 billion in 2012 (37.7% of world exports). This period of strong growth was subsequently followed by stagnation in textile exports (and a slight decline compared to the rest of the world), reaching $357 billion in 2024, or 32.9% of global exports. During the same 2012-2024 period, most high-income countries also experienced a continued decline in their shares of global textile exports, a trend that had already begun in the previous decade. The United States saw its share fall from 2.5% to 1.8%, South Korea from 2% to 1%, Japan from 1.2% to 0.8%, and the United Kingdom from 1.2% to 0.7%.

The relative decline of China primarily benefitted Southeast Asian economies and not benefit African LICs. it. Between 2012 and 2024, a period during which China lost 4.8 percentage points of global market share, the largest gains were recorded by Vietnam (+4.6 percentage points), Bangladesh (+2.2 points), and Cambodia (+1.3 points). Taken together, African LICs increased their share of global textile exports by only 0.03 percentage points over this period, reaching just 0.32% of world exports in 2024. It is worth noting that Madagascar ranks as the top country in Sub-Saharan Africa in terms of market share gains over the period (+0.03 percentage points), placing 23rd globally, largely due to the relocation of Asian companies from Mauritius (Balchin and Calabrese, 2019).

Despite China's relative decline over the past decade, partly due to the country's repositioning in other sectors, it still accounted for one-third of global exports in 2024. Furthermore, among the next nine countries in terms of global export market share, six are located in South or Southeast Asia (Vietnam, Bangladesh, India, Indonesia, Cambodia, Pakistan), compared to only three in Europe or the Mediterranean (Italy, Germany, Turkey).

In this way, the structure of bilateral trade between China and African LICs has gradually taken shape around a complementary model, in which LICs primarily export raw or minimally processed extractive resources in response to Chinese demand. This arrangement has reinforced a pattern of specialization that is undiversified and limits both incentives and scope for the development of domestic industrial capacities. In particular, the competitive pressures from Chinese manufactured goods, both on international markets and within domestic markets, have significantly constrained the emergence of infant industries across a wide range of sectors. At the same time, the reorganization of value chains within Asia and China's gradual move towards higher value-added segments has been accompanied by the rise of other Asian economies in lower-cost manufacturing industries. These countries now occupy a growing share of labor-intensive segments that have historically served as key entry points into industrialization processes. This results in intensified competition in export markets for African LICs, further

reducing opportunities for diversification into manufacturing activities and limiting their ability to generate trade surpluses outside the extractive sector.

In this context, a development model driven by Asian demand for raw materials tends to lock African LICs into a regressive pattern of specialization centered on extractive industries, with limited prospects for transitioning towards more diversified development trajectories. This dynamic tends to generate a vicious circle: specialization in primary commodities weakens opportunities for industrial learning, which in turn undermines manufacturing competitiveness and further increases dependence on extractive exports. One of the major challenges that African LICs will face in the coming decades will therefore be breaking away from this trajectory of constrained specialization. This will require rebuilding the conditions necessary for industrialization, notably by identifying productive segments in which gradual integration into global value chains remains feasible despite an international environment characterized by intense Chinese and Asian competition. These competitive pressures could intensify further if developed countries were to reduce their bilateral deficits with China through higher tariffs, leading Chinese exports to be redirected towards LIC markets.

The rise of China, and more broadly of Asian value chains, in global manufacturing has contributed significantly to the specialization of African LICs in primary commodities. Economies of scale gradually replaced exchange-rate undervaluation and low wages as the main drivers of Chinese competitiveness, to fuel a trend toward competitiveness that has left little room for African LICs to develop manufacturing industries, either in domestic markets or in export markets.

2.4 Is economic growth driven by service exports possible?

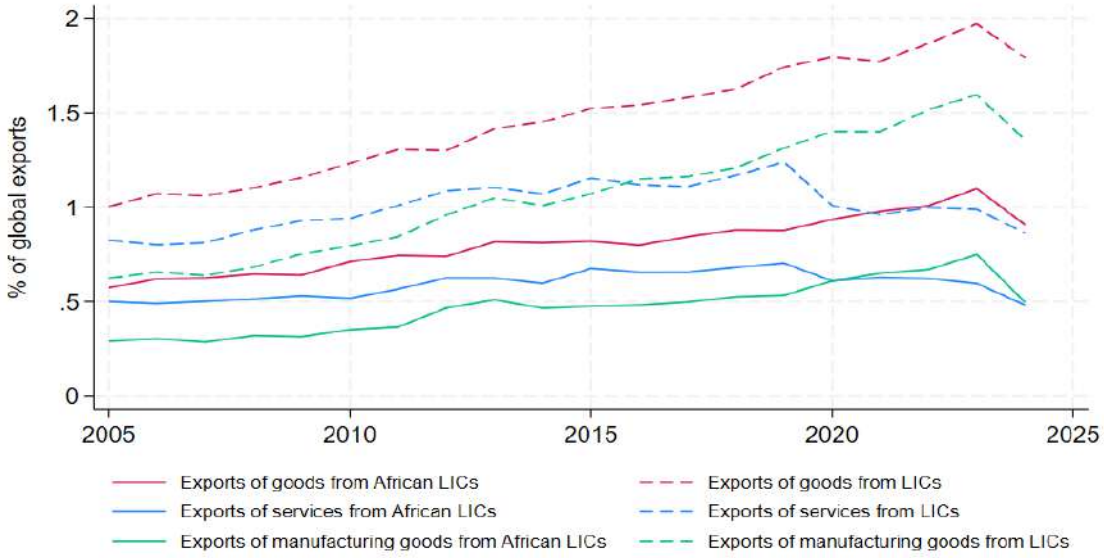
Although the trade deficit is driven more by negative trade balance of goods than of services (see Section 1), services nevertheless make a non-negligible contribution to the overall current account deficit. Moreover, given the intense competition exerted by China and other Asian economies in manufacturing markets, it appears increasingly difficult to envisage a development strategy for African LICs based solely on industrialization. This observation is consistent with the hypothesis of premature deindustrialization, whereby economies transition to service sectors without first undergoing the traditional phase of industrialization (Rodrik, 2018). In addition, global trade in services has expanded more rapidly than trade in goods over recent decades, suggesting considerable potential for growth in service exports (Baldwin, 2022; Ariu and Ogliari, 2023). Finally, certain services can serve as inputs into the production of export goods and therefore indirectly support industrial development, particularly financial services and information and communication technology services. It is therefore worth examining the potential for expanding service exports in African LICs and assessing whether such growth could, over the long-term, help finance a structurally deficit merchandise trade balance.

As illustrated in Figure 16, the share of global service exports accounted for by LICs and African LICs remained slightly below their share of global goods exports throughout the 2000s and 2010s. However, it exceeded their share of manufactured goods exports until 2016 in the case of LICs and until 2020 for African LICs, before being overtaken[14]. Service exports

[14] Manufacturing exports include all manufactured goods, and in the case of low-income countries, they are partly boosted by exports of partially refined extractive goods (which are therefore classified as manufactured

experienced a period of modest growth between 2005 and 2015, followed by stagnation and then a decline beginning with the Covid-19 crisis. The main cause for concern is that the sharp contraction observed during the peak of the pandemic (2020-2021) was not followed by a period of recovery. On the contrary, the share of LICs and African LICs in global service exports continued to decline between 2022 and 2024, returning to its 2005 level. These trends suggest that no significant specialization in service exports is currently at play in LICs.

Figure 16: Evolution of the share of exports of goods and services from LICs and African LICs in global exports



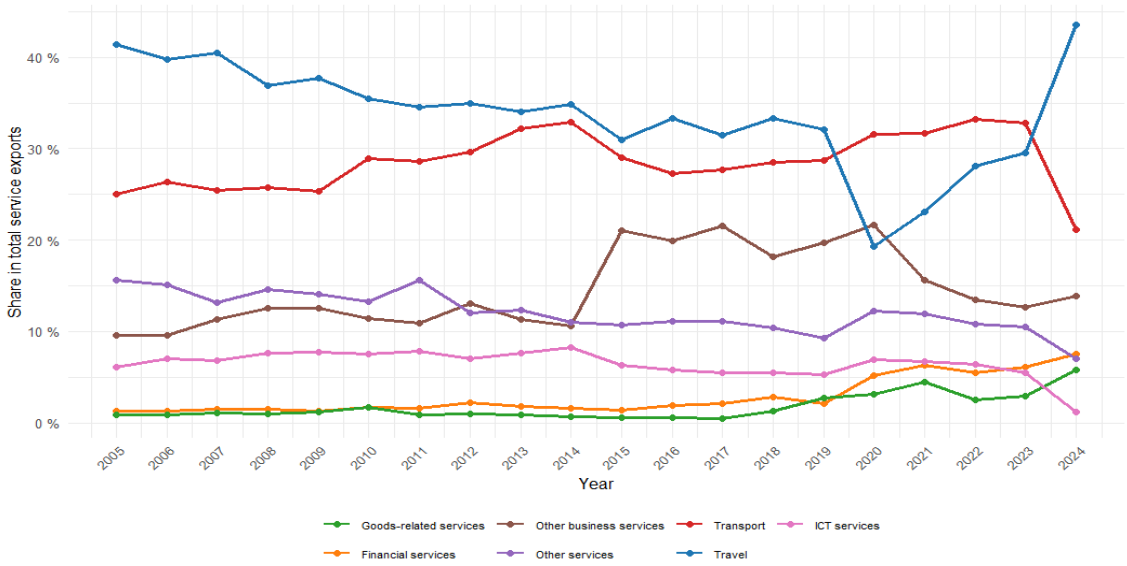
Source: UNCTAD and BACI (CEPII).

There is considerable debate over whether services can substitute for manufacturing as an engine of growth in LICs. However, even though services offer significant growth potential, progress in this area has generally been limited in Africa. According to several studies, this reflects the strong concentration of African economies in low-productivity services, which tend to act more as a constraint on growth than as a driver (Rekha and Suresh Babu, 2022; Ariu and Ogliari, 2023; UNCTAD, 2025b). This pattern of specialization may help explain the decline in the share of global service exports accounted for by African LICs. It is therefore useful to examine the composition of service exports more closely (Figures 17 and 18). A key point is the dominant role of tourism, which has accounted for the largest share of service exports in both African and non-African LICs throughout the 2000-2025 period, with the exception of the pandemic years. The collapse in the share of tourism during this period confirms that the decline in total service exports observed in Figure 16 in 2020 was largely driven by the fall in tourism revenues. Transport services also play an important role, particularly in African LICs, where they have accounted for between 20% and 35% of total service exports throughout the period. By contrast, financial services and telecommunications and information services account for only a small share of service exports, despite their potential role as drivers of growth and structural transformation (UNCTAD, 2025b). Higher value-added services are also heavily concentrated in a small number of countries. In 2023, Ghana accounted for 68% of all business

goods). They thus hide stagnation in many low- and medium-technology manufacturing sectors (see Box 4 on the textile industry).

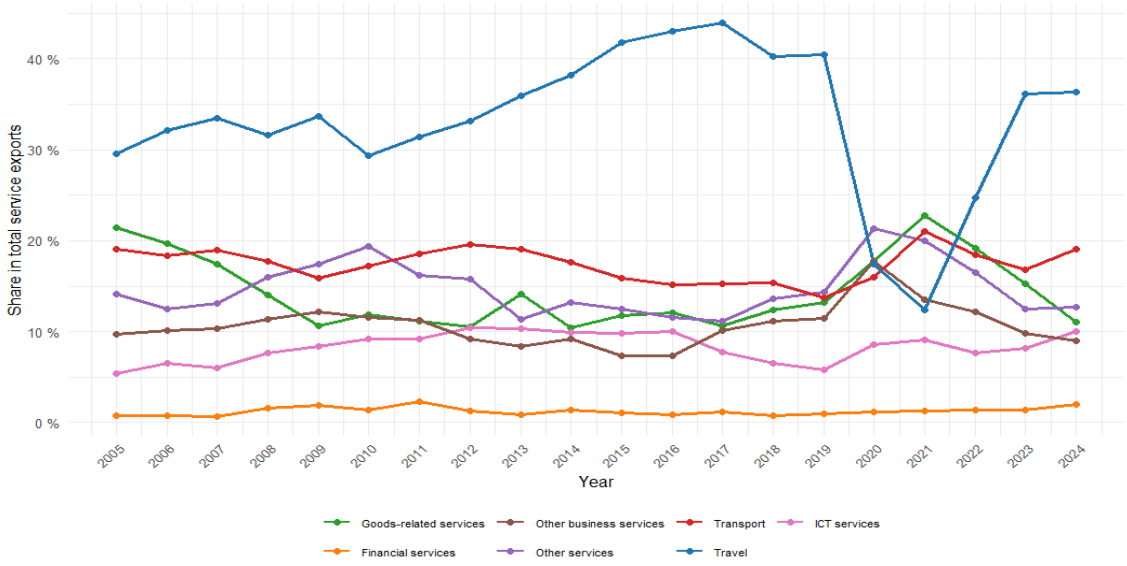
service exports and 52% of all financial service exports from African LICs while Kenya accounted for 32% of telecommunications and information service exports from African LICs, ranking first in this category, and 31% of financial service exports, ranking second after Ghana.

Figure 17: Trends in the categories of services exports from African LICs



Source: UNCTAD

Figure 18: Trends in the categories of services exports from non-African LICs



Source: UNCTAD

Clearly, tourism, the leading sector for service exports in LICs, has not led to any significant structural economic transformation or substantial job creation, unlike what has occurred in many middle-income countries (such as Tunisia and Mauritius, for example). This may be attributed to the weakness of tourism infrastructure and the limited upstream and downstream linkages between the sector and other economic activities (UNCTAD, 2025b). Furthermore,

since tourism infrastructure is sometimes financed by significant foreign direct investment (FDI), a substantial portion of the revenues generated was subsequently repatriated. Finally, the COVID-19 pandemic highlighted the vulnerability of an economy dependent on tourism, demonstrating that revenues from these activities can prove unstable in the event of a global crisis.

With a few exceptions, the African LICs have therefore failed to develop service sectors with high productivity gains or positive externalities, and their foreign trade in services remains largely dependent on tourism revenues.

3. International aid and trade fragmentation: what are the prospects for African low-income countries?

3.1 Preferential market access schemes and their strategic importance for African LICs

All G7 countries currently grant preferential trade arrangements to African LICs, generally as part of broader preferential schemes granted to African countries or LICs. A substantial body of economic literature has examined the impact of these preferential access arrangements, particularly the *African Growth and Opportunity Act* (AGOA) between the United States and African countries, and the European Union's *Everything But Arms* (EBA) scheme for least developed countries (LDCs)[15]. Other G7 economies have also implemented preferential schemes in line with their WTO commitments[16], although these have attracted less attention in the economic literature and are not discussed in detail here. Through its *Least Developed Country Tariff* (LDCT), Canada grants duty-free access on most goods traded by LICs, with the exception of arms and certain products considered of importance for the Canadian economy. In terms of product and country coverage, this regime is therefore broadly comparable to the EBA. However, because Canada accounts for a smaller share of LIC trade, research on the impact of LDCT has been limited. Japan also provides preferential treatment to developing countries through its Generalised System of Preferences (GSP), although it is considerably more restrictive than most other preferential arrangements. Finally, the *UK's Generalised Scheme of Preferences* (UK GSP), which replaced the EU GSP following Brexit, is too recent to have generated significant empirical research.

Overall, the evidence suggests that these preferential regimes have had a positive impact on exports, both in terms of total export volumes and export diversification. A number of studies conclude that the AGOA has increased African exports to the United States (Tadesse and Fayissa, 2008; Frazer and Van Biesebroeck, 2010; Cook and Jones, 2015; Sorgho and Tharakan, 2019; Fernandes et al., 2023; Adu et al., 2025). The evidence appears even stronger for certain sectors. Cook and Jones (2015), for example, estimate that the AGOA increased apparel exports from eligible African countries to the United States by 29% between 2001 and 2011. Fernandes et al. (2023) find much larger effects in East African economies, which specialize in textile manufacturing. Furthermore, several studies suggest that the AGOA generated additional trade rather than simply redirecting African exports towards the United States at the expense of other

[15] As defined by the UN.

[16] The 2005 WTO Ministerial Declaration calls on developed and developing countries "in a position to do so" to "provide duty-free and quota-free market access on a sustainable basis for all products originating in the least developed countries" (https://www.wto.org/french/thewto_f/minist_f/min05_f/final_annex_f.htm#annexf).

markets (Frazer and Van Biesebroeck, 2010). The development of Lesotho's denim industry, which became a major supplier to the US market during the 2000s and 2010s largely thanks to AGOA preferences, provides a particularly illustrative example (Khan, 2022). This industry is nevertheless currently facing considerable uncertainty owing to questions surrounding the renewal of the AGOA. It should also be noted that the coexistence of multiple preferential schemes, such as the AGOA for Sub-Saharan African countries and the US GSP covering most LICs, can make it difficult to isolate the specific impact of each arrangement. Evidence regarding EBA is more mixed. While the scheme appears to have a positive effect on exports, its impact has generally been more limited and concentrated in specific sectors. Sorgho and Tharakan (2019), for instance, find a positive effect on total LIC exports, although smaller than that associated with the AGOA. Similarly, Gradeva and Martinez-Zarzoso (2016) identify positive effects on agricultural exports but no significant impact on manufacturing exports. These findings are consistent with the patterns discussed above, namely the importance of the United States as a destination for African LIC manufactured exports and the central role of the European Union in their agricultural exports.

Several factors nevertheless limit the effectiveness of these preferential arrangements. First, rules of origin, while theoretically justified as a means of preventing simple re-exports with little or no local transformation, are often viewed as restrictive and can pose compliance issues for firms located in LICs (Sytsma, 2022; Sebigeye, 2024). They significantly reduce the ability of firms to take advantage of preferential access even when they are formally eligible. More generally, greater flexibility in rules of origin appears to increase export-related impact of preferential schemes (Sytsma, 2022; de Melo et al., 2024). A second limitation, primarily affecting the AGOA, stems from the essentially unilateral and reversible nature of the arrangement. Countries can be excluded by the United States with little warning and limited scope for negotiation. This uncertainty weakens long-term investment incentives by providing no guarantee of continued market access. The issue came to light following the initial non-renewal of the AGOA after its expiration on 30 September 2025. Although the program was ultimately renewed in February 2026, the extension only runs till 31 December 2026. Significant uncertainty therefore remains regarding its future beyond that date. Providing a clearer and more predictable framework for beneficiary countries is thus essential. Finally, differences in standards (including sanitary and environmental requirements) between LICs and high-income countries (especially European ones) constitute another major constraint. These standards are often particularly demanding and difficult for LIC firms to meet, creating substantial regulatory barriers even where tariff barriers are absent. Therefore, strengthening support mechanisms that help LIC firms comply with such standards is crucial if these countries are to fully benefit from preferential market access.

Taken together, the evidence suggests that preferential trade arrangements have a generally positive impact on the countries concerned, but that it remains insufficient to fully offset the competitiveness gap between African LICs and Asian economies, particularly in manufacturing industries. The end of textile quotas under the Multi Fibre Arrangement (MFA) in 2005, and the subsequent surge in Chinese exports, largely erased the gains generated by the AGOA between 2001 and 2005 for African LICs (Fernandes et al., 2023). Moreover, because these schemes have not succeeded in generating sustainable competitiveness gains in manufacturing, African LICs continue to face intense competition from Chinese producers even in their domestic markets. Therefore, despite having preferential access to high-income markets, African LICs have struggled to develop manufacturing industries capable of exporting to new destinations. It is also possible that a substantial number of existing firms could disappear if these preferential arrangements were withdrawn (Edwards and Lawrence, 2010). Finally,

African LICs continue, on average, to run trade deficits with Western markets, although these deficits are much smaller than those recorded vis-à-vis other regions of the world.

Overall, preferential market access arrangements have had a positive but limited impact on LIC export performance. Rising tariff protection elsewhere could increase their effectiveness, provided these preferential schemes are maintained, by widening the tariff differential between LIC exports and those of their main competitors. **However, preferential access alone is unlikely to be sufficient. These arrangements need to be both strengthened and to be complemented by broader export-support policies. In particular, expanding productive capacities within LICs is essential if these countries are to take full advantage of the market opportunities created by preferential trade regimes. Beyond their effects on export volumes, these arrangements also play an important role in export diversification and help reduce African LICs' dependence on the Chinese market.**

3.2 Aid for Trade as a supplement to preferential trade arrangements

The Aid for Trade initiative was launched by the World Trade Organization (WTO) in 2005, with the objective of leveraging development assistance to help developing economies improve their infrastructure, trade expertise, and export capacities. For recipient countries, Aid for Trade can therefore serve as a means of strengthening productive capacities and reducing transport costs, enabling them to benefit more fully from international trade and integration in global value chains. It can also help LICs meet the regulatory standards required to access European markets, which constitute a major obstacle to the effectiveness of preferential market access schemes. This could be the explanation behind the sharp increase in Aid for Trade flows to LICs, which almost tripled between 2006 and 2023, rising from $6.7 billion to $19.4 billion[17] (in constant 2023 prices, including both grants and loans) (OECD Development Assistance Committee data). The composition of this assistance has naturally evolved over time, with loans accounting for 58% of Aid for Trade flows in 2023, up from 33% in 2006. Aid for Trade is classified into three main categories: (i) the development of economic infrastructure, including transport and communications, which accounted for 55% of Aid for Trade received by LICs in 2023; (ii) the development of productive capacities (44%); and (iii) trade policy and regulatory support (1%), including the training of public officials, institutional support, and technical assistance related to the implementation and negotiation of trade agreements.

A large body of literature highlights the positive impact of Aid for Trade on export volumes (Vijil and Wagner, 2012; OECD/WTO, 2013; Hühne et al., 2014; Martinez-Zarzoso et al., 2017; Gnangnon, 2024) and export diversification (Nathoo et al., 2021). Such flows help support LICs through improvements in productive capacities (Vijil and Wagner, 2012; Nathoo et al., 2021), reductions in export costs (Basnett et al., 2012), and improvements in the business environment (Martinez-Zarzoso et al., 2017). Several studies also highlight that the impact is stronger when the initial income level is low, which justifies continuing such aid for LICs (OECD/WTO, 2013; Martinez-Zarzoso et al., 2017). In the case of African LICs, Aid for Trade directed towards infrastructure development is generally considered particularly effective (Basnett et al., 2012). Two additional points need to be emphasized. First, Aid for Trade appears to generate benefits for both recipient and donor countries by increasing both exports and imports in recipient economies. However, the gains appear to be larger for recipient countries, supporting the view that these flows constitute an effective development tool (Hühne et al., 2014). Second, Aid for Trade appears to stimulate exports to all destinations rather than only to donor-country markets.

[17] According to the OECD definition, as definitions may vary across institutions.

By strengthening export capacities in African countries, it can therefore promote intra-African trade (Gnangnon, 2024) and ultimately contribute to the emergence of regional value chains.

While investment in physical infrastructure remains essential, particularly given its poor quality in many LICs, trade facilitation and the reduction of non-physical trade costs also play an important role in increasing exports. This is especially true in African LICs, where administrative and technical constraints, including high border transaction costs and lengthy clearance procedures, continue to hamper trade development. Assistance aimed at improving trade facilitation by reducing these costs can therefore play a critical role in supporting the emergence and expansion of export sectors (Cadot and de Melo, 2014).

More broadly, Aid for Trade remains an important source of support for the export sector in LICs. As global trade imbalances persist, competition from some Asian economies intensifies, and protectionist measures become more widespread, Aid for Trade can help countries absorb external shocks and strengthen their resilience to changing conditions in the global economy.

3.3 Western Protectionist Policies Towards China: Opportunity or Threat for African LICs?

In response to China's trade surplus vis-à-vis the United States, successive US administrations have repeatedly imposed tariffs on Chinese goods. Following a first hike in 2018–2019, a second round of tariffs was imposed on numerous Chinese goods, in addition to the 15% tariffs on the rest of the world. If continued, these trade measures could have far-reaching consequences for the trade balances of African LICs. Two effects in particular can be anticipated.

(1) An increase in African exports to the United States through substitution effects

A substitution effect, whereby exports from China are replaced by those from the African LICs, could occur. This would benefit both the trade balance and industrialization prospects of African LICs. However, several factors suggest that this effect may be insignificant, at least in the short-term.

First, although no comprehensive assessments are available as of now regarding the tariffs introduced by the second Trump administration in 2025, lessons can be drawn from the literature examining the tariff increases implemented in 2018-2019 during the first Trump administration. This literature largely concludes that US tariffs on Chinese imports mainly resulted in a reallocation of trade flows across suppliers, only marginally reducing the US trade deficit (Freund et al., 2024; Grossman et al., 2024; Garred and Yuan, 2025). These same studies suggest that this trade reallocation flows primarily benefitted other export-oriented Asian manufacturing economies, including Vietnam, Thailand, Cambodia, Bangladesh, India, Indonesia, Malaysia, Taiwan, and South Korea, as well as the United States' immediate neighbors, Mexico and Canada, without reducing the US trade deficit (Darvas and Lappe, 2026). Although relatively few studies focus specifically on African economies, the available evidence suggests that African countries benefited little from the US-China trade war. The share of African LIC trade accounted for by the United States has in fact declined over recent decades, including after the introduction of the 2018-2019 tariffs on Chinese goods. Exports to the United States represented 14% of total African LIC exports in 2008, compared to 4.5% in 2017 and only 3.6% in 2024.

Nevertheless, trade measures restricting Chinese exports have, in the past, benefited certain African economies. The impact of the AGOA on African textile exports appears to have been particularly strong between 2001 and 2005, when quotas on Chinese textile imports remained in place under the Multi Fibre Arrangement (MFA). The combination of AGOA preferences and MFA quotas played an important role in the development of textile industries in Ethiopia, Lesotho, and Madagascar, largely through the relocation of Asian firms to these countries[18] (Balchin and Calabrese, 2019). Conversely, the removal of quotas following the end of the MFA and China's accession to the WTO contributed significantly to the slowdown of textile industry development in these countries (Fernandes et al., 2023). At that time, competition in textile markets came primarily from China, which explains why quotas on Chinese exports to high-income countries had such significant effects for African LICs. The nature of competition has since changed substantially. Today, competition comes from a much broader range of South and Southeast Asian countries, while Chinese firms have increasingly moved towards higher value-added segments. As a result, tariffs targeting China alone are unlikely to generate substantial gains for African manufacturing exports in the short or medium term, as African producers continue to face competition from Asian value chains in lower-value-added industries. A broader increase in tariffs affecting all major Asian exporters could potentially create opportunities for African economies, provided preferential access to the US market is maintained and further strengthened.

(2) Reallocation of Chinese exports

Another possible consequence of reduced Chinese exports to the United States, particularly if the European Union also pursues similar policies aimed at reducing dependence on Chinese imports, is the redirection of Chinese exports towards Sub-Saharan Africa. While such a reallocation could certainly benefit household consumption and inputs for African businesses, it carries the risk of increasing the LICs' regressive specialization in raw materials and deepening their dependence on China.

Nantembele et al. (2023) find that a trade war between the United States and China would lead to a deterioration in African countries' trade balances, driven in part by increased imports from China, with particularly strong effects in East African economies such as Kenya, Ethiopia, and Tanzania. The literature on this specific issue remains limited, however, and these findings should therefore be interpreted with caution. Preliminary evidence nonetheless suggests that the increase in Chinese exports to other regions of the world in 2025 more than compensated for the decline in exports to the United States, highlighting the adaptability of Chinese firms (UNCTAD, 2025a; Darvas and Lappe, 2026). A report by China Briefing indicates that Chinese exports to Africa increased by 18.4% in 2025, compared with just 8% for exports to ASEAN countries, 6.5% for Latin America, and 1.9% for the European Union (Shang and Zhou, 2026). This therefore makes Africa the region with the strongest growth in imports from China between 2024 and 2025. Although caution is warranted as the raw data sources are difficult to access and verify, this could, when cross-referenced with BACI trade data for 2024, indicate a $30.9 billion increase in Chinese exports to Africa in 2025, equivalent to 4.8% of the continent's total imports of goods from the rest of the world in 2024[19]. Besides, the reallocation of Chinese exports to other international markets (particularly European ones) would imply increased

[18] Particularly companies originally based in China, Taiwan, or Hong Kong, but sometimes Chinese companies that had previously established themselves in other African countries (South Africa, Mauritius) before moving to neighboring countries (Balchin and Calabrese, 2019).

[19] These figures cover all of Africa, as data is not provided for each individual country. It is therefore not currently possible to determine what this would represent for LICs alone.

competitive pressures for African producers in those markets, suggesting a risk of declining exports from African LICs to the rest of the world.

China's decision in 2024 to grant duty-free access to African LICs, extended in 2026 to all African countries (except Eswatini), illustrates its intention to strengthen trade relations with Africa. These policies are taking place in a broader context in which Africa has become increasingly important in China's external trade, with the continent's share rising from 3.6% of Chinese exports and 4.2% of Chinese imports in 2017 to 4.7% and 5.2%, respectively, in 2024. As noted above, China is the trading partner with which African LICs exhibit the most uneven trade structure, characterized by exports dominated by extractive primary commodities and imports dominated by manufactured goods. The gap in production costs between African LICs and China, together with China's relatively weak domestic consumption resulting from its export-led growth model, make it unlikely that this preferential access will significantly boost African manufactured exports. The risk is therefore not only that African LICs become more dependent on Chinese imports and export markets, and that bilateral trade deficits widen further, but also that the underlying asymmetry in trade relations and the associated macroeconomic vulnerabilities become more deeply entrenched. It should also be noted that, beyond China's strategic interest in securing access to hydrocarbons and critical minerals, preferential access policies also serve geopolitical objectives, as illustrated by the exclusion of Eswatini, the only African country maintaining diplomatic relations with Taiwan, from the duty-free access arrangement.

The rise of protectionist measures aimed at reducing global imbalances could therefore have adverse consequences for the development of African manufacturing exports and, more broadly, for Africa's integration into global value chains, by reinforcing the trends observed over recent decades.

In this context of heightened vulnerabilities and growing uncertainty regarding the evolution of the international trading system, the question of external financing becomes increasingly important for LICs. Identifying sustainable and resilient sources of external finance is therefore essential for supporting their medium- and long-term development.

4. Strengthening the external financing capacity of low-income countries: priorities for a renewed multilateral approach

Global balance-of-payments imbalances reflect a distortion in the global allocation of savings to finance investment. Although these distortions primarily involve middle-income countries, they have significant consequences for LICs, whose development is constrained by limited access to external financing. Reducing these imbalances through policies aimed at increasing investment in surplus economies, as is sometimes advocated within the European Union, could have even more adverse consequences for LICs. On the one hand, they would reduce potential capital outflows to developing countries; on the other hand, by reducing their contribution to the financing of U.S. debt, they risk driving up interest rates on the international currency used by these countries.

In a context of growing geoeconomic fragmentation, it is essential to continue upholding multilateral solutions to global imbalances. It is therefore critical that managing these imbalances takes LICs into account, so as to ensure that bilateral or multilateral policies adopted

by high-income countries to reduce their balance-of-payments imbalances do not result in a widening of financing gaps in LICs, which could negatively impact their long-term economic development. International cooperation therefore remains indispensable. Several areas of priority can be identified to ensure long-term development financing for LICs.

- **Expand access to Western markets for African LICs through preferential trade arrangements** in order to broaden export opportunities for non-extractive goods. This could be achieved through further simplification of rules of origin and stronger support for LIC firms to help them meet the standards required to export to Western markets. It could also involve clarifying eligibility criteria in order to reduce the uncertainty faced by firms seeking to benefit from these arrangements. More broadly, establishing a transparent, stable, and predictable framework would enhance the effectiveness of these mechanisms.

- **Redirect ODA flows to the poorest countries**. Given the importance of financing needs in LICs, it is important to ensure that the ongoing decline in ODA flows is borne mostly by relatively higher-income countries. In recent years, the share of ODA allocated to LICs has tended to decline. Between 2022 and 2024, LICs received on average 26.4% of global ODA grants and 45.3% of ODA loans, compared to 33.6% and 66.9%, respectively, over the 2017-2019 period (DAC data)[20]. Therefore, it seems urgent to reverse this trend in order to ensure that the poorest countries continue to receive ODA consistent with their financing needs. One option would be to establish a list of priority countries for ODA allocation based on objective and transparent criteria (Feindouno and Guillaumont, 2025). This would imply forgoing leverage effects as an allocation criterion, since leverage tends to be lower in LICs, especially the poorest among them. Such a shift appears even more important for Aid for Trade, as its expected impact on economic activity is significantly greater in lower-income countries because of their higher trade costs (de Melo and Wagner, 2016).

- **Promote intra-African trade**, notably through the African Continental Free Trade Area (AfCFTA). Beyond reducing trade and financial dependence on the rest of the world, stronger intra-African trade could facilitate the emergence of continental value chains and help reduce the extractive specialization in which many African LICs remain trapped. Although the G7 has limited direct influence over intra-African trade, several avenues exist for supporting these exchanges and strengthening regional trade agreements: (i) increasing support for regional Aid for Trade programs; (ii) extending rules of origin of preferential trade regimes to countries belonging to the same regional bloc, as recommended by several institutions (Sebigeye, 2024; Britz et al., 2025); and (iii) establishing compensation mechanisms supported by the international community. In this regard, the need to settle trade transactions in international currencies in most cases, owing to non-convertible currencies and/or highly volatile exchange rates, remains a major obstacle to trade integration[21]. The establishment of a compensation

[20] These figures apply to all donors. In the case of France, the share of grants allocated to LICs out of total ODA grants increased over the period, in line with the targets set by the Interministerial Committee for International Cooperation and Development (CICID) for 2023, from 26% in 2017–2019 to an average of 39% in 2022–2024. The share of loans, meanwhile, remained stable at 14% over the period.

[21] The Communiqué of the Finance Ministers highlights that exchange rate risk is not only a significant deterrent to FDI, but also a barrier to international trade, especially when it comes to value chains.

fund for which the international financial community could provide liquidity in international currency and/or guarantee a portion of the risks would be a key element in supporting the AfCFTA.

- **Increase foreign direct investment in tradable sectors**. Indeed, economic development in LICs is constrained by a lack of physical and human capital, particularly in countries experiencing a depletion of natural capital through resource extraction. Therefore, expanding the production of tradable goods, either for exports or as competitive import substitutes, requires substantial increases in domestic capital. External borrowing quickly reaches its limits because of both the structural characteristics of LICs and the asymmetries of the international monetary and financial system. This calls both for support to policies aimed at improving the attractiveness of LICs to foreign investors and for stronger links between preferential market access and development projects, for example through initiatives such as the EU's *Global Gateway*.

- **Special attention must be given to LICs within the framework of the *G7 Principles for Mutually Beneficial International Partnerships*.** Many of these principles could create unintended biases against LICs, such as the emphasis on leveraging private finance through public funding, the development of local-currency financing opportunities, the promotion of risk-sharing solutions to reduce exchange-rate risk, and partnerships with local development banks. In fact, LICs in general, and African LICs in particular, face structural disadvantages relative to other developing countries that may limit their ability to fully benefit from these principles.

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Annex

Table A1: List of the 57 Low-Income Countries eligible for the PRGT, by region

Africa	Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Comoros, Republic of the Congo, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Uganda, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Tanzania, Chad, Togo, Zambia, Zimbabwe.
Latin America and the Caribbean	Haiti, Honduras, Nicaragua.
South and South-East Asia	Bangladesh, Bhutan, Myanmar, Cambodia, Lao PDR, Nepal, East Timor.
Eastern Europe and Central Asia	Republic of Moldova, Kyrgyzstan, Uzbekistan, Tajikistan.
Middle East	Afghanistan, Yemen.
Oceania	Kiribati, Papua New Guinea, Solomon Islands.

Note: There are 13 countries eligible for the PRGT but not classified as low-income countries and therefore excluded from the list; Nigeria is classified as a low-income country but is not eligible for the PRGT.

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Pascal

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