

# GLOBAL LINKS



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## lobalization and global links

Globalization—the integration of the world economy—has been a persistent theme of the past quarter century. The growth of cross-border economic activity has changed the structure of economies and the political and social organization of countries. Not all effects of globalization can be measured directly. But the scope and pace of change can be monitored along four important channels: trade in goods and services, financial flows, the movement of people, and the diffusion of technology and knowledge.

- Exports and imports of goods and services exceeded \$26 trillion in 2005, or 58 percent of total global output, up from 44 percent in 1980. Developing economies still account for less than one-third of global trade, but their share has been increasing steadily.
- Gross private capital flows across national borders exceeded 32 percent of global output in 2005, up from 9 percent in 1980. Foreign direct investment and cross-border portfolio investment flows to developing economies have soared despite occasional setbacks.
- People have become more mobile. More than 800 million people traveled to foreign destinations in 2005, nearly triple the number in 1980. Some 190 million people are estimated to reside outside their land of birth, nearly double the 1980 level.
- Technology and knowledge are diffusing at unprecedented speed across countries. International phone traffic, measured in minutes, increased more than fourfold between 1995 and 2005 (see section 5).

Many factors have accelerated the pace of globalization. Barriers to international trade and investment are coming down. Technological progress has dramatically cut transportation and communications costs, enabling production processes and distribution networks to move from local to global. Some previously nontradable services can now be traded easily around the world. Efficiency gains due to resource allocation at global scale have made globalization an increasingly powerful source of growth.

Globalization has created opportunities and challenges for developing countries. While the experiences of China, India, Indonesia, Thailand, and some other countries have demonstrated that integration into the global economy is necessary for long-term growth and poverty reduction, concerns have emerged over equality of opportunity and the unequal distribution of benefits. Many poor countries and poor people in many countries have not been able to take full advantage of the opportunities brought by globalization or to participate in its benefits.

Removing the obstacles to full participation by poor countries and poor people is essential to making globalization more inclusive. For example, subsidies to domestic farmers in high-income economies have created formidable barriers for developing economies trying to reach global markets for agricultural products. But there is much that developing countries need to do to make their economies more competitive. Scaling up and increasing the flexibility of official development assistance could assist low-income countries' efforts to attract investment and improve their trade-facilitating infrastructure, whose limitations now constrict poor countries' capacity to take advantage of growing global opportunities.

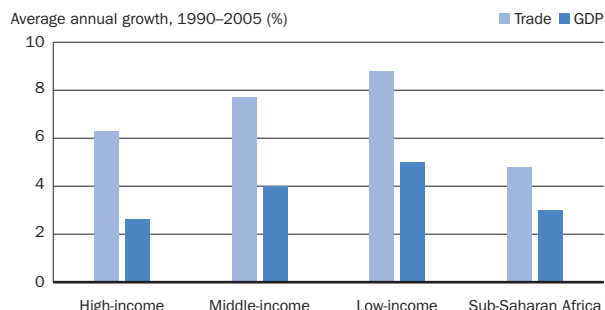
## Expanding trade

International trade is the hallmark of an integrated global economy. Between 1990 and 2005 growth in trade outpaced growth in the overall economy across the board (figure 6a). Low- and middle-income economies gained market share in world merchandise exports—from about 16 percent in 1990 to almost 30 percent in 2005 (indicator table 6.3)—but the Sub-Saharan share lagged at around 1.5 percent.

Trade between developing economies has expanded considerably and now makes up about 8 percent of world merchandise exports. Between 1990 and 2005 merchandise exports between developing economies grew at an impressive average annual rate of 13 percent, compared with less than 6 percent for exports between high-income economies (figure 6b). But tariff barriers affecting exports to developing economies are still much higher than those affecting exports to high-income economies. The simple mean tariff rate averages 9 percent in developing economies but less than 4 percent in high-income economies (indicator table 6.7).

### Trade growth outpaces GDP growth

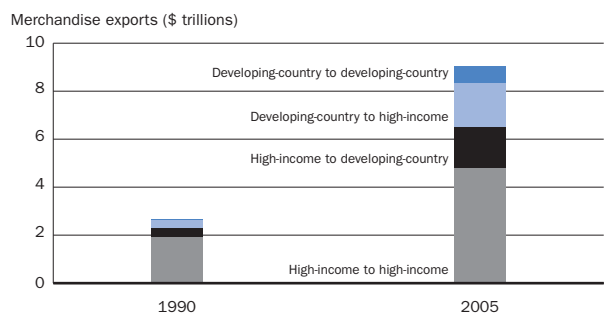
6a



Source: World Bank staff estimates.

### Exports from developing countries have grown fast

6b



Source: World Bank staff estimates.

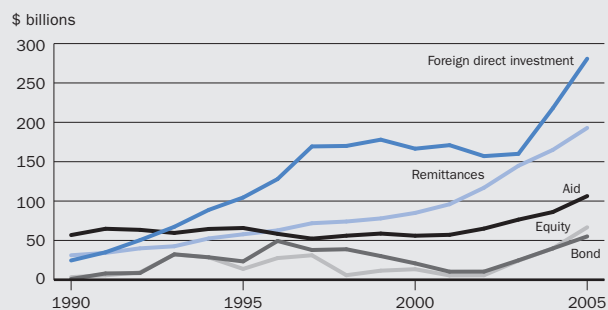
## Expanding flows of private financial resources

International private financial flows have increased rapidly in both gross and net terms. Between 1990 and 2005 total gross capital flows recorded in the balance of payments tripled as a share of world GDP, and high-income economies still account for the lion's share (indicator table 6.1). All types of external financial flows to developing economies have soared during this period, but foreign direct investment (FDI) remains the largest (figure 6c). From a low initial level of less than \$25 billion in 1990, net inflows of FDI to developing countries increased tenfold by 2005 (indicator table 6.8).

Large differences in external financial inflows exist among developing economies. The top 10 receivers of FDI net inflows accounted for about two-thirds of total FDI inflows among developing economies in 2005. FDI inflows are dominant in Latin America and Caribbean and East Asia and Pacific; portfolio investments are more important in South Asia (figure 6d). Meanwhile, some developing economies are increasingly investing overseas to expand their global operations.

### Foreign direct investment leads resource flows to developing economies

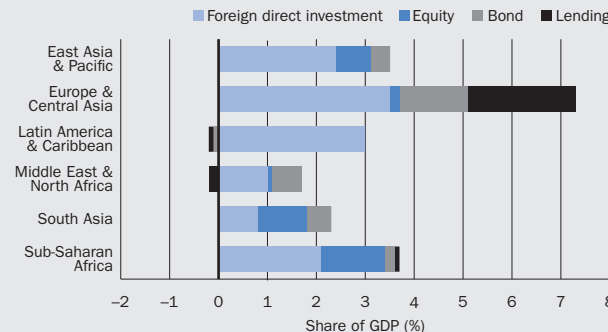
6c



Source: World Bank staff estimates.

### Developing economies differ greatly in external resource flows

6d

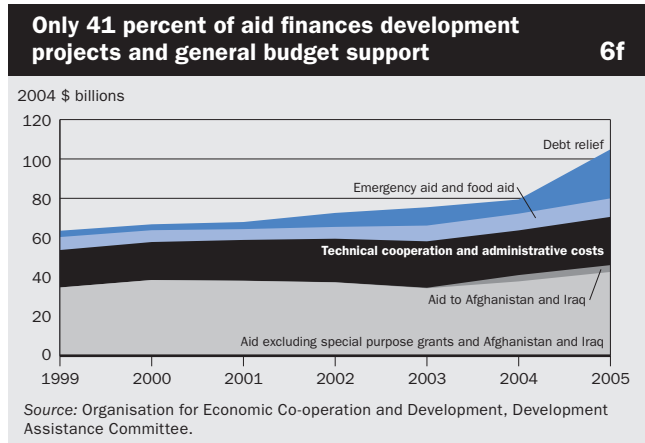
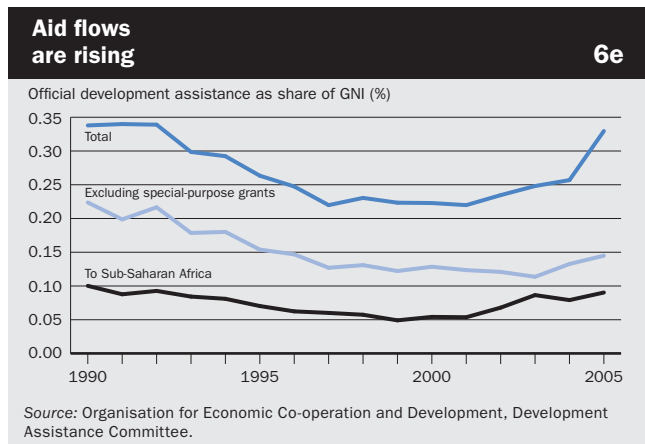


Source: World Bank staff estimates.

## Expanding aid and increasing emphasis on effective aid

Developed economies have committed to providing more and better aid, especially to the poorest economies that commit themselves to poverty reduction and good governance. After a period of decline and stagnation, aid flows began to rise, particularly after the Financing for Development conference in Monterrey, Mexico, in 2002. Total official development assistance (ODA) rose to a record high of \$106.8 billion in 2005 (indicator table 6.9). However, many donor economies still need to scale up aid significantly to fulfill commitments made at the Monterrey conference and at the Gleneagles Group of Eight summit in 2005 (figure 6e).

A large amount of aid is earmarked for special purposes. In 2005 more than half of ODA was used for special purposes such as debt relief, technical cooperation and administrative costs, and emergency relief and food aid (indicator table 6.10). Excluding these “special purpose” items and setting aside aid to Afghanistan and Iraq, only 41 percent of ODA in 2005 was available to finance development projects and budget support for general financing needs (figure 6f).



## Expanding movements of people

The flow of people across national borders is another mark of integration. Important for many developing economies, international tourism has increased rapidly since its downturn in 2001. In 2005 international tourist arrivals worldwide exceeded 800 million, nearly double the 1990 level. Receipts reached \$680 billion (excluding air tickets), accounting for 6.5 percent of global exports of goods and services (indicator table 6.15). Developing economies, accounting for a third of international tourist arrivals, are attracting new tourists at a faster rate than the world as whole (figure 6g).

International migration is a major global development issue, posing opportunities and challenges to both developed and developing economies. In 2005 recorded remittance flows repatriated by developing economy migrants were \$188 billion, close to 2 percent of GDP (indicator table 6.14). While high-income economies are the most popular destinations, migration between developing economies accounts for nearly half the migrants from developing economies (figure 6h). Migration between developing economies occurs primarily between neighbors, particularly in Europe and Central Asia and Sub-Saharan Africa.

