The world economy expands and economies grow closer

Economic integration is the widening and deepening of the ties that link national economies. Trade, finance, movement of people, and transportation and communication infrastructure are the mechanisms. But integration is not a simple or certain process. Political and cultural connections underpin economic alliances. Geography may pose obstacles to integration, while technology can overcome them.

The past two decades have seen an enormous increase in the size of the global economy and of the economic ties between countries. Between 1990 and 2006 East Asia and Pacific's trade increased from 47 percent of its gross domestic product (GDP) to 87 percent, and gross private capital flows from international sources increased from 7 percent of GDP to 11 percent. In Sub-Saharan Africa trade within the region and with the rest of the world increased from 52 percent of GDP to 72 percent, and gross private capital flows rose from 12 percent to 14 percent. Evidence of integration? Yes, but the two regions have had much different experiences. Each had about 3.5 percent of global exports in 1980, but by 2006 East Asia and Pacific's share had grown to 10.8 percent while Sub-Saharan Africa's had fallen to 1.9 percent.

As global integration proceeds, developing countries are likely to expand their share of the global economy, especially regional centers with large populations and a significant economic base, such as Brazil, China, India, the Russian Federation, and South Africa. But even small and remote economies can take part. Better air and ocean transport gets products to markets faster and with more precise timing. Better transportation has been complemented by improvements in technology and favorable regulatory environments, reducing the costs of global communication, information dissemination, and management of economic activities. But as Dollar (2005, p. 148) notes, "As in previous waves of integration . . . change is driven partly by technological advances in transport and communications and partly by deliberate policy choices." Integration does not happen automatically.

All developing countries have the potential to gain from an integrated global environment. Like all economic forces, global integration may produce winners and losers. To realize the benefits of integration, countries need the capacity to absorb new technologies, use capital productively, and increase their labor force's knowledge and skills. Countries do not start with the same endowments—and wars, political divisions, and plain bad luck may blight their opportunities. The challenge is to ensure sustainable and widely shared growth.

Monitoring the development of global links provides the underpinning for policies aimed at managing challenges and aiding integration that is inclusive for all. The data in this section provide a snapshot of the world's integration and and a framework for measuring it.

Developing countries' growing world trade

International trade is a critical channel for integration. It increases economic efficiency and brings producers and consumers together. Developing countries' share in world trade has been rising from 16 percent in 1990 to 30 percent in 2006, led by China, whose exports now rival those of the United States, and with Brazil and India not far behind (figure 6a). Projections of further increases in developing countries' share, to 45 percent by 2030 (*Global Economic Prospects 2007*), reflect increasing integration.

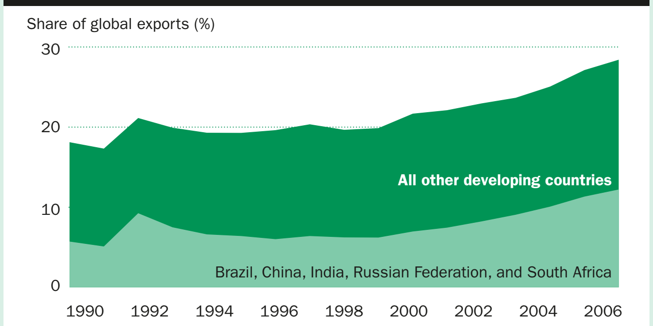
Developing country trade integration, measured by the share of imports plus exports in GDP, has been rising rapidly, increasing from 40 percent of GDP in 1990 to almost 67 percent in 2006, surpassing the share in high-income economies. Developing country exports are changing as well. The share of manufactured goods in exports is large and rising while that of food and commodities (excluding fuels) is small and falling (figure 6b). And despite the attention given to the spread of offshore services, trade in goods remains many times greater than trade in services. India is a notable exception: its service sector now produces almost 40 percent of its exports.

Financial integration: resilient and unabated

More access to international capital markets and foreign direct investment (FDI) has helped developing countries surmount their less developed capital markets. Developing countries have decreased their vulnerability to financial crises by reducing their external debt burden from 39 percent of gross national income in 1995 to 26 percent in 2006 and increasing foreign exchange reserves to 92 percent of long-term debt and 423 percent of more volatile, short-term debt in 2006 (figure 6c).

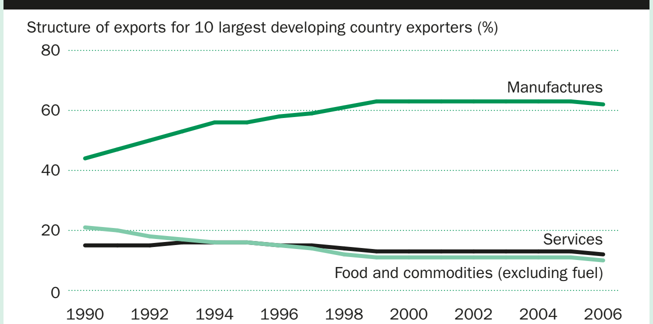
Private capital flows to developing countries increased more than 10-fold between 1990 and 2006. In 2006 developing countries received almost one-third of global FDI, though just over one-tenth of that went to low-income economies. Sub-Saharan Africa's 34 low-income economies received only 1 percent. The main source of external financing for low-income countries remains official development assistance (ODA). ODA, however, includes debt relief, technical assistance, and emergency relief, which do not provide the long-term investment needed to raise productive capacity. In constant prices ODA has risen more than 50 percent since 2000, but excluding debt, technical assistance, and emergency relief, it has risen only 25 percent (figure 6d).

Developing countries' share of global trade is rising **6a**



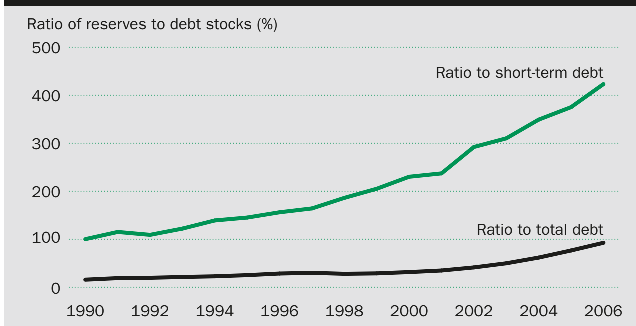
Source: World Development Indicators data files.

Manufactured goods dominate the exports of developing countries **6b**



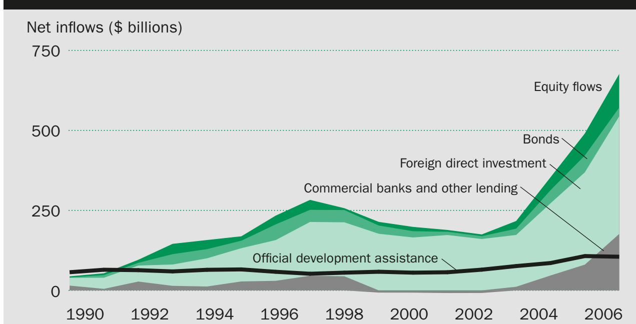
Source: International Monetary Fund and United Nations Conference on Trade and Development data files.

Rising reserves and falling debt make developing countries less vulnerable to crises **6c**



Source: World Development Indicators and *Global Development Finance* data files.

Private financing has long exceeded official development assistance to developing countries **6d**



Source: Organisation for Economic Co-operation and Development *International Development Statistics* and *Global Development Finance* data files.

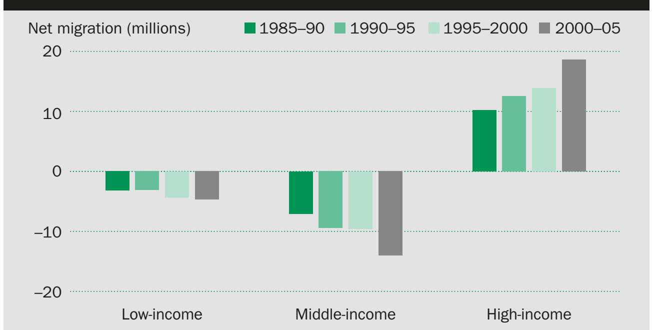
Movement of people facilitates common economic and social goals

Movement of people as tourists, migrants, or business travelers raises awareness and spreads knowledge, important elements of globalization. These movements link diverse populations with common economic and social goals. Global tourism increased 5.6 percent in 2006, a pace well above its long-term average. Tourist departures from developing economies have risen 43 percent since 2000, and 7 of the top 15 tourist destinations are in developing economies.

Migration increased sharply over the past two decades. Like other elements of globalization, migration patterns are shaped by market forces and official policies. Opportunities in high-income economies are a strong lure (figure 6e), and a need for workers has led many countries to relax entry barriers. Successful migration requires resources, skills, and adaptation to a new culture. So, the largest net flows of migrants are from middle-income economies.

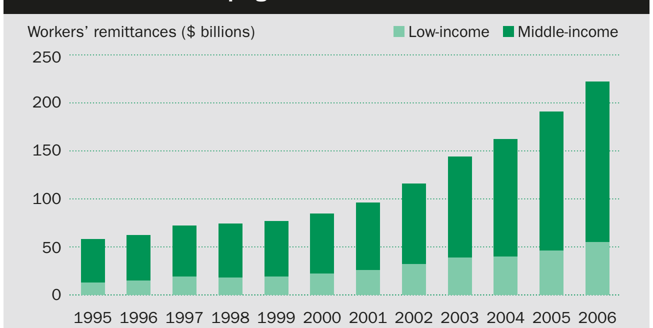
Migration facilitates cross-border remittances, a major source of foreign earnings for many developing countries. Remittances to developing countries almost quadrupled between 1995 and 2006, to more than $220 billion (figure 6f), rivaling other forms of private financing.

More migrants in high-income economies . . . 6e



Source: United Nations Population Division and *World Development Indicators* data files.

. . . are sending more remittances to developing countries 6f



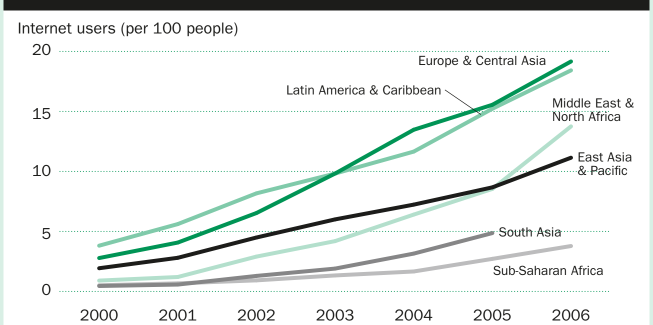
Source: World Development Indicators data files.

The role of information and communication technologies is expanding

Communication and information networks are crucial for overcoming geographic barriers, bringing people and markets closer. These networks enable effective management of enterprises across borders and participation in global production and service supply chains. Deregulation and competition have reduced communication costs. The average cost of a three-minute call to the United States fell from $4.00 in 1999 to $1.40 in 2004.

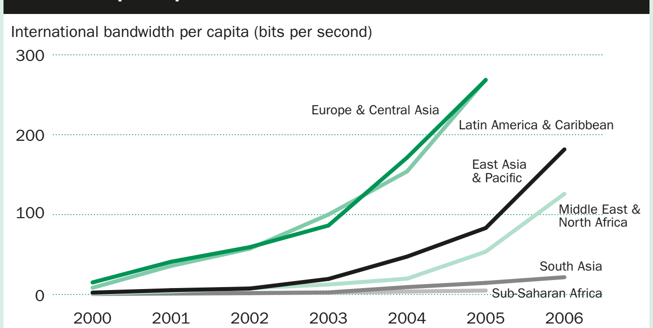
Over that period the share of people with access to the Internet tripled. The Internet promises to be an even greater force for globalization and development. But diffusion of technology around the world and within countries is unequal (figures 6g and 6h). Average contracted capacity for international Internet connections in developing economies grew from 3 bits per second per person in 2000 to 140 in 2006, still far short of the estimated 5,000 high-income average. Low-income economies' Internet capacity was still less than 20 bits per second per person in 2006, and international voice traffic less than 5 percent of the high-income average. Capital, policies, and infrastructure are needed to develop, adapt, and diffuse communication networks to accelerate development.

Europe and Central Asia and Latin America and the Caribbean lead other developing regions in access to the Internet . . . 6g



Source: International Telecommunication Union and *World Development Indicators* data files.

. . . and in international bandwith per capita 6h



Source: International Telecommunication Union and *World Development Indicators* data files.