

Press Points for Chapter 5: *Globalization, Commodity Prices, and Developing Countries*

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Key Points

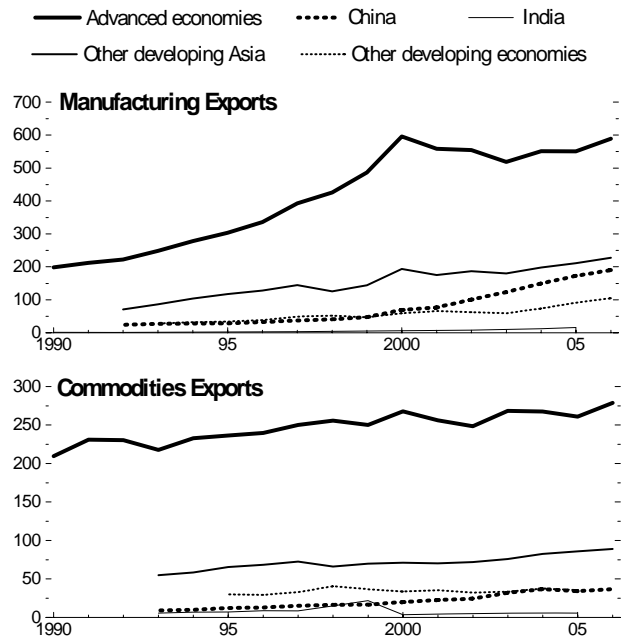
- **The current world commodity price boom has proven more favorable to developing countries than previous booms along a number of dimensions. Export volumes (especially of manufactured goods) and investment are growing more rapidly, while governments are borrowing substantially less than before.**
- **The rise in manufacturing exports is not limited to the current boom and represents a longer term trend (although with significant differences in magnitude across regions). It has been bolstered by strong demand in emerging Asia and is a notable feature of the increasing integration of developing countries into the global economy.**
- **The process of integration is expected to continue even if recent commodity price rises were to slow or reverse. The increased integration of developing countries is largely explained by better institutional quality, financial deepening, and continued external liberalization, with only a minor contribution from commodity price movements.**

Developing countries have become significantly more integrated into the global economy in recent years, against the backdrop of soaring commodity prices and improved institutions and policy frameworks. Total trade (exports and imports) now constitutes between 50 to 100 percent of GDP and total foreign capital (assets and liabilities) ranges from 100 to 200 percent of GDP across regions of the developing world. The recent surge in global integration occurred against the background of a broad-based rise in commodity prices of about 75 percent in real terms since 2000. At the same time, policy barriers to trade and financial flows have declined steadily, and the quality of institutions and macroeconomic management have improved in commodity exporters and non-commodity exporters alike.

The recent period of globalization has been characterized by increased diversification in both the composition and the destinations of exports. The volume of manufacturing exports relative to real GDP has grown steadily across the developing world, with gains ranging from 2 percentage points in the Middle East and Africa to over 20 percentage points in Asia since the late 1980s. In dollar terms, manufacturing exports to advanced economies have tripled since the early 1990s and those to China have grown even more dramatically, albeit from a low initial level (see first figure). Manufacturing sectors in developing economies have also received sizable amounts of foreign direct investment. Commodity exports to China and other Asian countries have risen sharply, but even commodity exporters have stepped up their manufacturing trade.

Developing country commodity exporters have benefited from the current commodity price boom more than from previous booms, yet over the long term the contribution of commodity prices to trade and financial integration has been minor. Relative to past booms, median export volumes have grown over 3 percentage points per year faster and manufacturing exports have responded significantly more, reflecting in part less real appreciation in fuel exporters and greater tariff reduction in non-fuel commodity exporters. Foreign and domestic investment have accelerated, while foreign borrowing, especially by governments, has slowed, compared to past booms. However, commodity prices explain little of the 26 percentage points rise in export volumes (relative to GDP) between the 1980s and the current decade. Instead, as much as half of this increase can be explained by better institutions, financial deepening, and reduced policy distortions, including fewer exchange restrictions, lower tariffs, and diminished overvaluation, as well as higher trade openness in other countries (see second figure).

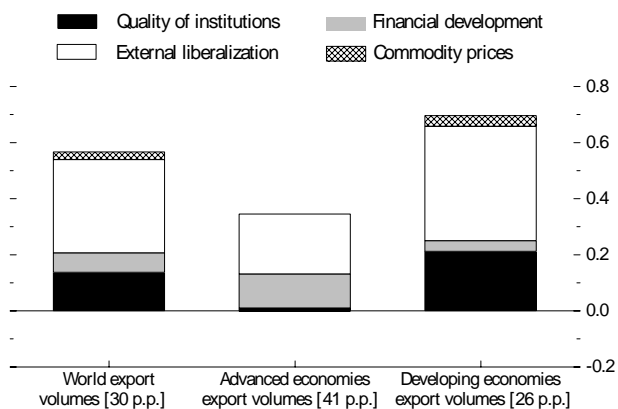
Exports from Emerging and Developing Economies
(Exports by destination in billions of 2000 U.S. dollars)



Sustained efforts to further improve institutions and policy frameworks would support continued progress toward integration of developing countries and improve their ability to withstand abrupt changes in commodity prices. The analysis in this chapter implies that even if commodity prices were to lose their buoyancy, the process of integration is unlikely to be reversed. Continued improvements in institutional quality, financial deepening, fiscal prudence, and external liberalization will continue to be important drivers of integration. Nevertheless, many developing countries remain dependent on commodity exports, and increased diversification and reform progress would reduce their vulnerabilities to commodity price shocks.

Explaining the Increase in Integration from the 1980s to 2000s

(Selected contributions in percent¹)



¹ Dependent variable and total difference in percentage points are on the x-axis; percent of total difference is on the y-axis. Results are based on panel regressions. Export volumes are deflated by a real GDP index.