

# The integration of developing countries into the world economy

The **integration of developing countries** into the global economic system has progressed along a variety of dimensions over the past few decades. Their share of world merchandise trade has increased from 25 to 47 percent between 1980 and 2010. Developing countries have absorbed more than half of total **Foreign Direct Investment (FDI)** in 2012, with approximately one third of total FDI originating from developing countries. Labor flows across borders have also increased substantially, as reflected by the share of foreign-born population residing in OECD countries, which increased from less than 5 percent in 1985 to around 10 percent in 2005. The multiple facets of integration, and the associated **technological transfers**, contribute to shape the evolution over time of their economic structures. The increased integration of developing countries occurred simultaneously with a significant change in the world income distribution, which used to be bi-modal, with humps at the two extremes, and it is not becoming unimodal, with a single hump at the center. While integration can contribute to economic development, it can also reduce the policy space of developing countries, reducing the room of manoeuvre for adopting domestic policies that better suit their specific needs.

The never-ending negotiations, which began back in **2001**, for the so-called **Doha Development Round at the WTO deal** with topics, such as non-reciprocal preferential trade agreements or trade-related intellectual property rights that directly hinge on their ability of low-income countries to adopt pro-active development policies. The integration in the world economy can also jeopardize, for instance through a fall in tariff revenues or with the difficulty of taxing footloose multinational enterprises that operate in developing countries, the **fiscal resources** they need to implement development policies. Furthermore, the rise of China generates competitive pressures that can stifle economic diversification and industrialization in smaller countries. Our research will explore the different effects and the various challenges related to the integration of developing countries into the world economy. Specifically, we will analyze the development impact of FDI, which also goes through the **local adoption of foreign technologies**, and of **migrants remittances**.

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