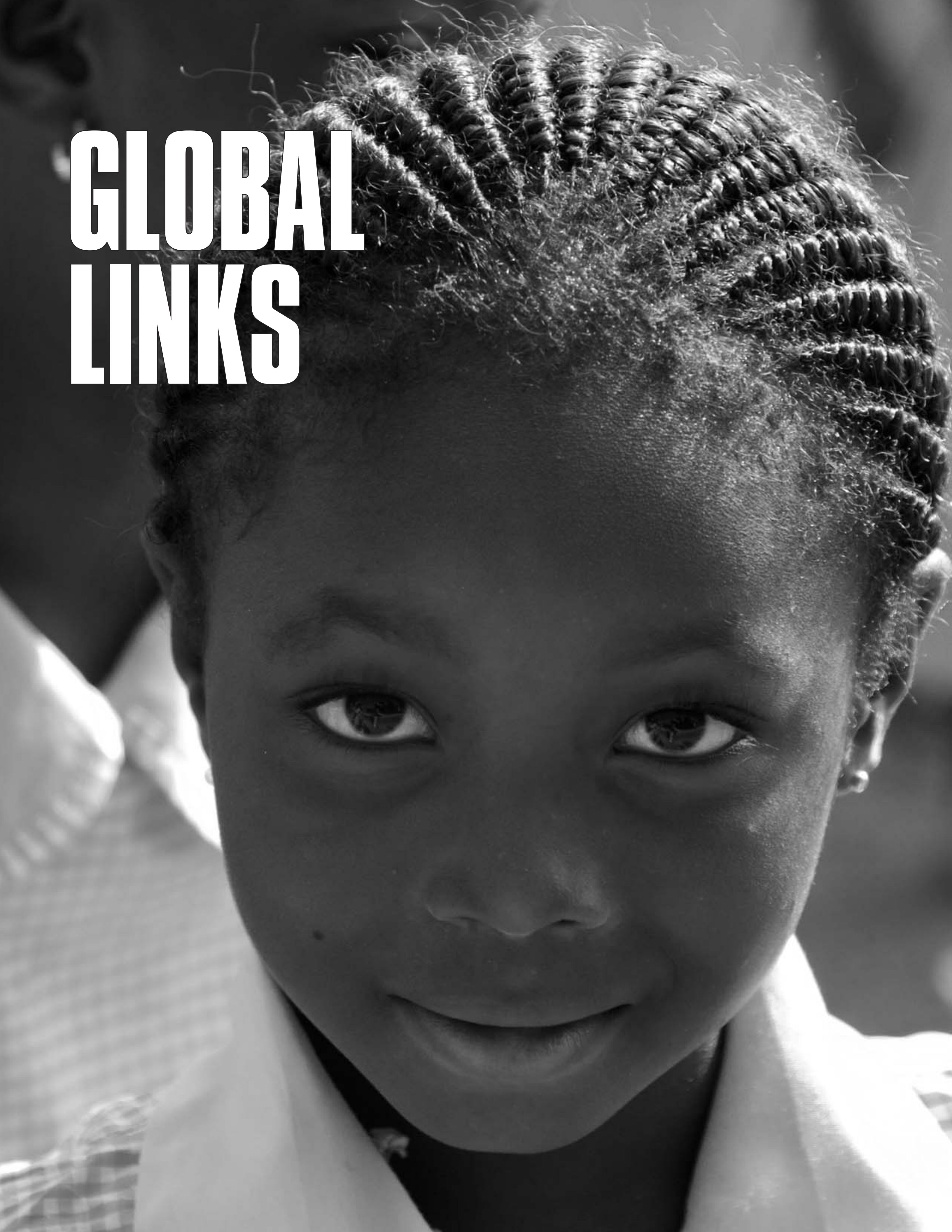
GLOBAL
LINKS

The world economy is bound together by trade in goods and services, financial flows, and movements of people. As economies develop, their links expand and grow more complex. The indicators in *Global links* measure the size and direction of these flows and document policy interventions, such as tariffs, trade facilitation, and aid flows.

During economic crises, declining trade and financing and changes in migration patterns in one country or region can transmit shocks to others. An example is the financial crisis that began in the United States in 2007 and spread rapidly to Europe. But the same links that transfer shocks also allow expansion into new markets and access to new sources of finance, reducing the impacts of shocks. In an increasingly multipolar world, developing countries are trading and investing more with each other, reducing their dependence on high-income economies. Evidence of this shift can be found in the tables of *Global links.*

Capital inflows rebounded strongly in 2010, especially in low- and middle-income economies, where combined net debt and equity inflows rose 37 percent, to $799 billion. Foreign direct investment (FDI) inflows rose 3 percent—with wide disparity across income groups. In high-income economies FDI inflows fell 7 percent, dragged down by a 13 percent drop in net inflows to the euro area. But inflows to the United States—the world's largest FDI recipient—surged. And low- and middle-income economies saw net FDI inflows jump 27 percent, to $514 billion, and their share of global FDI inflows increase to almost 36 percent, up from 29 percent in 2009. A better investment environment, corporate earnings revival, and increased developing country investment in extractive industries and infrastructure development in other developing countries fueled the rebound. China was a key driver, with net FDI inflows up 62 percent in 2010 (to $185 billion).

Portfolio equity flows recovered rapidly as the global financial crisis ebbed, particularly in emerging markets with good growth prospects. Low- and middle-income economies recorded a 19 percent increase (to $130 billion), underpinned by a 89 percent rise in net inflows to India. For high-income economies the story was mixed—particularly in the euro area, where net inflows rose 13 percent.

Debt-related flows to low- and middle-income economies from private creditors rose in 2010 to $111 billion, more than twice their 2009 level, underpinned by a resurgence of bond issuance by public and private sector borrowers. Similarly, net inflows from banks and other private creditors showed signs of recovery, rising 123 percent, to $44 billion, albeit from a low base of $20 billion in 2009. Net inflows from bilateral and multilateral creditors (loans and grants) fell 11 percent, due largely to the redirection of International Monetary Fund flows to countries in the euro zone.

Low- and middle-income economies' combined external debt rose $437 billion in 2010, to $4 trillion, but it remained within sustainable bounds, an average of 21 percent of gross national income and 69 percent of export earnings. Short-term external debt was the fastest growing component, rising 34 percent in 2010 compared with 6 percent for outstanding long-term external debt. Risks associated with a high proportion of short-term debt—25 percent of total debt stock at end-2010—were mitigated by international reserves equivalent to 137 percent of total outstanding external debt.