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Barbara Stallings

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# Section Three

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# The Globalization of Capital Flows: Who Benefits?

*By*
BARBARA STALLINGS

This article analyzes the benefits and costs of financial globalization. While most attention has been placed on the opportunity to obtain additional capital, the benefits from incorporating international norms are also highlighted. The article examines the trends in capital flows, both from public sector institutions and private investors, placing special emphasis on foreign direct investment and remittances. Major problems identified are the skewed distribution of foreign investment—not only among regions and countries, but also among types of firms—as well as its volatility. The article concludes with a set of policy recommendations to spread the benefits of foreign capital and to make it more productive.

*Keywords:* globalization; financial flows; foreign direct investment (FDI); remittances; capital volatility

The past several decades of global change have brought multiple issues into high profile, including sharper economic and geographic polarization, heightened levels of inequality within developed and developing nations, and new patterns of regionalization.[1] An important cause of the growing international and intranational differentiation is the role of capital flows. Globalization and liberalization have led to greater mobility of capital, but not all regions, countries, or firms have been recipients in equal measure. Also, while capital flows can provide significant benefits, they also pose many challenges.

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This article looks at both the positive and negative aspects from the particular viewpoint of developing countries. The first section discusses definitions of globalization and liberalization and asks why countries would liberalize. The second section examines the characteristics of capital flows, comparing public and private sources and noting the reduction of the first and the expansion of the second in recent years. A traditional type of capital flow (foreign direct investment, or FDI) is also compared with a newer one (remittances). The third section analyzes the recipients of capital flows or the question of who has access among regions, countries, and firms. The fourth section considers capital volatility, contrasting short-term and long-term investments. The concluding section discusses the balance sheet of winners and losers and asks how the benefits of financial globalization might be spread more evenly. Overall, the article argues that if the benefits of globalization are to be preserved, the complex problems created or exacerbated by globalization must be substantially mitigated, even though they can never be completely resolved.

## Globalization and Liberalization

A vast number of studies have been published in recent years about the advantages and disadvantages of globalization and economic liberalization. While proponents argue that these processes will speed up growth and help to create jobs and reduce poverty, critics charge that the problems created often outweigh the benefits, especially for countries and groups at the bottom of the income ladder.[2] But what is meant by globalization and liberalization, and what is the relationship between the two? Why would governments, even those who claim to represent progressive ideas, liberalize their economies?

Globalization, according to the definition used in this article, refers to the increasing integration of the world through transnational flows of goods, capital, ideas, and norms. People have generally been less mobile, although immigration has accelerated in recent years for economic, social, and political reasons. Thus, globalization is not a purely economic phenomenon even if the basic framework is economic.[3] A crucial aspect of globalization is that the flows will take place regardless of whether any individual developing country participates. Thus, from the developing country perspective, globalization can be considered an exogenous set of variables.

Liberalization is, in some ways, the opposite side of the coin. It consists of the removal of barriers—economic, political, and legal—to transnational flows over their borders by individual developing countries. Unlike globalization, it is an internal process and represents the decision to take part in globalization. It is important, however, to mention two caveats to these definitions. First, if most countries are closed economically and ideologically, then globalization will be seriously hobbled. Second, the “decision” to participate may be promoted by powerful actors already involved in globalization and thus some degree of manipulation may be involved. Likewise, not all citizens of a given country may be in agreement with a decision by their government to liberalize.

If we take globalization as a given, why have most governments decided to participate in it, that is, to liberalize their economies? Unless the decision is totally

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against their will, which is highly unlikely, they liberalize because they think they will benefit. Looking at examples from the financial sector, we can identify several potential benefits.[4] The one most discussed is greater access to capital, which can help increase growth through higher investment rates, better technology, and entrée to foreign markets. This benefit could accrue either though FDI, which almost always involves some increased investment, or through access to long-term loans and other finance through international capital markets.[5]

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*[Governments liberalize their economies] because they think they will benefit [through] greater access to capital, . . . better technology, and entrée to foreign markets.*

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Equally important, however, globalization involves the spread of norms and institutions. In the financial area, through organizations such as the Bank for International Settlements (BIS) and the International Monetary Fund (IMF), better regulation and supervision have been promoted as have more independent central banks. More generally, improved corporate governance of both financial and nonfinancial firms—particularly with respect to greater transparency and increased availability of information—brings benefits to shareholders and the general public alike.[6]

Set against these potential benefits are costs that can also be large. One of those costs is increasing inequality across and within nations as some countries and some groups get access to large amounts of capital while others are shut out. Increased inequality, in turn, not only leads to wasted resources but also is likely to increase instability and thus further the gap between those who are considered good and poor credit risks. Ironically, the other potential cost that many experts highlight—that resulting from the volatility of capital flows—tends to be concentrated among countries that do have access to capital.[7] In this sense, poorer countries are protected. Volatility, arising from large surges of capital moving across borders in both directions, makes it difficult to manage an economy and, in the worst of cases, can result in extremely damaging crises. These two problems—inequality and volatility—can potentially undermine globalization itself if they are not dealt with adequately.

## Characteristics of Capital Flows

Before we can analyze winners and losers of financial globalization and liberalization, we have to study the characteristics of capital flows and their trends over recent years. Figure 1 provides an overview of total global capital flows to developing

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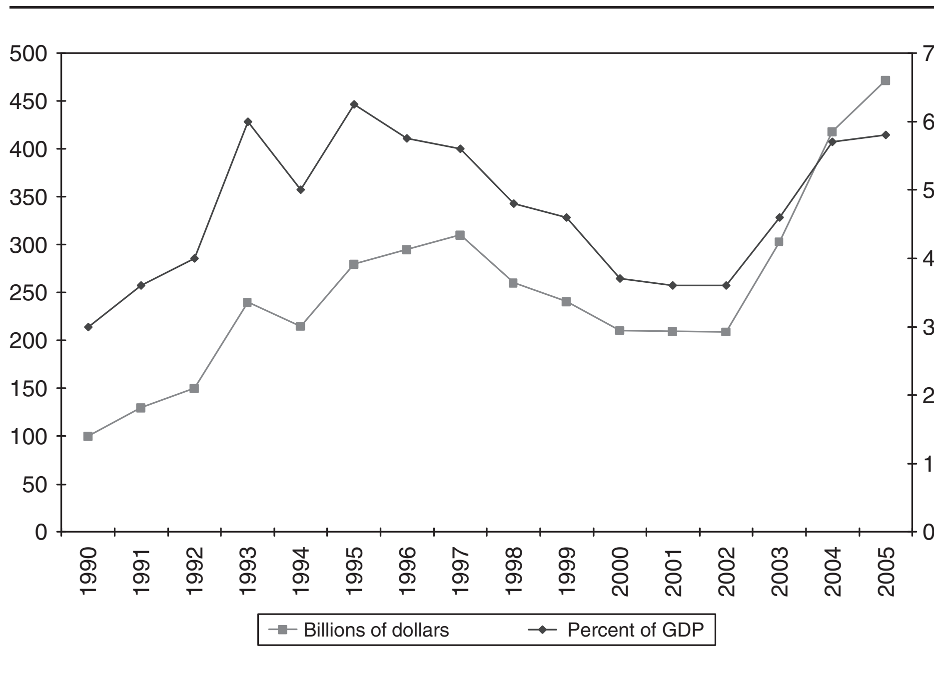
FIGURE 1
**TOTAL NET CAPITAL FLOWS TO DEVELOPING COUNTRIES**




countries in the past decade and a half. The lighter line represents billions of dollars, and the darker one shows flows as a percentage of GDP. The lines are similar; combined they tell a story about the rapid surge of capital flows into developing countries in the early part of the 1990s, followed by a drop through the first part of the current decade and then a recent turn back up to reach a peak of US$470 billion in 2005 (nearly 6 percent of GDP).[8] All three subperiods reflect trends in the broader international political economy. The early surge came as a response to the end of the debt crisis of the 1980s as well as the perceived greater stability in developing economies. The drop in the second half of the 1990s occurred in large part as a reaction to the Mexican and Asian crises. As these crises were gradually overcome, capital again began to move into the developing world.

While Figure 1 shows an overall picture of capital flows, it is important to disaggregate them to understand the mechanisms at work as well as the consequences for recipients. One important distinction is the difference between public capital flows—that is, disbursements coming from governments and multilateral organizations—versus private flows. It is fascinating to observe that in 1990, public and private capital flows to developing countries were nearly identical, about US$50 billion each. What a difference fifteen years have made. Public capital has not even stayed constant; it has fallen in nominal terms and net flows are now negative. (It should be noted that grants have been increasing in a modest way.

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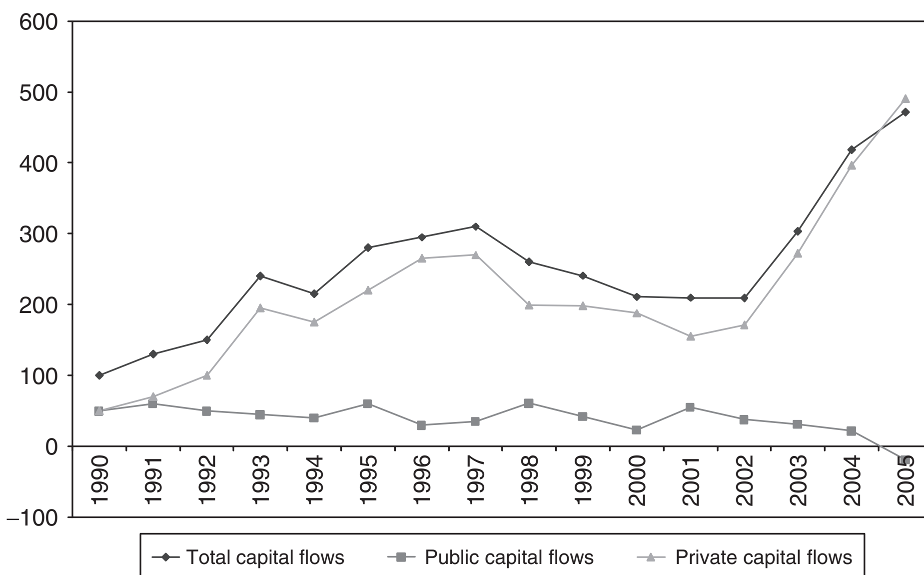
FIGURE 2
**PUBLIC AND PRIVATE CAPITAL FLOWS TO DEVELOPING COUNTRIES (BILLIONS OF DOLLARS)**




Given balance-of-payments rules, however, they are not included as part of capital flows.) Meanwhile, private flows increased sharply until about 1997, falling off but then increasing over the past few years to reach a new high of nearly US$500 billion in 2005. It is clearly private investors who are playing the dominant role in spurring capital mobility, both the inflows and outflows. The significance of this fact will become apparent later when we see the distribution of public and private flows among different groups of developing countries (see Figure 2).

Another distinction looks within the private investor category to focus on different types of capital involved in the transfers. FDI is regarded at present as the most positive of all capital flows since it is thought to be the most stable type and to provide positive externalities in the form of access to foreign markets and to technology. It is interesting that this view is just the opposite of that prevailing in the 1970s, when many FDI projects in developing countries were nationalized because they were seen as displacing local capital and extracting capital from the country in the form of profit remittances. Figure 3 shows how significant FDI has become both in terms of billions of dollars and percentage of GDP. In 2005, it reached US$240 billion (3 percent of GDP), a nearly tenfold increase from US$25 billion (0.5 percent of GDP) in 1990. Thus, FDI now represents approximately half of total capital flows.

Finally, Figure 4 introduces a newly significant type of foreign resources. Remittances from workers who have gone abroad to work have been important for

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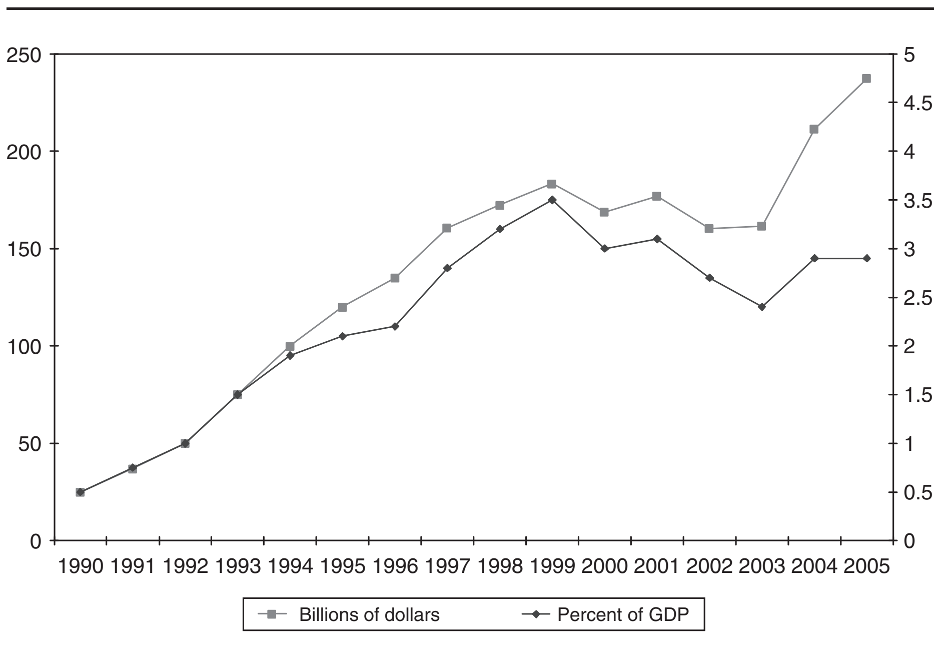
FIGURE 3
**NET FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO DEVELOPING COUNTRIES**




some countries for a long time, but recently they have ballooned to become a major source of foreign exchange.[9] In 2004, the last year for which complete estimates are available, remittances to developing countries totaled US$167 billion. In Latin America alone in 2005, the amount was nearly US$50 billion. In many of the smaller economies of Central America and the Caribbean, remittances amount to more than 10 percent of GDP.[10] As we will see later, one of the reasons that these flows are important is that they are distributed among countries and households in a very different way than other private capital flows. To see the significance of remittances, Figure 4 compares them with FDI flows. There it can be seen that the former had become almost as important as the latter a couple of years ago although the gap has widened somewhat since 2003 with the recent surge in FDI.[11]

## Access to Foreign Capital

While there is general—even if not total—agreement that foreign capital can have a positive impact on the development process, we have also seen that two central arguments are made about the negative aspects of these flows. In this section, we discuss the issue of skewed access to foreign capital; in the next one we discuss the problems of volatility.

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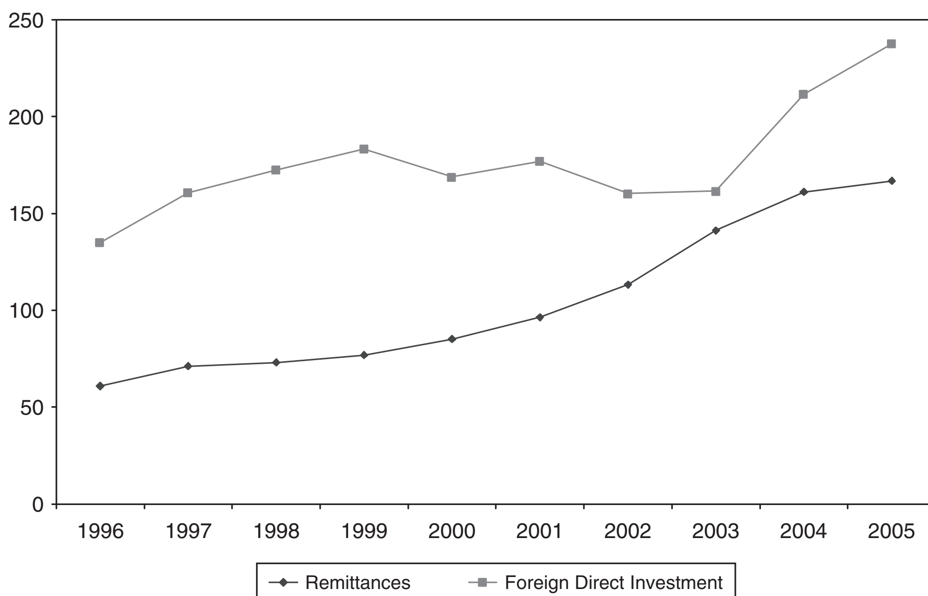
FIGURE 4
REMITTANCES AND FOREIGN DIRECT INVESTMENT (FDI) TO DEVELOPING COUNTRIES (BILLIONS OF DOLLARS)




Who is getting access to foreign capital and of what kind? We can think of several categories of potential beneficiaries: all developing countries, certain regions, certain countries, and certain types of firms. Table 1 shows what regions of the world get access to capital and of what types. The data are flows for the year 2004; they include both dollar amounts and percent of GDP since the former can give some misleading impressions. Thus, the largest recipient by dollar amount is Eastern Europe, but Sub-Saharan Africa obtains nearly twice as much as a share of GDP.

For all regions except Sub-Saharan Africa, private flows are many times larger than public monies. Among private sector flows, FDI is generally much more important than flows from the capital markets. Within the public sector category, grants are the dominant positive flow. In every case except Africa and South Asia, official loans are actually negative as bilateral and multilateral sources receive more money in repayments than they lend out. Reliance on public sector flows has advantages, in that they are generally more stable, but as we have seen, they have been declining over time while private sector flows have been expanding rapidly.

Another way of looking at the allocation issue is by country. Tables 2 and 3 do so with a focus on the distribution of FDI in comparison to remittances. FDI

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TABLE 1
**REGIONAL DISTRIBUTION OF TOTAL NET CAPITAL FLOWS, 2004 (BILLIONS OF DOLLARS)**

| | East Asia | Eastern Europe | Latin America | Middle East | South Asia | Africa |
|---|---|---|---|---|---|---|
| Grants | 2.7 | 9.0 | 3.2 | 4.0 | 4.3 | 24.2 |
| Official loans | –7.9 | –1.8 | –5.7 | –2.2 | 1.8 | 1.4 |
| Private flows | 83.6 | 74.6 | 50.7 | 6.7 | 16.9 | 15.4 |
| Foreign direct investment (FDI) | 63.6 | 37.6 | 42.4 | 4.1 | 6.5 | 11.3 |
| Capital markets | 20.0 | 37.0 | 8.3 | 2.6 | 10.4 | 4.1 |
| Total | 78.4 | 81.8 | 48.2 | 8.5 | 23.0 | 41.0 |
| As percentage of GDP | 3.5 | 5.0 | 2.7 | 1.8 | 2.8 | 9.3 |

SOURCE: Calculated from regional tables in World Bank (2005, vol. II, pp. 6-29).

TABLE 2
**CONCENTRATION OF FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO DEVELOPING COUNTRIES, 2004**

| Country | Amount | Percentage | Cumulative |
|---|---|---|---|
| China | 56.0 | 33.8 | 33.8 |
| Brazil | 15.3 | 9.2 | 43.0 |
| Mexico | 14.1 | 8.5 | 51.5 |
| Russia | 7.8 | 4.7 | 56.2 |
| Chile | 5.6 | 3.4 | 59.6 |
| India | 5.3 | 3.2 | 62.8 |
| Poland | 4.7 | 2.8 | 65.6 |
| Czech Republic | 3.8 | 2.3 | 67.9 |
| Others | 52.9 | 32.0 | 100.0 |
| Total | 165.5 | 100.0 | |

SOURCE: Calculated from World Bank (2005, vol. I, p. 145).

flows are highly concentrated, as can be seen in Table 2. Eight countries alone get more than two-thirds of all foreign direct investment. China receives about one-third of the total, while Brazil and Mexico also figure prominently as destinations of FDI flows. Over the past decade and a half, Russia and two Eastern European economies have joined the group, as have Chile and India.[12]

Table 3, by contrast, shows the allocation of remittances. While the concentration of remittances is lower than FDI, it is still high. In this case, eight countries receive about half of all remittances. In most cases, however, the list of countries is very different. India leads the list as a recipient of remittances, followed by

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TABLE 3
**CONCENTRATION OF REMITTANCES TO DEVELOPING COUNTRIES, 2004**

| Country | Amount | Percentage | Cumulative |
|---|---|---|---|
| India | 23.0 | 18.3 | 18.3 |
| Mexico | 17.0 | 13.5 | 31.8 |
| Philippines | 8.1 | 6.4 | 38.2 |
| China | 4.6 | 3.7 | 41.9 |
| Pakistan | 4.1 | 3.3 | 45.2 |
| Morocco | 3.6 | 2.9 | 48.1 |
| Bangladesh | 3.4 | 2.7 | 50.8 |
| Colombia | 3.1 | 2.5 | 53.3 |
| Others | 58.9 | 46.8 | 100 |
| Total | 125.8 | 100 | |

SOURCE: Calculated from World Bank (2005, vol. I, p. 136).

Mexico, the Philippines, China, Pakistan, Morocco, Bangladesh, and Colombia. Thus, only China, India, and Mexico are on both lists. It is reasonable to expect that the impact of the two kinds of flows is very different as well. FDI and remittances go to substantially different kinds of places. As a general rule, FDI is attracted to dynamic countries with higher per capita incomes, while remittances tend to go to poorer countries that cannot provide enough jobs for their workers at home. At the household level, the two types of flow are also very different. Recent World Bank research offers an optimistic vision of the advantages of remittances, which are found to help reduce poverty; smooth household consumption; ease working capital constraints; and increase household expenditure on education, health, and entrepreneurship.[13]

Finally, in an assessment of capital flows, it is important to consider production units, where size is a crucial determinant of access to finance. Large firms have easy access to foreign capital, both through FDI and the international capital markets. Medium, small, and micro firms, by contrast, have much greater difficulty in obtaining capital to finance their operations. While they cannot resort to international markets, medium-sized firms may be able to tap local financial markets, depending on how individual countries' markets are structured, what kinds of norms regulate the allocation of capital, and the existing resources available to mobilize investments. Small and micro firms are limited to finance from banks and other local lenders, in addition to retained earnings. This means they will grow more slowly, and the gap between them and their larger counterparts is likely to increase. This is very important since small firms tend to create the majority of jobs, especially in developing economies.

Using data from a survey by the World Bank in 2000, which asked small entrepreneurs in various regions about the major obstacles they face in conducting business (see Table 4), we can get some idea about the general problem of finance for small firms, but also how it varies to some extent by region. In East

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TABLE 4
**ACCESS TO FINANCE FOR SMALL FIRMS IS MAJOR OBSTACLE**

| Region | Percentage Agree |
|---|---|
| East Asia Pacific | 33.5 |
| Eastern Europe | 26.0 |
| Latin America | 43.8 |
| South Asia | 41.9 |
| Sub-Saharan Africa | 40.2 |

SOURCE: World Bank, *World Business Environment Survey 2000*, online database; http://info.worldbank.org/governance/wbes/.

Asia and Eastern Europe, less than a third of those interviewed said that finance is a major obstacle, whereas in Latin America, South Asia, and Sub-Saharan Africa, more than 40 percent of small businesspeople see access to capital as a major obstacle to conduct operations.

## Volatility of Capital Flows

Volatility is a second aspect of capital flows that has been heavily criticized by those who question the benefits of globalization.[14] The issue here is that funds can move in and out of countries with great rapidity, making it difficult for the authorities to manage macroeconomic policy. This is especially problematic in developing countries since their economic size tends to be small in comparison with the increasingly large flows of international finance. In the worst of cases, this volatility can contribute to financial crises that can be devastating for developing economies. Many experts, for example, have argued that such volatility was an important contributor to both the Mexican and Asian financial crises of the 1990s.[15]

Private financial flows are volatile by nature, depending as they do on the changing opinions of investors about the creditworthiness of individual borrowers but also about the characteristics of the markets as a whole. Nonetheless, some types of private flows are believed to be more volatile than others. At present, most experts regard FDI as the least volatile flows since it is thought to be difficult to withdraw tangible physical investments. Others have begun to question this argument, however, suggesting that the use of derivatives may make FDI quite similar to other flows in terms of volatility.[16]

While expert opinion may vary with respect to FDI, almost all consider short-term flows to be the most volatile of all. Table 5 provides an idea of the pattern of short-term flows and the damage they can cause. It shows Latin America before and after the Mexican financial crisis of 1994-1995 and East Asia before and after the 1997-1998 crisis. The table depicts short-term bank loans compared to longer-term debt securities. As may be seen, even in Latin America—a less dramatic case than East Asia—the turnaround in terms of short-term flows in the two years before and after the crisis was considerable. The trend was from a

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TABLE 5
**SHORT-TERM FOREIGN CAPITAL FLOWS DURING CRISES (BILLIONS OF DOLLARS)**

| | Latin America | | East Asia | |
|---|---|---|---|---|
| | 1993-1994 | 1995-1996 | 1995-1996 | 1997-1998 |
| Bank loans | 14.9 | –0.1 | 51.3 | –60.4 |
| Debt securities | 5.6 | 1.3 | 5.2 | 4.3 |
| Total | 20.5 | 1.4 | 56.4 | –56.2 |

SOURCE: BIS-IMF-OECD-World Bank, Joint Statistics on External Debt, online database; http://www.oecd.org/site/0,2865,en_21571361_31596493_1_1_1_1_1_,00.html. BIS = Bank for International Settlements.

moderately large positive number to a small negative number. Debt securities, by contrast, moved in the same direction, but the numbers remained positive. East Asia presents a far more drastic picture: a very large short-term capital inflow in the two years right before the crisis turned into an enormous outflow in the two years after financial upheaval. In that case, debt securities were not very large compared to the short-term flows but remained at more or less the same level throughout the transition. In the Asian countries, the balance shifted by more than a hundred billion dollars over a four-year period.

One argument that has long been made in favor of more public sector financing for developing countries is that it is less volatile than its private sector counterpart. Indeed, some public loans are explicitly countercyclical in the sense that they are offered when a borrowing country is in trouble and other lenders have withdrawn. The IMF is the main example of an institution that is designed to serve this function, but the World Bank and the regional development banks also engage in some countercyclical lending. The argument cannot be carried too far, however, especially with respect to some bilateral financing. Governments of lending countries can also be quite fickle in their willingness to support "foreign aid" to developing economies. In addition, as we have already seen, the long-term trend of public sector loans has been declining and is now negative on a net basis. Those that rely on these funds are therefore in a vulnerable situation.

## Can Benefits Be Spread More Evenly?

We are now in a position to present a balance sheet of the positive and negative aspects of financial globalization.

(1) Some regions (especially East Asia, Eastern Europe, and some countries in Latin America) have been able to attract a large volume of private capital flows, which can potentially help increase growth and provide resources for development of human capital. Other regions (Sub-Saharan Africa, South Asia, and the non–oil exporters in the Middle East) have to rely on declining supplies of public sector

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capital. Newer flows, especially remittances, are beginning to provide enhanced opportunities to countries and regions that have not always been favored by traditional capital flows.

(2) Some firms and households have also been able to take advantage of the burgeoning quantities of private capital. At the firm level, these are almost exclusively large, well-established companies—including state-owned firms. Some relatively well-off households are beginning to get access to mortgage finance and consumer credit that are often provided directly by foreign banks or indirectly as local banks borrow abroad and on-lend at home. Poorer households have been assisted in some cases by remittances from family members working abroad.

(3) The spread of international financial norms—including better regulation and supervision of banks and financial markets, greater transparency, and wider diffusion of information—has been beneficial to all kinds of borrowers in ways that are often overlooked. There is increasing evidence that countries with good corporate governance in the financial and nonfinancial sector have deeper financial markets and greater opportunities for new borrowers to obtain access.

(4) Volatility undermines the value of financial flows for almost all recipients. The tendency for these flows to come in surges and withdraw just as quickly makes it much more difficult to manage economies in a sensible way and, in especially complicated situations, can even provoke financial crises. These retard economic growth for years, in part because the financial sector itself is severely damaged.

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*The policy question at the heart of this article is how to spread benefits in ways that are more equitable and more productive than those existing at present.*

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The policy question at the heart of this article is how to spread benefits in ways that are more equitable and more productive than those existing at present. What are the tools available to achieve that goal? If public officials and policy makers want to promote foreign capital, there are some things they can do to make their countries more attractive. Political stability is a top item on that list. More transparency in financial transactions, the result of institutional norms directed at governing capital flows, is another priority. Yet rapid growth is probably the single most important characteristic of countries gaining the favor of foreign investors. Is foreign capital itself creating a positive cycle in terms of growth? For some countries, like China and Chile, that certainly appears to be the case. For many

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countries, however, external finance has not helped growth. This is not necessarily because capitalists are not playing by the rules but because states have not created suitable conditions for attracting foreign investments. Recent research has tried to identify characteristics that increase the chances of foreign capital having a positive impact, but some circularity is involved since these are the same characteristics that foreign investment is supposed to promote.[17]

The skewed distribution of foreign finance among regions and countries actually embodies two different sets of problems. For those countries with ready access to private flows, debt buildup as well as volatility are serious concerns. Prudent debt management is probably easier to deal with than volatility. In Latin America, however, Chile, Colombia, and Brazil have used economic measures to slow down the inflow of capital, which, in turn, cushions the blow of subsequent outflows. To be effective, however, these measures must be accompanied by sound macroeconomic policies.[18] Another kind of problem exists for countries that must rely on public funds. While grants have been increasing, public sector loans have been falling and, as noted above, are now negative in net terms. It behooves the multilateral agencies, who are at the heart of this problem, to study ways to maintain a positive loan flow.

The article contends that it is not enough to worry about which countries gain access but also about the kinds of firms that have access to capital. This is not just a question of social justice but also of employment and economic growth. How to increase access for smaller firms leads into the debate about the role of the government in the financial sector. New theories of banking decry the continued existence of public sector banks, suggesting that the way to get finance to the people who really need it is to rely exclusively on private institutions. While this may often be true, public banks can fulfill some functions that are complementary to the role played by the private sector. One concerns finance for small firms, where interesting examples exist of "second-tier" public banks that intermediate between international sources of capital (public and private) and small borrowers via private banks.[19]

All of these issues—the productivity of foreign capital in terms of increasing growth, the problem of volatility, and the question of who has access to capital—are in urgent need of solution. If positive responses cannot be found, the benefits associated with globalization in general, not just financial globalization, may be called into question.[20] Since even the sharpest critics agree that globalization is potentially a great benefit for developing countries, its curtailment is not in their interest. It is important, then, for developing country governments to work together with their counterparts in developed countries and with international organizations to look for creative solutions.

## Notes

1. Some of the ideas in this article were developed earlier in Stallings (2002).

2. On the positive side, see Bhagwati (2004) and Wolf (2004). For a more critical approach, see Rodrik (1997, 1999) and Stiglitz (2002, 2006). A study that tries to present a balanced, empirical analysis for the case of Latin America is Stallings and Peres (2000); a similar but broader work that focuses on winners and

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losers is de la Dehesa (2006). A useful analysis comparing current globalization with the past is Bordo, Eichengreen, and Irwin (1999).

3. For a definition of globalization that brings in noneconomic variables, see Rosenau (1997). A useful multidisciplinary treatment of globalization is Held et al. (1999); on governance of globalization, see Held and McGrew (2002).

4. Financial globalization has become arguably the most contentious aspect of globalization. A number of recent publications by high-profile economists have debated the merits and demerits. See, for example, Stiglitz (2002), Prasad et al. (2003), Kose et al. (2006), and Mishkin (2006).

5. Perhaps the most enthusiastic proponent of financial globalization as a source of growth and prosperity in developing countries today is Frederic Mishkin. See his arguments on the subject in Mishkin (2006).

6. On corporate governance and the role of the international financial institutions, see Stallings (2006, chap. 4).

7. See, for example, Ffrench-Davis (2001) on problems of successful economies.

8. These flows are nonetheless smaller than those of the late nineteenth and early twentieth centuries. As measured by current account deficits, several important capital importers then were bringing in more than 10 percent of GDP (see Bordo, Eichengreen, and Irwin 1999).

9. It should be noted that, in terms of the balance of payments, remittances (like grants) are not considered part of the capital account but are located in the current account. Thus, they are not included in the overall capital flows shown in Figure 1.

10. For data, see World Bank (2006b) and Fajnzylber and López (forthcoming).

11. This graph is based on World Bank data. Data from the United Nations Conference on Trade and Development (2006) show a bigger gap between the two.

12. Foreign direct investment (FDI) to developing countries in 2005 was about 25 percent of total FDI. That is, the large majority of FDI goes to developed economies (calculated from World Bank, 2006a, vol. I, Table 2.6).

13. See World Bank (2006b, chap. 5). A great deal of research has been done on remittances in the past few years. In addition to the World Bank document, see, for example, see Terry and Wilson (2005) and Fajnzylber and López (forthcoming).

14. Among those who criticize financial globalization, volatility is a major target of their analyses. See, for example, Stiglitz (2002, esp. chap. 3), Ocampo and Martín (2003), Ffrench-Davis and Griffith-Jones (2004), and Calvo (2005).

15. On Mexico, see Calvo and Mendoza (1996); and Sachs, Tornell, and Velasco (1996). Amidst the vast literature spawned by the Asian crisis, see overviews in Lindgren, García, and Saal (1999); and Lee (2003). Stallings (2006, chap. 2) compared the two.

16. An early argument that questioned the difference between FDI and other flows was Claessens, Dooley, and Warner (1995). A more recent analysis that concentrates on the role of derivatives is Griffith-Jones and Dodd (2006).

17. See, for example, the discussion in Kose et al (2006).

18. These types of measure are very controversial, but they have gained wider acceptance, even at the international financial institutions.

19. Stallings (2006, chap. 9) discussed examples in Latin America and East Asia, where public sector banks have successfully complemented private sector activities.

20. The new chairman of the Federal Reserve recently issued a warning along these very lines.

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