

# After stalling, globalization is deepening again

**European nations, headed by the Netherlands, top the 2014 DHL Global Connectedness Index. Yet emerging economies continue to advance.**

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The good news: The depth of global connectedness started growing again in 2013 after stalling in 2012.

The bad news: Overall, the level of global connectedness remains quite limited -- lower than many people think. Trade depth remains stagnant and capital flows have yet to recover to pre-crisis 2007 levels.

This is according to the [2014 DHL Global Connectedness Index](#). Analyzing more than one million data points going back to 2005, the Global Connectedness Index measures the depth and breadth of connectedness and tracks trends. For the 2014 report, 140 countries and territories encompassing 99 percent of the world's GDP and 95 percent of its population are measured.

Concluding that the world is not as interconnected as it could or should be, Prof. [Pankaj Ghemawat](#) and co-author **Steven A. Altman** of IESE point out that deepening global connectedness "could be a powerful lever for boosting global growth -- adding trillions of dollars to world GDP."

## Tracking trade, capital, information and people flows

The index tracks 12 types of cross-border interactions grouped into four pillars:

1. *Trade*: covers flows of goods and services.
2. *Capital*: focuses on the flows and stocks of foreign direct investment (FDI) and portfolio equity. (Note that debt capital is excluded because of the dangers associated with high levels of international indebtedness.)
3. *Information*: incorporates data on international Internet bandwidth, international telephone calls and trade in printed material.
4. *People*: measures people movements for the long-term (migration), medium-term (university students pursuing degrees abroad) and short-term (tourism).

Tracking these flows, the index measures the depth, breath and directionality of globalization.

Depth is defined as a country's international flows relative to the size of its domestic economy. After registering a big post-crisis drop-off -- and some stalling during the subsequent recovery -- the good news is that global connectedness is deepening once again, albeit at a modest rate.

The 2014 leaders on the depth dimension of the index tend to be wealthy and relatively small. Hong Kong SAR (China), Singapore and Luxembourg are the three economies where globalization runs deepest, according to the index.

Breadth tracks how closely a country's distribution of international flows across its partner countries matches the global distribution of the same type of flows. The leaders in terms of breadth tend to be wealthy, larger nations. The United Kingdom, the United States and the Netherlands are ranked top for globalization breadth.

Directionality is the third dimension tracked, distinguishing between inbound and outbound flows in order to help policymakers account for their different implications.

## **Top of the charts and a regional view**

Combining depth and breadth, the Netherlands is the top-ranked for connectedness, followed by Ireland and Singapore. Stepping back to see regional trends, Europe remains the world's most globally connected region, with nine of the 10 most connected countries.

Southeast Asia stands out for how much higher economies there score on the depth of their connectedness relative to what would be expected given characteristics such as their sizes and levels of economic development. The top five "outperformers" are Malaysia, Vietnam, Cambodia, Hong Kong SAR (China) and Singapore.

## **Keeping up with the big shift**

The big shift from advanced to emerging economies continues to be an important global story. "Emerging economies are reshaping global connectedness and are now involved in the majority of international interactions," Ghemawat and Altman report.

Advanced economies have not kept up with the big shift, as reflected in the observation that advanced economies' breadth is declining while that of emerging economies is increasing (albeit from lower levels).

## **Other notable trends**

A decades-long trend toward trade regionalization has gone into reverse. Every type of trade, capital, information and people flow measured on the DHL Global Connectedness Index stretched out over greater distances in 2013 than in 2005.

The largest average increases in global connectedness from 2011 to 2013 were observed in South and Central America and the Caribbean. Eight of the 10 countries with the largest increases were located there or in Sub-Saharan Africa. Meanwhile, the Middle East and North Africa region was the only one to suffer a large drop in its connectedness over this period.

Looking ahead, the world economy is projected to grow faster from 2014 to 2019 than over any of the past three decades. After analyzing this data, the co-authors conclude that the biggest threats to globalization may come from protectionist policies and not macroeconomic fundamentals per se. "While adversity often leads to calls to fortify borders and hunker down behind them, it is precisely when growth slows that vocal reminders of the power of global connectedness to accelerate recovery are most needed," they write.

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