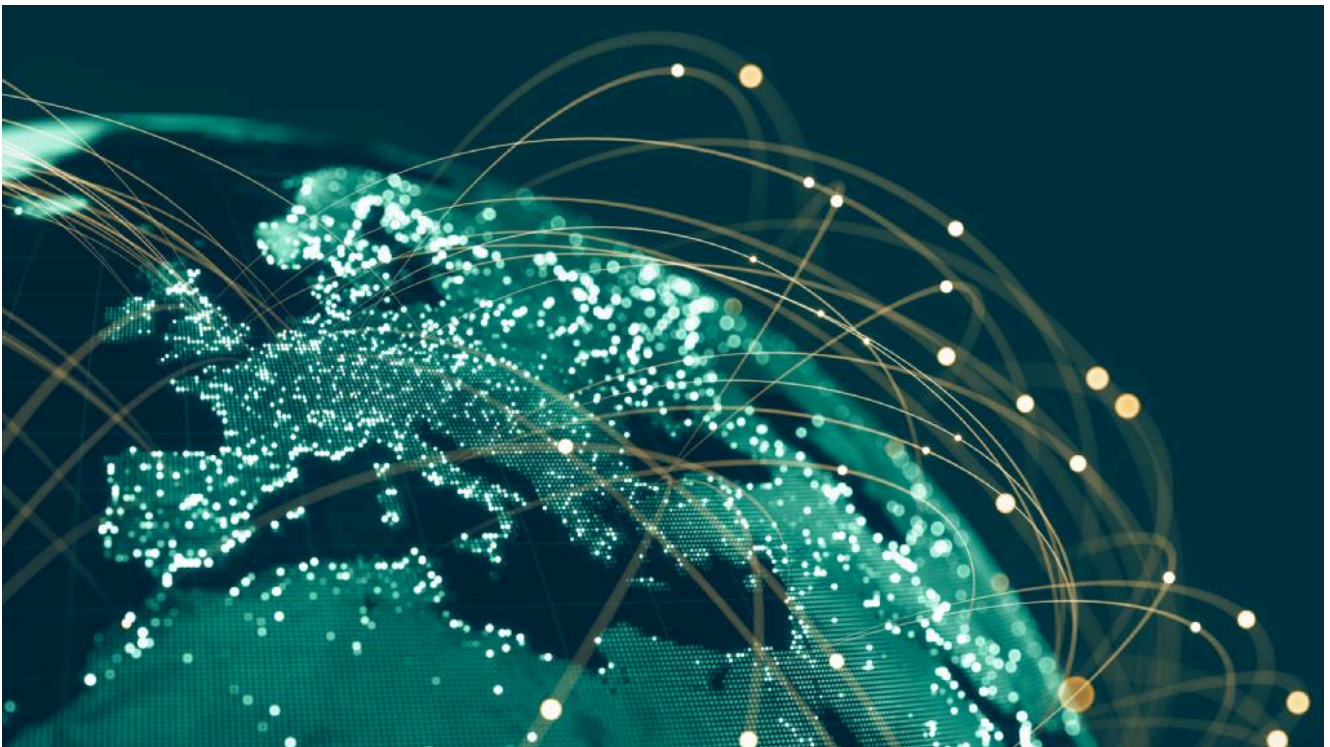


Globalization: Time for Policy to Reflect the Big Shift

Emerging economies are driving most of the growth of international trade flows, and this big shift in the share of world output – from advanced to emerging economies – is profoundly changing the pattern of globalization. So says the 2013 Depth Index of Globalization.



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Though developed multinationals are globalizing their operations and sales targets, their people lag behind with respect to both diversity and mobility, echoing the broader pattern of international trade and capital flows outpacing people flows.

Emerging economies are the ones driving most of the growth of international trade flows, and this big shift in the share of world output — from advanced to emerging economies — is profoundly changing the pattern of globalization.

That said, emerging economies still have a way to go. Although nearly equal to advanced economies with respect to trade, emerging economies are only a quarter as deeply integrated in international capital and people flows, and only a ninth as globalized in terms of information flows.

But as they grow wealthier, they are seeking to catch up. Indeed, one recent report projects that more than 45 percent of the Fortune Global 500 are likely to be based in emerging economies by 2025.

These are some of the findings of the Depth Index of Globalization, which compares the overall size of a country's economy with the percentage of international flows of trade, capital, information and people.

The 2013 index ranks 139 countries, which together account for 99 percent of the world's GDP and 95 percent of its population. It updates and extends the DHL Global Connectedness Index that the authors prepared in **2011** and **2012**.

Takeaways for Business Observers

Stalled recovery. The world is still less deeply interconnected than it was in 2007. Macroeconomic weakness is the main cause, but there is also evidence of increasing protectionism, which the authors warn against.

Falling Trade & FDI Depth. The share of the world's economic output and fixed investment crossing national borders declined.

Internet fragmentation. Even as international bandwidth expands, interactions on social media, as with other information flows such as phone calls, remain largely domestic. The potential of technology to expand flows needs to be exploited, say the authors, calling for more openness rather than too much regulation in this area.

Multinational firms struggling. While multinationals from emerging economies remain few

and far between, firms from advanced economies are falling behind. Their people, in particular, have not globalized as fast as their operations and sales targets.

This indicates that managers have yet to crack the code on how to bridge the distances and differences that separate the home bases of most of the world's largest multinationals from their most important growth markets.

Europe the most deeply globalized region. The top 10 overall globalized countries in terms of depths of international flows are: Hong Kong (China); Singapore; Luxembourg; Ireland; Belgium; Netherlands; Malta; Malaysia; Bahrain; and Estonia. The majority are in Europe, though South and Central Asia did experience the second biggest increase in depth of globalization after North America.

Don't Hide Behind Borders

Strengthening international flows could bolster macroeconomic recovery, say the authors. Every country and region possesses untapped possibilities to increase their depth of globalization through domestic as well as international policies.

The largest threat to globalization comes from policy errors, they add. The world economy is projected to grow faster between 2012 and 2018 than it did during any of the previous three decades. As such, policy, rather than macroeconomic fundamentals, becomes the most pressing area for concern.

Rather than turning to nationalism or hiding behind borders, globalization has a lot to offer the world in making it more prosperous.



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