



DHL Global Connectedness Index – 2019 Update

Executive Summary

This report provides an update on the state and trajectory of globalization, highlighting key developments since we published the *DHL Global Connectedness Index 2018*. It focuses on global levels of connectedness. Our next ranking of the world's most internationally connected countries and regions will be released in late 2020.

As this report shows, global connectedness – as measured by flows of trade, capital, information and people – declined in 2018. However, this decline only reversed part of the increase that had propelled globalization to a record high in 2017. Although public policy headwinds are taking a toll, the world is still more connected today than at almost any previous point in history.

This update of the DHL Global Connectedness Index covers the period from 2001 to 2018 and encompasses more than 3.5 million data points on country-to-country flows. These data show that the pullback in global connectedness in 2018 was driven by shrinking international capital flows, specifically foreign direct investment (FDI) and portfolio equity investment. While early capital flow data for 2019 suggest some stabilization, a robust recovery on these metrics remains elusive. However, a large part of the recent drop in FDI was due to US tax policy changes, which have prompted US multinationals to repatriate earnings held abroad. Alternative measures not affected by tax-motivated financial flows show continued growth in the international activities of multinational firms. Seen in this context, the drop in capital flows does not indicate a broad retreat from corporate globalization.

Trade flows continued to intensify through the early stages of the US-China trade war in 2018. In the first half of 2019, however, the share of global output traded across national borders fell, and current forecasts call for full-year declines in 2019 and 2020. While trade volume growth is likely to remain positive over this period, it is not expected to keep pace with GDP growth. Nonetheless, current forecasts—with high uncertainty—still suggest that the share of global output traded internationally will only retreat to around its 2016 level. Thus, despite major downgrades to trade forecasts over the past year, trade's contribution to the world's overall level of connectedness is on track for only a modest decline.

The trade analysis in this report features special coverage of two topics. First, the US-China trade war has prompted us to include a deep-dive on this key trading relationship. This analysis traces the sharp decline in US-China trade amid multiple rounds of tariff escalation. More surprisingly, it also shows how the changes wrought thus far by the trade war are smaller than the transformation that has taken place due to China's growth and rebalancing toward domestic consumption over the past decade.



Second, we examine the contention that world trade may be fracturing along regional lines. The data analyzed here do not show a robust shift from globalization to regionalization. Trade and other international flows are already much more intense between neighboring countries than between distant ones. Fraying relations between major economies could combine with broader economic and technological trends to favor even stronger connections within rather than between world regions. However, such a shift has not yet conclusively taken place.

Looking beyond trade and capital flows, the globalization of information flows continues to advance, but available measures suggest a possible slowdown. Given the proliferation of digital channels, we cannot track information flows as precisely or comprehensively as we measure trade and capital flows. However, rather than propelling forward a new wave of globalization, digitization seems to be transforming both domestic and international information flows. While the growth of international communications has typically far outpaced the growth of domestic communications since at least the early 2000s, recent international growth appears to have only modestly exceeded domestic growth.

Global people flows also continue to advance. International tourism extended a strong growth trend in 2018, although it expanded at a slower pace than during the previous two years. Outbound travel from emerging economies and liberalization of tourist visa requirements continue to power the expansion of international tourism. Migration, despite public policy controversies, also continues to grow.

Looking ahead, globalization's future depends on the choices of policymakers around the world. All four categories of flows measured by the DHL Global Connectedness Index—trade, capital, information, and people—face powerful headwinds. Threats to the global trading system dominate the headlines, but corporate takeovers, data flows, and immigration have all taken their turns in the crossfire.

Prior research on the DHL Global Connectedness Index has highlighted the power of closer connections between countries to accelerate economic growth. The present context, however, puts the spotlight on even more tangible costs associated with the prospect of declining connectedness. A potential shift away from the globalization of the last half-century would leave the world with less capacity to address serious challenges many countries are facing. This makes it even more essential to track the progress of global connectedness and to inform a meaningful public debate about how to build a more prosperous future.