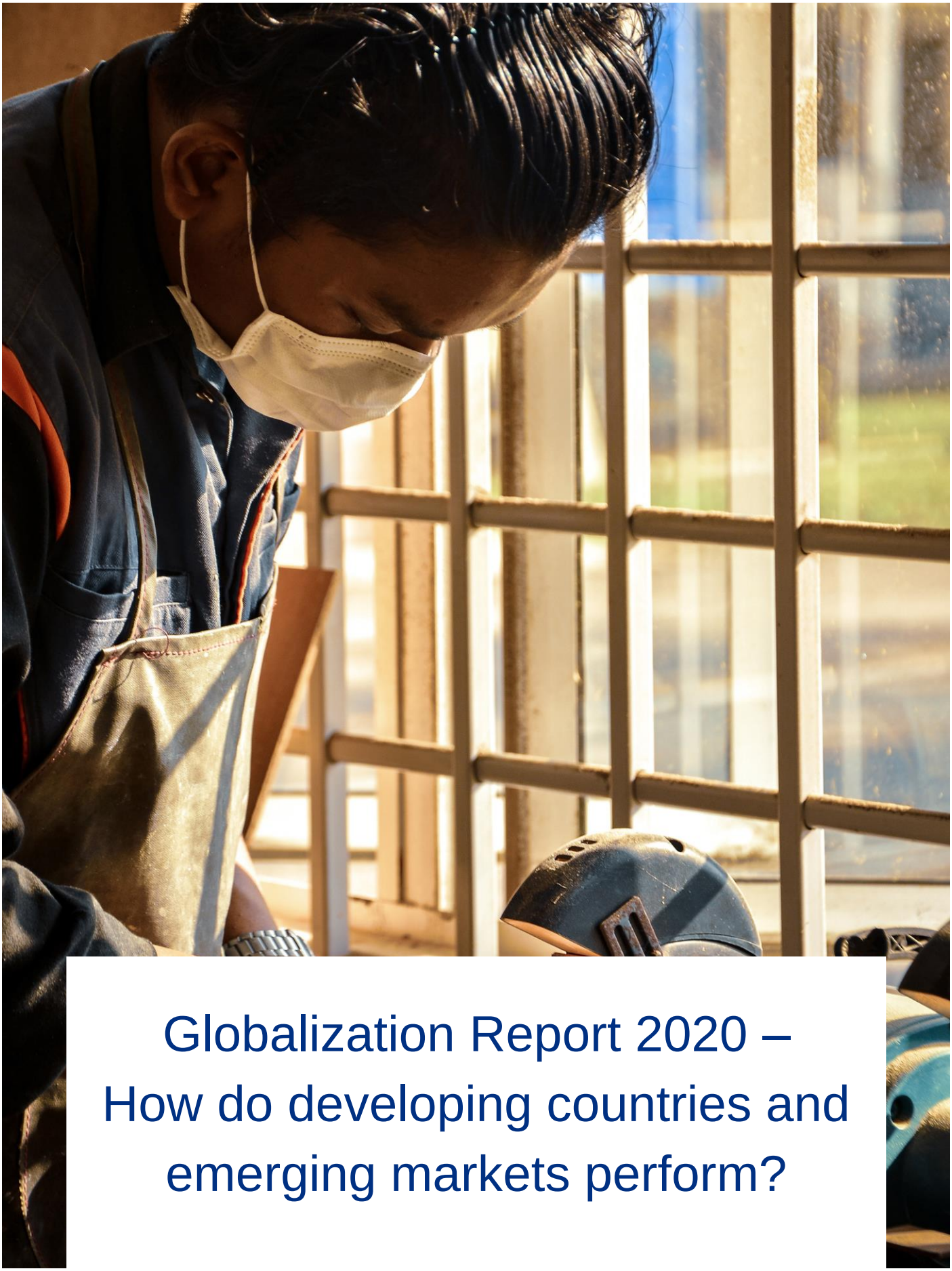

Globalization Report 2020 – How do developing countries and emerging markets perform?

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Globalization Report 2020 – How do developing countries and emerging markets perform?

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Contents

1 Introduction

Every two years, the Globalization Report examines how well individual countries have benefited from the progressing globalization since 1990. The influence of changes of the respective degree of globalization on the real gross domestic product per capita of the country is calculated for **45 industrialized countries** and **emerging markets**. 22 of the countries considered in the "Globalization Report 2020" are also assessed by the Bertelsmann Stiftung's Transformation Index (BTI).

The reports published since 2014 reflect that the emerging markets examined show the smallest increases in real gross domestic product (hereinafter: GDP) as a result of globalization in absolute figures (i.e. calculated in euros). These countries achieve some of the highest globalization-induced gains, however, if the same GDP gains are placed in relation to the GDP per capita in 1990 – the first year of the examination period. For the **emerging markets**, the advancing globalization is, therefore, a way to increase material prosperity. At the same time, however, the real GDP per capita between emerging markets and developed countries continues to diverge between 1990 and 2018.

For reasons of data availability, the **developing countries** are not included in the Globalization Report. However, a look at other sources shows that the degree of globalization in these countries is very low and generally still below that of most emerging markets. Their real GDP per capita is also lower than that of the emerging markets, which means that only small increases in GDP induced by globalization are possible. The gap between developing countries and highly developed economies in terms of real GDP per capita is growing not only in absolute, but also in relative terms.

2 Globalization development between 1990 and 2018

The "Globalization Report 2020" covers the world's 45 most important industrialized countries and emerging markets. The countries of Indonesia, Luxembourg, and Nigeria are included in the study for the first time. **22** of the **countries** analyzed also are included in the **BTI**. They comprise eleven Eastern European countries and eleven countries from other regions (Tab. 1).

Table 1: **Overview of the countries examined in the "Globalization Report 2020"**

	Countries of the BTI		Non-BTI-countries	
No.	**Country**		**No.**	**Country**
	Eastern European countries			
1	Bulgaria		23	Australia
2	Estonia		24	Belgium
3	Latvia		25	Denmark
4	Lithuania		26	Germany
5	Poland		27	Finland
6	Romania		28	France
7	Russia		29	Greece
8	Slovakia		30	Ireland
9	Slovenia		31	Israel
10	Czech Republic		32	Italy
11	Hungary		33	Japan
	Other countries		34	Canada
12	Argentina		35	Luxembourg
13	Brazil		36	New Zealand
14	Chile		37	Netherlands
15	China		38	Norway
16	India		39	Austria
17	Indonesia		40	Portugal
18	Mexico		41	Sweden
19	Nigeria		42	Switzerland
20	South Africa		43	Spain
21	South Korea		44	United States
22	Turkey		45	United Kingdom

Source: Globalization Report 2020. | BertelsmannStiftung

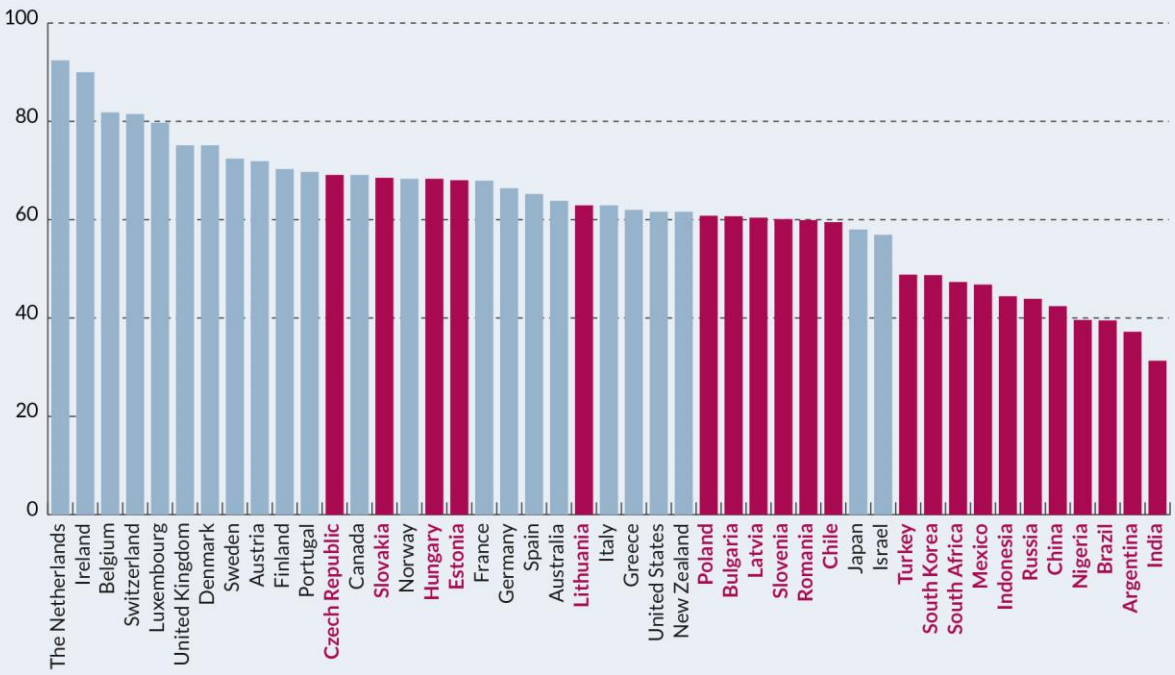
The scope of a country's integration with the rest of the world is measured by an index that is very closely aligned with the established **KOF Globalization Index** of the Eidgenössische Technische Hochschule Zürich (Dreher 2006). It includes indicators of **economic** integration (e.g. data on border-crossing trade in goods and services, trade barriers, and capital controls), **social** globalization (e.g. international tourism, degree of distribution of information and ideas, and share of the foreign population in the total population), and indicators on the **political** integration of a country in the world (e.g. data on membership in international organizations, foreign embassies, and international treaties). Since the economic effects of globalization are at the focus of the Globalization Reports, economic globalization makes up 60 percent of the globalization index. The other two aspects contribute to the index at 20 percent each (for further methodological details: Bertelsmann Stiftung 2020).

The period under observation in the "Globalization Report 2020" is from 1990 to 2018. The data available from this allow for the development of a Globalization Index for each country and year. Index values can range from 0

to 100. The higher the index value, the greater the integration of the respective country with the rest of the world. Three basic trends can be found when globalization is measured in this manner (Fig. 1):

- Small, highly developed economies such as the Netherlands, Ireland, Belgium, Switzerland, and Luxembourg show the highest degree of globalization. This is caused, among other things, by the small internal markets of these countries. As a consequence, cross-border trade is more important for them than for larger countries.
- Industrialized nations with large domestic markets, such as Germany, Japan, and the USA, only achieve average values in the Globalization Index.
- Emerging markets such as China, India, Argentina, Brazil, and Nigeria have the lowest index values of all 45 countries. Economic restrictions such as capital controls and trade restrictions are one reason for this. In addition, the economic indicators considered are set in relation to the country's GDP for the sake of international comparison. For example, export champion China is one of the lowest-ranking countries in terms of exports in relation to GDP – just like the USA.

Figure 1: **Scope of globalization in 2018**
(indications in index points)



Source: Globalization Report 2020. The BTI countries are marked in red. | BertelsmannStiftung

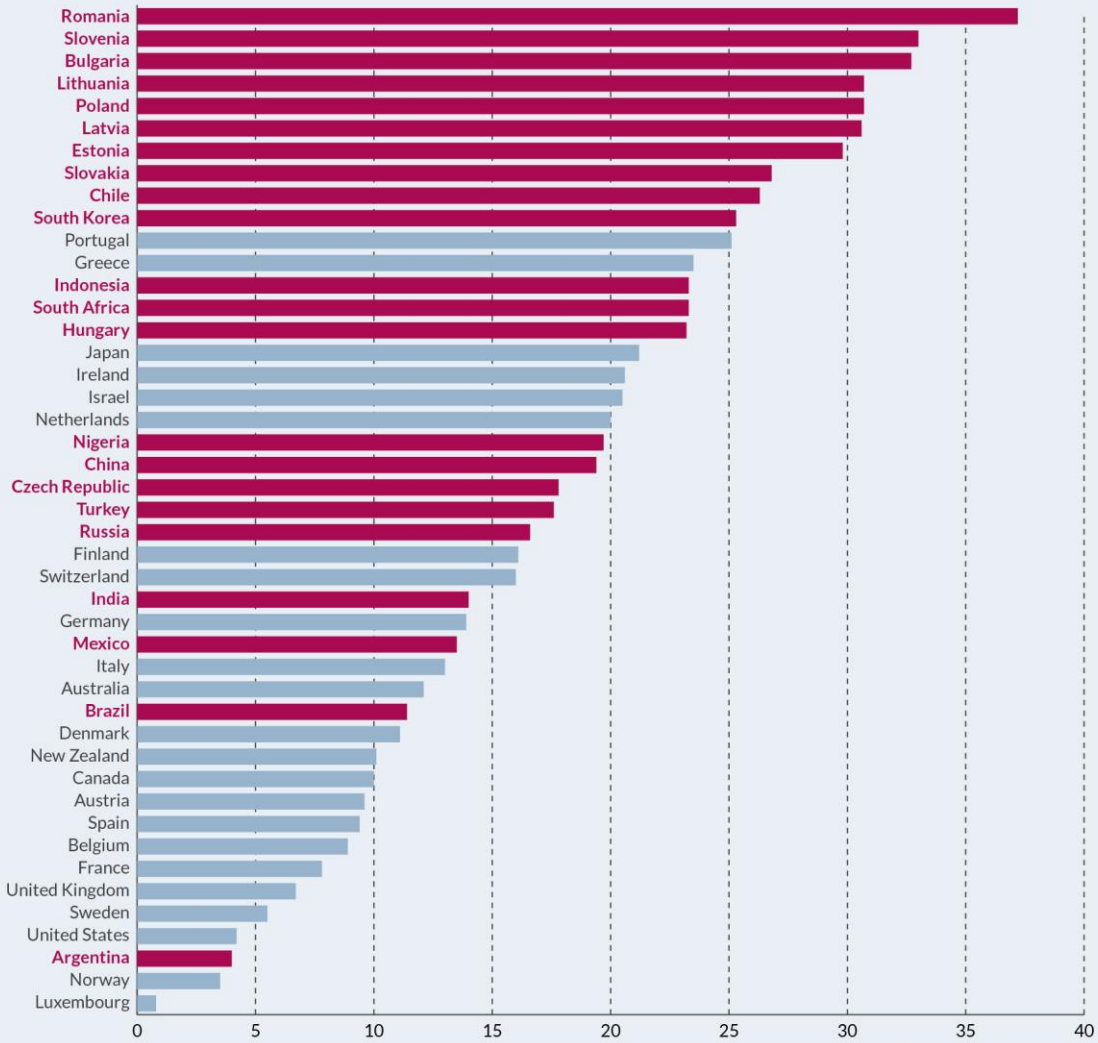
The countries marked in red in figure 1 are also assessed by the BTI. With the exception of a few Eastern European countries, the BTI countries show the **lowest degree of international integration** in the Globalization Report. These countries still have considerable potential to increase their economic, social, and political globalization.

The "Transformation Index BTI 2020" essentially confirms this trend as far as the liberalization of foreign trade and increase of global economic ties are concerned. Accordingly, most countries with a large domestic market as in Argentina, Brazil, India, Indonesia, and Nigeria score less than eight points on a scale of ten in this indicator. The maximum value of ten points is reached mainly by the East-Central European EU members, as well as by Mexico, which is part of the North American Free Trade Agreement NAFTA, and Chile, which is characterized by economic liberalism.

However, the countries are ranked somewhat differently in the BTI for political globalization, which is weighted lower in the Globalization Report. Based on the criterion of “international cooperation”, the Transformation Index assesses the extent to which developing and transformation countries can benefit from external support to implement their own development agendas, how credibly and reliably their governments act on the international stage (e.g., in complying with international treaties), and how strongly political decision-makers strive for regional cooperation. Unsurprisingly, the autocracies of China, Russia, and Turkey are ascribed little credibility and regional willingness to cooperate. Democracies with strong authoritarian tendencies and corrupt networks, such as those in Hungary, Nigeria, and Romania, also receive poor ratings. Looking only at willingness to cooperate internationally (which is a subordinate aspect in the Globalization Report), Chile and Estonia significantly outperform Hungary and Romania, as they show a strong political openness and achieve the full scores in all three indicators named, just as in liberalization of foreign trade.

A look at the changes of international integration of the 45 countries with the rest of the world from 1990 to 2018 shows that the BTI countries were able to achieve above-average globalization growth (Fig. 2). A comparison of the degree of international integration measured by the Globalization Index from 1990 to 2018 shows that the **greatest increases** among all 45 countries were found in eight Eastern European countries. The strongest growth was observed in **Romania**. The Globalization Index value there rose from 22.7 points in 1990 to 59.9 points in 2018. This increase by more than 37 points clearly exceeds the Globalization Index median (the index value of the country that ranks 23rd in each case and is, therefore, in the middle of the ranking of all 45 countries), which gained around 21 points (from around 42 to around 63 points) in the period. However, the BTI also regards Romania as an illustrative example that increased international integration will not necessarily increase openness or willingness to cooperate. The country’s degree of globalization certainly is much higher today than it was in the largely isolated Romania under head of state Nicolae Ceaușescu in the late 1980s (in particular due to political and economic reforms after the dictator’s fall and during the EU accession process). However, Romania’s willingness to cooperate internationally has declined significantly in the last decade, with only Brazil, Hungary, and Turkey losing a similar amount of willingness to cooperate internationally among the 22 BTI countries examined here. Only Hungary, Turkey, and Russia have shown an even more confrontational and unreliable behavior. The report on Romania of the “BTI 2020” shows that in particular rampant corruption, lack of prosecution of office abuse, and erosion of the separation of powers led the government “on a collision course with the European institutions, in particular the European Commission, and other foreign partners”. Some of the market-economy qualities that promote globalization were also reduced in the same period, among them factors of competition law and the protection of private property.

Figure 2: **Gains in globalization from 1990 to 2018**
(indications in percentage points)



Source: Globalization Report 2020. The BTI countries are marked in red.

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There are two central reasons for the above-average increase of international integration between Eastern Europe and the rest of the world: the fall of the **Iron Curtain** and the **EU expansion to the East**. Ten countries joined the EU in 2004, with Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, and Hungary among them. 2007 saw the accession of Bulgaria and Romania. Both events intensified integration of most Eastern European countries into the world economy. **Russia**, on the other hand, was only able to advance its globalization through the fall of the Iron Curtain.

Only the four BTI countries **India**, **Mexico**, **Brazil**, and **Argentina** show less progress in globalization than Russia does. The Globalization Index score for Argentina in 2018 was only four points above the one from 1990 – the third lowest value of all 45 countries under consideration.

3 Globalization, growth, and prosperity

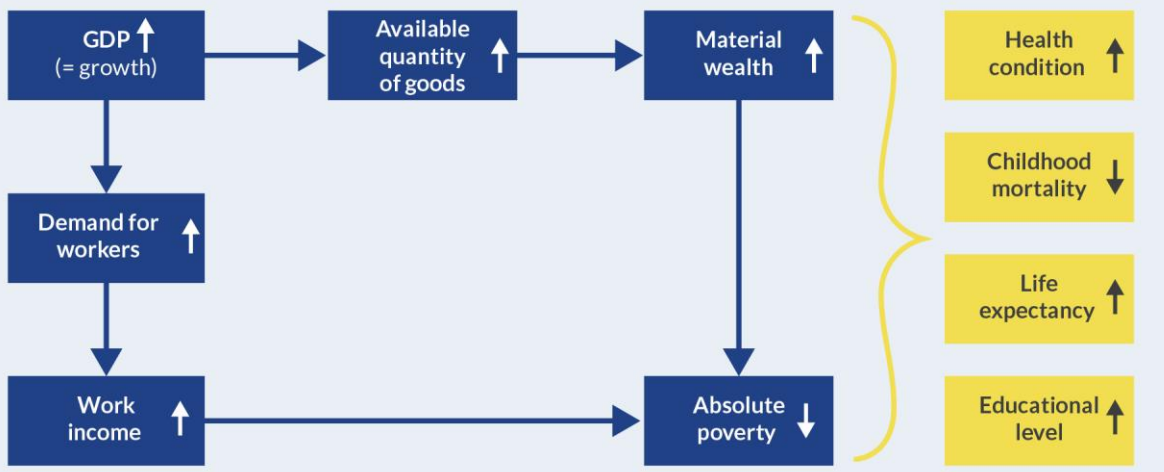
The study on the influence of advancing globalization on real GDP is based on the conviction that intensified economic, social, and political globalization increases an economy's **GDP per capita**. The **GDP** corresponds to the value of all goods and services produced in a country within one year. It provides information on a country's economic performance. This indicator undeniably has several severe **deficits**:

- One central point of criticism refers to the fact that GDP only covers goods and services that are exchanged for prices on markets. Economic activities that take place within a household or are supplied without monetary compensation are not considered. Hence, the GDP underestimates the actual economic performance of a country if self-sufficiency plays a major role in its society. This underestimation increases further if the official statistical coverage of economic activities is incomplete as well.
- The second major weakness is caused by external effects. These are economically relevant costs or benefits not included in market prices. A negative external effect (e.g. pollution) means that the GDP does not fully capture the production costs to society as a whole. In this case, the value of the environment or natural resources would have to be depreciated. Consequently, GDP overestimates the level of economic value creation.

In spite of these and other deficits, there are good reasons why the GDP remains a key indicator of economic policy. For one thing, growing real GDP per capita tends to improve most people's **intangible living conditions**. Growing real GDP per capita is generally accompanied by, among other things, the following improvements of the average living conditions (Fig. 3):

- Medical care and the state of people's health improve, infant mortality drops, and life expectancy increases.
- The economic need for involving children in economic production processes as part of the workforce decreases. This reduces the opportunity costs for school education, raising the **level of education** and increasing opportunities for better access to the **labor market**.
- Productivity gains reduce the required working time, giving people more time for self-determined activities. People's **time prosperity** increases.

Figure 3: **Stylized interrelation between economic growth and immaterial living conditions**



Source: Bertelsmann Foundation 2019a, p. 36.

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Selected data and countries examples from the United Nations "**Human Development Report 2019**" underscore that these interrelationships are not just theoretical (box 1). It confirms that people in countries with high gross national incomes per capita generally have a higher average life expectancy and can enjoy longer periods of education (Tab. 2).

Box: Human Development Report and Human Development Index

The United Nations has compiled a "Human Development Index" (HDI). This index measures average progress in three elementary dimensions of human development for around 190 countries: material living standards, long and healthy lives, and the area of knowledge or education. The index of human development derived from this may assume values between zero and one. The higher a country's value, the greater the level of human development there is. Material living standards are not expressed in terms of GDP, but in gross national income (GNI). A country's GNI is the total of the income accruing to a country, less the income the country pays to the rest of the world. Purchasing-power parity considers the fact that one US dollar can buy fewer goods in countries with high price levels than in those with low ones. The average duration of school attendance indicates the average number of years of schooling received by people who are at least 25 years old in a country at the time of data collection (for more details: DGVN 2019).

Table 2: **Countries with the highest and lowest values in the "Human Development Report 2019"**

HDI ranking	Country	HDI value	Gross national income per capita in US dollars of purchasing-power parity	Life expectancy in years	Average school attendance in years
1.	Norway	0.954	68,059	82.3	12.6
2.	Switzerland	0.946	59,375	83.6	13.4
3.	Ireland	0.942	55,660	82.1	12.5
4.	Germany	0.939	46,946	81.2	14.1
4.	Hong Kong, China (SVZ)	0.939	60,221	84.7	12.0
6.	Australia	0.938	44,097	83.3	12.7
6.	Iceland	0.938	47,566	82.9	12.5
8.	Sweden	0.937	47,955	82.7	12.4
9.	Singapore	0.935	83,793	83.5	11.5
10.	The Netherlands	0.933	50,013	82.1	12.2
...					
180.	Mozambique	0.446	1,154	60.2	3.5
181.	Sierra Leone	0.438	1,381	54.3	3.6
182.	Burkina Faso	0.434	1,705	61.2	1.6
182.	Eritrea	0.434	1,708	65.9	3.9
184.	Mali	0.427	1,965	58.9	2.4
185.	Burundi	0.423	660	61.2	3.1
186.	South Sudan	0.413	1,455	57.6	4.8
187.	Chad	0.401	1,716	54.0	2.4
188.	Central Afr. Republic	0.381	777	52.8	4.3
189.	Niger	0.377	912	62.0	2.0

Source: DGVN 2019, pp. 32 - 35. Values refer to 2018 or the last available year.
Explanation of the indicators in Box 1.

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Globalization may increase the real GDP level of an economy through various channels. Some of the most important ones are the following (Bertelsmann Stiftung 2019a, p. 37):

- **International mobility** of labor and capital leads to production factors available around the world being used where they contribute the most to overall economic value creation. For the world as a whole, this means that a greater quantity of goods and services is available to consumers at a lower price.
- Intensification of trade between countries increases competitive pressure, and as a result the need to reduce production costs through innovation and **technical progress** in order to remain internationally competitive. Cost reduction by technical progress implies **increased productivity,** and as a result a higher GDP.
- When a company produces for the global market, its production is expanded considerably. The **benefits of mass production** can often be used for this. This corresponds to an **increase in productivity**, which increases GDP.
- The political agreement on mutual recognition of product standards facilitates cross-border trade, which also promotes economic growth and gives consumers greater choice.

All in all, this supports the conviction described initially: Increase of a country's economic, social, and political integration with the rest of the world increases the entire economy's real GDP. When looking at the average, this means that the real GDP per capita is growing. However, whether this also improves the socioeconomic situation of a considerable part of the population in turn depends greatly on fair distribution and, as a result, on economic and socio-political decisions of the respective government. All four Asian countries assessed by the Globalization Report and the BTI, for example, have enjoyed stable to high growth rates in the last ten years. Their HDI ratings have also grown continually. In contrast, the level of socio-economic development assessed in the BTI remained at a high level in South Korea (9 out of 10 points), stagnated at a lower level in China (5 points), and dropped by one point each in India (4 points) and Indonesia (5 points). This is mainly because a – partially considerable – reduction of the absolute poverty rate was accompanied by greater inequality of distribution, often coupled with marked regional disparities and a growing urban-rural gap. Essential social exclusion mechanisms remained in place even during times of rising per capita GDP.

4 Empirical research on the connection between globalization and GDP growth

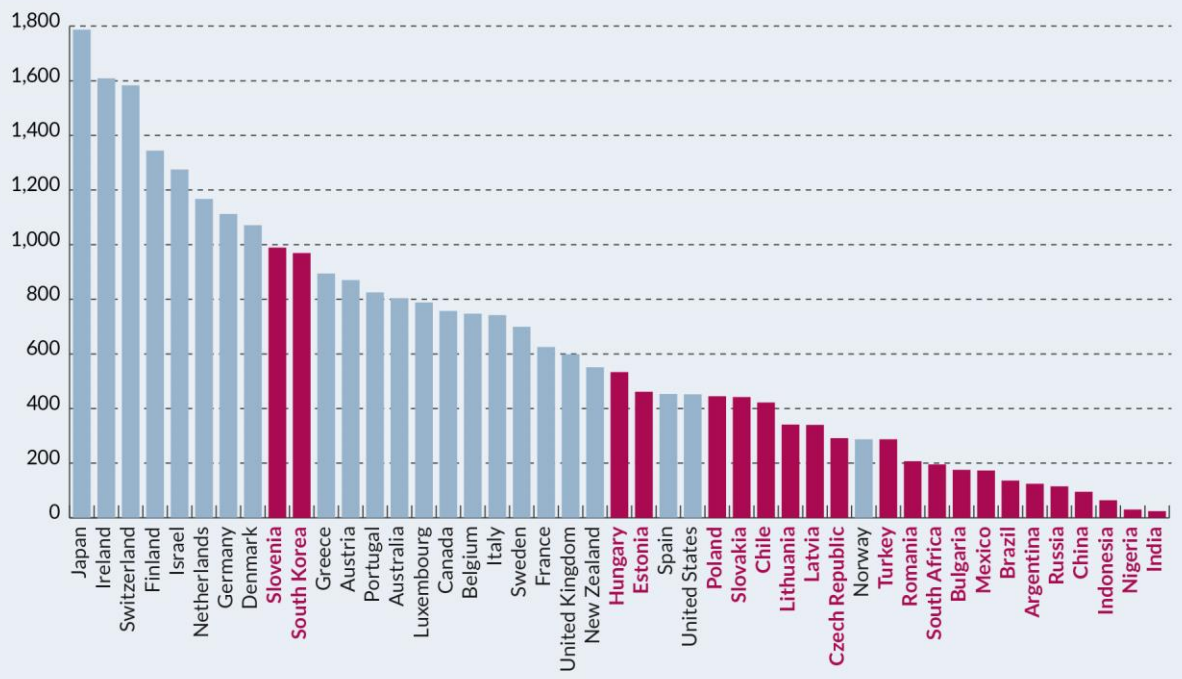
Past Globalization Reports showed that advancing globalization does, indeed, promote economic growth. All industrialized and emerging countries analyzed were able to record globalization-related GDP growth since 1990. The absolute average **GDP gains per capita per year**, expressed in euros, over the period under consideration is calculated in order to determine which country was able to gain the greatest economic benefits from increasing globalization since 1990. The indicator chosen is GDP per capita, which is more indicative for the prosperity of citizens than the economy's total GDP.

Three steps are necessary to calculate the effect of globalization on real GDP per capita:

1. First, the international integration of the 45 countries analyzed from 1990 to 2018 is measured by the Globalization Index, as already explained.
2. Subsequently, statistical methods are applied to determine whether a systematic correlation can be found between the change in the Globalization Index and the growth rate of the real GDP per capita, and if so, how strong this correlation is. The calculations reflect the following result for the 45 economies under consideration in the period from 1990 to 2018: If the Globalization Index rises by one point, the growth rate of real GDP per capita increases by about 0.3 percentage points.
3. Finally, a hypothetical development is calculated in which the value of the Globalization Index for all 45 countries remains at the 1990 level between 1990 and 2018. This means that the globalization-induced growth gains resulting from the actual progress of globalization are deducted. The increases in GDP that a country can achieve from 1990 to 2018 due to globalization are totaled up and then distributed evenly across all 28 years of the period in question. The resulting figure indicates a country's absolute average annual GDP gain per capita – i.e. expressed in euros – due to globalization.

The values for the globalization-related average annual gains in real GDP per capita vary considerably among the 45 countries (Fig. 4): The largest average income gains per capita and year are recorded in **Japan** (around 1,790 euros), **Ireland** (around 1,610 euros), and **Switzerland** (around 1,580 euros). The **large emerging markets** are clustered at the lower end of the scale when measuring globalization gains like this. The average globalization-induced GDP growth per year and capita in Nigeria, for example, is only around 30 euros, and the one in India is at no more than 24 euros. The overwhelming majority of BTI countries only make it to the lower half of the ranking of the largest GDP growth rates compiled in this manner.

Figure 4: **Average real GDP gain per capita due to increasing globalization from 1990 to 2018,** indications in Euro (real = in prices of 2000)



Source: Globalization Report 2020. The BTI countries are marked in red.

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There are three main reasons for these **differences**:

1. The **starting level of GDP per capita**: At an initial value of only 2,000 euros (corresponding roughly to the value of Romania in 1990), even a ten percent globalization-induced increase in income merely leads to a growth of 200 euros. An increase of only two percent at a GDP per capita of 40,000 euros (Switzerland's starting point) means a higher absolute growth of 800 euros.
2. The **extent to which globalization has changed** over the period under consideration: The stronger the globalization index rises over time, the greater the growth gains due to globalization. Countries that started out at a high index score in 1990 have little space remaining for further globalization gains. This also means that the GDP increases caused by progressing globalization remain relatively small. This is why countries such as Belgium and Luxembourg are not among the top ten nations in terms of this indicator.
3. The **timing of the Globalization Index gains**: If a country's index value grows only in the last year of the period under consideration, it can only achieve a globalization-induced growth increase in that one year. On the other hand, a country that increases its globalization in the first year of the period analyzed raises its GDP per capita to a higher level that is maintained through all subsequent years, generating an increase in income induced by globalization for each and every year.

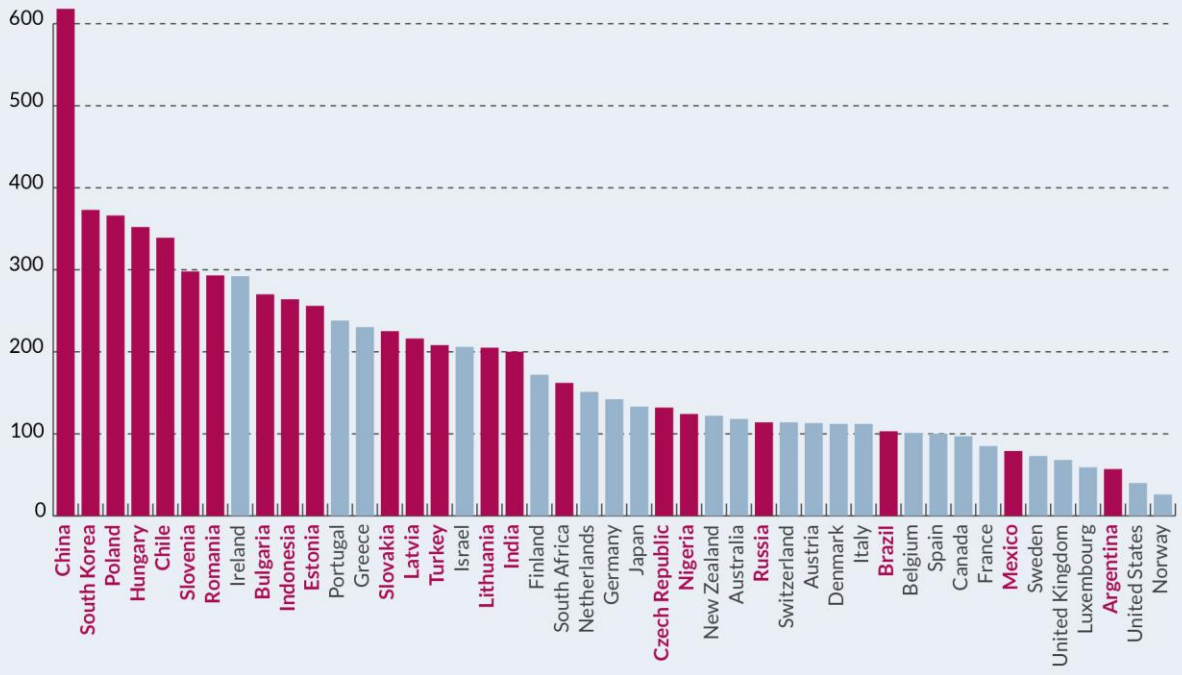
However, the fact that the absolute globalization-induced GDP growth of most BTI countries is relatively low by international standards does not mean that globalization is irrelevant for these countries. Quite the opposite: If GDP gains expressed in euros are put in relation to the **starting levels** of the respective real GDP per capita, the ranking of the countries with the highest growth rates changes drastically (Fig. 5). This can be illustrated using the example of China:

- China's cumulative globalization-induced real GDP gains per capita between 1990 and 2018 amount to around EUR 2,660. China thus makes only 42nd place when compared to all 45 countries.

- However, if the same amount is compared to China's real GDP per capita in 1990 – which was 430 euros – this cumulative monetary benefit from globalization represents nearly 620 percent of the 1990 GDP level. This is by far the highest value of all 45 countries. South Korea follows in second place with around 370 per cent.

Nine BTI countries are among the top ten countries in figure 5. 16 out of 22 countries are ranked in the upper half of this ranking, illustrating the importance of advancing globalization for these countries. **Brazil**, **Mexico**, and in particular **Argentina** are in the last third of the ranking. This has several reasons. For **Argentina**, it is mainly because the country was only able to increase its integration with the rest of the world very slightly during the period under consideration (Fig. 2). This means that only small increases in GDP induced by globalization are achieved there. **Brazil** also remains below average in its integration into the global economy. In addition, globalization has stagnated there at a low level since 2005. Although **Mexico** saw a globalization surge from 2004 to 2015, its per capita income growth remains low due to its late globalization development.

Figure 5: **Accumulated globalization-induced GDP gain per capita between 1990 and 2018 by international comparison,**
accumulated gain in percent of the real GDP per capita in 1990 and ranking of all 45 countries



Source: Globalization Report 2020. The BTI countries are marked in red.

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5 Development of absolute differences in real GDP per capita between industrialized countries and emerging markets

A look at the growth of real GDP per capita in the 45 countries from 1990 to 2018 shows that the growth rates were above average in the vast majority of BTI countries. China's real GDP per capita increased more than tenfold. The 20 countries with the strongest increases in percent include 17 BTI countries (Tab. 3).

Table 3: **Development of real GDP per capita between 1990 and 2018**
(countries highlighted in red = BTI countries, absolute amounts in euros, change in percent)

Country	1990	2000	2010	2018	Change between 1990 and 2018 in percent
China	430	1,043	2,684	4,573	+963
India	336	477	842	1,225	+265
Ireland	15,457	28,524	31,911	49,724	+222
South Korea	7,278	12,986	18,990	23,009	+216
Poland	3,406	4,883	7,216	9,542	+180
Chile	3,483	5,545	7,531	8,860	+154
Indonesia	676	848	1,235	1,695	+151
Turkey	3,859	4,692	6,079	8,583	+122
Romania	1,978	1,813	3,070	4,249	+115
Slovakia	5,500	5,873	9,468	11,743	+114
Bulgaria	1,815	1,749	2,984	3,827	+111
Lithuania	4,656	3,584	6,195	9,163	+97
Latvia	4,418	3,644	5,961	8,515	+93
Hungary	4,243	5,025	6,270	7,996	+88
Estonia	5,053	4,424	6,407	8,791	+74
Slovenia	9,287	11,117	14,031	16,024	+73
Argentina	6,051	8,336	10,469	10,232	+69
Luxembourg	37,364	52,974	59,493	62,768	+68
Czech Republic	6,155	6,516	8,721	10,309	+67
Israel	17,331	22,883	25,961	28,649	+65
Australia	19,101	23,577	27,656	30,213	+58
Nigeria	676	617	1,023	1,069	+58
Canada	21,926	26,222	28,511	34,348	+57
The Netherlands	21,671	28,175	30,743	33,680	+55
Sweden	26,716	31,829	37,087	41,493	+55
Norway	30,584	41,464	44,464	46,739	+53
United Kingdom	24,514	30,185	33,147	37,161	+52
New Zealand	12,674	14,827	16,920	19,180	+51
USA	31,931	39,619	42,537	48,194	+51
Austria	21,467	26,649	29,645	31,798	+48
Germany	21,940	25,781	28,351	32,158	+47
Spain	12,648	15,953	17,305	18,549	+47
Finland	21,842	26,362	30,111	31,850	+46
Belgium	20,789	25,225	27,821	29,839	+44
Portugal	9,698	12,503	13,098	13,949	+44
Denmark	26,667	33,417	34,728	38,217	+43
Mexico	6,123	7,305	7,558	8,747	+43
Brazil	3,698	4,064	5,197	5,105	+38
France	20,663	24,419	25,802	27,706	+34
Japan	37,648	41,883	44,205	48,587	+29
Russia	2,829	1,926	3,167	3,480	+23
Switzerland	39,022	41,101	45,372	48,085	+23
South Africa	3,363	3,301	4,087	4,127	+23
Greece	10,902	13,090	15,139	13,249	+22
Italy	18,577	21,795	21,595	21,295	+15

Source: Prognos 2020 and own calculations.

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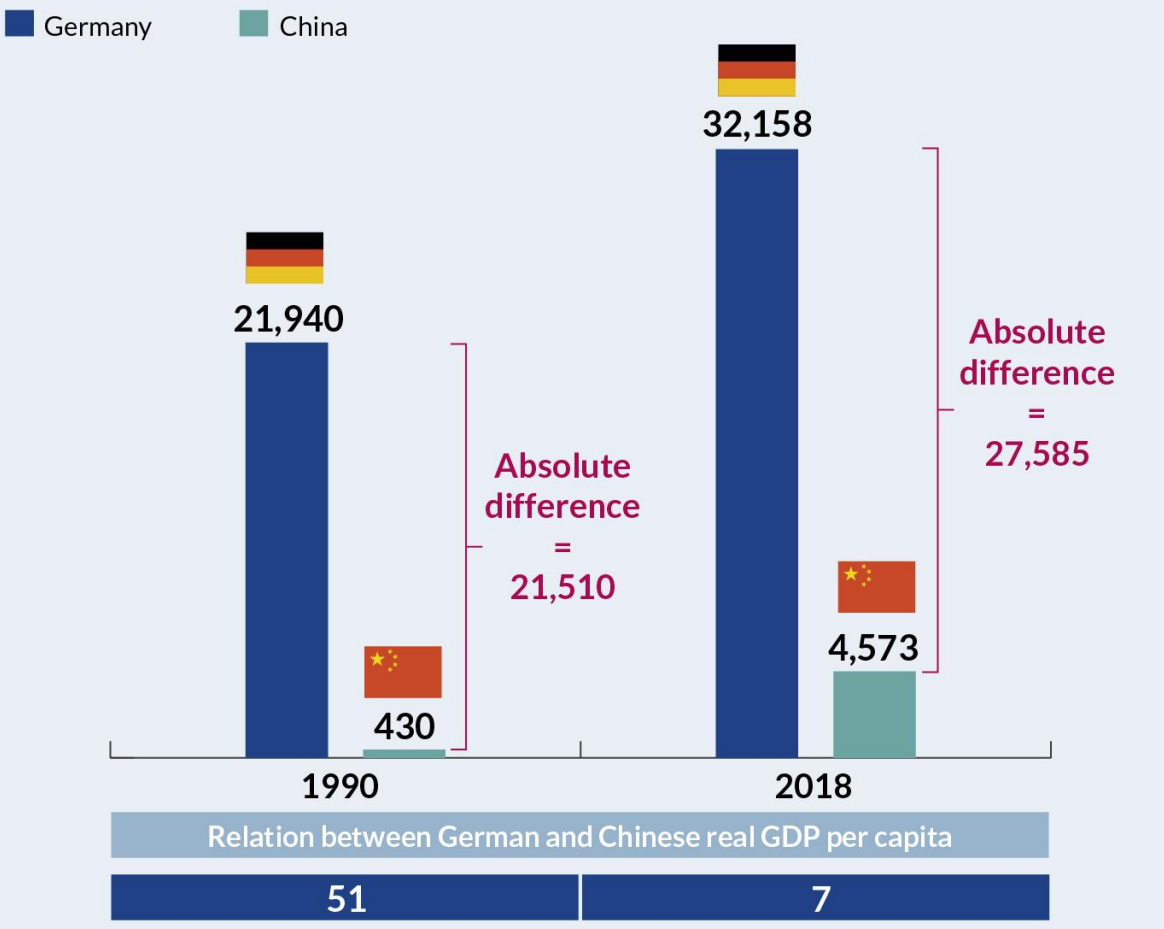
Although most percentage increases in the BTI countries are significantly higher than those in the developed industrial nations, the absolute gaps have enlarged. Once again, this is because of the high starting level of the GDP per capita in the developed economies. One example for this is the comparison between the German and Chinese real GDP per capita (Fig. 6):

- In 1990, the difference between the real GDP per capita of Germany and China respectively was around 21,500 euros.
- China's GDP per capita in 2018 was around 960 percent higher than in 1990. Germany only achieved an increase by just under 50 percent. In spite of China's much greater growth, the **absolute difference** climbed to 27,585 euros and the absolute income gap widened.
- However, the **relative difference** decreased due to the strong growth of the Chinese economy. Germany's GDP per capita was 51 times greater than China's in 1990. In 2018 it was only seven times higher.

Figure 6: **Absolute difference in the real GDP per capita between Germany and China from 1990 to 2018 increased,**
indications in Euro (real = in prices of 2000)



Source: Globalization Report 2020.

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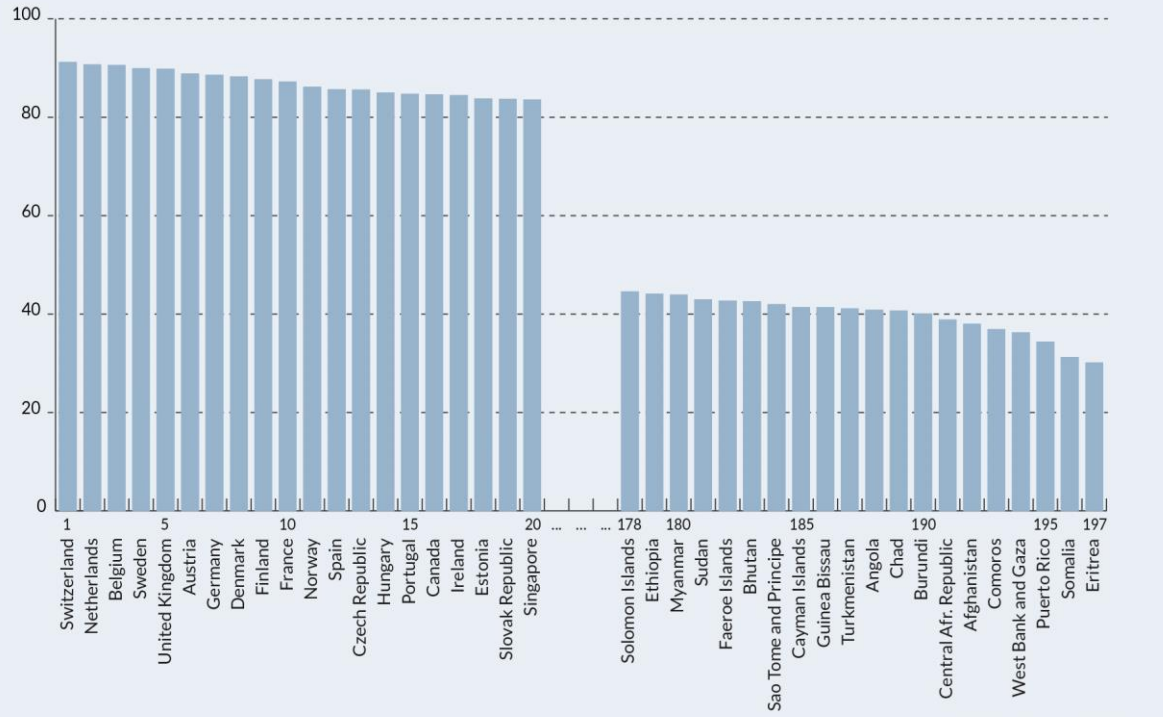
6 Globalization and the developing countries

Only 22 out of the 137 BTI countries are among the economies examined in the “Globalization Report 2020”. Developing countries are not included due to a lack of data availability. However, alternative sources confirm the basic findings of the Globalization Report.

The Eidgenössische Technische Hochschule Zürich calculates the annual KOF Globalization Index referred to above for about 200 countries. The latest results were published in October 2019 (ETH Zürich). Since this index is calculated slightly differently than the Globalization Report, comprises a larger number of countries, and covers a different period (1970 to 2017), the index values of the two analyses differ. However, their basic trend is the same here: The **highest degree** of international integration is found in small, highly developed industrialized countries, while the less developed economies show **low Globalization Index values** (Fig. 7). The low level of integration into the world economy permits only small increases in material prosperity induced by globalization.

Figure 7: **Scope of globalization in 2017 in accordance with the KOF Globalization Index**
(indications in index points)



Source: ETH Zürich 2019 (downloaded on July 21st, 2020).

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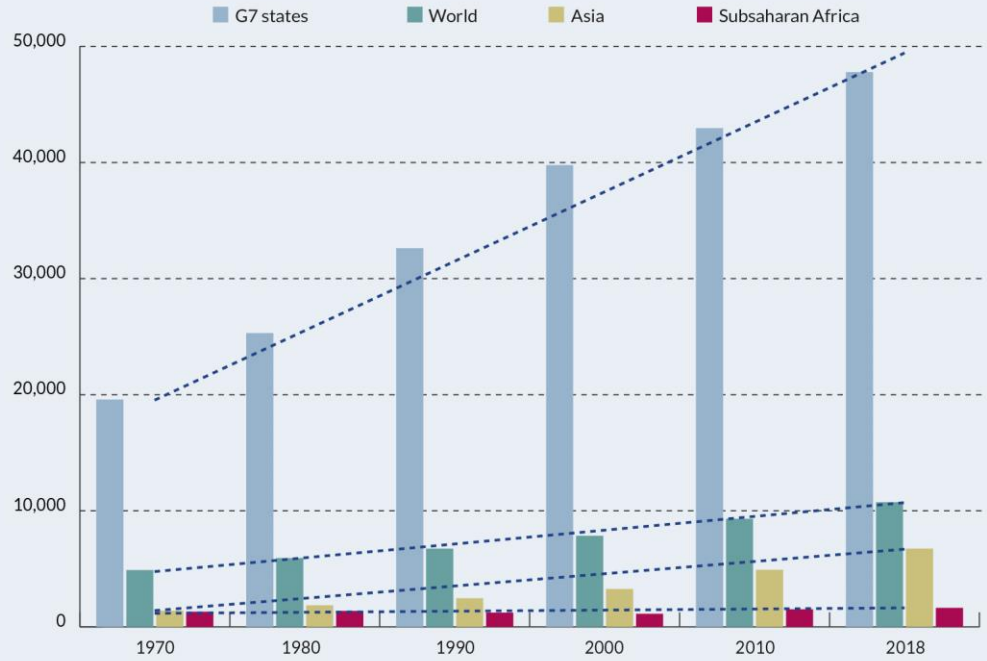
Developing countries and advanced economies also show a **widening gap** in real GDP per capita over time. A glance at real GDP per capita in US dollars shows, for example, that the absolute difference between the world’s seven most important industrial nations (G7 countries) and the rest of the world grew from 1970 (a year chosen because the corresponding data were first available in 1970 – in contrast to those of the Globalization Report) to 2018 (Fig. 8).

While the absolute difference in real GDP per capita between the G7 countries and **Asia** grew from around USD 18,200 in 1970 to just above USD 41,000 in 2018, the **relative gap** narrowed: The average real GDP per capita was 14 times higher in the G7 countries than in Asia in 1970. By 2018, the difference had dropped to seven times (Tab. 4).

This is different for the region of **Sub-Saharan Africa**: The gap between this region and the G7 countries not only widened in absolute, but also in relative terms: The average real GDP per capita in the G7 countries was 15 times higher than in Sub-Saharan Africa in 1970. In 2018, it was even 29 times higher.

Figure 8: **Development of the real GDP per capita in selected regions of the world**
(indications in US dollars, at prices of 2015)



Source: UNCTAD Statistics (downloaded on June 25th, 2020).

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Table 4: **Development of real GDP per capita between 1970 and 2018 in selected regions of the world**

	Absolute amounts in US dollars (constant prices, prices of 2015)					
Regions	**1970**	**1980**	**1990**	**2000**	**2010**	**2018**
G7 states	19,570	25,294	32,613	39,771	42,958	47,786
World	4,880	5,917	6,740	7,836	9,302	10,734
Asia	1,379	1,854	2,455	3,251	4,914	6,729
Sub-Saharan Africa	1,293	1,373	1,222	1,125	1,504	1,626
Absolute difference of the real GDP per capita of the G7 states to the real GDP per capita in ...						
... the world	14,690	19,377	25,873	31,935	33,656	37,052
... Asia	18,191	23,440	30,158	36,520	38,044	41,057
... Sub-Saharan Africa	18,277	23,921	31,391	38,646	41,454	46,160
Ratio of the real GDP per capita of the G7 states to the real GDP per capita in ...						
... the world	4.0	4.3	4.8	5.1	4.6	4.5
... Asia	14.2	13.6	13.3	12.2	8.7	7.1
... Subsaharan Africa	15.1	18.4	26.7	35.4	28.6	29.4

Source: UNCT Statistics (download on June 25th, 2020) and own calculations.

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7 Implications for economic policy

As described initially, advancing globalization has a positive impact on the material prosperity of people as measured by real GDP (at least on average and without consideration of intra-societal distributional issues). However, certain **standards and principles** must be considered in the further design of the legal framework for the border-crossing exchange of goods, services, production factors, and technologies to allow globalization to actually take its growth- and welfare-enhancing effect, most of all through international division of labor and the associated international trade. This includes, among other things, reduction of import restrictions that only protect domestic companies (discriminatory trade barriers) for clientelist reasons, without generally ruling out import restrictions to protect emerging and not yet competitive sectors of the economy (see below). In turn, restrictions that serve to protect only the domestic consumers should be preserved. In order to prevent a “race to the bottom”, labor, social, and other protection standards achieved (e.g. working time regulations, prohibition of forced and child labor, protection from wrongful dismissal, occupational health and safety, and environmental protection requirements) must not be abandoned for the sake of intensifying international trade (Bertelsmann Stiftung 2019b, p. 17).

Fair distribution of the increased global material wealth produced by globalization **between countries** is essential as well. Like its predecessor studies, the “Globalization Report 2020” has shown that the developed industrialized nations have benefited the most from globalization so far in absolute terms of real GDP per capita as an indicator. In order to ensure that the promotion of international trade allows emerging markets and developing countries a greater share of the economic benefits of the international division of labor, it would be helpful, for example, if **industrialized countries** opened their markets to processed products from developing countries without demanding the same in return (since developing countries are generally unable to enter competition with industrialized countries on equal terms). Industrialized countries should also reduce, or even discontinue, their subsidies for agricultural products in order to eliminate the distortion of competition towards developing countries depending heavily on agriculture. A fairer distribution of trade profits could also be achieved by expanding the financial support (debt relief, favorable credit conditions, budget support) of rich industrialized countries for less developed economies to enable these countries to afford the required infrastructure, education, and production facilities (Bertelsmann Stiftung 2019b, p. 18).

Such steps taken by highly developed industrialized countries should not, however, lead to the governments of **emerging markets** and **developing countries** being relieved of their obligations. Foreign direct investment is an essential prerequisite for improving integration of these economies, as it has an important share in financing investments fostering an improved economic performance. However, foreign investors need legal certainty in the respective country targeted for investment. In this respect, private- and market-economy structures that enable free and fair competition in the sense of inclusive economic development must be distinguished from state-dirigiste, market-distorting, or patronage-based structures that merely adopt certain aspects of the capitalist economy in order to realize efficiency gains in the service of a closed political system (Hartmann 2020).

When combining the four indicators of the BTI Transformation Index on market organization, competition policy, property rights, and the private sector, only 15 out of 137 governments analyzed are found to guarantee open, inclusive and legally secure market and competition environments comprehensively and with few restrictions. Apart from nine East-Central and South-Eastern European EU members, this includes Chile and South Korea from the country sample examined here. These countries score at least eight out of ten points in each of the four indicators. A somewhat sufficient guarantee of a market-economy framework also applies to the patronage systems in Hungary and South Africa, which, however, demonstrate more severe deficiencies in terms of uneven competition and preferable treatment. Brazil and India already fall into the gray area encompassing the transition to market and competition conditions that are no longer sufficiently free and fair. Both of these countries have protected economic segments in which widespread violations of market and competition principles are allowed, along with rampant corruption and very large informal sectors. Distortion of competition and legal uncertainty are particularly severe in Nigeria and Russia.

In 99 out of 137 developing countries and emerging markets examined in the BTI 2020, uncertain market rules and distorted competition are accompanied by insufficient prosecution of office abuse and poor or no action to fight corruption. In the country sample examined here, this applies to China, Hungary, India, Indonesia, and Turkey, and in particular to Mexico, Nigeria, and Russia.

In this respect, fairer distribution mechanisms of globalization gains between industrialized and developing countries on an international level must be addressed as well as a legally secure and inclusive competition on a national level. Many countries show a pattern of discrimination, distortion and concentration of power caused by deficient or manipulative market and competition organization, as well as by socio-economic exclusion, preventing more comprehensive participation in globalization gains.

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