

## **Globalization in uncertain times: 10 key takeaways**

**The 2016 U.S. election results show that backlash against globalization is real. But what are the facts vs the fears? Which countries are the most globally connected, and which are slipping?**



November 15, 2016

The backlash against globalization still has the power to surprise. Confounding most polls and expert opinions, the United States voted in the presidential candidate promising to build walls, kick out immigrants and otherwise close U.S. borders.

As anti-globalization momentum grows, the DHL Global Connectedness Index (GCI) gathers 1.8 million data points to paint a clear picture of international flows that is based on facts. In the accompanying report, subtitled "The State of Globalization in an Age of Ambiguity," [Pankaj Ghemawat](#) and Steven A. Altman of IESE and NYU Stern School of Business argue that "flows that cross borders are much too large to ignore but still far smaller than many people think."

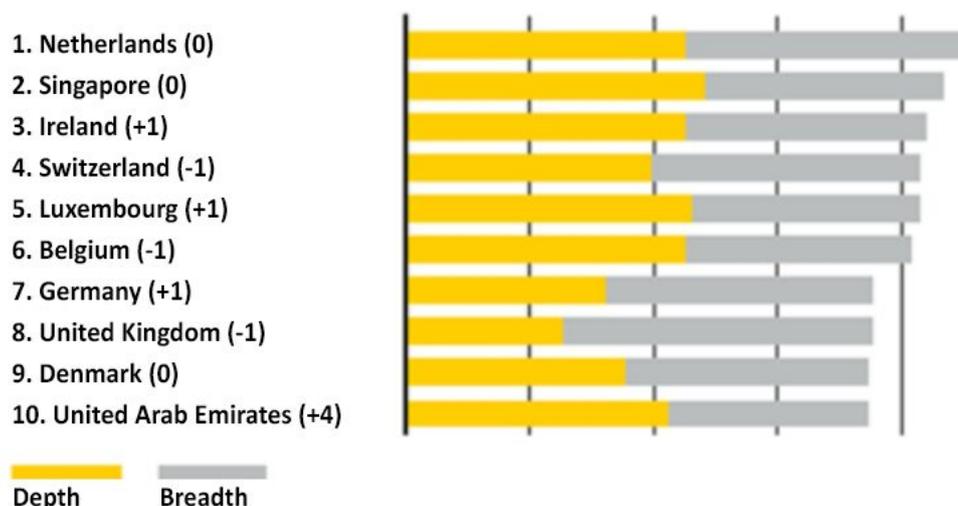
The 250-page report includes key takeaways and tools for leaders thinking about globalization strategies for the uncertain future.

Here are 10 key takeaways from the report:

## 1. "Europe remains the world's most globally connected region, with eight of the 10 most connected countries — which reminds us what its disintegration might put at risk."

Europe is followed by North America, with East Asia and the Pacific coming in third.

And here are the top 10 most globally connected countries in 2015 (with change from 2013 in parentheses):



*Source: DHL Global Connectedness Index 2016*

The top 10 are all among the world's most prosperous countries. The United Arab Emirates is the only one not classified as an "advanced economy" by the International Monetary Fund (IMF).

## **2. "Singapore tops the rankings in terms of depth and the United Kingdom in terms of breadth."**

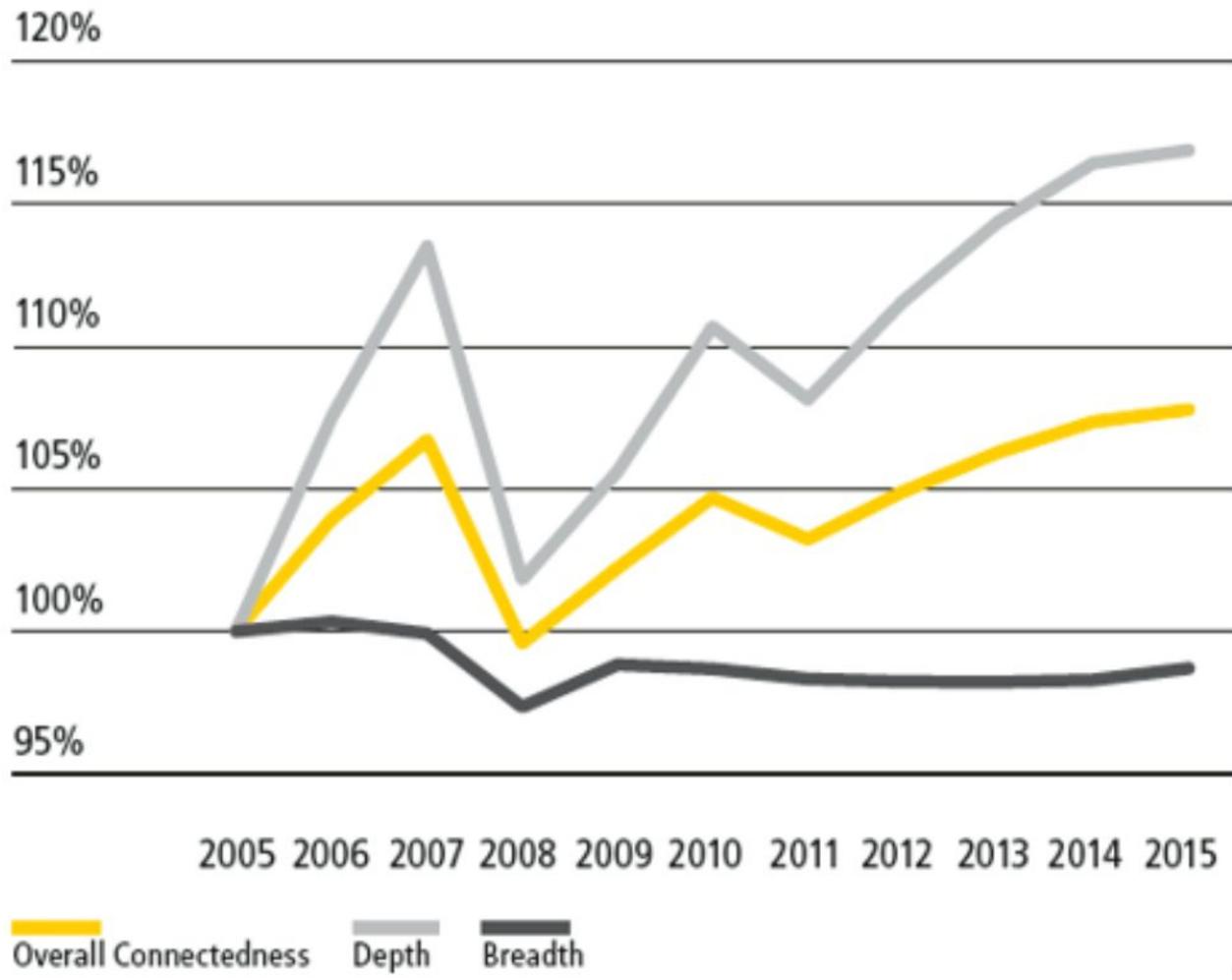
Here, depth is defined as a country's international flows relative to the size of its domestic economy. The leaders on the depth dimension of the index tend to be wealthy and relatively small. The top three results were unchanged from 2013 to 2015: (1) Singapore, (2) Hong Kong SAR and (3) Luxembourg.

Meanwhile, 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 larger nations. These top three were also the same as in the last report: (1) United Kingdom, (2) United States and (3) Netherlands.

## **3. "The world's overall level of global connectedness finally surpassed its pre-crisis peak during 2014 and continued to increase, but more slowly, in 2015."**

Note that the DHL GCI covers 2005 to 2015, so it does not yet take into account the two big anti-globalization shocks of 2016: The British decision to leave the European Union (known as Brexit) and nationalist candidate Donald Trump winning the U.S. presidential election.

But looking at 2005 up through 2015, global connectedness has been growing, especially in its depth (or, intensity).

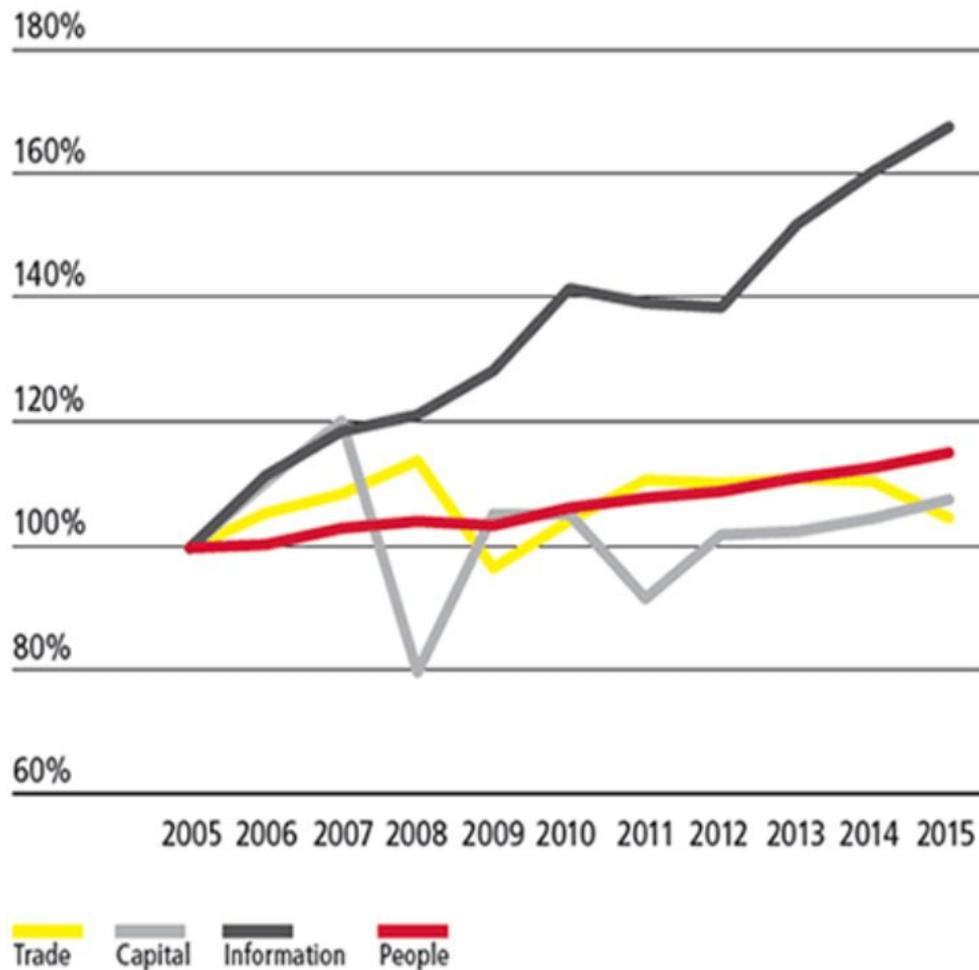


Global Connectedness Index 2016

**4. "While international trade remained under pressure in 2015, increases were reported on the depth (intensity) of capital, people, and especially information flows."**

Global connectedness is measured along the lines of four pillars: trade (products and services), investment (capital), information (internet traffic, phone calls, print media) and people (migrants, tourists, students). These four pillars "encompass most of the aspects of international connectedness that have maximum relevance for business people, policymakers, and ordinary citizens concerned with the impact of globalization on their life opportunities," the authors explain.

Over the past decade, information flows have grown most significantly. Below is a look at the global connectedness trends, measuring depth (intensity) along the four pillars:



Source: DHL Global Connectedness Index 2016

## 5. "Globalization and urbanization combine to prompt strong interest in global cities, but prior research on them is subject to numerous shortcomings."

Globalization and urbanization are two of the key macro-trends shaping our recent past and our future. For the first time, the 2016 report introduces two new city-level indexes — Globalization Hotspots and Globalization Giants — tracking the same four pillars as the country-level indexes. The 113 cities in the ranking are spread across 64 countries and together account for a third of world GDP.

## **6. "Singapore tops both of our new city-level globalization indexes: Globalization Hotspots (cities with the most intense international flows) and Globalization Giants (cities with the largest absolute international flows)."**

Based on measures of the magnitude of cities' international interactions, the 2015 Globalization Giants are: (1) Singapore, (2) Hong Kong, (3) London, (4) New York and (5) Paris.

The ranking of Globalization Hotspots supplies a novel take on the phenomenon of global cities by measuring the intensity (relative to city size) rather than the absolute magnitude of cities' international flows. The 2015 Globalization Hotspots are: (1) Singapore, (2) Manama, (3) Hong Kong, (4) Dubai and (5) Amsterdam.

Singapore is a perennial on global city lists, but the second-ranked Manama, the modestly sized capital of Bahrain, is a more surprising member of the top 10. "Manama attracted six times as much announced (inward) greenfield FDI [foreign direct investment] relative to its GDP as London and five times as many tourist arrivals per capita (including business travelers) as New York," the report notes. More than half of Manama's population are foreign citizens.

## **7. "Actual levels of global connectedness are still only a fraction of what people estimate them to be, suggesting an opportunity to correct misperceptions and apprehensions."**

For example, the authors note that in both the United Kingdom and the United States people think that there are more than twice as many immigrants as there really are (the actual numbers are 13 and 14 percent of U.K. and U.S. populations, respectively). Simply telling people the actual share of immigrants reduces the proportion who think there are "too many" immigrants by between a third and a half, they report. It follows that anti-immigration votes (Brexit, Trump) might have been better challenged if voters were armed with facts.

Similarly, people tend to exaggerate and overestimate the impact of global trade, information

flows and more. Global trade and information exchanges are significant, but not as extensive as people think.

## **8. "Distance still matters — even online. Most international flows take place within rather than between regions."**

For example, the authors note that more than 70 percent of the average European country's international trade, capital, information, and people flows take place within Europe itself.

And looking at who follows whom on Twitter (information flows): 39 percent of all Twitter ties turn out to be local (as in within the same metropolitan area), 36 percent fall outside the same area but within the same country and 25 percent are international. Facebook traffic is even more locally bound.

## **9. "Emerging economies trade as intensively as advanced economies, but advanced economies are four to nine times as deeply integrated into international capital, information, and people flows."**

More specifically, advanced economies are about four times as deeply integrated into international capital flows, five times as much on people flows, and nine times with respect to information flows.

## **10. "Looking forward, the future of globalization is shrouded in an unusual amount of ambiguity, and depends critically on the choices of policymakers around the world."**

Launched just days after Donald Trump's surprising win, the report hopes to arm policymakers with real information about the actual levels of globalization — which, in sum, are still lower than most people think.

## Methodology, very briefly

Analyzing more than 1.8 million data points going back to 2005, the Global Connectedness Index measures the depth and breadth of connectedness and tracks trends. The 2016 report ranks 140 countries and territories encompassing 99 percent of the world's GDP and 95 percent of its population are measured.

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 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 cross-border movements for the long-term (migration), medium-term (university students pursuing degrees abroad) and short-term (tourism).

## More info

"[Two Laws for Global Business](#)" for a summary of the 2016 book [The Laws of Globalization and Business Applications](#).

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