

EXECUTIVE SUMMARY

As this edition of the DHL Global Connectedness Index goes to press, the future of globalization and, more generally, the world economy is shrouded by an unusual amount of ambiguity. Perhaps the best image is that of the doldrums, defined in the Oxford English Dictionary as a region subject to “calms, sudden storms, and light unpredictable winds.” The reasons range from shifting economic forecasts (e.g., the IMF’s prediction in October 2016 that slower growth in advanced economies is likely to offset turnarounds in key emerging economies) to central bank stimuli that have pushed us into uncharted waters to recent and potential political shocks. Amidst these mixed signals, the only safe forecast is that the future depends critically on the decisions of policymakers around the world.

That said, unless Brexit brings on the collapse of the European Union (EU) or some of the most extreme rhetoric in the US presidential campaign becomes policy, future trends are unlikely to break entirely with the recent past. As a result, prognostications—which diverge widely in this age of ambiguity—still need to take on board the most complete and up-to-date view of how globalization has evolved, which is what this report aims to provide. It focuses on facts rather than forecasts, and tracks the evolution of trade, capital, information, and people flows from 2005 up to 2015 (or the most recent year available) across 140 countries that encompass 99% of the world’s economic output and 95% of its population. It is based entirely on hard data because globalization’s boosters and its detractors both tend to exaggerate the phenomenon itself.

The data covered in this report depict a world in which the flows that cross borders are much too large to ignore but still far smaller than many people think—and concentrated among countries that are geographically close or share other similarities with each other. In such a

world, policymakers retain very substantial influence over whether globalization will advance or reverse. To illustrate the power of facts to influence policy, recall the salience of immigration to the Brexit debate. Surveys show that Britons think that there are more than twice as many immigrants as there really are—and simply telling them the actual share of immigrants in the UK population (13%) reduces the proportion who think there are too many immigrants by 40%!¹

The overall world level of global connectedness was hit hard by the 2008 global financial crisis and slow to recover, but the analysis covered in this report indicates that it finally surpassed its pre-crisis peak during 2014. The expansion of global connectedness, however, decelerated in 2015. Trade, in particular, was weak, and there was mounting evidence that protectionist policies were a contributing factor. Foreign direct investment flows posted a large expansion, but that turned out to be driven to an unusual extent by corporate inversions rather than real new investment. International information flows continue to represent a bright spot, but even they tend to be overhyped. And the growth of international people flows remains relatively modest due to visa and work permit restrictions. In sum, globalization is not advancing as rapidly as it was before 2007, but the available evidence does not indicate that it has gone back into reverse in recent years.

Disaggregating the global analysis to look at major world regions, Europe remains the world’s most globally connected region, followed by North America and then East Asia & the Pacific. Europe’s lead reflects both its structural characteristics (many wealthy countries in close proximity) as well as decades of policies aimed at promoting integration via the EU and its predecessors. More than 70% of the average European country’s international trade, capital, information, and people flows

take place within Europe itself—which highlights how much is at stake if Europe gives up on regional integration

Proceeding to country-level results, the ten most globally connected countries in 2015 were (in descending order): the Netherlands, Singapore, Ireland, Switzerland, Luxembourg, Belgium, Germany, the United Kingdom, Denmark, and the United Arab Emirates. On the depth dimension of the index, which compares countries' international flows to the sizes of their domestic economies, the most deeply connected economies were: Singapore, Hong Kong SAR (China), Luxembourg, Ireland, and Belgium. On the breadth dimension, which evaluates the extent to which countries' international flows are distributed globally or more narrowly focused, the leading countries were: the United Kingdom, the United States, the Netherlands, South Korea, and Japan.

Roughly 70% of the variation in countries' observed levels of global connectedness can be explained based on structural characteristics such as their sizes, levels of economic development, and geographic remoteness. The countries that most outperformed expectations on the depth dimension of global connectedness, in particular, were: Cambodia, Vietnam, Malaysia, Singapore, and Mozambique.

Comparing the global connectedness of advanced versus emerging economies reveals the former to be far more connected than the latter. On trade depth, advanced and emerging economies are roughly at parity, but 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. The rising proportion of economic activity taking place in emerging economies continues to prompt international flows to stretch out over greater distances (and to become less regionalized), but this shift toward interactions over greater distances has decelerated since the crisis years.

This report also introduces two new city-level globalization indexes: "Globalization Hotspots" and "Globalization Giants." While these new indexes cover the same four pillars as the DHL Global Connectedness Index, different (and fewer) component measures are used due to more limited availability of city-level data.

The Hotspots index parallels the depth dimension of the country-level DHL Global Connectedness Index by com-

paring cities' international trade, capital, information, and people flows to their internal activity. It reveals which cities are most intensively international. The top Globalization Hotspots in 2015 were: Singapore, Manama, Hong Kong, Dubai, and Amsterdam. The Giants index looks beyond the cities themselves to assess their overall external projection by comparing directly the sizes of cities' international interactions. The leading Globalization Giants were: Singapore, Hong Kong, London, New York, and Paris.

To conclude, while we devote a great deal of attention in this report to capturing the latest changes in levels of globalization, it is also valuable to step back and consider what remains unchanged. The data underpinning the DHL Global Connectedness Index strongly support the case for two *laws of globalization* that can underpin business strategies and public policies over the medium-to-long run:²

- *The law of semiglobalization:* International interactions, while non-negligible, are significantly less intense than domestic interactions.
- *The law of distance:* International interactions are dampened by distance along cultural, administrative, and geographic dimensions and are often affected by economic distance as well.

The first law corresponds to the depth of globalization and the second law to its breadth. Taken together, they imply a complex world where the size and the distribution of international flows vary widely across locations—and there is far more scope for countries and firms to create value across national borders than there would be in a flat world.

1 See the 2014 and 2015 editions of the Ipsos MORI "Perils of Perception" surveys and the 2013 and 2014 editions of the German Marshall Fund of the United States "Transatlantic Trends" surveys.

2 For a book-length treatment of this material, refer to Pankaj Ghemawat, *The Laws of Globalization and Business Applications*, Cambridge University Press, 2017.