EXECUTIVE **SUMMARY**

This report presents the first comprehensive assessment of how globalization—measured based on trade, capital, information, and people flows—has developed since the Brexit referendum in the United Kingdom and the election of President Donald Trump in the United States. Contrary to predictions that globalization would collapse in response to a wave of economic nationalism, the DHL Global Connectedness Index rose to a record high in 2017. For the first time since 2007, trade, capital, information, and people flows all intensified significantly. Strong economic growth boosted international flows while key policy changes such as US tariff increases had not yet been implemented.

Public policy threats to globalization, however, have become more acute in 2018. Tit-for-tat tariff escalation raised the specter of trade wars, and countries enacted policies aimed at curbing foreign corporate takeovers, cutting immigration, and restricting international data transfers. While we do not have sufficient data yet to report an overall level of global connectedness for 2018, available measures suggest these developments *have* weighed on the growth of international flows.

As debates about the merits of international openness continue, sound public policy and business decisions depend on accurate measures of globalization. This edition of the DHL Global Connectedness Index measures globalization at the world level, by region, and across 169 countries. It reflects data from 2017 or the most recent year available and provides historical coverage back to 2001. The index uses more than 3 million data points to track both the *depth* of countries' international flows relative to their domestic activity and the *breadth* of those flows across origin and destination countries.

At the global level, this report shows that the world is actually far *less* globalized than most people believe, even after globalization's recent gains. The large majority of flows that could take place either within or between countries are still domestic rather than international. For example, just about 20%[1] of economic output around the world is exported, foreign direct investment flows equal 7% of global gross fixed capital formation, roughly 7% of phone call minutes (including calls over the internet) are international, and only 3% of people live outside the countries where they were born.

Furthermore, despite advances in transportation and telecommunications, distance and cross-country differences continue to serve as powerful constraints on international flows. If the world had really become "flat" and such constraints no longer mattered, international trade, capital, information, and people flows would be expected to travel 67% further than they do today. In fact, international flows are so far from global that about half take place between countries and just their top three origins and destinations.

The world's most globally connected countries in 2017 are the Netherlands, Singapore, Switzerland, Belgium, the United Arab Emirates, Ireland, Luxembourg, Denmark, the United Kingdom, and Germany. Eight of the top 10 most connected countries are in Europe, the world's most connected region, which tops the index for trade and people flows. North America ranks second overall, and leads in terms of capital and information flows.

Focusing specifically on the depth dimension of the index, the economies with the highest proportions of their flows crossing national borders are Singapore, Hong Kong SAR (China), Belgium, the Netherlands, and Luxembourg. The leaders in terms of depth tend to be wealthy and relatively small countries. When it comes to breadth, the countries with the most global flow patterns are the United Kingdom, the United States, the

Netherlands, Japan, and the Republic of Korea. The economies that lead on breadth also tend to be wealthy, but they are much larger than the depth leaders.

In addition to size and levels of economic development, countries' connectedness scores are influenced by their proximity to foreign markets, whether they share a language with other countries, and whether they have direct access to the sea. The countries where international flows most exceed expectations after accounting for these characteristics are Cambodia, Malaysia, Mozambique, Singapore, and Viet Nam. Regional supply chains help explain why four of the top five outperformers are located in Southeast Asia.

There are stark differences between levels of globalization in advanced versus emerging economies. Emerging economies trade almost as intensively as advanced economies, but advanced economies are three times as deeply integrated into international capital flows, five times for people flows, and nine times with respect to information flows. Additionally, while leaders from large emerging markets have become major supporters of globalization on the world stage, emerging economies' progress catching up in terms of global connectedness has stalled. Furthermore, since a growing share of global economic activity is concentrated in emerging economies, the growth of these less-connected economies has served as a brake on the expansion of the world's overall level of connectedness.

Looking ahead, globalization's future is in the hands of policymakers around the world. Trade conflicts have already prompted downgrades to global growth forecasts, serving as a reminder that, just as increases in global connectedness can accelerate growth, deglobalization can dampen it. Amid heightened ambiguity about the prospects of globalization, the measures of connectedness in this report can help companies and countries navigate through the turbulence. Depth measures help identify which countries are most exposed to threats to particular types of flows, and breadth data can help determine whether that exposure is global or more narrowly focused.

More optimistically, this report can contribute to more productive debates about globalization by calming fears due to exaggerated perceptions of international flows. Consider immigration, which topped some 2018 polls of public concerns in Europe and the United States.[2] On both sides of the Atlantic, people believe there are more than twice as many immigrants in their countries as there really are, and when they are told the correct proportions of immigrants in their countries' populations, the share of survey respondents viewing immigration as a problem declines.[3]

Recent proclamations that globalization is dead have proven no more accurate than declarations a decade ago that globalization had rendered borders obsolete and distance irrelevant. International flows *and* their constraints are both formidable, and they vary over time, across locations, between industries, and so on. The coming years may bring a new wave of globalization, a plateau, or another reversal. Whichever scenario plays out, the biggest winners are likely to be companies and countries that embrace globalization's complexity rather than succumbing to dichotomies between purely local versus global visions of the future.[4]

1 Gross exports of goods and services equaled 29% of world GDP in 2017, but adjusting for exports that cross national borders more than once in multi-country supply chains brings the proportion of value-added that is exported down to about 20%.

2 European Commission, "Standard Eurobarometer 89," Spring 2018; Maria Caspani, "Immigration top issue for US voters, economy a close second: Reuters/Ipsos poll," *Reuters*, July 5, 2018.

3 Ipsos Mori, "The Perils of Perception," 2015; Alberto Alesina, Armando Miano, and Stefanie Stantcheva, "Immigration and redistribution." NBER Working Paper 24733, June 2018; German Marshall Fund of the United States, "Transatlantic Trends: Mobility, Migration, and Integration," 2014.

4 Pankaj Ghemawat's 2018 book *The New Global Road Map* (Harvard Business Review Press) builds on this theme to guide business decisions about how to compete, where to compete, how to organize, and how to engage better with society given present ambiguity about the future of globalization.