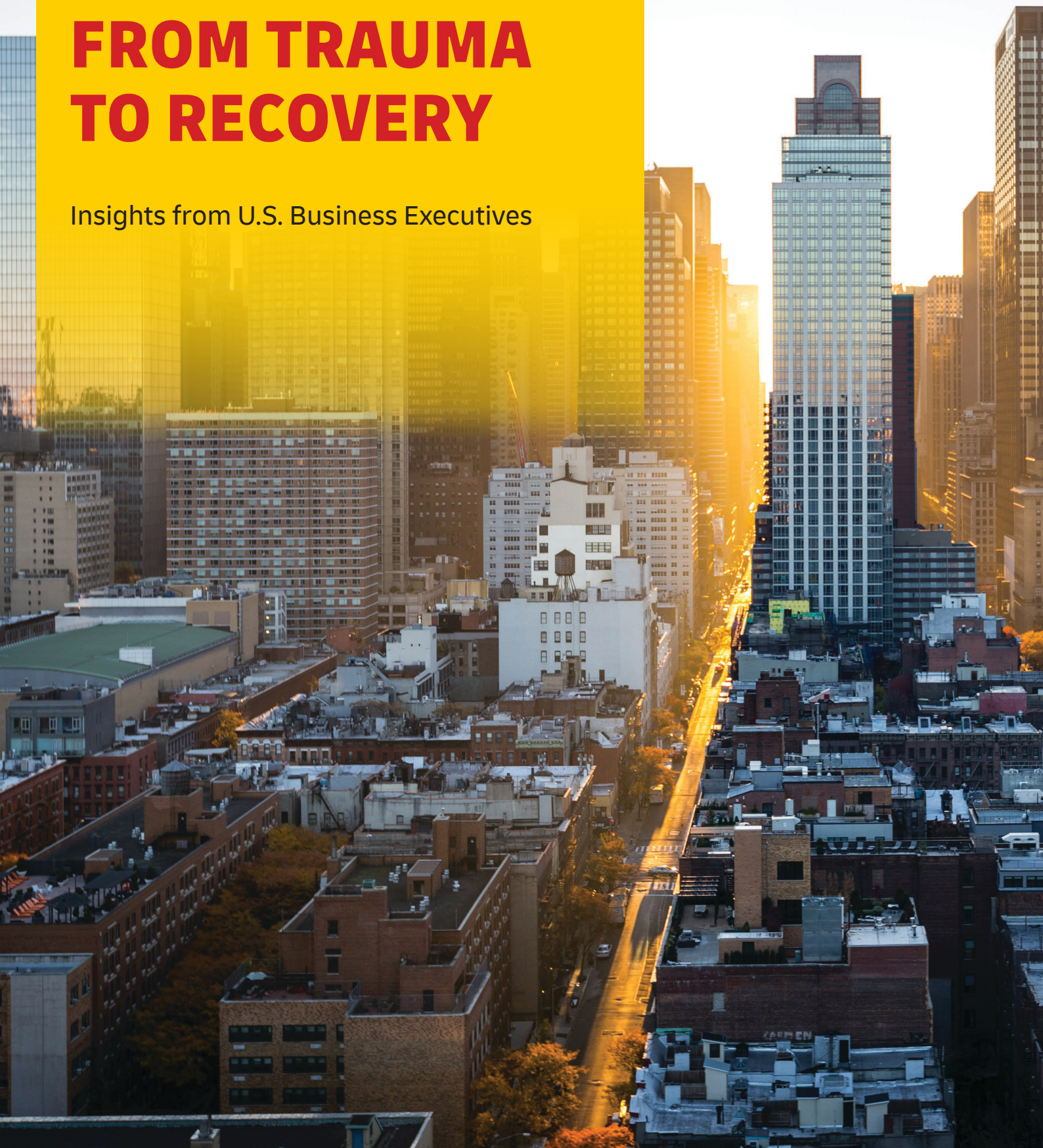




COVID-19 AND GLOBALIZATION: FROM TRAUMA TO RECOVERY

Insights from U.S. Business Executives



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INTRODUCTION

The spring 2020 issue of Foreign Policy magazine featured a cover illustration of a virus piercing the globe and causing numerous fractures. The headline blared: Is this the end of globalization?

At the time, the coronavirus was wreaking havoc on health and economies around the globe. So much was unknown about the virus, the disease it caused and how to treat it. So much was unknown about how long it would persist and the extent and duration of the economic disruption.

With significant declines in global trade and the collapse of international travel, it was natural to speculate about the future of globalization — or interdependence across continents. There was in particular a healthy debate about globalization in the United States, the largest economy in the world that had preceded the pandemic. The previous administration's "America First" agenda had resulted in restrictions on immigration, protectionist trade policies and a withdrawal from key foreign alliances. Economic stress caused by the pandemic increased opposition to globalization in some circles.

One thing is for certain. COVID-19 has been a traumatic experience. Business executives had to quickly reconfigure operations, and millions

had to unexpectedly work from home or cease work entirely. Every strategic objective and plan that was on the table before COVID-19 had to be reassessed. The public health crisis has exposed vulnerabilities and created unforeseen challenges.

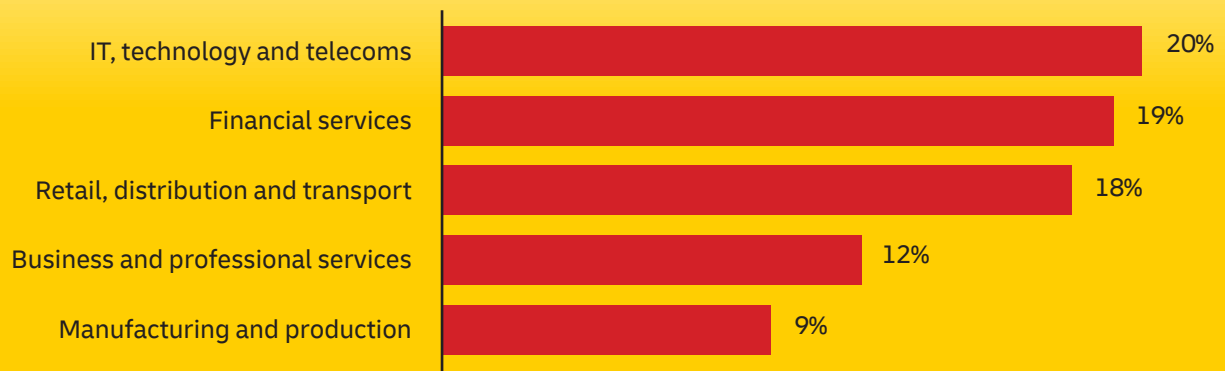
Amid the ongoing uncertainty, we asked ourselves if the pandemic will have a lasting impact on globalization -- on the free flow of ideas, people, capital, and goods across borders. Through our [DHL Global Connectedness Index](#), now in its seventh edition, we already found that trade and capital flows started to recover last year, and international data flows surged. We wanted to augment our research by taking a pulse of U.S. business sentiment on factors that will affect their recovery, changes to their supply chains, plans for foreign investment and international travel.

We asked 500 senior decision makers across several industries for their opinions. The goal was to gain some insights into how long we will feel the trauma, how quickly we can expect global flows to rebound, and if any aspects of economic globalization might be curtailed or regionalized. None of these questions can be answered definitively yet, but the survey results provide some clues about the future and actionable implications for companies.

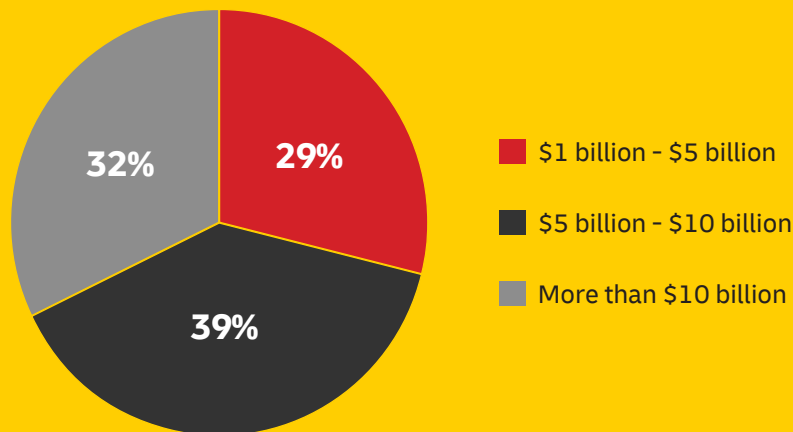
SURVEY PARTICIPANTS

Between January 12 and February 5, we surveyed 500 participants in the U.S. All were senior decision makers at companies with revenues of \$1 billion or more. The study was conducted on behalf of DHL by Vanson Bourne and Finn Partners.

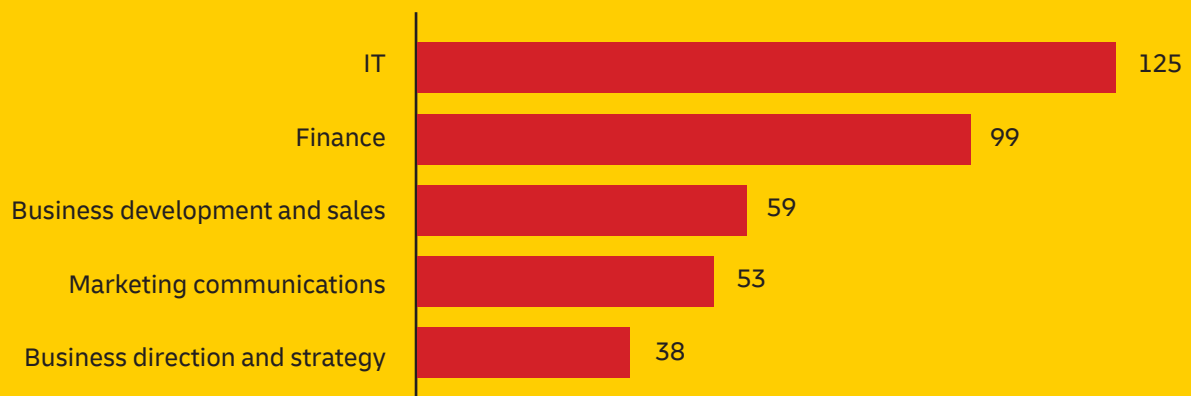
Top 5 industries represented



Size of company, by revenue



Top 5 functions of respondents within organizations





AT A GLANCE

1 63% of respondents who operate or source from international markets said COVID 19-related lockdowns are one of their biggest anticipated challenge in 2021, ahead of slowing economic growth (45%).

2 U.S. companies remain highly interconnected with the world despite trade barriers and pandemic disruptions, with 74% reporting that their organizations are extremely or very dependent on international business partners.

3 Considering the integration with international markets, nearly 9 out of 10 decision makers (89%) said that their organizations' economic recovery will rely upon robust international flows of trade over the next 12 months.

4 An overwhelming majority of respondents (81%) believe their organizations' profitability would increase if the U.S. were to move away from some of the protectionist trade policies of recent years.

5 Business executives have a great deal of optimism around international business travel this year. 44% said that their organizations are planning to increase international business travel beyond even pre-pandemic levels.

KEY FINDINGS



FOCUS ON STRENGTHENING SUPPLY CHAINS

With the resurgence of COVID-19 cases in the fourth quarter of last year, U.S. businesses are still navigating precarious waters of the pandemic as they enter 2021. For companies that source or operate in international markets, the pandemic has amplified traditional challenges, such as supplier capabilities, intellectual property protection and matching production and transportation capacity to demand. The research found, though, that COVID-related lockdowns surpass all concerns, cited by more than six out of 10 respondents.

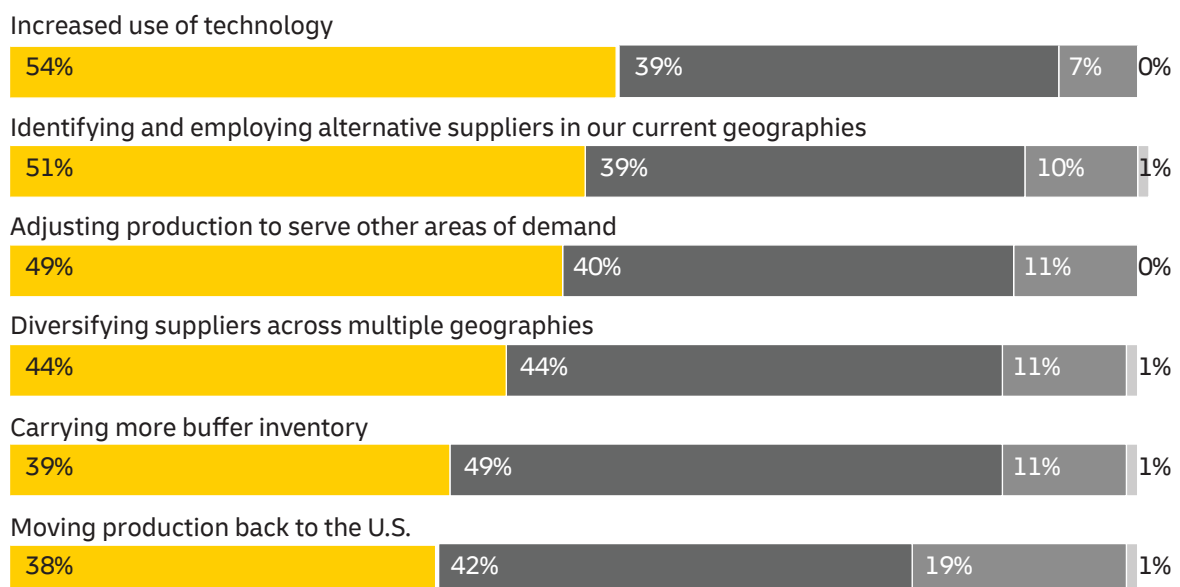
COVID-related lockdowns led to disruptions in global production and supply chains, especially for heavy manufacturers and technology companies that rely on long and intricate networks that start in Asia. The crisis and necessary public health response caused the largest and fastest declines in international trade flows in modern history. World trade volumes fell 11.7% in the second quarter of 2020 compared with the same period a year earlier, according to the World Trade Monitor published by the CPB Netherlands Bureau for Economic Policy Analysis.

Many pundits predicted that companies would respond to the crisis by shortening their supply chains, relying less on far-flung suppliers and moving production back to the U.S. But a sharp rebound in consumer demand that began in May prompted companies to quickly take steps to alleviate stresses on their supply chains.

The research found that technology, such as automation and risk-monitoring tools, was a lifeline, allowing organizations to scale and transform their operations as the crisis has evolved. Over half of respondents (54%) said they have increased use of digital tools and identified alternative suppliers in current geographies (51%) to mitigate supply chain risks.

The pandemic also underscored the need for an approach that was already underway: diversifying supply chains to a broader array of locations and away from single source or single region suppliers. 44% of respondents have taken steps to find more suppliers across multiple geographies and another 44% are considering diversification. The survey found the companies are strengthening and building additional resilience into their global supply chain model.

In response to COVID-19, organizations tend to have either already taken steps or at least considered steps that may mitigate risks to supply chains



■ We have already done this in response to COVID-19
 ■ We are considering this moving forward in response to COVID-19
 ■ We have not done this and are not considering doing this in response to COVID-19
 ■ Don't know

THE DESIRE TO RECONNECT, FACE-TO-FACE

The ability to do business internationally has been crucial to the success of many organizations for a very long time now. Advances in transportation and communications technology in the last 25 to 30 years have accelerated globalization. Surveyed businesses are heavily reliant on their international business partners.

The pandemic has severely restricted travel, which has thrown up barriers to working closely with international business partners. The wide adaptation of video-conferencing apps has helped people stay connected, but the world will not become virtual, our survey found.

Respondents are itching to resume international travel. So much so, that a surprising 44% of respondents believe that their organization is planning to increase international business travel to beyond pre pandemic levels in 2021. This is great news for the struggling travel industry, particularly considering that a further 41% of respondents' organizations plan to at least return to pre pandemic levels of travel during the course of this year.

Most respondents' organizations are dependent on internationally based business partners as part of maintaining operational stability

Total [500]



IT, technology and telecoms [100]



Business and professional services [60]



Financial services [96]



Retail, distribution and transport [90]



Manufacturing and production [47]



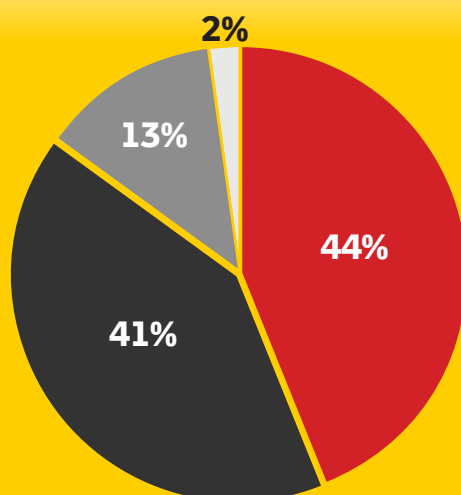
Other sector [107]



Extremely dependent Very dependent Somewhat dependent Not at all dependent

Generally, there is a great deal of optimism around international business travel in 2021...

But how realistic these plans are will depend on how successfully the pandemic is managed this year



- We plan to increase international business travel beyond pre-pandemic levels
- We plan to resume international business travel to pre-pandemic levels
- We plan to limit international business travel to less than pre-pandemic levels
- No plans for international business travel at all

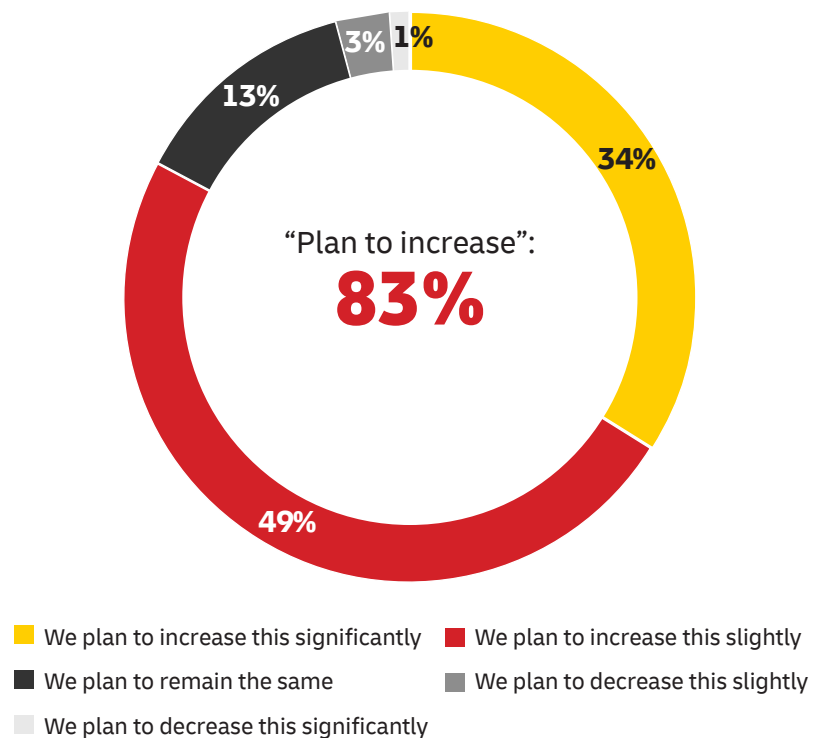
BULLISH ON FOREIGN INVESTMENT

Businesses are also optimistic about their outlook for foreign investment to grow sales, operations, or their supply network. Over one-third of respondents (34%) said they are planning substantial growth in their investment in foreign countries this year.

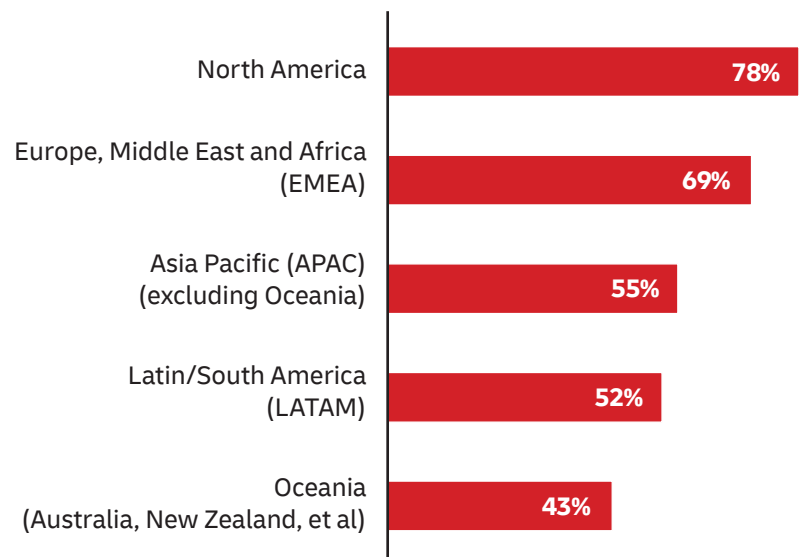
Even with pandemic-induced uncertainty, there are several reasons for companies to be bullish about expansion. The U.S. economy was growing steadily before the virus struck – its longest expansion in history. The unemployment rate was at 50-year lows. Companies are sitting on piles of cash, thanks to solid growth and corporate tax cuts.

The top region being targeted for foreign investment is North America, a sign that decision makers like free trade. The extension of the trade agreement between the U.S., Canada and Mexico last year brought a measure of economic certainty to the region, stability that was needed to spur investment in new suppliers, new factories or new customers.

Respondents' organizations tend to be planning to increase investment in foreign countries this year



North America is the most likely to be a top three priority for foreign investment



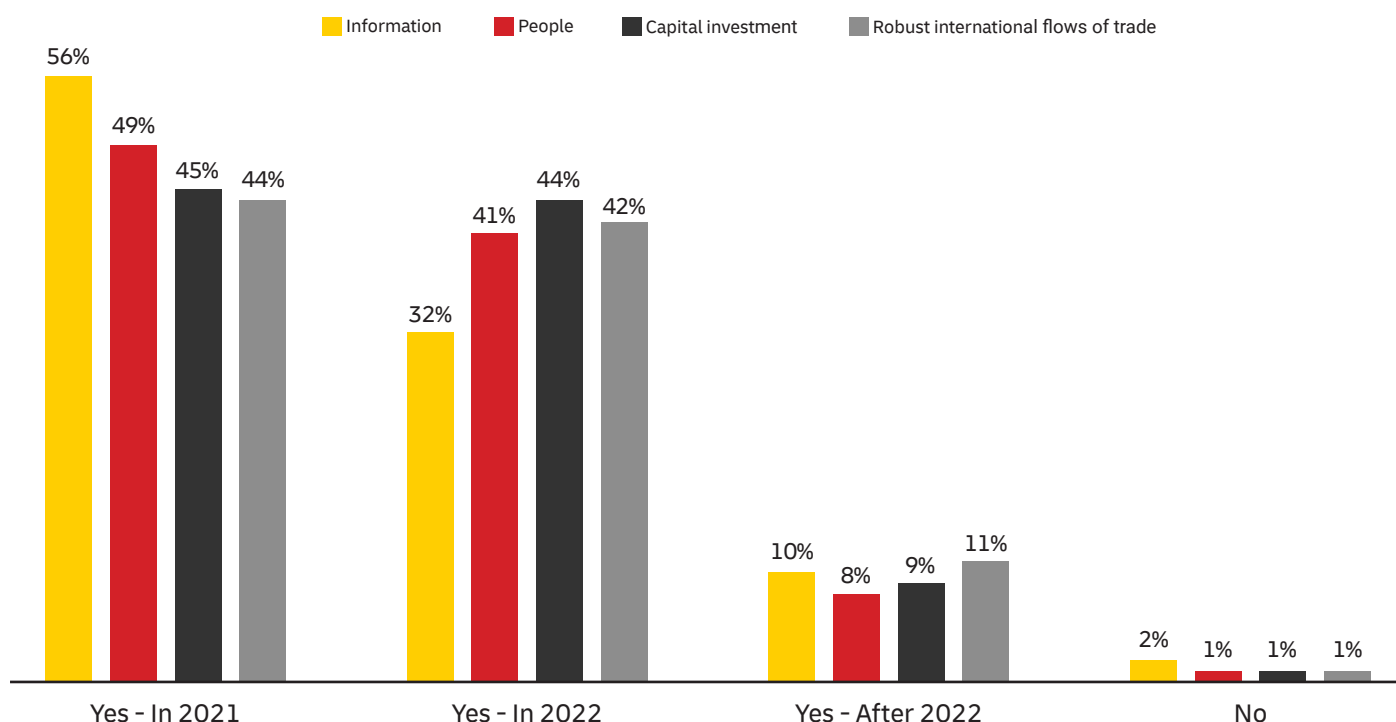
BUSINESS RECOVERY DEPENDS ON FREE FLOWS OF PEOPLE, INFORMATION, CAPITAL, AND GOODS

Closed borders, travel bans, and grounded passenger airlines continue to hinder a broader business recovery. The survey found just how reliant businesses are on the free movement of people, as respondents ranked “people,” slightly ahead of capital, data, and trade as key to their fortunes. But all four factors are intrinsically linked. For example, all the stay-at-home activity led to a surge in international internet traffic. The ability to move data seamlessly and globally facilitates international trade. Even though U.S. trade in goods with the world bounced back in the second half of last year, [overall exports fell 13.2% and imports fell 6.6%](#) in 2020 compared with 2019. Businesses are counting on the resumption of international trade to help boost their recovery, with 44% expecting it to recover to at least pre-pandemic levels this year.

89%

of respondents say that robust international flows of trade will determine the pace of their organization's economic recovery from the pandemic over the next year

Overall, respondents are optimistic that elements of globalization will recover to pre-pandemic levels or grow beyond pre-pandemic levels in the future



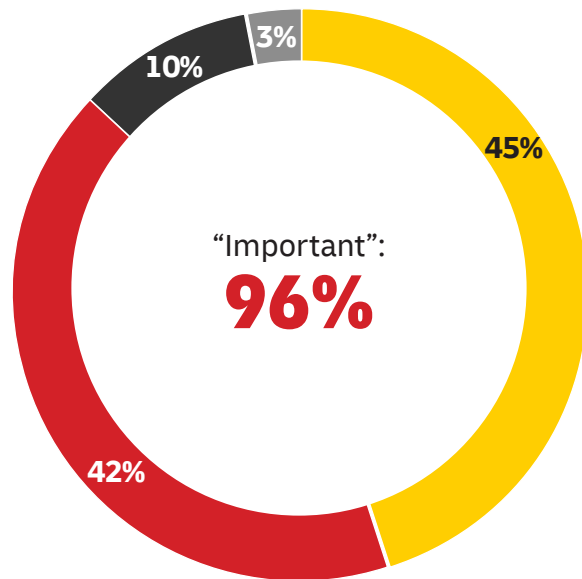
TIME TO RE-ENGAGE POLICYWISE WITH THE REST OF THE WORLD

To support their recovery, the overwhelming majority of businesses would like to see the U.S. move away from the protectionist trade policies enacted under President Trump.

Their desire to foster closer alliances with the rest of the world extends to global environmental challenges, such as climate change.

Respondents see the importance of trying to reverse, or at least slow, changes in the climate, and these efforts would certainly be aided by the U.S. rejoining The Paris Agreement, something that 96% of respondents believe it is important that they do. It would appear that executives have kept longer-term challenges such as guaranteeing the longevity of the planet for future generations in view despite the short-term challenges posed by the pandemic.

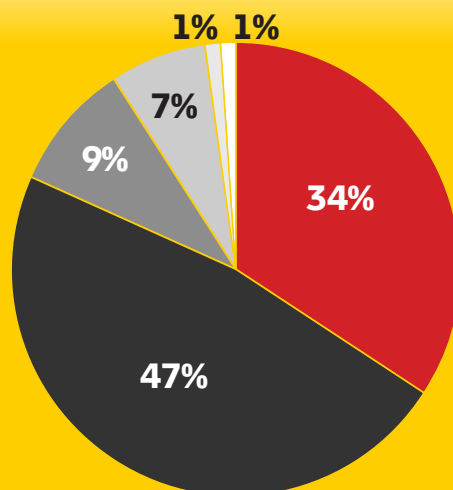
Respondents believe it's important for the US to recommit with its allies on climate change



■ Extremely important ■ Very important
■ Somewhat important ■ Not important

Percentages in chart are rounded to 0 decimal points

A large majority of respondents believe that moving away from nationalist/protectionist trade, regulatory, and foreign policies would have a positive impact on profitability.



■ Yes, profitability would significantly increase
■ Yes, profitability would slightly increase
■ No, profitability would remain the same
■ Yes, profitability would slightly decline
■ Yes, profitability would significantly decline
■ Don't know

FACING THE FUTURE TOGETHER IN AN UNCERTAIN WORLD

As businesses consider how they can recover from the economic crisis unleashed by COVID-19, our research reveals a positive outlook about globalization. While the pandemic rolled back globalization's recent gains, it is not expected to be a turning point in the steady march to more international integration.

Indeed, the spirit of international cooperation has been strong in the response to the pandemic. Businesses, government agencies and nongovernmental organizations have been working across borders to solve problems at scale, such as developing a vaccine for COVID-19.

Persevering and growing in a recovering global economy may require reimagining your portfolio, your supply chain or the markets you operate in. Expanding internationally in uncertain times, for instance, may seem counterintuitive but could also fuel faster growth. The results of the survey indicate clearly that executives in the U.S. already recognize the important role that a global outlook will play in their companies' future development.





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