

# Redrawing the map

Globalization and the changing  
world of business

Featuring insights from *The Globalization Index*,  
compiled by the Economist Intelligence Unit

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# The new global reality

In my view, the two most important trends shaping our world today are the shift of capital from developed to emerging markets and global demographic change. As well as the effects they will have on society as a whole, they are profoundly changing the business landscape.



Going forward, no single region will monopolize corporate success. Leading companies will come from many places and more future leaders will be from countries that used to be considered emerging. Companies have to adapt to this new reality – a more globalized world where ownership structures change overnight. A world where customers and employees cross many cultures, and traditional ideas and practices may no longer hold true. Tomorrow's successful companies are those that are ready, today, to flex and adapt. But it is not just economic shifts they must be attuned to, it is also demographic shifts. The leading companies of tomorrow are already realizing the benefit of multicultural teams – teams that bring diversity of thought and culture. They are the companies that recognize diversity as an asset, and protect it, capitalize on it, and promote it through an inclusive culture. They are the companies that see both the global economic shifts and the demographic shifts in a positive way – because these shifts are positive.

To help companies everywhere understand these changes, we engaged the Economist Intelligence Unit to help create The Globalization Index. The Index, informed by the views of more than 500 global business leaders, looks at the most important elements of globalization for business. These insights show how connected the world has become, and will help to stimulate debate on what I believe will be the defining issue of our times.

A handwritten signature in black ink that reads "James S. Turley". The signature is fluid and cursive, with a long horizontal line extending from the start of the name.

**James S. Turley**  
**Chairman and CEO**  
**Ernst & Young**

# 1. Introduction

Until 2008, the phenomenon of globalization seemed incontrovertible. Although countries around the world adopted different models and approaches to their engagement with the world economy, the trend for people, firms and governments to become increasingly interdependent and integrated with one another, through the exchange of goods, capital, labor, technology and culture, showed little sign of slowing.

The financial and economic crisis that engulfed world markets has called these assumptions into question. In spring 2009, the World Bank, and others, forecast world trade to contract for the first time since 1982. Global foreign direct investment (FDI) was expected to shrink by 12-15%. Banks, encouraged by beleaguered politicians, withdrew international lending to focus on domestic business. And, despite pledging to the contrary, developed and developing countries alike have implemented protectionist policies, sometimes wrapped in fiscal stimulus packages.

As we move into 2010, the picture is more encouraging, with economic indicators suggesting an incipient recovery. Moreover, a feared spiral of tit-for-tat protectionism has not been triggered, although the threat has not entirely disappeared.

This report assesses the impact that globalization is continuing to have on business worldwide as well as the extent to which countries are connected to the global economy. *Business responses to globalization* focuses on key insights about globalization gleaned from a survey of 520 senior business executives and interviews with 30 senior executives and high-level experts. *Measuring globalization* uses an index to measure and track changes in the way that the largest 60 nations of the world are integrating with the global economy (relative to their gross domestic product (GDP)). In addition, the index identifies the key drivers of globalization and forecasts countries' integration over the next five years.

## About this report

*"Redrawing the map: globalization and the changing world of business"* is an Ernst & Young report written in co-operation with the Economist Intelligence Unit.

The report draws on three sources of original research: an index measuring 60 countries according to their degree of globalization; an online survey of 520 senior business executives worldwide, conducted in August 2009; and a program of in-depth interviews with 30 senior executives and high-level experts.

The Economist Intelligence Unit created The Globalization Index featured in part three of this report, as well as developing and conducting the online survey and in-depth interviews. The views in parts one and two of this report are those of Ernst & Young.

## 2. Business responses to globalization

While business as a whole has shaped our globalized world, individual firms also need to think about how to react to the new environment. In 2006, Samuel Palmisano, CEO of IBM, wrote that “state borders define less and less the boundaries of corporate thinking or practice.”<sup>1</sup> He pointed out that the multinational company can no longer succeed as a collection of country-based business units reporting into a single headquarters. Rather, it must “fashion its strategy, its management, and its operations in pursuit of a new goal: the integration of production and value delivery worldwide.”

This means that key business functions will need to move closer to the end user or key resources. The best and brightest managers or technicians will be found and relocated anywhere. Capital will be tapped not only in New York or London, but from sovereign wealth funds in the Gulf, Singapore or China. And as suggested in a recent book, *Globality*<sup>2</sup>, “everyone is competing with everyone for everything.”

In reality, the new order might feel more like a multi-dimensional balancing act: how to make your company resilient to shocks but flexible enough to grasp new opportunities; maintain proven business methods while accommodating very different demands of emerging markets; and deepen local know-how while delivering global economies of scale.

To learn how businesses are responding to globalization, 520 senior business executives, worldwide, were surveyed, and 30 senior executives and high-level experts were interviewed. These groups provided their insights into the current and future globalization landscape.

The key survey insights are:

### 1. Competing in a new environment

The rise of companies from emerging markets has changed the game and the outlook for business.

### 2. Expanding internationally

Despite the downturn and concerns over state intervention, companies are still planning geographic expansion.

### 3. Innovations in innovation

Companies must rethink strategies to ensure that innovations developed in one country are commercially viable in others.

### 4. Diversifying management

As companies deepen and broaden their presence in international markets, the need for culturally diverse management teams becomes all the more pressing.

### 5. Policy matters

Business will have to engage with governments and other policy makers on global issues such as protectionism, regulation and trade issues.

<sup>1</sup> The Globally-Integrated Enterprise, Foreign Affairs, May-June 2006

<sup>2</sup> Harold Sirkin, James Hemerling and Arindam Bhattacharya

## Competing in a new environment

For Donald Sull, Professor of Management Practice at London Business School, the essential balance is between absorption and agility. The former allows firms to weather shocks with a protected core market, diversified cash flow, a strong brand or long-term customer contracts; while agility is essential for spotting and exploiting new opportunities.

“Companies from developed countries, by and large, have the advantages of absorption – size, established brands, technology, diversification and so on,” he says. “Lacking these advantages, emerging-market firms typically rely on agility. To me the striking thing is how fast agility can trump absorption.” He points to the extraordinary rise to dominance of Indian-run steel maker Mittal and Brazilian brewer AmBev’s assumption of power in global brewing as cases in point.

“The key word is flexibility,” says Brad Mitchell, President of Logistics and Distribution at UPS. “The best companies strike a balance between long-term planning and being able to react to short-term opportunities and threats.” The notion that there should be a single supply chain for the whole company is becoming obsolete. “Companies aren’t putting all their eggs in one basket any more,” says Mr. Mitchell. “They recognize that they need a contingency in place to cover multiple scenarios.” This may mean deciding which products can be sourced from low-cost, distant markets and which from closer to home.

At the same time, companies are having to adopt a “multipolar” approach that takes account of a shift in economic weight eastward. “Once it was the case that countries such as India and China were seen as offering fairly limited potential,” says Nani Beccalli-Falco, President and CEO of GE International. “Today, however, they are so important that you need to treat them like home markets.”

The competition is changing too. “When we used to do our competitive analysis, it tended to include only American, German or British names,” he continues. “Today, it’s a company from China [e.g., Haier], another from India [e.g., Mindray].” Such changes have been replicated across many sectors. China’s leading mobile device maker, ZTE, which only began foreign operations in 1997, is set to overtake Sony-Ericsson this year to become the world’s fifth-largest device maker. “We no longer see ourselves as a Chinese company,” says He Shiyu, Executive Vice-President of ZTE. “We see ourselves as a global company.” ZTE derives 70% of its revenues in the mobile device division from sales in more than 100 foreign countries, including in Europe and North America. Established rivals such as Nokia and Motorola, and telecoms infrastructure companies, such as Alcatel-Lucent, are taking note.

Like scores of emerging market multinationals, ZTE has a major advantage – a colossal home base from which to challenge global incumbents. ZTE’s domestic sales of mobile devices, for example, doubled in just the past year, thanks to the popularity of new 3G services among China’s burgeoning middle class.

Knowledge of local operating conditions, tight relations with central and local government officials, and easier access to large pools of low-cost, hard-working and highly skilled labor support these advantages. At the same time, new emerging market enterprises may be less tethered to old ideas about location, company structure, IT systems and culture (see TAQA case study page 9), and that enables them to compete abroad.

Emerging market firms still have ground to make up, though. Developed world companies often have decades – even centuries – of valuable experience, and with brands to match. It is telling that Interbrand’s Best 100 Global Brands ranking for 2009 is entirely composed of developed country companies.

Many firms from the West also boast highly adept R&D functions, and international patent data (a good proxy for innovation) reflect this dominance. The World Intellectual Property Organisation 2007 figures record only 3,882 patent applications originating from India, 160,523 from China and 409,952 from the US. There is considerable momentum in the innovation capabilities of Western multinationals, and a large proportion of this derives from their long-standing experience of conducting R&D, their skills in selecting and developing the best ideas, and, above all, their ability to recruit, reward and retain the most talented and skilled engineers.

But even these advantages are starting to seem ephemeral. The decentralization and globalization of R&D along “open innovation” principles means that large corporate labs are no longer a prerequisite of successful innovation. Instead, less-experienced companies can partner with third parties (or acquire them), source ideas from a range of different locations and institutions, and harness the skills not only of their own employees but of a bigger talent pool that includes customers and ordinary internet users worldwide.



**John Ferraro**  
Chief Operating Officer – Ernst & Young

“Today a look at the Fortune Global 500 shows that almost one in five of the world’s largest companies has its roots in the emerging markets – and that number is growing fast. As companies from everywhere start to compete with everyone, the world becomes a far more complex place.”

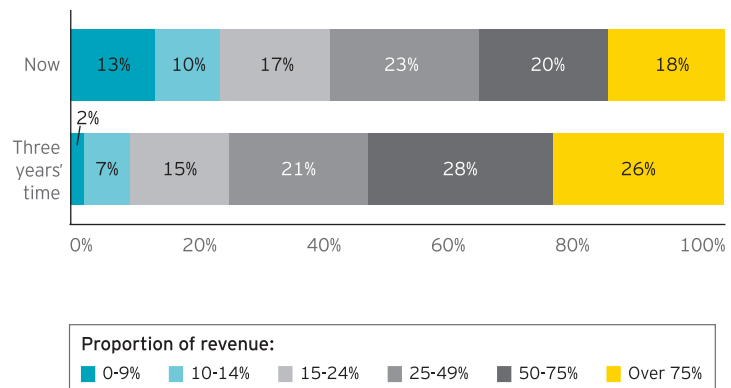
# Expanding internationally

Around 38% of surveyed businesses currently derive over half their total revenues from international markets; in three years' time, some 54% of respondents expect to do so. European firms are among the boldest: 67% of those surveyed expect to derive most of their revenues from international markets over the same period (see figure 1). Their operations are also more widespread: almost half do business in 25 or more countries, compared with a global average of one-third.

Companies from Asia-Pacific are less global: currently, 32% get more than half of their revenues from international markets according to the survey, which is expected to rise to 48% in three years' time; and only 16% currently have operations in more than 25 markets. This undoubtedly reflects their lower levels of economic development, but it also suggests a massive domestic market still to be exploited. India's Bharti Airtel, one of the world's largest mobile operators, for example, still does most of its business at home. Just as countries with large economies and populations may be less inclined to globalize because of the sheer scale of local resources and opportunities, so, too, companies that are based there may be slower to take advantage of international markets.

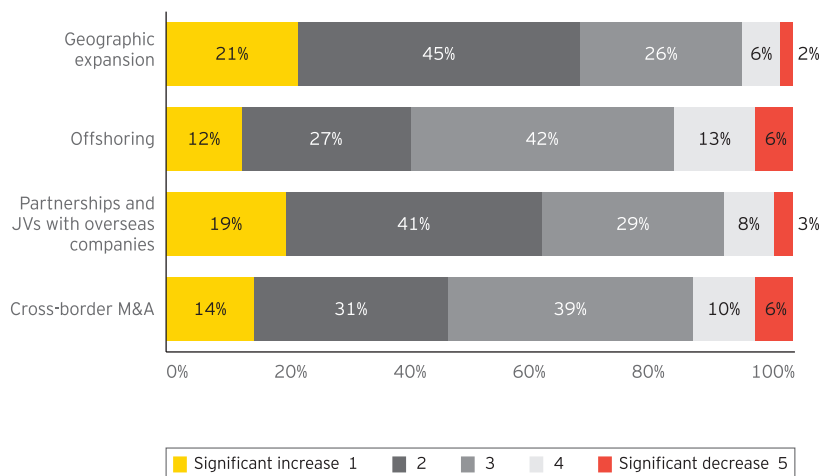
Two-thirds of surveyed companies say that they are expanding into international markets over the next three years specifically to increase sales, compared with 4 in 10 that say they will conduct more offshoring (see figure 2) – a surprisingly low figure given the current focus on cost reductions.

Figure 1 What proportion of your company's revenues is derived from its overseas operations (i.e., outside your company's home market) currently, and in three years' time?<sup>1</sup>



Source: The Globalization Index survey 2009  
 1 Figures may not add up to exactly 100%, due to rounding.

Figure 2 Do you expect your company to conduct more or less of the following investments over the next three years?



Source: The Globalization Index survey 2009



**Mark Otty**

Managing Partner, Europe, Middle East, India and Africa –  
Ernst & Young

“For the first time, truly global companies are beginning to emerge. These companies forge their own unique corporate identities and cultures, which acknowledge and leverage the diverse perspectives of their people. These are the companies that will emerge as the sustainable leaders in this century.”

Much of the international expansion planned will come in the form of foreign direct investment (FDI). Despite ongoing credit shortages and the high cost of finance, 45% of firms expect their company to conduct more international transactions over the next three years.

This optimism comes in the wake of a general collapse in FDI in Western markets in 2008, duly followed in 2009 by a dramatic drop in formerly resilient emerging markets.

Remarkably, FDI into emerging markets is, for the first time ever, expected to exceed that into developed markets, albeit the result of more severe falls in the latter (see figure 3). However, it remains to be seen whether this is the start of a trend or an anomaly which will be reversed once merger and acquisition (M&A) activity, largely a developed market phenomenon, picks up.

On the other hand, it may also be that emerging market firms re-adopt their pre-crisis international acquisition strategies. These helped firms, often from India, as quick ways to scale up, find experienced managers, and acquire global brands inexpensively (see Religare case study, page 10).

But obstacles remain, not least the shortage of credit and poor due diligence that confounded numerous deals in the past. Neville Eisenberg, managing partner at law firm Berwin Leighton Paisner, highlights how acquirers often “pay lip service to due diligence rather than do it justice.” But Dev Bhattacharya, who heads business development at Indian conglomerate Aditya Birla Group, seems undeterred: “There are some prize global assets going at bargain basement prices. If we can raise the financing, we are willing to take the pain of integration.”

**TAQA: a success story**

In the space of four years, TAQA has emerged from a domestic water and electricity utility based in Abu Dhabi and become a global energy company with operations in 14 markets around the world and 2,800 employees. This remarkable expansion began in 2005 when the Abu Dhabi Water and Electricity Authority listed a 25% stake in TAQA (a vehicle holding a majority stake in its wholesale power and water production businesses) on the Abu Dhabi stock exchange.

TAQA then raised US\$ 3.5 billion via an international bond issue, the largest ever by a Middle East company. TAQA, majority-owned by the Abu Dhabi government, operates upstream interests in oil and gas exploration, midstream assets including pipelines, and downstream power generation, transmission and distribution. TAQA's initial acquisition-led growth strategy involved purchases of assets in Canada, power generation facilities in Ghana and Morocco, and North Sea offshore fields.

“Our strategy has been to make acquisitions that come with good people and weave those individuals into a common corporate culture” says Carl Sheldon, TAQA's General Manager. The company's relatively flat management structure helps reduce bureaucracy across diverse and dispersed assets. “Our future growth will be driven by optimizing our portfolio and developing major organic capital projects in each of our businesses.”

Figure 3 FDI inflows (US\$ billion unless otherwise indicated)

	2007	2008	2009*
<b>World total</b>	2,033.3	1,683.2	923.3
% change	43.2	-17.2	-45.1
<b>Developed countries</b>	1,312.7	916.4	447.8
% change	48.0	-30.2	-51.1
<b>Emerging markets</b>	720.6	766.8	475.5
% change	35.2	6.4	-38.0
Sub-Saharan Africa	28.0	30.9	16.6
% change	75.2	10.5	-46.3
Middle East & North Africa	76.0	69.4	49.3
% change	12.7	-8.7	-28.9
Developing Asia	297.8	322.8	225.4
% change	38.7	8.4	-30.2
Latin America & Caribbean	127.2	137.7	82.1
% change	36.0	8.3	-40.4
Eastern Europe	166.0	184.6	91.9
% change	41.1	11.2	-50.2
<b>% share developed countries</b>	64.6	54.4	48.5
<b>% share emerging markets</b>	35.4	45.6	51.5

Source: IMF; National Statistics; EIU

\* EIU forecasts

### Religare: following the money

What will an international financial services firm of the future look like? As traditional financial centers struggle and emerging market companies expand beyond their own shores, the development of an emerging market investment bank seems a logical progression.

According to a recent study by strategy consultancy McKinsey & Company, revenues from investment banking in emerging markets will rise from 16% of the global total in 2005 to 28% in 2010. Acquisitive Indian companies in particular are seeking relevant advice, and some will find it in Religare, a leading financial services firm in India.

Martin Newson, Religare's head of global investment banking, is keen to exploit the shift in demand: "First with advice on acquisitions and second with capital raising capabilities. But we are also looking to put bankers in London and New York to speak to European and North American CEOs about Indian opportunities."

In 2008, Religare acquired Hichens Harrison, London's oldest stockbroker, for £55.5 million, positioning Religare well for future deal flow between the two countries. The bank is also seeking a broker-dealer license in New York and has a presence in Malaysia, Indonesia, Brazil and other emerging markets.

Other investment banks are sure to follow suit as they seek new clients and outsource non-core business processes. In this respect, Religare already has "an advantageous cost structure," according to Mr. Newson. "We'll only put someone in an expensive location if we have to." In fact, "we're starting to see Indian bankers, who have been trained in places like London, looking to move back because they recognize the opportunities," he says. "Over a reasonable time frame, the talent pool will grow."

Mumbai may not rival London or New York – but a big shift in that direction is under way.

## Innovations in innovation

Just as flows of capital and investment are changing direction, so companies are adopting new approaches to innovation based on the changing market landscape. Take health care. Firms used to develop high-performance products in, for example, the US, and then adapt them for sale in India or other emerging markets. But GE's Mr. Beccalli-Falco warns: "Using this approach, you can only gain access to around 10% of the market in India, because there is only limited demand for such a high-end product."

Instead, GE has adopted "reverse innovation," whereby product development takes place at R&D centers in emerging markets with local customers in mind and is adapted for sale in the West. For example, GE's low-cost, portable electrocardiogram (ECG) machine was developed in India to help domestic healthcare professionals, especially in rural areas. An adapted version was sold in the US to customers who needed a portable device usable at accident sites. In this way, GE can achieve global economies of scale, without merely skimming the surface of large, fast-growing markets.

Survey respondents agree with the importance of flexibility in R&D. The ability for products developed in one country to be commercially viable in others is seen as the second most important factor related to the international exchange of technology and innovation, behind only intellectual property protection.

Procter & Gamble (P&G) is also innovating for local markets. An estimated 80% of P&G's customers in Mexico, for example, shop at informal stalls and kiosks, or "high-frequency stores". In aggregate, these tiny outlets comprise P&G's largest customer – bigger even than Walmart. So P&G thinks first about what these customers can afford, and then works back. Poor customers typically get paid daily, so they can't bulk buy, so P&G sells its products in smaller packages and quantities and prices them in rounded denominations that match local notes and coins. Meanwhile, a network of local representatives supplies stallholders with stock and promotional materials.



**Albert Ng**  
Managing Partner, Greater China – Ernst & Young

"Leading economies in Asia have not just closed the production gap with the West; they are rapidly closing the innovation gap. In many critical industries, Asia's innovation output is now market-leading."

Tailoring products, distribution and pricing to individual markets runs counter to traditional standardized product and pricing strategies. Ahmet Bozer, President of the Eurasia and Africa Group of the Coca-Cola Company, believes that global businesses need to balance the needs for localization and standardization with great care. "If you have a local business that is waiting for orders from central management, they will be paralyzed," he says. "Your company will be viewed as distant, unreachable and not trusted. So there has to be a certain amount of empowerment at the national level. But if you say that everything should be decided at a national level, you would be missing out on economies of scale."

Mr. Bozer cites as an example the promotions that Coca-Cola runs during religious celebrations. In the 90 countries for which he is responsible, this spans Christmas, Diwali, Ramadan and many others. Rather than see each entirely differently, a more centralized approach to planning and development enables local managers to access bigger and better resources. At the same time, the central planning department collaborates and shares information with the local managers. "There is one unit that is responsible for developing a central celebration program and this gives us the benefit of scale," explains Mr. Bozer. "At the same time, we balance this against the need for satisfying cultural differences and local empowerment."

## Diversifying management

The recognition that talent, like R&D, has also become a resource that might be sourced globally is changing the way companies think about what were previously deemed core functions. “You go wherever the expertise is because expertise knows no borders,” says Ken Jones, Chief Operating Officer at Astellas Europe, a pharmaceuticals company. Survey respondents consider the demand for vital skills in or from international markets to be the most important labor-related factor affecting their businesses.

This has implications for external partners, too. “Our customers are thinking far more strategically,” says Ananda Mukerji, CEO of Firstsource, a business process outsourcing (BPO) provider. “They are looking at using talent pools in different parts of the world and drawing on the capabilities of outsourcing partners rather than just seeing them as a way to cut costs.”

The old approach of parachuting in managers from headquarters to run local businesses also looks outmoded. Expats are expensive and usually lack the linguistic and cultural affinities necessary to grasp local business conditions – the two most problematic aspects of international recruitment and relocation, according to surveyed executives. However, few executives doubt that foreign operations must be set up correctly at the outset, and that often means that a veteran executive from overseas may have to be given that responsibility. As Mr. Jones describes it, initially you need “someone leading the international business who’s been with the company a long time and can present that vision. Usually that is an expatriate. But once the culture is ingrained, you can recruit senior managers locally.”

Brian Wilkinson, a board director at Randstad, a recruitment company, confirms that eventually, the focus on locals “has helped us shape a much more cosmopolitan, international management team that’s more in tune with the business wherever we do it.” The handover is far from straightforward, though. For one, as international operations grow, so does the need for managers with experience running ever-larger operations. Thus, the cycle of expatriate arrival, local training and company expansion continues. But this cycle also generates an ever-growing international pool of talent on which to draw for other international assignments.

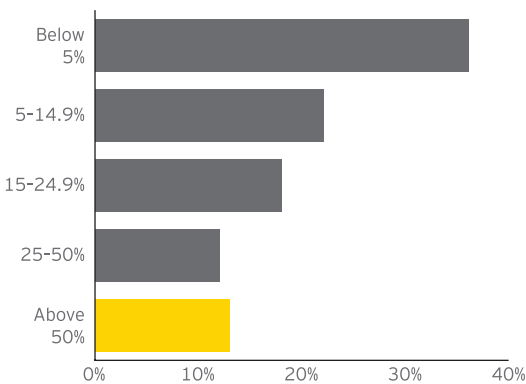


**Steve Howe**

Managing Partner, Americas – Ernst & Young

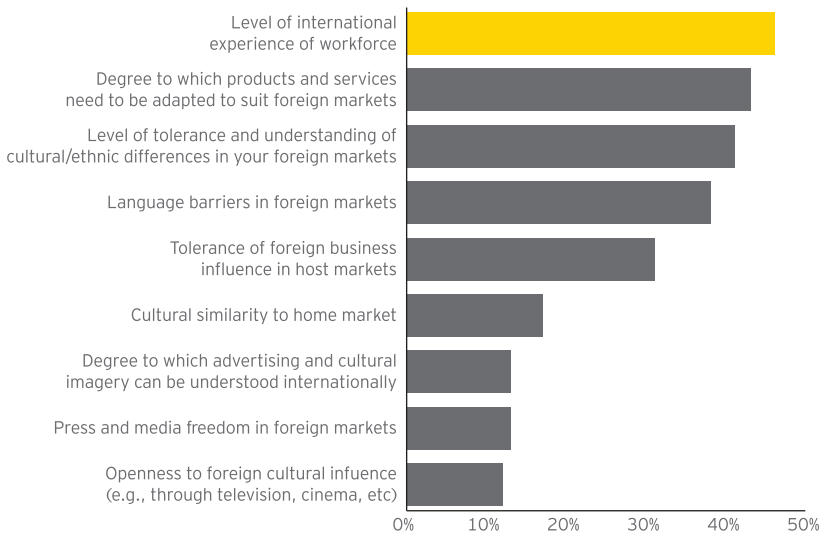
“Leading organizations need to look at talent and the value of different perspectives in a new way to drive innovation, mitigate risk and support new ways to achieve success.”

**Figure 4** Roughly what proportion of senior management located either at your company's headquarters or where you are currently based, are nationals of another country? (% of respondents)



Source: The Globalization Index survey 2009

**Figure 5** Which of the following cultural factors do you expect to be most important when conducting your international business over the next year? (% of respondents)



Source: The Globalization Index survey 2009

Where this falls short is at the most senior echelons of global or regional headquarters. The survey highlights that boards seldom reflect the international reach of their businesses (see figure 4). Almost half (45%) of surveyed companies that were operating in 25 or more countries admitted that they had at most only a couple of foreign nationals on their boards.

But Coca-Cola's Mr. Bozer argues that diversity should not be pursued for its own sake. "The most important thing is diversity of thinking." That means having executives who understand both emerging and developed markets. "You have to operate at a different level where you can deal with the full range of business opportunities and issues."

As with developing talent at the local level, it takes time for gifted managers to work through the ranks to board level. But analysts advise companies to be proactive in nurturing foreign leaders for future global responsibilities, so that boardroom discussions better reflect an understanding of individual markets and avoid the "groupthink" that obscures other perspectives.

Companies are at least recognizing this as an issue, even if few are doing much about it. Asked which cultural factors are most important when conducting international business, the uppermost concern was the need for internationally experienced staff (see figure 5). That includes staff able to appreciate cultural differences that one encounters in dealing with employees, officials, consumers and stakeholders.

# Policy matters

Following major fiscal stimulus packages and the biggest corporate bailouts ever, governments have become the new big market players. So, now more than ever, businesses will have to engage with governments and other policy makers on global business issues.

## Protectionism

Probably the biggest avoidable threat to continuing globalization comes from protectionism – a specter that has re-emerged in the light of slowing global trade and FDI and rising unemployment. It seems unlikely that governments will repeat the errors of the Great Depression, when the Smoot-Hawley Act in the US raised tariffs on more than 20,000 imported goods, causing a catastrophic slowdown in trade. In November 2008, the G20 leaders even signed a pledge to avoid protectionist measures. But since then, there have been numerous instances of countries introducing tariff and non-tariff barriers that discriminate against foreign firms.

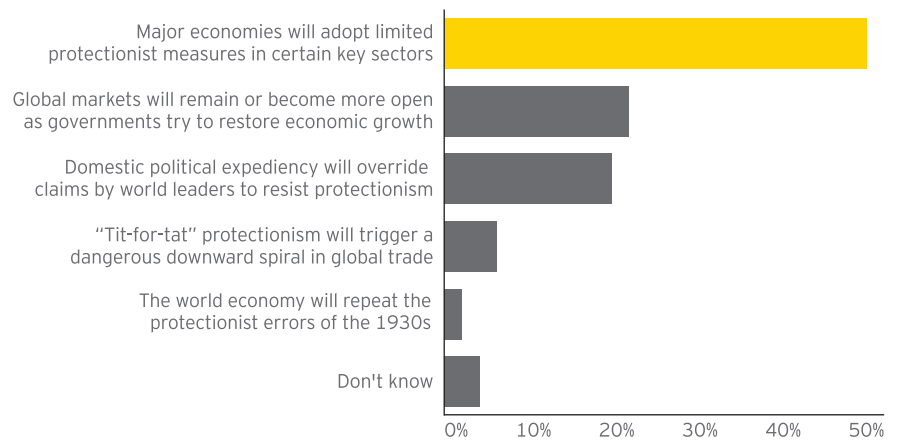
In a September 2009 report, *Broken Promises*, Global Trade Alert, an independent monitoring service that tracks protectionist activity, estimated that there had been around 70 trade-distorting measures implemented in each quarter in 2009 at the time of publication, and a further 134 protectionist policies in the pipeline.

Business executives also see risks but remain sanguine. Around half of survey respondents expect only limited protectionist measures, though a quarter fear something worse, while a fifth are hopeful of greater openness (see figure 6). Respondents from Asia-Pacific are most confident; North Americans least so.

That may be because Western markets are a bigger source of worry. Asked what issues regarding their international trade in goods in developed markets (as opposed to emerging markets) are most important, the main one was the extent of tariffs, quotas and other trade barriers (see figure 7, page 15).

Such threats also include environmental protectionism. In September 2009, French President Nicolas Sarkozy repeated calls for carbon import taxes, against the advice of economists that this might trigger retaliation and litigation particularly from China and India. Simon Evenett, a professor at the University of St. Gallen, Switzerland, and Global Trade Alert's founder, describes the issue as "a latent bomb underneath the world trading system." At the same time, Economist Intelligence Unit research<sup>3</sup> shows a broad desire among business executives for clarity and stability on environmental policy, so that long-term investments can be planned.

Figure 6 Which of the following assertions about the impact of protectionism in coming years most closely reflects your view? (% who agree with each statement)



Source: The Globalization Index survey 2009

Heiner Flassbeck, Director of Globalization and Development at the United Nations Conference on Trade and Development (UNCTAD), defines protectionism more broadly still: "Is it protectionist that sterling is devalued by 20%?" he asks. Given that the number two concern of businesses trading goods internationally in developed countries is currency volatility, it's a question worth posing, even if no WTO-style body is in place to rule on this.

<sup>3</sup> Countdown to Copenhagen: Climate change and the implications for policy and corporate strategy, March 2009

### Working with government

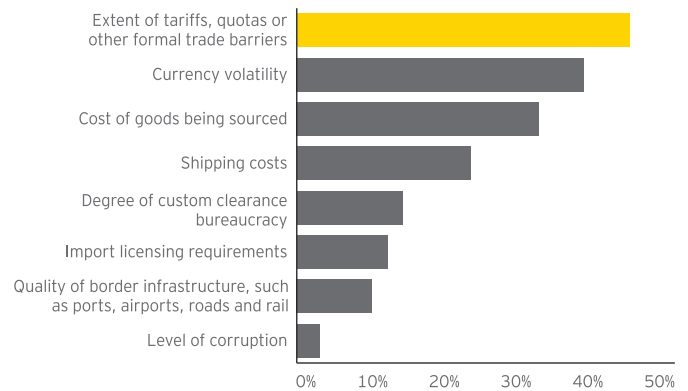
Markets may be global, but dealing with officialdom remains a decidedly local affair. And now, financial crisis and subsequent bailouts have pushed some governments to take over the commanding heights of the economy. "Governments have had to assume a role that they did not have in the past 20 years," says Mr. Flassbeck of UNCTAD. "One of the most important lessons of this crisis is that the market is not automatically reasonable and self-correcting."

That will not be new for companies already operating in, say, Russia or China, where the experience of "state capitalism" will be familiar – and it will be experience worth having. Rather than fade into irrelevance, as some free-market proponents may have expected pre-crisis, authorities in these countries may see the current environment as an opportunity to extend rather than retract their reach, especially since some can boast relative economic success at a time when freer-market systems have faltered.

In sectors such as oil and gas, defense, mining and telecoms, state ownership or control remains a dominant model. As Ian Bremmer, CEO of the Control Risks Group, has noted,<sup>4</sup> the world's 13 largest oil companies are now controlled by governments, while multinationals produce just 10% of the world's oil and gas.

Even in countries where direct state ownership is limited, we are likely to see a more heavily regulated environment – certainly in financial services. Although authorities in the West have so far not been heavy-handed, plans for greater scrutiny of corporate governance, executive pay, transparency and more, are in the pipeline. This is not necessarily a bad move, and business will benefit if reforms are well-considered, effectively implemented and globally consistent. This is why the emergence of the G20 as the premier venue for international economic policy-making is so important. In this new environment, it will be more important than ever for business to work with a broad array of stakeholders, including regulators and national governments. And governments will need to engage their national citizenry on a range of global issues.

Figure 7 Which of the following factors do you expect to be the most important issues over the next year when trading goods internationally in developed markets? (% of respondents)



Source: The Globalization Index survey 2009

<sup>4</sup> State Capitalism and the Crisis, McKinsey Quarterly, July 2009

Many survey respondents are resigned to this stronger state influence and more regulation. Most predict greater government involvement in their markets, but only a small minority favors it. And while almost half (46%) want further deregulation, only 28% expect this to happen (see figure 8, page 17).

Policy-makers that are generally sympathetic to business will face a tough challenge: how to respond to the excesses of pre-crisis years without hampering future growth. Asked what government-related issues cause most trouble to foreign investors, survey respondents investing in developed markets point to corporate tax rates followed by macroeconomic instability. Investors in emerging markets most fear political instability and poor transparency of laws and regulations (see figure 9, page 17).

Several interviewees also expressed concern about the secondary effects of protectionist sentiment. Mr. Mukerji, for example, worries that the relocation of back office jobs to other countries could harm the reputation of the outsourcer. In the UK, he believes companies are becoming very cautious about moving jobs offshore.

“To counter this, Firstsource, along with many other BPO providers, has set up international delivery centers in the US, UK and other key markets. “We have to be able to offer our customers a range of processes, some of which will be done offshore and some of which will be done onshore,” says Mr. Mukerji.

As The Globalization Index suggests, it is the decline in the movement of labor that is expected to put the strongest brakes on globalization, especially restrictions on the flow of migrants. “While WTO rules have now compelled dramatic liberalizations in the movement of goods and services, there is zero progress on labor,” says V Balakrishnan, Chief Financial Officer of Infosys. “On the contrary, the regulatory regime on labor movement is becoming more restrictive, as we have seen in the US over the past year, and to some extent in Europe. For example, there have been sudden and unprecedented “tightenings” in work permit and visa rules as well as restrictions on outsourcing by TARP-funded companies.” Randstad’s Mr. Wilkinson poses the dilemma: “Politicians are going to have to decide whether it’s preferable to export jobs or import labor to do the jobs in the domestic economy.”

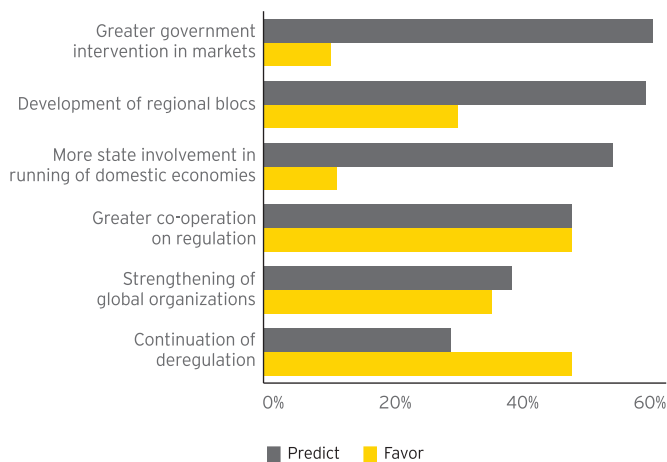


**Beth Brooke**

Global Vice Chair, Public Policy, Sustainability and Stakeholder Engagement – Ernst & Young

“Our globalized world demands greater coordination and consistency in financial regulation and corporate governance, and a single global language for accounting and auditing standards. That’s what global business, global investors and global markets require.”

**Figure 8** Considering the medium-term future of global capitalism, which of the following trends do you believe will occur, and which of these would you favor?



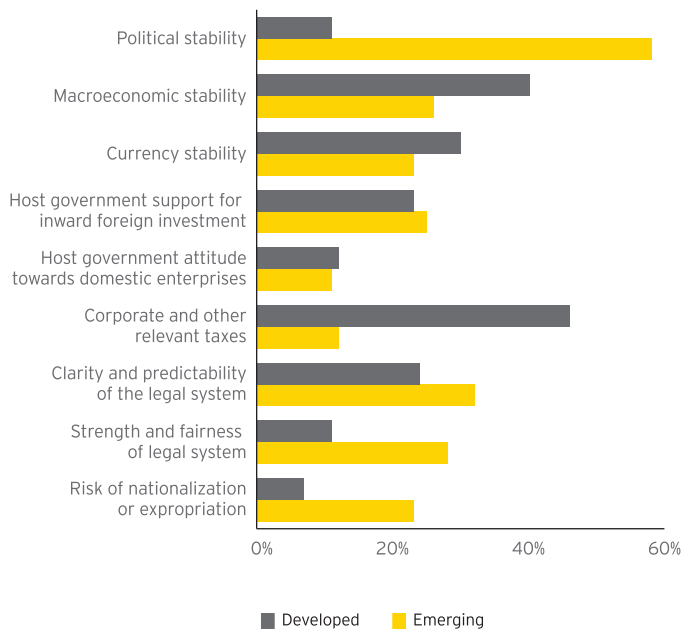
Source: The Globalization Index survey 2009

Policy-makers might, however, be more responsive to firms that demonstrate sensitivity to local concerns. Governments need assurances that investors are there for the long term, have the interests of local communities and the environment at heart, and can make a valuable contribution to the domestic economy. Getting this right requires local knowledge, and Mr. Eisenberg recommends “high-quality help on the ground ... one shouldn’t try to do it from abroad.”

Business will also have to learn how to engage governments more broadly on such global issues as trade liberalization and climate change. “Companies are conditioned to lobby governments when their own narrowly defined interests are at play,” says Jean-Pierre Lehmann, Professor of International Political Economy at Swiss-based business school, IMD. “When it’s a broader issue related to the public good, they’re just not culturally or structurally attuned to do that.” Regarding the ongoing Doha round of trade negotiations, he points out that although businesses would benefit, there’s little “evidence of them taking an active role in lobbying government to push ahead with this.”

Business worldwide may need to adopt a more articulate voice as the world’s policy-makers consider new rules for a globalized world.

**Figure 9** If you were to plan a foreign direct investment in developed or emerging markets over the next year, which of the following would you consider to be the most important government-related factors?



Source: The Globalization Index survey 2009



# 3. Measuring globalization

Business is both the engine and beneficiary of globalization. Our intrinsic “propensity to truck, barter and exchange one thing for another,” as Adam Smith put it, has in recent decades created complex supply chains that extend around the world, opened up new international markets and created channels through which ideas, innovations and human capital can flow across borders.

The Globalization Index developed for this report measures and tracks the performance of the world’s 60 largest countries according to 20 separate indicators that capture the key aspects of cross-border integration of business. The indicators fall into five broad categories: openness to trade; capital movements; exchange of technology and ideas; labor movements; and cultural integration. These factors have been weighted (ranging from 17% to 22% for each) based on the significance placed upon each factor by 520 surveyed senior company executives doing international business. Subsidiary indicators are also given sub-weightings within each category. Indicators chosen include both quantitative data and qualitative scores from a range of trusted sources. The performance of countries is measured over time, so that progress toward greater or lesser globalization since 1995 can be observed, with a forecast of likely performance until 2013.

The Index measures “relative” rather than “absolute” globalization. This means that a country’s trade, investment, technology, labor and cultural integration with other countries is measured relative to its GDP rather than by the absolute value of these elements being exchanged. As a result, smaller countries that depend on international integration will tend to have a high level of globalization, while larger countries that can rely on a big domestic market will tend to have a lower level, even though the total amounts exchanged internationally involved may be much greater. The Index, therefore, reflects the degree to which the global integration of a country is observable or experienced from within that country.

The Globalization Index points to two major trends:

**1. Globalization has reversed, but only briefly.**

The financial crisis has put the brakes on globalization. But as the economy recovers, the Index predicts that the globalization rate will once again resume, although at a slower pace than earlier in the 2000s.

**2. Technology will remain the main driver of globalization.**

Without technological innovations such as mobile telephony and the internet, globalization in its current form would not have been possible. As globalization picks up from 2010, it will be the spread of technology that once again provides the main impetus behind greater integration.

### Highlights of The Globalization Index

Smaller countries dominate the top of The Globalization Index, measured by their integration in the global economy, because they generally rely more heavily on international markets for their growth and economic prosperity. Larger states, by contrast, are better able to fall back on their respective domestic markets. Unsurprisingly, the Index is headed by Singapore, which is highly dependent on international trade: aggregated imports and exports equate to over 300% of the city state's GDP. But this has left the city state highly exposed during a global economic crisis that has disproportionately harmed trade flows. Its GDP suffered a 9.5% year-on-year contraction in the first quarter of 2009, and the country's level of globalization is likely to remain flat for several years as a result.

Yet although Singapore's policy choices are limited, the government has been able to lessen the pain by subsidising employment, and over the longer term, by broadening its economy into higher-value pharmaceuticals and medical equipment sectors that are likely to be less punishing in a future global slump. In all, globalization has served the state well, even if bad times are unavoidable, and GDP had already stabilized by the end of 2009.

Hong Kong, a special administrative region (SAR) of China, also has a high trade element in its overall listing. Other highly globalized states have made particularly good use of technology (see Trend two, page 24 and The Globalization Index, Figure 18, pages 26-27). Meanwhile, no G7 economy appears in the top 10: the UK sits at 15th and Germany at 16th, with the US at 24th. The two largest BRIC economies, China and India, appear 40th and 46th, respectively.

Figure 10 The Globalization Index 2009 – top 10 countries

Overall	Country	2009 composite	1995 composite
1	Singapore	7.29	6.04
2	Hong Kong (SAR)	6.90	5.50
3	Ireland	6.87	5.08
4	Belgium	5.82	4.51
5	Sweden	5.77	4.00
6	Denmark	5.77	4.36
7	Switzerland	5.62	3.93
8	The Netherlands	5.45	4.62
9	Israel	5.16	4.67
10	Finland	5.14	3.76

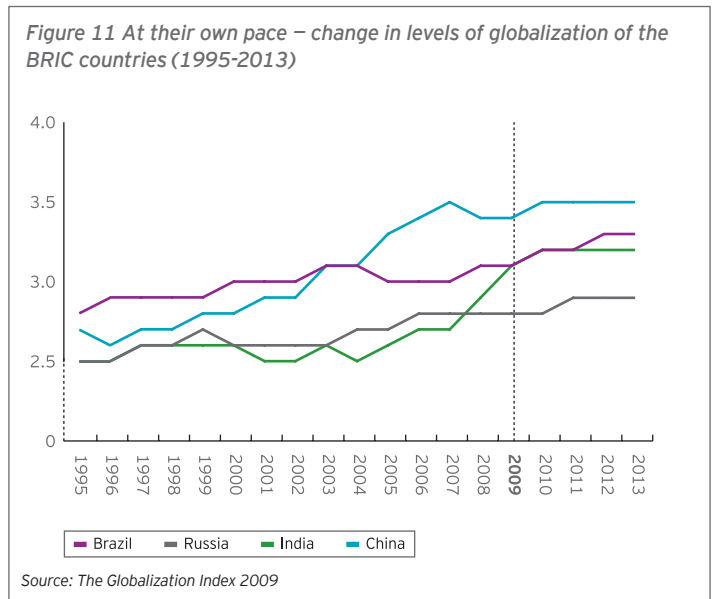
### The pace of globalization

While economic size may determine to some extent a country's overall standing, it's significant that the growth in a country's globalization trend over time often diverges from projected economic growth rates.

While small countries still tend to be the fastest globalizers, fast-growing economies do not necessarily become more globalized, at least not at the same pace.

This is particularly true of the large, fast-growing BRIC economies (Brazil, Russia, India and China). While appearing in the second half of The Globalization Index in 2009, none has increased, or is even expected to increase, its globalization progress at anything like the pace of its economic growth rate. This may be explained in large part by a greater focus on new opportunities arising in home markets. China is only the 26th-fastest globalizer overall, and since its 2007 peak, progress is expected to remain flat over the forecast period. India presents a similar, if slightly delayed, story.

None of this suggests that a country's performance is entirely predestined by its size, or is at the mercy of unmanageable forces, whether global economic storms or the relentless application of new technology.



*Figure 12 Fastest globalizers – by change in score since 1995*

Overall	Country	Change in overall globalization level	Change in listing
1	Ireland	1.79	0
2	Sweden	1.77	+8
3	Switzerland	1.69	+8
4	South Korea	1.41	+20
5	Denmark	1.41	+3

*Figure 13 Fastest deglobalizers – by change in score since 1995*

Overall	Country	Change in overall globalization level	Change in listing
1	Venezuela	-0.20	-6
2	Azerbaijan	-0.17	-17
3	Indonesia	-0.15	-13
4	Argentina	-0.07	-14
5	Malaysia	-0.03	-19

**Trend one: a brief pause for globalization**

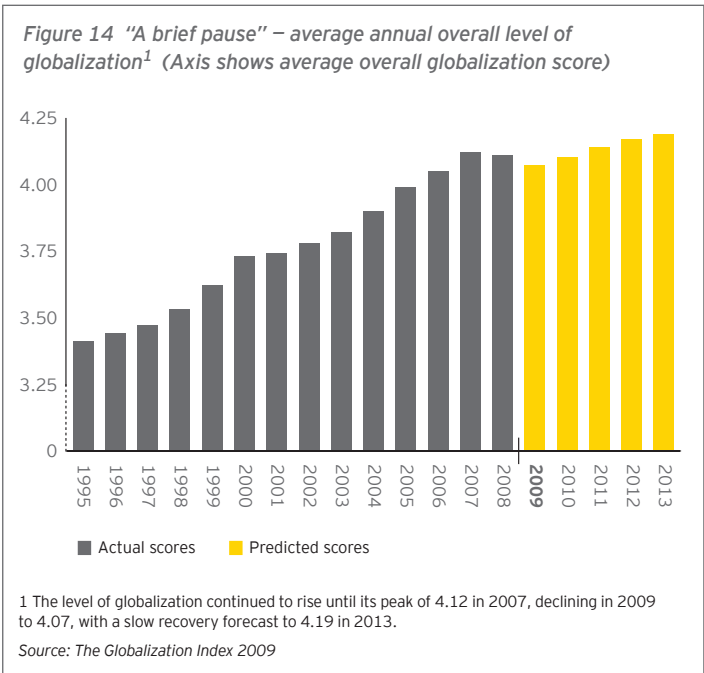
Until late 2007, it was widely assumed that this free-market vision of globalization, with business firmly in the driving seat and ever fewer barriers blocking the road ahead, was seen as a logical, even foregone, conclusion. Markets more than governments brought benefits, if not to all, then certainly overall. But the global economic crisis changed perceptions dramatically. With trade and foreign investment in freefall, capital repatriated and protectionist instincts simmering, a new term – “deglobalization” – entered the economic lexicon.

However, “talk of deglobalization is exaggerated,” says Geoffrey Underhill, Chair of International Governance at the University of Amsterdam. “The interests of too many states, private interests and consumers are tied into it.” This view is broadly supported by The Globalization Index, which tracks the international integration of trade, capital, technology, labor and culture. Its average annual overall level of globalization fell in 2008, by around 0.1 points (see Figure 14), followed by a further fall of 0.4 in 2009. But from 2010, the pace of globalization is expected to resume, albeit more slowly than before the crisis, surpassing the 2007 high in 2011.

That globalization should reverse at all is in itself highly significant. At no time since 1995, the first year of analysis, has this phenomenon occurred. Even in 2001 – which saw the “dotcom” crash, corporate governance scandals and terrorist attacks in New York – annual globalization remained positive, slowing from 3.1% in the previous year to 0.2%, before accelerating along with economic recovery.

The most important factor in globalization’s current reversal has been the dramatic reduction in international capital flows, in particular the lack of liquidity and the over-indebtedness of leading financial groups arising from the global financial crisis. Despite record low interest rates and quantitative easing, monetary authorities have struggled to galvanize credit markets or stimulate the risk appetite of big lenders. Instead, caution, if not outright fear, has prompted massive repatriation of capital, particularly from emerging markets. Moreover, banks have come under government pressure to increase their domestic lending, thereby reducing their foreign investments. The World Bank’s report, *Global Development Finance 2009: Charting a Global Recovery*, states that net private debt and equity flows are projected to decline from a record high of 8.6% of GDP in 2007 to just over 2% in 2009.

A dramatic slowdown in the volume of world trade in 2008 is the second-biggest cause of the pullback. According to the International Air Transport Association, air cargo traffic fell by 23% year on year in December 2008. By comparison, traffic fell by only 14% following the September 2001 terrorist attacks. Meanwhile, the Baltic Dry Index, a measure of the cost of shipping cargo by sea, fell by a stunning 94% from June 2008 to November 2008. The Economist Intelligence Unit forecasts global trade to contract by some 8% in 2009 and recover by only 1.3% in 2010.<sup>5</sup> Among the 60 countries covered by The Globalization Index, trade as a percentage of GDP will fall on average from 98.8% to 84.8%.



<sup>5</sup> Source: *Global Outlook*, EIU

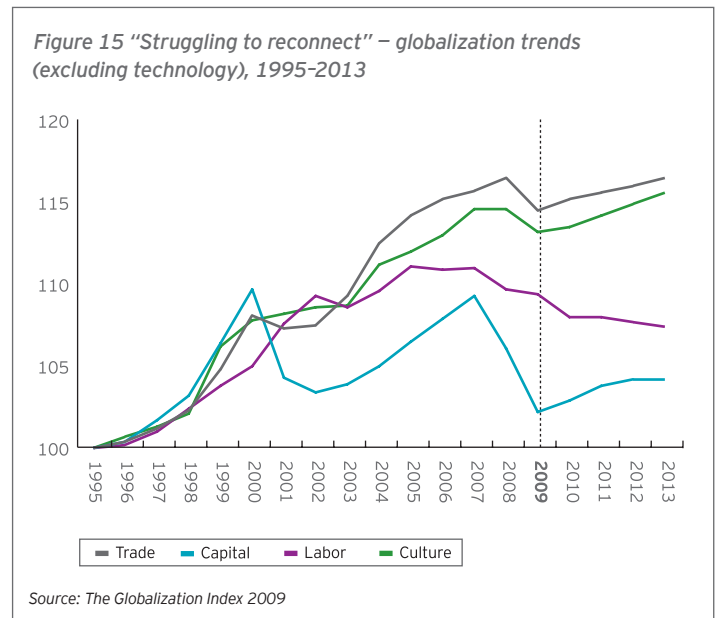
There are several reasons why the impact of the downturn on world trade has been so strong. Unlike previous crises, the current shock was worldwide in scope. At the same time, international supply chains have become more complex and integrated, following improvements in technology and infrastructure. Car manufacturing, for example, involves multi-tier, widely dispersed suppliers, with components frequently criss-crossing borders before an end product is exported. This creates a multiplier effect that exacerbates the fall in trade volumes when final demand drops.

Trade finance has also been in short supply. Balance-sheet pressures on commercial banks have discouraged lending, especially to importers and exporters. According to Rudolf Putz, a senior banker at the European Bank of Reconstruction and Development, the Basel II rules on capital adequacy mean that “banks are effectively discouraged from providing trade finance because regulation regards it as a risky activity.”

This makes countries, such as Singapore, that rely heavily on international trade above other factors highly vulnerable (see The Globalization Index, page 26-27).

As well as trade and finance flows, slowing cross-border labor movements have been important in dampening globalization, although the decline and subsequent recovery has been more gradual than for trade and finance. The International Labor Organisation expects some 40-60 million workers to have lost their jobs in 2007-09, pushing the total worldwide jobless number up to 241 million – the highest level on record. Migrant workers will be particularly vulnerable, as they typically lose their jobs first in a downturn. The Organisation for Economic Co-operation and Development (OECD) expects 2009 to see the first major fall in migrant workers in its member states since the 1980s.<sup>6</sup> The United Nations Conference on Trade and Development (UNCTAD) also forecasts that remittances from foreign workers to developing countries will fall by 5% in 2009, the first such decline since 2000.<sup>7</sup>

These trends are reflected in Figure 15 below, in which key components of globalization (excluding technology), taken from The Globalization Index, have struggled to resume their steep upward trajectory since 2007-08.



<sup>6</sup> Source: *International Migration Outlook 2009*, OECD

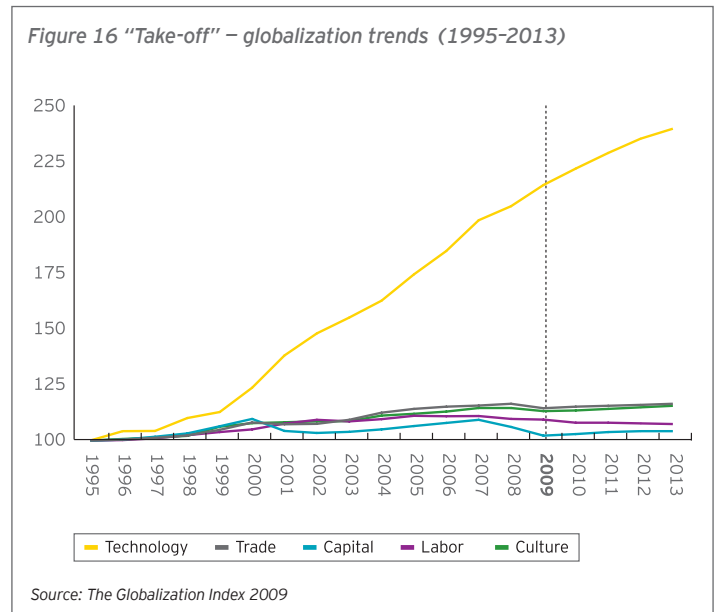
<sup>7</sup> Source: *Trade and Development Report 2009*, UNCTAD

**Trend two: technology – driving globalization forward**

The strongest driver of global integration, and the main reason why the globalization juggernaut will keep moving forward, is the spread of technology (see Figure 16). Its impact is “enormous and very positive,” says Professor Lehmann. The International Communications Union reports, for example, that the number of mobile phone subscribers has soared over the past decade from 318 million to 4.1 billion, while internet users have multiplied more than eightfold, to 1.54 billion.<sup>8</sup> The proliferation of speedy and reliable communication tools has a double impact on globalization, by promoting its own usage around the world, but also facilitating other channels of globalization.

“East-to-West telecommunications has emerged as the primary driver of growth as enterprises expand their business across Asia and Africa,” says Jim Marsh, CEO of Cable & Wireless Europe. “Asian multinational companies are going global, and Western multinationals are expanding across Asia.”

As Mark Dixon, CEO and founder of Regus, a business services firm, notes, thanks to technology, “today, even relatively small companies are able to scale up in a way that was previously only accessible to the very biggest corporates.” That might explain why over half (51%) of firms with less than US\$500 million in annual revenues expect the majority of that to be earned abroad in just three years’ time – a smaller proportion than in the largest companies, but a sign of increasing global potential. Figure 16 illustrates the powerful impact that technology has had on globalization over the past decade, in its own right but also relative to the other components of globalization in the Index.



<sup>8</sup> Source: [http://www.itu.int/ITU-D/ict/statistics/at\\_glance/KeyTelecom99.html](http://www.itu.int/ITU-D/ict/statistics/at_glance/KeyTelecom99.html)

Most of the top 10 globalized economies have a strong technological component in their external relations. For example, Ireland appears third overall in The Globalization Index and has also seen the most significant improvement in globalization of any country between 1995 and 2008. As Figure 17 illustrates, technology has been an important factor in this trend.

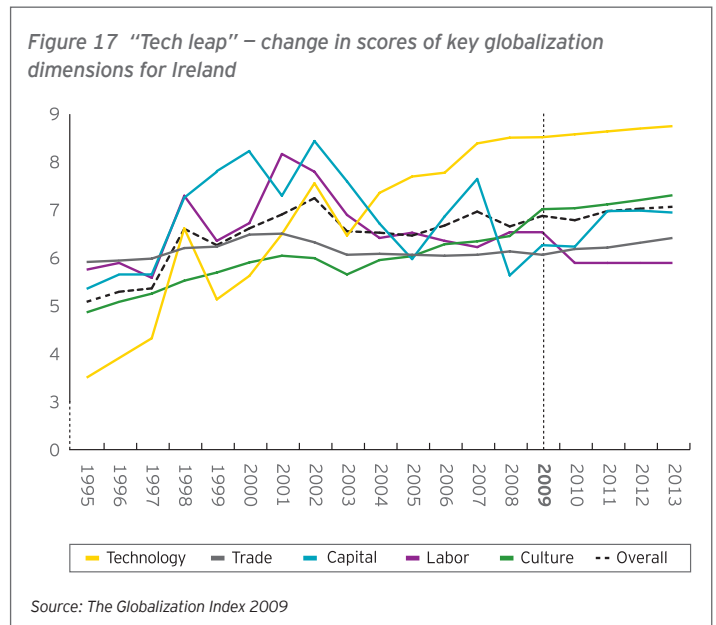
In recent years, Ireland has positioned itself as a hub in the global exchange of technology, as a result of its safe operating environment and educated workforce. It may not be the originator of all the innovation that passes through its doors, but the country's role as a conduit for research and development (R&D) – through manufacture, packaging and export – has been an important contributor to its high level of globalization.

Other countries that have high levels of globalization are strong performers in key aspects of technology. For example, Sweden has the highest rate of internet subscriptions (45 per 100 people), while Denmark has the most broadband subscribers per capita (38.6 per 100 people). Remarkably, Israel, despite little business interaction with its neighbors – for reasons of politics and diverging levels of development – has the eighth-highest level of globalization, largely because of its technological prowess.

Israel has a strong track record in innovation, underpinned by high levels of both military and civilian R&D, as well as a robust education system. It has the highest number of non-US companies listed on the tech-heavy NASDAQ, which allows its firms to reach markets far beyond its immediate borders.

The impact of technology goes far in explaining how all but five countries have increased their Index scores between 1995 and 2009. Conversely, many of the world's slower-to-develop countries, such as Indonesia, are held back because they have not yet capitalized on technology.

Figure 17 "Tech leap" – change in scores of key globalization dimensions for Ireland



# The Globalization Index 2009

The Globalization Index was created to measure the extent to which the 60 largest countries (by GDP) are connecting to the rest of the world. This table provides a breakdown by country (or, where applicable, territory) for each of the five key categories most relevant to business.

Figure 18 The Globalization Index 2009 – in full (country listings)

Overall	Country	2009 composite	1995 composite	2009 Trade	2009 Capital	2009 Technology	2009 Labor	2009 Culture
1	Singapore	7.29	6.04	9.59	6.17	6.39	6.27	7.93
2	Hong Kong (SAR)	6.90	5.50	8.66	6.93	6.05	3.93	8.94
3	Ireland	6.87	5.08	6.06	6.26	8.51	6.53	7.01
4	Belgium	5.82	4.51	6.17	6.67	6.29	4.99	4.67
5	Sweden	5.77	4.00	5.05	5.90	8.64	4.23	4.72
6	Denmark	5.77	4.36	5.07	6.50	8.24	4.05	4.62
7	Switzerland	5.62	3.93	4.73	5.20	6.19	6.19	5.97
8	The Netherlands	5.45	4.62	5.65	6.01	5.85	4.85	4.70
9	Israel	5.16	4.67	4.85	5.24	6.08	4.37	5.20
10	Finland	5.14	3.76	4.48	5.48	7.19	3.94	4.38
11	Taiwan	4.90	3.90	5.40	4.99	5.94	3.84	4.04
12	Austria	4.88	4.38	5.09	6.01	4.56	3.73	4.92
13	Hungary	4.88	4.46	5.92	5.15	4.49	4.46	4.14
14	Canada	4.87	4.07	4.85	5.43	4.56	4.55	4.95
15	UK	4.76	4.11	4.33	5.51	5.36	3.93	4.56
16	Germany	4.71	3.83	4.90	5.20	4.97	3.92	4.41
17	Norway	4.59	3.57	4.49	5.46	4.66	4.35	3.82
18	Czech Republic	4.53	3.46	5.85	4.91	3.43	4.27	3.99
19	France	4.51	3.79	4.19	5.37	4.44	4.04	4.50
20	Australia	4.47	3.67	4.38	5.45	4.47	3.88	4.04
21	Spain	4.47	3.66	4.22	5.32	3.30	4.96	4.62
22	New Zealand	4.42	3.64	4.58	5.24	3.96	3.86	4.39
23	Slovakia	4.34	3.15	5.52	4.65	2.43	5.36	3.64
24	US	4.26	3.57	4.20	5.28	4.24	3.34	4.12
25	South Korea	4.17	2.76	5.36	4.66	4.40	3.23	2.81
26	Portugal	4.11	4.02	4.18	4.95	2.58	5.23	3.59
27	Chile	4.06	3.51	4.84	6.03	1.94	3.84	3.50
28	Bulgaria	4.03	3.52	4.87	4.95	2.50	4.03	3.72
29	Poland	4.02	2.96	4.68	4.84	2.29	4.57	3.67
30	Romania	4.00	2.65	3.94	4.68	2.32	5.23	3.91

Overall	Country	2009 composite	1995 composite	2009 Trade	2009 Capital	2009 Technology	2009 Labor	2009 Culture
31	Italy	3.96	3.50	3.96	4.34	3.38	4.60	3.47
32	Greece	3.90	3.64	3.45	4.60	2.82	4.18	4.63
33	Malaysia	3.89	3.93	5.57	4.49	2.20	3.16	3.91
34	Saudi Arabia	3.71	3.27	4.34	4.40	1.86	5.43	2.41
35	Philippines	3.67	3.00	4.58	3.85	1.25	5.44	3.29
36	Vietnam	3.62	2.73	4.93	4.57	1.64	4.20	2.53
37	Japan	3.57	2.65	3.70	4.72	4.49	2.58	1.94
38	Thailand	3.53	3.09	5.23	4.00	1.70	3.14	3.43
39	Mexico	3.50	2.98	4.29	4.78	1.83	3.04	3.50
40	China	3.41	2.69	4.17	4.28	2.69	3.13	2.54
41	Ukraine	3.41	2.42	4.09	3.59	2.65	3.58	3.05
42	Sri Lanka	3.35	3.27	3.73	4.48	1.14	4.18	3.30
43	Egypt	3.33	3.21	4.05	4.69	1.24	3.91	2.67
44	Colombia	3.33	2.96	3.60	4.67	1.49	3.59	3.31
45	Peru	3.24	2.88	3.76	4.60	1.55	2.90	3.35
46	India	3.14	2.50	3.30	4.38	1.30	3.49	3.25
47	Brazil	3.13	2.77	3.48	4.60	1.70	2.56	3.29
48	Argentina	3.08	3.15	3.27	3.44	2.13	3.23	3.39
49	Turkey	3.07	2.98	3.66	4.30	1.90	2.58	2.78
50	South Africa	3.04	2.69	4.21	3.74	1.21	3.22	2.70
51	Pakistan	3.02	2.55	2.51	4.51	1.12	4.52	2.50
52	Kazakhstan	2.97	2.39	3.92	3.36	1.63	2.98	2.88
53	Azerbaijan	2.86	3.03	3.62	3.42	1.29	3.14	2.78
54	Ecuador	2.79	2.64	3.59	2.96	1.26	3.56	2.60
55	Russia	2.77	2.51	3.60	3.38	1.77	2.95	2.01
56	Indonesia	2.70	2.85	3.92	3.64	1.15	2.77	1.78
57	Nigeria	2.65	2.63	2.99	3.53	1.01	3.22	2.50
58	Algeria	2.52	2.51	3.23	3.60	1.13	2.65	1.83
59	Venezuela	2.42	2.62	2.50	2.83	1.50	2.72	2.61
60	Iran	2.05	1.72	2.54	2.54	1.24	2.05	1.82

## The Globalization Index – indicators, sources and weightings

The Globalization Index was created by identifying the key indicators of globalization most relevant to business. The table below shows, for each of the headline categories, the individual indicators used and their source. The categories were then weighted according to the views captured in a survey of 520 business leaders.

Category and indicators	Source
<b>Movement of goods and services</b> <i>Business leader weighting: 22%</i>	
Total trade (exports + imports) as %GDP	National Accounts
Trade openness (5=very high)	Scored on 1-5 scale by EIU analysts
Tariff and non-tariff barriers (5=low)	Scored on 1-5 scale by EIU analysts
Ease of trading (cross-border) (5=very easy)	Scored on 1-5 scale by EIU analysts
Current-account restrictions (5=low)	Scored on 1-5 scale by EIU analysts
<b>Movement of capital and finance</b> <i>Business leader weighting: 21%</i>	
FDI flows (in and out, % of GDP)	National accounts
Portfolio capital flows (in and out, %GDP)	National accounts
Government policy towards foreign investment (5=very encouraging)	Scored on 1-5 scale by EIU analysts
Expropriation risk (5=non-existent)	Scored on 1-5 scale by EIU analysts
Investment protection schemes (5=good)	Scored by EIU analysts
Domestic favoritism (5=no favoritism, level playing field)	Scored by EIU analysts
<b>Exchange of technology and ideas</b> <i>Business leader weighting: 21%</i>	
R&D trade (in and out, as %GDP )	Balance of payments; EIU estimates
Broadband subscriptions (per 100 people)	International Telecommunications Union
Internet subscribers (per 100 people)	International Telecommunications Union
<b>Movement of labor</b> <i>Business leader weighting: 19%</i>	
Net migration (% of total population)	Balance of payments; EIU estimates
Current transfers (in and out, as %GDP)	International Telecommunications Union
Hiring of foreign nationals (5=easy)	International Telecommunications Union
<b>Cultural integration</b> <i>Business leader weighting: 17%</i>	
Tourism (in and out, per 1000 population)	World Tourism Organization
International communication	International Telecommunications Union
Openness of national culture to foreign influence	Scored by EIU analysts

# 4. What's next?

Business, taken as a whole, may seem all-powerful in shaping globalization. But individual firms, as open competition would dictate, will feel vulnerable in the face of these very global changes. The shock of the economic crisis and its aftermath has brought this dichotomy into the open, and may present globalized business with its severest test yet. For although globalization is likely to resume its onward march, it should not be assumed that the future version of globalization will be the seemingly relentless free-market charge that characterized so much of pre-crisis international markets.

There are stiff challenges on several fronts. At a macro level, global and domestic economic imbalances have yet to be unwound and could again cause disruption if left unaddressed. Global governance still lags market integration, multilateral institutions are grappling with the changing balance of power in the world economy, and momentous challenges such as climate change and food and energy shortages loom ever larger.

Much of the debate will be framed by the seismic shift in economic power from West to East, and this will reshape micro-level thinking within companies too. This involves long-term reallocation of capital and resources and a profound reappraisal of how companies should be structured to meet the needs of the world's emerging customers. The old top-down, centralized approach to strategy and product development may no longer suffice.

Rather, companies will have to think in terms of balance: between decentralization and scale; between promoting a company culture and local autonomy; and between resilience to shocks and agility in grabbing opportunities. Companies are already changing, but haphazardly so, and in many respects such change grates with decades of established working practices. It may be that those companies best placed to operate in the unfolding environment will be start-ups unburdened by legacy, or emerging market enterprises that benefit from huge home advantages.

Ultimately, poor policy, protectionist instincts and staid company practices may stifle rather than promote well-functioning international markets, but the relentless unfolding of technological innovation will ensure that worldwide integration of markets, in one form or another, continues apace, whether or not policy-makers and company chiefs alike accept it.

# Ernst & Young – building a borderless business

Shifts in demographics and capital flows are marking the global economy and society as a whole. These trends are also having profound effects on our profession. Our response is to be the most integrated professional services organization in both our mindset and our actions.

We have one strong global leadership team that sets one single global strategy and agenda. To ensure we are efficient and effective, we have organized our legal entities into similarly sized business units in terms of both people and revenues. These business units, almost all of which are purposely not single countries, are grouped into geographic Areas across the Americas, Europe and Asia-Pacific. Each business unit's leadership team works directly with their Area and global leaders to ensure flawless execution. This structure is streamlined – it allows us to make decisions quickly, and ensures that we execute our strategy and provide high-quality service wherever in the world our clients do business.

Creating our global mindset and structure are ongoing processes. We've been working with our partners to bring down the barriers to working together seamlessly across borders, and we have succeeded in realigning our previously country-focused organization into a more integrated global one. This organization means our clients get faster response and more tailored services. They get broader, more experienced teams, with deeper industry knowledge. Our people get greater opportunity to pursue the global careers they desire. And our regulators see our structure as helping us deliver consistent, high-quality service across the globe.

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