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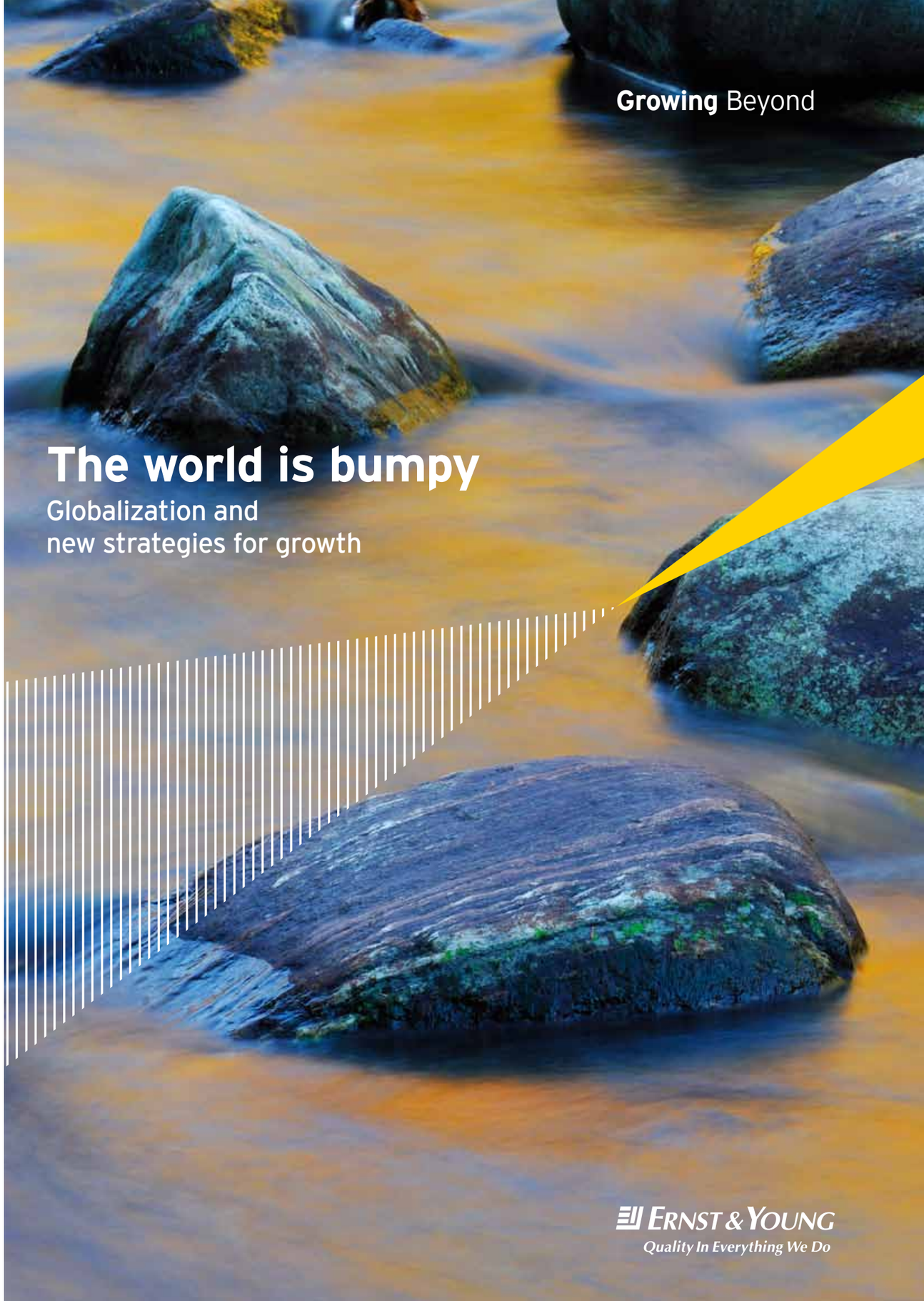


About this report

The world is bumpy: globalization and new strategies for growth draws on three sources of original research: *The 2011 Globalization Survey*, an online survey of 992 global business executives conducted for Ernst & Young by the Economist Intelligence Unit; in-depth interviews with senior executives and high-level experts conducted at end-2011; and data from Ernst & Young's *Globalization Index 2011*, which measures the 60 largest countries by GDP according to their degree of globalization.

Contents

Introduction

Despite these uncertain economic times, globalization continues. We see the interconnectedness among economies around the world in growing levels of cross-border trade. The underlying trends we indentified in our first globalization report in 2009 – changing demographics and shifts in capital from North to South and West to East – are continuing to shape the global economy and the globalization of business.

Forecasting the future is risky, but it is clear that volatility is increasing, as government debt downgrades, the shifting political environment and stock market fluctuations all illustrate. How can companies succeed in this highly connected and volatile world?

In any volatile situation, size and strength aren't advantages – speed and agility are. So companies must develop highly nimble operating models that enable them to respond to new opportunities and new threats. Doing so quickly will require the right balance of local and global decision-making. At the same time, new competitors are emerging. Companies from rapid-growth markets are investing in innovation and expanding worldwide. Businesses that try to maintain the status quo risk being left behind.

At Ernst & Young, we closely monitor the trends that shape the business environment. Since 2009, we have been working with the Economist Intelligence Unit to create the Globalization Index. The Index, which is informed by the views of nearly 1,000 global leaders, looks at the most important elements of globalization for business. These insights show that to succeed today, companies must take action. But there is no one-size-fits-all approach that will guarantee success. What is certain is that in 2012 and beyond, old models must make way for new solutions.

James S. Turley
Chairman and CEO
Ernst & Young

Executive summary

Globalization and new strategies for growth

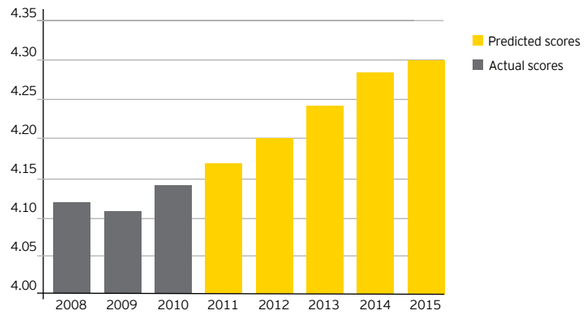
The world isn't flat – it's curved, bumpy and you can't see what's ahead. Even as new markets expand and globalization increases, opportunities are becoming harder to find. Not so long ago, mature-market companies, faced with shrinking prospects at home, looked to rapid-growth economies as their best hope for profitability. And for their part, rapid-growth-market companies, buoyed by robust domestic economies, began to expand into neighboring countries and, increasingly, the developed world.

Now the economic outlook is blurring in many markets, and a looming squeeze – slowing growth, increasing competition, significant operational complexity and shortages of talent in key markets – is diminishing business prospects. Slightly more than half of the senior executives questioned for this report think that the global economy is likely to fall into recession by the end of 2012. Almost two-thirds consider it likely that there will be a new global financial crisis triggered by Eurozone debt defaults. Nearly half of the respondents think that China could suffer a major economic slowdown over the next five years, and one-third expect a similar outcome for Brazil and India.

There's no doubt that global integration is stronger, as our third annual Globalization Index shows: after a brief pause in 2009, the overall average globalization score for the world's largest economies is estimated to have increased in 2011 and is expected to continue increasing through 2015 (see Figure 1).

Increased integration has amplified some economic conditions. As many of the world's markets cool down, the risk that politicians will resort to trade-distorting measures to curry favor with a local electorate cannot be discounted. The sovereign debt crisis in the Eurozone and the global economic slowdown have also raised the possibility of a new credit crunch as banks scale back lending against a backdrop of declining confidence in interbank markets.

Figure 1: Overall average score for globalization



Source: *Globalization Index 2011*
Note: The Globalization Index measures the extent to which the 60 largest countries by GDP are connecting to the rest of the world in five key categories relevant to business.

This daunting scenario presents many hurdles for global companies, not all of which possess the flexibility, responsiveness or skills needed to scale them. Our research for this report has uncovered four fundamental business challenges that companies must navigate in the years ahead. These are complex and unlikely to be resolved quickly, but we believe that businesses can tackle them with new responses that rely on flexibility, speed and unconventional thinking.

Managing across highly divergent and fast-moving markets requires a laser-like focus on execution and operational excellence. Companies must develop highly flexible business models that enable them to respond to new opportunities and threats. And they must make efforts to ensure a strong talent pipeline that will provide them with the skills and capabilities to thrive in constantly changing conditions. The recommendations in this report are by no means sure-fire prescriptions for success, but they will help companies steer safely through the murky terrain of today's global landscape.

Business challenge

1. Succeeding in rapid-growth markets is harder than it used to be

Succeeding in rapid-growth markets is becoming more difficult because costs are rising, competition is becoming more intense and growth, while still rapid compared with that of the developed world, is slowing. Betting the future on rapid-growth markets just because they have the right economic and demographic conditions is not enough.

2. One size does not fit all markets

As companies diversify into markets with vastly different prospects and business environments, they face increasing operational complexity. These include additional risks, such as supply chain disruption, poor visibility into the performance or ethical behavior of partners, and lack of flexibility to respond to new risks or opportunities.

3. Policy has become more important and less predictable

An uncertain and dynamic policy environment — especially rising protectionism — is causing considerable concern. Business leaders are also worried about a rise in tax risk as governments seek to increase revenues and ramp up enforcement mechanisms.

4. Good people are hard to find

Companies everywhere find it increasingly difficult to match suitable candidates with available positions. Senior managers with local knowledge are particularly scarce. In rapid-growth markets, increased competition for talent from local players compounds the problem. Developed markets have too many candidates for too few jobs; rapid-growth markets may offer plentiful labor, but the skills available may not match those required.

Business response

Think like a start-up

Shed organizational baggage. Don't try to transfer all developed-markets processes to rapid-growth markets. Instead, rethink your approach from the ground up and behave more like a start-up than an established multinational. Think aggressively, but act with due calculation.

Devise innovative strategies that will secure a quick payoff. As developed-market investments slump, companies no longer have the extra cash available to fund rapid-growth-market investments. With surplus capital becoming scarcer, it is essential to impose greater financial discipline in rapid-growth markets and, where possible, develop self-funding strategies.

Take a broader stakeholder view toward the investment. Demonstrate a commitment to building the institutions that will enable both the company to operate and the market to develop. Build collaborative relationships with governments that focus on broader development outcomes, not just shareholder value.

Adapt your approach to new operational complexities

Integrate networks according to logically grouped markets. Creating hubs based on groups of related markets can enable both economies of scale and proximity to key customers. Such a strategy can also take advantage of patterns of trade, which, despite deepening levels of globalization, still takes place largely within geographic regions.

Rethink approaches to outsourcing. Variable, rather than fixed, cost structures help companies deal with uncertainty. But be careful to ensure accountability among outsourcing partners to reduce the risk of reputational damage from poor or unethical practice.

Investigate the benefits of near-sourcing. Given high oil prices, volatile currency rates and a falling cost differential between developed and rapid-growth markets, offshoring may not offer the benefits it once did. Companies in developed markets, like the United States, may even decide that local manufacturing now makes more sense than offshoring to Asia.

Build a strategy for connecting with governments

Engage with policy-makers to make the right decisions. Take proactive steps to form relationships with government officials and explain how protectionist measures could have a counterproductive impact on domestic companies.

Combine local knowledge with global coordination. Your resources on the ground will help you understand and anticipate policy trends and their impact on the business. But make sure that decisions made locally are also right for the business on a global level.

Build stronger relationships with tax administrations. Taking a proactive approach to building relationships with tax administrations, sometimes through so-called "enhanced relationship" mechanisms, can help to identify problems early and reduce the risk of unexpected tax audits, challenges and litigation.

Embrace bold approaches to talent management

Put the best talent in the most promising markets. Send your top talent to rapid-growth markets, even if your revenues from those markets are currently small. You need managers who will have the skills and authority to lead the larger markets of tomorrow.

Promote managers in line with the pace of the market. Employee churn can be as high as 20% in rapid-growth markets. Take steps to improve retention by presenting a clear career path and offering quick promotions where possible.

Revamp the expatriate model. Ensure that expatriate postings are attractive and offer exposure to the top management in the company. Broaden your definition of an expatriate manager so that there is a flow from East to West as well as from West to East.

1. Challenge
Succeeding in rapid-growth markets is harder than it used to be

Ongoing problems in the Eurozone and sluggish growth in North America mean that companies are increasingly looking to rapid-growth markets as their primary source of future growth. Among our respondents, almost three-quarters say that rapid-growth markets will make a significant contribution to boosting their revenue growth over the next three years (see Figure 2). Rapid-growth-market companies are also eyeing these markets as South-South investment deepens.

But there are grounds for caution. Rapid-growth markets can be difficult environments in which to do business, as many multinationals have found: more than half of our respondents think that these investments require much longer time horizons, and almost half think that the cost of entering these markets was much greater than they had expected. A similar proportion think that Western executives overestimate the long-term growth potential of investing in these economies (see Figure 3).

A number of factors contribute to the "squeeze" on the ability of multinationals to extract value from rapid-growth markets. The first is increased competition. Multinationals entering China, India or Brazil must compete against other global firms who all see rapid-growth markets as their future. They also face increasingly stiff competition from local companies that are growing in size and stature. Ten years ago, there were just 21 companies from rapid-growth markets on the Fortune 500. Today, that number has risen to 75.[1]

Companies also face the prospect of slowing growth in some rapid-growth markets, although the pace still remains well above the rates seen in much of the developed world. When asked about the key risks that could derail growth in fast-growth markets over the next three years, developed-market respondents point to asset price bubbles as the most likely cause (see Figure 4).

Figure 2: Role of rapid-growth markets in revenue growth

What role do you expect rapid-growth markets to play in the following aspects of your business over the next three years?

Source: *Globalization Survey 2011*
Note: Total base = 992; ratings on scale of 1 to 5 where 1 = very significant and 5 = not at all significant; scores shown = percentage of respondents rating 4 or 5 (gray) vs. 1 or 2 (yellow).

Footnote

1. Boston Consulting Group, *2011 BCG Global Challengers: Companies on the Move: Rising Stars from Rapidly Developing Economies Are Reshaping Global Industries*

"We are seeing a flattening out of many companies' strategies, as they strive to find the right balance between their global and local strategies. As they evolve, we are seeing companies identifying their markets in different ways, with many moving away from regional approaches based solely on geographic proximities."

John Ferraro, Chief Operating Officer, Ernst & Young

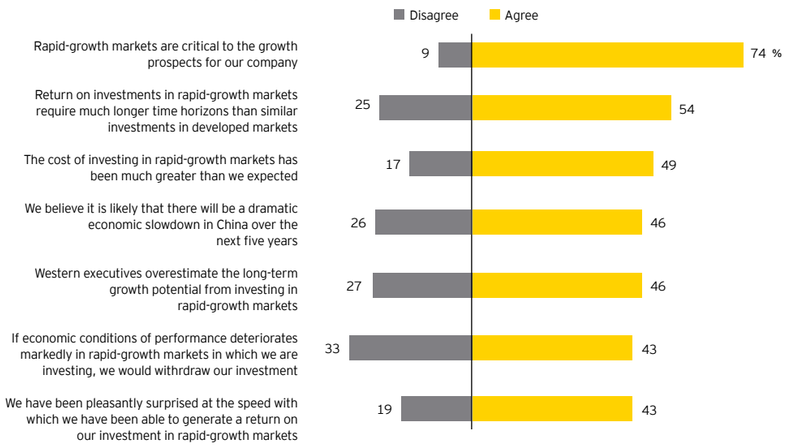
Companies headquartered in rapid-growth markets worry less about asset prices and more about inflation, which continues to cause problems in some markets despite tightening monetary policy.

Along with the risk of asset price bubbles and inflation, China and other rapid-growth markets have to contend with rising wealth inequality, a drop in exports to key developed markets and heavy capital inflows that could become destabilizing. Among our respondents, 46% think that it is likely that there will be a dramatic economic slowdown in China over the next five years (see Figure 3). "There's no doubt that China will get richer over the next 10 years, but I do think there is a myopic presumption that all it has to do is continue to grow along a straight line and the future is inevitable and predetermined," says George Magnus, Senior Economic Adviser at UBS.

Betting the future on rapid-growth markets simply because they have the right economic and demographic conditions is not enough, however large and promising they may be. "If you're investing in these markets just because there are lots of Chinese or Indians, that's not exactly proprietary insight," says Pankaj Ghemawat, Anselmo Rubiralta Professor of Global Strategy at IESE Business School and author of *World 3.0: Global Prosperity and How to Achieve It* (Harvard Business Press Books, 2011.) "Yet this is still the overarching strategic rationale behind many companies' plans. My prescription is that companies must pay careful attention to identifying the differences between these markets and those with which they are more familiar — and figure out strategies for addressing those differences."

Figure 3: Attitudes toward rapid-growth markets

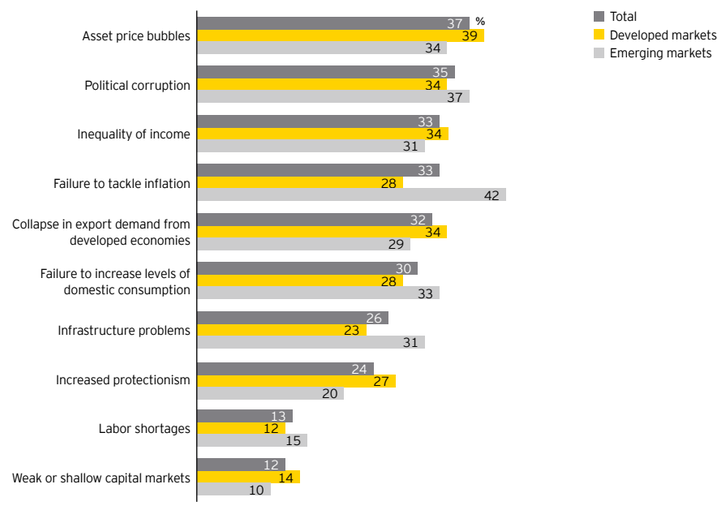
Please indicate whether you agree with the following statements.



Source: *Globalization Survey 2011*
Note: Total base = 992; ratings on scale of 1 to 5 where 1 = strongly agree and 5 = strongly disagree; scores shown = percentage of respondents rating 4 or 5 (gray) vs. 1 or 2 (yellow)

Figure 4: Key risks of rapid-growth markets

What do you consider to be the key risks that could derail growth in fast-growth markets over the next three years?



Source: *Globalization Survey 2011*
Note: Total base = 992; multiple answers; scores shown = percentage of respondents

"Market volatility and macroeconomic concerns could impact M&A activity globally, but there are strong fundamentals that could support a robust deal environment in 2012. Many companies will continue to make investments in the emerging markets to gain market share. Acquisitions, joint ventures or strategic alliances, however, must not only open new markets but also establish synergies that will create solid returns."

Pip McCrostie, Global Vice Chair, Transaction Advisory Services, Ernst & Young

Response: think like a start-up

Shed organizational baggage

Developed-world multinationals have spent years refining their business processes, building their brands and perfecting their business model. This experience gives them strong advantages, but it can also be a burden. Processes may be rigid, business models may be tired and the organization may lack the flexibility to adapt in response to changing external stimuli.

Investing in rapid-growth markets without adapting or even shedding these legacy processes and capabilities is often a recipe for disaster. "Although a lot more companies are planning to invest in emerging markets, not all of them are ready and not all are organized to do so," says NV "Tiger" Tyagarajan, President and CEO of Genpact, a business process management company. "They still run their companies the same way that they did 30 years ago, and their leaders are still people who haven't travelled globally or who don't understand those markets."

Rather than migrating all existing processes and business models to new markets, companies should rethink their approach from the ground up and behave more like a start-up than an established multinational. This will give them greater flexibility and agility, and put them on the same level with local companies, which are typically much younger and therefore far less encumbered with organizational baggage and legacy processes.

"When investing in these markets, developed-world companies need to consider how they can compete with this greater flexibility and agility," says Tyagarajan. "In many cases, they may need to reinvent their business model entirely so that it does not slow them down in these highly dynamic markets."

Devise innovative strategies that will secure a quick payoff

In the past, companies recognized that investments in rapid-growth markets were a long-term play that would take considerable time to earn a return. This was fine, as long as they could fund the new investments using profits from their core markets, which were still the cash cows of the business.

But with developed markets slowing and needing their own investment in order to maintain competitiveness, it is no longer possible to recycle capital in this way. "With no growth in developed markets, companies need to invest in those economies just to maintain their market share," says Tyagarajan. "This means that they need emerging markets more than ever but they don't have the funds to invest in them because developed economies are growing so slowly."

"Execution in rapid-growth markets is fundamental to success. Companies need strong relationships with local governments, the right skills on the ground, a mix between expats and local managers, and the kind of operational flexibility that does not always come easily to large multinationals."

Mark Otty, Managing Partner, EMEIA, Ernst & Young

This imposes constraints, but it also liberates managers to develop innovative business models and solutions that will enable them to earn a much quicker return. "Business leaders of multinational subsidiaries in emerging markets will have to figure out some really creative ways to get off the ground quickly and ensure growth by finding a self-sustaining model," says Navi Radjou, an independent innovation and leadership consultant and a Fellow at Judge Business School at the University of Cambridge.

Take a broader stakeholder view toward the investment

The financial crisis has re-awakened the debate about the role of business in society. Pure shareholder value creation is falling out of favor. In its place is a recognition that companies need to take into account the needs of a broader range of stakeholders.

Nowhere is this more apparent than in rapid-growth markets. Companies that invest in these economies must take into account the needs of a wide range of stakeholders, including government, local communities and the partners with whom they work. The lines between the state and business can be blurred, which means that governments can play a significant role in setting industrial policy and prioritizing investment.

Companies that enter rapid-growth markets often need to build infrastructure around them, which means that they are deeply involved in the development of the country itself, not just their own investment. "You have to get involved in building up the institutions that will allow your company to operate," says Rakesh Khurana, Marvin Bower Professor of Leadership Development at the Harvard Business School. "A lot of the institutional gaps exist precisely where the biggest growth opportunities lie, so companies need to think holistically about how they enter these markets and work with external stakeholders. They need to have a higher purpose that goes beyond pure economic logic and they need to think institutionally."

One company that has taken this approach is the Swedish telecom giant Ericsson, which has forged strong relationships with the public sector in many rapid-growth markets to speed the adoption of mobile technology. "I think it goes back to explaining to governments and regulators what good technology can do for society," says Arun Bhikshesvaran, Ericsson's Chief Marketing Officer. "When regulators see that, they work with us to see what can be done, whether it is an investment or figuring out licenses. For example, in one country we and several other entities were able to encourage the regulator to call for what we term a 'shared network.' Rather than handing out licenses to multiple companies, regulators give out one license that a group of entities can buy and share. They offer multiple brands to users, but share the underlying network."

Spotlight

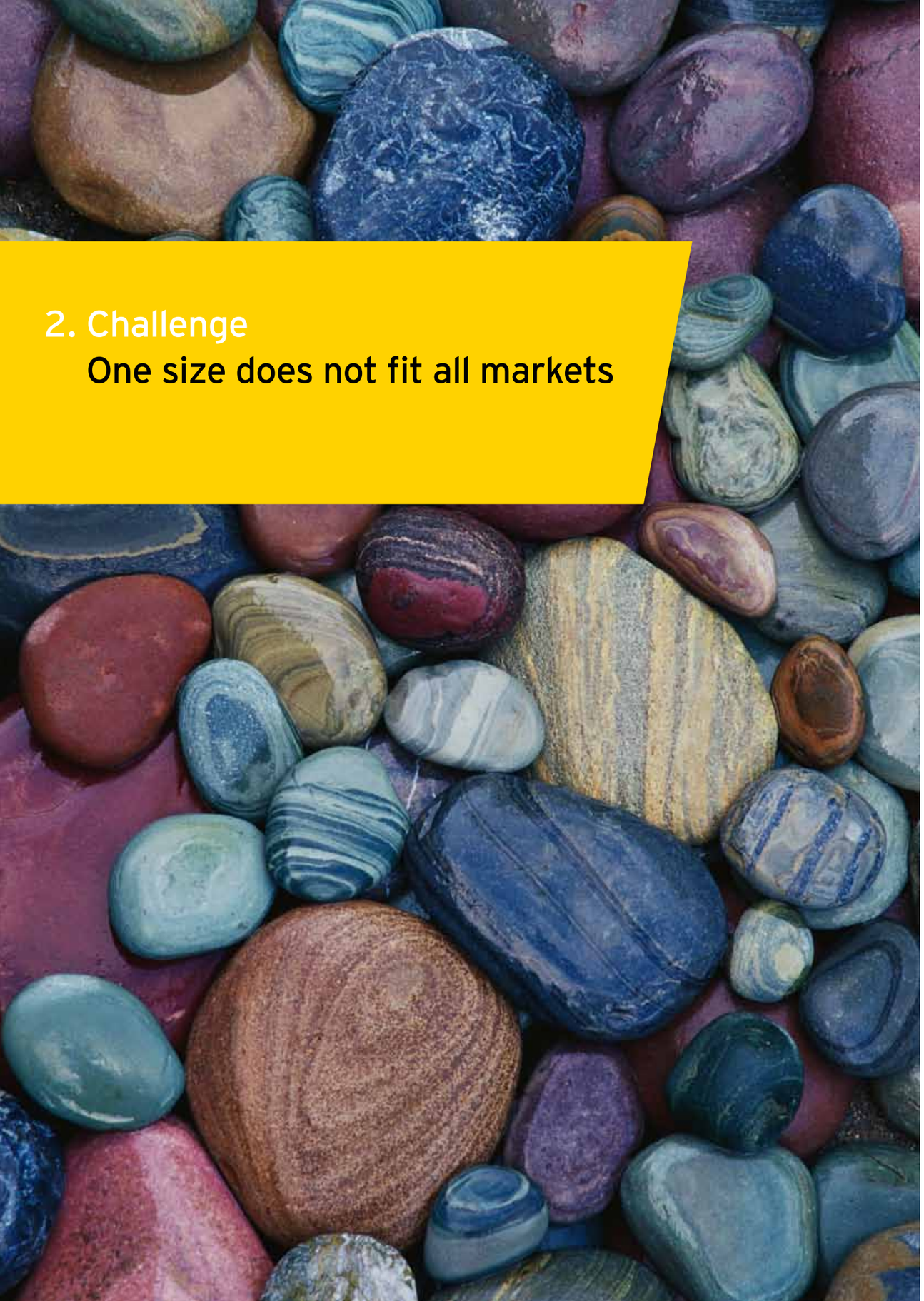
Myths about China's slowdown

Despite its recent dip in GDP growth rates, the scale of China's economic output still remains staggering. "Over the next 12 months, China will create another South Korea in terms of economic growth," says Jim O'Neill, Chairman of Goldman Sachs Asset Management. "By 2027, I expect that its GDP could match or exceed that of the United States."

O'Neill, who coined the term "BRIC," suggests that there are several myths about China that prevent many from appreciating the country's true potential. One is that the country's future depends on Europe. "China is more insulated than ever from the problems in Europe, and, indeed, the US," he explains. "Global trade between the BRICs and other parts of the emerging world, for example, continues to rise sharply – more than 50% of Chinese exports are now to the rest of the emerging world."

Another myth, according to O'Neill, is that China's only hope is exports. "That may have been the case four years ago, but I think the global credit crisis was a wake-up call for China," he says. "It is now making good progress in its transition to becoming a consumption-driven economy. Chinese retail sales growth is currently running at close to or between 17% and 18%, although admittedly, it's not the greatest data. There is a deliberate attempt to engineer a slower rate of growth and pay more attention to the quality of growth rather than just the quantity."

But O'Neill points out that more needs to be done. "The Chinese Government needs to continue to implement everything they've said in their Five-Year Plan, ranging from developing a credible social security system to giving migrant workers urban rights and continuing with the policy of supporting real wage increases," he says. "By and large, the Chinese want success, not Western-style democracy. So, the job for the Chinese authorities is to continue to somehow preside as a single-party-run country, allowing the Chinese to become wealthier."



2. Challenge
One size does not fit all markets

As companies take a more global approach, they must inevitably deal with added complexity and an extended value chain that comprises a multitude of different internal and external stakeholders. Among our respondents, two-thirds say that they will increase the number of external partners with whom they work over the next three years, and more than half say that their supply chain will become more complex (see Figure 5).

Some companies have sought to address this complexity by restructuring their business to achieve economies of scale and reduce duplication of effort at the local market level. But a careful balance must be struck between this desire for standardization and the need to remain relevant and close to end-customers. "Companies in effect need to look at every function in the business and assess the advantages and disadvantages of carrying it out locally or globally," says Kees van der Graaf, Executive-in-Residence at IMD, the business school. "A company's ability to make these decisions correctly will ultimately determine its success in global markets."

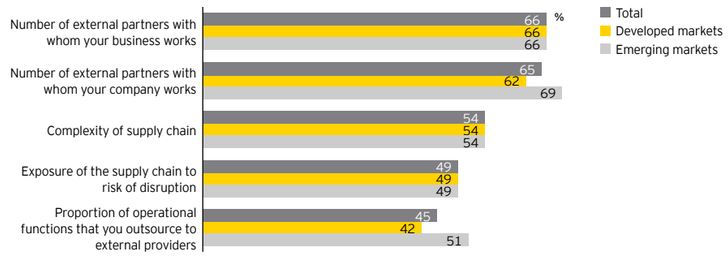
Some companies are re-engineering their entire operating model around these key decisions. General Motors, for example, intends to build 90% of its cars centrally around a core global architecture, and then ship these to local plants where they can be adapted to local needs and tastes. This means creating architecture that is flexible enough to deal equally well with poor roads in India and smooth highways in the United States.

However companies decide to strike this balance, they must be aware that concentrating their supply chains exposes them to high levels of risk. Among our respondents, almost half expect that their supply chain will become more exposed to potential disruption over the next three years (see Figure 5). Recent disasters, such as the explosion at the Fukushima nuclear plant in Japan, have emphasized the fragility of corporate supply chains.

Greater operational complexity implies greater cost for the business. In the past, many companies set up operations in rapid-growth markets as a way of reducing cost and increasing efficiency, but rising input and labor costs are starting to erode these benefits. Frank Braeken, Executive Vice President for the Africa region at Unilever, highlights how, in Africa, the costs of doing business can be much greater than those in developed markets. "This may come as a surprise to many, but everything is more costly, and increasingly so," he says. "A high level of inefficiency in many African markets, long delays at borders and a regulatory environment that is excessively complex forces us to keep higher than otherwise necessary working capital, which means that consumers pay too much for their products."

A combination of high operating costs and increased complexity is forcing companies to rethink their approach to operations. A recent Ernst & Young report, *Driving improved supply chain results: adapting to a changing global marketplace,* explores the issues facing companies as they restructure their supply chains in an increasingly competitive environment. The key word is flexibility – both to seek out and capture new opportunities and respond quickly in the face of new and unexpected risks.

Figure 5: Increasing complexity of international supply chains
Over the next three years, what increase do you expect to see to the following aspects of your company's operations?



Source: *Globalization Survey 2011*
Note: Total base = 551 (companies with an international supply chain); scores shown = percentage of respondents

"Rapid-growth markets remain a very strong long-term opportunity, but companies must be prepared to expect volitility in the short term. Business leaders must take a long-term perspective toward their investments and be willing to build a business that may be quite different in nature to what they have established in developed markets."

Rajiv Memani, Country Managing Partner, Ernst & Young India

Response: adapt your approach to new operational complexities

Integrate networks according to logically grouped markets

The need to strike a balance between global and local is encouraging a growing number of companies to develop hubs that can provide shared services or resources for local, in-country operations. This means that key functions such as procurement and finance can be provided from the same hub, yet it is still close enough to the end-customers to understand their specific needs and challenges. "The big benefit of regionalization has been increased levels of competition and lower logistics costs through scaling up of manufacturing and logistics," says Braeken. "This feeds through into huge benefits for consumers in terms of lower prices."

This strategy of grouping adjoining markets also can be designed to follow patterns of trade, which, despite deepening levels of globalization, still takes place largely within geographic regions. "Many companies rightly conclude that they do not expect global free trade any time soon, but they do think that regional trade agreements will hold up," says Ghemawat. "They can therefore tailor their footprint to the reality of regionalization and still achieve some degree of economies of scale."

Rethink approaches to outsourcing

A changing, uncertain world requires companies to be adaptable and able to respond quickly to new opportunities and risks. One way in which companies can increase their adaptability is through shifting their cost structure to one that is variable rather than fixed. "In a volatile world, you need to be able to re-allocate resources quickly, and if those resources are fixed and tough to move, then companies are going to find themselves in trouble," says Tyagarajan. "The more variable and flexible you can make your resources, the better."

Although far from a new phenomenon, outsourcing can increase organizational flexibility and help companies deal with a high degree of complexity. The Indian telecom firm Bharti Airtel, for example, has outsourced everything apart from sales, marketing and finance. This has helped to reduce costs for customers in a very price-sensitive market and has given the company the flexibility to expand into new markets such as Africa. "Companies like Bharti Airtel may be pioneering an approach where you have a simplified business model from the outset," says Radjou.

But an increased reliance on outsourcing should not be equated with an abdication of responsibility. Indeed, it raises questions over how companies select partners, particularly in distant markets where it may be more difficult to obtain reliable information about them. "Even if you outsource your manufacturing, you are still seen as responsible for how that supplier treats its employees or maintains a level of environmental and social responsibility," says Khurana. "It's these informal rules that are increasingly affecting the legitimacy of organizational leadership and its license to operate."

Investigate the benefits of near-sourcing

In the past few decades, it has become accepted wisdom that companies should offshore non-core functions, such as manufacturing, to low-cost destinations such as China. But while the logic of these decisions still holds, a growing number of companies are questioning whether this long-distance relationship will remain appropriate over the longer term. As a result, more and more businesses are bringing their operations back to the local market, even if that is a high-cost country like the US.

There are numerous reasons for this growing trend. First, labor costs in China, which are rising on average by 20% a year, and high unemployment in countries like the US, are narrowing the wage differential between the two markets. Second, volatile oil prices and currency fluctuations are increasing the cost of production and making it difficult to plan with certainty. And third, companies are increasingly concerned about the fragility of their supply chains, which could be disrupted by anything from natural disasters to protectionist measures.

"As long as oil prices stay high and as labor costs in Asia continue to rise, it increasingly makes sense for companies to bring their manufacturing back to North America," says Anne-Marie Slaughter, Bert G. Kerstetter '66 University Professor of Politics and International Affairs at Princeton University. "Having a land-based, rather than an ocean-based, supply chain is starting to make a difference."

Case study

Greater autonomy for local leaders at GE

In the first wave of globalization, companies assumed that they could take global products and adopt a highly commoditized, standardized approach to distributing them around the world. But as many companies have learned, this one-size-fits-all approach will simply not work in a world with divergent incomes, preferences and business environments.

Around 2009, the industrial giant GE recognized that a new approach was needed. The company decided to create a global growth and operating model, with local modifications. "We gave regional leaders more scope to decide on the strategy and the customer interface, and to modify the product characteristics in order to adapt to the local needs," says Ferdinando "Nani" Beccalli-Falco, President and CEO of GE International. "This way, we were balancing our decision-making process by making sure that not everything is run from the center."

The company also launched an experiment, which began in India and Germany, to give national leaders full P&L responsibility. "Whenever you hold the purse strings, you can take and implement the decisions that are necessary to satisfy the specific needs of the market," says Beccalli-Falco.

To date, the experiment has been a success. Since making the change, the company's business in India has grown at between 35% and 40%. And, although the change was made less than a year ago in Germany, it also is showing positive gains. But despite these encouraging signs, Beccalli-Falco says, this is still very much a work in progress. "You can never draw a line," he says. "What is good for the organization today might not be good tomorrow. We need to evolve continually to respond to the ever-changing environment and shifting business priorities."

3. Challenge
Policy has become more important and less predictable

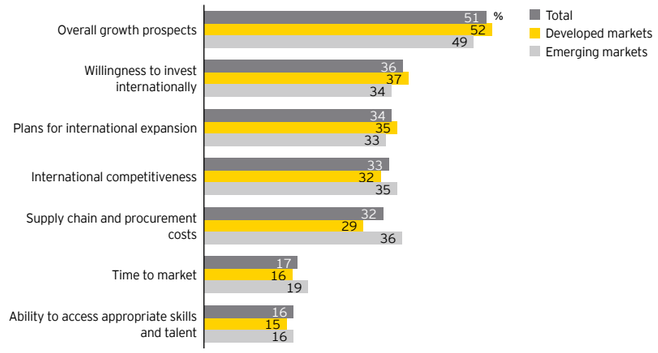
Multinational companies may have global aspirations, but policy remains a local affair. As they diversify their geographical footprint, companies must deal with an ever-growing burden of bureaucratic and regulatory obligations. For their part, governments must balance the need to attract investment with unpopular measures – such as higher tax rates – that improve fiscal health.

Some governments also may be tempted to enact protectionist measures to shore up their domestic competitiveness. In the immediate wake of the financial crisis, there was a strong resolution among world leaders to resist a slide into protectionism. "When you consider how much the US and European economies have suffered, the natural outcome should have been more protectionism, so it is very encouraging that this has not taken place overall," says Kishore Mahbubani, Dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore. "There seems to be an intellectual consensus that we will shoot ourselves in the foot if we begin to raise tariff barriers."

There is no question that increased levels of protectionism can have a major impact on business growth and competitiveness. More than half of our survey respondents say that an increase in protectionism in the markets in which they operate could have a negative impact on their growth prospects, although only just over one-third would see it as a deterrent to overseas investment (see Figure 6).

Figure 6: Negative effects of protectionism

Should there be a rise in protectionism in the overseas markets in which you operate, which of the following areas of your business would be negatively affected?

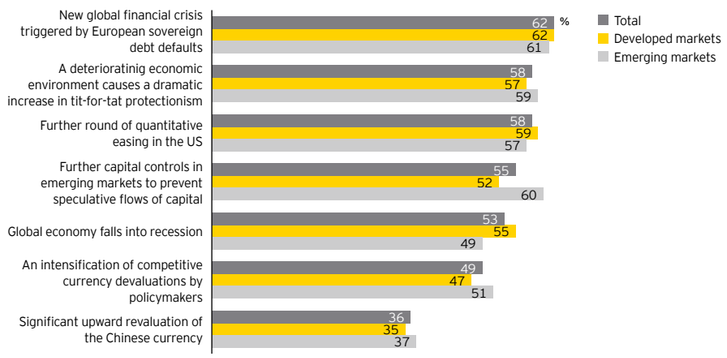


Source: *Globalization Survey 2011*
Note: Total base = 992; scores shown = percentage of respondents

Almost 90% of our respondents expect to see an increase in protectionist measures if the global economy slides into a double-dip recession.

Figure 7: Possible global scenarios

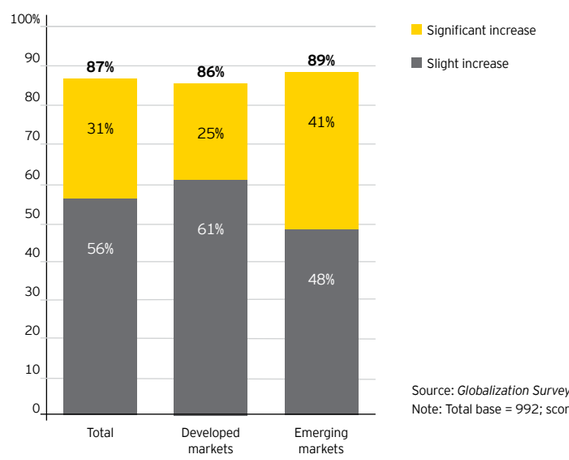
How likely do you think it is that the following scenarios will occur in the next 12 months?



Source: *Globalization Survey 2011*
Note: Total base = 992; ratings on scale of 1 to 5 where 1 = very likely and 5 = not at all likely; scores shown = percentage of respondents rating 1 or 2

Figure 8: Impact of a recession on protectionism

If the global economy were to experience a double-dip recession, what impact would you expect this to have on the overall level of protectionism?



Source: *Globalization Survey 2011*
Note: Total base = 992; scores shown = percentage of respondents

Robert Lawrence, Albert L. Williams Professor of International Trade and Investment at Harvard University, thinks that overall, countries have shown impressive restraint since the commitment at the G20 meeting to refrain from imposing new measures. "If you look at border barrier protection and tariffs, for example, the performance from a global standpoint has been remarkable," he explains. "Clearly, there are examples where countries have raised barriers or done selective things but, at the same time, some countries have lowered their levels so, on average, they have remained consistent."

The question, then, is will an increasingly bleak economic outlook weaken this resolve? Many governments are running out of policy options to deal with the current slowdown, and are facing mounting pressure from electorates to restore economies to health and tackle high levels of unemployment. Among our respondents, more than half think that a deteriorating economic environment will cause a dramatic increase in tit-for-tat protectionism (see Figure 7). And almost 90% of our respondents expect to see an increase in protectionist measures if the global economy slides into a double-dip recession (see Figure 8).

Actions taken by governments now extend beyond traditional trade protectionist measures to include measures such as competitive currency devaluations. Almost half of our respondents think that policy-makers will intensify these devaluations (see Figure 7).

Response: build a strategy for connecting with governments

Engage with policy-makers to make the right decisions

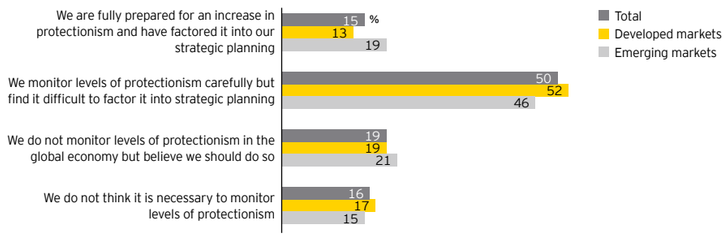
Faced with a potential uptick in protectionism, many business leaders may conclude that the issue is out of their hands. The fact that only 15% of companies say they are fully prepared for an increase in protectionism and have factored it into their strategic plans suggests that most simply cross their fingers and hope that they will not be affected (see Figure 9).

There may be no silver bullet for dealing with protectionism, but there are a number of actions that companies can and should take. The first is for business leaders to engage with governments and trade departments to prevent counterproductive measures. "Often, government officials do not understand that globalization is a creator of jobs and that it actually enhances living standards of people in many different countries," says Daniel Brutto, President of the logistics firm UPS International. "We have to get government officials outside of their own environments to understand that the more we can increase trade around the world, the more high-end jobs we can create in the domestic market."

The second action is to correct misinformation among consumers. "If you ask most Americans what percentage of US personal consumption expenditure is accounted for by expenditures and products officially made in China, you typically end up with estimates more than 10 times as high as the reality," explains Ghemawat. "In a climate where the information is so clearly erroneous, and often so biased against globalization, there is considerable value in disseminating information that corrects these assumptions."

Figure 9: Business impact of protectionism

Which of the following statements most closely describes your company's view on the impact of protectionism?



Source: *Globalization Survey 2011*
Note: Total base = 992; scores shown = percentage of respondents

"Relationships with local legislators and regulators are important, but if you don't also have the broader perspective of the global strategy, operations and tax position of the company, then you won't be able to make good local decisions."

Mark Weinberger, Global Vice Chair, Tax, Ernst & Young

A third action is to work in partnership with governments on infrastructure, education or other development projects, thereby building rapport and gaining the clout to initiate effective dialogues on policy issues. Wim Elfrink, Chief Globalization Officer at Cisco, points out that businesses must "play holistically" if they want to participate successfully in a market: "It is not just about selling products. You also have to develop government relations, build relevance and ensure that the investments are socially responsible."

Combine local knowledge with global coordination

Fast-changing local policy can have a dramatic impact on the profitability and prospects for a cross-border investment. The global tax environment, for example, has never been so fast-moving or dynamic. According to Ernst & Young's *2011-12 Tax risk and controversy survey,* 78% of the world's largest companies — those with revenues of US$5 billion or more — say they are already experiencing greater risk or uncertainty around legislation, and this figure increases for those in rapid-growth markets.

Managing these risks and ensuring that obligations are met requires companies to have a blend of local, on-the-ground knowledge – often gained through outsourcing arrangements – and the ability to coordinate at a global level. "Relationships with local legislators and regulators are important, but if you don't also have the broader perspective of the global strategy, operations and tax position of the company, then you won't be able to make good local decisions," says Mark Weinberger, Global Vice Chair for Tax at Ernst & Young.

Build stronger relationships with tax administrations

In some markets, companies are forming enhanced relationships and alternative dispute resolution mechanisms with tax administrations. Although approaches vary, a common thread is that there is a channel for taxpayers to interact with administrations and resolve issues or disputes without resorting to litigation. Weinberger recommends having "adequate, easily accessible documentation that can be provided when challenged, as well as a transparent relationship with authorities so that issues can be addressed early rather than waiting for an audit or controversy further down the road."

Spotlight

A warning on protectionism

Global Trade Alert (GTA), an initiative coordinated by the Centre for Economic Policy Research, has been tracking protectionist measures throughout the economic crisis. GTA Director Simon Evenett, a Professor of International Trade and Economic Development at the University of St. Gallen, says that there has been a modest increase in protectionism since 2008. In his latest GTA report, he argues that the situation may get worse if the economic outlook deteriorates.[2]

Furthermore, the scope of protectionism is broadening beyond traditional trade measures to encompass competitive currency devaluations and pricing interventions. "It's not just tariffs and quotas anymore," explains Evenett. "Measures that have been put in place to stimulate the economy have also had unintended protectionist consequences. US quantitative easing, for example, has provided a cover for a lot of countries to react, both in terms of international finance policy as well as trade policy. Countries such as Brazil and India very quickly made the connection between quantitative easing and the appreciation of their own currencies."

Evenett worries in particular about the relationship between the US and China. In October 2011, the U.S. Senate passed a bill that aims to punish Beijing for deliberately holding down its currency value, despite a warning from China that the legislation could meet with retaliatory measures. "I think we're going to see very, very frosty trade relations there," says Evenett. "With both the Chinese and Americans facing a political transition in the next 12 months, there is plenty of potential for nationalistic chest-beating." A harbinger of that was Beijing's decision in December 2011 to slap heavy duties on US imports of large cars and sport utility vehicles for the next two years.

Footnote

2. Trade Tensions Mount: The 10th GTA Report

4. Challenge
Good people are hard to find

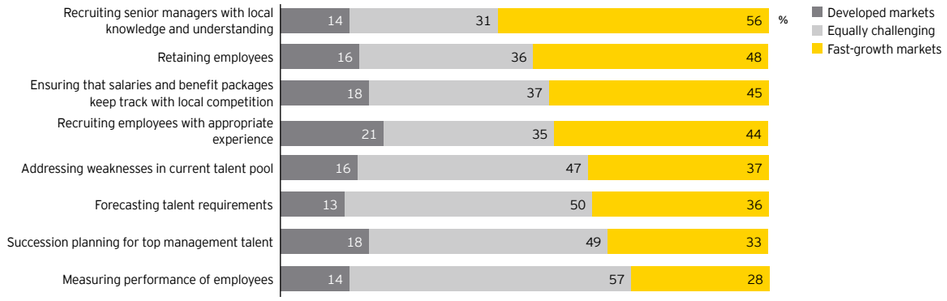
The difference between developed and rapid-growth markets from a talent perspective could not be more stark. In the Eurozone and North America, companies are continuing to shed jobs in order to retain competitiveness. This is contributing to high unemployment figures of more than 10% in the Eurozone and more than 8% in the US. By contrast, the story in major rapid-growth markets is one of wage inflation and labor shortfalls.

But there is a common thread running across all markets: companies everywhere find it increasingly difficult to match skilled professionals with available positions. "It's the same problem whether you are in India, Belgium or Japan: a shortage and mismatch of key skills," says Jeff Joerres, Chairman and Chief Executive Officer of ManpowerGroup. "According to our research, one in three employers globally is currently experiencing difficulties filling positions due to a lack of available talent, which is higher than at any point since 2007."

In the longer term, these shortages are likely to get worse as demographic outlooks become less favorable in many key markets. "We're going to be short of people with the right competencies in many, many countries," says Ben Noteboom, CEO of the employment services firm Randstad. "In Europe, for example, our research suggests that there will be a potential employment gap of around 15% of total labor demand by 2050, which is equivalent to 32 million people."

Figure 10: Areas of talent shortages

Compared to this time 12 months ago, in which markets are you currently experiencing most difficulty in the following dimensions of talent management?



Source: *Globalization Survey 2011*
Note: Total base = 992; scores shown = percentage of respondents; numbers may not add up to 100 due to rounding

"The rock-star CEO is dead. Inclusive CEOs are aware that they don't have all the answers. They're interested in and engage with a broad variety of stakeholders, both internal and external."

Beth Brooke, Global Vice Chair, Public Policy, Ernst & Young

Talent bottlenecks are particularly acute in large rapid-growth markets, notwithstanding their huge talent pools. For example, a report from the Confederation of Indian Industry estimates that India will face a talent gap of 5 million workers in the coming year.[3] These are findings that resonate with our survey respondents. They say that they are much more likely to find difficulties with recruiting and retaining senior managers in rapid-growth markets than they are in developed ones (see Figure 10).

For multinationals, increased levels of competition for talent from local players compound the problem. In the past, Chinese professionals would have regarded experience in developed markets as essential to their career development, and this would have steered them toward working for a Western firm. But increasingly, they recognize that the best opportunities lie close to home, in the local market. This, combined with patriotic sentiment, makes domestic companies an increasingly attractive proposition.

Footnote

3. *Q1 2012 Manpower Employment Outlook Survey,* for more information, visit: http://www.manpowergroup.com/press/meos_landing.cfm

Case study

Nudging from the center at Tata Motors

In the past few years, Tata Motors has transformed itself from a local Indian automotive company to a sizable global player. In 2004, it acquired the struggling South Korea-based Daewoo Commercial Vehicle Company, and in 2008, it completed its acquisition of Jaguar Land Rover.

Faced with a similar international span of assets, many other companies would have embarked on an ambitious period of integration, merging functions and imposing a new culture from the top down. But Tata Motors has taken a different approach, preferring to retain the autonomy of the acquired businesses. "We wanted to be seen as a local company in South Korea and the UK rather than an Indian company entering these markets," says Ravi Kant, Vice Chairman of Tata Motors.

Managers at Daewoo and Jaguar Land Rover have considerable independence to make their own decisions, but within a set of parameters and accountability requirements that Tata Motors sets from corporate leadership. "We see ourselves as facilitators," says Kant. "We want to preserve the independence of the management team and give them flexibility, but we will challenge them to meet the targets and objectives that we set. Those are non-negotiable."

For example, when the company tried to encourage managers at Daewoo to source components from China and India, they were met with stiff resistance from managers who were insistent that they would only buy from the South Korean companies that they had always used. Rather than force the managers to change their procurement, Tata Motors took a different approach that was more of a "nudge" than a prescriptive requirement. "We told management that we wanted them to achieve a certain EBITDA margin, and left it to them to figure out how this could be met," says Kant. "When they started working backwards from there, they came to the same conclusion as we did, that unless they diversified their purchasing activity, they would never be able to achieve their targets. So after a year, they started looking at sourcing from India and China and, in doing so, were able to meet their targets."

Response: embrace bold approaches to talent management

Put the best talent in the most promising markets

Despite recognizing the importance of rapid-growth markets from a growth perspective, many companies have been slow to send their top talent to these markets. There may still be a view that, although fast-growing, these markets are relatively small and therefore don't require the same kind of investment in people that has been traditionally allocated to developed markets.

"Too many companies dispatch people who are 'good enough' to lead emerging markets when what they need to do is put in place people who are globally best-in-class and whom they can really trust," says Braeken. "If anything, you need better operators in these markets than you do in the developed world because things are changing so quickly and competition is becoming more intense."

Companies also need to future-proof their talent in these markets, which means putting in place managers who will have the skills and authority to lead the larger markets of tomorrow, not just the smaller markets of today. "I would argue that your leadership team voice should be representative of the size of tomorrow, because that's the only way that you will be able to grow the business in line with your ambitions," says Tyagarajan.

Promote managers in line with the pace of the market

In rapid-growth markets, where employee churn can be 20% or greater and where salaries are rising at a similar rate, companies need to consider what will make them stand out as an attractive employer. Noteboom advises companies to invest heavily in training and, as much as possible, promote internally to show employees that they have significant opportunities if they stay with the company. "We have a rule that 80% of promotions have to come from within the company and we track that very carefully," he explains. "By doing this, you build a quality company because you create loyalty and you retain people who know and understand your business."

In rapid-growth markets, the speed with which the company promotes managers may need to be quicker to reflect the pace of change of the business environment. "You should have the courage to promote people sooner than you would do in a more mature market," says Noteboom. "By adding smart enough people with lots of potential and maybe a little bit less experience, you will still be successful and outgrow the competition."

Spotlight

A new model of leadership

Deepening globalization is prompting senior executives and academics to rethink the tenets of effective leadership. The old, hierarchical command-and-control approach is now looking increasingly outmoded.

"Leaders today need to be much more pluralistic," says Rakesh Khurana, Marvin Bower Professor of Leadership Development at the Harvard Business School. "They need to be able to map out the key stakeholders and understand the constraints that they impose or the opportunities they present. This, in turn, requires an understanding of how to gain political support and build powerful coalitions among diverse stakeholders."

Beth Brooke, Global Vice Chair of Public Policy at Ernst & Young, agrees. "The rock-star CEO is dead," she says. "Inclusive CEOs are aware that they don't have all the answers. They're interested in and engage with a broad variety of stakeholders, both internal and external. Today's successful leaders understand that they don't know everything and that they are leading in a world filled with perpetual dilemmas to be navigated."

Brooke adds that this style of leadership, far from being a "soft" skill, goes to the very heart of business strategy. "A lot of this is about changing operating models. It's about believing that the world is complex, with a lot of inputs, and changing your organization to be adaptive and nimble in response to that." One reason global business leaders find it so hard to find capable talent, Brooke explains, is that they rightfully expect a lot more than mere technical competence from an employee. "You want someone who understands the value of different perspectives," she says. "You want someone who has a real passion for that difference."

Being situated thousands of miles away from the key decision-makers on the executive board, managers who have been seconded to rapid-growth market postings worry that they are not visible to company leaders.

Ravi Kant, Vice Chairman of Tata Motors, agrees with this approach: "We try to pick people out that we regard as high potential and give them a level of responsibility that may be beyond their years while at the same time giving them the support they need," he says. "This has brought about a surge of interest among younger people to take on more challenges, and in every case this makes those individuals better managers."

Revamp the expatriate model

When faced with labor shortages in a particular market, the typical response for companies has been to parachute in expatriate managers. While on the surface this may offer a solution, it is not always successful.

Just 29% of our respondents say that their company is effective at relocating employees with minimum disruption. They also struggle to motivate and manage teams across large geographical distances and find it challenging to put global talent management programs in place (see Figure 11).

There may still be a lingering perception that taking on expatriate roles in new markets is tantamount to being sidelined. Being situated thousands of miles away from the key decision-makers on the executive board, managers who have been seconded to rapid-growth market postings worry that they are not visible to company leaders. Companies therefore need to work hard to ensure that expatriate postings are not only attractive but also benefit from access to top management.

They also should consider broadening their definition of an expatriate manager. Joerres argues that, rather than flying expats from West to East, companies should give managers from rapid-growth markets exposure to more developed markets – through what he calls a "reverse expat" experience. "Exposure and experience are critical to leadership development," he explains. "A reverse expat program that gives local managers exposure to key functional areas in established markets on three- or four-month assignments can help to build a strong global talent pipeline that positions the company for future success."

Figure 11: Effectiveness of talent management

How would you rate the effectiveness of your organization at managing the following aspects of talent management?

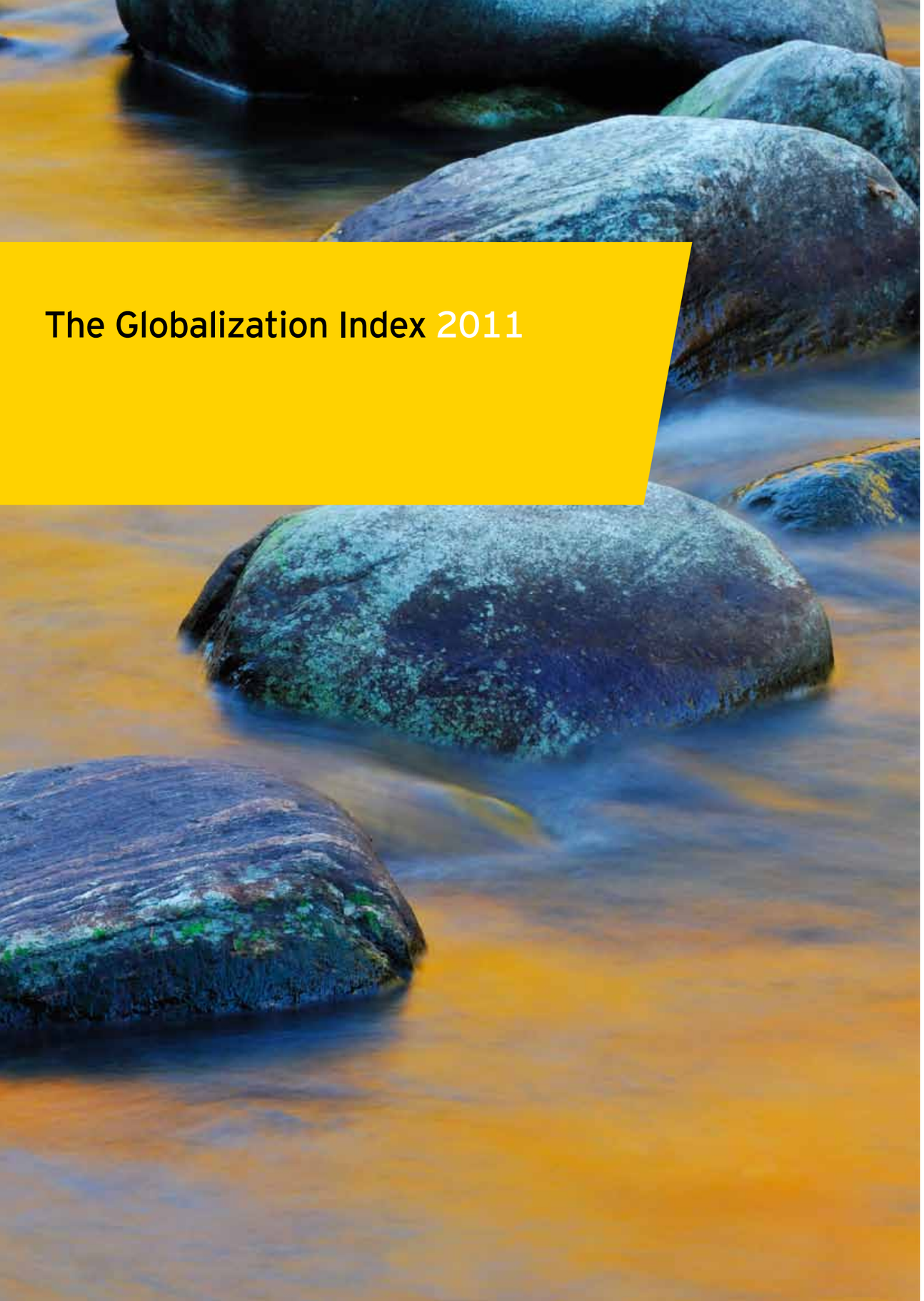
Source: *Globalization Survey 2011*
Note: Total base = 992; ratings on scale of 1 to 5 where 1 = very effective and 5 = not at all effective; scores shown = percentage of respondents rating 4 or 5 (gray) vs. 1 or 2 (yellow)

Priorities in an uncertain world

As once-red-hot new markets show signs of cooling down, and mature economies slip even further into the doldrums, global businesses face an ever-tightening squeeze. Globalization continues its inexorable march, but the challenges of becoming truly global are harder, the responses less clear-cut and more nuanced, and the opportunities no longer just there for the taking. Companies are juggling the competing demands of both rapid-growth and slow-growth businesses and figuring out how to apply their resources in highly divergent business environments. This demands new management capabilities and the ability to lead diverse teams across multiple time zones and geographies.

Different companies are taking different routes to dealing with the challenges of becoming a global business. Some are restructuring themselves to give more decision-making weight to the markets with the best growth potential. Others are relocating key executives to fast-growth markets and decentralizing decision-making authority to managers on the ground. And many are shifting their focus from a purely shareholder-value model to one that takes into account a broader range of stakeholders.

For companies that have grown accustomed to a stable and predictable operating environment over a number of decades, these changes are profound and sometimes unsettling. They will require strong leadership and the ability to make difficult trade-offs in resource and budget allocation. But as competition intensifies against a backdrop of volatile economic conditions, they are imperatives that no business can ignore.



The Globalization Index 2011

Measuring globalization

After the brief slowdown in 2009, we have seen a second consecutive year of slow but steady growth in overall globalization. This is a trend that is expected to continue through 2015. Interestingly, there have been almost no changes in countries' ranks from our 2010 report. More than 40 countries have not changed ranks, and the top five countries remain in the same order. Overall, globalization has been mainly driven by a continuous increase in trade of goods and services (after a significant slump in 2009) because of further global integration and the opening up of emerging economies. Also, strong adoption of Internet and mobile technologies in emerging markets has helped to continue the globalization trend.

These positive trends have been offset by a moderate decrease in foreign direct investment and portfolio investments, largely because of a drop in financing for new proposals as well as fears of increased protectionism. There also has been a slight decrease in the movement of labor, driven by a decrease in current transfers such as remittances. This is, however, expected to be more of a temporary phenomenon due to a slowdown in sectors that employ many immigrant workers, such as construction.

About the Globalization Index

The Globalization Index measures and tracks the performance of the world's 60 largest economies in relation 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 based on the significance placed upon each factor by 992 surveyed senior company executives doing international business. Subsidiary indicators are also given sub-weightings within each category. The 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 2015.

For this year's report, the Economist Intelligence Unit has refreshed Ernst & Young's Globalization Index in all years between 1995 and 2014 and extended to 2015. In updating the Index, we have used the latest data available for each year of the Index, thus enabling the most up-to-date view possible of the progress of globalization.

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

For more insight on the Globalization Index, please visit www.ey.com/growingbeyond

The Globalization Index 2011

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.

Overall	Country	2011 Score	Change in score since 2010	Change in score since 1995	Trade	Capital	Labor	Technology	Culture
1	Hong Kong	7.42	-0.24	1.91	9.8	7.4	4.6	6.0	9.3
2	Ireland	7.24	0.13	2.50	6.7	7.8	6.0	9.5	5.8
3	Singapore	6.88	-0.14	1.13	10.0	6.2	4.4	6.5	6.9
4	Belgium	5.81	-0.07	1.40	6.4	6.8	5.2	6.1	4.0
5	Sweden	5.72	-0.11	1.83	5.4	6.0	4.4	8.4	4.0
6	Denmark	5.70	0.21	1.64	5.3	6.2	4.4	8.3	4.0
7	Netherlands	5.58	0.09	1.15	6.3	5.8	4.9	6.5	4.0
8	Switzerland	5.46	-0.19	1.70	4.9	5.4	6.3	5.9	4.8
9	Finland	5.39	-0.09	1.72	5.0	5.6	4.0	8.1	3.8
10	Hungary	5.19	0.06	1.07	6.4	5.1	4.5	5.7	3.8
11	Israel	5.08	0.11	0.47	5.0	5.1	4.0	6.2	4.8
12	Taiwan	5.06	0.03	1.21	5.9	4.9	4.4	5.8	3.9
13	United Kingdom	4.95	0.02	0.97	4.7	5.8	4.3	5.8	3.9
14	Germany	4.88	-0.05	1.19	5.4	5.3	3.9	5.5	4.0
15	Slovakia	4.84	0.21	1.77	6.4	4.8	4.5	3.9	4.4
16	Canada	4.83	0.00	0.89	5.0	5.3	4.1	5.0	4.6
17	Austria	4.77	0.25	0.98	5.7	5.0	3.7	5.5	3.7
18	Czech Republic	4.62	0.07	1.19	6.2	4.8	4.0	4.2	3.6
19	Norway	4.55	-0.05	1.15	4.6	5.5	4.3	4.9	3.2
20	France	4.49	0.01	0.83	4.4	5.1	4.1	4.9	3.8
21	Spain	4.47	0.03	0.93	4.7	5.0	4.9	3.8	3.9
22	New Zealand	4.47	0.11	0.89	4.6	5.3	3.6	4.6	4.0
23	United States of Amer.	4.43	0.01	0.89	4.5	5.3	3.7	4.5	4.0
24	Australia	4.39	0.05	0.79	4.4	5.4	3.8	4.3	3.9
25	Chile	4.27	0.04	0.78	4.9	6.2	4.0	2.7	3.4
26	Bulgaria	4.25	-0.15	0.72	5.6	4.6	4.3	3.1	3.6
27	Poland	4.21	0.08	1.31	4.8	4.8	4.1	3.5	3.7
28	Malaysia	4.17	0.06	0.32	6.3	5.1	3.0	2.9	3.2
29	South Korea	4.13	0.09	1.35	5.2	4.6	2.9	4.9	2.7
30	Portugal	4.13	0.04	0.14	4.4	4.5	5.0	3.4	3.3

Overall	Country	2011 Score	Change in score since 2010	Change in score since 1995	Trade	Capital	Labor	Technology	Culture
31	Italy	4.06	0.02	0.83	4.2	4.4	4.4	3.6	3.7
32	Romania	4.05	0.05	1.44	4.6	4.5	4.7	2.9	3.5
33	Vietnam	4.01	0.15	1.29	6.0	4.9	4.2	2.2	2.5
34	Greece	3.78	0.03	0.09	3.8	4.3	3.8	3.2	3.8
35	Saudi Arabia	3.78	0.10	0.51	4.8	4.5	3.6	3.4	2.2
36	Mexico	3.73	0.05	0.85	4.8	4.8	3.0	2.5	3.4
37	Philippines	3.68	-0.04	0.81	4.6	4.0	5.0	1.4	3.3
38	Thailand	3.68	0.07	0.70	5.8	4.2	3.0	1.8	3.3
39	China	3.56	-0.01	0.88	4.3	4.6	2.7	3.3	2.5
40	Japan	3.47	0.01	0.78	4.0	4.4	2.2	4.3	1.9
41	Peru	3.44	0.01	0.53	4.3	4.4	3.1	1.9	3.3
42	Sri Lanka	3.43	0.03	0.16	3.5	4.4	4.7	1.4	3.3
43	Colombia	3.43	0.06	0.50	3.3	4.6	3.5	2.5	3.3
44	Ukraine	3.31	-0.05	0.86	4.6	3.3	3.5	2.3	2.7
45	Egypt	3.27	-0.04	0.25	3.5	4.4	4.1	1.7	2.6
46	Nigeria	3.25	0.06	0.95	3.0	3.6	5.6	1.7	2.5
47	Brazil	3.24	0.02	0.48	3.5	4.6	2.6	2.2	3.3
48	Turkey	3.24	0.10	0.28	4.0	4.2	2.6	2.5	2.6
49	Ecuador	3.15	0.05	0.52	4.2	2.9	4.1	1.8	2.6
50	Argentina	3.13	0.01	0.01	3.1	3.4	3.2	2.7	3.3
51	Pakistan	3.04	-0.01	0.36	2.7	4.4	5.1	1.2	1.8
52	Kazakhstan	3.03	-0.02	0.55	3.4	3.7	3.0	2.3	2.6
53	Azerbaijan	2.96	0.00	-0.12	3.2	3.2	4.0	1.9	2.6
54	South Africa	2.95	0.05	0.28	4.0	4.1	2.7	1.2	2.6
55	India	2.91	0.04	0.32	3.2	4.1	3.4	1.3	2.5
56	Russia	2.91	-0.01	0.38	3.9	3.3	3.0	2.2	1.9
57	Indonesia	2.82	0.02	0.14	4.1	3.8	2.3	1.3	2.5
58	Venezuela	2.80	-0.02	0.25	2.8	2.8	3.1	2.1	3.3
59	Algeria	2.63	0.03	0.13	3.4	3.5	2.7	1.5	1.8
60	Iran	2.13	0.01	0.27	2.5	2.3	2.0	1.9	1.8

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 992 business leaders.

Category and indicators	Source
Movement of goods and services *Business leader weighting: 22%*	
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=very 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=very low)	Scored on 1-5 scale by EIU analysts
Movement of capital and finance *Business leader weighting: 21%*	
FDI flows (in and out, % GDP)	IMF International Financial Statistics
Portfolio capital flows (in and out, % GDP)	IMF International Financial Statistics
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=very good)	Scored on 1-5 scale by EIU analysts
Domestic favoritism by government (5=no favoritism; level playing)	Scored on 1-5 scale by EIU analysts
Exchange of technology and ideas *Business leader weighting: 21%*	
R&D trade (in and out, as % GDP)	IMF Balance of Payments Statistics; EIU estimates
Broadband subscriptions (per 100 people)	International Telecommunications Union
Internet subscribers (per 100 people)	International Telecommunications Union
Movement of labor *Business leader weighting: 19%*	
Net migration rate (per 1,000 population)	United Nations
Current transfers (in and out, as % GDP)	IMF International Financial Statistics
Hiring of foreign nationals (5=very easy)	Scored on 1-5 scale by EIU analysts
Cultural integration *Business leader weighting: 17%*	
Tourism (in and out, per 1,000 population)	World Tourism Organization
International outgoing fixed telephone traffic (minutes) per capita	International Telecommunications Union
Openness of national culture to foreign influence (5=very open)	Scored on 1-5 scale by EIU analysts

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