



Globalization

# The State of Globalization in 2023

by Steven A. Altman and Caroline R. Bastian

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Daniel Grizelj/Getty Images

**Summary.** Plummeting flows of trade, capital, and people at the beginning of the Covid-19 pandemic prompted a wave of speculation about the end of globalization, and Russia's invasion of Ukraine brought even more predictions of a retreat toward national... [more](#)

Three key questions lie at the heart of debates about whether global crises and escalating geopolitical tensions have begun to reverse globalization: Has the growth of cross-border trade, capital, information and people flows gone into reverse? Are geopolitical tensions fracturing the world economy into rival blocs? And is globalization giving way to regionalization? The

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answer to all three questions — despite evidence of U.S.-China decoupling — is still “no.”



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This result — decoupling without deglobalization — implies that most multinational firms should respond to elevated geopolitical tensions with focused adjustments to their global strategies and risk management. While the public-policy environment has become less conducive to globalization, the resilience of global flows cautions against more dramatic strategy changes predicated on the notion that markets will become substantially less globalized.

### **Has the Growth of Global Flows Gone into Reverse?**

Plummeting flows of trade, capital, and people at the beginning of the Covid-19 pandemic prompted a wave of speculation about the end of globalization, and Russia’s invasion of Ukraine brought even more predictions of a retreat toward national self-sufficiency. But international flows show no signs of a sustained downturn.

The DHL Global Connectedness Index, developed by our team at the NYU Stern Center for the Future of Management, measures the “depth” of globalization by comparing the growth of international flows to the growth of domestic economic activity. Our latest report shows that the globalization of trade, capital,

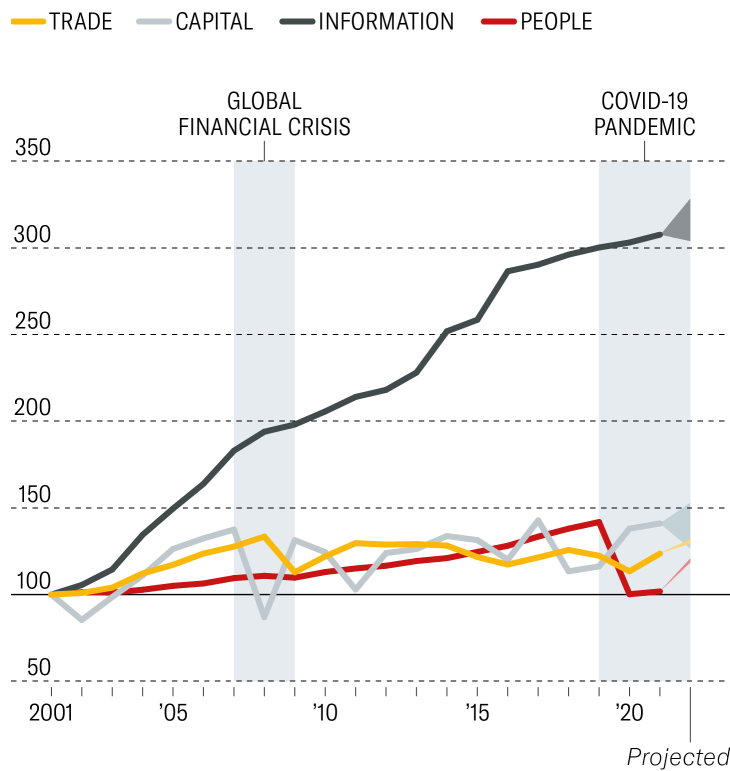


and information flows was already above pre-pandemic levels by 2021 and that the recovery of international people flows accelerated in 2022.

## Global Flows Have Mostly Returned to Above Pre-Pandemic Levels

The latest DHL Global Connectedness Index shows how international flows of trade, capital, and information were already above pre-pandemic levels by 2021. In 2022, the recovery of international people flows accelerated.

### “Depth” of global connectedness, relative to 2001



Source: DHL Global Connectedness Index 2022



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International trade rebounded quickly after plummeting at the beginning of the pandemic. The volume of world trade in goods reached 10% above pre-pandemic levels in mid-2022, and trade in services was also back above pre-pandemic levels. Preliminary

data indicate the value of world exports as a share of GDP rose in 2022, matching the record high set in 2008. In late 2022, slowing global economic growth caused trade to weaken, but the International Monetary Fund (IMF)'s latest forecast still calls for trade to grow at a modest 2.4% pace in 2023 before accelerating to a more typical (3.5%) rate in 2024.

International business investment also recovered swiftly from declines at the beginning of the Covid-19 pandemic. Foreign direct investment (FDI) flows, which reflect companies buying, building, or reinvesting in operations abroad, collapsed in 2020, but were back above pre-pandemic levels in 2021. FDI flows, like trade, weakened after the start of the war in Ukraine, but there are no signs of a collapse similar to the one at the beginning of the Covid-19 pandemic.

Other measures of corporate globalization affirm that businesses are not broadly retreating from foreign markets, even as FDI flows remain below historical peak levels. Payments for the use of foreign intellectual property continue to grow, while the cross-border share of M&A transactions is holding steady, and the share of global output generated by the foreign operations of multinational firms has just slipped back modestly from a record high set in the mid-2000s.

While the Covid-19 pandemic temporarily reduced trade and capital flows, it caused a spike in the growth of international data flows. The growth rate of international internet traffic doubled in 2020 as in-person interactions were replaced by online activity, and it continued growing at 20% to 30% per year in 2021 and 2022. More than twice as much data crossed national borders in 2022 compared to 2019.

International people flows suffered the worst blow from the Covid-19 pandemic, but they are on their way to making a full recovery. The latest UN forecast predicts the number of people traveling to foreign countries will be just 5% to 20% below its pre-pandemic level in 2023. Migration has also proven resilient, with the share of people living outside of their birth countries continuing to rise, even in 2020.

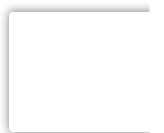
All in all, data on the growth of global flows strongly rebuts the notion of a mass retreat from international to domestic activity. Most types of international flows are at or near all-time highs, and the weakness of some flows, such as trade, in late 2022 and early 2023, primarily reflects slowing global economic growth following large interest rate increases aimed at curbing inflation.

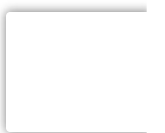
### **Are Geopolitical Tensions Fracturing the World Economy into Rival Blocs?**

As tensions continue to escalate between the U.S. and China, there is a growing fear that a new cold war could lead to a costly bifurcation of the world economy. The latest data on international flows do show a broad pattern of decoupling between the U.S. and China, but the flows of countries that are geopolitically aligned with the U.S. and China do not — at least yet — indicate a broader split between rival blocs, an outcome that the IMF has warned would “leave everyone poorer and less secure.”

To measure U.S.-China decoupling, the DHL Global Connectedness Index report examines 11 types of trade, capital, information, and people flows, and finds that the U.S. and China have both substantially reduced their focus on flows with each other since 2016. The share of U.S. flows that were to or from China declined in eight out of 11 categories, falling on average from 9.3% to 7.3% (weighted average using our index’s flow

weights). The share of China's flows with the U.S. fell in seven out of 10 categories, dropping on average, from 17.8% to 14.3%.





# Measuring the U.S.-China Decoupling

To measure U.S.-China decoupling, the DHL Global Connectedness Index report examines 11 types of trade, capital, information, and people flows, and finds that the U.S. and China have both substantially reduced their focus on flows with each other since 2016. This chart shows the percent of U.S. flows to or from China (in yellow), as well as the percent of China flows to or from the U.S. (in red).

## U.S.-China flow shares

Key:	2022 OR MOST RECENT	2016
U.S. (% OF FLOWS WITH CHINA) %		-%
CHINA (% OF FLOWS WITH U.S.) %		-%

### Trade

Merchandise exports	7.5		8.0
	16.2		18.2
Merchandise imports	16.5		21.1
	6.9		9.3

### Capital

Outward announced greenfield FDI*	1.9		5.9
	14.8		12.8
Inward announced greenfield FDI	2.6		5.2
	21.8		24.3
Outward announced M&A transactions	1.2		1.6
	11.4		16.6
Inward announced M&A transactions	2.0		8.6
	11.3		5.0
Outward portfolio equity stocks	2.3		1.4
	17.9		32.6

### Information

Scientific research collaboration	13.5		13.8
	20.3		29.9

### People

Emigrants	0.7		0.7
	20.9		26.1
Immigrants	4.7		5.8
	2.3		2.2
Tourist	1.9		4.0

arrivals

\*Foreign direct investment

Sources: IMF Direction of Trade Statistics, UN Comtrade, fDi Markets, Thomson Reuters, IMF CPIS, Clarivate Web of Science, UN DESA International Migrant Stock, UNWTO Tourism Statistics



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The extent of U.S.-China decoupling, however, should not be overstated. The U.S. and China are still connected by larger combined trade, capital, information, and people flows than any other pair of countries without a common border. And the [dollar value](#) of trade between the U.S. and China grew to a [record high](#) in 2022.





Even more importantly, at a global level, the flows of countries that are geopolitically aligned with the U.S. and China indicate no meaningful fragmentation of the world economy into rival blocs. Close allies of the U.S. and China (as classified by [Capital Economics](#)) have not substantially reduced the shares of their flows with the rival bloc. In some areas, such as imports and scientific research collaboration, U.S. allies have even increased the share of their flows with China and its allies, while the U.S. has pulled back from those exchanges.







# Global Flows Are Not Fracturing into Rival U.S.-China Blocs

Since 2016, the U.S. and China have substantially reduced their focus on flows of trade, capital, information, and people with each other. But a look at the activities of their allies suggests that the U.S.-China decoupling has not been accompanied by a meaningful fragmentation of the world economy into rival blocs. In some areas, such as imports and scientific research collaboration, U.S. allies have even increased the share of their flows with China and its allies.











## Allied countries flow shares

Key:	2022 OR MOST RECENT	2016
<b>U.S. ALLIES</b> (% OF FLOWS WITH CHINA AND ITS ALLIES)	% 	% 
<b>CHINA ALLIES</b> (% OF FLOWS WITH U.S. AND ITS ALLIES)	% 	% 



### Trade

Merchandise exports	9.2	 10.3	40.7	 40.6
Merchandise imports	15.6	 14.2	30.7	 34.6



### Capital

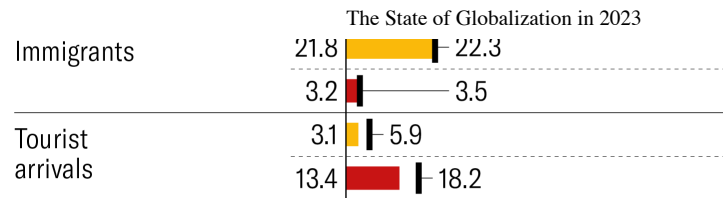
Outward announced greenfield FDI*	3.9	 10.3	34.4	 36.5
Inward announced greenfield FDI	1.0	 1.4	53.1	 52.5
Outward announced M&A transactions	2.9	 6.8	33.5	 27.5
Inward announced M&A transactions	1.4	 2.6	32.5	 29.9
Outward portfolio equity stocks	3.1	 2.8	79.8	 73.9

### Information

Scientific research collaboration	10.5	 8.5	46.8	 60.0
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### People

Emigrants	2.2	 2.5	26.4	 27.1
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\*Foreign direct investment

Sources: IMF Direction of Trade Statistics, UN Comtrade, fDi Markets, Thomson Reuters, IMF CPIS, Clarivate Web of Science, UN DESA International Migrant Stock, UNWTO Tourism Statistics, Capital Economics

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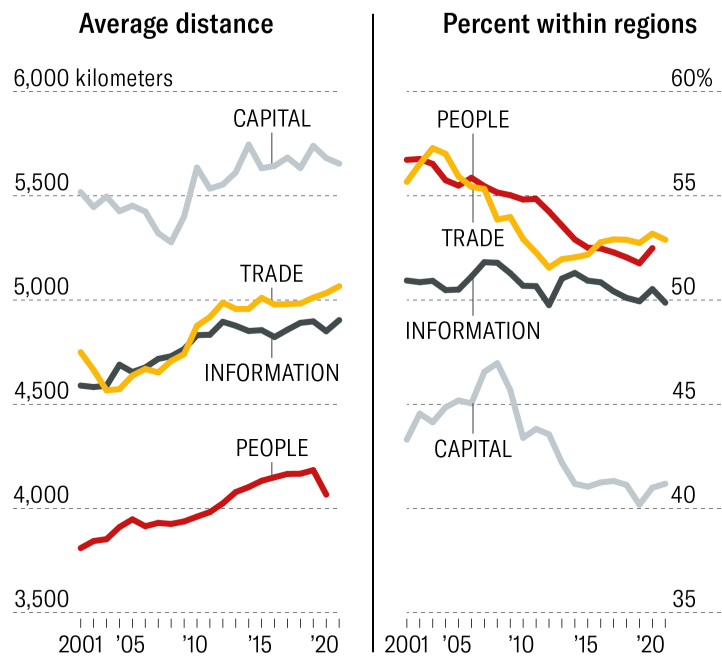
## Has Globalization Given Way to Regionalization?

Rising geopolitical tensions — along with supply disruptions during the Covid-19 pandemic — have also prompted many observers to predict a shift from globalization to regionalization. In other words, many expect that a rising proportion of international flows will take place within rather than between regions. Data on actual flow patterns, however, do not show that such a shift has (yet) taken place.

We prefer to analyze the possibility of rising regionalization by measuring the average distance traversed by international flows, since the more common measure — the share of flows happening within regions — yields very different results depending on where one chooses to draw the region boundaries. If international flows were becoming more regionalized, they would take place over shorter distances, on average. In fact, trade and many other types of flows have tended to take place over longer distances. The main exception to this pattern involves people flows, due to a higher proportion of travel taking place between nearby countries during the Covid-19 pandemic. Capital flows also took place over shorter distances in 2020 and 2021, but it is still unclear whether that reflects a meaningful shift toward more regionalized investment patterns, since the volatility of these flows often results in short-term fluctuations of a similar magnitude.

## No Evidence That Globalization Is Giving Way to Regionalization

Rising geopolitical tensions, as well as pandemic supply-chain disruptions, have led to predictions of a shift from globalization to regionalization. The data does not yet bear that out. These charts show the average distance of international flows of trade, capital, information, and people, most of which have taken place over longer distances over time. The main exception is people flows, because people were staying closer to home during the pandemic.



Source: DHL Global Connectedness Index 2022

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Trade flows even stretched out over longer distances in 2020 and 2021, contrary to predictions that pandemic-related disruptions would prompt greater reliance on nearby suppliers. The key driver of this pattern was the resilience of Asian manufacturing, leading to more trade between Asia and distant regions. Preliminary data also show an increase in the average distance over which countries traded in 2022, due in part to effects of the war in Ukraine on trade patterns and commodity prices.

It remains an open question whether world trade will become substantially more regionalized in the future. Many companies are focused on nearshoring to produce goods closer to their customers, and major supply-chain reconfigurations can take several years to execute. Governments in many countries are supporting these regionalization efforts.

On the other hand, the fact that international flows are already highly regionalized limits the scope for large increases in regionalization. As shown above, more than half of trade already takes place within roughly continent-sized regions. In addition, many companies, rather than nearshoring, have adopted other strategies to boost resilience, such as digitization and dual sourcing. Meanwhile, container shipping costs have come back down while inflation remains high, boosting the attractiveness of low-cost sources that may be located in distant regions.

## **Geopolitical Turbulence and Global Strategy**

While global flows have remained resilient, the public policy environment has become more challenging for global business. Trade protectionism has increased, international investments face heightened scrutiny on national security grounds, data-flow restrictions are proliferating, and international institutions struggle to function amid strained relations among their member countries.

Core principles of global strategy can help business leaders navigate this turbulent environment. The key business drivers of globalization — more growth and innovation, coupled with lower costs and better diversified risks — remain strong, and new technologies continue to expand international opportunities.

But the challenges and risks of operating across geopolitical divides have increased. Global strategists often find it useful to

think of such shifts as changing the metaphorical distance between countries. Rising tensions put more distance between geopolitical rivals, and they bring friendly countries closer together, at least in relative terms.

One of the foundational concepts of global strategy is that domestic firms have a home-court advantage over foreign firms, and firms that have to bridge less distance — not only geographically but also politically — are usually advantaged over firms that have to bridge greater distance. A firm's unique assets — technologies, brand value, and so on — exert a large influence over how much distance it can bridge successfully. So does the sensitivity of its business to geopolitics and other sources of cross-country distance.

Leaders should examine how strong their competitive positions are in countries that are becoming more — and less — distant, to see if they need to rebalance their geographic portfolios. Remember that shifting geopolitical relationships can create opportunities as well as challenges. A company may be able to win business away from competitors from geopolitical adversaries.

If a company has strong-enough advantages to compete across geopolitical divides, changes to how it operates in politically distant markets may be required. A common approach is to afford more autonomy to local managers, to better tailor operations to increasingly divergent conditions. This can be useful, but it is important not to overestimate how far a foreign company can go to be regarded as a local player. When push comes to shove, a company's home base is still central to its perceived — and often real — allegiances.

As many Western firms operating in Russia saw after the full-scale invasion of Ukraine, tensions can escalate to a point where there is no alternative to exiting a market. Companies with large operations across geopolitical divides should be prepared for the contingency of a gradual decoupling turning into a sudden separation.

The good news, though, is that most companies do not need to fundamentally restructure their global strategies to prudently address geopolitical tensions. As we have seen, U.S.-China decoupling has not — at least yet — begun to split the world economy into rival blocs, globalization has not given way to regionalization, and most types of international flows continue growing.

Decoupling without deglobalization generally calls for focused adjustments to global strategies not only because of the resilience of global flows but also because most international business already takes place between nearby and friendly countries. The U.S., for example, imported 66% more from Canada and Mexico in 2022 than it did from China, and 35% more from Europe. Globally, half of the flows measured on the DHL Global Connectedness Index take place inside major world regions, three times more than one would expect in a world where the distance and differences between countries had no effects. Nearshoring and friendshoring are actually longstanding features of globalization, and increases that address specific vulnerabilities would be consistent with the “interdependence without overdependence” that WTO Director-General Ngozi Okonjo-Iweala envisions as the “future of trade.”

Focused adjustments to how companies operate internationally also align well with the increasingly prevalent view in policy circles that “de-risking” is a better response to geopolitical

tensions than complete decoupling. European Commission President Ursula von der Leyen proposed this emphasis on “de-risking” [in a March 2023 speech](#) that characterized most EU-China trade as “mutually beneficial and ‘un-risky’” but highlighted the EU’s problematic reliance on China for 98% of its supply of rare earths, 97% of its lithium, and 93% of its magnesium. Less than two months later, the U.S. and other large advanced economies [formally embraced](#) “de-risking, not decoupling” at the May 2023 G7 Summit.

The bottom line is that companies do need to adjust for heightened geopolitical tensions, but they should not abandon global strategies on the assumption that U.S.-China decoupling will necessarily lead to deglobalization. Corporate deglobalization, in fact, [could be a riskier path](#) than making focused adjustments to mitigate geopolitical risks. Another principle of global strategy is that firms should align their strategies with the globalization of their markets. As long as markets are not de-globalizing, firms that retreat from globalization may put their competitive positions at risk.



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