

Measuring Globalization

The Global Top 20

The countries that top the charts in trade, travel, technology, and links to the rest of the world



ECONOMIC INTEGRATION:

Trade and foreign direct investment

TECHNOLOGICAL CONNECTIVITY:

Internet users, Internet hosts, and secure servers

PERSONAL CONTACT:

International travel and tourism, international telephone traffic, and remittances and personal transfers (including worker remittances, compensation to employees, and other person-to-person and non-governmental transfers)

POLITICAL ENGAGEMENT:

Membership in international organizations, personnel and financial contributions to U.N. peacekeeping missions, international treaties ratified, and governmental transfers

The fifth annual A.T. Kearney/FOREIGN POLICY Globalization Index shows that global integration survived the turbulence of the Iraq war, a sharp economic downturn, and the failure of trade talks. Our ranking of political, economic, personal, and technological globalization in 62 countries reveals that the world is still coming together. Find out who's up, who's down, and how they got there.

The noted international economist Joseph Stiglitz called 2003 “a disaster for globalization.” At one level, he was right. The Iraq war and its aftermath created deep fissures between the United States and its allies, and the great majority of countries who opposed the war. The U.N. Security Council, the lead body for international peace and security issues, was dealt a blow by the willingness of the coalition to launch a military campaign without its blessing. The war even prompted boycotts and muttering about possible trade embargoes. During the height of the Iraq controversy, some German restaurants posted signs reading, “Sorry, Coca-Cola is not available any more due to the current political situation.” The desire to express political differences at the cash register was reciprocated in the United States. One 2003 poll showed that nearly half of Americans preferred not to buy French goods. Even White House Chief of Staff Andrew Card was reported to have said that “Virginia wine is fine with me.”

Economically, the year did not begin much better. Foreign investment flows slowed, and trade was stagnant for the first half of the year. In its meeting at Cancún, Mexico, the World Trade Organization (WTO) failed to agree on the reduction of powerful agricultural subsidies in the United States and Europe. What might have been a dramatic expansion of free trade fizzled, leaving behind no obvious roadmap for progress. In the realm of public health, the SARS epidemic grounded global

travelers and exposed unsettling gaps in international health monitoring. Tourism to Asia dropped precipitously as a result—by as much as 50 percent in some countries.

Yet this year's edition of the A.T. Kearney/FOREIGN POLICY Globalization Index shows that the multifaceted force called globalization is made of sterner stuff. By the second half of 2003, the ties that bind were connecting us once again. Global trade, which grew at less than 1 percent in the first quarter, jumped by more than 5 percent in the second half of the year. Global development aid improved dramatically. The Organisation for Economic Co-operation and Development estimated that official development assistance reached a record \$69 billion. The largest increase came from the United States, which boosted foreign aid by more than 20 percent.

The resilience of globalization indicates that it is a phenomenon that runs deeper than the political crises of the day. In an effort to measure its many dimensions, the index looks behind the headlines by using several indicators spanning trade, finance, political engagement, information technology, and personal contact to determine the rankings of 62 countries. These 62 countries together account for 96 percent of the world's gross domestic product (GDP) and 85 percent of the world's population. The index measures 12 variables, which are divided into four “baskets”: economic integration, technological connectivity, personal contact, and political engagement.

The resulting rankings offer an important high-altitude look at which countries are globalizing and which are not. But sifting through the data that come out of the index also yields some interesting stories behind the broader trends.

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THE WINNERS' CIRCLE

The luck of the Irish finally ran out, as last year's runner-up, Singapore, took the top spot in this year's ranking, ending Ireland's three-year streak. One key to Singapore's rise was its increased political engagement. The island nation built bridges in 2003—increasing its financial contribution to U.N. peacekeeping missions by 41 percent. (Indeed, a Singaporean general commanded the peacekeeping force in East Timor for much of 2003.) Singapore solidified its first-place ranking in foreign trade by signing a bilateral free trade agreement with the United States in May 2003, the first such agreement the United States had signed with an Asian nation. Meanwhile, Ireland's strong economy slumped, with GDP growth sliding from a robust 6.9 percent in 2002 to a tepid 1.8 per-

Rankings

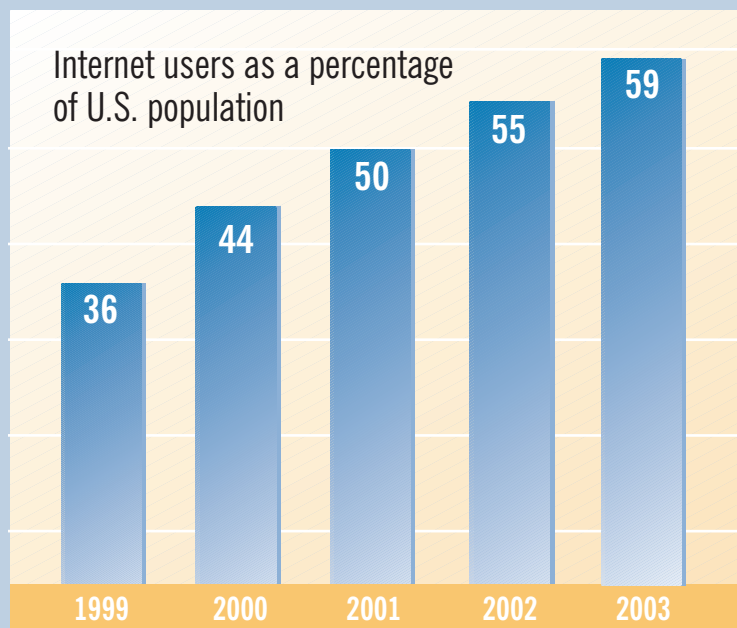
In the table, the countries ranking in the top 10 in each category are shaded orange, and those ranking in the bottom 10 are shaded blue.

cent in 2003. There was other movement in the top five. Finland fell from fifth to 10th place. The United States jumped from seventh to fourth and became the first large country to crack the top five. Nations with large populations (and large domestic markets) generally fare worse in the index because they are typically less dependent on foreign trade and investment. The strong U.S. showing is primarily a result of its remarkable technological prowess.

The Schizophrenic United States

The world's superpower became a bit more global in 2003, climbing three spots in the index. But a quick glance at the U.S. report card reveals a hit-or-miss performance. The United States put up stratospheric numbers in the technology basket, ranking first in the number of Internet hosts and the number of secure servers. But the United States lagged far behind in categories including trade, foreign direct investment (FDI), and treaty commitments. In part, the United States' lackluster performance in economic areas is due to its vibrant domestic market. Because many U.S. producers can focus exclusively on satisfying U.S. consumers, the United States is a less trade-dependent nation than small exporting countries such as Singapore and Ireland. In some ways, the U.S. economy is a world unto itself. The Bush administration has often acted similarly aloof in political and diplomatic terms. Consider the United States' skepticism of international treaty regimes. In 2003, the Bush administration continued to turn up its nose at a variety

of international agreements. The White House's opposition to the Kyoto Protocol and the International Criminal Court is well known. But the Bush administration didn't even want to sign on to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes. The United States looks suspiciously at many of the new legal and institutional arrangements that are binding the world together, at least on paper. As a result, the United States ranks 57th of the 62 ranked countries—below China and Pakistan—when it comes to signing on the dotted line.



Sources: International Telecommunication Union; International Monetary Fund

2005 GI Rankings		Change from 2004	Dimension				Item													2004 GI Rankings
			Economic	Personal	Technological	Political	Economic Integration		Personal Contact			Technological Connectivity			Political Engagement					
							Trade	FDI	Telephone	Travel	Remittances and Personal Transfers	Internet Users	Internet Hosts	Secure Servers	International Organizations	U.N. Peacekeeping	Treaties	Government Transfers		
1	Singapore	1	1	3	11	32	1	1	1	5	47	10	9	11	29	3	41	47	2	
2	Ireland	-1	2	2	13	19	4	2	3	3	6	24	18	7	12	11	28	22	1	
3	Switzerland	0	9	1	7	29	18	5	2	4	1	11	14	5	29	13	41	10	3	
4	United States	3	60	40	1	43	61	42	19	34	58	4	1	1	1	28	57	38	7	
5	Netherlands	-1	5	11	8	4	8	4	6	13	45	9	4	13	5	17	6	6	4	
6	Canada	0	27	8	2	10	26	23	4	22	60	5	11	2	2	22	6	28	6	
7	Denmark	3	29	7	5	13	19	38	7	17	17	3	3	8	12	14	28	7	10	
8	Sweden	3	12	10	9	16	21	6	9	6	43	1	10	9	17	12	6	40	11	
9	Austria	0	10	5	14	2	14	12	11	2	31	16	15	14	12	2	6	8	9	
10	Finland	-5	15	20	6	15	33	7	17	12	42	8	2	10	12	7	28	13	5	
11	New Zealand	-3	36	16	3	21	39	27	5	23	53	7	8	3	29	23	6	20	8	
12	United Kingdom	0	32	12	10	5	45	20	10	16	37	12	17	6	5	10	6	18	12	
13	Australia	0	37	34	4	25	55	16	14	30	50	6	5	4	29	5	28	36	13	
14	Norway	3	35	15	12	17	29	34	12	24	30	22	6	12	17	20	6	24	17	
15	Czech Republic	-1	11	4	24	35	5	24	25	1	25	25	22	26	17	42	28	15	14	
16	Croatia	7	7	6	28	26	12	8	20	7	9	31	34	25	29	49	1	16	23	
17	Israel	5	19	9	16	46	24	14	8	27	11	18	16	17	48	15	61	4	22	
18	France	-3	24	17	21	3	46	10	15	14	39	20	19	20	2	6	6	9	15	
19	Malaysia	1	4	19	27	49	2	21	27	10	16	21	37	35	29	43	41	45	20	
20	Slovenia	-1	17	13	20	23	11	39	22	8	23	15	25	18	29	21	6	25	19	
21	Germany	-3	43	29	17	8	30	54	16	21	49	14	21	16	2	9	28	11	18	
22	Portugal	-6	44	18	22	1	34	53	23	15	22	17	23	22	5	1	6	5	16	
23	Hungary	3	6	32	26	22	6	15	34	9	36	28	20	29	17	35	1	30	26	
24	Panama	3	3	47	34	34	9	3	33	37	40	46	41	23	48	56	1	26	27	
25	Slovakia	-4	8	38	30	7	3	37	30	33	21	26	26	34	29	4	1	53	21	
26	Spain	-2	22	28	23	11	42	11	24	18	29	29	24	19	5	25	6	14	24	
27	Italy	-2	47	27	25	6	50	40	18	20	44	23	33	24	5	18	6	12	25	
28	Japan	1	62	58	15	18	62	52	40	45	61	13	12	15	29	8	6	49	29	
29	Greece	-1	55	23	32	9	48	58	21	11	38	33	29	27	5	24	28	3	28	
30	South Korea	2	38	46	19	45	25	47	39	40	27	2	13	30	29	29	41	42	32	
31	Poland	0	33	31	29	37	27	31	28	19	28	30	27	28	17	33	28	35	31	
32	Philippines	1	28	14	49	42	16	55	41	51	2	49	48	47	17	51	28	41	33	
33	Uganda	5	39	24	61	14	56	18	62	58	3	61	53	59	48	61	6	2	38	
34	Chile	3	16	51	31	30	31	9	35	38	52	27	32	32	12	47	6	29	37	
35	Romania	4	25	37	36	27	22	26	36	29	18	32	42	44	29	46	1	31	39	
36	Taiwan	0	18	25	18	62	13	32	13	31	26	19	7	21	62	62	62	55	36	
37	Tunisia	-2	23	30	47	40	17	29	32	26	14	43	60	46	29	30	28	44	35	
38	Botswana	-8	30	39	51	12	20	41	31	25	33	51	46	50	48	57	6	1	30	
39	Ukraine	4	13	41	45	41	10	25	42	32	19	44	43	49	48	37	28	21	43	
40	Morocco	7	21	22	54	55	32	13	46	42	4	54	52	51	48	38	52	33	47	
41	Senegal	-1	40	36	55	24	35	44	48	47	12	55	58	56	29	26	6	17	40	
42	Mexico	3	41	44	37	31	41	35	29	35	32	34	31	38	5	54	6	60	45	
43	Sri Lanka	8	34	26	57	56	23	45	49	50	5	58	54	48	58	58	41	46	51	
44	Nigeria	-2	20	52	60	33	15	30	59	59	34	60	61	60	17	36	6	62	42	
45	Saudi Arabia	-4	45	21	46	57	28	62	26	28	8	45	47	45	48	45	52	54	41	
46	Thailand	2	14	50	40	58	7	43	54	43	35	36	44	40	17	44	57	48	48	
47	Argentina	-13	58	56	33	20	53	49	47	44	55	35	28	37	17	16	6	39	34	
48	South Africa	1	48	55	38	28	44	50	43	39	54	40	35	31	17	32	6	27	49	
49	Kenya	5	52	42	58	38	43	56	61	55	13	57	50	57	48	27	28	32	54	
50	Pakistan	-4	53	33	59	52	54	36	53	62	7	59	55	55	48	31	52	19	46	
51	Colombia	-1	42	43	44	51	52	22	38	53	15	50	39	42	48	48	41	34	50	
52	Russia	-8	46	53	42	36	40	46	51	41	48	39	38	43	17	19	41	37	44	
53	Peru	-1	54	49	41	39	57	28	37	49	41	37	40	41	29	52	6	59	52	
54	China	3	26	57	50	54	36	19	56	54	46	47	51	58	29	34	52	58	57	
55	Venezuela	3	31	59	43	50	51	17	45	52	59	48	45	39	29	50	41	56	58	
56	Turkey	-1	49	54	39	47	38	57	44	36	56	41	36	36	29	41	41	43	55	
57	Brazil	-4	57	61	35	44	60	33	52	56	57	38	30	33	29	40	28	57	53	
58	Bangladesh	-2	61	35	62	53	58	61	60	60	10	62	62	62	58	39	41	50	56	
59	Egypt	1	56	45	52	59	49	60	50	46	20	52	59	52	29	55	57	23	60	
60	Indonesia	-1	50	60	53	48	37	59	57	57	51	53	49	54	17	60	41	51	59	
61	India	0	59	48	56	60	59	51	58	61	24	56	56	53	58	59	52	52	61	
62	Iran	0	51	62	48	61	47	48	55	48	62	42	57	61	58	53	57	61	62	

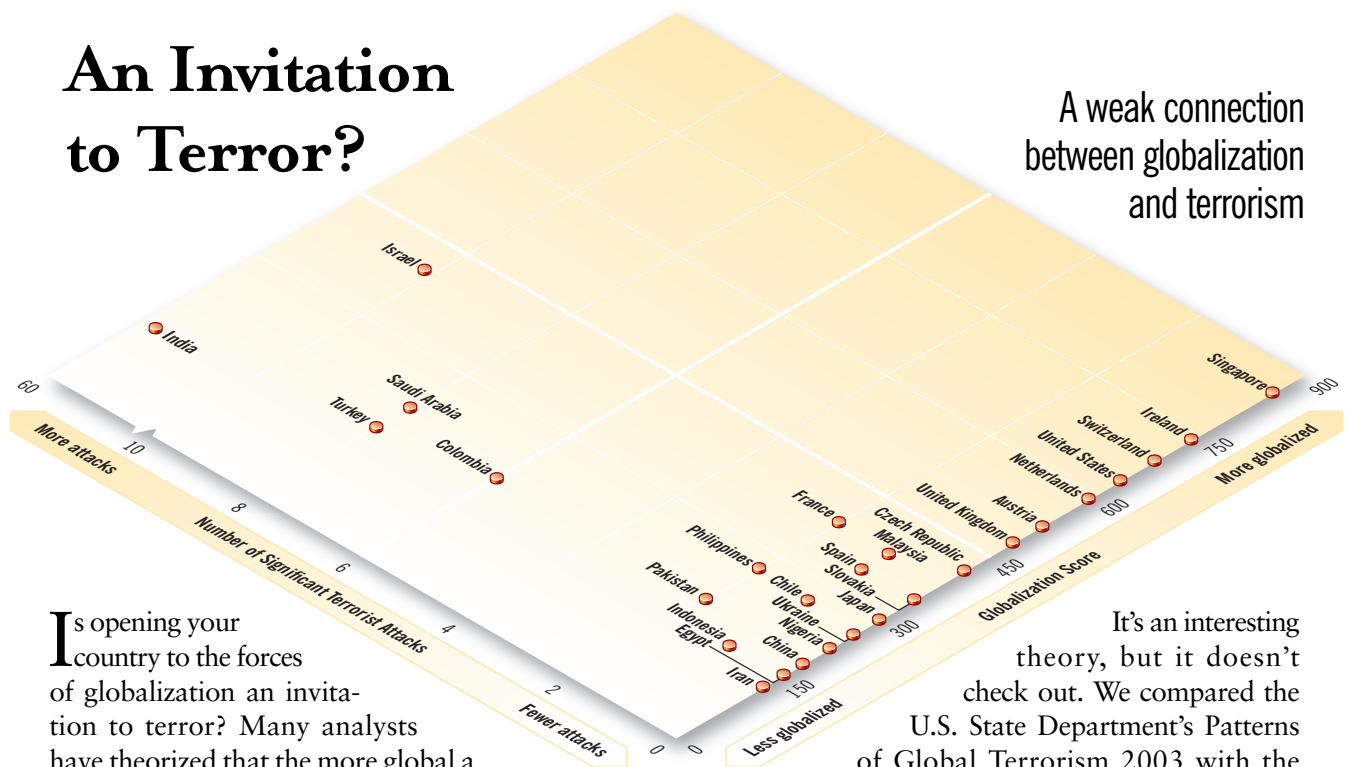
Russia Falls Behind

Russia's globalization score tumbled eight places in this year's index. The Russian economy has become dependent on oil and gas investments, and the country's partial transformation into a "petrostate" means that its economy is becoming vulnerable to the vicissitudes of those markets. By some accounts, the energy sector's contribution to industrial output is about 25 percent of GDP and 50 percent of the country's export earnings. The Kremlin's legal assault on oil giant Yukos and the

bloody terrorist attacks by Chechen forces have deterred many foreign investors. Corruption and inefficiency are also sapping Russian economic strength. By some estimates, the black market was between 20 and 40 percent of the Russian economy. Privatization and deregulation, meanwhile, have stalled. Russia still has not made the reforms necessary to join the WTO, and trade as a share of Russia's GDP fell sharply between 1999 and 2003. By contrast, Ukraine, which is also angling for WTO membership, saw trade as a share of its GDP increase by 12 percent during the same period.

An Invitation to Terror?

A weak connection between globalization and terrorism

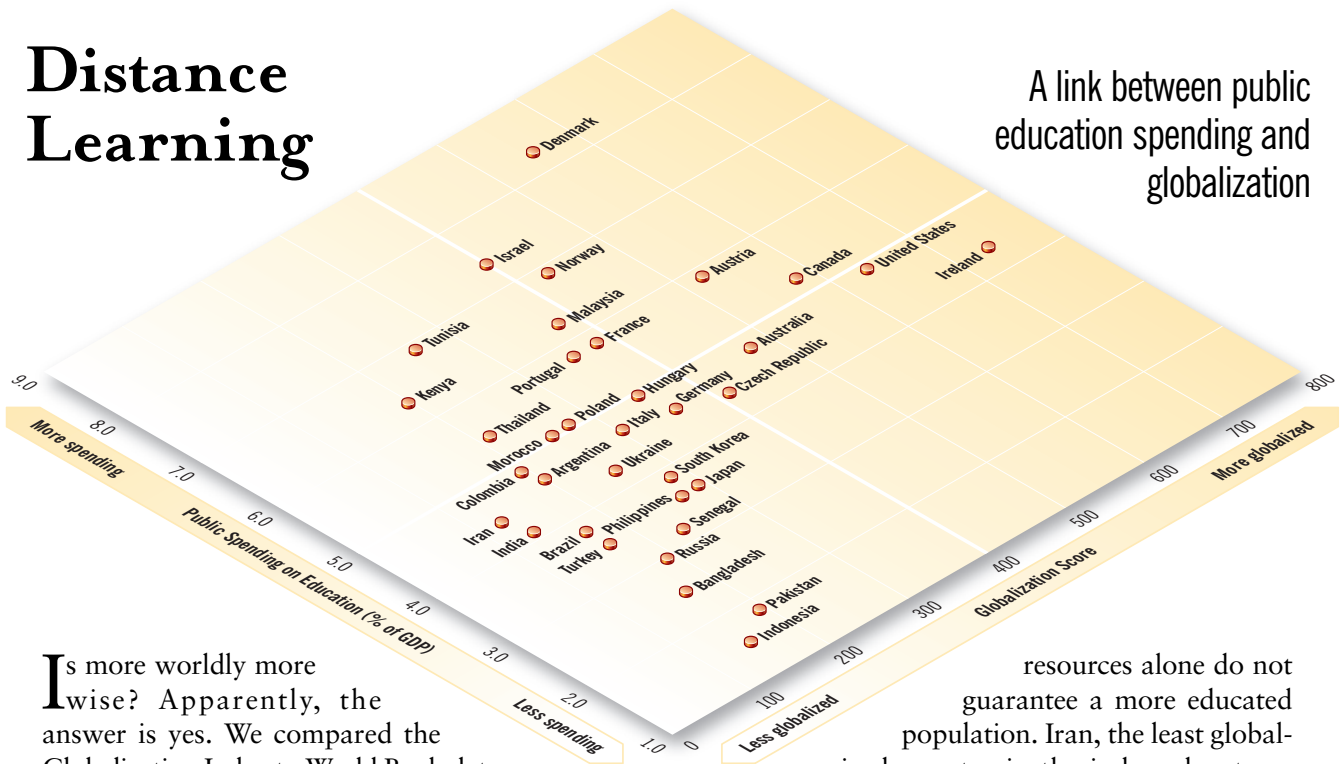


Is opening your country to the forces of globalization an invitation to terror? Many analysts have theorized that the more global a country is, the more susceptible it is to terrorist attacks. Countries with relatively open physical borders and close contact with the outside world may allow terrorists to enter and move around easily. Frustrated about the unequal distribution of globalization's benefits or the perceived corruption of traditional values, terrorist outfits may actually want to make an example of these open societies and single them out for attack. And the more technologically open a country, the easier it is for terrorists to coordinate and execute their plans without being noticed. No one forgets that the September 11 hijackers relied on e-mail, cell phones, and wire transfers in the months leading up to their attacks.

It's an interesting theory, but it doesn't check out. We compared the U.S. State Department's Patterns of Global Terrorism 2003 with the index and found little correlation between a country's level of global integration and the number of significant international terrorist attacks on its soil. In general, integrated countries were not more vulnerable to terrorism than countries with fewer links to the world. In fact, globalized countries may be more capable of combating terrorism by joining international networks. India, for example, is taking that path. A frequent target of militant groups operating in Jammu and Kashmir, New Delhi decided to ratify the International Convention for the Suppression of the Financing of Terrorism in 2003. It's a smart move, as drying up the sources of terrorist financing is one of globalization's best tools for keeping terrorists at bay.

Distance Learning

A link between public education spending and globalization

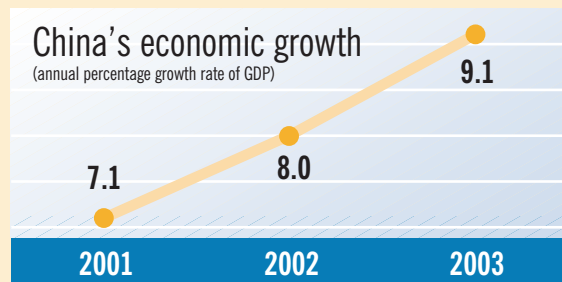


Is more worldly more wise? Apparently, the answer is yes. We compared the Globalization Index to World Bank data on public education spending and found a positive relation, especially in developing countries. Shifting to a globalized economy means that an educated population is not just desirable but essential. As a recent bank report states, “The emergence of the global knowledge economy has put a premium on learning throughout the world.” Of course, more

resources alone do not guarantee a more educated population. Iran, the least globalized country in the index, devotes a greater percentage of its spending to education than Ireland, the second-ranking country. But there is no question that assigning more resources to education generally creates possibilities for more schools, more teachers, and higher wages for educators. Without this investment, there is virtually no way for a country to move to the head of the class.

The Chinese Engine

In 2003, when other national economies began to sputter, China kept accelerating; its GDP grew at a scorching 9.1 percent. No one questions that the Chinese economy is now one of the engines of global economic growth. The country’s nearly insatiable demand for raw materials has strengthened trade links with neighbors and commodity producers around the world. When China announced its intention to import a record volume of soybeans, for example, prices jumped as much as 28 percent in places as distant as central Illinois. China’s share of world exports, at 1.9 percent in 1990, reached 6 percent in 2003, the first full year that China was the largest export market for both South Korea and Taiwan. Globalization appears to have broad public support in China. A 2003 research study by the Pew Center for the



Source: World Bank

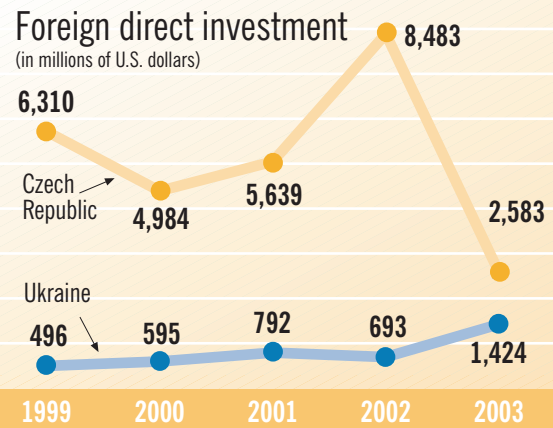
People & the Press found that 90 percent of people surveyed in China felt that growing trade and business ties were “very good” or “somewhat good” for the country. (By contrast, only 78 percent of Americans felt the same way.) But China’s emergence as an economic powerhouse has not translated into a high score in the index. Many of the indicators in the index are measured on a per capita basis. With its massive population, China has struggled to improve its place in the ranking.

The EU Effect

The largest European economies may still be sluggish, but the European Union (EU)—or more accurately, the prospect of membership in it—has a powerful economic impact on the region. Investors keep a close eye on which Central and Eastern European countries may join the political and economic club. Countries preparing for accession in 2004—such as the Czech Republic, Hungary, and Poland—saw a wave of privatization and merger deals in 2002. In 2003, the wave of investment moved on to lower-cost countries that may be included in the next membership round, including Croatia, Romania, and Ukraine. All three countries climbed in the index, largely due to increased levels of investment. Croatia jumped seven

Canada Plugs In

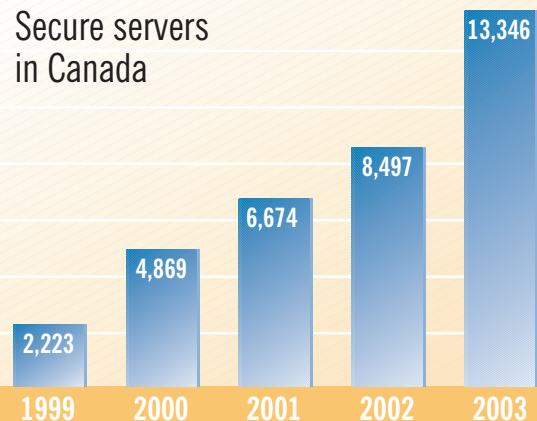
The term “outsourcing” conjures up images of call centers in Bangalore, Hyderabad, and New Delhi. But as India has become the back office to the world (and a focus of the debate about globalization’s costs and benefits), Canada has quietly taken a big piece of the action. In recent years, a growing segment of the outsourcing industry has found a home in Canada, which opened 56 new call centers in 2002 and 2003. Canada has been able to use its somewhat lower labor costs, English-language skills, and cultural links to attract call centers from the United States. Being just across the border has helped as well: U.S. companies that balk at the disruption associated with setting up shop in India have been more willing to relocate next door. The rise in Canadian call centers reflects the country’s growing technological sophistication, which helped it retain its strong sixth-place ranking. Canada, which is home to Research in Motion, the company that invented the BlackBerry, ranked sixth in technological connectivity in 1999 and now ranks second. Canada also lags behind only the United States in the number of secure servers per capita. Internet users have grown from one



Source: United Nations Conference on Trade and Development. Includes inflows only.

spots, while Romania and Ukraine moved up four notches apiece. Trade flows for each of these countries were up between 26 percent and 36 percent, and FDI inflows increased by more than 50 percent for Croatia and better than doubled for Ukraine. But they may be in for a dip soon: New EU members such as the Czech Republic, Slovakia, and Slovenia all slipped in this year’s index, with FDI inflows falling by more than two thirds for each of the three countries as they lost their cost competitiveness following EU integration. It’s good to be a member, but you have to pay your dues.

quarter to one half of the population between 1998 and 2003, and there are now about 500 personal computers for every 1,000 Canadians, up from 376 in 1999.



Source: Netcraft Secure Server Survey, December 2004

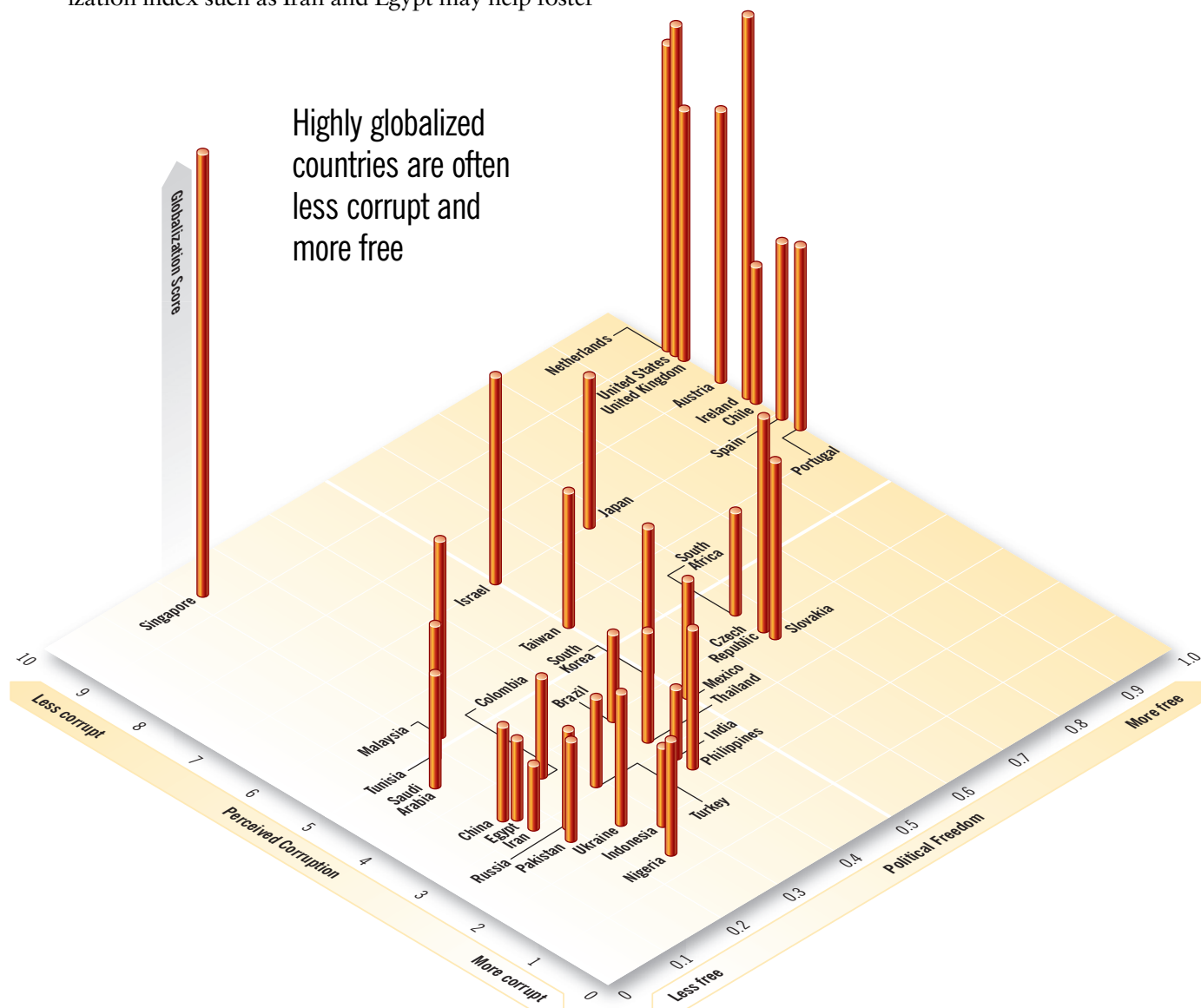
Will Globalization Set You Free?

With all the recent talk about spreading democracy, we revisited the question of how freedom and globalization fit together. Comparing the index with Freedom House's annual rankings of political rights and civil liberties in countries worldwide, we found that they work together quite nicely: There is a strong positive relationship between globalization and political freedom. Globalization may also be one of the best ways of keeping politicians honest, as more globalized countries have far lower levels of perceived corruption, as measured by Transparency International.

Engaging countries at the bottom of the globalization index such as Iran and Egypt may help foster

increased political rights and civil liberties for their citizens. Furthermore, increased integration may lead to the adoption of higher international standards for transparency, which in turn would discourage corruption and increase government efficiency.

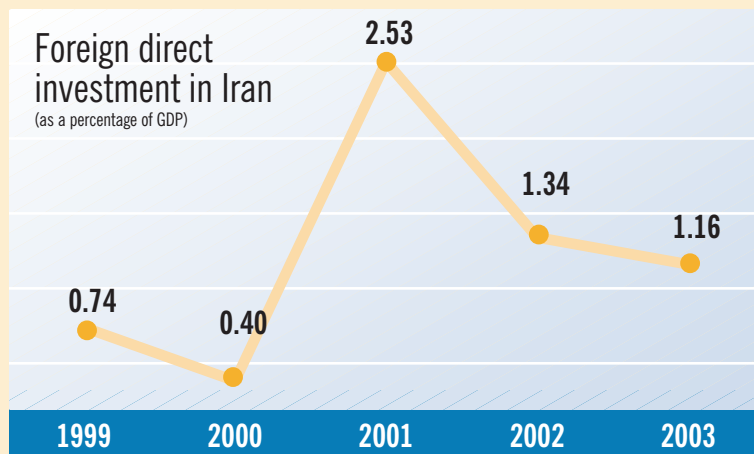
Of course, there are always exceptions to the rule. Singapore, the world's most globalized country, is home to a modern, open economy that exists alongside tight government control over the media and limited individual liberties. On the other end of the spectrum, South Africa has a relatively high level of political freedom but a mediocre globalization ranking. Going global does not offer any guarantees, but it clearly can give countries a leg up.



Iran, the Bottom Dweller

Today, few countries straddle more political fault lines than Iran. The ongoing efforts by several European states to negotiate an end to the country's uranium-enrichment program are dominating headlines. But shuttle diplomacy by foreign diplomats doesn't really qualify as opening up to the world—and it hasn't helped Iran attract foreign investors. Iran again took last place in this year's index, a spot it has now occupied five years in a row. The country's economy is still hobbled by U.S. sanctions and low investor confidence. Meanwhile, the regime's frequent crackdowns on the Internet have kept the country's scores for technological ties to the outside world near rock bottom. Iran has fewer secure servers per capita than any country in the index other than Bangladesh. And it's not just

online that the Iranian regime keeps its citizens in check. Iran is dead last in terms of the personal contact its citizens have with the rest of the world. Total tourism arrivals and departures as a percentage of the population were only 7 percent—even less than Senegal's 10.5 percent. By comparison, Saudi Arabia's tourism arrivals and departures equaled 47.2 percent of the population. Clearly, Iran is going nowhere fast. **FP**



Source: United Nations Conference on Trade and Development. Includes inflows and outflows.

[Want to Know More?]

The data sources and methodology used to construct the fifth annual A.T. Kearney/FOREIGN POLICY Globalization Index are available at www.foreignpolicy.com and on the Web site of A.T. Kearney's Global Business Policy Council at www.atkearney.com.

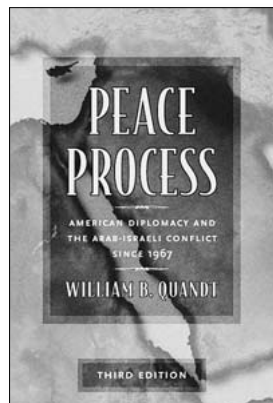
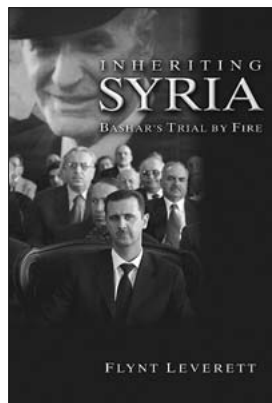
The International Monetary Fund (IMF) warns that U.S. trade imbalances and ballooning fiscal deficits might undermine the global economy in *U.S. Fiscal Policies and Priorities for Long-Run Sustainability* (Washington: IMF, 2004). A.T. Kearney's Paul A. Laudicina advises businesses on how to cope with the turbulence of globalization in *World Out of Balance: Navigating Global Risks to Seize Competitive Advantage* (New York: McGraw-Hill, 2005). Neil Smith critiques the Bush administration's attempt to spread neoliberalism around the world in *The Endgame of Globalization* (New York: Routledge, 2005).

Over the last several years, FOREIGN POLICY has provided extensive coverage of trends in economic, political, and cultural globalization. Historian Niall Ferguson worries that globalization may unravel without a superpower in "A World Without Power" (July/August 2004). In "Five Wars of Globalization" (January/February 2003), Moisés Naím warns that governments will continue to lose the struggle against the illegal trade in drugs, arms, intellectual property, people, and money unless they adopt new strategies. Andrew V. Papachristos describes how the United States, the Internet, and globalization are bringing gang violence to a town near you in "Gang World" (March/April 2005).

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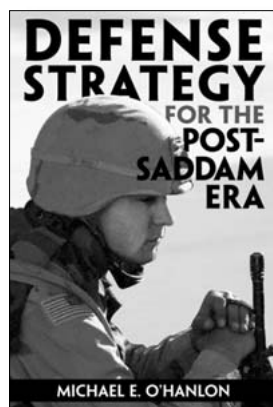
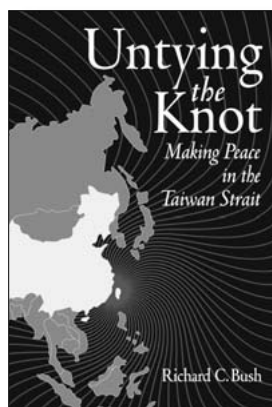
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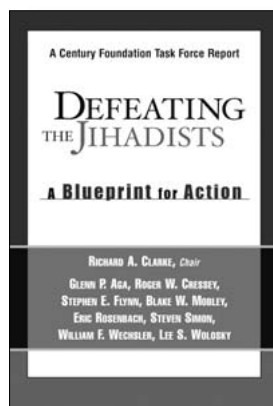
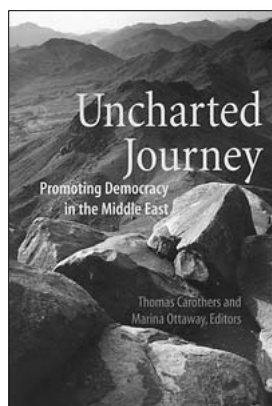
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