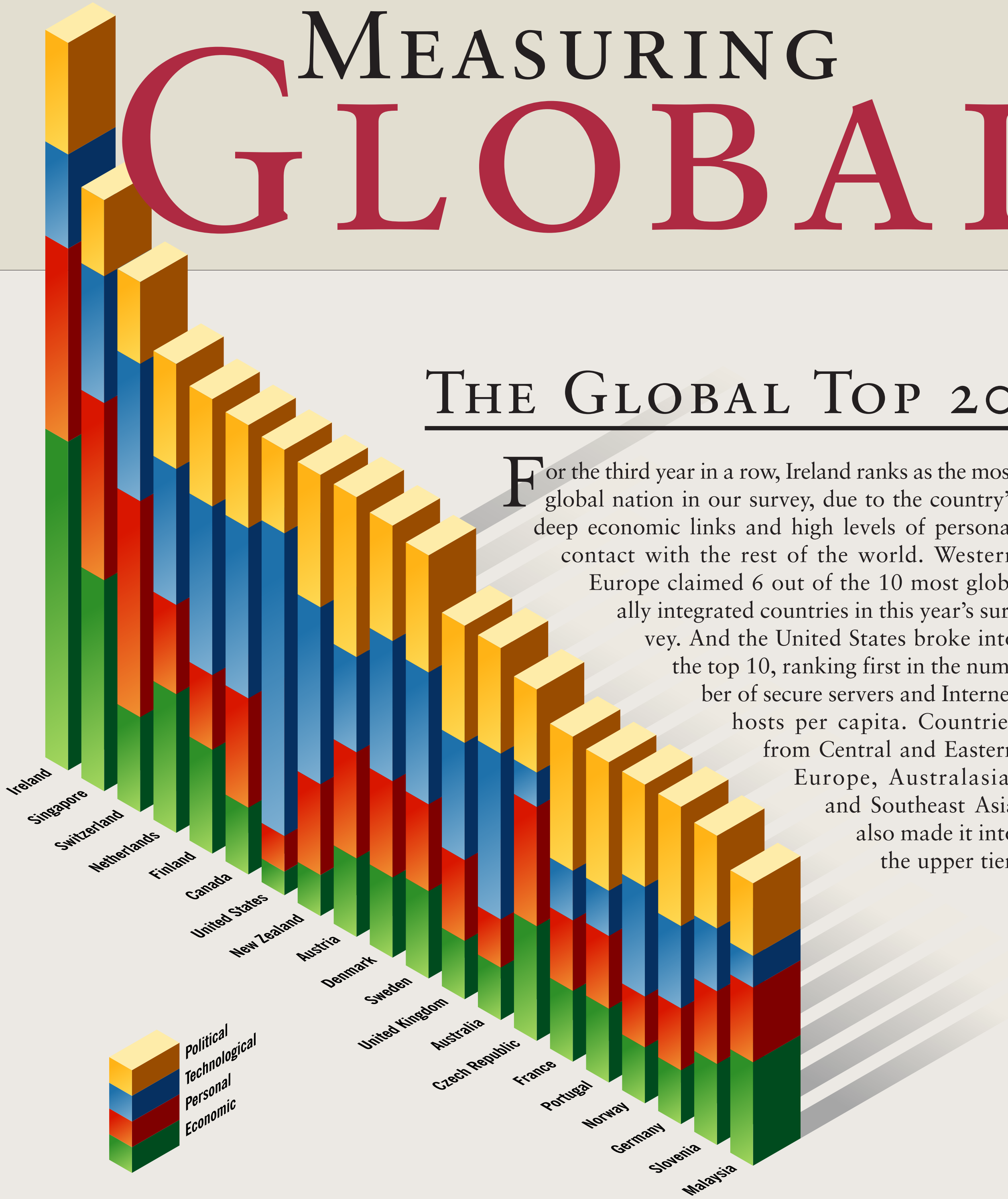
MEASURING GLOBAL



THE GLOBAL TOP 20

For the third year in a row, Ireland ranks as the most global nation in our survey, due to the country's deep economic links and high levels of personal contact with the rest of the world. Western Europe claimed 6 out of the 10 most globally integrated countries in this year's survey. And the United States broke into the top 10, ranking first in the number of secure servers and Internet hosts per capita. Countries from Central and Eastern Europe, Australasia, and Southeast Asia also made it into the upper tier.

ECONOMIC INTEGRATION: trade, foreign direct investment, portfolio capital flows, and investment income

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: memberships in international organizations, personnel and financial contributions to U.N. Security Council missions, international treaties ratified, and governmental transfers

Economic Reversals, Forward Momentum

IZATION

*The fourth annual A.T. Kearney/*FOREIGN POLICY *Globalization Index reveals that even as the world economy slowed, Internet growth in poor countries and increased cross-border travel deepened global links. In last year's index, Ireland and Switzerland topped our ranking of political, economic, personal, and technological globalization in 62 countries. Find out who's up, who's down, and who's the most global of them all this year.*

Last year's headlines offered grim commentary on the prospects for global integration. The World Trade Organization (WTO) meeting in Cancún, Mexico, collapsed when developing countries revolted over industrialized countries' refusal to reduce agricultural subsidies. Trade ministers scaled back plans for the Free Trade Area of the Americas (FTAA), sidestepping controversies over intellectual property and investment. The United States and the European Union (EU) traded diplomatic blows over free trade and the ongoing war on terrorism. Within the EU, the Growth and Stability Pact limiting budget deficits in the euro zone effectively collapsed, and political integration sputtered as Europe's leaders failed to reach consensus on a draft constitution. And the United Nations, perhaps the most visible symbol of multilateral cooperation, appeared immobilized as the rancorous debate over military action in Iraq unfolded.

Before anyone rushes to give last rites to globalization, keep in mind that we've heard it all before. In the months following the September 11, 2001, terrorist attacks, pundits were predicting the end of globalization as we knew it. The porous borders that made possible the unprecedented global movement of money, goods, people, and ideas were to be encircled by barbed wire and checkpoints, bringing trade and travel to a halt. Some doomsayers even predicted a global economic and political unraveling similar to the events preceding the First World War.

Yet, this year's edition of the A.T. Kearney/FOREIGN POLICY Globalization Index shows that globalization endured in 2002. To be sure, it was a difficult year for global economic linkages, as a downturn in foreign direct investment (FDI) and a sharp drop in portfolio capital flows led to the lowest level of economic integration since 1998. But globalization involves far more than the ups and downs of economic cycles. That's why the A.T. Kearney/FOREIGN POLICY Globalization Index uses several indicators spanning trade, finance, political engagement, information technology (IT), and personal contact to determine the rankings of 62 countries. We found that noneconomic drivers of global integration, from travel to telephone traffic, remained remarkably resilient in

CHARTS BY JARED SCHNEIDMAN FOR *FP*

2002, while access to the Internet worldwide continued to surge. These variables helped compensate for the weakening of international economic ties and deepened global linkages overall.

Globalization survived a period of considerable challenges in 2002: heightened travel alerts, stringent new security measures at airports, a major strike by dock workers at the busiest port in the United States, a string of high-profile corporate scandals in developed countries, financial market fallout from Argentina's economic unraveling, and jarring terrorist attacks in countries such as Indonesia and Kenya. Despite all its travails, the world was more—not less—integrated at the end of 2002 than it had ever been before.

Rankings

The A.T. Kearney/Foreign Policy Globalization Index includes rankings of 62 countries for 14 variables grouped in four baskets: economic integration, personal contact, technological connectivity, and political engagement. 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.

*Saudi Arabia should have ranked 41st in last year's Globalization Index, following a correction in data for portfolio capital flows, which were underreported at the time the index was compiled.

ECONOMIC ANGST

Last year's index depicted a global economy stuck in reverse, with most key indicators of integration losing ground amid a world economic slowdown exacerbated by terrorist attacks. Measured as a whole, the economic links that bind countries together grew even weaker in 2002, reducing the gains from the late 1990s economic boom and—relative to the size of the global economy—settling below levels recorded in 1998.

The continued falloff in global capital flows, largely from the world's most advanced economies, was one of the chief reasons for this decline. Already down some 40 percent in 2001, FDI fell another 21 percent in 2002 to $651 billion, the lowest level in five years. Although the United States and United Kingdom accounted for nearly half of the drop, the trend was felt across the globe as FDI inflows declined in 108 nations. Reflecting this decline, countries worked harder than ever to attract foreign investors: 70 governments adopted a record 248 investment-friendly legal and regulatory changes, up from 208 such measures the year before and 150 in 2000.

Global flows of portfolio capital also dropped significantly when stock market losses in countries such as the United States, Germany, and Brazil erased wealth and Argentina's slow-motion economic meltdown made investors more risk averse. As funds dried up, the U.S. stock market saw its worst three-year performance in six decades, and industrial markets overall were down by about 20 percent in 2002. Throughout the year, emerging markets issued fewer equities than at any time since 1995, with China alone accounting for one third of all equity placements outside North America, Europe, and Japan.

Yet not all lights in the global economy were dim. In 2002, global economic growth finally began to recover after the shocks of the previous year. While the overall figures did not match the roaring 1990s (when global average growth was 4.8 percent per year), overall real growth inched up to 1.9 percent from 1.3 percent the year before. Developing economies got a strong boost, with growth rising from 2.4 percent to 3.3 percent even as advanced economies struggled along at less than 1.0 percent growth. Trade levels also saw a modest recovery in 2002, despite stringent new security measures at ports, airports, and border crossings. Overall, global merchandise trade rose a modest 2.5 percent, with strong growth in Central and Eastern Europe's transition economies and emerging Asian countries.

POLITICAL INERTIA

Global political connections showed little aggregate change in 2002, when international consensus across a broad range of high-profile issues proved elusive. Rising tensions over Iraq introduced new international fault lines, as U.S. President George W. Bush's strong push for an invasion exacerbated trans-Atlantic relationships already strained by steel tariffs and agriculture subsidies. At the same time, the United States, Chile, China, and Israel rejected the treaty creating the International Criminal Court (ICC), even as 38 new signatories joined to put the treaty into force.

Despite this acrimony, nations managed to find common ground on a broad range of antiterrorism measures, such as sharing banking data to combat money laundering. And the industrialized countries

2004 GI Rankings		Change from 2003	Economic	Personal	Technological	Political	Economic Integration				Personal Contact			Technology			Political Engagement				2003 GI Rankings
							Trade	Portfolio	FDI	Investment Income	Telephone	Travel	Remittances and Personal Transfers	Internet Users	Internet Hosts	Secure Servers	International Organizations	U.N. Peacekeeping	Treaties	Government Transfers	
1	Ireland	0	1	2	14	11	3	1	1	1	3	5	4	24	16	7	23	5	9	26	1
2	Singapore	2	2	3	10	40	1	6	7	2	1	6	48	3	10	9	59	21	44	38	4
3	Switzerland	-1	9	1	7	33	18	8	18	3	2	2	2	19	11	5	13	60	44	10	2
4	Netherlands	1	3	11	8	14	9	2	5	6	6	16	43	4	3	15	12	17	44	8	5
5	Finland	5	7	15	4	12	28	4	6	12	14	11	39	6	2	8	11	14	30	16	10
6	Canada	1	18	5	3	20	25	30	12	20	4	20	61	9	9	3	4	23	30	31	7
7	United States	4	56	35	1	28	61	26	39	38	19	33	56	5	1	1	3	25	60	44	11
8	New Zealand	8	35	10	2	3	35	21	47	17	5	23	57	8	6	2	32	1	9	20	16
9	Austria	-1	13	6	13	1	13	3	25	11	11	3	28	14	15	13	9	3	1	4	8
10	Denmark	-4	12	8	6	10	19	19	13	9	7	19	16	10	4	10	8	10	30	9	6
11	Sweden	-8	10	12	9	8	21	23	9	8	9	13	35	1	8	11	4	13	9	14	3
12	United Kingdom	-3	20	13	11	7	46	18	35	5	10	17	41	15	14	6	2	12	9	19	9
13	Australia	8	26	28	5	13	52	13	16	24	12	30	52	12	5	4	32	4	30	37	21
14	Czech Republic	1	6	4	24	29	5	22	4	25	25	1	17	25	20	25	26	40	9	27	15
15	France	-3	16	19	21	2	47	11	10	16	18	12	34	22	19	19	1	6	9	11	12
16	Portugal	-2	15	17	22	4	31	7	14	13	21	15	18	18	24	23	14	2	9	6	14
17	Norway	-4	23	27	12	21	29	5	29	18	22	24	29	7	13	12	18	18	9	22	13
18	Germany	-1	24	23	16	5	30	14	28	14	13	21	45	13	17	14	4	9	9	13	17
19	Slovenia	6	11	18	18	23	10	53	8	45	23	10	21	16	22	18	55	22	1	24	25
20	Malaysia	-2	8	14	26	46	2	42	17	15	28	7	12	20	36	35	32	43	30	45	18
21	Slovak Republic	6	5	38	31	18	4	36	2	47	30	32	26	30	25	34	37	8	1	54	27
22	Israel	-3	31	7	19	44	23	34	30	26	8	27	5	21	18	17	61	24	61	3	19
23	Croatia	-1	14	9	28	37	11	20	11	31	15	8	10	28	34	22	53	47	1	21	22
24	Spain	-4	19	22	25	16	41	10	15	21	17	18	38	27	27	20	15	19	9	17	20
25	Italy	-1	34	25	23	6	49	29	31	19	16	22	40	23	30	24	4	15	9	12	24
26	Hungary	-3	21	16	29	26	6	33	40	30	29	4	37	29	21	31	23	36	1	34	23
27	Panama	3	4	45	36	48	7	24	3	7	31	39	47	41	38	26	58	57	1	25	30
28	Greece	-2	52	21	30	15	45	9	58	48	20	14	33	31	26	28	18	20	30	5	26
29	Japan	6	60	55	15	19	62	35	49	49	38	45	60	11	12	16	21	11	9	50	35
30	Botswana	3	17	33	50	17	15	12	52	4	34	25	19	50	45	60	60	53	9	1	33
31	Poland	1	42	26	32	32	38	38	34	52	33	9	36	32	23	32	18	31	30	36	32
32	South Korea	-4	44	42	20	41	24	39	51	54	37	38	25	2	33	29	32	28	44	48	28
33	Philippines	21	32	20	47	51	16	32	44	36	39	51	1	48	48	46	50	48	9	47	54
34	Argentina	16	33	56	33	9	51	16	45	10	42	41	58	33	28	36	9	7	1	43	50
35	Tunisia	4	25	31	46	42	17	57	24	34	32	28	15	42	60	44	37	32	30	46	39
36	Taiwan	-2	27	32	17	62	14	15	36	40	24	29	27	17	7	21	62	62	62	55	34
37	Chile	-6	29	50	27	39	36	17	26	23	35	44	54	26	32	30	37	46	9	33	31
38	Uganda	-2	50	29	60	24	55	61	27	50	62	59	3	60	53	60	57	61	9	2	36
39	Romania	1	38	37	41	30	26	49	32	56	36	31	20	36	40	45	32	44	1	29	40
40	Senegal	2	43	39	58	22	32	52	37	46	45	46	14	57	56	56	37	27	9	7	42
41	Saudi Arabia*	0	49	24	43	59	34	28	57	42	26	26	9	40	47	48	55	42	44	53	41
42	Nigeria	-5	22	52	61	27	20	41	20	22	60	58	31	61	61	57	21	34	9	62	37
43	Ukraine	0	30	41	52	38	12	27	41	57	51	36	22	53	42	49	48	33	30	23	43
44	Russian Federation	2	46	51	45	25	42	45	38	39	48	35	51	49	37	43	15	16	53	42	46
45	Mexico	6	48	40	39	43	43	55	33	51	27	34	42	45	31	39	28	54	9	60	51
46	Pakistan	6	55	36	59	34	56	48	46	43	54	62	8	59	55	54	27	30	44	15	52
47	Morocco	-18	54	30	54	55	27	59	59	41	40	43	6	54	54	50	48	37	53	32	29
48	Thailand	1	28	48	40	58	8	44	53	37	53	42	32	37	41	42	45	45	53	52	49
49	South Africa	-11	45	57	35	36	37	43	48	27	43	40	59	39	35	27	37	41	9	28	38
50	Colombia	6	36	46	44	50	54	25	23	28	47	53	23	47	43	41	37	49	30	35	56
51	Sri Lanka	-6	41	34	56	60	22	54	43	53	49	52	7	58	50	47	51	55	44	49	45
52	Peru	8	39	54	37	47	57	31	19	44	46	50	44	34	46	40	45	52	9	59	60
53	Brazil	5	40	60	34	45	60	46	21	33	52	54	55	35	29	33	31	39	30	57	58
54	Kenya	-10	57	44	57	31	40	58	62	59	59	56	13	56	52	58	45	26	30	30	44
55	Turkey	-8	53	49	38	52	39	40	56	35	44	37	46	38	39	37	23	38	53	39	47
56	Bangladesh	-1	62	43	62	35	58	60	61	62	61	60	11	62	62	59	28	29	30	41	55
57	China	-4	37	59	49	56	44	47	22	55	56	55	49	46	51	55	54	35	44	58	53
58	Venezuela	3	51	58	42	54	50	37	42	29	41	48	50	43	44	38	37	50	44	56	61
59	Indonesia	0	47	61	51	53	33	51	50	32	57	57	53	51	49	51	37	59	30	40	59
60	Egypt	-12	58	47	53	49	53	50	54	58	50	47	24	52	59	52	15	56	53	18	48
61	India	-4	61	53	55	57	59	56	55	60	58	61	30	55	57	53	28	58	53	51	57
62	Iran	0	59	62	48	61	48	61	60	61	55	49	62	44	58	60	51	51	53	61	62

How the Index is Calculated

The A.T. Kearney/Foreign Policy Globalization Index tracks and assesses changes in four key components of global integration [see opposite page], incorporating such measures as trade and financial flows, movement of people across borders, international telephone traffic, Internet usage, and participation in international treaties and peacekeeping operations.

The 62 countries ranked in the 2004 Globalization Index account for 96 percent of the world's gross domestic product (GDP) and 84 percent of the world's population. Major regions of the world, including developed and developing countries, are covered to provide a comprehensive and comparative view of global integration.

Economic integration combines data on trade, foreign direct investment (FDI), and portfolio capital flows, as well as investment income payments and receipts. Personal contact tracks international travel and tourism, international telephone traffic, and cross-border remittances and personal transfers (including worker remittances, compensation to employees, and other person-to-person and nongovernmental transfers). Technological connectivity counts the number of Internet users, Internet hosts, and secure servers through which encrypted transactions are carried out. Finally, political engagement tracks each country's memberships in international organizations, personnel and financial contributions to U.N. Security Council missions, ratification of selected multilateral international treaties, and the amount of governmental transfer payments and receipts.

For most variables, each year's inward and outward flows are added, and the sum is divided by the country's nominal economic output (as measured by GDP) or, where appropriate, its population. Two of the political engagement indicators remain absolute numbers: memberships in international organizations and number of selected treaties ratified, a variable added this year to gauge country participation in multilateral agreements. Another modification is that a country's contributions to U.N. Security Council missions are measured as a weighted average of financial contribution divided by the country's GDP and the country's personnel contribution divided by the country's population. As such, the indicator counts a country's contributions relative to its capacity to contribute, rather than the absolute size of contribution. This process produces data for each

took a brief timeout from their bickering over Iraq to address global poverty at the International Conference on Financing for Development in Monterrey, Mexico. Participating nations pledged to boost aid to the world's poorest countries by a third over the next five years and succeeded in raising actual assistance by 4.9 percent in 2002 alone. Among the strongest improvements was the 11.6 percent increase in assistance from the United States, whose Millennium Challenge Account program aims to increase aid by more than 50 percent by 2005.

Moreover, in spite of several high-profile trade disputes, the principles of open global exchange gained ground in 2002. Not only did China complete its first full year of membership in the World Trade Organization, but 14 new bilateral or regional free trade agreements were signed, with a number of other agreements, including the U.S. free trade agreements with Singapore and Chile, waiting on the legislative docket.

Governments also continued dedicating resources to global peacekeeping efforts. Although financial and personnel contributions to U.N. Security Council missions dipped slightly in 2002, the total was still four times higher than in 1998. Overall, 89 countries contributed more than 39,000 personnel to 15 active missions around the world, including new commitments in East Timor and Afghanistan. Peacekeeping was one area in which developing countries led the pack: Bangladesh, Pakistan, and Nigeria were among the top contributors of personnel to U.N. missions.

A TRULY "WORLD WIDE" WEB

If economics and politics put the brakes on globalization in 2002, Internet connections were among the most powerful accelerators. Despite tough economic times, Internet use and access around the world expanded rapidly. More than 130 million new Internet users came online in 2002, bringing the total to more than 620 million, representing 9.9 percent of the total world year, enabling comparisons between countries of all sizes.

The resulting data for each given variable are then normalized through a process that assigns values to data points for each year relative to the highest data point that year. The highest data point is valued at one, and all other data points are valued as fractions of one. The range of normalized scores for each variable each year is then multiplied by a "scale factor." The base year (1998 in this case) is assigned a value of 100, for simplicity. The given variable's scale factor for each subsequent year is the percentage growth or decline in the normalized score of the highest data point, relative to 100. With the scale factor, comparisons between countries in the same year are preserved, while comparisons between changes in individual variables over time are possible.

Country index scores are then summed, with double weighting of FDI due to its particular importance in the ebb and flow of globalization. Technological variables and political variables are each collapsed into single indicators, with equal weightings for the component variables. Globalization Index scores for every country and year are derived by summing all the indicator scores.

Small trading nations tend to take top places in the index, leading some observers to speculate that size plays an undue role in determining levels of globalization. A closer look, however, suggests otherwise. Statistically speaking, there is little correlation between the size of a country's economy and its level of globalization. But size is not irrelevant, either. It is only in combination with the level of economic development, as measured by per capita income, that the relationship becomes clear. Simply put, small countries tend to have an advantage over larger countries at similar levels of per capita income.

THE BASKETS:

ECONOMIC INTEGRATION: trade, foreign direct investment, portfolio capital flows, and investment income

PERSONAL CONTACT: International travel and tourism, international telephone traffic, and remittances and personal transfers (including remittances, compensation to employees, and other person-to-person and nongovernmental transfers)

TECHNOLOGICAL CONNECTIVITY: Internet users, Internet hosts, and secure servers

POLITICAL ENGAGEMENT: memberships in international organizations, personnel and financial contributions to U.N. Security Council missions, international treaties ratified, and governmental transfers

population, up from 8.1 percent the year before. By at least one estimate, the World Wide Web now contains a volume of information that is 17 times larger than the print collections of the U.S. Library of Congress, with new information equivalent to the holdings of an average academic research library being added every day.

Unlike previous years, however, growth in developing countries was the key force behind the expansion of the Internet. While some developed markets neared saturation, developing countries added Internet users more than three times faster. Declining costs of connectivity and personal computers, coupled with high population growth and an increasing proportion of savvy young people, helped fuel rapid technology adoption and consumer demand for Internet access—especially in the world's largest countries. In China, the number of Internet users rose 75 percent in 2002; in Brazil, 78.5 percent; and in India, 136 percent. The Middle East remained among the world's least connected areas, but saw the number of Internet users jump by 116 percent as residents turned to online sources for information on critical events unfolding in their geopolitical backyard. The U.N. Conference on Trade and Development estimates that, if these rates continue, Internet users in developing countries could constitute more than half the world total within five years.

Yet, if the digital divide between Internet users was narrowing, the infrastructure divide showed few signs of diminishing. In 2002, the world's total number of Internet hosts (computers permanently tied to the Internet) inched up at less than one tenth the rate of the previous year. Although 3.3 million new hosts were added, developing countries still had less than 10 percent of the total. This trend suggests that users in developing countries are competing among themselves for access to a much smaller number of computers connected to the Internet and probably have little access to local Internet content. Being an Internet user in Egypt or China is still a very different experience from being one in the United States or the Netherlands.

STAYING IN TOUCH

The proliferation of other forms of communication also allowed people to interact with one another around the world. International telephone traffic continued to grow, up 9 billion minutes to a total of 135 billion minutes in 2002—more than 21 minutes per person on the planet. Developing countries such as Botswana, Hungary, Indonesia, and South Africa became better connected than ever before, as the rapid buildup of wireless networks allowed customers to leapfrog over poorly developed fixed-line infrastructure directly into mobile telephone service. In 2002, for the first time, the number of mobile phones per capita ("mobidensity") worldwide exceeded that of main telephone lines, with 18.98 mobile subscribers per 100 inhabitants compared to 17.95 fixed-line subscribers.

Growing telephone communication was but one key driver of personal contact. Whereas in 2001, travel and tourism suffered the first global contraction since the Second World War, 2002 saw a rebound of international travel that beat the grim predictions offered by industry leaders. Nearly 22 million more people traveled across international borders in 2002 than in 2001. Asia showed impressive growth, with China attracting 36.8 million visitors and ranking among the world's five most popular tourist destinations. Surprisingly, the strongest growth was seen in the Middle East, where travel increased by more than 15 percent as countries made a substantial investment in luxury hotels, airports, and other infrastructure in a bid to diversify away from oil. The Americas was the only region where tourism declined, as the economic slowdown and international turmoil drew fewer visitors to the United States and persuaded more Americans to travel domestically.

Amid sluggish economic growth, support networks of family and friends living and working abroad continued to provide a lifeline for developing nations in Asia, Latin America, and Africa. Even as nonresident guest workers came under increased pressure in host economies such as Malaysia (which deported 124,000 foreign residents in 2002) migrants worldwide sent nearly $80 billion home to developing countries—almost as significant a source of income as the $100 billion those nations received through FDI. The Philippines, with nearly a tenth of its population abroad, ranked as the world's top beneficiary of remittances, which accounted for more than 8 percent of the country's gross domestic product (GDP).

Developing countries became better connected than ever before, as the rapid buildup of wireless networks allowed customers to leapfrog over poorly developed fixed-line infrastructure.

AND THE WINNERS ARE...

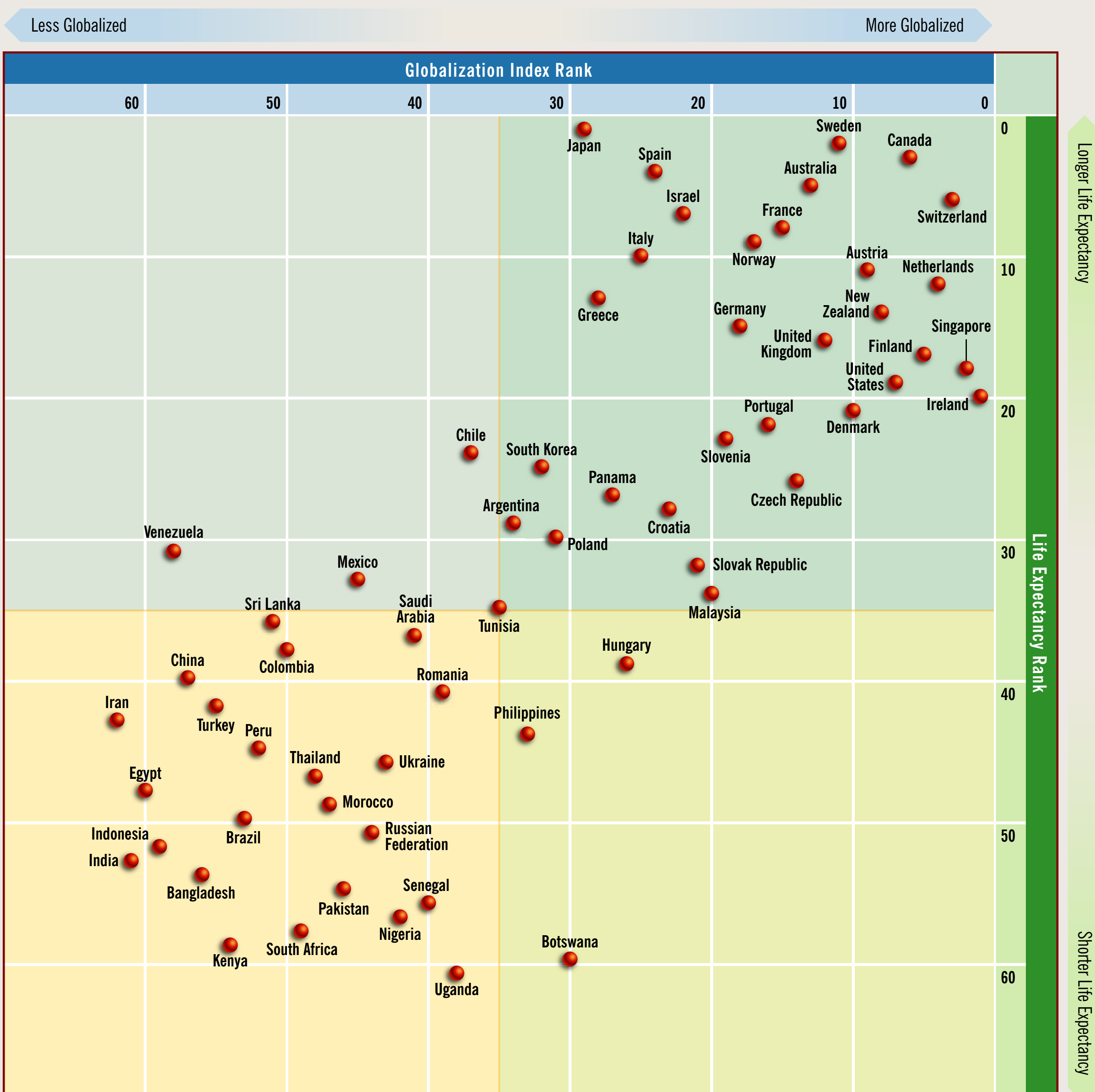
For the third year in a row, Ireland ranks as the most globalized country in the world. In 2002, the nation defied the downward investment trend throughout most of Western Europe, registering its highest-ever FDI inflow of $24.7 billion, including notable new investments in the high-growth IT and pharmaceutical sectors. Intel, for instance, announced that it would spend an additional $2 billion in Ireland over the coming years to manufacture new-generation semiconductor wafers. However, Ireland's lead over other countries shrank in 2002, as portfolio capital investment dropped by a quarter from 2001. Nevertheless, a strong showing in noneconomic facets of global integration helped sustain the country's top position. For example, Ireland once again proved to be a leader in technological connectivity, ranking seventh worldwide in the number of secure servers per capita.

Singapore ranks as the second most globalized nation, up from fourth place last year. Despite difficult economic conditions, Singapore topped the rankings in trade, with total exports and imports reaching 340 percent of the country's total economic activity. Exports rebounded slightly after the drop-off from the previous two years, driven by a strong demand for electronic products, which accounted for around 60 percent of Singapore's exports. The anticipated bilateral free trade agreement with the United States (eventually signed in 2003) helped to boost global confidence in the economy. Singapore also ranked as the index's most talkative nation,

The Days of our Lives

Levels of globalization vs. life expectancies at birth

Some critics claim that globalization impoverishes governments, reduces social benefits, and deprives workers of the conditions required for healthy lives. Were that true, people in the world's most global societies would likely lead lives that, as British philospher Thomas Hobbes said, are "nasty, brutish, and short." To test this hypothesis, we compared the rankings of this year's Globalization Index with the latest U.N. data on each country's life expectancy at birth. (We have given each of the 61 countries represented in this chart a "life expectancy ranking.") As the chart below indicates, people in the more global countries tend to live the longest. The same holds true when only developing countries are examined.



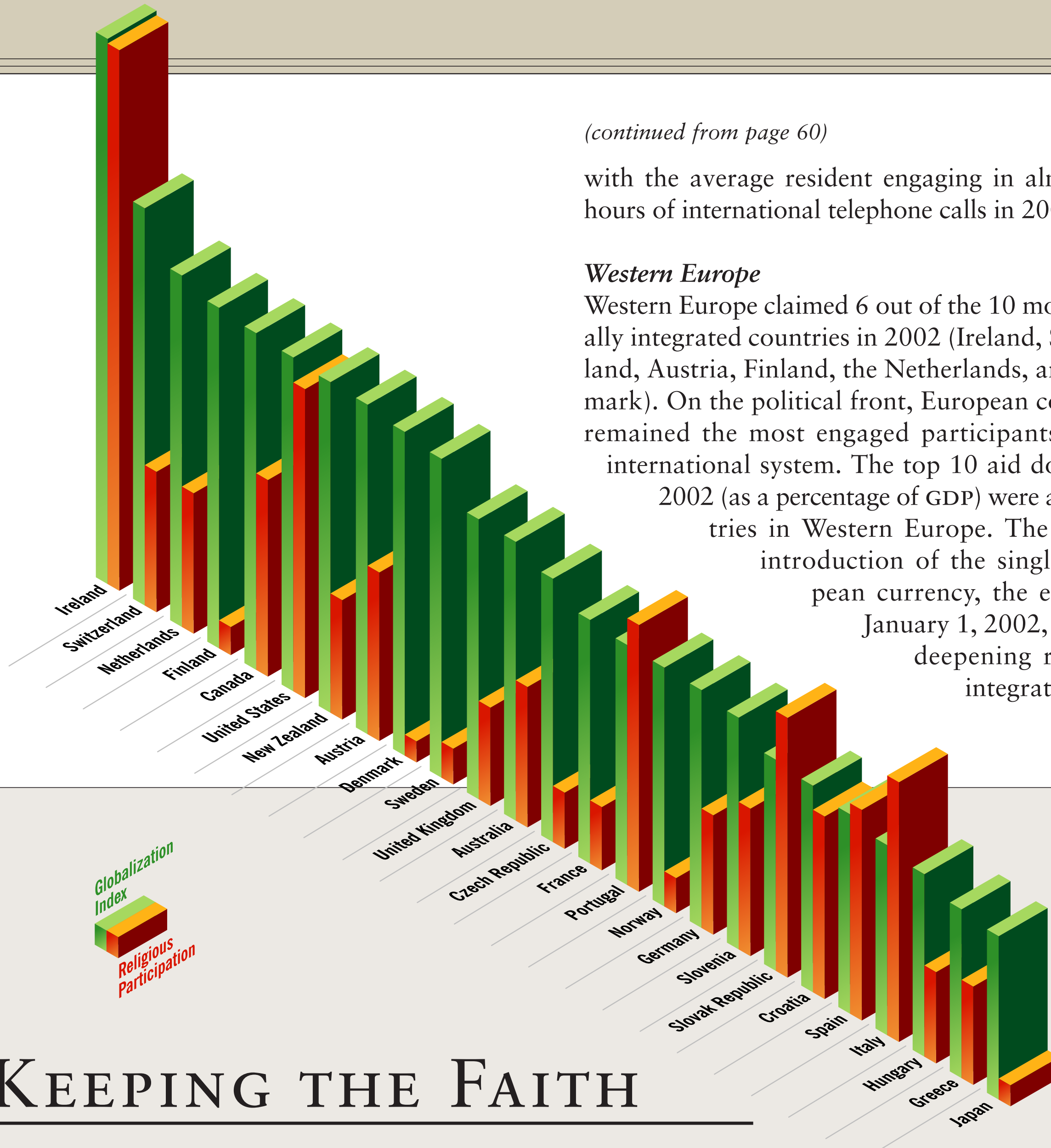
Source: United Nations Development Programme
Note: Taiwan not included

(continued from page 60)

with the average resident engaging in almost 13 hours of international telephone calls in 2002.

Western Europe

Western Europe claimed 6 out of the 10 most globally integrated countries in 2002 (Ireland, Switzerland, Austria, Finland, the Netherlands, and Denmark). On the political front, European countries remained the most engaged participants in the international system. The top 10 aid donors in 2002 (as a percentage of GDP) were all countries in Western Europe. The official introduction of the single European currency, the euro, on January 1, 2002, marked deepening regional integration and



Keeping the Faith

Levels of globalization vs. levels of religious participation

Some clerics and theologians argue that globalization is tantamount to an assault on religious faith, because it undermines traditional morals and supplants local values with a culture of materialism and excess common in the West.

Does global integration lead to secularization? In order to explore this question, we have compared the rankings of 50 countries in this year's Globalization Index with a ranking of countries according to levels of religious participation. (This ranking is derived from results of the World Values Survey from 1981 to 2001, which asked respondents "Apart from weddings, funerals and christenings, about how often do you attend religious services these days?")

As the chart indicates, several of the countries clustered near the bottom of the Globalization Index exhibit high levels of religious participation. Yet, there is a significant number of exceptions. For instance, Ireland and the United States, which both rank in the top 10 in this year's Globalization Index, are among the most religious societies in the world. Conversely, Greece (ranked 28th) and Ukraine (ranked 43rd), exhibit low levels of religious participation. And Iran, which ranks last on our index, is actually less religious than highly globalized countries such as Canada (6th) and Portugal (16th).

promised long-term economic benefits by increasing stability, lowering interest rates, and removing exchange risk. Despite a sluggish economy, foreign-investment inflows to the region fell only about 20 percent in 2002, versus some 60 percent for North America.

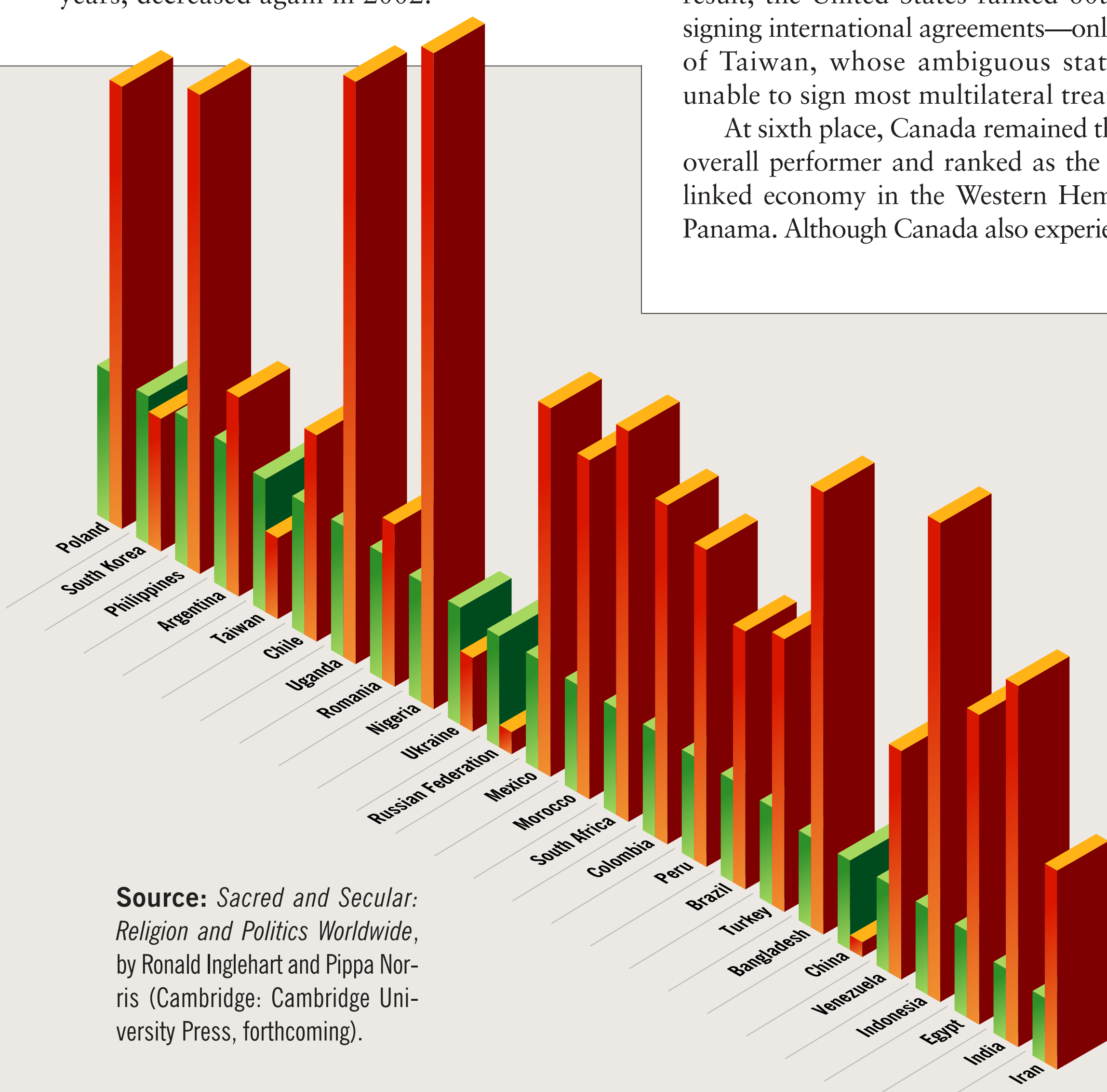
The Scandinavian countries—traditionally among the index's top performers—slipped in 2002 (except Finland, which surged from 10th to 5th place). Although the region continued to perform well in technological and political integration, economic integration retreated. Sweden exited the top 10 for the first time, falling from 3rd to 11th place. Portfolio investment fell by nearly 70 percent as a result of the continued slide on Sweden's technology-centered equities market. Trade remained weak as telecom exports, the driving force behind Sweden's rapid growth in recent years, decreased again in 2002.

Greece was the region's worst performer, falling from 26th to 28th place as trade deficits widened and inward FDI dropped off after two years of exceptionally high volumes, despite the run-up to the 2004 Olympic Games. However, Greece maintained a relatively high score in political integration, owing in part to its active engagement in peacekeeping efforts in the Balkans.

North America

The United States broke into the top 10 for the first time, jumping four slots to seventh place. Technology drove this leap, with the United States again topping the ranks for Internet hosts and secure servers per capita. However, the country was notably absent from many of the key international treaties signed over the last decade, such as the ICC and the Anti-Personnel Landmine Treaty. As a result, the United States ranked 60th in terms of signing international agreements—only a step ahead of Taiwan, whose ambiguous status renders it unable to sign most multilateral treaties.

At sixth place, Canada remained the region's top overall performer and ranked as the most globally linked economy in the Western Hemisphere, after Panama. Although Canada also experienced a decline



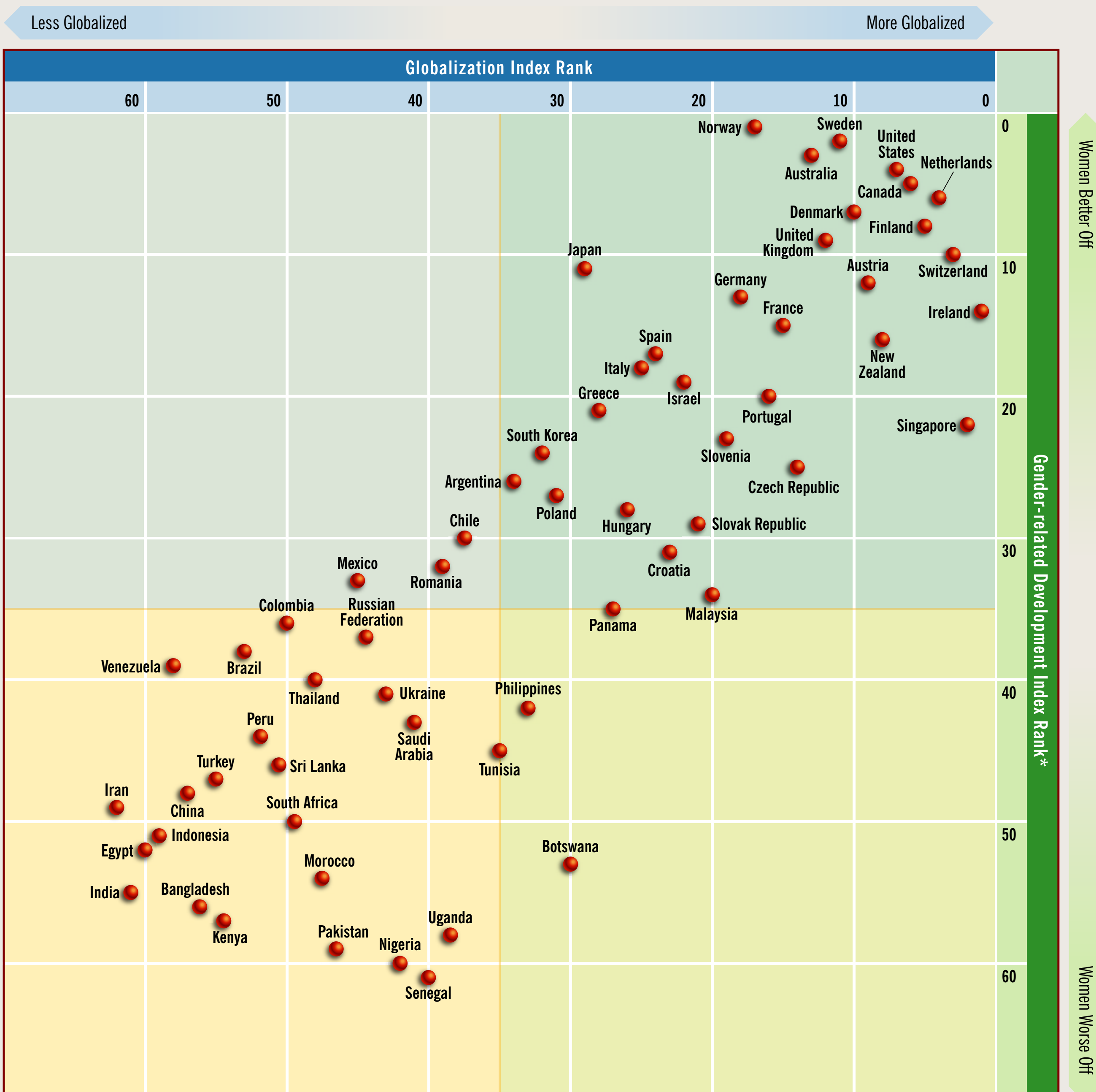
Source: *Sacred and Secular: Religion and Politics Worldwide*, by Ronald Inglehart and Pippa Norris (Cambridge: Cambridge University Press, forthcoming).

You've Come a Long Way, Maybe

Levels of globalization vs. women's well-being

Some commentators suggest that women, by and large, benefit from globalization, as economic integration creates new job opportunities and higher salaries, often in foreign-owned firms. Others suggest that globalization creates mostly low-paid textile jobs for women in the developing world while pushing women out of increasingly competitive job markets in advanced economies. What is the real story?

We compared results from the Globalization Index with the latest U.N. rankings in the Gender-related Development Index, which measures women's well-being across a range of indicators, including health, literacy, access to education, and earned income, all adjusted to account for inequalities between men and women. The results show that, overall, women tend to be better off in countries that are the most globally integrated.



Source: United Nations Development Programme

* The U.N. Gender-related Development Index (GDI) ranks a total of 144 countries; the above chart considers the countries represented in the Globalization Index (with the exception of Taiwan), ranked in order of their appearance in the GDI results

in inward FDI, Canadian companies provided consistently high investment outflows, supplying 6.5 percent of total global FDI. Mexico rose six spots, but at 45th place, it continued to rank well below its partners in the North American Free Trade Agreement. The country's remittances from foreign workers totaled $9.8 billion in 2002, which is twice the value of its annual agricultural exports.

Australasia

Australasia saw levels of integration climb, as economic and technological connections between the region and the rest of the world deepened in 2002. New Zealand entered the top 10 for the first time, rising from 16th to 8th place. E-commerce surged after the enactment of strong legal protections for online transactions, helping to push New Zealand to the second-highest number of secure servers per capita in the world, just behind the United States. Moreover, New Zealand ranked first in financial and personnel support for U.N. peacekeeping operations (relative to the size of its population and GDP), with troop contributions to missions in East Timor, Kosovo, Sierra Leone, and the Middle East. Neighboring Australia entered the top 20 in the index, rising from 21st to 13th place as FDI inflows more than doubled to reach $15.7 billion, quadrupling Australia's share of global FDI. Automobile companies such as Ford and Mitsubishi Motors selected Australia for their regional operations and research and development centers, reflecting the country's attractive combination of high productivity and low operating costs.

Southeast Asia

Within the developing world, Southeast Asia remained the most globally integrated region, despite being buffeted by the global economic slowdown and a major terrorist attack. Besides Singapore, Malaysia also made it into the upper tier of this year's index, ranking at 20th place. As Mahathir Mohamad prepared to step down after more than 20 years as prime minister, Malaysia's economy had become more open, as evinced by its eighth place ranking in economic integration. Buoyed by global demand for electronic goods, Malaysia exported more than Australia, whose economy is four times as large. Malaysia also continued to generate high travel flows relative to its population size, reflecting rapidly growing tourism from China and elsewhere.

By contrast, Indonesia was the least integrated country in Southeast Asia. Hotel occupancy dropped to single digits following the October 2002 bombing in Bali, Indonesia's most popular resort. Because the tourism industry employs more than 7 million people and accounts for about 5 percent of GDP, the effects of the attack reverberated throughout the country.

Central and Eastern Europe

Central and Eastern Europe also stood out as one of the few regions to experience strong growth in economic links to the rest of the world. Bucking the global downturn, FDI inflows surged by a whopping 19 percent as countries began preparing for accession to the EU in 2004. Slovenia and Slovakia saw the most dramatic increases, fueled in part by the privatization of state-owned companies. European investors dominated, but others got in on the action—including South Korea-based Hyundai Motor, which announced plans to build its first manufacturing foothold in the region. In addition, Slovakia, Slovenia, the Czech Republic, and Hungary also bested the global average with double-digit growth in trade flows, with Poland only slightly behind. With business transactions and tourism up, Eastern Europe overtook East Asia to post the fastest year-on-year growth in international telephone traffic.

The best performer in Central and Eastern Europe was Slovenia, which at 19th place entered the top 20 for the first time. Slovenia saw more than a threefold increase in FDI, as new lower-cost production and export platforms, fresh targets for mergers and acquisitions, and a growing internal market increased the country's attractiveness to investors. The region's laggard, at 43rd place, was Ukraine, where delayed reforms in key sectors (such as telecommunications) and perceptions of political instability and corruption alienated the country among foreign governments and investors alike.

THE LOWER RANKS

East Asia

No country from East Asia broke into the top 20 this year. Worse, the only country that saw upward movement was Japan, which went from 35th to 29th place. Japan, South Korea, and Taiwan all experienced a retreat in portfolio capital and FDI flows. Even the 2002 World Cup failed to boost the regional economy, as fans who stayed at home to root for their favorite teams left South Korea and Japan with half-empty stadiums and millions of dollars worth of unrealized tourism revenue. However, technological advances helped deepen East Asia's connectivity with the world. South Korea ranked second among the Globalization Index's 62 countries in Internet users per capita and has rapidly innovated in broadband Internet and wireless technology, while Japan continued making telecommunications devices smaller, faster, and smarter. Political drivers also helped make Japan the most globalized East Asian nation in this year's index. In 2002, Japan was among the top financial donors to U.N. peacekeeping missions—and deployed over 600 personnel to peacekeeping operations in East Timor.

Elsewhere in East Asia, China reaped the benefits of its WTO accession and saw exports as a share of GDP surge more than 20 percent, higher than in any other country. China was also the second largest recipient of FDI, surpassing the United States. Yet, China remains the least integrated country in East Asia, falling four spots in this year's index. Like all large countries, China is less globally connected because it can draw on internal resources for many of its needs. Also, China's enormous population makes it difficult for the nation to improve its standing, since many of the index indicators are calculated as a percent of total population. The country's drop this year is due largely to its low level of political integration. China ranked near the bottom in development assistance, giving and receiving only as much aid as the tiny Czech Republic. Likewise, it participated in fewer international organizations and signed fewer international treaties than most other nations.

Even the 2002 World Cup failed to boost East Asia's economy, as fans who stayed at home left South Korea and Japan with half-empty stadiums and millions of dollars worth of unrealized tourism revenue.

South Asia

South Asia continues to be the least integrated region in the world—owing in large part to the massive size of its populations—with Pakistan ranking at 46th place and India next to last at 61st. However, it saw the most rapid improvement of any region, driven in part by expanding economic linkages with the rest of the world. Pakistan's government leveraged the country's central position as a frontline state in the war on terror into an economic asset, successfully lobbying for the removal of U.S. economic sanctions imposed after its 1998 nuclear-weapons test. A gradual repeal of currency-exchange controls prompted a surge in FDI as the government began to revive the dormant privatization process. In September 2002, a consortium of investors from the United Kingdom and the United Arab Emirates purchased a 15 percent share of the country's state-run United Bank, the first major privatization in the financial sector since 1999.

India experienced a difficult economic year, as the slowing global market and ethnic violence in the industrial state of Gujarat (where more than 1,000 people, mostly Muslims, were killed) trimmed trade, investment, and growth. A $200-million banking fraud didn't help boost investor confidence, either. However, the country gained prominence as the world's premier destination for IT outsourcing. Simultaneously, Internet growth in India exploded, with the number of people surfing the World Wide Web growing 136 percent (albeit totaling less than 2 percent of the population).

Latin America

Latin America climbed higher in the Globalization Index this year, but what looked like deepening integration with the rest of the world was mostly the consequence of unfortunate circumstances. A key driver was steep currency devaluation in countries such as Brazil and Argentina, which saw their economies—at least in dollar terms—shrink by large amounts. (Argentina's GDP, for example, contracted more than 50 percent.) As a share of economic activity, the region's moderate trade and investment flows were therefore magnified, even as imports fell due to rising prices for foreign goods and services.

Panama, at 27th place in the index, ranked first in the region for the third consecutive year, due in large part to the Colon Free Zone at the gateway of the Panama Canal. Despite a slight drop in traffic in 2002, the container port maintained its status as the largest tax-free import and reexport center connecting Latin America with the rest of the world. Venezuela, again the least integrated country in Latin America, was hit hard by falling oil prices. Nationwide demonstrations—including a two-month strike by the country's business and labor sectors that began in late 2002 against the government of President Hugo Chávez—further stalled Venezuela's trade and foreign investment.

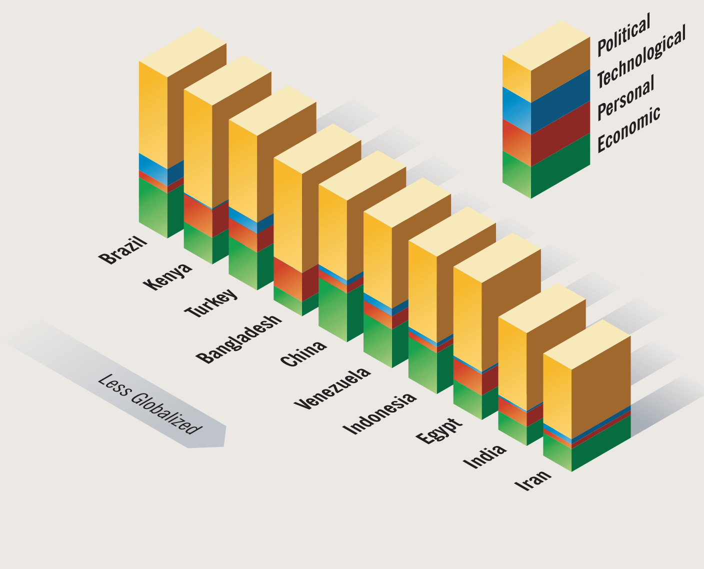
Middle East and North Africa

The Middle East and North Africa did not fare well in this year's Globalization Index, as every country, with the exception of Tunisia, either fell in the rankings or stayed the same. The region suffers from numerous restrictions on trade and investment, including the world's second highest level of tariff and non-tariff barriers and high levels of government involvement in the economy. Following the September 11 terrorist attacks, trade between the United States and the Middle East dropped considerably, with U.S.-Saudi trade volumes alone falling by 30 percent. The region's export performance has steadily declined over the last decade, particularly among the nations most dependent on oil exports. Among Middle Eastern countries, Tunisia ranks first in trade, thanks to its highly diversified export base. Perceptions of political instability and terrorism continue to dampen investor interest, with the region receiving only one third of the FDI expected for a developing region of comparable size, according to the International Monetary Fund. Egypt and Israel score well on government transfers, based largely on a huge influx of U.S. government aid, but the Middle East's participation in both international treaties and international organizations ranks the lowest of all regions.

Israel, ranking 22nd, is the region's top performer based on its strong personal contact ties, including high worker remittances and telephone traffic. Saudi Arabia stayed put at 41st place after several years of declining scores. But its ability to maintain the status quo masked declining competitiveness, as huge amounts of investment flowed out of the country. Egypt, meanwhile, plummeted from 48th to 60th place, as portfolio investment and FDI flows dwindled, and Western companies such as British retailer J. Sainsbury pulled out of the country after only a single year of operation. Iran was dead last for the fourth consecutive year and ranked near the bottom in most categories.

The World's Bottom 10

No countries from Africa, East Asia, South Asia, Latin America, or the Middle East broke into the top 20 of this year's Globalization Index. South Asia is the least integrated region, although its fortunes began to reverse in 2002. Despite being located in diverse regions, several of the nations in the bottom 10 share common problems that make them more vulnerable to external shocks. For instance, oil-exporting countries (such as Iran and Venezuela) are susceptible to the whims of the erratic international energy market. And political instability and persistent corruption (as in Bangladesh and Indonesia) discourage foreign investment and tourism.



Africa

Bringing Africa into the fold has been one of the most daunting challenges of the globalization process. Economic misfortunes worldwide in 2002 offered little relief for the region. Financial flows to Africa dried up, in tandem with declining global investment. And in stark contrast to rapid growth in other regions, Africa saw some technological connections retreat. Although the number of Internet users continued to grow, Internet hosts actually declined in a few key countries such as South Africa, where new security measures and government regulations forced many small providers out of business.

However, even this sluggish region maintained key links with the rest of the world. Africa continues to be among the world's top recipients of government aid and worker remittances relative to economic size. International tourist arrivals in Africa also maintained a growth trend of about 3 percent per year, according to the World Tourism Organization.

The continent's best performer was Botswana, ranking at 30th place. Income on investments abroad amounted to more than 20 percent of GDP, reflecting heavy foreign profits from the nation's lucrative diamond trade. Relative to its economic size, the country also attracted the highest volume of foreign aid, most of it aimed at combating the spread of HIV/AIDS. (Botswana's 35 percent infection rate is one of the highest in the world.) Kenya, at 54th place, was the worst performer among African countries. Recurring droughts have devastated the country's agricultural sector, which accounts for 53 percent of its total merchandise exports. Terrorist bombings in the coastal town of Mombasa and onerous visa regulations have hurt the tourism industry, which was once the country's largest revenue earner.

CHANGING THE SUBJECT

As the worst-case scenarios concerning the future of globalization failed to materialize in 2002, the public discourse began to subtly change. The topic of discussion was no longer whether globalization would screech to a halt, but whether the positive aspects of global integration could be harnessed to offset the negative ones.

The A.T. Kearney/FOREIGN POLICY Globalization Index aids that dialogue by painting an increasingly detailed picture of the benefits and costs that integration brings. Results in previous years challenged the conventional wisdom on such issues as income inequality, wages, environmental protection, corruption, and political freedom by showing that, on par, the most global nations are also those with the strongest records of equality, the most robust protection for natural resources, the most inclusive political systems, and the lowest corruption. Moreover, there appears to be little proof that global nations have trimmed social benefits or slashed workers' wages in an effort to get ahead. Adding to the picture, this year's results also demonstrate that the most global countries are those where residents live the longest, healthiest lives and where women enjoy the strongest social, educational, and economic progress.

Latin America climbed higher in the Globalization Index this year, but what looked like deepening integration with the rest of the world was mostly the consequence of economic crises.

Yet, a glance at this year's index suggests that those who seek to expand globalization's benefits have their work cut out for them. The bottom 10 countries in the index—Iran, India, Egypt, Indonesia, Venezuela, China, Bangladesh, Turkey, Kenya, and Brazil—accounted for more than 50 percent of the world's population in 2002. Although located in diverse regions, several of these nations share problems that make them more vulnerable to external shocks. Countries heavily dependent on oil exports (such as Iran and Venezuela) are subject to the whims of the erratic international energy market. Similarly, nations with large agricultural sectors (such as Brazil, India, and China) must not only deal with volatile prices in the global commodities market but must also confront trade barriers that include tariffs and agricultural subsidies in developed countries. Chronic political unrest and persistent corruption (as in Venezuela, Bangladesh, and Indonesia) discourage foreign investment and tourism.

Some signs of hope are emerging—at least in the way we discuss globalization. Indeed, two prominent politicians with diametrically opposing views on the war in Iraq—German Foreign Minister Joschka Fischer and U.S. Senator Joseph Lieberman—found common ground on the question of globalization. Lieberman declared that the root cause of terrorism and poverty was not "too much globalization" but "too little." And, observing that military force alone would not win the war against terrorism, Fischer succinctly summarized the true challenge for Western countries in the years ahead: "We need a broader grasp of security—shaping globalization in a fair way...." FP

[Want to Know More?]

The data sources used to construct the fourth 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.

A comprehensive statistical overview of the exponential global growth of the Internet and information technology can be found in the report **"How Much Information? 2003,"** available on the Web site of the School of Information and Management Systems at the University of California, Berkeley. The Stockholm International Peace Research Institute (SIPRI) explores how globalization has changed the face of modern war in its ***SIPRI Yearbook 2002*** (Oxford: Oxford University Press, 2002). Richard L. Kugler praises the Bush administration's National Security Strategy for harnessing the positive aspects of globalization in **"A Distinctly American Internationalism for a Globalized World"** (*U.S. Foreign Policy Agenda*, Vol. 7, No. 4, December 2002), available online at the Web site of the U.S. State Department. The special report **"Is it at Risk? Globalisation"** (*The Economist*, February 2, 2002) concludes that the greatest threat to global integration is not terrorism, but growing inequality between rich and poor nations. In **"Asymmetric Globalization: Global Markets Require Good Global Politics"** (*Brookings Review*, Vol. 21, No. 2, Spring 2003), Nancy Birdsall argues for more democratic representation of the poor and the disenfranchised in managing the global economy. Marwaan Macan-Markar reports how the antiglobalization movement found new momentum after the collapse of Enron in **"Anti-Globalization Voices Gain from U.S. Scandals"** (InterPress Service, August 12, 2002). The International Monetary Fund (IMF) warns that trade imbalances and ballooning fiscal deficits in the United States might undermine the global economy in ***U.S. Fiscal Policies and Priorities for Long-Run Stability*** (Washington: IMF, 2004).

Over the last year, FOREIGN POLICY has provided extensive coverage of the trends in economic, political, and cultural globalization. In **"Five Wars of Globalization"** (FOREIGN POLICY, 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. Charles Kenny argues that giving Internet access to the world's poorest will cost a lot and accomplish little in **"Development's False Divide"** (FOREIGN POLICY, January/February 2003). In **"Ranking the Rich"** (FOREIGN POLICY, May/June 2003), the first annual CGD/FP Commitment to Development Index rates 21 wealthy nations on whether their aid, trade, migration, investment, peacekeeping, and environmental policies help or hurt poor nations. In the aftermath of the SARS outbreak, Fred Pearce explores how globalization has made humans more vulnerable than ever to animal-borne diseases in **"Pests and Pestilence"** (FOREIGN POLICY, July/August 2003). Devesh Kapur and John McHale chart the impact of remittances in **"Migration's New Payoff"** (FOREIGN POLICY, November/December 2003). Franklin Foer sees soccer as a metaphor for globalization's limitations in **"Soccer vs. McWorld"** (FOREIGN POLICY, January/Februay 2004).

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