Introduction

As final edits were underway on this book, the United Kingdom shocked the world by voting to leave the European Union. The "Brexit" vote was immediately characterized as "the most significant political risk the world has experienced since the Cuban Missile Crisis," more than half-a-century earlier.[1] In addition to reflecting a souring of sentiment about globalization in advanced economies, it fed into an ongoing debate about whether globalization was advancing or in retreat. And in regard to this book, about which I was already scheduled to stage a "showcase panel" the week after the Brexit vote at the annual meeting of the Academy of International Business, it raises the question: did British voters break The Laws of Globalization?"

To answer that question, one must first specify the laws—the broad empirical regularities—adverted to in the title of this book:

- The law of semiglobalization: International interactions, while nonnegligible, are significantly less intense than domestic interactions.
- The law of distance: International interactions are dampened by distance along cultural, administrative, and geographic dimensions and are often affected by economic distance as well.

Both laws clearly hold for the United Kingdom. Starting with the law of semiglobalization, flows across the UK's borders (especially people flows but also trade and capital flows) were large enough to provoke a backlash, yet they still fall far short of what one would expect if borders (in this case even intra-EU borders) had ceased to matter. Thus, the UK's (gross) exports account for about one-third of its GDP, about the same as the world as a whole and far below a zero-border effect benchmark of 96% (100% minus the UK's share of world GDP). And first-generation immigrants comprise only 13% of the UK's population, although Britons think—as reported across three different surveys—that 24–31% of the country's population was born abroad.[2] Even with "Little Englanders" in charge, it is extremely unlikely that the UK's international flows would shrink so much as to become irrelevant.

Turning to the law of distance, the UK's international ties are disproportionately centered on Europe. In 2015, 45% of the UK's exports went to the EU and it drew slightly over one-half its imports from there. Adding in Switzerland brings the Continental share of the UK's merchandise exports to over one-half as well, versus 15% for the U.S. and 6% for China. Given physical proximity, the EU is likely to continue to be the UK's largest export-import partner by far, unless the terms of separation are very acrimonious (like India-Pakistan, to invoke a rather different example of Brexit). And it is not that the UK is particularly narrow in terms of its international engagement: rather, the reverse. In the 2014 edition of the DHL Global Connectedness Index, which I co-developed with Steven A. Altman and the 2016 iteration of which will be released shortly after this book, the UK ranked second out of 140 countries in terms of the breadth of its trade flows and first if one also accounts for breadth of international capital, information and people connections. The UK's ties to countries beyond the EU—the US is its largest destination country for exports—illustrate the non-geographic dimensions of the law of distance. The models estimated in Chapter Five indicate that sharing both a common language as well as colony-colonizer ties (as the UK and US do) boosts trade by 341% and FDI by 656%!

The laws of semiglobalization and distance supply a stable frame of reference in an ambiguous environment. They also have important policy implications. Recognizing how limited globalization is reminds us of the potential gains from further cross-border integration and, especially when the data help deflate exaggerations about globalization levels (what, following Clare Booth Luce, I refer to as globaloney),[3] can help reduce or even reverse fears about globalization. Thus, return to the example of Britons, on average, overestimating immigrant stocks by nearly if not more than 100%. Simply informing survey respondents about the actual amount of immigration reduces the proportion who think there are "too many migrants" in the UK by more than 40%! My 2011 book, *World 3.0: Global Prosperity and How to Achieve It*, looks more broadly at the consequences of globalization in an imperfect world and ways policymakers might manage its unfavorable side effects while exploiting its promise.

Concerning business rather than public policy, firms need to understand how much cross-border activity there is (or could be) in their industries and how its distribution is affected by cultural, administrative, geographic, and economic (CAGE) distance. Note that while Brexit aims to expand the administrative distance between the UK and the EU, firms can still tap into commonalities or proximity along the other dimensions of distance. My 2007 book, *Redefining Global Strategy,* is devoted to elaborating strategies for doing business in a world where borders and distance still matter.

This book assembles empirical support—using a wide range of methodologies and updated data—for the two laws of globalization, which are intended to have the status of scientific laws in the sense of describing important regularities that hold over long periods of time (as distinct from scientific theories that posit a mechanism or explanation of observed phenomena) (McComas 2003). It will be up to the reader to judge whether that appellation is warranted after considering the evidence assembled in this book of the pervasiveness and potency of the two laws (or of the home bias and the distance effects that underlie them).

It is worth noting – especially since one of the (anonymous) reviewers of this manuscript was confused about this point – that the two laws are *not* the same. The law of semiglobalization pertains to the depth of globalization and the law of distance to its breadth – two constructs that are defined in Chapter 1. Conceptually, there is no reason why the first law should imply the second: why, for instance, a limited amount of merchandise crossing a national border should be expected to exhibit distance sensitivity, as opposed to being evenly distributed across foreign countries. And the claim that the second law implies the first one – that all border effects can be reduced to distance effects if the latter are defined broadly enough – is problematic as well. Although it is true that more elaborate measurement of distance tends to reduce the estimated magnitude of national border effects, they usually do not disappear.

The two laws of globalization are generalizations – within the international domain[4] – of the two laws of geography proposed by Waldo Tobler, a leading geographer (Tobler 1970, 1999, 2004):[5]

- The phenomenon external to [a geographic] area of interest affects what goes on in the inside. (Tobler 1999, 87)
- Everything is related to everything else, but near things are more related than distant things. (Tobler 1970, 236)

My first law of globalization adds an upper bound to Tobler's lower bound on outside influences. In addition to positing that international influences are non-negligible, it makes the point that national borders still matter a great deal: that there is substantial home bias. A range of considerations are cited in general support of the first law, but the most play is given to the one that people seem to find the most convincing: data assembled for the *DHL Global Connectedness Index* that measure the depth of globalization implied by a wide range of international trade, capital, information and people flows.[6]

My second law generalizes Tobler's focus on geographic distance to also encompass measures of cultural, administrative/political, and (with some qualifications) economic distance. Unifying empirical support is provided by an exercise that takes the small number of distance-related variables commonly used in international economics to analyze merchandise trade and examines how well they also appear to explain other international interactions. From the perspective of distance as a common core construct, the worst-case outcome would be if none of these distance-related variables mattered in the context of other interactions. And it would be best if they not only mattered but implied some stability, across interactions, in assessments of whether two countries are relatively close or far apart. This latter conclusion is the one that is supported by the empirical evidence.

As a bonus, the two laws are counterintuitive or at least nonobvious to many people even after they have been pointed out. Thus, they directly contradict the

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assertion by Thomas Friedman, the *New York Times* columnist and perhaps the most prominent geopolitical pundit of our time,[7] that "The World Is Flat," and, the corollary that we have witnessed the creation of "a global, Web-enabled playing field that allows for…collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language" (Friedman 2005, 176). In Friedman's world, neither of the two laws of globalization would apply.

And it isn't just journalists who subscribe to inflated notions of globalization or globaloney. Consider some other pieces of evidence that point in the same direction:

- When Pascal Lamy, the former director general of the World Trade Organization (WTO), invited me to address the national envoys to the WTO as part of an attempt to restart the Doha Round of trade negotiations, an overwhelming majority agreed with the quote provided earlier from Friedman over "semiglobal" and "local" alternatives[8] – even though it raised existential questions about what they were doing in Geneva!
- When I surveyed the readers of the blog that I write for *Harvard Business Review*, 62 percent of them agreed with Friedman, versus 28 percent who opted for the semiglobal alternative and 10 percent for the local alternative – even though the blog post went on to argue that the dominant view constituted globaloney.[9]
- More recently, I surveyed over 3,000 students from 138 countries who participated in my massive open online course (MOOC) on Coursera. Students from every country overestimated levels of globalization—on average supposing international interactions to be almost five times as intense as they actually are.[10]

Although globaloney does seem to persist across countries, education levels, genders, and so on, there *is* general agreement among international economists, at least, that international integration is far from complete. Yet even international economists still find the law of distance – even in its narrow form concerning just merchandise trade – nonobvious, to the point where it has been proposed as a better answer to mathematician Stanislaw Ulam's challenge to Paul Samuelson to "name me one proposition in all of the social sciences which is both true and nontrivial" than the answer that Samuelson (eventually) came up with: comparative advantage.[11] Furthermore, my empirical work fitting (the same) distance-related variables to a broad range of international interactions (described in several chapters in Parts II and III of this book) reinforces the utility of thinking about distance as key to analyzing globalization in general, not just merchandise trade.

The regression analyses presented in Chapter 5 – and in other chapters in Parts II and III of this book – fit well with modern social scientists' emphasis on statistical methods based on probabilistic reasoning, even though they should be read as highlighting robust regularities in the data rather than testing hypotheses. That said, the empirical methods employed in this book, especially in Part I, range well beyond regressions. Thus, Chapter 1 uses (simple) text mining to identify particularly influential definitions of globalization out of the many that have been proposed, and presents some basic measurements – an approach that is typically ranked at the bottom of most hierarchies of empirical research, for example, de Groot (1969) – to sort through them. Chapter 2 adds in surveys of individuals in order to delve deeper into patterns of globaloney. Chapter 3 takes a historical tack, employing Neustadt and May's (1986) method of similarities and differences to assess what is new, from a business perspective, about the current wave of globalization (relative to the wave that preceded World War I) and what is not. Chapter 4 has a hybrid structure, conditioning the pictures that it paints of globalization at (mostly) large firms on consideration of the constraints that prevent most firms, especially smaller ones, from engaging in any international trade or investment. The pictures themselves might be described by a political scientist as "configurative-idiographic" (Eckstein 1992) and are based on a review of the relevant literature, cases, and a survey of large companies.

The variety of methodological approaches employed is related to my long-term efforts to apply advances from related fields to international business research, in line with Dunning's (1989) plea for more interdisciplinary work of this sort. And it also reflects the primacy of my overarching interest in the phenomenon of globalization itself, over precommitment to a particular methodology for studying it.

Another distinctive feature of this book from an empirical perspective is its reliance, wherever possible, on cross-country evidence rather than evidence drawn from a single country. Thus, the chapters on globalization at the country level draw heavily on data compiled for the *DHL Global Connectedness Index*. And the chapters on globalization at the business level aim for broad coverage as well – at least when compared to the conclusion that roughly two-thirds of empirical articles published in major international business journals between 1992 and 2003 relied on single-country samples (Yang, Wang, and Su 2006).

Substantively, Part I of this book, after sorting through different definitions of globalization, focuses on marshaling evidence in support of the law of semi-globalization at the country and then the business level. Part II performs an analogous function regarding the law of distance. Part III then puts the two laws to work by applying them, chapter by chapter, to contemporary challenges and opportunities that cultural, administrative, geographic, and economic distance present to multinational firms. Additional empirical content is covered in an online appendix available at www.ghemawat.com/laws, along with tools, maps, and other research and teaching materials. The online content enables readers to customize the material by location, industry, etc.—essential to grasping how a semiglobalized world looks very different from different perspectives.

Covering so much ground would not have been possible without the help of a large number of people. I am especially grateful to my coauthors in this regard. Steven Altman, the executive director of the Center for the Globalization of Education and Management at NYU Stern, has worked with me for years now – on *World 3.0* and the *DHL Global Connectedness Index* as well as on

this book – and has coauthored five of the chapters that follow in addition to providing invaluable help and commentary on the remainder. Thomas Hout, formerly a senior vice president at the Boston Consulting Group and my coauthor on numerous articles about competition in and out of China, was an ideal partner for thinking about differences in business ownership and governance around the world. Geoffrey Jones, my former colleague at the Harvard Business School and one of the world's leading historians of international business, did more than contribute to the chapter on globalization over time: he helped guide it. And Sebastian Reiche, my colleague at IESE Business School, has helped me learn much more about culture and leadership in an international context than will be evident from our coauthored chapter in this book. None of them should necessarily be assumed, however, to agree with the content of the chapters other than the ones that they coauthored.

I am also grateful to my IESE colleagues Fabrizio Ferraro and Morten Olsen and to Niccolò Pisani of the University of Amsterdam and Herman Vantrappen of Akordeon for ongoing research collaborations that are described briefly in this book. Many other colleagues have also read and commented on earlier versions of some of the material presented herein. And Juan Alcacer at Harvard Business School, Mauro Guillén at Wharton, Donald Lessard at MIT, Lilach Nachum at Baruch College, and Robert Salomon at NYU Stern provided comments on some of the materials prepared specifically for this book. Once again, however, my collaborators and other friends should not be assumed to agree with all of the book's contents.

Given how long this book has been in the making, many members of my research team, past and present, have also made valuable contributions to it, including Phillip Bastian, Joel Bevin, Adrià Borràs Carbonell, Paola Elice, Jordi Ollé Garmendia, Tamara de la Mata López, Yi Mu, Erica Ng, Víctor Pérez García, and Iacopo Tonini. Thousands of my students over the years, for whom some of these chapters were originally written, have been extremely helpful sources of feedback as well. Marta Domenech at IESE has provided continuity in administrative support for a long number of years now, and my former assistant at the Harvard Business School, Sharilyn Steketee, dealt meticulously with the issues involved in getting the manuscript ready for publication. I am also very grateful for generous financial support from the Division of Research at IESE Business School and from the Center for the Globalization of Education and Management at NYU's Stern School of Business.

Finally, it is a particular pleasure to undertake this publishing venture with Cambridge University Press. After receiving the IESE-Fundacion BBVA Economics for Management Prize in 2008 (for my early work on the topic of globalization and strategy), I was invited to write a book for Cambridge. I reluctantly came to the conclusion that I wasn't ready then, but I am delighted that their interest did not lapse.

Notes

1 Eurasia Group president Ian Bremmer tweeted this characterization on June 24, 2016.
2 See the 2014 and 2015 editions of the Ipsos MORI "Perils of Perception" surveys as well as the 2013 edition of the German Marshall Fund of the United States "Transatlantic Trends" survey.
3 See, for instance, Krebs (1987).
4 Some of the same insights apply within countries, at the regional and even local levels. See, for instance, "Competitiveness and Interregional as Well as International Trade: The Case of Catalonia" (Ghemawat, Llano, and Requena 2010) and my book chapter, "From International Business to Intranational Business" (Ghemawat 2015), based on my speech accepting the 2014 Eminent Scholar award from the International Management Division of the Academy of Management.
5 Tobler's articulation of his laws prompted an interesting debate about what laws are and whether the social sciences can aspire to any. See Flyvbjerg (2001, 44–45) and Tobler (2004).
6 See Pankaj Ghemawat and Steven A. Altman, "The DHL Global Connectedness Index 2014" at dhl.com/gci.
7 Philip Tetlock and Dan Gardner, the authors of *Superforecasting*, rate Thomas Friedman as the top "celebrity forecaster" of our time based on a combination of status, relevance of work to world politics, and difficulty of pinning down his/her forecasts and also assert that "there are no hard facts about Friedman's track record, only endless opinions" (2015, 3). It is worth adding that, based on my own calculations, Friedman's book, *The World Is Flat*, has probably sold more copies than all other books ever written about globalization combined!
8 The semiglobal alternative presented was "There is a balance on the spectrum between 'local' and 'global' that represents the 'sweet spot'…[and makes for] 'the race to the middle" (from Rick Wagoner, the former CEO and Chairman of General Motors) and the local alternative was "In real estate, the mantra is 'location, location, location.' For global brand managers, it might be 'localize, localize, localize" (from Orit Gadiesh, the Chairman of the management consulting firm Bain & Company). The workshop itself was held at WTO headquarters in Geneva on November 2, 2010.
9 The semiglobal and local alternatives presented to HBR readers were the same as the ones presented to the national envoys to the WTO. The blog post, dating from May 31, 2011, and titled "Globalization in the World We Live in Now: World 3.0," can be found at http://blogs.hbr.org/cs/2011/05/globalization_in_the_world_we.html.
10 This survey is discussed further in the final substantive section of Chapter Two.
11 See Keith Head and Thierry Mayer's "What Separates Us? Sources of Resistance to Globalization," which notes that "Ulam probably did not mean a logical or mathematical truth since social science is supposed to make *empirically* true claims" (2013, 1201; emphasis in original).

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Part I

The Law of Semiglobalization

1 Defining and Measuring Globalization

Pankaj Ghemawat and Steven A. Altman

This chapter begins by considering the etymology of "globalization" and how the phenomenon has been perceived by the public and in the media. It then reviews how globalization has been defined, with a focus on the academic literature, and with particular emphasis on business and economics. It goes on to consider how globalization might be measured at the country level and argues for a primary focus on the depth (also referred to as intensity) and the breadth (also referred to as extensity) of countries' international interactions. Measuring globalization on this basis – as we do biennially for the *DHL Global Connectedness Index* – suggests that, overall, globalization decreased during the economic crisis of 2008 and has been slow to recover. This distinguishes our index from other leading globalization indexes with which comparisons are feasible.

Origins and Opinions

The word "globalization" is a relatively recent addition to the English lexicon. It first appeared in *Webster's Dictionary* in 1961 (Kilminster 1997, 257), and according to the current edition, its first use came a decade earlier in 1951. Its roots can be traced back to the terms "global" (which took on the meaning of "world scale" in the late nineteenth century) and "globalize" (which appeared in the 1940s) (Merriam-Webster 2015). By contrast, its cousin, "international," is much older, having been introduced by Jeremy Bentham in 1789 (Bentham 1823). Bentham needed the term to describe the legal relations between sovereign nations and people from different nations (Janis 1984, 409).

The ideas that now find their expression in terms of globalization are older than the word itself, of course, just as relationships between sovereign states existed before Jeremy Bentham gave them a name. David Livingstone remarked in 1872 that "the extension and use of railroads, steamships, telegraphs, break down nationalities and bring peoples geographically remote

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