TRENDING TOPICS

INTERCONNECTED: THE GLOBAL FLOWS OF GOODS, SERVICES, MONEY, PEOPLE AND DATA

Trending Topics represents an executive summary compilation of news, information and perspective on matters affecting businesses and business leaders today. This insight is being provided to keep you up to date on the latest developments and trends influencing these topics. These views do not necessarily represent the views and opinions of PNC. For additional research on these topics, please consult the sources cited in this article.

Some experts claim that globalization's golden era ended with the worldwide financial crisis. But others contend that globalization is evolving into version 2.0: the acceleration of the global flows of goods, services, money, people and data across borders, increasing the interconnectivity of the global economy.

The major factors driving cross-border flows are greater economic prosperity and the continued advancement of Internet connectivity and digital technologies. In 2012, the flows of goods, services and money reached $26 trillion or 36% of global gross domestic product (GDP), and it is expected that global flows could triple by 2025.[1] McKinsey Global Institute estimates that 1.8 billion people will become part of the consumer class by 2025, almost entirely from emerging market countries.[2]

Flow rate data supports the contention that the world is becoming more interconnected. Flow rates have increased:[3]

- Seven-fold for data and communications since 2008
- Ten-fold for goods since 1980
- Three-fold for services since 2001
- 1.5 times for capital since 2002
- 1.3 times for people between 2002–2014 and accelerating even faster as crises drive refugees and immigrants into new regions

A BUMPY RIDE FOR GLOBAL TRADE

Recent worldwide sluggish economic growth has tempered enthusiasm for global connectivity. As an after-effect of the global recession, world trade is expected to increase only 3.3% in 2015 and 4.0% in 2016, still below the annual average growth of 5.1% since 1990.[4] Prolonged sluggish growth in GDP, especially in the high-income countries, has been cited as the main reason for this slow recovery in trade.[5]

Some experts believe that this slowdown is part of the progression to the digital age as a new economic model for global flows emerges. In major world economies, technological advancements have reached a point of structural change and are beginning to transform global trade patterns. What's significant about this shift is that entry into global trade is now easily accessible to nearly all companies, entrepreneurs and individuals in any part of the world.

GO WITH THE FLOWS

Overall, however, globalization has been good for countries and their economies. Researchers at McKinsey & Company estimate that as much as 25% of global GDP growth results from global flows. They also found that a 1% increase in a country's level of globalization — measured by the flows of goods, services, data, finance and people, relative to their GDP or population — results in a 10 to 15 basis point increase in GDP.[6]

Developed countries are generally more connected and have higher flow intensities compared to less-connected countries. Germany leads the way as the world's most connected country, followed by

Hong Kong, the United States, Singapore, the United Kingdom, the Netherlands, France and Canada.[7] However, emerging economies — particularly Brazil, China and India — are rapidly gaining momentum both as exporters and importers of global goods trade, and their participation is broadening and deepening global networks.[8]

Emerging countries have been quick to adopt digital technologies, sometimes leap-frogging more established technology. Digitization has transformed the telecommunications, computing, financial services, retail and media sectors. Forrester Research predicts that the number of smartphone subscribers will reach 3.5 billion by 2019, covering 59% of the world's population.[9]

The relatively low cost of cell and smartphone equipment and data plans has been a critical factor supporting the dynamic growth in social media, mobile apps and mCommerce, and the purchase of goods and services through mobile devices.[9] Data traverses the world at an accelerating rate, with Internet traffic growing 18-fold between 2005 and 2012.[10]

In this new era of interconnectedness, the ability of global flows to harness the power of technology and increase economic prosperity cannot be ignored.

To discuss these topics in more detail, please contact your PNC Relationship Manager.

1 "Global Flows in a Digital Age: Executive Summary." McKinsey Global Institute, April 2014, data listed on intro pages. Available at: http://www.mckinsey.com/insights/globalization/global_flows_in_a_digital_age

2 "Global Flows in a Digital Age: Executive Summary." McKinsey Global Institute, April 2014, page 1.

3 Online slide deck accompanying the paper, "Global Flows in a Digital Age: Executive Summary."

4 Press release: "Modest trade recovery to continue in 2015 and 2016 following three years of weak expansion," World Trade Organization, April 14, 2015. Available at: https://www.wto.org/english/news_e/pres15_e/pr739_e.htm

5 "What Lies Behind the Global Trade Slowdown?" The World Bank, *Global Economic Prospects*, January 2015. Available at: https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_trade.pdf

6 "Harnessing the power of shifting global flows," McKinsey & Company, *McKinsey Quarterly*, February, 2015. Available at: http://www.mckinsey.com/insights/business_technology/harnessing_the_power_of_shifting_global_flows

7 "The Changing Nature of Globalization in Our Hyperconnected, Knowledge-Intensive Economy," blog post by Irving Wladawski-Berger in *The Wall Street Journal*, June 20, 2014. Available at: http://blogs.wsj.com/cio/2014/06/20/the-changing-nature-of-globalization-in-our-hyperconnected-knowledge-intensive-economy/

8 "Global Flows in a Digital Age: Executive Summary," see citation above.

9 "Forrester Research Worldwide Mobile and Smartphone Adoption Forecast, 2014 to 2019 (Global)," August 6, 2014, summary provided on Forrester website. Available at: https://www.forrester.com/Forrester+Research+World+Mobile+And+Smartphone+Adoption+Forecast+2014+To+2019+Global/fulltext/-/E-RES118252

10 "Global Flows in a Digital Age: Executive Summary," see citation above.

CIB ENT PDF 1015-0136-198919