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The End of Globalisation? How Executives Should Respond

If globalisation is to be preserved, business may be required to give up some economic freedom.

This is the second part of a two-part article.

While globalisation has benefited humanity in many ways, its continued progress is in serious doubt. As I **wrote previously**, the two leading political science theories, liberalism and realism, both predict that globalisation as we have known it over the past two decades may well recede or disappear.

What does this mean for your business? First, to the extent liberalism as a theory is correct and globalisation is under threat because of its adverse impact on parts of the population, re-embedding economic freedom would be a wise choice if globalisation were seen as worth preserving. As mentioned in my previous piece, this may require giving up some extent of economic freedom to reduce its adverse impact so that at least the bulk of that freedom can be preserved. Part of this work has actually been done: International financial flows have never recovered from the 2008 financial crisis. This is at least partially the result of restrictions put in place to stabilise Western banking systems, but it has also had the helpful effect of reducing the flow of "hot" (short-term) investments, whose sudden withdrawal may cause financial crises.

Further restrictions and supporting programmes may be necessary and desirable. Offshoring of production, and with it of jobs, may need to be limited, or at least be done in ways that do not lead workers into permanent redundancies. Social security programmes need to be beefed up to buffer workers against the economic consequences of job losses and help retrain them. Firms should consider supporting these efforts.

Similarly, firms and senior executives need to be seen to be contributing their fair financial share. For instance, while it is understood that executives have a fiduciary duty to explore legal possibilities of limiting corporate tax payments, doing so is politically unwise. Among others, it undermines the positive case for globalisation by creating a perception that firms skirt their responsibilities to local stakeholders. Firms should consider supporting efforts that prevent them from shifting taxes between different jurisdictions. This may hurt in the short term, but in the longer term, it will help maintain global strategies.

Economic blocks

But what if realism, which posits that waves of globalisation mirror the rise and fall of global hegemons, is correct and the world splits into two economic blocks? The measures listed above are unlikely to prevent this, but they can help preserve economic openness within blocks. So these efforts are not wasted.

At the same time, international business in the realist prediction will become a good deal more complex. Firms will still need a global strategy, but they will probably not be able to have a single, unified strategy across the globe. Processes that currently are globalised may need restructuring. For instance, integration of Asian countries into Western international value chains may become much harder if these countries become part of a Chinese block. Manufacturing activity may accordingly relocate from Asia to South America or parts of Africa – not impossible feats, but probably harder to pull off operationally than what we presently see in Asia. In the end, some firms will no doubt conclude that operating in two different economic blocks with two sets of rules is too much hassle, and retrench their operations to their home region.

It may well be premature to make these and other adjustments immediately. But longer-term investment plans should probably involve scenario planning that examines the viability of specific projects and, more generally, the firm's global strategy in case two regions with fundamentally different rules emerge.

Michael A. Witt *is an Affiliate Professor of Strategy and International Business. He is the programme director of* ***International Management in Asia Pacific****, one of INSEAD's open-enrolment Executive Development Programmes. He teaches international business – i.e., how to get from country A to country B without getting a bloody nose. International Political Analysis, of which this article provides an example, is part of his repertoire. He holds a Ph.D. in Political Science from the Department of Government (GSAS), Harvard University.*

Professor Witt thanks Douglas Webber, INSEAD Professor of Political Science, and Jonathan Story, Emeritus Professor of International Political Economy, for their helpful comments on this piece.