
Global Strategy for a De-globalising World



By Benjamin Kessler , INSEAD Knowledge

The world may not be as flat as it once was, but global business strategy is, if anything, a more urgent priority than before.

The full economic impact of the pandemic has yet to be felt. However, it seems beyond dispute that Covid-19 and globalisation don't mix well. Of course, all economic activity is suffering in this worldwide recession – but the global breadth of business may experience an especially acute shrinking effect. To cite just one grim projection, the IMF is predicting a **12 percent contraction in global trade** this year, more than double the already cataclysmic 4.9 percent negative growth prediction for the world economy as a whole.

The proximate causes for this are widely known: the unhappy coincidence of China being both the virus's apparent country of origin and epicentre of global production for countless MNCs, the cessation of global travel, etc. Far less clear, at this stage, is what all this means for global business strategy. Should companies keep their heads down and hope for globalisation to rebound, or prepare for hasty repatriation?

INSEAD Professors **Felipe Monteiro** and **Michael Witt** offered – not answers, perhaps – but some pathways for strategists to start thinking their way around the problem, in a recent webinar as part of the school’s series **Navigating the Turbulence of Covid-19**. The pair’s combined expertise fuelled a discussion that encompassed geopolitics as much as the complex business dynamics affecting global industries.

Cold War 2.0 and the end of neutrality

Witt began by detailing the various frictions facing globalisation in the years before Covid-19. After taking a hit during the 2008 financial crisis, global business never resumed its upward trajectory of the 1980s and 1990s. Instead, it faced intensifying political headwinds as nationalism and populism rose in the developed economies. Covid-19 is just the latest blow in the farrago of unfriendly forces that has battered free-trade regimes since the turn of the millennium.

So, will the pendulum swing back towards trade liberalism once the pandemic becomes less of a threat? Witt is not optimistic, citing the **realist school of international relations**, which regards globalisation as untenable without a unipolar hegemon to regulate and enforce it. In the post-World War Two period, globalisation flowered under the aegis of the United States. Now, with China rivalling the US for global economic supremacy, the centre of globalisation cannot hold.

In his latest piece for **Harvard Business Review**, Witt argues that global companies should steel themselves for a US-China Cold War that may last for years if not decades. Whether they like it or not, firms will have to rethink their operations as the world becomes increasingly polarised by the two competing economic blocs. The *HBR* article lists four steps US and US-aligned firms should be prepared to take: Abandon the notion of Hong Kong as safe haven; radically uproot supply chains away from China’s geographical sphere of influence; cast a cold eye over existing ties to Chinese institutions and universities; and revise risk assessments involving the opposite bloc sharply upward. A possible workaround for some companies looking to play both sides may be to fly under the radar in enemy territory. “Tencent, for instance, has acquired a lot of gaming companies in the West, and nobody knows,” Witt said. “Generally speaking, this is very difficult to get to work.”

Ultimately, Witt predicts that only very large and very small countries may be able to keep a foot in both blocs. “I think Russia, in principle, could play off the West against China,” he said. “The risk, of course, is that at some point you slip up and lose that independence. Usually a small country could argue, ‘Don’t worry too much about us. We could be useful to both sides.’ I think those could be configurations that actually help that strategy.”

Three truths about globalisation and four drivers of localisation

Felipe Monteiro cautioned against immoderate beliefs about globalisation. Between 1990s “the world is flat” boosterism and forecasts of globalisation’s imminent and irreversible demise, there are three level-headed truths Monteiro would like us to consider.

- *Globalisation is partial* – Referencing the 2019 DHL Global Connectedness Index (DGCI), which tracks activity flows ranging from tourism to exports of goods and services, he points out that even before Covid-19, the vast majority of the action was local rather than international.
- *Globalisation is non-linear* – Looking again at the DGCI from 2001-2018, Monteiro notes that the share of global flows has never grown smoothly. The graph shows sharp jumps as well as steep drops year by year. “We will see a decrease in globalisation after Covid. I’m not sure how deep or how long it will be, but it will not be unprecedented, and we are likely to see reglobalisation,” Monteiro said.
- *Globalisation is industry-specific (to a certain extent)* – Global integration in an industry will be largely determined by the extent of its exposure to four main drivers, according to Monteiro. Market drivers are related to the transferability of consumer habits and tastes across borders. Cost drivers mostly centre around the accessibility (or lack thereof) of global economies of scale. Competitive drivers relate to industry dynamics and the search for a “blue ocean”. Finally, there are government drivers, which in recent years have become more salient. “We are seeing more pressure for localisation from government drivers...But government drivers are not the only type of drivers. My assessment is we will continue to have a lot of pressure for a number of industries to be very global, especially as we think about digital transformation.”

Technology vs. politics?

Monteiro has authored two case studies about the mutually reinforcing aspects of digitalisation and globalisation. His 2017 case on the [Tag Heuer connected smartwatch](#) explored how the Swiss watch industry worked with Google and Intel to leverage core strengths while fending off digital disruption. To Monteiro, it is an object lesson in how technological change compels [fruitful collaboration](#) between hyperlocal industry clusters – e.g. Silicon Valley and Swiss watchmakers – that learn from one another as a result. Monteiro also described [his most recent case](#) about the football club FC Barcelona’s [innovation hub](#) and its efforts to boost engagement with the club’s global fanbase while stadiums are shuttered because of Covid-19. During the confinement period, for example, the club surged ahead of global rivals Manchester United and Liverpool in the digital field, drawing 4.7 million followers to its TikTok channel and launching a dedicated streaming channel, [Barça TV](#).

But you don’t have to be a global champion such as FC Barcelona or Tag Heuer to capitalise upon complementarities between digitalisation and globalisation. “In the digital world, the entry costs of internationalising are much lower...I think it opens up a lot of opportunities for smaller companies to globalise,” Monteiro said.

Witt, however, offered his own example from the world of professional sports to make a contrasting point, namely, that geopolitical tensions often cast a pall over global business conquest. He pointed to a recent incident in which Daryl Morey, general manager of the Houston Rockets, appeared to [support Hong Kong protesters in a tweet](#) that reportedly cost the NBA [hundreds of millions of dollars](#) in revenue from China. Witt said, “Even sports clubs basically get torn in between...Not even something as innocuous as soccer is actually safe. At a minimum, people should think about it.”

Both speakers seemed to agree that even though one era of globalisation may be coming to a close, global business strategy is, if anything, a more urgent priority now. “During the heyday of globalisation, you could pretty much go where you wanted,” Witt said. “Now, the benefits to companies of internationalisation are still there, but the playing field has become a lot more complicated. This is really the day and age where skills matter.”

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