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Essay

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Globalization, de-globalization, and re-globalization: Some historical context and the impact of the COVID pandemic

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Abstract

The Covid-19 pandemic has exposed many of the weaknesses in our current systems of government and commerce. In this essay, I provide some historical context to the recent era of "hyper-globalization." I then present multiple factors—economic, social, political, technological, and governance-related—that collectively explain why globalization has peaked and is on the retreat. Following this, I use the analogy of a three-legged stool to explain the importance of recalibrating the economy, state, and society so as to realize a healthier alignment among them. Finally, I look at where globalization might be going next and the implications for firms, concluding with some lessons that we can take away from the COVID crisis.

JEL CLASSIFICATION: M10, M16, M19

Keywords

Multinationals, internationalization, crisis management, pandemic, globalization, transformation and change

The Covid-19 pandemic has exposed the folly of globally concentrated value chains and our overreliance on China, which has emerged as the global center of production for an ever more variety of goods. There is increasing chatter of a tipping point in the arc of globalization and a "bending of the curve" toward a period of de-globalization. This argument is of course a bit too simplistic since globalization has always been adaptive and is here to stay. The more important question is how it adapts and what form it will assume in the years ahead. What can be stated with some confidence is that the current era of what can be considered hyper-globalization, which began in the 1980s, has finally run its course.

This essay is organized as follows: first, I will provide some brief historical context to this most recent era of globalization. Next, I will present multiple factors that collectively explain why globalization has peaked and is on the retreat. Following this, I use the analogy of a three-legged stool to explain the importance of recalibrating the economy, state, and society so as to realize a healthier alignment among them. Finally, I look at where globalization might be going next and the implications for firms, concluding with some lessons that we can take away from the COVID crisis.

The historical context

The current era of globalization can be considered to have its origins around 1980. It was triggered off by a confluence of events. For one, the Chicago school of economics, characterized by a free market ideology and shareholder capitalism and best exemplified by Milton Friedman, became enormously influential from the 1970s onward. The influence of its market ideology was hugely amplified by the simultaneous rise to power in 1979 and 1980, respectively, of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States, both of whom were ardent adherents of free markets. Around the same time, the rapid rise of the Asian "tigers" toward relative prosperity through export promotion strategies in the 70s and 80s, as contrasted to the comparative stasis of the then more prosperous Latin American nations as a result of import substitution policies, further bolstered the case for

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open economies. Finally, and giving further impetus to the above, the Washington consensus—a set of policies backed by The World Bank, International Monetary Fund (IMF) and the US Department of the Treasury that promoted the free market and less involvement by the state—emerged and took root in the 80s in the developing economies, in particular Latin America.

Putting it briefly, hyper-globalization was characterized by the primacy of shareholder capitalism, with deregulation and privatization acting as its handmaidens. It is defined by three elements. First, the sole responsibility of business is to maximize shareholder value. As Milton Friedman succinctly declared, "the business of business is business" (Friedman, 1970). Second, since everything else is secondary to the pursuit of efficiency and profit that this entails, local communities and society become collateral damage. As Margaret Thatcher extravagantly claimed in a major 1988 speech to the European Union, "there is ***no*** such thing as society" (Thatcher, 1987). Third, the government should mostly stay out of the way and not interfere with business. Or, as Ronald Reagan famously stated in his 1981 inaugural speech, "the government is not the solution to our problem, the government ***is*** the problem" (Reagan, 1981).

The obvious converse of having reached a peak in globalization is that it is on the retreat, and we are entering an era of de-globalization, as the broader consensus also seems to suggest. There have been three seismic events in the last two decades which have led us to this point. First was the admittance of China to the World Trade Organization (WTO) in 2001. Within a few years of its joining, China became the world's factory, which resulted in a huge and unprecedented re-location of manufacturing away from the Western economies. Second was the financial crisis in 2008, which occurred at the apex of free market ideology and showed both the unsustainability as well as hollowness of the reigning model of relatively unbridled financial capitalism. Third has been the current COVID pandemic of 2020 which has decimated economies and societies worldwide. Arguably, by unmasking and shedding light on some of the vulnerabilities and fragility caused by globalization, the COVID pandemic has become the proverbial tipping point in globalization's trajectory.

Factors underlying de-globalization

The push toward de-globalization can be understood from different perspectives.

Economic factors

Globalization of production accelerated with the ascent of shareholder capitalism. In the search for efficiencies, multinational firms began scouring the globe looking for centralized and low-cost production locations. In parallel, technological advancements enabled global value chains where China, with its hard work ethic and then seemingly inexhaustible supply of cheap labor, emerged as the world's factory. The COVID crisis has revealed the recklessness of overdependence on any one nation (or location). The focus is now urgently shifting away from a near-excusive focus on efficiency, productivity, and just-in-time production toward prioritizing and maintaining resilience, robustness, and slack, at the very least for what might be considered strategic resources (however defined). The COVID pandemic makes it ever more apparent that a nation (and its firms) is only as strong as its weakest link. As an analogy, we witnessed that even if a nation's hospitals were to have the most advanced technology, a shortage of masks (or other personal protective equipment) can bring the system to its knees. In line with this, future emphasis can be expected to shift from centralized production to more distributed production assets.

Social factors

In line with the law of comparative advantage, globalization gives precedence to economic factors over social factors, which resulted in the hollowing out of production in Western economies. The accompanying widening income equalities have come at a high societal cost, not just in terms of lost jobs and meager employment opportunities but also the erosion and unraveling of local communities. The ensuing social fragility accentuates the downside of globalization, the resultant frustration and anger offering fertile ground for populist policies. In the case of COVID, not only has it affected low-income communities far more—be it due to undesirable living conditions, loss of jobs, or the need to work in low-quality jobs risking exposure to the virus—but in addition, access to the health system and the quality of the response has been found wanting (particularly in the United States).

Political factors

Taking both geopolitics and geo-economics into consideration, in the 1970s and 80s, Japan was an economic rival to the United States, and Russia was a security rival, but neither were both. Subsequently, each lost its respective edge during the 90s and fell behind. China has now emerged as the first serious global rival to the United States on multiple arenas—economic, political, and security—which is understandably causing the latter deep consternation. This has resulted in a shift from deeper integration toward more decoupling, as evidenced for instance in the ongoing US–China tariff wars and the ban on Huawei with its 5G technology. Rather than ever increasing globalization, China's emergence as a potential superpower is possibly leading us toward a new bipolar world, with fractures appearing in the global consensus and a possible bifurcation of the internet, among other things. The Trump administration's

rhetoric on the "China virus," due to it being both the birthplace of Covid-19 as well as the initial cover-up, can be seen through such a geopolitical and geo-economic lens. It exacerbates nationalistic and populist sentiments further and has brought about a more inward and domestic focus.

Technological factors

Technological advancements underpinned the rise of global value chains characterizing globalization. Ironically, further technological advancements now enable the reverse. With the rise of robotics, artificial intelligence and other developments in today's digital economy, increasing capital-labor substitution has increased productivity, both inhouse (i.e., within the firm) as well as, more generally, domestically. In parallel, and in line with this, we are also currently witnessing more innovative uses of technology in manufacturing, such as three-dimensional (3D) printing. Moreover, labor costs have become an increasingly small portion of value added in many industries whereas in other industries increasing labor costs in China reduces its attractiveness. Collectively, as a result of the above, one can anticipate less offshoring and more "re- or near-shoring."

Governance factors

Finally, today's global rules of the game were defined over 70 years ago post-World War II (WWII) by a handful of victorious Western powers. These rules are governed through global institutions such as The World Bank, the IMF, and the WTO (whose precursor was the General Agreement on Tariffs and Trade). Crucially, these post-WWII institutions are no longer representative of today's world and do not reflect the current economic and geopolitical realities, which has resulted in a crisis of legitimacy and an increasing questioning of the global rules of the game. For one, many of the largest economies in the world today such as China and India, among others, feel underrepresented and increasingly constrained, perhaps legitimately so, since they did not have a seat at the table when the rules were designed. These institutions need to evolve and new ones need to emerge to strike a more delicate balance between global rules and norms on one hand and the diverse circumstances that different countries face on the other hand. In fact, accommodating such diversity is a tremendous source of strength and resilience for all nations.

Without reform, one could anticipate an erratic evolution or even a bifurcation of institutions. For an increasing number of countries, China and its model of "authoritarian capitalism" already presents an attractive alternative and a legitimate counterweight to the current global rules The crisis of legitimacy posed by the Covid pandemic heightens the distinctions and makes them more stark, with the pathetic US response standing in sharp contrast to China's relative success in stemming the pandemic after the initial hiccups. Overt individualism and overly decentralized systems and arenas of decision-making, as characterizes the United States, have proven to be clear impediments when confronted with the need for well-coordinated policies and responses at a pan-societal and national level. In contrast, China has shown an impressive ability to pull itself together and marshal and deploy vast amounts of resources effectively.

Putting it all together

Above I provided some historical context to the arc of globalization and some critical factors underlying the imminent retreat from it. The current pandemic starkly demonstrates the damage that (hyper)globalization has done to the economic, political, and social fabric of nations. The economy, state, and society are like a "holy trinity" that form three legs of a stool. In the same way that a nation is only as strong as its weakest link, a stool is only as strong as its weakest leg. The era of "footloose" globalization, dominated by a somewhat unbridled shareholder capitalism—typically accompanied by triumvirate of deregulation, liberalization, and privatization—evidently culminated in a rather wobbly stool. The financial crisis of 2008 erupted because the (over)obsessive focus on economic factors crowded out the other two legs.

To put it more rhetorically, the holy trinity has become decidedly unholy and it is time to change the game. Basically, the cumulative impact of the shift toward economic globalization over the past four decades upset the proverbial apple cart, and we are now left to pick up the pieces. We can now witness the recognition of the need for a realignment among the three dimensions. The first—between the economic and political realms—calls for a shift from a globalized economy and a domestic polity toward a greater alignment between the two. The second—between the economic and social realms—calls for a shift in emphasis toward a form of stakeholder capitalism that is more inclusive in nature and more sensitive to local society and community. Ironically, the first reaction to the pandemic has been to expect government to do more for business and society. The government of "less is better" is being asked to make room for the state as purposeful actor, occupying the role of shock absorber and buffer as well as societal steward. Rather than "collateral damage," local communities are now being recognized as essential stakeholders to whom both businesses and government needs to be responsive.

So where does globalization go from here and what does one mean by adaptive globalization? Clearly, rather than an either/or scenario—stepping forward or retreating back—globalization ebbs and flows and morphs in different ways, adapting to the circumstances. First, there will be a relocation of production away from China, but it will

not necessarily come back home. Other Asian countries will likely pick up some of the slack. However, given some of the current geopolitical and nationalistic tensions, what we can anticipate is a trend toward more regionalization (Rugman and Verbeke, 2004), or "near-shoring." One can imagine a fortress North America, governed by the United States–Mexico–Canada Agreement (USMCA), fortress Europe, governed by the principles and policies of European Union, and fortress Asia, with China increasingly at the helm through regional institutions like the Asian Investment Infrastructure Bank and the Belt and Road initiative. Of course, these regions are not monolithic entities, yet an increasing portion of trade, investment, and travel is already happening intra-regionally.

Second, one can expect to see multinational firms pay more heed to their domestic constituencies. As these firms formed their strategies, they had to confront the tension between being globally efficient or locally responsive to the host countries, and the associated tradeoffs this entailed (Bartlett and Ghoshal, 2002). Now domestic responsiveness to the home country has also been thrown into the mix.

Third, the nature of the product clearly matters. On one hand, there is no reason that certain goods such as textiles will not remain global, at least not so long as we as consumers keep chasing cheap clothing and fast fashion. On the other hand, governments and businesses will want to manufacture more strategic goods domestically or at least regionally. The pandemic has raised the important question of how reliant one should be on others for strategically sensitive goods—ventilators anyone?

Fourth, notwithstanding the regionalization of production and associated value chains and despite concerns over property rights, the trend of globalization of ideas, knowledge, and intellectual capital can be expected to continue. These intangibles are rapidly becoming the new "oil" that underpin modern economies and fuel economic progress today. Overly nationalistic countries will risk being cut off from such flows and ultimate impoverishment. Moreover, as the scientific response to the COVID virus demonstrates, international collaboration is enormously speeding up the development of a vaccine.

Fifth, even if there were to be less globalization of production with its associated impact on blue-collar jobs, one can anticipate a greater globalization of white-collar jobs and activities. The explosive rise in the use of video-conferencing platforms like Zoom and Microsoft Teams, as firms shifted suddenly and relatively seamlessly to home offices, has shown the vast possibilities enabled by today's technology. In a sense, it gives an extension to the current business model of shifting work overseas to cheaper locations, the only difference being that it will occur more in the realm of intangibles and services. As it is, such work was increasingly being done in locations such as India. The difference now will be that instead of mainly low-end work such as "coding farms"—the white-collar counterpart of Foxconn-like assembly line production—such work will expand to include higher value-added activities. If the work can be done for cheaper and relatively frictionlessly from home, who cares where home is? As a bonus, it also reduces our carbon footprint!

For firms, the implications of the COVID crisis and its aftermath are many. Foremost is the issue of the reorganization of production and the importance for firms to closely scrutinize their supply chains. First, whereas the efficiency driver may still underpin location decisions for more basic standardized inputs and accordingly result in outsourcing/offshoring to lower cost locations, firms need to balance other strategic drivers such as flexibility for many other types of goods. Second, the economics of production is rapidly changing. Besides rapidly increasing labor costs in China, the Chinese government is shifting its priorities higher up the value chain from being the world's global factory to a preference for sectors characterized by greater value added and knowledge intensity. At the same time, particularly for the wealthier nations, productivity-enhancing advancements in manufacturing (e.g., robotics) and information technology change, the economics of investing at home. Third, firms need to be much more acutely responsive to the various contexts where they operate, both domestic and international. This may entail relocating some activities back home, as well as in multiple geographies, on both institutional and geopolitical grounds. In any case, on the geopolitical front, one cannot wish away China—both the state as well as Chinese firms—as an economic actor, and neither should one do so since it is here to stay as an integral part of the economic landscape. Thus, the challenge for firms becomes a question not of whether but rather how one should balance competing ideologies and interests. Importantly, as firms reassess their value chains (Hernandez and Pedersen, 2017), the reorganization of production potentially provides promising opportunities for more locally focused small and medium enterprises, both high tech and low tech, to become part of their domestic counterparts' evolving value network.

In conclusion, I would like to make two points. First, the Covid-19 crisis acted like an external shock that has shed light on current trends preceding and independent of the pandemic. One thing that has become apparent is that firms, governments, and civil society need to act in concert to change the state of affairs toward more desirable and collectively beneficial outcomes. Already there are indications that this may be beginning to occur. For instance, on the part of firms, to the extent that it is not "lip service" or "window-dressing," the US Business Roundtable recently released an intended Statement of Purpose signed by almost prominent leading CEOs committing them to leading their companies to the benefit of all stakeholders. There are similar indications that businesses are finally waking up to the challenges posed by climate crisis. On the

part of governments, the need of the hour is an urgent re-examination of the regulatory regime as well as concomitant systems and procedures that underpinned the ascendance of untrammeled capitalism and globalization. In light of the resurgence of the government's role, governments need to wake up to their responsibilities. For instance, with respect to COVID, many of the policies instituted by government in the wealthier economies such as Canada and in Europe provided essential buffers for individuals and small businesses to cope with the Covid crisis. On the part of civil society, the onus is on non-governmental organizations (NGOs), community groups, and other such entities to hold businesses and governments accountable. For instance, the groundswell of activism with respect to climate change is beginning to shift the discourse as well as action on the topic.

Second, besides enabling us to see the current state of affairs more clearly, the Covid crisis has deeper and more profound consequences for the future, in that it provides us with a unique opportunity for a more fundamental re-think and for asking crucial questions: What have we learned from "hyper-globalization" and where do we go from here? What kind of globalization do we want post-COVID? Clearly, it is not acceptable to go back to the way we were. But what would a more sensible globalization look like? Instead of the economic globalization of the past, should there be a more expansive view of globalization? As the COVID pandemic has shown, local public health can quickly become a truly global concern. In this regard, the COVAX initiative (sponsored by the World Health Organization and the European Commission), bringing together governments, global health organizations, manufacturers, scientists, private sector, civil society, and philanthropy with the intention of making vaccines available to poorer countries, is a much-needed and definitive testament to the realization that the health of the global commons is as if not more important than that of individual nations. In other words, in today's more global world, none of us are safe till everyone is safe. In a similar vein, climate change and other issues like nuclear proliferation, bioterrorism or the refugee crisis are part of the global (or at times regional) commons. How do we evolve our institutions and mindsets to accommodate these issues and shape our responses to them? There are no clear answers to these questions and yet they are important for us to collectively ask and examine.

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