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Bricks and Mortar in a Borderless World: Globalization, the Backlash, and the Multinational Enterprise

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Research summary: *Globalization, increased interconnectedness, and deep integration resulted in significant increases in trade and FDI from 1989 through 2008. The recession marked the end of that trend and the rise of a broad-based opposition that has economic, social, and political components. This article explores the backlash, arguing that is driven by sociotropic perceptions. While globalization can be explained as a cyclical or structural phenomenon, I argue that technological change results in a networked global economy, the transition from a space of places to a space of flows, and increases the potential cost of devolution to the point where economic independence is no longer feasible. Nonetheless, I conclude that MNCs face a period of prolonged uncertainty and develop implications for firm strategy.*

Managerial summary*: Globalization entailed explosive growth in trade and FDI from 1989 through 2008. The decline in both since the recession and the strident backlash may indicate the end of this wave. The economic, political, and social components of the backlash are explored, and I argue that while the economic and political factors that gave rise to globalization longer exist, structural factors—networked MNCs, dispersion of technology, and complex global supply chains—increase the cost of devolution to the point where a return to independent national markets is not feasible. We are likely to be stuck with an international economy from which we can neither withdraw nor manage effectively, a prolonged period of angst and uncertainty. I conclude with scenarios and implications for multinational firms.* Copyright © 2017 Strategic Management Society.

> "Governments of the Industrial World, you weary giants of flesh and steel, I come from Cyberspace, the new home of Mind. On behalf of the future, I ask you of the past to leave us alone. You are not welcome among us. You have no sovereignty where we gather…You have no moral right to rule us nor do you possess any methods of enforcement we have true reason to fear." (John Perry Barlow, Davos, 2005 (Barlow, 1996))

> "I will build a great wall—and nobody builds walls better than me, believe me—and I'll build them very inexpensively. I will build a great, great wall on our southern border, and I will make Mexico pay for that wall. Mark my words." (Donald Trump, New York, 2016 (CBS News, 2017))

While John Perry Barlow's Declaration of the Independence of Cyberspace may have been arrogant

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and overreaching, it reflected the tenor of the times: the impact of the digital revolution on ideas about space, time, borders, and sovereignty. Globalization, a combination of exponentially increased interconnectedness and deep integration, was seen by many as unstoppable.

World exports grew from under 20% of GDP in 1990 to a high of just over 30% in 2008 (World Bank, 2016a). Reflecting deep integration, intermediate goods accounted for more than 40% of world merchandise exports during the last decade (World Trade Organization, 2016). Foreign direct investment (FDI) inflows increased from 4.4% of world gross capital formation in 1990 to 15.7% in 2007 (UNCTAD, 2016), albeit then falling as a result of the great recession. Globalization may be a hideous word of obscure meaning (Wolf, 2004), but it was the mantra of an era.

More substantially, globalization was seen by many as a systemic transformation of the international political-economy from a world defined geographically in terms of mutually exclusive sovereign territoriality to an emerging transnational system where borders are permeable, non-state actors compete for authority, and the meaning of space and place are transformed. We were told that markets now dominated states (Strange, 1996), *The World is Flat* (Friedman, 2005), and that "Sovereignty is @Bay" (Kobrin, 2001).

Fast forward to 2016. The U.S. president is an economic nationalist calling for repudiating existing trade treaties, raising barriers against imports, and embedding borders in bricks and mortar. Great Britain voted to withdraw from the European Union (Brexit) and the very idea of the EU itself is in danger. Nationalist and populist parties—based primarily on anti-immigrant sentiment—have gained traction in many countries to the point where the mainstream reflects their ideas and rhetoric. Conflict among the major states, which was thought to have ended with the fall of the Berlin Wall in 1989, is apparent once more as both Russia and China assert themselves internationally and illiberal states are becoming more common.

In a very real sense, we have been there and done that: there is an ample literature on the first wave or "golden age" of international economic integration which peaked around 1914, recovered somewhat after the First World War, and then crashed on the shoals of the Great Depression. The open world economy slammed shut and the very ideas of liberal democracy, capitalism, and free markets were questioned, leading to the rise of fascism and, ultimately, a disastrous global conflict (see Frieden, 2006; James, 2001; O'Rourke & Williamson, 1999).

That raises a question of direct importance to both multinational enterprise and policy makers: Is globalization (and an open international economy) a cyclical phenomenon dependent on a specific conjunction of political-economic conditions? If so, are we witnessing a return to the norm, a second retreat from a global world economy given economic difficulties, the erosion of U.S. leadership, and the reemergence of major power tensions? Or have the dramatic changes in technology and their impacts on space, time, and place rendered the very idea of even relatively independent national markets untenable? I will argue for the latter—that late twentieth century globalization is structural and that the current integrated world economy is a conundrum from which we can neither escape nor, at least in the short run, manage effectively. If I am correct, we face a prolonged period of political-economic instability and uncertainty.

That said, it is important to recall the assumption of permanence in 1914. Then, as now, it was hard to imagine discarding the considerable gains from the integration of national economies, it seemed that such recklessness and folly was simply impossible. The assumption was widespread that European economies were too interdependent to break apart into war (MacMillan, 2013).

This article will first establish the nature, extent, and implications of this second wave of globalization and then explore the reaction against it in considerable detail. It will then ask "What can be undone?" Have the underlying structural changes in technology and markets increased the cost of devolution to the point where it is no longer feasible under all but the most extreme conditions, or is a return to the autarkic world of the 1930s possible? I will then turn to a consideration of possible future scenarios and their impact on the strategy of the multinational enterprise (MNE).

Globalization

In the evolution of you and I
Living under the everlasting sky
From a smoke signal to a cell phone
And call waiting where the buffalo roamed
(Turning with the Century, Sonny Landreth)

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Both waves of globalization were driven by economics, politics, and technology. Late nineteenth century globalization reflected the long period of relative peace in Europe after the defeat of Napoleon, British dominance of the international economic system, the dramatic increases in productivity resulting from the industrial revolution, and importantly, the technological revolution in transport and communication: railroads; steamships; and the telegraph and telephone.

Late twentieth century globalization dates from the fall of the Berlin Wall in 1989 and the digital revolution. The end of the Cold War ushered in a period of relative peace among the great powers, the devolution of the Soviet Union opened new areas of the world to trade and investment, and the neoliberal belief in the superiority of market economies and open economic borders reigned supreme. The dotcom explosion of the 1990s, the rise of the East Asian economies, and the emergence of China all resulted in increased levels of international trade and investment, and the economic boom ameliorated concerns about the domestic impacts of open international markets.

The current wave of globalization differs from the first in a number of important respects. It is more extensive, integrating a large number of countries into the world economy in a myriad of ways. Perhaps more important, it is more intensive, involving deep integration of national economies through FDI and global production networks. In contrast to the early twentieth century world economy when cross-border flows of trade and investment dominated, this time around, what matters most are the direct "beyond the border" connections that penetrate into the heart of the domestic economies.

What do the data tell us about the rise and possible fall of the late twentieth century global economy? Did the recession of 2008, which directly affected trade and investment, sound the death knell for the second wave of globalization? World trade, or exports and imports as a percentage of GDP (a traditional measure of openness), rose steadily from 1990 to 2008, fell by 14% in 2009, and then recovered somewhat, although never reaching the 2008 level again (World Bank, 2016b). While exports in constant dollars dipped as a result of the recession in 2008 and then continued to rise through 2015, the latest data for U.S. trade in goods and services show about a 5% drop from 2014 to 2015 and a similar decline over the first 9 months of 2016 (Census, 2016; World Bank, 2016b).

Foreign direct investment inflows increased from $204 billion in 1990 to a peak of $1.90 trillion in 2007. They then fell during the great recession and while they recovered somewhat, they never again reached the previous high, totaling $1.76 trillion in 2015. (UNCTAD notes the 2015 gain resulted primarily from mergers rather than new activity.)

FDI inflows as a percent of gross capital formation show a similar trend, rising precipitously from 1990 to 2000, dropping significantly thereafter as a result of the dotcom bust, recovering in 2003 and rising to a new high in 2007, then falling steeply (38%) in 2009. They declined through 2014 and then rose for the reasons noted earlier (UNCTAD, 2016).

While the data for international trade and FDI are consistent with an argument that the period of dramatic growth of trade and investment has ended, we certainly are not experiencing anything comparable to the complete collapse of the first wave in the early 1930s. The data may reflect no more than a short-term reaction to the recession of 2008 followed by a mature phase or steady state of globalization. In short, to paraphrase the American humorist Mark Twain, the reports of the death of globalization may be exaggerated. Or they may not.

Be that as it may, the very negative, widespread populist reaction to globalization in general, and trade and trade agreements more specifically, is real and needs explanation. It is to that topic that I now turn.

The Backlash

> "All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries…that no longer work up indigenous raw material, but raw material drawn from the remotest zones…In place of the old local and national self-sufficiency, we have…universal interdependence of nations." (Marx, 1998 (1848), p. 39)

Concern about globalization is hardly new. One hundred and sixty-eight years ago, Marx and Engels noted the need for a constantly expanding global market and expressed concern about "the cosmopolitan character [given] to production and consumption in every country" (Marx, 1998 (1848), p. 39).

In the years following the Great Recession, a very vocal, broad-based, and strident opposition to globalization has arisen. Donald Trump called

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NAFTA "the worst trade deal maybe ever signed," argued that trade pacts are no good for workers, and proposed a 20% tax on all imported goods and prohibitive tariffs on goods made abroad by U.S. firms. Almost 52% of British voters opted to leave the EU after a campaign largely based on "sovereignty" created nightmares of massive immigrant invasions and a marked and vocal distrust of "experts" and elites. Ninety-eight percent of Hungarian voters in October 2016 chose to refuse to allow the EU to settle refugees in that country (although the turnout was too low for the vote to be valid). Populist political blocs are gaining power in countries as diverse as Hungary, Poland, France, the Netherlands, and the U.K., with an anti-immigrant, xenophobic, nationalistic, and anti-globalization message.

Globalization is seen as alien, as a means to debase national culture and society, as a threat to national economic well-being. What explains this apparently deep-seated and very vocal reaction against globalization?

The economic and sociopolitical arguments against globalization are intertwined and interrelated. Globalization produces economic losers as well as winners, and the costs to the losers have been exacerbated by the very narrow distribution of the gains from international openness. In a world where Shanghai is a click away from New York or Tokyo from Paris, geographic distance loses meaning and the very idea of a shrinking world threatens the idea of the nation or the "people." The economic dislocations reinforce and are reinforced by perceptions of a loss of national sovereignty and a fear of the other or the alien. The result has been a marked increase in xenophobia and nationalism and a rise of anti-globalization populist parties in many countries.

Economic Dislocation

> "Back in the mid-1990s, most researchers found that the effect of trade on U.S. wages was relatively minor." (Haskell, Lawrence, Leamer, & Slaughter, 2012, p. 119)

Widely cited research done by the McKinsey Global Institute (Dobbs et al., 2016) found that from 65 to 70% of households in 25 advanced countries faced "real market incomes" that were flat or had fallen over the 2005–2014 period. (This compares to less than 2% of households in the same category from 1993 to 2005.) As Piketty (2014) and others have noted, inequality of income and wealth has increased dramatically in many of the advanced countries with the wealthiest households (the top decile or even the top 1%) increasing their share at the expense of the vast majority of the population. The share of U.S. income earned by the top 1%, for example, rose from 7.7% in 1973 to 16.5% in 2000, 18.3% in 2007, and 22% in 2015 (Haskell et al., 2012).

Perhaps most notably in the U.S., the loss of manufacturing jobs and the shrinking middle class have been serious and contentious political issues. (Six million U.S. manufacturing jobs were lost between 1999 and 2011 (The Economist, 2016). Many Americans feel that the playing field is not level and that the gains from the economy in general (and in trade more specifically) flow only to the elites—that the wealthy are getting wealthier while the remainder of households struggle to get by.

While it is beyond question that unemployment, flat or declining incomes, and increasing inequality have been in evidence in many of the advanced countries (at least since the recession of 2008), disentangling the causal effects of slower growth, technology, and trade is difficult. Economic growth has slowed: OECD countries' GDP growth turned negative in 2009 (−3.45%), recovered in 2010 (3.00%), and then remained in the 1–2% range through 2015 (OECD, 2016). Although the impact of automation on employment is hard to quantify, one estimate puts 47% of U.S. employment susceptible to computerization (Frey & Osborne, 2013).

Until recently, economists have generally agreed that the benefits of free trade far outweighed the costs. Under some specific assumptions, an open international economy should provide net benefits to all participants in terms of an increase in output (GDP) for a given level of inputs. However, while the impact of trade may be strongly positive at the macro level, the gains are not distributed uniformly and there are domestic winners and losers. Although the welfare effects, the distribution of benefits and costs within an economy, have long been recognized and reflected in trade politics, concern has been minimized by two assumptions: First, that the negative effects are minimal (Krugman, 2008) and second, that losses could be offset by transfer payments—unemployment assistance or

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retraining. Unfortunately, the first assumption may no longer be valid and the second has long been illusionary.

Krugman (2008, p. 134) argues that "the reassuring consensus that trade has only modest effects on an income distribution is increasingly out of date." The rapid increase in imports to the U.S. from developing countries since the early 1990s means that "it is probably true that this increase has been a force for greater inequality in the United States and other developed countries."

While it is not possible to isolate the impact of trade and outsourcing on unemployment, income stagnation, and inequality, there is no question that "the connections between globalization, technology, and wages have become more important in the last 10–15 years" (Haskell et al., 2012, p. 120). For example, Autor, Dorn, and Hanson (2013) argue credibly that import competition accounts for one-quarter of the aggregate decline in U.S. manufacturing employment. They find that the rise of China alone explained a significant portion of the decline.

Furthermore, there is a perception that the benefits from trade—and outsourcing—flow only to the elite, to the wealthy at the top of the income distribution. While one certainly can argue that there is a broad-based gain from cheaper products, from clothing to cell phones, that is a difficult argument to make to people who have lost their jobs, had them threatened, or seen their incomes and status decline over time. It is a difficult argument to make to those who believe their children will not do as well as they have. (A 2014 Pew Global Attitudes survey found that 65% of respondents in the advanced countries believed that their children would be worse off financially than they are (Pew Research Center, 2014)).

The sense of economic loss, uncertainty, and unfairness among large segments of the population is reality based, and trade and outsourcing are a significant part of the problem. At least some of the anti-globalization backlash is a result of economic dislocation—real, threatened, and perceived—affecting a significant population in many of the advanced countries. As (Haskell et al., 2012, p. 136) note, "…there is at least suggestive evidence that globalization has been boosting the real and relative earnings of superstars."

The poll data reflect that sense of economic loss. A Bloomberg national poll conducted in March 2016 found that 65% of U.S. respondents felt there should be more trade restrictions to "protect American jobs," and only 35% favored fewer restrictions to enable wider consumer choice (McCormic & Dopp, 2016). However, as always with questions about trade, framing is critical. A Gallup poll (Newport, 2016) conducted about the same time found that 58% of respondents saw trade as an opportunity for export-driven economic growth, while only 34% believed trade was an import-driven threat.

Perhaps most interesting, 68% of the Bloomberg poll's respondents said they felt an American company that employed 1,000 workers would be better for their community than a Chinese company that employed twice as many workers. That raises questions about whether the highly politicized opposition to trade is based solely on economic gains and losses and the role played by a sense of a threat to national identity and nationalism.

In a series of papers dealing with trade (2009) and outsourcing (2013), Mansfield and Mutz argue that sociotropic perceptions that are largely independent of self-interest "play a substantial role in shaping attitudes about foreign commerce" (Mansfield & Mutz, 2009, p. 427). Using U.S. national survey data, they find that education exerts a strong positive influence on attitudes toward trade and that these attitudes are based on perceptions of how trade affects the U.S. economy as a whole.

Probing further to understand the influence of education, they conclude that isolationist attitudes and ethnocentrism are significant. "There is little support for free trade among people who believe the United States is superior to other countries, hold isolationist views, and exhibit evidence of prejudice toward groups unlike themselves" (Mansfield & Mutz, 2009, p. 450). A second paper dealing with outsourcing concludes similarly that opposition to outsourcing "appears to be part of a broader worldview that defines people as 'us' or 'them'" (Mansfield & Mutz, 2013, p. 602).

The economic dislocations resulting from globalization are real and account for job losses, increasing inequality, and a good deal of angst and uncertainty. It is easy to agree that trade and globalization have not delivered the promised benefits to most citizens in many of the industrialized countries. That being said and however it is expressed, much of the increasing and very vocal outcry about globalization reflects the fear of an ever-closer "other" in an ever-shrinking world. It is to that topic that I now turn.

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Nationalism

> At this moment, we all face a choice…We can choose to press forward with a better model of cooperation and integration, or we can retreat into a world sharply divided and ultimately in conflict along age-old lines of nation and tribe and race and religion. (President Obama to the United Nations (Landler, 2016, p. A1))

In much of the world, nations and nationalism are relatively new concepts, creatures of modernity. The modern state system is organized territorially: the earth's surface is divided into fixed, mutually exclusive, geographically defined jurisdictions enclosed by discrete and meaningful borders. Each state is, in theory, the ultimate authority within its jurisdiction in terms of law, rules, and regulations. More controversial is the idea that a state's borders should enclose a "people"—that the state is a sociocultural entity: in Giddens' (1990) terms, a "social community."

In the sociopolitical context, globalization superimposes the distant or foreign on the local. It intensifies "worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa" (Giddens, 1990, p. 64). Globalization "disembeds" social systems, lifting social relations out of local contexts and interactions and restructures them across "indefinite spans of time–space" (Giddens, 1990, p. 21).

The cosmopolitan competes with the local: cities such as New York, London, and Bangalore are both local and global, home to millions and nodes in a global network. In the "shrinking" world of globalization, large numbers of heterogeneous social, cultural, political, and economic actors are directly connected. The "other" interpenetrates the "we;" national culture is seen as threatened, and nationalism is exacerbated.

Teresa May, the British Prime Minister, captured the dual nature of the threat posed by globalization to both sovereignty and community. She said that the U.K. voted to leave the EU "to become a fully independent sovereign country…We will do what independent sovereign countries do. We will decide for ourselves how we control immigration. And we will be free to pass our own laws" (Castle, 2016). She also lashed out directly against multiculturalism, against citizens of the world whom she called "citizens of nowhere" (Taub, 2016).

An infamous poster of the U.K.'s Independence Party promoting a leave vote (or Brexit) that shows a long line of immigrants with the phrase "We must break free of the EU and take back control of our borders" across the bottom epitomizes the threat globalization poses to many. (The picture actually shows migrants at the border between Slovenia and Croatia.) While the phenomenon itself has generated an explosive backlash, motivating the rise of right wing populist parties in many countries, immigration is also symbolic. It is a metaphor for the interpenetration of society by the other, the alien, for the erosion of the local and the perceived dominance of the global. The fantasy that Sharia law is a threat to the U.S. legal system—apparently shared by President-elect Trump's former national security advisor—is a perfect example.

The economic dislocations resulting from extensive and intensive globalization are real, as are the constraints on sovereignty posed by an economically interdependent global economy. That said, the perceived threat to community, to ethnic and social identity—and it has to be said, in many Western countries, to Whiteness—is a major explanator of the backlash against globalization. The Polish Foreign Minister Witold Waszczykowski captured this sentiment arguing that the previous government moved "… toward a mixture of cultures and races, a world of cyclists and vegetarians, who use only renewable resources and combat all forms of religion. This has nothing in common with Polish values" (Gowans, 2016).

To summarize, the backlash against globalization is complex, involving economic, political, and sociocultural components. While the economic benefits of globalization are real, so are the costs in terms of job losses and increased inequality. National borders have become more porous, and interdependence has imposed constraints on the decision-making autonomy of national governments. The current wave of globalization entails deep integration, both economically and culturally. The conflict between the cosmopolitan and the local, between "us" and "them" is immediate rather than distant. Furthermore, in many Western countries, it is the middle and working classes who are most threatened by both economic and sociocultural dislocation. The populist backlash against globalization, resulting in the election of Donald Trump, Brexit, the increasing power of Marie Le Pen, and the gains of the right-wing Alternative for Germany, among many other phenomena, is certainly understandable.

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Globalization: What Can be Undone?

> "Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given, and transmitted from the past." (Marx, 1963 (1852), p. 15)

With the onset of the Great Depression, the open international world economy ground to a halt as countries turned inward and international transactions shut down. World trade fell to just one-third of its 1929 levels by 1932, countries fled the gold standard, currencies became inconvertible, regional blocs emerged, and capital flows all but dried up (Frieden, 2006).

The obvious question is whether history is going to "speak twice," whether the narrative of the second wave of globalization will follow that of the first. Given that economic phenomena tend toward cyclicality, is there any reason to assume that either an open or a closed international economy represents the "normal" state of affairs? Does the leveling, or even decline, of international trade and investment and the increasingly vehement backlash against globalization signal an inflection point: a turn toward closure and relative independence of national economies?

Both waves of globalization have two characteristics in common. First, both occurred during an unusual conjunction of political and economic conditions that were certainly temporary the first time around and may well be again. Second, in each case, dramatic new developments in technology both facilitated globalization and resulted in fundamental changes in economic structure. The structural changes accompanying the first wave of globalization, however, were not a barrier to rapid devolution of the world economy in 1930: the critical question is whether they will be now.

Globalization as a Cyclical Phenomenon

Hirst and Thompson (1996) warn against ascribing structural significance to what may be conjunctural or temporary changes. Late twentieth century globalization certainly arose amidst a conjunction of unusual economic and political conditions. The Berlin Wall fell in 1989, signifying the end of the Cold War and the onset of a period of peace, at least among the major powers. The devolution of the Soviet Union resulted in the transformation of a relatively large number of socialist states into market economies. China became an important factor in the world economy, and many developing economies grew rapidly and developed a significant manufacturing base.

With the exception of the period around the dot-com "bust" in 2000, the period through the recession of 2008 was characterized by strong economic growth: all else equal, economic growth should result in both expanding firms seeking international markets and a lessened concern among the workforce about the impact of international trade and investment. It is always easier to lower barriers to trade and negotiate trade and investment agreements when the economy is strong, jobs are relatively secure, and pressures for protectionism ebb. Thus, the World Trade Organization emerged from GATT at the end of the Uruguay Round in 1994, The European Union was established with the Maastricht Treaty in 1993, and the United States, Canada, and Mexico agreed to NAFTA in 1993.

Late twentieth century globalization also reflected underlying ideological change. With the fall of the Soviet Union and the internationalization of the Reagan-Thatcher "revolution," Neoliberalism—a belief in markets, deregulation, privatization, and the opening up of domestic economies—swept through the world. This was especially noticeable in many developing and transitional economies where there was a sharp turnabout from inward-focused, state-dominated economic policies to a neoliberal world view, a transition described by the World Bank as a "sea change" (World Bank, 1991).

Culturally, extensive and intensive globalization requires at least some degree of cosmopolitanism, some sense of shared humanity. Globalization brings different cultures, languages, and ideas into close contact and requires, if not enthusiastic acceptance, at least a willingness to tolerate the "other," which was in evidence through much of the period.

Finally, for much of the period since 1990, the United States has been the dominant power in the world economy, perhaps no longer a hegemon, but still able to order the system and guide acceptance and enforcement of the rules.

It is reasonable to argue that the conjunction of economic and political conditions that gave rise to the second or current wave of globalization no longer exists. The recession of 2008 dramatically affected economic growth in both advanced and

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developing countries, sending annual growth into negative territory in 2009 and then never resuming the generally upward trend evidenced since 1990. While the U.S. economy has recovered, the recovery has been weak, especially in terms of employment trends. The GDP growth rate of the EU also plunged in 2009 and has barely reached 1% since (OECD, 2016).

Trade agreements appear to be dead in the water. The Doha round of negotiations at the World Trade Organization was effectively declared over in December 2015 when trade ministers could not reach an agreement to continue (Editorial Board, 2016). As noted earlier, the Trans Pacific Partnership was opposed by both U.S. presidential candidates and President Trump has pledged to renegotiate NAFTA. Brexit is underway, and populist parties in several EU countries are arguing for withdrawal.

While peace among the major powers remains the rule, the situation has become more tenuous with an increasingly assertive Russia taking control of Crimea and China making territorial claims in the South China Sea.

Neoliberalism, the basic ideology underlying globalization, is under fire. To some, China provides a model of a successful state-dominated market economy. There are increasing pressures for restrictions on inward flows of investment, notably in the U.S. under the rubric of national security concerns. Even the International Monetary Fund, one of the pillars of the international economic system, has raised concerns, asking if neoliberalism has been "oversold," primarily in terms of capital account liberalization and fiscal consolidation (Ostry, Luoungani, & Furceri, 2016).

As discussed earlier, the cultural backlash certainly reflects increased concerns about national identity and the penetration of the alien. Thus, the French Republican Party's presidential candidate Francois Fillon said that immigration must be reduced to a strict legal minimum, because "our country is not a sum of communities, it is an identity" (Nossiter, 2016, p. A1).

Kindleberger (1986) argued that one of the primary causes of the Great Depression was the lack of a hegemon to order the international economic system: Great Britain was no longer able and the United States not yet willing to fulfill that role. The U.S. took on that role in the aftermath of World War II, providing economic leadership, pressure for a rule-based open world economy, support of international institutions, and absorption of the slack when necessary. That was particularly true after the fall of the Soviet Union when America was the dominant power and an open international economy was in its interest.

While the American economy remains the largest in the world and the U.S. is still the most powerful country we appear to be moving toward a multipolar world, due to both the rise of competing powers (such as China) and the U.S.'s withdrawal from its leadership role. That could well presage increasing instability in the international system with conflicting ideas about norms, which could well make maintenance of an open economy more difficult.

In short, we may well have reached a point where the particular conjunction of economic and political conditions supporting globalization no longer exist. If globalization is a cyclical phenomenon, we may have reached an inflection point. However, globalization is also structural—it reflects basic underlying change in the organization of the world economy, which may be more resistant to change. I now turn to that topic.

Structural Change

> "I'm going to get Apple to start making their computers and their iPhones on our land, not in China." (President-elect Donald Trump (Goel, 2016, p. b1))

While 85% of the 70 million iPhones sold in the U.S. in 2011 were "made in China," in this case, "made" means assembled from components, generally involving low-skilled and low-paying jobs, albeit in a high-tech industry. Only a very small percentage of the iPhone's value added accrues to China.

Chinese assembly represents the final stage of a complex global production network involving 200 suppliers in a large number of countries: camera parts from Japan; displays from Korea; DRAM from Taiwan; batteries from Korea; and gyroscopes from France and Italy, for example. (A significant percentage of the components are made or designed in the U.S.) Dispersion of the "tasks" involved in design and production of the iPhone reflects, to a large extent, dispersion of the underlying technological and production capabilities (see Minasians, 2016; Tweney, 2013).

Could this complex and extensive network be replicated in the U.S. (or any single country for that

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matter) in a reasonable time and at a reasonable cost? Is forcing Apple to repatriate production feasible or even desirable? That is one, if not the, critical question differentiating the current or second wave of globalization from the first.

Revolutionary developments in technology facilitated both waves of globalization: telegraph, telephone, and steamships on the one hand and the digital revolution, container shipping, and jet aircraft on the other. While both resulted in structural changes in economic organization, I argue that technological developments now function as a constraint limiting the range of feasible modes of organization of the world economy. The technologically driven reorganization of international production has increased the cost of devolution—a return to protected and even relatively independent national markets—to the point where it may not be politically feasible.

This results from three interrelated trends. First, late twentieth century globalization is deep rather than shallow: arm's-length trade and portfolio investment have been overtaken by nearly 900,000 subsidiaries of multinational firms, characterized by high levels of intrafirm trade and cross-border integration (Jaworek & Kuzel, 2015). Second, in many critical industries, technology has become global in terms of both its scale and the dispersion of expertise. Third, the increase in technological complexity and the geographic disaggregation of knowledge, combined with the innovations in transport and the digital revolution, have led to the disintegration of vertically integrated "Fordist" firms into global production networks comprised of interdependent, nonspatially proximate, specialized units (Buckley & Ghauri, 2004; Grossman & Rossi-Hansberg, 2006).

The electronics industry provides a tangible example of the dispersion of technological capabilities and production and the difficulty of closing borders and replicating the entire process downstream. Global Production Networks (GPNs) in the electronics industry have become global knowledge networks characterized by structural differentiation of the nodes and the need for intense coordination of relationships among them. Given differences in context, specialization, path dependence and scale economies, suppliers have developed specialized capabilities that would be extremely difficult and costly to replicate in any single country.

The result has been a change in the underlying mode of international production from markets (trade) and hierarchy (multinational firms) to networks as a distinct mode of economic organization (Kahler, 2009). In an integrated network, the distinction between "local" and "global" becomes problematic: within a GPN, place becomes multiscalar, each node existing simultaneously as local, national, and global. Once it becomes difficult to make distinctions between local and global geographies, it becomes necessary to think of space in non-territorial or relational terms (Amin, 2002), of a space of flows rather than a space of places (Castells, 1996).

The immediate question is the meaning of borders in a networked world economy—the efficacy of lines around places in a space of flows. The disastrous Smoot-Hawley Tariff of 1930, which effectively closed U.S. borders to trade, was followed directly by most other countries (Frieden, 2006). As discussed earlier, the world economy slammed shut and trade spiraled inward. (It should be noted that within 4 years, Congress passed the Reciprocal Trade Agreement, granting the president authority to negotiate reduced tariffs.)

While Keynes (1933, p. 755) argued that goods should be "homespun whenever it is reasonably and conveniently possible…," the range of what is reasonably and conveniently possible has narrowed substantially. In many critical industries, even the largest national markets cannot sustain the scale of competitive research and development efforts. The transport and communications revolution has allowed for disbursed technological specialization integrated through networks where the most important flows involve information and intermediate products. In many instances, the value of any individual node—a local research, development, or production operation—is relational, dependent upon integration into the network as a whole.

The admittedly extreme Smoot-Hawley Tariff lasted but 4 years before action was taken to rescind it. Even in a world where most trade was raw materials or finished goods, closure was costly and not possible in the long run. At present, when the international economy is organized in terms of integrated networks of subsidiaries of multinational firms and far-flung global production networks, trying to close national borders would be costly and ineffective. It would be not only prohibitively expensive to attempt to substitute homespun goods for international products, but it may also be inneffective.

That, however, does not mean that it would be impossible to significantly restrict international transactions and move toward closure of the open international economy once again. One clear lesson of the twentieth century is that virtually anything is possible. However, the cost of closure would be markedly higher than ever before, affecting the standards and modes of living of citizens of both the advanced and industrializing countries directly. The question, as always, is whether the *perceived* benefits of closure in terms of national political, sociocultural, and economic independence outweigh the costs.

Possible Scenarios

> "Prediction is difficult, especially when it concerns the future." (attributed to Niels Bohr)

Prediction about the future course of globalization is difficult. It makes more sense to think in terms of possible scenarios. I offer three: muddle through, irrational exuberance, and a billiard table world.

Muddle Through

While the backlash against globalization does not ebb, the response focuses primarily on immigration and sociocultural issues. Anti-trade and anti-investment measures are mostly symbolic, with limited affect. The Brexit process is long and drawn out and, despite the EU's protestations to the contrary, a compromise is reached, allowing most economic transactions to continue. Business opposition to President Trump's anti-trade measures in the U.S. is overwhelming, and the Congress responds by limiting the effectiveness of his efforts. Geopolitical tensions are managed, and the U.S. and China work out a *modus operandi*, allowing a degree of multilateral cooperation that maintains the basic structures and rules of the road of the international economic order. The three pillars of the post-war order—the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO)—continue to function. International flows of trade and investment reach a steady state, neither turning sharply downward nor recovering the pre-2008 growth levels.

Irrational Exuberance

A hard Brexit takes place and a determined President Trump implements anti-trade and investment measures that result in countermeasures, leading to a trade war. The EU begins to disintegrate as other countries follow the U.K.'s lead. Populist parties take control in a number of European countries and drastic anti-immigrant and anti-Muslim policies are put into place in both Europe and the U.S. That leads to increased alienation and a spike in terrorist incidents which, in turn, leads to further repression, increased nationalism, and national security concerns. Geopolitical tensions increase, with the constant risk of conflict among the major powers. The post-WWII rule-based international economic order begins to break down as the U.S. withdraws from its international role and its support for international institutions flags. China tries to impose its own leadership, at first regionally. The WTO loses meaning and countries ignore its rules and its attempts at adjudication. While some trade and investment is maintained regionally, flows of goods and capital evidence steady and increasingly steep falls.

Billiard Table World

Bowing to nationalism and anti-globalization pressures, countries restrict flows of capital and goods only to find that the cost of doing so becomes greater than citizens are willing to bear. However, the lessons are short lived and as populist opposition to globalization becomes strident once again, restrictions are imposed in apparently never-ending cycles. The problems of the losers from globalization and the maldistribution of its gains are addressed with only half-hearted measures. Many national economies vacillate between being relatively open and relatively closed. Geopolitical tensions rise, but are contained. However, national security concerns increase. The EU loses a few countries, but the entity is maintained under German leadership. International economic institutions lose some authority and violation of the rules becomes more frequent, but they remain in place, at least in principle. The U.S. withdraws globally and a *minilateralism* emerges on a regional basis, with the U.S., Germany, Russia, and China taking the lead roles. In short, the future of the

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international economy becomes more uncertain, and international institutions become less dependable arbiters of the rules.

While we may be able to "muddle through," I suspect the "billiard table world" is a more likely scenario, at least for the middle-term future. As noted earlier, the evolving networked world economy entails deeply integrated structural change that would be difficult and extremely costly to reverse. The web of globally integrated multinational firms, the dispersion of technology and technological capabilities, the rise of global production networks in many industries, and the increased importance of information flows across borders make a return closure unlikely, regardless of cyclical conditions. Multinational firms will face a very uncertain and unstable world—an international economy from which we can neither withdraw nor manage effectively. I conclude with some thoughts about the likely impact on firms.

Angst and Uncertainty

From the inception of the field of international business, the central problem of multinational strategy has been the conflict between integration and fragmentation—the balancing of pressures to integrate globally to exploit efficiencies and differentiate locally to respond to national political, legal, social, and cultural conditions (Bartlett & Ghoshal, 1989; Fayerweather, 1969). During the post-war era of expansion of the modern multinational enterprise, that balance generally has been tilted sharply toward global integration. Competitive pressures to integrate flowed from technological developments facilitating the effective management of global firms and political-economic trends facilitating increased increasing economic openness; a liberal international economic structure (the WTO, the IMF, and the World Bank) supporting multilateralism; increasing regional integration including the European Union; and the neoliberal ideological revolution.

For most of this period, multinational enterprises have driven down a one-way street toward increasing global integration. Given the discussion to this point, it should be clear that this may no longer be the case. While I do not believe history will repeat itself and that globalization will be reversed, MNEs may now face an uncertain international political-economic environment where the balance between pressures to integrate and fragment is constantly changing and difficult to predict.

A number of issues could complicate multinational strategy and operations:

1. Cross-border transfers of goods, services, technology, and information may become more difficult or expensive if barriers are raised and regional integration schemes devolve. Threats to impose tariffs on autos and auto parts imported from Mexico to the U.S. are an example. The security of global supply chains may be problematic.
2. Restrictions on immigration and nativist sentiment could markedly restrict the ability of MNEs to transfer personnel among subsidiaries. This could well affect the ability of firms to develop a core of *geocentric* managers with international experience.
3. For that matter, staffing in general—especially for specialized positions in smaller countries—may become more difficult. The concerns of British firms about their ability to continue to employ managers and workers from EU countries is relevant here.
4. National security concerns are likely to increase due to the possibility of increased terrorism and international conflict. That could result in increased restrictions on inward FDI and the transfer of technology.
5. The "rules of the road" are likely to be less clear as a result of the weakening of international institutions (e.g., the WTO) and the ebbing of U.S. leadership. Firms may get caught between countries' conflicting demands without the recourse they currently have to accepted norms or international institutions.
6. Increasing nationalism and ethnocentrism may complicate global marketing and global brand strategies. MNEs may find opposition to "alien" names or concepts or even to foreign firms *per se*. The rebranding of French fried potatoes as "Freedom Fries" after 9/11 in the U.S. provides an example.

Multinational firms operate in complex and difficult environments, and they have certainly shown the ability to deal with a wide range of situations strategically. Uncertainty and constant change, however, pose difficult strategic problems. Unfortunately, that may well be the environment firms face in the "billiard table world" of action and reaction as attempts to

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close borders or constrain flows run up against the reality of structural change.

More than 85 years ago, *The Economist* (1930) noted the tension between an integrated global economy and politics partitioned into separate national states. The magazine argued that the tension between these "antithetical tendencies" produced "a series of jolts and jars and smashes in the social life of humanity" (*The Economist*, 1930, pp. 652-653). Multinational managers can certainly expect both increasing tensions and jolts and jars through at least the medium-term future.

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