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Special Issue Introduction: International Strategy in an Era of Global Flux

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This Special Issue highlights the need to (re)consider international strategy in an era of global flux, taking into account recent changes in the geopolitical environment for international business and firm strategy. “Flux” is generally understood as a state of change and uncertainty,¹ conditions that certainly resonate with many popular commentaries on the current global business environment. *The Economist*, for example, recently bemoaned the trend toward deglobalization, or “slowbalization,” wherein global value chains and multinational activity are retracting and becoming more regional (*The Economist* 2019). Meanwhile, a McKinsey report notes that value chains are becoming more knowledge-intensive and reliant on high-skilled labor, as the rise in cross-border services outpaces international trade in goods (Lund et al. 2019).

International business (IB) scholars have also recognized an increasing state of flux in the international business environment in recent years. For many years, the IB literature was overwhelmingly concerned with the seemingly inexorable process of globalization, as technological advances in electronic communication and transportation, along with institutional changes (primarily promarket reforms), fueled the growth of international investment and increasing sophistication of global value chains. (For a review, see Buckley and Ghauri 2004.) Only recently have scholars started to grapple seriously with the social and political changes that threaten the globalization process and create a significantly more complex environment for international business.² Meyer (2017), for example, describes globalization as a pendulum and suggests that, at least since the global financial crisis of 2008–2009, we have been experiencing a rising antiglobalization movement that is part of a historical sequence of “waves of globalization” (Jones

2005). Kobrin (2017, p. 160) similarly refers to the post-2008 era as a “period of political instability and uncertainty,” attributing much of this instability to the backlash associated with increasing economic and social dislocation during the period. Like others (e.g., Cuervo-Cazurra et al. 2018, Rodrik 2018, Verbeke et al. 2018, Witt 2019), Kobrin points to a range of issues that are likely to complicate multinational strategy and operations in the current era, including reversal of promarket policies, restrictions on immigration, weakening of international institutions, and increasing nationalism and ethnocentrism (Kobrin 2017, p. 169).

Despite the growing acceptance of these important dislocations in the globalization process, the international business and strategy literature has, as yet, only scratched the surface in efforts to understand the implications for firms operating in the current environment. From our reading of the situation, it appears that recent trends in global economic integration are in some respects less negative than is often perceived in the conventional wisdom or that is implied by the recent focus on deglobalization in the academic literature. At the same time, political and social trends such as right-wing nationalism or deeper economic inequality may be even worse than commonly perceived. We believe that more fully appreciating the nature of this current state of flux can generate new insights into how economic, political, and social forces shape—and are shaped by—firm strategy. Moreover, this has important implications for strategy researchers and for managers who design and implement these strategies.

The papers collected in this Special Issue provide some insights into effective strategic management in an era of global flux, in terms of either navigating the more intensely contested terrain associated with

shifts in the economic, political, and social environment or proactively shaping the environment in ways that increase the likelihood of a positive pathway out of this era of global flux. Below, we lay out our understanding of recent changes in the international business environment. Next, we briefly summarize how each of the papers in the volume adds to our understanding of these issues. Finally, we look ahead to suggest some directions for additional research that we hope will follow this initial collection.

The Global Economy in a State of Flux

To underscore our assertion that we are currently in an era of global flux and to explore the nature of this flux, we turn to data. Looking first at historical trends, the most striking regularity apparent in the data are the remarkable growth in international trade and investment over virtually the entire postwar period, and particularly in the latter decades of the 20th century. For example, Figure 1 shows growth in the level of exports relative to total world output (gross domestic product [GDP]), and Figure 2 shows the foreign direct investment (FDI) position of U.S. companies abroad and foreign companies in the United States. The figures highlight how, as a result of sustained growth, these and many other measures of international economic activity currently stand at or near all-time highs. This sustained globalization trend occurred during a relatively stable and liberalizing postwar policy environment for most of the world's large economies, wherein national political institutions provided

enhanced checks and balances, political constraints, and the rule of law. Whether due to these stable institutional and economic trends or to concurrent shifts in norms and availability of information, the incidence of violent conflict between states as well as by civil society organizations against states also fell from 1991 to 2010. The decline of armed inter- and intrastate conflict further served to reduce uncertainty faced by multinational corporations and promote cross-border investments.

Today, the trajectory of the global economy looks much more equivocal. In the decade following the global financial crisis of 2008–2009, and most particularly in the past five years, the economic and political environment for IB has become less clear, and the secular trend of increasing globalization has faltered. So, for example, taking a closer look at Figure 1, we see that the growth in the level of exports appears to stall and fluctuate significantly toward the end of the time period. In Figure 3, focusing on recent changes in global FDI and other capital flows, we also observe significant changes in the magnitude and composition of these flows.

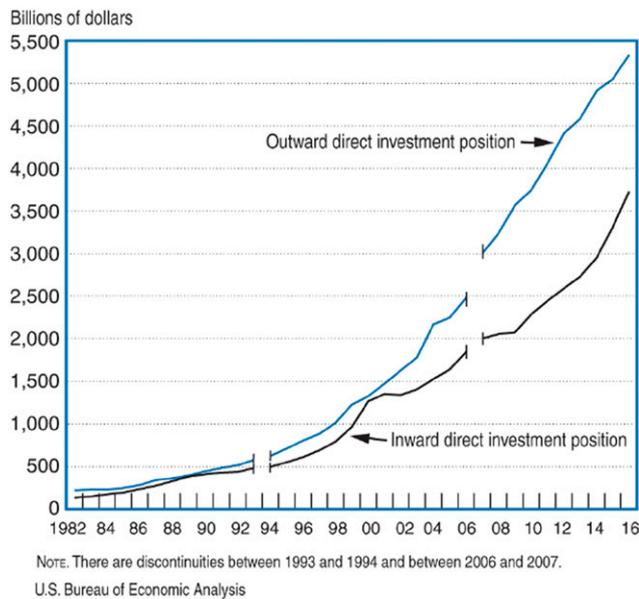
Taking these data at face value—and for the moment not digging deeper to consider accompanying political or institutional changes—we thus see a trend of continuing globalization but with a slowing or fluctuating rate of change. This alone has important implications for company strategy. For example, when international trade and investment slows, it suggests fewer opportunities and/or heightened difficulties for

Figure 1. (Color online) A Historical Perspective on the Growth in World Trade



Source. Fouquin and Hugot (2016).

Figure 2. (Color online) U.S. Foreign Direct Investment at the Turn of the 21st Century



Source: U.S. Bureau of Economic Analysis (2018).
 Note: Direct investment positions on a historical cost basis, 1982–2016.

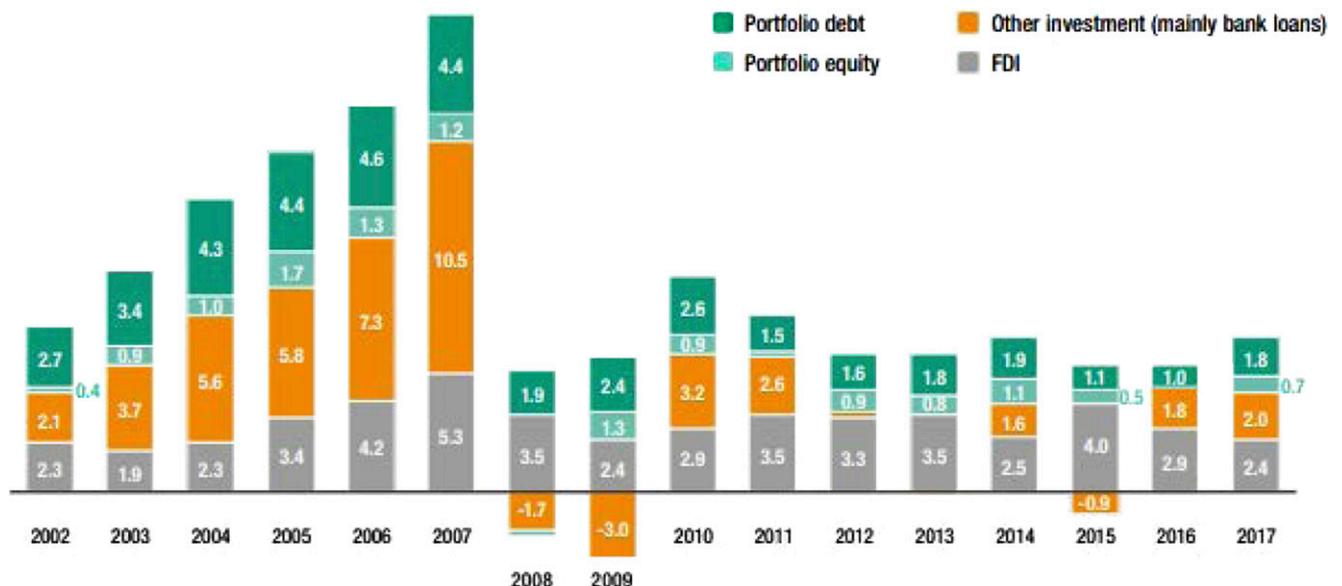
international firms in assessing new market opportunities. In turn, these challenges increase competition in global markets *and* increase the risks associated with international expansion, further complicating strategic formulation and implementation.

Although the direct investment and trade data demonstrate a degree of flux in the IB environment, we believe that in isolation these data understate

the potential implications of the current situation. A recent analysis of protectionism and state discrimination in the global economy since 2008 (Evenett 2019), for example, documents a significant reshaping of the policy measures that countries use to regulate trade and investment flows. As illustrated in Figure 4 (4a and 4b), while foreign direct investment and ownership rules are still being liberalized around the world, other measures that regulate the post-establishment treatment of multinational operations are not. Particularly alarming for companies seeking to optimize their global supply chains is the significant recent growth in so-called “localization measures”—“typically sector-specific rules requiring the use of local parts, components and data storage facilities, or the provision of incentives to source these items locally” (Evenett 2019, p. 14).

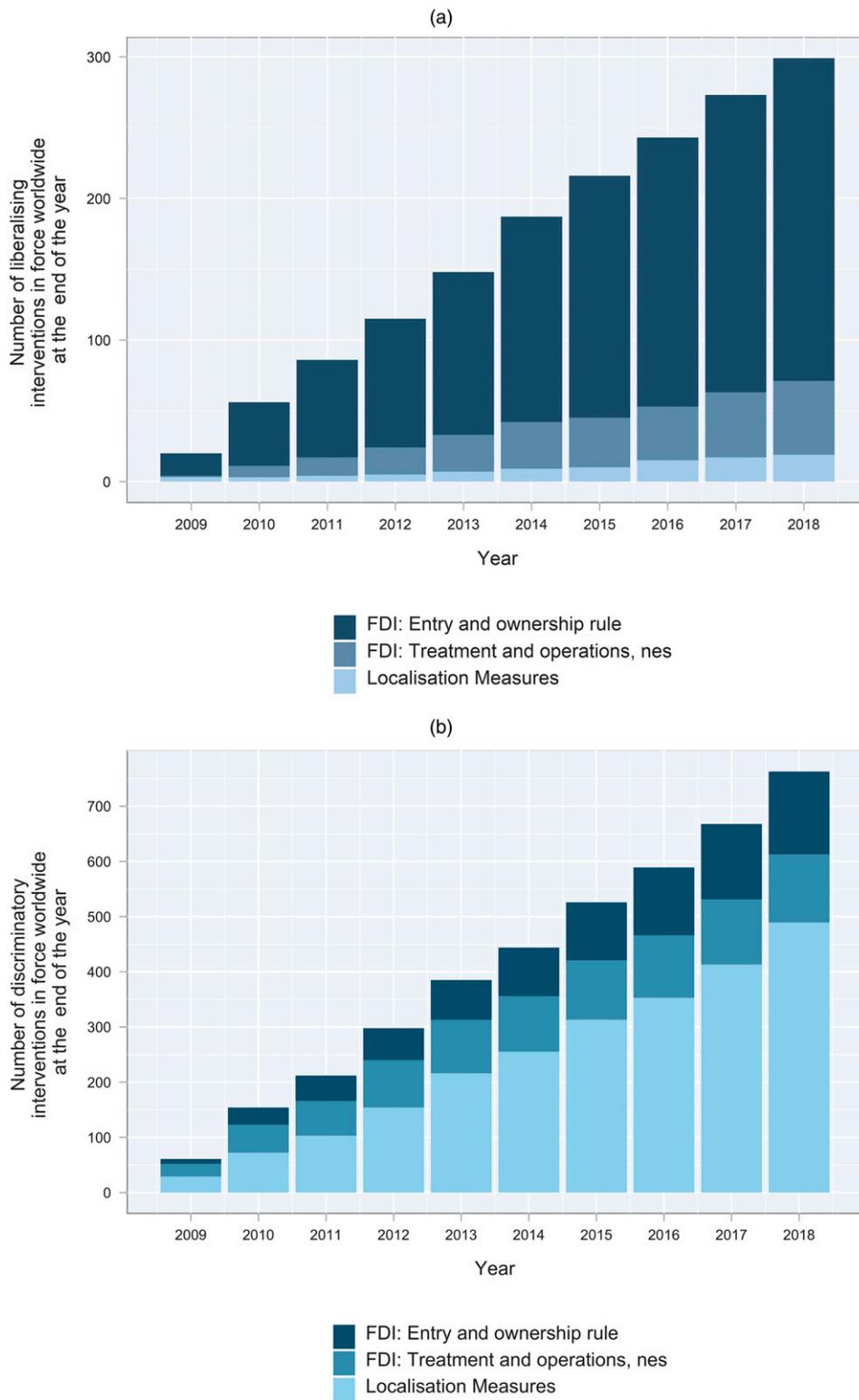
Data documenting the social and political pressures that fuel the current shift in trade and investment regulation reinforce our belief that a quick return to stability from this period of global flux is unlikely. For example, although the recent period of increased globalization coincides with converging incomes across countries, it also coincides with increased income inequality *within* many countries (Qureshy 2017). In other words, economic gains have not been shared equally over this period of international economic expansion. Figure 5 demonstrates these growing disparities, particularly as they relate to the relative gains—or rather relative losses—of the “bottom 90%” of people in the United States and in western European countries. In parallel with this rising inequality, we observe striking changes with respect to the political

Figure 3. Recent Changes in Global Foreign Direct Investment (FDI) and Other Capital Flows



Source: United Nations Commission on Trade and Development (2018, box figure I.1.1, p. 11).
 Note: Global capital flows, 2002–2017 (% of GDP).

Figure 4. Policy Interventions in Global Trade and Investment



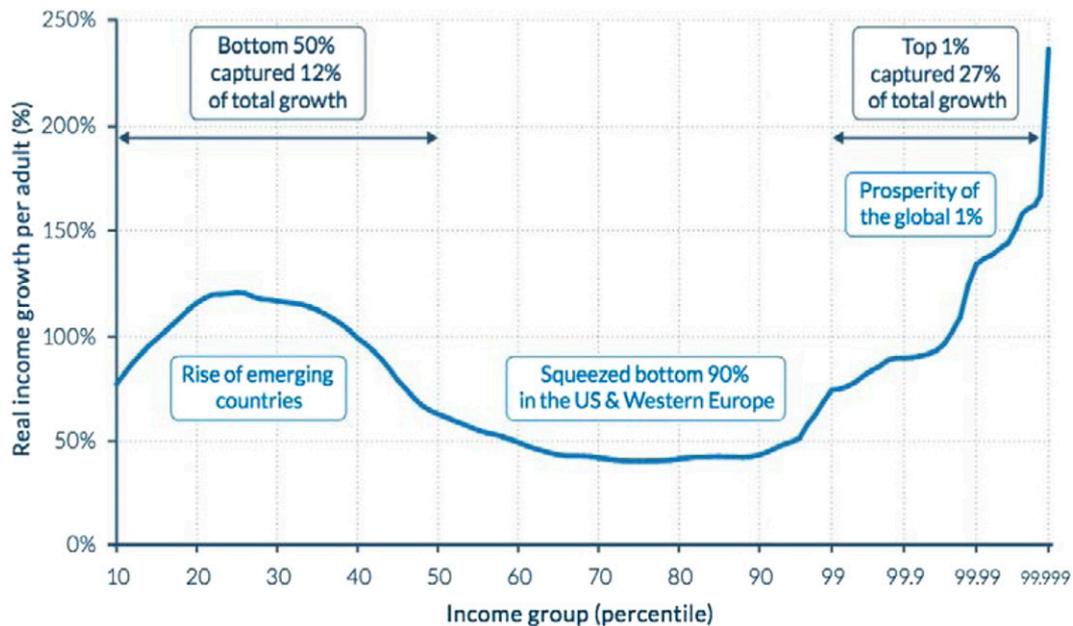
Source: Evenett (2019, figures 5 and 6).

Note. Panel (a): liberalizing interventions; panel (b): discriminatory interventions. nes, not elsewhere specified.

climate in many of these countries. Figure 6, for example, documents the rise of populism. The rapid rise in the populist vote since 2015 is particularly unsettling,

as it has significantly increased from the consistently low percentages that prevailed throughout the postwar period. Similar periods of increasing populism in the past

Figure 5. (Color online) Global Integration and Income Redistribution



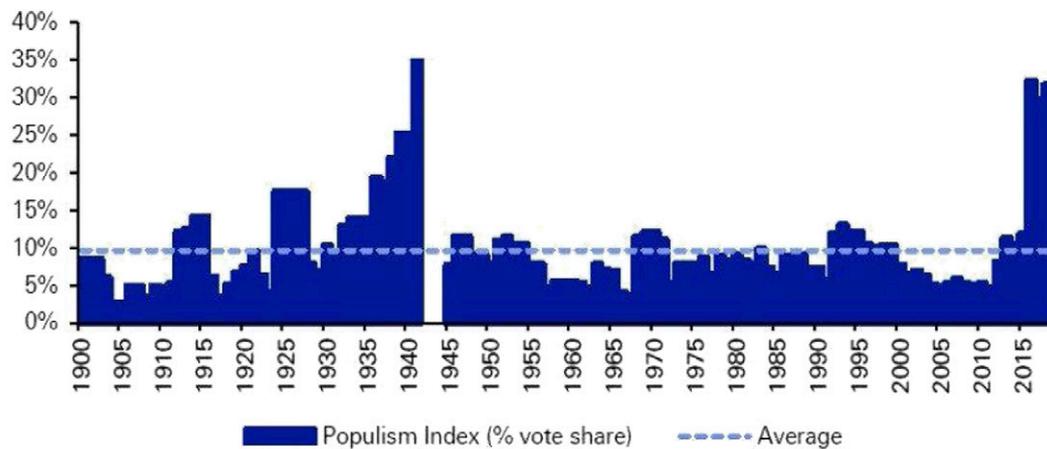
Source. World Inequality Laboratory (2018, figure E4).
 Note. Total income growth by percentile across all world regions, 1980–2016.

have often foreshadowed serious economic or geopolitical crises.

Other reversals of other long-term trends also threaten to tip the era of global flux into one of substantial decline in global integration. The trust or confidence with which individuals view national and international institutions has plummeted, and media portrayals of business organizations—particularly multinationals—is increasingly negative (see, e.g., <https://www.gdeltproject.org/>). This appears to reflect beliefs that policy outcomes related to globalization

have disproportionately benefited a small group, contributing to inequality of outcomes and, more perniciously, of opportunity. As a result, we see a widespread pull-back from liberal democracy, with more countries and more people backsliding away from the standards of liberal democracy than toward them for the first time since the late 1970s (see Figure 7). Even the long-term decline of armed inter- or intrastate conflict that significantly reduced uncertainty faced by multinational corporations has reversed since 2012 (see Figure 8).

Figure 6. (Color online) Populism: Historical Trends



Source: Deutsche Bank

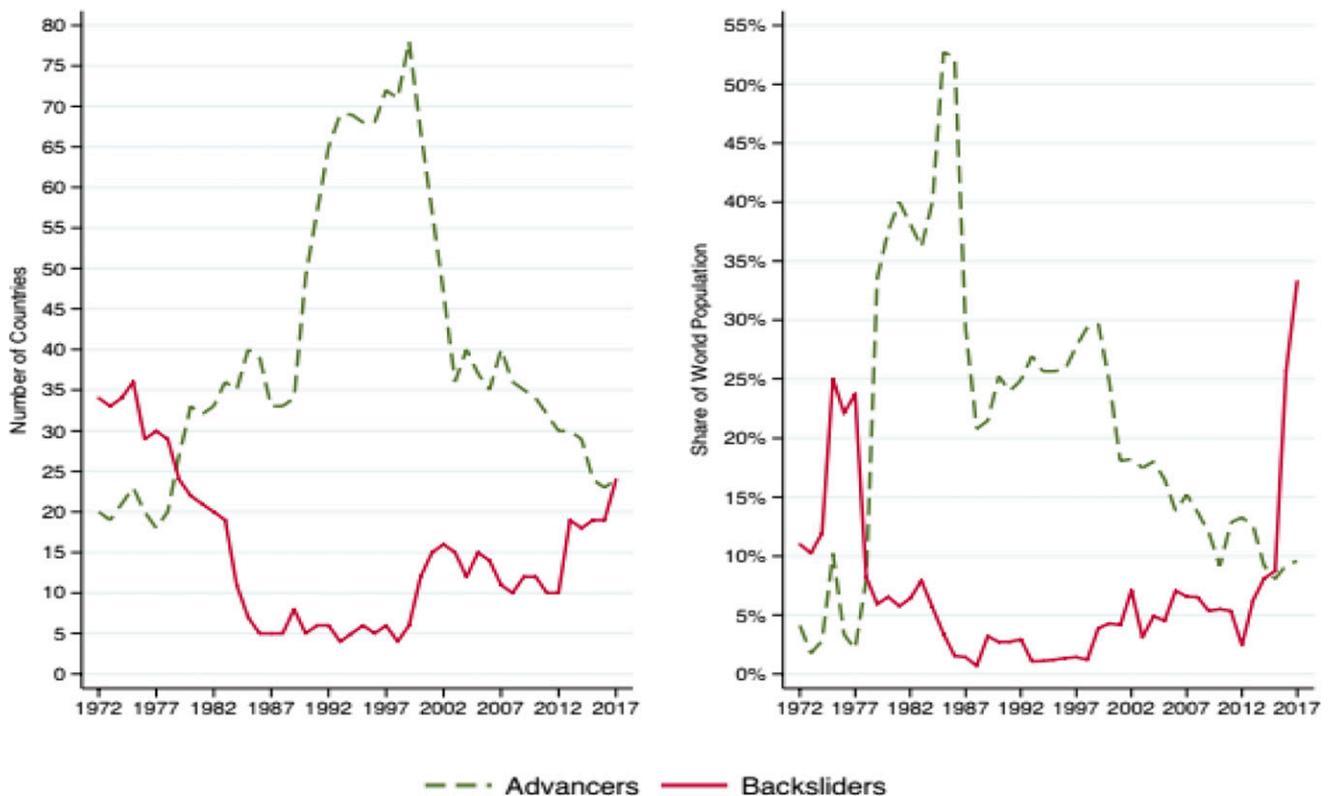
Source. Deutsche Bank Research (2018). Reprinted with permission.
 Note. Populism index (% of votes across key countries, population weighted).

Putting together all these data on different facets of the economic, political, and social environment, we have little doubt that we are in an era of global flux with potentially serious implications for IB and strategy. The loss of momentum in trade and investment flows leaves us uncertain on what the future might hold and how current economic trends will develop. Moreover, when we expand the scope of inquiry to include sensitivity to the changing social and political climate, we find worrying signs of genuine reversals in the institutions, policy outcomes, and societal norms that supported increasing global economic integration. As a result, there exists a real risk that we are at a tipping point where political and social forces reverse or reshape the long-term trend toward globalization or interdependence across economies, on which many long-term corporate strategies and valuation models rest. Certainly, this would seem to be a most likely scenario if we simply extrapolate from the current surge in trade regulations, sanctions, and violence; the rise of nationalist–populist–nativist politicians; and the withdrawal from multilateral agreements by the United States, the United Kingdom, and other countries. On the other hand, it is also quite possible that business leaders, civil society, politicians, and governments will come to a new understanding and a rebalancing

in the institutional and policy environments. In this more positive scenario, we may see that the political and social forces that are in motion today effectively change the *nature* rather than the *extent* of globalization in years to come, reinstilling trust and confidence in international institutions and the global economy.

We suggest that the current era of global flux presents two broad classes of problems for scholars and practitioners of global strategy. First, with the rise in populism and the decline in constraints or checks and balances against political change, we will almost certainly see continued secular increases in policy uncertainty for some time. These uncertainties encompass restrictions on international trade and investment, policies discriminating against foreign business, redistribution of economic rents to a broader (or different) group of voters, and even violence aimed at international firms. In such a capricious policy environment, access by multinational corporations to foreign markets will be increasingly contested or negotiated rather than assumed. In other words, we have undoubtedly shifted from an era of debates over whether the “world is flat” (Friedman 2005, Leamer 2007) to one in which we debate the source, magnitude, significance, and uncertainty surrounding the spikes encountered at

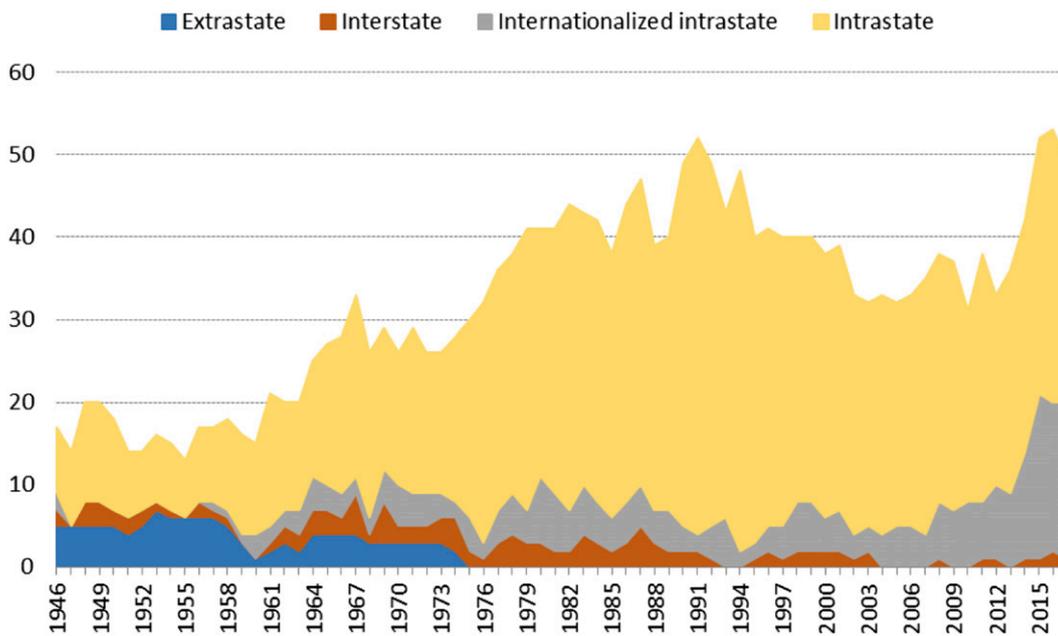
Figure 7. (Color online) Changes in Liberal Democracy



Source. V-Dem Institute (2018, figure 1.3). Reprinted with permission.

Note. Number of countries (left panel) and share of world population (right panel) with significant changes in liberal democracy index.

Figure 8. Armed Conflicts—Historical Trends and Recent Reversals



Source. Uppsala University, Department of Peace and Conflict Resolution, Uppsala Conflict Data Program. Reprinted with permission.
 Note. Armed conflicts by type, 1946–2017.

national (and intranational) borders. This raises the question of how international firms can and should craft business strategies that allow them to navigate the changing environment, to mitigate risks and create new opportunities in this more intensely contested terrain.

A second class of strategic problems focuses on proactive rather than reactive strategies. Can firms (individually or collectively) alter the incidence or magnitude of the current shifts in the economic, political, and social environments in such a way as to increase the likelihood of a positive pathway out of this era of global flux? In our view, this is a far more significant challenge but one of fundamental importance. Business has always played a vital role in generating value and driving economic growth, but in an era of division and suspicion, it behooves managers and academics alike to also pay close attention to the impact of firm strategies on the distribution of value and on the relative well-being of different stakeholder groups. Not only must firms create positive net value for the economy, they must be able to demonstrate that they are doing so and, where possible, ensure that no major stakeholder group is severely disadvantaged or harmed in the process.

New Insights

The papers in this Special Issue provide important insights into both of these two broad classes of problems. With respect to the contested access to international markets, three of the papers demonstrate the

importance of sensitivity to national political biases and “hot button” social issues when crafting international strategies. In the current era of flux, maps, flags, pictures, speech, and other artifacts potentially laden with meaning to a nation, tribe, or other political or social group become strategic levers. Simply staying neutral and navigating around such culturally sensitive issues is increasingly difficult, as shown by Vaaler and Waldfogel (2019) in their study of the design of online route maps in the international airline industry and by Mohr and Schumacher (2019) in their analysis of the selective use of nationalist rhetoric by American firms. As uncomfortable as we may be with the idea that businesses should kowtow to the seemingly extreme demands of some powerful stakeholders, a level of pragmatism is arguably a necessary component of responsible stewardship in the current environment. Moreover, despite their best efforts, firms should expect to run into (or even trigger) intractable policy shifts and reversals that materially impact their core operations, as discussed in the article by Blake and Jandhyala (2019). This study of the Indian telecommunications sector highlights how efforts to contest policy reversals through political and nonmarket actions may impose significant costs on a firm, hurting performance not only in the affected locations but elsewhere in the firm’s network of operations.

With respect to the role of IB in proactively shaping the forces that support globalization, Taussig and Malesky (2019) provide keen insights for both

managers and policymakers in their study of the process of administrative rulemaking in Vietnam. In particular, these authors find important benefits to compliance when firms perceive themselves to have a greater voice in the process of policymaking. In an era characterized by global flux, this finding highlights the counterintuitive importance for multinational corporations of working with opponents of liberalization to shape national policy: rather than isolate or insulate the policy regime from broader forces, global interests might well be served by earlier engagement with a broader set of stakeholders. In the final article in this issue, Balachandran and Hernandez (2019) provide important evidence of the positive impact that global integration (in this case, harmonization of intellectual property laws) can have on the fortunes of hitherto disadvantaged firms, alleviating some previous inequities in access to economic resources for local firms. These findings represent an important counterpoint to arguments linking globalization to increasing economic divides.

Future Directions

We are enthusiastic about the breadth of topics and the complementarity in approach of the papers we received in response to the Call for Papers, in particular the papers that we have selected to appear in this Special Issue. Nevertheless, we think it is useful to reflect on and suggest some additional research topics that we believe remain largely unaddressed and that are particularly salient in this era of global flux.

It is vital that scholars of global strategy and throughout the social sciences gain a better understanding of *if* and *how* proactive behavior by multinationals can contribute to a more inclusive and legitimate economic governance system. Such strategies must balance responsiveness to the demands of powerful political entities with the need to take into account the preferences of more peripheral and less powerful peers who have often felt left out or left behind in the prior wave of globalization.

The new realities likely require multinational firms to more directly address politically motivated concerns regarding local content, income and wealth inequality, tax avoidance, privacy, human rights (including discrimination according to gender, race, and ethnicity), climate change, and other societal challenges that they have heretofore sought to avoid or sidestep. However, as intuitively appealing as it is to conclude that the appropriate response to address politically motivated concerns is for firms to delve into nonmarket strategies, this remains an open (empirical) question. It may be that focusing on economic outcomes and being engines of economic development could be more advantageous for companies and society than directly engaging

in nonmarket actions. Regardless, in the current state of global flux, if multinational enterprises perceive renewed progress in global integration to be in their economic interest, they can no longer avoid or sidestep addressing these issues.

We also consider it important to assess if the multinational corporate voices and public sector leaders who led the process of globalization have the competency to address these broad-ranging issues independently. Or will they have to forge new partnerships with non-governmental organizations, academics, and new political organizations? While a growing body of research in recent years has studied conflict between civil society organizations and corporations, more work is needed that examines collaborations and partnerships between these sectors.

More work is also needed on sectors that have long faced the challenges of negotiated international access. Once viewed as historical anachronisms, sectors such as defense, financial services, healthcare, and infrastructure services merit study, not only on account of their large share of global economic activity but also based on the insights that they offer in their management of offsets, national security regulations, “buy national” policies, and other policies designed to ensure widespread access, including to those lacking the capacity to pay at market prices. The same strategies used by successful firms in these sectors may prove relevant to a much broader class of firms in the new environment.

Further study is also warranted on the appropriate strategic calculus to employ in international operations. Should choices regarding local hiring, training, promotion, sourcing, and technology development (still) be primarily driven by considerations of a global low-cost operational model seeking to maximize economic efficiency? Or, in an era of global flux, is there a greater role for local, national, and regional sociopolitical analysis and investment in stakeholder relations, whose payoffs are stability in the policy, political, and institutional environments? And what might be the trade-offs between these approaches?

Ironically, while these political and social perspectives were at the heart of IB scholarship during its formative period in the 1960s and 1970s, they have since been sidelined or relegated in the reality of a rapidly flattening global landscape. However, times have changed and we see a need to investigate whether different approaches and considerations are important for the international strategies of companies in our current state of flux. The choices that companies make with respect to where and how they operate around the world have important ramifications not only for their shareholders and stakeholders in the countries where they do business but also for the system as a whole.

Endnotes

¹ According to the *Collins English Dictionary*, “If something is in a state of flux, it is constantly changing” (<https://www.collinsdictionary.com/dictionary/english/flux>). Similarly, *Vocabulary.com* defines *state of flux* as “a state of uncertainty about what should be done (usually following some important event) preceding the establishment of a new direction of action” (<https://www.vocabulary.com/dictionary/state%20of%20flux>).

² A search of the term *deglobalization* (and variants) in the Institute for Scientific Information’s *Web of Science* revealed no articles with this word in the title prior to 2001 and an accelerating growth in articles on the topic in the past five years, hitting an all-time high in 2018.

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