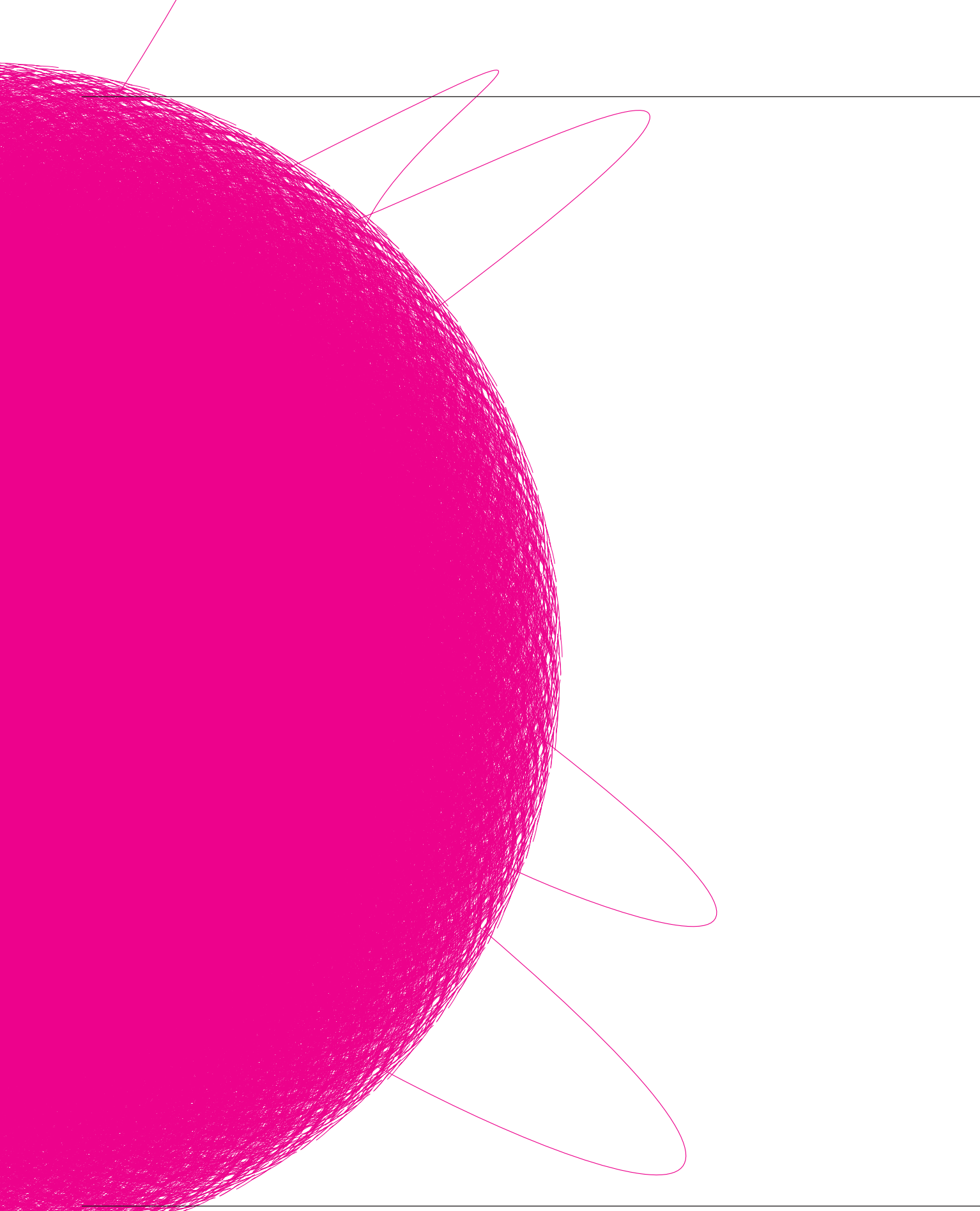




# GLOBALIZATION IN THE AGE OF TRUMP

PROTECTIONISM WILL  
CHANGE HOW COMPANIES  
DO BUSINESS—BUT NOT IN  
THE WAYS YOU THINK.  
**BY PANKAJ GHEMAWAT**

ILLUSTRATION BY THORLEIFUR GUNNAR GÍSLASON



# BUSINESS LEADERS ARE SCRAMBLING

to adjust to a world few imagined possible just a year ago. The myth of a borderless world has come crashing down. Traditional pillars of open markets—the United States and the UK—are wobbling, and China is positioning itself as globalization’s staunchest defender. In June 2016, the Brexit vote stunned the European Union, and the news coverage about globalization turned increasingly negative in the U.S. as the presidential election campaign progressed.

## IN BRIEF

### THE PROBLEM

Countries throughout North America and Europe have experienced waves of anti-globalization sentiment, but most business leaders are uncertain about whether to retreat, change strategy, or stay the course.

### THE BIG PICTURE

Before making any decisions, it’s important to understand two things. First, the world is less globalized than most people realize. Second, history tells us that even in the face of a trade war, international trade and investment would still be too large for strategists to ignore.

### RECOMMENDATIONS

Don’t overreact to protectionist rhetoric, but do make adjustments. If your operations are unprofitable, retrench. Focus more resources on adapting to local needs. And wherever you do business, be sure you’re creating—not just extracting—value.

One week after Donald Trump’s inauguration, with fears of a trade war spiking, the *Economist* published a cover story, “The Retreat of the Global Company,” in which it proclaimed that “the biggest business idea of the past three decades is in deep trouble” and that “the advantages of scale and...arbitrage have worn away.” And Jeffrey Immelt, GE’s chairman and CEO, has talked about the company’s “bold pivot” from globalization to localization.

But is a mass retreat from globalization really the right approach for companies in these uncertain times? Or, short of packing up and returning home, should they focus on localization—that is, producing and even innovating where they sell—as the strategy of choice? Not according to my research. Recall that as recently as a decade ago, business leaders believed that the world was becoming “flat” and that global companies, unconstrained by country borders, would soon dominate the world economy. Those exaggerated claims were proven wrong. Today’s cries for a massive pull-back from globalization in the face of new protectionist pressures are also an overreaction, in the other direction. While some of the euphoria about globalization has shifted to gloom, especially in the United States, globalization has yet to experience a serious reversal. And even if it did, it would be a mistake to talk about the end of globalization: The “rewind” button on a tape recorder shouldn’t be confused with the “off” button.

A full-scale retreat or an overreliance on localization would hamper companies’ ability to create value

across borders and distance using the rich array of globalization strategies that are still effective—and will continue to work well into the future. Today’s turmoil calls for a more subtle reworking of multinationals’ strategies, organizational structures, and approaches to societal engagement. In this article, I address common misperceptions about what is—and isn’t—changing about globalization, offer guidelines to help leaders decide where and how to compete, and examine multinationals’ role in a complex world.

## THE TRAJECTORY OF GLOBALIZATION

Doubts about the future of globalization began to surface during the 2008–2009 financial crisis. But as macroeconomic conditions improved, the gloom gave way to a murky mix of perspectives. For example, within the span of just three weeks in 2015, the *Washington Post* published an article by Robert J. Samuelson titled “Globalization at Warp Speed” and a piece from the editorial board called “The End of Globalization?”

In the face of such ambiguity, it is essential to look at the data. To see how globalization is actually evolving, Steven Altman and I compile the biennial DHL Global Connectedness Index, which tracks international flows of trade, capital, information, and people. (See the exhibit “Globalization Has Not Gone into Reverse.”) The two index components of greatest business interest—merchandise trade and foreign direct investment—were hit hard during the financial

crisis, but neither has suffered a similar decline since then. Trade experienced a large drop-off in 2015, but that was almost entirely a price effect, driven by plunging commodity prices and the rising value of the U.S. dollar. Updated data suggests that in 2016 foreign direct investment dipped, in part because of the U.S. crackdown on tax inversions. Complete data for 2016 is not yet available, but factoring in people and information flows will probably reinforce the conclusion that globalization has stayed flat or even increased.

What has nose-dived, however, is the tone of public discourse in the United States and other advanced economies. An analysis of media mentions for the term “globalization” across several major newspapers—the *Wall Street Journal*, the *New York Times*, and the *Washington Post* in the U.S. and the *Times of London*, the *Guardian*, and the *Financial Times* in the UK—reveals a marked souring of sentiment, with scores plummeting in 2016.

The contrast between the mixed-to-positive data on actual international flows and the sharply negative swing in the discourse about globalization may be rooted, ironically, in the tendency of even experienced executives to greatly overestimate the intensity of international business flows relative to domestic activity. In other words, they believe the world is a lot more globalized than it actually is. (See the exhibit “The Globaloney Gap.”)

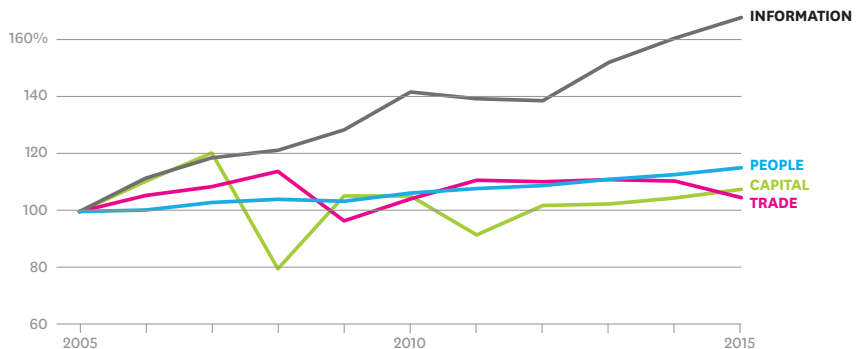
Exaggerated perceptions about the *depth* of globalization—that is, how much activity is international versus domestic—come at a cost. In surveys I’ve conducted, respondents who overestimated the intensity of globalization were more likely to believe erroneous statements about international business strategy and public policy. When businesspeople think the world is more globalized than it really is, they tend to underestimate the need to understand and respond to differences across countries when operating abroad. In the public policy sphere, leaders tend to underestimate the potential gains from additional globalization and to overestimate its harmful consequences for society.

Surveys suggest that people also underestimate the *breadth* of globalization—that is, the extent to which international activity is distributed globally rather than narrowly focused. In a 2007 survey of *Harvard Business Review* readers, 62% of respondents agreed with the quote from Thomas Friedman’s best-selling book *The World Is Flat* that companies now operate on “a global, Web-enabled playing field that allows for...collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language.” However, data shows that actual international activity continues to be dampened strongly by all those factors.

## GLOBALIZATION HAS NOT GONE INTO REVERSE

The DHL Global Connectedness Index—which tracks international trade, capital, information, and people flows—shows that globalization slowed down in 2015 but did not go into reverse. (Updated 2016 data for trade and investment suggests a continued slowdown but still no reversal.)

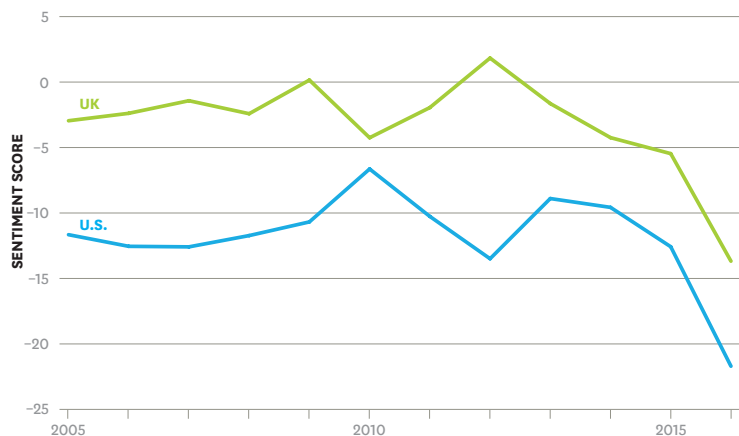
DEPTH OF GLOBAL CONNECTEDNESS, RELATIVE TO 2005



SOURCE DHL GLOBAL CONNECTEDNESS INDEX 2016

## MEDIA SENTIMENT HAS SOURED

The tone of news stories containing the word “globalization” in leading U.S. and UK newspapers has taken a sharply negative swing, reflecting rising pressures against globalization in those countries.



SOURCE GENERATED WITH ALCHEMYAPI USING ARTICLES FROM THE WALL STREET JOURNAL, THE NEW YORK TIMES, THE WASHINGTON POST, THE TIMES OF LONDON, THE GUARDIAN, AND THE FINANCIAL TIMES

## THE GLOBALONEY GAP

In a 2012 survey, people overestimated the intensity of global business and underestimated the extent to which distances and differences between countries constrain international commerce.

### EXTENT OF GLOBALIZATION

Exports of goods and services (% of GDP)



Foreign direct investment flows (% of GFCF)



Migrants (% of population)



## WHO'S MORE AT RISK IN A LESS-GLOBAL WORLD?

A global trade war would hurt virtually every national economy—but some countries are more at risk than others. For example, Singapore, a small but highly developed economy, exports goods and services equivalent to 176% of its GDP. It's apt to be much harder hit than the United States, whose exports account for only 13% of its GDP.

EXPORTS AS A PERCENTAGE OF GDP IN 2015

### Small countries, big exports



### Big countries, small exports



SOURCE WORLD BANK WORLD DEVELOPMENT INDICATORS (WDI)

To counteract such “globaloney,” I offer two laws that govern, respectively, the depth and breadth of globalization:

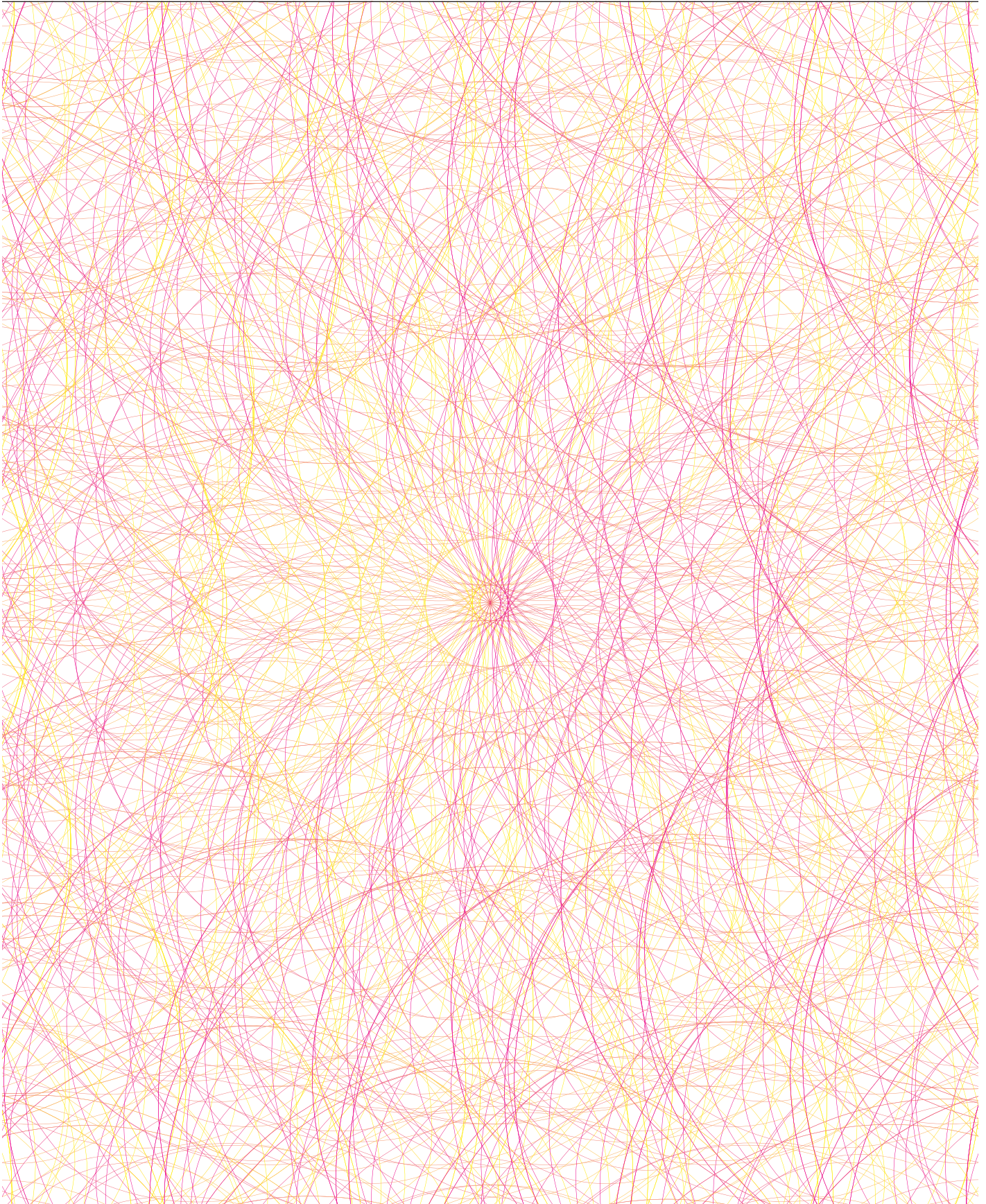
- The law of semi-globalization: International business activity, while significant, is much less intense than domestic activity.
- The law of distance: International interactions are dampened by distance along cultural, administrative, geographic, and, often, economic dimensions.

These principles, set out in my book *The Laws of Globalization*, can be very helpful for strategy making—if they can be counted on to apply in the future. Given surging protectionist sentiments and possibly even a trade war, will they continue to hold? The best way of stress-testing them—at a time when the precise policies of the Trump administration and other governments are still unclear—is to look at the last time a major trade war broke out, in the 1930s, which led to the largest reversal of globalization in history. Two major lessons, corresponding to the two laws of globalization, stand out.

The first lesson is that although trade dropped precipitously in the 1930s, it did not dry up entirely. The collapse that began in 1929 was staggering, and by early 1933, trade flows had plummeted by two-thirds. That said, the drop-off in value reflected a fall more in prices than in quantities, which declined by less than 30%. Even in the wake of the collapse, trade volumes continued to be far too large for business strategists to ignore.

The second lesson is that distance of various sorts continued to dampen international business activity. For example, from 1928 to 1935, the relationship between trade flows and geographic distance barely budged. The beneficial effects of a common language and colonial ties remained powerful: Country pairs with such ties continued to trade about five times as much with each other as pairs without such ties, all else being equal. The net result was that the trading partners with whom countries (or groups of countries) did most of their business before the crash remained largely unchanged afterward.

Getting back to the future: If global trade didn't screech to a halt in the 1930s, it's reasonably safe to say that it won't in the 2020s, either. In fact, analyses of what a trade war under Trump might look like suggest much smaller declines in trade than occurred in the 1930s. Moody's Analytics estimates that if the United States were to impose proposed tariffs on China and Mexico and those two countries retaliated in kind, that and other factors would shrink U.S. exports by \$85 billion in 2019. That's only about 4% of total U.S. exports in 2015. Of course, a wider trade war would have a more significant effect, but it is very unlikely that the consequences would be as dire as in the 1930s.



## ORGANIZING FOR SUCCESS

As companies reevaluate their globalization strategies in light of protectionist pressures, they should also think about structural changes that can help boost performance. While a country-centric structure makes sense if adaptation is a firm's only global strategy, companies would do better to adopt models that also support aggregation and arbitrage. Two are particularly worth highlighting:

**Region-based structures.** Organizing according to region allows companies to take advantage of similarities between neighboring countries. An analysis of 29 distance variables shows that in almost all cases countries from the same region average higher similarity scores than countries from different regions—and often by very wide margins. The (partial) caveat is that two vital regional agreements, the EU and NAFTA, are subject to considerable strains as of this writing.

**Front-back structure.** This variant on the matrix organization focuses on localizing at the front end (close to the customer) while employing a centralized back-end platform to support integration in R&D, production, support functions, and so on. Where the line is drawn can vary: Many companies integrate only back-office functions. Others—Uber and Airbnb, for example—go to market with IT platforms that enable rapid, asset-light globalization.

In addition to optimizing formal structures, companies should renew their commitment to tools that strengthen connective tissue throughout the corporation: a strong culture, internal diversity and mobility, and so forth. In today's environment of rising nationalist sentiment and sneers about "citizens of nowhere," companies must strengthen their focus on cosmopolitanism in top management—perhaps the dimension along which large companies are the least globalized.

Similarly, if the breadth of trade didn't change much despite the drastic declines in depth during the Great Depression, it probably wouldn't change much in the event of a trade war today. It is worth adding that with many more independent countries now, as well as more vertically fragmented supply chains, the estimated effects of geographic distance on merchandise trade are actually larger than they were in the 1930s.

### WHERE TO COMPETE

If cross-border interactions in the aggregate are unlikely to fade away, what is the rationale for individual multinationals' pulling back? The recent *Economist* article on the retreat of global companies, which has stirred significant discussion, pointed to the performance problems they have experienced. But the declines over the past three to four years occurred in an environment of plunging commodity prices, dropping

demand for globalization-related services, and, for U.S. companies, shifts in exchange rates—factors that clearly played outsized roles in the performance numbers. And longer-term declines over the past decade coincide with a period in which globalization actually slowed down.

To argue that poor performance problems over this period should force reconsideration of multinationalization would be like arguing that Singapore, the most deeply connected country in the world according to the DHL Global Connectedness Index, should pull back from globalization because of the growth problems it has experienced since the financial crisis. The latest report of Singapore's official Committee on the Future Economy dismisses that notion, saying that globalization through trade, capital, and knowledge flows is still the future, as far as Singapore is concerned. And even in countries much less dependent on exports than Singapore is, a wholesale pullback from globalization would be counterproductive.

Even when economic conditions are favorable and globalization is advancing rapidly, as was the case several decades ago, multinationals can face performance issues. My 2003 HBR article, "The Forgotten Strategy," notes that between 1990 and 2001, *Fortune* Global 500 companies consistently posted lower average returns on sales for their foreign operations than for their domestic ones. Given the difficulties implied by the law of distance, multinationalization has always been an option, not an imperative. Some firms—and industries—clearly overdid it, especially in the years leading up to the financial crisis.

What's lacking in much of the debate today is the notion of contingency: a case-by-case approach in which a globalization-related move is evaluated on its own merits rather than subjected to some sweeping injunction about whether to go forth and globalize or to come back home. That said, many multinational companies do need to pay renewed attention to where they compete—in other words, to market selection.

They must also resist the idea that a truly global company must compete in all major markets. Some 64% of the respondents to the 2007 HBR survey agreed with this (non)dictum, yet an analysis of internal financial data from 16 multinationals around that time indicated that eight of them had large geographic units that destroyed value after their financing costs were taken into account. Such problems still persist. Toyota, for example, seems to be the only major competitor in the highly globalized auto industry that has managed to build up significant market share in Japan, North America, and Europe and in key

emerging economies—while remaining highly profitable. By contrast, most major automakers would be better served by following the example of GM, which shed its loss-making European operation, Opel, in March 2017.

Recent data on companies ranked among the top 100 with the most assets located outside of their home countries tells a similar story. While these companies tend to operate in dozens of countries, their top four markets—including their home market—account for about 60% of their revenues and probably a larger slice of total profits. And only a single-digit percentage of the *Fortune* Global 500—the world’s largest firms by revenue—earn at least 20% of their revenue in each of the “triad” regions of North America, Europe, and Asia-Pacific.

In sorting out which markets to focus on, it’s important to note that the law of distance applies to foreign direct investment as well as trade. Although FDI is less sensitive to geographic distance than trade is, I estimate the effect of a common language and a colony-colonizer link to be similar and FDI to be more sensitive to differences in per capita income.

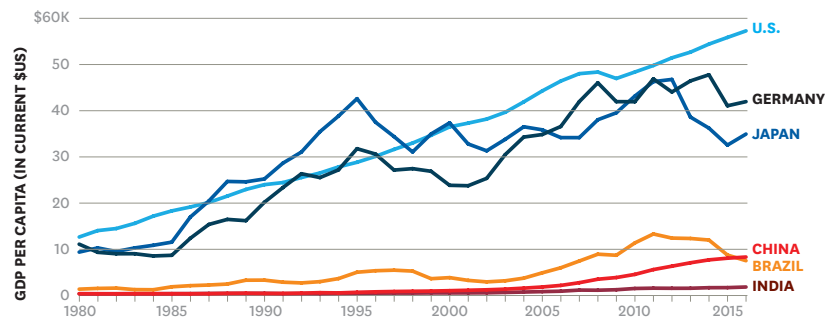
So as companies today weigh their options, they should look for opportunities where they can find cultural, administrative/political, geographic, and economic affinities. This resonates even more strongly as we recall that country relationships became even more important during the 1930s. As the political environment shifts, business leaders need to keep a careful eye on how their home countries are realigning their international ties, and engage in their own corporate diplomacy.

Remember too that staying at home is an option. Only about 0.1% of the world’s firms are multinationals, although since multinationalization is highly skewed toward larger firms, this greatly understates their overall impact. (Their foreign affiliates generate 10% of global GDP, and the multinationals themselves account for more than 50% of world trade.) For companies based in large emerging economies, focusing on the domestic market, where they enjoy home court advantage as well as rapid growth, can be a particularly attractive proposition.

Of course, trade can occur without multinationalization, and this is what some tout as the wave of the future: The *Economist* points to “a rising cohort of small firms using e-commerce to buy and sell on a global scale.” But e-commerce is still significantly less internationalized than off-line commerce. And in light of changes brewing in the policy environment, this seems like a particularly inauspicious time to think that one can go global just by setting up a website or joining an online platform.

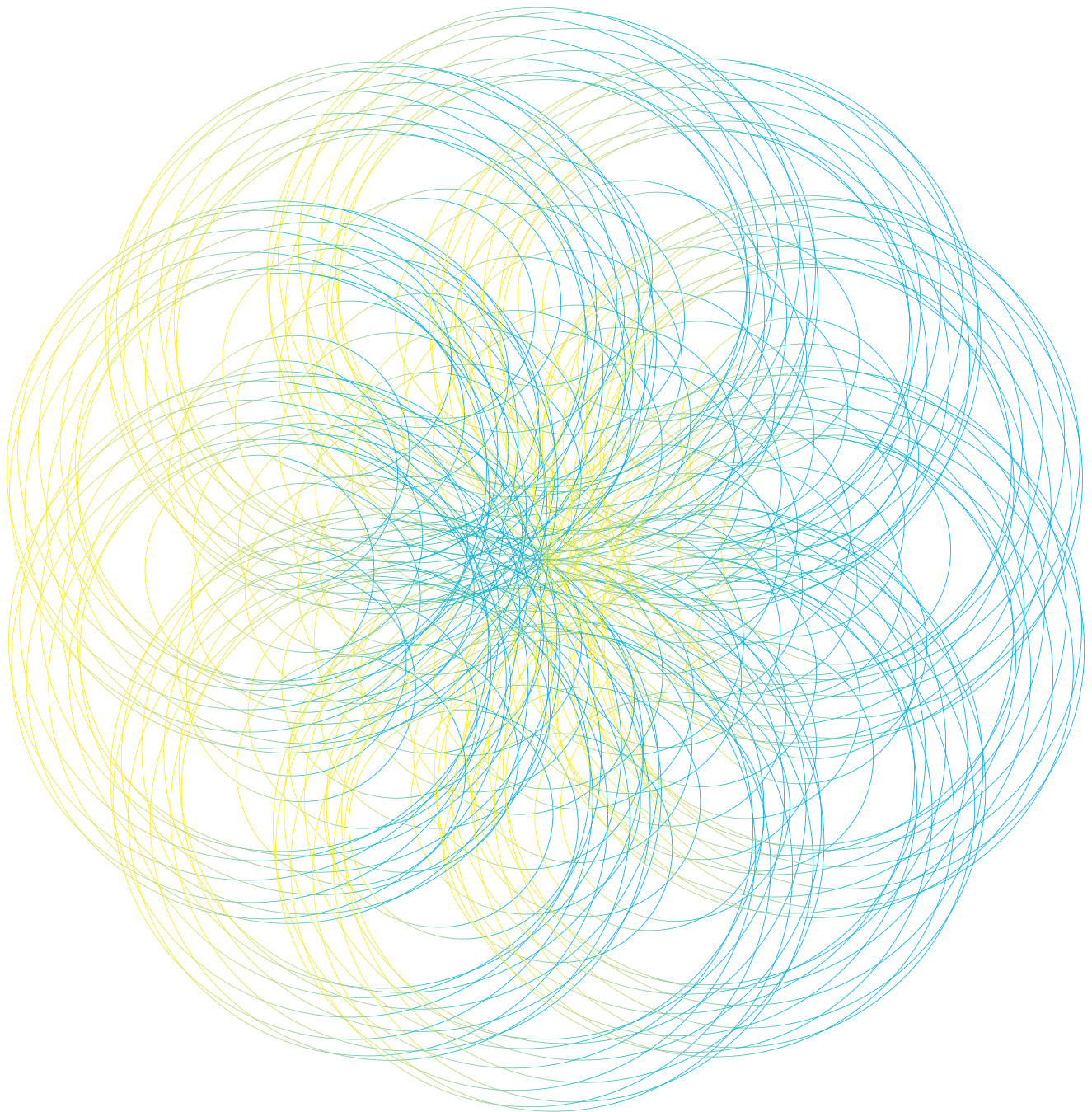
## GROWTH IN EMERGING MARKETS HASN’T ERASED ARBITRAGE OPPORTUNITIES

Companies from advanced economies will continue to exploit differences in the cost of labor and other resources, and emerging markets will continue to benefit from selling into developed nations’ markets.



SOURCE GENERATED BASED ON DATA FROM IMF WORLD ECONOMIC OUTLOOK DATABASE

LEADERS MUST RESIST THE IDEA THAT A TRULY GLOBAL COMPANY HAS TO COMPETE IN ALL MAJOR MARKETS.



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## WHAT ARE YOUR GLOBALIZATION OPTIONS?

### HOW TO COMPETE

If you conclude that your company should continue to do business in a variety of markets, you still need to figure out whether to change the type or mix of strategies that you use in response to protectionist pressures. At a high level, globalization strategies have three components, as described in my 2007 book, *Redefining Global Strategy*.

Companies use *adaptation* when they want to adjust to cross-country differences in order to be locally responsive. They use *aggregation* to achieve economies of scale and scope that extend across national borders. And *arbitrage* strategies are used to exploit differences, such as low labor costs in one country or better tax incentives in another.

How companies should use these three strategies will change somewhat in a protectionist world—but perhaps less than you’d think. Take adaptation. Jeffrey Immelt isn’t alone when he talks of his company’s “bold pivot” away from aggregation and the importance of “localizing” in today’s environment. Firms *should* look for opportunities to amp up their adaptation efforts, because becoming more responsive to differences can help reduce the impact of protectionism.

The most obvious way for a company to adapt is to vary products, policies, market positioning, and so on to suit local markets. However, each variation increases costs and complexity. Therefore, smart adaptation typically involves limiting the amount of variation as well as finding ways to improve the effectiveness and efficiency of any changes that are introduced. For example, companies can design common platforms upon which local variants are offered. Or they can externalize some of the costs of adaptation via franchising, joint ventures, or other types of partnerships.

But while more adaptation may make sense, multinationals should not automatically put it above all else—doing so would only undercut their sources of competitive advantage relative to local competitors. Global companies—especially those from advanced economies—typically justify their cross-border strategies primarily on the basis of aggregation. In the most classic cases, they invest in intangible technological or marketing assets that they can scale across national borders. Those advantages normally have to be pretty large in order to overcome the home court advantage of local competitors. The economic rationale for aggregation won’t evaporate for multinationals that have built a healthy, profitable business in foreign markets—even if some countries make it more expensive to operate within their borders. Companies that have operations in markets where they’re only marginally successful, on the other hand, may need to retrench.

**ADAPTATION** boosts revenues and market share by tailoring products and services to suit local tastes and needs.

**AGGREGATION** delivers economies of scale by expanding operations into regional or global markets.

**ARBITRAGE** exploits differences in labor costs, tax regimes, and other factors between national and regional markets.

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Turning to arbitrage, the opportunities for vertical multinationals to globalize on the supply side rather than on the demand side have narrowed somewhat in recent years, but they still remain large. Even with rising prosperity in large emerging markets, U.S. GDP per capita is still seven times that of China, and 33 times that of India. Differences in tax regimes across countries are not going away either, and will continue to provide arbitrage opportunities. According to the OECD, the dispersion of corporate tax rates across countries has barely changed since 2007, and progress at curbing tax havens has been slow. Furthermore, cross-country differences in safety, health, and environmental standards continue to persist as well—although exploitation of these differences raises ethical concerns.

Multinationals coming out of emerging markets tend to get their start from advantages rooted in arbitrage—competing abroad on the basis of low costs at home. This strategy continues to be the engine that drives the growth and profitability of India’s offshore IT services industry—which inspired Friedman’s *The World Is Flat*, kicking off a wave of interest in arbitrage strategies. More than a decade later, programmers’ salaries in India are still just a fraction of those in the United States, and cost reduction remains the top reason companies choose to outsource. The largest India-centric vendors have far outstripped their Western competitors in terms of both growth and profitability, and as of June 2016 the top four India-centric vendors enjoyed market valuations more than 50% larger than those of their top four Western competitors.

As companies from advanced and emerging countries joust for global leadership, each has to shore up its traditional weakness—for incumbents, that’s arbitrage; for insurgents, it’s aggregation. For example, developed-world incumbents in IT services, such

as Accenture and IBM, have expanded their workforces in India, while Indian companies are trying to strengthen their brands and technological capabilities.

Returning to GE, Immelt's pivot toward localization does imply a boost to its adaptation strategy. But GE—like most other multinationals—cannot give up on aggregation or arbitrage. GE's aggregation-based advantages are what underpin its ability to compete across 170 countries. Its \$5.5 billion R&D machine yields world-beating technological innovations, its \$34 billion brand value opens doors everywhere, its famous management-training programs both attract and cultivate talent, and its scope across products, services, and geographies all contribute to GE's immense cross-border aggregation potential. And while Immelt's remarks shrewdly downplay wage arbitrage as “what GE did in the 1980s,” in contrast to its current focus on selling more abroad, arbitrage has become sufficiently ingrained at the company over the past few decades that it will probably not disappear and will continue to be part of its globalization strategy. In my view, GE's “localization” strategy is best understood as one that retains a core strength in aggregation while toning down the company's prior emphasis on arbitrage and becoming more adaptive.

### ENGAGING WITH SOCIETY

Along with where and how to compete, questions about how to engage with society are becoming increasingly prominent on business leaders' agendas. Except in highly regulated industries, companies have historically treated interactions with governments, media, and the public as an afterthought in setting strategy. But now, as Martin Reeves of BCG points out, “In many cases companies are seeing bigger impacts from political and macroeconomic factors than from competitive considerations.” Those factors, he says, include Brexit-driven exchange rate movements, share price fluctuations in response to policy pronouncements, and the cost of changing investment plans in light of anticipated shifts in trade policy. I would add to the list the rise of NGOs, the proliferation of social media, and increases in anti-globalization sentiment.

Companies are constrained in their responses to these developments by a range of factors. First of all, the backlash against globalization is also—in part—a backlash against big business. The general reputation of business is at an all-time low. In a recent survey, the Pew Research Center asked respondents in the U.S. how much people in 10 occupations contributed to the well-being of society. Business executives ranked next to last, ahead only of lawyers.

Just 24% of respondents said they thought business leaders contributed “a lot.” The 2017 *Edelman Trust Barometer* also reports an all-time low for CEO credibility. And companies' decisions about how to deploy the reputational capital that they do possess are complicated by tensions between a country's citizens and its government—Uber CEO Travis Kalanick ran into problems with public perception when he joined Trump's business advisory council, for example—as well as by uncertainties about how the broader environment will evolve.

In such a context, just speaking up more about social issues—as business leaders today are often instructed to do—is no panacea. While it is hard to offer simple instructions about how to cope with these complexities, the law of semi-globalization does suggest one injunction and one insight. First the injunction: Falling in line with what governments want wherever a company operates is unlikely to be a sustainable strategy. Multinational companies need to craft governmental and societal agendas that are both localized and linked across countries. Anti-globalization pressures require that multinationals deliver more local benefits—and communicate about them—in the countries where they operate. Such efforts must go well beyond compliance to include contributions in the form of jobs, technology, and so forth.

Of course, there are dangers to shifting too far toward localization. Consider how IBM responded to the rise of the Nazi regime in Germany. Rather than pulling back—even as it became clear that the census IBM was supporting was being used to identify Jews for persecution—IBM sought to grow its business with the Nazi government. In 1937, then-CEO Thomas Watson was awarded—and accepted—a medal from Hitler for “service to the Reich.” One would hope that such a strategy would not even merit consideration today.

The law of semi-globalization affords an important insight as well: Addressing much of our current malaise—including but not confined to anti-globalization sentiment—requires domestic policy changes rather than the closing of borders. For example, one of the principal complaints about globalization today is the sense that it has contributed to rising income inequality and that a large swath of the population in advanced economies has been left behind. In the U.S., income inequality has recently risen to levels last seen in the 1920s, and other countries, especially developed ones, have registered similar, if less dramatic, increases. Meanwhile, corporate profits are running close to their highest historical levels.

The widespread perception that globalization is primarily to blame for this problem, however, is empirically implausible. Most research suggests that

# THE BACKLASH AGAINST GLOBALIZATION IS ALSO—IN PART—A BACKLASH AGAINST BIG BUSINESS.

technological progress and (in the United States) the decline of unions have been bigger contributors to inequality than globalization. Corroboration is supplied by real-world examples: If the Netherlands can preserve a more reasonable income distribution despite having a trade-to-GDP ratio six times that of the United States, it seems odd to blame globalization for the much higher level of inequality in the U.S. economy. And even if one is inclined to point fingers at globalization, it is clear that protectionism is a much more expensive solution than government safety nets, increases in the minimum wage, changes in tax policy, job-training programs, and the like. Such policies are not typically favored by big business, so corporate voices advocating them make a powerful statement. Furthermore, closing borders does nothing to prepare a country to deal with the automation-related threats to jobs that dominate the debate about the future of work.


My research into the 2011 book, *World 3.0: Global Prosperity and How to Achieve It*, offers an in-depth evaluation of the various harms attributed to globalization. (I expected the present backlash to arrive several years before it did.) Some, such as the risks associated with international imbalances in trade and investment, are indeed real and significant. Most others, however, turn out to be overblown in relation to actual levels of international integration. For example, the contribution of international air transportation to energy-related greenhouse gas emissions is only one-tenth as large as British air travelers estimated in a survey. To deal with global warming, it would be far more effective to tackle bigger sources such as housing or driving. My research suggests that international openness should be coupled with targeted domestic policies in addressing such side effects as globalization does have.

That perspective is, of course, the opposite of President Trump's apparent preference for domestic deregulation and international intervention, which brings me to my last point—which may seem politically partisan but is rooted in the common notion that a company's market and nonmarket strategy should be in alignment. If your company is or may eventually be global, it's not a good idea to actively support policies that build up barriers to trade and capital flows, make people less mobile, and delegitimize the idea that companies can contribute to the well-being of people in more than one country—even if all you care about is shareholder value. Over the long run, companies that rely heavily on sourcing from abroad (such as Walmart) and those that export far more than they import (such as GE) would benefit from joining forces to oppose protectionism.

**IN HIS CLASSIC** 2006 *Foreign Affairs* article Samuel Palmisano, then chairman and CEO of IBM, pointed out that 150 years ago, companies that crossed borders engaged mostly in trade, but by the early 1900s, they had started to invest in localizing production. He also proclaimed the recent emergence of a new corporate form, the globally integrated enterprise, for which “state borders define less and less the boundaries of corporate thinking or practice.”

From today's perspective, that seems too rosy by half. But there is some good news for those tasked with leading multinational companies. First, the global corporation never became nearly as integrated as Palmisano prophesied, so the amount of change required if globalization does go into reverse is less than people might think. Second, it's still unclear whether a retreat from globalization will occur: International activity has stagnated in recent years but has not fallen off significantly. And third, even if globalization suffered a violent reversal similar to that experienced at the beginning of the 1930s, the world would still remain more globalized in terms of trade and foreign direct investment than it was in the 1920s, let alone in the 19th century. So reverting to the multinational structure of 100 years ago or the trade-based structures of 150 years ago strains plausibility. Globalization strategy and practice have advanced well beyond the prescriptions those historical models would imply, and leaders would be ill-served by going backward. 🍷

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## FURTHER READING

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HBR, September 2016

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