



COUNTERPOINT

Why the world economy needs, but will not get, more globalization in the post-COVID-19 decade

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Abstract

Contractor argues that the coronavirus outbreak only had temporary effects on the global economy, and that post COVID-19 globalization will resume. We posit that the pandemic will have significant long-lasting effects on globalization. Our arguments are grounded in three observations. First, the pandemic has increased inter- and intra-country inequalities and has reversed trends in poverty reduction, which will intensify anti-globalization sentiments in the future. Second, the pandemic has fueled populism, nationalism, and the return of the interventionist state in the economy, which has paved the way for a rise in protectionism. Third, governmental responses to the COVID-19 crisis have undermined the multilateral institutions that have thus far facilitated globalization. These forces have resulted in growing global uncertainty and higher costs in international transactions. We argue that global value chains' reconfiguration will result in a less globalized, and more regionally fragmented world economy. We conclude by suggesting two fertile opportunities for international business scholars: researching commitment failure in international transactions and studying resilience, as illustrative examples of lines of inquiry that can help explain why this latest pandemic will compromise trends in globalization that have dominated the world economy for a long time.

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INTRODUCTION

In December of 2019, a viral particle sized 60–140 nm labeled SARS-CoV-2 began a devastating global journey. By August of 2021, the pandemic had caused over 4 million deaths (World Health Organization, 2021), and the world economy was 4.3% smaller than what it would have been had the pandemic not occurred (The Economist, 2021). We engage in an exchange of scholarly arguments with the Contractor's Point article. Contractor observes that we have reached unprecedented levels of globalization – where the world is intertwined, primarily because of the actions of multinational enterprises (MNEs) that orchestrate cross-border investments, trade, and the circulation of knowledge, ideas, and

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people. Contractor claims that COVID-19 caused only a temporary halt in globalization, which will resume and continue growing after the pandemic is over.

In this Counterpoint, we agree with some of Contractor's arguments and refute others. We agree that global problems require global solutions. As Contractor accurately points out, the pandemic is a textbook example of a global issue – one that would be best dealt with through a global approach in which countries coordinate efforts and pool resources together to achieve a common goal. However, unlike Contractor, we argue that the pandemic will lead to underlying rather than just marginal changes, and that their consequences will be long-lasting.

Our arguments are grounded in observing three critical trends. First, the pandemic has increased inter- and intra-country inequalities. Second, it has fueled populism and nationalism, while simultaneously legitimizing the return of the interventionist state. Third, unilateral governmental responses to the health crisis have heightened geopolitical tensions and undermined multilateral institutions that have facilitated globalization so far, thus intensifying anti-globalization sentiments. These forces have resulted in growing uncertainty and higher costs in international transactions and have pushed firms to adapt by reconfiguring their global value chains (GVCs), which will ultimately lead to a more regional and less globalized world economy. These processes and their consequences are long-lasting.

These key lines of argumentation form the sections in which this Counterpoint unfolds. We supplement this by suggesting two (among many) avenues for future research in international business (IB) in the post-COVID-19 era, namely examining commitment failure in international transactions and organizational resilience. We conclude by emphasizing the importance of continuing discussions and debates on globalization, a phenomenon that has always fascinated the IB field.

THE ENDURING CONSEQUENCES OF THE PANDEMIC THAT WILL COMPROMISE GLOBALIZATION

The COVID-19 crisis has reversed some of the outstanding achievements of globalization, such as reducing inequalities. It has simultaneously accelerated other processes and trends that were discernable before the pandemic – increased

unilateralism at the cost of multilateralism along with nationalism, populism, and state intervention.

Increased Inter- and Intra-country Inequalities

The pandemic had a twofold effect on inequalities. First, it reversed the previous trend whereby inter-country inequalities had been on the decline for almost three decades (Ghose, 2004). Second, it boosted intra-country inequalities that had been rising since the 2000s (Stiglitz, 2016). Both of these trends have profound implications for globalization in the years to come.

When the pandemic hit, emerging economies faced a tragic trade-off: either imposing lockdowns and causing poverty to rise or not imposing lockdowns and allowing the virus to take its toll. Advanced economies were able to alleviate the social and economic implications of the pandemic-induced recession thanks to their efficient social welfare safety nets and a higher share of employment in services that could be performed virtually. Close to 90% of the \$9 trillion invested so far in responding to the crisis went to G20 countries, whose population accounts for 65% of the global share; while the most vulnerable countries were, instead, dedicated \$1 trillion (Ku, Cavusgil, Ozkan, Pinho, Pinho, Poliakova, Sanguinetti, & Sharma, 2020, 119). The countries with the most efficient public health systems managed to handle the pandemic better, thus limiting its human and economic consequences. Many others struggled to cope with the emergency and faced shortages of medical personnel, equipment, and expertise. The COVID-19 crisis enhanced the gap in GDP per capita separating the Global North (advanced economies, including Australia and New Zealand) from the Global South (all emerging economies) (Miranda, Blanco, & Nenova, 2021), reversing much of the progress made over the past decade.

Vaccine development efforts were concentrated in the few countries that had both the resources and the science and technology to do so, namely the US, UK, France, China, and Russia, all geopolitical powers with nuclear arsenals that sit on the UN Security Council. Vaccine production and distribution were also highly skewed, benefiting the countries that developed the vaccines, and the largest buyers like the EU, at the expense of the rest of the world. As of June 2021, 85% of the vaccines administered worldwide have gone to high- and upper-middle-income countries, whereas most of the unvaccinated and dead were from emerging

economies (Holder, 2021). When the demand for vaccines outstripped the supply, wealthier countries kept securing far more vaccines than they need(ed) at the time and limited vaccine exports. Emerging economies continue to struggle to access vaccines, and vaccination rates remain dismally low. In essence, the distribution of vaccines throughout this global pandemic has been shockingly unequal – this is nothing short of a major failure in international cooperation.

Contractor points out that the pandemic has had a negative impact on poverty. We agree, but, unlike Contractor, we believe that this trend is likely to continue for decades. Several businesses have responded to the COVID-19 crisis by downsizing and laying off personnel or shifting many workers to part-time status (Zadikian, 2020). This affected the disposable income of a significant size of the population and future consumption. Labor exploitation is also on the rise (Michailova, 2021), and half a billion people could be pushed into poverty owing to the pandemic's adverse effects on the economy (McCarthy, 2020). COVID-19 has undone the progress achieved over several decades in reducing global poverty. From 1990 to 2019, the number of extremely poor people – those who subsist on under \$1.90 per day – fell from 2 billion (36% of the world's population) to around 630 million (8%) (The Economist, 2020g). This “stunning reduction in global poverty” was “one of the greatest achievements” of recent times (ibid.) and one that was primarily because of globalization and the integration of a large number of people who previously lived in partially insulated countries into the world economy.

While globalization reduced inter-country inequalities, it also fostered intra-country inequalities (Narula & van der Straaten, 2021). The pandemic enhanced this trend through different mechanisms. While skilled workers could adapt through teleworking relatively quickly, the less skilled ones faced downsizing, redundancies, and (temporary) layoffs. The pandemic and lockdown measures affected individuals asymmetrically across the income distribution, “with an increasing pool of the “new poor” added to the pre-lockdown ones and ending up in an even relatively worse position” (Perugini & Vladislavljevic, 2021: 159). The negative impact has been particularly severe on people who are already disadvantaged and marginalized – displaced people, migrants, refugees, and ethnic minorities. The poor were also more exposed to infection because of higher-

density households, reliance on public transport, and economic dependency on jobs that could not be performed virtually. Labor-intensive industries will take years, if not decades, to recover.

We acknowledge Contractor's point that digitization may reduce international transaction costs in the future. However, unlike Contractor, we see digitization as contributing substantially to division and inequality. Digitization increases intra-country inequalities via access (or lack thereof) to education and rewards to the most skilled jobs. The less skilled will remain and become even more disadvantaged, with enduring effects. The divide between digital haves and have-nots is likely to widen because of COVID-19 (Yeganeh, 2021; see also Dörrenbächer et al., 2021). Even in the US, 7 million school-age children cannot access the Internet at home; and even for those who do, online courses are “suboptimal for most,” and long periods spent away from school will probably result in major setbacks to children's education (The Economist, 2020d). In poor countries, the effects of the pandemic on education will be far worse, as most schools had to simply close without providing access to digital education because of resource and infrastructural obstacles (e.g., lack of access to computers, tablets, monitors, poor electricity, and suboptimal Internet supply) (The Economist, 2020c). The gender aspect of inequality is not to be underestimated either. According to UNESCO (2020), 11 million of the poorest girls in the world may never go back to the classroom because of and after COVID-19.

The impact of the pandemic on inequalities has been multifaceted, ranging from inequitable access to health, to inequitable implications of the economic downturn. Contractor depicts these as temporary impacts. We argue that some dimensions of the pandemic's impact on inequalities will endure for years, particularly the increase in the skill premium and reduced access to education discussed in this section. These inequalities, which the pandemic enhanced, will impact globalization because they create discontentment, often resulting in nationalism, populism, and anti-globalization sentiments (Abdelal, 2020; Butzbach et al., 2020).

Populism, Nationalism, and the Return of the Large State in the Economy – Implications for Protectionism After the Pandemic

Since the 2010s, leaders who have been defined as populists have won elections and challenged democratic institutions in several key economies like



Brazil, Turkey, India, Mexico, Italy, the Philippines, and, as many would argue, the US under Donald Trump (Hartwell & Devinney, 2021). Scholars have noted the growing diffusion of populism, defined as “a kind of platform or politician who engages in confrontational anti-establishment politics aimed at displacing the governing elites in representative liberal constitutional democracies and everything that politically enabled them” (Mueller, 2019, 1026). Social unrest exploded in several countries in 2020 and 2021 as a result of discontentment with the socio-economic impact of the pandemic, and in some cases, of being stirred by populist leaders.

Populist leaders exploit social unrest and disaffection with traditional party politics, depicting themselves as saviors of the nation and their opponents as unpatriotic. Populist policies cross ideological lines to gain legitimacy with a large share of the population and cross-pollinate internationally (Hartwell & Devinney, 2021). Nationalism is often a handmaiden to populism (Pevehouse, 2020). A populist claim to be the nation’s savior has to feature some enemy. The most recently included enemy is globalization, alongside various combinations of foreign countries, immigrants, and multilateral institutions (Butzbach et al., 2020; Cuervo-Cazurra et al., 2017; Wei, 2019). Populist leaders have often used nationalism to justify protectionist policies that favor select domestic lobbies (Rodrik, 2018) and have been at the forefront of trends in deglobalization.

The resurgence of populism is threatening globalization both through protectionist policies that such leaders implement and because it has popularized and inflamed anti-globalization sentiments that have laid the foundation for protectionist policies in the future (Cuervo-Cazurra et al., 2017; Devinney & Hartwell, 2020). Although the pandemic has not caused populism, it has contributed toward the inequality and social unrest that populists exploit to their advantage. The pandemic has also provided ammunition for the nationalist and anti-globalization discourse of populists. The health emergency has helped populists justify their aggressive stance towards their international allies and multilateral institutions as a necessary means to protect the population. Former US President Donald Trump, for example, often used the phrase “Chinese virus” to refer to the coronavirus and made Asian Americans the target of public resentment (Moynihan & Porumbescu, 2020).

The pandemic has also built upon and enhanced an existing trend that saw a growing role for the state in the economy. Since the 2008–2009 global financial crisis, states have been bailing out failed firms and acquiring others, while also deploying new consumption and production subsidies; as a result, they have become more indebted (Bremmer, 2009, 2020; Kaufman, 2020; Wright, Wood, Musacchio, Okhmatovskiy, Grosman, & Doh, 2021). The idea that the state is the defender of national interest against the perils of globalization has become more popular because of the pandemic, and has been promoted by populists, intellectuals, and business leaders (Delios, Perchthold & Capri, 2021; Hitt, Holmes, & Arregle, 2021).

The return of the large state in the economy had begun before the pandemic, partly as a result of cyclical change after decades of neoliberalism culminating in the 2008–2009 crisis, and partly boosted by the nationalist agenda of populist leaders. The pandemic had a transformational effect – the gradual crawl back of the state escalated, becoming more prominent and interventionist, and far more accepted in society (Levy, 2021; Mair, 2020). The British government, for example, led by the alleged free-marketeters, namely the Tories, extended a subsidy that paid consumers half their order in restaurants in August 2020. About 64 million meals were consumed at 84,000 venues over the first 9 days of August, at the cost of £336 million (The Economist, 2020a). Brazil’s cash transfer program reached over 60 million people at the cost of approximately 8% of its GDP, thus reducing inequality and poverty in the short run, and boosting its president’s popularity, but also creating expectations that the state would continue subsidizing consumption, which, in turn, had the potential to threaten macroeconomic stability in 2021 and 2022 (Harris, 2020).

A large state does not *per se* entail a return to protectionism, though the two are often interlinked. In some countries, notably France, Singapore, and Norway, a large state has never ceased to be a central feature of the economy and society, and has not impeded their integration in the world economy (Wright et al., 2021). Yet, the most protectionist countries like Cuba and North Korea also feature a highly interventionist state. The state is the instrument through which barriers to globalization are erected, and the pandemic clearly illustrates this. From an ideological perspective, the *raison’etre* of the large state is to “govern the market” (Wade, 1990). Many policy tools through

which the state governs the market, such as subsidies, and tariff and non-tariff barriers, and direct ownership of productive assets, hinder globalization. Building a larger state implies addressing a perceived need to interfere more with markets, and hence with globalization, intended, in line with Contractor (2021), as the circulation of goods, capital, ideas, and people.

COVID-19 has had direct impacts on protectionism, and has stimulated calls for reduced dependency on imported products and components. In the US, policymakers on both sides of the political spectrum have called for the reshoring of medical supply chains from Chinese manufacturers in the wake of COVID-19. Britain launched “Project Defend,” which tries to reduce reliance on the Chinese production of critical products with a mix of reshoring and guarantees that supplies will pass through friendly countries (The Economist, 2020b). The Development Bank of Japan intends to subsidize relocation costs of companies that bring production facilities back home. The second half of 2020 has documented the highest increase of protectionist measures in 20 years (UNCTAD, 2021).

After the pandemic ends, the big state will remain. We predict that protectionism will continue to rise because growing inequalities will continue to feed anti-globalization sentiments, justify the growth of the state in the economy, and enhance populism and nationalism. The protectionist initiatives that began in 2020, such as attempts to boost the reshoring of certain activities, are policies with intended long-time horizons, which the pandemic merely kickstarted. These processes are associated with increasing unilateralism and the undermining of multilateral institutions.

Unilateralism and the Undermining of Multilateral Institutions

In 2020 and 2021, most countries adopted measures to limit the diffusion of COVID-19, including border closures, restrictions to international (and at times domestic) travel, and lockdowns. These measures impacted globalization as they reduced the flow of goods and people across (and in some cases also within) countries. By April 2020, 93% of the world’s population (7.2 billion people) were living in countries with restrictions imposed on the arrivals of non-citizens and non-residents, such as tourists, business travelers, and new immigrants (Connor, 2020). From 2019 to 2020, merchandise

and services trade declined by 5.6% and 15.4%, respectively (UNCTAD, 2020a), mainly because of a plunge in tourism, travel, and transportation (UNCTAD, 2020c).

The economic consequences of the pandemic have been global. Whereas the 2008–2009 recession mostly affected advanced economies, the events of 2020–2021 have left no region of the world untouched. However, as Contractor predicted, the economic impact was temporary. By May 2021, several economies – notably the US, China, and the UK – had already begun to recover from the recession, with optimistic forecasts for 2022. In comparison, it took years for the global economy to recover from the 1929 Wall Street Crash, which the World Economic Forum compared to the year 2020 because it reached the vast majority of countries in the world (Parker, 2020). Barriers to international trade have been eased since the early days of the pandemic. Yet, international travel has remained restricted for over a year. We posit that although trade and travel restrictions have had mainly temporary effects, the unilateral way in which most countries responded to the pandemic has undermined the credibility of multilateral institutions that provided the foundational rules of the game for globalization to take place, which will have long-lasting implications.

Globalization has taken place because the costs of engaging in international transactions have declined, thanks not only to technological advances but also to the institutions that were established after World War II to promote international economic integration and collaboration, and to prevent the unilateral protectionist responses to economic crises that characterized the 1930s (e.g., the GATT, the UN, the World Bank). The kind of global coordination that, as Contractor correctly states, is needed in order to address crises such as the coronavirus pandemic has unfortunately failed to materialize. A global pandemic requires a global response that involves cooperation, joining resources, and implementing mutually reinforcing measures. Instead, according to the 86-page report “COVID-19: Make it the Last Pandemic” written by a high-powered independent global panel assembled by New Zealand’s former Prime Minister Helen Clark and former Liberian President Ellen Johnson Sirleaf, global political leadership was “absent.” Throughout 2020 and 2021, governments of individual nation-states shifted towards serving and protecting national interests, often disregarding the negative implications for allies and neighbors.



Throughout 2020 and 2021, several countries addressed domestic shortages of medical supplies by imposing export bans and emergency procurement systems (Frieden, 2020). The distribution of vaccines in 2021 also resulted in disputes over contracts, priorities, and supplies involving companies, countries, and blocks of countries. The British government and the EU disagreed on the supply and distribution of the vaccine developed by British–Swedish pharmaceutical company AstraZeneca headquartered in Cambridge, which has factories within the EU, and commitments to supply to both the UK and the EU (Davies, 2021). The CEO of Serum Institute, the world's largest manufacturer of vaccines, claimed that it was facing production delays because the US was hoarding supplies of critical components despite having achieved record-high vaccination rates by March 2021. Simultaneously, India, the home country of Serum Institute, and most of the developing world faced severe vaccine shortages and struggled to contain the pandemic. Despite claiming to reverse the unilateral approach preferred by former President Trump, President Biden's administration did not discontinue the policy that limited the export of vaccines and components (Gaudiaut, 2021).

Unlike Contractor, we argue that the way in which governments responded to the pandemic will have enduring effects on globalization because it undermined multilateral institutions, which entails a rise in uncertainty in international transactions. We consider the coronavirus crisis a natural experiment that has captured how different countries react while dealing with a global emergency – a threat that it is in the interest of all to address as fast as possible. Cross-country policy coordination with respect to travel restrictions and vaccine development could have maximized efficiency. The WHO could have operated as the multilateral institution through which a global response to the pandemic was enacted, especially if the big geopolitical powers backed it and channeled their policy through it (Feher, 2020; Frieden, 2020). Instead, 2020 and 2021 were dominated by unilateral approaches that interrupted globalization, failure to engage in collective action, and the prioritization of national interest even when it had negative implications for other countries. Domestic responses varied widely, from isolating early and hard (e.g., New Zealand, South Korea) through poorly coordinated measures (e.g., much of Europe and the US) to denying the crisis altogether (e.g., Brazil). Defection and dissent dominated over

much-needed coordination and cooperation (Pevehouse, 2020). This entailed a zero-sum game for securing resources and allowing the virus to prosper in the areas of the world that were least successful at managing the pandemic, only to see it travel back to countries that had already achieved better results in reducing the number of daily infections and deaths – a clear reminder of the disadvantage of managing the global health emergency unilaterally. The cancellation of the World Economic Forum meeting in Singapore announced in May 2021, although explained by travel restrictions, communicated in no ambiguous terms the lack of appetite for multilateral decision-making when it was most needed.

The events of 2020 and 2021 highlighted that most countries were ready to adopt measures halting globalization for national security reasons. The risk is that the pandemic opened up Pandora's box, and became a precedent for more frequent unilateral interruptions of trade, travel, and investment flows based on national security. Ultimately, the meaning of national security is open to interpretation. It has been and can be used by several countries, including the two largest economies in the world, the US and China, to enact unilateral barriers against globalization, which typically cause a chain reaction culminating in greater protectionism. For example, China has long maintained barriers to FDI in the alcoholic beverage industry on the grounds of national security (Huang, 2020). It is too early to judge whether the pandemic will lead to more protectionism or not. However, multilateral institutions have already been negatively affected by the unwillingness of the governments of most countries, whether democratic or not, to approach global issues through collective action and multilateralism (Hartwell & Devinney, 2021). Even at a more modest regional level, unilaterality has prevailed – within the EU and NAFTA, for instance, resources were not shared, and accusations were continuously raised on all sides.

There have been some examples of the kind of international coordination that we, like Contractor, think is necessary. One is COVAX, an initiative for richer countries to provide funding for vaccine development and distribution in poorer ones, involving the WHO, 190 governments, and NGOs, and foundations (Belluz, 2020; Berkley, 2020). By the end of 2020, COVAX secured \$4 billion in funding to finance low- and middle-income countries' access to vaccines, a remarkable achievement even if short of the estimated \$6.8 billion needed to

meet its objectives in 2021 (Nature, 2021). However, COVAX was undermined by the absence of the US and Russia and their shift to unilateral approaches to vaccine development and diplomacy (The Economist, 2020f) and a discourse emphasizing the importance of vaccinating “their people” in the interest of the rest of the world. It was only in June 2021, 18 months after the pandemic hit and 6 months after taking up his position, that President Biden announced that the US would donate vaccines to COVAX, though again prioritizing bilateral channels with select allied recipient countries (Wingrove, 2021).

The US’ withdrawal from the WHO in the middle of the pandemic, though reversed in January 2021 with the change in presidency, showed that multilateral institutions designed to address global issues are fragile and that they ultimately depend on the will of the largest geopolitical powers to lead international coordination and provide funding and technical expertise. Some scholars have argued that multilateralism – “the institutionalized cooperation [...] on the basis of generalized rules and principles, has been a core characteristic of the modern international system” (Viola, 2020: 30) – was already in decline before the pandemic (Acharya, 2016). However, the response to the previous recession that affected a large share of the world economy, namely the 2008–2009 financial crisis, featured a high degree of international policy coordination and a crucial role for both global and regional multilateral institutions such as the IMF and the European Central Bank (International Monetary Fund, 2010). If multilateralism was already in decline (this research question falls beyond the scope of this study), the pandemic certainly accelerated and magnified it (Feher, 2020; Levy, 2021).

Another damaging dimension to multilateral institutions was that the US, the hegemonic power that has promoted and defended free markets since 1945, did not defend globalization and free markets and free trade principles. In contrast, the US itself engaged in aggressive stances to procure and withhold supplies at the cost of other countries, including long-time allies like Germany and South Korea, blamed the virus on China, and undermined the legitimacy of multilateral institutions by preferring a unilateral approach aimed at defending its national interests above all else (Ankel, 2020; Gehrke, 2020).

Historians and international relations scholars have emphasized that periods of economic

integration (or globalization in today’s terminology) occur when there is a hegemonic power creating and enforcing the rules that facilitate commercial exchange while also opening its large markets to the inflows of goods and people, exporting skills, knowledge, and capital (Ferguson, 2012; Kindleberger, 1973; Kupchan, 2014; Morris, 2010; Turchin, 2018). Examples include Pax Romana, Pax Britannica, and Pax Americana – the last one being the latest wave of globalization, made possible by the multilateral institutions created after World War II under US leadership and the use of the US dollar as the world’s currency.

The pandemic showed that the US’ role as the world’s policeman and guarantor of free trade has become unpopular domestically (Eberstadt, 2020). The main slogan of the campaign that saw former President Trump win the 2016 elections was ‘America First’, a nod to the fact that a growing number of Americans wished to see the US focus more on national priorities than on maintaining world order (Tumulty, 2017). In a survey on priorities for the 2020 presidential elections, Americans ranked foreign affairs as one of the least important matters to consider (Hrynowski, 2020). Internationally, China has been challenging the hegemonic role of the US. For many countries, the US has long ceased to be the most important market and source of investment, tourist arrivals, aid, and technology, with China having taken its place, eroding some of the economic incentives of US hegemony or Pax Americana (Hitt et al., 2021; Layne, 2018).

The pandemic made it clear that the US is retreating from some of its hegemonic roles, particularly upholding multilateral institutions (Levy, 2021). We argue that this will have enduring effects because the institutions that allow globalization to prosper can function only if the positive incentives of globalizing – benefitting from trade, investment, and the circulation of ideas and people – are supported by the hegemon’s willingness to absorb the inflows of foreign goods and people, and its readiness to use superior geopolitical power to enforce the rules of the game. Whether and how China is willing to take the US’ role and establish a Pax Chinese, and how other countries would react to this change remain unclear (Layne, 2018). The pandemic has heightened the already-ongoing geopolitical rivalry between China and the US, and has damaged both multilateralism and the institutions that have been foundational for globalization.



THE PANDEMIC AND THE RECONFIGURATION OF GLOBAL VALUE CHAINS

We agree with Contractor in that as governments have struggled to deal with the health emergency, they adopted measures with drastic, but mostly temporary, effects. These measures exposed the vulnerability of some GVCs, which resulted in supply bottlenecks, shortages, and production delays (Gereffi, 2020; Golgeci et al., 2020; Verbeke, 2020). Paradoxically, while retailers and food banks struggled to find supplies, suppliers could not move their inventory because of trade restrictions and lockdowns (Behsudi & McCrimmon, 2020; Poppick, 2020). In January 2021, approximately a year after the COVID-19 pandemic started, the world's largest carmakers, like Volkswagen, Nissan, and Honda, reported that they would be forced to cut production because of the shortage in semiconductors (Miller, Keohane, & Inagaki, 2021).

The emergency measures that governments adopted to deal with the pandemic were compounded by state interventions with a clear protectionist intent and longer-term implications. For example, Indian Prime Minister Narendra Modi announced the pursuit of "atmanirbharta" (self-reliance) for the Indian economy in the wake of the COVID-19 crisis, stating: "All our demands during the crisis were met locally. Now, it is time to be vocal about local products and help these local products become global" (Suneja & Sikarwar, 2020). The European Parliament's Committee on International Trade called on EU firms to develop contingencies in their supply chains for strategic intermediary products (The Economist, 2020e). In 2021, US President Biden passed an executive order to reduce supply chain vulnerabilities in the country; his "Build Back Better" plan intends to reduce taxes for companies that onshore or near-shore their factories to bring manufacturing back to the Americas (Marczak, 2020).

Pandemics abruptly change value chain dynamics as they challenge the logic of the global integration of production and supply (Nachum, 2021). MNEs' reaction to the events of 2020 and 2021 has been to search for alternative GVC configurations, by shifting from prioritizing efficiency (via lean, just-in-time sourcing from few geographically dispersed suppliers) to "just-in-case preparedness" and to develop redundant capacity in their sourcing to economize on the risk of future interruptions of critical nodes of the GVC, such as

those caused by unilateral border closures and natural disasters (Kano & Oh, 2020; Pananond et al., 2020; UNCTAD, 2020b). As Contractor correctly predicts, MNEs will attempt to make their GVCs more resilient by reducing distance, that is, by relying on less geographically stretched operations (OECD, 2020; Verbeke, 2020). However, unlike Contractor, we argue that this reconfiguration of GVCs will not be a temporary phenomenon. Its result will be a firmer shift from global to regional value chains.

The currently ongoing GVC reconfiguration will have long-lasting effects on globalization for several reasons. First, it will take time for governments to deploy the policy instruments designed to incentivize GVC changes. Second, it will take time for MNEs to reconfigure their GVCs in response to such incentives, and to increase resilience. In many cases, firms are building up new production capacity and creating incentives for their suppliers to move closer home; the process will take years to complete and will feature high sunk costs, and hence it is unlikely that it will be reversed promptly (Pla-Barber, Botella-Andreu & Villar, 2021). Third, GVC reconfiguration is not merely a short-term response to the pandemic – it addresses the need to adapt to a world where supply chains may be interrupted because of growing uncertainty linked to rising protectionism and the declining legitimacy of the multilateral institutions that supported globalization (Ahlstrom et al., 2020; Delios et al., 2021; Gereffi, 2020; Hartwell & Devinney, 2021; Levy, 2021; Rouleau, Hällgren, & de Rond, 2020; Witt, 2019). Fourth, there are also increasing pressures for MNEs to reduce the environmental impact of their activities – reducing GVC distance will allow MNEs to lower their carbon footprint by relying on suppliers located closer home while simultaneously benefiting from government incentives to boost local sourcing (Pananond et al., 2020).

The result of GVC reconfiguration will be a world economy that is far more concentrated within regions and less globally dispersed. The "global" in GVCs has been always more regional than global (Kano et al., 2020) because of the continuing importance of consumer preferences, tariffs, and different dimensions of distance in international business, as illustrated by a long stream of research on this subject (Rosa et al., 2020; Rugman & Verbeke, 2004). The pandemic has pushed firms to regionalize their value chains further to pursue

resilience and adapt to government pressures in order to bring activities back home.

Rising protectionism, including the government policies to boost self-reliance that emerged through the pandemic, leads to regional GVC reconfiguration even in the few industries (e.g., electronic manufacturing) whose value chains are truly “global.” US-lead firms have been investing in new capacity at home and near-shoring sites, such as Mexico and Costa Rica in order to adapt to the protectionist pressures of the US and China (Johnson & Gramer, 2020; O’Neil, 2020; PROCOMER, 2020). Industries at the heart of the digital economy (social media platforms, e-commerce, search engines, software), which have also been shown to be more regional than global (Kundu et al., 2009), have been exposed to rising digital protectionism: the US, China, Russia, Turkey, and other large economies are subsidizing national champions and erecting barriers against foreign competition (Aronson & Leblond, 2018). The result is an increasingly compartmentalized digital world. Contrary to what Contractor argues, digitization has not acted as a counter-force to protectionism. The digital economy has become a new arena for economic nationalism and trade wars, and it has been functional for the rise of populist leaders (Foster & Azmeh, 2019).

The reconfiguration of GVCs, which the pandemic has accelerated, will, by definition, mean higher barriers to international business and higher transaction costs, as firms will seek to meet political, environmental, and resilience objectives at the expense of efficiency, for example, increasing inventory and sourcing redundancy even where it will cause a profit margin erosion (Gereffi, 2020). The decline in multilateralism and the rise of protectionism will result in further regionalization of value chains. MNEs may relocate some of the GVC activities in costlier countries to economize on the risk that protectionist measures adopted by the two dominant world powers will affect their activities in the future. Even where it will be possible to find equally efficient bundling of FSAs and country-specific advantages, MNEs will incur high costs related to the search for new locations, as well as high reconfiguration costs toward, for example, new facilities and the development of new logistical arrangements. Contractor argues that globalization is likely to return to its pre-pandemic levels. We contend that although it is possible for cross-country flows of goods, capital, people, and ideas to resume, the obstacles to globalization that

the pandemic has either created or enhanced will endure, changing the nature of the world economy in the years to come. The strategic adaptation of MNEs to this new context, and in particular the reconfiguration of GVCs into value chains that are more regionally focused, or “regional value chains”, will also take time to develop and have long-lasting effects.

TWO PROMISING RESEARCH OPPORTUNITIES

In this section, we put forward two lines of inquiry that we see as promising research opportunities: examining commitment failures in international transactions and organizational resilience. Before we elaborate on them, let us briefly explain how such research may explain the different nature of globalization that this Counterpoint predicts. The pandemic has sent shock waves to the world economy, signaling the coming of a new age of growing uncertainty in international business. Although some scholars had observed this trend before 2020, most IB research continued to treat disruptive events as exceptions (Ahlstrom et al., 2020; Andriani & MckElvey, 2007). Thus, the consequences of disruptive events, such as commitment failures, and the managerial solutions to them, such as resilient organizational practices, have remained under-researched.

We posit that the world economy will become more uncertain in the future and will see more disruptions to trade, investment, people, and idea flows precisely because their drivers (inequalities, populism, nationalism, and the large state) are here to stay. To shed light on this new context and understand its implications for business, we propose starting from analyzing the immediate consequences of growing uncertainty (increasing commitment failures) and the response that firms have already engaged in (improving organizational resilience).

Researching Commitment Failures in International Transactions

COVID-19 has increased the occurrence of commitment failures in international transactions through multiple mechanisms. First, governments’ policies to contain the diffusion of COVID-19 have been rather abrupt and unilateral, in some cases in breach of existing treaties and agreements, thus increasing uncertainty around rules governing international transactions and overall rule enforcement. Many firms were caught by surprise and have



found it difficult or even impossible to deliver shipments across international borders (Bate & Jaganathan, 2020). Several exporters have downsized or interrupted production, in turn reneging on their purchasing contracts for inputs while many importers have failed on their contracts with buyers, causing supply bottlenecks in domestic markets.

Second, lockdowns and social distancing measures have forced firms to reduce their output and downsize, thus rescinding or failing to meet their buyers' commitments. Microchip factories had to close shop for months. As a result, many of them failed to meet their shipment targets. Their buyers, such as car producers, were forced to scale down their output, even if their facilities were not directly affected by lockdown measures (Miller, Keohane, & Inagaki, 2021). Third, the scarcity of medical equipment and the frenzy to secure strategic supplies, together with unclear and unpredictable changes in trade and travel rules, have caused a surge in fraudulent and speculative trading and a rise in opportunistic behavior by unscrupulous individuals and firms (McCarten, 2020).

Commitment failures are a central feature of IB and, more broadly, of economics. The notion of safeguarding commitments underlies many IB studies, especially those on governance modes for cross-border transactions (Grøgaard & Verbeke, 2012; Hennart, 2009). Understanding the situations in which firms fail on their commitments, and the broader antecedents of commitment failures, including the ripple effects of localized events that are felt across international borders, can enrich the extensive literature on international governance by strengthening its theoretical assumptions (Verbeke & Ciravegna, 2018). MNEs are already adapting by reconfiguring their GVCs and deploying technological and legal innovations to attempt predicting and containing the effects of events that interrupt the real and digital arteries of commerce (Contractor, 2020). Researchers can explore the combinations of strategies adopted by MNEs in different industries and locations and examine their implications in terms of efficiency.

We should engage in empirical investigations of the behavioral assumptions of our theories to a greater extent. As argued by Tsang (2006) and Verbeke and Greidanus (2009), commitment failures (or the absence thereof) are used foundationally all too often, but are rarely tested empirically. Only a few studies have examined whether

commitment failures occur and if so, in which situations (Katsikeas et al., 2009; Verbeke et al., 2019), whereas most IB research has focused on preventive mechanisms, that is, strategies that firms adopt *ex ante* to prevent commitment failures from happening. COVID-19 is making this research gap only more apparent, calling for more research on: (1) the antecedents of commitment failures; (2) different forms of commitment failures; and (3) different outcomes, ranging from legal disputes to amicable agreements. Such research would be helpful for practice, as it would alert managers in charge of international transactions of potential commitment breakdowns and assist them in developing a toolkit for safeguarding international transactions.

Researching Organizational Resilience

Scholars studying organizations which, by definition, face frequent and continuous crises situations, such as fire departments and the navy operating military vessels – have developed management research on organizational resilience, which is defined as “the ability of organizations to anticipate, avoid, and adjust to shocks in their environment” (Ortiz-de-Mandojana & Bansal 2016, 1615). This stream of the literature explains organizational resilience as a result of multiple factors, such as managers' willingness to accept mistakes and learn from them, flexibility, and the development of a redundant capacity to withstand exogenous shocks (Sajko, Boone, & Buyl, 2021; Weick et al., 2008).

One shortcoming of research on organizational resilience is that it focuses, almost exclusively, on organizational practices inside the firm, almost as if taking for granted the effect of cross-country differences for MNEs. IB research can inform this debate because of its comparative institutionalism approach, its focus on internationalization and cross-country differences, and its analysis of GVCs in different contexts (Kano et al., 2020). Czinkota et al., (2010, 837) emphasized the importance of examining GVC vulnerability and providing theoretical and managerial insights for developing resilience: “By emphasizing resilient supply chains, firms acquire flexibility and redundancy in the sourcing of vital materials and components. Firms should invest in developing alternate capacity prior to the point of need.” While their arguments were developed in the context of studying terrorism, they apply to other events that are likely to disrupt GVCs in the future (Ahlstrom et al., 2020; Pla-Barber et al., 2021; Verbeke, 2020).

An important opportunity for future IB research is cross-fertilizing work on organizational resilience, or the internal practices that make firms capable of withstanding exogenous shocks, with work on the mechanisms that allow firms to remain successful in the long run, in different foreign markets, such as corporate diplomacy, or the ability to develop longstanding mutually beneficial relationships with different types of stakeholders (Ciravegna et al., 2020). Empirically, organizations that exhibit exceptional longevity, such as some family firms, provide examples of resilient practices applied through centuries and numerous exogenous shocks, including pandemics (Arregle, Hitt, Sermon, & Very, 2007; Kano, Ciravegna, & Rattalino, 2020).

CONCLUSION

In this Counterpoint, we engaged with Contractor's statement, as articulated in the title of his Point: *The world economy will need even more globalization*. The essence of the arguments we put forward in this Counterpoint led us to conclude that, in a nutshell, the world economy will not see greater globalization in the post-COVID-19 era, and that globalization itself will change. We argued that the pandemic has enhanced inter- and intra-country inequalities, which will steer anti-globalization sentiments, populism, and nationalism, thus paving the way for greater protectionism in the years to come. We concur with Contractor in that

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governmental responses aimed at containing the virus halted globalization temporarily. However, we pointed out that despite the pandemic being a global issue, global coordination has failed to materialize. The governments of most countries have responded unilaterally, undermining the multilateral institutions that provide the rules of the game for globalization. MNEs are already adapting to this new, more uncertain, and more protectionist context by reconfiguring their GVCs. We argued that the result of this reconfiguration would be a more regional and less global world economy.

The events of 2020–2021 have been dramatic. Still, they also provide an opportunity for IB scholars to engage in meaningful research on how the world economy will evolve and how MNEs will contribute to shaping it. We appreciate Contractor's Point for opening up another chapter in the debate on the future of globalization.

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