

Research and Innovation Podcast

Episode 47 - A fractured global economy

Speakers: Professors Marina Papanastassiou and Peter Buckley

[00:00:08] **Marina:** Hello and welcome to the Research and Innovation podcast on a fractured global economy. I am Professor Marina Papanastassiou, Professor of International Business at the Department of International Business. And today we're going to discuss about the geo-political developments we are experiencing, with Professor Peter Buckley, Professor of International Business.

So Peter, since 2016, with Trump's election in the US, we experienced major geopolitical developments. We live literally in a VUCA world, which means a volatile, uncertain, complex, and ambiguous world. And examples of this VUCA world are, or could include, the US China trade war, obviously the COVID pandemic, and last but not least, the invasion of Russia in Ukraine and the world we are living in today. So how does this development affect, or are affecting actually, globalization?

[00:01:07] **Peter:** Thank you Marina. As the Chinese proverb says, "we live in interesting times". As you said, we have a deep and growing fracture within the world economy. Some people would characterize that as between the US and China. Other people might say it's liberal democracies versus authoritarian systems.

This is combined with a discontent with some of the outcomes of globalization. So this fracture comes from two main sources. One is state policy in terms of protectionism and now we have security issues such as biosecurity and food security, which means that individual national economies want to protect themselves from what they see as the vagaries of the international economy.

And secondly, we have individual negative reactions to globalization. So we have issues like "the left behind" - those people and those regions that feel that globalization has passed them by and made them less effective in earning income and all the rest of it. Economists coined the term "slo-balization" for the slowdown in the world economy.

But I think the fracture is rather more important than that. There's a lot of attention on strategic industries and the definition of strategic industries has widened. It used to be just defence and possibly communications and things like that. But now a lot of other industries, such as semiconductors, are regarded as strategic and in need of protection. We have the phenomenon known as the "splinternet" where the previously integrated internet is being bifurcated or split up even more than that, by first of all, "the great firewall of China" and then action that comes out of the Russian invasion of Ukraine. And we have what we might call systemic competition.

So the idea that this isn't just normal competition, but it's a competition of systems. The liberal economy versus the authoritarian control. So all of this leads to perhaps a retreat

back to the national, but more probably back to regional division of the world economy. And of course, this has meant that a lot of international business that's previously been run by global value chains - these global value chains are under immense pressure from what you described as the VUCA elements of the world economy. So re-shoring and regionalization of global value chains becomes much more important. I think the final thing to say is that a lot of the issue with globalization actually arises from technological changes and technological changes in globalization are very much fitted together. They very much go hand in hand.

And, of course, at the same time as all this is going on, we have a massive move towards digitization, which is again, having a massive effect. So all those things together - the state action, the individual attitudes - mean that doing business in the global economy is much more difficult than it was, say, 10 years ago.

[00:05:11] **Marina:** I would agree to that. And I would... you put a very interesting dimension, the issue of security. And you mentioned food security, for instance, which is part of the Sustainable Development Goals. Sustainability, food security, multinationals play a very important role in leading all these global value chains. And I would agree that probably they would regionalize, they would definitely change shape, but also we see multinationals play, maybe a political role, less subsidiaries.

We saw that they were the vehicles of imposing the financial and economic sanctions on Russia. They had to close down. So with all these pressures, the sustainability issues, issues of security, this political dimension on multinationals, do you think that will affect and how probably will affect their strategies?

[00:06:04] **Peter:** Yeah, good question. I'm absolutely convinced the pressure on managements of multinationals and on the sort of image of multinationals has never been greater because the ESG - Environmental, Social and Governance aspects - have come in very much and absolutely have to be factored into strategy. These are, this cannot be seen anymore as just an add-on. These are absolutely crucial factors.

So I think if we look at the strategies of multinationals, we have changes that are short-term and changes that are longer-term. So in the immediate strategy, multinationals are concerned with their own safety, security, liquidity and the continuity of business. So there's some immediate actions that firms have to take.

And this has had to be some very radical and rapid rethinking of things like the management of global value chains under pressure from the Russian invasion of Ukraine and the sanctions that come with that, which means that perhaps your first choice sourcing locations are no longer available.

So in the short run, what can multinationals do? In the short run they have to protect those things that I talked about, but they also have to be very agile in collecting information. And corporate foresight becomes very important. Can multinationals foresee what is going to happen in the next few years? Very, very difficult issue. And as you said, the VUCA thing

makes this even more essential that they have to look at sources of volatility, uncertainty and so on.

So in the short run, in the information collection, the kind of brain of the company, the forecasting brain has to be looked at. In the longer term, of course, then some of the strategies that I talked about are much more easy to implement in the end. In the longer term you can regionalize, you can change your global value chain, you can evaluate country differences, you can alter strategies. You can perhaps move to more multi-domestic organizations by giving your subsidiaries more responsibility than perhaps they had.

And so you reorder and reconfigure your global value chain. And this is not easy. I mean, when we talk about China, there are very good reasons why China is such an important element in lots of global value chains. It has a unique combination of factors. It's a fairly stable environment. It's got relatively low-cost labour, even though that's increasing. It's got a supportive business environment. And it's got all the support activities in terms of communication and shipping and all the rest of it that you need.

But if that becomes under threat and that becomes much more difficult because of the reasons we talked about - protectionism and bifurcation and all the rest of it - then you have to change. So in the long, long run, things become very... much more flexible and companies can think about all kinds of possibilities.

So I think the way to think about strategies is - what do we have to do to protect ourselves in the shorter run? And then if we think more long term, then a lot more possibilities become available. But it's not easy to shift these things overnight. It does take time. And there are limited locations for many of the activities that multinationals have in their value chain.

[00:10:17] **Marina:** And as we know, I mean, competition among the nationals has intensified because we have the so-called emerging market multinationals. So, how do you think they will react? Will they follow what the advanced market multinationals are doing? Will they shape different strategies? They are major players. They define, as I said, global competition nowadays.

[00:10:39] **Peter:** Yes, emerging market multinationals are extremely interesting. I think the, I think the basic outlines of the types of strategies are very much the same, but emerging market multinationals are both more vulnerable, because they have less of a base and they have less experience in general. They have less support from their home government and from their background and so on.

So they need agility. But, emerging market multi-nationals to some degree in this current world, have got more choices. If you think you're a company in Africa or you're a company in the middle east, you do have the possibility of kind of going across the divide. You know, the belt and road initiative might be something that you can get involved with or the American build back better, or EU systems to help you.

So emerging multinationals, if they're very agile, might be able to gain from this fracture by moving across it and by implementing strategies that are not open to multinationals that are definitely on one side or the other. That's a very difficult trick. And, it's going to mean that a lot of emerging multinational markets, multinationals and firms in emerging markets in general, may have to make their mind up, which side of this divide it's on. If it continues and it gets deeper, it's going to be very difficult to work across the divide between so-called the West and the authoritarian countries.

[00:12:23] **Marina:** And I mean, I would like to ask something because you raised it and we're coming back to the issue of sustainability. Do you think that all these developments, the VUCA world, will compromise our aspirations for a sustainable world? So we'll compromise also the activities or strategies of multinationals to be sustainable.

[00:12:47] **Peter:** That's a very interesting issue because sustainability was emerging as the key factor, I think in global competition. But the fracture, the war in Ukraine, has meant that other things have to be considered because they are immediate and they happen. The role of sanctions, for instance, it may be that you have to move because of sanctions.

A lot of companies may have to choose a second-best energy source from the one they were choosing before. I mean, there are some signs that the sanctions will mean that there is more of a move towards green energy because green energy in forms of wind farms and wave energy and solar power are national and don't need international links necessarily.

So it's a very mixed bag and it will be very interesting to see how the kind of clash between trying to move towards sustainability, because I believe a lot of companies really do see this as something that is absolutely essential if they're going to maintain business continuity, it's no longer optional. I mean, you really have to do it, I think.

But things, other things may get in the way that may be temporary. They may be very long run, but the fracture, does to some extent, mean you have to make second-best choices.

[00:14:20] **Marina:** True. And since we are doing research and we teach in one of the leading Business Schools in the world, actually, and you are such an inspiring teacher and educator - what is our responsibility for the future generations of managers, of scholars? Shouldn't then we include, and shouldn't we include more consistently what we teach in class about the importance of sustainability?

[00:14:53] **Peter:** Yes. I think the, I mean, I think in a lot of areas and certainly, I think at Leeds University Business School, I think the argument's won. I think that the Sustainable Development Goals are writ large in what we do, and they're not perfect, but they provide a framework against which judgments can be made.

I was interviewing a very senior executive earlier in the week, for our textbook actually. And he said, "you've got to remember, that it is often firms that actually do the implementation. Policies come from government, but it's often firms that do the implementation." And I

think what is very important is to teach managers about the range of choices that they have, and also how important their choices are, because this is no longer about just your tiny little area, it's about the impact that you have on the world ecosystem. And I think that is a very important lesson going forward. Let's hope we can get beyond some of these dreadful political problems that we've got at the moment and look at the longer-term things that you've just put in our minds very forcible.

[00:16:13] **Marina:** I mean, the teaching and researching at LUBS, I mean, I feel very confident that we do the right thing because we develop all these elements that address, that inform managers and inform future scholars and obviously inform policy.

Just a final point, going back to China and the US - where are we heading with this now? Russia dominates, but we still have an issue there, don't we?

[00:16:42] **Peter:** Oh, a massive issue. Yes. I, I think the... I've just been following some of the recent trade negotiations and I think it's getting extremely serious in that, in the earlier trade negotiations, almost up to the present, the American position is "well, we can really work with China. We can really try and get somewhere."

And my impression is that the American negotiators are thinking that they cannot get through to China and that the two sides are going to be divided and we perhaps have to work for ways to try and make that better. You know, a lot of us came into the international business world with the view that China would liberalize and perhaps that was naïve. It isn't going to happen in the near future. So we have to find ways of working across that, and it is not easy.

[00:17:43] **Marina:** Peter. Thank you so much. I think we have analysed a lot of the dimensions in this fractured new world we have been experiencing and I hope that we gave good food for thought to our audience. Thank you so, so much.

[00:17:56] **Peter:** Thank you.