

illustration by swapnil reekar

# facing up to the new reality

Anti-globalization sentiments have started occupying center stage in the political narrative, of late—signaling a pronounced focus on localization and rejection of seamless trade flows. The Brexit vote and the Trump presidency seem to have added further punch to this counter trend, sparking concern the world over. But will isolationism ever work in an increasingly connected world?



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National High Technology Industrial Development Zone. There, in the fast developing urban hinterland, we were welcomed into a state-of-the-art factory owned by the Chinese company Haier.

In the factory, workers were assembling air-conditioning units, one of the company's many and varied products. Over 500 people work at this factory. It is what Haier describes as an interconnected factory where the flow of materials, products and orders is constantly monitored and displayed. This is mass customization, but with users participating in the manufacturing process.

Later we visited the Haier museum at its headquarters, testament to its incredible story over the last thirty years. In many ways, its story mirrors that of China. From a desperately uneconomical situation, Haier has grown into the world's biggest home appliances maker and fastest-growing home appliance brand, as well as one of the largest non-state-owned enterprises

in China. It has annual sales of more than \$30 bn. Alex Osterwalder, author of *Business Model Generation*, believes that "Haier is right up there with Apple and Amazon" as a corporate benchmark for our times.

The people we spoke to in China replied with a shrug and a smile when we mentioned the American election. To them it seemed a distant, perplexing thing, hardly relevant to their lives.

And, to a large extent, they are right. The economic juggernaut of China is unlikely to be thrown substantially off course no matter how shrill the anti-globalisation and protectionist sentiments and actions become. The China of 2017 embraces technology—witness Haier's shimmering and efficient new factory; relishes globalization—in 2016, Haier bought GE's appliances business in the United States for \$5.6 bn; and is moving to a relentless rhythm of growth—Qingdao has a population of nine million and building work continues at a frenetic pace.

While sheer might allows the

**A**s the American presidential votes came in, we were in China. After hearing the news that Donald Trump was to be the new President, we boarded a bus in Qingdao on China's Eastern seaboard. Our hour-long journey took us over the world's longest bridge over water (the 26 kilometer Jiaozhou Bay Bridge) into what a slightly tired signpost announced as the



biggest countries and their most globalized companies to press on relentlessly, smaller nations and companies would be right to be concerned. There is only one China. Over the last year, the world has become a different place. There are widespread reservations about the nature of globalization with protectionist policies appearing likely to be put in place.

These trends are likely to encourage, perhaps force, companies to be more local in focus. To companies in China and India with vast domestic markets, this is not necessarily a bad thing. The high-tech fridges and air-conditioning units we saw being made in China

were destined for the growing domestic market.

“In this kind of environment, companies need to become more local as an organization,” says Christian Stadler, Professor of Strategic Management at the UK’s Warwick Business School. “Today it is important that companies are perceived as a local champion. It is not possible to entirely undo the export links and supply chains companies already have, but perception matters.”

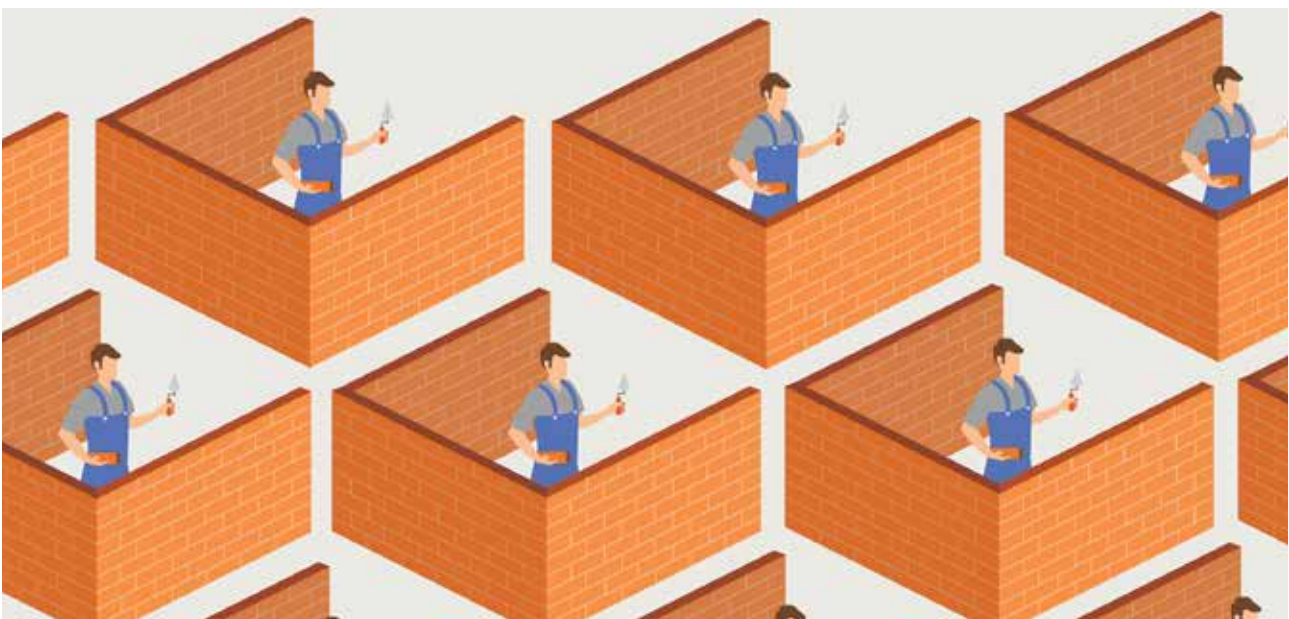
“Companies may want to choose a different route to expanding in new markets. For example, Shell allows its country branches to be very autonomous, they only need to

contact headquarters to approve their annual investment plan or to find a replacement chairman, so they can be fully immersed in the local market. This is an alternative to exporting, though it is more costly so companies need to prioritize the important markets for them.”

What it means to be local may well be reinvented, as companies contemplate the new world order. The future begins here rather than over there.

Two other points are relevant, though they appear contradictory.

First, globalization may have been over-stated. The Global Connectedness Index is published annually by DHL. It is written by



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Pankaj Ghemawat of New York’s Stern School along with Steven Altman. The Index observes that actual levels of global connectedness are still only a fraction of what people estimate them to be. It also argues that ‘distance still matters—even online. Most international flows take place within rather than between regions’.

So, the glorious veneer of globalization covers a more regional, local, and national reality. Another interesting element of this is that advanced economies are more deeply embedded in the flows of capital, information, and money which drive globalization. The advanced economies are, as a result, more heavily invested in globalization. A country like the UK has a relatively small national market but highly developed global networks. It has a lot to lose if the pause button is pressed.

The research suggests that the period of global re-trenchment experienced after the financial crisis caused economies to look within rather than without, and that has yet to be changed back. “The rising proportion of economic activity

taking place in emerging economies continues to prompt international flows to stretch out over greater distances (and to become less regionalized), but this shift toward interactions over greater distances has decelerated since the crisis years,” concludes the report.

The second point is that isolationism cannot work. In the internet age, it is hugely difficult—perhaps impossible—to erect barriers whether they come in the form of tariffs or border walls. People may feel marginalized by globalization, but they do not want to be North Korean.

“When I am at my most fearful, or troubled, by what I am seeing and hearing, I try to step back, acknowledge all of the world’s reaction—including the positive—and see the disturbance as a ripple in a wider, bigger picture. My systemic training tells me that if anything gets excluded it only gets bigger. Once you stand in judgment, you stop exploring deeper, positive causality,” says Deborah Rowland, consultant and author of a new book on the true nature of change, *Still Moving*. “At some level, I have to learn to

agree ‘to’ Trump, even if I cannot agree ‘with’ Trump. So, systemically, what is his presidency serving? At face value, it might serve to exclude immigrants and protect local jobs, impose protectionist tariffs, and boost US industry. But, at a deeper level, what else might it serve? Perhaps his presidency is serving to bring to light a once-ignored section of the global population. To reveal how dangerous it is to divide. To show how, despite the wishful thinking of building walls, it is impossible in today’s interconnected world to isolate.”

All of this suggests that we are right to be concerned about what is happening and what is likely to happen. But the realities may serve to benefit developing economies—many of which have large national markets and are not yet part of global networks. The new reality is different, the question is how to convert its difference into an opportunity. ■