SPONSOR PERSPECTIVE

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Just as nature abhors a vacuum, uncertainty provokes similar feelings for business. As this white paper makes clear, a growing nationalist and protectionist mindset around the world is creating a fresh set of challenges for global businesses. Unexpected political and economic developments of the past few years have created an environment that clouds the long-term business planning horizon.

Enterprises are right to be concerned about any potential business risks from world events beyond their control. The research presented in this report paints a sobering picture; the detail deserves study to gain a greater understanding of the forces at work in the world today.

But as this report makes clear, disruption is not the whole picture. As a small, open, globalized economy, Ireland is especially susceptible to winds of change. Yet, US companies announced €2.5bn in investment in the Irish economy in 2016 (Source FDI markets). And on a wider scale, even allowing for recent political events and economic shifts, global foreign direct investment levels increased by 10% in 2016.

In an ideal world, businesses seek consistency, stability, openness, and transparency. They balance these considerations with a need to keep investing outside their home markets. The European Union is a natural location as the world’s largest trading bloc. Any business with global aspirations needs to address this market, and to set up operations in Europe to comply with regional regulations and to be closer to their customers.

In fact, the report suggests an approach for globally focused enterprises to counter negative sentiments by establishing deeper roots with the countries where they do business. This means not simply locating sales offices but developing manufacturing or operational facilities. Over recent decades, Ireland’s inward investment model has been built on this premise: land and expand. Many multinationals began with support or back-office operations, but have developed over time into sophisticated sites that make a valued contribution to their parent company’s bottom line.

Soon to be the only English-speaking country in the European Union, and with a workforce that combines home-grown talent with global language, business, and technical skills, Ireland is well placed to act as a strategic location for global companies. Ireland has the fastest-growing IT worker population in Europe, which is a welcome development in view of another trend the report uncovers: that globalization is adapting to focus more on flows of information and technology rather than goods and commodities.

Ireland consistently ranks highly for ease of doing business, thanks to our pro-enterprise policies that remain consistent across the political spectrum. What’s more, Ireland is an ideal bridge between West and East. This cultural affinity enables us to act as a gateway not only to the EU but to other international markets. It is no coincidence that many multinationals use Ireland as a hub for follow-the-sun operations that span the globe.

Businesses cannot remain blind to the challenges of today’s world, but they cannot stand still either. This report concludes that companies may find it easiest to locate operations in areas where they and the host share cultural, administrative, geographic, and economic affinities. Ireland is such a location. Ireland is not just any port in a storm of worldwide uncertainty, but a truly long-term safe harbor for today’s global enterprise.
A rising tide of nationalist and protectionist sentiment is reshaping the global business landscape. Worried that their nations’ jobs and economic vitality are jeopardized by a one-two punch of outsourcing and immigration, politicians are responding with harsh rhetoric and in some cases actual trade barriers that threaten the flow of commerce across borders. Economists question the degree to which outsourcing and, especially, immigration have been responsible for the job losses and income inequalities that nationalists bemoan—automation has played a big role, too. But for companies that already compete globally, and for the many more whose growth plans call for joining them overseas, the results of this nationalist and protectionist sentiment are just as important as its causes. They need to rethink how they’re going to compete and prosper in a world where growing numbers of people no longer share their view that globalism is an unequivocally good thing.

**Growing Protectionist Sentiment Injects New Uncertainty into Business Planning**

Global trade winds are blowing erratically. In the U.S., President Trump has pushed for import tariffs and threatened to disregard World Trade Organization agreements. In Europe, the UK is leaving the European Union. Even within countries, divisions are becoming raw; a far-right anti-euro party has won seats in Germany’s parliament, and in Spain citizens of the Catalonia region recently voted to secede from their country, sparking an angry response from the Spanish government that the vote was illegal. While these developments have not yielded much beyond rhetoric thus far, protectionist sentiment is not limited to the West—not to a war of words. European exporters reported a 10% increase in the number of trade barriers encountered in 2016, according to the European Commission, with the greatest number appearing in Russia, India, Switzerland, China, Algeria, and Egypt. Even media sentiment has turned negative, as evidenced by the tone of news stories mentioning the word “globalization.”

For business leaders, this shifting political landscape introduces a new element of uncertainty into business planning. Among the contingencies they must now plan for are the possible tightening or closing of global trade and immigration borders, uncertain political leadership on climate change and other important matters,
and angry customers who believe that businesses aren’t doing enough to meet their needs. Indeed, Martin Reeves, director of Boston Consulting Group’s BC Henderson Institute in New York City, says companies today often see a bigger impact on their business from political and macroeconomic factors—Brexit-driven exchange-rate movements, stock price gyrations in response to policy announcements, shifts in trade policy—than they do from their competitors.

“Businesses need to be prepared for what could be a much more fragmented political system than the one we’ve been accustomed to over the past 50 years,” says Eamonn Walsh, professor of accounting at University College Dublin’s Smurfit Graduate School of Business. “And a more fragmented political system clearly creates a much more difficult environment for multinational corporations in planning their strategies.”

By some measures, real damage has already been done. In an article titled “The Retreat of the Global Economy” earlier this year, The Economist noted that multinational companies’ profits are falling while those of domestic companies are rising, and that the flow of new multinational investment has been declining relative to global GDP. Its conclusion: “The global firm is in retreat.” In fact, examples of companies that have reversed course after finding international expansion tougher than expected aren’t hard to find, particularly in the retail sector. Over the past five years, they have included U.S.-based Target, which left Canada, and Best Buy and Home Depot, two U.S. companies that bid farewell to China. Elsewhere, British supermarket chain Tesco threw in the towel in the U.S., France’s Carrefour left India, and, just this year, Britain’s Marks and Spencer pulled out of China’s high street, the world’s biggest retail market.

Nor is it only retailers on the run. Cement-maker LafargeHolcim of Switzerland, the Economist notes, plans to sell or has sold businesses in India, South Korea, Saudi Arabia, and Vietnam. Even Procter & Gamble, the big U.S.-based consumer products company, has seen its foreign sales shrink by a third since 2012, the magazine reports, after exiting weak businesses.

**Putting Protectionism in Perspective**

For all these disappointments, academics generally contend that while protectionism is on the rise, neither it nor the recent slump in profits for multinationals is likely to signal an end to globalism—the broad, widespread international exchange of goods and services whose most visible participants are large, multinational corporations. As Reeves points out, globalism over the past few decades has been a driver of economic growth and development, has reduced inequality between nations, and has helped lift vast swaths of the world’s population out of poverty in developing economies. Few will want to give that up.

Even if protectionist sentiment prevails for a while and a full-blown trade war erupts, the consequences may be less dramatic than many imagine, says Pankaj Ghemawat, professor of management and strategy at New York University’s Stern School of Business. When the last major trade war broke out in 1929, trade flows were still too big to ignore, says Pankaj Ghemawat, professor of management and strategy at New York University’s Stern School of Business. He explains that when the last major trade war broke out in 1929, trade flows plummeted by two-thirds within four years, but the bulk of that decline reflected falling prices rather than quantities, which declined by less than 30%.

Ghemawat also points to a recent Moody’s Analytics calculation that even if the U.S. were to impose tariffs on China and Mexico—the two countries most criticized by Trump for their trade practices—and those countries retaliated, U.S. exports would shrink by only $85 billion in 2019. That figure represents only about 4% of total U.S. exports in 2015.

Finally, Ghemawat notes that although multinational companies appear not to be performing as well lately as those...
that stick to their home territory, their results over the past three to four years have come against a backdrop of plunging commodity prices, falling demand for globalization-related services, and shifting exchange rates. He says those factors played outsized roles in the performance numbers. In any event, it is not uncommon for firms to be more profitable at home than abroad. Ghemawat notes that from 1990 to 2001, Fortune Global 500 companies consistently generated lower average returns on sales overseas than they did at home—at a time when economic conditions were favorable and globalization was on the march. “There is no automatic route to riches,” he says. “There have always been performance issues for companies that seek to expand globally because there have always been some who made dumb decisions about how and where to globalize. To say this latest rough patch marks a fundamental turning point in the global company is, I believe, wrong.”

Andrew White, associate dean for executive education at the University of Oxford’s SAIID School of Business, is similarly skeptical that multinational companies are simply going to abandon international markets or global supply chains. “I recently traveled to China and the plane was full of people going there to do business,” he observes. “And when I traveled to the Middle East, the plane was full again. I don’t see that business class is suddenly empty on all these global routes, which is the first thing you would see if globalization was in retreat.”

Anil Gupta, chair in strategy, globalization, and entrepreneurship at the University of Maryland’s Smith School of Business, also believes the outlook for globalization has been mischaracterized by the media as too negative. He argues that the downturn in global trade is primarily a downturn in the global trade of goods as a percentage of GDP, and notes that even this is due primarily to the end of the commodities boom and the steep slide in prices for oil and other natural resources since the 2008 financial crisis. Nationalist and protectionist figures like Trump and Brexit voters, he argues, are more like people jumping on a moving train than someone driving a train.

In the meantime, Gupta says, other aspects of globalization, such as the transfer of technology, information, and other data across borders, continues to expand. That finding is reinforced by the 2016 DHL Global Connectedness Index coauthored by Ghemawat and Steven Altman of the New York University Stern School of Business, which tracks international trade, capital, information, and people flows. FIGURE 2

“If you look at globalization from the mindset of the future rather than the past,” he says, “it actually continues to thrive.” Sample case in point: IBM now employs more people in India than it does in the U.S.7

All that said, academics, consultants, and many business leaders agree that corporations can’t continue to operate as if the forces of nationalism and populism didn’t exist. So, while no one expects Caterpillar to stop selling bulldozers in China or Toyota to stop selling cars in California, many companies will need to rethink their global strategies.

When Going Global Means Going Local

Some corporations are taking a page from the playbook of multinational behemoth GE, whose response to the changing political climate has been a pivot toward localization, or what former GE chief Jeff Immelt has called “a local capability inside a global footprint.” It boils down to building operating capabilities in major markets around the world, not just to be close to customers but also to become something of a naturalized citizen in those countries and regions: a contributing—and hence welcomed—member of the local society. “A localization strategy,” Immelt said in a speech last year, “can’t be shut down by protectionist policies.”8

That same approach to doing business worldwide can be seen at U.S. motorcycle manufacturer Harley-Davidson, which in 2011 built a plant in India to get around that country’s 100% tariff on imported bikes. More recently, the company announced that...
it will build a production facility in Thailand to avoid steep trade barriers there. Right now, a Harley-Davidson motorcycle costs about twice as much in Thailand as it does in the U.S. due to tariffs on imports imposed by the Thai government.

All this resonates with Paul O’Riordan, CEO of Synexa Life Sciences, a privately held provider of scientific research services to the biopharma industry. O’Riordan helped found Synexa in South Africa, where he was living, in 2003. Since then, he has helped it establish outposts around the globe, including, recently, a new international headquarters in Dublin, Ireland.

“The more protectionist the world gets, the more reason there is for us to expand globally,” O’Riordan says, noting that protectionist measures exacerbate the challenge of providing Synexa’s services across borders. A good example, he says, is China, which he calls “quite protectionist” in the area of pharma research. In particular, China bans the transport of clinical trial samples—which effectively are Synexa’s raw material—out of the country. “If we want to do business in China, we are going to have to build a lab there,” O’Riordan says. “The paradox is that if you want to be global, you’ve got to be multi-local.”

Synexa’s choice of Dublin for its international headquarters, meanwhile, was directly influenced by the UK’s decision earlier this year to exit the European Union. The company had been looking to Europe for its new headquarters as a way to “relocate our center of gravity a bit away from Cape Town,” in part because the company does no business in South Africa and much business in Europe. “London would have been perhaps the obvious choice since we already had a laboratory there,” O’Riordan recalls. “But the problem is that around the time we were looking to move, Brexit happened. And to be in a country that’s not in the European Union, and to have a headquarters there, just seemed to be an unnecessary complication. That left Ireland as the only other European Union English-speaking country.” Beyond featuring the same native language as the UK, O’Riordan says, Ireland also offers companies like his a supportive and business-friendly government, a low corporate tax rate, and a fast-growing economy with an ample supply of well-educated workers.

As it happens, Ireland also ranks as the world’s third-most connected country in the 2016 DHL Global Connectedness Index, which measures “the depth and breadth of a country’s integration with the rest of the world, as manifested by its participation in international flows of products and services, capital, information, and people.”

Gupta and Haiyan Wang, managing partner of the China India Institute, endorse the local-global hybrid approach to doing business. They argued recently in Harvard Business Review that multinational corporations “need to double down on localizing their operations in every major market. The design and specifications of products may remain largely standardized (think of MRI machines and smartphones) or may not (think of entertainment and food). Regardless, the actual production of goods and services will need to become more local.”

To be sure, companies will need to tailor their approach to their unique circumstances. Ghemawat suggests they begin taking a more case-by-case, merit-based approach to determining where they should compete outside their own borders, rather than assuming they must
compete in all major markets. As part of their analysis, he suggests they look for opportunities where they find cultural, administrative/political, geographic, and economic affinities—characteristics that have been demonstrated to facilitate international commerce, even during past periods of elevated protectionism.

Ghemawat also suggests companies choose from a menu of globalization strategies in different proportions, depending upon their circumstances. As outlined in his 2007 book, Redefining Global Strategy, three key globalization strategies include adaptation (varying products, policies, market positioning, and so on to suit local markets), aggregation (leveraging economies of scale and scope across national borders), and arbitrage (exploiting differences such as lower labor costs or better tax incentives from one country to the next).

The Inclusive Growth Imperative

Many academics and consultants also argue that companies need to work toward “inclusive growth,” a long-championed but seldom-realized utopia in which business growth delivers benefits not just to shareholders but to all of a company’s stakeholders, including its employees, its customers, its partners, and the communities in which the company does business. A central goal, given the current political climate, is to slow the march of income inequality and hence the rise of nationalist and protectionist sentiment. While many developing economies have benefited from globalization, developed economies haven’t fared as well. In the U.S., for example, gross domestic product grew by 154% from 1980 through 2015, and during that period after-tax corporate profits grew by 182% and income for the top 1% of earners grew 190%, according to an analysis by the progressive magazine Mother Jones. But median household incomes—the incomes of average Americans—grew just 16%.

Other studies are even more disheartening. According to an Economic Policy Institute analysis of federal data, the typical American worker has seen his or her pay decline by 2%, after adjusting for inflation, since 1972. “The notion that businesses can continue to operate independent of societal obligations is no longer a socialist concept, even if you believe in capitalism,” says White. “Businesses don’t exist without an implied social contract with the societies in which they operate. They have been able to get away with quite a lot in terms of outsourcing jobs, but that doesn’t feel the same anymore. Wage stagnation, or the perception of it in some parts of the world, and the perception of immigrants coming in and taking jobs, whether or not true, at some level need to be taken seriously and addressed. Shareholder value and profits continue to be really important, but if you focus exclusively on them, and don’t consider the implied social contract, it can ultimately undermine your very license to operate.”

What companies can’t afford to do, add David Taliente and Constanze Windorfer of global management consulting firm Oliver Wyman in another Harvard Business Review article, is treat social responsibility as a “philanthropic appendage” to their core mission. Rather, they say, corporations must build it into their business models, setting goals that go beyond short-term gain for shareholders. How they do this will vary by the industry in which they operate. An oil company might need to do a better job of protecting the environment, for example, while a bank will have to promote the financial security of its customers and work harder to contribute to macroeconomic stability.

Absent changes like these, Ghemawat warns, the nationalist and protectionist sentiments flourishing today aren’t likely to fade away anytime soon. “When times get tough, it’s easy to lash out at other countries, immigrants, people of other religions,” he says. “I wish I were more confident that the pendulum would soon swing the other way. But given that some of the promises being made by people who have profited from these trends are clearly, plainly wrong from an economic standpoint, I expect a somewhat nonlinear path toward recovery in terms of public sentiment. Things might get worse. In the U.S., for instance, Trump, for all his claims, has no magic solution for making things better, and might, in fact, make things worse along many dimensions.” Reeves is more optimistic that companies are getting serious about inclusive growth and social responsibility. He points to the corporate sustainability studies Boston Consulting Group has conducted in partnership with MIT Sloan Management Review over the past eight years, in which they surveyed thousands of managers and interviewed more than 150 executives and thought leaders. The latest study concludes that while leaders in sustainability are still a minority, “a handful of standout companies are demonstrating that sustainability can be a driver of innovation, efficiency, and lasting value.” At the same time, the study’s authors concede that populist political movements threaten global progress in important sustainability-related areas like climate change and environmental regulation, complicating the path forward for business leaders.

A CENTRAL GOAL, GIVEN THE CURRENT POLITICAL CLIMATE, IS TO SLOW THE MARCH OF INCOME INEQUALITY AND HENCE THE RISE OF NATIONALIST AND PROTECTIONIST SENTIMENT.
Conclusion
The nationalist and protectionist sentiments on the rise around much of the world are driven to a large degree by stagnant middle-class wage growth in developed economies. While the causes of that stagnation may be debatable—they include outsourcing of jobs to low-wage developing economies but also technology-driven automation—the consequences for corporations are concrete. Unless they wish to forgo opportunities for growth beyond their own borders, they must find ways to manage through this new political environment and the unexpected changes it may bring.

For some, the answer may be to increase their presence in important overseas markets by putting down deeper roots—locating not just sales organizations but also manufacturing and operating facilities, and, in some cases, international headquarters in their most important foreign markets. Even then, they’ll have to be prepared for the unexpected. GE seemed to notch a big win in India in 2015, for example, when it secured a $2.5 billion contract to sell 1,000 diesel locomotives to Indian Railways in exchange for building those locomotives in India. But in September 2017, a new railways minister stunned the company by announcing that India would pull out of the deal and seek to convert its rail network to use electric locomotives instead. The Indian government later offered GE an option to build electric rather than diesel locomotives at its Indian factory. By mid-October, it appeared that the original deal was holding.13

Elsewhere, companies may find it helpful to continue to work toward “inclusive growth” that delivers benefits to all their stakeholders, not just their shareholders, as a means of moderating nationalist and protectionist sentiment. It won’t be easy. But then, conquering new overseas markets, or new challenges in those markets, seldom is. The most successful global companies of tomorrow will be those that find a way to adapt to the current, and ever-shifting, political climate.

1 “Trump Floats 20% Tax on Mexican Imports to Pay for Wall, but Considering Other Options,” by Jeremy Diamond, CNN
3 “AfD Softens Manifesto Following Leak,” Deutsche Welle, 2017
8 “GE’s Immelt Signals End to 7 Decades of Globalization,” by Alan Murray, Fortune, May 20, 2016
10 “11 Charts That Show Income Inequality Isn’t Getting Better Anytime Soon,” by Dave Gilson and Edwin Rios, Mother Jones, December 22, 2016
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