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Is a global nonmarket strategy possible? Economic integration in a multipolar world order

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ABSTRACT

Technology has changed the underlying structure of the world economy, increasing the cost of autonomy and making devolution unlikely. On the other hand, the increasing number of players, a multipolar world system and the rise of non-liberal powers make multilateral agreements increasingly problematic. Thus, there is an asymmetry between the MNC's market environment (an integrated international economy) and its nonmarket environment (a fragmented international political system). This paper argues that a cross-border nonmarket strategy is inconsistent with a globally integrated strategy and argues that a global nonmarket environment requires multilaterally accepted norms and rules. Issue-based multilateralism is suggested as a way out of this dilemma.

> The supreme difficulty of our generation. . .is that our achievements on the economic plane of life have outstripped our progress on the political plane to such an extent that our economics and politics are perpetually falling out of gear with one another. On the economic plane, the world has been organized into a single all embracing unit of activity. On the political plane, it has . . .remained partitioned into sixty or seventy national States. . .The tension between these two antithetical tendencies has been producing a series of jolts and jars and smashes in the social life of humanity. . .(Econo-Economist, 1930)

1. Introduction

It is now well accepted in the strategy literature that firms must deal with both the market and nonmarket environment. As Baron (1995a, p. 47 emphasis original) noted "(T)he environment of business is composed of market and nonmarket components and any approach to strategy formulation must integrate both market and nonmarket considerations." He went on to define the nonmarket environment in terms of social, political and legal arrangements that comprise company-public interactions. (Baron, 1995b).

The need to deal with the nonmarket environment, and to integrate nonmarket and market strategies, has been central to international business from the inception of the field. Fayerweather (1969, 133) argued that the "natural tendency in a firm towards integration and uniformity" was at odds with pressures to adapt to diverse local environments. He concluded, ". . .the central issue which emerges from an examination of. . .multinational strategy is the conflict between unification and fragmentation."

The multinational firm must simultaneously cope with pressures to integrate globally to exploit efficiencies and differentiate locally to ensure responsiveness to national political, legal, social and cultural differences: it must navigate among global, international and multidomestic strategies (Bartlett & Ghoshal, 1989). Despite increasing concern about the global nonmarket environment and a recognition of the transnationalization of business, government and NGOs (see Doh & Lucea, 2013), much of the discussion of nonmarket strategies remains tied to a cross-border or multidomestic context given the emphasis on country-specific factors. A global or international nonmarket strategy is unlikely to be successful (Baron, 1995a).

A cross-border context assumes that the scope of the market and nonmarket environment overlaps: that economies or markets on the one hand, and social, political, legal and regulatory institutions on the other, are both defined in terms of geographic borders. Spatially delimited social, political, and legal institutions "structure the firm's interactions outside of, and *in conjunction*, with markets" (Baron, 1995a, p. 48 emphasis added).

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Multinational firms' markets are global. The digital revolution and other technological developments have produced an integrated international economy: the integration of national economies into the international economy through cross-border flows of goods, capital, technology and workers (Bhagwati, 2004). However, the nonmarket environment remains fragmented, grounded in national sovereign territoriality. Furthermore, at the global level of analysis, there are differences in structure as well as spatial scope between the firm's market and nonmarket environments.

Two decades ago Ruggie (1993b) foresaw the rise of a nonterritorial global economy, a space of flows existing alongside national economies, the space of places. The international economy is increasingly characterized by flows, networks and multiscalarity where the distinction between "local" and "global" as separate geographies or scalar fields becomes problematic (Amin, 2002). On the other hand, social, political, legal and regulatory institutions are still largely geographically delimited, a space of places at a national or even a local scale.

This asymmetry in scope and structure between an integrated international economy and a fragmented interstate political system makes it difficult for firms to integrate market and nonmarket strategies, or even to conceptualize the nonmarket environment at the global level of analysis.

The "tension between these two antithetical tendencies," the conflict between an integrated international economy and the fragmented structure of international politics goes back at least a century to Norman Angell's arguments about the folly of pursuing war for material gain "owing to the delicate interdependence of the financial world" (Angell, 1913, p. 35). Concern over tension between economic integration and political fragmentation, continued through the interwar period: in 1930, *The Economist* based its argument for The League of Nations, at least in part, on the need to close the gap between economic integration and political fragmentation, which it called "the supreme difficulty of our generation."

After the second world war, Mitrany (1948, p. 351) saw the need to reconcile the "need and habit of material co-operation with the "general clinging to political segregation." During most of the fifty-five years since Mitrany wrote, the disconnect between international economics and politics was ameliorated, to some degree, by American dominance or hegemony: first in a bi-polar then, immediately after the fall of the Berlin Wall, a uni-polar world order. U.S. leadership of a liberal international order dominated by the Western democracies facilitated the emergence of a rule-based "multilateral" system that reached its apogee with the birth of the World Trade Organization in 1994.

While, in Habermas' (2001) phrase, international politics may not have caught up with global markets, the structural divergence between them was constrained, if not reduced. To at least some extent, the existence of a rule-based, liberal order provided an overlay of institutions which resulted in at least a veneer of symmetry: an "international" nonmarket environment.

That has changed markedly in the first decades of the twenty-first century. I will argue here that global economic integration has increased significantly in both degree and kind, while centrifugal forces have exacerbated the fragmentation or disorder in international politics. The result is that international cooperation and multilateral agreements are considerably more difficult to achieve at a time when they are more necessary than ever before.

New technologies, especially the digital revolution, have changed the underlying structure of the world economy. It is production itself, rather than trade or investment flows, that is now integrated internationally through networks of multinational enterprise and/or global production networks. The networked structure of the world economy significantly increases the cost of autonomy, or even national independence, and renders devolution much less likely. Baring a catastrophic event, economic integration is irreversible in the medium to long term.

On the other hand, the combination of multipolarlity, the emergence of a relatively large number of new power centers, the corresponding loss of American hegemonic power, and the rise of illiberal market oriented economies (e.g., China) have resulted in an unprecedented fragmentation of international politics. We are left with a situation where the deep integration of the world economy demands international cooperation while the fragmentation of international politics makes achieving cooperation more difficult than ever before. This may well have increased the disconnect between the market and nonmarket environment of international firms.

2. Globalization

> Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past. The tradition of all of the dead generations weighs like a nightmare on the brain of the living (Marx, 1963 (1852), p. 15).

From the Bretton Woods conference in 1944 to the present day, the "nightmare" hovering over the world economy has been the collapse of the first wave of globalization in the Great Depression of the 1930s. There is no need here to retell the full story of nineteenth and twentieth century globalization. In brief, the first wave, which has been described as the "golden age" of international economic integration, arose in the last third of the nineteenth century. Trade, capital flows and migration all grew dramatically from 1870 to 1914: "The opening years of the twentieth century were the closest thing the world had ever seen to a free world market for goods, capital and labor" (Frieden, 2006, p. 16).

The Great War brought closure to the "golden age" in 1914, and while most national economies and international economic activity recovered by the mid-1920s, the first global economy foundered on the shoals of the Great Depression after the American stock market crash in 1929. World trade imploded after the United States implemented the Smoot Hawley tariff in 1930 and nation after nation followed suit. Cross-border flows of capital dried up, currencies became inconvertible and the world economy devolved into regional blocs. It took almost three decades for the international economy to begin to reopen with the return to convertibility of European currencies in 1959 and the Kennedy Round in the mid 1960s. (See Baldwin and Martin (1999) and O'Rourke and Williamson (1999) for a history of globalization.)

The fall of the Berlin Wall (1989) and the emergence of the digital age signaled the rise of the second, current wave of globalization in the late 1980s. A search for the word "globalization" in Google's NGRAM viewer (https://books.google.com/ngrams) confirms the shape of this second wave of globalization. (The NGRAM viewer plots the occurrence of a given word in millions of books on an annual basis.) Use of the term is minimal in the early 1980s, accelerates rapidly from the early 1990s through 2004 and then plateaus. Mentions of globalization increased more than seven-fold from 1992 to 2004.

Again, only a brief summary of trends is needed here. World exports (constant dollars) grew almost fourfold (3.7 times) from $3.8 trillion in 1989 to $14.1 trillion in 2011. The world economy as a whole became significantly more international over this period as trade (exports plus imports) grew over one and half times faster than GDP (World Bank, 2013).

The current wave of globalization was driven, in large part, by foreign direct investment by multinational firms expanding their networks abroad. Global FDI outflows grew from $198 billion in