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## Mauro F. Guillén: Rude awakening: threats to the global liberal order

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## BOOK REVIEW

**Rude awakening: Threats to the global liberal order**

Mauro F. Guillén

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In the last three to four years, the IB field has witnessed a number of calls for scholars to address the growing threats to globalization, and to do so not only within the IB community but also for a broader audience. In this slender and engagingly written volume, Mauro Guillén, professor of International Management at Wharton and former director of the Lauder Institute of Management and International Studies, has taken on this task. Guillén tackles the question of why in recent years so many people have turned away from the principles of liberalism that have underpinned global economic growth for decades. In 145 pages of text, he summarizes the post-World War II evolution of what he calls the Global Liberal Order, assesses its successes and shortcomings, analyzes the challenges facing it today, and develops some suggestions for reinvigorating it to face the growing problems posed by climate change and technological disruption. Few of the individual pieces of the puzzle he assembles will be unfamiliar to readers, but his integration of complex political and economic phenomena, his clear framing of current challenges, and his call for redesigning the global order rather than simply defending it are stimulating and thought-provoking. The book demonstrates the value of connecting the pieces of the global puzzle across time and across geographies.

For Guillén, the ideological foundation of the Global Liberal Order is a commitment to the market economy (economic liberalism) and democracy (political liberalism). He points out that these two kinds of liberalism may sometimes be at odds: “While the logic of the market calls for the removal of barriers between countries, the logic of political liberalism is based on citizenship, which requires establishing and maintaining national boundaries” (p. 11). Guillen traces the development of the Global Liberal Order after World War II and the shifting relationship between political and economic liberalism using the metaphor of “institutional software,” which he describes in Northian terms as both formal laws and regulations and “cultural norms and values, ways of doing things” (p. 7). He builds on the software metaphor to describe two “iterations” of the Global Liberal Order. Version 1.0 developed in the aftermath

of World War II, but was challenged by the global economic slowdown of the 1970s and was replaced by Version 2.0. This emerged in the late 1970s and early 1980s and is the global order currently under threat. The growing inadequacies of Version 2.0, in Guillén's analysis, cannot be addressed by some kind of "software update". Instead, they make it necessary to generate a new iteration, Version 3.0.

As its subtitle (*Threats to the Global Liberal Order*) suggests, much of the book focuses on the problems of Version 2.0. He provides a succinct and extensive survey of the many problems facing the global liberal order today, including rising income and wealth inequality; a shrinking middle class in the developed countries; the emergence of new technologies (such as self-driving vehicles) that will increase unemployment for less-educated workers; the rise of nationalist-populist parties that combine the traditional leftist distrust of free trade with the traditional right's hostility to immigration; and the fragmentation of geopolitical power in the world system. Guillén, like many of those who have analyzed the contemporary backlash against globalization, sees the global financial crisis of 2008 as the trigger for many of the challenges of recent years. However, by placing it as the latest in the series of financial crises in the late 1990s that affected Asia, Latin America, and Russia, he shows why the policies of financial rescue responding to the 2008 crisis, initially hailed as a triumphant vindication of the global liberal order, in fact delegitimized its technocratic and political elites. The rescue of financial institutions and their leaders did not extend to those who suffered most from the bankers' dangerous risk-taking, and, like the IMF's rescue policies in the aftermath of the currency crises of the late 1990s, seemed to impose the costs of adjustment less on those whose activities caused the crisis than on those who played little role in bringing it about and suffered most from it. The current distrust of the expertise of technocratic economic and policy elites has been two decades in the making and predates, in many parts of the world, the 2008 crisis.

Guillén identifies two fundamental design flaws in Version 2.0 that emerged well before the 2008 crisis. The first is that whereas Version 1.0, in the context of the Cold War, achieved an admittedly precarious balance between economic and political liberalism (i.e. between markets and governments), Version 2.0 tilted strongly towards economic liberalism and the primacy of free markets, even to the point of adopting the view that governments needed to be reined in by markets and that free markets would inevitably lead to democracy, without paying much attention to the institutional infrastructure of democratic states. The second design flaw is that Version 2.0 embraced financial liberalization even more enthusiastically than cross-border trade in products, leading to, in Guillén's words, "the elevation of financial interests above all others" (p. 15). Guillén sees the massive flows of short-term capital flows as particularly pernicious, and he cites a 2007 IMF report asserting that "trade globalization has exerted an equalizing impact, whereas financial globalization has been associated with increasing widening income

disparities” (p. 91). These two design flaws mean, for Guillén, that tinkering with the institutional software of Version 2.0 will not rescue the Global Liberal Order. A new iteration, Version 3.0, is required, and its first design priorities should be righting the balance between political and economic liberalism in the global world order and regulating international capital flows.

The final chapter asks how to address these challenges. Aside from the imposition of capital controls that are “transparent, reversible, reviewed frequently, and price based” (p. 139), those looking for specific policy recommendations to address the problems identified in the previous chapters will be disappointed. Guillén is interested in processes rather than policy, and the chapter culminates in a list of seven “considerations” for Version 3.0 rather than specific policy steps. The language used in these is revealing (*italics not in original*): “an *understanding* that both markets and governments are needed; “an *informed debate*” not only about the costs and benefits of free trade but about who bears the costs and mitigation strategies; “a *realization*” that capital controls would improve stability; “*recognition*” that the social costs of technological disruption can’t be addressed through markets alone; “an *appreciation* of the contribution of immigrants”; “*respect* for” universal human rights; and “*recognition*” that Europe and the United States can no longer dominate global governance structures like the World Bank (pp. 142-144). This is the language of shared cognition and social construction, and builds on the research over the last decade on institutional work, which “explores the practices and processes associated with actors’ endeavors to build up, tear down, elaborate and contain institutions” (Hempel, Thomas, & Tracey, 2017: 558). Guillén’s focus is on how the global liberal order has lost legitimacy (has become “de-institutionalized” in the language of sociological theory), and how this de-institutionalization (acknowledging its shortcomings and costs) is a necessary part of the long and demanding institutional work of reinventing and renewing political and economic liberalism.

What are the implications for IB scholars? The most obvious is more openness to criticisms of globalization. Many of us have tended to react dismissively to “anti-globalization” arguments, and even to see IB scholars as obligated to defend the global order against its growing number of critics. Guillén argues that we should, instead, acknowledge that the latest iteration of global liberal order has had major shortcomings and costs that must be addressed in order to achieve potential benefits of globalization in the future. His book could be a very useful tool for discussing these issues in our classrooms and with our colleagues. Such discussions will undoubtedly include asking why MNCs are absent from Guillén’s discussion, either in terms of their role in constructing the global liberal order in the past or in redesigning Version 3.0. The easy answer is that a short book cannot address everything. A more complex reason is that the role of MNCs in building the global system is complex and multi-faceted (Verbeke et al., 2018). Still another factor may well be that, as Guillén points out, the contemporary challenge to the global

liberal order has focused on “the economic, business, financial, and cultural elites” (p. 145), personifying the villains rather than assigning centre-stage to MNCs (as in the anti-globalization rhetoric of the 1970s or 1990s). However, for our field, the role of MNCs in the global order, past and present, remains a key question for research and discussion.

In participating in current debates about the activities of multinational firms IB scholars will need to address areas that have traditionally been neglected. One of the increasingly recognized shortcomings of our field is that IB models and theories are grounded primarily on the manufacturing sector, and that we need more contemporary and retrospective research on the internationalization of services, particularly financial services. A related but separate question is what effects, if any, the shift to “financial capitalism” and its emphasis on the primacy of returns to shareholders have had on established MNCs. One example that would benefit both IB theory and the field’s ability to address globalization debates is research on how taking multinational corporations private (and how those withdrawals from the stock market are financed) affects their strategies and their activities. Another is the role of international investment banks and consultants in guiding the “internationalization by acquisition” strategies of Emerging Market MNCs and the consequences of the resulting debt levels for the acquiring and the acquired companies.

Another sector that IB has tended to neglect is that of media companies, which are paradoxically both the sources and the targets of much anti-globalization rhetoric. The role of multinational companies and investment funds in agriculture is another area where globalization has become contentious, and is likely to become more so, and where IB researchers have not been active. Still another neglected area is what Reijo Luostarinen (1979; Welch and Luostarinen, 1993) called “inward internationalization”, which looks at firms whose markets are domestic but whose activities involve procurement of goods and services from outside their borders or from local offices of multinational companies. To the extent that they have paid much attention to this side of cross-border business, IB scholars have tended to assume that such internationalization is beneficial – but we need more research that examines empirically how inward internationalization actually affects domestic firms. The study of cross-border business today involves more than a focus on firms going and operating abroad.

Perhaps the most important implication of Guillén’s book is that IB has much to gain by paying more attention to the work on globalization in the social sciences and in other management fields over the past decade. A book review is not the place to provide a comprehensive list, but some examples might be useful. Sociologists have done interesting studies of international trade regimes (e.g., Hopewell, 2016); financial institutions (e.g., Kentikelenis and Babb, 2019), and the social construction of markets. The anthropology of globalization is a vibrant subfield within anthropology (e.g., Niezen & Sapignoli, 2017).

Both political scientists and economists are deeply involved in research and debate on global inequality, exemplified by the wide popularity of Thomas Piketty's work. Organization studies researchers have been engaged in the study of how management models and organizational patterns move across societies and the role that cross-border business plays in this movement (a central theme of this year's annual AIB conference). Yet too little of this literature finds its way into the work of IB scholars. There have been many calls for IB to become more deeply involved with the empirical experience of cross-border business in framing the questions we ask (e.g., Delios, 2017), and this is certainly justified. But maybe an equally important task is to reach beyond IB theory to the broader world of research and theorizing about globalization, and join these wider debates.

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