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Reasons for Globalization in Increasingly De-Globalized World

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How to boost economic performance from international expansion.

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In an era where protectionist sentiments and nationalistic policies are on the rise, the importance of globalization becomes even more pronounced. Globalization fosters interdependence among nations, which can lead to greater stability and peace. It also drives economic growth by creating new market opportunities, fostering innovation through diversity of thought, and spreading technology across borders.

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For instance, in the United States, Apple Inc. epitomizes the benefits of globalization through its extensive supply chain and market presence across the world.1 Its innovative products are designed in California, with components sourced globally and assembled in China, showcasing how globalization spurs technological advances and creates jobs across different continents. In Europe, the German automotive industry illustrates globalization's role in economic growth. Companies like Volkswagen source parts from multiple countries, benefiting from efficient production costs, while selling cars globally, which helps balance economic fluctuations in domestic markets.2 Asia's powerhouse, China, has transformed into the world's manufacturing hub through globalization. Huawei is a prime example, as it sources high-tech components globally, while its telecommunications equipment is deployed worldwide, integrating global communication networks.3 In Brazil, the agricultural giant JBS S.A. stands as a testament to the advantages of globalization.4 As one of the world's largest food processing companies, JBS sources cattle from the vast pastures of Brazil while also owning numerous facilities abroad. The company exemplifies how globalization can aid in scaling operations and accessing new markets. By exporting to over 150 countries, JBS not only contributes significantly to Brazil's GDP but also helps in stabilizing global food prices and ensuring food security across different regions, proving that even in a de-globalizing world, the exchange of goods, knowledge, and culture remains a pillar of global development and prosperity.

Globalization, therefore, remains critical for economic resilience, pushing countries to innovate, diversify, and cooperate in an increasingly interconnected world. For companies from emerging markets specially, expanding internationally presents both immense opportunities and daunting challenges. These emerging market internationalizing firms (EMIFs) often lack the conventional advantages of established multinationals from developed markets, such as strong global brands, cutting-edge technologies, and deep financial resources.

However, recent research indicates that EMIFs can still achieve strong performance in global markets by developing unique capabilities in managing and deploying their more limited resources. The key is ambidextrous resource investment management (RIM) and strategic resource redeployment (SRD).

RIM refers to the ability to deftly balance investments for both short-term exploitation and long-term exploration as EMIFs enter different types of international markets. For example, when an Indian auto parts maker expands into Germany to access advanced technologies and manufacturing techniques, it needs to ramp up R&D spending. But when that same company enters other emerging markets in Southeast Asia to rapidly grow sales, it may need to redirect resources to scale up production and distribution instead. For another example, consider the case of BYD Auto, a Chinese electric vehicle manufacturer. When BYD Auto began its international expansion by entering the European market, it prioritized R&D spending to comply with stringent environmental regulations and align with the high-quality standards of European customers.5 Conversely, as BYD Auto entered more cost-sensitive markets in Latin America, it shifted its focus to scaling up production and streamlining its supply chain to maintain cost-competitiveness.

In tandem with RIM, EMIFs also need SRD capabilities. This involves proactively reconfiguring and redeploying core resources like technological knowledge, marketing skills, and managerial talent across different markets and time periods to catch up with established rivals. By repeatedly reapplying their limited advantages into new contexts, EMIFs can accelerate multinational learning. Consider the case of Mahindra, the Indian vehicle manufacturer. Early on, it developed expertise in designing rugged, low-cost tractors and off-road vehicles for India's rural market. Over decades of international expansion, it redeployed these product development capabilities and its frugal engineering prowess to successfully introduce compact pickups and SUVs in the US, South Africa, and other countries. Through staged resource redeployment, Mahindra has evolved into a formidable global competitor.6 Another example of relevance of SRD capability is Bimbo, a Mexican bakery product manufacturing company. Bimbo has successfully transferred its efficient, high-volume production processes and distribution models, honed in Mexico's price-sensitive market, to similarly competitive markets in China and Eastern Europe.7 This strategic redeployment allowed Bimbo to quickly scale operations and establish a strong local presence.

Adeptly striking this balance enables EMIFs to acquire new knowledge from advanced markets for long-term competitiveness while still generating profits for survival in the near-term. In statistical analyses of 837 EMIFs over 20 years, researchers found that those with higher RIM and SRD capabilities achieved superior international performance.8 The research also shows that EMIFs with stronger RIM and SRD capabilities achieve faster and more profitable international growth. By enabling firms to attain stronger market positions at lower levels of multinational investment, RIM and SRD capabilities flatten the early stage of the internationalization curve where many companies struggle to recoup their initial costs. But RIM and SRD are even more powerful in combination than alone. We find that EMIFs that build both capabilities in a coordinated manner reap the highest performance benefits. The Indian conglomerate Tata exemplifies this approach. Tata Motors consistently invests in a global network of R&D hubs to tap into leading-edge automotive technologies. At the same time, it repeatedly leverages this know-how by redeploying it across its far-flung international subsidiaries and operations.9

For EMIF managers, the implications are clear. Success in global markets is not just a function of how many resources you have, but how well you manage them. Building RIM capabilities to support both overseas learning and market expansion is critical. Cultivating SRD capabilities to fully exploit existing resources across countries can provide a vital competitive edge. And combining the two into an integrated, dynamic approach to resource allocation delivers the greatest impact. But managers must recognize that building these capabilities requires substantial time, effort and investment. The researchers found that at low levels of internationalization, RIM and SRD can actually hurt performance before yielding benefits as firms progress further in their global journey. Crafting a robust multinational resource management strategy is a long-term endeavor that may entail short-term costs for long-term gain.

For EMIFs, doing more with less on the world stage is an existential imperative. As emerging market economies mature and competition intensifies globally, adopting RIM and SRD capabilities will only become more essential. Success will come to those who master the art of stretching limited means to achieve outsized ends in the global arena.

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