

# History Lessons on Globalization

With the election of Donald J. Trump as the 45th president of United States, all signs indicate that we have reached a period of retrenchment for globalization. His “America First” campaign rhetoric played to a deep-seated distrust among a large swath of mostly middle-class Americans of the forces of globalization. In recent years globalization has been demonized as practically anti-American and blamed for taking away jobs as U.S. manufacturers have moved more production overseas.

In times of uncertainty, history is, at the very least, an abiding and compassionate companion. And the dawn of an administration determined to transform America’s place in the world in ways both unpredictable and breathtaking made for an opportune time to speak with Jeffrey E. Garten. A leading board director and former dean of the Yale School of Management, Garten is also the author of the recently published *From Silk to Silicon: The Story of Globalization Through Ten Extraordinary Lives*. In his book, Garten set out to tell the story of globalization, which he asserts “has been advancing in waves since the dawn of mankind, with periods of advance and periods of retreat. Even the periods of progress have had their dark sides, as have the characters who shaped those epochs.” Garten chose 10 individuals who personify the forces of globalization that span East and West, a thousand years of history, and advancements that range from empire building to technological revolutions. “One must learn from those who are more advanced before one can catch up with and surpass them. Independence does not mean shutting the door on the world, nor does self-reliance mean blind opposition to everything foreign,” he writes.

As Garten wove together his narrative, he noticed a common thread that connected these pioneering globalists, which include the ruthless Genghis Khan, the 20th-century Chinese statesman Deng Xiaoping, and Intel founder and former CEO Andrew Grove. They set out, often from an early age, to transform not the entire world but their immediate environs. “I don’t think the full significance of what they had done could have been understood in their lifetimes,”

Garten told me in a telephone interview. Similarly, our business leaders today might not be fully aware of the ramifications of their decisions—which makes carefully considered action all the more important. In the following highlights from our conversation, we explore how boards should be thinking about and addressing the themes of globalization, populism, and overcoming cultural, political, and financial barriers.

***You warn of a global leadership deficit. What is it, and how do these stories serve as an indicator of where new leadership might come from?***

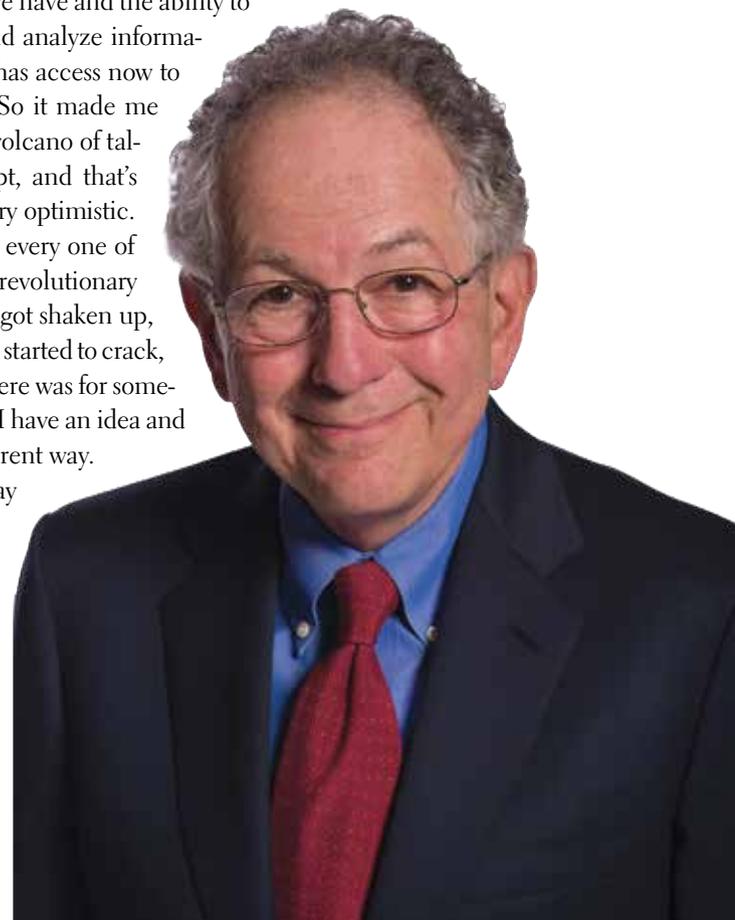
When I wrote the 10 stories, a couple things hit me. One was that if you take them together, they constitute a fairly narrow range of countries. But if you look at the world that is emerging, people with this kind of drive and talent are going to exist in all corners of the world. The number of people capable of transformative action is going to change dramatically for the better. Let alone the fact that with the new technologies that we have and the ability to access and distribute and analyze information—the entire world has access now to the same information. So it made me feel we are sitting on a volcano of talent that’s going to erupt, and that’s one reason why I felt very optimistic.

I also concluded that every one of these people lived in revolutionary times. The more things got shaken up, the more the foundation started to crack, the more opportunity there was for someone to come in and say, I have an idea and I’m going to do it a different way. And I think given the way technology is moving, we’re going to be in a permanent state of revolution.

***In your book, you make the point that globalization both***

**Demonizing globalization may slow it down, but history shows it will not be stopped.**

**By Judy Warner**



**advances and retreats. There is currently a backlash against globalization. How do you think this is likely to play out?**

In any discussion about globalization now, you need a couple reference points. First, what time frame are you talking about? Second, are you taking everything into account? If we took a 10-year period and we looked at all aspects of globalization, I don't think the slowdown is going to be as much as it appears in the newspapers, because there are aspects of globalization that are simply not going to slow. Take the transfer of information, the spread of ideas across borders. None of that is going to stop. What may really slow down is global trade. But to parse it a little bit, we may see less trade, say, between the United States and Southeast Asia, but among the countries in Southeast Asia and East Asia, I think there will be a huge burst of trade. We may go from global to regional, but the regional integration will be a stepping stone to the next phase of globalization.

Globalization over a decade or two may slow, but it's certainly not going to stop, and in certain aspects it will accelerate. That doesn't mean that in the year 2017 there isn't going to be a trade war. That doesn't mean that immigration may not slow to a crawl. All of that can happen. But as long as human beings have existed, there has been this urge to move to new areas in search of a better life, to congregate in communities. This we can't stop.

**Why is it important for directors to know this history?**

Now more than ever, historical context is crucial to being able to evaluate what's important, what's transient, and what is more likely to last. Most people don't have that kind of education. If you're talking about boardrooms, it's a rare company that isn't affected by the global environment. Almost 50 percent of the revenue for companies in the S&P 500 comes from outside the United States.

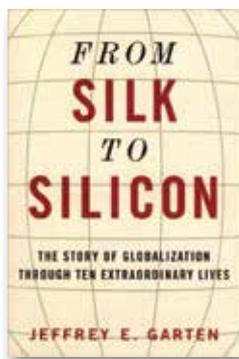
**In the context of the conversation now taking place in American politics, what questions should boards ask of themselves and their management teams?**

What do we need to think about, and who's telling us stuff that really matters, and how do we separate the signal from the noise? The more history you have, the better off you're going to be with this. It doesn't mean that you necessarily have the right answer, but at least you have a frame of reference. Very little that is happening hasn't happened before. Make some analogies or see if there were some parallels, or understand the impact of what happened. For example, if you're in the boardroom, you really should have some understanding of what happened with the Smoot-Hawley Tariff

Act [see sidebar, opposite page]. We went from being one of the most protectionist countries to leading the world in opening up trade in just a few years. That could give you a lot of solace. Things may look very dark right now in terms of the fluidity of global commerce, but the worst may not last very long.

**Is there a course of action that we have seen that would provide some guidance?**

[General Electric CEO] Jeff Immelt has said that GE is not going to reduce its global footprint, but he is assuming that GE is going to have to be much more self-sufficient in different parts of the world because it's not going to be able to trade the way it used to. He's not giving up on the 80 percent of consumers who live outside the U.S. It's a profound strategic discussion based not only on where you see the trends going, but how long they will last. The worst thing you could do is read the headlines and totally pull back, which a lot of people may very well be inclined to do.



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**How can directors prepare for how dramatically the environment is changing?**

You need to envision a range of scenarios. I would also ask management if it has brought in people who can tear their scenarios apart, because a fact of life is that a company only knows what it knows, and in a time filled with all kinds of possibilities, it's not enough just to have these scenarios. You need to ultimately come away with a judgment as to the likelihood of these scenarios, and this brings into play factors that most companies don't have expertise in. Deep-seated political change, for example. Structural changes in economies, for another example. Particularly at this time, companies need what the intelligence community calls a red team. The red team looks at the scenarios and then starts questioning the assumptions, and the job of the red team is to make sure that everything is really considered and informed by the full range of possibilities. The question just isn't, how are we going to be competitive? It's, what is the terrain on which we're playing?

You can't take for granted that the market is going to look the same. Forget about competitors and that the entire regulatory structure could change. The entire post-World War II structure of international finance and international trade is changing. There isn't a person alive who can say with great confidence exactly how and what the impact will be, but certainly that confidence rarely if ever exists within a company because all the CEOs and board directors that we know grew up in an environment that hasn't changed very much.

***What should boards do when a populist fervor takes hold that might not align with the corporation's principles?***

When the terrain is shifting like it is, you still have to create value for shareholders. And, you may have to say at some point, These are our values and we're going to stand with them regardless of what is happening in the larger environment and even if we're going against that grain. That's the disconnect that I think a lot of people are seeing: Who is the enemy? What is the enemy?

***Recent changes in immigration policy have sparked questions about access to talent and the ability of employees and students to move around the world. How should boards be looking at the immigration issue?***

That becomes a strategic question. A company that is true to its values will ask certain questions. One of those would be: I have an obligation to shareholders, so what is my business strategy to maximize profits over a period of time? A second is: I have an obligation to my employees, so now, if we end up with [immigration] policies that put a monkey wrench into the movement of people, what can I do for my employees who are not in the United States?

And let's say it's a question of not only wanting to make life better for employees, but also not wanting to sacrifice access to great talent outside the United States. A strategic question is, How do I go to them? Do I want to associate with some foreign universities so that I have access to some of their great researchers? And who knows—down the road, immigration may change again as it has in the past. The United States has opened the door and closed the door.

A legitimate alternative is waiting another year to see how the dust settles. If I were on a board I would say, fine, but I'd like to know what the other alternatives are that make waiting the best option for now. Don't tell me waiting is best when you haven't thought through five years from now, or because you say it's too complicated or we don't have time to look at this, or you don't want to get on the wrong side of the administration. I don't think that's a full policy.

***So how does a board oversee the alignment of values against a backdrop of such divisive populism?***

It is incumbent on business leaders to try to figure out how to narrow the gap of inequality within their workforces. There is nothing stopping them from raising minimum wages. There's nothing stopping them from trying to figure out how they can assist when it comes to healthcare or maternity leave. There are a lot of things that are within the capabilities of companies.

I'm not saying they are responsible for the whole social safety net, but at a minimum they should look at themselves and say,

Inequality is one of the reasons that has led to this burst of populism and this burst of militant nationalism. We can understand the sentiment, but there's a lot about nationalism that won't create sustainable jobs, so what can we do? We can be responsible only for our workforce, and we should try to give our employees the sense that we not only care about them, but we also recognize the broader societal problem that the gap between wages has gotten much too big. And it's going to get worse unless we do something because of automation. We think we have a problem now. In my view, it's nothing compared to what it's going to be 10 years from now.

***I think that yours is an important book that everyone should read, and I also appreciate that you end with an optimistic outlook at our current global situation.***

I think that if you are inclined to be optimistic, you are looking for things that are going to make the world better, and if you're optimistic you tend to feel that there's a way to solve a problem. If you're pessimistic, your juices are flowing in the other direction. You become very defensive. 

## Getting to Know Smoot-Hawley

The Smoot-Hawley Tariff Act, or formally, the United States Tariff Act of 1930, was the last legislation under which the U.S. Congress set tariff rates. Despite a petition from more than 1,000 economists urging him to veto the legislation, on June 17, 1930, Republican President Herbert Hoover signed it into law. Some 20,000 products were taxed. Countries retaliated by imposing their own tariffs on exports. By most accounts, that led to a 60 percent decline in international trade between 1930 and 1934. Then, under Democratic President Franklin D. Roosevelt, the Reciprocal Trade Agreements Act of 1934 was signed into law, leading to greater international trade and eventually to the General Agreement on Tariffs and Trade (GATT) in 1947, which was similarly designed to break down international trade barriers by reducing tariffs. The North American Free Trade Agreement, developed by Republican President George H. W. Bush and signed into law by Democratic President William J. Clinton in 1994, phased out import tariffs between the United States, Canada, and Mexico. The World Trade Organization (WTO), an intermediary to facilitate international trade, went into effect Jan. 1, 1995, and replaced GATT. Today, the WTO has 164 members, including the United States, China, Japan, and Russia.