Firms, Institutions and Anti-Globalization: The National and Regional Institutional Determinants of Backlash and Policy Reversal

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ABSTRACT

There is mounting evidence of a widespread backlash against globalization, of which Brexit and the election of Donald Trump are two recent instances. Multinational companies have a great deal to lose from such a backlash – especially when it leads to a reversal of policies that sustain cross-country flows of capital, labor, goods, and services. In this paper, we argue that the extant literature has neglected the fact that the extent of the backlash is likely to vary across countries and regions – and that institutions are significantly responsible for such variation. We present a framework explaining the various mechanisms through which national and regional institutions will increase or decrease the likelihood of backlash and of reversal of pro-globalization policies.

Introduction

Since the late 1990s, multinational companies (MNCs) have found themselves in a much more challenging global environment than in previous decades – an environment characterized not just by recurring crises (the dot-com bubble, the Global Financial Crisis) but also by growing skepticism towards the real or potential benefits of global flows of goods, services, capital, and labor. While global public opinion seems, on average, to continue to support economic (trade and financial) globalization, this trend hides profound variety across countries and regions (Kohut & Wike, 2008). Moreover, vocal and organized minorities may effectively channel their opposition to further cross-country economic flows. There is plenty of anecdotal evidence showing instances of popular backlash against globalization in the past two decades (Micklethwait & Wooldridge, 2001; Cuervo-Cazzura et al., 2017; Kobrin, 2017): from global social movements contesting multilateral governance by international financial institutions (O'Brien, 2000), to recent electoral results in the United States (the election of Donald J. Trump as President) and the United Kingdom (Brexit)[1].

The two latter events – however exceptional they may be – encapsulate how negative perceptions (skepticism) towards globalization may transform into concrete steps towards the erection of more barriers to trade and the free flows of capital and labor. As Sampson (2017) notes, Brexit calls into question the stability of the EU and the deepening of globalization going forward. Moreover, European citizens' attitudes towards the European Union seem to have turned negative recently, in the wake of Brexit.[2] Even though, by contrast, US citizens' positive attitudes towards free trade have rebounded since the low reached during the 2016 presidential campaign (according to a recent survey released by the Pew Research Center[3]), the potentially negative effects on free trade of the 2016 US presidential election testify to the

1 The name given to the planned withdrawal of the UK from the EU's supranational political institutions and from the extensive EU legal and regulatory framework.

2 According to a 2016 survey by the Pew Researc Center: http://www.pewglobal.org/2016/06/07/euroskepticism-beyond-brexit/ Accessed on November 21st, 2017.

3http://www.pewresearch.org/fact-tank/2017/04/25/support-for-free-trade-agreements-rebounds-modestly-but-wide-partisan-differences-remain/ Accessed on November 21st, 2017.

extent of the effects of skepticism towards globalization.

Comparative capitalism and comparative regionalization

While IB scholars have started to acknowledge this threat (Kobrin 2017), little attention has been paid to variance in globalization skepticism or reversal of pro-global policies across different countries and regional trading agreements. In this paper we attempt to fill this gap by drawing on the comparative capitalism (cf. Jackson & Deeg, 2008; Saka-Helmhout et el. 2016; Fainshmidt et al., 2016) and the comparative regionalization (cf. Rugman, 2001; Rugman and Verbeke, 2008; Verbeke and Asmussen, 2016; Haftel, 2013; Allee and Elsig, 2016) literatures. We use existing the comparative capitalism literature in order to develop propositions regarding the national institutional contexts under which backlash against globalization is more likely to arise and more likely to translate into policy reversals. Similarly, we use the comparative regionalization literature to ask how regional trade institutions influence backlash and policy reversals. It must be stated at the outset that our comparative capitalism-derived propositions focus on backlash with the likelihood of policy reversal only indirectly influenced by comparative capitalist institutions via backlash (i.e. *ceteris paribus* the higher the likelihood of backlash the higher the likelihood of policy reversal). In contrast, our propositions concerning comparative regionalism directly address both the likelihood of backlash and policy reversal.

Our institutional approach suggests that we need to distinguish the popular backlash against globalization from actual policy reversals without which popular backlash will not have any effect on the openness of a given economy. Based on this insight, we develop propositions regarding the institutional conditions under which backlash against globalization is more likely to arise and more likely to translate into policy reversals.

We define **backlash against globalization** as the political expression of public discontent directed at international market openness and its purported consequences. For instance, the election of politicians explicitly criticizing economic openness/globalization, such as Trump in the US, is an example of backlash. Likewise, the passing of any referenda that seeks withdrawal from commitments to certain levels of economic openness, such as the Brexit referendum, would also be an

example of backlash.[4] Our definition focuses on forms of discontent that explicitly target/blame the economic aspects of globalization. Although in practice, the cultural factors underpinning backlash are often entangled with economic ones (see, for instance, Inglehart & Norris, 2017), we argue that it is possible to identify cases of backlash that are primarily related to economic globalization.

In line with the political economy and empirical literature on the impact of trade liberalization and trade openness on wealthy economies (see Rodrick, 2017, for a review of the arguments; Milanovic 2016, respectively), this paper posits that economic globalization *ceteris paribus* has negatively affected the wages and/or employment of non-university educated workers in wealthy economies via globalization (or at least radical expansion) of labor markets to include large numbers of relatively low wage workers in emerging economies. This literature stresses the negative impact on non-university-educated workers because these workers are more likely to find themselves in direct competition with workers from emerging economies than university-educated workers in wealthy economies are. However as Milanovic (2016) has shown, the negative impact on non-university-educated workers while felt across the wealthy economies has not been felt equally. Indeed, some of these wealthy countries have been able to limit the general upward swing in inequality due to the relative wage losses of non-university-educated workers. Many of our comparative capitalism-derived propositions in the second section articulate posit that domestic institutions account for much of the variation in the negative impact on non-university-educated workers across wealthy economies.

In this paper, we focus on the impact that popular attitudes among the non-university-educated segments of the population has on the likelihood of backlash. This choice is justified by the importance given, in the political science literature, to working class voters and education levels in determining the likelihood of backlash (see, in the case of Brexit, Goodwin & Heath, 2016; and Antonucci, (Antonucci, Horvath, Kutiyski, & Krouwel, 2017).

[4] It is important to note that emphasizing electoral expressions of anit-globalization discontent makes sense given that the set of wealthy economies under examination in this paper (see Table 1) are all economies that hold elections to determine their political leaders although two of these economies have either biased electoral laws favoring the ruling party (Singapore) or have popular suffrage as only one component for their electoral system (Hong Kong). And, of course, Hong Kong is officially a self-governing special administrative zone of China rather than a fully sovereign and independent country.

The reason for the backlash being to an important extent a phenomenon driven by non-university-educated workers is that it is these strata of society that are most vulnerable to the downsides of globalization. Economic globalization presents firms with new opportunities to reconfigure their operations by accessing low and semi-skilled workers in low wage locations at little additional cost due to lowered legal trade barriers, the "box" transportation revolution, and the telecommunications revolution. Therefore, it is these non-university-educated workers who have the most to lose from globalization and may feel most strongly about policies promoting or reversing it. Research from the US has shown the negative economic impact of the globalization of labor markets on non-university educated workers in general (Lin 2016) and, specifically, in the form of trade with low-wage China (Autor et al 2013) and how areas most negatively impacted by trade with China have been most supportive of anti-globalization backlash in the form of Trump (Autor et al 2016). We therefore consider that this segment of the population is key to determining the likelihood of a popular backlash, although other factors – such as the extent to which the middle class is 'squeezed' – may be an additional factor.

We define **policy reversal (of pro-globalization policies)**, by contrast, as concrete and intentional steps taken to reverse open market policies, which we define as policies supporting cross-border flows of capital, goods and services, or what Sun et al. (2015) call an ''institutional open access framework.'' Policy reversals, therefore necessarily imply institutional or policy change, where popular backlash constitutes an expressive phenomenon that can take various forms, but does not have to result in actual institutional or policy change. In other words, we recognize that backlash may not necessarily lead to actual policy reversals so we need to differentiate the two related but distinct phenomena.

MNCs, backlash and policy reversals

Backlash against globalization and/or policy reversals may harm MNCs. While, as Kobrin (2017) and Cuervo-Cazzura, Mudambi and Pedersen (2017) argue, the

technological change underpinning global supply chains and global trade and financial flows will likely continue, the current backlash may, if translated into policy reversals, undermine the institutions (the policies, organizations, and regulations) sustaining globalization (Hillebrand et al., 2010). In other words, backlash-induced policy reversals against globalization may hinder cross-border flows of capital, goods and services. This may constrain (home and host) MNCs to change their strategies by shifting resources to costlier alternatives and looking for ways to compensate for loss of access to product markets. But even if not leading to policy reversal, backlash may affect MNCs' strategies as well. By leading to a perceived deterioration of MNCs' global environment, a backlash may lead (home) MNCs to re-consider their strategies through options such as re-shoring – a strategic shift increasingly analyzed by International Business (IB) scholars (Gray et al., 2013; Delis et al., 2017).

We argue that national and regional institutions play a critical role in determining the likelihood of a backlash and mediating the effects such a backlash may have on MNCs through the occurrence of policy reversals. These arguments rest on a sizeable literature that shows, on the one hand, how institutions matter for MNCs' strategic decisions (Djelic and Quack, 2003; Peng et al., 2008, 2009); and, on the other hand, how institutions shape country-level sets of incentives and constraints facing firms (both domestic and MNCs) (Hall and Soskice, 2001; Whitley, 1999). Institutions matter because the institutional arrangements faced by MNCs affect their costs, their access to key resources, and their opportunities for realizing profits (Hoskisson *et al.*, 2013). Institutions also underlie the cultural or cognitive distance between MNCs' home and host countries (Kostova et al., 2008); and may increase or decrease the 'liability of foreignness' (Zaheer, 1995) faced by MNCs. Consequently, institutions directly or indirectly affect the strategies, structures, and organizational practice of multinational companies (Hotho and Pedersen, 2012). For instance, home institutions may affect the outward internationalization of multinationals. In this regard, Sun *et al.* argue that MNCs may thrive in what they call an ''institutional open access framework,'' which they define as 'advancement in

formal rules that enables market forces to access opportunity via competition.' (Sun *et al*., 2015, p.1)

Building on the 'open access framework' idea, we argue here that national institutions and institutional frameworks are likely to affect both the likelihood of a backlash and its consequences for MNCs. As the comparative capitalism literature has shown, there may be considerable cross-country variation in individual countries' exposure and reaction to globalization (Hall and Soskice, 2001). This literature has found its way into international business research agendas in the past decade (Saka-Helmhout, 2011; Ahmadjian, 2016; Jackon & Deeg, 2008; Witt & Jackson, 2016). Yet, the precise nature of the link between different institutional settings, discontent with globalization, and the ability of respective sets of institutions to deal with such discontent have not been investigated so far. We attempt to fill this gap by drawing on the comparative capitalism literature to further our understanding of how institutions affect MNCs' strategy and performance through their effects on the current backlash against globalization and its policy consequences.

In particular, the proposed framework addresses the potentially ambiguous effects of domestic institutions on MNCs' prospects. Far from being univocal as envisioned by some authors, some institutions may positively affect MNCs' prospects in the short-run through stabilizing open-market policies, while simultaneously undermining MNCs' long-term interests by planting the seeds of popular discontent. For instance, the ''institutional open market framework'' (Sun *et al*. 2015) may facilitate MNCs' operations while further eroding the social and political bases supporting globalization, thus making a backlash and/or policy reversal more likely. There is some empirical evidence linking increased exposure to global markets and the likelihood of a backlash. In the case of Brexit, for instance, a recent paper by Colantone and Stanig (2016) finds a positive correlation between the regional importance of Chinese imports in the UK and regional variation in the 'leave' vote.

Similarly, a recent study on the United States 2016 presidential election results shows correlation between Trump support and trade exposure across the US (Autor *et al*., 2016).

In this context, MNCs are both the ‘‘victims’’ and the ‘‘culprits’’ of backlash/policy reversals. They are victims because they stand to lose from such backlash/policy reversal, and they are culprits because the very strategies they adopt may increase the likelihood of backlash/policy reversal. This is where the firm-centered, multi-level institutional framework proposed by Hall and Soskice (2001), the seminal work in the field of comparative capitalism, is relevant. In a nutshell, this approach builds on the hypothesis that firms’ competitive advantage has institutional foundations: (various types of) domestic institutions enable firms to gain competitive advantage by choosing certain strategies over others.

Drawing on Hall and Soskice (2001), we posit that the globalization of labor markets offers opportunities (firms can utilize new sources of labor directly and indirectly) and threats (firms may face new challenges as existing or emerging competitors utilize these new sources of labor) for firms, and institutions encourage or constrain firms to either take what we call the ‘‘high road’’ or the ‘‘low road’’ strategy. In the **low road strategy,** firmss seek competitive advantage by exploiting the opportunities offered by globalization to directly or indirectly use cheap labor in emerging economies in place of workers in the wealthy economies. In the **high road strategy**, firms seek competitive advantage by forgoing intensive exploitation of labor savings presented by the workforces of the developing world and instead pursuing the more costly process of re-investing in their home country-based capabilities. While both strategies can be successful in terms of profitably and/or firm sustainability over time, we hypothesize that the road chosen by a country’s firms influences the likelihood of a backlash against globalization. The low road-high road distinction should not be viewed as a dichotomous variable, but a range with firms typically having relatively more or less exploitation of labor savings via engagement with the emerging economies rather than solely relying on or forsaking the cost savings offered by utilizing cheap labor in emerging economies. It is important to

note that here we talk of firms rather than MNCs (and will continue to do so in most of the remainder of this paper) because not all of the firms confronted with these opportunities and threats from globalization are or become MNCs. Many may remain domestic firms, but their very choices still help to shape the likelihood of backlash and policy reversals.

Yet, institutions do not operate at the national level alone. In fact, one key feature of MNCs, compared with domestic firms, is that the former operate *across* institutional systems (Kostova et al., 2008). In particular, a now well-established tradition in the IB literature emphasizes the importance of the regional level – including region-level institutions – in determining multinationals' strategy and operations (Aguilera *et al*., 2015; Verbeke & Asmussen, 2016). For instance, dispute settlement mechanisms nested in trade agreements help decrease uncertainty over MNCs' cross-border operations (Yarbrough & Yarbrough, 1997; Smith, 2000). In parallel, a growing literature in political science, the comparative regionalization literature, is exploring variation in regional economic institutions (see, for instance, Choi and Caporaso, 2002; Haftel, 2013; Schneider, 2017), which can thus be associated with different outcomes regarding the backlash against globalization.

Regional institutions can have different effects than national institutions. In particular, regional institutional frameworks are more explicitly geared towards framing the cross-border flows of capital, labor, goods and services. Thus, welfare states mostly operate at the national level, while regional trade agreements, by definition, operate at the supra-national level. This means that region-level institutions and institutional frameworks may be less equipped with the buffering function – protecting domestic workers and the population in general from the negative effects of globalization – that characterizes national institutions. Still, region-level institutions may cause variation in the likelihood of policy reversals associated with a given level of backlash against globalization. Indeed, depending on

the nature and characteristics of regional institutions, these may either hamper a backlash against globalization from spilling over into actual policy reversal, or – conversely – may make such a reversal more likely.

The aim of this paper is to contribute towards understanding the circumstances under which MNCs may or may not face a backlash against globalization and, eventually, policy reversals that may threaten their operations and survival. It does so by proposing a framework combining, on the one hand, a conceptualization of the effects of domestic institutions; and, on the other hand, the analysis of the effects of regional institutions on the likelihood of a backlash and/or policy reversals.

The paper is organized as follows. The next section will review and assess what comparative capitalism tells us about cross-country variations for the likelihood of the backlash against globalization and/or policy reversals. Then, the paper turns to regional institutions and their effects. The fourth section combines the two levels (regional and national) to formulate predictions as to which advances economies may be more likely to experience a backlash and/or policy reversals. The last section considers the limitations of this study and further avenues for research.

Comparative Capitalisms and Anti-globalization Backlash

Kobrin's (2017) analysis of key trends in the global economy and the stresses, frictions, and backlash it creates in advanced industrial economies shows an increased awareness amongst international business scholars of the importance of societal factors in determining international business activity. However, focusing mainly on the US experience, Kobrin's (2017) analysis of the stresses of globalization lacks an understanding that these stresses are not evenly felt across the advanced economies. His US-centered analysis assumes that the US reaction to globalization is representative of the advanced world or even the reaction to globalization worldwide. Yet, as the comparative capitalism literature has shown, just as any economic, political, and societal force, the forces of globalization too are mediated at the country-level by a country-specific institutional setup (Hall & Soskice, 2001; Jackson & Deeg, 2008).

In this section, we argue that Kobrin's (2017) analysis needs to be extended along a comparative institutionalist dimension. Specifically, we utilize the comparative capitalism approach to unpack how the major developed economies differentially mediated the pressures of globalization. Management scholars have begun to use comparative capitalism as an analytic framework (Jackson & Deeg, 2008; Witt & Jackson, 2016: Schneider & Paunescu, 2012; Saka-Helmhout et al., 2016). This framework is particularly well suited to unpacking and problematizing ideas about how different arrangements of national level institutions provide different incentives and capabilities to firms to deal with technological and economic pressures from abroad.[5]

The foundational framework for much of the comparative capitalism literature has been the Varieties of Capitalism (VoC) framework (Soskice, 1999; Hall and Soskice, 2001). Comparative capitalism scholarship in management (Jackson & Deeg, 2008; Witt & Jackson, 2016; Schneider et al. 2010; Hotho 2014; Fainshmidt et al, 2016) has typically used VoC as the main or at least partial foundation of its analysis. Here we will follow suit while pointing out as others have done (e.g. Schneider and Paunescu 2012) where our analysis and VoC part ways. Two main critiques of VoC have been raised: Firstly, that there are many more than the three varieties[6] Hall and Soskice posited. Secondly, varieties of capitalism assumed a large amount of both institutional stasis in conjunction with institutional frictionlessness. Indeed, according to VoC, the institutions of a given market economy complemented each other so well that how friction would even arise was hard to conceptualize (Allen 2004; Crouch 2005; Jackson 2010).

While the above criticisms are valid, our comparative capitalist approach will still leverage VoC in order to understand how different economies have coped with the pressures of globalization that Kobrin delineated. In particular, we will accept that liberal market economies (LMEs) represent a set of relatively coherent arrangements of institutions present across a number of wealthy economies.[7] For the other wealthy

[5] Berger and Dore (1996) was an early attempt to use comparative capitalism to investigate the differential cross-national responses to globalization.
[6] Hall and Soskice (2001) focused on the coordinate and liberal market economies but acknowledged that there seemed to be another clustering of Mediterranean economies.
[7] Some authors have stressed, however, that even within the relatively small group of Anglophone liberal market

economies' capitalist systems, we will acknowledge that the coordinated market economy (CME) as laid out in Hall and Soskice (2001) is too specific (it may only really describe German capitalism), but the key institutional spheres (education/training, inter-company relations, industrial relations and financial systems-cum-corporate governance) that VoC emphasized may apply more widely. Indeed, institutional complementarities across these spheres may also exist in other non-LMEs even if these complementarities are different than those found in Germany. Acknowledging the limited applicability of the CME category as defined by Hall & Soskice (2001), we prefer to use the broader category of non-LME to distinguish the LMEs from other advanced economies. What must not be lost sight of is the ultimate argument of VoC and subsequent comparative capitalism literature: institutions in LMEs are structured to enhance and encourage competition between firms in order to encourage firms to respond quickly in ever changing markets whereas in non-LMEs the institutions are structured to allow firms to adjust their strategies and restructure their capabilities over longer time spans.

This fundamental difference between LMEs and non-LMEs is related to differences in the underlying definition of the corporate purpose. The purpose of the public corporation is narrowly and instrumentally defined in the LME variety, as essentially constituting a vehicle for maximizing shareholders' returns while in non-LMEs it is generally considered a quasi-public institution with responsibilities beyond the profit motif (Weimer & Pape, 1999; Höpner, 2007). As a result, non-LMEs attribute higher importance to the survival of companies than LMEs where bankruptcies, takeovers, and other forms of dissolution of a corporation are mainly seen as beneficial market-driven processes that free up assets for more productive uses. These differential conceptions and priorities are reflected in the institutional setup of different types of capitalisms.

The institutions of classic CMEs as well as other non-LMEs do not make possible this longer-term orientation solely through providing the necessary inputs (e.g. training workers in firm-specific skills). They also do so by buffering firms, individual

economies quite considerable institutional differences do exist, explaining for instance the different extent of the most recent global financial crisis (Konzelman et al., 2012).

workers, and other relevant actors within the wider national economy from economic turbulence. Institutional buffering is key to understanding popular and corporate reactions to globalization.

In addition to the four institutional domains derived from the VoC literature, two aspects of the economy that were given relatively short shrift in the VoC literature (and only partially incorporated elsewhere in the comparative capitalism literature) are the role of the state intervention in the economy and the state's social welfare systems. The latter in particularly looms much larger than the relatively narrow role the VoC literature accorded it when we consider the issue of reactions to and buffering from globalization. Thus, in this section, we will consider these six institutional domains and how they influence firms' and individuals' reactions to the structural challenges of globalization that Kobrin highlights. This allows us, in turn, to formulate general propositions as to the impact national institutional arrangements may have on the likelihood of a backlash against globalization.

It must be acknowledged that not the differences between LMEs and non-LMEs are not dichotomous, and for a given institutional sphere may be conceived of as a range with pure LME on one end and non-LME on the other. Previous literature has acknowledged as much by denoting some economies as LME-lite or CME-lite (Witt and Jackson 2016; Schneider and Paunescu 2012). However, such approaches assume that countries fit comfortably on the CME-LME range and do not take into account other institutional configurations that actually exist in the world as critiques of the original VoC model have pointed out (Allen 2004; Crouch 2005). Furthermore, given that our model includes two institutional spheres not included in VoC, the labeling of capitalist systems as CME-lite or LME-lite does not make much sense. Instead, we opt for the term hybrid to denote those economies in which the institutions do not all manifest purely liberal market tendencies or their opposite in terms of the long-termism and buffering against short-term market forces common across institutional spheres in pure non-LMEs (see Table 1 below).

Before we proceed with considering how these six institutional domains mediate backlash across developed, wealthy economies, we need to define what we mean by wealthy, developed economies. Hall and Soskice (2001) and their academic

antecedents were concerned with institutional processes in wealthy capitalist systems, but they tended to use less than rigorous definitions, such as OECD membership, which has included developing countries such as Mexico and Turkey for quite some time. The past comparative capitalist scholarship was concerned about studying wealthy countries that did not rely solely on natural resources or serving as offshore banking hubs and thus they excluded oil/petrol-dependent economies and offshore banking centers from their studies. However, beyond excluding these types of economies, a clearer, operationalizable definition of wealthy economies that are the recognized main concern of the comparative capitalist literature is needed. Here we use Woo and his colleagues' (Woo et al 2012) definition of wealthy economies as those that have attained at least 60 percent of US GDP in purchasing power parity (PPP) terms, but following along the lines of the previous comparative capitalism literature, we exclude petrol-dependent economies and offshore banking centers. Table 1 below lists the countries that meet these criteria, how we classify each economy's capitalist system and how other scholars have classified the same economies.

<insert Table 1>

As firms and non-firm actors both interact with institutions to help shape the likelihood of backlash, the following propositions will often to be divided into two distinct sub-propositions with the first (a) being concerned with non-firm actors and the second (b) concerned with firms as the main actors.

Education and Training

LMEs typically have focused on training white-collar professionals in universities with relatively weak vocational training programs for secondary and tertiary students (Vitols 2001). In contrast, non-LMEs have put in place institutions that increase investment in training of workers either through direct state provision or by incentivizing firms to do so through institutions that lower the risk of poaching of trained workers by competitors. Thus, some non-LMEs use extensive training programs for vocational students, sometimes in conjunction with industrial associations (e.g. Austria, Germany, and Switzerland), through active national public

skills training (Sweden), or through in-house, lifetime training and employment (Japan) to deliver high-quality if non-university educated workers for industry and manufacturing in particular (Jackson & Deeg, 2012; Jackson & Sorge, 2012; Hall & Soskice, 2001; Schnyder, 2012). Consequently, workers in LMEs tend to have lower, more general skills that are transferable across employers, while workers in non-LMEs tend to have higher skills, but with a stronger firm-specific component, making them less transferable (Hall & Soskice, 2001).

If we regard globalization as leading to the increase in the global low-skilled workforce that firms from the advanced world can utilize either internally by moving activities abroad or externally by engaging external suppliers located in emerging economies (Rodrik 2011; Milanovic 2016), it follows that non-university-educated workers in the LMEs in tradable goods and services sectors would feel the brunt of globalization (Kobrin, 2017) in a manner that highly skilled, non-university-educated workers in Baden-Wurttemberg would not (Baccaro & Benassi, 2016). Thus, we posit the following propositions:

Proposition 1a: *The more national and/or supra-firm-level training and education institutions in a given economy targets on-university-educated workers, the less vulnerable non-university-educated workers of that economy are to competing directly with workers from emerging economies and therefore the lower the likelihood of a backlash against globalization in that country.*

At the firm level, the skills-profiles of non-university-educated workers in the two types of capitalist economies also leads to the specialization of firms from these countries in activities where these types of skills are most appropriate. Thus, firms from LMEs tend to specialize in the mass production of tradable goods that can be standardized or R&D-intensive activities utilizing university-educated workers. Firms in non-LMEs on the other hand tend to utilize their respective training systems to train their non-university-educated workers deeply in industry- or firm-specific skills (Vitols 2001). These skills develop in the nexus of interactions between firms, industries and national training systems in these national institutional contexts so are not so easily replicated in other coutnries (Sorge and Streeck 2016, Thelen 2004 and De Massis et al. 2018). Non-LME firms, which have co-evolve their own competencies

to depend in the unique skill sets offered by their respective training systems, will therefore find it harder to relocate their production to emerging markets than LME firms. We therefore propose:

Proposition 1b: *The more national and/or supra-firm-level training and education systems in a given economy target non-university-educated workers, the more firms rely on non –university -educated workers from their home economy to compete rather than utilizing workers in low-wage emerging economies and, consequently, the lower the likelihood of a backlash against globalization.*

Inter-Company Relations

LME firms typically engage in arm's-length, market-based transactions with other firms, while firms in non-LMEs often produce a variety of stable, longer-term, and thus more cooperative relationships. This even is the case among firms competing in the same industry who coordinate their activities via unwritten 'relational contracts' for instance in the areas of training and R&D to pool resources and produce collective goods. Even more formal relationships exist among non-LME firms that are absent in LMEs. Thus, non-LME firms are typically interconnected through a dense network of shareholding ties and board overlaps, although some of these ties have recently started to decline in some cases (Hemskeerk & Schnyder, 2008; Höpner & Krempel, 2004). Such inter-company networks provide the 'social infrastructure' for coordination amongst legally independent economic units, shape corporate behaviors by allowing the diffusion of practices among firms, and create a certain 'shared business ethics' among the business elite (Windolf, 2002; Mizruchi, 1996). Inter-company networks and relationships insulate companies to some extent from competitive market forces by providing alternatives to market-based transacting. Beyond Europe, in East Asia, both Korea and Japan have produced large business groups spanning many sectors. Both structures insulate group-firms to some extent from the full might of market forces (Gerlach and Lincoln 2004;). Indeed, such relationships give these firms a buffer from short-term pressures brought about by

sudden technological and other changes. In the face of globalization and firms creating competitive challenges via the low road, the stable inter-company relations common in non-LMEs buffers non-LME firms embedded in such stable inter-company structures from having to respond in the short-term to these competitive pressures. Thus, firms in non-LMEs can forgo taking the low road and have more time to seek out and develop new, viable high road strategies.

Based on this discussion we develop the two following propositions in terms of the implications of inter-firm networks for individuals and firms:

Proposition 2a: *Long-term, stable inter-company relations buffer employees from competition with low-wage developing world labor because long-term, stable inter-company relations constrain firms from taking the low road strategy. Thus, long-term, stable inter-company relations lower the likelihood of backlash.*

2b: *Long-term, stable inter-company relations lower firms' cost of adjustments to the external market shock of competitors using low wage workers in emerging economies. As a result, in economies with stable inter-company relations, firms are more willing to adjust to competition from low-wage developing companies via high-road strategies, and therefore reduce the likelihood of a backlash against globalization.*

Industrial Relations and Trade Union Organization

Comparative capitalism research has shown that labor markets in LMEs are less regulated than in non-LMEs, and trade unions are much smaller, weaker, and fragmented in the former too. This has often given raise to concerns about flexibility in heavily regulated and/or unionized labor markets. Yet, more ''rigid'' labor markets have the advantage of providing buffers for workers in both tradable sectors from the economic pressures of globalization.[8][9] Equally important, these same industrial

[8] Some would argue that these 'rigidities' can force firms to finding coping flexibility elsewhere, leading to organizational innovation. Dore (2001) argued this phenomenon played out in Japan.

[9] Even non-LMEs that have recently liberalized their labor market institutions, still may provide higher levels of

relations systems in non-LMEs help to better protect even workers in non-tradable sectors than such workers are protected in LMEs. In other words, these industrial relations systems tend to dampen the shock and burden of globalization across society. For example, Carre and Tilly (2017) demonstrate that retail workers have better pay and working conditions in a number of non-LMEs than they do in liberal market America. We derive the following proposition from this discussion:

Proposition 3a: *The higher the level of unionization and/or labor market regulation in a country, the more workers will be protected from global labor competition, thereby reducing the likelihood of a backlash against globalization.*

The non-LME labor market institutions described above do not only directly affect workers by guaranteeing a certain level of income and social security, but also by constraining firm's strategic choices. There is therefore also an indirect, firm-level, channel through which labor market institutions affect the likelihood of a backlash. Indeed, strong unions and labor market regulations constrain companies' strategic decisions regarding labor market issues, such as mass layoffs and redundancies, because such actions either cannot be taken in non-LMEs or they incur very high costs, such as paying the laid-off workers higher portions of their salary for longer periods of time than in LMEs (Gospel and Pendleton 2003). These stronger constraints make it therefore more difficult for firms in non-LMEs to take advantage of the global economy by re-locating operations to low-wage countries. These constraints may have negative impacts on firm profitability in the short-run because they incur higher restructuring costs and/or labor costs, but essentially push firms in non-LMEs to seek out viable high-road strategies since pursuing low-road strategies is either too costly in terms of pay-outs to laid-off workers and/or virtually impossible due to rigid labor regulations in some non-LMEs. These strong industrial relations and labor regulation institutional pressures on firms in non-LMEs thus provide non-university-educated workers in these countries with greater protection from negative employment impacts from globalization than exist in LMEs Therefore, we formulate the following firm-level proposition:

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buffering than LMEs. Thus, some non-LMEs have been able to create new flexicurity systems where workers' livelihoods are still protected but employment is flexible (e.g. Denmark).

Proposition 3b: *The higher the level of unionization and/or labor market regulation in a country, the lower the likelihood that firms can take advantage of the opportunities of globalization via low road strategies (to replace domestic workers with cheaper workers abroad) and therefore the lower the likelihood of backlash.*

Financial Systems-cum-Corporate Governance

The comparative capitalism literature further distinguishes institutions that shape the ways in which corporations are governed and financed. A long line of literature has emphasized the difference between equity- and banked-based financial systems (cf Zysman 1983). LMEs tend to be equity finance-based systems where banks do not enter into long-term relationships with client firms. In contrast, non-LMEs generally have less developed equity and bond markets, but have strong banking sectors that provide long-term finance to non-financial companies. The dominant stream of comparative corporate governance research emphasizes the advantages of stock-market-based financial system over bank-based ones for firm growth (Beck et al., 2000; La Porta et al. 2008; see Armour et al., 2009 for a critical view). The key advantage of the equity finance-based system is considered to be the fact that it pools large amounts of capital through small investments by households and institutions and allows firms to minimize their capital costs by maximizing their share prices (Beck et al., 2000). Moreover, equity-market based systems generally have deeper venture capital markets, allowing start-up companies to easily access finance (Armour & Cumming, 2006).

Non-LMEs, on the other hand, feature a wide variety of institutional arrangements whereby relationships between banks and firms are long lasting. Thus, the time horizons for return on investment can be elongated (patient capital) (Deeg et al., 2016). Also, personal, long-term ties lower the cost of capital due to better (insider) information and the possibility of relational monitoring by banks of their industrial clients (Khan 2000).

The differences in corporate governance and finance systems also have important implications for corporate control and firm strategy. As a result of their reliance on equity markets, LMEs tend to be characterized by minority shareholder-orientated corporate governance systems where various legal mechanisms enhance

managerial accountability towards shareholders (Fainshmidt et al., 2016; Hall & Soskice, 2001; Weimer & Pape 1999; Shleifer & Vishny, 1997). Moreover, the absence of long-term patient capital providers in LMEs makes ownership structures more fluid and also exposes firms to the threat of hostile takeover. Indeed, in LMEs, firms themselves can become commodities in the so-called 'market for corporate control,' which is seen as a key disciplinary corporate governance mechanism that guarantees that managers focus on maximizing shareholder value (see the classical statements by Manne, 1965; Jensen & Ruback, 1983). Non-LME corporate governance systems traditionally lacked such mechanism to increase shareholder power. To the contrary, long-term bank finance and the existence of large, patient blockholders made external minority shareholder interests a secondary concern for non-LME managers.

These differences in stakeholder power have implications for firm strategy vis-à-vis workers. Institutionally reinforced capital market pressures incentivize LME firms to often use layoffs as a first measure in a crisis to reduce costs, but keep up dividend payments (Gospel & Pendleton, 2003). Conversely, patient capital allows firms in a bank-based system to retain their workforce during times of crisis, sacrificing dividends and financial performance instead (Deeg et al 2016).

This discussion leads us to the following proposition:

Proposition 4a: *The more an economy relies on banking finance the less power an economy gives to external shareholders. The less power external shareholders exert, the more influence workers and retired workers will exert on firms to protect domestic jobs, wages, and pensions. Thus, the more an economy relies on bank finance, the lower the likelihood of backlash..*

Proposition 4b

The more an economy relies banking finance the less power an economy gives to external shareholders. The less power external shareholders exert, the less pressure firms have to adopt the low road strategy and thus the lower the likelihood of backlash.

Welfare Systems

The CC literature, as utilized in management, has paid scant attention to state welfare systems. Yet, work preceding the VoC approach delineated three explicit welfare regimes in advanced economies (Esping-Andersen 1990).[10] These systems are critical for understanding how some economies have coped better than others in providing for the losers from global economic integration.

Kobrin cites Dobbs et al (2016) to the effect that 65-70% of households across twenty-five advanced economies had 'real market incomes' that were flat or had fallen over the period 2005-2014. While this is an undisputed reality, the welfare state in many of these countries goes far to supplement these market incomes, making falling or flat real incomes less of a problem for the poorest strata of society in some countries than in others. Thus, those workers (and ex-workers) bearing the cost of adjusting to the globalization of labor markets in which they are forced to compete with lower cost workers in emerging economies are buffered from these costs of adjustment to the extent that they live in states with more generous welfare systems (Anderson and Pontusson, 2007). More generous welfare systems also provide better living conditions for retirees and thereby lower the level of economic anxiety for retirees and soon-to-retire workers (Estes and Philippson, 2002).

We therefore propose the following:

Proposition 5: *The larger the welfare state, the more individuals are protected from bearing the costs of globalization, and the lower the likelihood of backlash against globalization.*

State Intervention

The state fulfills a variety of roles in organizing finance, labor, and even business associations in ways that go beyond the typical CC assumptions of voluntary private

[10] Namely the liberal variant of the Anglosphere, the social-democratic version of Northern Europe, and a Christian-democratic one in Germany and other Central and Western European countries.

organization with only a subsidiary role for the helping hand of government. Both in East Asia (Wade 1990) and in certain Western European countries (e.g. France and Italy) (Zysman, 1983), there have been traditions of proactive state intervention in the economy. Similarly, the East Asian developmental states have had long traditions of state intervention, which has not fully subsided in the face of the institutions of globalization, such as the WTO, which Kobrin and others (e.g. Friedman 2005) confer with great and undifferentiated liberalizing power. For our purpose, state intervention in the global economy takes two main forms, namely industrial policy and trade policy.

In terms of trade policy, Kim (2010) argues that protection of agriculture via high tariffs in advanced East Asian economies (Japan, Korea, and Taiwan) should be viewed as a form of welfare policy for a disadvantaged group, farmers, and one that has widespread legitimacy within East Asian societies. Similarly, Taiwan, despite being a wealthy economy, was able to negotiate to retain a large tariff on automobiles (one higher than those in place in Japan, the EU and North America). While this protectionist barrier has not allowed Taiwan to become an auto manufacturing powerhouse due to its small domestic market (cf. Cunningham et al 2005), it did protect three percent of Taiwan's manufacturing workforce from being displaced by trade as would have happened in LMEs. Critically, state intervention to protect against the costs of trade is considered entirely legitimate by Taiwanese firms and the wider public. This has limited Taiwan's embrace of institutionalized globalization through trade agreements. Taiwan has often violated its WTO commitments without any substantial political fallout at home. Taiwan's ideological acceptance of state intervention to block many of the costs of free trade is one shared with its wealthy Northeast Asian neighbors, Korea and Japan (Fuller 2014).

In sum, more interventionist states may employ more protectionist barriers (including formal tariffs, non-tariff barriers and regulations), which may affect economic growth, but also can serve to shield certain sectors from competitive pressures. These interventions have also strengthened many of the buffers that cushion the blows of globalization.

Thus, we propose the following proposition about the impact of state intervention through trade policy:

Proposition 6a: *The more the state intervenes in the economy via trade protection, the greater the likelihood that workers will be less exposed to competition from low wage countries, thus reducing the likelihood of backlash.*

As in other institutional areas, state intervention also has a more indirect effect on backlash via its impact on firm strategies. Firstly, protectionist trade policies reduce competitive pressures on those firms who would otherwise have to compete with cheaper imported goods. This reduces cost pressure on the firm, which in turn reduces their incentives to relocate to low-wage countries. Secondly, governments also intervene in the economy through industrial policy. These interventions have served to encourage home country firms to enter new sectors and place the core activities of the new ventures at home. In Taiwan, for example, state influence over the formal banking sector still looms large and this state intervention has been directed at creating patient capital for strategic sectors that Taiwan's relatively weak business groups and bank-firm linkages cannot provide (Fuller 2007; Wong 2011). In Korea, the state has provided policy and financing for Korean *chaebol* to enter new sectors, such as green energy, while centering the high value-added activities of these new sectors in Korea (Thurbon 2016). These industrial polices by creating high-value activities at home have helped deter de-industrialization and provided profound socio-economic benefits for Korean workers (Kim and Kwon 2017), making them less fearful of globalization. Based on these examples, we propose:

Proposition 6b: *The more the state intervenes in the economy via trade protection or industrial policy, the greater the likelihood that firms will place their activities and concomitant employment inside the country, thus reducing the likelihood of backlash.*

Complementarities and the Aggregate Effects of National Institutional Systems

While we have so far focused on the implications of institutional arrangements in each one of the institutional spheres, a key argument of the comparative capitalism

literature is that institutions do not just work in isolation, but may deploy their effects in combination with others. This so called institutional complementarities argument is at the heart of the national institutional systems literature (Amable 2016; Crouch 2005; Deeg and Jackson 2008; Hall and Soskice 2001). It is therefore important to also consider the impact that the above-mentioned institutional arrangements have in the aggregate, in particular in terms of. the likelihood of a backlash against globalization.

While institutions in various spheres give rise to complex interactions and complementarities, a basic point is that more liberal institutions tend to let market forces freer rein than institutions of coordination. This implies that individuals are less protected from market forces through various buffers. Conversely, non-LMEs not only protect workers through rules that they impose on firms in the area of labor markets – often making layoffs more difficult –, but also tend to have more developed welfare systems, and more investment in skill formation and non-tertiary education. All these complementary institutional features mean that in the ideal-typical non-LME workers are better protected from the downsides of globalization than in LMEs, which makes them less fearful of globalization. We propose:

Proposition 7a: *The further an economy's institutions are from the ideal-typical LME model of institutions, the less likely workers in a given economy will be exposed to the globalization of labor markets, and thus the lower the likelihood of a backlash against globalization.*

At the firm level, LME institutions imply that companies are more exposed to competition, both domestic and international. Yet, they are also less constrained in their strategic choices, which allow them to take advantage of the opportunities afforded by globalization more freely than firms in non-LMEs. Furthermore, other institutional spheres, combine to incentivize firms to pursue the low road strategy of relying on cheap, low-skilled workers in other parts of the globe. Thus, financial market pressures and the threat of hostile takeovers constantly force firms to reduce costs. Moreover, workers in LMEs are often not a valuable resource that the firm invested in, but a replaceable cost that needs to be minimized. The institutional

complementarities of non-LMEs combine to produce the exact opposite effect: Not only are firms less exposed to pressure to increase profitability and reduce costs due to their embedding in long-term, personal relationship both with capital providers and other firms, but also do they rely on a higher-skilled workforce, which they invest in and therefore often consider as a valuable asset that cannot be easily replaced. We therefore propose:

Proposition 7b: *The further an economy's institutions are from the ideal-typical LME model of institutions, the less companies will be pressured/incentivized to pursue low-road strategies, and thus the lower the likelihood of backlash against globalization*

Regional institutions and the re-framing of the backlash against globalization

As shown in the previous section, national institutions and institutional frameworks play a key role both in increasing / decreasing in the likelihood of a backlash against globalization and in compounding the effects such backlash may have on firm strategy and operations. However, as mentioned in the introduction, multinationals are exposed to a broad range of institutions, at different geographical levels – in particular at the macro-regional level, which Verbeke and Asmussen call the third level of analysis for international business studies, in addition to the country and world levels (Verbeke and Asmussen, 2016). Indeed, according to the well-known empirical observations made by Rugman and colleagues, the scope of multinational companies' operations is less global than regional (Rugman, 2001; Rugman and Verbeke, 2004, 2008). As Rugman and Verbeke (2008: 398) succintly put it, ''the home-region orientation of most multinational enterprises [...] implies that the reality of globalization has been vastly exaggerated.''

This regional argument relies on a series of empirical observations made by Rugman, Verbeke and colleagues over time (see, in particular, Rugman aqnd Verbeke, 2004, 2008; and Oh and Rugman, 2014). This regional approach have been contested, particularly from a global value chain (GVC) perspective (Gereffi et al., 2005). For example, Mudambi and Puck (2016) criticize the regional strategy literature for its

excessive downstream focus. Rugman and Verbeke (2004) were, however, aware of the limitations of their argument, and their critics actually do not question their empirical findings – just the theoretical implications drawn by Rugman and colleagues.

This paper will not deliver a final judgment in this debate, but the empirical evidence mustered by Rugman and colleagues is enough to persuade us that at least some, if not most multinationals, operate on a regional scale as Aguilera *et al.* (2015) pointed out by showing how crossing regional borders represent ''discrete discontinuities'' that MNCs must manage. Thus, MNCs' strategies may be significantly affected by regional institutions. Additionally, and perhaps more importantly for the present analysis, regional institutions may affect, both directly and indirectly (through their influence on MNCs' strategies), the likelihood of a backlash against globalization and the likelihood of subsequent policy reversals.

The GVC critique of the regional strategy perspective may actually shed light on a potentially spatially discriminating effect of skepticism towards globalization. The threats of globalization reversal may more heavily impact activities firms have externalized than internalized ones. Since the former are likely to be more global (and less regional) than the latter, the regional dispersion of multinationals' assets and in-house operations may be less affected than global suppliers and outsourced operations.

Regional institutions, multinationals, and (the backlash against) globalization

While the 'semi-globalization' or 'regionalization' literature pays little attention to regional institutions, Rugman and Verbeke (2004: 16) originally acknowledged that the regional strategies of MNCs are embedded in their regional *institutional* environment. As Verbeke and Asmussen further put it, ''a successful international strategy in terms of achieving profitable growth entails careful selectivity as to where and how the firm should expand.'' (Verbeke and Asmussen, 2016, p.1054)

Institutions at various levels affect this selectivity (Arregle *et al.*, 2013).

There is, however, very little empirical evidence on the impact of regional institutions on multinationals' strategy. Among the rare works dedicated to this issue, the simplistic neo-Northian approach to institutions predominates. In other words, institutions are seen as positively affecting multinationals' performance as long as they are market-enhancing. For instance, in a study of 45 Japanese multinationals' propensity to internationalize, Arregle et al. (2013) find a negative relationship between what they call regulatory control and internationalization in a specific country or region. But as highlighted in the previous section, we need more a sophisticated understanding of how national or regional institutional frameworks may affect multinationals' strategy and performance.

The analysis thus requires shifting the geographical focus of comparative institutional analysis explored in the previous section from the national comparative capitalism level to the regional level, building on similar efforts in economics and political science with the literature on comparative regionalism with an emphasis on regional economic agreements[11] (Sbragia, 2008; Johnston and Acharya, 2007). This literature has accompanied the steady growth of the institutionalization of regional economic areas in the past thirty years — in particular through regional trade agreements (RTAs) and regional investment agreements. As of November 2017, the World Trade Organization listed 302 RTAs in force[12]. Regional investment agreements are more difficult to track down since United Nations Conference on Trade and Development (UNCTAD) produces the most accurate statistics on investment agreements, but UNCTAD does not consider specifically regional agreements. However, one can easily aggregate the data on international investment agreements by groupings of countries — there were 155 such treaties as of November 2017.[13]

[11] This paper focuses on economic arrangements at the regional level, not purely political or security arrangements such as NATO, which have a much less relevant impact on backlash and policy reversal.

[12] Source: WTO regional trade agreements database, available at http://rtais.wto.org/UI/PublicAllRTAList.aspx Accessed on November 21st, 2017.

[13] Source: UNCTAD, at http://investmentpolicyhub.unctad.org/IIA/IiasByCountryGrouping#footnote Accessed on November 1st, 2017.

Globalization and the proliferation of regional trade or investment agreements are linked through a dual relationship: on the one hand, regional economic agreements institutionalize (that is, embody the institutional response of national governments to) the increase in cross-country flows of goods, services and capital. From a neo-functionalist perspective, this relationship arises out of the necessity to regulate these flows and to make a credible commitment to openness on part of national governments (Haftel, 2013). On the other hand, cross-country flows of goods, services and capital are affected by international agreements — even though the precise impact of the latter upon the former is still being disputed. For instance, on the investment side, it has been found that bilateral or international investment agreements promote foreign direct investment to developing countries (Blüthe and Milner, 2008). On the trade side, there is evidence that global trade is positively affected by the proliferation of preferential trade agreements in general — and regional trade agreements in particular (Mansfield and Reinhardt, 2003; Dür, Baccini and Elsig, 2014; Saucier and Rana, 2017).[14]

This dual relationship has two implications for the phenomenon under study here. First, the multiplication and deepening of regional agreements may be positively related to an increase in regionalization. In particular, there is evidence supporting the hypothesis that RTAs play a role in the regionalization of trade — an observation that can be deduced from the trade diversion effect observed by economists studying free trade agreements in general (e.g. Dai, Yotov and Zylkin, 2014). Secondly, if regional trade agreements facilitate trade, then they also *potentially* facilitate a backlash against globalization. As mentioned in the

[14] Actually, the empirical relationship between preferential trade agreements and the volume of trade flows is the object of an unresolved dispute among economists. See Kohl, Brackman and Garretsen, 2016, for a recent discussion. The robustness of the relationship is not of great concern here, as we are chiefly interested in the *differentiated* impact of trade agreements on trade — which is also emphasized by Kohl, Brackman and Garretsen.

introduction, the argument presented here is based on the assumption that trade *can* generate opposition to trade. It does so through redistribution of resources across and within economies. In particular, low-skilled workers in wealthy economies generally are worse off as a result of trade liberalization (Milanovic, 2016; Rodrik, 2017). Thus, variation in the regional institutionalization of trade liberalization may help explain cross-regional variation in the likelihood of backlash as well.

Comparing regional institutional frameworks

There is broad agreement in the comparative regionalism literature on the fact that the extent, degree and nature of institutions underpinning regional economic frameworks significantly differ from one framework to the other (Choi and Caporaso, 2002; Haftel, 2013, see Schneider, 2017 for a recent survey). In a comparative analysis of NAFTA, the EU and Mercosur, Duina found that each regional trade agreement is unique in two important respects (Duina, 2006). First, the legal systems underpinning each RTA differ. They differ in terms of their complexity and the degree of standardization pursued or achieved; they differ in the content and targets of laws and regulations. Secondly, regional trade agreements differ with respect to the reactions of societal organizations to regional integration. A recent study by Saucier and Rana (2017) shows how different types of PTAs generate different effects on trade. Similarly, a study of preferential trade agreements (PTAs) by Dür, Baccini and Elsig (2014) shows that PTAs have, on average, a positive effect on trade flows; but this effect significantly varies across PTAs in function of the depth of the agreement embodied in the PTA. Variation in the depth of PTAs is also the object of a recent study by Allee and Elsig, who develop a multi-faceted measure of dispute settlement mechanism strength, applied to nearly 600 PTAs signed over time (Allee and Elsig, 2016). The deepest agreements are those associated with strongest dispute settlement mechanisms.[15] More generally, a sizeable literature has emerged in the area of comparative regionalization, specifically looking at the differences and

[15]However, Johns, focusing on the design of PTAs, argues that there might be a tradeoff between depth and rigidity: deeper agreements reduce the likelihood of full compliance and, therefore, require more flexible enforcement (Johns, 2014).

similarities of PTAs or RTAs.[16]

The key differences between such agreements are, this literature suggests, of an institutional nature. Haftel (2013) emphasizes differences in the policy design of such agreements while Bearce, Eldredge and Jolliff (2016) propose that an important variable differentiating between PTAs is the degree of flexibility such agreements exhibit. More broadly, tackling a wide range of regional integration agreements beyond RTAs, Schneider (2017) emphasizes two institutional dimensions along which such agreements may differ: the rules underpinning authority pooling and the extent to which sovereignty is delegated to an independent authority (and the modalities of such delegation).[17]

These differences between regional trade agreements may be ultimately ascribed to political and institutional factors such as, the region's prevailing legal tradition (Duina, 2006). In a follow-up study Duina (2016) finds that RTAs with a ''minimalist'' legal architecture (characterized by the prevalence of the mutual recognition principle and ad hoc arbitration as the main dispute settlement mechanism) are to be found in regional groupings sharing a common law tradition while civil law country clusters tend to adopt RTAs with an ''interventionist'' architecture (with the prevalence of the harmonization principle and permanent courts of justice as the main dispute settlement mechanism).[18]

Towards a comparative regionalization framework for understanding how regional institutions mediate the effects on multinationals of a backlash against globalization

[16] In an attempt to summarize theoretical arguments and to overcome methodological difficulties, Kohl has recently proposed an indicator measuring the heterogeneity of PTAs (Kohl, 2017).

[17]The extent of institutionalization displayed by individual RTAs might actually reside in spillovers between different areas of regional integration, as Haftel and Hoffman show in their study of security cooperation within regional economic organizations (Haftel and Hoffman, 2017).

[18]RTAs may also vary in terms of the degree of implementation, which can also be related to institutional factors, such as ''state capacity'', according to a recent study (Gray, 2014).

Building on both the previous section and the two loosely related literatures discussed above (the regionalization literature in IB and the comparative regionalization literature in political science), this paper proposes a comparative framework adapted to understand the mediating effects of regional institutions upon the consequences of a backlash against globalization. The argument will proceed in three steps. First, we will identify the kinds of effects regional institutions (by which we mean regional trade agreements) may have on the likelihood of a backlash against globalization and/or policy reversals. Secondly, we will suggest the most relevant dimensions of regional institution variation. Finally, we will synthesize these first two steps into overarching propositions.

What are the likely effects of regional institutions / institutional frameworks on the likelihood of a backlash against globalization? Here the regional level analysis diverges from the national level analysis: regional institutions have different effects on globalization (and the backlash against it) than national institutions. A large portion of institutions characterizing domestic capitalisms – such as welfare states – do not exist at the regional level. By contrast, the comparative regionalization literature suggests that the varying degrees of institutionalization of regional economic areas may have five major effects. First, varying institutionalization may induce variation in trade openness (effect *a*) and the greater the openness the greater (controlling for mediating national institutions discussed in the previous section) the likelihood of backlash. Secondly, varying degrees of regional institutionalization may affect the likelihood of reversal of pro-globalization policies – by making such reversals politically more difficult (effect *b*). Third, regional institutions may provide MNCs with more or less influence on trade and financial policies – thus offering them more or less effective tools to fend off anti-globalization threats (effect *c*). Fourthly, regional institutions endow domestic or regional veto players – in particular veto players more sensitive to anti-global social pressures – with more or less influence over the contents of the institutional framework (effect *d*). For example, Allee and Elsig (2017) find that regional trade

agreements with more veto players have the following features: they are less ambitious, incorporate greater flexibility via escape provisions and the like, and have weaker dispute settlement mechanisms. Finally, regional institutions may offer greater or lower forms of compensation for socio-economic groups more likely to suffer from more open markets (effect *e*).

How does the institutionalization of regional economic areas vary? More precisely, what are the most significant (and measurable) dimensions of institution variation at the regional level, with regard to the issue we are dealing with here? On the basis of the literature on regional economic areas, one can identify the following three key institutional elements:[19] (1) the scope of regional institutional frameworks, (2) the nature of the dispute settlement mechanism (e.g. Yarbrough and Yarbrough, 1997), and (3) the extent of delegation to autonomous regulatory bodies. Together, these three characteristics may work towards the depth of a regional institutional framework, as mentioned above. Table 2 below presents a comparison of three of most relevant regional economic organizations (the EU, NAFTA, and ASEAN)[20] along these key dimensions.

<insert Table 2 here>

Compared with ASEAN and NAFTA, the European Union stands as the deepest regional institutional framework, with: (1) a very broad scope (including a customs union, a single market and free trade area, and for part of the EU, a monetary union) (2) a dispute settlement mechanism centered around a permanent judiciary organization (the European Court of Justice) (3) extensive delegation of sovereignty to a supranational body, the European Commission (Dent 2010; Haftel 2013).

We now may tie the various parts of the argument together and formulate three additional propositions to the ones spelled out in section 2 above.

Firstly, since trade can generate (re)distributive conflicts that can be a major source of backlash, and since deeper trade agreements are liable to generate higher degrees of trade openness and liberalization, then we can formulate the following

[19] Following Haftel (2013), one should explicitly take into consideration both the ‘‘design’’ and ‘‘implemented’’ features of regional institutional frameworks.

[20] These three RTAs are the most relevant ones because they are the largest RTAs that include wealthy countries, according to the criteria used in Table 1, excluding the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which is too new to have had any effects yet.

proposition:

Proposition 8: *The deeper regional trade agreements, the higher the trade and financial flows across the regions, the more opportunities for/pressures on firms to relocate directly/indirectly operations to emerging economies, the greater the negative impact on non-university-educated workers and thus the higher the likelihood of a backlash against globalization.*

Proposition 8 is in line with previous propositions; it reflects our hypothesis that firms will adapt their strategies to their institutional environment (Peng et al., 2008, 2009). In particular, we hypothesize here that deeper regional institutions will encourage a strategic shift on the part of MNCs to produce and/or distribute products and/or services across countries within a delimitated macro-regional area (Rugman and Verbeke, 2004), and thus worsen the losses of important segments of the (home country) population and increasing the likelihood of a backlash. It is important to note that the three major regional trade associations that include wealthy economies (ASEAN, European Union and NAFTA) also all include emerging economies to which wealthy economy-based firms could relocate activities.[21]

Secondly, in acknowledgment of effects *b*, *c* and *d* of regional institutions, highlighted above, we argue that the likelihood of a policy reversal is directly affected by regional trade agreements. As a matter of fact, the lower likelihood of policy reversal may actually be an important motivation for getting into a regional trade agreement in the first place as countries hope to lock-in domestic reforms via regional (and multilateral) trade agreements (Whalley 1998). As an illustration, the EU's greater scope and extensive delegation of sovereignty make sudden reversals of pro-globalization policies less likely and the peculiar policy-making process at EU level, which reflects greater scope and delegation, simultaneously sustain the existence of multiple veto players and leaves MNCs ample room to maneuver to preserve economic openness.

[21] The same holds true for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership although this agreement is too new to include in this analysis because any effects it has on backlash and policy reversal will take time.

Thus, we formulate the following proposition:

Proposition 9: *The deeper regional trade agreements, the lower the likelihood of a policy reversal even when a backlash is taking place.*

Deep regional trade agreements are generally associated with more significant resource transfers between countries. These transfers are thought of as compensation paid to the segments of member countries' population more liable to lose from trade openness and liberalization. In the European Union such transfers are significant; while the overall EU budget is a small part of European Union aggregate GDP (around 1%), fiscal transfers such as those falling under the EU's ''cohesion policy'' may have significant effects on some member economies (Becker et al., 2010, 2012). As a German finance minister said to the press in 2017, ''A union can't exist if the stronger members don't vouch for the weaker ones''.[22]

Since they are explicitly conceived as compensating for potential losses associated with greater regional integration, resource transfers in the EU are often mistaken for side payments from the larger, wealthier members to the smaller, poorer ones to ensure political support for regional integration in the latter (Carrubba, 2007). On the contrary, in their model of regional trade agreements Perroni and Whalley argue that side payments are insurance premia paid by smaller, poorer members to larger, wealthier members. In effect, smaller members pay larger ones to be accepted in a trade bloc with a lower likelihood of trade wars (Perroni and Whalley, 2000). However, the side payments they have in mind are not actual resource transfers, but implicit payments arising from, inter alia, pricing restraints and stronger patent protection. By contrast, the side payments we are considering here are actual resource transfers aimed at compensating potential losses from greater trade integration. However, the same dynamic holds in that the losers from

[22] See https://www.reuters.com/article/us-germany-france/german-finance-minister-says-financial-transfers-in-euro-zone-are-necessary-idUSKBN1882FK

trade integration located in the wealthy economies are the target beneficiaries of these side payments – such as in the case of the EU regional policy (Hooghe & Keating, 1994; Becker et al., 2010). Thus our final proposition is as follows:

Proposition 10: *The higher a given RTA's side payments/compensation to groups or individuals adversely affected by regional trade the lower the likelihood of backlash in the countries where these groups are located.*

While Propositions 8 and 9 balance each other out (deeper regional agreements increase the likelihood of a backlash but decrease the likelihood such backlash may generate policy reversals), the addition of Proposition 10 tilts the balance back to an overall lower likelihood of a backlash-induced policy reversal.

Table 3 below sums up the key causal arguments made through propositions 8, 9 and 10 above, and the support such argument find in the existing literature.

<insert Table 3>

The effects of interaction between domestic and regional institutions

As argued in the previous sections above, both domestic and regional institutions affect the likelihood of a backlash against globalization and/or policy reversals in a given country. Institutions generate such effects both directly and indirectly; in the latter case, institutions constrain or encourage firms to adopt either a low road or high road strategy, which contributes to increasing or decreasing the likelihood of a backlash and/or policy reversals. However, the various institutions examined here may have contradicting effects. Thus the next and final step, in our analysis, consists in combining these effects. Logically, we posit that the net outcome – i.e. an effective reversal of pro-globalization policies or an absence thereof – will depend on the relative strength of the various effects analyzed before. We can start with a simple matrix combining these different features (see Table 4).

<insert Table 4 here>

An interesting illustration of our framework is Brexit. The UK, a LME according to the comparative capitalism literature, was relatively likely to experience a backlash against globalization, a backlash that materialized with the 2016 victory of the ‘‘Leave’’ vote in the referendum. However, the UK is still part of the EU, a very deep regional institutional framework. Despite the actual (as of July 2018) government’s willingness to go ahead with Brexit, the extent and the depth of legislative and regulatory ramifications of the UK’s EU membership have made the Brexit negotiations very complex and, ultimately, make a radical policy reversal unlikely because the UK has had to accept close regulatory alignment to the EU in the hope of maintaining free trade with the EU post-Brexit.

Discussion and Conclusion

In this paper we argued that the current backlash against globalization is likely to vary in intensity from one country to the next and from one region to the next. Similarly, reversals of pro-globalization policies — the reversal of policies favoring trade and cross-country flows of capital and labor — are also likely to vary across countries and regions. Institutions are a key factor behind such variation. National institutional frameworks have a direct impact on (1) the extent to which individuals are buffered against the volatility and the threats to economic well-being associated with more open markets; (2) the constraints and opportunities facing firms with regard to their strategic ability and willingness to internationalize, i.e. to move capital, labor, operations across borders. These two elements, in turn, significantly determine the likelihood of a backlash against globalization.

We have also shown how regional institutions affect the backlash against globalization. Their effects, however, are of a different nature than those produced by national institutions. Regional institutions have a less clear effect on the likelihood of a backlash against globalization than national institutions because the regional

institutional impact on individuals is mostly moderated by national institutions. They do, however, significantly affect the likelihood of policy reversal at regional level.

The next logical step, which we can only present briefly in this conclusion, consists in combining these two arguments. This requires aggregating the country effects and regional effects of institutions on the likelihood of a backlash and of a reversal of pro-globalization policies at national level. We posit that the net outcome — i.e. an effective reversal of pro-globalization policies or an absence thereof — will depend on the relative strength of the various effects analyzed before. We can start with a simple matrix combining these different features (see Table 5).

<insert Table 5 here>

An interesting illustration of our framework is Brexit. The UK, a LME according to the comparative capitalism literature, was relatively likely to experience a backlash against globalization that materialized with the 2016 victory of the ''Leave'' vote in the referendum. However, the UK is still part of the EU, a very deep regional institutional framework. Despite the actual (as of December 2017) government's willingness to go ahead with Brexit, the extent and the depth of legislative and regulatory ramifications of the UK's EU membership have made the Brexit negotiations very complex and, ultimately, make a radical policy reversal unlikely because the UK has had to accept close regulatory alignment to the EU in the hope of maintaining free trade with the EU post-Brexit.

Our framework opens up venues for future research. This framework needs refinement and empirical validation. In particular, the political systems in these advanced economies are likely to add a further mediating factor to both the likelihood of backlash and policy reversal (Culpepper 2010; Lijphart 1999).[23] However, we hold the propositions spelled out to be valid first steps towards an understanding of the complex, multi-layered role played by institutions in causing significant

[23] For example, one could argue that Trump's election thus far has not led to much true pro-globalization policy reversal other than the failure to enact further globalization-deepening policies (e.g. TPP). However, the executive branch of the US government has many levers over trade policies that the president can wield without permission from the legislative branch. Thus, it is likely going forward that Trump will use presidential power to enact some reversals of pro-globalization policies, such as the slow-moving ''trade war'' with China.

geographical variation in the likelihood, the extent, and the consequences of a backlash against globalization – and, consequently, in the uncertainties now faced by multinational companies across the world.

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Table 1 Comparative Capitalism Classification of Wealthy Countries

Country/ Economy	Hall and Soskice 2001*	Schneider and Paunescu 2012**	Fainschmidt, Judge, Aguilera and Smith 2016***	Jackson and Witt 2016****	**Overall CC Evaluation:** LME versus non-LME	Additional References (primarily for cases with little coverage across Hall & Soskice; Schneider & Paunescu; Fainschmidt et al; Jackson & Witt)
Austria	CME	Non-LME, Non-LME, Non-LME	NA	CME	Non-LME	**Höpner, 2007**
Australia	LME	LME,	NA	LME	LME	

		LME, LME				
Belgium	CME	Non-LME, Non-LME, Non-LME	NA	CME-lite	Non-LME	**Höpner, 2007**
Canada	LME	LME, LME, LME	NA	LME	LME	
Denmark	CME	Non-LME, LME, LME	NA	LME-lite	Hybrid	Ornston 2012; **Campbell & Pedersen, 2007**
Finland	CME	Non-LME, LME, LME	NA	LME	Hybrid	Ornston 2012
France	MME	CME, CME, CME	NA	LME	Non-LME	Culpepper 2010; **Schmidt 2003**; Tiberghien 2007; Zysman 1983

Germany	CME	Non-LME, Non-LME, Non-LME	NA	CME	Non-LME	
Hong Kong	NA	NA	Emergent LME	NA	LME	Fuller (2010)
Ireland	LME	LME, LME, LME		LME	LME	**Crouch 2005**
Israel	NA	NA	Emergent LME	NA	Hybrid	Breznitz (2007)
Italy	MME	Non-LME, Non-LME, Hybrid	NA	CME-lite	Non-LME	
Japan	CME	Hybrid, Hybrid, Hybrid	NA	LME-lite	Hybrid	Culpepper 2010; Samuels 1987; Tiberghien 2007; Vogel 2006, 2018; Whitley 1999;

						Zysman 1983
Netherlands	CME	Non-LME, LME, LME	NA	LME-lite	Hybrid	Culpepper 2010;
Norway	CME	Hybrid, Hybrid, Hybrid	NA	CME-lite	Non-LME	**Höpner, 2007**
New Zealand	LME	LME, LME, LME	NA	LME	LME	**Höpner, 2007**
Singapore	NA	NA	Emergent LME	NA	Hybrid	Wong (2011)
South Korea	NA	NA, Hybrid, Hybrid	Hierarchically Coordinated	LME	Hybrid	Kim *et al*. 2017; Kim 2010; Thurbon 2016; Tiberghien 2007; Whitley 1999
Spain	MME	Non-LME, Non-LME, LME	NA	LME	Hybrid	
Sweden	CME	Non-	NA	LME-	Hybrid	Schnyd

		LME, LME, LME		lite		er 2012
Switzerland	CME	LME, LME, LME	NA	LME-lite	Hybrid	**Trampusch & Mach, 2011; Höpner, 2007**
Taiwan	NA	NA	Hierarchically Coordinated	NA	Hybrid	Breznitz 2007; Fuller 2007; Wade 2004; Whitley 1999; Wong 2011
UK	LME	LME, LME, LME	NA	LME	LME	
USA	LME	LME, LME, LME	NA	LME	LME	

*Hall and Soskice (2001: p. 21) tentatively argue that certain Mediterranean countries share their own coherent type of capitalism, which here we will refer to Mediterranean Market Economy (MME).

**Based on Schneider and Paunescu's Table 1 (p. 740) cluster analysis, the column takes the results for 1990, 1999 and 2005 and combines the state-dominated and CME categories as constituting the Non-LME category in the column, the hybrid category from the original table remains the hybrid category and the LME and LME-like categories are listed as LMEs. Each country

entry has three separate categories in chronological order for 1990, 1999 and 2005.

***Fainschmidt et al. (2016) argue that Hierarchically Coordinated economies feature a modicum of labor coordination but substantial indirect state intervention via their developmental states so we consider the Hierarchically Coordinated category a form of non-LMEs. We left their category of Emergent LME as is.

Note: The calculations of GDP PPP per capita were made for 2007 and 2016 using World Bank data as well as data from Taiwan's statistical agency for Taiwan. Two years were used because PPP calculations can vary widely, especially over time. Countries with populations of less than one million people were also excluded. The economic calculations led to the inclusion of important, but all too often ignored East Asian cases, such as Hong Kong, Singapore and Taiwan.

Table 2 Comparison of Major Regional Trade Agreements

	ASEAN	NAFTA	EU
Scope	Narrow	Narrow (trade)	Very broad (single market, customs union, currency union for part of EU)
Degree of delegation of authority	Very low	Very low	Very high (Independent European Commission, European Central Bank)
Nature of dispute settlement mechanism	Arbitration	Arbitration	Independent court (European Court of Justice)

Table 3.

Proposition	Key causal claim	Supporting studies
Proposition 8	Deeper RTAs increase trade	Mansfield and Reinhardt, 2003; Dür, Baccini and Elsig, 2014; Saucier and Rana, 2017
Proposition 9	Deeper RTAs make policy reversals unlikely	-
Proposition 10	Side payments compensate globalization's losers	Becker et al., 2010, 2012

Table 4.

National variety of capitalism	**Regional Institutional Embedding (in RTA)**	**Regional compensation payments**	**Likelihood of Popular Backlash**	**Likelihood of Policy Reversal**
LME	Deep	High	High	Moderate
		Low	Very high	High
	Shallow	High	High	High
		Low	High	Very high
Non-LME	Deep	High	Low	Very low
		Low	Moderate	Low
	Shallow	High	Very low	Very low
		Low	Low	Low

Table 5 National and regional institutions and their effects on the likelihood of a backlash and of policy reversal

Type of National Capitalism-RTA Mix	Likelihood of a backlash	Likelihood of policy reversal at the regional level	Net effects
Non-LME in a ''deep'' regional institutional	Low	Low	Very low likelihood of reversal

framework (example: Germany)			
Non-LME in a ‘‘shallow’’ or non-existent regional institutional framework (example: Japan)	Low	High	Low likelihood of reversal
LME in a ‘‘deep’’ regional institutional framework (example: the UK)	High	Low	Moderately low likelihood of reversal
LME in a ‘‘shallow’’ regional institutional framework (example: the US)	High	High	High likelihood of reversal