**ST-NUS BUSINESS SCHOOL SERIES ON GLOBALISATION**

**Staying the course during a crisis**

**BY NITIN PANGARKAR**

The past 18 months have been among the most turbulent in recent memory. As stock markets around the world have tanked and economic growth has plummeted, discussion has turned to protectionism in several different forms. Thankfully, the actual response in most countries has been measured. Measures that would have erected trade barriers have been avoided.

In this volatile environment, companies may be forgiven for thinking that the risks posed by globalisation outweigh the benefits. Instead of taking on additional risks, they may be better off remaining in familiar (and, in some cases, more predictable) home markets. Though Singapore companies have not actually pulled back from their international operations, the temptations to do so may be especially great for them since Singapore offers a stable environment.

I believe, however, that companies in general and Singapore companies, in particular, shouldn't entertain such thoughts. While I am not suggesting that Singapore companies aggressively build their global presence in these volatile times, they should not give up positions that they had carefully built up over the years. Retreating from globalisation now will negatively impact Singapore multinational corporations (MNCs) in four different ways:

1. **VULNERABILITY IN THE HOME MARKET**
   As Singapore erects few barriers to the free flow of goods and services, it has attracted many foreign MNCs, thus making the Singapore market a competitive one. Domestically focused Singapore firms will face an asymmetric situation where all of their revenue will be derived from the home market while only a small proportion of MNCs' revenue will be derived from the Singapore market. This asymmetry will allow an MNC to initiate deep price cuts in their market here, while exposing only a small proportion of their revenue to the cuts. Singapore firms can either match the cuts, thus exposing all of their revenue, or forgo market share.

2. **LOWER RETURNS ON INTANGIBLE ASSETS**
   Some of the world's most profitable companies -- Intel, Microsoft, Coca-Cola or Johnson & Johnson -- possess a large stock of intangible assets such as brand name reputation and technological expertise.

   An important characteristic of these assets is that the incremental costs of deploying them in another geographic market may be rather low but they can yield enormous benefits in the form of enhanced competitive advantage and sustained profits. For example, the Singapore Airlines or Tiger Beer brands command significant goodwill in regional markets; indeed, Tiger is the best-selling Asian beer in both the United States and Britain.

   For many global firms, such superior returns may be key drivers of their superior profitability. Retreating from globalisation now might mean a Singapore firm deploying its intangible assets in a fewer number of geographic markets and hurting its overall profitability in the process.

3. **LOSS OF POTENTIAL PROFITS IN HIGHLY REGULATED HOST MARKETS**
   Though high regulation of a host market can pose a barrier to entry, the same regulatory barriers might effectively protect the market position and profit streams of entrenched incumbent.

   Asia Pacific Breweries is now enjoying the benefits of its early entry into Vietnam as well as into China's Hainan province, where it commands close to 80 per cent market share. Food Empire's coffee mixes, similarly, enjoy a strong market position in Central Asian countries such as Kazakhstan, primarily due to their early entry. Retreating from globalisation might mean giving up on these regulated, yet profitable, markets.

4. **LOSS OF KNOWLEDGE ADVANTAGE**
   Singapore firms have often leveraged on their superior knowledge of neighbour-ing countries' environments -- and greater comfort in these environments -- to exploit business opportunities. Goodwill attributable to historical ties or to cordial government-to-government ties may also reinforce this knowledge advantage.

   In times of crisis, business partners and governments in host countries would expect their friends to stand by them, rather than desert them. From a long-term perspective, abandoning a market might mean giving up the inside track to these markets -- diluting the knowledge advantage as well as the relationships.

   It is not my intention to understate the risks Singapore firms with international operations face nor to underestimate the challenges the current crisis poses. Emerging markets such as China, India, Vietnam and Cambodia offer stomach-churning volatility.

   While waiting for the global economy to regain its footing, Singapore firms can also take the following steps to ensure that they will be in a position to benefit from the upturn: fortify their balance sheet by cutting costs and conserving cash; preserve key attributes such as technological/brand strength that help ensure long-term competitiveness; and cherry-pick assets and companies at bargain prices. As investment wizard Warren Buffett once advised: Be greedy when others are fearful.

   There is little to be gained by following the herd, especially if a company’s balance sheet is strong and its portfolio of geographic markets is balanced across different types of markets. A few years from now, when the current crisis is a distant memory, companies that stayed the course will be winners. Companies that panic now and succumb to short-term pressures are likely to find themselves trying to catch up with rivals. They will wish that they had not retreated from their global strategies during the crisis period.

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