

Competitors Faced in Each Market Finally, success in a market (whether domestic or foreign) often depends on whether the competition is also international or local. Large commercial aircraft makers Boeing and Airbus, for example, compete almost only with each other in every market they serve. What they learn about each other in one country is useful in predicting the other's strategies elsewhere. In contrast, the British grocery chain Tesco faces different competition in almost every foreign market it enters.



Looking to the Future

Three Ways of Looking at Globalization

At this juncture, there's a big difference of opinion on the future of international business and globalization. Basically, there are three major viewpoints:

- Further globalization is inevitable.
- International business will grow primarily along regional rather than global lines.
- Forces working against further globalization and international business will slow down the growth of both.

Globalization Is Inevitable

The view that globalization is inevitable reflects the premise that advances in human connectivity are so pervasive that consumers everywhere will know about and demand the best products for the best prices regardless of their origins. Those who hold this view also argue that because MNEs have built so many international production and distribution networks, they'll pressure their governments to place fewer restrictions on international movements of goods and means to produce them.

Even if we accept this view, we must still meet at least one challenge to riding the wave of the future: Because the future is what we make of it, we must figure out how to spread the benefits of globalization equitably while minimizing the hardships placed on those parties—both people and companies—who suffer from increased international competition.

The *Wall Street Journal* posed a question to all living Nobel Prize winners in economics: "What is the greatest economic challenge for the future?" Several responses addressed globalization and international business. Robert Fogel said it's the problem of getting available technology and food to people who are needlessly dying. Both Vernon Smith and Harry Markowitz specified the need to bring down global trade barriers. Lawrence Klein called for "the reduction of poverty and disease in a peaceful political environment." John Nash felt we must address

the problem of increasing the worldwide standard of living while the amount of the earth's surface per person is shrinking.⁴⁷ Clearly, each of these responses projects both managerial challenges and opportunities.

More Regional Than Global Growth

The second view—that growth will be largely regional rather than global—is based on studies showing that almost all of the companies we think of as "global" conduct most of their business in home and neighboring countries.⁴⁸ Most world trade is regional, and many treaties to remove trade barriers are regional. Transport costs favor regional over global business. For example, largely because of rising and uncertain oil prices that raise transport costs, Mexico is on track to displace China as the largest exporter to the United States.⁴⁹ And regional sales may be sufficient for companies to gain scale economies to cover their fixed costs adequately. Nevertheless, regionalization of business may be merely a transition stage. In other words, companies may first promote international business in nearby countries and then expand their activities once they've reached certain regional goals.

Globalization and International Business Will Slow

The third view argues that the pace of globalization will slow, or may already have begun collapsing.⁵⁰ In light of the antiglobalization sentiments mentioned earlier, it's easy to see that some people are adamant and earnest in voicing their reservations. The crux of the antiglobalization movement is the perceived growing schism between parties (including MNEs) who are thriving in a globalized environment and those who aren't. For example, in the 2010-2012 period, about 870 million people, or about 12 percent of the world's population, were chronically undernourished.⁵¹

Antiglobalists pressure governments to promote nationalism by raising trade barriers and rejecting international organizations and treaties. Historically, they have often succeeded (at least temporarily) in obstructing either technological or commercial advances that threatened their well-being. Recently, antiglobalization sentiments have grown in many countries, such as law changes in some U.S. states that hinder activities of undocumented aliens, the deportation by France of ethnic Roma (gypsies), the evacuation in Italy of immigrants to protect them against local residents, and gains by Sweden's anti-immigration Democrat's Party.⁵² In Brazil and South Africa, the governments have authorized domestic companies to copy pharmaceuticals under global patent protection. Bolivia and Venezuela have nationalized some foreign investments, and Canada prevented the Malaysian state energy firm, Petronas, from buying Progress Energy, a natural gas producer. The sparring between pro- and anti-globalists is one reason why the globalization process has progressed in fits and starts.

Other uncertainties may hamper globalization. First is the question of oil prices, which affect international transportation because they can constitute more than 75 percent of operating costs on large ships.⁵³ In early 2008 global oil prices rose 44 percent, fell 74 percent by the end of the year, more than doubled by the end of 2010, and rose another 7.9 percent in 2011. Many U.S. companies, such as

furniture manufacturers, have responded by reshoring rather than facing transport cost uncertainty.⁵⁴ Second, the economic recession and lingering unemployment since 2008 have led countries to enact measures to protect their work forces.⁵⁵ Third, safety concerns—property confiscation, terrorism, piracy of ships, and outright lawlessness—may inhibit companies from venturing abroad as much.

Finally, one view holds that for globalization to succeed, efficient institutions with clear-cut mandates are necessary; however, there is concern that neither the institutions nor the people working in them can adequately handle the complexities of an interconnected world.⁵⁶

Going Forward

Only time will tell, but one thing seems certain: If a company wants to capitalize on international opportunities, it can't wait too long to see what happens on political and economic fronts. Investments in research, equipment, plants, and personnel training can take years to pan out. Forecasting foreign opportunities and risks is always challenging. Yet, by examining different ways in which the future may evolve, a company's management has a better chance of avoiding unpleasant surprises. That's why each chapter of this book includes a feature that shows how certain chapter topics can become subjects for looking into the future of international business. ■



CASE Carnival Cruise Lines

*I must go down to the seas again, for the call of the running tide
Is a wild call and a clear call that may not be denied*

—John Masefield, *Sea Fever*

The call of the sea spurs the cruise business.⁵⁷ Sea voyages have had an aura of mystique for centuries, but only in recent decades has the experience of the open sea and exotic ports of call been available to a mass market.

Historically, the recreational sea voyage was an essentially elitist endeavor. Certainly, members of the lower classes occasionally found themselves on the open sea, but usually as displaced job seekers or crew members aboard ships. In recent years, however, the cruise industry has undergone a sea change of sorts, and the demographic groups it now targets include the working middle class as well as the idle rich.



International Business

The New Realities

Second Edition

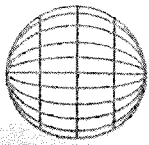
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Closing Case

Debating the Merits of Globalization

Recently, a university sponsored a roundtable on the broader implications of international business. The participants were an anti-international business activist, a business executive with extensive international dealings, and a government trade official. Excerpts from the exchange present the diverse perspectives of market globalization held by different interest groups.

Activist

"One problem with international business is that it often ignores human rights and basic labor standards. Low-wage factories abroad create substandard working conditions. The activities of multinational companies not only result in job losses here at home, but also in low wages and exploited workers around the world. Just think of the sweatshops in Asia that make imported clothing. Think of the auto workers in Mexico who live in horrible conditions and make only a few dollars a day. Also consider the poverty caused worldwide by the recent global financial and economic crisis."

Business Executive

"Our country needs to participate in the global economy. Companies that export provide better-paying jobs, have

more profits, pay higher taxes, and stimulate purchases from local suppliers. Foreign companies that invest here create new jobs, enhance local living standards, and pressure our firms to stay competitive in a challenging global marketplace. Exporters pay higher wages and provide better benefits than nonexporting firms. Many companies need access to foreign markets because of the huge, upfront research and development costs they accumulate. One more pill is cheap; it's the cost of research to find a cure for AIDS that is prohibitive. I think it's a pretty strong argument for the human basis of doing international business. Companies need big markets to amortize the costs of big projects. Africa is getting decimated by AIDS. But pharmaceutical firms can't do the necessary R&D unless they can amortize those costs over a huge, global marketplace. In the long run, uninterrupted international commerce is good."

Trade Official

"The current administration believes in the value of free trade. The government strongly supported NAFTA, and this has already had a positive effect on the economy through increasing exports to Mexico, creating jobs, and leading to improved investment opportunities. Countries