Globalisation small firms and government intervention

It is believed that the history of globalisation process first began with the movement of people out of Africa into other parts of the world, and because of this movement of people, goods, ideas and customs today we find adaptations of influences from other parts of the world today in many areas of the world. Today however, we the integration of many different markets and economies of the world including the telecommunication industry and this has made the world into what is now called the Global Village.

It is in this vein that governments are beginning to protect their firms or industries (mainly the infant or young firms) from the threats and stronger competitive forces of demand and supply working in the international markets which we will look at in details later. It is also critically important to understand the fact that these forces can only be limited up to a certain time before hand the government will realize the need to get involved in international business. The world is moving away from self contained economies towards interdependent and integrated global economic system.

UNDERSTANDING GLOBALISATION

What is globalisation?

By definition globalization means:

The act of economies moving away from self contained entities, isolated by from each other by barriers to cross border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And now moving towards a world in barriers to cross border trade and investment are declining.

From our definition above its important to understand that globalization has two facets;

Globalization of markets – more of the economic integration and growing interdependences worldwide.

Globalization of Production – which refers to the sourcing of goods and services around the world with a few to reduce cost but obtain quality.

Charles W. L. Hill – International Business, Competing in the global market place 7th edition

Dimension of market globalisation

As a wide subject globalization has been investigated from various angles including economics, history, anthropology, political science, sociology, and technology. On the other hand when looking at market globalization we will be looking at the consequences of economic, technological and government policy trends. With this we can focus on the dimensions pushing the world market identified by Cavusgil et al (International Business -strategy, management and the new realities, Pearson Int'l Edition

Integration and interdependence of national economies: countries in themselves are said not to be self reliant thus the need to depend on other nations for the resource not in their reach. The internationally active companies make the government in some way realize the need for international trade. The internationally active firms devise multi country operations through trade, investment, geographic dispersal of company resources, integration and coordination of value chain activities. The sequence of value adding activities performed by these firms in developing, producing, marketing, and servicing a product, the aggregate of these activities will give rise the economic integration and interdependence of national economies.

Rise of regional economic integration blocs: these are coming as far as the 1950s, the like of the North American Free Trade Area (NAFTA), Asian Pacific Economic Cooperation group (APEC), in Africa we have groups like the Common Market for East and Southern Africa (COMESA), and Southern Africa Development Corporation (SADC). These groups promote the idea of trade and investment among member countries through reduced trade and investment barriers. In more advanced arrangements like " common markets" barriers to the factors of production are eliminated.

Growth of global investment and financial flows: as a result of conducting international business transactions, firms and governments buy and sell large volumes of national currencies (such as dollar, euro, yen etc). Also the globalization of capital around the world has brought about the interconnectedness of world, especially in the commercial and banking global industry.

Convergence of consumer lifestyle and preference: a check around the world has shown that there is an increasing similarity in consumer spending activities. Lifestyle and preferences are speedily converging. Consumers in various areas have shown similar preferences of household, automobile and electronic goods. Major brands in the world have enjoyed a worldwide following, the likes of Nokia phones, Samsung products; the demand of certain car brands is also actively similar around today. All this similarity has been attributed to the result of international travel and exposure to different cultures. However it is also important to note that this has led to loss of culture and national values.

Globalisation of production: international global rivalry among the firms has pushed a lot companies to area of low cost production and marketing. Companies are struggling to increase their economies of scale, standardization of product and reduction of costs of production or operation at all cost. We see I. T companies moving into areas like India, textile companies into China, and Mexico in the attempt because of low labour costs.

THE DRIVING FORCES OF GLOBALISATION

Under this subject we shall look at the forces or factors leading towards market globalization;

Liberalization and adoption of free markets: The fall of the Berlin wall among many other things is what led to the fall of command economies into global economies. We also saw a lot East Asian countries embarking on ambitious market based reforms. India also followed suit in 1991, this was followed by privatization of state owned companies to private ownership and this attracted a lot foreign capital investment to these countries like China, South Korea, Malaysia, Indonesia and India. Generally this is focusing on how governments around the world are becoming less strict.

Reduction of barriers to trade and investment: Because of the formation of national economic blocks governments are getting into agreements to reduce or simply eliminate trade barriers so as to improve trade relationships between them and neighboring countries. This also being a key dimension in the theory of market globalization.

Industrialization: Due to economic growth and the move towards modernization around we see many emerging markets with fast growing economies a focus on the Asia, Latin America and Europe clearly depicts this. Also countries like Brazil emerging to leadership in the aircraft industry, Czech Republic in automobile and India in computer software. Because of Industrialization, economic development and modernization the standard of living have been positively impacted through the gross national product of various countries

Merging world financial markets and technology: As the world is merging in most its activities business transactions are becoming more and more simplified, international firms can now can source for funds internationally and involve themselves in foreign currency transactions. The international banks are willing to offer these foreign currency transactions with easy within provided guidelines. Information technology has been critical in these international transactions between buyers and sellers will not even have to move but send money electronically once they receive their goods and service from foreign suppliers or customer.

The benefits of globalisation

Briefly before we can look at the threats posed by globalisation we will just look at some of the benefits that come from globalization;

Increased Investment: As we have alluded to the fact that companies are able to expand due to the fact that they can source for finance globally, they can therefore easily expand to other countries of desire through different strategic alliances. With this move places which are considered feasible by the organization receive a lot of investments. These could either be short term or long term investment. Government can benefit from taxes that the multinational/international companies will be paying.

Increased competition: Increased competition has led to improved standards of goods and services. As a result competition from international companies abroad the local markets begin to fear loss of their market to the international firms and to prevent this they will start to embark on project like the New Product Development, Innovation, Research and Development in order to compete more effective. This results in better products being offered at both the local and international markets.

Focusing on your comparative advantage: Because of globalisation countries can focus on the goods and services they can produce without being over strained and this improves the economic welfare of a national.

Creation of employment: Despite the fact that globalization can lead to labour drain it can create employment for the locals through international investments which could Foreign Direct Investments or Joint ventures.

Threats Posed by Globalisation

Cavusgil et al in International Business management acknowledges the following factors as threats that may come with globalisation;

Offshoring and the flight of Jobs – Offshoring is the relocation is the relocation of manufacturing and other value-chain activities to cost effective areas. Despite the fact that globalisation creates countless of jobs and opportunities around the world it also has cost many people their jobs. With the need to maximize on the scale economies many firms have transferred some of their jobs. General Motors (USA), Ford, and Volkswagen have transferred thousands of jobs from their factories in Germany to countries in the eastern part of Europe. Offshoring Has brought about job losses in numerous mature markets.

Loss of national sovereignty – Countries are losing the ability to control internal affairs, the activities of multinational companies can have an effect on the economic, social and political structures of a nation. Some multination companies have internal economies that are bigger than the economies of some countries and these organizations have been able to direct or exert influence on governments through their huge contributions. The only way out for government survival is to allow a market liberalized economy to control forces on the market.

Effects on the poor – It is believed that the poor are becoming poorer and the rich are getting richer in developing economies, this is because low wage pays, poor working conditions, and the employment of child labour among many thing present a negative effect. The International Labour Organization statics are showing that over 250 children are in full time employment however intervening to stop may worsen the living standards in the lives of many who maybe related to these children though at the same time this is at the expense of child education. On the hand these conditions seem to be in other countries, the footwear industries are paying well in the Vietnams; countries that were once being exploited for low labour cost are now experience a tremendous economic growth rate which is evident on their GDP. These are countries like Chile and India.

Effects on National culture – Dilution of culture, because of globalisation nations that may not have very strong cultures like the one existing among the Muslim world (have a strong standing cultural value); nations are at risk of losing their culture or it becoming diluted as foreign companies will bring their global brands, unfamiliar products and new values. In this view we see children around the world behaving almost in the same manner and have about the same everywhere among these has been the demand for iPods among young people

Specific Threats to smaller firms (SME)

Intense Competition (Rivalry): International firms have enough resources, capital, skilled and talented people who can design products tailored to customer needs.

Shake Outs or Loss of business customers: The smaller local firms may fail to compete and the end result maybe to close up the business because they have lost their customers who are the focal point in any business.

Loss of skilled and experienced employees: International firms have enough money to pay anyone they know who has an understanding of the market and is skilled enough to be an asset for the company and these will come from the local competitors causing high labour turnovers in the industry.

Threat of takeover possibilities: The other feel is the local and government may have is that International may takeover some big firms and start running the industries that governments may also be depending on and not only for taxes.

In our summary to these threats what we can say is that globalisation exposes the smaller firms to intense rivalry or competition in the local market, this being mainly because the international firms are enjoying reduced operation costs, advanced technology, can leverage skills and labour around the world more easily, have enough resources or capital to compete effectively and at an international level.

4. GOVERNMENT AND SUPRANATIONAL AUTHORITIES SUPPORT

The oxford dictionary defines government as, ‘ a group of people who rule a state’.

The Merriam Webster Dictionary defines government as the continuous process governing, controlling or direction. It also defines supranational as the organization or movement that transcends national boundaries, authorities though they have limited power. The most practical examples being the United Nation, European Union in Europe, International Monetary Fund (IMF), World Bank these are some among the most outstanding supranational authorities.

There basically for major reasons that justify why government should intervene in international trade as identified by Cavusgil et al in our Pearson international business edition of strategy, management and the new realities we have the following:

Protection of the National Economies: This mainly came from the labour activists who were against the outsourcing of jobs from Europe and the united states to India and where asking for government intervention to curtail the import of cheap products and increase trade barriers.

Protection of Infant Industries: This is our focus of the report. Emerging industries, companies are often inexperienced and lack the technology and skill to compete with already established global firms and industries.

National Security: Nations impose trade barriers on products that they deem critical to national defense and security; these could be in the form of military technology and computers. These trade barriers can be used to boost local production and capacity.

National Culture and Identity: Sometimes governments wants to protect some occupations, industries, public assets that are central to national culture and identity as we shall look at later.

Methods and Techniques used to protect small firms (How they can protect small firms)

Trade Barriers – Government can impose some trade barriers to ensure the infant industries are protected until such a time when they can effectively compete. Government will present trade barriers like the Quotas (being the restriction on the quantity of products that a country can import for a specified period of time). Tariffs can be another technique government can use, increased would mean the products of imports would become more expensive than the local products or services people might end up resenting these products.

Investment Barriers – These are investment restrictions in particular industries or being able to acquire a local firm. These restrictions are common in industries such as broadcasting, air transportation, financial services, military technology, and the oil industry. These are left to enable the infant industries to grow until such a time when they can compete. Most of these laws were very prevalent in India, and Mexico.

Subsidies – This id monetary aid or resource support from the government to the smaller firms to help them with production and other services that they need to help them grow. This is in the effort to reduce import by all means and encourage exports and therefore subsidies can also take the form of tax breaks, actual cash or services at reduced prices.

Reduced Investment barriers within the bloc – For the firms within the bloc such the European Union the countries within the bloc ensure that trade and investment barriers are reduced and this also allows currency flow within the bloc. Membership to such supranational organizations also fosters a huge market for export within the bloc.

Cavusgil et al, International Business -Strategy, Management and the new realities, Pearson int'l edition.

The government and supranational bodies can encourage the following – emphasize on high value adding industry activities especially on the value chains, taking advantage of the monetary and fiscal policies, be a member of a bloc as already alluded to as this brings out more exposure to export market and protection.

In summary what we can say is the smaller firms should try by all means to take advantage of the support and protection from the government and supranational organizations. With time international firms will finally break through different regions and free trade zones and begin to offer competition. It is important to note that managers can use the support to gather resource and competitive advantage on an international level.

RECOMMENDATIONS AND CONCLUSIONS

Finally we can recommend that it is important for the government and other supranational bodies to protect their local industries as this builds their economies, and makes their firms strong enough to contend with the firms in the international market. This also builds the trust of the people or citizens in these regions as they know that their government or organizations are willing to support and thus see the need to keep them in power. On the other hand global firms despite the barriers that may exist still manage to breakthrough into protected industries and blocs using different strategies developed by their managers. International firms can also prove to be very beneficial sources of income generation for the government inform of taxes and economic development as they increase competition this results in excellence and more professionally managed industries at a global level.