

Impact of globalisation on international business



Globalisation refers to the process of interconnection among firms, people and governments of different countries (Lechner, 2009); economies from every country will become closer and interrelated through globalisation as foreign countries are a source of both production and sales for domestic companies. It is obvious that the globalisation has linked with international business as international business consists of all commercial transactions that take place between two or more countries such as sales, investments and transportation.

Globalisation is very common in today's world. It enables people to travel around the world by improving the transportation and it also helps people to do business in terms of purchase or sell products and services as well as pursuit of business leads. Moreover, globalisation also allows the international communication by improving the technology and it helps businessman to communicate easier with their business partner from other countries.

Globalisation brings both positive and negative impacts on international business. There are rise in competition and rise in investment levels; whereas, the negative impacts on international business are the culture effect and also create more social problems – child labour and slavery as well as environmental issues.

Firstly, globalisation leads to rise in competition. This is because when companies expand their business to different countries this creates competition for domestic businesses in terms of the price, cost and quality of goods and services. This type of competition act as an opportunity for

domestic companies to manufacture good quality of products and services and work effectively and efficiently in order to conduct business on a global scale.

This will not only benefit the international business by increasing its market share but will also benefit the host country (foreign country where the company invests) as now people will have variety of products and services of good quality and affordable price due to rising competition. The domestic market of the country will become strong due to foreign company establishing in the country and contribute to economies GDP rate and growth.

One of the examples of company that establishes and contributes to economies GDP rate and growth is General Motors (GM). GM is a multinational company which produces vehicles in United States. They had expanded their business in more than 120 countries including China (General Motors, 2015). When GM expanded its business to China in 2010 and its sales had grown approximately 50 percent in China and 15 percent in United States (Ketchen & Short, 2012).

Secondly, globalisation also affects the investment level in both host countries and home countries. Foreign Direct Investment which is also known as FDI refers to the long term investment owned by investors which can show the flow of capital between countries (Economic Online Ltd, 2015). According to Graham & Spaulding (2005), the definition of FDI refers to physical investment that made by a firm to another country for building

factory purpose. FDI of both host countries and home countries will increase by expanding businesses to other country through globalisation.

FDI gives positive effects to host countries in several ways such as technological effect, employment effect and income effect. With FDI, people able to conduct business with new technologies and management skills; this is because FDI enables technology to transfer from developed countries to developing countries. Besides, training will be provided to the domestic workers for operating business with the new technology which will improve their management skills. Moreover, FDI also contribute in the income of host country as earning of FDI will be counted in the corporate tax (Loungani & Razin, 2001).

On the other hand, FDI will benefit the home countries by increasing capital in the balance of payment account. Expanding business from one country to other countries, the revenue from the foreign direct investment of the firm will increase the capital of the home country (Hill, 2001). For example, Toyota expands their business to Malaysia and the profit that Toyota gains from the foreign direct investment in Malaysia will send back to Japan as a capital in balance of payment.

However, globalisation also views as threats for international business. One of the reasons is because globalisation enables people to share their culture. It is crucial for international business to understand the culture of other countries so that they can increase the productivity of their business.

However, it is very difficult for international business to understand every culture of different countries as it is too broad; for instance, in Malaysia,

besides of Malaysian culture, there are also other sub-cultures as Malaysia have many ethics.

Usually, people are used to their own cultures yet some of them not able to accept others' culture. One of the examples is when a Swedish company dealing with suppliers in Brazil, the Swedish company is unsatisfied with the attitude of suppliers in Brazil as they always delay the delivery which is urgent for the company; at the end, the Swedish company had no choice, they have to give penalty to the supplier in Brazil so that they can be more punctual (Daeri, et al., 2008).

Another difficulty that faced by global business is the communication style. Every country has different style of communication either direct or indirect (Salacuse, 2005). Scandinavia and United Kingdom is one of the examples that show different communication style. The communication style in Scandinavia is direct which means they talk openly and straight to the point in the business whereas the communication style in United Kingdom is indirect where they respect their business partners and they don't reject obviously. Therefore, it is difficult for businessman to identify the disagreement among British partners.

Moreover, globalisation also causes an increase in social problems such as child labour and environment issues. The main purpose of doing business is to gain high profit, some of the businessman doesn't care whether it is ethical or not. In order to save costs, some of the international businesses will recruit young children as labour and slaves (Pillai, 2011). Child labour

often occurs in countries with high poverty rates due to the bad implementation of child labour laws (Hunt, 2013).

For example, there are many cases of children trafficking to work in the cocoa farms in order to help support family in the chocolate industry of Western Africa. Some of them even sell to the farm owners or traffickers to work in a bad environment which may causes disease among the children (Mills, 2014).

Furthermore, international businesses also cause the environmental issues in the globe such as air pollution and water pollution. International businesses increase the world carbon dioxide emission. The demand for car industry around the globe increased as people want vehicles for transportation purposes (Lacey, 2011). When demand for car industry is high, international business will manufacture vehicles in order to fulfill the customer needs; the more vehicles being used in the road, the higher the level of carbon dioxide emission. Rise of the world carbon dioxide emissions will lead to the air pollution.

Other than that, extracting the rare-earth by international business also causes serious environmental issue. The process of extracting the rare-earth will cause water pollution and also radioactive in that area as the water will contain all types of toxic chemicals which may cause cancers. For example, the town in Inner Mongolia named Baotou, used to have crops and plantation but when the producer of rare-earth Baotou Iron and Steel Company starts to produce rare-earth at that place, plants unable to grow due to the radioactive and water pollution (Guardian News and Media Limited, 2012).

In conclusion, globalisation can be seen as opportunities as well as threats for the international business. International business able to expand their business in other countries around the world meantime they are helping foreign countries to improve their living standard by providing variety choices and enhancing the quality of goods and services. Moreover, international business also able contributes to home country by increasing the profit of inflow of foreign direct investment through globalisation. On the other hand, globalisation also causes the international business to face cultures issues in term of attitudes, personal styles and communications. Besides that, social problems are also one of the threats for international business. In order to gain higher profit, some of the international businesses will conduct illegal activities such as recruiting child labour or slavery to minimize costs. Not only that, international business also pollute the environment badly especially rare-earth company.