

Effects of globalization on modern businesses essay sample

[Economics](#), [Globalization](#)



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Problem Statement

Today's global economic situation is at its alarming level. Following the collapse of giant financial institutions, the United States of America and other economic powers are now trying to patch things up in order to prevent a possible global recession. As we witness this new age of economic turbulence, modern businesses are currently in limbo, as globalization is now at a crossroads. Is this the global picture or effect of globalization? With the current global events, do we now see a shift of today's globalization to another economic form? Is there now a need to redefine globalization?

Introduction to the Paper

About two decades ago, economic superpowers led by the United States successfully endorsed globalization to the world. Like a gift wrapped in fancy casing, globalization was given a convincing yet vague definition. Up to this day, most economist and business experts still guess at the proper meaning of globalization and differ as to its appropriate economic application. As what one economic expert said, fifteen years ago globalization was defined as pro-capitalists and pro-free trade. Along with the development of globalization was the modification of the meaning of free trade. Free trade agreements were forged between signatory nations. Among these international economic accords are NAFTA, GATT, AFTA, among others. They all allowed for cross-border economic cooperation with less economic obstacles yet more government intervention.

Today, instead of seeing a free trade environment with a strong economic system, modern businesses faltered mainly because of government interventions and intrusive state policies. No one is sure whether state interference is part of globalization or merely an incident to it. Instead, we now see the rise of big governments capable of controlling free market activities, injecting regulatory policies, and manipulating economic indicators. Modern businesses are now at the mercy of government regulatory agents, unable to compete freely and independently. This paper aims to look at the benefits and flaws of globalization. The researcher admits that there is a need for more credible resources on contemporary globalization and its relation to the rise of big governments.

Effects of Globalization on Modern Businesses: A Contemporary Economic Experience

Introduction:

The global market is now experiencing a turbulent and rickety journey toward economic stability owing to the collapse of the United States' financial market. The unprecedented disintegration of some of the biggest international banks due to liquidity crisis sent shockwaves across the world. The U. S. Congress is currently discussing about the possibility of bailing out not just collapsing banks but also financially troubled auto-companies, while thousands of Americans are at a risk of losing their homes to foreclosure buyers due to fast falling housing prices. Is this the global picture or effect of globalization? With the ongoing global events, do we now see a shift of

today's globalization to another economic form? If that is the case, then what form would this current economic catastrophe yield?

From the bailout of banks to the premeditated economic rescue of car companies— what's next? Latest news reveals that the United States' economic slump might cause massive job loss if not averted (Goldman, 2008). Indeed, the global economic crisis that sprouted in the United States has taken the attention of economists and business analysts across the world. The Bush administration is ready to spend taxpayers' money not just to bailout big businesses, but also to provide massive unemployment insurance benefits to its citizens (CNN). Does this mean now that the kind of globalization the United States has today is different fifty years ago?

Current Global Situation

The world economy today is entirely different from the global market about a century ago. During the early years of the Industrial Revolution, Great Britain became the world economic leader due to its better-quality industrial machinery and advanced transportation system like railroads and steamships (Allen, 2006). The industrial revolution was the preliminary stage of globalization. Through the years, the business world was gradually formed through economic cooperation, through established international laws like patent law, copyright law, and intellectual property right, and through other laws that facilitated both domestic and international business transactions like bulk sales law, trust receipt law, bill of lading, and warehouse receipt, among others.

The rise of the United States of America as the world economic superpower led to the reformation and development of global economic system. The United States introduced its own economic concepts to its territories and colonies. The United States civil law system in fact is being copied by a number of countries in the world. Such an American civil law system also helped shape the face of modern globalization, since it consists of core economic principles and vehicles like partnership, obligation and contracts, property laws, to name a few. On the other hand, America's Uniform Commercial Code (UCC) now serves as the universal law in terms of economic affairs and transactions. The UCC contains important provisions like letters of credit, negotiable instruments, bank deposit, fund transfers, bulk transfers, among others that are universally used in business transactions. A business cannot transact globally without applying any of these economic implements.

It is necessary to tackle these concepts in order to better understand the origins and nature of globalization— its positive effects, where it leads to, and negative implications. This is because there are only a very few academic resources that tackle the connection between legalities and globalization. Globalization now exists and becomes the global economic system not because of businesses and economic cooperation, but because there are laws which establish and protect it. Without such establishing and protecting laws like General Agreement on Tariffs and Trade (GATT), North American Free Trade Agreement (NAFTA), ASEAN Free Trade Area (AFTA),

among others, globalization will hardly exist in today's global economic context (Nader, 1993).

However, there are problems related to globalization. One of which is its vague and ambiguous concept that is open to different interpretations and understanding. With the ongoing global financial crisis that now trouble economic experts and policy-makers, is there now a need to redefine the modern context of globalization? Or in other words, did globalization live up to its economic promises?

Defining Globalization

Most scholarly articles define globalization as the economic integration and interdependence between and among business and people from different nations across the world (Tan, 2005, 3). The problem with this definition is that it simply focuses on the business side of it without taking into account important policy issues and indispensable legalities. However, according to Bourguignon et al (2002), there is no universally established meaning or designation of globalization.

Despite lacking concrete definition, globalization has become the focus of intense discussion over main policy concerns across the globe. While its proponents maintain that globalization has positive economic impacts and has significantly changed the modern world, opponents of globalization argue that it instead made the world a worse place to live in. Those who oppose globalization pointed out the increasing gap between the rich and the poor, the evident economic inequality, widespread pollution due to an

increased number of factories and manufacturing businesses, global economic volatility, exploitation, among many others.

On the other hand, those who support globalization highlight its positive impacts on the lives of the people and on the improved condition of most societies. The word globalization, which ignited debates before the end of the 20th century and has no concrete definition up to these days, refers to corporate relations among individuals, business entities, juridical persons, and various nations in the international community with the aid of information technology (Globalization 101 n. d.). According to Boudreaux (2008, p2), globalization should be defined as “ the advance of human cooperation across national boundaries.”

Contemporary Globalization

To take the aforementioned definitions on their face value, do we now see an actual picture of globalization? Perhaps the word “ cooperation” used by Boudreaux (2008, p. 2) is true now that nations are helping one another to fight the possibility of global recession. But what if such cooperation would only worsen the situation and instead lead to worse economic disaster? ‘ Cooperation’ is now being extended by the Bush administration to bankrupt banks and financially distressed auto-companies. In the US, there are those who opposed the Bush administration’s bailout portfolio not merely because the money would come from taxpayers’ pockets, but also because such an act is not financially sound to take.

With the nationalization of Freddie Mac and Fannie Mae, other financial institutions like American Investment Group (AIG) followed suit. According to Miron (2008), the best option is not to bail these bankrupt businesses out but to let them get insolvent. He said there is a need to remove those problematic government policies injected by the federal government into the system. The reason why it is better to let companies suffer their financial woes is because they operate in a supposed free market environment wherein competition is the name of the game. The principle of laissez faire is clear to most capitalists— those businesses that survive the competition succeed and thrive, while those that do not will cease operation.

Effects of globalization

In the study of economics, the advent of globalization changed not just the global corporate system but also state and foreign policies. State policies were first formulated to allow for the entry of globalization. This happened in China when its communist government decided to enter into the free market global environment by opening its territory to investors. In fact China in the past decades, being a socialist country, was the strongest opponent of globalization.

Now, the socialist government has become one of the staunchest supporters of globalization (Overholt, 2005), simply because it profits from it. If not for its leaders' decision to join the global trade, China would have not become one of the world's economic leaders today. For the past years, big businesses like Yahoo, Microsoft Corp., Starbucks, WalMart and many others

poured into the Maoist country that was formerly opposed to the principles of free trade or laissez faire. Thus, globalization led to the expansion of market, diversification of products, intense competition, introduction of new concepts and inventions, lowering of prices, more jobs, among many others.

The most evident effect of globalization on businesses is increased competition. In order to survive and flourish in this increasingly competitive business environment, businesses, whether small, medium or big, has to keep abreast of the changing time and to cope with the changing market trends. Due to globalization, which is currently sustained by information system and new communication technology available today, local businesses have to find ways to survive the invasion of multinational companies.

This means that businesses can never achieve profitability, productivity, and expansion without developing a unique and a new management concept that is congruent with the needs and requirements of the business. In this age of information technology where open and free competition is the name of the game, businessmen and traders need to think big. If a capitalist seeks to expand and develop his business and trade, then it is just right and proper for him to acquire the right values, business philosophy, and concepts so to attain his business goal.

For example in the case of Starbucks competition with other multinational companies like McDonalds was set in the global market. Now one of the toughest competitors of Starbucks is McDonalds whose management saw a big opportunity in the coffee-beverage business. There were some assertions

that the achievement of Starbucks is attributed to its successful operations in the United States, and that its international operations were not doing well (Starbucks International Operations 2006, p. 1). The volatile global economic situation was pointed as one of the reasons why Starbucks had some trouble fixing its international operations.

Today the biggest battlefield is set in China, where almost all global investors are interested in the empire's attractive population. However, several problems were spotted by Starbucks' personnel in China in 2006 wherein they found out that the Chinese were not that brand conscious and that they are not heavy coffee drinkers (Adamy 2006). In 2007, mass protests forced Starbucks to close its store in Beijing's Forbidden City for "tarnishing the historical site" (BBC News 2007). The positive effect of competition due to globalization cannot be denied, since businesses are obliged to maintain or improve the quality of their products and services in order to survive and grow.

Positive impacts

It is also important to look at the alleviating aspects that globalization contributed to the world market. According to Myatt (2008), the pictures of today's world economy— poor cost of living, housing crisis, liquidity problems, financial collapse, high petroleum prices, trade deficit, etc.— are simply global economic challenges that should not be blamed on globalization. For his part, Myatt (2008) mentioned some of the positive impacts of globalization which are the following:

1. *Growing economies* : Some of the rising global economies are China and the United Arab Emirates. India is also joining the league because of its improved economic growth (Subramanian, 2008).
2. *Demographics*: Under this internationalized market system, businesses have become keener on their target markets. The markets now consist of younger demographics and there are more professionals than ever before. Myatt (2008) asserted that globalization led to urbanization, more consumer bases, and wider income bracket due to the existence of more businesses.
3. *Commercial demand*: The growth of businesses led the increase in commercial demand, which provided more employment opportunities to community members. There is wider commercial demand because of more demographics, wider market base, more products to offer, and intense competition.
4. *Advancement of infrastructure*: In India alone, the world's largest democracy is investing billions of dollars in infrastructure in order to attract foreign investors (Atherson, 2007). Most governments have been engaging in infrastructure improvement in order to entice more business opportunities.
5. *Market liberalization*: Several developments have been made in order to facilitate businesses. Government reforms were carried out in order to allow for the entry of foreign investors. In terms of legalities, protection of property rights is guaranteed, less red tape, less stringent legal processes, among others.

Privatization and liberalization

In the United Arab Emirates, globalization did not just have a positive impact on local businesses but also on its public administration system. In fact, UAE's reformation of its system of public administration due to globalization triggered tremendous economic developments like privatization. From having a traditional administrative system, UAE's federal government gradually liberalized its administrative system through a series of reforms in order to comply with the requisites of globalization (Moynihan, 2005).

To bring the competence and skills of the Emiratis to global standards, UAE leaders designed and implemented employment requirements and categorization system for the civil service. The federal government established Administrative Development Units so to improve administrative protocols and procedures. It also offered training and development for employers. The UAE also adopted some of the labor laws implemented in the Western world like the creation of the Pensions Authority to introduce the very first pension benefits for employees in the country. One of the significant developments in the UAE is the modernization of the country's administrative units and agencies, which is highly significant in the delivery of public services.

The impact of globalization is not just on the administrative side, since both the two have significant effects on market-oriented aspects. If capitalism demands the best in every worker, globalization requires the best in every nation. In order for a nation to compete in the global market, it has to focus on its human capital. This is what UAE's federal government actually did, as it focused much of its attention on quality service and competence so to

better execute wide-ranging programs and reforms in the area of governance and economy. Some of the developments under this rubric are the following:

1. Integration of Information Communication Technology into the civil service system.
2. Privatization of several state-owned and run corporations and public utilities (Water & Power, 2008).
3. More focus on efficacy and competence of public administration through quality management schemes.

Privatization is actually one of the biggest impacts of globalization not only on public administration but also on the UAE as a whole. One rational explanation for this situation is the need for the country to attract more foreign investors and improve human capital. There are now a number of privatized public utilities like water and electricity. Etisalat, a public corporation engaged in telecommunications, is now commercially managed (UHY, 2006). There is now plan to also privatize health care and services.

Globalization has had a significant impact not only on UAE's economy but also on other countries', which in turn spurred significant changes in the way they managed economic affairs and public services. In terms of government corporatization, UAE is one of the best examples since it greatly propelled the country towards productivity, work ethics, and good governance. Also, one of the significant developments in the UAE which should not be overlooked is its efficient and effective e-government program that is now envied even by developed countries in the Western world. UAE's e-

government, which is essentially a by-product of globalization, helped the country's public administration meet its goals.

Globalization and Information Technology

The age of computerization that took place two decades ago altered the face of world economy, international relations, international community, corporate real, education sector, systems of governments, among many others. In other words, the advent of computer technology or information technology changed all aspects of human life, economic, political, social, technological, legal, and environmental cycle or facets known to man. However, ICT is undeniably the best implement of globalization.

Information Technology has a tremendous impact on the corporate world, as traditional business organizations were compelled to undergo organizational change about two decades ago in order to keep track with technological developments. Schools and universities were also forced to include computer and ICT courses in their subject offerings and curricula in order to match up with the technological advancements and to meet the requirements of globalization. During the post-millennium era, world governments also followed the trend, as nations slowly incorporated their systems of government and government agencies into Information and Communication Technology.

Due to globalization and ICT, outsourcing was introduced to the corporate world. Outsourcing refers to the relationship between two companies or entities wherein the one entity is engaged in providing functions or skills to

the other. One aspect that needs to be addressed in the early process of outsourcing is the quality of soft skills. Globalization, on the other hand, triggered government to privatize. In the United States, a study conducted in 1998 revealed that privatization were caused by the following reasons (Seader n. d., p. 2): a) improved service quality (18. 5 percent; b) lack of expertise of public employees (32 percent); c) lack government backing of political leadership (30. 8 percent); d) fast process and implementation (21. 4 percent); e) elasticity and not as much of red tape (23. 8 percent); higher and improved innovations (20. 4 percent); and other reasons (10. 6 percent).

Conclusion/Summary

With the present economic situation, there is a need to redefine globalization. Does globalization mean more government intervention, less competition, and increased government bailout in case businesses collapse? According to Bello (2006), there are some reasons why globalization is totting its ugly head. One of them is the fact that the United States often practiced protectionism. Now, China is doing the same economic trick in order to protect its domestic economy at the expense of its rival countries (Zissis, 2007).

Bello said that fifteen years ago when the concept of globalization was being sold to the world, it was promised that businesses would grow and expand. According to him, globalization was trumpeted as the safest vanguard for modern-day capitalists. However, economic pictures of today depict that it is the other way around. Most big businesses, banks and car companies in

particular, have asked the U. S. government for a bailout. This means that these global businesses failed to sustain financial growth and overcome global competition. Instead, it is the governments that grew and expanded in terms of economic influence and power due to intrusive state policies.

It seems that there is a need to go back to economics 101. Globalization is supposed to be a creature of laissez faire or free market system. Logic tells us that under a free market system, there is free competition, no government intervention, no fraud and coercion (Suzuki, 2000). Businesses under a free market environment are motivated by their desire to earn profit, compete with other businesses, unburdened by excessive government regulations, and expand globally. However based on today's corporate system, governments are now stepping in to nationalize and bailout financially distressed businesses like banks and other transnational companies. In the US, there is a unit called federal regulators to interfere with the corporate affairs of businesses. Intrusive economic and regulatory policies that hamper free competition and economic determinism of businesses are in place.

Overall, the significant impact of globalization on modern businesses are the following: a) it liberalized formerly closed economies like China to join free trade; b) it opened new economic opportunities like outsourcing business and teleworking; c) it increased global competition among transnational companies; d) it provided employment opportunities to third world countries; e) it allowed cross-border business cooperation through international agreements like GATT, NAFTA, AFTA, and European union; it fast tracked

infrastructure development and technological innovation; and it guaranteed a sustainable economic future.

However, there are perceived downsides of globalization. Free trade agreements tend to benefit only big countries and leave poor countries in the sideline. Transnational companies heavily invested in countries that allow for less taxes, lower wages, poor benefits, and flawed employment contract. This situation led to the rise of contractualization, exploitation of workers, income inequalities, and pollution, among others. This also caused job loss in the transnational companies' place of incorporation. In the United States, there is rising unemployment because big companies transferred their place of production in developing countries in Asia like China, Indonesia, India, and Philippines.

The question whether the face of globalization changed during the past years due to massive government intervention is something to gape at in the coming years. Despite America's most favored economic position in the global market, most American companies were severely affected by the economic crisis. Now, US car manufacturers are asking for government bailout.

Economists and even global political leaders have been asking whether the American free market system is now dead. As already mentioned above, free trade system is just part and parcel of globalization, because there can be no cross-border trade under a socialist or anti-capitalist environment. In fact, China largely benefited from globalization when it decided to join the free

trade boom. The result is not the one expected— it is the state policies and not businesses that flourished under the new world's system of globalization. With massive government intervention that is happening across the globe, the world is now witnessing the rise of big governments.

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