

What is meant by
"globalization" and
how has it affected
international trade
and ...



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What is meant by “ globalization” and how has it affected international trade and foreign direct investment Essay Sample

1. 0 Introduction

In recent times, the international business scene has been growing rapidly and is closely influenced by global events and forces. International business is carried out today within an integrated, global environment which comprises of three main elements, which are (Wild, 2003) :

1. Many national business environments
2. The international business environment
3. International business management

As national business environments seek to become more engaged in international business, they have slowly removed national economic barriers that once existed to protect their local business from stiff international competition. This has brought upon the world a business phenomenon that has been termed as globalization.

1. 1 Globalization

Globalization can be defined as the trend toward greater interdependence among national institutions and economies (Wild, 2003). It can also be said that globalization is basically the cross-border exchange of economic, social and technological elements. Globalization has had no shortage of its skeptics since its emergence to the international business environment.

The left critics of globalization claim that the profits of globalization are not being distributed equally amongst nations that are involved, and basically is a case of the rich nations getting richer and the poor nations are being exploited. Anti-globalization activists also cite that globalization is just another word for "Americanization" because American values and culture is wide-spreading throughout the world in the form of American companies and products such as "Nike" and "McDonalds". The concern of anti-globalization protestors is the fear that globalization is homogenizing the world and destroying the rich diversity of culture it contains (Wild, 2003).

However globalization isn't short of its supporters as well. This can be clearly seen with the support the World Trade Organization gathers. The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. According to the WTO webpage, the goal is to help producers of goods and services, exporters, and importers conduct their business.

The recent increase of international trade and foreign direct investment due to globalization has proven to be beneficial to the countries involved. It has helped to raise living standards across the world as new technologies spread faster. Besides that, globalization has also increased the efficiency levels of domestic firms because of the competitive nature of foreign firms. At the end of the day, it is the consumer that benefits the most because of the variety of choices available has increased and the prices are more competitively priced.

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In the case of standards of living being increased across the world due to globalization, recent statistics released by the World Trade Organization suggests that in the past few decades globalization has led to lowered poverty rates, and an increased number of job opportunities for individuals throughout the world. This increase in living standards has also brought about higher life expectancy and there is more food, more education, more democratization, less inequality and less oppression of women worldwide (Norberg, 2003).

1. 2 International Trade and Foreign Direct Investment

International Trade can be defined as the purchase, sale, or exchange of goods and services across national borders. As recent times have ushered in the world's willingness to open up to trade and reduce its economic borders that once existed, countries are developing in a faster rate and their economies are getting stronger. Take South Korea as an example; thirty years ago it was as poor as Ghana, but now it is as rich as Portugal. Another very good example would be China, where 100 million people have escaped the clutches of extreme poverty in the past decade or so. These two countries have gained tremendously from their openness to trade in recent times according to the WTO press release of June 16th 2000.

Globalization has induced international trade to be easily conducted amongst nations. Previously nations had many economic barriers in order to protect their domestic products. These protections still exist in current times but at a much smaller scale. Globalization, hand in hand with improvements of technology such as the Internet, has slowly seduced nations into realizing

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the importance and advantages of international trade, thus leading these nations to become more open to international trade. It can be clearly seen that those developing nations that enjoying the most economic growth are those that are open to trade. The more open they are to trade, the faster they are undergoing the transformation from being a developing nation to a developed one.

Foreign direct investment (FDI) occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage the asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments, according to the WTO press release on October 1996. Foreign direct investment has been expanding at a very fast space throughout the past decade and recorded growths of about 40% per year from 1995-2000. This tremendous rate of growth exceeds the growth of world production and trade. There are two main factors that account for the rising tide of FDI flows over the past decade or so, globalization and mergers and acquisitions (Wild, 2003).

A closer look will be taken into the reasons on globalization being a factor of the rising tide of foreign direct investment. Globalization as discussed previously, has led a hand into trade barriers being either reduced or removed completely. This phenomenon has induced companies to export their products abroad easily due to the reduced restrictions and taxes on imported goods and services.

With trade barriers being reduced or removed completely by countries worldwide, companies also realized that they could now produce their products in the most efficient and productive locations abroad instead of solely manufacturing their goods locally which not always was the cheapest of most effective manner. Developing nations or low-cost newly industrialized nations was the prime target of these companies to set-up their production facilities abroad and this brought about a massive growth of foreign direct investment to these nations that were involved. As globalization is increasing in recent times, so has the number of companies worldwide that have started to undertake foreign direct investment.

1. 3 Conclusion

Globalization has never been short of its supporters or critics. It has been a highly controversial international business phenomenon for the past decade or so. Withstanding all its praises and criticisms, we have to learn to deal with it because globalization is a wave that has already hit the world and shows no signs of slowing down. International trade and foreign direct investment has seen tremendous growth due to globalization and international businesses have embraced this concept and are already gearing towards a more borderless and less restricted international business environment. As Kofi Annan, the Secretary General of the United Nations, has said: " Whatever cause you champion, the cure does not lie in protesting against globalization itself. I believe the poor are poor not because of too much globalization, but because of too little." This statement is true; globalization is needed by both the poor and the rich nations in order to move into the next dimension of international business.

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