

Globalization is a major driving force commerce essay



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Human interaction is on pace of increasing day by day with the help of new technology. We first were comfortable interacting at local, then at national and now expanding to international level. It's not only interaction but we are expanding our business at international level. Thus the word used "Globalization".

Globalization is a major driving force for this change the companies in this marketplace are facing. The degree of success of these companies also varies significantly. The question arises, hence, if there is a correlation between the extent of globalization of these companies, and the success they experience in their respective operations. This study has researched this question.

The globalization process involves the establishment of economic, political, social, and technological links among countries. Globalization has become today's need of each and every company. Today's small scale industries aim is globalization. In today's changing world the following are the factors that lead to globalization-

The Internet

The Internet has served to completely eliminate the physical barrier of distance that used to exist in regards to transmission of information. People from anywhere in the world communicates instantly with people anywhere else through the connection provided by the Internet. Governments have very difficult time restricting information within their borders because the Internet doesn't respect or acknowledge international borders. The result is information freely passing throughout the world. Certain governments fear

this freedom of information and take steps to prevent it. China, for example, limits this effect by blocking certain websites within its borders.

Technology:

The most important tool used in today's world is technology. Its role is vital with reference to business continuity. Technology is the vital force in the modern form of business globalization. Technology has revolutionized the global economy and has become critical competitive strategy. It has globalized the world, which drive all the countries to more ethical standards. Globalization has led to new markets and information technology is one of the technologies fostered to the new market in this increasing competitive world. Technology has helped us in overcoming the major hurdles of globalization and international trade such as trade barrier, lack of common ethical standard, transportation cost and delay in information exchange, thereby changing the market place. Technology has enabled the software experts to work collaboratively over the network with companies from around the world. The technological advancement has helped a lot in creation and growth of global market. Multinational Corporations (MNC) can be seen as a central actor in globalization. Markets have become global at a rapid pace, as indicated by several kinds of trade extended to foreign countries. The innovation in host country is often undertaken by MNC based in one country and due to the technological advancement MNC(s) have expanded to other countries by some kinds of FDI also facilitating the movement of research and development. The researchers have analysed that though the technology has globalized the business but economically well developed countries have been more benefited. While technology has

created many opportunities for global networks of tasks it is important to look at the friction in the system to understand the limitations. The sources of friction are many and could bring the system to its knees. Companies and countries that want to thrive in this era of globalization will seek to mitigate the abuses, while dealing with the friction.

Technology is further divided into the following areas like communication technology, Economic Technology, Transport Technology.

Economic Technology:

Economic globalization is driven ahead by the ability of international businessmen, bankers and brokers to conduct business in ways that were never possible prior to modern technology. Trades and investments are made instantly with little regard for international borders, time of day or distance via today's technology. In addition, products that used to require shipping, and therefore import and export, such as books, CDs and movies are now digitally distributed, further leading to business globalization.

Transport Technology:

Improving technology has completely changed the transportation industry in the post-war world. Technology advances lead to transportation that was more readily available, more reliable, faster and more cost efficient. In the latter half of the 20th century, it became in many cases more cost efficient to ship certain products halfway across the world than to manufacture them at home. This plays a very important role in the ongoing globalization trend.

Communications Technology:

Communications of all kinds, even above and beyond the Internet, is another key component to globalization. Not only has communication throughout the world become possible, it has also become affordable. Long distance phone calls cost much less money, fax machines allowed people to transmit full documents even before email came along and cell phones ensure that everyone anywhere can stay in touch. This allows corporations to extend their reach at small cost across international borders, leading to increased globalization of industry.

The Process of Globalization:

Globalization involves the creation of linkages or interconnections between nations. It is usually understood as a process in which barriers (physical, political, economic, cultural) separating different regions of the world are reduced or removed, thereby stimulating exchanges in goods, services, money, and people. Removal of these barriers is called liberalization. As these exchanges grow, nations, and the businesses involved, become increasingly integrated and interdependent. Globalization promotes mutual reliance between countries.

Globalization can have many advantages for business such as new markets, a wider choice of suppliers for goods and services, lower prices, cheaper locations for investment, and less costly labour. It can also carry dangers because dependence on foreign suppliers and markets leaves businesses vulnerable to events in foreign economies and markets outside their control.

Take the examples of Spain and Italy and their dependence on foreign countries for their energy supplies; they illustrate how important the interlinkages brought about by globalization can be, and what can happen when things go wrong. Since the 1980s, natural gas has become increasingly important in Spain as a source of energy. Spain itself produces an insignificant amount of oil and coal. As a result it depends on foreign suppliers for 99% of its natural gas requirements which is growing by 15% per annum. Three quarters of its gas supply comes from three African countries, Algeria, Nigeria, and Libya. These countries are potentially unstable both politically and economically. This leaves Spain's power stations and four million Spanish consumers very vulnerable to any instability with their African suppliers (see the International Atomic Energy Authority web site www.iaea.org; and Isabel).

Italy is dependent on cross-border supplies of electricity from Switzerland. In 2003 major sections of the Italian economy were brought to a standstill.

Let us see the impact of Globalization on in the area of renewable energy and industrial energy efficiency.

Globalization of Renewable Energy

In recent years, the world has seen a dynamic shift of the energy landscape in terms of consumption, which has drastically increased, and with it, the reliance on energy resources, which are terminal. In this backdrop, the necessity to use the existing resources available in the most efficient manner has gained substantial importance, as has the unavoidable necessity to develop perennial energy resources.

There are a large number of companies worldwide active in this area, most of them having started their specialized activities when the topic of energy efficiency and renewability was not as fashionable as it is today. Most of these companies have been small businesses, focused in their region and specific field of operation. In these changing times, these small businesses have grown both in terms of regional coverage of operations, and diversity of portfolio of offerings.

In India, and particularly in Maharashtra, there are several such companies in operation. Not only does a conducive business and production atmosphere lead to start-up and thriving activities of the entrepreneurs of these companies but also the availability of renewable energy resources (such as geothermal resources) in Maharashtra lead to the presence of such companies in this state. The presence of industry leads to a market for industrial energy efficiency solutions.

The growth has, in most cases, brought along with it not only promising opportunities, but also substantial challenges. The strategic direction of the business, careful selection of portfolio elements to ensure profitability on a sustained basis, ensuring the availability of finance to fuel the growth, recruiting, orientation retraining and retaining qualified staff and operations in previously unknown markets are some of the possible challenges faced. The current trends clearly show that businesses active in this area are rapidly gaining market and investor visibility as the solutions provided by them are eagerly sought after by a wide variety of customers in a global marketplace.

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Renewable Energy & Industrial Energy Efficiency

Renewable energy (RE), as stated by the International Energy Agency (IEA), is derived from natural processes that are replenished constantly. In its various forms, it derives directly from the sun, or from heat generated deep within the earth. Included in the definition is electricity and heat generated from solar, wind, ocean, hydropower, biomass, geothermal resources, and bio-fuels and hydrogen derived from renewable resources.

Energy Efficiency (EE) is the use of lesser amount of energy to produce or provide an unchanged (or higher) level of output. The efforts, mechanisms and technologies used for achieving energy efficiency vary widely, ranging from energy saving lamps and improved thermal insulation in homes and buildings, to highly efficient drives and motors and industrial waste heat recovery for power and heat generation in industry. The term is referred to as Industrial Energy Efficiency (IEE) in an industrial context.

According to the IEA, renewable energy resources and significant opportunities for energy efficiency exist over wide geographical areas, in contrast to other energy sources, which are concentrated in a limited number of countries. Rapid deployment of renewable energy and energy

efficiency, and technological diversification of energy sources, would result in significant energy security and economic benefits

Energy efficiency and renewable energy are said, in a report by the American Councils on Renewable Energy (ACORE), and for an Energy-Efficient Economy (ACEEE), to be the twin pillars of sustainable energy policy

Globalization & Success

Globalization has come to be a very widely used term in recent decades in various realms. The most common reference is, though, made in terms of its occurrence and impact in the area of trade and business. Of the many definitions of globalization available in the public domain, the one that identifies it as a generic term for all processes of international integration arising from increasing human connectivity and interchange of worldviews, products, services, capital, ideas, and other aspects of business and culture sums it up appropriately. The significant development in digital communication, especially owing to the advent and rise of the World Wide Web, and in the transportations systems and infrastructure for both humans and goods are major enablers and drivers of globalization, leading to an increased interdependence of economic activities world-wide.

Globalization of companies, as this study has attempted to capture and quantify, has several dimensions, including global presence, source of financing and capital, markets of their end products, elements of their value chain from suppliers, to research & development and workforce etc.

Measuring the extent of the companies' globalization using these dimensions

has provided an objective basis for making their data and attributes comparable with each other on a uniform scale.

Success as a term does not require further elaboration. In the context of this study, though, success has been seen to have several dimensions, including the viability of a commercial enterprise, market share, shareholder value, financial performance, strategic direction and employee satisfaction, to name a few.

Globalization:

At the start of the 21st century there is one issue that is discussed more than almost any other. That issue is called globalization. Hardly a day goes by without globalization being mentioned by politicians, broadcasters, and newspapers. It has made its way in schools, colleges, and universities too. It can even be heard in discussions among the general public in the street, in shops or at work. It seems almost anything that happens today can be attributed to or blamed upon globalization.

We all have probably heard the expression 'It's a small world'. People have been saying it for years but now it is true. Just check out the labels on your clothes - almost certainly they have been made in another part of the world. Turn on the computer and the internet will give you access to websites almost anywhere. Look at sport on television and you will see that it has a worldwide audience. So why do we now live in a small world? The answer lies with improved travel and communications which have made links with other people and countries around the world so much quicker and easier. These

links have increased at such a rapid rate that we now have a new word to describe it. The word is globalization.

But what exactly is globalization? Relatively few people can answer this question. This is not surprising as even the experts cannot agree on what globalization means. Making sense of globalization should be a priority for anyone concerned about the future well - being of the human race and our planet. The word globalization is now so widely used that a typical internet search engine will give you over two million results!

New world or new word?

One of the central debates concerning globalization is the use of the word itself. Many people, including politicians mostly use this word to describe the changing nature of the world around us as we move further into the 21st century. It is used to explain changes in world politics, in the global economy, in trade and industry, in crime and terrorism, in environmental threats and solutions and also social attitudes and behavior.

Others take a more critical view of globalization and say that it does not describe or explain a new word at all. To them it is simply a new 'buzz word' for patterns and processes, such as colonization, migration and international trade that have been happening for decades or even centuries. By labeling these as globalization they argue that people are ignoring the past and the lessons it has taught us.

“ Globalization is what we in the Third World have for several centuries called colonization.” - Martin Khor, Director of Third World network. Malaysia.

“ One can be sure that virtually every one of the 2882 academic papers on globalization written in 1998 include its own definition of globalization as would each of the 589 new books on the subject published in that year.” – The Globalization Guide 2002. Australian Apec Study Centre.

Defining the Indefinable?

With so many different views on globalization, defining the term is a very difficult task. However there are some common features of most definitions, which are worth considering at an outset.

Interdependency – the idea that people around the world are increasingly dependent on one another. What happens in one place has an effect on people elsewhere.

Interconnection – the idea that we are connected to people and places that were previously distant and unknown.

Shrinking of Space – The idea that distances are less important. Far off places are now within reach.

Speeding up of time – the idea that the world is operating at an even faster pace. News, money, ideas, information and people are moving around with increasing speed.

Technology – the idea that technological developments, such as jet aircraft, telephones, the internet, satellite television, etc make globalization possible.

Capital – the idea that it is the flow of money and investments around the world that drives the globalization process.

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“ Globalization is not new, but the present era has distinctive features. Shrinking space, shrinking time, and disappearing borders are linking peoples’ lives more deeply, more intensely, more immediately than ever before.” - United Nations Human Development Report. 1999

“ Today, every part of the natural and human world is linked to every other. Local decisions have a global impact.” - United Nations Population Fund (UNFPA). ‘ The State Of The World’s Population’ 2001

The world we are in:

Whether we choose to use the word or not, we live in a world where globalization affects all of us. The clothes we wear, the food we eat, the television we watch, the holidays we take, the cars we travel in, the music we listen to , and the news we follow bring us into closer contact with previously distant people and places. Although many of these encounters may pass unnoticed, anyone living in the worlds more developed countries experience some form of global interaction every day. And in the less developed countries of the world, peoples’ lives are increasingly shaped by global forces.

This means that globalization is a truly worldwide process. It directly affects each one of us and more importantly affected by us itself.

“ New transport, communication, and information technologies intensify competition while allowing firms to spread and manage international operations more efficiently.” - United Nations Conference on Trade and Development, World Investment Report, 2001.

A Fast Moving World:

Faster, faster, faster.....

Speed is a central element of globalization. All around us the world seems to be moving at an ever faster rate. The best example of this is the movement of information. In 2001 more information could be sent over a single cable in a second than was sent over the entire internet in a month in 1997. The speed of international communications and information flow is getting faster by the day. Technological developments, particularly in the computer and telecommunications industry are so rapid that keeping up can be a real problem. Computers bought only a few years ago can seem almost impossibly slow compared to the latest available models. People can now use their mobile phones to access the internet or have news or sports results sent to them as the events happen to them. None of this was possible just a few years ago. Indeed it seems like something from a science fiction movie as little as ten years ago.

It is this rapid development that makes globalization possible. But it also raises serious concerns for those who cannot keep up with the pace of change. What happens to those who are left out of the technological revolution? This is an issue of great concern to critics of globalization.

Since 1970, the speed of microprocessors has doubled every eighteen months.

On the move:

Some of the greatest technological developments of the past have been in transportation and this plays a vital role in globalization. From the horse

drawn stagecoach to the train, from the car to the jet air craft human beings have constantly managed to shrink space by reducing journey time. Today, jet aircrafts have made international travel easier and more affordable.

Business leaders can fly to their factories, partners, or clients in other cities or countries in just a few hours. This has helped production, labour forces, and markets to become increasingly international.

The jet aircraft has also caused a boon in travel for personal and leisure purposes. This can be most clearly measured by the growth in international tourism an industry that many consider to be the clearest example of globalization.

In 1950 there were just 25 million international arrivals (people arriving in countries all over the world). In 2000 this figure rose to 698 million which further rose to a whopping 1 billion in 2010.

Improved methods of transport allow faster movement of goods around the world. For instance Kenyan companies use air freight to fly fresh flowers to Europe every night. This is so efficient that flowers can take as little as 36 hours to get from the fields in Kenya to supermarkets in Europe. Without such improvements it would have been impossible for Kenyan flower farms to compete in the European market, as their goods would have perished using more traditional transport such as ships. This is what we call international trade.

Even transport by ship has speeded up, thanks to incredible engineering achievements such as the Suez Canal (connecting the Indian ocean to the Mediterranean, and onwards to the Atlantic), and the Panama Canal
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(connecting the Atlantic and Pacific oceans). The Panama Canal avoids the need for shipping to travel around the tip of South America saving a distance of up to 8000 nautical miles. These canals reduced journey time drastically and boosted international trade – another central element of globalization.

“ The creation of a water passage across Panama was one of the supreme human achievements of all time. The canal is an expression of that old and noble desire to bridge the divide, to bring people together” – David McCullough, *The Path Between The Seas*, 1977.

The world wide web:

The internet is often seen as the ultimate symbol of globalization. It allows us to communicate with people on the other side of the world, to do business with distant companies, and to share experiences with people we may never meet. It brings the world into our schools, homes and offices. Is the internet really as global as we think that it is known as the World Wide Web?

Nonetheless it has plenty of users but it is still less than 1 in 6 of the world's population. Most internet use is concentrated in just a few key regions and countries of the world. Around 80% of internet users live in the more developed regions that are home to just 14% of the world's population. The vast majority of the world's people play little or no part in this technological revolution. This has led many to say that “ the world wide web” is more like a series of hubs with the rest of the world simply passed by. In fact this makes the internet highly appropriate as a symbol of globalization because time and again as one notices it is the same places that are included and excluded from other aspects of globalization.

“ The question we have to learn to ask about new technology is not whether it benefits us, but whom does it benefit most? For the electronic revolution has far more to offer the largest enterprises on the planet than it does to you and me.” - Jerry Mander, President of International Forum on Globalisation

Supporters of globalization argue that communications technology will help poorer, less developed countries to catch up with the more developed.

South Asia is home to 23 percent of the world’s population, but has just 1 percent of its internet users.

It will provide them with new opportunities to sell their produce, attract overseas investors, and perhaps also encourage international tourism. Critics are also concerned that the same technology also makes it easier for already wealthy economies to take advantage of the same opportunities. If this happens then the benefits may only add to the wealth of the already existing and have less developed regions still catching up.

Money Matters:

Globalization is most often discussed in relation to the growth of international trade. Global trading activities have grown enormously over the past few decades because it has become so much easier to move capital and goods from one country to another. Companies and investors can make decisions and transfer goods from once country to another at the touch of a button. The growth of international trade has been equally impressive, with merchandise (raw materials and manufactured goods) trade increasing twenty fold between 1948 and 2000.

“ Trade in a more deregulated environment lowers the income share of the poor, whereas trade in a more regulated environment raises the share of the poor.” Christian E. Weller and Adam Hersh, *The Long and Short of it: Global Liberalization Poverty And Inequality* Economic Policy Institute. Washington DC, USA, 2002

Technological developments such as the internet and improved methods of transport help make this possible, but there is another important factor. This is known as the ‘ opening - up’ of economies to greater trade. This simply opening up means that government removes barriers to international trade, making it easier for foreign companies to invest in and trade with their economies. The idea behind this so called ‘ free - trade system’ is to allow companies and individuals to choose more freely where to locate or conduct business. While doing so, they are able to choose lower cost opportunities and maximize their profits. These higher profits can then be reinvested in further projects which in turn will lead to even greater benefits and the cycle moves on. Supporters of globalization believe that by encouraging economies to open up for free trade system it will create more jobs and lead to greater wealth for all. However opponents of free trade system argue that job insecurity and poverty have both increased because of free trade and that it is often the poorest that have been hardest hit.

“ Openness to international market forces and competition is expected to allow developing countries to alter both the pace and the pattern of their participation in international trade to catch up with industrial countries.” - United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report*, 2002.
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International hotspots – a select few:

Critics of globalization point out that trade and investment are usually limited to a few international hot spots. This can be easily noticed in the distribution of investments in trade and industry around the world, using a measure FDI. Using FDI, we can see that the critics have a good point. Just three regions, the USA, the European Union, and Japan dominate FDI. Between 2008 and 2010, they account for 85% of outgoing investment and 75% of incoming investment. These figures clearly show that majority of the worlds FDI takes place in these 3 regions. This trend has led to them being called the ' global triad'. Critics argue that as long as the triad continues to dominate international investment, less developed countries will find it very difficult ... to?

“ The geographical structure of FDI has become far more complex in recent years, a further indication of increased interconnectedness within the global economy” – Peter Dicken, *Global Shift: Transforming the World Economy*, 1998.

Supporters of globalization point out that, although still dominated by the triad, the broader patterns of FDI are changing. FDI in developing countries has increase 12 times since 2000. However this increase is unevenly shared and has benefited only a select few countries. Most notable among these is China. It has been the most favored destination for FDI outside the global triad. The main reason for this is because of its good infrastructure, cheap and plentiful labor supply, and low taxes. In 2001, developing countries accounted for just 27. 9% of FDI, of which over a third went to china and

Hong kong alone. The countries of middle- east and Africa attract relatively low FDI accounting a meager 1% share in global FDI.

Several countries have attempted to attract FDI and boost trade by setting up Special Economic Zones or Free Trade Zones. Today there are over 850 EPZ across several countries employing 27 million people worldwide. An EPZ is an area where in which foreign companies are invited to locate their factories and conduct business. In return for their investment, the host government removes import and export tariffs for several years. The hope is that as companies become established in the EPZ they will choose to make further investments.

In 1998 China had 124 EPZS employing an estimated 18 million people – more than in any other country. In Sri Lanka’s EPZs investing companies are allowed to operate tax free for ten years.

“ For the investors, free – trade zones are a sort of corporate club – Med, where the hotel pays for everything, and the guests live free, and where integration with the local culture and economy is kept to a bare minimum.” – Naomi Klein, No Logo, 2000.

Critics feel that EPZs represent one of the worst sides of globalization. They see them as parasites, taking what they need from the host economy for their own benefit, giving little or nothing in return. The EPZ ends up as an enclave, isolated from the rest of the country. Worse, still investors have no loyalty- they would quickly relocate their business to a competing EPZ if it offered them greater opportunities. In this way investors have been likened to tourists, moving to different resorts as it suits them best. Their ability to

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shop around for the best deals can even force governments to lower wages or other standards such as health and safety or environmental regulations in order to secure their investment. So why do governments go to such lengths? They hope that by opening their economies, creating EPZs and encouraging FDI, they can share in the wealth and prosperity promised by globalization. But many see this as a false hope, suggesting that following such a path only allows the rich to become richer and makes the poor still poorer. Whatever the truth is, it is clear that money matters a great deal and that the corporations who control this money have a great power in a globalised world.

Corporations – The Global Giants:

In a globalised world the true rulers are the corporations. But these are not just ordinary corporations. These are enormous business enterprises many with sales that are worth more than the economies of whole countries. In 2001, General Motors sale was higher than the national income of both Denmark and Norway and almost 25 times greater than the national income of Jamaica. On a broader scale the ten largest global corporations had sales of US \$ 1198 billion which is more than the combined GDP of sub – Saharan Africa and South Asia which together are home to one third of the world's population. So how have these corporations become so large and wealthy?

The key to their success is that they produce and sell their products and services internationally. They are called ' Trans – National Corporations' (TNC) or