

The benefits and consequences of globalization



Globalization gain momentum in the 1980s because of technological advancement, human innovation and rapid growth across global markets. Growth in global markets creates an opportunity towards more diversified, larger markets around the world, which provides an access to more capital, fields of economics, cheaper imports and technology. It refers to economic integration of national economies around the globe. It deeply connected with world economic post-World war 2 era, in the areas of International business (IB) it deserves more attention on Multinational corporations (MNC). Companies started think more differently about purpose and social impact of their activities on poor countries.

People can't see Globalization as positive development, we have witnessed anti-globalization campaigns. It have significant impact on developed countries and less developed countries, some people saw its power with high end technology, where as others opposed it for social miseries, economic unjust prevailing society. From an optimistic view globalization brings wealth, opportunities across the world where as global markets can't give an assurance of distribution of market efficiency across all.

Source : IMF

2 DEFINITION

Scholte (2000: 46-61) defined Globalization as :

“ Globalization is the progressive eroding of the relevance of territorial bases for social, economic, and political activities, processes, and relations”

In order to define globalization, Scholate (2000) suggests analysis of social connections existence, these social connection personal, family or economic relations which took place within certain geographic/nation location. This Social interaction between nations weakened continuously mainly due to developments in technological and political persepectives. Modern communication technology created an opportunity to interact with people irrespective of geographical location between them, it allows people to easily interact with others on other side of globe , we do business with our clients across the globe , not necessarily same place where we are from due to this territorial distance plays less role today. Liberalization eroded national borders and integrated all nations based on culture, technology, ideas, standards etc. With this social connections no longer required geographical territory to take place and not restricted by territorial borders.

2. 1 Examples for globalization based on this definition

2. 1. 1 Communications perspective

Due to high end communication technologies , many of world people witnessed the collapse of World Trade centre collapse on 11 September, 2001 live on TV, Regardless of geographical location billion of people saw it. (i. e. whether they are in India, Manhattan, Aberdeen).

2. 1. 2 Products perspective

Certain global products available all the over the world instead of going to certain geographical locate. Ex: we can buy Rolex watch wherever we are in the world.

2. 1. 3 Financial systems perspective

We are no longer to look about where our banks stores money, you can withdraw money all over the world and pay bills at home via internet banking by sits in India.

2. 1. 4 Cultural perspective

Corporate more engage with overseas markets, which come across with diversified ethical demands. Corporations may face issues with moral values as soon as they enter into foreign markets, those values are granted in their home markets.

Example: Sacking employees is unethical in China during downturns than Europe.

There is still close connection with local cultures, moral values and certain geographical region

Example: Europe disapproves of capital punishments where as it is acceptable in America.

Globalization makes regions together and encourages uniform global culture. On the other hand in eroding geographical distances it reveals economic, political and cultural differences

2. 1. 5 Social perspective

Change in life style, more usage of Internet increased awareness of consumers across the globe. Globalization answer this convergence in consumer needs through industrialization of societies, Becuase of this similar

consumer needs products like mobile phones, vcr's, jeans, fast food are products for which there is no national differences.

Source: Business Ethics by Andrew crane & Drik Matten

3 Benefits of globalization

Globalization benefits assessed from business, competitive and social-economical view.

Benefits of globalization can be assessed from political , technology, business view

Political factors like Trade liberalization and investments are key for globalization . Free trade among nations is the main development from political view. Organizations like WTO and EC formed for reducing tariffs concessions to create liberalization of trade.

3. 1 International trade

Expansion of International trade by reducing import tariffs by removing trade barriers, which results wide ranges of goods at low price in market for consumers. Exports indicate social economic growth for developing nations which results more job creations and industry growth. Trade enhances national competitiveness, more foreign investments, which results more employment for local , new technology innovations create more productivity.

Restrictions on international trade engage protectionism ex: Increase in tariff rates, effects consumers, less goods availability, inefficiency by reduction in competition and resource limit to certain sectors. In 1980's many developing nations follow protectionism which creates poor economic performance and <https://assignbuster.com/the-benefits-and-consequences-of-globalization/>

various economic crisis. By 1990's developing countries in Asia and eastern countries came out from protectionism and intergared into global trading system.

3. 2 Globalized financial markets

Due to globalized world financial markets , increased and global capital flows . During 1980-95 global capital flows between 2-6% of world GDP which increased to 14. 8% by 2006. more than triple since 1995. Due to more capital flows, more foreign investments and more international risk sharing. Experts sees it as growth and stability for economy where as others see as dangerous because it causes volatile of growing middle income economies.

3. 3 Technology: Transport, communication and economies

Technology progress lowered cost of transportation, communication and unit cost of production through localization of productive capacities and sourcing in low cost economies. Air, rail and road transport reduces the cost of shipping goods from country to country.

Development of communication has reduced the cost of information exchange between business units around the globe.

Production in world class factories benefit from huge economies of scale results integration of production systems. Companies able to produce or services from low cost countries either by purchasing locally or setting own operations for higher growth and productivity

Technology advancement creates more opportunities like new goods and services , Increase productivity, Freezing out competitors, licensing, cost reduction and global organizations.

3. 3. 1 New goods and services: Companies can improve goods and revive them into penetrate into global markets

Ex: Danish company Lego in creating new technology produced toy building brick. This brick sold with electronic technology, allows customers to create robots.

3. 3. 2 Reducing costs: Companies benefit from technology by reducing office rock space and expenditure on infrastructure.

Ex: British telecom Outsourcing its operations to India to reduce back end office costs.

3. 3. 3 Global organizations: technology helps companies to expand global and integrate economic activity across many locations in globe with many subsidiaries create opportunity for more employment across globe

Ex: Unilever presence in 150 countries and employed around one million people across 100 countries.

Technology in Information industry creates millions of jobs across globe with IT companies can compete across globally irrespective of location whether it is Bangalore, Japan or UK.

Ex: GE presence across globe , work will complete irrespective of location with less costs. As more profits gain overseas more earning in markets and more wealth to home nation(US).

As per economic policy industry, Washington even though productivity and profits increases salaries are not grown But globalization helps income increase, living standard increase for billions of people across the world.

Ex: US technology outsourcing to India.

Public perception in USA about outsourcing fears about jobs by exporting jobs to low-cost economies. As per Mckinsy survey every dollar spend on outsourcing to India, benefits \$1. 14 to US economy where as \$0. 33 for India. Unfortunately large sectors of people have different views

3. 4 Business

Due to globalization of consumers, multination corporations expanding over globe with standardisation of products and practices with high level of integration and coordination.

3. 4. 1 Cost Benefits

Product standardisation, company can able to set up their own network based on locations and increased hand over suppliers of raw materials, services due to Economies of scale

Example: By introducing pan -European manufacturing system, Otis able to lower cost of elevators by 30%

3. 4. 2 Learning benefits

Sharing of best practices and people, transfer of information eliminates cost of reinvention and facilitates accumulation of knowledge and previous experiences.

Ex: Unilever implemented an innovation method to produce and market ice creams.

This learning experience used for other regions , giving to the company a first mover advantages.

3. 4. 3 Timing benefits

This results with co-ordinated approach in product launching in early stages of product life cycle.

When industry globalised, waiting too much time for product launch inevitable when product has short life cycle

Ex: Windows 2000 product launch by Microsoft at same time everywhere in the world

3. 4. 4 Arbitrage benefits

Company operate globally can gain by using resources in one country for benefit of another country subsidiary . Competitive advantage gain by engage in price war in one country for mobilising resources of competitors, deprive of cash flow .

Ex: Goodyear price war with Michelin in 1970's

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Due to variation in Cultural factors like tastes, behaviour , Commercial factors like distribution, customisation, technical factors like transportation and social presence, legal factors like national security and regulation from country to country limit globalization benefits . By adopting right market strategy mix companies can gain competitive advantage across the globe.

4 Consequences of globalization

Erosion of geographical boundaries for economical purposes results in serious consequences. Standards-lowering in competition -“ race to bottom” results due to cost advantages in emerging markets, labour wages.

4. 1 Standards-lowering competition, income in equalities, low wages

Many national economies gains from trade and specialization advantages, Inorder to reduce efficiency of global production, most of world production shifts emerging nations with production less costs. As results, the increase in externalized costs, the positive correlation between Gross domestic product (GDP) growth and welfare disappears or even become more worse.

Milanovic (2003) present an evidence for increase in inequality, he argued that impact on less developed countries is more: less developed economies suffering from financial crisis, some of them facing with due debts, per capita GDP not increased in Africa.

Distribution of income not happen properly in the economic nations , Capital income will increase and labour income will decrease in nation that specialize in capital-intensive goods where as labour income will increase in nation which produce labour-intensive goods.

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In terms of labour markets, Wood (1998) shows that there is a gap between skilled and unskilled labour in terms of wages and unemployment. Skilled labour in less developed countries will rise but demand for less skilled workers will fall due to wage inequality. As soon as people earn higher income levels, social standards will increase and the cost of adjusting will increase from industrial nations to others.

In industrialized nations, high-skilled workers gain more profit and are strongly represented, whereas low-skilled workers are poorly positioned. Due to this, lower social standards have resulted in a competition-induced "race to the bottom", but this is less a consequence of globalization than the catching up process across the globe.

4. 2 Intense National specialization and loss of National Identity

With deregulation in capital markets and flexible exchange rates, capital flows become more and more global, leading to an increase in capital mobility across the globe. More increases in capital inflows due to financial liberalization across national boundaries, as per Singh (2003) evidence this liberalization has made more vulnerable and susceptible to financial crisis. Free trade and free capital movements increase pressure on specialization, which results in narrowing ways to earn and increases dependency on other nations?

Example: In Uruguay, everyone should be either a cowboy or a Sheppard or anyone who wants to be a musician or pilot should have to emigrate.

Narrowing ways to earn is welfare loss which is uncounted by trade theorists. Globalization assumes narrowing ways of occupational choices within a nation is costless; both of these assumptions are false. Due to convergence of many cultures across the globe, national identity will be lost.

4. 3 Intellectual property rights

Knowledge should be freely moved and shared, with sharing of knowledge it will be multiplied. But trade theorists believe in trade-related intellectual property rights. This creates private corporations' monopoly ownership.

Once knowledge exists, its proper price is marginal opportunity cost of sharing it because nothing is lost by sharing knowledge. Whereas economists argue monopoly is unjust because it creates artificial scarcity. With sharing knowledge, there is an increase in productivity of labour, capital, and resources. Further international development happens by freely shared knowledge and far less foreign investments.

Ex: Infringements of intellectual property rights in software industry, 90% piracy in Vietnam (source: business software alliance)

4. 4 Increased tolerance of mergers and monopoly power

Global competitive advantages create an opportunity for corporate mergers and monopoly in the national markets.

In order for corporations to compete globally, governments lose strength to regulate corporate capital and maintain competitiveness in markets because of that corporations become winners and market principles are losers.

4. 5 Environmental damage

The environmentalist concern about globalization, It encourage mass consumption and large-scale economic activities thus excessive exploitation of renewable and non-renewable resources(Helleiner, 1996) and exploitation of other resources like water, minerals, raw-materials(Hogvelt, 1982, p. 130-31). As a result there faster degradation of environment across the globe. Since developing nations supplying more raw materials, greater degradation takes place in these regions.