Drivers of the recent wave of globalisation economics essay

Globalisation describes the ongoing process by which regional economies, societies, and cultures become integrated through a global spanning network of communication, cultural diffusion, travel and trade. The phenomenon of globalisation has been present since the start of the nineteenth century and it has nowadays been established as perhaps the most vigorous force shaping contemporary society, business, management and economics.

The term is sometimes used to refer specifically to economic globalisation, in other words “ the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour”, (1). The unrestricted flow of information, ideas and cultural values add to the globalisation processes promoting converging market preferences and market-driven open economies. Although a situation of perfect integration (called homogenisation), where ideas and values are characterised by a global commonality does not exist (2), business orientation becomes more global based on the belief that the world is becoming more homogeneous and that distinctions between national markets are not only diminishing but, for some products, will eventually disappear (3).

Recently the problem of business globalisation has become more evident worldwide. Even the most successful and well-established companies cannot survive on domestic sales alone, if they are in global industries such as banking, consumer electronics, travel services, entertainment, etc. It is, hence, useful to identify a number of key drivers, which affect the structure of economies and markets. According to George S. Yip, it is possible to define globalization drivers in four areas:

Market Drivers

Cost Drivers

Governmental Drivers

Competition Drivers

The drivers of globalisation are a combination of many factors which have lead businesses to look outside their domestic markets for growth opportunities (4). It is usually the combined effect of just some of these separate factors that have more of gravity rather than all of the factors separately. In the next section the first three globalisation drivers are further analysed.

Further investigation

Market Drivers

Market drivers refer to global market convergence, in other words, the increasing similarity of consumer tastes and product preferences in certain markets, as evidenced by the popularity of global brands in certain markets.

Market globalisation drivers depend on customer behaviour and the structure of distribution networks. These factors are analysed in more detail below:

Common customer needs: product and technology are transferred by means of communication throughout countries with similar needs. Some products such as Coca-Cola, McDonalds, KFC, etc. have been palatable to many countries.

Global customers: not only consumer needs become more similar but also firms operating in globalised markets become global customers and may search for suppliers who can operate on a global basis.

Global market channels: free trade, which was facilitated by regional trade blocks such as the formation of EU and NAFTA, and falling trade barriers have formed globe-spanning channels that enable companies to distribute goods and provide services internationally. For example, Carrefour and Wal-Mart have developed global channels to distribute products. Deloitte and HSBC have expanded their services worldwide.

Lead countries: some countries have built up reputation in certain manufacturing industries. For instance, Japan is well known for consumer electronics, Switzerland for watches as well as its banking system, USA for computer software, etc.

Transferable marketing and global branding: Adidas, Top Shop, IBM, Toyota, Apple, Samsung, Kodak, Vodafone have become local brands in the global environment.

Global market convergence is measured by the percentage of worldwide sales attributed to standardized products. We have the example of NOKIA here, which increased its Indian market share from a mere 300, 000 subscribers in 1996 to a whopping 55 million subscribers in 2004 (5). More and more global brands are brought to life, with the percentage of worldwide sales attributed to them continuously increasing.

Cost Drivers

Globalisation of the productive process allows firms to choose concentrating or dispersing value adding activities around the world according to the location advantages to be obtained.

The cost advantage obtained affects activity concentration and depends on the following factors:

Global scale and scope economies: national markets cannot be large enough for a domestic business to achieve all economies of scale and scope. A global organisation can expand and coordinate internal production and operations to increase its value through a combination of manufacturing, reduced delivery costs and economies of scale. The aim is to join multiple markets and sell a standardized product in several countries, increase overall sales thereby reducing the cost per unit of development, concentrate selected value activities and shift production in response to exchange rate fluctuations (6).

Figure 1 shows the rise of standardized IT serves. Almost 60% out of the 340 companies of the survey admitted a significant benefit of using standardized products due to lower production and services costs of the product, lower operations costs and easier deployment (7).

Figure : The Rise of Standardized IT Servers

Sourcing efficiencies: centralized purchasing of new materials can significantly reduce the costs.

We have two categories of sourcing efficiencies: outsourcing and offshoring.

Outsourcing is when a company relocates a whole process, a piece of a process, a function, or a discrete piece of work outside of its own corporate boundaries. India has been the most popular outsourcing destination the last decade.

Off-shoring refers to the relocation of a whole process, a piece of a process, a function, or a discrete piece of work outside the geographic boundaries. The work can be done in an offshore location either within the boundaries of the company or outside the boundaries of the company.

Favourable logistics: A favorable ratio of sales to transportation costs enhances the ability of the company to concentrate production. Other factors are negligible need of location close to customers, absence of time urgency, even the shape of the product.

Favourable logistics is the main reason retailing accounts for 75% of logistics activity in China. The sector is also stretched to the breaking point. The total handling capacity of China's coastal ports is already over one billion tons, and capacity is increasing quickly. Not quickly enough though (8).

Knowledge and experience: some industries are characterised by an emphasis on creating value from new ideas and concepts, the so called " knowledge-based" industries. The accumulation of foreign market expertise can be highly beneficial for technology intensive many sectors like software development, engineering services and biotechnology. Other areas include financial services and pharmaceuticals. The steeper the knowledge and experience curve, the higher the benefit.

We have the case of increasing workforce being educated in Western countries and returning to their Eastern located home countries.

Product development costs: product development costs are rising due to short life of products that require higher return on investment, e. g. airlines, communications, pharmaceuticals, etc. These costs can be reduced by developing a few global or regional products rather than many national products.

Differences in country costs and skills: Factor costs vary across country. The availability of particular skills also varies. Concentration of activities in low-cost or high skill countries can increase productivity and decrease costs. Managers, however, have to anticipate the danger of training future offshore competitors.

Governmental Drivers

The increased globalisation of financial markets, the fading of trade barriers and the formation of global alliances provide firms with the opportunity to take advantage of beneficial national regulations.

Unrestrictive trade and investment policies: Reduction of tariff barriers, creation of trading blocks, decline in role of government, reduction in nontariff barriers, shift in open market economies, increase in level of world trade, increase in foreign acquires of corporation, increased formation of global strategic alliances and globalization of financial markets are all favourable trade policies that promote globalisation of industries and services.

Compatible technical standards: differences in technical standards, especially government imposed standards, limit the extent to which products can be standardized. For example Motorola products were withdrawn from the Japanese market because they were operating at a higher frequency than permitted.

Common marketing regulations: the marketing environment can also affect the extent to which global marketing policies can be applied. Certain types of media can be prohibited or restricted. For example, it is the case that in many countries advertisements showing children toys are either not allowed or allowed after a particular time of the day.

Globalisation drivers are revealed by the increasing percentage of countries that possess uniform or mutually- recognized technical standards, increasing staring from US and Canada, EU to China which recently became an open economy.