

Forces Behind Globalization

Globalization is driven by various new development and gradual changes in the world economy.

Generally, organizations go global for expanding their markets and increasing their sales and profits. One of the major forces of globalization is the expansion of communication systems.

In the present era, it has become easy to distribute information to any part of the world through the Internet.

Some of the important forces behind globalization are shown in Figure-1:

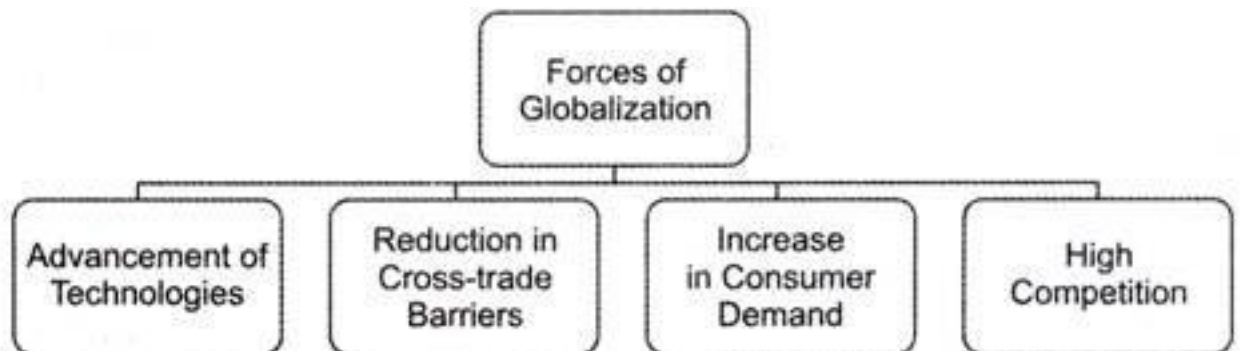


Figure-1: Globalization Forces

The different forces (as shown in Figure-1) are explained as follows:

(a) Advancement of Technologies:

Refers to one of the crucial factors of globalization. Since 1990s, enhancement in telecommunications and Information Technology (IT) has marked remarkable improvements in access of information

and increase in economic activities. This advancement in technologies has led to the growth of various sectors of economies throughout the world.

Apart from this, the **advancement in technology and improved communication network** has facilitated the exchange of goods and services, resources, and ideas, irrespective of geographical location. In this way, advanced technologies have led to economic globalization.

(b) Reduction in Cross-trade Barriers:

Refer to one of the critical forces of globalization. Every- country restricts the movement of goods and services across its border. It imposes tariffs and quotas on the goods and services imported in its country. In addition, the random changes in the regulations create chaos in global business environment.

Such practices impose limits on international business activities. However, gradual relief in the cross-border trade restrictions by most governments induces free trade, which, in turn, increases the growth rate of an economy.

(c) Increase in Consumer Demand:

Acts as a main driver to facilitate globalization. Over the years, with **increase in the level of income and standard of living, the demand of consumers for various products has also increased.** Apart from this, nowadays, consumers are well aware about products and services

available in other countries, which impel many organizations to work in association with foreign players for catering to the needs of the domestic market.

(d) High Competition:

Constitutes an important driver for bringing about globalization. An organization generally strives hard to gain competitive edge in the market. The frequent increase in competition in the domestic market compels organizations to go global. Thus, various organizations enter other countries (for selling goods and services) to expand their market share.

They export goods in foreign markets where the price of goods and services are relatively high. Many organizations have achieved larger global market shares through mergers and acquisitions, strategic alliances, and joint ventures. So, these are the major factors that have contributed a lot in globalization and the growth of global economy.

What Is Globalization?

Globalization is defined as a process that, based on international strategies, aims to expand business operations on a worldwide level, and was precipitated by the facilitation of global communications due to technological advancements, and socioeconomic, political and environmental developments.

The goal of globalization is to provide organizations a superior competitive position with lower operating costs, to gain greater numbers of products, services, and consumers. This approach to competition is gained via diversification of resources, the creation and development of new investment

opportunities by opening up additional markets and accessing new [raw materials](#) and resources. [Diversification of resources](#) is a business strategy that increases the variety of business products and services within various organizations. [Diversification](#) strengthens institutions by lowering organizational risk factors, spreading interests in different areas, taking advantage of market opportunities, and acquiring companies both [horizontal](#) and [vertical](#) in nature.

Industrialized or developed nations are specific countries with a high level of economic development and meet certain socioeconomic criteria based on economic theory, such as [gross domestic product](#) (GDP), industrialization and [human development index](#) (HDI) as defined by the [International Monetary Fund](#) (IMF), the [United Nations](#) (UN) and the [World Trade Organization](#) (WTO). Using these definitions, some industrialized countries are: United Kingdom, Belgium, Denmark, Finland, France, Germany, Japan, Luxembourg, Norway, Sweden, Switzerland, and the United States.

Components of Globalization

The components of globalization include GDP, industrialization and the Human Development Index (HDI). The GDP is the [market value](#) of all finished goods and services produced within a country's borders in a year and serves as a measure of a country's overall economic output. [Industrialization](#) is a process which, driven by technological innovation, effectuates social change and economic development by transforming a country into a modernized industrial, or developed nation. The Human Development Index comprises three components: a country's population's [life expectancy](#), knowledge and education measured by the adult literacy, and income.

The degree to which an organization is globalized and diversified has bearing on the strategies that it uses to pursue greater development and investment opportunities.

The Economic Impact on Developed Nations

Globalization compels businesses to adapt to different strategies based on new ideological trends that try to balance the rights and interests of both the individual and the community as a whole. This change enables businesses to compete worldwide and also signifies a dramatic change for business leaders, labor and management by legitimately accepting the participation of workers and government in developing and implementing company policies and strategies. Risk reduction via [diversification](#) can be accomplished through company involvement with international [financial institutions](#) and partnering with both local and multinational businesses.

Globalization brings [reorganization](#) at the international, national and sub-national levels. Specifically, it brings the reorganization of production, [international trade](#) and the integration of [financial markets](#). This affects capitalist economic and social relations, via multilateralism and [microeconomic](#) phenomena, such as business competitiveness, at the global level. The transformation of production systems affects the class structure, the labor process, the application of technology and the structure and organization of capital. Globalization is now seen as marginalizing the less educated and low-skilled workers. Business expansion will no longer automatically imply increased employment. Additionally, it can cause a high [remuneration](#) of capital, due to its higher mobility compared to labor.

The phenomenon seems to be driven by three major forces: the globalization of all product and financial markets, technology, and [deregulation](#). Globalization of product and financial markets refers to an increased [economic integration](#) in [specialization](#) and [economies of scale](#), which will result in greater trade in [financial services](#) through both capital flows and cross-border entry activity. The technology factor, specifically telecommunication and information availability, has facilitated remote delivery and provided new access and [distribution channels](#), while revamping industrial structures for

financial services by allowing entry of non-bank entities, such as telecoms and utilities.

Deregulation pertains to the liberalization of [capital account](#) and financial services in products, markets, and geographic locations. It integrates banks by offering a broad array of services, allows entry of new providers, and increases multinational presence in many markets and more cross-border activities.

In a global economy, power is the ability of a company to command both tangible and [intangible assets](#) that create customer loyalty, regardless of location. Independent of size or geographic location, a company can meet global standards and tap into global networks, thrive and act as a world-class thinker, maker, and [trader](#), by using its greatest assets: its concepts, competence, and connections.

Beneficial Effects

Some economists have a positive outlook regarding the net effects of globalization on [economic growth](#). These effects have been analyzed over the years by several studies attempting to measure the impact of globalization on various nations' economies using variables such as trade, [capital flows](#), and their openness, [GDP per capita](#), [foreign direct investment](#) (FDI) and more. These studies examined the effects of several components of globalization on growth using [time-series](#) cross-sectional data on trade, FDI and [portfolio investment](#). Although they provide an analysis of individual components of globalization on economic growth, some of the results are inconclusive or even contradictory. However, overall, the findings of those studies seem to be supportive of the economists' positive position, instead of the one held by the public and non-economist view.

Trade among nations via the use of [comparative advantage](#) promotes growth, which is attributed to a strong correlation between the openness to trade flows and the effect on economic growth and economic performance. Additionally,

there is a strong positive relation between capital flows and their impact on economic growth.

Foreign [Direct Investment](#)'s impact on economic growth has had a positive growth effect in wealthy countries and an increase in trade and FDI, resulting in higher [growth rates](#). Empirical research examining the effects of several components of globalization on growth, using time series and [cross-sectional data](#) on trade, FDI and portfolio investment, found that a country tends to have a lower degree of globalization if it generates higher revenues from trade taxes. Further evidence indicates that there is a positive growth-effect in countries that are sufficiently rich, as are most of the developed nations.

[The World Bank](#) reports that integration with global [capital markets](#) can lead to disastrous effects, without sound domestic [financial systems](#) in place. Furthermore, globalized countries have lower increases in government outlays and taxes, and lower levels of corruption in their governments.

One of the potential benefits of globalization is to provide opportunities for reducing macroeconomic [volatility](#) on output and consumption via diversification of risk.

Harmful Effects

Non-economists and the wide public expect the costs associated with globalization to outweigh the benefits, especially in the short-run. Less wealthy countries from those among the industrialized nations may not have the same highly-accentuated beneficial effect from globalization as more wealthy countries, measured by GDP [per capita](#), etc. Although [free trade](#) increases opportunities for international trade, it also increases the risk of failure for smaller companies that cannot compete globally. Additionally, free trade may drive up production and labor costs, including higher wages for a more skilled

workforce, which again can lead to outsourcing jobs from countries with higher wages.

Domestic industries in some countries may be endangered due to comparative or [absolute advantage](#) of other countries in specific industries. Another possible danger and harmful effect is the overuse and abuse of natural resources to meet new higher demands in the production of goods.

The Bottom Line

One of the major potential benefits of globalization is to provide opportunities for reducing macroeconomic volatility on output and consumption via diversification of risk. The overall evidence of the globalization effect on macroeconomic volatility of output indicates that although direct effects are ambiguous in theoretical models, financial integration helps in a nation's production base diversification, and leads to an increase in specialization of production. However, the specialization of production, based on the concept of comparative advantage, can also lead to higher volatility in specific industries within an economy and society of a nation. As time passes, successful companies, independent of size, will be the ones that are part of the global economy.