The Impact Of Globalization On International Business

Context

Since the late 19th century globalisation has slowly edged into the world and only recently has caused major shifts, creating the world we live in today. Globalisation has created the ability for business to be conducted on an international level, integrating the world and sharing new discoveries and knowledge. International business has become a large component in how the world functions and has enabled all countries, developing or developed, to trade with one another beyond their historical limits. Through international business the concept of a level playing field has developed, questioning the conduct of competitors within the business field and whether globalisation has successfully achieved it.

Introduction

This essay will determine that globalisation has not enabled international business to be conducted on a level playing field, as there are still economic factors impacting the system. Globalisation has integrated the world like never before, and in doing so has produced positives and negatives, that differ in each country. International business has become one of the largest components of everyday life and without globalisation the global marketplace would not exist. Conducting business on an international level has introduced new preferences to customers, as well as expanding business opportunities in foreign markets. With this, rules and regulations have been formed to monitor and navigate this large field. The concept of a level playing field has become a widely debated topic referring to equal opportunity and fairness within international business. Throughout this essay, the above points will be drawn upon, leading to the evaluation of the continuous corruption of bribery within international business and the impact of brain drain on developing countries in order to support the argument, as stated above.

Description

Globalisation is a convoluted term and can be interpreted in many different forms. For the purpose of this essay, globalisation will be defined as, the shift towards a more integrated and interdependent world, that includes several factors ranging across politics, economics, culture and ecological issues, with the business domain of globalisation focusing on markets and production (Hill, Hult, Wickramasekera, Liesch & MacKenzie 2017, p.9).

Globalisation is no new phenomenon and can be tracked back to the late-nineteenth to early-twentieth centuries (Villaverde & Maza 2011). The recent wave of globalisation has driven two factors bringing about noticeable changes, including; technology reducing the time of transport and spread of information across countries, and policy decisions pursuing tighter regional and global integration schemes (Villaverde & Maza 2011). The advancements in information and communications technology has lowered transportation costs and with the rising skills of workers in developed countries, businesses can now operate internationally through processes such as; outsourcing and offshoring (Hill et al. 2017, p.7). This has led to ‘globalisation of markets’ which refers to the merging of historically distinct and separate national markets into

one universal market (Hill et al. 2017, p.9).

‘International business refers to any firm that engages in international trade or investment’ (Hill et al. 2017, p.639). International trade is the exchange of capital, goods, and services across international borders or territories. International trade has developed several theories regarding different forms of trade including; mercantilism, absolute advantage, comparative advantage, Hecker-Ohlin theory and Porter Diamond theory (Hill et al. 2017).

‘Globalisation of production’ has enabled international businesses to source goods and services from other nations taking advantage in the differences of costs and quality, as well as, ‘quality of factors’ such as; labour, technology, land and capital (Hill et al. 2017, p.11). Such processes have seen the emergence of global institutions including; General Agreement on Tariffs and Trade (GATT), World Trade Organisation (WTO), International Monetary Fund (IMF) and United Nations (UN) (Hill et al. 2017, p. 14,15). These institutions are needed to ‘manage, regulate and police the global marketplace, as well as promote multinational treaties to govern the global business system’ (Hill et al. 2017, p.14).

Establishing a level playing field would require that all international businesses abide by the ‘economic and legal environment in which all competitors, irrespective of their size or financial strength, follow the same rules and get equal opportunity to compete’ (Business Dictionary 2019). For some countries this opportunity has be squandered by other governments choosing to ignore or deliberately break the rules for their own benefits, forcing businesses to compete with entire nations (Cable 2010). Whilst other nations, are fighting for equal opportunities within international business.

The impact of globalisation is a continued debate, as it produces both winners and losers. Despite globalisations advantages and attempts to reduce inequality and foster economic growth, globalisation has not enabled a level playing field for international business, as it is still evident that economic and politically limitations exist.

Analysis

‘Although the issue of corruption has been a political and societal issue for centuries, globalization has brought increased attention to the issue and renewed it as a subject of widespread concern’ (Baughn, Bodie, Buchanan & Bixby 2010). Bribery is an issue within international business that causes long-term damage to economic development, weakens global security and contributes to worldwide poverty (Carlberg 2003). Within globalisations role of promoting cross-border business, comes different norms and regulations regarding bribery. The tendency for bribery was much lower when corruption was not tolerated in multinational firm’s home countries, as they were most likely signatories of the Organisation for Economic Cooperation and Development (OECD) anti-bribery convention (Baughn et al., 2010). However, now with businesses reigning outside one’s home country, regulations can become blurred when dealing with foreign businesses.

The World Bank estimates that more than $1 trillion in bribes are paid each year making up 3% of the world’s economy (Guvenli & Sanyal 2012). Bribery is most common within developing economies which suffer from poorer investigative and enforcement mechanisms, whereas advanced economies have robust institutions that follow well-established laws and policies

(Baughn et al., 2010). Unfortunately, it is typically the governments that encourage corruption in attempt to earn income through unfair means, abusing its role instead of improving the well-being of its citizens (Shahabuddin 2002). In developing countries, officials see bribery as a necessary means due to low income, whilst wealthier countries have been associated with less corruption by having more opportunity and better living standards (Baughn et al., 2010). Therefore, economic development leads to lower levels of corruption, and corruption therefore inhibits economic growth.

One of the most damaging effects of bribery is the corrosive effect it has on the publics respect of law, structure and stability of society (Sanyal 2005). Thus, having the potential to corrupt governments and unbalance international business, distorting the competitive forces of market economies. 'It disrupts distribution channels, destroys incentives to compete on quality and price, undermines market efficiency and predictability, and ultimately denies many people the right to a minimal standard of living' (Hamra 2000). It creates non-tariff barriers to foreign trade and causes economic losses that reduce firms' and nations long-term competitiveness. Governments can become undermined, losing legitimacy and destabilising the processes which institutions develop to create fairness and attempt to progress towards a level playing field (Hamra 2000). In order to battle this, institutions such as the OECD group of thirty countries whom share a commitment to democratic government and the market economy, with the primary focus on building strong economies in its member countries. Their goals are to improve efficiency, honing market systems and expanding free trade and recently have dedicated its effort to combating bribery (Carlberg 2003, p. 97).

Globalisation has not enabled international business to be conducted on a level playing field and instead has created more corruption than before. With the integration globalisation offers, bribery has become more frequent and tempting for international businesses and governments, to avoid the rules and function on their own accord. Whereas, originally home countries could strictly monitor businesses functions decreasing the impact of bribery. Bribery has long-lasting economic impacts that unbalance the level playing field, making it difficult for other international businesses to compete with those cheating the system. Therefore, globalisation has not enabled international business to be conducted on a level playing field.

Between 1990-2000, Information and Communication Technology (ICT) has dramatically changed how traditional business and working patterns function, redistributing businesses around the world and even into the online forums (Khan & Bashar 2016). Along with this, globalisation has also seen an enormous spike in international movement within the labour sector. Projections by the United Nations indicate that over the next 50 years, all countries of Europe and East Asian economies will face ageing and decline within their populations, leading to shortage of manpower and will raise the demand for manpower (Khan & Bashar 2016).

The term 'brain drain' refers to the migration of relatively highly educated individuals from developing to developed countries (Beine, Docquier & Rapoport 2008). Such individuals have become major influences within labour markets and therefore can bring skills and significant potential to international businesses (Carr, Inkson, Thorn 2005). Emigration is generally driven by push and pull factors, the push factors being the political instability, unemployment and uncompetitive remuneration packages at home, whereas the pull factors include; higher living standards, better prospects for children and increased wages (Alam & Hoque 2010).

In the first decade of the 21st century, academics were convinced that brain drain generated

high income of foreign currency into the third world, although economic theories suggest that brain drain has negative effects on an economy (Alam & Hoque 2010). The supply side effects normally reflect the factors in production, therefore, a reduction in the labour force. This creates an ‘inward shift of the home country’s production possibility curve (PPC), thus, the productive capacity of the nation falls, meaning economic growth declines’ (Alam & Hoque 2010).

Another factor that negatively effects the home country is the welfare deficits. This is based on the view that highly skilled workers that require qualifications and experience cannot be easily replaced in these developing nations and most likely occur in areas such as health, education and other specialised services. For example, during 1980-1987 emigration levels were low and growth in the labour force was averaging around 3% per annum, however, after 1987 emigration levels increased dropping the growth in labour force to 2% per annum. Similarly, the annual employment rate for the period averaged 2.8%, and after the increase of emigration, employment rate levels decreased to 2.3% (Alam & Hoque 2010).

Within international business, the developed countries exercise the control over the institutions that oversee and regulate the global economy. Therefore, the policies made by advanced nations are the major determinants of trade (Khan & Bashar 2016). As well as this, developed countries have the resources to pull migrants into their countries and provide them with better opportunity than developing nations, depriving them of their only qualified personnel.

With continuous emigration to developed countries, the economic potential and ability of developing countries decreases. Globalisation has enabled the ability for developed countries to employee from other nations when in shortage of labour or of certain skills. In doing so, this has decreased the developing nations ability to conduct international business on a level playing field, because their small pool of talent workforce is being drawn into developed countries.

Conclusion

In conclusion, globalisation has not enabled international business to be conducted on a level playing field, as there are still economic concerns within the system. Globalisation has reintroduced the concern of bribery, now being one of the biggest factors that negatively effect international business. Governments within developing countries are typically corrupt and abuse their power impacting the well-being of the nation. In the business forum, those countries that abide by the rules and regulations are then challenged to compete with organisations that conduct bribery, leading to an unlevel playing field. The second factor mentioned was ‘brain drain’, referring to the emigration of highly skilled individuals from developing countries to developed countries mainly due to the pull and push elements. This decreases the economy in developing countries as they struggle to employ qualified and experienced replacements, as they only have a limited pool of talent. Another negative factor is the decrease in well-being, with most of these individuals are employed in healthcare, education and specialized services, which are already limited in such nations. Yet again, another derivative of globalisation has not enabled international business to be conducted on a level playing field.

References

1. Alam, G.M. & Hoque, K.E 2010. Who gains from brain and body drain business-developing/developed world or individuals: A comparative study between skilled and

semi/unskilled emigrants. African Journal of Business Management, 4(4), pp.534-548.
2. Baughn, C, Bodie, N, Buchanan, L & Bixby, M 2010, ‘Bribery in International Business Transactions’, Journal of Business Ethics, vol. 92, no. 1, pp. 15–32.
3. Beine, M., Docquier, F. and Rapoport, H 2008. Brain drain and human capital formation in developing countries: winners and losers. The Economic Journal, 118(528), pp.631-652.
4. Business Dictionary 2019, Definition: level playing field. accessed from
5. Cable, J 2010, ‘‘We're Asking for a Level Playing Field’’, Industry Week, vol. 259, no. 7, p. 56
6. Carlberg, C 2003, ‘A truly level playing field for international business: improving the OECD Convention on Combating Bribery using clear standards.’, Boston College International and Comparative Law Review, vol. 26, no. 1, pp. 95–111.
7. Carr, S.C., Inkson, K. and Thorn, K 2005. From global careers to talent flow: Reinterpreting ‘brain drain’. Journal of World Business, 40(4), pp.386-398.
8. Guvenli, T & Sanyal, R 2012, ‘Perception and Understanding of Bribery in International Business’, Ethics & Behavior, vol. 22, no. 5, pp. 333–348
9. Hamra, W 2000. Bribery in international business transactions and the OECD convention: Benefits and limitations. Business Economics, 35(4), pp.33-33.
10. Hill, C, Hult, G, Wickramasekera, R, Liesch, P & MacKenzie, K 2017, Global business today : Asia-Pacific perspective 4e. edn, McGraw-Hill Education, North Ryde, N.S.W.
11. Khan, H & Bashar, OKMR 2016, ‘Does globalization create a ‘level playing field’ through outsourcing and brain drain in the global economy?’, The Journal of Developing Areas, vol. 50, no. 6, pp. 191–207
12. Sanyal, R 2005. Determinants of bribery in international business: The cultural and economic factors. Journal of Business Ethics, 59(1-2), pp.139-145.
13. Shahabuddin, S 2002. The causes and consequences of bribery in international business. International Journal of Management, 19(2), p.366.
14. Villaverde, J & Maza, A 2011, ‘Globalisation, Growth and Convergence’, The World Economy, vol. 34, no. 6, pp. 952–971.
15. Weaving, R 2017. Impact of rich countries' policies on poor countries: towards a level playing field in development cooperation. Routledge.