Benefits and Challenges of Globalization

There is no question about it — globalization has transformed the modern world. It shapes, and will continue to shape, the way people do business, travel, and connect. Globalization provides a wealth of benefits, but it also comes with economic and cultural consequences that can be difficult to navigate. As globalization continues to shape worldwide interactions in commerce, technology, and more, companies will need to understand both its benefits and challenges.

What Is Globalization and Why Is It Important?

“Globalization” refers to interconnectedness among countries through various relationships, from business, geopolitics, and technology to travel, culture, and the media.

Imagine a pair of jeans in the mall with a “made in China tag” inside. Imagine McDonald’s stores springing up in Ukraine and Vietnam, and Americans frequenting Indian restaurants in Montana and falafel carts in New York. Imagine a doctor in Chicago reading The New York Times and the Guardian and Al Jazeera. Imagine a teenager in Poland listening to Rihanna at night and in the morning getting her Fjallraven-Kanken backpack ready for school, where she
will read Proust, Dostoevsky, Murakami, and Bolaño in her literature class.

Imagine a business call with members of eight different countries. Imagine a joint United Nations peacekeeping mission in which different member nations join forces to save lives on another continent.

Globalization informs all these scenarios.

Though it has become commonplace to say it, it’s true that the world is getting smaller. You can use a phone to reach someone instantly, no matter how far across the globe that person is. You can Skype, text, or use Whatsapp. You can get on a plane and in a matter of hours show up halfway around the world. Globalization is part of that shrinking world, bringing people together for common — or competitive — goals.

**How Globalization Affects Businesses**

Though, of course, multinational conglomerates see globalization in every aspect of business, even smaller startups and entrepreneur-led businesses will be impacted. Globalization affects businesses in a variety of ways:
How Globalization Affects Businesses

- Increasing competition
- Penetrating larger, more diverse markets
- Increased flow of trade, capital, information, and people
- Sharing technology
- Sharing knowledge
- Promoting a diversified workforce
Increasing competition: Businesses that contend in the global marketplace will naturally face competition from companies all over the world. Consumers demand ever-higher quality and cheaper products, and when they have a global array of companies to choose from, only those that evolve to supply what consumers want and need will prosper. This increased competition means companies must keep up with cutting-edge developments and stay assertive in the global marketplace to survive.

Opening larger, more diverse markets: On the other hand, companies that open themselves up to the global marketplace will naturally find a much larger market in which to sell their services. Has a Western electric bike manufacturer found limited success in a country where cars are still king? It can turn to Asian markets, where population density has led to crushing vehicle traffic and a huge market for lighter electric transportation. The ability to discover and cater to niche markets around the world is one of globalization’s appeals.

Increased flow of trade, capital, information, and people: The DHL Global Connectedness Index, in partnership with NYU’s Stern School of Business, has identified these four elements as the four pillars of global connectedness. All these elements except capital saw moderate growth worldwide in 2018.

Sharing technology: For countries to be able to cooperate globally, they must share similar technology and technological infrastructure. The need for shared technology means that technological advances quickly make their way around the world.

Sharing knowledge: Similarly, the need for a centralized base of knowledge for cooperating countries to work from means globalization results in a rapid transfer of knowledge. Scientific advances made in Belgium can be in Japan with the touch of a button.

Promoting a diversified workforce: Businesses operating globally attract employees from all over the world. They are likely to draw management staff from the countries where they maintain a presence and employ laborers in a country where labor is relatively affordable. Learning to manage a culturally diverse staff can be both a benefit and a challenge to a multinational business.

The Benefits of Globalization

What are the advantages of globalization for businesses? International cooperation has a
number of tangible benefits.

1. Increased Flow of Capital

The economic benefits of globalization to much of the world are hard to ignore. Increased trade to larger and more diverse markets results in greater revenues and increased gross domestic product (GDP). World GDP has grown from about $50 trillion in 2000 to about $75 trillion in 2016, primarily as a result of economic interdependence and the increased global trade it allows.

India, for example, is a country whose GDP has benefited immensely from globalization in the technology sector:

- The United States relies on India for half of its computer service imports.
- India has seen an increase in the value of its computer service exports from $11 billion in 1995 to almost $110 billion in 2015.
- Economic growth in India correlated substantially with this increase, averaging 6.5% a year during that time.

Globalization also means that businesses can realize greater profits by tapping into previously untouched markets and taking advantage of lower local costs. By expanding into new countries, businesses reach markets that are hungry for their novel goods and eager to pay top dollar for them. They can achieve higher revenues in unsaturated markets while saving money via the lower cost structure that results from cheaper labor, rent, and materials.

2. Better Products at Lower Prices

Global competition in the markets leads to both quality and affordability. As consumers realize they have a variety of options from all corners of the globe, they will choose to purchase the best and cheapest options, requiring companies to enhance quality and provide affordable prices if they wish to remain competitive. The outsourcing of work also contributes to lower prices, as many companies hire foreign laborers to do the work for lower pay.
3. Collaboration and Shared Resources

Combining efforts and resources allows for more creativity and innovation to solve problems that affect people all around the globe. Conservation efforts and efforts to combat rising carbon emissions, for example, will require a concentrated global effort if they are to succeed. Nongovernmental organizations (NGOs) use a collaborative approach to address issues that are not confined within borders, such as child labor, human trafficking, and health care and disease prevention.

4. Cross-Cultural Exchange

Not all the positive effects of globalization take place at the scale of billions and trillions of dollars. Cross-cultural exchanges of ideas, food, music, media, and language are just as valuable.

Individuals who travel around the world for business or leisure and try different foods, listen to different music, read different books, gain exposure to different media outlets, and learn to express themselves, even poorly, in another language gain a broader perspective on the world. Their new knowledge helps develop stronger empathy and appreciation for people of other cultures.

5. Spread of Knowledge and Technology

Arguably one of the top advantages of globalization has been the rapid spread of technology worldwide. Google, Dell, and Microsoft, for example, all have offices on many continents. Developing countries often appeal to investors because of the huge potential for growth. The resulting advancements lead to results like the spread of motorized farm machinery in Southeast Asia, for instance, where there had previously only been manual labor.

NGOs also compile and spread knowledge. When medical professionals from around the world came together through Doctors Without Borders, in cooperation with the World Health Organization, and worked to eradicate SARS in Vietnam, they prepared a “SARS kit” afterward and developed guidelines for dealing with the infection. They shared these
materials worldwide to help hospitals deal with the illness.

6. Quick Technological Advances

For developing countries, especially, being able to skip the long technological development processes of industrialized countries brings rapid progress. For example, cell phones came quickly to the African continent, with cell phone use currently growing every year in sub-Saharan Africa and approaching 90% in countries such as South Africa.

The rapid adoption of mobile technology has spurred entrepreneurship in countries like Kenya. Where it is dangerous or difficult to travel, small business owners simply use their mobile phones to reach clients and contractors. Most Kenyans don’t have access to banks or bank accounts, but they can use their phones to send and receive funds, using a text-based app since most mobile phones in the country are not smartphones. They can also use their phones to track the prices of crops and find out which markets will bring in more money.

Rapid technological advances have benefits other than economic ones. Pregnant women without access to traditional medical care can use their phones to keep in touch with midwives. The midwives, in turn, use their phones to connect to a system that doctors monitor at all hours. The infant mortality rate in Kenya, especially in its slums, is one of the top 65 in the world, but globalization has provided tools to help address some of the difficulty with pre- and postnatal care.

7. Increased Household Income

The European Centre for International Political Economy reports that globalization has helped reduce high inflation rates in western economies, so each dollar of consumer spending goes further. This development also has the effect of increasing real wages by lowering the cost of living. Additionally, competition on the global market means the prices of many items have declined, so purchases that were once unaffordable luxuries, such as laptops, cars, and washing machines, are now affordable for many people.
8. Increased Open-Mindedness and Tolerance

It’s easy for people to fear others whom they have never met. Foreigners come to seem completely unfamiliar under such conditions. But if people have networked with others from elsewhere over the world, spoken with them about common problems, and partaken of their food and culture, they are better able to perceive their common humanity and treat these others as equals.

The Challenges of Globalization

It’s clear that globalization provides an abundance of benefits worldwide — but what are the disadvantages of globalization? Here are just a few.

1. Exploitation

American companies have been known to use cheap foreign sweatshop labor to make cheap American goods. Wealthy, industrialized countries have shipped their trash to China and Malaysia. Exploiting cheap markets and lax regulations in developing nations has caused pollution and suffering in those countries, even as profits soar abroad.
At mines in the Democratic Republic of Congo, where metals needed for electronics abound — gold and tungsten, tin and tantalum — armed militia groups, often using child soldiers, have taken over, keeping power with violence and trading minerals for guns. Though the world gold price quadrupled over 10 years and electronics have become ever cheaper, globalization has not alleviated the poverty and violence in the country.

Dodd-Frank legislation passed in the United States now requires companies to be transparent about how they source their materials, but only about 10% of mines in eastern Congo have been declared conflict-free.

The outsourcing of labor also leaves a dearth of jobs in industrialized countries, where labor is more expensive. When the United States outsources manufacturing to cheaper competitors in foreign markets, domestic manufacturing laborers lose their jobs. Higher unemployment leads to discontent, strain on the social safety net, and lower tax revenue from income. Laborers whose skills are less relevant in a global marketplace will have a hard time adjusting to a world dominated by globalization.

2. High Investment Costs

Globalization presents challenges for multinational corporations in terms of capital investment and leadership. Setting up a business in a new country, especially a developing country, requires substantial upfront capital. The needed infrastructure may not be in place.

Roads, electrical grids, broadband internet, water, and sanitation may need to be upgraded or developed from scratch. It can also be difficult to find and retain managers with the requisite skills to add value to the company and work effectively within the local culture.

3. Confusing Local Systems

Multinational corporations also face the challenge of contending with different laws in different countries. Sometimes they must contend with different types of legal and banking systems entirely. Difficulty navigating these systems may lead to impediments in expanding
to new countries and severe repercussions for missteps made.

4. Weak Regulation

Fewer regulatory bodies exist for international business enterprises. Navigating the international markets can thus sometimes feel like the Wild West. Interconnected markets also mean that with a lack of regulation, if something goes wrong, the repercussions will resound globally. The global financial crisis, for example, hit many nations hard.

5. Immigration Challenges

Increasing populations of immigrants and refugees present a challenge for industrialized nations. Though countries may wish to help, too large an influx puts a strain on resources and social structures. Countries find themselves limited in the aid they can provide without detriment to their own citizens.

6. Localized Job Loss

Globalization can contribute to a decline in job opportunities as companies move their production facilities overseas. Forbes reports that the move toward globalization has led to deindustrialization throughout the United States, which was once home to many more
factories and auto plants. When American companies move their production to China and other countries with plentiful, cheap labor, American workers suffer under factory closures, layoffs, and skyrocketing unemployment rates where they live. According to the Economic Policy Institute, the U.S. trade deficit with China — that is, the amount by which our imports, which tend to cost U.S. jobs, exceed our exports, which tend to provide them — has lost the United States 3.4 million jobs since 2001.

**Globalization Partners Can Help With Your Efforts at Globalization**

Like it or not, globalization has proven to be a potent force for growth and development, and it is changing the world in ways that have a sweeping, sometimes unpredictable impact. Our generation and future generations can strive to advance globalization’s interconnectivity and progress throughout the world. Contact Globalization Partners International to find out how your company can communicate and thrive in a network of global partnerships.

To further help guide your global expansion journey, read our eBook on 10 International Expansion Mistakes to Avoid, available for download here:

DOWNLOAD EBOOK