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TWO SIDES OF THE GLOBALIZATION MEDAL[1]

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ABSTRACT

As the world becomes more and more affected by globalization, its opponents increase in number as well as its followers. This is due to the fact that there are not only winners in this case but also losers. The new global order introduces new advantages and disadvantages to economics, politics and social life. On one hand we have people living a prosperous life, having the chance to use inexpensive and high quality products. On the other hand we have the poor who have to face the difficulties caused by the irrational production and consumption plans, contaminated environment and unsound health and education systems. Globalization was first considered as a concept to bring the nations together, however according to some people it has turned out to become an economic and social gap between the north and the south. The multinational companies' attitudes and flexible working styles have affected some countries' employment structures. By means of economic liberalization, it has enabled the foreign investments settle down easily in any country. In this sense, globalization has been disapproved by the nationalism followers and therefore has been excoriated.

In this paper, the approaches to the idea of globalization will be studied and the positive and negative effects of global economy – global strategies, global competition – will be examined.

Key words: *Globalization, business, trade, economic liberalization, multinational companies, competition, global strategies*

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1. CONCEPTUALISING GLOBALIZATION

The roots of the word “global” as a concept lay deep back in a history of 400 years. However the word “globalization” has started to being used widespread quite lately. First appeared in 1960’s, globalization has been frequently pronounced in 1980’s. In 1990’s it has been accepted as an important phrase, a keyword by most scientists. (Lubber, 2004:1) Globalization is a scope that can bring out economic, social and political results. (Erdut, 2002:1) Thus it is possible to come across many different globalization definitions.

1.1. Definition

In economic content globalization can be defined as a process in which geographic distance becomes a factor of diminishing importance in the establishment and maintenance of cross border economic, political and socio-cultural relations. (Lubber, 2004:1) It defines an economic development by means of transaction of goods and services between countries, international investments and the liberalization of all these actions. Becoming a trend widespread around the world, globalization can be described as a net connecting many overseas countries by the help of economic, financial, political, environmental, social, cultural and technological links, markets and people. (Taştan, 2004:1)

According to William Greider globalization is like a “wondrous new machine" that reaps as it destroys. "Huge and mobile, "like the machines of modern agriculture, but vastly more complicated and powerful...running over open terrain and ignoring familiar boundaries. As it goes, the machine throws off enormous mows of wealth and bounty while it leaves behind great furrows of wreckage”. But, no one is at the wheel. The machine has no wheel or internal governor to control the speed and direction. It is sustained by its own forward motion and guided mainly by its own appetites. The machine is modern capitalism driven by the imperatives of global industrial revolution, creating “the drama of a free-running economic system that is reordering the world". (Greider, 1997:11)

It is possible to say that the common point of all of the definitions above is “liberalization”. The economic and technological developments have provided countries with the liberalization of trade.

1.2. Components

The main components of globalization can be stated as follows:

- International trade,
- Foreign direct investments,
- Multinational companies,
- Production networks,
- Knowledge technologies and knowledge society,
- Deregulation.

Until 1970's central capitalist welfare state has reached the borders of massive production/consumption system, the margins of takings have decreased, the restlessness among workers have increased, the industrial investment has moved towards speculative activities, unemployment and inflation rates have reached to a level never seen before and a drastic competition have started between countries. In the central capitalist welfare states these facts have caused the investments to move towards more "suitable" or strategic places. Therefore the technological advance has been accelerated and this has eased the formation of new services and communication links for globalization. The main fact for capital stock has become the recomposition productive/speculative multinational capitals according to the world scale, which means the abolition of the obstacles in its transaction area. This process has eventuated between many dynamic variables that intersect each other in many dimensions. In spite of the existence of many variables the basic rationale is restructuring the multinational capital that is organizing in international level – full liberalization. As the capital is reshaped in international scale, as seen in previous processes, it has become an obligation to redefine the developing or undeveloped countries. Neo-liberalism, neo-modernism, post-fordism as the restructuring of production process have been the pronunciations of this reconstruction. (Ercan, 1995:356) Besides, being an element giving direction to global economic, social and political system as well as the multinational/transnational companies, it is also defined as neo-corporativism.

The analysis and reality ruling the world today is defined as flexible labor, flexible capital accumulation, flexible labor market, flexible production and flexible companies. Thus, globalization, which is the extending of the transaction area of the capital, has provided the liberal and classical economy to come to order again (neo-). According to this theory, economics, together with its internal dynamics, produces more effective and rational solutions without any external interference. The spreading and deepening of the market relations in the world scale has required all the economies to participate in the fact. (Ercan, 1995:357) Besides the reshaping of capitalization has gained its latest form where the interference of government into the economic life is restricted, the public enterprises functioning in economic life are privatized and public expenditures are reduced and financial and commercial deregulation have become rising values in free market.

The change and transformation processes observed in economic, political and cultural fields can be summarized as follows: (DPT, 2000)

- Globalization of capital and the becoming of external trade a pre-condition for economic development,
- Regional integrations such as the European Union and international organizations have become a necessity. Also politics have moved over/beyond a scope of nation states, therefore the process of political globalization has been accelerated.
- **Local governments and civil society organizations have been attached much more importance and the mentality of participating in democracy has spread over.**
- Transnational or multinational huge companies have undertaken a role in indwelling this process as a world system since they physically own today's technology and capital.
- Financial globalization has become the area where economic globalization improved in a massive manner.
- Although integration has given rise to important progresses in trade, this process is not as fast as of those in financial activities and direct investments.
- The globalization has developed in an unbalanced way all around the world.
- In a larger scale, there is a less equitable distribution of income.

1.3. Approaches

Today the approaches to globalization can be studied as the "hyperglobalists", "skepticals" and "transformationalists" by following the classification made by Held, McGrew, Goldblatt and Perraton. (Held, McGrew, Goldblatt and Perraton, 1999:3)

Hyperglobalists are also called as the fundamentalists (radicals). According to the supporters of this idea, the nation-state is the product of the industrial civilization and has lost its importance parallel to the globalization period. As the market mechanism works more rationally than the governments, today the global market is replacing with politics. Now the markets are more powerful than governments. The regression of the states' authority can be observed regarding the increasing spread of the other institutions, unions and local/regional authorities. Hyperglobalists think that the world society is substituting (or will substitute) the traditional nation-state and new social organizations have started to appear. (Aktan, 2005) However the ones taking place in this group do not present a homogenous character. For example, neo-liberals are pleased with the success of the market and individual autonomy on the power of state while on the contrary the neo-Marxists (or radicals) of the same group consider the contemporary globalization as the representative of pressurizing global capitalism. In spite of all the differences in these ideological approaches, they share the opinion that there exists a gradually increasing integrated economy. Hyperglobalists believe that this period creates losers as well as winners. On one side there is the rise of a "new global division of labor" interchanging the traditional center and peripheral form, on the other side the presence of an ascending anachronism between the south and north draws attention. Despite this background governments have to "handle" the social results of globalization. It may be possible for globalization to bind the polarization between the winner and the loser in the global economic order. At least according to the neo-liberal idea it is not possible for global economic competition to end up in a zero-sum production. Even though the position of some groups gets economically worse due to the global competition, almost all countries have a comparative advantage in the production of some goods. Neo-Marxists and radicals do not support such an optimist belief. They think the global capitalism creates an inequality both among the nations and inside the nations. However they are of the same opinion that it is difficult and old-fashioned to establish social security by the hands of the traditional welfare state. (Bozkurt, 2004)

Scepticals are also known as globalization opponents and they just support the opposite ideas with the hyperglobalists. They put forward that nothing is new in the world we are living. By looking at the past of globalization (19^{th} century) they tell that even in that period an important transaction of money and goods has come about. Today in spite of many countries' strict national border controls, they claim that people did not use passports in the 19^{th} century. So this is just a return to past, not a new process. According to the scepticals, globalization is a simple term used by some of those whose aim is to wish to form the minimal government and state to demolish the welfare state. Some of the members of this group have qualified globalization as the tyranny of mega-companies that run after profit or as a geo-economical imperialism.

In the point of scepticals' view globalization is not something unexpected but it is exaggerated and has been made a myth by the hyperglobalists. The world economy has integrated less than it did in the past. Besides, national governments are not the passive victims of internationalization. In addition to this, regionalism is not a station for globalization; it is just the opposite, an alternative. The world is moving towards a division around new thoughts instead of a global civilization. Globalization will bring about new conflicts in different cultures, different civilizations and different regions, but absolutely not integration. The inequality in world economy will give rise to fundamentalists or aggressive nationalism. Finally, scepticals believe globalization process is not a phenomenon occurring as a result of economic or technological developments but it is an ideological attitude. (Bozkurt, 2003)

Transformationalists, the group in which Giddens is, consider globalization as the political power behind the social, political and economic changes reshaping modern societies and the world order. There is no longer a distinction between foreign/international and interior affairs; there is a new integrated global market at the moment. The economy has been more bound to services sector. Knowledge, entertainment, communication and most important of all service concerning electronics and finance have become the most significant sectors in economy. Transformationalists accept that the national states have reconstructed their authorities and power. However they refuse the hypothesis of hyperglobalists that the end of the independent nation state has come and of scepticals that nothing has changed. Transformationalists stand close to hyperglobalists rather than scepticals. (Bozkurt, 2003)

2. GLOBAL ECONOMY, STRATEGY AND COMPETITION

2.2. Global Strategy

It is necessary to make a choice among some strategic dimensions in order to form a worldwide company. These can be explained in five groups like access to the market, standardization and presentation of goods, the origin of value added activities, marketing approach and competition acts. These elements may vary according to the multinational or global strategy that the company will follow. For instance, a multinational company makes an effort to maximize its local competitive advantages, income and profit whereas a global firm tries to maximize its intensive activities taking place in different parts of the world by integration. In this sense multinational companies perform their activities in every country, but global companies decide on where to perform which activity and so make an integration. (Taştan, 2004)

Companies may be in need of internationalizing due to the factors related to market, costs, competition and politics. The reasons lying behind these general titles can be examined as the reasons to "attack" and reasons to "defend": (Taştan, 2004)

Reasons to attack:

- To search a new market,
- To aim to reach high profits by reducing costs,
- To satisfy the top management's growing and spreading ambition.

Reasons to defend:

- To protect the owned local-original market,
- To protect the other markets,
- To guarantee the supply of raw materials,
- To obtain technology,
- Geographical differences,
- To form a basis for new activities.

According to the common definition of ten global mangers from four continents, global companies must have the following three characteristics:

1. There must be a global strategy including a production, logistic, marketing, research and development plan to become a global company. Such a company proceeds its activities in an integrating manner with no boundaries.
2. A global company should have a sensitive distribution system that can perfectly meet the needs of the local people. It also should follow a main principle, value and working system and exactly apply these to the regions where they perform their activities.
3. Global firms must establish equilibrium between their global plans and local sensivities. This is the major matter for such a firm. Therefore it must have a clear and easily understood philosophy and its employees must believe in the fact that they can apply these principles. (Akın, 2004)

2.3. Global Competition

In fact, competition is a kind of behavior special to mankind. However in the various fields that shape our lives, it can be defined in various ways. Economists, lawyers and businessmen have different definitions for the competition concept.

According to the simple capitalist economy definition accepted by the economists, competition is determination of price and production with the sellers and buyers in the same market freely. In this context, the market in which competition will occur can be defined as the place where supply and demand meet and freely act. Functioning of the market economy depends on a healthy milieu. (http://www.rekabet.gov.tr/word/emel/9.1.Bolum.doc, 2003:4)

In competitive economics, competition can be described as a process of contrast relationships or as a race among economic units whose aim is to reach certain economic goals like financial income, the amount of sale and the share in the market.

In the international markets success criteria are mentioned with different comments. Adam Smith said that a country's chance to succeed in export is bound to high productivity. David Ricardo stated that in the international trade every country can be successful by transferring its resources to its most productive industrial branches. This idea of Ricardo was in time interpreted once more by Hecshler and Ohlin. After the Second World War technological developments had increased and the elements used in production in different countries were very much alike. And when globalization was added to these facts the concept of international competitive superiority came out. (Doğan, 2003)

With the international competition power it has been accepted that the competition power is multidimensional and it means much more than the average power of the companies individually. The content of this subject has been formed by many institutional, technological and production structures, qualified labor and economic circumstances. (Doğan, 2003)

The competitive power of a country is the level of that country to compete with other countries' goods in quality and price context. This power is a precondition for increasing production and productivity, to improve life standards and develop employment. (Doğan, 2003)

There are three different choices for a firm that is willing to access a foreign market. The first one is exportation by producing goods in its homeland and selling them to another country. The second one is to make a license agreement with the country the market of which it is wishing to enter by giving permission to using her technology and brand. The third one is making foreign direct investments in the market. Foreign direct investment means flow of international capital. Establishing a firm in a foreign country enlarges the main firm. One of the most important characteristics is that the main firm keeps both the possession and management of the "branch" or "subsidiary" under its control. The branch of the company is granted special rights by the main company, but it leaves the most of its income/profit partly or completely to the main company. In these foreign direct investments the one who owns the physical capital in the foreign country and managing it is called the **multi-national** company. (Oksay, 2003)

Why do they produce some goods not only in one country but more? This is a question of location. According to the location the resources determine theory the place of production. For example, the mining of aluminum is done ore-bed of the metal is. But the processing of it is done where electricity is cheap. Similarly transportation costs and trade barriers are the effective factors on deciding the place for production. Why the production in different places is done by the same company but not many companies? This is a question of internationalization. Some problems may occur if the main country produces really fine goods. Some coordination matters may take place because of the uncertainty of supply and demand. The changing prices in the countries can be considered as a risk for both sides. (Oksay, 2003)

Multinational companies are important means of lending and borrowing money. Thinking that the capital will return, they usually supply the countries that their subsidiaries are in with capital. This process makes the foreign direct investments an alternative to international credit procedures (loaning). (Oksay, 2003)

The seven competition standards which have come out in the 1990's and are important in the companies' globalizing are as follows: (Taştan, 2004)

- The quality of product and production
- Variety for maximum preference
- Adaptation
- The speed and easiness in access
- Punctuality in innovation
- Low costs
- Global obtainability

As a result, the strategy is the key point of progress and creates advantages in competition. Strategy is about differing companies from their rivals. A good strategy is related to the structural evolution of the industry. Although it is risky to apply global strategy, many companies have improved their methods of planning, controlling and applying. Otherwise they cannot understand the nature of competition and make the necessary investments and change.

3. THE EFFECTS OF GLOBALIZATION

The world's integration offers new opportunities to developing countries, but it also brings out some important risks. These risks form the source of the main idea of the globalization opponents. The basic supporting thought of the antiglobal act is that globalization will affect those countries' culture and nature. Besides, people's immigration will cause uncertainties and security problems will increase. It is neither realistic nor sensible to ignore globalization. It should be admitted globalization is being lived as a historical reality and in fact it depends on the countries how much they will benefit from it.

The economic integration on a global basis has made countries dependent to each other. Therefore countries occasionally gather so as to take some measures about putting the world trade in order. World Trade Organization (WTO) is the outcome of such a gathering. Today WTO controls approximately 90% of the world trade. However it is being criticized for negatively affecting the developing countries' trade and giving rise to poverty. Developing and underdeveloped countries form ¾ of the organization.

Multinational companies help globalization of production and consumption by their activities. They also bring out both positive and negative results by their financial, technological and production power. Thus, as it can be seen below, sometimes a result can be positive and negative at the same time. For instance, multinational companies may introduce technology to underdeveloped countries (positive effect). But this technology may not be suitable for those countries yet (negative effect). (Gençler, 2003)

Positive Effects:

- They help to increase the world trade.
- They finance development.
- They help the financing of international debts.
- They contribute in the improvement of liberal trade by removing obstacles like tariffs.
- They have the opportunity to introduce technology to underdeveloped countries.
- They decrease the cost of a product by supporting production.

Negative Effects:

- As a result of foreign direct investments, they cause loss of jobs in the main country of the company. Therefore employment decreases.
- As production shifts to foreign countries the unqualified workers in the central country lose their comparative superiority, unless new or higher technology is introduced.
- They increase the number of oligopolistic groups that decline liberal entrepreneurship.

- The number of debtors increases.
- They limit the wages of workers.
- They increase the gap between rich and poor.

Flexibility, one of the principle elements of globalization, has some properties that can change the structure of competition and employment. Usually the workers of flexible job types cannot be socially well protected. This situation is good for the employer but bad for the employees. Working styles are important factors in determining the salaries. Multinational companies prefer the countries where the wages are low.

As well as the developing countries, developed countries have some problems with the global competition. The countries feeling under pressure form mergers and joint ventures. Daimler Chrysler, Mobil-Exxon, Renault-Nissan, British Aerospace-Marconi are just a few examples. (Aydemir, 1998:45-51)

CONCLUSION

Briefly globalization is a frequently used term in economics, politics and social life for the last 25 years. It has its own supporters and opponents; it has good sides and bad sides. Some has concluded that globalization is a source of wealth, while some said it is an instrument for imperialism. Although it was meant to integrate nations, it separated them and in some instances formed great social gaps instead, especially the North and the South. It has advanced the foreign direct investments against the national interests according to nationalists. Therefore it has been claimed by nationalism fans. Global competition has been affecting countries' economies, social policies and legislations. The mentality of gathering capital has changed. Labor has been under the pressure of flexibility. Multinational companies bring money, labor and investments to foreign countries; however they cannot help forming a shift in the equilibrium. Globalization can be positively evaluated when a product is cheap and of good quality, easily obtained, special for everyone, etc… But small enterprises may not be successful in producing such products as well as the transnational big companies, so this may lead to an uneven development in the world. This fact should not be forgotten.

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