



GLOBALIZATION AND ITS IMPACT ON INTERNATIONAL BUSINESS

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Abstract

Purpose of the study: The aim of this paper is to boost the knowledge regarding globalization and its impact on international business. International business is a vast range of business activities involving the exchange of goods and services among individuals and businesses across national borders. In conjunction with the galloping of globalization, international business has been a topic among business executives and has drawn the attention of all industries.

Methodology: Data for this study were obtained from existing literatures on the role of globalization and its impact on international business. The methodology relied on existing previous literature on the subject being dealt with.

Findings: Globalization in the international era and the contrasts between countries result in both opportunities and threats to international businesses. Therefore, all business entities need to bear in mind and take notes on any changes in the globalized business environment when executing any adjustment and resolution and in administering current international operations.

Implication: The present study broke down how the various types of globalization affected international business. A firm's competency to trade goods and services internationally, transfer their production to other countries, and pick up the knowledge from abroad on the efficiency of operation. It has been growing due to the technological advancement, rising earnings, liberalization of cross-border movements and cooperative arrangements among nations.

Keywords: *Globalization, International Business, Trade Balance, International Trade*

INTRODUCTION

Globalization can be defined as the opening of a wider local and nationalistic outlook of an interdependent world global market with free transfer of capital, goods, and services across national border frontiers. Globalization can also be defined as shrinking of globe, where the increasing unity of the world economic order through reduction of barriers to international trade, such as tariffs, import quotas, and export fees. Globalization does not hinder the movement of free market; however, it would have a negative impact if applied to a fragile economy. Globalization, if properly implemented, will result in a more equitable world order where wealth is evenly distributed among the poor and the rich. On the contrary, it may cause a serious impact on the world order where the weak are subdued and the strong remain powerful.

The term 'globalization' means merging of several national market and international networks belonging to a social and an economical system. The earliest use of the term 'globalization' was in a publication called 'Towards New Education' in 1930. After the cold war, the term 'globalization' was used to describe the shift towards integrated and interdependent economic systems (Cuterela, 2012). Globalization comprises the base of international political economy that is derived from the changing character of goods and assets. However, globalization can also be redefined as shifting authority to the supranational state from the level of state (Reich, 1998). Globalization becomes more possible through direct foreign investments and portfolio investment in multinational companies (Okoye and Nwaigwe, 2015).

International business can be defined as the exchange of services and goods among individuals and multiple countries. An international business company is engaged in business among multiple countries. International business comprises all commercial transactions, whether private and/or governmental, investments, sales, and transportation that takes place between two or more countries and regions beyond political boundaries. International business is focused on global resources and objectives of the organizations are focused on global business opportunities and threats. In this paper, the problem statement is "What is Malaysia's import, export, and trade balance in international trade?" International trade can be defined as the exchange of capital, goods, and services across international regions. Many countries define such trade as a significant share of gross domestic product.

In political economy, states allocate and distribute power, where it is viewed as divided between relational power, which means the ability to cause another actor to do or not to do something. States can be as an alternative scheme to view

power divided as hard power and soft power, where hard power is about the application of coercive force to compel another actor to do something while soft power is about using the influence of culture, beliefs, and values to persuade another actor to do something. Market is about the realm of individual action and self-interest and tends to emphasize concerns of efficiency ([Islam, 2012](#); [Islam et al., 2013](#); [Alshammari & Islam, 2014](#)). In addition, society part of the international political economy where society is the realm of the history, culture and values of the social system ([Abidin et al., 2016a, 2016b](#)). It is because state, market and society often embrace different values and prefer different of methods for realizing them, sharp tension, and conflict often occurs. Thus, these three spheres given the interconnectedness and change in one often evokes a change in the others, rendering international political economy to a constant state of transition. International migration refers to the cross-border movement of people from a mother country to an outer location, with the purpose of taking up higher income employment, better living conditions, higher education, getting access to civic amenities, and conducting a daily existence for an extended period of time ([Alam et al., 2011](#)).

However, the international political economy is a network of bargains between and among states that deal in power and markets deal with wealth. These bargains determine the production, exchange, and distribution of wealth and power elsewhere. Bargain in international political economy can take many forms. Some are the formal agreements signed, ratified, and enforced and the other bargains are merely conventions, understandings, or rules of thumb. However, some of international political economy bargains reflect the rational power, which is the power of one player to get another to do or not do something. All various environmental impacts of trade policies on natural resources are difficult to assess, but evidence indicates the presence of both negative and positive impacts ([Islam et al., 2010](#); [Islam & Siwar, 2010](#); [Islam et al., 2017a, 2017b, 2017c](#)). The aim of this paper is to boost the knowledge regarding globalization and its impact on international business.

LITERATURE REVIEW

Globalization is associated with liberalization and integration of the economy, borderless movements of capital and investments, mobilization of the workforce, flow of information, and unlimited flow of information ([Mohammad, 2008](#)). At one end of the definitional spectrum, international business is defined as organization that buys and/or sells goods and services across two or more regions or countries. At the other end of the spectrum, international business is equated only with those big enterprises that have operating units outside their own country ([Verbeke, 2009](#)).

International businesses grew in scope to a size and to the point where the global economy is now dominated by multinationals from all countries in the world ([Friedman, 1970](#)). The term international business can be identified as a subculture of consumption, which is defined as “based on the self-selected social characteristics of the common commitment to the product category, brand or consumer activity grouping” ([Schouten & McAlexander, 1993](#)). As economies increase, trade continues to grow and technology increased travel continue to make the gap among countries to become smaller and an understanding of the legal aspects of international business become a valuable asset ([Nicholson & Breirley, 2015](#)). The core issues faced by international business and ecological environments are technological, political, legal, dynamic socio-cultural and technological problems, in which they operate ([Hamilton & Webster, 2015](#)).

Globalization is an irreversible force and this force is imposed on the world by some countries and institutions to increase free flow of goods, service, people, ideas and capital so that it can lead to economic and social integration ([Savrul & Incekara, 2015](#)). Globalization can be defined as the increase in the size of the social system and the increased complexity of inter-social linkages and can also be considered as a process of connecting the past, present, and future ([Sheffield et al., 2013](#)). Globalization is the process of interaction and integration between different countries of peoples, companies and governments, an international-driven process of trade and investment, supplemented by information technology ([Boudreaux, 2008](#)). The definition of globalization is the progress of human cooperation across borders ([Boudreaux, 2008](#)).

Globalization is the continuation of the integration process and vigorously carried out around the world ([Mrak, 2000](#)). Globalization refers to the emergence of an international network of economic and social systems ([Cuterela, 2012](#)). International business is a process of focusing on global resources and the goals of organizations on global business opportunities and threats. International business is all private and governmental business transactions that involve two or more nations. The definition of international business is any commercial transaction that takes place across the boundary line of a sovereign entity and involves two or more countries ([Chandran, 2006](#)). International business is the collaboration across national boundaries, and for greater synthesis of research into broader and more integrative frameworks ([Wright & Rick, 1994](#)).

Globalization led to advancement called information technology and played an important role in eliminating the effect of disaster and provided rescue operations. Thus, we must know whether globalization contributed positively to economic development and international peace ([Okoye and Nwaigwe, 2015](#)). Globalization led to free flow of goods and services, capital, movement of labor, trade, and investment between nations. Sometimes, the capital is limited in many countries but labor is abundant. In order to support the lack of capital due to economic growth, the effect of globalization on foreign trade and investments come into prominence. Although there are relations of trade and investments with other nations, they are still limited. Thus, stronger integrations in economies of nations are required to develop trade and investments ([Incekara and Savrul, 2012](#)).

Globalization led to new opportunities and threats to international business. Since the global markets are now related to globalization, it is important for international business to design a good marketing mix. There is also competition with companies from foreign country although the domestic companies are not interested to expand their markets at the global level ([Naghi and Para, 2013](#)). The world poverty has declined in the past 30 years due to economic growth. However, globalization led to an economic recession and brought a wider gap between the rich and poor nations. Globalization also created a problem that needs the building of a sustainable world society at global and national levels ([Sharma, 2004](#)). Export-import trade and direct foreign investments are the primary types of global businesses. The next stages will be carried out in different forms like subsidiaries and joint ventures. Global business also includes licensing and franchising ([Czinkota et.al, 2011](#)).

GLOBALISATION AND ITS IMPACT ON INTERNATIONAL BUSINESS

Globalization

Trade agreement, cross-border capital flow, migration patterns, spread of technology, and information transfers are the major elements of globalization. A country must sign bilateral, regional, or multilateral agreements with another country for trade agreement and it must design to eliminate or decrease trade barriers between countries. It is important because it will increase trade with other countries and international business. Then, it will also increase free flow of goods, information, and capital with the establishment of trade agreement. For migration patterns, globalization also includes the emigration and immigration of potential workers which is caused by unstable production costs in labor market. It is important for firms that spread technology and managing international business because technology spreads fast with new processes and alternatives in the manufacture of products ([The Library of Congress, 2017](#)).

There are five stages in the history of globalization. First is the social globalization, in which social globalization is the first dominant theme due to the arrival of many kinds of people with the spread of our ancestors in the whole world. Political globalization seems to be the second dominant theme due to which our ancestors set up small, rural, urban, and community life. So, it will lead to establishment political systems across different parts of the world. Third is the cultural globalization. In terms of expanding the new technologies and cultural aspects over the world, countries that have political systems also have their own culture. For example, English language, religions and traditions. Fourth is economic globalization. Economic globalization becomes more important since the revolution in 1757. Fifth is integrated globalization. The 21st century is viewed as the emergence of integrated globalization. Many countries are move from self-contained economy to more integrated and interdependent economy with free flow of goods and finances ([The red carpet broadcast, 2016](#)).

More integrated and interdependent economic systems will also have many positive impacts. New products are rapidly introduced to market within less than one year and offer undeniable benefits to the business activities. Next, it is possible for the company to expand their business to the global market and then will build good image and reputation among consumers and good perception towards organizations. Moreover, organizations can assess new sources, new technology, and sources of financing. The positive impact creates a unique brand name in the global market. Thus, it will have reduced costs as using same concept of products and same strategy to target the same segments of consumers in all markets. However, globalization not only offers benefit to organizations, but also to consumers and countries. Consumers can have quality products, lower priced products, and more choices to let them to compare the same type of products and then make their purchasing decisions in the global market. Globalization leads to several economic developments for the country. It also increases democracy and decreases communism. Lastly, globalization increases the standard of living in developing and developed countries ([Naghi and Para, 2013](#)).

However, globalization has disadvantages or challenges to the firm that expand its market at the global level. The first impact is political stability, as it is an important factor in promoting foreign direct investment and business activities. Thus, it lowers possibilities to earn profit from a politically unstable country. The second impact is bureaucracy, which

could cause difficulties for global corporations in conducting their business activities. The third impact is the fluctuations in currency exchange rates. Currency exchange rates refer to the price of one country's currency in terms of other country's currency. Fluctuations in exchange currency rates could prove to be the barrier to a firm's activity in a foreign country. Further, corruption can limited the commercial activity and investment in a foreign country. For example, representatives of the state administration ask for money for some services. Next, globalization leads to trade agreement amongst countries and the main purpose is to reduce tariff and non-tariff between countries. However, many countries nowadays tend to protect their domestic industry as was the phenomenon with negative impacts on the development of global companies. For non-tariff, the custom import licenses would also delay the business activity. Challenges for firms would also come from industrial piracy, which is a mass phenomenon that destroys the firm's costly development and research activity. Thus, firms must get protection from governmental acts to ensure that their products are not easily imitated by other people. Then, firms which expand their market to a global level will lead to a strong competition. A firm not only competes with local competitors in foreign country but also competes with global corporations. Moreover, managing an international business is more complex than a local business in terms of different traditions, culture, belief, consumer behavior and attitude. Factors like environmental protection, human rights, and laws in foreign country could not be neglected as any mistakes will led to failure of business. Lastly, management errors cause huge monetary losses and are yet another challenge for multinational corporations with many branches across the globe ([Manolica and Roman, 2013](#)).

Impact of Globalization on International Business

Globalization has led to an increase of competition between companies in the market. The companies have competed for the price and costs of products or services, the quality of products or services, the use of technology in the production, the target market, and other aspects. The company that can produce the product or service with the lowest costs and price and high quality can let them do business successfully in the global market. Finally, the market share of their company will increase.

Globalization has led to the improvement of the use of technology in developing and under-developed countries. For example, the developed countries can invest in developing and under-developed countries because of globalization. The developed countries introduce their own technologies and use it in developing and under-developed countries in production, agriculture, and other industries. This will benefit the developing and under-developed countries and will to increase their economic growth.

Globalization has led to the increase of opportunities in all countries. The opportunities for the people increase because of the growing number of industries and resources. The increase of industries has created a lot of job opportunities available to people and more people reap financial benefits by going abroad. This also increases the rate of immigration, thus giving people the opportunity to develop economically and socially. The rise of foreign investment countries helps in the rapid development of all industrial and local cities, which every country must be open to because this is a very favorable business. For example, foreign investors invest a large amount of capital on some industries. The industries use the capital to conduct research and development so that they can increase technology on the production and growth of industries.

Organizational performance is also viewed as the survival and profitability of an organization in which its measurement is primary both in manufacturing and services. For a service organization, their effectiveness and performance are measured by their customers' satisfaction and such organizations prefer good relationship over profit. While in manufacturing organizations, their main performance and effectiveness are in the quality of their products and are more concerned with profit maximization ([Islam & Abdullah, 2013](#); [Islam & Al-Nasser, 2013](#); [Islam & Al-Homayan, 2013](#); [Al-Nasser et al., 2013a, 2013b, 2013c](#); [Al-Homayan et al., 2013](#); [Sarker & Islam, 2013](#); [Al-Nasser et al., 2015](#); [Saad et al., 2016](#); [Al-Nasser et al., 2016a, 2016b](#); [Khan et al., 2017](#)).

The impact of globalization on international business is causing the trade and investment barriers to decline. International trade occurs when a firm exports goods or services to consumers in other countries. Foreign direct investment (FDI) occurs when a firm invests resources in business activities in other countries. Many of the barriers of international trade take the higher of tariffs on the imports of manufactured goods or services. This is because the tariffs are to protect the domestic industries from foreign competition. Globalization has caused all countries to come together and reduce trade and investment barriers across countries. This has proved to be beneficial to all countries because they can easily trade and invest.

Malaysia's Total Export Based on Country in 2016

In this section, we will discuss the differences between international trades, which are short-term exports for Malaysia in 2016. The discussion is based on the data obtain from the Department of Statistics, Malaysia. The discussion is focused on the top trading partners with Malaysia in this globalization era. Export can be defined as the goods and services produced in one country and sold in another country. Export plays an important role in keeping the countries cash flow running, as they have more competitive advantage, gain knowledge about how to sell in foreign markets, increase jobs, raise the standard of living for residents, and bring in higher wages. The graph shown is the export of Malaysia, in which the total export for Malaysia is in RM785,934.8 billion for the year 2016. Malaysia's total exports in 2016 are shown in Figure 1.

The top 10 countries to which Malaysia exported are Singapore, China, USA, Japan, Thailand, Hong Kong, India, Indonesia, Australia, South Korea, and other countries. In 2016, overall total exports show an increasing percentage. Singapore export percentage increased to 15%, China's export percentage increased to 13%, while USA's export remains the same at 10%. Thailand showed a significant increase in exports at 6% and Hong Kong exports increased to 5%. The exports of India, Australia, and South Korea remained the same at 4%. In contrary, Japan show a decreasing percentage of export, which is 8% compared to 10% in 2014. The increasing export of Singapore is due to the slowing of domestic demand, labor shortages, and falling productivity growth, which forced it to increase import from Malaysia. China has a high demand on high-tech manufacturing due to the competition among People's Republic of China (PRC), which increased its export rate. USA was supported by a steady domestic demand and positive environment of lower energy prices, which made the export percentage remain the same. Thailand showed an increasing percentage of export even though its economy was affected due to environmental and political unrest because of the last year disasters due to high demand crude petrol, integrated circuit, and printed circuit; while for Hong Kong, they established a trade relation with Malaysia which causes an increasing percentage of export, which is mostly related to the domestic export of goods like metalworking machinery, electrical machinery, and telecommunication and other equipment. The exports for India, Australia, and South Korea remained the same due to the instability of economics, politics, and natural disaster. Oppositely, Japan showed a decreasing percentage of exports due to contracted private consumption and flattened investment, which caused their economics' stability and fragility.



Figure 1. Malaysia's total exports

Source: Department of Statistics, Malaysia, 2017

Globalization affects every level of industry and every nation. Failure to keeping up with changes leads to us being leftbehind. However, in a way it also helps to improve us, our industry, and our countries. Globalization is a trend in every nation. In the 21st century, in order to reach the top, companies are taking step to expand internationally through trade and investment. A powerful country tends to export more compared to import. This is what makes them to have a competitive advantage compared to a weaker country. Globalization has shortened the gap between nations by trade and investment; however, it can also get negatively affected by other sources, such as a country's economies, politics, social instabilities, and natural disasters. A country can learn from other countries' expertise and through competing among each other, we can learn from each other and make it as our own competitive advantage. Globalization evolves a country to become stronger and trade helps a country to maintain their income sources.

Giddens (1990) describes that globalization is like "the intensification of worldwide social relations that link distinct localities in such a way that local happenings are shaped by events occurring miles away." Globalization also can be

associated with the integration and liberalism of the economy with the movement of investment, workforce, changes of technology, transformation of culture, flow of information, and a borderless globe. Globalization is often referred to as the rapid changes to environments that often require interventions and actions, which may be radical.

Malaysia's Total Import Based on Country in 2016

This section will discuss the international trade, which is the import area for Malaysia in the short-term, which is in 2016.

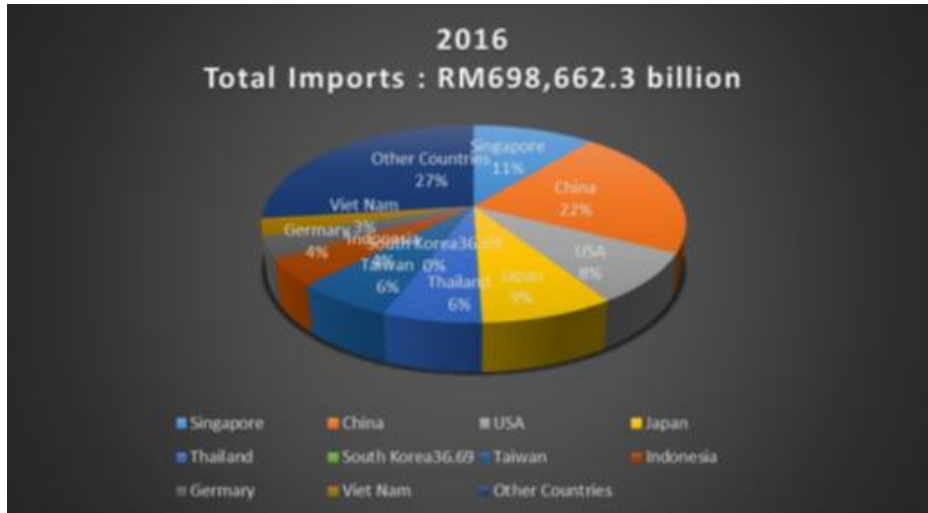


Figure 2. Malaysia's total imports

Source: Department of Statistics, Malaysia, 2017

Imports can be defined as a process in which residents of a country purchase goods and services from a foreign country. Residents also include government and businesses. The process of import can be done by personal hand luggage on a plane or shipped. Exports and imports are the strategy used by a business to expand their market at the global level (Department of Statistics, Malaysia, 2017). The graph shown is the total import of Malaysia from other countries for the year 2016. Total imports from foreign country for the year 2016 are RM698, 662.30. The total imports for the year 2016 is RM15725.20, that is 2.30%, has shown an increase rate.

The countries to which Malaysia's residents imported goods and services from are Singapore, China, USA, Japan, Thailand, Germany, Vietnam, Indonesia, Australia, South Korea and other countries. However, the overall total imports increased in 2016 by 2.30% (RM15731.20). In the year 2016, the total import from China to Malaysia was the highest at RM153705.71, that is 22% of the total import. This is due to a new agreement signed at the 27th ASEAN Summit on 21 November 2016 in Kuala Lumpur. The aim is to streamline and enhance economic co-operations, in line with changes in the trade and economic landscape between ASEAN, especially Malaysia and China, including amendments to the agreement on Trade in Goods, Services, Investment and Economic and Technical Cooperation (ECOTECH). The total import accounted for RM76852.85, that is, 11% of the total import. Next, the total import from Japan to Malaysia was accounted for RM62,879.61 that is 9% of total import, which is due to both ASEAN and Japan making an agreement to double their collective trade and investment flows by 2022 and paid recognition to the significant role of AJCEP to deepen and enhance economic integration between ASEAN and Japan. This was followed by United States' 8% which accounted for RM55,892.98 and showed an increasing percentage of 1% due to Malaysia undertaking four FTA negotiations which is called as the Malaysia-European Free Trade Area Economic Partnership Agreement (MEEPA), the Malaysia-European Union Free Trade Agreement (MEUFTA), followed by Thailand and Taiwan at 6%, which accounted for RM41,919.74, then Germany and Indonesia at 4%, which accounted for RM27,946.49 and the last one was Vietnam at 3% which accounted RM20,959.87. The total import amount for other countries accounted for RM188638.82, which is 27% of the total imports in 2016.

The highest total import in 2014 was by China that accounted for RM122, 928.68 while the highest total import in 2016 was also maintained by China that accounted for RM153, 705.71. It shows that an increase by RM30777.03, that is, by 25.04% from the year 2014 to the year 2016. The lowest total import in the year 2014 was Vietnam that accounted for RM13, 658.74 while the lowest total import in the year 2016 was also maintained by Vietnam that is accounted for RM20, 959.87. It also shows an increase by RM7301.13, which is an increase by 53.45% from 2014 to year 2016.

The Trend for Malaysia's Trade Balance from 1990 to 2016

This section focuses on the trade balance for Malaysia in the long-term, which is from 1990 to 2016, to compare the impact of globalization towards Malaysia's international trade.

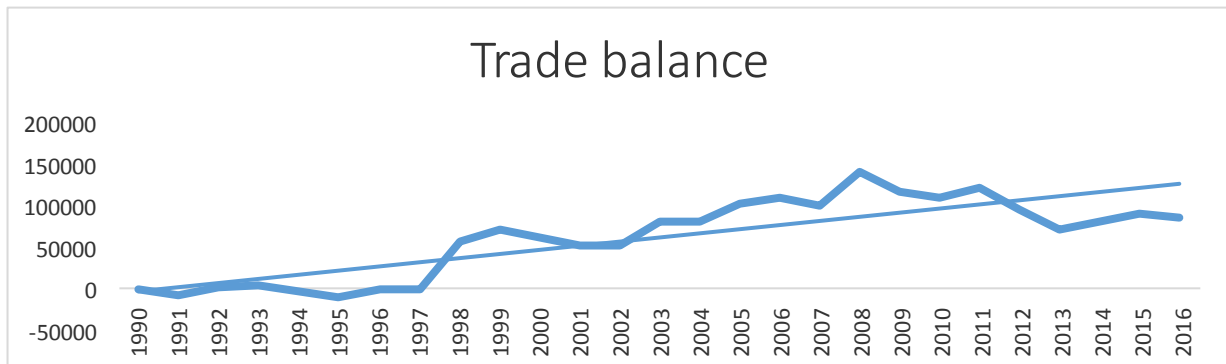


Figure 3. Trade balance from 1990-2016

Source: Department of Statistics, Malaysia, 2017

The graph shown is the trade balance from the year 1990 to the year 2016. Trade balance is the calculation by using country's exports to deduced import. A positive trade balance signifies a trade surplus, while a negative value signifies a trade deficit. Overall, trade balance fluctuates from the year 1990 to the year 2016. The years 1991, 1994, and 1995 show negative values of trade balance and the rest were showing a positive amount. The highest value was in 2008 while the lowest values were in 1995. Since 1998, international trade has played a huge role in the Malaysian economy. Malaysia have been reporting consistent trade surpluses, mainly due to the increase in exports of electronics and electrical products. In 2015, the biggest trade surpluses were recorded with Japan, Singapore, Hong Kong, and United States while the biggest trade deficits with China and Taiwan.

While due to fluctuation of the trade balance, Malaysia still managed to steadily increase its exports and imports until 2016. Malaysia used all methods, such as agreement, trade and diplomatic relationship with other countries, such as China - which has a wide market, United States - which will benefit us through the monetary unit, Japan through iron, steel, circuit board, and chips product, which became the main three countries and Malaysia has trade with other country too. The total amount export of year 2016 was more than the imports, which indicated a positive trade balance.

CONCLUSION

Globalization refers to processes that potentially encompass the whole globe. The process does not have to encompass the whole globe to be associated with the phenomenon of globalization but there must at least be a potential for its omnipresence. One should be able to identify the degree to which globalization process has actually evolved. It also refers to efforts to measure the extent of globalization and justify our focus on economic globalization.

Besides, globalization processes were initiated and encouraged by technological changes caused by the spread of market based system, domestic politics, and economic stability. Globalization processes lead to new or modified governance institutions as they move toward genuine globalists, as they have to capitalize on opportunities created and reduce costs imposed by globalization processes. In time, globalization processes will become independent variables and the new or modified institutional of governance will become the dependent variable. However, changes in governance will unleash new forces that may impact the pact and extent of globalization processes.

Globalization can make more efficient markets that should be strived for by every economy. The sign of an efficient market is where there is an equilibrium between buyers who are willing to pay for a good or service and what sellers are willing to sell goods or services. If we improve the way of the goods or services by outsourcing certain processes or buying from an overseas supplier that offers discounts, we can then afford to lower the selling price, which results in increased demand and affordability. However, even if a business did not lower the prices, they still can make additional profits and then reallocate the excess profit to increase wages or expand projects.

Moreover, globalization process will cause multiple producers competing for a hold of the economies. This is a good sign for consumers, as the quality of goods and services will be improved due to competence. When businesses started to venture across international borders, they often introduce a new standard into the global marketplace. Consumers then have more options to choose. Increasing competitors to fight over market share, each company has to constantly look to

improve their goods or services or create more value for their customers. This means we have good quality products and sometimes at lower prices, which is always a good thing for consumers.

Through globalization, foreign direct investment tends to increase at a much greater rate resulting in the growth in world trade, promotion of technology transfer, industrial restructuring, and the growth of global companies. It will lead to an increase of competition from globalization, which helps to stimulate new technology development, particularly with the growth in foreign direct investment, which helps to improve economic output by making more efficient processes.

Globalization enables large companies to achieve economies of scale that reduce costs and prices, which in turn support further economic growth and provide more wealth equality throughout the world. For example, many Malaysians contend that their standards of living have gone down because of globalization; the other side to this is that hundreds of thousands of people around the world have jobs, their own businesses, and can provide comfort to their families. Living in Malaysia, we take things like clean water, shelter, and food for granted. Our standard of living is quite high compared to other nations that it can be no longer buy luxuries, but we claim that we are poor. Globalization may have stopped you from buying another flat screen TV, but it also helped countless people in developing countries to serve food on their table for their families.

Lastly, globalization is a powerful real aspect of the new world system, which is one of the most influential forces of the future course of a nation or country. It consists of several dimensions, like economic, political, environmental, social, cultural, security, health, and others. The focus here is on the concept of "globalization" as applied to the world economy. The term was coined in the 1980s, but the concept is a classic interpretation, which has different interpretations to different people. Partly, as a result of these different interpretations, there are very different responses to globalization, with some policymakers, scholars, and activists seeing it as a force for improving the world economy while others see it as a negative impact to the world economic system.

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