

Lesson 3 - Impact of Globalization on Work and Business

We will examine the effects of Globalization on Canadian businesses. We will also analyze global myths and facts.

Effects of Globalization on Canadian Businesses

There are large multinational enterprises (MNEs) with many foreign subsidiaries as well as smaller domestic businesses that conduct international business. Many small Canadian companies generate more than half of their sales in foreign markets. These small companies focus on the niches that have made them successful in Canada. They tend to penetrate specialty markets where they will not have to compete with large companies that could capitalize on economies of scale. While some of these small companies have established subsidiaries, many of them use exporting to penetrate foreign markets. This is more common today with e-commerce.



Effects of Globalization on Canadian Businesses cont'd

International business is even important to companies that have no intention of engaging in international business, since these companies must recognize how their foreign competitors will be affected by changes in exchange rates, foreign interest rates, labour costs, and inflation. These economic conditions can affect the foreign competitors' cost of production and pricing policy.

Effects of Globalization on Canadian Businesses cont'd

Companies must also recognize how domestic competitors that obtain foreign supplies or foreign financing will be affected by economic trends in foreign countries. If these domestic competitors are able to reduce their costs by capitalizing on opportunities in international markets, they may be able to reduce their prices without reducing their profit margins. This could allow them to increase market share at the expense of the purely domestic companies.

POP QUIZ! Globalization Facts and Myths

Part 1 of 6

Globalization lowers wages and exports jobs in developed countries and increases the income gap between high-income and low-income countries.

- ▶ It's mostly a myth. Wage rates in Canada and other developed countries continue to out-pace inflation. While many jobs, particularly manufacturing jobs, have disappeared; still more jobs have been created. There are many factors that contribute to the increase in the gap between high and low -income countries but globalization isn't one of them. Poor government administration and crushing debt obligations are the two leading causes of gap increases between North and South countries.

POP QUIZ! Globalization Facts and Myths

Part 2 of 6

Multinational firms can take their capital and leave to invest in lower-wage countries.

- ▶ **Fact.** They can. MNE's will invest in countries in which they believe they can earn profits. The profit incentive is the key determinant in any investment decision.

POP QUIZ! Globalization Facts and Myths

Part 3 of 6

Globalization has weakened the administrative power of states to mandate social protection, such as rules on working hours, minimum wage laws and health and safety legislation.

- ▶ **Myth.** Many states have poorly enforced or non-existent employment standards and health and safety rules. These problems pre-date globalization. Awareness of these problems has developed more recently and efforts are underway in many less developed countries to fix these problems exposed by globalization.

POP QUIZ! Globalization Facts and Myths

Part 4 of 6

Globalization is the automatic and unstoppable consequence of the emergence of new technologies.

- ▶ **Myth.** Consumer demand for new technologies has supported globalization since consumer demand dictates what business produces.

POP QUIZ! Globalization Facts and Myths

Part 5 of 6

Globalization is a relatively new phenomenon. How new is it?

- ▶ **Mostly fact.** It depends on what time frame you apply. The word made the dictionary for the first time in 1944. For centuries though, trade opportunities have led entrepreneurs and businesses in search of new products. The term globalization became much more frequently used in the post-colonial era.

POP QUIZ! Globalization Facts and Myths

Part 6 of 6

E-commerce has increased international business opportunities.

- ▶ **Fact.** E-commerce makes it easy to get products from around the world regardless of where you live.