GLOBALIZATION AND SOCIAL-ECONOMIC DEVELOPMENT: PROGRESS OR REGRESS

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ABSTRACT

Globalization has been developing since 1980 and it was an important reason of some changings and development in not only world economy, but also our daily life. There are some reasons affected on the development of globalization. To exemplify, ending of cold war with the collapsing of Union of Soviet Socialist Republics, acceleration of information technologies and communications with the development of contemporary technologies, declining costs and even increasing saved capital, new demands and other factors let globalization develop.

Economic and social issues and political movements happened in the world in recent years were one of the essential factors of re-actualization of globalization and integration. Some experts point out that, 2008 great “Financial Crisis” having negative impacts on economic and social life was an important result of globalization. On the other hand, “Arabic Spring”, the political movement is another considerable result of globalization. For sure, globalization and integration can directly or indirectly effect such situations. Before starting to analyze the association between globalization and countries’ economies, implementation, regulation and supervision of Globalization in a country and world should be considered.

In our modern life, Globalization can be mainly observed in investment and financial markets. The Republic of Azerbaijan is also one of the participants of globalization process. After gaining its independence in 1991, some essential activities and reforms were needed to be done in order to integrate to the world economy. Other newly independent countries have also been under positive and negative impacts of globalization. Mainly, the effects of globalization on social-economic development will be discussed in this article.

Key Words: Globalization, Economy, Growth, Recession, Integration, Market Forces
INTRODUCTION

Globalization constitutes a critical motivation for development in the contemporary world of today as a result of the challenges it poses to nation states (M.J. Ibrahim). The equation of global influence is fundamentally determined by a vibrant economy that is characterised by inherent ability to sustain a steady state growth path and development.

Business today is in a global environment. This environment forces companies, regardless of location or primary market base, to consider the rest of the world in their competitive strategy analysis. Firms cannot isolate themselves from or ignore external factors such as economic trends, competitive situations or technology innovation in other countries, if some of their competitors are competing or are located in those countries. Companies are going truly global with Supply-chain Management (SCM). A company can develop a product in the United States, manufacture in India and sell in Europe. Companies have changed the ways in which they manage their operations and logistics activities. Changes in trade, the spread and modernization of transport infrastructures and the intensification of competition have elevated the importance of flow management to new levels. Azerbaijan is also globalized within globalization process and it has great effects on Azerbaijan’s economic, social, cultural and educational development.

Driving Forces of Globalization

The last two decades have seen the evolution of the global manufacturing environment. Majority of the manufacturers have global presence through exports, strategic alliances, joint ventures or as a part of a committed strategy to sell and produce in foreign markets.

![Diagram of the Four Driving Forces of Globalization Process](image-url)

Fig. 1: A Conceptual Framework: The Four Driving Forces of the Globalization Process. (Adapted from global operators and logistics Philippe-Puire Dernier, Recordo Ernst, Michel Fender, Panos Kouvelies). The outline of the conceptual framework is given in Figure 1 below. The factors shaping the global environment and driving the development of global operations strategies of multinational firms fall into four categories: global market forces, technological forces, global cost forces and political and macroeconomic forces.
Global Market Forces

There is tremendous growth potential in the foreign emerging markets which has resulted in intensified foreign competition in local markets which forces the small- and medium-sized companies to upgrade their operations and even consider expanding internationally. There has also been growth in foreign demand which necessitates the development of a global network of manufacturing bases and markets. When the markets are global, the production-planning task of the manager becomes difficult on one hand and allows more efficient utilization of resources on the other. Few industries remain today in which the international product life-cycle theory still applies. Product markets, particularly in technologically intensive industries, are changing rapidly. Product-cycles are shrinking as customers require new products faster. In addition, the advances in communication and transportation technology give customers around the world immediate access to the latest available products and technologies. Thus, producers hoping to capture global demand must introduce their new products simultaneously to all major markets.

In addition, the integration of product design and the development of related manufacturing processes have become the key success factors in many high-technology industries, where fast product introduction and extensive customization determine market success. As a result, companies must maintain production facilities, pilot production plants, engineering resources and even Research and Development (R & D) facilities all over the world (Romer, 1992). For instance, according to the formal web site of Apple Inc., Apple Computer has built a global manufacturing and engineering infrastructure with facilities in California, Ireland and Singapore. This network lets Apple introduce new products simultaneously in the American, European and Asian markets. Companies use the state-of-the-art markets as learning grounds for product development and effective production management, and then transfer this knowledge to their other production facilities worldwide. This rationale explains why Mercedes-Benz decided recently to locate a huge manufacturing plant in Vance, Alabama. The company recognizes that the United States is the state-of-the-art market for sport utility vehicles. It plans to produce those vehicles at the Vance plant and introduce them worldwide by 1997.

On the other hand, although UK based British Petroleum (BP) operates in Azerbaijan, but the company is able to sell crude oil and oil products in worldwide. BP is a globalized company having several branches in different countries specialized in oil and gas sector, such as: Azerbaijan, Turkey, Denmark, France, Brazil, Canada, USA, India and etc.

Technological Forces

M.J. Ibrahim (2010) points out that, a peculiar trend which was prevalent in the last decade, besides globalization, was a limited number of producers which emerged due to diversity among products and uniformity across national markets. Product diversity has increased as products have grown more complex and differentiated and product life cycles have shortened. The share of the US market for high-technology goods supplied by imports from foreign-based companies rose from a negligible 5 per cent to more than 20 percent with
the last decade. Moreover, the sources of such imports expanded beyond Europe to include Japan and the newly industrialized countries of Hong Kong, Singapore, South Korea and Taiwan. There has been diffusion of technological knowledge and global low-cost manufacturing locations have emerged. In response to this diffusion of technological capability, multinational firms need to improve their ability to tap multiple sources of technology located in various countries. They also must be able to absorb quickly, and commercialize effectively, new technologies that, in many cases, were invented outside the firm thus overcoming the destructive and pervasive ‘not-invented-here’ attitude and resulting inertia. There has been technology sharing and interfirm collaborations. The well-known joint ventures in the auto industry between US and Japanese firms (GM-Toyota, Chrysler-Mitsubishi, Ford-Mazda) followed a similar pattern. US firms needed to obtain first-hand knowledge of Japanese production methods and accelerated product development cycles, while the Japanese producers were seeking ways to overcome US trade barriers and gain access to the vast American auto market. As competitive priorities in global products markets shift more towards product customization and fast new product development, firms are realizing the importance of co-location of manufacturing and product design facilities abroad. In certain product categories, such as Application Specific Integrated Circuits (ASICs), this was the main motivation for establishing design centres in foreign countries. Other industries such as pharmaceuticals and consumer electronics also have taken this approach.

**Global Cost Forces**

Stiglitz (2001) says that, new competitive priorities in manufacturing industries, that is product and process conformance quality, delivery reliability and speed, customization and responsiveness to customers, have forced companies to reprioritize the cost factors that drive their global operations strategies. The Total Quality Management (TQM) revolution brought with it a focus on total quality costs, rather than just direct labour costs. Companies realized that early activities such as product design and worker training substantially impact production costs. They began to emphasize prevention rather than inspection. In addition, they quantified the costs of poor design, low input quality and poor workmanship by calculating internal and external failure costs. All these realizations placed access to skilled workers and quality suppliers high on the priority list for firms competing on quality. Similarly, Just-in-time (JIT) manufacturing methods, which companies widely adopted for the management of mass production systems, emphasized the importance of frequent deliveries by nearby suppliers. A number of high-technology industries have experienced dramatic growth in the capital intensity of production facilities. A state-of-the-art semiconductor factory, for instance, costs close to half a billion dollars. When R & D costs are included, the cost of production facilities for a new generation of electronic products can easily exceed $1 billion.

Most of the globalized companies produce their products in low-cost countries, such as India, China, Bangladesh and so on. This strategy let globalized companies employ work force by paying low salary. To exemplify, USA based company Apple Inc. produces and assembles its products in China and sell the products in almost all countries. Another example is Swedish company H&M. Almost all clothes are produced in Asian countries,
Bangladesh, Vietnam and Taiwan, but all H&M branded clothes are sold in worldwide. That is why H&M is so famous among young generation and H&M has got a slogan: “H&M—where stylish meets cheap” (M.Shafag, 2013).

**Political and Macroeconomic Forces**

Getting hit with unexpected or unreasonable currency devaluations in the foreign countries in which they operate is a nightmare for global operations managers. Managing exposure to changes in nominal and real exchange rates is a task which the global operations manager must master. If the economics are favourable, the firm may even go so far as to establish a supplier in a foreign country where one does not yet exist. For example, if the local currency is chronically undervalued, it is to the firm’s advantage to shift most of its sourcing to local vendors. In any case, the firm may still want to source a limited amount of its inputs from less favourable suppliers in other countries if it feels that maintaining an ongoing relationship may help in the future when strategies need to be reversed. Becton Dickinson has built a global manufacturing network for its disposable syringe business, with production facilities in the United States, Ireland, Mexico and Brazil. When the Mexican peso was devalued, the company quickly shifted its production to the Mexican plant, thereby gaining a cost advantage over its competitors’ US factories. Another example is from Azerbaijan automobile market. Russian automobile company named “VAZ” used to produce a sedan car of “VAZ 2107”. Most of the Azerbaijani were interested in this car. Between 2005 and 2008 Azerbaijan national currency manat undervalued and Russian company started to export their car “VAZ 2107” to Azerbaijan. Such kind of economic situations allow company to deal with effectively (personal observation).

**SOCIAL DEVELOPMENT**

“Globalization” is currently a popular and controversial issue, though often remaining a loose and poorly-defined concept. Sometimes too comprehensively, the term is used to encompass increases in trade and liberalization policies as well as reductions in transportation costs and technology transfer. As far as its impact is concerned, discussion of globalization tends to consider simultaneously its effects on economic growth, employment and income distribution - often without distinguishing between countries and within-country inequalities – and other social impacts such as opportunities for poverty alleviation, human and labor rights, environmental consequences and so on.

Globalization has some social impacts on countries. Such as, employment, income inequality, education, cultural changes and etc. Presently, Azerbaijan and the effects of globalization on Azerbaijan and its culture, education and employment rate will be discussed.

It is said that globalization has bad effects on any countries’ culture, whereas, most of the article do not agree with this point. N.Kamalov (2009), quoted that if the functions and facilities of globalization are effectively and smartly used, globalization is very healthy, and otherwise it may have very bad effects on a country. If a globalization is about transferring good indicators of a country to other countries, it is useful. For example, European Union is a good example for this point. There is no border, there is no customs, and each country’s
nation is able to go another one without having visa and their cultures have been looked like to each other, but they could be able to preserve their own national cultures.

On the other hand, as a result of globalization, most of the multinational companies try to adopt their product to the host countries’ culture they do work. In order to be a global company such kind of strategies are unavoidable. For instance, Mc. Donald’s is a multinational company and tries to adopt its product to the host countries’ culture and taste. Coca cola is sweet in Azerbaijan, but it is not sweet in Georgia. This strategy is called localization.

Another effect of globalization is education. Azerbaijan education has got a development since 2005 as a result of globalization. There is a governmental support to education in Azerbaijan. This support is provided as a scholarship by the government and the State Oil Company of Azerbaijan Republic. These two scholarships allow well qualified students to continue their educations in several first ranked universities situated in developed and emerging countries. Students come back after completed their education and they implement modern and global techniques and theories in Azerbaijan.

Furthermore, there is another program which is widely used within European Union named Erasmus Mundus Scholarship Program. The program allows students to continue their education in 2 different universities in several European countries. At the end, they get two diplomas.

Globalization has an effect on national cultures, transferring national cultures to other countries’ cultures. Azerbaijan State Oil Company of Azerbaijan Republic (SOCAR) is a sponsor of a Spanish football club named Atletico Madrid. According to the contract between Atletico Madrid and SOCAR, Atletico Madrid is responsible for carrying the name of Azerbaijan (Azerbaijan, Land of Fires) on their football uniforms during contract time. SOCAR tried to transfer and promote Azerbaijan’s culture in the world by signing such a sport sponsorship contract. On the other hand, scholars of SOCAR are responsible for creating an Azerbaijan Cultural Nights at the Universities they study abroad. Such kinds of activities are the product of globalization.

CONCLUSION

The world economy is becoming borderless and integrated, driven by global market forces, global technological forces, global cost forces and political and macro-economic forces. The integrated world economy and global competitive arena is changing the way in which companies traditionally operated. If a company attends to globalization process and uses it effectively and smartly, that time the company will be able for further development, otherwise the company will going to bankrupt.

All in all, above mentioned facts it would be concluded that if a globalization is effectively and efficiently uses that time, the result of the globalization is progress, otherwise is regress.
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