
Digitalisation as a Direct Means to Globalisation

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Abstract

With the coming up of major digital technologies, globalisation has immensely gained ground and making cross-border relations and communications flexible. The amount of cross-border bandwidth that is used has grown 45 times larger since 2005. It is expected to increase by an additional nine times over the next five years as flows of information, searches, communication, video, transactions, and intra-company traffic continue to sweep. It has also led to net economic growth. Global flows of goods, foreign direct investment, and data have increased current global GDP by roughly 10 percent compared to what would have occurred in a world without any data flows. This value was equivalent to \$7.8 trillion in 2014 alone.

Through this paper, we aim to find the factors which have given impetus to small and medium sized business becoming micro-multinational as today not only big MNCs are engaging in cross-border business. We have collected secondary data from various esteemed reports and surveys and studied the major enterprises emerging in the global boom. We attempt to throw light on the increased global connections by using statistics of the past years and comparing them with the present. Various social networks have also given genesis to better cross-border interactions. Analysing the factors for this rapid global boom and focussing on how it increases better participation from across the world is the main objective of this paper.

Globalisation has led to a paradigm shift in which the world functions. It has become embedded in all major fields viz. business, economic, political, social etc. The increasing integration & interdependence of domestic & overseas market is concerned basically with the exploration of effective options which the open market provides. As very aptly defined by Friedman, "Globalisation enables individuals, corporations and nation states to reach around the world farther, faster, deeper and cheaper than never before." It is a process occurring since time immemorial but has recently gained ground. In the most flexible of ways, it facilitates business communication with customers, partners and suppliers. It opens the doors to new opportunities for developing countries such as technology transfer, increased access to developed countries market, growth and improvement of productivity and living standards.

Technological developments are considered the main facilitator and driving force for all the globalisation processes. It has not only played a key role in ushering in the age of globalisation, but has also been the main catalyst for its advancement. Major breakthroughs in Information technology, communication and transportation gave genesis to the early 21st century global market boom. According to Prof. Thirlwall

"Developing countries depend on developed countries for resource flows and technology, but developed countries depend heavily on developing countries for raw materials, food and oil, and as markets for industrial goods". One the most important advantages of globalization are goods and people are transported easier and faster as a result free trade between countries has increased, and it decreased the possibility of war between countries. Furthermore, the growth in the communication between the individuals and companies in the world helped to raise free trade between countries and this led to growth economy.

Digital Technology

Digital Technology, which was non-existent just 15 years ago — now shows a significant effect on GDP growth than the centuries-old trade in goods, according to a new McKinsey Global Institute (MGI) report, Digital globalization: The new era of global flows. And although this shift makes it possible for companies to

reach international markets with less capital-intensive business models & broadens participation, it poses new risks and policy challenges as well. The world has become a global village in the true sense of the term, credits to its connections which have changed in a drastic way.

The amount of cross-border bandwidth that is used has grown 45 times larger since 2005. It is expected to increase by an additional nine times over the next five years as flows of information, searches, communication, video, transactions, and intra-company traffic continue to sweep. Data flows promote the movement of goods, services, finance, and people along with transmitting valuable streams of information and ideas in their own right. Virtually every type of cross-border transaction now has a digital component.

Global flow of data and communication

Used cross-border interregional bandwidth, in gigabits per second



Digitization changes the economics of globalization in several ways. As digital platforms encompass global scope, they are reducing the cost of cross-border communications and transactions, allowing businesses to reach customers and suppliers in any country. Globalization was once for large multinational corporations, but platforms reduce the minimum scale needed to go global, encouraging small business and entrepreneurs around the world to participate. As a result, new competitors can emerge rapidly from any region of the world, increasing pressure on industry obligations.

Companies and countries have to take into consideration the opportunities beyond their own borders. Global flows of goods, foreign direct investment, and data have increased current global GDP by roughly 10 percent compared to what would have occurred in a world without any data flows. This value was equivalent to \$7.8 trillion in 2014 alone. Data flows account for \$2.8 trillion of this effect, exerting a larger impact on growth than traditional goods flows. This is a remarkable development given that the world's trade networks have developed over centuries but cross-border data flows were inceptive just 15 years ago.

Global flows support growth by raising productivity and creating more efficient markets with truly global scale. But not all countries are able to tap the fullest of this potential. Advanced economies are still the most globally connected. But the pattern of globalization is shifting. Although more developing countries are deepening their participation, they are narrowing the gap with the leading advanced economies only very slowly over time. Accelerating catch-up growth is a major opportunity for the developing world.

But the new era of digital globalisation also has to face many challenges. It certainly opens the doors to companies to explore new markets, but a great deal of challenges lay ahead. Companies have to deal with pricing pressures, cut-throat global competition and ingenious digital business models. Data needs to be protected against cybercrime. Social media creates global communities but also allows networks of extremists to connect. The need of the hour is to garner international coordination to resolve such issues of the recent complex and intricate web of globalisation.

Globalization is no longer just the scope of the world's largest multinational corporations. Today digitization has removed many of the restrictions that were once imposed on small and medium-sized enterprises (SMEs), entrepreneurs, and ordinary citizens from making cross-border connections.

It was an obligation on companies to rise to a certain size and standard before they could afford the resources needed to export, but digitization has drastically lessened the minimum scale required to engage in business across borders. Small businesses are joining the biggest e-commerce marketplaces to connect with customers and suppliers anywhere in the world. Probably the hottest crowdfunding site on the Internet is Kickstarter, which raised a total of \$220 million from 61,000 launched projects so far. Upwork has twelve million

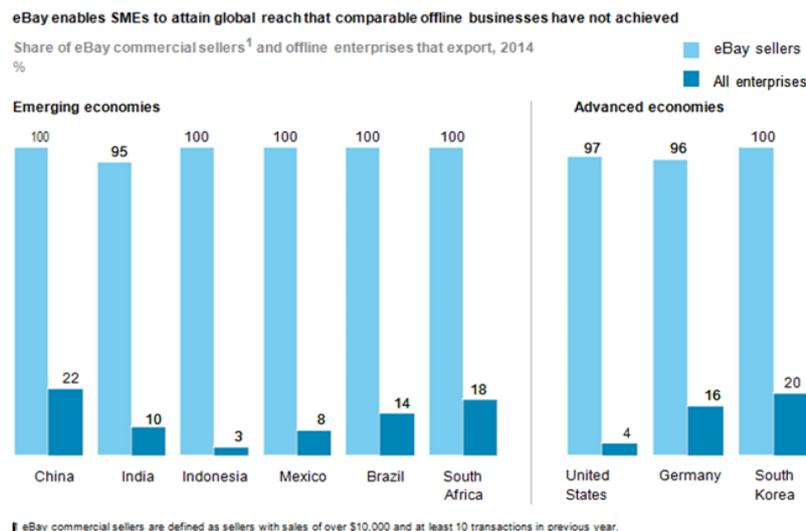
registered freelancers and five million registered clients. Three million jobs are posted annually, worth a total of \$1 billion USD, making it the world's largest freelancer marketplace.

Small and Medium-sized businesses are becoming micro-multinational

The ability of SMEs to reach global audiences supports economic growth. Digitization has empowered many to transform themselves into “micromultinationals.” Digital platforms provide small firms with “plug-and-play” infrastructure and the opportunity to put themselves in front of an enormous built-in global customer base.

By the end of 2015 China had some 780 Junpu-style ‘Taobao villages’ across the country, which is defined as any place where 10% of the population is engaged in online retailing and generating at least 10 million yuan (US\$ 41.5 million) annually in online sales. Alibaba’s trade assurance program was launched in 2014. Since then, more than 100,000 suppliers have benefited from the program's credit facility. A single supplier could receive up to \$1 million in credit. The scheme is becoming increasingly popular among overseas buyers. In 2015, 15 percent of overseas buyers with credit guarantee services were new clients of this platform. The foreign trade orders in the past six months increased 51 percent year-on-year. Trade assurance plays an important role in Alibaba's efforts to transform and upgrade business. It not only helps suppliers on the platform to win the trust of overseas clients and improve their efficiency but helps us in accumulating international trade data.

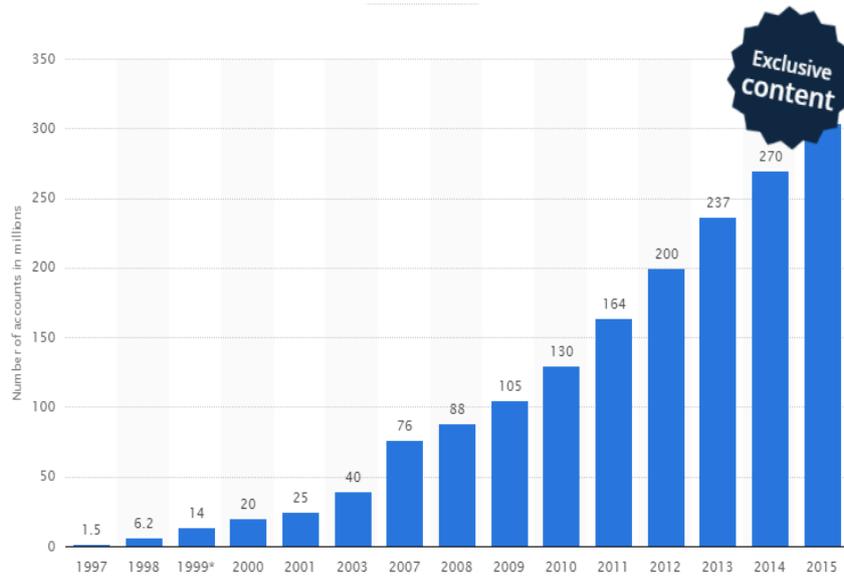
Similarly, eBay has been helping merchants sell internationally by offering features such as the ability to be featured on eBay sites in other countries, a global shipping program, and the option to clear transactions with PayPal. One study found that more than 35 percent of the top 1,000 eBay sellers have significant cross-border trade, with premium or featured eBay stores in other countries.⁵⁰ The company’s own analysis across select emerging and advanced economies shows that the share of SMEs that export is sharply higher on eBay’s platform than among offline businesses of comparable size. In China, South Korea, Indonesia, Thailand, and South Africa, 90 percent or more of eBay sellers export to more than ten international markets.



Source: e-Bay, World Bank Enterprise Survey.

With the widespread availability of Internet access and online marketplaces, like those provided by Alibaba,

Chinese consumers have leapfrogged the in-person shopping experience and are shopping online in big numbers. Chinese consumers spent \$440 billion online in 2014, and sales are expected to rise to \$1 trillion by 2019. Online retail is expected to grow at triple the rate of overall retail, with half of sales coming from third-tier cities and smaller. Alibaba has more than 350 million annual active buyers on its ecosystem; in March there were 289 million monthly active users on its mobile platforms. The smart-logistics network operates more than 1,800 distribution centers and handles over 30 million packages a day.



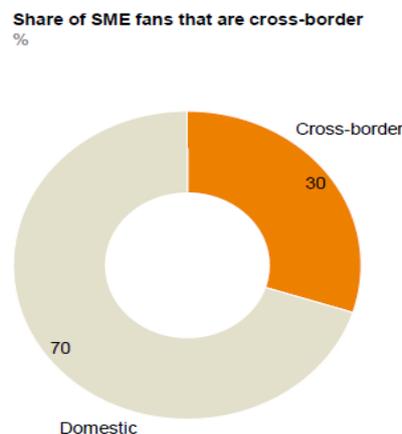
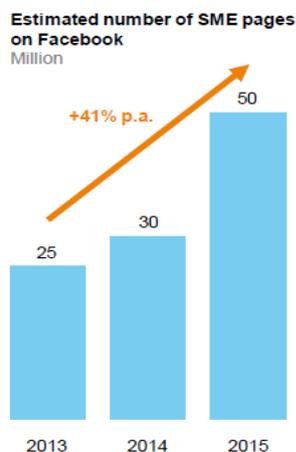
Amazon: Annual number of worldwide active Amazon customer accounts from 1997 to 2015 (in millions)

Source: Statista, 2016

The above graph shows the annual hype in the number of annual worldwide active customer accounts in Amazon from 1997 to 2015. At the end of 2015, the American multinational e-commerce company announced 304 million active customer accounts. It is noteworthy that there has been only an alarming increase and no dips anywhere. Amazon defines active customers as accounts that have made a purchase in the past 12 months. Active customers generally have valid credit cards on file. With roughly 304 million in that category, Amazon more than doubles eBay's PayPal payment service, which has 110 million active customers, but it sits behind Apple, which has 800 million customers with iTunes accounts, according to GeekWire.

Also, a very effective and rampant way for SMEs to approach their customers in a better and direct way is by the use of Social Media for business. Facebook estimates that more than 50 million SMEs are on its platform, up from 25 million in 2013, and some 30 percent of their fans are cross-border. To put this number in perspective, consider that the World Bank estimated there were 125 million micro, small, and medium-sized enterprises in the 132 countries in its database in 2010. This points to the role of social media as an important marketing tool, particularly for companies that wish to establish themselves at a global level.

50 million SMEs use Facebook to find customers, and 30 percent of their fans are from other countries



SOURCE: Facebook; McKinsey Global Institute analysis



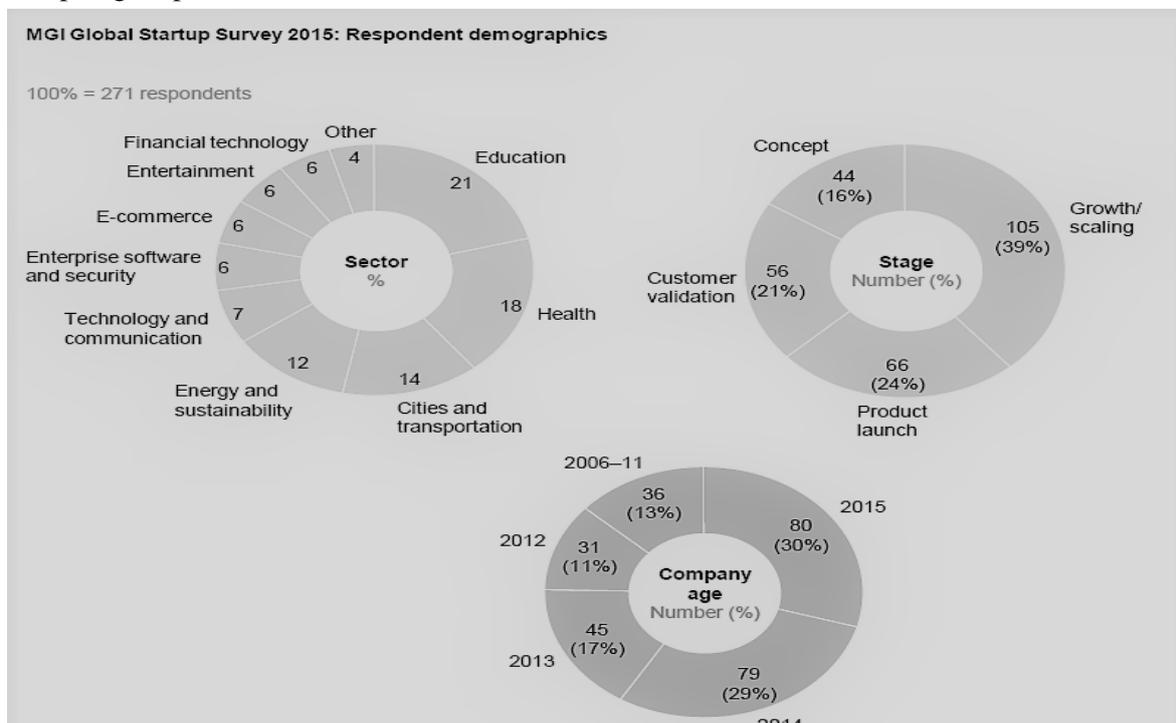
Small and medium sized corporations are beginning to participate directly in globalization is a relatively new phenomenon, and are gaining strong grounds in the business sector. It is most clearly seen in the United States, where the share of exports by large multinational corporations dropped from 84 percent in 1977 to 50 percent in 2013. Companies with fewer than 500 employees accounted for 97.8 percent of all identified US exporters and 97.2 percent of all identified US importers in 2011. The number of US exporting entities with fewer than 50 employees, in particular, has grown more rapidly in firms with 50 to 500 employees. This clearly is an indication of the fact that companies need not be of a fixed strength or calibre to attract on the global platform because of digitalisation.

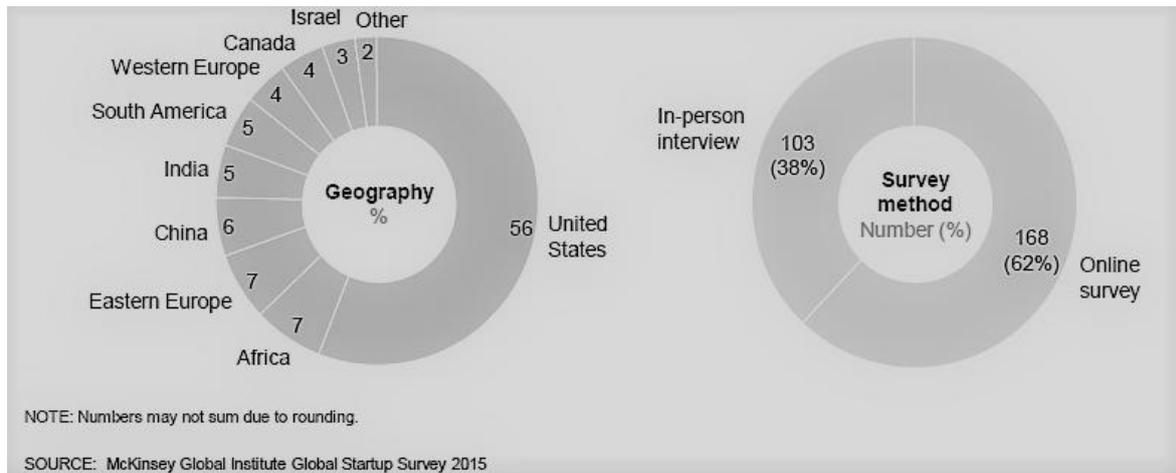
Digital platforms supporting startups

In today’s business environment, new startups are founded like mushrooms after the rain, so to speak. Well in short, a lot and more is coming every minute. This type of change and shift in the job market is radically changing the entire work culture and what people look for when thinking of applying for a job. And oh yes, people today are much more aware of their needs and preferences and much more critically looking from many different aspects, before making a decision.

For example if we consider Armana’s(a company based in Gautamela) new mobile and web app, PideloRapido, non-US consumers can now access products and services from US retailers. The company’s mission: to accelerate cross-border e-commerce growth with incentives such as all-inclusive final purchase price payable in local currency; and multipayment options, including credit cards, bank deposits, reward points and gift cards.

McKinsey Global Institute recently surveyed 270 startups worldwide in collaboration with 1776, a global incubator and venture fund. The businesses surveyed included members of the Startup Federation, the Global Accelerator Network, and current and former competitors at 1776’s Challenge Cup events around the world. The surveyed startups comprise the more globally established ones contrary to the small and medium scale businesses, however it clearly reflects that even they can give tough competition at the global level if provided with the apt digital platform.





A surprising 86 percent of survey respondents pointed to at least one cross-border activity. Almost two-thirds have customers or users in other countries, and almost half reported sourcing talent from other countries. The rate of cross border participation depends immensely on company stage. Companies in the growth and scaling phase report more than twice as many cross-border activities as companies in the concept phase.

Globalisation through individuals also boosts economy. Around one billion people from around the world directly engage in some sort of cross-border activities or the other. Today more than 900 million have connections with people residing in foreign countries. Each year, some 360 million involve in cross-border e-commerce shopping. Some 240 million people live outside their home country and 13 million students study in a foreign land.

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| People with international connections: | 914 million |
| International Travellers: | 429 million |
| People participating in e-commerce: | 361 million |
| Students studying abroad: | 13 million |
| People living outside their home country: | 244 million |
| Cross-border online workers: | 44 million |

SOURCE: Facebook; AliResearch; US Department of Commerce; OECD; World Bank

The most popular social network available worldwide, Facebook has 1.79 billion monthly active users, according to the data made available by statista.com. Active users mean the users who have logged into Facebook during the past 30 days. The share of Facebook users with cross-border friendships is higher in emerging countries than in developed countries (54 percent vs. 44 percent). It is growing rapidly, having increased by 3.7 times since 2012. Almost half of those followed by Twitter users in emerging economies are from other countries, compared with just under 40 percent in advanced economies. Google processes around 3.5 billion searches a day. 500 million people tweet daily. Around 30% of the skype calls occurring daily are cross-border.

Digital platforms such as Expedia, TripAdvisor, Yelp, Agoda, and many more facilitate leisure travel and tourism. Also, as of August 2016, the service of Uber was available in over 66 countries and 507 cities worldwide. Couchsurfing.com has ten million members around the globe; its network of free homestays gives travelers on a tight budget the means to see the world and take part in face-to-face cultural exchanges.

Digital Platforms provide the opportunities to companies and individuals to evolve at a global level and learn, imbibe, explore, present their skills. Forrester research indicates that only 27 percent of operating companies currently have a working digital strategy, but researchers at Gartner and IDC are expecting large growth in initiatives and digital revenue over the next 4 years. Some of the specific predictions that trends and analysis suggest include:

- Clarifying and unifying the digital vision.
- The rise of digital revenue streams will change business models.
- Better jobs.
- Better connectivity.
- Diluting of current technological jobs but creation of new ones.

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