

## ECONOMIC ASPECTS OF GLOBALIZATION

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**Abstract.** *Globalization should not be regarded exclusively as an economic phenomenon, in spite of the economic justification and attractiveness of the term "economy without frontiers" and of the economic benefits it offers. Leaving the political aspect of this problem aside, it may be concluded that globalization is a long-term regular economic tendency, which should not be confronted, as the processes of economic association, internationalism and integration on the world scale are immanent within the modern society. Alongside with understanding that the process of globalization cannot be stopped or influenced, there is the fear of its effects on small national economies, especially on developing countries and countries in transition. The consequence of the global world order is that developed countries are increasingly developing, while the underdeveloped ones cannot improve their relative positions but stagnate or even get increasingly impoverished. Globalization should be understood as a multidimensional phenomenon that will induce changes in all the segments of society.*

**Key Words:** *Globalization, integration, developing economies, multinational corporations*

### INTRODUCTION

Globalization has recently become one of the terms most frequently used in politics, sociology, culture, and especially in economy. At the same time, growing anti-globalization movements have often been obstructing conferences on globalization worldwide. Such contradictory reactions provoke the interest in a detailed explanation of the process.

Generally, globalization is defined as merging of national economies into a uniform world system. It represents a powerful civilization venture as a concept, because it involves numerous dimensions of life: cultural, informational, scientific, technological, economic and political. It can be comprehended as "the process of modern countries' interdependence within the world system". Being caused by the scientific-technological progress, it is not a negative phenomenon by itself as long as it respects the minimum of national identities without striving at their annulment. It implies the standardization and

homogenization of products, prices, quality and ecological criteria, the approximation of income levels and quality of life degrees and the equalization of many criteria at the world scale.

Globalization may be referred to as the technological one, whose impact on national economies is positive and undisputed, as the economic globalization, which may bring benefit to all the countries in the long run, and, finally, as the future political globalization, whose justifiability and effects are most criticized.

Furthermore, the views are not coordinated regarding the definition of globalization or the determination whether its effects on national economies are positive or negative. Its impact is particularly disputable regarding less developed countries, such as the developing and transition countries.

The introductory review of the globalization concept opens numerous questions of which we shall try to answer the major ones. Is the process of globalization unavoidable? Does the globalization annihilate specific features and sovereignty of individual national economies? What may be considered global in the globalization agents, that are MNCs? How does the globalization affect small, insufficiently developed economies?

#### 1. APPROACHES TO THE PHENOMENON OF GLOBALIZATION

Globalization itself is not a new phenomenon, as numerous processes of aspiration towards the cooperation and rapprochement of countries and continents have been recorded in history. Back at the end of the 19th century, the flow of capital and goods was accelerated due to many significant inventions, such as the steam engine, the telephone and other inventions based on them. The first wave of free trade and the economic bloom that was based on it brought Great Britain into the foreground.

Precisely for this reason, the majority of theoreticians take technological factors as the main causes of modern globalization, since the latest technological achievements have also enabled fast and undisturbed migration of people and flow of capital and information, having simultaneously induced the need for it. The technological basis of the modern globalization includes the latest accomplishments of the third technological revolution: telecommunication systems, the scientific revolution, new forms of transport, the Internet and similar, because all of these technical-technological factors have facilitated unhindered communication of knowledge, people, information and capital among the countries worldwide. The synergistic effect has been supported also by the trend of forming numerous transnational and regional associations around the world. The European integration has additionally stimulated other countries to create mutual associations. Thus, the North American Free Trade Zone was established, the Asian-Pacific Economic Cooperation was organized, the United States negotiated foundation of a free trade zone among the Asian-Pacific Economic Cooperation countries until 2010 and among all the countries in the region until 2020. In the first globalization phase, the industrial basis, finances and, above all, the maritime trade fleet made Great Britain the leading economic power of that time, while the contemporary globalization phase has brought the USA into the foreground. A free trade zone that would encompass the whole Western Hemisphere is planned to be established up to 2005 and the economic rapprochement of the USA and the West Europe is envisaged as well. Therefore, it may be expected in the 21st century that the interna-

tional division based on the center-periphery relationship shall surrender in favor of an integral global economy, which would be dominated by the "global triad" - North America, EU and East/West Asia and which would be grounded on the USA and EU partnership.

Thus, globalization may be observed through its three waves: the period of 1870-1914, the period of 1915-1980 and the latest globalization wave after 1980. The new wave of globalization is distinctive: firstly and most spectacularly, a large group of developing countries broke into global markets. Secondly, other developing countries became increasingly marginalized in the world economy and suffered declining incomes and rising poverty. Thirdly, international migration and capital movements, which were negligible during the second wave of globalization, have again become substantial. [Dollar D., Collier P., 2001]

Multinational corporations (MNCs) represent the center of the new global order organization. In 1999 there were over 60,000 MNCs worldwide with 500,000 foreign subsidiaries, selling \$9.5 trillion of goods and services across the globe. MNCs now account, according to some estimates, for at least 20 per cent of world production and 70 per cent of world trade. [Held and McGrew, pp. 6]

However, careful consideration reveals a discord between the support of globalization expressed by large MNCs and their activities in practice. None of the largest world companies of that kind declares as global. On the contrary, each of them has a distinct status of belonging to a particular nation. Each one has its main office in a specific country, each operates under a particular flag, each considers some government as "its own". The affiliation of a MNC can easily be comprehended by the distribution of its investments and research centers, by the origin of its stockholders and principal managers, even by its technological level. Logically, the question may be put up - what is, then, global in these companies?

Globalization is indisputably a process that rearranges the world, but it is questionable whether it is a revolutionary process or only a stage in the process of evolution. The theory has developed three aspects of globalization: revolutionary, evolutionary and skeptic (composed of the globalization opponents). The differences among them regarding their approaches to globalization are presented in the Scheme 1.

The theoreticians favoring the revolutionary approach see the "economy without frontiers" as the source of uniform rules for all, of living standards increase, of social stability and of political respect. The globalization glorifying extends even to the comprehension of this process as "a new epoch in the history of humanity, in which traditional national states lose their originality that becomes inappropriate from the aspect of business partners" [Ohmae, 1990]. However, if the microeconomic *laissez faire* is obsolete, why should a global *laissez faire* be successful?

The advocates of the evolutionary approach regard the modern globalization phase as a historical precedent, rejecting any comparison with the phase that took place before World War I. They consider the globalization a powerful force that shall transform the world and that is responsible for the massive economic and social evolution, but that requires gradual adaptation from states and societies. Evolutionists demonstrate caution and "scientific modesty", refusing to create a final picture of "the changeable kaleidoscope of the world".

Scheme 1. Three approaches to globalization

	Revolutionary approach	Evolutionary approach	Skeptical approach
New	Beginning of the globalization era	Unprecedented level of globalization	Formation of trade blocs, management weaker than before globalization
Main features	Global capitalism, global-scale management	Intensive and extensive globalization	The interdependence in the world lower than in the 1890s
Power of national governments	Weakens and falls apart	Redefined, restructured	Strengthened and multiplied
Globalization driving forces	Free capital and new technology	Tendency of the total society modernization	State mechanisms and market structures
Stratification form	Erosion of former hierarchies	New architecture of the world order	Forcible marginalizing of the South
Predominant motive	Standardization: McDonald's, Madonna etc.	Political community transformation	Realization of national interests
Globalization conceptualization	Redefinition of human actions nature	Redefinition of interregional relations	Internationalization and regionalization
Historical trajectory	Global civilization	Global integration and simultaneous fragmentation	Regional blocs, conflict of civilizations
Summary thesis	Ceasing of the historical importance of national states	Transformation of state power and world politics is accomplished	Internationalization emerges depending on the state consent and on the world balance of powers

Source: Utkin, Anatoly: "Globalization: Process and Understanding", *Svobodnaya Mysl*, No 11, 2000, p 34.

Skeptics point out new threats borne by the integrated world, while the previous two approaches emphasize only the benefits. All their critiques related to globalization and the Washington Consensus can be classified into seven groups, where each accentuates different negative aspects of globalization.

The arguments of the first group of critics are based on the opinion that, in spite of globalization, powerful states shall tend to preserve their own potentials and characteristics, refusing to be transformed into "an amorphous global conglomerate". The second group criticizes the globalization imprudence and haste, which may cause economic destabilization in many countries and social destabilization in some of them as well. The third group of critically oriented theoreticians considers globalization a myth aimed at concealing the confrontations in the world economy, as globalization does not diminish but actually increases inequalities in the world, according to them. The next group criticizes globalization from the internal aspect of the globalization leader, as they think that opening shall cause destruction of some branches of economy, like the textile industry, so-called dirty industries and similar, even in the most developed countries.

Another group of critics is interesting by itself as it gathered, particularly for criticizing the IMF, famous names, such as: Stiglitz, Saks, former American Secretary of State

Shultz, ex-minister of finance Simon and others. Their opinion is that aspirations should be aimed at the free market of commodities, but not of capital, as the capital markets are unstable by their nature and they require state control. Some of them even propose the abolishment of the IMF, which induced numerous crises in the world by its improvisations and ignorance of local specific characteristics.

A particular place belongs to the American isolationists, headed by P. Buchanan, who consider that globalization shall "overflow" the American market with the goods at dumping prices coming from the countries with low labor cost, i.e. "almost slaving", which may cause the increase of unemployment in America and damage its economy in the long run. All of these critiques prove that not only "leftists" criticize globalization, but such judgment also comes from the countries that are leading in this process.

The last group criticizes globalization from the aspect of "the exploitative essence of private capital", observing the world as an arena in which labor and capital are fighting one another. In practice, globalization means the defeat of left-wing political options, as they would face difficulties regarding the realization of their political-economical objectives in the conditions of globalization even if they win the respective elections. One should not neglect numerous mass protests of globalization opponents, organized in Seattle, Washington, Melbourne, Prague, Davos and other places worldwide.

Both globalization advocates and its opponents agree about one problem - globalization shall deliver a severe blow to the sovereignty of states. The difference between them reflects in the fact that the former see in it a positive process in which the loss of sovereignty will be compensated by material gains and will bring many advantages, while the latter claim that the loss of national sovereignties will be substituted by imposing the sovereignty of the greatest world power. Even the American analyst J. Gray described the global *laissez faire* as "the national American project".

The relationship of globalization and "westernization" is one of the key issues related to the globalization process. According to the first approach, the phenomenon of globalization is wider than "westernization" and this statement is illustrated by the successful combination of western modernization and untouched national characteristics as in the example of East Asian countries. In the other approach, globalization is comprehended as the instrument of diffusion of the western capitalism (i.e. capitalism of the American type) and the corresponding institutions. This approach includes some concepts in which globalization is identified not only with the "westernization" but also with the "Americanization" of the entire world.

However, it is indisputable that at the beginning of the 21st century the sovereignty of national states was endangered from two sides: externally - by the tendency of transferring sovereignty to numerous supranational, transnational and similar institutions, and internally - by the aspiration of certain groups (ethnic, religious) toward autonomy and separatism. Contemporary states are thus increasingly turning into global, gradually losing their national features. The American politologist Barber refers to the world of globalization as a virtual world tending to replace the real world with the fictions of the consumer culture.

The globalization apologists point out those joint problems shall unite the destinies of different territories in the most distant parts of the world, while the territorial restrictions shall yield to the transnational organization force, so that the world order shall cease dealing with sovereign countries. All of these arguments are, however, unconvincing in practice and still failing to weaken the power of national states.

## 2. IMPACT OF GLOBALIZATION ON THE ECONOMIES IN TRANSITION

Alongside with understanding that the process of globalization cannot be stopped or influenced, there is the fear of its effects on small national economies, especially on developing countries and countries in transition. However, this question can be differently put up - do the small economies have less benefit/disadvantage from the globalization as compared to the most developed countries because they are insufficiently developed or because they are insufficiently open? Developing countries are being re-ordered into losers and winners, like East Asian tiger economies depending on the degree of their openness. There are (also) some opinions that globalization has not caused evidently growing inequalities in the world scale. "Thus, while global income divergence has been with us for more than four centuries, globalization has been with us for less than two. This conflict raises serious doubts about the premise that rising world integration is responsible for rising world inequality. According to history, globalization has never been a necessary condition for widening world income gaps. It happened with globalization and it happened without it." [Williamson 2002, pp 16]

The consequence of the global world order is that developed countries are increasingly developing, while the underdeveloped ones cannot improve their relative positions but stagnate or even get increasingly impoverished, and the transition countries are in the most unfavorable situation. In the professional community of developing countries, non-economic aspects, primarily political ones are predominant in the globalization concept comprehension. All the negative connotations of this concept are related to the USA and globalization is understood as "the expression of interests of MNCs and the USA, which tend to become the leading force of the global unification of the world".

Regarding the countries in transition, even the American theoreticians admit that "loans and political recommendations of the West have not stopped but, on the contrary, fostered the development of many negative processes in the transition countries, such as: setback in production scope, criminalization of the economy and society, capital flight abroad, unemployment on the increase..." Stiglitz warns that the transition process in Russia, based on the model of "shock therapy", induced only the shock, while the therapy failed to take place. Therefore, modern economic theory of the countries in transition is dominated by the critical attitude against negative globalization outcomes and their linking with the reconstruction of imperialistic ambitions of the most powerful states in the world.

## CONCLUSION

The supporters of globalization, regardless of their aspect of approach (evolutionary or revolutionary), view this process as a historical inevitability that happens with or without our consent. However, this thesis can be pitted against another, also historically approved fact that phenomena and processes, particularly in economy, are cyclic, rarely one-way and even more rarely uniform. One more thesis that can also be substantiated is that each society has its own self-regulating mechanisms or inherent stabilizers, which start acting when certain economic process goes to any extreme. Thus, national economies shall probably want or have to defend their sovereignties if some national or supra-national power endangers them excessively. Another option is that human conscience

shall develop resistance against unification, uniformity or monotony, even if it would imply the deprivation of material benefits brought forth by global unification.

Globalization should not be regarded exclusively as an economic phenomenon, in spite of the economic justification and attractiveness of the term "economy without frontiers" and of the economic benefits it offers. It should not be neglected that the national characteristics and the resulting evaluation of specific categories do not always and everywhere give advantage to the economic benefit. Moreover, this cannot be changed through the rounds of negotiations on quotas, tariffs and other trade restrictions. The majority regards the market as a self-regulating Darwinian environment in which only the fittest survive. Nevertheless, it should be kept in mind that this environment also includes much lagging, numerous rigidities, transactional costs, information barriers and many other restrictions that make the market imperfect.

Globalization should be understood as a multidimensional phenomenon that will induce changes in all the segments of society. The technological globalization is not only indisputable, moreover, it represents a necessity; the economic globalization is economically justifiable and it can bring long-term benefits to every economy; however, any comprehension of globalization that exceeds the economic process is utterly arguable.

Leaving the political aspect of this problem aside, it may be concluded that globalization is a long-term regular economic tendency, which should not be confronted, as the processes of economic association, internationalism and integration on the world scale are immanent within the modern society. Nevertheless, further development of the "world economy" establishment shall not take a rising course of a straight-line trend as the globalization advocates assume. More probably, the cyclical nature of this process shall be fully expressed. The reasons for this should not be sought in the narrow economical sphere, since national sovereignty is a much more complex notion.

The "thorny path" towards the new world order establishment shall also be influenced by the stabilizers inherent both in the economic system and, even more, in the value system of any society. Some of such stabilizers are national and ethnical identities, tradition, culture, morality, as well as the biologically conditioned need to be different, and similar. At first sight, these arguments may seem feeble against the language of figures with which the economic justifiability of globalization can be supported. However, we believe that, in reality, "non-economical" arguments shall prevail in any attempts of spreading globalization beyond its economical framework.

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## EKONOMSKI ASPEKTI GLOBALIZACIJE

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*Ostavljajući po strani politički aspekt procesa globalizacije, može se zaključiti da je dugoročna ekonomska tendencija saradnje, internacionalizacije i integracije imanentna savremenom društvu. Globalizacija nije samo ekonomski proces, uprkos privlačnosti termina "ekonomija bez granica" i "koristi za sve" koje treba da proizvede. Uprkos shvatanju da ovaj proces ne može biti zaustavljen, prisutan je i strah od efekata na male i nerazvijene ekonomije. Globalizaciju treba shvatiti kao multidimenzionalni fenomen koji će uzrokovati promene u svim segmentima društva.*

*Ključne reči: globalizacija, integracija, nerazvijene ekonomije, multinacionalne korporacije.*