

## GLOBALIZATION AND THE CHALLENGES OF THE WORLD ECONOMIC CRISIS

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Miroslav Djordjević<sup>1</sup>, Sonja Stoilković<sup>2</sup>

<sup>1</sup>Faculty of Economics Kragujevac, <sup>2</sup>Ministry of Foreign Affairs of the Republic of Serbia  
djordjevickg53@gmail.com, sonja555@ptt.rs

**Abstract.** *Although globalization has never ceased to be a subject of economic debate, today more than ever this process provided evidence to those who doubted the power of transmission of the globalization effects across the globe. Despite positive effects of globalization, growing negative implications of the process have experienced a peak of negativity when the crisis occurred worldwide. "Debtors" of the crisis have not become only those who led to it (the USA); the negative trend quickly transferred to all dependent economies and also to those economies that are still on their unfinished transition path, as our country. Therefore it is necessary to consider how the global economic crisis affected economies in the process of transition, in terms of slowing growth and reform, and also to define measures on the global and local level that should be taken to reduce the effects of the crisis.*

**Key Words:** *Globalization, the effects of globalization, crisis, transition.*

### GLOBALIZATION

When a particular phenomenon or process occupies the attention of economists in the extent to which globalization does, then it is impossible to isolate the functioning of the national economy out of world trends and the influence of the phenomenon in question. The process of globalization speaks more in favour of the fact that the place of countries in international economic relations is taken over by other subjects and factors, such as transnational companies and regional assemblies. More intensive movement of capital and associations on regional basis, institutionalization and globalization of economic flows, turning of planned into the market systems of operation, are not just the characteristics of the end of the 20th century, but will represent the development trends of world economy in the period to come. Bearing this in mind, it is logical that the process of globalization becomes an inevitable starting point of any discussion at the national level and that today's development becomes impossible without accepting the global movements.

Globalization is the phenomenon which has seized almost every economy, provoking positive and negative effects and consequences, the most important being:

1. technological (spread of information technology),
2. political (strengthening of prenational institutions and neutralization of national sovereignty and borders),
3. economic (domination of multinational companies and widening the gap between developed - undeveloped)
4. cultural (standardization of world culture),
5. social (destruction of traditional system of values and worldwide Americanization). [1]

Critics and opponents of globalization insist on the negative effects, and according to them:

- globalization brings benefits only to economically developed countries,
- international financial institutions instead of encouraging, impede economic development of developing countries,
- the gap between the rich and poor is constantly increasing,
- developing countries do not have a developed network of institutions (legal, political, economic), which are necessary for the growth of market economy and equal participation in the process of globalization.

The lines between those who support globalization and its critics are not only between countries but within them as well. The debate about the true nature of globalization has divided people in the third world countries since this phenomenon occurred. It is now a matter of debate in the United States.

The architects of globalization are right that international economic integration is not only good for the poor, it is essential. No country has developed long-term without trade. East Asia is the most recent example. Since the mid 1970's Japan, Korea, Taiwan, China and their neighbors have pulled 300 million people out of poverty, mainly through trade. But even those who protest are right, because no state has developed long-term under the rules that are now imposed on the third world countries by institutions that control globalization. The USA, Germany, France and Japan have become rich and powerful countries thanks to protectionism. East Asia has built its export industry by protecting its market from foreign competitors and by demanding that foreign investors buy local products and develop local knowledge and skill. These are all practices that today make the rules of trading illegal or discourage them. [2]

#### ECONOMIC ASPECT OF GLOBALIZATION

In economy, globalization is an all-growing process of integration of national economies which function under institucionalized conditions and where the main role belongs to the international financial and trade organisations, such as: World Bank, International Monetary Fund, World Trade Organisation, then regional alliances: European Union, Paris Trust Fund Club, London Trust Fund Club, and others. The organisations and institutions in question create the system of values as criterion and imperative for economically and politically dependent countries whose economic development and even political relations cannot be fulfilled without cooperation with the world, especially with the USA, which has a decisive role on the decisions of IMF, World Bank and others.

Globalization means more and more correlation between countries especially in connection to world trade and financial market. Greater economic dependence between modern economies is also proved by a more intensive movement of capital on international level, especially directing of private capital to developing countries. The question is asked: to which extent are these capital exchanges evenly directed? About 70% of the foreign direct investments go to world developed countries and the rest, about 30%, go to developing countries. If we bear in mind that the biggest cut of the FDI (foreign direct investment) is made through transnational companies, then the trend of their constant growth under the conditions of globalization is logical. For these companies investment means spreading to the markets of other countries, through transfer of capital, technology and their own business politics. Transnational companies have created a gigantic network of production and trading, and therefore they make 1/3 of total world production and 2/3 of total world trade, with 80% in direct investments abroad. Looking back on the previous sections, in which the effects of globalization are mentioned, we see a clear link between globalization and FDI. Economic consequence of the globalization process is perceived in the domination of multinational companies. Is there a better way for achieving this goal from constant growth of direct investments?

Economic globalization has as its aim for the whole world to accept the rules of market economy, where the final result would be free market, free flow of ideas, information, technology and a unique currency. However, we cannot forget the fact that globalization is guided by interests of great Western powers, actually the wishes of Western corporations for greater profit. Joseph Stiglitz, winner of the Nobel prize and author of the book "Globalization and Its Discontents," says that globalization is a useful process for the world economy, even for the poor countries, but according to him, that process has been misused by the most developed countries. Stiglitz is opposed to the blind faith in the IMF as well as to the pieces of advice of this institution. The mantra of the IMF about the independent central bank, focused entirely on price stability, actually inflation, is not accepted by most economists, who think that macroeconomic politics has to be in the function of employment growth, salary growth and productivity. "Financial markets react to economic indexes. Malaysia has not only rejected the IMF programme, but has completely turned its back to the institution, and yet it succeeded in achieving foreign capital. On the other hand, Indonesia has followed the guidelines of the Fund and collapsed economically. Economic growth is not achieved by short-term credits but by long-term investments. Capital goes there where profit can be made." [3]

Globalization has touched millions of lives, leaving its mark on every economy. Time will show if the process which leads to too great acceleration, too great inequalities, increasing gap between the unemployed and the poor on one side and those who, under the mask of globalization, collect the fruits of spreading to socially exhausted markets. We can only agree that this is a truly negative process for the human being but useful for the leading economy of the West.

#### GLOBAL ECONOMIC CRISIS AND THE COUNTRIES IN TRANSITION

Critics of great systems, such as capitalism or all-inclusive processes such as globalization, have always been the target of those who have had unthinkable benefits of these selective politics of wealth division or of those who did not have enough courage to

give all the opposing arguments clearly and aloud. That is how the division to globofobics and globofiles has been created, and the fight of the ones against the others appeared as a fight to the death - one of the two diseases – globofobia or globofilia. Those who longed for alternative solutions, have been marked as the special movement with the vision of the better world, without a direct opposition to the effects of the globalization but without an open support to them as well. While the ones were building their utopia on the principles of connecting the world and market functioning of economies, the others were speaking loudly against increasing inequalities, increasing gap between the poor and the rich, developed and undeveloped, western and eastern, capitalistic and capitalistic in its infancy. But, whose utopia has really sunk?

Climbing to the peak of its success, the USA as the main starter of the globalization process (and often mentioned "vesternisation"), has reached the tip of the iceberg. Supplies of innovation in financial sector are worn out. While the IMF and World Bank were coming out as the great creditors of developing countries and countries in the process of transition, often not paying attention on how it would, in the long-run, influence the economies of those countries, in domestic market the USA have lived on borrowed money in borrowed time. Namely, the overall debt did not spare even America, land of the apparent economic well-being. But if we focus on small countries, let us perceive the impact of global crisis on the economies in transition. First of all, influence on the region is reflected in slow growth (in certain countries sharp adjustments are made, with the possibility of collapse), then the transition is in progress, but slowly, especially in the field of finance and trade, with all this, increased state intervention becomes inevitable. Impact of the crisis can be realized by dramatically reduced capital inflow and a large private external refinancing. Slowed growth affects the financial sector through reduced trust in the same, and that all reflects on the reduction of export performance and a drastic fall in export markets. The newly-made crisis affects the process of transition itself: financial development is slowed down, while trade liberalization is facing the challenge due to the crisis of global proportions. There is the possibility of setbacks in the process of large privatization, and as the most severe consequence emerges the decline in foreign direct investment and general investment activity, reduced transfer of new skills and know-how techniques, and hindered private sector participation in large infrastructure projects as well (as opposed to a growing need for participation mentioned).

The conclusion would follow as a response to the crisis, through domestic and global challenges. The challenges on domestic level would include protection of the financial system, improving governance and structure of financial sector, the maintenance of SME financing, as well as the possibility of fiscal adjustment in certain cases. On the global level it is necessary to provide liquidity and stability of the associated banks (the so-called parent banks), mark the supervisory and regulatory failures and give the appropriate response to them. The requirements of long-term growth would involve:

- investment in improving the quality of education,
- reduction of barriers of investment entries,
- strengthening competitiveness,
- better access to finance and capital,
- selective approach to industrial policy. [4]

Joseph Stiglitz points out the measures that should be taken to prevent re-collapse. The first is the constitution of the body that has greater authority and greater representativeness than any existing body, because global crisis requires a global response. The existing institutions were inadequate at the moment in question and some of them contributed to the crisis, according to Stiglitz. The second reform should be conducted in the form of a new global reserve system, with one currency. That requires a multilateral system that does not depend on the currency of a country, modeled on Special Drawing Rights. The third move which should be made is financial reform. It is necessary to restrain influence of banking system, because banks do not see how their mistakes can cost everybody around. [5]

#### IMPACT OF GLOBAL ECONOMIC CRISIS ON SERBIA

Although it was believed that the crisis would stop after a series of negative effects expressed in the United States and countries most firmly economically related to the American economy, even in the early stages it became clear that the smaller economies, like ours, would feel the strike of global crisis on their back. Today, when we summarize the results of the last year, 2009, and lay the foundations for economic recovery in 2010, the suspicion is more than confirmed. According to the principle of "the rich get into debt, the poor pay", our country had to pay its tribute of money in the economic, as well as subsequent social sense. Being used to the extended transitional recession, it seemed that Serbia will receive this strike without special regard to the negative implications of the crisis. Was it really so?

The effects of global crisis in Serbia are expressed primarily through price increase, increased euro rate exchange, reduction of planned direct investments and the inability to accelerate the defined growth, which the country had in the past few years, the rate of six to eight percent. As the growth of Serbian economy in recent years was dictated by the increase of export activities, foreign investment and personal consumption, the appearance of macroeconomics was influenced by reduction of global liquidity, reduction of the investment of foreign investors in the countries with increased risk and fall of economies in major EU countries, which are also Serbian trade partners.

Following the recommendation of the IMF, in 2009 the strategy of strengthening the business environment was conducted. The economic experts argue that the restrictive monetary-credit policy of the National Bank of Serbia contributed to a large extent in avoiding any direct negative effects of the crisis on Serbia. Taking into account the debt of our citizens and especially the structure of the debt to the banking sector, National Bank has limited the possibility of taking loans with more regulations.

In addition, the Regulation on obligatory recapitalization of banks has also contributed to the stability of the banking market in Serbia. Similarly, the high rate of reserve requirements for banks to reach in case of problems guarantees a satisfactory liquidity. The good news is that the entire banking system in Serbia consists of commercial banks that are not able to deal with the investment banking business, and therefore none of the Serbian banks have invested in American mortgage market and met with considerable losses, which hit the big European banks. However, a number of Serbian banks by ownership structure are associated with the large European banks that have lost significant assets in this financial crisis.

Despite significant measures of monetary-credit policy, the negative effects of the global economic crisis on Serbia's economy were unavoidable. Gross domestic product in the second quarter of 2009 in comparison with the same period in 2008 realized a decrease of 4%. In the field of industrial production decline is slightly higher and amounts to 5.8%. Problems related to the global financial crisis for the most part reflected on Serbia's foreign trade. Namely, the reduction of world orders had an impact on our export. The goods worth 6809.4 million were exported, which is a decrease of 28.8% compared to the same period last year (January to October). Because of the slowing down of economic activity in our country, import faces an obvious decline. The goods were imported for 12,595.5 million, which is 36.6% lower compared to the period from January to October 2008. [6]

The average salary in Serbia in October 2009, compared to the average earnings from October 2008, is nominally increased by 3.9% but it is actually lowered by 1%. In this year there was a freezing of pensions and salaries of employees in the public sector. Such measures have been announced for 2010 as well.

Inability to choose different development strategy, in terms of creating their own transnational corporations, turns our economy towards attracting foreign direct investment, to encourage the transition process itself and achieve significant economic growth. Unfortunately, unfavorable trends in world economic framework have seized a little, investment thirsty, domestic market. Foreign direct investment with a billion and 812 million euros in 2008 reduced to just 975 million euros in the first nine months of this year. [7] Some economists agree that such a low level of foreign investment for countries in transition and developing countries is, in fact, a way of survival in the terms of current global situation.

As Stiglitz states, maybe Serbia will have luck in the great economic crisis, simply because less integrated countries may also be less affected than those largely dependent on foreign investment. That which was not present to a large extent in previous years will not even be missed. And who would actually say that our faults would become our advantages. That thanks to the weak links with the global market we would avoid financial collapse, at least one of a series in our history. The future will certainly require the same gradual effort to get closer to world events and processes. Hopefully, with a nicer and more positive picture of tomorrow's global economy.

#### THE END OF NEOLIBERALISM OR THE NEW GLOBAL DAWN?

Bearing in mind that the lesser economies are exposed to positive, but also negative effects of globalization, scale of priorities changes when it comes to inclusion in global economic trends. You must be aware of the negative implications of globalization (which have their peak in collapsing in the USA and the expansion of the negative trend throughout the planet as a global economic crisis, most visible after the crisis in 1930), and then the positive effects of this process. We were witnesses that the previous years, benefits of globalization were placed in the foreground, while the possible negative consequences were rarely mentioned (if you exclude the voice of "antiglobal" movement).

Will neoliberalism really experience its end, or will it come up with a solution for its own survival? Globalization has proved to achieve its effect, whether it comes to the beneficial effects of permeation of the world economy, transferring technology, increased investment, or when it comes to chained financial crash. All its denial, globalization has experi-

enced in summarized form. Namely, while the positive effects of globalization encouraged supporters to give a loud support to this process, negative impacts expressed individually and periodically in different parts of the planet, not leaving much room for the small and those in development to raise their voice. As long as globalization goes in favour of the rich and developed, its ultimate effect will not be brought into question. Only with the recent events in the heart of the globalization machinery, the question of efficiency of the alleged authoritarian deregulation and liberalization was asked. Same deregulation and liberalization in countries that advocate the same, was replaced by protectionism and state interventionism.

If we go back in our own position with global considerations, we will recognize that our country, as a country on the path of transition from socialism to market economy, does not have not much choice. We do not belong to the group of countries, which will make a different choice and provide independent existence in the European, and world market. The author has to conclude that Serbia in today's circumstances should think about the attitude of selective globophobic, choosing, in fact, the current processes in the world economy, to which it will be connected to without the fear of the effect of "demolishing the house of cards". Although gradual, the central solution by those who propagate the drastic cuts in the elimination of global economic problems, often rejected and disregarded, perhaps today's conditions of development of the world economy are a good time for healing of globophobia and globophilia – is actually alterglobalism.

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## GLOBALIZACIJA I IZAZOVI SVETSKE EKONOMSKE KRIZE

**Miroslav Đorđević, Sonja Stoiljković**

*Iako globalizacija nikada nije prestala da bude tema ekonomskih rasprava, danas je više nego ikad pružila dokaz onima koji su sumnjali u snagu prenosa posledica ovog procesa širom planete. Naime, i pored pozitivnih efekata globalizacije, rastuće negativne implikacije procesa doživele su svoj vrhunac eksplozijom krize svetskih razmera. Kako "dužnici" krize nisu postali samo oni koji su do nje i doveli (SAD), negativan trend se brzo preneo na sve ekonomski zavisne ekonomije, ali i one privrede koje su još uvek na nedovršenom tranzicionom putu, poput naše zemlje. Upravo iz tog razloga neophodno je sagledati kako je globalna ekonomska kriza uticala na tranzitorne privrede, u vidu usporavanja reformi i rasta, kao i koje korake na globalnom i lokalnom nivou treba preduzeti kako bi se efekti krize umanjili.*

Ključne reči: *globalizacija, efekti globalizacije, kriza, tranzicija*