

THE NATURE OF GLOBALISATION PROCESSES IN THE ECONOMY

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Globalisation is the process by means of which there permanently develop and grow flows of ideas, people, goods (capital and consumer), services, capital, information, everything which in the final result leads to the integration of economies and societies and brings prosperity and benefits to countries participating directly in globalisation. It supports growth in monetary incomes, contributes to growth in the standard of living of the population in individual regions of the world, specifically through using the available complex technologies especially in less developed countries. For example, since 1960 in India the life expectancy at birth has lengthened by more than 20 years; the rate of illiteracy in Korea, which had reached 30%, is currently almost zero. These improvements, advances, have been achieved by impacts of many factors, but it is necessary to emphasise that it would not have been possible in the absence of globalisation processes. Besides this, advanced integration as a manifestation of globalisation contributes to the freedom of people through disseminating information and multiplying choice, selection. In the past years however certain problems have appeared, where these concern further negative aspects of globalisation processes and in particular a recognition that the poorest groups of the population on this planet – here we are talking about 1.2 billion people, who may spend on their standard of living less than \$1 a day – share insufficiently (or not at all) the positive effects of globalisation. The conviction that only rich states, wealthy economies profit from the processes of free trade and that developing economies are the victims of globalisation processes has caused certain groups of activists to band together, forming an anti-globalisation movement. They berate these processes, that their fast economic changes are costly, their control over the realisation of these changes is insufficient, in individual economies traditional sectors are lapsing, etc. Concurrently they reproach international organisations for reacting very slowly to these processes and problems.

In 2001, however, discussions on these problems took on a different tone. Opponents of globalisation processes diluted their original vision, which lay in

the fact that globalisation is good for one and bad for the other, which has gradually been shown to be very simplistic.

Adherents to the processes of globalisation as well as opponents of these processes learned that it is necessary to conduct discussions on them in a different direction, namely towards the optimisation of the management of these processes, where optimisation means that the profits from globalisation processes are divided amongst the participants in these processes and that the costs connected with globalisation processes are kept to a minimum, where possible. The optimisation of globalisation processes relates both to the national, as well as international level. Globalisation and the opening up of individual economies and societies to other cultures offers a better future and may at the same time be also the best route to securing safety in the world.

Current issues of globalisation

It is apparent that the processes of globalisation closely affect us all. It cannot however be ensured that all processes that are its manifestation will be exclusively for the good. Studies proving that average and adequate economic growth goes hand in hand with a decline in poverty in the world are indisputably encouraging. On the other hand, however, these averages conceal negative impacts upon certain countries and certain population groups. Relations between policy as a whole and macroeconomic policy specially and economic results achieved, specifically the impacts upon structural reforms and the solution of problems of poverty in the world, raise certain questions which we must attempt to formulate and in the case of some to offer a solution. This concerns the following questions:

- when do specially poor groups of the population profit from economic growth,
- how can international trade in the broadest sense of the word act as a barrier to economic growth,
- whether foreign capital under all circumstances is a factor for economic growth,
- by what means is it possible to ensure that international capital flows reduce harmful effects,



- whether globalisation helps, is it beneficial to poor groups of a population,
- whether it reduces (removes) inequalities between individual economies and in the framework of them between regions.

Given the broad scope of this issue we will not devote attention to all questions, focusing in detail only on the latter three.

The answer to the question, whether globalisation increases the standard of living of the population may in principle from the long-term aspect be positive, from the short-term aspect however certain differences may be manifested between certain countries participating in globalisation processes. In essence it may however be said that an expansion of international flows and processes of trade and capital is a source of economic growth; adequate and permanent economic growth is the basic precondition for growth in a population's private consumption as the basic component of the standard of living.

Statistical indicators prove that countries that have opened up to the world – where the degree of openness may be quantified as the share of the sum of export and import operations in the gross domestic product – achieve substantially better results than other countries. Countries that achieve adequate and permanent economic growth, a high degree of openness in the economy, in the sense stated above, achieve also a higher gross domestic product when expressed in per capita terms. By saying this, however, we do not mean that all so-called globalised countries prosper because other factors such as macro-economic and social policy and its results influence economic growth and also distribution processes derived from it, i.e. also the population's standard of living. In this context we can state the macroeconomic data for the South Korean Republic and China. This concerns data for the years 1960-1999. The South Korean Republic: degree of openness of the economy in the year 1999 60 – 65%, real gross domestic product per capita in 1999 USD 12 000 – 12 500, where at the outset in 1960 the degree of the economy's openness was 15% and real gross domestic product per person was USD 1 600 to 1700. China: degree of the economy's openness in 1999 40 – 45%, real gross domestic product per person USD 800, where in 1960 the degree of the economy's openness was up to 5% and the real gross domestic product per capita was less than USD 100.

Researching the effect of globalisation processes on world poverty is a cardinal problem. In 1996, the Organisation for Economic Cooperation and Development (OECD) published a report: "The Role of Cooperation for Development at the Break of the

21st Century". In this report are specified seven international objectives, which need to be achieved in solving the problem of poverty in the world by 2015. These objectives are incorporated also in the Millennium Declaration of the UN, which was signed by the heads of states and prime ministers of governments. It shows however that without securing permanent and adequate economic growth in the world economy en bloc as well as of individual economies it will not be possible to attain these objectives. From this it results that globalisation must stimulate economic growth; without economic growth it will not be possible to achieve a reduction in poverty. Besides this, globalisation facilitates the dissemination of technology, which contributes to an improvement in health, to a lengthening of the human life, to a reduction in illiteracy in countries and communities where these indicators were or are still unsatisfactory.

If in this section we emphasise the indicator rate of economic growth as a strategic parameter of any economy, we do so in order that we may handle this indicator practically and functionally in international macroeconomic comparative analyses, which among others, belong to the description and analysis of globalisation processes. The examination of economic growth cannot be approached autonomously, meaning to examine it in isolation as a problem sui generis, but it is necessary to examine it in connection with key macroeconomic phenomena and processes, such as relations between the rate of inflation and the rate of unemployment, departmental (sectoral) structure of gross domestic product, employment structure, the relation between structural and cyclical changes, equilibrium in the balance of payments and other macro-economic phenomena and processes. The rate of economic growth expresses the rate of growth of the gross domestic product, recalculated to per capita, and through this variable, simply said, the economic level of the respective country, or national economy, is characterised. From this aspect it is thus not the percent characterising the rate of economic growth which is important but the level of gross domestic product per capita, which the respective rate results in.

For illustration, in 2001 the rate of economic growth in China was 9.9%, but the gross domestic product per capita was USD 800. Against this, countries having a lower rate of economic growth have already permanently substantially higher gross domestic product per capita. From this it results that to solace oneself merely with high rates of growth without stating the economic level achieved and other indicators, is quite openly said, not serious.



Moreover, in the case of this problem it is necessary to respect the fact that the trend of economic growth is not linear, but cyclical for the simple reason that a market economy system inherently incorporates a boom-bust cycle, which causes this cyclical trend.

There arises a further question – to which rate and in what way may globalisation limit, possibly reduce or remove inequalities between countries and within individual countries. Globalisation gives preference to and accentuates processes of a convergence in incomes per capita between individual countries. The fact remains that per capita incomes grow faster in developing countries that have removed barriers to international trade, the movement of capital and workforce, than in rich countries. Over the years 1995 – 1999 the quantitative proportion in this direction was 5% against 2.2%. Incomes per capita grow also in developed countries. Developing countries, which are not integrated into the world economy, or do not participate in globalisation processes lag behind, or are left behind.

In developed, industrialised countries, for which a high degree of economic openness is characteristic, it does not however seem that this phenomenon would be a significant cause of great inequalities. It is nonetheless true that inequalities in certain developed countries are growing, where however on the basis of analyses it is shown that the cause of this phenomenon is the evident and significant difference between the wages of the qualified and less qualified, or unqualified workforces, which is caused by technical and technological progress and not by the quantity and quality of trade in goods and other components with countries where wages are substantially lower.

In developing countries inequalities have grown, even though the incomes of the rich as well as poor have recorded an evident increase. The cause of this development has not been globalisation processes, but the fact that many factors economic and as well as non-economic operate in their economies, affecting these inequalities. Some factors are specific, for example war, natural disasters, others, such as technical and technological progress brought about by the flow of innovation into a national economy.

Naturally, globalisation must negotiate certain problems, where a role in solving these problems must be taken up by a public authority, namely the government responsible for conceiving and implementing macroeconomic policy.

Globalisation in the financial sector

An important role and function is played by the globalisation process in the field of finance and the

financial sector generally. In essence, four factors may be identified which permanently accompany the process of globalisation. Progress in the field of information and informatics enable participants in financial and banking operations to gather and process more easily and quickly the information they need for assessing a possible financial risk, for concluding contracts and deals and for managing countless international financial transactions. Globalisation of national economies strengthens the activities of business subjects in the field of production, consumption, investment. Countries that have removed barriers in the field of the international trade of goods and services and the movement of international capital create good preconditions for their prosperity not only from the short term, but also from the long-term aspect. World exports of goods and services, which reached on average USD 2.3 billion per year over the period 1983 – 1992, trebled and in 2001, reached USD 7.6 billion. This development acted as a stimulant on demand for international financing, prioritised the creation of capital reserves and the demand for loans. Processes of liberalisation of national financial and capital markets combined with rapid progress in information technology and, naturally, globalisation of national economies stimulated innovations in the field of finance and the growth of international capital flows. The globalisation of financial intermediation as a specific manifestation of innovation in the field of finance is partly a reaction to demand for mechanisms of financial intermediation on the one hand and partly a reaction to the decline in barriers to the trade of goods, services and capital, the flexibility of rules governing access to foreign financial institutions on national financial markets on the other hand. In consequence of these facts gross flows of international capital reached USD 7.5 trillion in 2000 and were quadruple those in 1990. Net international capital flows grew also, where in 1990 they reached USD 500 billion, in 2000 this figure represented already USD 1.2 trillion. Competition between institutions providing the mentioned intermediary financial services also significantly intensified precisely under the influence of the globalisation of national economies, technological progress, and liberalisation of financial and capital markets. In many countries the principles and rules governing financial intermediary (brokerage) services were modified, which initiated the establishment of new institutions directly dealing with the issue of financial services. New types of financial institutions of a non-bank nature, stockbrokers, insurance companies, special financial companies, arbitrage funds, telecommunications businesses and other subjects



began to provide financial intermediation services, which had previously been offered exclusively only by banks.

Globalisation processes have their opponents, such as for example was shown by the protests and anti-globalisation demonstrations in Seattle, Quebec and elsewhere against the International Monetary Fund, the World Bank, and the World Trade Organisation. It needs to be said that recently the situation has begun to slowly but evidently change. We can therefore put the question: how will opinions and the assessment of globalisation processes develop?

a) It has been clearly proven that discussions must be oriented on basic (key) questions of globalisation. It has been shown that it is not correct to oppose globalisation as such. It is desirable to orient discussions on identifying effective means and ways of how to increase and distribute the positive aspects of globalisation processes whilst concurrently reducing to the maximum extent the costs connected with them.

b) The importance of international cooperation ensues from the long list itself of world problems and issues. It seems that as regards world economic cooperation and in particular as regards cooperation with the International Monetary Fund, an indirect consequence may be a new evaluation of the role and functions of the institutions of the Bretton-Woods Agreements.

c) It has become pressing to remind us of the words of Horst Köhler, Director General of the IMF: "... there cannot exist a happy future for the rich, unless there exists a hope to improve the future for the poor". From the position of this moral aspect a reduction in world poverty is an essential precondition for world security.

d) The slowdown in economic growth in the world economy, which was seen at the beginning of 2001 and which intensified following the terrorist attacks of September 11, revealed and highlighted the frailty of economic prosperity.

It may surprise some that in point b) there appears a request for a certain new re-evaluation of the Bretton-Woods agreements. In this respect, it is useful to mention that the 44 countries represented at the Monetary and Financial Conference of the United Nations at Bretton-Woods (New Hampshire state) in 1944 set themselves the aim of reconstructing in a cardinal manner the international economic system, the ruination of which had put in train the Great Depression in the years 1929 – 1933 and subsequently the Second World War. Therefore it was proposed to found (create) the International Monetary Fund and the World Bank and later the World Trade Organisation.

In a very brief outline therefore we will state the first objectives of the IMF included in the first article of the Statue, which has remained essentially identical since the 1940's; they are not contradictory with the processes of globalisation, indeed quite the opposite:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

What needs to be done in the future in order that the processes of globalisation may successfully continue? Firstly it is necessary to not only identify (nominate) the problems that need to be solved, but concurrently to find sufficient financial means for their effective solution, where it is desirable to respect the international dimension of individual problems. A purely national approach to solving certain problems can cause them to be carried across borders without their being permanently and successfully solved at the national level. Secondly, it is extraordinarily desirable that measures adopted for solving problems are appropriately set as an objective not only from the national, but also from the international aspect. For example, if the objective is to reduce world poverty by 2015 by half, then for achieving this objective it is necessary to take these measures: reduce debts, because the poorest countries are extraordinarily indebted, create a system of social measures for ameliorating (mitigating) impacts



of a short term nature ensuing from economic reforms on vulnerable groups of the population, to increase social expenditure, specifically on education and healthcare. It is particularly important to prepare and realise an agreement in connection with a request by the UN that rich countries contribute 0.7% of their gross domestic product for development aid to poor countries. Thirdly it is desirable to re-evaluate the activities of institutions which in a decisive way influence the development and trends of the world economy, in order that they create and apply their own mechanisms for solving world, not only economic, problems. As regards economic problems, an important role falls essentially to three institutions: the International Monetary Fund, the World Bank and World Trade Organisation. These three institutions administer and decide on a wide and important range of economic problems. However, pressing problems exist that do not fall within their competence, but deserve the justified attention of other national and international societies and institutions. This concerns problems such as the environment, labour law, and international and local migration, human rights etc. In order that we may

fully take up the challenge of globalisation, in order that this process may become a reality, we must also find the resources for the balanced management of this process.

Certain phenomena exist, which seriously disturb the course of economic development and economic growth in individual countries and thereby also negatively affect globalisation processes. This relates to the maladministration and mismanagement of public affairs and corruption. These phenomena create serious problems in many countries, since they diminish public revenues, lead to mismanagement and in the final result weaken the economic situation of the given country and undermine the trust of its people in their public institutions and acts of government. Here an important role is played by the International Monetary Fund, which stimulates the proper administration of public affairs in member countries through supporting the implementation of macro-economic policy and structural reforms, by accentuating the transparency of financial operations in the public sector, by providing technical assistance in improving the administration of public funds and conducting research work in these areas.