

Effects of globalization



Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 Positive and negative effects of globalization Assoc. Prof. PhD Cornelia Nistor Faculty of Administration and Business University of Bucharest Abstract Although globalization cannot ensure worldwide stability and economical equilibrium, or full environmental protection, its positive effects mainly regarding the trading development and the access to new markets are undeniable. Also, there should also be emphasized the opportunity for rather poor countries of developing in an extremely rapid rhythm due to access to new technologies, products and information, access to direct investments and loans. Among the negative effects there are: first poverty, persisting in the under-developed countries, the issues regarding the environmental protection and ensuring full democratic expression. Last, globalization should be regarded in view of the influence it has over the consumer economical entities. Globalization is one of the most important issues in the current economical life. Even though at the present moment it cannot ensure the achievement of worldwide economical equilibrium, the macro-economical or world economical stability or full environmental protection, its positive effects mainly regarding the trading development and the access to new markets are undeniable. In respect with the disadvantages of this process, the issue is not the globalization itself, but the modality in which actions are taken in pursuit of globalization. The most important undeniable positive aspects are the opportunity for rather poor countries of developing in an extremely rapid rhythm due to access to new technologies, products and information, direct investments and loans, high mobility of all production factors. The greatest advantages have been recorded in the <https://assignbuster.com/effects-of-globalization/>

developed countries holding production factors which are net superior on a productivity level to those in the other countries, especially capital, which are capable of obtaining high efficiency levels in most areas, upon small costs. For these countries, the globalization ensured access on new markets, increases in the export volume and occurrence of favorable conditions for attracting foreign capital. Especially in the last years globalization has proven that it cannot be achieved by means of total freedom in action for the economical entities, but that the role of the state in the economical activity is of extreme importance, as well as in the putting into practice of economical development, with a 152 Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 series of benefic consequences on a social level, finally reflected in an increase of the population's standard of life. The idea is unanimous accepted that globalization does not have only benefic effects, and that its negative effects should also be closely taken into view; among such there are first of all poverty, persisting in underdeveloped countries, the issues regarding the environmental protection and ensuring full democratic expression. Although the need is admitted for all countries to unite their efforts in pursuit of overcoming such disadvantages, it is real that most economical entities are first of all focused on their own immediate interests, regarding mostly trading and financial aspects and less on issues regarding general, global interests. The process of globalization has evolved gradually, upon three major phases, mainly taking place in the second half of the 20th century¹: - Internationalization of commerce, by its becoming free and by the un-regulating policy, so that starting with the 50s the growth rhythm of the commerce has become higher than that of the production; -

Trans-nationalization of the capital flows, which starting with the 80s has evolved in a more alert rhythm than the international commerce; - Occurrence of the informational society and globalization of the informational flows, which has developed more alert than the commercial flows and the capital flows. Even though it is realized grounded on the same principles, globalization has recorded various effects in different regions of the world, which are also a result of the different means of organization in the national companies, of the different level of the debts and taxes they need to pay. An important role in the organizational and functioning structure of the national companies is played by the trade unions, which are very strong in some regions such as Latin America, than in the Asian countries. The multinational companies directly involved in the globalization process should promote, along with the competition idea, the one of collaboration for the purpose of achieving the general interest; they must act in the interest of the consumer, but in advantage of the global organization. The companies must or can get involved in many ways in the community life:

2: C. Vasiliu, article in the volume " Commerce and Globalization" (Romanian: " Comer Åi globalizare"), Academy for Economic Studies Publishing House, Bucharest, 2003

2 L. Peach, " Effective Corporate Relations", Mc Graw-Hill, Maidenhead, 1987

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- The company carries out its own basic activities grounded on the principles of fair competition, it comes into contact with its suppliers and beneficiaries, and it pays the taxes towards the state; - The company takes into account the consequences of its activity over the environment and over the other

economical entities, and it pursues to minimize the negative effects; by such manner, the company proves that it is liable in respect with the others, with the environment and with the society, in general; - The company takes active part in solving the problems confronted throughout the appropriate conduct of the economical activity and of the society. The objectives pursued by the company depend on its resources. It has been noticed that a tendency exists for the production activities to be concentrated in the regions where the highest advantages can be obtained by the scale economies, for the accountancy activities to be concentrated in the regions where the companies have more advantages in respect with the fiscal obligations, and for the scientific research activities to be concentrated in the regions where highly qualified human resources of great potential exist. The worldwide development of technique and technology and the increase of the access the countries have to the new knowledge also imply a growth of the means in which the international trading relations are carried out. The development also generates a modification of the strategies and of the effects of the international competition over the companies. Thus, the small and medium business can compete on better positions with companies which are larger in dimensions, due to electronic trading, which renders a series of advantages, among which³: - The possibility of competing with large companies, by eliminating to a great extent the obstacles usually encountered upon entrance on a market, by reducing various costs categories: the ones regarding the incorporation and functioning of a virtual company, compared to a real one, the storage costs consequent to reducing the time needed for registering and delivering the orders, the distribution costs and the salaries; - Ensuring permanent contact with the clients and

improvement in the communication with them, by providing information on the company website, respectively non-stop processing of orders, without paying additional salaries to the employees and without the clients to depend strictly on the company's working schedule; M. Dragusin, article in the volume "Commerce and Globalization" (Romanian: "Comer ÅŃi globalizare"), Academy for Economic Studies Publishing House, Bucharest, 2003 154 3 Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 - A relatively easy access on the external markets upon minimum investments, due to the disappearance of space and time restraints and to reduced costs for rapid communication in any part of the Globe with the business partners; - Development of the possibilities for using direct marketing, by using information recorded in data bases, allowing for the offers to be customized dependant on each client's wishes. Under the conditions of worldwide increased competition, unfortunately intensification is also noticed of the unfair competition deeds, of frauds. Among such the most often there are the following⁴: - False; - Smuggling; - Economical status abuses committed by enterprisers in multinational companies; - Fraudulent obtaining of subventions by parties which are not entitled to such; - Use of subventions for other purposes than the initially stipulated ones; - Fraudulent practices in the field of informatics (informatics false, damages to the data bases and computer software, informatics sabotage, unauthorized access, unauthorized interpreting and copying computer software, damaging and unauthorized use of data or software, informatics espionage); - Incorporation of companies upon fictive capital; distribution of fictive dividends; - Fraudulent organization of insolvability; - Fraudulent practices of the

enterprisers regarding underground labor; - Money laundry; - Illegal practices in real estate sale and purchase, without specialized expertise having as object the assets' value; - Illegal practices of banks, under the professional secret. In order for the globalization process to be carried out appropriately, it is essential to maintain social harmony. In this scope, there is once more emphasized the essential role of the state, which must involve actively in the economy, look over the appropriate conduct of the economical activity, over the minimization of un-equilibrium and over the achievement of economical

I. Raducanu, article in the volume " Commerce and Globalization" (Romanian: " Comer Åÿi globalizare"), Academy for Economic Studies Publishing House, Bucharest, 2003 155 4 Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 growth, as well as in the organization and carrying out of public goods and services production. Taking into account the particular focus on the development of the trading relations between countries, the governments should take measures in the matter of market limits and failure, which also differ from one region to another. Of extreme importance is the establishment and good functioning of the global public bodies, which need to set out strict rules in the field of collective economical activity. Such institutions have the obligation of implementing a series of reforms of major importance, for instance the elimination of the discrepancy between the objective of achieving global economical stability and the one of liberalizing the markets and the capitals. However, the reforms in the economical field cannot be imposed by these international bodies upon the countries, but they need to be customized according to each country's national particular features. The most important

aspects of the reform should regard:

- Awareness over the danger represented by capital market liberalization and over the fact that the short term capital flows imply the increase of externalities and the existence of costs in charge of those who do not take direct part to transactions (debtors and creditors); such externalities impose immediate intervention from the public bodies, especially by means of the banking and fiscal systems, with an important role for the international financial institutions;
- Implementation of reforms in respect with bankruptcy and loans freezing; when the debtors are not capable to reimburse the loans, there should be immediately initiated the bankruptcy proceedings, and not the salvation of such by means of the financing from the IMF;
- Improvement in the functioning of the banking system, creation of a strong and secure banking system both in the developed, industrialized countries and in the developing ones, allowing the financing of business and jobs for more people; certain wrong practices in the banking systems of the developed countries can influence the possibilities and modalities of obtaining loans in the less developed countries; in time negative effects have been noticed, namely the increase of the risk levels and of the global instability, which led to the increase of the attraction for short term loans;
- Improvement of the modalities of managing the risks; one of the most important risk factors is the modification of the exchange rapport between the national currencies; at the present moment, the best J. Stiglitz, "La globalizzazione e i suoi oppositori", Einaudi Publishing House, Trento, 2004

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accomplishments in the field of risk management are registered in the developed countries, first of all in

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respect with the short term loans; however, these countries owe it to contribute to the achievement of safer capital markets, to protect the less developed countries against the fluctuations in the real interest levels; - Increase of the safety in the national economical activity; even in the developed countries, the economical entities are incapable of reducing the risks in agriculture or in the areas in which small business activate; - Improvement of the modalities of reacting in order to overcome economical crises; the interests of the small business should be balanced with those of the workers, who need financing, with those of the creditors, who seek the increase of the interests rate; also, there must be balanced the interests of those who intend to invest externally with those who bring foreign capital into the country; - Increase of the attention over poverty and unemployment.

Among the international organizations, IMF has had the most difficult role, because it had to demonstrate at any moment its capacity of foreseeing an economical crisis such the one in 1929 – 1933, by means of carrying out global collective actions. In order to do so, in the first years of its existence, the said organization enforced Keynesian principles, according to which it is necessary to stimulate the aggregate demand and to maintain it upon a level which could cover the supply. In the globalization process, the increase of the aggregate demand worldwide has imposed even the granting of loans as liquidity for the less developed countries facing a period of regress in the economical activity and incapable of increasing their own aggregate demand. Over time, the economical policy implemented by IMF has changed profoundly, as this organization has proven to be the adept of the free functioning of the markets. Whilst at the beginning the focus was on reducing the taxes paid by the economical entities, the interest rate and on

the increase of the expenses, subsequently IMF has promoted completely opposite economical policy measures, aimed to lead to a reduction of deficits. In respect with the international trading, the less developed countries have confronted a first unfavorable reaction from the industrialized countries: the forced opening of the markets in the poor countries for the products made in the developed countries, along with a blockage of the access of the products made in the poor countries on the markets of the developed countries, mainly regarding the agricultural and textile products. For instance, trying to obtain favorable positions over its competitors, the 157 Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 Japanese companies have practiced in some cases smaller prices, which led to an increase of the protectionist economical policy measures in the countries affected by such practice. Moreover, the industrialized countries granted important subventions to agriculture workers, which made it impossible for the developing countries to face the competition on the world market. Given the commerce liberalization and the removal of the protectionist obstacles, a series of companies, mainly small ones, have confronted severe financial issues, which led to a decrease in the jobs number and to an increase in the prices of the made products, which eventually could no longer be undertaken by the consumers. The increase of the inflation made it impossible to obtain a real economical growth in these countries; it was necessary for the exports to be restructured, with an accent mainly on the semi-prepared products or even on raw materials, and the trading balances and the payment balances have registered frequent deficits. A part of the services area has been neglected (constructions,

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shipping), which once more affected the developing countries, which could have otherwise been more efficient in these fields. It has become absolutely necessary to revise and modify the international trading agreements and to design reforms which could be effectively implemented in the countries subjected to such, upon adapting them to actual realities in those countries. The occurrence of technical progress, innovations, both for the benefit of the producers as well as for the benefit of the users imposed for certain issues regarding intellectual property to be settled. It has been pursued to protect such rights, as well as to ensure the appropriate profits for the countries in which those innovations originated. Globalization is viewed as a danger mainly in the developing countries, which face the threat of the economical power of the developed industrialized countries. This process seems to be leading to the disappearance in time of the traditional values. An example is the city development, the increase of the urbanization degree, which leads to a significant decrease in the number of rural population. In order to fight against such phenomenon of tradition disappearance, great attention is paid to agriculture, mainly in the European countries, where the state takes active part in the subventions for this area, both in order to obtain a profit from these activities and for avoiding the destroying of the traditional rural society. From another standpoint, the development of agriculture implies, under the new conditions of globalization, an increase in the attention paid

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Such lead, as a tendency, to the increase of the needed investments and of the production costs with more than 50% over the previous levels, which

immediately effected in increases in the prices of the agricultural and zootechnical products. Another aspect regards the ensuring of the states democracy, as they must subordinate to a smaller or greater extent to the interests of the international financial institutions which are involved in the globalization process. The intensity of such type of effects depends however to a great extent on the options of the national political groups, which decide upon the margins and modalities of getting involved and which have an important role in lessening the shocks. In respect with the success of globalization, several aspects are more important. One of them has been represented by the privatization in the excommunist countries. IMF has focused on the rapidity in the privatization, which led to the elimination of the state's intervention in some sectors which were not ready to face such process, and the private initiative has proven to be inefficient. There have been neglected some aspects regarding the regulation of the private companies' functioning, of the competition rules, and the structural and institutional reforms have been left on the second place. Thus, in many situations the efficiency of the newly created companies has been reduced, the unemployment level has increased, which meant in the same time an increase of the economical and social costs of this process. Another problem regarding the success of the globalization is represented by the liberalization. Some of the most important consequences refer to the reduction of the state's intervention in the areas of finance, capital markets and trading goods and services. In the 90s the capital markets liberalization had severe consequences mainly on the less developed countries, due to the lack of regulations in this field. In the standpoint of IMF, the liberalization of commerce should have aimed towards leading to the increase of the income

in the developing countries, grounded on the principle of comparative advantage, focusing the resources from the less efficient areas towards the most profitable ones. However, many times the effects were not the expected ones, because those countries faced rigidity in implementing the reforms and, especially, lack of funds needed in order to incorporate new companies and to increase the number of jobs. The increase of the demand for loans has also led to a spectacular increase of the interest rate, in some cases up to almost 100%. Moreover, even in the 90s the industrialized countries promoted the commerce liberalization mainly for the products which they knew could be efficient upon export, and maintained some restrictions in the case of the products coming from the developing countries which could have represented a threat for their internal production. In respect with the services, it has been noticed a preference for the liberalization in the circulation of those types of services which were more efficient in the developed industrialized countries, such as finances and informatics. Most issues confronted by the liberalization process have resulted from the fact that in many states, sometimes even in developed ones, excesses have been made in regard with un-regulations, thus creating rapidly a regress in the economical activity, grounded on the banking system crises generated by the liberalization of the financial markets. In parallel, this banking system crisis generated an excessive increase in the interest rate and in the volume of speculative capital, which was not focused towards the productive areas. In the economical growth process within the globalization a special role has been played in most countries by the foreign investments,

aiming to lead to the occurrence of new companies, to the increase of the employment, to the enhancement of the technical and scientifically knowledge, and to access on new markets. Of extreme importance there is also the area in which such foreign investments entered on the national market, as well as their share. In 2001 the largest share of foreign investments worldwide was held by the developed countries: 68. 4%, out of which 45. 7% corresponded to the countries in Western Europe, most of them European Union members. The developing countries held only 27. 9% of the total foreign investments worldwide, out of which the largest amounts were focused on Latin America, Caribbean, Asia and Pacific. The consequences of those investments over the countries in which they are made can be both positive and negative. One of the negative effects noticed consequent to strong companies having entered developing countries has been the elimination of the local competitors, making it impossible for many of the small and medium national business to maintain on the market or to develop. The only way in which the said could remain on the market was to reduce the prices of the products they made. In the cases where the strong foreign companies obtained a monopoly position, the consequences 160

Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 were severe, as the consumers faced large increases of the prices and a significant reduction in their real incomes. In order to minimize such negative economical and social effects, the intervention of the state became of extreme importance in designing and ensuring the implementation of adequate laws on competition. This could also be noticed in the banking area. The strong foreign banks are generally capable to grant better

guarantees to the deposit makers compared to the much smaller national banks, which might lead in time to certain negative effects regarding the stimulation of economical instability. In this case also there can be noticed the important role played by the central banks, which put into practice the monetary policy of each country, moreover given the fact that the national banks are much more sensitive to such economical policy measures than the foreign ones. The inflow of foreign capital can lead to an escalation of the national currency, which makes the imports more advantageous, to the disadvantage of the exports which become more expensive. In order for all these changes and reforms to have as much success as possible it is important to implement them in an optimal moment, in the right sequence of phases and in the right combination, adapted to the realities in the countries to which they are addressed. Such phases should take into account first of all the necessities in the economical life, as well as a series of aspects regarding the social field, the policy or ecology. The steps which need to be pursued by the reforms should aim to obtain positive effects for all social classes, both for the poor and for the rich. In some cases, it has been attempted as a measure of reducing poverty to reduce the quantum of the salaries paid by the companies, which would be stimulated by this to hire new people. The effects were not the foreseen ones, because the number of individuals additionally employed by the companies consequent to the increase of the labor demand due to reduction of salaries was insignificant compared with the total number of individuals affected by poverty. Moreover, consequent to the reduction of the salaries level, a large part of the population was severely affected by the increase of the taxes. On the other hand, in many countries there has been noticed as a tendency upon the last years rigidity in

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the employment degree, consequent to the fact that there has been achieved a large increase of the productivity, allowing for a significant increase of the production without a need for increasing the number of jobs. Among the most important areas taken into consideration there are: real estate reforms in agriculture, the finance area, the inflation issue, the 161 Cornelia Nistor, Positive and negative effects of globalization / Annals of University of Bucharest, Economic and Administrative Series, Nr. 1 (2007) 152-163 macro-economical stability, the fiscal imposing system, the institutional reform. It has been noticed that in the countries where a more rapid economical growth was obtained, such as those in Eastern Asia, better results have been reached in respect with reducing the poverty. Finally, there should be analyzed the influence of globalization process over the consumer economical entities. They find on the market both goods made in the country and imported goods and therefore they have to choose between the two said categories. The most important elements on which such decision is grounded are the quality of the goods and services and their prices. If the markets would be entirely free, then the consumers could choose only between those products of the highest quality and upon the lowest prices. In the less developed countries, in which companies of dominant market positions exist, the products do not fully satisfy such conditions, and the consumers' needs are not entirely met. Moreover, given the expression of some negative macro-economical phenomena, the buying force of the consumers has been damaged. The danger represented in these countries by the intensification of the commercial relations has been the tendency of significant increase of the preference for the imported goods, which were not always of high quality, whilst many times the consumers did

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not hold the information and ability of using just criteria upon which to choose. Also, as the access to new technologies increases in most countries, the buyers manifest a tendency for accepting a larger number of brands, upon the essential aspects of price and possibility of rapid access to the searched product. The competition of the products coming from abroad is of course generating benefic long term effects because it stimulates the local companies to seek the most efficient modalities of facing the external competition, mainly by renewing the investments, by using resources of highest quality, by improving the management and marketing methods. There are also essential the reduction of the production costs and the improvement of the distributions channels and methods for the manufactured goods.

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