THE NATURE OF GLOBALIZATION

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ABSTRACT

Following the technological advancement and the democratization process the Globalization is one of the most affecting powers in world economy at present. The Globalization combines several process: a global reallocation of industries, a massive expansion of world trade, a rapid growth of merging and acquisitions trends, a significant moves of capital from one country to another, an increased power of global and regional trade organizations and a growth of lifestyles and consumption patterns similarity. The author measures the Globalization effect in Europe by exploring two variables: Employment in the Service Sector and involvement in world trade-increase of exports and imports. Countries with high percentage (75-80) of employment in the service sector and a fast growth of foreign trade fit best for the demanding conditions of Globalization. The 12 new EU members should adopt this strategy in order to accelerate their economic growth.

Key Words: Globalization, Service Sector, Foreign Trade, East Europe's countries.

Introduction

The Globalization phenomenon invokes discussions and raises discourses in many countries few years ago. Some see it as another, updated and more sophisticated instrument of Capitalism in its way to dominate the world. Thus, those who are not capitalists, due of their perception or because of their limited resources, oppose and reject it. N. Hertz (2002) goes even further in her opinion that Globalization endangers Democracy. This paper does not take part in the ideological dispute. It accepts the Globalization as one of the major powers affecting world societies and economies and it tries to explain it construct, how it operates and how nations should act in order to maximize their benefit from it. After discussing the components participating in the Globalization phenomenon the author explores the last ten years occurrence in the EU. The study investigates two major variable: employment in the Service Sector and involvement in world trade-increase of exports and imports.

The analysis indicates that countries with high percentage (75-80) of employment in the service sector and a fast growth of foreign trade fit best for the demanding conditions of Globalization. During the last ten years more then half of the 15 original EU members (8 out of 15) reached this target. The 12 new EU members still have a along way to go, but they should adopt this strategy in order to accelerate their economic growth.

A. Globalization as part of the world change

Since the last decade of the 20th' Century the world is passing a process of transformation. Since the collapse of the Communist Regime the socio-economic life of many nations changed. Fifty years of tremendous technological achievements and twenty years of expanding democracy enable the emergence of the Globalization.

In another paper Avny (2006) addresses the conceptual meaning of Globalization. Here it is suffice to note its dramatic effect on the world and Europe. Similarly to US the European economy, which in the past rested on manufacturing industry, is moving to become a service-oriented one. Thus, unemployment grows since many of the traditional big industries move to China and South East Asia. European governments should take seriously this issue and should look for satisfying solutions. Relaying on the EU, its policy and ruling will not suffice for providing workable solutions. Further, we discuss the nature of Globalization and offer some recommendations for the EU new members.

B. The nature of the globalization

Globalization is among the noteworthy phenomena of the 20th Century's last quarter.

As such, it has a significant impact on both developed and Less Developed Countries (LDCs) economies. It came out and expanded due to the technological advancement, and the major advancement of the communication and transportation industries. These innovative measures enable the reallocation of manufacturing facilities to new countries and the transfer of industries from the traditional industrial nations to countries with low labor costs.. The Globalization, known also as the second industrial revolution, has a double effect on the industrial and non-industrial nations. At the short run it yields affluence and prosperity for most people in developed countries, but at the same time it causes the disappearance of many jobs in the manufacturing industries. At the long run, however, the Globalization forces the introduction of some social-economic reforms that affects and forces to reconstruct the retirement and welfare systems of many countries. For better understanding the effects of the Globalization it is necessary to address some of its major components:

1. A Global Reallocation of Industries

During the past twenty years more and more manufacturing industries moved from the traditional industrial nations to countries that have inexpensive labor force, mostly to China, South-East Asia and Latin America. This move is significant in the labor-oriented industries like textiles and apparels, light metal and basic engineering etc.

Even more advanced industries, like automobiles and aircraft companies tend to outsource great portions of their operations to subcontractors in LDCs.

One of the major results of this tendency is the vanishing of good professional jobs in the industrial nations and the growth of unemployment. In the LDCs, however, the industrial reallocation increase the demand for trained workers and contributes to the nation's economic growth. The final effect of the Globalization in this respect is that it enables the LDCs to increase dramatically their share in the global production of manufactured goods. T. Friedman (2005), a prominent writer for the New York Times, addresses this issue and especially the impact of the globalization on US relationships with China and India.

2. A Massive Expansion of World Trade Volumes.

Due to the “industrial reallocation”, the new division of labor, and the move of production and manufacturing facilities eastward, more commodities, materials, goods and products are traded in the global market. Better communication and more advanced transportation facilities shortening delivery time and enable more countries to participate in world trade.

The former national autocratic perception is loosing its ground and more and more countries increase their involvement and dependence on the global market. One can easily see how similar goods or products are available in different countries and the world is moving toward being a one-village community. All these developments cause a fast growth of the international trade and make it an important factor in the global and national economies.

3. A Rapid Growth of Merging and Acquisitions Trends

The move of industries to LDCs and the expansion of the transnational corporations to new areas initiated a rapid growth of acquisitions and merging. Although most of the corporations that led these processes were from the US and Europe, there are also examples for an opposite action. For example, the Chinese Lenovo computer company that bought IBM’s P.C. division or the Indian Mital Group that became the leader of world steel industry.

But, in general, resulting from the growing scale of trade activity, many indigenous industries are bought by, or forced to merge with international firms and multi-national corporations. In many cases these indigenous firms fail to meet the requirements of the global market or cannot survive in the throat cutting competition. The desire to use the international capital market pushes also to increase the corporation’s size and the volume of their operation. As a result, local needs and preferences are frequently delayed or rejected in favor of global considerations. Life and success become difficult for single domestic manufacturers.

4. A Significant Moves of Capital from one country to another

The expansion of global activities and the growing influence of transnational operations were followed by a significant increase of capital moves. These financial operations include direct and indirect investments in LDCs, operations in the capital and stock exchange markets in the developed countries and the creation of huge amounts of free capital moving from one country to pursuing better revenue.

These moves can be very dangerous to domestic economy and can cause a serious financial crisis in local capital markets, as was the case in South-East Asia countries in the late 1990's and in Russia few years later.

The potential dangers hidden in the international capital moves raise a basic issue of what type of relationships should be established and maintained between the local financial institutions, commercial banks and the Central Bank, and the International monetary system. This issue relates also to the ideological discourse between the advocate of a total free market activity and the supporters of a greater governmental involvement in fixing the market's failures. George Soros (1998), an American financial Guru, advocates in his book "The Crisis of Global Capitalism", some governmental intervention, because otherwise the prospects are frightening.

5. An Increased Power of Global and Regional Trade Organizations

Part of the growing effect of the Globalization is the creation of conflicts between the domestic economy and its surrounding trade organizations. Regional and international agreements dominate over many national economies and dictates activities of governments and business corporations. Although the intentions of all parties involved are good in real life some conflicts of interests are created. The classical conflict refers to the farmers in the EU countries, which even after so many years of dispute the conflict remains unsolved.

The European free common market promotes many benefits for its members, but still it cannot settle all the divergence interests. The recent joining of another ten members from East and Central Europe to the original 15 members makes the whole issue even more complicated. But, the EU Unification process is just one among other similar Inter-regional Trade Agreements, such as NAFTA or the Asian trade agreement. The situation of the World Trade Organization (WTO) is even more complicated since it refers to interests of large transnational corporations and big awakening economies like China and India.

6. A growth of Lifestyles and Consumption Patterns Similarity

The advanced technology of the global media channels, the rapid expansion of the Internet and the satellite communication networks make the world a "global village." Western styles, fashion, and habits are transmitted in real time to many countries, where people, especially youngsters, tend to imitate and copy them. For that reason China manufacture almost all American and European icons, regardless of trademark regulation and violating most of the Intellectual Property (IP) ruling.

The accumulated global demand is stronger and overcomes most of the bureaucratic limitations of the 20th Century.

In sum, the Globalization process significantly contributes to the creation of additional wealth and affluence in most developed nations and the increase of income in LDCs. It contributes also and hastens the transformation of the "Western" economy and its move from a manufacturing into a mostly "service" oriented economy. Although this influence opens new horizons for poor nations, it poses salient challenges before most of West and East Europe countries. The fact that the EU, from its own reasons, prefers to disregard this issue does not resolve the problem.

C. The effect of the globalization on EU members

It is obvious that the globalization has some impacts on Europe's economy. Although the European Union is involved for the last years in the incorporation of twelve new member-states the impact of Globalization is still remarkable. No question that the global developments affect and guide many economic decisions made by the EU members. The author chooses two aspects for demonstrating the effect of the Globalization on the economies of the EU members. These two variables are: "Employment in the Service Sector" and "Expansion of External Trade". These two variables were chosen because the first represents the outcomes of the industrial reallocation process, which changes employment structure, and the second represents the track for potential growth. All together it is assumed that the combined results well illustrate the globalization's impact on the reviewed economies.

1. Increase of employment in the service sector

As previously mentioned the Globalization caused the move of manufacturing industries from the traditional industrial nations to other parts of the globe. This move resulted with increasing the industrial unemployment rate in those countries. On the other hand, employment in the service sector rose due to the increase of external trade. This type of employment change can be used for demonstrating the impact of Globalization on national economies. This impact is stronger in countries with high percentage of employees in the Service Sector. In countries where this percentage is relatively lower and more people are still employed in local agriculture and industry, the impact of the Globalization is not so significant as demonstrated by Table 1..

Although the criterion of Employment in the Service Sector does not suffice for determining the level of development and the level of national product, it provide quite a sound indicator for these needs. Normally, countries with high degree of Employment in the Service Sector as percentage of the total employment are also those with the higher of Gross National Product (GNP) and higher level of GNP per capita. Table 1 Indicates that in the 1992-2003 period employment in the Service Sector reached the level of 70 to 80 percent of the total employment, in 8 countries of the first group of EU Members. In this group the average employment growth at the Service sector were 2 to 9%, annually. Countries of this group were and are well involved in the globalization process and it affects significantly their economy. In 7 countries of the second group, Employment in the Service Sector was lower and reached only the level of 55 to 69%. Employment in service grew here faster, 3.7 to10.1/%

annually In the 3rd and 4th groups, representing the 12th new-coming countries, Employment in the Service Sector was remarkably lower and it fluctuated from 35 to 62%.

2. A remarkable expansion of external trade

The "industrial relocation" and the new division of labor spread production and manufacturing facilities all over the globe.

As a result more commodities, materials, goods and products are moved, hauled and traded in the global market. This move caused international trade to grow and become an important factor in many economies. In this case we use the volume of exports for determining the impact of the Globalization process on local economies. Countries with large amounts of exports are more involved and affected by this process than non-export-oriented ones.

During the last decade aggregate exports of EU countries almost doubled as it grew from over 1,500 to 3,200 Billion Euros. At the same period, Imports increased similarly.

Table 2 figures show that most EU countries increased their annual exports by 200 to 300 percent during the 1995-2005 period. Countries of the first group increased their annual exports by 8 to 10 percent. Countries of the second group increased annual exports by 5 to 7 percent. Information on the 3rd group new members was recorded only from 1999 and although the percentage was high the amounts were small.

Conclusion

Globalization was and still remains an evoking issue. Although many of the former opposing groups and people vanished there are still those who oppose it ideologically, because they cannot deny its benefit contribution. This paper describes the globalization's contents in general and its specific effects on the 15 original EU members. The paper explores two variables: Employment in the Service Sector and involvement in world trade-increase of exports and imports. The findings indicate quite clear that the new members of the EU should try hard to proceed in these two areas if they wish to attain a rapid economic growth. Based on that understanding some actions should be taken by those countries (Avny 2007):

- Every Nation should find its area of expertise and competitive advantage
- Government should encourage export oriented industries
- Government should increase its investment in Infrastructures
- Government and the private sector should promote Tourism
- Government should encourage creative initiatives and entrepreneurship.

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Table 1: Employment in the Service Sector as % of Total Employment 1992-2003

	Country	1992	1998	2003	1992-2003 Change %	GNP per capita 2005
	EU 15	65.3	68.7	71.4	6.1	
	EU Zone	63.3	67.0	69.2	2.2	
	Group I					
1	United Kingdom	75.0	76.6	80.4	5.4	37600
2	Netherlands	71.9	75.8	77.7	5.8	36620
3	Luxembourg	67.6	73.0	77.2	9.6	
4	Belgium	71.0	74.2	75.6	4.6	35700
5	Sweden	72.8	72.8	74.8	2.0	41060
6	Denmark	70.6	72.2	74.5	3.9	47390
7	France	68.4	72.5	74.3	5.9	34810
8	Germany	61.2	66.8	70.3	9.1	34580
	Group II					
1	Finland	63.6	65.9	68.9	5.3	37460
2	Italy	61.8	64.3	66.5	4.7	30010
3	Ireland	58.3	62.2	65.8	7.5	40150
4	Spain	61.6	63.9	65.3	3.7	25360
5	Austria	55.6	59.9	63.3	7.7	36980
6	Greece	50.5	57.7	60.6	10.1	19670
7	Portugal	55.2	51.4	55.0	-	16170
	Group III					
1	Hungary	-	58.0	62.3	4.3	10030
2	Estonia	-	58.2	61.5	3.3	9100
3	Slovakia	-	56.2	61.5	5.3	7950
4	Latvia	-	55.8	60.8	5.0	6760
5	Czech Republic	-	53.5	56.1	2.6	10710
6	Lithuania	-	-	54.1	-	7050
7	Poland	-	48.8	53.0	4.2	7110
8	Slovenia	-	-	52.3	-	17350
	Group IV					
1	Bulgaria	-	43.2	46.4	3.2	
2	Romania	29.9	31.2	34.9	5.0	
3	Turkey	-	-	43.3	-	

Source: Eurostat

Table 2: Increases of Imports and Exports, Billon Euro and Percentage 1995-2005

		Imports (Billion Euro)				Exports (Billion Euro)			
		1995	2005	1995-2005 Change		1995	2005	1995-2005 Change	
		Euro	Euro	Euro	%	Euro	Euro	Euro	%
	Group I								
1	Ireland	21.5	54.7	33.2	**254**	28.6	88.3	59.7	309
2	Austria	45.5	101.5	56.0	**223**	37.9	100.0	62.1	264
3	Netherlands	120.1	288.6	168.5	240	128.9	323.5	194.6	251
4	Spain	74.7	224.2	149.5	**300**	64.5	150.5	86.0	233
5	Belgium	107.1	256.2	149.1	239	119.1	268.8	149.7	226
6	Germany	320.6	622.2	301.6	194	358.9	780.2	421.3	217
7	Finland	19.6	47.4	27.8	**242**	25.0	53.1	28.1	212
8	Sweden	43.5	89.4	45.9	206	51.5	104.6	53.1	203
9	Portugal	22.8	49.2	26.4	216	15.1	30.7	15.6	203
						858.1	1899.7	1041.6	221
	Group II								
1	Denmark	30.9	61.0	30.1	197	35.6	68.5	32.9	192
2	Italy	142.2	305.7	163.5	**215**	160.9	295.7	134.8	184
3	Un. Kingdom	196.8	410.1	213.3	208	172.4	307.7	135.3	178
4	France	206.8	400.2	193.4	194	210.7	370.0	1593	176
5	Greece	18.1	43.5	25.4	240	7.9	13.8	5.9	175
6	Luxembourg	-	17.5	-	-		14.8		
						587.5	1070.5	483.0	82
	Group III								
1	Poland	10.6	81.2	70.6	766	25.7	71.9	46.2	280
2	Czech Republic	26.7	61.7	35.0	232	24.9	63.0	38.1	**253**
3	Hungary	26.3	53.1	26.8	202	23.5	50.2	26.7	214
4	Lithuania	4.4	12.4	8.0	282	2.6	9.5	6.9	**365**
5	Estonia	3.2	8.1	4.9	253	2.3	6.2	3.9	270
6	Slovakia	10.6	28.4	17.8	269	9.6	25.8	16.2	269
7	Latvia	2.8	7.0	4.2	250	1.6	4.2	2.6	263
8	Slovenia	9.5	16.3	6.8	172	8.0	15.4	7.4	193
						98.2	246.2	148.0	251
	Total					**1543.8**	3216.4	**1672.6**	**208**

Source: Eurostat