POSITIVE AND NEGATIVE EFFECTS OF GLOBALIZATION

Alexandru OLTEANU*
Madalina Antoaneta RADOI

Abstract

We still live in Europe, in one of the richest regions of the world. Most of us still have a well paid and secure job. And yet social security is ensured for all of us, even for the less privileged persons. These gains seem to be endangered by the growing competition from abroad, which steals the productive potential and the jobs of the European economy. Has the pressure on the European economy by means of the internationalization of the economy really intensified in as far as it is claimed? Is it true that globalization has enhanced in recent years in such a dramatic way? The analysis shows us that we should make some distinctions.

Keywords: *The global market, international trade, interregional, economic location, capital liberalization, global players, financial flows, direct investment exchange*.

Introduction

Since the early '80s trade has developed a lot, increasing by approx. 7% per year. This impressive growth is relative, if you consider historically the development of international trade and the share of world export in the achievements of the global economy.

Since 1870 5% of world production has been exported. Only after 1960 the internationalization of world trade has taken place and this made the connection with the level reached before the period immediately preceding the First World War. It was an ongoing and difficult process, until world trade increased and reached today's record levels. In recent years the share of the world export in the world economy has increased by 15% (85% – so, the biggest part of the global social product – remains as before on the national markets for domestic consumption).

An analysis of the countries shows that domestic markets have a much greater role for national markets than it has been considered till now.

Japan's foreign trade is not more than 10% of the gross national product. The orientation of the U.S. economy towards domestic markets is well known. Only maximum 10% of the U.S. economic achievements go abroad. And, although it may arouse surprise, the European Union is not less oriented towards its own market. The contribution of foreign trade to the gross domestic product has a value of up to 10%.

As a result of a more attentive analysis, the figures of foreign trade become relative also for Germany. With a share of more than 25%, the German economy is still relatively export-oriented. But almost two thirds of the foreign trade is conducted on the European internal market, in other words, interregionally. Thus the export in the extra-European countries is reduced up to almost 10% of the domestic product.

In coming years, the volume of the world trade is likely to resume its trend. The conventions within GATT, the Customs and General Conventions liberalized global trade in key areas. It is expected that it will increase more than the global social product.

* PhD. Professor, Dean of Faculty of Economic Sciences, "Nicolae Titulescu" University, Bucharest.

In future, interregional trade will grow more than the trade with countries outside the region, because the markets within the regions have developed to an extent far greater than those between the blocks. The European Union is the most advanced on the way to free interregional trade. Other initiatives known as the North American Free Trade Association (NAFTA) - comprising the U.S.A., Canada and Mexico, Asia-Pacific Economic Cooperation (APEC) - with 18 countries of the Asian and Pacific areas (including USA and China) and MERCOSUR with Argentina, Brazil, Paraguay and Uruguay, will form a conjoint market for a middle and long term. This forecast is also valid for many other regional economic unions.

The lack of action of the states

Not only the World Bank believes that the globalization of the economy makes "opportunities to make decisions increase in the case of individuals and businesses and decrease in the case of politicians."

The alleged "Constraint of the global markets" seems to expose states to a ruthless economic competition for the economic location. Governments are responsible for this situation. Because they founded internationalization by liberalizing trade and capital and by encouraging the almighty concerns, that may also exist on the world market.

Transnational firms cannot be judged if they behave according to the maximum increase of earnings. This fully accords with the theory of national economy.

The problem is that these companies have no obligations to anyone and they can be controlled with difficulty.

The management of transnational companies suggests that they work for the benefit of the national states and invokes employees' solidarity and state support "for the common weal". And they get it in many forms.

"Global Players" need free trade. It allows them to produce where it is cheaper and to sell where they can obtain the highest prices. Thus, there is pressure on the economic sectors that can not cope with international competition. Internationally, the state should skillfully handle the situation in between widening free trade, in order to ensure exports, and a form of protectionism, that protects the industries endangered by imports. On the national level it must act against the disappearance of individual industries and mitigate the loss of jobs from a social point of view. These constraints lead to subsidies in the sectors of agriculture, coal and steel, shipbuilding and aviation. And the competition for foreign investments triggers expenses for the state. In order to attract national and international capital, governments compete promising advances made by the State to economy. They consist in the provision of facilities, special services in infrastructure, fast approval procedures and reduced taxes. To these there are also added the capacity to recover, in the ratio of 100 %, the costs of construction of corporate and income tax, an exemption for ten years from the tax on land and minimal expenses of planning and production.

Referring to global competition, the economy tries to impose on governments the reduction of taxes on business. It requires capital market and labor market deregulation to diminish costs - such as the cancellation of the protection from layoffs or limiting employment contracts, and the reduction of social protection measures, in order to cut side payroll expenses.

For its own interests, the economy handles even high-level politicians. State presidents or prime ministers regularly travel abroad, being accompanied by an escort of managers, in order to attract large contracts for their economy. And the French and the Americans consider this to be an important field for foreign policy.

In the field of financial and monetary policy, the possibilities of action of the states are severely limited by the expansion of the international financial markets. The national monetary policy becomes more difficult. Smaller and weaker national economies are already deprived of the political-economic tool - which is called the financial and monetary policy.

Even if the states obey the constraint of the global market, they can not be sure of success in the form of jobs and tax revenues. Businesses do not make promises for long-term jobs, invoking the uncertainty of the medium and long term business. They avoid the profit taxes by transferring profits to countries with low taxes or tax-free oases.

Free trade: a danger to prosperity and social justice?

Trade and the international division of labor have increased. At the same time, the gaps between the rich and poor have widened.

The gap between the lower stratum and 20% of the upper layer of the world's population has increased since 1960 more than two times from 1:30 to 1:61, the number of poor people has increased since the 70s, and it has been emphasized since 2007, after the financial and economic crisis, with several hundred million. Clean water, adequate nutrition, healthcare and school education are missing for 1.3 billion people.

Unregulated free trade contributes to this misery. According to a Worldwatch Institute research project, production for rich countries destroys the life of the poor.

And as regards the application of the decisions of the last GATT round, the experts on development issues suspect that the situation regarding the food supply for the third world will be worse. The continuation of the export of cheap food surpluses from the U.S. and the EU towards developing countries causes the destruction of the local agriculture and increases the dependence on foreign food suppliers.

Developing countries try to balance the negative consequences of free trade. They attract foreign investments by means of favorable conditions of the economic location, such as low costs for their work, low or nonexistent social and environmental standards. Industrialized countries oppose this competition, lower production costs. They rationalize.

Both production in the countries where wages are low and the destruction of well-paid jobs, result in loss of income for employees. But if the masses' incomes decrease worldwide then the demand also decreases. The danger of a recession, and of a global economic crisis, as that one in the early 30s, can not be excluded at present anymore.

A free trade without order hides the danger of an international competition to reduce costs and a destructive competition as regards the economic location. Thus mass welfare is endangered, social security is broken and the state is in debt. For a long term businesses do not take advantage of this either. They may earn something only as long as they can sell.

And the level of social security has been increasingly questioned. Businesses and employees can not be further burdened by growing taxes and social charges. The conclusion is therefore that we should save even more. This austerity policy is tightened by the agreements related to the European monetary union. They require that States participating in the monetary union to have a low inflation rate (1.5-2%) and to maintain the official deficit at a low level (3% of GDP). However, the consequences of a recession provoked by an exaggerated policy focused on saving and production costs reduction, represent a loss of wealth and a higher unemployment rate.

The dominant opinion is that the global market requires the elimination of rules and more flexibility. The normal labor relationship is eliminated widely. More and more people are working unprotected, often without social protection and without their consent, with a reduced term.

Accelerated globalization can enhance welfare on earth. For this, we must give up the competition regarding lower production costs and the misunderstood competition concerning the economic site/location. The dumping on wages, the environment and social protection endanger the welfare attained by industrialized countries, hampers the improvement of living conditions in developing countries and may even end up with an economic crisis. Therefore, the economic policies of all the countries participating in international trade should seek to guide their national economies and the global economy on the whole, on the road towards a prosperous development.

Conclusions

World trade and extra-economic interdependence of businesses have started after the Second World War at a low level, but continuously increasing in the meantime. This trend has continued in recent years, but has not increased in any case dramatically.

Trade and financial flows and the exchange of direct investments essentially represent the triad of U.S.A., Japan and the European Union. And China comes immediately after them. Within the regions mutual ties grow. For the European economies it is more appropriate to talk about "Europeanization" rather than "globalization."

Within the triad of U.S.A., Japan and the European Union, completed by China, there began a competition to lower the expenses of production costs. It can not be justified by the growing competition of the countries that do pay lower wages, but it is the result of a wrong economic policy, promoted by industrialized countries. It jeopardizes economic growth.

In Europe, international competition has resulted in a redistribution of income and assets. In the group of employees, those with high qualification earn more and more, while those less able to have good results and the growing number of unemployed workers must accept lower revenues. The significant redistribution of income is that from those who have capital, because the free movement of capital allows the capital owners to blackmail the employees and the unions, threatening them with outsourcing.

In this way, we reach an apparent shift of power from labor to capital. This is actually "globalization." In Europe, it can be controlled through a policy-oriented economic growth and employment. Beyond this we need international agreements to prevent competition, to lower costs through wage dumping, environment and social protection and to help all countries and the world economy to move towards a prosperous development.

Nowadays, a key issue is the stabilization of the European financial-banking markets in U.S.A. and Asia, by strengthening the regulations and supervising the coordinates prudentially.

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