

# THEORETICAL ASPECTS OF ECONOMIC GLOBALIZATION IMPACTS ON EMERGING ECONOMIES

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## Introduction

The main object of this article is economic globalization. The problem of the research could be defined as: how economic globalization influences emerging economies of the world. The principal purpose of the article is systemization and description of knowledge and information (found in a large number of sources) about the globalization concept, economic globalization concept, today's emerging economies of the world and to present a coherent overview on such aspects as the evolution of developing economies to emerging economies, main drivers of economic globalization in emerging economies, challenges emerging economies face in a new globalized economic system.

Conducting theoretical studies of impacts of economic globalization on emerging economies the method of comparative analysis and systematization of scientific literature were employed.

## The globalization concept analysis

The term "globalization" is widely used in various sources of literature. Many authors refer to it in different ways. Croucher (2004) defines globalization as a combination of economic, technological, sociocultural and political forces. Friedman (2008) has an opinion that globalized trade, outsourcing, supply-chaining, and political forces have changed the world permanently, for both better and worse. The author states that the pace of globalization is quickening and will continue to have a growing impact on business organization and practice. Palmer (2004) defines globalization as "the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result. Globalization is „...a widening, deepening and speeding up of interconnectedness in all aspects of contemporary social life from the cultural to the criminal, the financial to the spiritual“ state scholars Held and McGrew (1999).

Globalization is not a new phenomenon. It began in the late nineteenth century, but its spread slowed during the period from the start of the First World War until the third quarter of the twentieth century. This slowdown can be attributed to the inward looking policies pursued by a number of countries in order to protect their respective industries - states Friedman (2008). The process of globalization accelerated during the eighties and is growing and developing ever since.

Very often the term globalization is used interchangeably with the term internationalization. Many authors (Capra (2002), Fritjof (2002) Zarsky, (2002) believe that this usage is conceptually incorrect, because "internationalization" refers only to the importance of international trade, relations, treaties and etc., for as globalization, as such, encompasses much more dimensions. (See table 1)

**Table 1.** Forms of globalization

Form of globalisation	Description
Competitive	In order to survive on the new vast global market arena companies must adopt new strategies practically in every field of their business. Many competitors are forced to leave the market or look for the new niches. (Scherer, 2007)
Cultural	The development of cross-cultural contacts spread of multiculturalism and the birth of a new phenomenon called "world culture".
Ecological	The main issues of ecological globalization are global warming and pollution
Economic	A greater global connectedness of economic activities, through transnational trade, capital flows and migration.
English language	English is the most popular language in the world. About 75% of the world's mail, telexes, and cables are in English. Approximately 60% of the world's radio programs are in English. About 90% of all Internet traffic uses English. Using one common language increases communication, and at the same time stimulates the process of globalization.

Financial	The creation of global financial markets and diminished barriers for external financing.
Industrial	Development of worldwide production markets, diminishing of limits (time, distance and others) between manufacturers and consumers. Accelerating free movement of goods, materials, labor.
Informational	The use and rapid development of satellites, telephone and Internet and other means of communication and data transmission connect geographically remote locations.
Legal/Ethical	The creation of the International criminal court, The Hague Tribunal, and other international justice organizations.
Political	The creation of such global organizations as World Trade Organization, World Bank, and International Monetary fund, “which regulate the relationships among governments and guarantees the rights arising from social and economic globalization” – states author Stipo (2007)
Social	The creation and development of the system of non-governmental organizations as main agents of global public policy, including humanitarian aid and developmental efforts (Zaleski, 2006).
Technical	The creation and development of a global telecommunications infrastructure and technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones make the distances fade.

These dimensions can (and are) often analyzed from a separate point of view, but it is essential to note that each and every one of them have powerful interconnections and function as a unified process.

As noted before globalization has many significant dimensions such as: social, cultural, institutional and political and other, although economic integration is considered to be a dominant feature.

### **The economic globalization concept analysis**

Although Economic globalization is a widely used phrase many authors refer to it differently. Tanaka and others (2005) refer to economic globalization as: a dynamic and multidimensional process of economic integration and whereby national resources become more and more internationally mobile while national economies become increasingly interdependent. Economic globalization means the greater global connectedness of economic activities, through transnational trade, capital flows and migration – states Douglas (2006). Osterhammel and Petersson (2008) note that, when used in an economic context, economic globalization refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labor.

Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology - outline authors Bhagwati and Jagdish (2004).

According to Podobnik (2008) the mainsprings of economic globalization are: international trade, foreign direct investment, the activity of multinational firms and the production and international diffusion of technology.

Authors Maksvytienė, Urbonas (2003) consider that economic internationalization is one of the ingredients of growing international competitiveness.

Economic globalization can be measured. There are four main economic flows that characterize globalization: goods and services, labor and people, capital, technology. One of the most authoritative economic globalization index (KOF) is concluded every year in Switzerland, Swiss Federal Institute of technology in Zurich. The KOF-index of globalization measures the three main dimensions of globalization: economic, social, and political. In addition to three indices measuring these dimensions, an overall index of globalization and sub-indices referring to actual economic flows, economic restrictions, and data on personal contact, data on information flows, and data on cultural proximity is calculated. The data is available on a yearly basis for 122 countries, as detailed in Dreher, Gaston and Martens (2008). According to the index, the world's most globalized countries (in descending order) are Belgium, Austria, Sweden, the United Kingdom and the Netherlands. The least globalized countries according to the KOF-index are Haiti, Myanmar the Central African Republic and Burundi.

## The emerging economies of the world and their features

The term “emerging economy” is used to describe a countries outstanding social or business activity in the process of rapid growth and industrialization. Emerging economies are countries that are restructuring their economies along market-oriented lines and offer a wealth of opportunities in trade, technology transfers, and foreign direct investment. The World Bank estimates, that, the five biggest emerging economies today are China, India, Indonesia, Brazil and Russia. The second group, evolving not so rapidly includes Mexico, Argentina, South Africa, Poland, Turkey, and South Korea.

According to FTSE Group, the advanced emerging economies are: Brazil, Hungary, Mexico, Poland, South Africa, Taiwan. Based on the estimations of FTSE the secondary emerging markets are Argentina, Chile, China, Colombia, Egypt, India, Indonesia, Malaysia, Morocco, Pakistan, Peru, Philippines, Russia, Thailand, Turkey. *The Economist* journal gives the following list of big emerging economies: Brazil, China, Egypt, India, Indonesia, Mexico, Poland, Philippines, Russia, South Africa, South Korea and Turkey. These countries made a critical transition from a developing country to an emerging market. Each of them is important as an individual market and the combined effect of the group as a whole will change the face of global economics and politics.

Podobnik (2008) states that emerging economies can be distinguished by four dominant features:

- regional economic powerhouses;
- usually large or very large populations;
- large resource bases (oil, coal, gas and etc.);
- voluminous markets.

Economic success of the emerging economies usually spurs development in the neighbor countries, but on the other hand, if an emerging economy, as a economic development driver for the whole region, experiences a crisis, it is usually the neighbor economies that face a bigger down fall effect. Emerging economies very often are transitional societies that are undertaking domestic economic and political reforms. They adopt open door policies to replace their traditional state interventionist policies that failed to produce sustainable economic growth. Emerging economies, the world's fastest growing markets, contribute to a great deal of the world's explosive growth of trade (Podobnik, 2008). They are also becoming more significant buyers of goods and services than industrialized countries. Most important emerging economies are critical participants in the world's major political, economic, and social affairs. As rapidly growing new force, emerging economies are seeking a larger voice in international politics.

## Key drivers of economic globalization in emerging economies

According to Tanaka and others (2005) the three major forces have contributed importantly to the globalization process in emerging economies:

- i) the liberalization of capital movements and deregulation, of financial services in particular;
- ii) the further opening of markets to trade and investment, spurring the growth of international competition; and
- iii) the pivotal role played by information and communication technologies (ICT) in the economy.

Scholars believe that reacting to these processes firms have been changing their behavior and market strategies in order to step up with the progress. However it is not only the private sector that has largely accelerated the spread of economic globalization. Governments (in the role of international organizations, departments and etc.) have first created GATT (General Agreement on Tariffs and Trade), then the WTO (World Trade Organization), which have largely contributed to the rapid globalization process, unification of markets through reduction of tariff and trade barriers. Furthermore, a number of emerging economy countries (especially Asian) has taken a new course of deregulation and liberalization of the economies and opening up their markets. Another impact, more historical, is the demise of central planning in former Soviet Union countries and their integration into international trade arena. Author Yip (2003) states that there are four types if economic globalization drivers: market, cost, governmental and competitive.

The OECD handbooks on Economic globalization indicators define the following features of economic globalization:

**Table 2.** Features of Economic Globalization

**General aspects:**

- Reduction of barriers and trade.
- The high integration of financial markets is increasingly impacting on the conduct and performance of the industrial sector.
- Foreign direct investment is becoming a crucial factor in the world-wide process of industrial restructuring and the development of genuinely global industries.
- Multinational firms constitute one of the main vectors of economic internationalization.
- Close linkages between trade and direct investment.
- Evolving multilateral frameworks for trade and investment.
- Internationalization of production: multinational origin of product components, services and capital often characterized by co-operation or subcontracting agreements amongst firms.
- Location strategies for activities of multinational firms are strongly influenced by the comparative advantages of countries and regions.
- A significant proportion of world trade has become intra-firm.
- Accelerating international dissemination of technology and simultaneous shortening of the cycle of production and technological innovation.
- Simultaneous competition in markets between numerous new competitors from all over the world, places acquired positions at risk, necessitating extremely rapid structural adjustments in numerous areas.
- Substantial interdependence of the various dimensions of globalization (trade, direct investment flows, technology transfers, capital movements, etc.). High degree of integration of national economies, but also significant risks of contagion following economic and financial shocks in certain regions, which may spread to other regions not necessarily involved.
- Compression of time and distance in international transactions and reduction of transaction costs.
- Multiplication of regional free-trade organizations.

**Microeconomic aspects:**

- Global strategies adopted by firms may include:
  - Global conception of markets.
  - Multi-regional integration strategy
  - Changes in external organization of multinational firms (e.g. mergers and acquisitions rather than Greenfields, cooperation agreements and alliances, international subcontracting, worldwide network structure)
  - Changes in international organization (e.g. just-in-time flows, outsourcing, smaller average production units, individualization of tasks and pay, less emphasis on hierarchical relationships, need for greater transparency, and for corporate governance regulations, etc.).

Analyzing many of emerging economies, most of the above mentioned features can be easily identified. The more an emerging economy is globalized the more features it encompasses.

### **Economic globalization as a driver for creation of emerging economies**

Many scientists (Stiglitz (2002), Capra (2002), Fritjof (2002), Wade (2001)) agree that the two main factors of the emergence and development of emerging economies: the failure of state-led economic development and the need for capital investment. First, government administered economic development was unable to produce sustainable growth in the countries of traditional development. This had a very negative impact, but this stage was a step stone for governments to adopt open door policies, and to change from the government's being in charge of the economy to letting the market itself facilitate the economic growth with a mere intervention of the state. Second, the emerging economies desperately needed capital, foreign direct investment to finance their development. Unfortunately, traditional government borrowing failed to fuel the development process. Some time before, it was common, that governments of the developing countries borrowed either from commercial banks or from foreign governments and international lenders as the IMF and the World Bank. This often resulted in economic imbalance and heavy debts. The past track record of many developing countries also demonstrates their inability to properly manage and efficiently operate the borrowed funds to support economic growth states Hurst (2005). In light of the unsatisfactory results of government borrowing, developing countries began to rely on equity investment as a means of financing economic growth. They seek to attract equity investment from private investors who will

become their partners in development. To attract equity financing, a developing country has to establish the preconditions of a market economy and create a business climate that meets the expectations of foreign investor states Hurst (2005) This change in financing sources thus became another factor leading to the rise of emerging markets. Moreover, all emerging economies have undergone significant changes in the structure and strategies of trade, had to adopt the spread of technology.

### **Effects of economic globalization on emerging economies' labor force**

Economic globalization has had exclusive impact on emerging economies' labor force. Firstly, the rapid emergence of working places created. As noted before, emerging economies not only spur development in the neighbor countries, but also attract labor force to them. Thus workforce demographics in emerging economies are characterized by a vast diversity in terms of age, gender, ethnic and racial background, and a variety of other demographic factors. In fact, management of diversity has become one of the primary issues of emerging economies businesses – state Kiely (1998), Sutcliffe (2001). Also such trends as outsourcing (recently knowledge outsourcing is seen as the highest growing business in the coming decade – state Snieška and Drakšaitė (2007)) and offshoring are a direct result of economic globalization have created a work environment in which cultural diversity can become a great problem. A German company where punctuality is important and meetings always start on time faces problems if it opens a headquarter in Brazil or Mexico, where being 10 to 15 minutes late to a meeting is considered acceptable: being on time is called ‘British Time’ – explain Morris and Douglas (2003). There has been a lot of critics about “export poverty” as one of the aspects of economic globalization. Todaro (2000) argues that people of developing countries are being exploited as a cheap labor force and benefit gained goes only to the expansion of private businesses and corporate growth. On the other hand, these are earliest occurrences of economic globalization in former developing countries, now many of them emerging economies. In the long run, wage rates gradually increase.

### **A pace from developing markets to emerging markets challenges of in a globalized economic system**

As the effect of economic (and other forms) of globalization many developing countries of the past today have become emerging economies having a tremendous impact on worlds economy. Traditional understanding of a developing market is no longer correct. Investment in prospective markets is replacing assistance for a developing country. Moreover, emerging markets are rationalizing their trade relations and capital investment with industrialized countries and already are key partners in trade. As scholars Bernatonytė, Normantienė (2007) note, an increasing part of intraindustry trade in the volume of global trade is of the importance to the changes of economy, export and import structure of separate countries. This leads to changing nature of international trade and its structure of goods. Affected by modern globalization process, trade and capital flows are directed by new market opportunities, but not by political opinions and decisions. The increasing two-way trade and capital flows between emerging markets and industrialized countries reflect the transition from dependency to global interdependency. The accelerated information exchange, especially with the aid of the Internet, is integrating emerging markets into the global market at a faster pace.

In the process of creation of market driven economies and to ensure sustainable growth, emerging economies still face big challenges that come from fundamental problems associated with their traditional economic and political systems. A market driven economy requires emerging economies to redefine the role of the government in the development process and to reduce the government's role. Essential problem in emerging economies is still live (and sometimes growing) corruption, which destabilizes the business environment and triggers the development and growth processes as it becomes the major obstacle for foreign investors (V. Snieška, 2008). Nevertheless, the greatest challenging task for emerging economies is to undertake structural reforms with their financial system, legal system, and political system, so as to guarantee a disciplined and stable economy that is relatively free of political disturbances and interference (Easterly, 2001). Due to the globalization and integration of the countries with transitional economics into the global market, not only increases the degree of risk for enterprises practicing economic activity, but there also occur various ways of risk reduction in the level of the enterprise and state – indicate Startienė and Remeikienė (2008)

## Conclusions

The term “globalization” is widely used in various sources of literature. To summarize it is a complex combination of economic, technological, sociocultural, political and other forces. Economic globalization is a widely used phrase by many authors and it could be defined as a dynamic and multidimensional process of economic integration and whereby national resources become more and more internationally mobile while national economies become increasingly interdependent. Economic globalization means the greater global connectedness of economic activities, through transnational trade, capital flows, migration and etc. Economic globalization is the key factor in the emergence and development of emerging economies (countries that are restructuring their economies along market-oriented lines and offer a wealth of opportunities in trade, technology transfers, and foreign direct investment). There are several different estimations, but it obvious that the most outstanding emerging economies today are China, India, Indonesia, Brazil and Russia.

After a comparative analysis of literature it became clear that the main for drivers for economic globalization in emerging economies are: the liberalization of capital movements and deregulation of financial services, the further opening of markets to trade and investment, spurring the growth of international competition; and the pivotal role played by information and communication technologies (ICT) in the economy.

Economic globalization has had exclusive impact on emerging economies’ labor force. The flow of the investment first comes to regions to exploit cheap labor force, but with time, this impact becomes a positive one, as the wages gradually rise.

It is obvious that the two main factors of the emergence and development of emerging economies are: the failure of state-led economic development and the need for capital investment. It is mainly the economic globalization process that makes a developing economy become an emerging economy.

While in the process of developing, ensuring sustainable growth, emerging economies still face big challenges like: corruption, growing competition, political disturbances and interference.

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