

GLOBALIZATION OF THE WORLD ECONOMY

Dušica KARIĆ, Dragana LABOVIĆ, Slobodan ŽIVKOVIĆ

ALFA UNIVERZITET, 11000 Beograd, SERBIA, E-mail: drlabovic@eunet.rs

Abstract: Globalization is an expressed *integration in the world economy*, which is based on five mutually connected factors, such as: international trade, financial flows, communications, technological advantages in transport, electronics and mobility of population, especially labour.

The globalization is generally referred to as *economic phenomena*, ability to connect people by economic interests, even if they are on ideologically opposite sides. Economic globalization is aimed at accepting the rules of market economy, which results in the formation of free market, free flow of capital, labour and ideas, as well as the formation of a unique currency.

Involvement of Serbian economy in the flows of global changes is not only a big challenge, but a complex task as well. The only way for small countries to avoid the isolation and simultaneously preserve authentic values to the extent required, is to know how to use positive and how to minimize the negative effects of these processes.

Key words: globalization, integration, global economy, strategic alliances, global competition.

1. INTRODUCTION

Globalization process, primarily due to the achievements of the means of transports and communications, has turned our planet into a global village. Great possibilities, which are provided by the division of labour and comparative advantages of countries, have been created. *Standardization* is the essence of the globalization process of world production and trade. Mere acceptance of standards does not mean that the obstacles for their full and effective implementation in all countries have vanished. The reasons for that are various languages, currencies and their stability, the level of economic development, tradition, culture, but also the regional detention in some parts of the world.

Contemporary economic flows in the world economy, and particularly the movements within regional integrations, are becoming increasingly dynamic and in advance directed by coordination of economic policy in international economic regional integrations. Scientific-technical revolution has set the technological factor into the role of the crucial driver of economic growth and it has initiated the powerful process of reindustrialization of the developed Western countries, and not only them. In such circumstances, with the growth of interdependences of national economies and increasingly expressed need of "resisting" to the American and Japanese competition (in some high-technology fields of domination), the formation of unique internal market of EU, i.e. European Economic Area, is almost completed.

Creation of the *European Economic Area* is a process that is ongoing, but it gains in dynamics. One thing is sure, when that market really becomes unique, all those who work on them will be faced with much more severe competition than before, and thus there will be a lot of those who will not survive in that competitive game. By creating a unique European space, we will come to the increase in work productivity and internal division of labour in the countries of EEA, which will make the European international companies even stronger in the production, technological and marketing sense.

Serbia's participation in global processes, in a way to maximize own benefits or minimize own losses, is a developmental need and the interest of our society. By the appropriate developmental policies, adapted to globalization requirements, Serbia needs to protect national interests in global processes, acquiring the increase of gross domestic product

and improvement of life quality on the basis of the efficient engagement and utilization of resources.

2. SUBJECTS OF THE ECONOMIC SEGMENT OF GLOBALIZATION

The world economy is increasingly institutionalized, it receives its specific organizational outlines and financial organization, regional economic groups and integrations, which determine behaviour rules of the most important economic participants on the world market scene, by coordinating their economic activities at global, world level, more or less successfully.

Generally, globalization is an increased *integration in the world economy*, which is based on five interrelated factors, such as:

- International trade,
- Financial flows,
- Communications,
- Technological advantages in transport, electronic and
- Mobility of population, especially labour [8].

Pillars of contemporary global multilateral economic system consist of International Monetary Fund – IMF, World Bank – WB and World Trade organization – WTO.

Establishment and continuous development of *global economic system* is an expression of the general aspiration of nations and states of the world to jointly seek and provide the answers to numerous economic and political challenges and problems of the modern world (monetary, financial, trading, developmental, environmental etc.), which are of direct relevance for economic progress of each individual country, for more successful overcoming of their own economic difficulties, current and long-term, which they encounter during their development.

Globalization is often referred to as an *economic phenomenon*, ability to connect people by economic interests, even if they are on ideologically opposite sides. Economic globalization is aimed at accepting the rules of market economy, which results in the formation of free market, free flow of capital, labour and ideas, as well as the formation of a unique currency. As the driving force of globalization, there appear multinational interests, which bypass all the existing communities, including sovereign nation-states, and which resulted from the need of national companies for gaining profits. Openness to market, international integration and revolution in knowledge economy are shaping the globalization as a process with fewer possibilities of the states to influence the economic processes. These are the reasons for which the globalization is in the focus of modern economic literature [5].

Fundamentals of contemporary global, multilateral economic system are established in the end of World War II, in the summer of 1944, in Bretton Woods, New Hampshire (USA). Representatives of 44 states, with the leading role of USA and Great Britain, determined, by Bretton Woods Agreement, the structure of post-war international monetary and financial system. International Monetary Fund – IMF and World Bank – WB were established, as well as a specific *system of fixed exchange rates*, also called „Adjustable Peg“.

In addition to IMF and WB, the establishment of *WTO* as a separate international body for encouragement of trade development worldwide was also suggested on Bretton Woods conference. The agreement wasn't reached. The interests of participants of that international conference were divergent, as well as their contemporary view of the significance and perspective of international trade.

By Havana Declaration from 1948., *General Agreement on Tariffs and Trade- GATT* was established as a temporary and transient solution until the foundation of the World

Trade Organization, within which eight rounds of multilateral trade negotiations on the reduction of tariff rates were held until 1993.

As a result of historical processes and structural changes that occurred on economic and political scene of the world during the second half of the twentieth century, on April 15th 1994, fifty years after Bretton Woods conference, WTO was founded and began to work on January 1st 1995.

In the meantime, there were **numerous economic organizations** (economic and financial) created as an expression of a growing interdependence between the states, as well as the needs of their mutual communication in an appropriate institutionalized form. Their usual division is into: (1) international economic organizations within the system of United Nations (UN) and (2) international governmental and non-governmental economic organizations.

In the same way, **numerous regional economic integrations** (European Union, NAFTA, MERCOSUL, ASEAN, SAARC, EKOVAS, COMESA etc.) were created, as well as the opened processes of interregional and global economic connections and integration between the states and the world, such as FTAA (Free Trade Area of the Americas), AFTA (ASEAN Free Trade Area), SAFTA (South Asian Free Trade Area) etc. the largest part of the world trade is carried out between members of those integrations.

Entities in international economy are divided to those which directly perform production and foreign trade affairs (various types of production and service companies), those that perform financial affairs (banks and insurance organizations) and those that determine economic conditions by the system of economic instruments (states and bodies of state administration, including international institutions) [6].

At the global level, **the appropriate legal system was also established**, with its international legal institutions (courts, commercial arbitrations etc.) that, among other things, take care about respecting the concluded bilateral and multilateral interstate agreements on the movement of goods, capital and labour outside the nation-states.

In particular cases, the resolution of commercial disputes between market participants within the given state is also transferred to the jurisdiction of international legal institutions.

3. GOALS OF THE GLOBAL ECONOMY

Global (International) economy as a science has, among many others, **two global strategic goals**: (1) to provide the conditions for achievement of sustainable development of the world economy; and (2) timely resolution of the global economic problems and coping with challenges.

1. Sustainable development of the world economy. The world economy is not either complete or perfect mechanism. It does not exist as a homogeneous economic organism, composed of identical tissue, but as a multitude of different national economies, various national and multinational companies, regional economic groups and integrations, as well as other economic participants that are linked by the interests, often very contradictory, which are neither easy nor simple to harmonize. The quality of already existing mechanisms of global harmonization and coordination of the world economy has not reached the achieved level of interdependence between national economies within it.

Objective **contradiction of the modern world**, as well as of each individual national community and the state is expressed, ultimately, in the scarcity of all production factors (global resources), on one hand, and boundlessness of human needs for goods and services, on the other hand.

The exit from those contradictions is in a faster, more stable and more balanced development of global economy, and more than that. It is not only about obtaining the

appropriate growth rate of global economy and increase of general material welfare of the people in the world, but it is, simultaneously, about the preservation of the living environment, affirmation of human rights and freedoms, development of democratic values and institutions in each state community and region throughout the world [1].

Economic development of the global economy, which includes all those components, is **sustainable development**. Achievement of sustainable development of economic growth is a global goal, complex and far-reaching. Environmental problems have become first-class global economic and political problems, which can successfully be solved only on the global level, with multilateral coordinated action of all states and nations of the world.

Sustainable development is a precondition for a healthy environment. Resolution of the resulting environmental issues requires major new investments, but it also means the loss of many profits that some big multinational companies and states will not give up that easily.

Those are the main reasons for which many global political agreements on significant elements of sustainable development, reached at global multilateral level (the first summit to save the planet, held in 1992 in Rio de Janeiro; world summit on climate change, held in 1998 in Kyoto; and **the world summit on sustainable development of the planet**, held in 2002 in Johannesburg), are carried out with great resistances and exhausting discussions.

Theoretical formulation of institutional and functional conditions, necessary for achievement of sustainable development of global economy is one of the first-class theoretical challenges which the international economy, as a science, is faced with today.

2. Resolution of global economic problems. A list of economic, social, environmental and other problems which the modern world is faced with is too long: slowdown of economic growth at the global level, deepening of economic gap at the development level of countries and the region, constant reproduction of poverty and deprivation, high external indebtedness of developing countries, unemployment, energy shortages, environmental threats, pandemic diseases, lack of appropriate global economic coordination, especially in the aspect of providing more stable, more equable and sustainable global economic development of the whole world, and not only its developed part, etc.

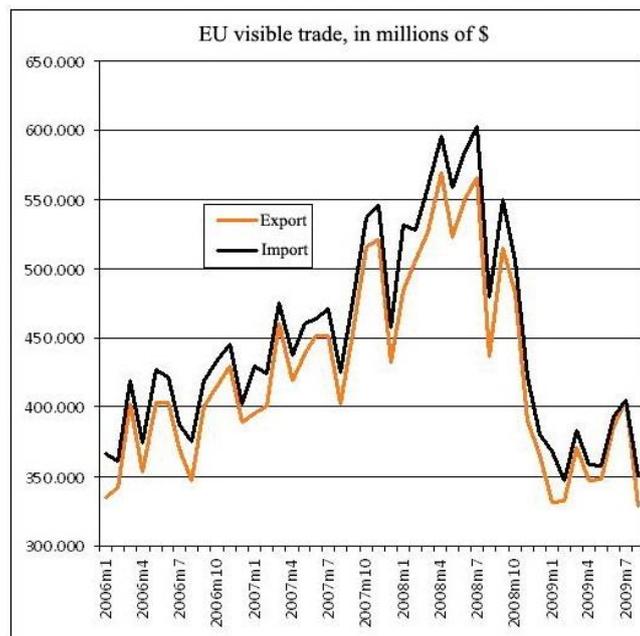


Figure 1. Visible trade of Serbia with EU in million of \$ in the period 2006-2009
 Source: Zdravković, M., *Spoljna trgovina EU*, 22.10.2009., Downloaded on 25.11.2010.

Providing necessary theoretical answers and possible concrete solutions to global economic problems of the world is also one of the great challenges which the international economy is faced with.

4. SIGNIFICANCE OF THE GLOBAL ECONOMY

Global economy has become not only current, but also very **significant scientific discipline**, in theoretical and in practical and business sense, with the aim of providing the answers to many open questions that are related to organization and functioning of the global economy, but also to finding the adequate solutions for economic, social and other problems which the contemporary humanity is faced with.

Global economy capacitates each company with its content, principles and messages, so that they could formulate the strategy of their development more effectively, more rapidly observe and more efficiently solve practical problems in economic cooperation with foreign countries and in the global market.

In the same way, **global economy is of a great importance for each country** in formulation of its macroeconomic policy and determination of the direction of economic growth. More complete knowledge from global economy is necessary for each market participant whose economic and other activity is imbued with foreign elements or, however, whose activity is related to such elements in a way [7].

Similarly, each individual who is engaged in international business needs more complete knowledge from global economy, because it qualifies him to perform those jobs more effectively in his own interest and in the interest of the company in which he works.

Global economy has become not only current, but also very **significant scientific discipline, in theoretical and in practical and business sense**, with the aim of providing the answers to many open questions that are related to organization and functioning of the global economy, but also to finding the adequate solutions for economic, social and other problems which the contemporary humanity is faced with.

Global economy capacitates each company with its content, principles and messages, so that they could formulate the strategy of their development more effectively, more rapidly observe and more efficiently solve practical problems in economic cooperation with foreign countries and in the global market.

In the same way, global economy is of a great importance for each country in formulation of its macroeconomic policy and determination of the direction of economic growth.

More complete knowledge from global economy is necessary for each market participant whose economic and other activity is imbued with foreign elements or, however, whose activity is related to such elements in a way.

Interest for global economy is growing throughout the world, in scientific, business, managerial, administrative (state) and other circles.

For that reason, **global economy as a separate scientific subject is studied at all high-education institutions** of economic, business and managerial orientation throughout the world, especially in economically and technologically advanced countries.

5. GLOBALIZATION AND ECONOMIC CHANGES

Globalization, as a general phenomenon, is characterized by: a) **universalization, homogenization and unification** of the world according to some significant principles, guidelines and standards of behaviour and b) **affirmation of the growing interconnectedness and interdependence** between particular countries, regions and large companies. It is simultaneously developed with many economic processes, such as:

economic liberalization and denationalization of commodity and financial flows in the global market [2].

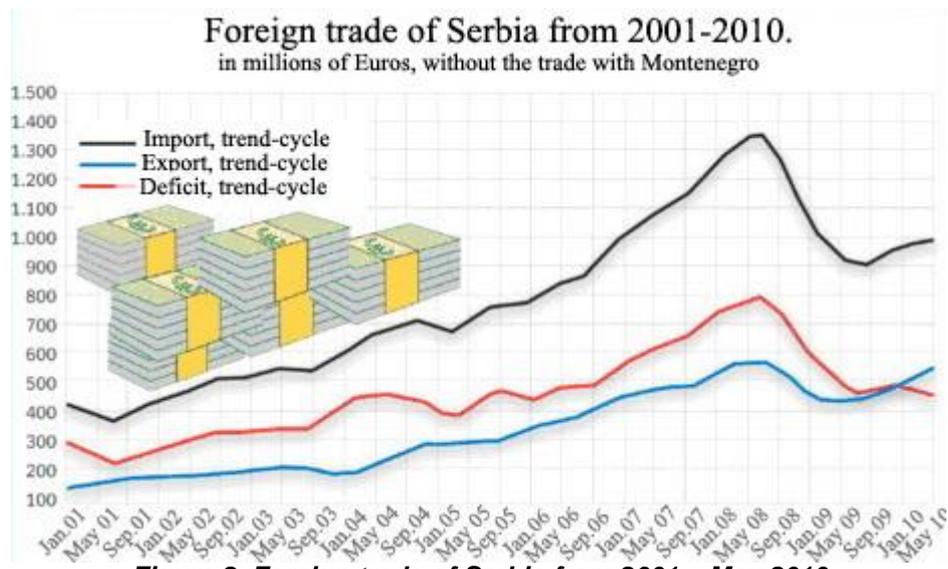


Figure 2. Foreign trade of Serbia from 2001 – May 2010

Source: *www.politika.rs, Spoljnotrgovinska razmena 2001-2010. Downloaded on 25.11.2010.*

There are new forms of *merging* various companies and purchasing other companies that represent the ways of survival and strengthening of international competitive ability.

Strategic alliances (coalitions) provide great competitive advantages in global economy. It is about all forms of partnership, i.e. linking the specific aspects and interests of the business of two or more companies on the basis of joint venture, licensing, cooperation, etc. because of the access to some markets, improvement of competitive position, introduction of new technologies, risk sharing etc. the companies remain independent even after alliance formation, which implies joint achievement of the goals agreed, the control and sharing of results. Rivals often become partners, as well as mutually unrelated companies within the branch;

Universalization, homogenization and unification of international flows of goods, services and resources, markets, production, technology, communication and finances, which is manifested in greater international linking and relativization of state borders and affirmation of the growing interconnectedness and interdependence between particular countries, regions and large companies.

In literature, we encounter so-called „**virtual organizations**“ as a possible type of business, which is the future in the XXI century. It is a network that consists of a several independent companies, which can be rivals, buyers, suppliers, institutes and other interested organizations etc. Network connection is based on highly sophisticated systems that provide a quick agreement on division of knowledge, costs, risks and access to particular markets, although they do not have a common organization and management.

Modern virtual team partnership „**alliances**“ are based on flexible business and organization systems represent a reliable and powerful alternative to multinational diversification and vertical integration. They provide an adaptable synergistic competence of different companies concentrated in a strong virtual competitor, which brings benefit to everyone:

- *formation of network structure of management, production and distribution, global market and competition;*

- development by laws and logic of *big capital*;
- complementation of the quality of rational economic man (*homo economicus*) with the new qualities of the man-type *homo creator*;
- *the number of the forms of economic manifestations: **financial globalization***, market globalization, formation and influence of global companies and banks, denationalization and regionalization of economy, intensification, liberalization and production standardization, institutionalization of the world trade and international economic relations, megatrends, etc;
- **dominance of financial operations** (especially virtual), which are the central synergistic mechanism of globalization and the field in which it has progressed the most. Thanks to the liberalization, deregularization and computerization, the volume of multi-actions and capital mobility are increased many times, multi-action costs are reduced, its flows are internationalized and moved towards institutionalized investors.

Development of Serbia from 2011 to 2020

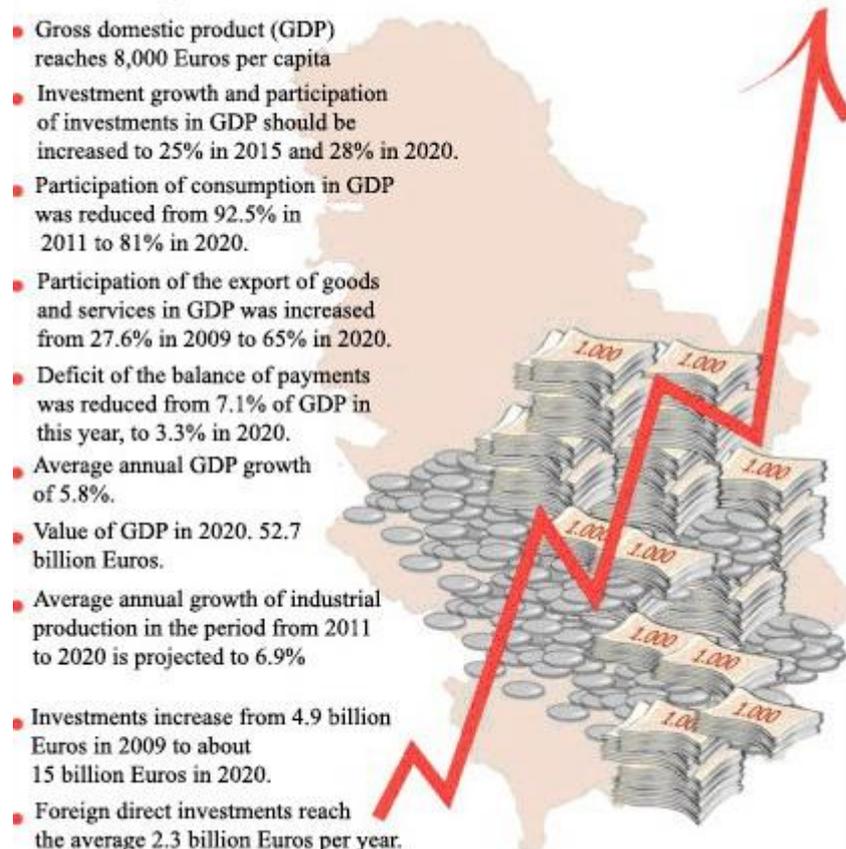


Figure 3. Post-crisis model of economic growth and development of Serbia from 2011 to 2020.[3]

Very significant role belongs to the emergence of an independent **multinational capital**, which **lacks national feeling** in economic sense, because it has its own existence and development logic, original structure and internal goals, great freedom of movement and poor ability of control [2]. The fact that multinational capital lacks national feeling means that it, tentatively speaking, becomes *global*, because it increasingly follows international flows and has the access to financing a growing number of countries.

The appearance of derivatives and other contemporary financial instruments has accelerated the process of financial markets independence (from the market of goods and

services), which have increasingly began to serve themselves, independently from the real sector of economy.

Financial globalization has not only led up to free movement of great financial resources through permeable national borders, but also to the change in function of the money in global economy. The money was traded as traditional goods, so *currency speculations* have become the most lucrative market operation. *Multinationalization* of economic activity is, besides financial globalization, the most significant building component of the development of global economy in the last decades of the XX century.

Global competition has inevitably taken the characteristics that are dictated by multidimensional processes: ranging from dynamic changes in the environment that influence the business, through the growing interdependence of business entities, to the strengthening of the role of public opinion, environmental standards etc. It assumes a direct competition of the company in all markets without any changes in product or service and without (or with slight) adaptations to local requirements and, as an example, electronics, airplanes, automobiles, tires, etc. are mentioned.

Clusterization of the economy is one of the vectors of global economy's development and globalization basis (with communication systems that have provided network logistics and standardization of quality in global relations and limits of the real time). Clusters are the most propulsive economic blocks at the macro-level of individual states. They include the networks of independent production and service companies, ranging from suppliers, technology innovators and know-how institutions (universities, science and research institutes, engineering centres etc.), through the connecting market institutes (brokers, consultants etc.) to the consumer. All of them, in their own way, participate in the chain of creating new values, through the reduction of multi-action costs. They are based on forcing unique advantages and the most efficient productions, and include companies and organizations that are connected by geographic position and specific production.

6. CONCLUSION

Globalization is present throughout the world, including the area we live in. In simple words, *globalization and transition* are interrelated, especially because market and private property come to life through transition as a precondition of democratization of society. Therefore, the governments deliberately change the policy of reduction and elimination of obstacles so that the movement of goods, capital and services could develop smoothly, especially when the government becomes aware of the costs of those obstacles through their own activities. On the other hand, powerful companies change their business strategy and stress the profit growth through costs reduction, and not through the increase of the costs of goods and services.

Global economy as a science has *two global strategic goals*: (1) to provide the conditions for achievement of sustainable development of the world economy; and (2) timely resolution of the global economic problems and coping with challenges.

The bases of the contemporary global, multilateral economic system are: *International Monetary Fund - IMF* and *World Bank - WB*, specific system of the fixed exchange rates, *World Trade Organization - WTO* as a separate international body for encouraging the trade development worldwide, *General Agreement on Tariffs and Trade – GATT* as a temporary and transient solution until the establishment of *World Trade Organization*, numerous *international economic organizations* (economic and financial) as an expression of their mutual communication in an appropriate institutionalized form.

The crucial development orientation of Serbia in the period until 2020 should be inclusion in the processes of globalization and integration and the implementation of comprehensive

reforms in the economy and society, so that Serbia could take an equal place in the community of European states. The main strategic goal is democratization and economic order based on constitutional and legal solutions that are coordinated with modern legal and civilization standards. In that sense, all key system laws that are fully in compliance with current EU legislation should be adopted.

REFERENCES

- [1] Dašić, D., *Principi internacionalne ekonomije*, Univerzitet BK, Beograd, 2007.
- [2] Drašković, V., Jovović, R., *Globalizacija u ekonomskom kontekstu*, Beograd, 2009.
- [3] *Fond za razvoj ekonomske nauke (FREN) i publikaciji Ekonomskog instituta „Makroekonomske analize i trendovi (MAT)„*, Downloaded on 18.11.2010.
- [4] Filipović, S. i sar., *Svetska ekonomska kriza i posledice po Srbiju*, projekat FEFA, 2009.
- [5] Kovačević, M., *Uzroci i posledice svetske ekonomske krize i efekti na Srbiju*, Ekonomska politika, Beograd, 2009.
- [6] Pejčić, D., *Uticao Svetska ekonomska kriza na SDI u Srbiji*, SIEPA, Beograd, 2009.
- [7] Turajlić, N., *Uzroci globalizacije i svetske finansijske krize*, Nova srpska politička misao, Beograd, 2009.
- [8] Veselinović, P., *Ekonomija*, Univerzitet Singidunum, Beograd, 2009.

Web sites

- [1] www.ekonomist.co.rs, *Globalizacija*, Downloaded on 25.11.2010.
- [2] www.seeurope.net, *Investiranje kapitala*, Downloaded on 21.11.2010.
- [3] www.pks.com, *Strane investicije u Srbiji*, Downloaded on 22.11.2010.
- [4] www.siepa.sr.com, *Medjunarodno poslovanje*, Downloaded on 28.11.2010.
- [5] www.politika.rs, *Spoljnotrgovinska razmena 2001-2010*. Downloaded on 25.11.2010.