

Bujas, Gordana

## Conference Paper

# Globalization - the challenge of new times

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# **41<sup>st</sup> CONGRESS OF THE EUROPEAN REGIONAL SCIENCE ASSOCIATION**

**Zagreb, August 29- September 1, 2001**

Prof. Gordana Bujas, Ph.D.

Phone: 01/2383-333, Fax: 01/2335-663

Faculty of Economics - Zagreb, Croatia

E mail: maxfindo@inet.hr

## **GLOBALIZATION - THE CHALLENGE OF NEW TIMES**

### **Abstract**

As a result of macroeconomic frameworks coordination, global economic regions are being created on regional basis, while the customs, monetary and fiscal systems play a key role as a result of harmonization of macroeconomic policies and macroeconomic coordination. Out of them, the monetary, customs and inter exchange rate policies are in the function of economic stabilization and achievement of the high economic growth rates.

Globalization brought by the scientific-technological revolution is radically changing the picture of the world, being a result of increase of interrelations in technological progress, which is especially important for the countries being developed on information technologies. The term "Globalization" is usually linked to the market, financial system, competition and corporate strategy.

The globalization process enables and stimulates the removal of custom and non-custom barriers and deregulation of market expansion, what results in accelerated increase of supply, stabilization and often in decrease of prices. Such effect is determined as a "supply shock" - what means that the demand is in upturn by the increase of supply and pressure on prices, leaving free space to enterprises to increase production and turnover. Simultaneously it stimulates the adjustment to the changed market terms and the qualification for the European and world competition.

## **1. Introduction**

The globalization phase started in the 1980-s by the internationalization of national economies. The expression "Globalization" appeared for the first time in 1961 in the Webster American English Dictionary, while the term itself has different meanings for different segments of economic and social life.

For economists, globalization is primarily the process, brought by the scientific-technological revolution, which increases interrelations between the countries, especially those being developed on information technologies. For the state, globalization means new possibilities for the trade liberalization, decreasing or lifting of obstacles in international trade and policy of trust and attraction, in order to open the new possibilities for economic integrations. For politicians, globalization has the meaning of associations emerging as repercussion of economic power with the aim to create defense strategies and preservation of peace. For corporations, globalization means new markets and cost decrease.

Generally speaking, globalization is the new philosophy of economic development and corporative business of the twenty first century.

## **2. The time of changes**

The time in which we live is the time of big and tumultuous changes. It is a fact that many important changes have happened in the world during the last decades in all the spheres of international life and these changes have a very important impact on the contemporary events. One can say that nothing has remained the same and economic dynamics have passed definitely from the national to the international sphere. Since the knowledge about international regions is necessary to lead any rational economic policy, every analysis of the region is welcomed, especially for those regions, which have not given much attention to the development so far in the international surroundings.

The following contemporary processes characterize our time:

- Science and technology have become power fundamentals, and the information a very important economic resource (Japan). The contemporary scientific and technological revolution in the developed countries brought many changes and

became a part of the post-industrial and informatics society. The importance of services increased, at the same time when possibilities for the use of information and communication systems have been increased influencing thereby changes concerning organization and management. The precondition for success is the capability to change rapidly and to adjust to new situations, on the micro and macro level.

- The domination of big state-owned and economic integrations and transnational companies (North America, Europe, South-Eastern Asia, Japan) is also a very important characteristic of the contemporary world.
- However, this contemporary world is characterized by the asymmetrical development, which has caused a deep gap between the developed and developing countries (North-South), followed by population explosion along with growing famine. We are witnessing the globalization of the world economy as a result of the contemporary scientific and technological revolution process, but unfortunately we must notice that different countries are participating in this process in a different manner. While on one hand there are very deeply implemented connections and relations concerning this matter, on the other hand there are many national economies, left with nothing but dreams about it. It could be applied to the countries of the failed material socialism and to the economies of many developing countries, which have to deal with the problems of bare starvation and observe marginally the events around them.
- The fourth important characteristic of the time we have lived in, is the collapse of the material socialism in the countries of Eastern Europe, followed by the disintegration of the Soviet Union and Yugoslavia and the orientation towards democracy, private ownership and market. It can be stated firmly that the internal contrasts and conflicts contributed to the changes in these countries, as well as very deep social and economic crisis, which resulted in lagging behind the developed world. This lagging happened not only on the technology level, but also on the civilization level.

Although each one of the above mentioned characteristics deserves special attention - we are going to dwell on the first one - scientific and technological revolution,

essentially changing the picture of the world, bringing technological changes, lifting the obstacles for the exchange of goods and mobility of capital.

### **3. Technological change in the function of globalization**

The new age begins with the present scientific and technological (microelectronic, fonic, computer, cybernetic, robotics) revolution, in which social science - in order to satisfy the needs of the contemporary development and expectation of its regions - must transfer emphasis of its action from the gauge of truth to the gauge of creations and innovations. The principal starting point is the notion that science has become the basis and the most important factor of the high information development, based on the microelectronic and fonic operating resources and productive forces. The success of the society, its actions and its development, depends now on its intellectual capital, in which scientifically acquired knowledge as well as scientific and research activities turned toward the future are included.

The task of contemporary science is to formulate and promote the principles of the upcoming civilization on global and local level as well as to promote the processes not satisfying regarding the present conditions. Science will succeed in doing it as far as it will, by criticizing the existing facts, become aware of the future ones and, with the help and experience of the most developed, projects and programs the future progress of this society.

The world is now again on one of the historical turning-points which brought to Smith world fame and enabled him to be for the two centuries the most appreciated cognitive analyst in the economy science. Industrial society was born in his age and it is dying now. Late scientific and technological revolution has brought social changes, which give distinct postindustrial characteristics to the highly developed milieu. The leading East Asian, North American and West European countries became through high scientific and technological development typical *information communities*. They are leaders of the world technological revolution and the active participants of integration and globalization of the contemporary business activity. (Dragičević, 1993, page 7).

The permanent scientific and technological revolution gives opportunity to smaller countries to achieve important economic results.

Information has become the most important economic resource and in the place where it dominates, the complex computerized production can be developed. It is more and more accepted that investments in the electromechanical equipment and in the training of the labor force for routine jobs have become past. Creation and innovation are the most important parts of production.

The contemporary factory is no longer what it was until the middle of the past century and it is no longer something like a family company from the time of "water steam" when private property was flourishing. Traditional jobs for workers and clerks disappeared in these factories where they needed routine labor force. The so-called scientific organization of work and assembly line went to the museum. Employees have become joint owners with the help of different kinds of share holding and pension fund. Vertical hierarchical relations of superiorordination and subordination were replaced by a new form of organization of production companies – the so-called network organization of the same into "community" in which leaders are only *primus inter pares*. This is the level on which intellectual work of the employees prevails in the everyday changes, which show constant tendency toward complete repressing of any routine and physical labor. This processing activity shows more and more characteristics of the computer integrated manufacturing (CIM). It is manufacturing "without people" who operate in front, above and after working processes. The stabilized scheme of the manufacturing processes is followed by this sequence of operations: the acquisition of necessary technology, computer designing, computer planning and control of manufacturing, computerization of technology, usage of equipment directed by robots, automatic acquisition of materials and finally computerized manufacturing. A few hundred pilot projects of computer-integrated manufacturing were presented in the second half of the past decade (Dragičević, 1993, page 11).

The contemporary development of civilization depends primarily on the productive and consumer integration in the world of the highly developed information technology. This world changes so rapidly that it is very difficult to follow this change. But there is no success without solutions for integration in its main technological development. In such situation states should play a key role. The developed countries knew this a long time ago and they established special government institutions, which monitored carefully the competition of their national industries by the development of technologies: power-supply technology, continental transport, aviation and technologies for environment

protection. The main technological competition is between Japan, the USA and the EC and their presence in the twelve emerging technologies: new materials, semi-conductor innovations, super conductors, digital pictures, large concentration data deposit, optoelectronics, artificial intelligence, biotechnology, flexible production with computer support, highly efficient calculation, medical and diagnostic inventions and sponsor technology.

In order to achieve good results in the new activities, the big ones have to cut down their expenses. Some people are not aware that the new situation is not a result of recession but of the basic changes in the branch itself. Unisys understood this earlier, Digital Equipment and IBM later. One of the most important facts is that the deconstructed computer industry delivers more products, which are a mixture of equipment and program support from different sources. Strategic unions, joint investments, license contracts, consortium and other forms of cooperation become more and more apparent as it fragments itself. The main objective is to divide research and development expenses, introduce new products more rapidly on the market and use potentials that are results of technological and personnel resources integration. IBM cooperates with Apple and Motorola (chips and software), Apple with Sharp (miniature computers), Toshiba with IBM (monitors and memory) etc. This kind of alliance is maybe the only possible solution for the financially less successful companies (Priredni vjesnik, 1993, page 7).

The developing countries have to take into consideration all the changes caused by the scientific and technological revolution. It could be applied to the countries in which the material socialism failed and to the economies of many undeveloped countries which have to deal with the problems of famine and which observe the world events marginally. They have to accept the basic trends of the common economy reconstruction, its forms, methods, contents, tasks and objectives in order to be able to perform the initiated globalization of the world economy. In other words - they have to draft their own development and reconstruction policy of the economy system, respect more someone else's experience and accept those solutions and institutions which are going to enable to them to cooperate with the developed world and accelerate their economic and social modernization.

#### **4. The harmonization of macroeconomic frameworks and economic policies**

The last decade has been characterized by big changes in the world economy. The new phase of the scientific-technological revolution and the internationalization of capital flows are tremendously changing the sources of economic efficiency. The liberalization of trade, financial and capital markets open new horizons and bring new challenges. These challenges must be accepted by the governments of various states and different international organizations and by the private sector and non-government organizations.

The expression "Globalization" as a rule is connected to the market, financial system, competition and corporate strategy. Primarily, the globalization process is the consequence of custom and non-custom barriers ban, deregulation and market expansion - all these resulting in the fast increase of supply, stabilization and even decrease of prices. This effect is determined as "supply shock" - what means an upturn in demand by the increase of supply and pressure on prices, leaving space to companies to increase the production and turnover and simultaneously stimulate the adjustment to the changed market terms and qualification for the European and world competition (Kalogjera, 1996, page 1).

Companies primarily realize the globalization as a process through their international activities and intensification of competition relations. However, this process could not be realized without the harmonization of macroeconomic frameworks and economic policies of different countries. The macroeconomic limitations are being reduced as a result of macroeconomic frameworks harmonization, leaving free space for global movements. The global economic regions are being created on regional basis. The European Union is the first, so called trade group of the international economy. The other one is the North American Free Trade Agreement (NAFTA). The Central European Free Trade Agreement (CEFTA) is important for the countries in Central Europe. The Asian-Pacific region is a large economic integration, which is the strongest global economic region today, representing the third trade group of international economy. This group is called the Asia Pacific Economic Co-operation (APEC). It comprises the countries from Thailand in the East to Canada and Chile in the West. There are 16 time zones within this group, 20 languages are spoken there, as well as hundreds of dialects. This is the region with a strong economic development.

Within this elaboration, it is necessary to specifically emphasize the institutions governing the global economic order, such as the World Trade Organization (WTO), the World Bank (WB) and the International Monetary Fund (IMF).

The customs, monetary and fiscal systems play the key role as a result of the macroeconomic policy harmonization and macro-economic coordination. Out of them, the monetary, customs and exchange rate policies are in the function of the economic stabilization and achievements of high growth rates of the economy.

Market becomes the only allocation, selective and distribution mechanism in the globalization process. The service sector development influences the market development and growth, decreasing the prices of service information, all these being done through the development of computerization and information related to production and business processes. All these, together with development of robotics and high technology (microprocessors, systematic knowledge and new materials) result in development of international trade, which has been developing at a rate three times faster than the production and financial market development.

The companies in the globalization process have been faced with the fact that they themselves represent the competition on the market, rather than the states and that they need to seek solutions in their own efficiency. The owners and entrepreneurs become conscious that they can seek their own development and business prosperity only within the terms of open, free and competition incentive markets and structural changes that are in accordance with the market needs. At the same time the increase of productivity through innovations and decrease of costs are becoming the primary targets. The stimulation of competition also becomes important in defining the development strategy and business policy.

Finally, within the globalization conditions, the following will occur (Kalogjera, 1996, page 1):

- reduction of economic distances between the countries and companies;
- reduction of national sovereignty in favor of game rules and standards of internationalized markets;
- breaking up of entrenched oligopolies and changing of rules of monopolistic behavior in favor of both company and state competitive advantages.

Globalization has utmost importance both for the economy as a whole and for its companies. Those countries will achieve the largest benefits from globalization, which will transform fast their structure and economic policy, accepting the openness and competitiveness supported by the stable macroeconomic environment. Globalization also means reciprocity of interrelations. For the companies it means the entry on new markets, placement of goods and services in many countries at the same time and meeting the competition, but also the acceptance of goods and services from foreign competition, which will gradually make differences between domestic and foreign markets disappear.

In order to benefit from the globalization process, a country and its companies must have: the defined economic policy, i.e. development strategy, which is both time and sector determined; defined costs and sources for their coverage, and last, but not least, the defined company development policies.

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