

ECONOMIC GLOBALIZATION AS AN OPPORTUNITY FOR DEVELOPING COUNTRIES. THE CASE OF ROMANIA

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Abstract: The notion of globalization is difficult to define and it must not be confused with globalism, which is a world characterized by networks of connections that span the globe, because globalization refers to the increase or decline in the degree of globalism. We will refer to the economic part of globalization and we will use the definition that illustrates it as a set of economic structures and processes deriving from the changing character of the goods and services that comprise the base of international economy. The increased pace of globalization is feared for its potential to cause higher unemployment and wage stagnation or declines in developed economies. This could happen for three reasons: the outgoing migration of capital, incoming migration of labor, and competition from low wage foreign workers via their exports of cheaper consumer goods and services to developed nations. While those three reasons are a cause of concern for developed countries, for developing countries they can be an opportunity for economic growth, especially the first and third. The migration of labor to developed countries can have a positive or negative effect, based on where the immigrants choose to spend their income. The degree of globalization of Romania and other European countries, based on trade and investment but also on import barriers, tariffs and taxes is analyzed and a number of interpretations are stated.

Keywords: globalization, outsourcing, migration of labor, import barriers, international trade taxes

Globalization is a broad concept used to describe a variety of factors that reflect increased economic interdependence of countries. Such factors include flows of goods and services across borders, reductions in policy and transport barriers to trade, international capital flows, multinational activity, foreign direct investment, outsourcing, increased exposure to exchange rate volatility and immigration. The movements of goods and services but most of all of the people contribute to the spread of technology, knowledge and culture across borders. The easiest to be quantified aspects about globalization are trade liberalization, outsourcing and foreign direct investments.

Trade liberalization is the easiest aspect to be analyzed and therefore are the most studied. Tariffs are easier to measure than other forms of globalization. Tariffs represent a price form of trade protection. They are transparent, easier to measure and their magnitude reflects the true restrictiveness of the trade barrier. Also non-tariff barriers such as import licenses and quotas are a solution available to the government.

There has been a contemporaneous increase in globalization and wage inequality (Goldberg 2006) but identifying a relation between these two factors is challenging. The conventional wisdom that trade openness in developing countries favors the less fortunate is not recognized in academic literature. However trade openness is a necessary but not sufficient condition for the economic growth of a country, at least for medium and small countries and even countries such as China benefit from international trade.

According to standard economic theory, globalization can improve citizens' welfare in both developed and developing countries. In developing countries, expanding trade and capital flows permit increased specialization in production and expansion of employment among low-wage workers that are the most abundant resource. Structural adjustments to trade

liberalization policies should pose few problems for developing nations because positive economic growth would generate expanding economic opportunities for most citizens. Furthermore, greater openness to foreign capital inflows could foster better financial, institutional, and corporate governance and economic policymaking frameworks in developing countries.

It has been argued that globalization can help or hinder both developed and developing countries. To give an example let's take into consideration a product and a service offered by two countries. In the case of the product when trade liberalization is in effect, the most industrialized country is usually the winner. That country can manufacture the product at a lower cost and can export it to the developing country. The existence of the product in the developing country will hinder the internal production because of competition. As a result the developed country has a majority of producers and the developing country has the majority of consumers. The situation is different when we refer to a service. For example in banking or insurance, a consumer won't travel to another country for that service, so the opening of subsidiaries can be advantageous to the developing country.

Also there are numerous opinions of authors that globalization, rather than benefitting all nations, tends to produce gains for some at the expense of others. Another theory is that integration of world markets produces uneven development, a rise in the living standard of the rich nations at the expense of the poor, rather than the other way around.

Outsourcing

Even in developed countries such as the US that benefit from globalization, there are concerns raised by job loss and the fear that employers will lower their wages and benefits in order to compete. The technology revolution expands international trade, but workers at all qualifications are exposed to insecurity. Employment procedures are changed because of foreign competition, weak wage growth and rising income inequality.

Much of the public anxiety about the economy and globalization may be related to job losses in the manufacturing sector and fears that many service sector jobs, previously thought immune to the pressures of the global economy, are being outsourced to other countries.

In order to reduce the anxiety about job loss there are two approaches. At one end, there are those who call for setting higher standards at home, a higher minimum wage, a union friendly workplace, universal health care, stricter corporate governance laws, more research and development support for new industries, as a way to create high wage jobs. At another end, there are those who call for primary reliance on market forces and de-regulation as the best way to promote robust economic growth and vibrant job creation.

A key question may be the extent to which any of these approaches can be designed and implemented in a way that would reduce worker insecurity without undermining the benefits of globalization. In the view of many economists, policies that inhibit the dynamism and flexibility of labor and capital markets or raise barriers to international trade and investment would not be helpful because technology and trade are critical sources of overall economic growth and increases in the standard of living.

Outsourcing may be growing rapidly, but most studies find the extent of job losses from services outsourcing to be relatively small in the aggregate, but concentrated in a few industries and occupations.

Most advanced countries are also seeing the wages of low-skilled workers remain flat or declining over the past decade, with significant increases in wages of high-skilled workers. Advanced countries with the most unequal distribution of income include the United States, United Kingdom and Italy. Denmark, Netherlands and Sweden tend to have less income inequality.

Technology

In this period globalization undermines the nation state from which it originates. The development of transportations and telecommunications has allowed capital to escape national control. These changes operate in the way of how technology is used and production is created and distributed, in a new international legal superstructure.

Private firms have become disjointed from the country they operate from. As national market became too saturated and structural limits on wage were reached, the technological revolution allowed capital to build a new global economy and permitting firms to find cheap labor force, raw materials and to expand to new markets.

In the current phase of globalization, economic distances have shrunk because of the increasing ability to communicate nearly instantaneously at costs that continue to decline. These advances in communication have allowed firms to break up the production process into discrete steps and to produce goods in whatever location allows them to minimize costs. Modern products such as cell phones and cars are assembled from hundreds of components that are procured from many different countries all around the world.

Technology originating in advanced countries now flows more easily across borders via foreign direct investment. The rapid absorption of technology in developing countries raises the opportunity for raising productivity.

Standard economic theory favors specialization in production and free trade. Given world prices of factors and goods, nations benefit from moving away from their existing production configuration toward producing more of those goods that are cheaper to produce domestically relative to their world prices, so as to benefit from gains of specialization. If they simultaneously open their economies to world trade by exchanging goods produced at lower cost for ones that are cheaper to produce abroad, they can benefit from the “gains from trade.” Permitting both types of gains maximizes citizens’ welfare given the nation’s endowment of productive factors. Furthermore, opening the economy to foreign investment provides additional resources and technology, accelerating the development of natural and human resources, which influence overall economic growth.

Capital flows

The new economic order appears likely to focus on subjecting private financial institutions to more stringent regulations so as to reduce their risk exposures. But that would constrain global capital flows, whereas the need is to expand them, and not just in the short-term to hasten recovery from the current recession. The key for expanding capital flows, especially toward developing countries, is reforming emerging countries’ financial systems: better corporate governance, less corruption, and growth oriented economic policies. These reforms are in the interests of both developed and developing economies as the gains would flow to both.

Over the past 60 years, government restrictions on trade and capital flows have gradually declined, making it easier for companies to act as global agents. By providing an institution in which all members are on equal ground, the World Trade Organization (WTO) greatly facilitated the inclusion of several billion new workers in the global system. The WTO also has developed rules and disciplines that make it easier for companies to move production to low-wage countries with more business-friendly regulations.

In developed countries, however, low- and intermediate-skilled workers are faced with stagnant wages or at least increasing wage differentials when compared with high-skilled workers. This is consistent with theoretical predictions and has occurred despite net inflows of capital as in the case of the United States— suggesting that most such inflows are directed at high-capital-intensity industries that mostly employ high-skilled workers. The reorientation of production operations for relocating some components offshore, also known as vertical integration, has affected many levels of workers in developed countries. These workers must retool, reeducate themselves, and move to sectors with higher value-added jobs that are less vulnerable to soon being outsourced.

Case of Romania

In Romania foreign firms have only 24% of the employees, but they account for 40% of the turnover and GDP. They had 919.000, that is around 24,18% of the total number of employees and they have reached a turnover of 97 billion euro of the total 237,4 billion. Foreign investments have reached 2,13 billion in 2012 but have risen to 2,71 billion in 2014, showing a promising upward trend.

Romania has benefitted from numerous firms that have made investments, opened subsidiaries and provided jobs. For example, in the IT industry companies such as Ericsson, Omnilogic, Huawei, Siveco and IBM have seen the Romanian market as an opportunity. Unfortunately there are some cases of firms that left the country such as Nokia.

Industry collects 46,5% of the money that have entered in Romania as foreign direct investments, that contradicts the public opinion regarding the investors interest toward finance and commerce. These are situated at a great distance from industry percentage wise, with 18,5% for financial intermediation and 11,4% for trade.

The impression of foreign firms for the trade industry is based on the impressive percentage of firms created from zero (greenfield) in this industry sector. It is also remarkable the 82,7% percentage on the Greenfield section of professional activities, scientific, technical, administrative and support services that total up to 3 billion euro.

Although not so noteworthy, these are similar in value to a more familiar sector, that of information technology and communications. The extracting industry had also important foreign investments, like those in telecommunications and IT, although the Greenfield percentage is relatively low 12,6%.

Industry	Value (mil. euro)	%	Greenfield enterprises (mil. euro)	%	Fixed assets (mil. euro)	%
Manufacturing	18.509	31,3	8.452	45,7	10.683	57,5
Financial intermediation, insurance	10.914	18,5	3.584	32,8	1.309	12,0
Trade	6.714	11,4	5.597	83,4	3.436	51,6
Electrical, gas, water	5721	9,7	659	11,5	3.016	52,7
Construction and real estate businesses	5466	9,2	3.902	71,4	2.816	51,5
Extraction	3225	5,5	405	12,6	2.802	86,9
Information technology, communication	2854	4,8	1.240	43,4	1.276	44,7
Professional and technical activities	2843	4,7	2.351	82,7	567	19,9
Agriculture	1.402	2,4	804	57,3	658	46,9
Transports	876	1,5	571	65,2	471	53,8
Other activities	254	0,4	203	79,9	113	44,5

Table 1: Foreign investments in Romania in 2012

The other important sectors with a great percentage of foreign direct investments on the Greenfield segment are constructions and real estate. They have also 50% on the fixed assets segment, which shows the importance and stability of technologies implemented with foreign capital.

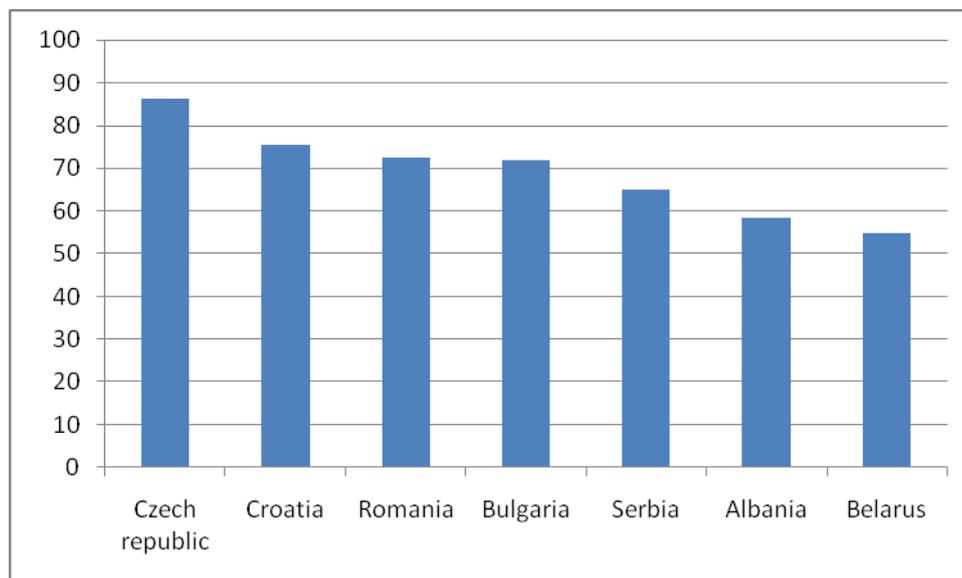


Figure 1: The globalization index in 2012

In table 1, Romania has a slightly above average globalization index compared to neighboring countries. According to data from the KOF globalization index Romania is on the 38th position worldwide. This index is computed from an economic, social and political perspective.

Conclusions:

Romania has benefited from globalization, because it has been an attractive destination for foreign firms that wanted access to cheap labor or a new market segment. It has not suffered from the disadvantages developed countries such as the US have to deal when confronted with globalization, such as immigrants, the departure of national capital and outsourcing. It has also been exposed to new technologies by the opening of new subsidiaries. Becoming increasingly open to the world economy has advantages when we are talking about developing countries with economic growth potential.

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