

# THE ECONOMIC CONTEXTS OF GLOBALIZATION

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We can state that the most frequent and the most controversial economic terms at present include “globalization” and “new economy”. Moreover there are discussions in progress about a whole series of conceptions of the changes of society from post-industrial, super-industrial, flexible, electronic, digital “weightless”, late capitalism, “post-Fordism”, “network”, “third wave”, information to knowledge oriented and learning society.

By comparative analysis I came to the conclusion that each conception reflects and accents one of the many features of the great changes of the last few decades, which signal a transition to a qualitatively new stage of human civilization development. In the interest of more comprehensive and sufficiently generalizing approach, I consider it useful to distinguish two determining dimensions and apply them to interpretation of “globalization” and the “new economy”. The first one are revolutions in the technological methods of production, exchange and information communication, which represent the material pre-conditions and means, both for globalization and the “new economy”. The second one is the numerous and contradictory socio-economic forms by means of which the globalization processes and the “new economy” functioning are achieved.

In this paper, I would like to contribute to more comprehensive view of the deep contradictory changes in the economic processes which these terms reflect, and on this basis to interpret selected results of the study on the economic and social contexts of the accession of Slovakia to the EU.

## Revolutionary changes in technological methods of production, exchange and information communication

The prelude to the transition to the qualitatively new technological methods of production, exchange and information communication was an extreme super-perfectionism of the industrial revolution achievements, which led to strict automation. The actual revolutionary change in technological methods of production, exchange and information communication began under the influence of the adaptation processes, which were a reaction to the so-called oil shocks of 1973-74 and 1979-80. Their most important result was the mass renewal of fixed capital based on the wide application of super-technologies

on the basis of the results of micro-electronics. This enabled a very effective combination of rigid and flexible automation in various intelligent engineering systems, wide application of robotics, flexible integrated production systems and so on. Thanks to this, the connection between serial or mass production and effectiveness is beginning to change, especially in connection with flexible specialization and conducive diversification of products. General penetration of information technologies into the whole production process associated with mass application of highly sophisticated technologies have made information and knowledge a key factor of development.

The introduction of new technological methods of production, exchange and information communication has revolutionary effects not only on utility parameters and comprehensively understood quality of production, but also on a substantial reduction of costs with the present – sometimes difficult to imagine – raising of the level of profit. Many examples show that the decline of costs and the increase in the level of profits are varying in the range of ten, but also a hundred multiples in comparison with traditional technologies and bring unprecedented extraordinary innovation profits. The revolutionary changes in technological methods of production, exchange and information communication are strongly affected by the transition from the so-called macro-technologies of the developmental stage of the industrial revolution to the so-called micro-technologies such as micro-electronics, its integration with bio-technologies, nano-technologies and possible directions of their development, new types of materials and new sources of energy.

From the point of view of overall influence on the shaping of technological methods of production, exchange and information communication, the information and communication technologies are playing a key role. Their revolutionizing effect is seen both in the fact that they opened unprecedented possibilities to overcome limitations of time and space in the development of economic activities as global activities within planetary coordinates, and that they enable significant reduction of production, transport and transaction costs together with increased productivity. The high dynamics of innovatory processes in the information and communication technologies sector brings a great increase in productivity and reducing the unit costs, not only in their production, but also in



all branches and sectors into which innovated information and communications products are penetrating on a mass scale.

The digitalization of information and communication technologies is accelerating the integration of individual information and communication technologies, and is leading to a gradual convergence of originally separate types of these technologies. A new network-type market and corporate structures are developing. The connection of corporations through on-line systems is enabling the most varied forms of flexible specialization and cooperation between them. Thus, the conditions for the new forms of organization of firms on a permanent or temporary basis are created, on which individual real corporations physically and legally separated create a functioning virtual organizational unit. The economy is getting the character of a flexible network composed and created by the flexible, slim, quick and organic units joined into a spider's web system. Ability to transform information into knowledge, intelligence and learning enabling the replacement of one type of innovation (innovation directed towards a resource demanding growth of production) with the new one (innovations based on many-sided use of human creativity) is becoming a determining factor in competitiveness.

These basic changes brought by technological methods of production, exchange and information communication represent the material base for both the "new economy" and globalization.

The revolutionary changes in the technological methods of production, exchange and information communication represent not only the material conditions and factors of globalization, but also uncover and define a new space, in which the creation of a wide range of social and economic forms of the globalization processes is possible. Depending on what character these forms acquire, their influence on the specific directions of development and applications of new technologies may be positive or negative, from the point of view of the further development of civilization, perhaps even threatening its existence. In the presented conception of globalization, I regard research into the adaptive changes of the company as the logical starting point for clarification of the contradictory character of the "new economy" and globalization and its causes.

### **A company in the global coordinates of the "new economy"**

A company is the basic determining unit in which the revolutionizing information and knowledge are materialized and transformed into innovations and new super-technologies, and in which the conditions for their economically effective use are defined and systematically created. For this reason, the influence

of the revolutionary changes in technological methods of production, exchange and information communication on the formation of the "new economy" and on globalization processes are primarily expressed in the active or passive adaptation of companies. The global coordinates for the functioning of a company are also an organic part of the "new economy". They lay in the fact that the company is gaining real opportunities, but is also exposed to strengthening pressure to calculate in its business strategy with the whole world as a possible store supplier, supplier and sales area. In other words, when optimizing the calculations of individual cost items in the pre-production phases (research, development, construction), in production (prices of inputs, capital, labour, soil and various forms of specialization and cooperation), in sale and post-sale services, as well as in marketing analysis of relevant price advantages in individual segments of the market and their sizes differentiated according to levels of quality, a company should effectively combine the partial comparative advantages of the individual phases, elements, processes and so on, achievable in various parts of the world into the global comparative advantage.

The slogan of successful competitiveness is: "Awaken your business today, so that you can succeed in the economy of tomorrow". In conditions of unprecedented frequency and differentiation of innovation processes and diversification of needs and ways of their satisfaction, the merit of strategic management is moving towards a researching and evaluating the global environment and towards a comparison with the competition for the purpose of finding or deliberately creating dynamic comparative advantages thanks to which the company will gain competitive dominance.

The great dynamic of the innovation processes has the result that an innovation is often not economically depleted, when another innovation takes its place. For this reason, a company must endeavour to collect the effects of a comparative advantage – which has a temporary, inconstant character – as much as possible and as soon as possible. "Economy of mass production is replaced by economy of speed". Competition is so intensive and the speed required so high that the old rule "time is money" is increasingly changing into the rule "every period of time is more valued than the one before".

The birth of technological methods of production, exchange and information communication has fundamentally changed and dynamized the size structure of companies. Firstly, information and communication technologies substantially reduce transaction costs and so stimulate growth of small and medium-sized companies, enabling them to gain access to the global market. This group of companies is



making an important contribution to innovatory activities and employment and that increases their share in overall efficiency of economy. Secondly, however, a tendency towards increased competitiveness of large-scale capital is strongly appearing under pressure from sharpening global mega-competition.

This is determined by high research and development costs, dictated by the character of the innovation processes, strengthening pressure for reduction of costs, conditions for gaining, maintaining or strengthening positions, but also by the possibility of effective lobby at government authorities and international organizations and institutions for the adaptation of legislation, rules and orientation of the activity of these organizations and institutions according to the interests of the biggest and strongest companies. On this basis, the capital-giant-companies decisively influence the content and direction of globalization and become the central actors, who are subordinating it to their own particular aims.

Therefore, the gigantic dimensions of capital concentration in the production, retail and banking-financial spheres is one of the most important features of the globalization process and the super-competition generated by it. If the creation of trans-national corporations was the central feature of the global concentration of capital in the seventies and eighties, when their number increased by about 370%, in the nineties various forms of their combination into global mega-corporations are decisive. It appears in record levels of mergers, acquisitions and new strategic alliances.

The record level of mergers of 950 billion USD in 1995 is increasing from year to year. Mega-mergers and take-overs are exceeding all expectations. This trend confirms the prediction of the St.Gallen Forum (1996) that globalization is leading to such concentration, as a result of which only 5-10 companies in each branch will survive in the world market. The others will have a chance only in case some space remains unfilled by the mega-firms in the national, regional or global market. The extent and speed of the global concentration of capital in the nineties has the result that quantity is changing into a new quality in many directions.

The costs for the research, development and introduction of super-technologies and their powerful effect demand an ever greater global space. Information and communications technologies are making opportunities to operate on a global level accessible to companies to an unprecedented degree, but they also define the basic coordinates of a new type of competition, designated as a super-competition. The variation in the growth of the capital of global firms is becoming ever more variable and extreme.

The super-profits from innovative progress and the

price differentiation associated with this, and the progress in achieving monopoly positions in the redistribution of globalizing markets are stimulating competition and this further increases the egoism of the criteria for the growth of capital. In its strategic planning and real functioning, the global or globalizing company uncompromisingly calculates and uses a literally global space and its conditions and factors, however, the growth in value of its capital is consistently subject only to its particular profit criteria and egoistic interests without regard for the wider economic, social and ecological consequences in the local, regional and global operating space of its activity. The ever more sophisticatedly worked out, but essentially narrowly profit-oriented and flattened rationality of the global company is coming into ever deeper conflict with the fundamental civilized rationality of our planet as a whole.

### **The new economy and global culmination of internationalization**

The internationalization of economic life is a long-term process which has accompanied the development of human civilization practically from the beginning. It was expressed in the fact that some economic processes, especially trade exchange, gradually began to grow beyond the boundaries of the relatively closed and economically self-sufficient social units. Random exchanges grew into regular exchange based on ever more complexly structured and deliberately shaped international division of labour between specialized producers and universal consumers. The industrial revolution with its production, transport and communications conquests stimulated an unprecedented growth of the international division of labour not only in the frame of its quantitative and spatial distribution, but also its qualitative deepening. Apart from the division of labour between branches, a division of labour within branches also began to develop rapidly in the higher, ever more deeply structured forms of product, component, node and technological specialization and cooperation. All of this significantly relativized the boundaries of the national economies and increased their permeability.

It was characteristic of the whole pre-globalization development of the internationalization of economic life that the production separation and economic self-sufficiency of state units became gradually relative under the influence of the international division of labour and gradual internationalization of the movement of goods and capital, even the long-term evolutionary features of these processes were still preserved. States remained the determining entities and the economic relations within them remained primary. The moving force and determining feature of



the international division of labour was the achievement of comparative advantages in term of the conditions of economically independent state units. In spite of their growing mutual dependence, external or international economic relations and the system of the world economy retained the character of something derived from the determining properties of the economies of the state units.

The specific content of globalization lies in a qualitative reversion in the long-term evolution of internationalization. The material assumptions of this reversion were created by the revolutionary transition to technological methods of production, exchange and information communication based mainly on the comprehensive penetration of information and telecommunication technologies into all spheres of the life of society. This opened unprecedented possibilities for overcoming the limitations of time and space on the global development of economic activities. The process of internationalization is culminating in its level surpassing a critical point in which the accumulating quantity of internationalization of the economic structures of the state units pass into a new quality – the formation of a global planetary structure. The origin of the new structure means that the primary and determining character and importance of economic relations and processes have moved from within state units to the global economic relations and processes, in which trans-national “players” have the key position and influence. The operating space of their global effect is shaped in two ways. The first one is official liberalization. It lies in the fact that national economies are more or less voluntarily opening themselves in an unprecedented degree, on the basis of various multi-lateral liberalization agreements, which partially or completely remove protectionist, regulative obstacles and limitations. The second way is unofficial, hidden penetration which means various forms of penetration of global “players” through the obstacles, limitations, limits and so on, into the independence of state units. The interests of global “players” concentrated on such a deliberate combination of partial comparative advantages achieved in various parts of the world, which result or synergic effect the most leads to absolute advantage, is becoming the determining moving force structuring the international division of labour.

The economic force and influence of the global mega-corporations often surpasses the economic performance of whole states. In conditions of ever sharper global competition, states and their anti-monopoly offices cannot prevent mergers leading to mega-firms with the character of monopoly and oligopoly structures, nay give open or concealed support and protection instead - in the hope that this will strengthen their competitive position in the global competition of states and regions. However, thou-

sands of mega-firms are already not only outgrowing their “own” states, but also ignoring other states and dictating the rules of the game themselves. They already do not feel and really are not bound by relations to the place of their activity on the local, regional or even national levels. The radius of their activity does not know or recognize frontiers, but is uncompromisingly directed by global calculation of the direct or immediate maximisation of profit. A dangerous gap has arisen between the freedom of the multi-national giants and national legislation.

Apart from the strong direct influence of an ever-smaller number of global mega-firms on the running of national economies, their indirect effect on the government authorities of individual states and on international organizations and institutions is also very important. The legislation, rules and orientation of their activity are being adapted to the interests of the largest and strongest global corporations. Thus, globalization is dictating the logic of the development not only of national economies, but also regionally integration alignments such as the EU have to adapt to the relentless pressure of the globalization trends.

One of the cardinal contradictions of the changes, which has disturbed the evolutionary development of internationalization and is closely connected with the new economy and globalization, is the relationship between the real economy and the unprecedented expansion of the financial markets. The development of the proportion between world exports and turnover on the financial markets documents it. The growth of the financial markets was significantly ahead from the beginning of the eighties. In 1984, the turnover of the world financial markets were 10 to 15 times greater than the quantity of world exports. In 1996, it was 60 times greater, and it is now more than 70 times larger. As a result, three quarters of the total turnover of the world financial markets is made up of various “casino” operations, which are more or less “cut off” from real economic processes and live their own life in a virtual world of speculative self-multiplication of money, which has become a nuance in itself, but its deforming influence on the real economic processes is acquiring huge dimensions.

An extraordinarily serious social contradiction, which globalization is exposing and sharpening, is the contrast between the growing production of wealth and the deepening inequality in its distribution, which is leading to an unprecedented polarization between wealth and poverty.

Less obvious, but even more dangerous is the contradiction between the existing forms of production of wealth and the suicidal character of the destruction of the environment.

Globalization is accompanied by an unprecedented increase in global interdependence in the sense



of deepening mutual dependence to fateful connection of economic entities, countries, integration alignments etc. The serious contradiction lies in the fact that under the influence of the existing methods of globalization, an ever larger part of humanity is becoming asymmetrically dependent on the decisions of an ever smaller number of multi-national corporations, financial groups, speculators and the institutions directly or indirectly dominated by them through lobbying.

This situation is bringing into the foreground an urgent need to innovate our understanding of the economic functions of the state in the direction of strengthening their globalization aspects. The performance of these functions must be modified and oriented so that the given country can achieve the fullest participation in the positive effects of globalization, while also on the lowest possible level eliminating its negative effects and threats in the form of destructive mega-competition, destructive financial turbulence and so on. When information technologies enable financial flows of billions around the world in a matter of seconds, the existing forms of state regulation and controls are not able to even record them in real time, and when an ever smaller number of economically stronger entities have a determining influence on global economic events, it is illusory to expect or demand that individual states in isolation control their economic functioning. Therefore, globalization is ever more irresistibly raising the call for internationally coordinated and harmonized performance of the economic functions of states, deliberate transfer of some aspects of these functions to inter-state and supra-state institutions, as well as the request that methods and resources adequate to

regulate and control the revolutionary informationization of economic processes should be used. In the process of gradual global harmonization of the economic functions of states, it will be extraordinarily important and certainly not unproblematic to respect the justified interests not only of developed, but also of developing and transforming countries, in the most balanced and just possible way.

The contexts outlined here make it clear that the deepening and widening of the integration process in the EU is essentially a coordinated adaptation of the member and candidate countries to the ever strengthening trends of the "new economy" and globalization. In this area, the EU is about 5 to 6 years behind the USA which are systematically preparing to "become the most competitive knowledge economy in the world". The European continent has to transform itself into a zone with a flexible labour power, the highest level of information technologies, an innovatory environment, entrepreneurial spirit and dynamic economic environment. This is the only way to stand up to the challenges of the globalizing economy of the 21st century.

Slovakia also faces the huge challenge of not remaining outside the globalizing current, but endeavouring to become a part of the greater regional economic grouping with an extensive market, free movement of inputs and a motivating highly competitive environment. Praxis shows that the decisive part of trade turnover and investment markets consist of transactions carried out in the framework of these integrated international alignments. To remain outside them means to be in a marginalized position with limited conditions for economic development.