TRENDS AND PATTERNS OF GLOBALIZATION: A QUANTITATIVE APPROACH

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Globalization is challenging by setting out the hegemony of profit gathered by economies of scale resulting from a continuously expanding market. Adapting to globalization is a key requirement even for small nations or businesses, being beyond expert opinions, since opposing globalization will result in major economic losses with unbearable impact on living standards and wealth. Proper management of adaptation entails for continuous improvement of understanding trends and patterns of globalization. Quantitative information is a key input in this respect and it could be brought by a wide range of indicators and indexes. The case study based on foreign direct investments indicates that globalization will continue, with transition economies taking the lead for the path. Meanwhile the reflection of the financial crisis could support the opponents of globalization by demonstrating its contribution to spreading and lack of sensitivity against the causes.

KEYWORDS: *globalization, Kearney index, KOF index, foreign direct investment (FDI), trade*

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INTRODUCTION

Globalization is a complex process growing in scope and intensity during the last decades. Although similar forms of economic, social, and political interactions were identified and described far back in history, the current deployment of globalization distinguishes its self by many patterns, most of them being related to the technical progress occurred in modern times and that supported the high path of its intensification and comprehension.

The analysis of globalization is performed by outlining several key aspects. In doing so, it is necessary to divide the process in components. This is made according with the purpose of the study or the opinion of authors. The most common approach is to distinguish between economic, politic, and social globalization.

Since globalization is an ongoing process that hardly can be influenced by most of the ones who are affected by it, there is a broad support for the need to adapt, respectively to harness the opportunities and to avoid the threats. Despite the fact that such an approach is well accepted, complying with its requirements involves significant effort on the behalf of the individual or organization that is committed to perform adaptation. The first issue to be addressed is to have a comprehensive knowledge about globalization and to be able to anticipate its overall evolution, but also the trends of its main drivers (Bran et al., 2012). Therefore the analysis of globalization streamlined research efforts resulting in both qualitative and quantitative methods and techniques that could be employed in order to reveal various aspects of globalization.

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The variety of measurement possibilities is mirroring the complex nature of globalization, but the relevance of results necessitates a careful interpretation against the research goals (Zaman, 2012; Samimi et al., 2011. By using indicators derived from foreign direct investment we are aiming to outline the main trends of globalization and to capture its regional and national patterns. It will be also discussed at what extent the financial crisis had an impact on the main trends in order to find elements that allow inferences regarding the impact of other types of crises.

The availability of foreign direct investment is a major issue in many developing and transition countries. Enhancing the knowledge base in this area could contribute to improvements of strategic visions on how to increase the attractiveness of national contexts without losing major advantages by uneven negotiation powers.

GLOBALIZATION: A BRIEF OVERVIEW

The process of globalization is an international economic order which led to the progressive integration of the world economy by removing the barriers for trade, exchange rates, factors of production, labor, knowledge, technology etc.

The wide scope and complex pattern of globalization challenges the possibility of non-equivoque judgment, dividing analysts according to their own judgment regarding the positive and negative effects of globalization (Bodislav, 2012).

The positive effects of globalization include, but are not limited to enhanced efficiency for both global and national economies, progressive integration of nations, technology transfer, and accelerated progress toward development with the perspective of bridging the gaps among countries.

The negative effects consist in undermining of governmental decisions by corporate interests with major consequences on the distribution of the benefits resulting from the exploitation of natural resources, deepening of development gap between wealthy nations and poor nations, unfair distribution of environmental costs, leakage of brain and talents.

Nor the positive or the negative effects are quantifiable at the extent that avoids equivoque in the judgment of globalization. This bias left room for the polarization of opinions in supporters and opponents of globalization.

Another central issue that is debated regarding globalization is whenever it is a result of an evolution of the economic, social and political systems, or a targeted goal of certain poles of power like the most powerful nations and/or corporations.

Increasing corporate profit is by far the most important motivation for global actors since wider markets are the best recipe for enhancing profits. Global actors could be identified by their force underpinned by the size of their capital, quality of human resources, turnover, and by their organization capacity.

The size of global markets as opportunity is balanced by the strength of competition. To address this challenge various strategies could be employed, such as: alliances among corporations; cooperation with national economic bodies; mergers and acquisitions; transferring production or other operational units from the country of origin to other locations, the physical distance being less important than the social, economic and political characteristics of the host country (Curea et al., 2012).

Globalization is expected to lead to an enlarged volume of traded goods and services by using fewer natural resources, meaning an increased GDP. As long as figures are considered at global level, the current trend justifies such an outlook (Stanciu and Bran, 2010). Nevertheless, despite its intuitive content, globalization is not a uniform process. The degree of globalization varies from one region to another and it also evolves over time. Meanwhile, the effects of globalization are very different.

Isolation from globalization is not considered a wise option even by opponents of globalization. The challenge of adaptation is merciless and many governments are already experiencing its burden in their attempt to avoid negative effects or to harness opportunities toward meeting the perennial goals of financial stability, economic growth, and higher living standards (Stanef, 2011).

The strategies employed by nations in the pursuit of these goals are very different, but several elements could be found in most of them (Iovitu and Iliescu, 2011). These include:

- Investment, especially foreign direct investment;
- Spread of technology;
- Strong institutions;
- Sound macroeconomic policies;
- Educated labor;
- Existence of market economy;
- Integration in the global economy.

The future of globalization is difficult to be predicted. The influence of sovereign nations is among the most powerful factor that could influence this process. The lessons of the history teach us that by the regime of tariffs, immigration, and military order, governments are still able to stop globalization. This already happen at the dawn of the World War I in 1914 then openness for exchange for goods, services, and people in a global economic environment was shivered. After a century we are still well behind of that status of freedom for economic and social exchanges.

MEASUREMENT OF GLOBALIZATION

Turning the opportunities of globalization into favorable situations for nations or corporate actors depends on many things that necessitate quantitative information. That is why globalization is considered more and more from a quantitative perspective leading to the development of more indicators and indexes. These should respond to questions such as:

- At what extent can be measured the intensity of globalization?;
- How can be assessed the impact of globalization over the economic performance of a nation or a corporation?;

The usefulness of globalization's indicators could be enhanced by increasing the number of countries comprised in monitoring.

According to Samimi et al. (2011), the indicators are divided in:

- Basic indicators (core set of indicators): are used most often and are necessary in any assessment of the economic globalization. All these indicators are monitored in OECD countries;
- Supplementary indicators: provide additional information. They are recommended by theory, but their measurement is difficult and/or costly;
- Experimental indicators: address issues with increasing importance for globalization, but still necessitates the clarification of concepts and statistical methods.

The core set of indicators for globalization comprises:

- Flows of foreign direct investment (FDI);
- The activity of multinational companies (MNCs): contributions to the formation of value added; incomes; employment;
- International dissemination of technology: research and development expenses of CMNs; research and development expenses supported from foreign sources;
- Globalization of trade: proportion of exports in GDP; proportion of domestic demand satisfied by imports.

Another approach for measuring globalization is to capture more aspects of it by using a single index that comprises more indicators divided in several categories. The most common and widespread used indexes are the Kearney index of globalization and the KOF index of globalization.

The Kearney index of globalization measures four dimensions:

- Economic integration: trade and FDI;
- Personal contact: telephone traffic; travel; remittances and personal transfers;
- Technological connectivity: internet users; internet hosts; secure servers;
- Political engagement: international organizations; UN peacekeeping; treaties; government transfers.

The index is calculated by giving grades between 0 and 1 to each indicator. FDI, internet and telephone traffic are weighted double. Finally the scores are summarized. The advantages of this index include that it covers most of the world GDP and population and allows comparisons between countries and over time. It is criticized because covers only 64 countries those being around one third of the total, the arbitrary nature on the weighting of indicators and for failing to capture the cultural patterns of globalization.

The KOF index of globalization is organizing its indicators in three categories, as follows:

- Economic globalization:
  - Real flows: trade as percent of GDP; FDI as percent of GDP; FDI stocks; investment portfolio; dividends for foreign nations;
  - Barriers: rate of average tariff; fees for international tariff (percent pf current income); restrains for capital accounts;
- Social globalization:
  - Data on personal contacts: telephone traffic; transfers (%of GDP); international tourism; foreign population (percent of total population); international letters (per inhabitant);
  - Data about international flows: number of internet and TV users; trade with newspapers;
  - Data on cultural proximity: number of McDonalds restaurants; number of Ikea shops; trade with books;
- Political globalization: number of embassies; membership in international organizations; participates in the missions of Security Council of UN; international treaties.

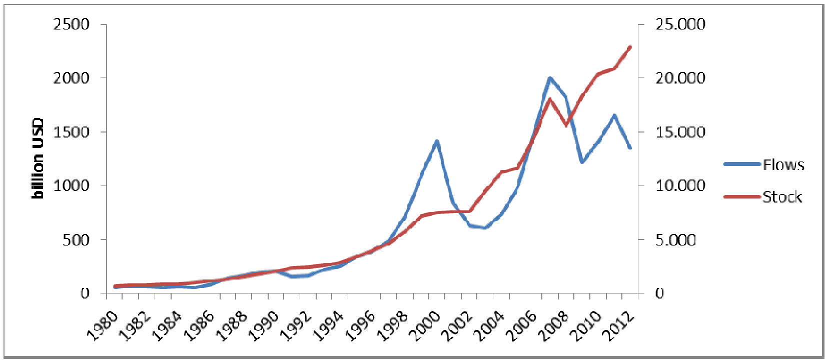
The advantages of the KOF index include the possibility of making comparisons across many countries (156) and for more than thirty years. Its critics include the central role given to USA for expressing the cultural dimension of globalization.

GLOBALIZATION TRENDS AND PATTERNS INDICATED BY FDI

Foreign direct investment (FDI) represents the paid-up capital and the reserves of an investor who is not resident and who owes at least 10% for the paid-up capital of a resident enterprise, the credits between the investor or his group and the enterprise that invested and also the reinvested profit (Vuta et al., 2012).

FDI is amongst the most common indicators for the assessment of globalization for one of its most important component, namely economy.

FDI data are available at national level, but also at international level, UNCTD managing one of the most comprehensive databases. There are monitored both FDI flows and FDI stocks.

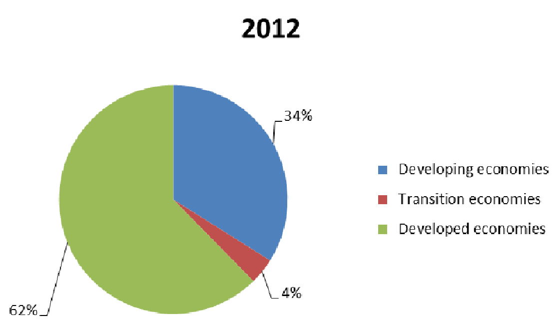


Source: UNCTAD data

Fig. 1 World FDI flows and stocks

The stock of world FDI increased by more than 22000 billion USD in the last three decades, representing a growth of almost on thirty times. A similar growth is occurring for world FDI flows, the difference being of 700 billion USD. The evolution presented in fig. 1 shows that stocks increased continuously the higher rates occurring at the end of the period. As long as flows are regarded, there are more important fluctuations. The negative changes are determined by the impact of financial and economic crises. The average annual growth is around 9% for both, FDI stocks and flows. Another fact that should be noticed is that the growth is accelerated after 2000.

Developed economies concentrate most of the FDI stocks (62%), being followed by the developing ones (34%), while transition economies account for only 4% (fig.2). Nevertheless, transition economies record a growth that is far larger than in the other categories. Thus, FDI stocks of the transition economies grew from almost 2200 million USD in 1991 to 850 billion USD in 2012, respectively a 390 times growth, compared with 13 times in case of developing economies and 7 times in case of developed economies.

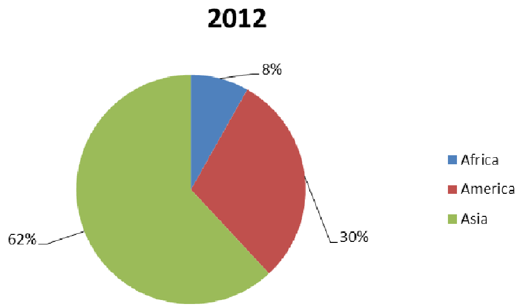


Source: UNCTAD data

Fig. 2 Structure of FDI stocks by level of development

Nevertheless, transition economies record a growth that is far larger than in the other categories. Thus, FDI stocks of the transition economies grew from almost 2200 million USD in 1991 to 850 billion USD in 2012, respectively a 390 times growth, compared with 13 times in case of developing economies and 7 times in case of developed economies.

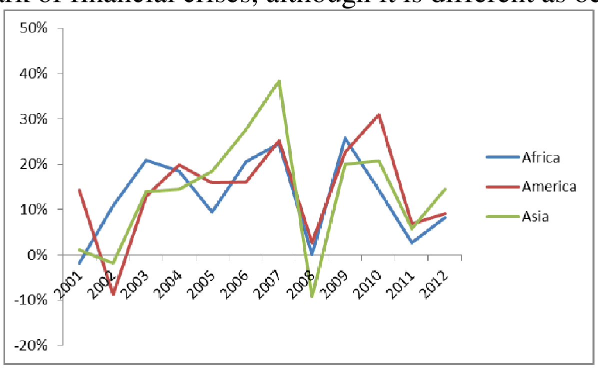
As long as the territorial structure is regarded, Asia proved to be the most attractive for FDI, its stocks representing 62% of the FDI stocks of developing economies. America's developing economies owes 30% of FDI stocks, while only 8% reached Africa (fig.3).



Source: UNCTAD data

Fig. 3 Regional structure of FDI stocks in developing economies

The regional dynamic is more similar, the medium annual growth in the period 2000-2012 being almost the same for these three regions of 13-14%. All developing economies bear the mark of financial crises, although it is different as occurrence (fig. 4).



Source: UNCTAD data

Fig. 4 Annual indexes of FDI stocks in developing economies

The 2002 financial crisis impacted more on American developing economies, while the one occurring in 2008 affected more intensely the Asian economies. The impact was similar creating an annual reduction of FDI stocks of 9% in both American economies in 2002 and Asian economies in 2008.

Source: UNCTAD data

Fig. 4 FDI stocks in EU27

EU27 attracts holds around 34% of the world FDI stocks and reached this level with an average annual growth of 11%. Despite the obvious trend for growth, annual variations were also important. The impact of financial crises became evident only in 2008, but it was stronger than in the developing economies resulting in an annual reduction of FDI stocks with 12% (fig. 5).

CONCLUSIONS

The novel economic order of globalization is challenging both governments and businesses. Its fostering relies on a historical economic model than political barriers for trade and free movement of people were common place underpinning fast growth of wealth. The supporters of globalization are contradicted by the ones who highlight its negative effect that will impact on countries failing to adapt fast enough, namely many developing economies.

Proper reaction of nations and businesses to globalization depends on whenever they succeed in accumulating enough information to negotiate within fair conditions. This boosted quantitative approaches resulting in various methodologies that measure globalization. These are divided in indicator based assessments, with separate interpretation of each, and in index based assessments that use the information provided by a number of indicators refined in single or partial indexes organized according with the dimensions of globalization.

As case study we presented the trends and patterns of globalization resulting from the analysis of one of its most common quantitative indicator – foreign direct investments. It resulted that globalization is increasing and will continue to evolve like this in the decades to come. The intensity of the process grew especially after 2000 as it is indicated by both global and regional trends. Developing economies from Asia are the most globalized ones, although transition economies have the highest path of globalization. The impact of financial crises is noticeable at both global and regional scales. This fact reveals that globalization cannot prevent such situations, but could foster their spreading over economies that are not responsible for the occurrence of the financial crashes.

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