

# GLOBALIZATION OF ECONOMY - CHALLENGES OF THE GLOBAL MARKET

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(Review paper)

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## Abstract

Today, globalization is present and influential in all the spheres of life - in economy, politics, sport, culture, art, chemistry etc. and has a great impact in everyday life in all aspects, in all spheres and social levels. With the term globalization we understand the mutual relationships between nations, people, ideas, financial and economic trade activities, the exchange of ideas and information, whether political, social or cultural. Different opinions regarding globalization pro and against, right or wrong, a real phenomenon or myth in the economic, social and political mainstream, it is quite difficult to make a real evaluation for such a complex phenomenon. Therefore, countries that enter the global flow in these mutual relationships benefit more than those that remain as observers of the event, because globalization is an inevitable and irreversible process. Even countries with large territory and population, and rich with resources cannot prosper without becoming part of globalization. Macedonia as a small country in territory and population, with limited resources should enter the global flow in order to ensure long term prosperity and standards for the citizens because on the contrary the consequences will be large.

**Keywords:** Globalization, exchange, idea, pro and against, production, exchange etc.

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## INTRODUCTION

The term "globalization" began to be used since 1944, but the application by the economists began in 1981. First, the term "global village" was affirmed after the publication of the *Understanding Media* (Routledge, London, 1964) by M. McLuhan. Meanwhile, Theodore Levitt is the author of the term "globalization" through an article he wrote in 1983 for *Harvard Business Review* titled "Globalization of Markets"

The term "globalization" was introduced in all the world's most popular languages and the world's most relevant institutions, and in the actuality of the world it is impossible to escape the questions about globalization. Such as, when it first appeared, what benefits or damages may come out of it etc.

Opinions and attitudes on globalization are numerous, and today there are various debates in the world, which is undoubtedly the "effect of the phenomenon of globalization in national economies and the quality of life of each country's population". There are many debates

where "the issue of globalization" is evaluated, re-evaluated, anathematized or glorified, ignored, or put on a pedestal that shows how complex and all-inclusive this phenomenon is. Those who support globalization, associate it with progress, prosperity, and peace, while those who ignore the word globalization associate it with deprivation, disaster, and destruction. Certainly, some perceive globalization as a growing integration process in the world, as positive occurrence in economy (rescue), others see it as a negative (punishment) towards the uneven development model.

The term "globalization" is valid for the general public, distributed throughout the world, as one of the defined terms of contemporary society. The former Malaysian premiere, Mahathir Mohamed, is one of many who stated that the twenty-first century is a century of globalization (Nederveen Pieterse, 2004; 4). World Trade Organization's first director (WTO) Renato Ruggiero describes globalization as a reality "beyond everyone else" (WTO-2, 1996 b). Although these statements can be considered hyperbolized, it is a fact that the greatest achievements of mankind such as strategies, assets, careers, identities, communications and beliefs are of this period.

- The American economist Stieglitz defines globalization as a "very close integration of the peoples and countries of the world, that has realized, on the one hand, a significant reduction in transport and communication costs, and on the other hand, the destruction of artificial barriers in cross-border flow of goods, services, capital, knowledge and people" <sup>3</sup> (Joseph Stiglitz "Globalization and its Discontents" Published by W.W. Norton 2003).

For many economists, who have profoundly analyzed the globalization, it is not a negative phenomenon. Globalization has created fantastic opportunities for spreading the ideas, information, techniques and technologies from the most modern and productive models of economic growth and development, helping to improve the quality of life of many regions and peoples of the world. "Globalization is potentially very much effective and capable of enriching every inhabitant of the planet, especially the poor" <sup>4</sup> J. Stiglitz "Globalization and its Discontents" Published by W.W. Norton, 2003.

Globalization is a historical process that has emerged and developed many centuries ago on our planet, while its two most powerful engines are technological changes and inter-national mobility of production factors. This increasingly globalization brings with it a growing interdependence between territories and people. In itself, globalization is neither uniform nor equitable. Some sectors are affected more than others, it affects the quality of life and income of some social groups more than others, privileges or punishes some countries in relation to other countries, is affected by some technological developments more than others etc. Many scholars now recognize globalization in economic, social and cultural terms with "**its global society**". According to authors who dealt with this phenomenon, Dirk Mesner and Franz Nuschler, "Globalization is the biggest economic and social turnaround since the Industrial Revolution". Or "globalization is the growing dependence and integration of different economies around the globe" as Meghnad Desai, Indian-British professor of economics says. Professor Dr. Johannes Varwick, a German professor of sociology at the University of Kiel, says that "globalization is a process of growing links between societies and issues".

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<sup>1</sup>Nederven Pieters, 2004;4

<sup>2</sup> W.T.O.-2,1996 b)

<sup>3</sup> (Josef Stiglitz'' Globalization and Its Discontents'' Published by W.W. Norton 2003.

<sup>4</sup>Ibid.

In the today's concepts and definitions, the term "globalization" in its entirety means the development of mutual relations between people, ideas and information, economic-financial and commercial, political and cultural activities on a planetary scale. Thus, globalization at its core describes and marks no more than a world characterized by linkages that transcend multi-continental spaces.

- When the Princess of Wales, Lady Diana, tragically lost her life in the Paris accident on August 31, 1997, it was again a way of implicating globalization as a synthesis in reflecting on this event. Here's how illustrates the globalization in its editorial the magazine *Alternative Economiques*: "globalization is a British princess and her Egyptian friend who died in a French tunnel as they were traveling with a German vehicle with Dutch engine, driven by a Belgian chauffeur, while being pursued by Italian paparazzi riding on a Japanese motorcycle"<sup>5</sup> "*Alternative Economiques*" magazine, issue 59.

### **1. At the economic level, globalization appears in:**

- the growth of international trade to a much faster rate than growth of world economy,
- the increase in international capital flows including direct foreign investment,
- the signing of international agreements that have caused the creation of organizations as well WTO<sup>6</sup> (World Trade Organization) and economic cartels such as OPEC<sup>7</sup>,
- the development of global financial systems,
- the increasing the role of international organizations such as WTO, WIPO<sup>8</sup>, IMF<sup>9</sup> that deal with international transactions,
- the increasing of economic practices such as outsourcing (use of external sources) and off-shoring (moving the businesses from one country to another) by multinational corporations...

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<sup>5</sup> "Alternativa Economiques" magazine no. 59 "La mondialisation", 2005.

<sup>6</sup> WTO - The World Trade Organization is the only international global organization that deals with trade rules between nations. It was established in Geneva, Switzerland, on January 1, 1995.

<sup>7</sup>OPEC - The Organization of the Petroleum Exporting Countries is a permanent, intergovernmental organization established at the Baghdad Conference on 10-14 September 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Later these five initiating members were joined eight other members: Qatar (1961); Indonesia (1962); Libya (1962); United Arab Emirates (1967), Algeria (1969); Nigeria (1971); Ecuador (1973-1992) and Gabon (1975-1994). OPEC's headquarters in the first five years of its establishment has been in Geneva, Switzerland, and since September 1, 1965, has been in Vienna, Austria.

<sup>8</sup>WIPO - The World Intellectual Property Organization is a specialized agency of the United Nations. It is devoted to the development of a balanced and acceptable system of international intellectual property, which rewards creativity, stimulates the discovery of novelties and supports economic development by preserving the public interest

<sup>9</sup>The IMF - The International Monetary Fund was established in 1945 to help the health of the world economy. With his offices in Washington DC, he is led and held accountable to 184 countries that make up his almost global membership.

In relation to the economy, some research link globalization to the whole transformation of the production model, while other analyzes regard it as continuity. As far as the comprehensiveness of change is concerned, many business research authors conclude that global markets, global competition and global management have fundamentally altered the visions, organization and behavior of companies (Porter, 1990; Pucik et al., 1992; Ernest, 1993; Tailor and Weber, 1996; Bartlet and Ghoshal, 1998). Numerous authors also point to the report through globalization and technological revolution in transport, communications and data processing. These developmental trends changed that what was produced and how it was produced. Many observers of the events characterize the global economy as information technology, science, post-industry, networking economics, or as a service economy (Bell, 1973, Katz 1988, and 1993 and Castells, 1989, Bruson and Daniells 1998, 1998, Shapiro and Varian, 1999).

- In the field of global economic development (globalization), Levitt has used expressions that characterize the major changes that have occurred over the past two decades in the international economy - rapid and spread diffusion into the world of consumption, production and investment, services, capital and technology<sup>10</sup> (Theodore Levitt “The globalization of markets” in Kontron, A M. Sunrise ... Sunset, Challenging cataloging in Pub.

With the rapid growth of global corporations, globalization has included the production of goods and services. These multinational companies are run by international managers, diversified on production and service outlets in many countries, using raw materials and resources from the world's cheapest sources, selling their products like automotive, steel, aircraft, computers, telecommunications, chemicals, electronics and others all over the world, etc. Today, under global conditions, all of today's major products incorporate some external imputations, and overseas trade for parts and components has expanded much faster than traded for finished products (e.g. 65% of the total cost of manufacturing of IBM computers' parts and components manufactured for IBM is done outside the US).

With unprecedented proportions in contemporary life, **fiscal globalization** also appeared in relation to: foreign exchange operations, banks, the securities market, by-products business and the insurance process. The average involvement of day-to-day global foreign exchange markets increased by one hundred times over the 25-year period from 1973 to 1998, from \$ 15 billion to \$ 1500 billion. The application of the euro and other achievements prompted a rapid turnaround to be achieved in the value of \$ 1200 billion a day in 2001, a value which increased and reached a daily average of \$ 1900 billion by the end of 2004. (Bank for international agreements (BMN, 2001a, 2001c; 98-100). In the second half of the 20th century, the global deposit phenomena appeared in the banking system. With these accounts savers use global banking networks to deposit their deposits wherever they are in the world. The total value of bank deposits owned by external users increased from \$ 20 billion in 1964 to \$ 7.9 trillion in 1995 (IMF) 1993; 60-70; BMS, 1996.

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<sup>10</sup> (Theodore Levitt “The globalization of markets” in Kontron, A M. Sunrise... Sunset. Challenging cataloging in Pub. Data. Canada

- Through electronic transfers, finance globalization also facilitated the transfer of money through banks to any destination. Computer systems that provide key support in transferring transactions are CHIPS (Clearing House Interbank Telecommunication) and SWIFT (Society for Worldwide Interbank Financial Telecommunications). When it started to function in the 1970s, Chips systems had pre-payment \$ 148 billion per day worldwide in 1980; these numbers grew fast to \$ 1.37 trillion by delivering 270,000 transactions per day in 2005 (CHIPS 2005)

- SWIFT operations started in 1997, in 2004 they reach an average of 9.1 million shipments per day (average remittance time is shorter than 20 seconds), within more than 7500 institutions in 202 countries. (SWIFT, 2005);

“Empirical data also show that with the liberalization of financial markets the number of financial crises in different countries of the world has been increasing, while its contribution to the economic growth of developing countries is seen only in those countries where there has been one sustainability of macroeconomic indicators, i.e. a sustainability of the real economy, a developed financial system and a strong supervisory and regulatory authority of financial operations”<sup>11</sup>

#### Integration of Macedonia's economy into global flows

Macedonia as a small country with territory and population as well as limited resources in the face of globalization is known as the small country syndrome. In Macedonia, when it comes to economic and social development, when analyzing successes and failures, when designing perspective plans or projects, in the vocabulary of the political class, in social opinion or in scientific thinking there is a very obvious the so-called “small country syndrome”.

Then, should it be considered a fatality and a developing obstacle to being a small country and small nation. Should public institutions and politics' justifications be “this is as much as we can do”, or the apathy and the lack of optimism among many who are struggling and are dominated by the psychological hesitation and minimalist claims when it comes to assessing or seeking a more dynamic and quality development of the country. In these circumstances of globalization, with tremendous opportunities for communication, trade exchanges, information and transfer of easily feasible knowledge, the ability to provide quality services without distance or language barriers, etc., opportunities for development are unlimited.

The notion of the size of the territory and the population or the so-called "small country syndrome" is gradually replaced by the notion of quality and intelligence in the design of growth policies and development of major political and social compromises with optimism and steady confidence in achievement of the results, the quality of education etc. This has made small countries with territory or population to break the myth of being big, in many cases, surpassing them with many indicators of economic and social development.

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<sup>11</sup>ANDREOTI A. Globalizzazione, una voce sotto scala, lampi din stampa, 2207, fq 68.  
e.g. Singapore, South Korea, Taiwan, Chile, New Zealand, etc. so-called "tigers" or "dragons" of Asia and Latin America, with their results in economic and social development proved that small country syndrome can be overcome successfully. These "economic tigers" are beginning to emerge in Europe as well. The "steel tiger" in the Republic of Ireland, the "Tatra tiger" when we talk of Slovakia,

the "Baltic dragon", Lithuania; "Central Europe puma" Czech Republic, "Slovenian tiger" in Slovenia. All these countries are populated with 2, 3, 6 million inhabitants and with a territory of 20, 30, up to 50,000 km<sup>2</sup> which have achieved spectacular results in economic development during these years.

Macedonia is a small country that offers many opportunities for investment, has a good strategic position – at crossroads of two international corridors - a country in the Euro zone that has a relatively young population and good business conditions with low taxes and cost-effective labor force. The banking system is stable and privatization of public enterprises is a progress that brings great opportunities for foreign investors.

The political elite in Macedonia should bear in mind that globalization, as a starting point and as a basis, is competitive and relies on pluralistic democratic society, open market economy, and by respecting human rights and freedoms.

Governments and opposition parties around the world are changing their political programs to incorporate into these programs the new global reality<sup>12</sup>.

After the independence, Macedonia started to build political and economic relations with the international community. In 1997 it began to realize the biggest steps towards cooperation with the European Union, by signing the transportation agreement, textile agreement, wine agreement, the protocol on financial cooperation. In 1999, will happen the biggest turning point in Macedonia's co-operation with the EU, such as preparations for the Stabilization and Association Agreement that were crowned on December 17, 2005, where Macedonia got the status of a candidate for EU membership and a candidate for the Adriatic Charter (together with Croatia and Albania).

Macedonia is also a CEFTA signatory representing a forum of ex-socialist countries that show interest in intensifying relations between them, where the majority of CEFTA members have already joined the European Union, hence the importance of this association has diminished. Macedonia made the biggest step in its membership in the global economy by entering in the World Trade Organization (WTO) in April 1993. Changes must also be made in terms of access to FDI because they include a percentage of less than 2% of GDP, with the exception of 2001 and 2007, which is very small compared to other countries.

Foreign direct investment in the country (in \$US millions)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011
215.1	447.1	105.6	117.8	323.0	97.0	424.2	699.1	587.1	197.1	211.0	463.3	132.2

Source: [www.nbrm.mk](http://www.nbrm.mk)<sup>13</sup>

<sup>12</sup> Bedri Selmani, Globalization, Transition and Integration

<sup>13</sup> [www.NBRM.mk](http://www.NBRM.mk)

From the data in the table we can conclude that FDI progress has different tendencies. More investments were absorbed in 2007 (\$ 699.1 million) and the lowest level of FDI was recorded in 2005 (\$ 97 million)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.0%	13.0%	2.8%	2.5%	5.9%	1.6%	6.5%	8.6%	6.0%	2.1%	2.3%	4.5%	0.9%

The biggest share of FDI in GDP has reached 13% in 2001, which is the result of the sale of telecom and in 2007 with 8.6% while in other years we have a fluctuation of digits and with

not so great value. Theoretically, foreign direct investment can contribute to the well-being of both developed and developing countries.

The biggest beneficiaries of globalization are developed economies and technologically developed countries. This benefit comes from their power to determine relationships with other countries and the process of globalization itself. Countries that are at the beginning of industrial development and have just begun to offer the terms of trade economy is a regular rule of law country with institutions that function at least somehow, it is difficult for them to break through the competition of industrially developed countries. They are threatened with economic decline.

Globalization encompasses a large space beyond countries borders, but is never unlimited and universal. It increases the existing risk of great difference between developed industrialized nations in the north, and many developing countries in the south. According to current research, countries that are more liberal in terms of foreign economic policy, opened to the world market and investments, have more advantages compared to those countries that shut down their economy by means of customs and other measures, and since strong economic enterprises in developing countries are the most secure employers and pay higher salaries than domestic employers, the advantages and disadvantages of globalization are very close to each other. Economic globalization has its positive aspects, but also the considerable risks that not only would not reduce the inequality gap between people but would otherwise deepen it. The greatest danger lies in how the processes of globalization are administered; Globalization is neither good nor bad, it can be administered by humans.

## **CONCLUSION**

The idea of globalization is not new, but it is spoken of it intensively and systematically since the late twentieth century. Globalization reduces the role of state borders and unites national markets in a common and unique world market.

The main features of globalization are: the growth of international trade, growth and concentration of international capital, population migration, development of technology and industrialization.

Many analysts in the world, when they talk about globalization, often point out that globalization is a prospective human process and as such is inevitable.

However, like every major phenomenon, it also has weaknesses and problems that categorize people as supporters and opponents of globalization. In order to get rid of this division, new ideas must be found among people and accessible to everyone. Otherwise, globalization can be utopian.

Globalization as a process is not present in all countries of the world alike, somewhere more and somewhere less, i.e. not with the same intensity. The biggest benefits despite pros and cons are in countries where globalization is most present. This encourages countries to engage in global flows and open their economies. We have transition countries that have advanced economic-social reforms and are facing the process of capitalism as a system and we have other countries that have lagged behind in this process. The issue of opening up to the global market and their integration into regional integrations (EU, CEFTA, EFTA) for transition economies is of particular importance.

Macedonia as a small country is determined and one of its priority policies is global integration, but the level of implementation and effectuation is another issue, as it still faces unresolved political and socio-economic problems. These problems are further deepened in the country because it is forgotten that the time we live in is dynamic and with great changes in all aspects of life, especially in political aspect, which many countries have earlier overcome. Macedonia is still in transition and with ongoing problems; high unemployment rate, informal economy, corruption, inefficient courts, long and non-transparent procedures, inter-ethnic tensions and other problems.

Macedonia has no choice but to lead an active policy toward integration into the global trends. Undoubtedly, this is achieved with economic growth that depends on a large number of factors such as: productivity increase, accumulation increase, savings, investment, natural and human resources, increased savings, property protection, and realization of long-term structural economic reforms. So Macedonia should provide quality products and services that the global market requires. Develop those economic branches that have resources and focus on building up industrial capacity and quality services. Changes must also be made with regard to FDI, as it makes a small percentage, just over 2% of the GDP which is very small compared to other countries. The priority policy is to use European funds through the delivery of projects for more efficient implementation of these funds.

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