Theoretical Considerations about the Possible Impact of Globalisation on Europe's Economic Development

Rasa Daugėlienė

Institute of Europe,
Kaunas University of Technology
Kestučio str. 8,
Kaunas, LT-44320, Lithuania
E-mail: rasa.daugeliene@ktu.lt

“Globalisation indeed promotes growth.”
(Dreher, 2006)

“Rising international economic integration, or globalisation as it is commonly known, offers many opportunities.”
(European Commission, 2013)

Abstract: *Scientific works (starting from 1873) of famous economists and political philosophers based on theoretical/philosophical considerations about the preconditions of changes on world economy of scope stipulate the inclusive analysis of factors which possibly influence the challenges of society and economy in the 21st century. It is very modern to claim that manifestation of globalisation is the origin of all changes. The European Commission states that about one-fifth of the increase in the economies of EU countries over the past 50 years depends on integration of the world economy, that is, globalisation. Taking this into account, the article presents theoretical considerations about the possible impact of globalisation on Europe's economic development. Three scientific problems are raised: Does globalisation affect economic growth and how could this process be managed? Which are the derivatives of globalisation that influence positive changes in a country's economy? Is it possible to eliminate or diminish the effect of the more negative aspects of globalisation? Among the research methods used in the article are theoretical comparative analysis of the scientific works, and analysis of legal documents as well as strategies and practical papers in this field. The article also presents three tasks: to systematise arguments presented in existing scientific works (theories) as well as in EU*

initiatives considering the phenomenon of globalisation, to highlight the tendencies in Europe's economic development that are associated with globalisation, and to present recommendations for managing the influence of globalisation to the development of EU's economy.

The article presents systematised arguments of published scientific works (theories) as well as EU initiatives considering the phenomenon of globalisation. The impact, positive as well as negative, of globalisation on the development of economy is highlighted and the criteria for the manifestation of globalisation is systematised. This instrument could be used to assess the impact of globalisation on economic development.

Keywords: *development of economy, effects of globalisation, European Union, globalisation*

1. Introduction

Scientific works (starting from 1873) of famous economists and political philosophers (W. Bagehot, F. Bastiat, F. H. Knight, C. Menger, J. S. Mill, D. Ricardo, A. Smith, J. G. K. Wicksell, F. A. Hayek, A. Seldon, G. Tullock, and others), based on theoretical/philosophical considerations about the preconditions of changes in world economy of scope, stipulate the inclusive analysis of factors which possibly influence the challenges of society and economy in the 21st century. Several views to what may accelerate the changes can be found in current analytical works: first the phenomenon of globalisation with all of its content (positive and negative); second, changes in individuals' attitudes, values and expectations (moral as well as material); and third, changes concerned with the peculiarities of a given epoch.

It is very modern to say that the manifestation of globalisation is the origin of all changes. The European Commission states that about one-fifth of the increase in the economies of EU countries as well as social life over the past 50 years is attributable to integration of the world economy—that is, globalisation.

These considerations stipulate to highlight the scientific problems: does globalisation affect economic growth, and how could this process be managed? Which are the derivatives of globalisation that influence positive changes in a country's economy? Is it possible to eliminate or diminish the effect of the more negative aspects of globalisation?

The listed problems could be solved in two ways. First, by applying theoretical analysis of the existing arguments as well as systematising the most frequently recurring characteristics or criteria of globalisation. Second, by a retrospective analysis to examine the intensity of the manifestation of systematised characteristics in a given state's economy.¹

The research object of this article is globalisation, and the subject of the research is the impact of globalisation on the development of EU's economy. The article aims to present theoretical considerations about the possible impact of globalisation on the EU's economic development as well as to highlight recommendations on how to manage this impact. To achieve this aim, three tasks are to be performed:

- Systematisation of arguments in existing scientific works (theories) as well as EU initiatives considering globalisation phenomenon;
- Highlighting tendencies in the development of European economy associated with globalisation;
- Presenting recommendations for managing the impact of globalisation on the development of EU's economy.

The article's scientific originality and practical significance lie in systematised statements of existing scientific works and theories as well as EU initiatives considering the phenomenon of globalisation; highlighting the impact of globalisation on the development of economy; and the systematisation of criteria for the manifestation of globalisation. This instrument can be used to assess the impact of globalisation on the development of economy.

The chosen research methods include a theoretical comparative analysis of the scientific works and an analysis of legal documents as well as strategies and practical papers in this field.

¹ The first approach will be used in this article, while the second remains the object of further researches.

2. Arguments presented in published scientific works (theories) as well as EU initiatives considering the phenomenon of globalisation

There have been several notable pioneers representing different approaches to analysing the manifestation of globalisation.² The first studies exploring the interrelation of globalisation and business were carried out around the 1800s. Adam Smith was one of the first to speak about the benefit of open economy in 1776. Karl Marx and John Mill presented the theory of globalisation impact on the changes of economy of scope in 1850. Eli Hecksher (1919) started to analyse the problem of free trade organisation. Bertil Ohlin improved his theory in 1933. John Maynard Keynes, the guru of economy theories, presented his general theory of employment, interest and money in 1935.

Marshall McLuhan (1960) introduced the term 'global village'. Clark Kerr (1980) presented the definition for the concept of 'industrial man'. These two concepts represent the manifestation of globalisation. Roland Robertson (1992) analysed the interrelation of globalisation, social theory and global culture. Paul Bairoch and Richard Kozul-Wright (1996) presented historical reflections of globalisation on integration, industrialisation and growth of the world's economy.

The arguments that there is direct positive interrelation of globalisation and business cycle transmission were presented in the work of Michael J. Artis and Toshihiro Okubo (2008). Maurizio Bovi (2005) analysed the correlation of globalisation and Europeanisation. Chamsy el-Ojeili and Patrick Hayden (2006) made an overlapping analysis of critical theories of globalisation. They presented David Held's (2000) systematised approach to globalisation from the perspective of globalist (there is a fully developed global economy that has supplanted previous forms of international economy), traditionalist (international economy has not progressed to the stage of a global economy to the extent claimed by the globalists) and transformationalist (new forms of intense interdependence and integration are sweeping the international economic system) positions (El-Ojeili & Hayden, 2006, p. 16).

Research on the theme of **two-wave globalisation** (Bairoch & Kozul-Wright, 1996; Baldwin & Martin, 1999; Williamson, 2002) have highlighted that

² Carl Menger (1840–1921) can be regarded as the first economist. In 1871, along with Jevons and Walras, Menger published a work which revolutionised the way economists viewed value and price theory by introducing innovations in the theory of marginal utility. His work was profoundly influential in Europe where it inspired the work of Ludwig von Mises and Friedrich Hayek.

openness in trade and finances are the principal common characteristics of the two waves. Despite that the authors stressed that the two waves of globalisation are not equally reflected in the role of government and its policies, the scale of investment and international migration, the presence of international organisations and international cooperation, as well as coordination in economic policies.

According to Bairoch and Kozul-Wright (1996) and Baldwin and Martin (1999), the first wave of globalisation is defined to cover the period before World War I (1870–1914). The bloc economy period (1915–1959) comprises the interwar period, which involves the Great Depression, World War II, and the subsequent recovery period. The second wave of globalisation is defined as the period after 1960. After World War I, some East European countries became independent. After World War II, many Asian countries won independence from the Imperial powers. The 1960s saw the independence of many more formerly colonial African and Asian countries and the initiation of the movement of international cooperation and liberalisation of trade and finance, establishing the current regime of international relations.

The World Bank's experts point out three waves of modern globalisation (Fig. 1).

Figure 1. Three waves of modern globalisation

The first wave was correlated with the industrial and technological revolution (1870–1914). Over this period, exports nearly doubled relative to world GDP (to about 8 per cent) and foreign investment nearly tripled relative to the GDP

of developing countries in Africa, Asia, and Latin America. International migration was particularly dramatic, with about 10 per cent of the world's population moving from Europe to the New World and from China and India to the less-populated neighbouring countries. However, this impressive wave of globalisation was virtually reversed during World War I, the Great Depression, and World War II. By the end of the 1940s foreign trade as a share of GDP was at about the same level as in 1870.

The second wave was correlated with global cooperation in trade, mostly of developed countries (1950–1980). Trade and investment flows were growing among the countries of Europe, North America, and Japan, aided by a series of multilateral agreements on trade liberalisation under the auspices of the General Agreement on Tariffs and Trade (GATT). At the same time most developing countries were stuck in the role of primary goods exporters and were largely isolated from international capital flows. Researchers also noticed that while there was a trend toward convergence of per capita incomes between the richer and poorer members of the OECD (Organisation for Economic Cooperation and Development), the gap between the developed and the developing countries widened.

The third wave was correlated with unprecedented dependence starting in the 1980s and was driven by two main factors. One involves technological advances that have radically lowered the costs of transportation, communication, and computation to the extent that it is often economically feasible for a firm to locate different phases of production in different and far-away countries. The other factor has to do with the increasing liberalisation of trade and capital markets: more and more governments of developing countries choose to reduce protection of their economies from foreign competition and influence by lowering import tariffs and minimising non-tariff barriers such as import quotas, export restraints, and legal prohibitions. A number of international institutions established in the wake of World War II—including the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO, preceded by the GATT until 1995)—play an important role in promoting global free trade in place of protectionism (World Bank, 2004, Ch. 12).

It is vital to stress that theories of globalisation seem to have started in about the 1980s. They began with strong accounts of globalisation of economy, politics and culture, and the significance of territorial boundaries and national economies, states and cultures being swept away.

Definition of globalisation. There exist plenty of definitions for globalisation, which are constructed of its different aspects: integration of economy, social as well as global relations. Globalisation is an expansive and intricate concept that is often hard to define in the same terms, because of its breadth there are many different takes on just what globalisation is.

There exist three theories which systematise and explain the most frequently recurring characteristics of globalisation—the World Systems Theory (Wallerstein, 1970), the World Culture Theory (Robertson, 1992), and the World Polity Theory (Mayer, 1980). Usually they are called globalisation theories.³

The fact that these theories exist allows analysing the phenomenon of globalisation from the perspective of social systems, culture and politics. Such viewpoint reflects in different definitions of globalisation. For example, according to

- OECD: globalisation is “the geographic dispersion of industrial and service activities, for example research and development, sourcing of inputs, production and distribution, and the cross-border networking of companies, for example through joint ventures and the sharing of assets”.
- International Monetary Fund: globalisation is “the process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of economies and societies”.

Inclusive understanding of globalisation was presented by Cochrane and Pain (2000), who claimed that globalisation can be understood through the following four concepts:

- Stretched social relations, so that events and processes occurring in one part of the world have significant impact on other parts of the world (‘the butterfly effect’);
- Intensification of flows, with the increased ‘density’ of social, cultural, economic, and political interaction across the globe;
- Increasing interpenetration, so that as social relations stretch, there is an increasing interpenetration of economic and social practices, bringing distant cultures face to face; and
- Global infrastructures, which are the underlying formal and informal institutional arrangements required for globalized networks to operate. (El-Ojeili & Hayden, 2006)

³ Further on globalisation theories see <http://sociology.emory.edu/faculty/globalization/theories.html>

The role of the European Commission. The EC plays an important role in the design of coherent policy strategy in order to face the challenges of globalisation. EC collates globalisation with international economic integration. Thomas L. Friedman's (1999) definition could be used to explain what globalisation is for the EU. It is

the inexorable integration of markets, nation-states, and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations, and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before [...] the spread of free-market capitalism to virtually every country in the world. (Friedman, 1999)

Official documents of the EC state that the combination of technological progress, lower transport costs and policy liberalisation in the European Union has led to increasing trade and financial flows between countries. The targeted policy actions considering globalisation are made using European Globalisation Adjustment Fund (EGF)⁴.

Infrastructure of globalisation. The question as to how globalisation affects the scope of social and economic spheres of countries could be answered by analysing the infrastructure of globalisation which include institutional system (e. g., multilateral trade agreements, investments, etc.) and market effectiveness (international capital markets, foreign exchange markets).

3. Europe's economic development tendencies associated with globalisation

As it is stressed in different papers and official documents, many (positive and negative) effects of globalisation on the development of economy can be named. While it is quite difficult to examine all of them, the most often mentioned benefits of globalisation are increase in knowledge, cheaper products, increase in competition, lower wages, higher discrepancy between the rich and the poor, destruction of local industries, etc. Globalisation indisputably affects all spheres of life in countries. The EC claims that the rising international economic

⁴ With up to 500 million euros available each year, the EGF helps workers find new jobs and develop new skills when they have lost their jobs as a result of changing global trade patterns, e.g., when a large company shuts down or a factory is moved to outside the EU.

integration, or globalisation as it is commonly known, offers many opportunities.

Negative aspects of globalisation on the economies' growth cannot be denied. It should be stressed that globalisation

- transfers jobs from developed countries to less developed countries;
- transfers investment spending from developed countries to less developed countries;
- tends to move taxation away from corporations onto individual citizens;
- ties countries together, so that if one country collapses, the collapse is likely to ripple through the system, pulling many other countries with it;
- fosters usage of finite resources;
- makes it virtually impossible for regulators in one country to foresee the worldwide implications of their actions;
- increases the gap between the rich and the poor;
- increases speculations, risk, feelings of uncertainty;
- influences negative change of human values;
- could be seen as precondition for terrorism and alienation.

However, changes in the activities' conditions, penetration of IT, as well as changes in understanding of time and distance (the reflection of globalisation) influences the attitudes of persons, groups and governments. The latter factors stipulate the growth of new knowledge-based economy where creation, acquisition, dissemination, implementation of knowledge is the essential engine for economic growth (Daugėlienė, 2011, p. 118).

As a positive consequence, globalisation creates new social and economic derivatives, such as happiness economics,⁵ emerging global companies, and behavioural finances / management.

A key result of globalisation is the increasing interdependence of economies of the world and EU Member States. In the first case, most of the world's countries are dependent on each other for their macroeconomic health. Many newly industrialised countries are enjoying a growing share of the world trade and their economies are growing faster than in richer, developed countries. In the second case, globalisation affected European economy growth by

⁵ The level of happiness economics can be measured by Gross National Happiness (GNH) Index which consists of four main criteria: assurance of fair social and economic development; development of traditional cultural values; environmental protection; and transparent and fair management of country.

- abolition of tariff and non-tariff restrictions (expansion of trade);
- an increase in transfers of financial capital across national boundaries including foreign direct investment (FDI) by multi-national companies and the investments by sovereign wealth funds;
- the internationalisation of products and services and the development of global brands;
- increased levels of labour migration;
- development and expansion of technologies (planes, microprocessors, Internet, robots, etc.);
- creation and application of nanotechnologies and biotechnologies;
- development of communication systems;
- development of cultural aspects of society (cultural proximity, attitudes, values).

To summarise the highlighted arguments it could be stressed that globalisation (effective economic, political as well as social integration) has influenced and/or accelerated the creation of the Common European Market.

4. Recommendations for managing the influence of globalisation on the development of EU economy

In order to manage the influence of globalisation to the development of economy it is necessary to have an instrument which would allow measuring the manifestation of globalisation. This means that there should be proper evaluation criteria which would reflect the level or depth of globalisation (these criteria are detailed in Table 1).

Effective functioning of separate criteria for the manifestation of globalisation allows the management of globalisation effects. To assess the manifestation or influence of globalisation on the development of economy, three dimensions of integration need to be analysed: economic, social and political integration (see Table 1).

As detailed in Table 1, the level of economic integration can be measured by analysing actual flows (international trade development, FDI, portfolio investment, income payments to foreign nationals), and restrictions (hidden import barriers, mean tariff rates, tax on international trade, capital account restrictions).

Table 1. Criteria of the manifestation of globalisation

Globalisation expression				
Economic Integration		Social Integration		Political Integration
<i>Actual Flows</i>	International Trade Development (% of GDP)	<i>Personal Contact</i>	Telephone Traffic	Embassies in Country
	FDI (% of GDP)		Transfers (% of GDP)	Membership in International Organisations
	Portfolio investment (% of GDP)		International Tourism	Participation in U. N. Security Council Missions
	Income Payments to Foreign Nationals (% of GDP)		Foreign Population (% of total population)	International Treaties
<i>Restrictions</i>	Hidden Import Barriers	<i>Information Flows</i>	Remittances and Personal Transfer	
	Mean Tariff Rate		International Letters (per capita)	
	Tax on International Trade (% of current revenue)		Internet Users (per 1000 people) Internet Hosts Secure Servers	
	Capital Account Restrictions		Television (per 1000 people)	
		<i>Cultural Proximity</i>	Trade in Newspapers (% of GDP)	
			Number of McDonald's Restaurants (per capita)	
			Number of Ikea (per capita)	
			Trade in books (% of GDP)	

The level of social integration can be measured by analysing personal contact (telephone traffic, transfers, international tourism, foreign population, remittances and personal transfer, international letters); information flows (Internet users, Internet hosts, secure servers, television, trade in newspapers); and cultural proximity (the number of McDonald's restaurants, or Ikea stores, trade in books).

The level of political integration can be measured by analysing embassies in the country, the country's membership in international organisations, participation in U. N. Security Council missions, and international treaties.

The evaluation of impact of globalisation on the development of economy should be undertaken using qualitative as well as quantitative analysis. These factors of globalisation which are regarded as negative should be eliminated. This means that governments of states should take appropriate and well-measured actions in order to eliminate factors which impede the growth of economy.

5. Concluding statements based on the theoretical analysis

- Globalisation is arguably the most important factor currently shaping the world economy.
- It is very modern to say that the manifestation of globalisation is the origin of all changes. However, such view is quite primitive and not well-reasoned.
- Globalisation as a phenomenon by itself does not give rise to any consequences.
- Globalisation promotes growth of the EU via economic, social as well as political integration.
- The impact of globalisation to economy's development manifests over a long period of time.
- The high level of globalisation of a country does not guarantee the country's stability and strength of its economy.
- Economic, social and political integration is most robustly related to growth with reference to actual economic flows and restrictions. Although less robustly, information flows also promote growth, whereas political integration has no effect.
- Effective management of separate criteria for the manifestation of globalisation allows managing the impact of globalisation on the development of economy.

6. Conclusions

The first studies about the impact of globalisation on economic environment started to emerge in the early 1800s. In later scientific works, new terms like ‘global village’ and ‘industrial man’ were introduced. The phenomenon of globalisation can be analysed from the perspectives of globalists, traditionalists and transformationalists as well as from other different viewpoints such as economy, social and global relations. The manifestation of globalisation is analysed using the approach of three waves of globalisation.

Globalisation is the expansion of global linkages, organisation of social life on a global scale, and growth of global consciousness; hence, consolidation of the world’s society. From the EU’s perspective, it could be defined as effective functioning of the Common Market (e. g., “the inexorable integration of markets, nation states, and technologies”) and cooperation with world organisations in different social and economic fields.

Globalisation exerts positive as well as negative effects on the development of economies. It is very important to be able to eliminate these negative effects. Globalisation affects Europe’s economic growth via effective functioning of the internal market, for example, through abolition of trade restrictions, assurance of free flows of capital as well as goods and persons, creation and application of modern technologies. The targeted policy actions considering globalisation in the EU are made through the European Globalisation Adjustment Fund (EGF).

In order to evaluate the impact of globalisation on the development of economy as well as to manage it, three dimensions of integration (economic, social and political integration) should be taken into consideration. The scope of different levels of integration is measured by using the selected criteria.

Rasa Daugėlienė, Ph.D. in Social Sciences (Management and Administration), is Associate Professor at the Institute of Europe, Kaunas University of Technology. Her scientific research areas include processes of European economic integration, international trade tendencies, management of international finances, challenges of countries’ economic government. She is vice editor of academic journal *European Integration Studies* (ISSN 1822–8402), published at Kaunas University of Technology.

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