

OLD AND NEW ECONOMIC GLOBALIZATION

Elena MĂRGULESCU*

Abstract

The retrospective of the theoretical approaches of the phenomenon of economic globalization in the last three decades emphasizes the movement of attention from the globalization of markets, from the '80s, to the globalization of production and services in the current decade. This trend is essentially the result of implementing new strategies by multinational and transnational companies. We try in this context to draw a line between the "globalization of markets" and the "globalization of production and services". A feature of the globalization of production and services is the implementation of the arbitrage strategy in respect of one or more production factors. But the "globalization of production and services" gains a new content due to the new possibilities offered by the "modularization" of production. Following, the arbitrage strategies began to address new factors, as for example the "functions" of production resulting from the restructuring of the product value chain.

Keywords: globalization of markets, globalization of production and services.

1. Introduction

When talking about the economic globalization phenomenon one can easily observe the large diversity of opinions among scientists regarding, on the one hand, the unfolding of the globalization phenomenon, and, on the other hand, its definition and its difference from internationalization.

The economic globalization was considered by different authors as:

- a process of establishing production facilities around the world in order to obtain scale economies (F. Livesey, 1993, "Dictionary of Economics")
- a process of creating a worldwide market as a result of a certain alignment of consumer needs, of the standardization of goods and of the development of communications and mass-media, through the flexibility of companies (De Luca G., Minieri S., Verrilli A., 1998)
- a specific stage of capital internationalization everywhere there are resources and markets (C.A. Michalet, 1985, "Le capitalism mondial")
- A system of interconnected markets, the globalization of markets implying their integration and the development of „global strategies" by those companies seeking a worldwide presence (A.P. Rhoen, 1996, "International Trade")
- The increased interconnections between countries and societies which lead to the fact that events, decisions and actions taken in one part of the world have a sizable effect on people and communities situated faraway from one another. Globalization has two features: the sphere and the intensity of action (Dunning J.H. "The Advent of Alliance Capitalism" and "The New Globalism and Developing Countries" –1997).
- The unavoidable integration of markets, states

and technologies (Th. L. Friedman, 1999, Lexus and the olive tree)

Finally, this diversity of opinions leads to three different perspectives on the globalization process and three groups of researchers:

- the optimists, who accept the positive outcomes of globalization (A. Giddens, D. Harvey, R. Robertson, G. Barraclough, J.H. Dunning, D. Moberg, Bimal Gosh, etc.)
- the pessimists, who stand against the globalization process (J. Mander, J. Stiglitz, D. Korten, etc.)
- the moderates, with a balanced view on globalization (Paul Hirst and G. Thompson).

One thing is certain, though. The fact that the topic of globalization is approached by so many authors indicates that globalization is not yet a well-defined, well-structured concept, and any new scientific contribution is welcome.

Content

Regarding the unfolding of the process of the economic globalization, the polemic mainly focused around the explanation of whether globalization is just an advanced stage of the internationalization of relations between companies and states, or it is an altogether different qualitative stage.

In the second case, we can witness two different scenarios: that of quantitative accumulation which generates a new quality, and the other of the appearance of new factors which created an original aggregate, which could not be reached by previous accumulations. Some authors, through their methodological enterprise, come closer to the second model of defining globalization, others dwell on sequential aspects or effects of international relations

* PhD, Faculty of Economics, "Nicolae Titulescu" University of Bucharest (e-mail: elena.margulescu@univnt.ro).

that they assimilate to globalization, from an approach that is not necessarily scientific.

Like other researchers who have studied the global evolution of companies in the past years, we have noticed that both the theoretical model of convergence (Ricardo/Samuelson) and the model of the national diversity of capitalism (Michel Albert, P.Hall-Harvard and D.Saskice-Duke, with the German-Japanese and American-British models), while having their share of truth, are much too generalised. Starting from the macroeconomic level of the functioning of national economies, it is more difficult to infer the concrete reaction of companies to the different limitations and opportunities.

The conclusions of a study completed in 2005 by researchers from MIT, regarding the real strategies of companies, were very different from the predictions of the two models. These elements determined us to approach globalization as well from a microeconomic perspective, as a sum of strategies of restructuring and relocation of the international activities of the companies.

Next, we wanted to get closer to our view on the particularities of the actual globalization processes through a comparative analysis of the characteristics and implications of the "old globalization" and those of "the new globalization". We thought that Richard Baldwin's scientific approach was interesting enough to be mentioned here. He tried in 2006 to clarify the paradigms of the old and the new globalization, seeing the phenomenon as a process characterised by two important decouplings.

The first decoupling, brought about by the rapid drop of transport costs, ended the necessity to manufacture products close to the areas of consumption, allowing the spatial separation between the manufacturers and the consumers.

The second decoupling was brought about by the significant reduction of the international communications and activity coordination costs in the last decade, which ended the necessity to have almost all the production stages in the immediate proximity. In addition, in more recent times, the decoupling of some activities and functions happened through the offshoring of business services. In this way, the second decoupling spatially dissociated factories from offices and lead the global competition to the level of the functions hosted by these structures.

Historically, comparisons are made between the first globalization (1870-1914) and the second globalization (postwar and especially since the '80s) and it argues that the world economy reached only in the 80s the same high levels in terms of capital mobility, foreign direct investment (FDI) and trade which were specific to the first globalization, but with the difference that freedom of immigration is not at the levels of that time. While labor migration has played a major role in the first stage of globalization, in the second, the effects of globalization mainly result from the reorganization and relocation of production.

If you look at economic globalization as a process of acceleration of the world economy and of the national economies, leading to the unification of international markets and creating a global market (Suzanne Berger, 2006), then globalization today is the result of political, economic and technological shocks that synchronized and mutually strenghtend in the early '80, which led to substantial restructuring of the manufacturing process. Once China began in 1979 to open the economy to the west and the Berlin Wall collapsed in 1989, the most powerful political barriers to trade and capital mobility have been dismantled. An important role also played the policies of the industrialized countries towards the liberalization of capital markets and the elimination of barriers in international trade.

We must also mention another very important element of the current globalization process namely the accession to the status of competitors of developed countries by a growing group of developing countries. If poor countries in the past exported food products and natural resources, currently over 70% of total exports of goods of these countries is represented by manufactured products, and the share of developing countries in the world merchandise trade exceeds 1 / 3 of world trade.

A retrospective of the theoretical approaches to economic globalization in the past three decades stresses the shift of attention from the globalization of markets of the 80's to the globalization of production and services of the past two decades. We have to define these hypostases of globalization against the three categories of strategies that transnational companies apply in a certain mixture: adjustment, aggregation and arbitrage.

The globalization of markets lexically abbreviates an set of TNC strategies that are primarily aimed to exploit the similarities between countries as a source of added value. Differences between countries, whether of cultural, administrative, geographic or economic nature, are addressed in these strategies as a set of constraints that need to be overpassed.

Depending on the nature and extent of these constraints we can draw a line between two extremes:

a) a limited globalization of markets, in which "distances" between countries exist and are significant, justifying the emphasis put by companies on strategies of adaptation to the characteristics of each market;

b) an extended globalization of markets, characterized by a significant reduction or even disappearance of the "distances" between countries, which brings to attention the aggregation strategies that enable companies to achieve significant economies of scale based on the international standardization of products.

The globalization of production and services expresses essentially those company strategies meant to exploit the differences between countries, addressing to these national features as to opportunities of realizing added value and not as to

constraints to be overpassed. The difference of approach is obvious and, in order of making clearer the need of customizing the business strategies to the two dimensions of current economic globalization, we propose the following definitions:

a) The strategies of market globalization involve the realization of a product in other countries, depending on the particularities of demand and exploiting, as much as it is possible, the similarities between markets in respect of demand.

b) The strategies of production and services globalization involve an international value chain structuring based on the particularities of the production factors supply on the international market.

The traditional forms that international specialization has taken until now are well-known: inter-sectorial, inter-branches and intra-branches, as well as intra-product. Each of these specializations has the merit of creating new trade flows between different regions and countries and thus generating development.

Nevertheless, in the past 10-15 years we have witnessed the appearance of a new specialization which takes place at the level of the distinct functions of the process of the creation and offer of a new product, which we think we can call as "functional" specialization. This new wave of functional specialization already generates new and qualitatively different dimensions of the phenomenon of economic globalization.

This kind of specialization highly contrasts with the vertically integrated structures of many TNCs and originates in the following two processes:

a) *The modularization of manufacturing* becomes possible within a range of industries due to the technological and organizational changes in the past 15 years. The new "Lego" model of production started in sectors like electronics and clothing where the digital technologies enabled the digital transfer of all the technical details of new products from the designer to the manufacturer, safe and with the possibility of control of the project implementation. This modularity generated a wave of outsourcing which rapidly advanced from fazes of the production process to the production process as a whole, enabling few TNCs to draw out completely from manufacturing, a function which was undertaken by a new type of companies, the "contract manufacturers". They specialized exclusively on the turnkey supply of manufacturing services, an activity which must be differentiated from the previous system of sub-contracting when a brand owning TNC is searching for additional production facilities for some of her original components or equipments. In this case we talk about the entire production function outsourcing related to the manufacturing of a commodity or a full set of commodities.

b) *The reconfiguration of the global value chain* is based on the same functional specialization which exceeds this time the field of the manufacturing

process and can be found anywhere along the route of innovation and technology development – manufacturing – distribution and marketing – post sales services. The value chain becomes more and more fragmented as the functions implied by a certain business are differentiated into ever more specialized activities, going to those very narrowly specialized. His growing modularity generates also an increased competition along the value chain, and for every function or set of functions that a company preserves within his own walls it faces with rivals that focus all their resources to become top performers of that function. It has been reached a point when every activity retained by a company within its own structure has to be tested against the performance of the best competitors in the world. Even integrated companies like Sony, which made an option for an independent fulfillment of a much diversified set of functions, are confronting today with the dilemma of selecting the outsourceable functions. Even in many high-technology sectors manufacturing, logistics and distribution have become standardized to a great degree and that for they become tradable packages of activities.

A feature of the globalization of production and services is the implementation of the arbitrage strategy in respect of one or more production factors.

The arbitrage of "traditional" factors of production (cost of labor, capital, innovation) is not a new strategy, but its magnitude is remarkable lately.

Recently, the arbitrage strategies began to address new factors as for example the cost of a "function" resulted from the process of "modularization" or the cost of assembling a number of negotiable "functions".

In this way, within the "globalization of production and services", we have to distinguish between the "modern" component - the strategies of the arbitrage of functions resulted from the "functional" specialization, as opposed to the "classic" component - the strategies of the arbitrage of those production factors that are usually taken into consideration in economic analysis (and which ignores the opportunities of the "functional" specialization).

In respect of the production globalization we have to mention that only between the years 2000-2003, foreign companies have massively relocated their production to China, founding there around 60,000 factories. But we should not fall in the extreme of considering the period of "the globalization of markets" as an outdated historical period. Even now, most MNC are guided by strategies that aim to eliminate the constraints induced by the "distances" between countries. They have not yet connected to the new valences offered by the strategies of production or services globalization, with which they coexist in the last two decades.

Conclusions

Economic globalization represents in its core, the outcome of the implementation by companies of strategies meant to develop their business internationally, such as to overcome the “distances” that separate countries (globalization of markets), or to incorporate the positive effects of these “distances” into a global value chain (globalization of “production”).

If talking about the traditional strategic incentives of TNCs regarding foreign investments, we can remember those formulated in 1993 by J.Dunning (inspired by Jack Behrman, 1972) who finds four large incentives categories:

- a) search for resources
- b) search for markets
- c) search for efficiency
- d) search for strategic assets

In spite of almost two decades past from the systematization formulated by J.Dunning, the means of the implementation of these strategies are still actual for many companies.

However, in the time passed from Dunning's systematization, new opportunities aroused from the above mentioned “modularity of manufacturing” and “functional” specialization.

In this context we can see that strategies from the “early” category of “market” globalization (based on the adaptation-aggregation mix) have uncounted less alteration compared with the strategies from the “new” category of “production” globalization (based on the concept of arbitrage of factors offered by different nations).

This is the reason for us to consider that an analyses on globalization should focus more on the strategies connected with the globalization of “production” and mainly on its new dimensions which are to be found in the arbitrage of some “classic” factors, but mainly in the arbitrage of these new factors represented in fact by the “functions” of the global value chain.

In this new competition framework there are two essential quests for a strategy making company:

- the selection of specific functions of the global value chain, both of those to keep inside and of those to outsource. A certain trend is already on sight, namely the choice of the TNCs to focus on the less tangible functions of the value chain, such as those knowledge-intensive as product definition, R&D, managerial services and brand management.
- the selection of the best integrators for the outsourced functions and of their location. Some of these integrators have meanwhile reached the status of a TNC.

References

- Baldwin R. (2006): “Managing the Noodle Bowl: The Fragility of East Asian Regionalism”.
- Baldwin R. & Martin P. (1999): “Two Waves of Globalization: Superficial Similarities and Fundamental Differences”. *Capitol* 1, p. 3-59. Ed. H.Siebert
- Berger Suzanne and the MIT Industrial Performance Center, *How We Compete: ‘What Companies Around the World Are Doing to Make It in Today’s Global Economy’*, Currency Book, 2006.
- De Luca G., Minieri S., Verrilli A. : “Nuovo dizionario di economia” - Napoli, 1998.
- Dunning H. John: “The New Globalism and Developing Countries” – N.Y., 1997.
- Dunning H. John, Masataka Fujita, Nevena Yakova: “Some Macro-data on the Regionalisation / Globalisation Debate: A Comment on the Rugman/Verbeke Analysis”, *Journal of International Business Studies* 38, no.1 (January 2007).
- “Globalisation Study” (2005), Industrial Performance Center at MIT
- Krugman P. & Venables A. (1995): “Globalisation and the Inequality of Nations”.
- Inkpen A., Ramaswamy K.: “Global Strategy”, Oxford University Press, 2006.
- Margulescu Serghei, Margulescu Elena, “Switching from the globalization of markets to the globalization of production and services in a semiglobalized world”, in *The 33-rd Annual Congress of the American Romanian Academy of Arts and Sciences (ARA) Proceedings, Volume I*, Polytechnic International Press, Montreal, Quebec, 2009.
- Palmisano Sam, “The Globally Integrated Enterprise” *Foreign Affairs*, USA (2006).
- Pankaj Ghemawat, “Redefining Global Strategy”, Harvard Business School Press, Boston, Massachusetts (2007): 10.
- Rugman Alan, Verbeke Alain: ‘A Perspective of Regional and Global Strategies of Multinational Enterprises’, *Journal of International Business Studies* 35, no. 1 (January 2004).
- Stiglitz J.: “Globalization and Its Discontents”, 2002.
- Van Agtmael Antoine – “The Emerging Markets Century”, Free Press, New York, 2007.