

## GLOBALIZATION'S INFLUENCE ON THE COMPETITIVENESS OF NATIONAL ECONOMY

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**Abstract:** The process of globalization is the characteristics of modern trends in world economy, implying open national borders for uninterrupted movements of products, capital and labor force around the world. Although the process of globalization caused huge economic growth and technology advance, numerous faults and contradictions of the process have become obvious in the recent decades. Nowadays, the role of globalization is considered overrated, the reality being very different from the promises, and therefore the trust into the process has vanished, as well as elites and institutions that advocated and imposed it. National economies, especially in transition countries, strive to catch up with the developed countries and take desired positions in the global market through the increase in their competitiveness.

**Keywords:** *globalization, competitiveness, market, enterprise*

### **Introduction**

Globalization is the process of creating the conditions for more dynamic movement of production factors between the countries with the aim of creating open world economy without borders. Market barrier elimination, monetary restrictions, capital flow control, all lead to more intensive trade and financial flows between certain countries. Globalization has changed the structure of the world market, thus only the largest companies can achieve profit in

the global market in most of the activities. The countries of the world are connected into a multidimensional network of economic, social and political connections. Individual national economies feel increasing positive and negative effects of general world economy flows, looking for balance between economic independence and the level of international economy involvement.

Global economy is gaining importance when markets in some countries are not large enough to enable optimal size company creation. Company size allows the provision of market share in a larger number of national markets through the combination of product standardization higher level with the concentration of specific activities in the value chains. Company globalization incentives do not come only from the economy of size but the economy of scope as well, that is, activity expansion – more product lines and more jobs. Technology is one of the main globalization encouragements because the world is moving towards competition in global technologies. It is the strongest foundation for competitive advantage acquisition in the world.

## **Globalization concept and definition**

In terms of economy, for a number of researchers and analysts, globalization is a process for reduction and complete obstacle elimination in the international economic exchange and economic integration increase among countries, border extension (through customs barrier elimination) that enable free movement for people, information, standards and institutions. Thus directed, globalization also denotes social and cultural relations and institutions expansion and increase.

In fact, globalization means 'uniting human effort and activities towards accelerated integration of humanity, in global terms, encouraged by unprecedented human, technology, capital, information, ideas and cultural property exchange among countries and nations, but in such a way that neither countries nor people control this process as much as they would like (Miletić, 2000). According to that, economic globalization is nothing else but world integration through trade, financial flows, technology and information exchange, as well as population migration (Ouattar, 1997). In the broad sense, globalization refers to the expansion of global ties and involves several large processes. Therefore, the definition of globalization differs depending on its focus.

The third stage of internalization process in world economy is called globalization. In the first stage, since World War II till the end of 1960s, world trade played the main role, and internationalization level was measured by the share in the world export (OECD 1992). According to James Stoner (2002), globalization phenomenon consists of three interrelated factors: a) local proximity factor, b) organization location factor and c) organization open attitude factor.

According to the definition stated by Hopkins, globalization is „a process transforming economic, political, social and cultural relations between countries, regions and entire continents, extending, empowering and accelerating at the same time“ (Hopkins, 2002). For Freedman, globalization is „unrelenting integration of markets, countries-nations and technologies in an unprecedented degree so far, allowing individuals, corporations and countries-nations to extend all over the world in a further, better, wider and cheaper way than ever before.....extending free capitalist market to every country in the world“ (Freedman, 1999).

For Robertson (1992), globalization is „compression of the world and intensification of its awareness at large.....specific global interrelation and awareness on global unity in the twentieth century“. For Waters (1995), globalization is a social process where geographical limitations on social and cultural events disappear, and people become increasingly aware of the fact.

„Dominant type of globalization is a historical transformation: in economy, the manner of income and existence provision; in politics, local control degree loss; in culture, collectivity achievement loss.... Globalization occurs as a political response to market power expansion .... It is in knowledge area“ (Mittelman, 2000).

For Samuelson, globalization is, in a way, a support because „...it allows mutual reliance of the forces in some countries. But it also makes us open and vulnerable to the weaknesses of others. Everyone increasingly depends on total world economy that relies on its vital organs' health – USA, Europe and Japan“.

Samuelson neglects the significance of smaller countries national economies in comparison to G8 members, real foundations of the global economy (Jurčić, 2000).

Most authors divide the process of globalization impact into three stages or three large waves. The first wave is the period from 1870 to 1914, when per capita income worldwide was growing at such a rate that it could not prevent the increase in the number of the poor, therefore the tendency for further growth continued. The second wave, from 1950 to 1980, allowed rich countries to connect tightly, in order that the rest of the countries remained dependent, with an increasing number of basic needs for their functioning. The current globalization wave started around 1980.

The following factors had decisive impact on the increasing globalization trend:

- Increased competitiveness with the international character due to the third world countries development
- Technological changes that required large investments because they became more rapid and expensive
- Considerably harder entrance into new markets due to higher and harsher competitive standards
- Economies of scale orientation

### **The impact of competitiveness in the globalization process**

The characteristic of globalization is increasing interdependence between the national economies and the world economy. The countries are linked into a multidimensional network of economic, social and political connections.

Some national economies experience positive and negative effects of general movements in the world economy to the extent that these links become more

significant and complex. All countries are in a position to seek a balance between the economic independence and degree of involvement in the international economy. It is difficult to find a reciprocity in this situation, especially when we speak about developing countries. There is an increasing number of economic problems that a national economy could solve successfully on its own.

It is undeniable that the exposure to the international competition results in work productivity increase in the national economy. When it happens in one or several industries exposed to globalization processes to a greater extent, it brings along certain dangers as well. The danger is the creation of general standards of productivity that the other industries must adhere to over a certain period of time.

In his paper „Competitive Advantage of Nations“, Porter (2012) argues that the national environment plays the central part in company's competitive advantage, and that some national economies are more stimulative than others. According to Porter, a country should create conditions to invest production factors into the industries with the highest productivity. In some global market industries, companies compete, not countries. Country's competitive advantage in an industry is relative.

Economic and business dynamics lead to competitive advantage, not short-term advantage in costs. Demand is a factor dynamizing the economic activity. A country's advantage in an industry is frequently geographically concentrated. It is created over the period of ten or more years, not in a single four-year cycle. Porter particularly emphasizes that some countries achieve competitive advantage in some industries due to differences, not similarities to others.

In the article „Putting Global Logic First“, Ohmae (1995) states that Adam Smith’s „invisible hand“ reached such strength in modern economy without borders he never even thought about. There is no doubt that market is the main driver of globalization. The rise in per capita income in many countries increases the participation of consumers with discretionary income as demand carriers. Reputation system causes consumers’ lifestyle and taste convergence in modern world. There is an increasing number of global products sold around the world with very little or no modifications at all to suit consumer demand in each individual country. Tourism and travel, as well as information and communication system, all contribute to the creation of global consumers, that is, taste and demand harmonization. A growing number of products have worldwide brands, distributed over the global distribution channels, supported by promotion.

Common consumer needs represent a framework for consumers in various countries to have the same demands for product categories or services in the specifically defined industry. Common needs make it easier to participate in the main markets because fewer products can serve more markets. It is the reason for some global standard products to be widely accepted in a large number of countries. Certainly, common consumer needs in some countries vary a lot per industries depending on numerous factors (economic development degree, national culture, physical environment, etc).

Kigen (1995) emphasizes that many global markets do not appear on their own, but they are created through planned marketing effort (for example, soft drinks). Successful global companies discovered that essential segment needs can be satisfied through global presence in the chosen product – markets. Successful

global strategies are based on global function performance or global need service. Every industry successful in this area is a serious globalization candidate.

Product and industry globalization has an impact on research and development, engineering, design cost reduction, investment, production and marketing production cost reduction, especially distribution and promotion. The pressure to create global products is growing along with increasing demand for capital investments necessary for introducing new products into the production program. Global economy gains importance when markets in certain countries are not large enough to allow optimal size company creation.

Company size allows the provision of market share in a large number of national markets through the combination of higher standardization product level with certain activity concentration in the value chain. Company globalization encouragements do not only come from the economies of size, but the economy of scope as well, that is, activity expansion – going for several product lines and several businesses. High product development costs according to national market size are company and industry globalization stimuli. In a lot of cases, it is better to choose just a few global products than a lot of products intended for narrow national market.

Technology is one of the main globalization incentives. It is not difficult to notice that the world moves towards competition in global technologies. Technology is „a product“ that becomes available everywhere rather quickly after its creation. There are no serious barriers for new technology usage in a number of countries.

The increase in the international trade and foreign direct investments, and the reduction of barriers for goods and service movement, as well as the factor of production across national borders, make space for global competition. Competition can be defined as a degree to which a nation can, in free and fair market conditions, produce goods and services that pass the international market test, simultaneously maintaining or increasing its citizens' real income. When we speak of global economy, being competitive in global market means achieving higher living standard, i. e., higher quality of life for its citizens through business activities.

Productivity, as well as its growth rate, are effective competitiveness criteria. Therefore, the governments in some countries should stimulate those industries and companies that can achieve high productivity and acquire competitive advantage in the global market.

An increasing number of countries, i. e., their companies, appear in the global market. Companies are global business oriented when optimal scope is necessary to use the economies of size and experience effects unavailable in the national market. Global industry is the one where competitive position of a company is under the influence of its position in other countries and vice versa. Global strategy is the one that allows a company doing business in a global industry to achieve global competitive advantage through company activities integration across the world in order to master inter-country connectivity.

There is no danger of new competition in closed local industries. There is always a possibility of new competition in global industries or those involved in globalization process. The existing companies in the industry are important in order to study carefully competition

conditions, as well as how difficult or easy it is for a company to enter or exit the industry.

A global company that considers the world as one market usually tries to expand into several markets simultaneously. It performs source, experience and system transfer from one location to another, thus gaining competitive advantage. The main factor in global expansion of companies is the existence of market opportunities. Opening opportunities for the national economy growth is the best way to enter new national markets. If a foreign company overtakes the existing jobs from the national companies in the country without allowing for new growth and employment opportunities, it is natural to encounter the national companies' resistance. Therefore, global companies enter the markets with large growth potentials or those with already acceptable national economy growth rates.

Consumer need and demand convergence is the main indicator of globalization. Global consumers are a consumer group with homogenous needs and benefits required through product attributes from a set of countries or markets. There is no successful strategy without global market segment identification. Global segments are relatively homogenous consumer groups, with similar needs, interests and preferences present in several countries, although they are not main segments in many markets. It assumes information acquisition on the basis of which to establish the strength of the segments, and assess the company's ability to compete with them, with relative success.

The basic characteristic of global segments is that consumers look for favorable product and service purchase worldwide, i. e., the best product at acceptable price in a large number of offers.

Early discovery and presence in global market segments is the hypothesis for the creation of competitive advantage in global economy. It is not possible to cover all the global market segments appropriately at a short notice. Global product pattern allows easier company participation in global market segments.

A significant incentive to globalization process is the integrations within some of the countries. There are four different stages in regional economic integration according to scientific references:

The first one is the creation of free trade zones, thus eliminating customs duties and quota, as well as licenses among the member countries.

The second, higher stage, is the creation of a customs union; not only does this union eliminate duties and quotas, but creates a common system of duties and quotas as well.

The third stage is a common market, which means the elimination of restrictions on product exchange and production factors among the member countries.

The fourth stage, the highest integration stage so far, is the creation of the economic union, which means economic policies and strategies harmonization and unification. So far, this has been achieved only through the European Economic Union.

## Conclusion

Globalization process has been created with the aim of faster world economy development, and it has been supported heartily by the most developed parts of the world and its financial institutions. However, the positive side of the process was best reflected in financial and corporate sectors. As inequalities widened

in the world and number of jobs decreased in the process, economic analysts question the basic postulates of the process. Furthermore, great favors were 'attributed' to globalization and neoliberalism for the 2008 economic crisis. Most of the transition countries failed to reach the level of the developed countries, or make their economies competitive enough in the world market.

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