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Theoretical Perspective on the Impact of Globalization and the Development of the World Economy System

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Abstract

Globalization is a complex process determined by multiple causes, given the diversity of the contemporary world and the international relations developed between modern societies, the spatial or temporal distance no longer being an obstacle to the expansion of transnational relations. Globalization can be approached both conceptually and phenomenologically. This is a challenge for modern society, which must assimilate and control the information and content circulated by establishing links between various economies and societies, but we will see that this also depends on the degree of initial development and the mentality of that society. Globalization, by its dimensions, acts not coercively and perhaps not fully consciously on the contemporary world, becoming an immanent factor of any relations between states. Freedom of movement of capital, labour, technology is a channel for action of globalization. This paper analyses the phenomenon of globalization from a theoretical perspective, investigating various theories on its impact on the development of the world economic system.

Keywords: economic system, financial globalization, world economy.

JEL Classification: B26, F36, P34.

1. Introduction

Globalization is a complex phenomenon, outlined as a fairly recent concept, but manifested in the history of states since individuals began to interact in order to obtain the necessary resources, when their own ones were not enough. These simple exchange relations have expanded through the migration of people; thus, globalization nowadays aims at integrating national economies on various levels, economic, social, cultural, political, a phenomenon that can diminish the autonomy of governments, but the reconfiguration of social relations has as final goal the increase of the development potential of a country and, implicitly, of the living standards of the population.

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The economic facet of globalization highlights the fact that the advantage arising from the global manifestation of this phenomenon related to the more efficient allocation of resources also affects the perpetuation of these resources. The scarcity of resources thus becomes the result of the struggle to maximize profits, to expand power, and to seize markets. The aspects that shape the identity of a nation, such as local culture, traditions, mentality, cultural values, are annihilated under the auspices of globalization. Beyond the benefits of the phenomenon, globalization can actually lead to the suppression of borders and the sovereignty of the preferences and interests of developed states, which leads to the unfair allocation of resources, the unfair redistribution of the national product, to the deepening of the differences and differences between the social strata, thus to the domination of the few and the big over the small and many.

Politically, however, globalisation poses a threat to emerging economies, which the major economies are exploiting. The intensification of global economic exchanges is increasing the dependence of countries on the periphery of the pyramid of economic development on developed economies such as the US, in which a large part of the capital and expertise is found in many areas. There is also a transfer of power from the state to multinational corporations, which concentrates financial power at present. This has led to the strengthening of the 'brand' and its globalisation, as the production and marketing of a multitude of products is carried out on a large scale today.

2. Research Questions and Methods

This theoretical research aims to investigate the impact of globalization on the development of the world economy system. The main research questions proposed in this paper are the following:

- What are the economic implications of the phenomenon of globalization, from a theoretical perspective?
- What concepts underlie financial globalization?
- What is the relationship of the globalization phenomenon with the system of the world economy?

The methodology of the paper consists in the theoretical analysis of the main books and articles that approach the phenomenon of globalization on the development of the world economy system and the comparative presentation of the main issues underlined.

3. The Phenomenon of Globalization and its Economic Implications

Globalization has become a known term since the 1990s and is appreciated due to the contribution of economic growth potential it offers to interconnected states, leading to higher living standards. Economic integration leads to a better division of labour between integrated states, a mechanism that allows economies that pay labour at a low level to specialise in diverse and competitive areas, while developed countries with a wage policy geared towards high pay to increase labour productivity, allowing companies to exploit economies of scale. Globalisation also allows capital flows to be migrated to the highest-return investment opportunities, without being constrained to be placed in the country of origin at lower returns.

Although globalization is a multifaceted concept with numerous dimensions, some specialists approach it as an eminently economic phenomenon, determined by the unprecedented increase in the volume of international commercial transactions, by the liberalization of the movement of capital and labour, having as purpose the maximization of the gain at the expense of these facilities, respectively, the increase of investments in order to consolidate the development in the already developed countries and to stimulate the economic growth in developing or emerging ones. Against the background of increasing capital and investment flows, certain capital markets will develop even more strongly, thus favouring the domination of large corporations over national economies.

At the same time, globalization involves the conveyance of ideas, national practices, and technologies and constitutes something more than internationalization or modernization, universalization. This involves the intensification of social relationships spread globally, which connect places at almost immeasurable distances, but which are influenced by events that take place at great physical distance, which would otherwise be impossible to annihilate. Eliminating geographical distances and barriers is one of the undeniable advantages of this phenomenon. They are produced as follows:

- relocation and over territoriality;
- the transmission of technological innovations is done at a speed that also affects a certain risk;
- the domination of multinational corporations;
- liberalisation and the development of financial markets lead to a corresponding increase in the risk exposures of national economies.

Friedman complains that globalization is not a trend, but a legitimate manifestation of global interdependence, which has its own rules, its own logic, and exerts specific pressures on all states, companies, people, to a greater or lesser extent. In his vision, globalization refers to the integration of markets, technologies, information systems, telecommunications systems in a manner that exceeds national borders, decreases distances, and increases the speed and scope of accessibility of all to products and services that originate at a greater or lesser distance. Globalization is also perceived as a process or set of processes that include the transformation into a spatial organization of social relationships and transactions, expressed through transcontinental flows and networks of activities, interactions, and power (Friedman, 2000).

Waters points out that globalization is also a paradox, due to the fact that it reduces the world to a compressed whole, due to the compression of temporal and spatial barriers, but also an intensification of the awareness that the world is also becoming a much more complex set of forces, due to the interdependencies that are formed. Although the definitions given to globalization highlight its dialectical nature, Waters counts on the advantages brought by globalization to the national economies integrated into this undefined superstructure, which allows for the diversity but also the homogeneity of local practices and cultures. He believes that there will be only one culture on the planet, but which will not, of course, be harmoniously integrated, due to diversity and local specificity. Space barriers will disappear, with territoriality no longer being an organizing principle of social and cultural life. Also, in a globalized world, we will be unable to predict the preferences of society through the prism of the geographical location of a state (Waters, 1995).

We believe that the elimination of geographical barriers will not eliminate unquenchable customs, especially in the case of peoples with a solid and ancient history of traditions, but also the fact that underdeveloped third-world countries will not reduce the gap between degrees of development in order to integrate into a globalised world.

The relocation is also manifested in the banking system, where financial innovations and financial infrastructure have led to the carrying out of part of the banking activity without physical interaction between the bank and the customer. However, not everything is globalized. Employment is largely local or regional, but it is certainly affected by strategic activities and economic factors carried out in a globalized system of inputs and outputs.

In the view of many specialists, but also in the collective consciousness, globalization is an ideologically suspected premise, since it is meant to justify the spread of Western culture and capitalist society, which is largely real (Goodhart, 2003; Alami, Dixon, 2020; Pizzolo, 2020). However, this does not imply that every state must submit to this ideology, but must relativise this ideology in order to adapt to its needs. The relocation or deterritorialization of social and political arrangements occurred mainly in Western Europe.

4. Financial Globalization

Financial globalization is the most important dimension of globalisation, especially in the context of a fragile global financial system, but also exposed to external vulnerabilities. Globalisation must be seen as a process rather than as a condition of a system. This implies the quantitative and qualitative intensification of exchange relations (transactions) outside national borders, i.e., on international financial and banking markets. Financial globalisation also makes a significant contribution to increasing consumption and investment in space-distant financial markets, but also contributes to the diversification of risks through the decompartmentalization of markets.

The dynamics of financial globalisation should also be analysed in the light of the risk component of interbank exposures in a market or of international exposures generating systemic risk. Many theorists, but also practitioners in the economic field, appreciate the fact that the most recent global financial crisis was determined only on the surface by the fall of the real estate market, due to the moral hazard of the clients, who took risks without hedging, because they did not have enough information (asymmetry of information) on the market and could not predict the evolution of real estate prices amid excessive demand for mortgage loans (Alqaisi, 2018; Gennaioli, Shleifer, 2018; Kvalnes, Nordal, 2019). In essence, however, the bursting of speculative bubbles was due to a longer process of accumulation of imbalances, which were "decompensated", affecting the entire economy. The causes of the onset of this crisis were such micro and macroeconomic order.

Financial globalization, regarded as one of the other dimensions of the phenomenon, designates the interdependence relationships that are formed between banking systems and financial markets at a global level. An important role in the process of globalization is played by financial deregulation, which involves the relaxation of regulations in the financial and banking field, which does not imply their elimination, but the allowing of banking institutions to pursue the maximization of profit with greater leeway, especially in terms of interest rates on deposits and loans granted. With regard to deregulation, two main issues are significant:

- the amplitude of the intervention on the financial and banking market;
- the intervention instruments permitted or chosen.

The first aspect related to the discretionary character of public action reveals that in certain states, such as Romania, the central bank has a higher degree of freedom of action than other public policies, which is a benefit, given the success of monetary policy in recent years, the credibility enjoyed by monetary authority, and the transparency of its policy.

Currently, as we note from the history of systemic economic and financial crises, the central bank also performs an interventionist function, the regulations being necessary both to diminish the post-factum effects and to increase the ex-ante predictive capacity. The stages of financial regulation capture two important historical moments: the period of the Great Moderation, characterized by a strict regulation on financial and banking activity; this moderation proved to be artificial, not imposing major interventions on the part of the central bank, whose duties were executive (it established the overnight interest rate). The second landmark historical moment concerns the 1970s, with the abandonment of the Bretton Woods system and the transition to the floating of the exchange rate. In this context, the convertibility of the dollar into gold was abandoned, gold ceasing to be a means of exchange, and that period was that of the Great Deregulation.

After the global financial crisis that broke out in 2008, international financial bodies and supervisory committees have strengthened the regulations of banking prudence, so that now the banking activity is regulated by the provisions of the Basel III Agreement, considered the best means of prudential intervention in the banking market and with the best results in anticipating an episode of turbulence that would generate systemic risk.

In the specialized literature we find three ideological trends specific to the 1990s: the hyperglobalist perspective, the sceptical perspective and the transformative perspective (Held et al., 2000). The hyperglobalist perspective amplifies, as expected, the role of globalization in building a new age of mankind, dominated by the lack of borders between national economies, all of which are part of a global market. The national authority is repealed, and economies are 'denationalised'. The sceptical perspective classifies the current phenomenon of globalization as being more of a process of regionalization and fragmentation, exemplifying this ideology with the third world, which is marginalized rather than integrated into a global market. The authors also point out that the development of multinational corporations brings benefits to their host countries by not being outsourced as a committed workforce. The transformative perspective does not identify any real reasoning underlying globalization, nor any outcome, being at the opposite pole of the other two currents of thought.

Scholte also tried to define globalization, which he approaches as a transformation of social geography, driven by the expansion of supraterritoriality (Scholte, 2004). The author notes the inconsistency of the definitions related to liberalization, universalization, westernization, etc. and emphasizes a sociological factor, that of cross-border communication between people. Scholte's perspective approaches the transformative one in that he argues that globalization is transforming the nature of social space.

Lomborg addresses the impact of globalization on the world, and his work on the actions we can take both as individuals and as a nation can increase the return on investments made, especially to improve the situation of human capital. Lomborg analyses the costs and benefits of the best solutions to twelve global problems, with the financial resources to spend $ 75 billion, over a time horizon of 4 years. His analysis shows that the best solution, the one generating the most benefits in relation to the effort made, is the allocation of 3 billion dollars in the health and education system, with the purpose of reducing malnutrition in children and improving education in pre-schoolers. The cost-benefit analysis reveals that a dollar spent to reduce malnutrition in children will generate a benefit of $30 (Lomborg, 2014).

Addressing pressing issues that affect both present and future generations shows that public policies should reconsider their priorities in terms of objectives. The operations intensified by the process of financial globalization refer to the integration of both the public and private sectors within a developed, complex global financial market, thus to the involvement of public and private institutions in cross-border financial transactions. State loans and foreign direct investment are becoming international financial flows, along with acquisitions and mergers between certain financial institutions. Looser regulations or financial deregulation have favoured an increase in the processes of capital inflows and outflows between the countries of the world.

At the global level, banking activity has had an evolution marked by three factors or vectors: deregulation, disintermediation, and opening or decompartment of markets. As deregulation has been the subject of previous detail, it is also necessary to point out certain aspects about disintermediation and the opening up of markets.

Disintermediation is a phenomenon derived from deregulation. Although increasing financial intermediation is currently an intermediate monetary policy objective, as this process increases the role of financial intermediary of the banking sector, disintermediation implies the freedom of economic agents to act directly on the financial market, without resorting to banking institutions to place their resources or attract resources.

The opening of the markets can be carried out towards the foreign market, by eliminating the borders between the national and foreign market, but also inward, by decomparting the external market. The most striking example of the opening process is the introduction of the euro, with all the implications arising from it, implications of competitiveness, regulation, and pressure. The globalisation of banking activity also refers to technological progress and financial innovations, which have fostered the emergence of new, marketable financial assets, increasing the volume of transactions on the financial markets.

The fundamental objective of central banks is to ensure price stability, a necessary but not sufficient condition for maintaining financial stability. In a globalised economy, financial stability is becoming an even more delicate desideratum because national banking systems must rigorously comply with the bank prudence provisions in their commitments and exposures, especially in those that create interdependencies within the financial system. Bernanke considers the objective of stability not only an objective, but also an instrument of monetary policy, as its effective 'use' contributes to sustainable economic growth, to increasing employment with an impact on social welfare (Bernanke, 2007). The implications of achieving such an objective for the real economy are related to the transparency of monetary policy, which supports confidence in the central bank and practically controls inflation expectations, the fall in interest rates, the preservation of the value of incomes, and, therefore, of the purchasing power of households, which has access to changes in relative prices, the orientation of resources towards the productive sphere, and the avoidance of an increase in the money supply in circulation, accompanied by a similar increase in prices and not in output, according to the quantitative equation. Thus, achieving the objective of financial stability becomes difficult in the context of globalization and liberalisation of financial and banking markets.

5. The Relationship of the Globalization Phenomenon with the System of the World Economy

The belief that poor countries feel the benefits of globalisation more strongly than developed countries is based primarily on increasing the economic openness of third countries, so that they can make use of their resources more easily and investors can look for investment opportunities in underdeveloped economies. We believe that the benefit of opening up to the global economy is a double-edged knife, because the resources available in poor countries and the labour force are paid much less than the same resources would be in industrialised countries. Thus, just because living is much cheaper in these countries, and living standards much lower, investors get higher earnings than they would get in other regions. The exploitation of human capital thus becomes a delicate issue today. It should be noted that a pro-global argument would be to increase the competitiveness of local producers (Dima, 2018), who can thus develop their business (Trifu et al., 2014); globalisation also allows for the free movement of labour (Girneata, 2015), and employment opportunities are more numerous. From the point of view of large corporations, globalization contributes to the reduction of bureaucracy and leaves them with a certain flexibility to expand into new markets and to search for new commercial fords that will increase the value of their business. Arestis and Basu believe that it must be moderated by a global institution that has a role of coordinating the process due to the acceleration of the globalization process (Arestis, Basu, 2003).

On the other hand, antiglobalists have a different perspective for two reasons. Countries with a rich history, such as the US and some European countries, blame the rise in unemployment, especially among the workforce specialising in competitive fields; on the other hand, developing countries, most of the time with emerging economies, demanding the loss of national identity, autonomy, and local culture. Also, antiglobalists regard the phenomenon of globalization as a premise of the concentration of power also in the hands of the powerful, society being divided into no more than three social strata, of which the poor blanket will be dominant in density, but the dominance of the rich will be felt at the structural level. In a globalized society, the reversal of values in the collective consciousness has almost become a cliché, a peculiarity of the "new modernity", in which the binder between places and peoples also determines their dependence on all other. Thus, if during the first modernity sovereignty still had intrinsic value, nowadays the national identity struggles not to be annihilated by the composite, aggregated identity of all other nations, characterized rather by elements common to all societies and less by their specificity.

The arguments in favour of globalisation are, of course, manifold. First of all, the evolution of technology constitutes a major gain accessible to a wide range of individuals, companies, and societies. Technological progress, thanks to globalization, brings together a workforce from all over the world to work on the same innovative product, without barriers, benefiting at the highest levels from everyone's specialization, and the transfer of know-how being indispensable for evolution. Globalization also allows the standardization of certain technical parameters that can be widely used for the same purpose by everyone, and this uniformization of the means of work eliminates the disadvantages that would arise from the situation in which each company had its own means of storing data or transferring it.

Another advantage stems from the globalisation of politics, which allows international to decide on events of systemic importance, such as EU sanctions on Russia during the war in Ukraine.

At the same time, globalization contributes to the reduction of bureaucracy, due to the elimination of barriers, so that all beneficiaries relate to global standards that they must achieve. The decrease in the prices of goods and services against the background of production and marketing opportunities in different countries of the world in different regions with varying degrees of development and, implicitly, against the background of lower production costs.

Among the advantages of globalization, we also mention international security (large corporations are involved in social responsibility actions, in the fight against terrorism), increasing employment opportunities, using resources more efficiently in order to reduce their waste (however, the intense consumption of resources leads to their rarity).

The increase in foreign direct investment is a consequence of globalization that produces its effects with a bigger or smaller gap, also taking into account the external competitiveness of a national market, which can be increased only by leading credible public policies, with results and connected to the real needs of society. The increase in foreign capital materialized in the increase in the quality of management at the level of the companies in which it is invested determines, in essence, the productivity momentum. However, it should be remembered that globalization also means relocation, which implies that foreign investors, depending on economic and political stability, fiscal policy that must encourage investment and production (Girneata, Dobrin, 2015), but also depending on new investment opportunities on other markets, can lead to capital outflows, with negative effects on the economy, by increasing the unemployment rate, damaging the country's image externally, etc.

Financial globalization, regarded as one of the other dimensions of the phenomenon, designates the interdependence relationships that are formed between banking systems and financial markets at a global level. An important role in the process of globalization is played by financial deregulation, which involves the relaxation of regulations in the financial and banking field, which does not imply their elimination, but the allowing of banking institutions to pursue the maximization of profit with greater leeway, especially in terms of interest rates on deposits and loans granted. As far as deregulation is concerned, two main aspects are significant: the magnitude of the intervention in the financial and banking market and the intervention instruments allowed or chosen. Currently, as we note from the history of systemic economic and financial crises, the central bank also performs an interventionist function, the regulations being necessary both to diminish the post-factum effects and to increase the ex-ante predictive capacity.

Due to the increasing interdependencies between the world's economies, the phenomenon of financial globalization also favours the risk of contagion, which triggers the propagation of shocks at a rate that annihilates time and space barriers. That is why the prudential regulations currently in place are precisely aimed at limiting the effects of contagion risk, which remains inherent in cross-border financial activities. Mitigating this risk would highlight the benefits that globalisation brings to the parties involved. Other researchers emphasize the conditions that interdependent nations must meet in order to feel the advantages of globalization more strongly than its costs (Witt, 2019; Drezner, Farrell, Newman, 2021; Luo, 2021). Among these conditions, we mention the observance of market discipline, the increase of the depth of the financial systems, thus their development, the diversification of risks, the efficient allocation of financial resources by placing them at the best yields or their redistribution to the demand for money, efforts to increase the quality of management. Compliance with these conditions is possible in the case of states with a developed economy, developed financial markets, and governed by effective macrostabilisation policies.

The liberalisation of capital movements generates risks for states that carry out a massive volume of international trade, in which foreign capital flows are numerous or those of capital outflows, if exports are stimulated, so that the attention paid to certain intermediate or operational monetary policy objectives must be increased.

The complete liberalization of the capital account is conditioned by: inflation targeting, so the failure of the inflation target threatens financial stability; the floating of the exchange rate is to a certain extent controlled, in order for the monetary authority to intervene in the event of a steep appreciation or depreciation of the national currency, with an impact on capital movements; external competitiveness to be supported by credibility in the public policies of the state; the budget deficit is kept within prudent limits; the degree of external indebtedness does not endanger public solvency; stimulating competition through fiscal, monetary incentives, in order to produce results in domestic production and, implicitly, in GDP; the existence of developed, up-to-date information systems that meet the present needs to assess the state of the economy in general and to monitor and establish correlations between certain problems in the economy, in order to provide technical support for the substantiation of solutions.

6. Conclusions

Globalization in general, and financialization in particular, makes the economies of the states of the world become interdependent through numerous channels of transmission of globalization. In these circumstances, international financial institutions have a special role to play in strengthening the prudential supervision framework and in correcting financial imbalances. The concept of financial stability is also very broad, making it difficult to identify a widely accepted definition.

Globalisation can be approached both conceptually and phenomenologically. This is a challenge for modern society, which must assimilate and control the information and content circulated by establishing links between various economies and societies, but we will see that this also depends on the degree of initial development and the mentality of that society. Globalization, by its dimensions, acts not coercively and perhaps not fully consciously on the contemporary world, becoming an immanent factor of any relations between states. Freedom of movement of capital, labour, technology is a channel for action of globalisation. financial globalisation is the 'binder' between economies affected by the crisis, given that globalisation is by definition interdependence, system and contagion, when relations between states deteriorate due to the difficulties of one or more 'partners' of these relations. Thus, there is a polarization between proglobalists and antiglobalists regarding the potential benefits of globalization: proglobalists believe that globalization has eminently positive effects on the living standards of the population, on their incomes through diversification, but also through the liberalization of the movement of labour, capital, and technology. While proglobalists argue that the main beneficiaries of globalization are poor countries, antiglobalists have antagonistic beliefs that globalization has devastating effects on poor countries because it affects local culture, the environment, and quality of life.

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