II- nd Section:

NEW ECONOMY

ECONOMIC GLOBALIZATION – A FACTOR OR AN EFFECT OF FOREIGN DIRECT INVESTMENT FLOWS?

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Abstract*. The globalization phenomenon is a strong subject that has been making a lot of ink to flow. Tumultuous economic life challenged the scientists to search for explanations in order to present the negative events and their forms in the economy. Economic foundation has suffered many changes and all these took place in order to find a solution to the various challenges of the economy. From the point of view of many scientists, the last events that happened in the global economy show that economic fundamentals must be revised modified, because they have proved to be wrong in some ways.*

It is often observed that Economics doesn't own any more the theoretical and practical means or analysis tools for intervention in the economy. The already existing theories and applications are inadequate and obsolete and the way of creating a new unifying principle or a generalized concept takes very much importance in order to systematize current and forecast economic phenomena at micro and macroeconomic level also for transnational companies conducting foreign direct investments (FDI).

The concept of economic globalization highlights the changes made and the transformations that the global economy has been facing in recent years. Transfers of capital, free movement of capital flows, mergers and acquisitions globally made between various multinational or transnational companies are the elements that characterize the concept of "economic globalization". But can we state that FDI has been driven by economic globalization phenomenon or has this phenomenon been born because of these capital exchange?

Keywords*: foreign direct investment flows, transnational companies, globally integrated companies, international investment strategies.*

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1. Introduction

One of the features of the world's economy in the last 20 years has been the impressive growth of inflows of foreign direct investment (FDI). It is important to state that the expansion of FDI flows has not been done in a spontaneous manner, but was stimulated over time by important reforms, such as opening economies to attract capital flows, changes in economic policies, and by implementing the privatization processes of companies.

The invested capital in developed countries has always been abundantly, a clear example to sustain this statement is the United States, where the best investment opportunities have been fully exploited. The developing countries have had and still have great opportunities for investments, but they still remain unexplored. We are witnessing a very interesting economic phenomenon; many owners of capital transfer it and perform a reorientation of FDI flows from developed countries to developing countries, in order to take advantage of the opportunities created by the emerging countries. In addition, the profitability of these FDI placed from one country to another is very high, because of the differences between countries, and we can call them "cross differences".

This exchange of capital flows shall eventually have an important impact on host countries, especially in terms of investment (foreign investment that replace domestic investment), and the balance of payments (outflows to finance projects of foreign investment and subsequent capital inflows in the form of repatriated profits). Similar arguments have been made to explain differences in the cost of labour and other inputs, and differences in statements regarding tax rates, tariffs and other governmental interventions (Horst 1971, Caves 1996).

2. Summary

We are witnessing an "economic movement" of major international businesses, because the phenomenon of globalization has led transnational companies to create new types of international investment strategies and in this way to become globally competitive, integrating into the world economy.

In this way, we talk less of multinational or transnational, but more of globally integrated companies. The literature in this domain is extremely rich on this topic. We will review the specialists' main ideas on this economic phenomenon, in order to illustrate the evolution and main elements that have stimulated great expansion of FDI flows over the past decades.

Richard Lipsey believed that technology development, the trend of innovation in companies and the desire to reduce costs represent items that the phenomenon of economic globalization has strengthened. The appearance of these three elements has led in time to internal organizational changes for the companies and they have become more decentralized and flexible, with great changes in their chain value (Lipsey, R. G., Chrystal, K. A. (1995), *An Introduction to Positive Economics,* Oxford University Press, 8th Edition).

Economic globalization should be seen as a global integration. Frank and Beeman believe that the new dimensions of the global economy are the technological part, thanks to the progress in communication and transport, and the economic part, due to the reduction or elimination of international flows barriers of goods, services and capital (W. J. Beeman, I. Frank, *New Dynamics in the Global Economy*).

International connections, such as international trade cover some distances in order to conduct to such relations, while the global connections, like satellite communications, for example, happen instantaneous and are decoupled from space. They can propagate simultaneously and instantaneously from one place to another, "outside of time", so that may be deemed "over-territory phenomena"[1]. Therefore, at present, international relations coexist with global ones, the contemporary world being an international and globalizing world.

The international investment strategies from the past were based on export and sale of products on the other countries markets. This time, the new strategies combine the full range of cross-border activities: export and supply internal/external, foreign investment and international alliances. Those companies that succeed in using these strategies are profitable due to

[1] Scholte, J. A. (1997), *The Globalization of the World Politics,* Oxford.

a higher level of coordination, operations and local diverse implantation[2]. We can identify a process of "internationalization of capital" which seeks capitalization in different geographical areas of the world, depending on available resources and markets.

Economic globalization has allowed the development of network companies that have increased the capital accumulation process and the decentralization of activities, offering in the same time, the penetration of capital across countries. International investment flows made by transnational companies through mergers and acquisitions processes have led to a consolidation and a high concentration of global capital. From an economic perspective, globalization has allowed the development of strategic partnerships between large multinational corporations especially in the technologic domain.

Economic globalization is based on the increasing interdependence of states, which determines the creation of a system of interdependent markets. Due to these factors, the technology news spread quickly, the lower costs of production of a country affect all other countries products, the position of a company on a particular market can attract another market reputation, etc. So globalization of markets requires their integration, firms having no possibility to separate decisions. The interdependent markets will force them to adopt a "comprehensive strategy" aimed at the entire world market.

Joseph Stiglitz, in his book "Globalization and Its Discontents"[3], believes that globalization has huge potential, still unrealized, in order to eradicate poverty and stimulate economic growth in a country. In recent years, the International Monetary Fund (IMF), World Bank (WB) and World Trade Organization (WTO) have promoted world financial stability, prosperity and free trade; these institutions have been in the middle of economic events and contributed by all their actions to globalization in the last decades. As international organizations it was very easy to direct the global economy to economic globalization phenomenon.

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[2] Ideas taken from the O.C.D.E. study: « *Performances de filiales etrangeres dans les pays de l'OCDE* », Paris, 1994.

[3] Stiglitz, J. (2003), *Globalization and its discontents*, New York: Norton Paperback.

Stiglitz's book seems to be a critique of the IMF and it accuses that although it has been more than 50 years after its creation, its main objectives were not accomplished and the IMF mission failed. According to Stiglitz's theory wrong policies have been adopted, such as the Fund denial of economic aid to countries in economic decline, or the creation of economic instability in the capital markets through forced liberalization too early begun. The mistake is that the IMF interferes improperly on macroeconomic issues at countries levels; there are plenty of examples, our country, Romania being among them. Moreover, aid is granted only to those states that adopt less expansionary policies, rather policies for restricting economic activity by lowering the budget deficit or raising taxes, or increase the interest rate, typically restrictive policies.

Stiglitz blames “market fundamentalism”, which holds that a “free” market solves all problems flawlessly. He requires that public institutions should reform and become more transparent. This study contributes significantly to the globalization debate and provides an analytical model of the process of assisting countries facing the challenges of economic development and transformation.

Liberalization of capital markets is an aspect of globalization that Stiglitz long fought about, because its benefits have been remarkable only in the developed countries, developing countries suffer from foreign financial flows, which changed direction and have affected banking systems and have collapsed real coins. Most common examples are those in Asia and Latin America. These crises have only served to worsen the poverty and create chaos at the country level.

Four years after showing the increased interdependence challenges of countries, Stiglitz returns with another study on the topic of globalization, named “Making Globalization Work”[4], which seeks to provide inventive solutions for a range of problems facing developing countries development, international fiscal instability, and worldwide pollution. It also emphasizes the need to reform global financial institutions, reviewing commercial agreements and laws on intellectual property in order to make them better and to meet the growing disparities between countries. Now,

[4] Stiglitz, J. (2007), *Making Globalization Work,* New York: Norton and Company.

more than ever before, globalization has gathered the peoples of the world into one community, bringing with it a need to think and act at global level.

John H. Dunning, in the studies, "The Advent of Alliance Capitalism"[5] and "The New Globalism and Developing Countries"[6], provides further explanations on economic globalization. Thus, it highlights a process of globalization based on multiplication of connections and interconnections between states and societies that are currently in the global system. It includes the process that events, decisions and activities in a certain part of the world have significant consequences for individuals and communities located at great distances from one another.

A global company has many branches in different countries, being engaged in alliances and business networks in different parts of the world. Inputs from favourable regions and the products and services produced will be sold on different markets. Countries also have various commercial relations, financial and investment ones and the value added tax represents a significant part of GDP. Thus arises a universal tendency whereby firms and countries of the world are economically integrated, and this fact characterizes the new current global economic structure, different from that of previous generations.

Thus, the development of financial and investment transactions leads to a substantial increase in the value of output produced by foreign companies, financed by foreign direct investment growth capital and strategic alliances that consist of a superior form of internationalization actual trade in goods. Dunning believes that major businesses in the global economy have changed the mentality and ways of operating, adopting a systemic view on the implications of their actions, according to new market demands.

Friedman believes that the unifying feature of globalization system is the integration. The world has become an interconnected place where opportunities, but also threats are propagated in the direction you are

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[5] Dunning, J. H. (1997), *Alliance Capitalism and Global Business*, New York: Taylor & Francis Ltd.

[6] Dunning, J. H. (1997), *The New Globalism and Developing Countries*, New York: United Nations Univ.

connected to. The motive idea for globalization is free market capitalism; if the markets have more skills and if the national economies are opened to free trade and competition, the economy will be more efficient and prosperous. Unlike the Cold War, globalization has its own dominant culture, which according to Friedman's opinion represents the cause of its homogenizer action ("*The Lexus and the Olive Tree: Understanding Globalization*").

The economic globalization process has been stimulated by transnational companies, which contributed and still contribute to geographic mobility of financial resources; we can conclude that this fact has led to a global market. Thanks to advanced technology and innovation, the world has changed in a record time and rhythm, the space barriers have become terms. We are witnessing a continuous shift and relocation of production to different parts of the world. This creates "transglobal relationships"[7] that are actually technical and economic relations based on the enlargement of the production process[8].

Porter and Dunning mention that a transnational company should be able to create its competitive advantage and to strengthen its position on long terms in order to succeed at global level. The both specialists are combatants of short-term strategies. Success can be achieved whether the companies are able to exploit these advantages created through maximum utilization of production capacities (strategic or individual with other companies) and if they locate productive activities so that they meet the overall objectives of the company.

We are aware that resources are scarce and that, at some point in the future, the resources that are now available in the world will become insufficient. Until recently a country was considered strong according to its natural resources. Now, we are witnessing an evolution, which means that a country is considered to be competitive if it owns technology, information, labour, market structure, institutions, but also cultural value. So if a country owns more of such components, it shall have the possibility

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[7] Harvey, D. (2010), *The Enigma of Capital: And the Crises of Capitalism*, London: Profile Books Ltd., p. 106.

[8] Idea taken from the book „*The Enigma of Capital: And the Crises of Capitalism*", author David Harvey, Chapter-Capital Goes to Market, Profile Books Ltd., 2010.

to create powerful competitive advantages. We could call this theory, the theory of "relative advantage"[9], a concept that is often found Michael Porter's and J. H. Dunning's books.

We can affirm that, after applying this continuous globalizing phenomenon, the winners should be those countries that have relied on the state's role in the economy, states which haven't based upon free market and upon its total capacity of self-adjustment and self-regulation[10]. Developing countries should manage properly their budgets, should eliminate protectionist barriers that are causes for high prices, should introduce strict regulations for protecting the economy in order to obtain success[11]. From all the statements we have presented before, we can state that nothing can be efficient if the countries are run by inefficient, undemocratic, unresponsive, corrupt and non-transparent governments. The countries that didn't succeed in adapting this system failed because of these factors.

3. Conclusions

We are talking about two different concepts, namely the concept of a global economy and the concept of an internationalized economy[12]. The globalized economy is characterized by an integration of national economies into a global system through all the international processes. In other words, any company that adopts a strategy should think of it not only at national, but also at international level. In this way, the economic system acquires a new dimension, namely an internationalized one, and it becomes autonomous at global level. The opposite term of this globalized economy is the internationalized open economy, where the main actors are national

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[9] The term comparative advantage was seen as "the principle of comparative advantage" in the book *"Economic Growth: Science and Technology and Institutional Change in the Global Economy"*, written by Richard G. Lipsey, published by the Canadian Institute for Advanced Research, Toronto in 1991.

[10] Stiglitz, J. (2003), *Globalization and its discontents*, New York: Norton Paperback, pp. 73-74.

[11] Stiglitz, J. (2003), *Globalization and its discontents*, New York: Norton Paperback, p. 14.

[12] Margulescu, S, 2010, *New strategies of transnational companies in globalization and functional specialization*, Bucharest: Student Book publishing House, pp. 38-39.

economies, they preserve their autonomy and they are no longer integrated into the global economic system, according to the theory of the global economy.

The relations between national economies are much closer, thanks to the transactions and international processes, such as international trade and investment flow. We can state that we are witnessing such internationalized economy because we can see that trade relations have been replaced with **FDI flows**. When we talk about their development, it is absolutely necessary to maintain a strong expansion of multinational companies, which are still regulated at national level, by keeping their national foundation. The autonomy of national economies is again emphasized in this way. In other words, the open internationalized economy is nothing else but a conglomeration of national autonomous systems based on international economic relations. So, foreign capital flows have been influenced by economic globalization, but they represent also an amplification factor of this economic phenomenon.

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