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Economic globalization - advantages and disadvantages: the place of Serbia and Japan in the globalized World

ABSTRACT

Globalization may have positive and negative effects, causing expansion or bring about reduction and crisis. Due to globalization, economic development and economic crisis are spread all over the world much easier and much quicker. Globalization has increased the free trade between countries, but also rich countries now can sell more goods and products to poorer markets. Serbia and Japan had very different path and are taking very different positions in the globalized world. Japan is one of the leading exporter and importer in the world, and Serbia as a part of Europe, but not a part of the European Union, is still struggling to overcome the negative effects of the globalized market. Both economies are constantly changing and the results of those changes should bring them better integration into the process of globalization.

Key words: globalization, Serbia, Japan, international trade.

Economic globalization

Globalization is a term that has entered into widespread use. It involves processes that are taking place simultaneously, and for a different people and different interest groups it has a different meaning. The phenomenon of

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globalization goes far beyond its literal meaning with free trade, and free cultural exchange. When it comes to economic globalization, generally accepted definition is "the increasing integration of national economies into expanding international markets. This expansion of markets will mean that the free movement of goods, services, labor and capital, will result in a single global market in inputs and outputs, so that, economically speaking, there are no foreigners".[2] Economic integration implies integration of national economies into a global and borderless world.

This is of course a theoretical concept of free movement of goods, services, labor and capital and a world without borders. In reality, when it comes to such a large and comprehensive process, it is inevitable that besides benefits it also brings negative consequences. By comparing those two, we can get insight into the essence of the process of economic globalization.

The positive effects of economic globalization (advantages) are:

- Increased free trade between nations
- Spread of technology
- Easier and quicker transportation of people and goods
- Increases liquidity of capital
- Builds dependencies between countries and nations allowing stronger trade ties
- Corporations have greater flexibility to operate across borders[3]
- Consumers get a wider variety of products to choose from, and at more competitive prices.
- Companies are also able to procure inputs for producing goods and services at most competitive prices.
- Companies get access to much wider markets for selling their goods and services
- Companies can use resources of different countries for efficient and lower cost producing goods and services
- Companies get much wider opportunities for investment
- Cost reduction by eliminating cross border duties and fees
- Higher employment generation and income generation.

The negative effects of economic globalization (disadvantages) are:

[2] Defining neoliberal economic globalization, http://globalthinking20.jimdo.com/food-for-thought/single-components/defining-neoliberal-economic-globalization/, 27/08/2015.

- International bodies like the World Trade Organization, World Bank, International Monetary Fund infringe on national and individual sovereignty
- Produces consumerism as a materialistic lifestyle that sees consumption as the path to prosperity
- Causes pollution and damages environment
- Causes unemployment and less job security
- Widens the gap between rich and poor
- Companies face much greater competition and smaller companies are at a disadvantage because they do not have the resources to compete at a global level
- Developed countries can undermine development of undeveloped countries
- Economic disruptions and crises in one country can spill effects to all countries.

We can say that even though the benefits of economic globalization are numerous and widespread the disadvantages are not small and unimportant. It is generally accepted that globalization contributes to a more efficient allocation of resources, well-being, greater efficiency, productivity, competition, increases the general level of wages, lower prices, etc. The two main "channels" of international connectivity and globalization are international trade and foreign direct investment (FDI). Nowadays, FDI grew faster than trade, but they were very sensitive to changes and crisis.

The first determinant of globalization is the elimination of trade barriers and barriers to entry into new markets that primarily promotes the growth of large multinational companies which are holders of globalization. But protectionist restrictions ensure that the benefits of globalization are distributed inequitably, that favors the rich while placing the poor at a considerable disadvantage.[4] However, it is important to note that the complete absence of any restrictions could threaten the country's growth. As bearers of globalization, multinational corporations provide capital investment in the recipient countries, the transfer of knowledge and technology, they create jobs, and they are the top investors in research and development in their subsidiaries. Those are very important for developing countries as technological discoveries and are stimulated in the countries that they themselves have no resources for these findings. International cooperation in science extends through patents and co-authors of research projects, which is

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[3] Tahir Hussain, Engineering Economics, Laxmi Publications, Ltd p. 257.

[4] Keith Griffin, *Economic Globalization and Institutions of Global Governance*, Development and Change, Volume 34, Issue 5, pages 789–808, November 2003. p. 792.

interesting for researchers. Proponents of globalization say that it helps developing nations "catch up" to industrialized nations much faster through increased employment and technological advances. Critics of globalization say that it weakens national sovereignty and allows rich nations to ship domestic jobs overseas where labor is much cheaper.[5] The truth is usually somewhere in between.

Globalization is leading to greater economic integration, but at the same time, there are two important areas in which the world is becoming more restrictive and more protectionists. I want to highlight these. The first is a restriction on the movement of low-skilled labor; the second is the creation of 'intellectual property rights' that restrict the flow of knowledge, ideas and technology. These protectionist restrictions ensure that the benefits of globalization are distributed inequitably, within an asymmetric structure of global governance that favors the rich and the powerful while placing the poor and the weak at a considerable disadvantage. The solution, I believe, is greater liberalization, not less, and this in turn requires more democratic decision-making at the global level.[6]

Serbia and Japan are on a very different level of development, and has gone through different stages during the period of globalization. During the period of increased economic globalization, they had different starting points and they have reacted differently to the changes so now they are in the different positions in the world. By measuring and comparing the trade, investment and overall economic strength and the other factors, in a certain way we can measure the degree of globalization in Serbia and Japan. In this way, by comparing these two countries we can see what they have achieved in recent years.

Measuring economic globalization

The increasing complexity of global society means that sustainable development cannot be addressed from a single perspective, country or scientific discipline. Planning for sustainable development is an extremely complex task. Sustainable development requires innovative methods that balance the short term and long term, the objective and value-laden, the quantitative and qualitative, the certain and uncertain. Part of this necessitates is measuring the impact that global developments have.[7]

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[5] The global economy, Internet, http://www.theglobaleconomy.com/glossary/article/65/, 26/08/2015.

[6] Keith Griffin, Economic Globalization and Institutions of Global Governance, Development and Change Volume 34, Issue 5, pages 789–808, November 2003. p. 792.

[7] Dreher, Axel, Noel Gaston and Pim Martens (2008), Measuring Globalisation – Gauging its Consequences (New York: Springer), p. 22.

Various measures have been used as approximations of globalization, but it is complex and affects various aspects of it. It is necessary to create a composite index that will measure all these influences together, taking into account their mutual correlation. The index should also explain globalization better than every one of its components. Therefore, a good composite index of globalization should include elements that are not highly correlated with each other and it should not even be much correlated with any component. The KOF Index of Globalization measures the three main dimensions of globalization: economic, social and political. Economic globalization is characterized as long distance flows of goods, capital and services, as well as information and perceptions that accompany market exchanges.[8] Apart from studying the KOF index, the economic dimension of globalization is the only one that has an impact on economic growth of a country, and from an economic point of view, perhaps the most important. The economic dimension of the KOF index measures the trade flows and investment at the level of which countries impose limits on trade and capital movements. The index takes values from 1 to 100, with 100 representing the highest degree of globalization of the country.

Table 1: 2015 KOF Index of Globalization[9]

Rank	Country	Globalization Index
1	Ireland	91.30
2	Netherlands	91.24
3	Belgium	91.00
4	Austria	90.24
5	Singapore	87.49
…	…	…
54	Japan	65.87
56	Serbia	65.49

Note: A total of 207 countries.

Source: 2015 KOF Index of Globalization

[8] KOF Index of Globalization 2014, Internet, http://globalization.kof.ethz.ch/media/filer_public/2014/04/15/method_2014.pdf, 12/09/2015.

[9] Note: Rankings are based on raw data for the year 2012.

According to the 2015 KOF Index of Globalization, the first five most globalized countries in the world are Ireland, Netherlands, Belgium, Austria and Singapore. Serbia and Japan occupied similar ranks, with very close Globalization Index (Serbia 65.49 and Japan 65.87). That is a surprising result, since both countries are at a different level of economic development.

At global level, according to the Globalization Index, globalization in 2012 rose very little compared to the previous year. The OECD countries even recorded a slight decline in the degree of globalization. In contrast, the Index for South and East Asia as well as Sub-Saharan Africa rose to some extent. In all other regions, globalization declined in 2012. According to the index of globalization in 2011, globalization has stalled since the outbreak of the financial crisis in 2008. The degree of globalization has declined in northern and southern Africa and in the Near and Middle East while the index has risen slightly in East Asia. In all other regions, globalization stagnated in 2011. The results of the economic crisis clearly slowed down the process of worldwide globalization. This is visible in the unchanged overall index value of the KOF Index of Globalization 2010 compared to the previous year.[10]

Table 2: 2015 KOF Index of Globalization - Economic Globalization[11]

Rank	Country	Economic Globalization
1	Singapore	95.69
2	Ireland	92.59
3	Luxembourg	91.12
4	Netherlands	90.33
5	Malta	90.31
…	…	…
126	Japan	47.57
79	Serbia	60.73

Note: A total of 207 countries.

Source: 2015 KOF Index of Globalization KOF Index of Globalization

[10] KOF Index of Globalization 2015, 2014, 2013, respectivly.

[11] Note: Rankings are based on raw data for the year 2012.

Economic globalization according to the KOF Index of Globalization has two dimensions: first, actual economic flows, which are usually taken to be measures of globalization; second, restrictions to trade and capital. According to the measurement of economic globalization, the most globalized country in the world is Singapore. It scored the highest of all 207 countries analyzed. According to the 2015 report, the second place is taken by Ireland, then following are Luxembourg, Netherlands and Malta. The world's most globalised countries are in the EU. Among those 207 countries, Serbia took the 79th position with the index of economic globalization at 60.73, and Japan is with the index of economic globalization at 47.57 at even lower 126th position.

Table 3: KOF Index of Globalization, comparing Serbia and Japan

(Rank) Index	**Serbia**		**Japan**	
	2014	**2015**	**2014**	**2015**
Globalization Index	(63) 63.61	(56) 65.49	(59) 65.00	(54) 65.87
Economic Globalization	(95) 56.73	(79) 60.73	(125) 45.44	(126) 47.57
Social Globalization	(60) 64.62	(58) 65,05	(54) 66.58	(54) 66.58
Political Globalization	(83) 71.71	(80) 72.67	(29) 89.96	(28) 90.10

Note: A total of 207 countries.

Source: 2015 KOF Index of Globalization

At table 3, we are comparing Serbia and Japan, in the last two years 2014-2015, and their rankings at globalization. When we compare the overall globalization index, we see that Japan is a more globalize country, but Serbia is not much farther behind. If we analyze three components of globalization index, we see that Serbia is much better at economic globalization, and Japan is much better at political globalization. Therefore, we can conclude that Serbia must advance and make efforts to achieve better results in the political field, as Japan should do in economic one. But Japan has already been an economically strong country, so the reasons for such bad results at index of economic globalization are much more complex and will be explained further in the paper.

Economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world.[12] Despite controversies about the historical evolution and the nature of globalization, the major forces at stake are primarily economic, political and technological. This does not imply that social, cultural and environmental factors are not also important, but these latter forces are not always clearly distinguishable.[13]

Serbia

The price volatility negatively affects the stability for business and business confidence and does not stimulate investments. Fluctuations in exchange rates are also very poor in Serbia, because foreign investors cannot assess costs or revenues, creating a suspicion of doing business in Serbia. Legal and legislative reforms could be faster, although there were and still are positive developments. All foreign investors, those who invested during the privatization process or want to build are currently interested in the possibility of acquiring property rights on the land for construction. However, many procedures in this area are not yet resolved, and investors do not know how to assert their rights.[14]

According to the "The Global Competitiveness Report 2014-2015" from the World Economic Forum, Serbia holds the 94th position out of 144, according to the Global Competitiveness Index and ranking the 101st according to the Global Competitiveness Index 2013–2014.[15] These results are not very promising, and Serbia still has much to do to improve competitiveness.

Since the year 2000, Serbia has attracted more than 24 billion euros of inward foreign direct investments. Since the onset of economic reforms, Serbia has grown into one of the desirable investment locations in Central and Eastern Europe.

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[12] Gao Shangquan, Economic Globalization: Trends, Risks and Risk Prevention, 2000, CDP Background Paper No. 1ST/ESA/2000/CDP/1, United Nations Development Policy and Analysis Division Department of Economic and Social Affairs, p. 3.

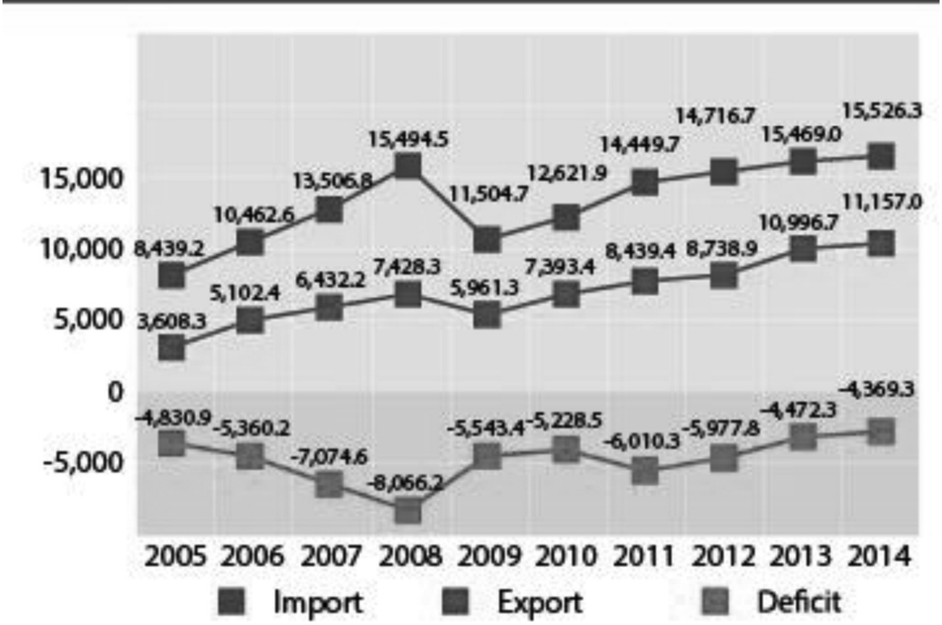
[13] Dreher, Axel, Noel Gaston and Pim Martens (2008), *Measuring Globalisation – Gauging its Consequences* (New York: Springer), p. 22.

[14] Srdjan Redžepagić, Mališa Đukić, „Serbian Place in the Process of Globalization Toward the European Integration", in Contemporary issues in the integration proceses of Western Balkan Countries in the European Union, Internatonal Centar for promotion of enterprises, ljubljana, Slovenija, 2011, p. 10.

[15] Klaus Schwab, World Economic Forum, "The Global Competitiveness Report 2014–2015", Table 3: The Global Competitiveness Index 2014–2015 rankings and 2013–2014 comparisons, p. 13.

Investors from a list of leading foreign companies and banks are FIAT, Telenor, Stada, Microsoft, Coca-Cola, Delhaize, Michelin, Gazprom, Bosch, Siemens, Intesa Sanpaolo, Mobilkom Austria, and many others. In terms of the country structure, as of the year 2005 investors from the European Union top the list. The leading spot on the country list is held by Netherlands, followed by Austria, Greece, Norway and Luxembourg, while major investor countries also include Germany, Italy, Slovenia, and the Russian Federation. The actual amount of U.S. investment is significantly higher than the official figure due to their companies investing primarily through European affiliates. This also holds for Belgium, Denmark, Israel, and a number of other countries. Over the past ten years, service sectors have proven to be the most attractive to international investors. Banking and insurance recorded the largest FDI inflow of 5 billion euros. Manufacturing industries held the 2nd spot with 4.8 billion euros, followed by wholesale, retail and repair of motor vehicles and real estate activities.[16]

Foreign trade for period from 2005 to 2014 (in EUR mill)



Source: Statistical Office of the Republic of Serbia, February 05, 2015

[16] Serbia Investment and Export Promotion Agency, Internet, http://siepa.gov.rs/en/index-en/invest-in-serbia/strong-fdi-figures.html, 01/10/2015.

Results in the foreign trade from the period of the last 10 years can be seen in the graph. Serbia is an exporter of basic metals, food products, crops, chemicals and chemical products, rubber and plastic products and electrical equipment. Serbia primarily exports to Germany, Bosnia and Herzegovina, Montenegro, Romania, Russia and Macedonia.[17] Serbia is an importer of chemicals and chemical products, fuel and oil, basic metals, machinery and equipment and motor vehicles. Serbia's mainly imports from Russia, Germany, Italy, China and Hungary.[18] The GDP value of Serbia represents 0.07 percent of the world economy, as reported by the World Bank.

Raising Serbia's competitiveness is related to the improvement of factor conditions, including specifically infrastructure and institutions. Due to the weaknesses manifested in this segment, especially in logistic, administrative and innovation infrastructure, Serbia has found itself almost at the tail-end of Europe. Significant weaknesses have also been observed primarily related to the regulation of the goods and services market, including specific antimonopoly policy, market dominance and intensity of local competition.[19]

Among other changes in the Serbian institutions, fiscal and other policies that are most important for foreign investors fell the most, and these are: property rights, government low regulation efficiency of the judicial system, the effectiveness of antitrust, labor and confidence in the professional management. Unfortunately, the infrastructure issue is still one of the weakest points in the business environment in Serbia.

Japan

According to the "The Global Competitiveness Report 2014-2015" from the World Economic Forum, Japan moved up three ranks since the last time measured. According to the Global Competitiveness Index Japan moved to the 6th position and was ranked the 9th according to the Global Competitiveness Index 2013–2014. High R&D spending (2nd), excellent availability of talent (3rd), world-class research institutions (7th), and a high capacity to innovate (7th), are among Japan's strengths. Indeed, in terms of innovation output, these strengths pay off: the country has the second-highest number of patent applications per

[17] Trading Economics, http://www.tradingeconomics.com/serbia/exports, 01/10/2015.

[18] Trading Economics, http://www.tradingeconomics.com/serbia/imports, 01/10/2015.

[19] Nebojša Savić, "Comparative Analysis Based on New Competitiveness Index", Panoeconomicus, 2012, 1, p. 112.

capita in the world. Further, companies operate at the highest end of the value chain, producing high-value-added goods and services.[20] The GDP value of Japan represents 7.42 percent of the world economy.

Exports of high technology products have been the engine of Japan's economic growth since 1960. In 2013 main exports were: transportation equipment (23 percent of total exports) with transport vehicles accounting for 15 percent; machinery (19 percent); electrical machinery (17 percent); chemicals (11 percent) and manufactured goods (13 percent). Japan's main export partners are: the United States (18.5 percent), China (18 percent), South Korea (7 percent) and Taiwan (6 percent).[21] Japan main imports are: mineral fuels (34 percent of total imports) with petroleum accounting for 18 percent, machinery (21 percent), food (8 percent), manufactured goods (8 percent), chemicals (8 percent) and raw materials (7 percent). From March of 2011, Japan's import of fuels has surged due to the closure of the nuclear plants. Japan's main import partners are China (22 percent), the United States (8 percent), Saudi Arabia (6 percent), United Arab Emirates (5 percent) and Qatar (4.5 percent).[22]

Japanese companies have invested all over the world and Japanese export, especially high tech export, is present all over the world. Looking at the data one could conclude that Japan is among the most globalized countries in the world. But according to the OECD Japan is perhaps the least globalized of its 30 member countries. In the trade and investment areas, Japan's barriers at the border are not so high, except for the appalling case of agriculture (agriculture protection is almost twice the OECD average). It turns out that the real barriers between Japan and the rest of the world are behind-the-border barriers like product and labor market regulations, and rules limiting cross-border M&As.[23]

Taking trade, investment and migration barriers together, Japan seems to be almost against globalization. Much of today's globalization revolves around global production systems for which multinational enterprises need the freedom to invest, trade (especially intra-firm trade) and hire foreign workers. And by blocking the lot, Japan has created a vicious circle. There is no country that needs globalization more than Japan. With its ageing and declining population, Japan

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[20] Klaus Schwab, World Economic Forum, "The Global Competitiveness Report 2014–2015", Table 3: The Global Competitiveness Index 2014–2015 rankings and 2013–2014 comparisons, p. 13.

[21] Trading Economics, http://www.tradingeconomics.com/japan/exports, 01/10/2015.

[22] Trading Economics, http://www.tradingeconomics.com/japan/imports, 01/10/2015.

[23] Randall S. Jones and Taesik Yoon, "Strengthening the integration of Japan in the world economy to benefit more fully from globalization", Economics Department, Working Paper No. 526.

needs to boost productivity to maintain its prosperity. And FDI can do that. In addition, the migration can be very helpful in filling labor shortages, particularly for health care where demand is growing rapidly due to population ageing. Overall, one is tempted to conclude that Japan has practiced one-sided globalization - exporting more than importing and investing massively overseas but blocking inward investment.[24]

The quest for natural resources draws many companies in international markets. Japan, is a small, densely populated island nation with very few natural resources of its own. For example, to access cheaper energy resources used in manufacturing, a variety of Japanese firms are relocating production to China and Vietnam, where energy costs are lower. Japan's largest paper company, owns huge forests and corresponding processing facilities in Australia, Canada, and the United States.[25] That is all the result of economic globalization and the positive results of relocation of production.

Conclusions

There was a time when locally produced foods, fuels and raw materials were generally processed for local consumption and most of the regions were economically self-sufficient. At those times, trade between different regions was quite limited. Today is much different, the economies of most countries are so interconnected that they form part of a single, interdependent global economy.

Globalization has brought some positive and some negative effects. Trade and commerce are areas where globalization has brought many changes, and there has been a considerable degree of liberalization. But even there, benefits of globalization have been distributed inequitably. Today, and for many years behind, it is still present a process of continuing discrimination against products of particular importance to low income countries. Also, the process of liberalization has generally occurred much more slowly in the cases of foodstuffs, textiles, clothing, leather products and footwear. The lees developed countries are at a disadvantage and they were not being able to bear fruits of all positive effects of the process of globalization.

For the positive effects of globalization to be fully used, especially when it comes to one transition country as Serbia represent, far and most important is

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[24] Japan's globalization, Internet, http://www.mrglobalization.com/globalisation-winners/337-japans-globalization, 10/09/2015.

[25] Global business environment, Globalization, p. 8.

to change and adapt policies and rules of the state that will attract FDI. It is important, especially for the consumers, to allow a competitive market environment, and to allow the entry of new firms in the market. Serbia should be a country in which foreign companies want to do business.

Japan is a developed country and it has long been a trading nation with a strong economy. As far as globalization goes, Japan has practiced one-sided globalization, which means that it has been exporting more than importing, and also investing overseas in the large amount, but obstructing inward investment. In the future, Japan should continue to actively introduce favorable factors and mechanisms that can work as an engine for new development, while positively using the dynamism of the globalizing world economy.

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