

GLOBALIZATION'S PROGRESS IN EU: TERRITORIAL AND STRUCTURAL CHANGES

Abstract

Globalization is a constant subject of domestic and international agenda fuelling an unprecedented quest for competitiveness. Finding the sources for this needs a good knowledge of both availability of resources and patterns of globalization. In this respect our study contributes by an analysis of the KOF globalization index for EU-27 that aims to capture the territorial and structural changes that occurred in the last decades. It was found that on the background of a steady growth the territorial changes are not large enough to modify the globalization landscape and that the volatility of economic globalization is not mirrored by the social and political globalization that are increasing slower, but more constantly.

Keywords: globalization, economic integration, personal contact, political engagement, KOF index

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EVOLUȚIA GLOBALIZĂRII ÎN UE: SCHIMBĂRI TERITORIALE ȘI STRUCTURALE

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Rezumat

Globalizarea este un subiect constant al agendei politice interne și internaționale alimentând o cursă fără precedent pentru competitivitate. Găsirea surselor pentru aceasta necesită o bună cunoaștere atât a disponibilității resurselor, cât și a caracteristicilor globalizării. În acest sens, studiul nostru contribuie prin analiza indexului KOF al globalizării pentru UE-27 urmărind să surprindă schimbările teritoriale și structurale din ultimele decenii. S-a observat că, pe fondul unei creșteri constante, schimbările teritoriale sunt suficient de mari pentru a modifica peisajul globalizării și că volatilitatea globalizării economice nu se reflectă în globalizarea socială și politică care cresc lent, dar mai constant.

Cuvinte cheie: globalizare, integrare economică, contact personal, angajament politic, indexul KOF



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1. INTRODUCTION

Globalization is the process that created an economic playground with high profit rates for many companies. This and other drivers indicate that the decade to come will continue to witness globalization and it is very likely that the scope of the process will widen.

The consequences of globalization are still debated creating a sharp outline between supporters and sceptics (Radulescu et al., 2012).

Nevertheless, there is a strong agreement that the benefits of globalization could be harnessed and the costs could be avoided if there is a good knowledge of the process allowing nation states to negotiate by using solid arguments (Bran et al., 2012).

Toward this goal we propose an assessment of the globalization's progress. Out of the numerous techniques that could be employed in this respect our analysis uses the KOF globalization index.

This index was developed by the Swiss think tank KOF and it measures several aspects of globalization. Thus, there are measured the overall KOF globalization index, the three dimensions of globalization – economic, social, and political – and a number of sub-indices such as: actual economic flows, economic restrictions, data on information flows, data on personal contact, and data on cultural proximity.

For the computation there are used 24 variables that cover 158 countries beginning with 1970. In the calculation of the overall index, each dimension is given a different weight, as follows: economic – 36%; social 37%; and political – 26%.

Our aim is to establish what changes occurred in the rank of globalized countries (territorial changes) and if there is a significant change in the structure of globalization's dimensions. The goal is to capture a pattern and to express an opinion about its possible drivers.

2. GLOBALIZATION: MAIN OPINIONS IN RECENT STATEMENTS

Globalization is unfolding for several decades although it heads the public debate only for the last decade or so. Despite its development disagreement is a common place in many debates. This rupture is fuelled by the difficulty to balance between its advantages (benefits) and its disadvantages (costs).

Globalization's main advantages are considered:

- Integration factor in the world community;

- Allows an enabling space for world governance systems and outlines the global civil society;
- Reduces production costs due to economies of scale;
- Accelerates transactions, exchanges being made in real time due to a globalized communication system;
- Increases the speed of commercial, financial and technological transactions;
- Expands markets and creates new markets that are independent from certain resources or traditional areas;
- Increases the overall efficiency of economic activities due to the free movement of capital, investments, technologies, labor toward the most profitable sectors or areas;
- Allows international help packages to be delivered where they are mostly needed;
- Reduces the remoteness of poor countries;
- Makes access to information easier.

Meanwhile the following critics are posited:

- There are no national solutions regarding transnational issues;
- Transnational corporations are outlining the general direction of nation-states' economies;
- Social deficit: since globalization's drivers are transnational corporations and foreign direct investments these are the ones that establish the faith of countries and disturb the redistribution of incomes toward social goals;
- Demographic deficit: the national intellectual potential is narrowed and increases the brain drainage;
- Security deficit: poverty, low personal safety, migration could threaten social order;
- Environmental deficit: the global natural environment is deteriorating as a result of national and global economic growth;
- Decreases the number of jobs in developing countries or in countries with low labour productivity.

Recent globalization studies reveal that:

- Globalization has a positive impact on the economic growth of African countries, but the impact is relatively small (Bhaskara and Vadlamannati, 2011);
- Globalization increased the subjective well-being of high-skilled workers, right-wing voters, and high-income earners (Hessami, 2011);
- The impact of globalization on inequality and poverty is extremely context specific (Nissanke and Thorbecke, 2010);
- Within the linear model assumption there is a positive correlation between globalization and corruption, but this assumption is appropriate only for middle and high income countries. Thus, in these countries globalization could be a powerful weapon against corruption, while for low income countries globalization has no significant impact on corruption (Lalountas et al., 2011);
- Globalization is a stronger driver for migration than poverty and other social difficulties (Titan et al., 2012);
- Wages in multinational companies are above the market-based wages (Tomohara and Takii, 2011);
- Globalization expands inequality especially in case of small countries (Fukiharu, 2012).

The results presented above were chosen randomly from a pool of studies published since 2010 in various scientific journals. It is easy to note that a straightforward conclusion on globalization is still an issue despite mounting information and performing research tools.

The same is true if expert opinion is examined. It is beyond our scope to perform a discourse analysis regarding globalization, but we will attempt to capture some expert opinions in this respect:

- "We are moving toward a global economy. One way of approaching that is to pull the covers over your head. Another is to say: It may be more complicated - but that's the world I am going to live in, I might as well be good at it." - Phil Condit, Former Chairman and CEO of Boeing;
- "Henry Ford was right. A prosperous economy requires that workers be able to buy the products that they produce. This is as true in a global economy as a national one." - John J. Sweeney, Former President of the AFL-CIO;
- "But let no one be under any doubt that the scale of the challenge that Europe faces in this emerging global economy is immense and the practical pace of our collective action to meet these challenge to date has just been too slow." - John Hutton, British Politician ;

- "The global economy works for about twenty percent of the world, for about eighty percent it doesn't." - Kevin Danaher
- „Our globalized economy makes us more resilient in some ways and less resilient in others” - Lester Brown

If the assumption of Kofi Annan that arguing against globalization is like arguing against the law of gravity is true, reaping the benefits of globalization becomes the challenge to be faced by both policy makers and company managers.

Regarding the outlook, it could be concluded that globalization will continue to progress and its costs could be very high for nation-states and economic actors who choose to ignore it.

3. TERRITORIAL CHANGES IN GLOBALIZATION'S PROGRESS

The territorial changes in globalization's progress were examined by considering the Member States of EU-27 for the 1996-2011 period. The period was chosen taking account the availability of data for the KOF globalization index.

Within EU-27 the most globalized Member State is Belgium, followed by The Netherlands, Austria, Sweden, and Denmark. The least globalized Member State is Romania, others in reverse order being Latvia, Lithuania, Bulgaria, and Cyprus. Across these states the KOF index varies between 59.00 (Romania) and 91.59 (Belgium).

The KOF index increased in all Member States, although the rate of growth is very different from one to another as both absolute and relative change (figure 2).

The absolute change varies from 2.04 (Luxembourg) to 33.09 (Slovak Republic), while the relative change is ranging from 2% (Luxembourg) to 78% (Romania).

The largest growth rates of globalization are recorded mainly in former communist countries such as Romania, Lithuania, Estonia, Latvia, Slovak Republic, Slovenia, and Bulgaria. Despite important leaps, these countries are still the less globalized Member States of EU-27.

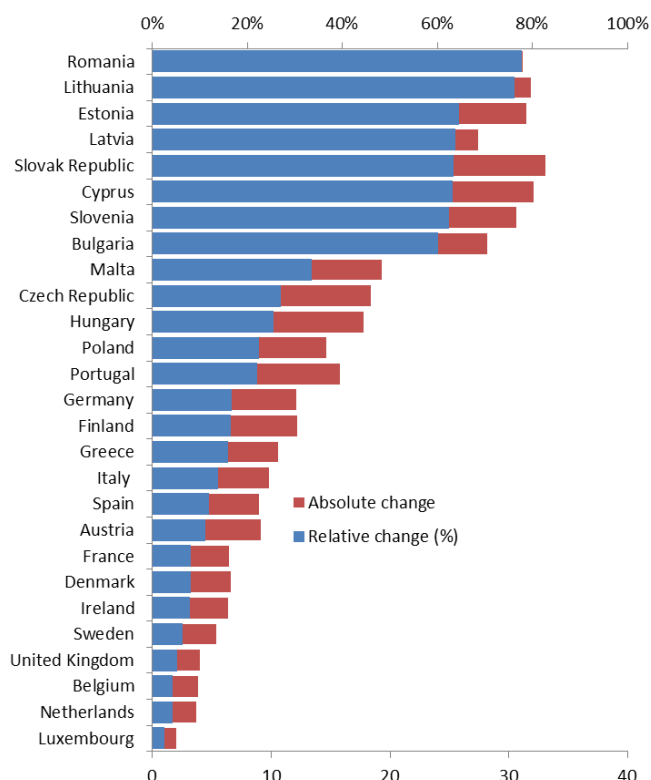


FIGURE 1 - VARIATION OF KOF INDEX BETWEEN 1996 AND 2011 IN EU-27 MEMBER STATES
Source: authors own calculation and representation using KOF Index of Globalization data

The territorial changes could be revealed also by rankings of Member States according to the KOF index at different moments. Changes in rankings from 1996 to 2011 are presented in figure 3.

They indicate that: the largest change was of 8 places, both upward and downward; upward and downward changes are balanced, thirteen Member States going upward, and twelve Member States going downward, while two Member States (Belgium and Bulgaria) did not change their positions; the largest upward leap occurred for Hungary, Slovak Republic and Cyprus, while the largest downward leap was recorded for the United Kingdom, Luxembourg and Spain; small changes are featuring both high and low globalized Member States being recorded for Denmark, Finland, France, Lithuania, Romania, Ireland, Netherlands, and Sweden.

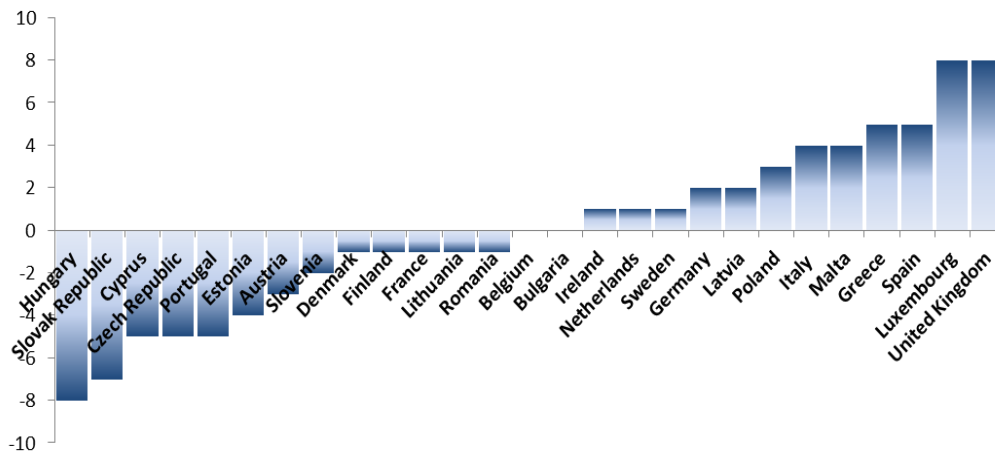


FIGURE 2 - CHANGES IN KOF INDEX RANKINGS FROM 1996 TO 2011 FOR EU-27 MEMBER STATES
Source: authors own calculation and representation using KOF Index of Globalization data

On the background of a steady growth, territorial changes occur from one period to another, but these changes are seldom able to reshape the globalization landscape within EU-27 Member States. Despite important leaps, such as increase of globalization index with almost 80%, the overall territorial pattern is maintained. For instance, Romania, records the highest growth rate of the KOF globalization index, but its position is almost unchanged within the EU-27. On the other hand, Hungary climbs not less than 8 places by a relative increase of only 25%.

4. STRUCTURAL CHANGES IN GLOBALIZATION'S PROGRESS

Access to higher profit rates is the main driver of globalization that becomes possible with the support of modern information and communication technologies (ITC) and by the means of modern transportation. Political and cultural interactions are also important. How these drivers, components or dimensions of globalization relate to each other is of great interest for globalization planning.

At the level of EU-27 globalization increased. This is proven by both the increase of the EU-27 index and the year then minimum and maximum values of KOF index are recorded in Member States. Thus, the EU-27 KOF index increased with almost 24%, the annual rate being of around 1.5% (figure1).

For each Member State the year of recording minimum, respectively maximum levels of the KOF index is different, although a pattern could be captured here. Thus, all Member States record minimum values in the first (88%) and second (12%) year of the period, while records of the maximum values are occurring in a wider range of years (2003, 2004, 2006, 2007, 2008, 2010, 2011), most of them (55%) being in 2010.

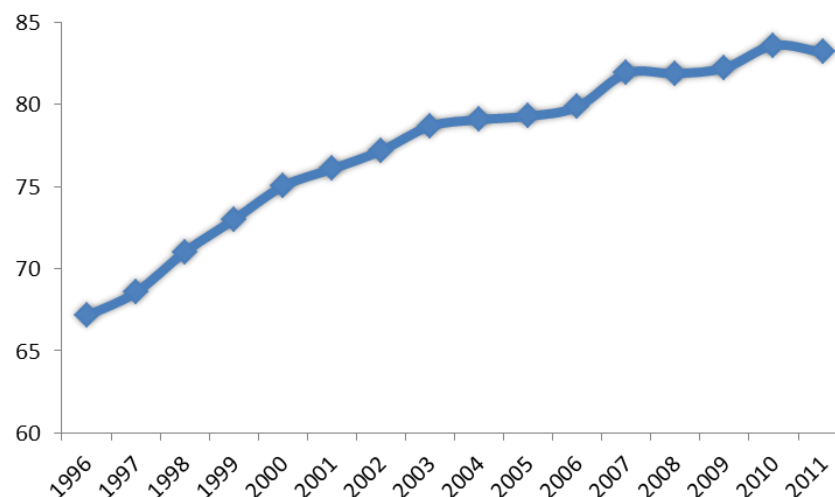


FIGURE 3 - PROGRESS OF KOF INDEX FOR EU-27

Source: authors own representation using KOF Index of Globalization data

The changes occurring for the three globalization dimensions are aligned with the overall index. Thus, all indices record an increase from 1996 to 2011 (figure 4).

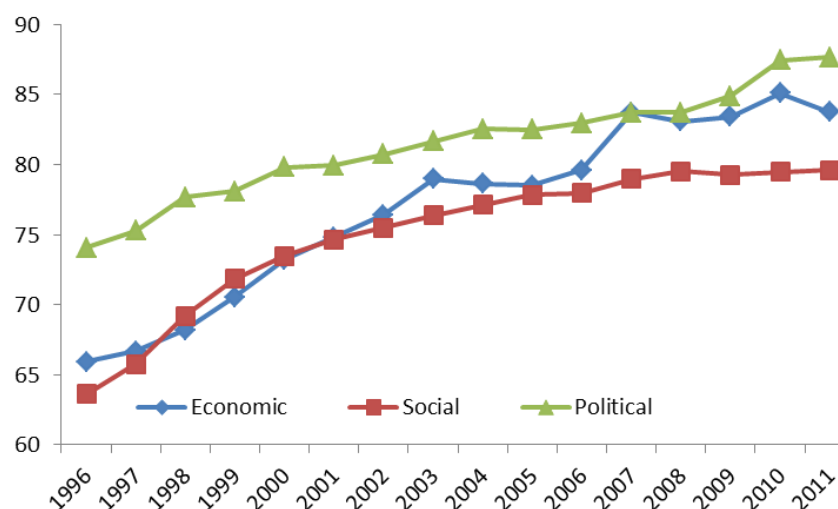


FIGURE 4 - EVOLUTION OF GLOBALIZATION'S DIMENSION FOR EU-27

Source: authors own representation using KOF Index of Globalization data

The largest increase is recorded for the economic dimension, being of 27%, respectively an annual growth of 1.8%. The social dimension is the next one, with a leap of 25%, followed by the political dimension with 18%.

The most volatile dimension is the economic one that records both positive and negative annual growth rates (figure 5). Negative growth rates are recorded in 2004, 2005, 2008, and 2011. The largest positive

rate is recorded in 2007, being of 5.1%, while the largest negative rate is recorded in 2011, being of -1.6%.

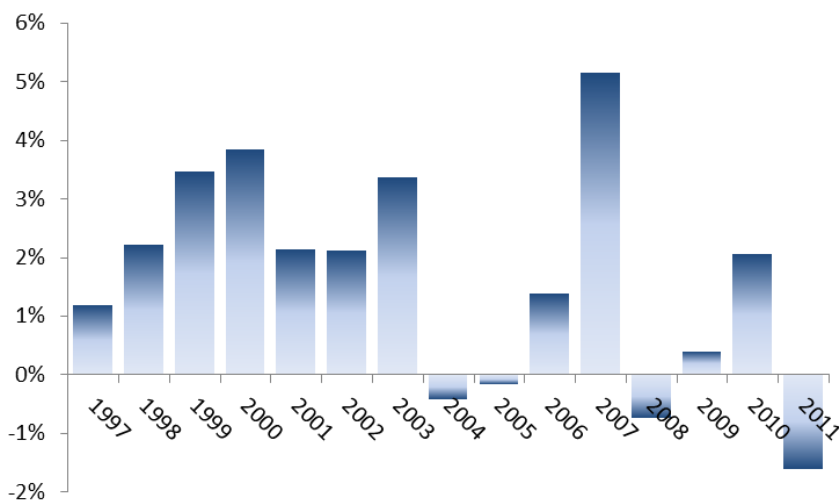


FIGURE 5 - ANNUAL GROWTH RATE OF THE ECONOMIC DIMENSION GLOBALIZATION INDEX FOR EU-27
Source: authors own calculation and representation using KOF Index of Globalization data

The other two dimensions record only positive growth rates, with one exception – in 2009 the social dimension index decreased by 0.3%.

According to the latest data, the leaders for the three dimensions are different, as follows:

- Economic: Luxembourg, Ireland, Malta, Belgium, and Netherlands;
- Social: Austria, Belgium, Netherlands, Denmark, and United Kingdom;
- Political: France, Italy, Belgium, Austria, and Spain.

Only Belgium ranks within the first five Member States for all the three dimensions, while Netherlands and Austria have the attribute for two dimensions. These differences could be interpreted as the result of a continuous adjustment to globalization, each nation-state struggling to reap the most of the benefits.

CONCLUSIONS

Globalization's progress in the case of EU-27 was analyzed by using the KOF index in order to reveal patterns of change in the last decades that would allow a better knowledge base in policy making.

The territorial analysis showed that although there are significant mutations these are not large enough to modify the globalization landscape within EU. Hence, some countries almost doubled their globalization index, but this does not resulted in an important change in their ranking within EU-27.

As long as the structural changes are regarded, it was found that on the background of a steady growth, globalization's main driver – economy – is also the most volatile one, while social and political changes are constant, although their occurrence is somewhat lagged.

Beyond its scope, the analysis also showed that Romania is amongst the less globalized Member States of EU-27. Most of the progresses recorded are due to the political globalization, while in case of economic and social globalization Romania is slacker. Before jumping in conclusions regarding the significance of this position, it should be noted that Poland is just before Romania in terms of economic globalization and this did not prevent the domestic economic and social performance.

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