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Globalization and its Effects on Turkey, Bric, Balkan, East European Countries and the Different Strategies Pursued by the Emerging Markets

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PUB. DATE June 2013

SOURCE GSTF Business Review;Jun2013, Vol. 2 Issue 4, p258

SOURCE TYPE Periodical

DOC. TYPE Article

ABSTRACT

This article intends to study globalization particularly from the persp developed countries (LDCs) and newly industrializing countries (NICs). After World War 2 (WW2), LDCs and NICs implemented a closed economy model, import-substitute industrialization, interventionalism and protectionalism. This was in line with most development economists at the time who observed market imperfections, increasing returns to scale and interdependence between sectors in these countries. However, implementations in most went overboard with excesses resulting in balance of payments crises, high inflations and worsening of income distributions. This was observed by many new breed development economies economists in the '70s who advised New Classical Development Theory of non-interventionalism. Since public opinion in many of these countries had also arisen against closed economy, during the '70s and '80s, they turned toward market economy, outward orientation and export encouragement through flexible exchange rates. In he '90s, the use of computers and open attitudes ushered in globalization stage in which freer trade, direct private investment flows are fully encouraged and in addition, free flow of financial funds are allowed. 1997-98 Global Financial Crisis which emanated in South East Asian Countries due to misuse of financial funds received spread all over the world, including Russia, Turkey, Argentina, etc. Hence there was a substantial contraction in the flow of financial funds and direct private investments. Starting from a lower level, in the '90s, globalization nonetheless continued to expand till these days as an inevitable and irreversible trend.The volume of international trade today, direct private investments (DPI) and private financial funds (PFF) going to LDCs, NICs and emerging markets definitely prove that globalization has become widespread and irretrievable. Accordingly, all these countries, rather than denying or opposing globalization, seek to obtain maximum benefit from the process. This requires choosing a "suitable globalization strategy" that should be part and parcel of "good (overall) governess".

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July 2013

VOLUME 2, NUMBER 4

ISSN: 2010-4804

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GSTF Journal on Business Review (GBR) Vol.3 No.2
(Print ISSN: 2010-4804, E-periodical: 2251-2888)

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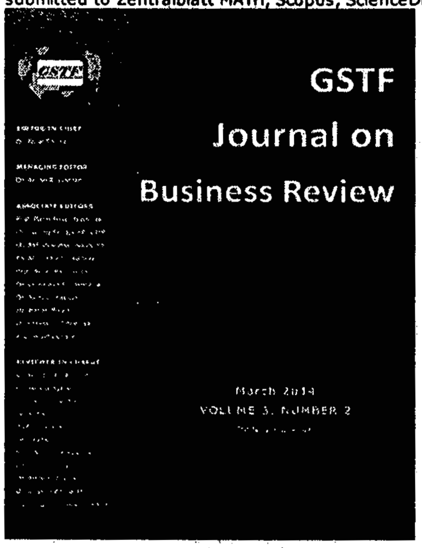

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***Abstract*—This article intends to study globalization particularly from the perspective of less developed countries (LDCs) and newly industrializing countries (NICs).**After **World War 2 (WW2), LDCs and NICs implemented a closed economy model, import-substitute industrialization, interventionalism and protectionalism. This was in line with most development economists at the time who observed market imperfections, increasing returns to scale and interdependence between sectors in these countries. However, implementations in most went overboard with excesses resulting in balance of payments crises, high inflations and worsening of income distributions.This was observed by many new breed development economies economists in the '70s who advised New Classical Development Theory of non-interventionalism. Since public opinion in many of these countries had also arisen against closed economy, during the '70s and '80s, they turned toward market economy, outward orientation and export encouragement through flexible exchange rates. In he '90s, the use of computers and open attitudes ushered in globalization stage in which freer trade, direct private investment flows are fully encouraged and in addition, free flow of financial funds are allowed. 1997-98 Global Financial Crisis which emanated in South East Asian Countries due to misuse of financial funds received spread all over the world, including Russia, Turkey, Argentina, etc. Hence there was a substantial contraction in the flow of financial funds and direct private investments. Starting from a lower level, in the '90s, globalization nonetheless continued to expand till these days as an inevitable and irreversible trend.The volume of international trade today, direct private investments (DPI) and private financial funds (PFF) going to LDCs, NICs and emerging markets definitely prove that globalization has become widespread and irretrievable. Accordingly, all these countries, rather than denying or opposing globalization, seek to obtain maximum benefit from the process. This requires choosing a "suitable globalization strategy" that should be part and parcel of "good (overall) governess".**

Index Terms - Globalization: Effects, Strategies, Emerging Markets, BRIC, Balkan, Turkey, Eastern Europe

I. INTRODUCTION: DEFINING GLOBALIZATION

Globalization involves maximally free movement of goods and services (international trade), free movement of Direct Private Investments (DPIs) also involving purchases of firms, participations and mergers, and as the most important ingredient, free movement of short and long term (private) financial funds and credits between countries worldwide, both developed (DCs) and developing (LDCs, NICs), also including newly "emerging markets". Flow of immigrant workers and their remittances to mother countries is also another important ingredient; but de facto flow is much greater than the legally allowed (de jure) immigrants for work. We should underline even at this starting stage that the latter group of countries (LDCs, NICs, etc.) are as involved in globalization as the DCs, and benefiting greatly.

II. BRIEF HISTORICAL PERSPECTIVE

Globalization may have started with the years earlier than 90's but a wider historical perspective shows that it was a long developing process. The real storting point was post WW 2 (1939-45) when the allies, led by the USA created the IMF, the WB and enacted GATT in order to prevent restrictions on international trade after the war. Severe restrictions had been implemented after WW I with catastrophic economic and political consequences for all European and Western countries. Following WW 2, in addition to free trade, free flow of DPIs and the principle of encouragement of private enterprise had also been agreed upon. Just prior to WW 2 and following the Great Depression of 1929-34, on the other hand, Keynes had devised a macro economic system that, unlike its predecessor, the Classical system, advised government interventions at the macro level (monetary and public finance policies) to prevent unemployment and business cycles, which most DCs accepted at the time and thereby lived a relatively stable high growth period till the 70's when oil prices were raised by OPEC. The DCs had only minimal interventions to the economy at the micro and the sectoral level, excepting the case of agriculture.

In contrast, however, development economists generally believed that in those early post WW 2 years LDCs lacked competition at sectoral levels. This, plus economies of scale and the need to establish new industries dictated that governments of LDCs implement not only merely "macro" but also "micro" and sectoral policies, All this involved interventionism, planning and protectionism, a closed economy model and import-substitute industrialization (for more details: Toye, 1993; Hiç, 2001; Birol 2007). The only exceptions were the "Asian Tigers" which implemented an export-oriented growth strategy but in a milieu of

DOI: 10.5176/2010-4804_2.4.279

interventionism and protectionism. Thus, the model they implemented was not “market economy” proper. Their special political and economic relations with the USA and the flow of direct private investments from the USA to the manufacturing sector of these countries had enabled them to pursue such a development strategy effectively.

Throughout the 50’s to 70’s in all other LDCs generally interventionism and protectionism were carried to excesses, resulting in frequent balance of payments crises, hence low income growth, high inflation and worsening income distribution. Therefore, the public opinion in these countries also changed. Thus, upon the prodding of the IMF during the years 70’s to 80’s most countries discarded the closed economy model, turning towards the market economy, outward orientation, and export encouragement while curbing excesses of import-substitude industrialization. L.A. countries, Turkey, India, South East Asian countries all shifted towards the market economy and outward orientation.

It was just about at this point that technological developments had allowed entry into the “globalization” process, encompassing not only the DCs but also the LDCs and NICs.

But as soon as globalization started the world experienced in 1987/89 a severe “global financial crisis”. The crisis emanated in the South Eastern Asian countries to which much financial funds had flown from Japan and other DCs. Their governments had used these funds to build mostly (social) infra-structure that did not add to their manufacturing and exporting capacity. Hence, when due to bad economic management and corruption economic and political crisis erupted, they all were very hard hit. Financial funds that had entered also tried to find way to leave these countries, thus worsening the situation. Therefore, there was a temptation to call such financial funds as “hot money”, hence argue against them. But if we make a sober analysis we should conclude that financial flows (i.e. short term bank credits lent) are not necessarily “hot” because of their substance. They become “hot” (that is, strive to leave the country) only in case we mismanage the economy or give rise to political instability. With very many creditors wanting to take back their funds from all LDCs and NICs, the financial crisis did become global, many countries like Turkey, Argentina, Russia very also hard hit while S.Korea and Japan suffered seriously. Since the economy of the USA, in particular, was robust at the time, the global financial crisis was soon taken into control while IMF showed special care to those countries (like Argentina, Turkey, etc.) in serious crisis.

The global financial crisis had temporarily a negative effect on the process of globalization, but soon globalization began to rise again. In fact, when USSR was dismantled in 1989, 1990 Eastern European and Balkan countries all chose the market economy, outward orientation and entry to the globalization process. Therefore, throughout the economically good years 2000’s worldwide globalization became a widespread and irretriavable process, useful not only to DCs but more to LDCs, NICs and emerging markets. This is shown with the aid of some basic statistics in the following section.

III. BASIC STATISTICS THAT SHOW GLOBALIZATION ALREADY BECAME WIDESPREAD AND IRRITRIVABLE

To prove that globalisation already became widespread and irretriavable basic statistics are given in this section concerning international trade, DPI flows and flow of financial funds.

Firstly world international trade, exports plus imports has increased considerably; since globalization started growth of trade was far above the average GNP growth of the world (all countries) as a whole. Merchandise trade, in particular, was most robust compared to mining and agriculture. To wit, in 2006 the volume of total manufacturing trade was 11.783 billion dollars (WTO, World Trade Developments, Washington, 2007; details, including country breakdown may also be followed through the internet). Greatest players in both exports and imports were the USA, Germany, China and 6 South Eastern Asian Countries; with Japan, France, UK coming in second tier. Mexico, Brazil, India, etc. were comparatively below; but after globalization evidently the share of emerging markets, NICs and LDCs increased considerably.

It should be underlined here that as Ricardo had proven long ago, in international trade both countries involved benefit (win-win situation), that is, it is not a zero-sum-game as opponents (including Latin American structuralists) argue. Hence, present expansion of trade must be benefitting emerging markets, NICs, LDCs as well as DCs; in fact the first group more. Negative reactions against globalization in the USA is already on the increase in recent years.

Another important item of globalization is the flow of DPIs. In 2006 total DPIs worldwide (also involving participations, mergers, purchases of firms) totalled 1.3 trillion dollars, of which about 29%, that is, 448 billion dollars went to the formerly mentioned countries (UNCTAD, World Investment Report, 2007). The above figure is a big lure for all emerging markets, NICs and LDCs that should prevent them from shutting their doors to DPIs, hence to an important aspect of globalization.

Thirdly, still more important is the volume of financial flows received by LDCs, NICs and emerging markets. In 2006 total financial funds flown only to these countries totalled 572.8 billion dollars all received from the private sector, including private banks and other private creditors. They had actually paid back funds and credits to official international institutions (- 65 billion dollars), thus diminishing their debts to them. The total debt stock of LDCs, NICs, and emerging markets in 2006 had been 2.888 billion dollars, of which 247.6 billion belonged to international financial institutions, 355 billion to other “official” creditors and all the rest to private banks and private institutions. Thus, flow of financial flows offers still another very important lure for these countries to embrace globalization.

No doubt the USA comes first as single country in receiving DPIs also followed by France while China and Hong Kong have started to occupy a dominant place. USA is also the first among countries that sends DPIs abroad (UNCTAD, World

Investment Report, 2007).

When we study individual countries and their growth rates prior to globalization (say, period 1983-87) and during globalization (say, period 2002-2006) we find that there is an increase in the growth rates of both, but the growth rates of LDCs, NICs and emerging markets have surpassed those of DCs by a wide margin (the relevant figures may be followed from UN Statistics Division, National Accounts Database, 2006, through the internet). These high rates of growth had been attained not only by China, India, but even by African countries with rich resources and which allowed DPIs to exploit these. The figures above definitely prove the point advanced by pro-globalization experts (eg: Bhagwati, 2004) that globalization is a win-win situation and not a zero-sum-game.

IV. GLOBALIZATION STRATEGIES OF SELECTED EMERGING MARKET, NICS

The analysis above implicitly should have brought out that the argument offered by many former pro-globalization experts that it would cut down considerably on the policy options open to a nation-state, that most economic decisions would be taken say, by firms outside which had made an investment in the country in question (e.g. Kennedy, 1993) is an exaggeration. Definitely the scope of economic policy options of the nation-state will diminish but the nation-state and its policy making authority would still remain. No doubt, it would not resort to administrative pricing; it would definitely not resort to absolute protectionism, etc. which are, at any rate, excessive and unwanted. But economic policy making, hence "good governance" by the nation-state would still remain and play a crucial role (Rodrik, 1999). In fact J. Stiglitz (2002), when criticizing the IMF had accepted globalization as inevitable but faulted IMF policy recommendations to LDCs and NICs. Thus, his views can also fit squarely with the need of "good governance" accepted here.

It should be introduced that the selecting of a "proper globalization strategy" is also an important segment of good governance. Because of time limitations I can mention and compare only a selected number of emerging markets and their different globalization strategies.

The first country to be mentioned that has chosen a suitable globalization strategy is China (see Friedman, 2006). She mainly relies on encouraging the flow of DPIs mostly into manufacturing by means of powerful incentives plus existence of cheap and disciplined labor. Her entry to WTO proves sufficient security for DPIs flowing to China. Thus, she enlargens her manufacturing sectors and employment and reduces regional income differences. Part of manufacturing is consumed internally while a large part is exported, thus raising China's trade surplus and foreign exchange reserves. The yuan was also kept deliberately low to further encourage exports, but raised more recently. Though as a huge country, China still has a long way to proceed in order to carry income benefits to all regions and peoples, with the very high growth rates attained over such a large span of time she would soon become the third largest economy in the world.

India is another country that implements a suitable globalization strategy in view of the opportunities that exist in her economy (Friedman, 2006). India has a large English-speaking, well-educated mathematicians, software experts and has thus taken on keeping the files of most of the American banks and firms (outsourcing from the USA side), which the latter found preferable because of low salaries paid to high quality Indian engineers and software experts.

The present economic strength of say, Russia (also of Venezuela, Iran, etc.), on the other hand, come not from globalization directly but from high prices of petroleum and natural gas. No doubt, however, increased consumption and production due to globalization has, in addition to petroleum production restrictions, played an important role in the rising demand and hence rising prices of petroleum and natural gas. The present Russian government, however, often uses petroleum and natural gas sales and pipelines as a "political" weapon. In this respect, the behaviour of Venezuelan government is also similar.

Still another group of countries we should briefly mention here will be the 12 mostly Eastern European and Balkan countries, which mostly gained independence recently after USSR crumbled in 1989, 1990, (namely Czech Republic, Poland, Hungary, Estonia, Slovania, Lithuania, Letonia, Bulgaria and Romania; as well as Cyprus-Greek Administration and Malta). After gaining independence they all endorsed ties with the Western world, market economy and outward-orientation. But they also enjoyed the opportunity to apply to the EU for full membership. The EU gave them a priority say, over Turkey, for political reasons rather than "economic" and they were accepted as full fledged EU members. For these countries EU membership definitely brought both political security and political advantages and democracy, as well as economic. In the case of economy, they would, for instance, receive large sums of regional development as well as agricultural subsidies. They also would have to watch for the inflation rate, as well as outside debt. Thus, rather than chosing globalization "at large" they had the benefit to become globalized, or be a part of a single market in a 27-country EU. Their EU membership will no doubt raise the level of DPIs flowing to these countries.

Lastly I would like to mention Turkey as a country which, despite her outward success in growth, has not chosen a very suitable globalization strategy. Turkey faced a severe economic crisis in 2001, had to make a stand-by agreement with IMF and started radical economic reforms, foremost strengthening of the structure of her banks, austerity measures and privatization. Having made several political reforms, Turkey was also accepted by the EU as a "candidate" member. The new government that came to power with the 2002 elections continued with IMF reforms and at the same time strived to get a date from the EU in 2004 to start full membership negotiations. But in taking advantage of globalization it chose not to expand its manufacturing capacity but primarily to expand its capacity to receive financial funds and credit. Therefore, interest rates were raised to lure the flow of financial funds. Since both political and economic security had been attained large sums did enter Turkey in addition to DPIs. The exchange rate was repressed to artifically low levels and this reduced both export potential and also agricultural production and agricultural employment. Thus, although growth rates were high, employment could not rise much because of the negative situation in agriculture; in fact unemployment rate started to rise in the more recent years. Total foreign debt also increased considerably.

Moreover, a large part of foreign credit were received by municipalities and they used these funds to build municipality infra-structure and roads. A catastrophe, however, did not erupt because firstly the Turkish banking system has become relatively strong since the 2001 measures. Secondly, a worldwide financial crisis is tried to be avoided by the joint efforts of all major countries and international organizations because such a crisis could hurt every one. Thirdly, the recent rise in worldwide agricultural prices – again mostly an indirect result of increased consumption due to income increases brought about by globalization – could likely revitalize the Turkish agriculture in future. Still, Turkey's recent choice of globalization strategy stands out as the least advantageous and the most risky for the long-run.

V. CONCLUSION

To summarize and to conclude, the volume of international trade today, DPI and PFF going to LDCs, NICs and emerging markets definitely prove that globalization has become widespread and irretrievable. Accordingly, all these countries, rather than denying or opposing globalization, seek to obtain maximum benefit from the process that takes into account the potentials of the economy in question.

Choosing a "suitable globalization strategy" should be part of "good governance" required of respective governments. Thus, for instance, China and India have both chosen globalization strategies that suit their respective economies.

China has rigorously encouraged DPI flowing to manufacturing sector, offering disciplined workers at low wages. Part of production went to domestic consumption, considerable part to exports, thereby raising China's trade surplus and foreign exchange reserves.

India, in turn, developed her software industry with English-speaking Indian computer programmers who work with relatively low salaries, thus receiving outsourcing programmes particularly from the USA.

The newly independent Balkan and East European countries also chose a "suitable globalization strategy", namely applying to the EU and being affected as full members. This will enable them to receive regional developmental and whole DPI going to these countries will increase.

But Turkey, in contrast, relied less on receiving DPI and more on receiving financial funds and external credit. She has, therefore, raised the interest rate and the increase in the flow of financial funds and external credit repressed the foreign exchange rates. As a result, while external debt increased, imports and foreign trade deficit also widened over time, becoming even worse by the rising petroleum prices. Thus, in today's worldwide financial setbacks, Turkey's choice of globalization strategy stands out as the most risky.

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