

THE EFFECTS OF GLOBALIZATION AND NEOLIBERAL CONCEPT ON ECONOMY DEVELOPMENT OF COUNTRIES IN TRANSITION

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Abstract: Terms globalization and neoliberal concept appeared as two parallel processes in the second half of the twentieth century. These processes got support from the World bank, International Monetary Fund, the most developed countries and large companies from all around the world. During the nineties of last century transitional countries also accepted neoliberal concept whose basic postulation is that market should regulate all economic relations, and the state should be withdrawn from economic processes. However, numerous crises that arose after 2000 and an increase of inequality in the world brought basic postulates of these concepts into question. Because of that, future sustainable development must be based on joint action and coordination of market and state institutions in creation of states' economic growth.

Key words: globalization, neoliberal concept, countries in transition, economic surroundings

Introduction

Term globalization implies a process of creation of conditions for a more dynamic movement of production factors among countries in order to create open world economy without borders. Globalization arises through suspension of market barriers, monetary restrictions, capital movement control, visas and other, and by that it contributes to a more intense trading and financial processes among certain countries. The process of globalization is successful thanks to the support from the most developed countries in the world, and most of modern companies is also in numerous ways included in globalization process.

Parallel with globalization process, the concept of neoliberal development of economy, based on the processes of deregulation, liberalization and general privatization, along with reduction or suspension of state's role in economic affairs, appeared. This process is supported by the World Bank, International Monetary Fund and other world financial organizations. In the beginning of the nineties of last century, this concept of development was accepted by the countries in transition and they are now, with a diverse success, going through transitional period. However, numerous crises, the fall of standard and deepening of inequalities in the world have seriously brought basic postulates of neoliberal concept of economy development in question.

Globalization emergence and changes of business surroundings in the world

The use of term globalization appears during the nineties of the twentieth century, oftentimes as a synonym for terms internationalization, liberalization, universalization or westernization – adoption of western values. Internationalization implies an increase of transactions and interdependence among different countries.

Interpretation of globalization as univerzalization designates the process of spreading of various knowledges and experiences worldwide, it is a process of standardization and homogenization, rapprochement among different cultures, economies, laws and policies worldwide (Popovic-Avric, S., Vidas-Bubanja, M., 2009).

Observed from liberalization aspect, globalization implies a process of creation of conditions for a more dynamic movement of production factors among countries in order to create open economy without borders. Globalization emerges when authorities of certain countries reduce or cancel regulation measures such as: market barriers, monetary restrictions, capital movement control, visas and other, and by that contribute to a more intense trading and financial flows among certain countries. These processes create conditions for a faster economic development of individual countries, as well as for the world economy as a whole.

Globalization process is successful thanks to the support of most developed countries in the world. Governments of developed countries have contributed to a dynamic development of this concept by numerous measures such as infrastructure suppling, liberalization of international transactions, guaranting of property rights, support to global management arrangements and similar. Global production and global market is promoted and supported by the global financial system, too. Globalization is evident in the ecology domain as well, where big ecological problems can be solved only on a global level (global warming, acid rains, ozone layer problem and other).

Most modern companies is in numerous ways included in globalization process, whether through its size and significance on world market, having its branches and representations worldwide, or through creation of strategic associations with other enterprises that are located in more

regions. Global companies determine world's production, trade and investement flows and, by that, manage world economy. In that manner many companies have largely increased its value and the amount or realized profit.

The creation of business alliances, especially strategic alliances, had a positive effecton the acceptance of global strategies of doing business. Many strategic alliances enable companies to attract financial sources, to expand its activities, to share risk and shape markets in order to jointly advance. For example, agreements on mutual licencing among pharmaceutical companies created a very high profits in that sector (Gilroy, B. M., 1993).

Globalization process in the end of twentieth century changed the structure of world market and created conditions for emergence of oligopolistic relations in world economy. Situation that, in large number of economic activities, only the biggest companies can realize profits has been created. On the other hand, successful functioning of small enterprises and their positioning on market depends on cooperation with big global concerns, which narrows their business independence and imposes the need of a fast and dynamic answer to challenges from surroundings. The most important changes in international business surroundings are (Danielle, et all, 2006):

- constant competitive pressures,
- fast market movements,
- big separations or associations,
- reduction of market barriers,
- transport expenses reduction,
- higher expectations of buyers and employed,
- advancement in communication and information technologies,
- global approaches to capital markets,
- inflation movements reduction.

Dynamic changes of international business surroundings caused changes of the rules of the game on world market. Global managers are facing new and more and more complex demands. Until then activities of the managers were aimed at reaching new quality standards, reducing costs, shortening of time to sell products, improving customer relations and increase flexibility. New trends on globalized market request from managers to ensure successful positioning of company on world market, as well as adaptability to challenges of local markets (Colin, 1992).

It was expected from globalization process to have a positive impact on dynamizing of development of world economy, as well as development of economies of individual countries. However, in relation to globalization phenomenon, the key dilemma is set: does globalization lead to increase of inequality among countries, or, on the contrary, it contributes to reduction of inequalities among states in their economic development. Large number of authors assert that globalization deepens current inequalities and leads to permanent peripheralization of society's poor part.

Besides questions of economic inequalities of countries, globalization poses numerous other challenges such as: the need to preserve the environment and social stability, efficient international maintenance of peace, reduction of technological gap between rich and poor, securing of higher health standards, human rights and preservation of cultural identity and similar. According to certain understandings, globalization even leads to homogenization and equalization of all areas of life on the whole planet. In that manner, it annuls political, economic and cultural features of certain countries, which presumes establishment of the new world order.

Neoliberal concept of economy and effects on countries in transition

Revival of liberal concept of economy through neoliberal idea dates from the beginning of eighties of the twentieth century in Great Britain and USA (so called tacherizam and reganizam). It was established as a reaction to crisis situation created as a result of previous policy of state and the way of international institution' functioning. Basic reasons that led to emergence of neoliberal ideology were expressed fiscal crises of state, collapse of social partnership, increase of new protectionism and the breakdown of dollar standard (Josifidis, 2005).

Neoliberalism advocates privatization and deregulation of economic activities, liberalization of international economic processes and systematic reduction of state's role in sphere of economy. The postulates of neoliberalism were formalized in 1990 by Washington consensus, that is by a package of recommendations whose author was J. Williamson (Williamson, 1990). Washington consensus was introduced as a program of economic stabilization through institutional adapting to norms of free market with goal to control inflation, rationalize production and consumption structure, as well as raise the level of efficiency and flexibility of doing business.

Economic stabilization program implied a package of ten basic recommendations: fiscal discipline, defining of new priorities in public expenses (development of infrastructure, education, health care), conduction of tax reform (expanding of tax base along with reasonable tax rates), implementation of liberalization of financial and foreign-trade flows, forming of competitive exchange rate, attracting of foreign direct investments, privatization of public enterprises, conducting of market deregulation and establishment of property rights protection.

These ten recommendations were summarized in three – macroeconomic stabilization, liberalization and mass privatization, and the main slogan was: „Liberalize as much as possible, privatize as quickly as possible and be stalwart in fiscal and monetary policy“. Recommendations are accepted by the World bank, International Monetary Fund, Federal Reserve system and US Ministry of Finance. Unique concept of „market fundamentalism“ was adopted and recommended to all the countries in development and in transition process (Filipovic, Petrovic, 2015).

By the emergence of neoliberalism, the process of degradation of welfare state begins. European concept of social model is particularly weakened, since it is seriously endangered by global financial crises and rigorous savings and expenses cutting, which is, as a measure, being imposed by Germany and IMF (Piketi, 2015).

Countries in transition have, in the beginning of nineties of last century, taken a stand that it is necessary to shift to market system of economy and started appropriate reforms in that direction. Upbuilding of market economy was supported by political decision to abandon socialist social arrangement. By switching to market system of economy, countries in transition have accepted new market rules that imply privatization and deregulation of economic activities, liberalization of financial and foreign-trade flows, reduction of state's role, economy restructuring and reorganization of system's institutions (Sachs, 1994).

Process of economic reforms in countries in transition was realized by the recommendations by Washington consensus, strongly supported by IMF and the World Bank, as main advocates of neoliberal concept of economy. Mentioned institutions recommended privatization,

liberalization of goods and services, and insisted on fiscal savings as a precondition for growth. However, yet after the first phase of transition it was clear that the effects on economic growth are very weak.

In the period of 1990-2000 most of countries in transition had a negative growth rate (EBRD, 2010). Besides recession, unemployment increase and an upgrowth of social stratification of citizens were expressed, too. After 2000 and all the way to emergence of global economic crisis, countries in transition had high economic growth rates (5,7% on average) and optimistic forecasts of future growth (Lissowska, 2014). Countries that conducted market reforms and which became members of the EU are particularly marked off.

High economic growth rates were retained all the way to the emergence of global economic crisis. Crisis weakened economic activity, reduced consumption and investments which lead to slowing down of economic growth, loss of work places and reduction of earnings. Reduced aggregate demand and the lack of investments had a negative impact on economy's liquidity which caused borrowing under unfavourable conditions. Most countries are facing budget deficit problem and the ways of its financing. Because of formed macroeconomic instability countries sign certain arrangements with IMF and by that increase its foreign debt.

In the beginning of 2000s first negative reactions on neoliberal concept of economy development appear. New solutions which would include public development policy, on one hand, and an incentive to private economy through market mechanism, on the other, are searched for. According to Stiglic (2004) Washington consensus did not give an answer to developmental problems of countries in development.

There were remarks on the speed and order in the process of deregulation and liberalization, as well as giving market the role of the only coordinating mechanism. New approach which connects economic growth and economic development and emphasizes interconnection between state and market, is being searched for.

Conclusion

Globalization and neoliberal concept of development brought the world to big economic crisis. Without taking into consideration interests of most, these concepts brought the world to a whole range of contradictions, primarily into global financial crisis which it is not able to solve. Numerous big crises, the fall of standard and deepening of inequalities in the world seriously brought into question basic postulates of neoliberal concept of economy development. Globalization process changed the structure of world market and created conditions for generation of monopolistic and oligopolistic relations in the world economy.

New era will definitely be marked with sustainable development goals, where the role of state on national and global plan is irreplaceable. Market's role is also necessary because market is the engine of progress and competitiveness is its key lever. Role of state is regulatory, stimulating and strategic-planning. Invisible market's hand and visible state's hand, in joint action and coordination, should be the drivers of economic growth and sustainable development of society. These principles are particularly important for countries in transition and their efforts to reach the results of developed part of the world.

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