

University of Tartu

Faculty of Economics and Business
Administration

**THE NATURE AND
PROBLEMS OF
ECONOMIC
GLOBALIZATION**

**Janno Reiljan
Ele Reiljan**

Tartu 2000

ISSN 1406–5967

Tartu University Press
Tiigi 78, 50410 Tartu
Order No. 591

THE NATURE AND PROBLEMS OF ECONOMIC GLOBALIZATION

Janno Reiljan^{*}, Ele Reiljan^{**}

Abstract

The objective of this working paper is to point out major ways of regulating the global economy in order to increase impact of foreign trade, credits and (foreign) investments on economic growth and welfare. Some basic problems that occur in the process of balancing economic development are studied. The nature of economic globalization is determined at the beginning of the article. After this, the role of international trade, foreign direct investments and development assistance is studied. Finally, developmental differences between developed and developing countries are studied and prerequisite conditions for reducing these are presented.

* University of Tartu, Faculty of Economics and Business Administration, Professor of International Economy, PhD, D of Sc. (Econ.) E-mail: Reiljan@cie.ut.ee

** University of Tartu, Faculty of Economics and Business Administration, PhD Student, MA (Econ.), E-mail: ele@ec.ut.ee

TABLE OF CONTENTS

Introduction.....	7
1. Nature of Economic Globalization.....	8
2. International Trade as a Basis of Economic Globalization	10
3. Flows and Impact of Foreign Direct Investments in Developing Countries.....	15
4. Volume and Impact of Foreign Debt in The Developing Countries	17
5. Volume and Role of Official Development Assistance.....	19
6. Differences Between Development Levels of Developed and Developing Countries.....	20
7. Roots of Developmental Differences	22
8. Problems of Achieving Equal Competitive Conditions	25
Conclusions	28
References.....	30
Kokkuvõte.....	32

Introduction

Globalization has become a central issue of both discussions and articles in recent times. These approaches lack of clarity and systematic treatment. In some ways it is inevitable, because the term is new and specialists in various areas try to place it in their paradigm. Still, it is too early to present a treatment that covers all aspects of globalization.

The present article tries to systematize the term of globalization from the view of economy. Following aspects of economic globalization are going to be studied:

- the nature of economic globalization,
- international trade development as the basis of economic cooperation in various groups of countries,
- the role of foreign investments in the globalization process of developing countries,
- the role of development assistance in integration of the world economy,
- the extent of the differences of economic development in industrial countries and developing countries.
- the reasons for the growing gap between economic development of industrial countries and developing countries,
- prerequisite conditions for reducing differences in development.

The objective is to point out major ways of regulating the global economy in order to increase impact of foreign trade, credits and (foreign) investments on economic growth and welfare. The article studies some basic problems that occur in the process of balancing economic development. It also focuses on problems that Estonia, as an open transition country, has in its integration to the world economy.

1. Nature of Economic Globalization

“Globalization” is a relatively new and popular word. It was first used in marketing about two decades ago with regard globalization of trademarks Coca-Cola and BMW. Later the term was used to characterize complexity of economic relations. Recently it has been associated with those views, which see more disadvantages than advantages of growing economic dependency between countries (von Weizsäcker 1999, p. 47). Weizsäcker sees globalization from the point of view of wealthy industrial countries. However, it should be also seen from the point of view of not so wealthy developing and transition countries. These two standpoints should merge and take a completely new dimension in the world globalization process.

Globalization may be seen as improvement and development of closer contacts between countries and regions, as well as religions and cultures. This process brings together different people, organizations and institutions, that all have different values. Despite differences they have to cooperate with each other. In order to make these contacts between various cultures and religions more fluent and mutually beneficial, it is necessary to develop standards and rules. The globalization process creates several problems due to the slowness in the development of rules – this is not as fast as the spread of globalization processes. Therefore globalization processes involve a lot of conflicts and discrepancy, which generates contradictory expectations (see Modecki *et al.* 1999). It is assumed that globalization may not only follow different paths but those paths might even contradict each other (See Kapstein 1998).

The two world wars which took a heavy toll of human lives were started because of the attempt of rich industrial countries to (re)distribute economic power in the world in their own interests. World War II made it clear that military means were no longer suitable for this purpose – the third world war would already have challenged the existence of the whole mankind. The current organization of global economy, which to a certain extent has managed to regulate and balance economic relations

between great industrial powers, was mainly built up after World War II. Despite occasional “trade wars”, the peace in the world has been ensured.

However, tensions and (local) conflicts have not yet disappeared. More and more often they tend to start in developing or transition countries. Many of these tensions, sometimes culminating in armed conflicts, accumulate their energy from the uneven economic development of countries, their polarization into the rich and the poor. Here lies a whole group of problems, which needs quick solution in order to stabilize the global economy. Free movement of goods, services and capital in the equal conditions of competition form a normal basis for economic development of all regions. The real creativity and effort of all participants have an impact on those processes. The market economy needs regulating more than the command economy, so global economy needs regulations to secure harmony of processes. However, a global economy requires much more regulations than any nation.

The present research focuses on various forms of globalization and the relations between them. At the same time economic globalization can not be discussed separately from the changes in welfare of nations as well as from other processes. So far economic globalization has been studied from the aspect of liberalization, deregulation and integration only. On the other hand, economic globalization should be also assessed from the point of social justice and the analyses of relations between justice and globalization is needed. It is evident that globalization has improved economic efficiency, however, it has been incapable to provide globally fair economic regulations. The key issue seems to be the achievement of balance between countries social political requirements and normative responsibilities of free and open economic regime. Besides economic analyses of globalization, it is also necessary to carry out its normative and ethical analyses. Solutions that seem at first sight economically effective may not always be politically applicable or socially desired. (Devetek *et al.* 1999)

Authors usually present two dialectically related sides of economic globalization:

- movement towards wider openness of national economic regions,
- securing equal competitive conditions for producers all over the world.

The solution to the stated set of problems leads to the elimination of many international conflicts and cause of economic pressure. The crises and conflicts that have taken place in recent history as well as on the turn of the millennium have often been caused by unfair balance between economic interests. However, a new round of negotiations organized by the WTO, which presumably administers globalization, has basically stopped. The reason for this is that the contradictions between openness and justice have not been taken into consideration.

2. International Trade as a Basis of Economic Globalization

Exchange of goods and services between countries is the simplest and most often used form of international economic cooperation. Despite the rapid growth of capital flows, trade will be the basis for globalization also in the future. Trade leads companies to search for the best market that could supply them with necessary raw materials, semi-products but also with machinery and technology. Through trade, enterprises are looking for the markets where they can sell their products and services. Therefore international trading connects manufacturers, which capital belongs to various capital owners throughout the world and it can be seen as global production basis. All in all, economic globalization can be described through quantitative and qualitative development of international trade. Quantitative side shows volume growth and relations between various sectors. Qualitative aspect of world trade involves free market access and equal trade conditions, as well as transparency.

International trade has risen relatively fast in recent years. Countries or groups of countries integrating into the world economy can be characterized through the growth of their export volume and changes in competitiveness. The importance of countries or particular groups of countries is changing in world export. Figures, that show world export dynamics and structure by industrial, developing and transition countries are given in Table 1.

Table 1

Changes in world exports by region, 1980–1999

	Exports (billions USD)		Share in total exports (%)		Growth (times)
	1980	1999	1980	1999	
World	2028	5458	100	100	2.7
Developed countries	1280	3752	63	69	2.9
Developing countries	591	1494	29	27	2.5
Transformation countries	157	212	8	4	1.4

Source: World Merchandise Exports ... 2000.

Total world export volume in 1980 was 2028 billions USD, however in 1999, it was 5458 billion USD (growth 2.7 times). Industrial countries' export growth has been particularly fast – in 1999, the figure was 3752 billion USD, which is 2.9 times bigger than the same figure in 1980 (at that time it was 1280 billion USD). Industrial countries' share of world exports increased during the decade in question from 63 to 69 per cent. At the same time developing countries' exports have still not reached the growth rate similar to industrial countries.

During the period developing countries export increased from 591 billion USD to 1494 billion USD (2.5 times). Especially

slow has been the transformation countries' export growth – in 1980, it was 157 billion USD, however in 1999, the same figure was 212 billion USD (that means that exports grew only 1.4 times). Compared with 1980, the importance of developing and transformation countries in world export has also decreased, from 29% to 27% and from 8% to 4% accordingly. (World Merchandise Exports ... 2000) Neither foreign investments nor foreign loans and developmental assistance have been able to increase developing countries export competitiveness in the world market. They are gradually being pushed into the background. One reason for transition countries' poor performance was certainly the economic recession. Also, overassessment of mutual trade volume in 1980 and particularly the overvalued “transfer rouble” used in statistical reports have had impact on development.

Similar developments have also occurred in imports (see Table 2). When in 1980 the world total imports were 2067 billion USD, then in 1999, 5723 billions USD (growth 2.8 times). As in the case of exports, the industrial countries' importance is also biggest in regard to import (in 1980 it was 68% and in 1999 it was 71%).

Table 2

Changes in world imports by region, 1980–1999

	Imports (billions USD)		Share in total imports (%)		Growth (times)
	1980	1999	1980	1999	
World	2067	5723	100	100	2.8
Developed countries	1410	4051	68	71	2.9
Developing countries	503	1461	24	25	2.9
Transformation countries	154	211	8	4	1.4

Source: World Merchandise Imports ... 2000.

Developing countries' import growth has been relatively fast, its indicator in 1980 was 503 billion USD and in 1998 it was 2.9 times higher – 1461 billion USD (the share in total imports 24% and 25% respectively).

During the same period the industrial countries' import growth reached from 1410 billion USD to the figure of 4051 billion USD. Import growth has been the slowest in countries with the transition economy, where in 1980 it was 154 billion USD and in 1998 211 billion USD (growth 1.4 times). (World Merchandise Imports ... 2000)

To a certain extent the given figures should be approached critically, as the calculations are approximations only. Import volume estimation exceeded export volume estimation in 1980, by 39 billion USD and in 1999, by 265 billion USD. Import figures are statistically more distinct than export figures. Since inaccuracies are not to be higher than 5 per cent considering all indicators' level and it would not have a significant effect on the results of trade dynamics and structure analysis. Despite some inaccuracies in data it is still possible to make conclusions about trade balance changes and tendencies that took place during the 20 year period. The conclusion would be that industrial countries' trade balance deficit has decreased, developing countries' trade balance surplus has fallen back to balance and transformation countries' trade balance has remained in balance. This affirms the opinion that the competitiveness of developing countries has decreased during past decades.

The reasons and problems for developing countries' backwardness are best described by their trade structure given in product categories (see Table 3). Countries, where industrial products form a greater share in their export activities, have achieved successful development. These countries can be found mostly in Asia. However, no one has succeeded in regard to fuel, raw material and agricultural products. On the other hand, the necessity of these products is evident both now and in the future. Therefore the key essence of the problem should be

looked for in the world economy, which discriminates producers by product categories.

Table 3

Merchandise exports of emerging markets by product category (%), 1997

	Fuel	Metals and minerals	Agricultural products	Manufactures	Total
Middle East	73	2	4	21	100
Africa	44	8	19	29	100
Latin America	19	11	36	34	100
Asia (excluding Japan, Australia and New Zealand)	5	2	10	83	100
World	9	2	11	78	100

Source: World Merchandise ... 2000.

In the course of the past decades it is clear that trade has been the major growth generator in the world economy. Already in the 1990s the growth rate of world trade constantly exceeded production growth. Production growth in 1991–1998 has been fluctuating between 1.8 and 4.3 per cent yearly. The annual trade growth (goods and services) of the same period has been between 3.3 and 9.9 per cent. It is interesting to note that production growth rate in developing countries has been always above average (3.3–6.8%) and the same in developed countries below average (1.2–3.2%). Growth rate of foreign trade is also higher in developing countries than in the developed ones – exports have grown 2.2–13.1% in a year in the developing countries (3.2–10.3% in the developed countries) and import 7.2–11.5% (1.7%–9.7% respectively in developing countries) (IMF Annual Report 1999, p. 14).

Developed countries' actual average growth rate of GNP in 1981–1990 was 3.1% and in 1991–2000 it is forecasted to be 2.3%. Developing countries' actual GNP growth rate in 1981–1990 was 4.2% and it is expected to be 5.4% in the period between 1991–2000 (World Economic Outlook 1999, p. 140, 145). Low initial level of development and increasingly intensive outflow of earnings does not give any chance to developing countries to reduce their backwardness despite their faster growth rate. The industrial countries are those, which first of all benefit from the economic globalization while less developed countries are losing their positions. Therefore it can be said that international trade in its present form does not improve the integration and balance of world developmental levels.

3. Flows and Impact of Foreign Direct Investments in Developing Countries

Although trade relations between countries are the bases for economic globalization, they should still be seen as prerequisite conditions for unification of the world economy. In the process where values are created, trade is forming the surface layer. An interlace of different countries capital (especially in production) is the great step forward.

Foreign direct investments into developing countries seem to be more in the interest of their economic development. Here investors take the responsibility for the effectiveness of their investments. The total amount of foreign direct investments into developing countries has increased more than 10 times, reaching from USD 14 billion in 1986 to 166 in 1998. The share of developing countries as recipients of direct foreign investments has also grown – in 1998 direct investments in developing countries accounted for 26 per cent of foreign investments in the whole world (in 1986 their share was 17 per cent). At the same time foreign direct investments made by developing countries have also grown considerably. While in 1986 companies of developing countries made foreign investments only in

the amount of USD 2 billion (2.3 per cent of the global volume), in 1998 direct investments reached USD 52 billion (8.1 per cent of the global volume of investments). Therefore, the growth rate of foreign direct investments made by developing countries has been several times higher than that of foreign investments made into developing countries. (WIR 1992, p. 14; WIR 1999, p. 477, 483) However, the importance of developing countries in regard to foreign direct investments has decreased during the last decade. In 1996 investments made in developing countries formed 37.7% from the world total investments volume and investments made by developing countries formed 15.5%. The reasons of the setback could be found in the financial crisis of many developing countries. In conclusion we can say that the role of foreign direct investments in the economy of developing countries has been comparatively stable and further growth cannot be expected during next coming years.

Direct investments vary greatly. Export-oriented investments that combine modern technologies, foreign know-how and local resources are most expected in developing countries – in this case factor costs are covered and interests on investments are earned in foreign markets. Unfortunately foreign investments in developing countries have mostly market or resources seeking nature and are not aimed at servicing foreign markets. Due to limited local markets, reinvestment of the earned profit is not thoughtful and in the future this kind of direct investment becomes the source of capital outflow from developing countries. This mostly threatens investments in monopolistic infrastructure enterprises (like telecommunications and energy supply) but also banking.

Research data reveal that foreign investments into Estonia have also been made mostly with the aim of finding new markets (Foreign Investor 1997; Foreign Investor 1998). In contrast to other transition countries Estonia has such advantages as comparatively lower level of economic and political risk and a shorter period of transition to the market economy. Foreign direct investments, oriented at export and utilization of local production capacities, are not numerous in Estonia because the

majority of neighbouring countries are also transition countries with low production costs. Foreign investments made in Estonia have not increased the competitiveness of enterprises on the global market. Due to the shortage of local capital, our enterprises are not able to compete in the capital-intensive branches of production whereas labour-intensive production in this country is considerably more expensive than in many developing countries. All this reveals that developing and transition countries have not yet become attractive places for the production of goods servicing global markets.

4. Volume and Impact of Foreign Debt in the Developing Countries

Credit capital movements between countries have an important role in the integration process of the world economy. International economic institutions (IMF, World Bank) fought for liberalization of capital movement for many years. Recent financial crises in Asia and also in other parts of the world have generated critical views on the short-term credit or so called “hot money”. The latter has gone out of control and had a destructive impact on the world economy. Policies of long-term financing of developing countries should also be reviewed critically.

Global socio-economic disparity has grown due to errors made in international crediting of developing countries over the past years. Proceeding from simplified theories of economic growth, it was believed that the main reason for retardation of development is capital shortage. Large-scale inflow of foreign credit to developing countries did not encourage the development of internal saving and made possible investments in inefficient (economically or socially unsuitable) projects. All this resulted in a very rapid growth of external debt of developing countries, which considerably exceeded their economic growth. The debt burden of these countries grew from USD 609.5 billion in 1980 to 2316.6 in 1997 (i.e. approximately four times), at the same time the GNP increased from USD 2900.9 billion to 6635.4 (a

little more than twice). At the beginning of 1980s the developing countries had reached a debt crisis which even today remains unsolved. Foreign credits to developing countries which once supported their economic growth have long ago become inhibitors of development.

Developing countries have to spend more and more funds on debt servicing – these payments have reached USD 305.2 billion, i.e. approximately 5 per cent of GNP in 1997. Inefficient use of foreign credits is rooted in the fact that nearly 80 per cent of long-term loans has been bound to the recipient country's guarantee (Global Development ... 1999). It means that neither the creditor nor the actual user of the loan is held liable for the economic feasibility of the financed project.

In order to reach the rate of development exceeding the opportunities offered by internal saving, Estonia has also made an active use of resources available in international capital markets. In the end of 1999 Estonia's gross external debt was 58 per cent of GNP and it has been at the same level for several years. Foreign obligations are up to one-third balanced by the reserves of the Estonian central bank and the Government in foreign banks. The claims of Estonia's business sector abroad amount to 50 per cent of gross external debt. Therefore Estonia's net external debt is comparatively modest: in the end of 1999 it amounted to 11 per cent of GNP. While putting aside the stock of the Currency Committee of the central bank and Government's stabilization reserve in foreign banks, it becomes clear that the net external debt of Estonia's business sector totals almost a quarter of Estonia's GNP. (Estonian Balance of Payments ... 2000) For a state that regained independence in 1991 without any external debts it is quite a considerable amount, which was confirmed by a decline in economic growth in the years of 1998 and 1999, shortly following the 1997 loan boom.

Estonia's foreign indebtedness somewhat differs from that of developing countries, namely credits with government guarantees account for approximately 10 per cent of both gross as well

as net external debt. Therefore one may hope that the efficiency of external credits is under the control of creditors as well as recipients and the probability of emerging debt crisis, characteristic of developing countries, is not very high. Limited access to foreign markets (in many spheres such markets are altogether closed) and growing competitive pressure in the internal market have, however, questioned the purposefulness and efficiency of investments made in the course of the transformation process. The prospects for overcoming this crisis in several branches of economy will become clear in the coming years.

5. Volume and Role of Official Development Assistance

Many developing countries have complicated economic problems that need urgent solution and these countries are not capable to cope with them alone. It is not often the question of securing developmental capabilities, but it concerns problems of relieving hunger and primary needs. In this case there is a need for industrial countries developmental assistance in order to prevent world from destructive crises or dangerous tendencies. The industrial countries' volume of developmental assistance reached its peak in 1991, being 70 billion USD and forming 0.50 per cent of industrial countries GNP (Kapstein 1999). According to the data of the United Nations Development Program, developed industrial countries provided official development assistance approximately USD 48 billion in 1997 (whereas, according to the same sources, developing countries have confirmed the receipt of assistance in the amount of approximately USD 34 billion). The nominal amount of development assistance has stabilized over the past decades but its share of the gross national product (GNP) of donor countries decreased from 0.33 per cent in 1986/87 to 0.22 in 1997. Only less than a quarter of development assistance is provided within the framework of multilateral programs (UNDP Human Development ... 1999, pp. 192–196) which might be considered more balanced and neutral than bilateral aid. This means that donor

states have lost their belief in the economic purposefulness and efficiency of development assistance and are withdrawing from it. The actual value and influence of economic assistance will apparently decrease also in the next years. Developmental assistance reduction would be justified if the differences between developed countries and developing countries are decreasing. This has not been achieved and the tendencies express contrary process. Re-establishment of developmental assistance would expect purposeful and efficient use of it (Kapstein 1999).

At the beginning of transition processes foreign aid was comparatively important also to Estonia. In 1993 free transfers from abroad accounted for 6.64 per cent of Estonia's GNP, by 1999 the share of foreign aid had decreased to 2.72 per cent, i.e. two times (Estonian Balance of Payments ... 2000; Estonian Statistical Office ... 2000). It should be also taken into account that Estonia itself has started to allocate funds for participation in multilateral humanitarian assistance programs targeted to developing countries. In contrast to many developing countries foreign aid never became a factor essentially influencing the level of consumption in Estonia. Foreign aid has mainly been used to solve key problems relating to development. However, in preparing for a rapid integration into the European Union, the assistance coming from the EU is vitally important to Estonia during the next decades. The state budget of such a small country as Estonia cannot sustain the burden of preparations for the integration process without help.

6. Differences Between Development Levels of Developed and Developing Countries

Rapid development of technical science and technology as well as higher educational level has created conditions for a rise in factor productivity, more effective use of resources and energy. Most interstate barriers to the free movement of capital, tech-

nologies and know-how have disappeared. All this allows us to expect a constant decrease of disparities in the levels of development between different regions and countries. In reality, one can witness quite a contrary process – within 35 years (1960–1995) differences in the levels of development of rich and poor countries have grown 2.5 times. The gap in per capita income between the countries with the richest fifth of the world's people and those with the poorest fifth widened from 30:1 in 1960, to 60:1 in 1990 and to 74:1 in 1995. (UNDP Human Development ... 1999, pp. 104–105) UNCTAD's evaluation shows clearly that globalization has not involved an increase in the standards of living for the most of the world (Whitley 1999).

Regardless of transfers of capital and technologies from industrial states to countries with less developed economies, no remarkable change for the better can be observed or expected in these countries. Besides poverty and lack of development, many developing countries are staggering under the pressure of very large foreign debts, which leaves no hope for a considerable improvement in welfare within upcoming decades. Such a situation creates domestic and foreign policy tensions both in developing as well as industrial countries, including the migration from poorer countries to the richer ones. Besides, prospects for development are undermined by the outflow of more active and better-qualified labour force. However, tensions are also growing in the labour market and social system of industrial states. In today's globalizing and merging world notable differences in the development of countries and regions is becoming a common problem and their reduction requires joint efforts.

Regardless of the efforts of the United Nations Organization (UNO), the World Bank (WB), the International Monetary Fund (IMF) and other international institutions, differences in the level of development of different countries have constantly been growing over the past decades. The reasons for this should be looked for in the foundations of global economic system. Without a radical reform of the operation of the global economy, it would be impossible to surmount the division of the world into very different countries and regions with respect to their level of

welfare and eradicate the tensions and deformities arising from them. Measures taken to solve the problems relating to poverty and lack of development have not yielded expected results because the measures are disintegrated, contradictory, insufficient and inefficient.

7. Roots of Developmental Differences

While looking for solutions to reduce development disparities between countries and regions one should find answers to the following questions:

- Why has the influence of large-scale aid transfers, foreign credits and direct investments on the economy and society of developing countries been so modest?
- Why has the share of developing countries in global production and trade not increased sufficiently enough, regardless of the rapid growth of population and the improved supply of capital?
- Why have disparities in standards of living between developing and industrial countries increased, instead of decreasing?

When finding answers to these questions one can observe that several reasons are rooted in the internal situation of the society and economy of developing countries:

- the structure and qualifications of the people,
- the structure and level of development of public institutions,
- the nature of economic and social policies,
- the existence and level of development of the technical infrastructure, etc.

No doubt, it is necessary to deal with the problem of improving the internal structure and functioning capability of developing and transition countries' society and economy. However, one should not simply take over the institutional solutions of developed countries, i.e. their legal system, economic policy, etc. Modern technical science and technology, monetary system and

consumer protection, social security and environmental protection should proceed from the cultural tradition of a particular society for their successful operation.

However, a considerable number of reasons for the backwardness of developing countries lie in shortcomings of the operation of the global economy itself. High-sounding declarations speak about the openness, liberalism and equality of the global economy. In reality the balancing of protectionism between industrial countries and foreign trade discrimination of developing countries is taking place. As a result of economic negotiations held from the position of economic strength, developing countries are forced to open up their markets more than industrial countries. Industrial countries close their markets by trade barriers for those goods at the production of which developing countries are competitive. It means that developing countries are deprived of the possibility to make their own living and accumulate resources for development. According to the data of the United Nations Development Program, developing countries lose USD 500 billion of their incomes every year because of trade barriers established by industrial countries, which is ten times more than the total amount of official development assistance. It has been estimated that trade barriers of industrial countries affect one half of the export potential of Central and East European transition countries. Limited access to markets caused by trade policy protectionism can therefore be viewed as one of the major reasons for the low effectiveness of foreign credits implementation and one-sided flows of foreign direct investments.

The European Union has achieved notable success at shaping a common liberally regulated economic area in mutual relations between the member states. At the same time the EU is a stronghold of trade policy protectionism with respect to other countries outside the Union. Carefully protecting its less competitive branches of economy, i.e. people's working places and incomes, the developing countries are forced to accept asymmetrical unbalanced trade conditions. The free trade agreement between the EU and Estonia established "unilateral freedom".

Estonia's agricultural and food products market is completely open to the EU subsidized production, without the right to implement balancing measures quickly and effectively. The EU markets are closed to Estonian corresponding goods. It means bankruptcy for vitally important and quite competitive fields of activity in Estonia, together with all arising social consequences and deformations of regional policy.

The World Trade Organization (WTO) declares as its aim the promotion of fair and unbiased competition, it desires to establish concrete trade rules regulating the functioning of a liberal and open trade system. Actually, the WTO represents in itself an organization that regulates protectionism (balances protectionist conditions between great powers). At the admission of new members they even do not try to ensure equal conditions of competition for the enterprises of both parties but rather try to grant possibly favourable conditions for the enterprises of the WTO "old" members in order to the penetrate the markets of new members. All this results in trade policy discrimination, which distorts conditions of competition and inhibits the economic development of developing countries. Under unequal conditions of competition the developing countries have no hope to decrease considerably their backwardness in the level of development and welfare through their own measures.

With respect to agricultural and food products, the WTO offers to Estonia three or four times lower tariff ceilings as compared to Estonia's main foreign trade partners. Consequently, Estonia's internal market will be considerably more open to our foreign partners than their markets to us. This agreement establishes unequal trade conditions for Estonian manufacturers in the global market. This deprives many Estonians from the possibility to earn their living through their own work and makes valueless the investments in production and living standards created during many generations.

Estonia was also forced to undertake the obligation of limiting agricultural subsidies to 5 per cent with respect to general subsidies and 5 per cent with respect to special subsidies. Thus, the

government subsidies' ceiling was fixed to 10 percent of production costs at the highest. No industrial country has such a low agricultural subsidies ceiling. The EU supports agriculture in the amount of more than 40 per cent of production costs. After the ratification of such an agreement Estonian agricultural products have no hope of being competitive with the EU agricultural and food products neither in Estonia's home market nor in the EU market even if tariff barriers were lifted. An entire competitive branch of the economy (capable of export) will disintegrate, considerably inhibiting economic, regional and social development.

8. Problems of Achieving Equal Competitive Conditions

Developing and transition countries have the opportunity to purposefully shape their development, occupy an appropriate position in the global economy, which corresponds to the existing conditions of competition, and actually do something about their economic backlog only under equal competition conditions of economic policy in interstate economic relations. Ending the discrimination in international trade, balancing the relations between huge multinational concerns and economically least developed countries, drafting joint development programs in environmental protection, energy and water supply and solving other key problems of the global economy are the inevitable preconditions for shaping a more harmonious and stable global society.

It is certainly impossible for the industrial countries to give up the protection of their markets in a short time. That would mean bankruptcy for many companies and millions of people would lose their job. From a socio-economical standpoint these means are not acceptable and in the conditions of democratic policy they would be unrealistic. It would be necessary to develop a program that would gradually open markets. The program should consider mechanisms of solving social problems that are

likely to occur and how to compensate developing countries losses caused by protectionism.

The requirement of equal competitive conditions can have several meanings also for developing countries, where competitiveness in regard to price is being achieved through techniques that are considered unacceptable by civilized societies. The level of productivity in enterprises of developing countries is low. Due to low productivity the wage level is also low in developing countries. In addition to the wage level, the competitiveness of developing countries' production in the world market considerably depends on social, environmental and other duties imposed on enterprises (May 1998, p. 62). Even a slightly stricter implementation of the requirements set for the avoidance of "social and wage dumping" or unification of environmental standards would inevitably decrease the competitiveness of the production originating from developing and transition countries.

The prerequisite for solving the problem of unequal conditions of competition, caused by differences in wage, social and other costs, is the ability to find such compromise criteria for the assessment of the implementation of the main principles of social, environmental and consumer protection, that would equalize the level of competitive pressure on enterprises of different countries rather than the requirement of equalizing the absolute level of conditions of competition. Instead of the requirement that developing countries should reach the level of social security, health care, environmental protection, etc. of industrial countries (which is unattainable for developing countries), one should agree upon reaching the share of those expenditures in GNP equal to the (average) share of industrial countries. This would mean a major breakthrough in the policy of developed countries with respect to developing countries. For the moment the commercial policy of industrial countries (export subsidies and restrictions on imports) have mainly been aimed at the creation of better than average competition conditions for their own enterprises. At the same time the developing and the transition countries should consider that competitive-

ness, achieved at the cost of working conditions that might put people's life and health in danger together with an inhuman social environment, is not acceptable in a civilized society.

CONCLUSIONS

In the past decades economic globalization has developed rapidly and flows of capital and goods that moves between countries have increased. The globalization process has also involved developing countries. Foreign direct investments made in developing countries show a particularly rapid rate of growth. At the same time, the outflow of foreign direct investments from developing countries has also increased remarkably. The growth rate of foreign loans exceeds production and trade growth in the developing countries, but the result of this is the increasing debt burden and debt servicing costs. Altogether, developing countries importance in world trade has decreased, although it was expected to increase.

Industrial countries' international relations generate national development. At the same time, globalization does not show positive results in developing countries. Foreign investments and inflow of loans to developing countries have not brought the expected results. Developmental assistance is not efficient and its share in donor countries' GNP is decreasing. Differences between industrial and developing countries' development have grown remarkably during the past decades. The reason for this is the industrial countries' market protection policy which ensures that competitive products cannot enter their market. Unfair trade and competition caused by subsidies have also an important role. On the other hand, there is also relative cost advantage achieved in developing countries through implementing "labour cost-, social- and ecodumping" and this does not meet the standards of a civilized society.

The current organization of the global economy, mainly formed in the 1940s and 1950s, does not meet the requirements of the constantly globalizing and merging world. The organization of the global economy needs a rapid and radical change towards

greater openness of markets and ensuring equal competition conditions for countries with different levels of development. It is a complex and complicated task which mostly calls for a change in the nature of interstate relations – egoistic self-interest confined within the borders of one's own country should be replaced by a spirit of global solidarity aimed at finding balanced solutions. This is something on which not only the welfare of billions of people in developing and transition countries depends but also for stability and peace throughout the globe.

REFERENCES

- Brewer, T.L. 'Government Policies, Market Imperfections, and Foreign Direct Investment', *Journal of International Business Studies*, Vol. 24, No. 1, 1993, pp. 101–120 (cited by <http://www.ebscohost.com>).
- Brouthers, L.E.; Werner, S. 'The Aggregate Impact of Firms' FDI Strategies on the Trade Balances of Host Countries', *Journal of International Business Studies*, Vol. 27, No. 2, 1993, pp. 359–373 (cited by <http://www.ebscohost.com>).
- Chudnovsky, D.; Lopez, A.; Porta, F. 'Market or Policy Driven? The Foreign Direct Investment Boom in Argentina', *Oxford Development Studies*, Vol. 25, No. 2, 1997, pp. 173–188 (cited by <http://www.ebscohost.com>).
- Devetak, R.; Higgott, R. 'Justice Unbound: Globalization, States and the Transformation of the Social Bond', *International Affairs*, Vol. 75, No. 3, 1999, pp. 483–498.
- Estonian Balance of Payments
[http://www.ee/epbe/sdds/iip_short_eeek.html].
- 'Foreign Investor 1998', Estonian Investment Agency and University of Tartu, 1999.
- Global Development Finance
[<http://www.worldbank.org/prospects/gdf99/vol1.htm>].
- Gross Domestic Product by Years
[http://www.stat.ee/wwwstat/est_stat/statistika-fr.html].
- Hunya, G. 'Integration of CEEC Manufacturing into European Corporate Structures by Direct Investments', *Materials of the Workshop "Impact of Foreign Direct Investment on Efficiency and Growth in CEEC Manufacturing"*, Vienna, 1998, 17 p.
- 'IMF Annual Report 1999' (Washington, IMF 1999), 260 p.
- Kapstein, E.B. 'A Global Third Way: Social Justice and the World Economy', *World Policy Journal*, Vol. 15, No. 4, 1998, pp. 23–35.

Kapstein, E.B. 'Reviving Aid or Does Charity Begin at Home?', *World Policy Journal*, Vol. 16, No. 3, 1999, pp. 35–44.

May, B. 'Die Errichtung der Welthandelsorganisation und das Aufbrechen neuer Streitfragen im Welthandel', in *Jahrbuch für internationale Politik 1995–1996* (München, Oldenbourg 1998), S. 57–64.

Modelski, G., Thompson, W.R. 'The Long and the Short of Global Politics in the Twenty-first Century: An Evolutionary Approach', *International Studies Review*, Vol. 1, No. 2, 1999, pp. 109–140.

Narula, R. 'Locational Determinants of Inward and Outward FDI Activity', MERIT Research Memorandum, No. 25, 1994, 23 p.

Oxelheim, L. 'The Global Race for Foreign Direct Investment: Prospects for the Future' (London, Springer-Verlag 1993) 274 p.

'UNDP Human Development Report 1999' (New York, Oxford, Oxford University Press 1999) 262 p.

von Weizsäcker, C.C. 'Logik der Globalisierung' (Göttingen, Vandenhoeck & Ruprecht 1999) 173 S.

Whitley, A. Presentation in the 102th Inter-Parliamentary Union's Conference, UNCTAD, 1999.

'World Economic Outlook' (Washington, IMF 1992 May) 222 p.

'World Economic Outlook' (Washington, IMF 1999 October) 252 p.

'World Investment Report 1992: Transnational Corporations as Engines of Growth' (New York, United Nations 1992) 356 p.

'World Investment Report 1999: Foreign Direct Investment and the Challenge of Development' (New York, United Nations 1999) 542 p.

World Merchandise Exports by Region and Selected Economies 1980, 1985, 1990, and 1995–1998 [<http://www.wto.org/wto/statis/stat.htm>].

World Merchandise Imports by Region and Selected Economies 1980, 1985, 1990, and 1995–1998 [<http://www.wto.org/wto/statis/stat.htm>].

KOKKUVÕTE

Majanduse globaliseerumise olemus ja probleemid

Globaliseerumisest räägitakse ja kirjutatakse viimastel aastatel väga palju. Selgust ja süsteemsust on nendes käsitlustes aga suhteliselt vähe. Mõnes mõttes on see paratamatu, sest uut mõistet püüavad oma paradigmasse paigutada erinevate ainevaldkondade esindajad. Globaliseerumise kõiki valdkondi haa-rava üldise käsitluse ni jõudmisest on veel vara rääkida.

Käesolevas artiklis analüüsiti globaliseerumise mõistet majanduse vaatenurgast lähtudes. Käsitleti järgmisi majandusliku globaliseerumise aspekte nende vastastikusel toimes ja seotuses:

- majandusliku globaliseerumise olemus ja üldine taust,
- rahvusvahelise kaubanduse areng erinevates riikide gruppides globaalse majanduskoostöö baasvormina,
- välisinvesteeringute maht ja dünaamika arengumaade haaramisel majanduse globaliseerumisse,
- arenguabi roll mahajääjate integreerimisel maailmamajandusse,
- tööstus- ja arengumaade majandusliku arengu erinevuste suurus ja nende tekkimise põhjused,
- arenguerinevuste vähendamise eeltingimused.

Artikli eesmärgiks oli välja tuua globaliseeruva maailma majanduskorra täiustamise peamised teed, et suurendada rahvusvahelise kaubanduse, krediitide ja (välis)investeeringute mõju majanduskasvule ja heaolu tõusule. Käsitleti ka mõningaid majandusarengu tasakaalustamisega seotud põhiprobleeme ja pakuti välja nende lahendused. Seejuures toodi esile Eesti kui

väikese avatud siirdemaa maailmamajandusse integreerumisega seotud probleemid.

Analüüs näitas, et välismajandussuhted on tööstusriikides rahvusliku arengu mootoriks. Samal ajal ei avaldu majanduse globaliseerumise positiivsed tulemused arengumaades. Välisinvesteeringud ja -krediidid ei ole oodatud pööret paremusele kaasa toonud. Arenguabi ei ole efektiivne ja selle osatähtsus doonorriikide SKP-s väheneb. Tööstusriikide ja arengumaade arengutasemete erinevus on viimastel aastakümnetel oluliselt kasvanud. Põhjuseks on tööstusriikide turgude suletus arengumaade konkurentsivõimelistele toodetele ja riiklikest subsideidist tulenev ebaaus kaubandus välisturgudel, aga teiselt poolt ka tsiviliseeritud ühiskonnale vastuvõetamatu "palga-, sotsiaal- ja ökodumpingu" abil saavutatav kulueelis arengumaades.

Kokkuvõttes võib öelda, et maailma praegune, peamiselt 1940/50ndatel aastatel kujundatud majanduskorraldus ei vasta globaliseeruva ja ühtekasvava maailma vajadustele. Maailma majanduskorraldus vajab kiiret radikaalset muutmist turgude suurema avatuse ja erineva arengutasemega riikide tootjate konkurentsitingimuste võrdsustamise suunas. See on mitmetahuline komplitseeritud ülesanne, mille lahendamise peamiseks eelduseks on riikidevaheliste suhete iseloomu muutumine – iga riigi piiriga lõppeva egoistliku omakasupüüdlikkuse asendamine globaalset ühtekuuluvust esiplaanile seadva tasakaalustatud lahenduste otsimisega. Sellest ei sõltu mitte ainult miljardite inimeste heaolu arengu- ja transformatsioonimaades, vaid ka stabiilsus ja rahu kogu maailmas. Stabiilsus ja rahu on aga hüved, millel on suhteliselt suurem väärtus arenenud tööstusriikide kodanikele.