Globalization and Its Effects on the World Economy

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1. Definition and Sources of Globalization

Globalization represents an inevitable phenomenon in the history of mankind, which is making the world increasingly smaller through increasing the exchange of goods, services, information, knowledge and cultures among different countries.

However, despite the widespread use of this term it seems that there is still no widely accepted precise definition of this term. This is due to the fact that the term itself covers a number of dimensions such as economic, political, socio-cultural and environmental dimension. Therefore Bhagwati (2004) describes globalization as a process during which people are unified into a single society, a process that combines economic, socio-cultural and political forces with technological forces. Meanwhile, according to Harris (1995 p 80) globalization generally refers to the worldwide integration of humanity or encounter in time and space of cooperation between people worldwide. However, for the purposes of this paper and hereinafter the term globalization will be handled by an economic perspective. From this perspective, globalization is defined as the trend towards a greater interdependence between institutions and national economies or as the expansion of economic activity between people living in different countries. This implies an increase in the size of the trade and other exchanges between these countries in terms of a borderless international economy and increasingly integrated. The two main areas where the impact of globalization is more sensitive are:

1.1 Globalization of markets and globalization of production.

The first relates to the tendency of companies to move from one economic system where national markets are isolated as a result of trade, geographical and cultural barriers that characterize them toward a system where these markets converge into a single one, called *global market.* While globalization of production represents the distribution of productive activities in different countries in order to benefit from changes in the cost and quality of factors of production between countries.

The first performances of globalization trends belong to the period from the second half of the nineteenth century up to the early years of the twentieth century. The most recent phase in the development of the phenomenon of globalization begins in the 1980s and continues up to this day. What distinguishes this stage from the previous two is the speed with which economic interdependence is increasing and connections between markets, businesses and individuals from different countries. There are several factors that have contributed to the acceleration of this process such as technological advances, trade liberalization and other international activities, change of institutions and organizations, increase of the global confidence towards the values of the market economy and free trade, and cultural developments.

However, despite the acceleration of the phenomenon of globalization, several factors have affected over the past two decades, which basically have the technological developments and the tendency of many countries to give priority to cooperation between them in various fields. But as mentioned earlier in this topic the attention will be more focused on the economic development aspect of globalization.

1.2 Manifestations of globalization

The globalization of the economy implies an increase in economic activity between countries. This activity is essentially manifested in the following forms: International trade, foreign direct investment and capital market integration. The world experience in the field of international trade has proved and is proving that free trade among various countries already contains incentives for the management of the resources of a country in those sectors and branches of the economy in which that country has a competitive advantage. Over recent years it is noticed a steady increase in the volume of world trade in goods and services. The volume of foreign direct investment has also significantly increased over the last decade as a result of the reduction of barriers to the movement of capital in many countries.

Over the past decade and the actual ongoing, the developed countries were characterized by a greater integration of capital markets, where savers constantly have been addressing to foreign securities to diversify their portfolios and borrowers of foreign sources of funds. Therefore in the US, which occupy the leading position in terms of the opening of capital markets, the net value of the investment in international portfolios has increased by $ 436.6 billion in 2000 to about one trillion $ in 2006. Meanwhile, during the same period this indicator in the Eurozone has fluctuated from $ 268.1 billion to $ 941.8 billion.

All figures presented above indicate a clear view of the fact that international trade, foreign direct investments and integration of capital markets, being specific forms of the emergence of globalization, are gaining momentum, stimulated also by liberalizing policies that different countries are developing and implementing in their favor.

1.3 For and against globalization views

In terms of a global market customers can provide products with lower cost and higher quality, companies can expand their operations and profits, while countries and regions can improve macroeconomic indicators and reduce poverty.

Critics of globalization, on the other hand, consider it as a process that has deepened inequalities between rich and poor countries, and in certain cases and in certain areas of the same country, thus increasing the value of indicators of poverty in many countries and regions in the world. One of the direct consequences of globalization is increase in competition in a global-wide scale. While some people are afraid of such a phenomenon, the benefits it brings through increased production and efficiency in manufacturing are undisputed for both companies and consumers. Supporters of globalization also point out that those countries which have opened their economies to the global economy have significantly reduced their poverty indicators. Classical theories of Adam Smith and David Ricardo, namely the theory of absolute advantage and that of the comparative advantage suggest that free trade leads to a more efficient use of resources to countries as their are specialized in the ability of a party to produce a particular good or service at a lower opportunity cost than another and import products that they should produce at a higher opportunity cost than another. In addition to international trade even foreign direct investments constitute a key source of benefits for the various countries, particularly for the developing countries. According to Agosin and Machado (2005) foreign direct investments are extremely important for the latter because they provide a set of tools that usually are absent or insufficient in these countries. Multinational companies bring with them not only capital but also technology, managerial skills, channels for the distribution of products abroad, projects of new products, brand names, etc..

The aforementioned benefits of globalization are undisputed but its critics defend the thesis that the distribution of these benefits among individuals, organizations, and particularly between countries is uneven. Critics complain that global developments are in favor of the developed countries at the expense of developing countries.

In conclusion we can say that globalization is a complex phenomenon with its positive and negative effects on the economies of countries. Therefore they must be prepared to cope with it in order to benefit from the accompanying advantages. It is therefore necessary to create a strong legal and institutional infrastructure that supports the opening of economies to global markets and the efforts of individuals and local businesses to be integrated in these markets. In this regard, a very great contribution should be provided to developing countries by international organizations, official and private, through bilateral and multilateral agreements to facilitate their entry and adaption to the global competition.

2. Multinational Corporations and Management Challenges in Terms of Global Competitiveness

2.1 Determination of multinational companies and the reasons of their existence

Foreign direct investment was mentioned above as one of the main forms of occurrence of globalization in the world economy. The so-called *multinational companies* play the main role in this context.

Multinational companies can be defined as companies with activities spread over more than one country or as businesses with direct investments (in the form of subsidiaries with manufacturer or marketing activities) which are established and operate in several countries simultaneously, in addition to their home country. This means that what differentiates these companies from other businesses with international activity is the fact that the parent company owns a considerable amount of tools in one or more foreign countries by means of which it claims to make a profit over time.

Today multinational companies operate in different sectors of the economy such as in the manufacturing industry, in the mining and oil industry, agriculture as well as in the services sector. They have opened their subsidiaries in foreign countries to develop a wide variety of activities, from the provision of research and development services and after sales services to the production or assembly of parts of commodities. The lack of a final definition on multinational companies also makes it difficult the determination of a precise number of them. However, according to the United Nations Conference on Trade and Development the number of them fluctuate around 64000.

2.2 But what are the reasons why many firms (companies) become multinational?

Various authors cite a variety of reasons that encourage firms to undertake such a strategic decision. They are linked both to the tendency to take advantage of opportunities offered in foreign markets and the need to overcome barriers and mitigate the effects of the risks that threaten companies.

Ferdows (1997), Madura (2002) and Eitman et al. (2004, 2007) relate the creation and existence of multinational companies to the need to increase sales in foreign markets and the need to provide inputs both the raw material and labor force with lower cost. According to these authors, many firms expand a part of their production activity in other countries in order to avoid tariff barriers that hinder the export of products in these markets and in order to react and spread the risk arising from changes in exchange rates. An equally important reason is also the possibility that multinational companies have to provide additional technical and managerial knowledge from suppliers, customers, competitors and research centers in foreign markets. Ferdows (1997) and Eitman (2004, 2007) emphasize even the ability to attract talents in various fields as an incentive motive for firms to become multinational whereas Madura (2002) cites the ability of multinationals to diversify cash flows provided by sales in various markets. Political security is another driving factor that multinationals consider, to establish their subsidiaries in countries distinguished for political stability and a positive attitude to foreign investment.

Guillen (2006) makes a categorization of multinational firms on the basis of the method of expansion that they choose. Those companies which set assets or employees in a foreign market with the goal of providing inputs at lower cost or distribution and sale of their products, as a result of comparative advantages in this market, are considered to apply *vertical expansion*. Whereas those companies that set a service establishment or distribution in a foreign market with the intention to sell in the market without giving up the production of the product or service in their home country are said to apply *horizontal expansion*. In this case the motivation to open subsidiaries in foreign markets is related to trade barriers, high transport costs, exchange rate movements, etc., which make the export of products in these markets inappropriate.

2.3 The challenges in the management of multinational companies

Andersen & foss (2005) claim that multinational companies possess a strategic opportunity that is not possible for domestic companies, which gives them the opportunity to have a higher performance than the latter. This opportunity is a result of the fact that the activities of multinational companies are distributed in several countries. Operating in several markets at the same time give these companies the opportunity to expand sales, provide cheaper and more qualitative inputs, use other specific advantages that other markets have, benefit from economies of scale, to diversify earnings and cash flows, etc. But based on the arguments of others, authors like Zaheer (1995), Casson (2000) and Benito et al. (2005) also state that the management of a multinational structure constitutes a very complex process that is characterized by a high level of uncertainty. This is a consequence of many factors such as lack of familiarity with the way of thinking and doing things in foreign markets, the high cost of providing information to unknown markets, high control costs and coordination of activities of all subsidiaries, high conflict costs, political risk as well as the risk of currency exchange rates. As stated above, the question naturally arises: "What are the strategies that multinational companies choose to utilize the advantages and to manage the complexity that characterizes them in the conditions of the current global competition?

In the 80s Bartlett & Ghoshal developed an in-depth study of nine multinational companies from three different regions of the world: Europe, US and Japan. Based on the results of the study authors categorized the strategies of multinational companies and consequently the companies themselves, as follows:

* multinational strategy (company)
* international strategy (company)
* global strategy (company)
* transnational strategy (company) (Bartlett & Ghoshal, 2000)

To differentiate between the four aforementioned strategies of multinational companies, Bartlett & Ghoshal (1998) took into account the following organizational characteristics:

* assets structure and capacity of the company
* role of subsidiaries abroad, as well as
* development and dissemination of knowledge

The structure of assets and capacity of the company is related to the leveling of centralization or decentralization in their management and distribution between the center of the company and its subsidiaries in foreign markets.

Meanwhile the role of subsidiaries abroad is related to the fact that depending on the strategy followed; they can respond to specific markets with specific strategies, can apply or modify the strategy of the parent company in these markets, or may be fully integrated with one another.

Finally development and dissemination of knowledge between subsidiaries of multinational company varies depending on the way they manage the assets and capacities and the role these subsidiaries play abroad in each of the strategies mentioned above.

Therefore, *the multinational strategy* is characterized by a high level of decentralization in the management and distribution of assets and capacity of the company. In this particular case, each subsidiary operates as a small company within the multinational company, which focuses on adapting to the preferences and sales in the host market. Multinational Strategy is also distinguished for a low level of knowledge transfer between different branches of the company. The role of this strategy is to modify the parent company strategies making it possible that their level of adaptation to the host market conditions be lower than in the case of multinational strategy.

Global Strategy represents the option with the highest level of centralization of assets and capacities, which aims to ensure benefits to the multinational company through the specialization and economies of scale leading to a higher efficiency. In this case the assets and capacities of the company are concentrated in its center whereas the subsidiaries simply implement the strategies of the parent company.

Transnational strategy also aims to achieve a high level of adaptation to the host countries and a higher efficiency for the multinational company as a whole. Therefore the assets and capacities of the company are distributed in all its branches. The core competencies owned by the parent company were transferred to subsidiaries in order to help them to respond rapidly to changes in the host market environment and its needs.

Table 1. The strategies of multinational companies by Bartlett & Ghoshal

Strategy / Characteristics	Assets and Capacities	Role of subsidiaries abroad	Knowledge
Multinational	Decentralizated	Customizing with the host market	Developed within each unit
International	Partly centralized	Modifying the strategy of the parent company	Developed in center
Global	Centralized	Implementing the strategy of the parent company	Developed in center
Transnational	Distributed	Participating in an integrated network	Developed jointly

However Harzing (2000) has summarized these variables as follows:

1) Environment / industry, 2) strategy at the corporate level, 3) corporate organizational structure, 4) strategy at the subsidiary level and its role, 5) subsidiary structure, 6) control mechanisms and 7) practices of human resource management.

Finally, almost all studies put the emphasis on three basic types of strategies or multinational companies:

a) Multinational strategy, which is distinguished for the combination between a low level of integration between subsidiaries and a high level of their adaptation with the host markets.
b) Global strategy, which is distinguished for the combination between a high level of integration between subsidiaries and a low level of their adaptation to the host markets.
c) Transnational strategy, which is distinguished for the combination between a high level of integration between subsidiaries and a high level of their adaptation to the host markets. Transnational strategy on the other hand represents a combination of the features of the multinational company with those of the global company. It also aims to achieve two strategic objectives often in conflict with each other, the global efficiency and adaptation to host markets.

3. Globalization and Its Impact on the Albanian Economy

3.1 An overview of the features and the economic situation of our country in recent years

In 1991, Albania as well as other countries of central and eastern Europe, entered the long and challenging reforms for establishing a new political and economic system based on political pluralism and a market economy. But the transition from dictatorship to democracy proved to be a very complex process because it was accompanied by simultaneous political, economic and institutional changes. Change of political system was combined with the replacement of the command economy with the market economy, the movement from rural to urban society, with uncontrolled migratory movements as well as with the integration of the Albanian society towards globalization trends. Since the beginning of 90s Albania has encountered a considerable progress in economic reforms. However pyramid schemes scandal of 1996-1997, which led to the loss of 60% of the private savings of Albanians and Kosovo refugee influx in 1999 slowed economic and social development of the country, reclassifying Albania into the category of low income countries. But since that period the country is characterized by a sustainable economic situation with an annual growth of 5-6%, which now classifies it among the middle-income countries.

The growth of gross domestic product (GDP) is also indicated with the sustainable monetary indexes, with low and stable level of inflation as well as with reduction of budget deficit and public debt.

Table 5. The main macroeconomic indicators (1999-2007)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth in%	8.9	7.7	6.5	4.7	6.0	6.0	5.5	5.0	6.0
GDP (at current prices in billion ALL)	489	531	589	625	683	766	836	896	980
GDP (at current prices in billion $)	3.5	3.7	4.1	4.5	5.6	7.4	8.4	9.1	10.3
GDP (in $ per capita)	1052	1086	1329	1438	1807	2389	2672	2903	3256
Number of employees (in thousands)	1081	1068	1065	921	928	917	932	934	936
% of unemployment	18.0	16.9	14.6	15.8	15.0	14.6	14.2	13.8	13.2
% of inflation	-0.1	4.2	3.5	1.7	3.3	2.2	2.0	2.5	2.9
The budget deficit (including grants in% of GDP)	-12.1	-8.2	-7.9	-6.6	-4.5	-5.1	-3.6	-3.1	-3.4
Public debt (in% of GDP)	69.7	71.3	66.8	65.3	61.7	56.6	56.7	55.9	37.5
External Debt (in% of GDP)	-32.3	29.4	25.8	23.5	20.6	18.0	17.5	17.2	16.9
Current account (excluding official transfers, in% of GDP)	-8.5	-7.0	-6.1	-10	-7.9	-5.6	-7.7	-7.2	-10
Average exchange rate, ALL / $	137.7	143.7	143.5	140.1	121.9	102.8	99.8	98.1	90.4
Average exchange rate, ALL / EUR	147.0	132.6	128.5	132.4	137.5	127.7	124.2	123.1	123.6

Source: Bank of Albania, Annual Report 2007

But despite the aforementioned achievements Albania remains one of the poorest countries in Europe, with income per capita among the lowest in the Balkans (Mulleti 2008). However, the year 2007 was characterized by undertaking important reforms in the economy. Among these reforms we mention credit registry completion, the reorganization and strengthening of supervision in the financial sector, the privatization of Albtelecom, the creation of the national registration center, further reduction of tariffs under the Free Trade Agreement with European Union.

3.2 The history of Direct Investment in Albania

After the fall of the communist regime, the Albanian government took measures in favor of foreign investment by first nullifying the law of 1976 which prohibited any form of FDI's in Albania. Albanian government allowed the establishment of joint ventures between Albanian and foreign companies. Our country, rich in natural resources, with untapped tourism potential and domestic markets where competition was very weak, began to be considered as a country of interest by foreign investors. At the beginning of the 90s, which were the years of the transition, the Albanian government established many incentives to foreign investors, trying to attract as many investment as possible.

Lack of laws, lack of experience in investment and a real fiscal policy at that time served as favorable conditions for foreign investors.

The history of FDI in Albania following the collapse of the centralized economic system as a whole can be divided into two periods: FDI up to 1996 and FDI after 1997 until today.

FDIs in Albania experienced a steady increase up to 1996 ranging from 0 in 1990 to 90 million dollars in 1996, as indicated in the table below:

Table 2: FDIs in Albania

Year	1992	1993	1994	1995	1996
FDIs (in million)	32.0	45.0	53.0	70.0	90.1

Source: Bank of Albania

Table 4: Key Investment Companies in Albania in the form of FDIs

Company Name	***Country of origin***	***Sector of Economy***
Petroleum Bankers	Canada	Oil and gas production
AMC	Greece	Telecommunication
Kurum	Turkey	Metal fabrication
Eagle	Turkey	Telecommunication
Vodafonë	Greece	Telecommunication
Edil Centro	Italy	Manufacturing
Roder&Blackëell consulting	Greece	Energetics
Titan Cement Group-Antea Cement sh.a	Greece	General Manufacturing
Lockheed Martin	USA	Telecommunication
Çalik (Albtelecom)	Turkey	Telecommunication
EVN	Austria	General Manufacturing
Raiffaisen Bank	Austria	Banking system
Interalbania (Aspis group/Sigal (Unika group Austria)	Greece / Austria	Insurance
Bechtel&Enka	USA/Turkey	Construction
Airport Partners	Germany	Infrastructure
Alumil	Greece	Manufacturing

Source: Ministry of Economy, Trade and Energy (MoE)

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