

Globalization Versus Localization – Economic Development Perspectives

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Abstract

Economic globalization leads to extreme development imbalances and represents a cause for the growing inequality between the centre and the periphery on the global economic map. It is in collision with the social protection system, a public good that can be provided for by political process only. The capital is untying the national boundaries and starts serving its own purposes, entailing transformation of the territorial (national) state into a market corporate state. By opening the financial channels for credit indebtedness, the speculative capital is enthroned on the top of the capitalist order and takes dominant role in the new era of global mega capitalism, with a purpose of cleaning the road to its full domination, preparing the world for the new Kondratieff technological cycle. Information, knowledge and technological innovations are driving forces to the global-local networking and the future of the economic development is the sustainable cooperation and synergies between central and local governments and between global and local businesses with an aim of redirecting the economic systems from unsustainable to self-functional. The contemporary determinants to the economic sustainability are based on the creation and use of knowledge in the economic processes.

Keywords: economic globalization, megacapitalism, economic localization, technology, innovations, Knowledge Based Economy

1. Economic Globalization and Mega Capitalism

In politico-economic terms, „globalization is a process of privatization of the world economic resources by the owners of capital, very often virtual and hybrid capital, reflected in the exponential rise of the financial derivatives in the past twenty years.¹ It represents a process of transformation of the territorial (national) state into market-corporative state, a new stage in the development of capitalism called mega capitalism, which (dialectically) equals to the stage of capitalism development that precedes post capitalism and post market society, as seen by Marx (Capital, 1962), Keynes (Economic Possibilities for our Grandchildren, 1932), Hilferding (Financial Capital, 1948) or from the latest history, Peter Drucker (Post-Capitalist Society, 1993) or Robin Hahnel (Of the People, By the People: The Case for a Participatory Economy, 2012).² Neoliberalism is the basic platform of the economic globalization. Its promoters placed the thesis that state intervention ruins individualism and creates a terrain for totalitarianism. In this way the spreading of the idea for superiority of capital began. The idea served as a solid argument of financial elites for getting rid of regulation and taxes, intensifying the

¹ The value of financial derivatives reached 457 billion euros in 2007.

² Stojanov, Dragoljub, Jakovac, Pavle: *Economic science in the globalization trap*, Economic Journal, 64 (5) 447-473 (2013), p.17.

everlasting fight for profit.

The capital, which must circulate as per their specific nature, is not always used for creating added value, but for pure speculative investments and transactions *that do not create new value, but rather accumulates by increasing amounts based on debts and payment of interest.* There is a massive expansion of speculative credit instruments which contributed to fourfold increment of credit market debts in the period 1987-2007, from 11 to 48 trillion US dollars and the financial sector services in the second half of the last century became the leading sector of the US private economy.

2. Globalization Discourse Effects - Rising Inequality and Social Concept Threat

Global mega capitalism from the end of previous and the beginning of new millennium incorporates two types of deflation: 1) negative, due to decreased consumption as a result of economic stagnation, and 2) positive, due to increased productivity as a result of technological innovations and increased efficacy of the economic management (at micro level, as a result of networking and flexibility and on macro level, due to market integration and decreased transaction costs, as the example of introducing the euro). Both are unequally distributed on the global geo-economic map. Above all economies stand the hegemony of the USA, supported by the technology and networking that has been maintaining great speed of info-growth. Opposite are many developing and transition economies. Production resources and controlled by the financial capital owners. They possess the technology and that is the advantage of the global core productivity that functions to the benefit of the financial oligarchy, „the one per cent“.³

The current type of capitalism that draws its driving force from the technological supremacy of one global centre (Silicon valley), backed by the voluntarism of the speculative financial capital and cultural individualism is politically, societally and above all, economically unsustainable. It produces high technology archipelago in a sea of poverty-stricken periphery, incapable of responding to the needs of technological archipelago productivity. The level of the effective demand of both centre and periphery cannot keep up with the level of productivity of the centre. Once the market reaches level of saturation depleting the purchasing power, the speculative capital takes over through its credit instruments and converts into the only binding tissue between the centre and the periphery. At this point, conditions for development of corrosive effects on the economic, political and societal structures are developed, distorting the system of universal human values. How this process happens?

The aim of capitalism is to clean its path to total domination, preparing the world for the new Kondratieff technological cycle. On this way, mega capitalism encounters a set of potential barriers.⁴ Firstly, the obstacles of non-economic nature are eliminated and capital is freed from the social baggage of the state, leading towards the most logical destination, the European Union, that stands in front of the challenge to test its own

³ Stiglitz, Joseph E., *The Price of Inequality*, 2012.

⁴ Nikolovska, Natalija, *Globalisation paradox - the state , agent v. obstacle to the economic development (the case of Republic of Macedonia)*, Annual magazine of the Economic Faculty, Skopje, 2015.

ability to enter the network economy under conditions that guarantee keeping of the social model on which its capitalist arrangement is established.⁵ Mega capitalism undermines the protective role of the states towards the individual, converts it into corporate state while not paying attention to the potential threats and dangers of conflicts and social unrests as well as destruction of the old concept of multidimensional sustainable development based on principles of territorial cohesion.⁶ The necessity to increase productivity redirects the state capital from the citizens to the corporations.

According to the centre-periphery theory, global capitalism has contradictory structure. The monopolistic strategic position of the centre allows for accumulating the added value of the periphery satellites, using it later for consolidation of capital. The product and service prices of the economic branches with greater productivity and advanced production factors are used as instruments in this process. Respectively, the unequal space distribution of those branches creates condition of inequalities among territories. Liberalization and deregulation enabled the free accumulation from the centre to be made available to the periphery under very favourable conditions, in a direction of crediting households and public sector consumption as a result of the structural misbalance among EU member states. Periphery has served as a market for goods and credit portfolios and the result is accumulation of capital in the centre vis-a-vis accumulation of debts in the periphery. It cannot structurally parry the centre as in the era of financial capital domination; the modern economic reforms favoured by the global financial institutions for periphery development are of monetary nature and have effect of amputating the production structure of the national economies in favour of spreading consumption channels. This practice enjoys enormous political support by the global centre USA, the only country with veto in the IMF.

In this way, the development model of capitalism demonstrates its contradictory structure-accumulation of capital in the centre (surplus of the German economy), whereas periphery states accumulate debts (Spain, Greece). This trend opens real divergence in the framework of the entity that strives for convergence.

3. The Dominant Role of the Technological Development

The flexibility of the technological system provides for economic entities to select their own working components and collaborators at global level within indefinite variable geometric framework in pursuit of adequate values that produce profit. These processes involve bypassing of territories, regions and entire states that do not possess internal potential for profit to the economic structures of mega capitalism.⁷

This network of electronic transactions that manages the global and the local flow of capital exalted itself to the level of collective capitalist which overpasses the interests of

⁵ In USA, public expenditures participate with 20% in GDP, while the average in EU is 44, 6%.

⁶ Nikolovska, Natalija, *Regional model of center-periphery in light of the crisis in EU, Socio-economic development of the Republic of Macedonia with special focus on the regional component and the labor market, Collection of essays on the occasion of centenary of the birth of academician Kiril Miljoski, MASA, University Ss. Cyril and Methodius, Economic Faculty, Skopje, 2012.*

⁷ Castells, Manuel, *Information Technology, Globalization and Social Development*, UNRISD Discussion Paper No. 114, September 1999, p. Iv.

the nation-state and does not follow exclusively market rules. The movements of the financial market are induced by a mixture of market rules, political and business strategies, psychology of masses, rational expectations, irrational actions and speculative manoeuvres of any kind.

The contemporary technological trend created the basis of a new type of economy at global level, so called „network economy”, in which productivity and competitiveness are result of knowledge flows and information processing.⁸

Financial institutions and banks are not development driving forces that take economic systems out of recession. The driving force of human development is creativity, inventions and innovations of the bravest individuals and groups that seek their reward in the so called „smart money”. The problem is created when technology subordinates itself to the interest of capital, being used for its accumulation. The very close link between the technological and the economic systems is best explained by one of the most eminent world economists, Nikolai Kondratieff, scientist who prove that it is not socialism, but entrepreneurship that creates wealth and welfare.⁹ In his academic work, he managed to prove that the Great Depression from 1929 was not an end of capitalism, but within a bigger framework, a normal phase of the economic system development. He identified the long term business cycles called „Kondratieff” or „K” cycles¹⁰.

Organizational changes start from the point of individual entrepreneurship and small businesses with small number of employees. This form corresponds to the very nature of K-1 cycle which is based on small crafts industry, textile workshops and production processes driven by water energy. With the emergence of steam machine, steel and iron as production resources and development of machine industry in general, K-2 cycle opens space for large scale production and possibilities for extending the market outreach and size of companies.

Technological cycle K-3 that brought on the scene electric power, opened the door for a vast expansion of the market to the big companies predominantly engaged in production of electric machines, metal constructions, chemical and synthetic products. Foreign markets became accessible, transport costs decreased and monopolistic and oligopolistic economic super giants emerged. The world began to shrink and globalization took its major spread with K-4 and the development of transportation industry, oil industry, consumer goods and the possibilities for substitution of exports with direct penetration of production companies into foreign national economies.

The global economic scene become dominated by TNC and large-scale production companies delivering for global mass consumption and FDI that started to gain direct and increasing impact on the macroeconomic parameters of the home countries. The geo-economic map of the world witnessed transformation. The core strengthened and ejected the technologically underdeveloped countries on the periphery of the global economic system. The world divided to extremely rich and extremely poor. The restoring opportunity appeared in the K-5 cycle, information technology, internet and communications, digitalization, robotics, biotechnology, software development.

⁸ Castells, Manuel, op.cit., p. 72.

⁹ Nikolai Kondratieff was killed by Stalin in 1938.

¹⁰ One K wave represents 60 years long cycle with internal phases that could be visually explained by the cycles of the seasons.

Organizational form of networking, clustering and agglomerations are the core substance and focus of the new K-5 cycle, due to the adequate technological infrastructure. The new information technologies converted from instruments to working processes that need to be further developed.¹¹ The small local systems found their way to connect to the global systems. New organizational economic forms of economic activities appeared. The evolutionary nature of internet strengthened the models of agglomerations and clusters. They are the future of the global economy.

4. Exit Strategies – Alternative Solutions to the Mega Capitalism Crisis

4.1 Global shifts-towards localization

K-5 cycle paves the road to knowledge and information. It promotes the need for production flexibility and application of IT in production processes. Flexibility and adjustment to the individual needs of consumers in strictly limited product quantity based on the market demand releases capital and prevent it from being absorbed by the commodity stocks waiting to be sold on the market. The potential of these flexible technologies is enormous and their implications involve the entire organization of economic activities. They impose the following tendencies:¹²

1. Replacement of energetic and material production intensity with knowledge and information intensity;
2. Production flexibility - high productivity is no longer achieved by big quantity of output, but by diversified set of products in small quantities adjusted to the market needs;
3. The concept of mass market is redundant, it is replaced by the concept of segmented market - products can be adjusted to the specifics of the local needs and circumstances. Economy of scale is replaced with economy of synergy;
4. Narrow labour specialization is no longer necessary. New quality of human resources comes at stake - ability for multitasking.

The focus of productivity and achieving greater profit, the final goal of economic systems with capitalist organization shifts from global level (spreading on as wider as possible geographical region for market realization of standardized type of products) to local level (satisfying diversified needs of market segments with adjusted products to local different needs of potential consumers). This specialization at local level is provided for by information, knowledge and technological innovations, the catalysts of global-local networking.

4.2 Participative economy based on decentralization

The use of technological achievements could be converted into instrumental prerequisite for economic and social inclusion of periphery territories in the global economy, through the concept of participatory economy. Technology connects, creates networks and synergies. It is functional equivalent of the

¹¹ Rennstich, J., *The new economy, the leadership long cycle and the nineteenth K wave*, Review of International Political Economy, 9:150-82 (2002).

¹² Dicken, Peter, *Global Shifts, Mapping the Changing Contours of the World Economy, 5th Edition*, 2007, p.97.

electrical power in the era of industry and it has the potential to be a functional equivalent of capital in the era of mega capitalism. Technology can produce qualitatively different effects and impacts if used for creating egalitarian societies. The question remains open, who will start the process?

For complete absorption of the enormous development potential of the contemporary technology, creation of connected systems of flexible organizations and info oriented institutions which operate on the basis of information and knowledge exchange is necessary. This requires development of participatory economy infrastructure. Therefore, it is of utmost importance to establish modalities of economic system that would prevent the downward spiral trend of exclusion produced by mega capitalism and would use information and communications technologies for upgrading and improving of humanity in its literal meaning, with a focus on the individual citizen, the final consumer. For this purpose, the field of intervention is converting from global to local level by creating global-local synergies. The new technological era of K-5 cycle possesses the capacity to mark the end of the destructive period, but the problem is the absence of political will for decentralization of the global economy in the direction of creating local polycentric structures on the global economic map that would exercise fair play rules and principles in economic activities that would result in economic inclusion of the major part of the periphery.

The information era can be defined differently, without having to choose between the ever expanding mega capitalism and its opposite pole, going back to communism. New information technologies could result in fruitful interaction between the power of mind, creativity, innovation and social welfare.

4.3 Knowledge Based Economy-KBE

Innovations are created by means of new connections, knowledge acquired by insight into different scientific disciplines, places, active collegial networks and fluid structures, by means of open borders and cooperation. They are born by cycles of exchange of information that are not stored for exclusive use, but are rather created and circulated. New knowledge is created by synergies and connections that never existed before (Margaret J. Wheatley)¹³

Implementation of innovations is the basic platform of knowledge based economy. It relates to learning of new working and production skills, specific experience and „learning by doing“, observation, learning from others, team work and cooperation, building upon corresponding and specific theoretical knowledge. Consequently, the development of high sophisticated communication systems is a necessary prerequisite for easy diffusion of accumulated knowledge from one unit to another in the production cycle. New information technologies made this possible by creating platforms for instant and equal speed info processing regardless of the direction, be it local or global-local. Nevertheless, the conditions, possibilities and access to knowledge and information are strictly localized. Knowledge is produced in strictly determined geographical space (locally) and is mostly used in the framework of a local system, creating a specific local innovation system.

¹³ Margaret J. Wheatley is American author and management consultant teaching organizational behaviour, systemic thinking, theory of change and learning organizations.

Despite of possessing natural tendency for fast networking both locally and globally, innovation systems operate and function in strictly defined national circumstances and are in close correlation with the social, cultural, legal, political, educational and economic institutions in a national economy. Innovation systems are composed of aggregated local clusters of knowledge (Knowledge Based Clusters - KBC) and technological areas, agglomerations (technopoles). They are normally located in the big urban regions. Innovation processes are highly sensitive to the geographical aspect, which is the location of the innovation system. Often, they are expression of and a response to specific local problems. Learning by doing and by experience processes are narrowly connected to the physical proximity of the production process. Tacit knowledge and the access to it are also narrowly connected to the geographical aspect; there is a tendency to develop local “islands of knowledge” around specific activities, where similar values, news, information channels and interpretation models are shared. The process of knowledge and innovation creation entails establishment of networks of communications and complex processes that operate in and out of the innovation system, including global, regional, national and local dimensions.

Knowledge and technology based industries have the tendency to aggregate in clusters. The concept of Knowledge Based Clusters - KBC differs from the industrial cluster. The Knowledge Based Cluster is a local innovation system, an agglomeration organized around universities, research institutions and companies that use knowledge as input and output of the economic activities. KBCs possess organizational abilities to create innovations and new industries and they represent centers of epistemological localities, wider structures for production and dissemination of knowledge. Epistemological localities are created in a longer period of time as a result of a collective action of strategic societal groups. In this context, particularly important is the role of central governments in promoting of initiatives and building corresponding infrastructure for support of societies and economies based on knowledge. Well designed and developed network systems that connect the local cluster to the remaining part of the global economy bring multifaceted benefits to the cluster and to the related systems. Companies able to build connections with the knowledge generation spots acquire competitive advantage.

Finally, the future of the economic development is the sustainable cooperation and building synergies between central and local governments and the global and local businesses with a purpose of redirecting the economic systems towards state of self-sustainability.

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