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## Globalization – Engine for Economic Growth

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*This paper tries to design the proper framework for highlighting the importance of globalization and the meaning of it being the engine for economic growth. Globalization and economic growth go hand in hand and are empowered by the Solow's model influence, which is translated as sustainable economic development, which also could be accelerated by using the Total Factors Productivity synergic relation. The competitive advantage of globalization is growth sustained and accelerated by factors that are empowered by the need to evolve of corporations and spread towards the entire global market, these being the part emphasized in the second part of this paper and also that wants to complementary complete globalization's big picture.*

**Keywords:** globalization, economic growth, Solow's model, economic development, Total Factors Productivity.

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### Introduction

The dynamics developed by globalization and expressed through the yields for economic growth as first or second round tier effects for the economies and social development for some countries, having as final result streamlining social welfare through a nationwide economy.

The research approach begins from the idea that open economies are more prosperous than closed ones, fact that is accelerated by the globalization factor used as a tool by emergent countries for developing economies and as fine tuning for internal economic relations. The sensitivity to external factors represents the evolutionary engine of an economy, but could represent a system flaw when a crisis is developing. The article tries to underline that globalization is the (temporary) new way to prosperity and long term economic development [1].

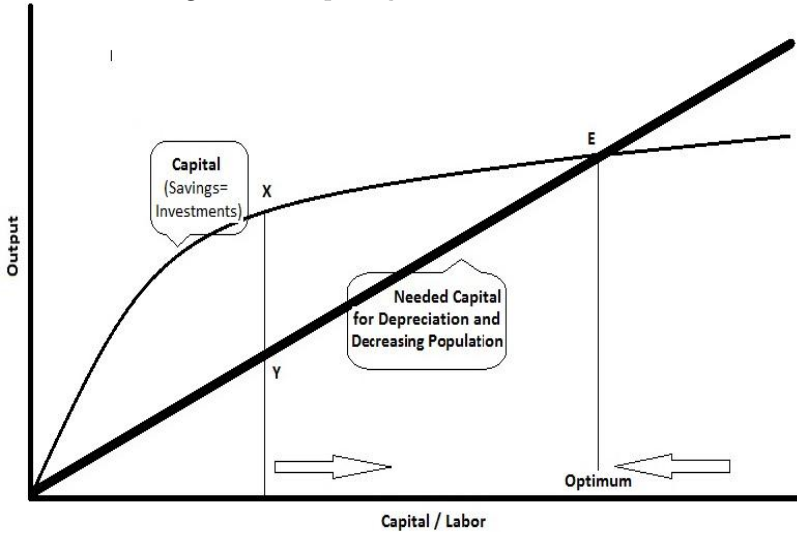
The elementary principle used by emergent countries is the catching up process towards developed countries and reducing the social gap. In theory it is easy to stress the idea, but the main issue is seen when you have to reach a moving target. An American earns more than a Chinese, Indian or Romanian, but the added value is seen closing the gaps between them. The global private sector is in tune with the catching up process because its success depends on opening new markets [1]. The Volkswagen-Audi Group wants to sell one car to each one hundred Chinese or Indians that pass the poverty threshold that is why they took a step in satisfying the emergent client by building manufacturing lines in emergent areas, not only as a measure for reducing manufacturing costs. Large emergent economies, like China, India or Brazil will dominate the world economy on the medium run; the optimist forecast states that China will reach in 2019 the highest GDP level globally, while the realist forecast foresees that this will happen in 2025 [2], fact that is inconclusive regarding the fact that GDP per capita in China will be one of the smallest worldwide at that time and also the fact that economic calculus in communism isn't possible.

## **Globalization – the factor that updates Solow's model**

Solow's model underlined the idea that of economic output and accumulation of goods and services that have inputs like: capital, labor and their nexus as accelerator, the Total Factors Productivity [3]  $Output = F(TFP, K, L)$  – Solow's model master formula.

Emergent countries have issues with the productivity component because the used labor is above global average, but it doesn't have a high level of training, low specialization and this way they have a low level of efficiency. Solow considered that the secret to efficient economic development and to accelerating the catching up process was the relation

between capital and the number of workers in an economy [3]. The graphical presentation is seen in the following figure that is a simplified model of the original developed by Robert Solow.



Source: figure reproduced after Popa, et al. (2014)

**Figure 1:** Evolution of Solow’s model  
Income level and Capital accumulation as progress factors

According to the figure presented above the relation between capital in labor has as Achilles heel the value of capital accumulation. If the capital stock per worker grows, the worker’s output grows because the worker has a competitive advantage: he has at his disposal a large number of manufacturing solutions and this way productivity shifts into a stage of continuous optimality, until the negative slope of productivity stalls the need to use a higher percentage of a production factor [1].

Solow stated in his research that continuous investment has the role to depreciate the actual capital and to replace it with new developed technologies while streamlining population growth. The general tendency is to grow the ratio between capital and workers, although both factors grow with almost the same rate [1]. On the long run the work ratio is constant in evolution for the technological development of that economy and when it reaches its optimum the ratio between capital and workers becomes

constant too. The advantage of globalization is that it offers the possibility to streamline towards an optimum by creating flow between countries that have a surplus in labor and with countries that have a capital surplus.

The background of Solow's model and the Total Factors Productivity is built on three main components, as follows:

1. Research & Development;
2. Know-how and innovation;
3. Market development.

Nations and companies are in a direct and collaborative relation in the Research and Development process.

Nations create and regulate the framework for Research and Development, but they are also obligated to get involved in the issue for protecting the principles of research and to do pioneering in the domain for opening the path for companies to do top of the class research in a narrow niche, the companies being those that do applicative Research and Development because they use in a direct manner the results of the research and development work by creating goods and services and by developing proactive client service [4].

Applied models for know-how are found at the beginning of the 20th century because they were based on business pragmatism, from the dynamic work station, pioneered by Ford Motor Company and updated by Toyota through the Just In Time flow management system.

A large number of inventions are born as a secondary result of some research done in tangent domains, this way the issue shades the following side: adaptability and adoptability. To adapt and adopt we need desire to innovate and entrepreneurial spirit, and companies to adopt technological style that is set on creating disruptive innovation. The first who stressed the benefits resulted from dynamic entrepreneurship and the desire to innovate as economic engine was Joseph Schumpeter [5] that went further and separated invention from innovation as discovery versus implementing. Innovation is not an element found at the end of the commercial chain, but is seen in the distribution system (Just In Time – Toyota), new financing platforms (equity, debt or IPOs) or new manufacturing procedures [1].

## **Globalization – the corporate perspective (from abstract to general)**

Functional connections between countries and corporations were underlined in the literature from the transaction costs [6], organizational development [7] and business strategies theories' perspective [8], these being empowered by the cross-disciplines observed from the competitive advantage's perspective and from the development's perspective towards new geographical markets and the production method based on outsourcing, one of the macro-externalities of globalization and free trade.

To observe the parallel between developing a new direction for the new state governance model and the development cycle of multinationals, theories were rebuilt [9] at mid 20th century and the result follows these 4 stages [4]:

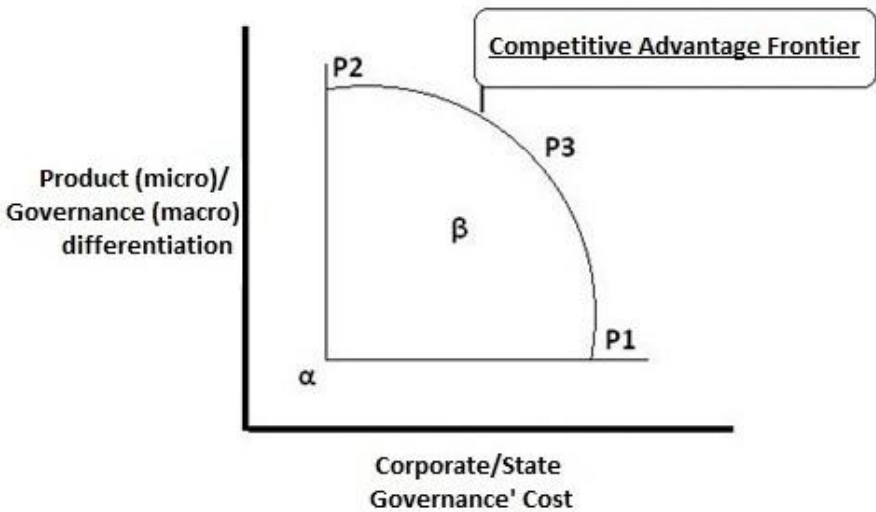
- A company brings to the market at sale' level a new product that fulfills the needs developed in a geo-economic market;
- The product develops momentum in the market; it is well received by new consumers. This fact drives the new product being exported to new markets, especially to markets where consumers tend to have same preferences with the initial market's consumers (the Linder Effect);
- External markets for exports are catching on momentum, this fact gathers to the natural pace of market development and spurs companies to open new subsidiaries to efficiently absorb the needs risen on the market;
- While external markets grow and the new subsidiaries develop, the rate of production development grows until costs drop (the so-called: optimized scale economy), reaching on the medium and long run the threshold of when subsidiaries become exporters to the initial market, all these moves on the medium run and long run being marked by the company's headquarter country' macroeconomic indicators because the capital flow is seen in the development of the Foreign Direct Investment indicator.

To observe the relation between being on your own and going large with external support, corporations need to develop relations with the exterior, especially with some companies that could vertically integrate some non-core business solutions, like the corporation's equity; this could be executed at state level also, because the state needs external partners to

evolve. It could evolve without a direct connection with these partners (the creation of GATT or the European Union), but with these connections activated it can function linear, without syncope and with vertical and horizontal work flows. Through new vertical and horizontal work flows we understand the idea of: development support, financial aid and direct economic support [10].

To better understand how globalization works as a synergic engine for economic growth we just have to reinterpret Michael Porter’s Competitive Advantage frontier. A general model can be designed: we have two companies or countries: A and B from Figure 2, which was created having as starting point the “classic model” [8] that wants to show the idea of strategic positioning versus low cost and product or governance differentiation (economic advantage created by the state).

The company/state B dominates the internal and external market through low costs and business model differentiation, we can see the classic concept on being part from the functional framework of a corporation, but in this situation this business model can be implemented to obtain a competitive advantage for the country.



Source: rethinking the classic model of competitive advantage created by Michael Porter (1998)

**Figure 2:** The Competitive Advantage Frontier

The company/state A identifies new production capabilities that help to create a better position in the market or in an economic union resulting the fact that it can cooperate better with external business partners or with other states that are part of the union. From initial position ( $P_0$ ) A can move horizontally in the  $P_1$  position (low cost for production, work force or capital, or for synthetic factors like: low taxation that creates a lower cost through the derivative effect of low taxation of production) or in a vertical plan, in  $P_2$  position (differentiation obtained through “created product” – management or governance innovation and production) or it can shift its position in the  $P_3$  position where it can obtain advantages through costs and differentiation (the  $P_3$  position can't have a lower cost than the  $P_1$  position or a better product differentiation than the  $P_2$  position because of the spacial-economic exchange). Collaboration brings the company/state A the shift on a competitive advantage frontier  $P_1 - P_2 - P_3$ .

## Conclusions

The real conditions of economic life show that it is possible for some syncope to exist, like different vantage points, opinions, purposes, state or corporate orientation as an entity or the orientation to a human component (people create the state or the corporation, so their welfare and self interest are in pole position), the extensive and intensive development model for the state or corporation for sustainable economic growth, which is accessible through outsourcing' systems as net beneficiary. This flow can create market inefficiency, seen from the macroeconomic perspective, but decomposed as corporate operations that have one conclusion: the inefficiency in governing and managing the human capital, the available assets, maintaining cost of debt and cost of equity for multinational corporation and external credit and the sovereign risk for states in the limits of economic efficiency, this way the governance process is similar to a process that is goal oriented from a corporation.

In conclusion we could state that any kind of limits could decrease the rate of economic growth, but those limits could be seen also as potential opportunities for continental entities or global trade unions. Thomas Friedman followed in his book “The World is Flat” (2005) to emphasize the globalization effect, leveling the playground on which competitors play in the global market [11]. Technological innovation resulted in the private

sector, but with the state's support, revolutionized the work environment, bringing competitiveness' power to emergent economies in which new players grow to surpass well known players from developed countries [12]. Paradoxically, while this is happening and positively influence the financial flow of businesses situated outside the country, relational limits – obstacles in human productivity, are at their peak because of the actual economic context.

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