

# CHALLENGES OF LIBERALIZATION AND GLOBALIZATION OF THE WORLD ECONOMY

*Ljubica Kostovska*

## **1. Introduction**

Major changes are taking place in the world scene at the eve of the 21st century, and therefore the need for summarized analyses naturally appears. The beginning of the 20 century was marked by large monopoly organizations and confrontation having far-reaching consequences on the struggle for redistribution of the world market. The second half of the century was an era of the cold war and bloc division, what implicitly dictated the economic division and spheres of influence on the international market. That is where the roots of regional integrations and confinement of markets come from, the underlying desire being in such a framework (since it was not possible on a global scale) to abolish all barriers to the free movement of goods, services, capital, and workforce. These were the first steps, although at first glance it may seem controversial, of liberalization and of future globalization of trade and world economy. In the continual struggle for markets, the poorest members of the international community - developing countries, have the most serious problems. On the other hand, the socialist bloc of that time was literally closed within its boundaries and deprived its economic and national territories of the influence by the world competition, along with its positive and negative sides, which are in fact inevitable and indispensable for rendering national economies prepared for competition on a global scale. The last decade of this century gave rise to dramatic changes in these countries and opened them for inflow and competition on the global markets of goods, capital, and investments.

The process of liberalization of global trade is burdened by controversies, incomprehensible protectionism practiced by those the least expected to do so - developed economies, by turbulence in developing countries undergoing the difficult and exhausting debtor's crisis and transition difficulties of the ex-socialist world. Interdependence of all participants in the international economy is a prerequisite for its release in the first decades of the 21st century from the heavy burden of unresolved problems that appeared in the economic development of the 20th century.

Most likely, the solution is globalization of the world economy. However, that aim may be reached by resolution of basic controversies of the modern world, unresolved in the 20th century, controversies which are the subject of this article.

## 2. Towards the 21 Century

The 1980s are a critical period for the world economy, when all the countries in the world are facing serious challenges, particularly developing and ex-socialist countries. Starting from the 1970s henceforth, the developed countries, for the first time in the post-war period, have been affected by serious crises and until the 1990s, growth rates expressed through GSP have been maintained at a relatively low level (1990-1994 about 1%), whereas, according to the World Bank projections, the growth of 2% is to be expected in the second half. Nevertheless, if compared to the developing and ex-socialist countries, differences in the development level are not only enormous but are constantly on the rise, if one takes into account the level of technological development in the developing countries. The deepening of the gap between the developed countries, on one hand, and developing countries and countries in transition, on the other, is an economic problem and an accomplished task the world economy is to carry on into the new millennium as one of rather dangerous sources of tensions and conflicts in the modern world. Namely, the fundamental controversy in the world is an ever increasing gap expressed through differences in the development level between the developed industrial countries and the developing countries. These differences rooted in the mid of the previous century<sup>1</sup> became especially stressed following the Second World War when the income per capita was being increased three times faster in the developed than in the developing countries.

The GDP and GDP per capita rates, respectively (given on the following table) as the most synthetic indicator of the development level show the development of countries by groups in the world, in the second half of the 20th century:

**Table 1. GDP and GDP per capita**

	1950-73	1975-84	1985-89	1990-94	1995-2002 <sup>2</sup>
<b>World</b>					
GDP	5.0	3.3	3.9	2.0	3.6
<b>Industrial country</b>					
GDP p.c.	3.8	1.8	2.7	1.0	2.1
GDP	4.9	2.5	3.4	1.7	2.7
<b>Countries in transition</b>					
GDP p.c.	4.2	3.1	2.3	-9.8	2.0
GDP	5.0	3.9	3.0	-9.6	2.4
<b>Developing countries</b>					
GDP p.c.	2.7	1.9	2.8	3.1	3.7
GDP	5.3	4.5	3.0	5.2	5.6
<b>Africa</b>					
GDP p.c.	--	-0.5	0.1	-1.1	0.6
GDP	--	2.3	2.9	1.6	3.5
<b>Asia</b>					
GDP p.c.	2.8	4.1	5.4	5.7	4.7
GDP	5.4	6.3	7.4	7.3	6.9
<b>Middle East and Europe</b>					
GDP p.c.	--	0.0	0.1	0.5	0.9
GDP	--	3.6	3.1	3.8	4.1
<b>Latin America Carribeans</b>					
GDP p.c.	2.5	0.8	0.5	0.5	2.7
GDP	5.2	3.2	2.7	2.5	4.4

Sources: 1950-1973 "The World Economic in the 20th Century", Angus Maddison, OECD, Paris, 1989; 1975-1994, IMF, World Economic Outlook, Oct. 1994. World Bank: "Global economic Prospects and the Developing Countries", 1994

The average data on the developing countries, as a group, are far better because since 1970 onward, Asia, which includes newly-industrialized developing countries, has had high growth rates. Around 54% of the world population live in the group of underdeveloped countries, with the possibility of making 5% of the global gross social product. The average income per capita in these countries makes up only 1.8% of the income per capita in the developed world<sup>3</sup>.

In the 1980s and 1990s, despite several recessions they have undergone from the 1950s onward, the main industrial countries enjoy long sustainable growth, although accompanied by fluctuations and decline especially in 1981-1982 and in 1990-1991. Inflation rates are particularly low, while unemployment rates were high in comparison with post-war decades - what caused concern in many countries although the workforce prices were mainly stable.

**Table 2. Per capita GNP, Growth, Inflation and Unemployment**

Country	GNP per capita (1994, US\$) purchasing power parities	Growth <sup>4</sup> (1985-1994) in per cent	Inflation <sup>5</sup> (1985-1994) in per cent	Unemploy- ment (1994) in per cent
<b>Developed economies</b>				
USA	25.860	1.3	3.3	6.1
Switzerland	24.390	0.5	3.7	4.7
Japan	21.350	3.2	1.3	2.9
Canada	21.320	0.4	3.1	10.4
Germany <sup>6</sup> E.	9.340	1.9	2.9	13.5
Germany W.	22.360			8.2
France	19.820	1.7	2.9	12.4
Australia	19.000	1.2	4.1	9.7
Italy	18.610	1.8	6.2	11.3
United Kingdom	18.170	1.4	5.4	9.2
Sweden	17.850	0.0	5.8	8.0
<b>Transition economies</b>				
Czech Rep.	7.910	-2.1	11.8	3.2
Hungary	6.310	0.9	19.5	10.4
	5.260	-4.4	124.0	7.1

Russia	5.380	0.9	101.7	16.2
Poland	2.510	6.9	9.6	2.7 <sup>8</sup>
China				
<b>Asian tigers</b>	23.080	5.3	9.0	1.9
Hong Kong <sup>7</sup>	21.430	6.9	3.9	2.6
Singapore	12.220	6.9	2.8	1.6
Taiwan	10.540	7.8	6.8	2.0
South Korea				

Sources: For all economies except Taiwan<sup>9</sup>: World Bank, 1996, Washington, pp.18-19

The conclusion that may be drawn from the presented data is that during the period 1984-1995 countries in transition (except for China and Vietnam) have a generally slowed growth, sometimes even negative, with high inflation rates, first because the Soviet type economies by 1985 had exhausted the opportunities for extensive growth and, secondly, because the transition proved to be a difficult and disruptive experience. As distinct from them, the Chinese growth rates are among the highest in the world, as well as of the four Asian tigers.

The only shadows cast on the global economic performances were the continual USA balance of payments deficit and the turbulence of the international financial system by the debtor's crisis of the Third World. At the same time, they increased coordination of their macro-economic policies and joint control and management of foreign currency exchange rates. The problem of the debtor's crises of the Third World still remains, but the principal Western commercial banks restored and secured their reserves, thus decreasing their vulnerability to turbulence caused by the debtor's crisis.

An important characteristic of the developing countries is the large deficit in balance of payment and in external trade balance, in parallel with the overexertion of distribution of national income, what, in conditions of necessity of getting in motion the internal industrial development, is implied and, by definition, justified. However, one of the most frequent weaknesses of these countries is the inability to maintain the exchange rate of their national currencies at the real level, as a guarantee of economic stability and efficiency, the second side of this inability being inflation, which is as a rule higher in economies of weaker and less developed countries.

The data on the developing countries, as a group, are an average and do not reflect the real situation which is characterized by many low inflation rates, such

as for instance, about 10% in Asia, 20 to 25% in Central and Eastern Europe, to enormously high three-figure rates in Latin America and the Caribbean, 438.6% in 1990 and 226.7% in 1994. In contrast to all of them, the four newly industrialized countries in East Asia are characterized by low inflation rates of 5.6% in 1994, with the tendency to decline (5.0% in 1995)<sup>10</sup> what speaks in favor of successful economic policies of these countries, accomplishment of fast economic growth and industrialization with export diversification, without over or underestimation of the foreign currency exchange rate. The exchange rate management in the context of the defined strategic aim: export promotion in these countries is based on continually depreciated exchange rate under constant control, for the purpose of preventing the pressure for revaluation conditioned by commercial expansion (especially in Korea and Taiwan). Countries of Southeastern Asia correct the exchange rate in their commercial policies as a basic instrument for compensation of negative effects of trade liberalization and implementation of export substitution. In effect, these countries are affected by deficit as well, but it never appeared as a potential threat for destabilization of the system, when policies for their management and funding were applied. These countries have a rather rigorous system of deficit control on all levels: state, companies, public enterprises, excessive foreign investment. By the feed-back system, compromises between inflation, exchange rate and financial deficit are constantly being made, the sole aim of which, is to maintain macroeconomic stability. This is indispensable if a country wishes to become successfully involved into modern tendencies of linking with international competition by opening a domestic market. But, in the context of such an objective, it is necessary that the domestic market prepare to cope with the international competition. Economic policy should be oriented at balancing private and social benefits and expenditures on short and medium term, in the way that would establish conditions for creation of a production structure compatible with world economy.

On the other hand, economic performances in Sub-Saharan Africa and in Latin America are deteriorated. For them the 1980s were generally designated as the "lost decade" with the per capita income on constant decline. By mid 1990s, sub-Saharan Africa's per capita income was decreased by more than half, in comparison to the 1980s, although the 1970s were already a decade of stagnation and income decline. Despite the domestic policy changes, many indicators show that there is no improvement in sight: prices of the key primary products are low, debt-service ratio is still fluctuating, real capital inflow is stagnating, lack of foreign currency continues to generate insufficient use of facilities. Economic prospects for sub-Saharan Africa are dark, indeed. In the 1990s the income in

Latin America did not decrease as in the 1980s and is higher than the African. But, the sufferings of urban workers and the most vulnerable social groups during 1980s was unprecedented in the period from the Great crisis onward<sup>11</sup>.

Poor external economic terms of trade, reduced capital inflows, domestic capital outflow and difficulties with external debt (aggravated due to unusually high interest rates) continue to seriously affect many Latin American countries. Consequently, they constantly fight fiscal crises, low investment rates, high or even hyper-inflation, political disorders and poor perspectives of widespread income improvement for the next several years.

The GATT multilateral negotiations clearly show that interests of the South countries are divergent. For instance, interest in fast growth, average income and greater dependence on external trade of developing countries (as Korea and Singapore) are clearly different from the interest of countries less dependent on external trade (as India and Brazil, which, for instance, have enormous domestic markets and scarce expert-oriented production). That is why it is only natural that indebted developing countries have a different approach to the resolution of the debtor's crisis from the global approach of the international community, promoted via the strategy of the World Bank and, in particular, of the IMF. Indebted countries from Latin America have rather different interest from the indebted countries of sub-Saharan Africa. Large countries such as Argentina, Brazil and Mexico have difficulties in coordinating their position vis-a-vis commercial creditors.

Each one of the ex-socialist countries lives through their transition problems in its specific way, which depends on local conditions: predisposition, which is a legacy of the previous system that would facilitate easier or harder transition of economy, into conditions required by the market economy, political, national, cultural and civilizational ambience as a pledge for success or less successful finding way around the labyrinth of privatization, restructuring of the economy, current economic policy making, long-term development strategy making. In the framework of world economy, this paves the way for new opportunities, but also for new problems and draws attention and interests of free capital from developing countries towards wide territories of these countries with millions of population as a potentially strong market.

Rules of modern development are featured by globalization of economic relations and by increase in interdependence in circumstances of domination of capital and free market; what indicates that every country must respect them while making its economic policy, in order that it can accept with success the rules of the economic game of the new era. This challenge of the modern world on the eve of the new millennium is to be responded by a large family of developing

countries (with the exception of the four Asian tigers), which is also joined by the family of ex-socialist countries.

### **3. Liberalization and Globalization of the World Economy**

During the past decade, liberalization has been hallmark of economic policy throughout the World. A wide variety of specific types of measures has given effect to liberalization policies. In countries with economies in transition, the change of regime has required the disengagement of the state from production of goods and services across virtually the whole economy, and the establishment of the institutions and legal frameworks appropriate to the functioning of a market economy. In market economies there has also been extensive reduction in government regulations guiding private-sector activity, and some revamping of regulations to meet emerging needs, as in the areas of finance and environmental protection, while in most transition economies there is a need to put in place or strengthen regulatory regimes.

In the developing world, liberalization has been taking place in a variety of circumstances. In the dynamic economies of East and South-Asia liberalization has in some cases been proceeding at a deliberate pace, with governmental measures to open markets to foreign competition and reduce support for the private sector. In other Asian countries liberalization has tended to be more hesitant, while in Latin America it has generally gone forward at a brisk pace. In both Africa and Latin America, liberalization has taken place as part of a policy response to low growth and, in some countries, financial crisis.

In all countries, external transactions have been a key component of liberalization of international trade, investment and capital movements can improve allocative efficiency and can bring about greater dynamism in an economy, thus, providing faster economic growth. Among the benefits of increased openness to trade are the improvements in innovativeness and productivity of domestic firms due to external competition. Economies open to competition from abroad are also presumed to be better able to adjust to adverse external shocks. At the same time, the increased mobility of factors of production-especially capital and, with it, technology can help a country overcome the dangers of being trapped by static comparative advantage.

Liberalization has proceeded at different speeds and in different ways, as far as trade, investment and finance are concerned. Multilateral trade liberalization, a process that began with the establishment of GATT some 50 years ago, has taken a decisive step forward with the completion of the Uruguay Round, which has

dramatically reduced tariffs and removed quota obstacles that traders encountered at the borders of all groups of countries. While there are still a number of sectors where liberalization has been partial, - including agriculture and textiles and clothing, which are of particular importance to developing countries - liberalization of international trade has progressed to an impressive extent.

Investment liberalization has proceeded in a much more uneven manner. While virtually all developed countries have liberalized their regimes for inward and outward foreign direct investment (FDI), especially over the past 30 years, most developing countries and those of Central and Eastern Europe have joined in this process only recently. Once convinced that FDI could play a positive role in promoting economic growth and technological progress, developing countries and countries of Central and Eastern Europe took substantial multilateral steps to liberalize their inward FDI regimes: between 1991 and 1994 alone, 368 out of 373 changes in national FDI regimes were in the direction of greater liberalization. Foreign direct investment (FDI) is becoming an increasingly important component of long-term net resource flows to developing countries. During 1985-1992, the ratio of FDI flows to gross fixed capital formation in developing countries increased from 2 per cent to 7 per cent; a share higher than that in developed countries. To be sure, the actual increase in the direct contribution of FDI to capital formation is less than is suggested by these figures, since a certain proportion of FDI takes the form of purchases by foreigners of existing assets. Nevertheless, the role of FDI in capital formation in developing countries has undoubtedly grown, and appears set to continue to do so.

The liberalization of trade and FDI regimes has been accompanied by a liberalization of financial transactions. In developed countries, since the early 1970s freedom of capital investments has been increasingly viewed as an important policy objective; and financial deregulation and liberalization have both accelerated during this decade. Financial liberalization is generally less advanced in developing countries, but the pace of change has been much more rapid. Inward investment by non-resident investors is virtually free in a number of developing countries. Liberalization of transactions in foreign currency among residents has gone much further. Indeed there has been a tendency to encourage residents to hold foreign exchange deposits with banks at home.

In many countries with inflexible exchange rates, large capital inflows contribute to excess demand pressures, in part because of the difficulty of effectively sterilizing such inflows. A key policy requirement for many of these countries is to strengthen the public sector's financial position in order to reduce pressures on interest rates and, hence, in centives for capital inflows. Exchange rate appreciation may also contribute to better macro-economic balance, especially in coun-

tries where rapid productivity growth is helping to maintain external competitiveness. However, the integration of the developing countries into global financial markets makes them more vulnerable to external financial disturbances.

Indeed, a key issue is how these countries can best benefit from increased integration into the global economy while minimizing risks to domestic financial stability arising from external shocks.

Liberalization of capital movements helps to increase the efficiency of resource allocation. It also fasters competition in domestic financial markets and allows domestic investors to diversify their portfolios. The internationalization of portfolio equity investment involves not only transactions on stock markets by non-resident investors but also the buying and selling by investors on their local stock markets of the shares of foreign companies. The equities of many developing-country firms are now listed on stock exchanges in OECD countries, and there has been a rapid increase in the trading of such securities since the beginning of the 1990s, especially those issued by Latin American entities.

The competition in domestic financial markets and the diversity of portfolios have been the driving force behind the liberalization of capital movements by the industrial countries and more recently by many emerging market countries. Experience shows, however, that certain conditions have to be met for capital account liberalization to be successful. Because financial markets adjust more quickly than other markets, capital account liberalization requires both a reasonable degree of macroeconomic balance and structural reforms, especially of the domestic financial system.

As the emerging market countries in the developing world, many of the transition countries are receiving significant capital inflows. Such inflows, which include repatriation of flight capital, are a sign of confidence of both domestic and foreign investors in the strong growth prospects of the recipient countries. Inflows of foreign direct investment are particularly encouraging because of their beneficial effects on management practices and productivity. Also important to keep in mind, however, are the lessons from other parts of the world about the potential instability of such inflows and the need to guard against imbalances. A key requirement is a continued stance of macroeconomic policies with further reductions in government deficits. Many of the transition countries also need to accelerate privatization, enterprise restructuring, and institution building. This will help to further deepen the role of market forces and increase the chances that both domestic and external financial resources are channeled toward productive investment.

Preventing banking crises and dealing with them when they arise are major challenges in these countries, as in general, other countries. A key issue is the

need to limit potential macroeconomic disruptions and setbacks to stabilization efforts. There is also a need for strengthened prudential supervision, better assessment of credit risk, more stringent capital requirements, and greater access for foreign banks, which in turn will spur the necessary strengthening of banking practices.

Liberalization of trade and investment has been influenced by the expansion and intensification of regional integration efforts, which have continued even after the successful conclusion of the Uruguay Round and the establishment of the World Trade Organization (WTO). The weight of this factor is best measured by the fact that trade among the members of regional groupings already accounts for almost half of World trade. Beyond the recent launching of NAFTA, the enlargement of the EU and the implementation of its Association Agreements with some Central European countries, several other regional projects involving countries of different levels of development are in the making, including some embracing both developed and developing countries. Subregional integration among developing countries and various countries in transition is also making progress. There is an increased emphasis within groupings of the liberalization of investment and services and on technological cooperation, as well as on gradual harmonization of national policies with an impact on trade and investment. Increasingly, regional arrangements tend to include new spheres such as environment, competition, labour standards, the liberalization of regional labour markets and monetary integration. All of this reflects the desire by many governments to have a range of opportunities for pushing forward with liberalization, rather than relying safety on global multilateralism.

#### **4. Opportunities and risks from increasing openness of developing countries**

Growth in developing countries in recent years has been associated with increasing openness and integration into the global economy. The openness of developing countries estimate as an average openness of exports and imports of goods and services as a per cent of GDP was about 15% in 1997 opposite to 27% in 1994, while in industrial countries the percentage of 1974 was the same as that of 1997. The percentage of openness in the highest of small industrial countries as: Belgium, Denmark, the Netherlands and Sweden: 35% in 1974 and 50% in 1994.<sup>12</sup> Traditional trade linkages have been deepened and new linkages developed by more open trade and exchange regimes, increased diversification of developing country exports and closer financial linkages. The industrial countries have clear-

ly benefited from this process, especially during the recent slowdown when rapid growth in developing countries helped to sustain world trade and industrial country growth. For most of the postwar period, growth in industrial and developing countries was relatively synchronized, with business cycles in industrial countries typically leading those in developing countries. During 1990-1993, however, growth in the developing countries increased sharply in spite of the market slowdown in the industrial countries, and it has remained robust, as industrial country growth has subsequently recovered.

This apparent increased resilience to cyclical downturns in the industrial countries masks considerable regional disparities in the developing world. It primarily reflects a strengthening of growth in Asia and the Western Hemisphere since the late 1980s. Economic conditions in Africa and the Middle East have continued to be closely influenced by developments in the industrial countries. Many countries in these adjustment efforts continue to be heavily dependent on exports of primary commodities. The lack of diversification is also reflected in relatively low growth in intraregional trade in Africa and Middle East compared to Asia and Latin America. The remarkable performance of many East Asian countries and some Latin American countries that have pursued outward-oriented policies over the past two decades clearly illustrates the benefits of more open trade policies. In most Latin American countries, both tariff levels and the incidence of nontariff barriers have been lowered significantly. For example, average tariff levels in Colombia and Peru have fallen from over 60 per cent in the early 1980s to under 20 per cent, and the dispersion of import tariffs has been drastically reduced. And Chile now has one of the most liberal trading systems in the world. Trade liberalization in Africa and the Middle East and Europe region has been more gradual and limited, although several countries, notably Ghana, Mauritius and Turkey, have significantly reduced restrictions on trade recently.

Diversification of the export base, especially on expanded manufacturing sector, has reduced vulnerability to external shocks for many developing countries. Compared to manufactures, the demand for primary commodities is more cyclical and has risen less rapidly with resulting terms of trade losses for exporters of commodities (Table 1).

**Table 1: Developing Countries: Diversification of Exports**

	Africa			Asia			Middle East and Europe			Western Hemisphere		
	1970	1980	1990	1970	1980	1990	1970	1980	1990	1970	1980	1990
Nonfuel primary prod.	62.8	17.0	31.2	49.4	30.7	16.0	10.7	1.8	5.7	64.5	42.1	39.9
Fuel	22.8	56.0	47.2	8.8	21.4	10.2	80.1	93.0	73.6	23.7	39.9	26.6
Manufact.	14.5	27.0	21.6	41.8	47.9	73.8	9.2	5.1	20.7	11.8	18.1	33.5

Source: *World Economic Outlook, October, 1995*

The changing composition of developing country export has been aided by the removal of distortions in domestic markets and reductions in trade barriers, but it also reflects an underlying shift in the comparative advantage of many developing countries toward manufacturing. Relatively low wage costs, coupled with rising investment, have made some developing countries highly competitive in the production of many manufactured goods. This is particularly so in some of the Asian countries where high-domestic saving has been reflected in sharp increases in the stock of capital.

For many developing countries, the growth of the manufacturing sector has been associated with greater efficiency in agricultural production, which has released resources for industrialization. With the benefits of the green revolution, increased productivity of both labor and land in agriculture has allowed the developing countries of Asia and the Western Hemisphere to devote a declining share of the labor force to agriculture. Sub-Saharan African countries have been less successful in diversifying their economies, and labor productivity in agriculture has been virtually unchanged over the past two decades. Increases in agricultural productivity will require sustained efforts to reduce regulations and distortionary taxes on agriculture in many countries.

The 1990s have also been characterized by radical changes in the composition of capital flows to many developing countries. Recent capital flows have been largely private direct investment and portfolio flows to private sector borrowers, often motivated by higher returns on developing country investments and their low correlation with the returns on investments in the industrial countries.

The substantial increase in gross capital flows in recent years and the narrowing of interest differentials between industrial countries and some of the emerging market economies are indicative of increasing financial integration. Indeed, with integrated financial markets there may be even tighter limits on how much countries can rely on foreign saving on a sustained basis. As suggested by Mexico's experience, the risks of sudden reversals of capital inflows are particularly important in countries where increased use of foreign saving is accompanied by lower domestic saving rather than by higher domestic investment.

Net capital flows to developing countries averaged over \$130 billion a year during 1990-94, almost a four-fold increase over 1983-89 period. As noted above, the liberalization of trade and investment regimes in many developing countries has been spurred by the growth of intraregional trade and by the attraction of some countries as low-cost locations for production by multinational enterprises. In a number of developing countries, privatization programs have also attracted foreign direct investment.

The high debt burdens of many low-income countries point to the continuing importance of concessional financial assistance, both from multilateral institutions like the IMF and from bilateral donors.

The new environment of greater openness and integration may well penalize countries with macroeconomic imbalances and inadequate structure reforms to a greater extent than in earlier periods. The higher long-term interest rates in the industrial countries as a negative external shock leads to policy slippages in the developing countries. The lower capital inflows reduce investment and imports, including imports of capital goods. The net effect would be to lower the level of output in developing countries and to reduce the beneficial effects of trade on productivity growth. Economies with low domestic savings rates and large external deficits would be hardest hit by the decline in capital flows while higher world interest rates would have the largest impact on growth in the heavily indebted countries.

## **Conclusion**

The reality of the today's global economic order is a still enormous dependence of developing countries on the developed world. This reality is transformed into a triangle with the appearance of ex-socialist countries as new members claiming the right to assistance, (first and foremost financial) in order to overcome their specific difficulties.

The more the dependence of economically poorer members of the world com-

munity on the minority of the rich is increased, the more it will be transformed into interdependence which will characterize a new world order. The dependence of developing countries is primarily manifested in the increased need for financial resources the peak of which was in the 1980s, following the breakout of the debtor's crisis. Over-indebtedness of developing countries gave rise to economic policy changes in these countries was largely supported by the IMF and the World Bank. When the financial dependence of developing countries, is added technological and food dependence, the circle of dependence is closed and returned as a boomerang to the developed countries warning that the time of their rule and supremacy is changing, slowly but surely. Acceptance, fostering and emphasizing of global interdependence becomes an imperative of the time. The more the world is linked economically, the more the possibilities for the durable world peace are likely. Resolution of the debtor's crisis of developing countries, on one hand, and as painful as possible overcoming of transition problems of ex-socialist countries, on the other, are very important chains in the multitude of problems, as a precondition for realization of the "right to development" of these countries. It entails expansion of economic cooperation, abolishment of protectionist non-tariff barriers and wider opening of markets of the developed countries to products from less developed countries, as well as correction of price distortions between finished and primary products, what deteriorated the terms of trade of developing countries; free flow of capital i.e. financial resources and investments (in particular FDI), what speaks in favor of strengthening the awareness about global interdependence. Only on that basis can all the countries in the world have quicker and more diverse development, with mutual respect and joint action aimed at humanization of processes and relations in the modern mankind. This entails building a new value system in which production of consumer's goods and services will not be the sole indicator of wealth, but there will occur the awareness and need for other dimensions for valuing man's riches - significance and culture of living in harmony with the environment. This dimension gains quality only if global in scope, through the underscored global interdependence and the developed awareness and action of all countries in the family of nations, to that effect. We are leaving the 20th century with that knowledge but also with powerlessness to find a solution. The 21st century will have the challenge of carrying out this task.

## NOTES

- <sup>1</sup> The differences were drastically increased at the time of "golden century" of colonialism, i.e. from the mid 19th to the mid 20th century when the annual GDP increase in the developed countries was 2%, whereas in the colonial countries the annual growth was 0.27%. Vujo Vukmirica, 1991, Belgrade
- <sup>2</sup> Prospects of World Bank.
- <sup>3</sup> Gurica Acin, Ph.D.: "International Economic Relations" Novi Sad, 1995
- <sup>4</sup> Per capita GNP growth 1985-94 as annual average
- <sup>5</sup> Annual average growth of GNP deflator, 1985-94
- <sup>6</sup> Data refer for united Germany except where indicated by E (former East Germany) W (former West Germany)
- <sup>7</sup> Per capita gross domestic product. Growth and inflation refer to GNP per capita and to GNP deflator, as with other economies.
- <sup>8</sup> Urban areas only
- <sup>9</sup> For Taiwan: Council for Economic Planning and Development: Taiwan Statistical Data Book, 1995, and Quarterly Journal of Economics, May 1991 table II, p. 353
- <sup>10</sup> World economic outlook, IMF, October 1995
- <sup>11</sup> Globalization and Liberalization, UNCTAD, 1996
- <sup>12</sup> World Economic Outlook, IMF, October 1995, P. 44
- <sup>13</sup> Based on 65 developing countries for which data are available.

## REFERENCES

- *Globalization and liberalization in the face of two powerful currents*, United Nations, New York and Geneva, 1996
- *The New Global Economy and the Developing countries*, Essays in International Economics and Development, K. G. Helleiner, Edward Elgar, 1993.
- *From Plan to Market*, World Development Report, 1996, Oxford.
- *World Economic Outlook*, October 1996, International Monetary Fund, Washington.
- *The Debt Crisis threatens collapse of World Trade*, IFDA, Dossier, 1987
- *The Debt Crisis of the Developing Countries*, Ljubica Kostovska, Docent at the Faculty of Economics in Skopje, 1996
- **A. SZIRMAI, B. VAN ARK and D. PILAT** Editors, "Explaining Economic Growth", North-Holland, 1993.
- **Maddison A.** (1989) *The World Economy in the Twentieth Century*, OECD, Paris.
- **Maddison A.** (1991) *Dynamic forces in Capitalist Development. A Long-Run Comparative View*, Oxford University Press, Oxford.
- **W. Fellner, Project Director** (1979). *Contemporary economic Problems*, Washington.
- *World Trade in 1980s*, Ottawa: North-South Institute; Washington, D.C. and London (1982).
- **Goldstein, Morris and Mohsin S. Khan** (1982). "Effects of Slowdown in Industrial Countries on Growth in Non-Oil Developing Countries", IMF Occasional Paper, 12, Washington, D.C. August.
- **Donovan, Donal J.** (1982) "Macroeconomic Performance and Adjustment Under Fund Supported Programs", IMF Staff papers, vol. 29, no.2 June.
- *World Development Report*, 1996-Washington D.C. The World Bank.
- **Vittorio Corbo, Morris Goldstein and Mohsin Khan**, eds., *Growth-Oriented Adjustment Programs*, Washington D.C. IMF and the World Bank (1987).
- **Donnelly Graham**: "International Economics", Longman, London (1987).
- **Balassa Bela**, ed. "Studies in Trade Liberalization", The Johns Hopkins Press, Baltimore (1967).
- "The regions and the new Europe" edited by Martin "hodes, Manchester University Press, 1995.
- **Miles Kahlter**: "Regional Futures and Transatlantic Economic Relations", Published for the European Community Studies Association, New York, 1995.