The Impact of Globalization on the Economic Development of Countries

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Abstract Globalization is one of the main drivers of economic development in the modern world. However, along with the increase in trade volumes due to the opening of markets, the growth of competitiveness of national economies via the development of communications, the use of the latest technologies, and the attraction of foreign investment, globalization poses numerous challenges for states. This article aims to analyze the positive and negative aspects of globalization impact (the research object) on the processes of countries’ economic development. The system approach serves as the methodological background of this study. The main methods employed include document and correlation analysis, comparative method, abstraction, systematization, induction, and deduction methods. It has been found that there is a direct correlation between the level of countries’ globalization (KOF Globalization Index) and the level of their economic development, as demonstrated by GDP (PPP) per capita. At the same time, other macroeconomic indicators (i.e., unemployment, inflation, and public debt) have a weak correlation with the globalization level of countries. However, the global financial crisis of 2008 had the most severe consequences for countries with high levels of public debt and countries with high rates of economic development. The authors found that globalization promotes the economic inclusion of Asian countries in the world economic processes. These countries successfully compete with developed countries (the USA and the EU) and are already outperforming them in certain areas (China ranks first in the world in terms of exports and in the GDP (PPP) ranking). These facts refute the thesis that globalization benefits only developed countries (the global North). At the same time, globalization processes stimulate the growth of social inequality in the world. Such inequality is typical for both Northern and Southern countries. Therefore, it requires a competent public policy to maximize the benefits of globalization and minimize its negative impact, which will help further the economic development of countries.

Index Terms globalization, impact, economic development, international economic relations, global security, globalization index

I. Introduction

Globalization acts as a key trend in modern economic development. It affects both the global economy and economic processes in particular countries. Globalization creates conditions for internationalizing national economies, intensifies international trade, and opens up opportunities for investment and technology transfer. All these factors contribute to the economic growth of many countries and open up vast opportunities for developing countries. They get access to investments and new markets and introduce new technologies into production processes, which allows them to accelerate economic growth and obtain significant economic benefits.

The impact of globalization on economic processes is a complex and multifaceted phenomenon. On the one hand, investments and new technologies open up new distribution channels and access to global markets, serving as driving forces for economic development. On the other hand, globalization accelerates the growth of worldwide competition and increases disparities between countries. It also contributes to the polarization of incomes within countries. In addition, the dependence of countries on foreign investment can make the national economy more vulnerable to global economic crises and fluctuations in the global financial market. However, globalization creates opportunities and incentives for innovative economic development, which is the key to the success of modern states on the world stage.
A. Literature review

Since globalization is a controversial topic, it has been the subject of many scientific studies. Most of them primarily focus on the overall impact of globalization on global economic development. This is reflected in two key areas of research. Representatives of the neoliberal trend insist on the benefits of economic globalization for all countries. For developing countries, it opens up world markets, allows them to attract investment, and introduces the latest technologies. As a result, their economic level can be significantly increased. In turn, developed countries will have the opportunity to increase the stability of their economic systems. It fosters innovation and business development, improves market relations, and allows them to control risks from macroeconomic fluctuations [1].

However, critics of globalization perceive it both in the context of the confrontation between the industrialized global North (the United States, the EU, Japan, etc.) and the global South (developing countries of Asia, Africa, and Latin America) and the global effect of economic crises. According to Taylor [2], globalization has led to enormous migration from the South to the North, as well as smuggling flows within the planet (drug trafficking, arms and human trafficking, etc.). By analyzing the economic consequences of the global financial crisis of 2008–2009, Skonieczny [3] notes that globalization limits the economic development of states due to the influence of international financial institutions (World Bank, International Monetary Fund) that “impose” the Western economic model.

In the collective study edited by Reinert “Handbook of Globalization and Development”, the authors, while studying globalization impacts, focus more on negative trends (smuggling, international crime, capital flight and growth of public debt, global migration, etc.) that do not favor economic development of states.

While criticizing the Marxist anti-globalization approach, Munk [4] notes that globalization creates a relatively “flat world” by ensuring convergence between rich and poor countries. However, this does not mean that uneven development has disappeared. On the contrary, such development is spreading globally, which creates problems for both low-income and high-income countries. According to Milanovic [5], the world has become more prosperous in recent decades due to productivity growth and globalization. However, this growth is unevenly distributed. The gap between the world’s richest and poorest incomes is growing worldwide, which is becoming a severe issue, primarily for Western democracies.

Horner et al. [6] note the “great change” that has taken place in public attitudes toward globalization in the XXI century. According to the authors, a serious transformation has been taking place in recent years since representatives of the global North have become increasingly skeptical of globalization. In contrast, globalization is increasingly supported by the global South, which, according to the logic of neo-Marxism, should suffer the most from its consequences [7]. Such a transformation may be linked to a change in the geography of uneven global development.

After analyzing the consequences of the global financial crisis of 2008, some authors believe that the intensity of both the crisis and the recession was due to the high level of financial integration caused by globalization [8]. According to Kim et al. [9], the crisis had the most serious impact on the financial systems of developed countries (the US and the EU), as well as on Asian countries that were developing rapidly and tended to grow significantly. This opinion is supported by Thalassinos et al. [10]. The authors note that the financial recession affects developing and emerging countries most due to their dependence on developed countries.

As a result, the problem of globalization’s impact on economic development is highly relevant, which is reflected in many scientific studies. However, as a rule, these studies focus on the overall impact of globalization on international (regional) economic development or analyze the impact of its individual components (international trade or financial crisis), leaving aside the globalization impact on nation-states. In addition, the use of prominent theoretical trends (neoliberalism or neo-Marxism) by scholars significantly narrows research opportunities. This requires the use of integrative approaches free from certain dogmatization that absolutizes or, conversely, levels out the positive or negative impact of globalization on the countries’ development.

B. Aim

This study aims to analyze the impact of globalization processes on the economic development of modern countries, taking into account their positive and negative aspects.

II. Methods

The main methodological approach of our research involves a systemic approach, which allows us to look at globalization as a systemic phenomenon that causes important structural changes both on the global economic scene and in national economies. It will enable us to identify the key trends caused by globalization processes, analyze their impact on the economies of particular countries, and identify problematic aspects of this impact. As a result, we can implement adequate strategies to counteract negative trends or reduce their impact. The main research methods include:

- Document analysis and correlation analysis.
- Comparative method.
- General scientific methods (deduction and induction, generalization, abstraction).

In our research, we also utilize the index theory, which allows us to use key indices (KOF Globalization Index, Corruption Perceptions Index, and Gini indices) to identify the extent of globalization’s impact.

III. Results

Globalization, as a complex phenomenon, has several key dimensions. Most often, globalization is seen through the prism of integration and internationalization of the world economy. According to Milner and Keohane [?], the growth of
cross-border economic transactions during globalization leads to integration between domestic and international markets. It causes gradual convergence of prices for goods and services and facilitates the free movement of capital between countries. The growth of financial, investment, and trade flows is leading to the formation of an integrated global economy where national borders become meaningless. Thus, such integration eliminates the differences between domestic and foreign markets to the extent that the world economy ends up “inside” the national economy. In other words, the remaining differences no longer make sense [11].

The second component of globalization involves liberalization. The latter should be understood in the context of public policy to remove restrictions, which is a response of governments to the economic needs of the time. Conley [12] defines it as the result of the complex interaction of public policy and microeconomic decisions of economic agents under the influence of technological change and innovation. However, states retain certain opportunities for influence: regulation of foreign trade through the system of duties or preferences, efforts to attract investment, etc [13], [14].

The third component is convergence, which is a process of convergence of national economies through trade and capital mobility, elimination of barriers, and convergence of production structures between nations [15]. Convergence is ensured by the development of the latest communication technologies (modern transportation and communication). In this way, a global world is being created where the boundaries of perception are inevitably expanding, and national borders are disappearing. For example, as of 2023, 5.44 billion people in the world use cell phones (68% of the world’s population), 5.16 billion are Internet users (64.4% of the world’s population), and 4.76 billion (60%) are social media users (Digital 2023: Global overview report, 2023).

Transnational corporations (TNCs) play an essential role in the process of globalization. They implement its main components through this process. In this context, we consider globalization as the connection and similarity of different economic systems under the influence of TNCs and in the context of communication development (Oxford Advanced Learner’s Dictionary, 2024).

There are no clear criteria for economic development in the global economic discourse. However, the World Bank [16] suggests the following criteria: GDP per capita; the level of modern transportation networks; macroeconomic indicators (inflation, unemployment, investment, and public debt, etc.) and social indicators (literacy rate, housing, social services, birth and death rates, etc.) [7].

Our study will use the KOF Globalization Index (KOF GI). The KOF Swiss Economic Institute developed this index to analyze the impact of globalization on the economic development of countries. It measures globalization in economic, political, and social formats [17]. We use both GI and the KOF Globalization Index for correlation analysis: Economic Globalization (KOF EG) and GDP (PPP) per capita ($) based on World Bank data [18].
Asia is experiencing serious problems in its financial markets: Taiwan’s stock price fell by 38.5%, and the Korean won fell by 19.2% against the US dollar [9]. At the same time, the reasons for the crisis were caused not only by globalization processes, but also by internal problems of the countries. In Greece, for example, the growth of public debt was linked to the high level of pensions and salaries of civil servants, which did not correspond to the country’s economic development. At the same time, the crisis in Ireland was much more related to globalization. The country opened its doors to highly skilled migrant workers and foreign companies, which created up to 70% of new jobs. The financial crisis of 2008 caused a massive exodus of foreign companies from the country and a banking crisis due to the failure of mortgage lending policies. However, Ireland, which has a higher GI, overcame the consequences of the crisis much faster. During 2011–2015, the country’s public debt decreased from 120 to 76% of GDP. At the same time, Greece showed signs of economic recovery and public debt reduction only in 2023. The country’s financial system was rescued by EU assistance (€289 billion), and the country was forced to implement reforms to receive the aid.

According to analysts, globalization as integration contributes to increased stability and reduced fluctuations in consumption. It creates opportunities for risk sharing among economic players and optimization of their investments [20]. The quality and activity of all financial, economic, and political institutions should play an essential role in this process. This will allow attracting foreign direct investment while reducing vulnerability to crises [21].

Thus, the corruption factor plays an important role, as foreign investors prefer to invest in countries with lower corruption risks, as they create more attractive conditions for doing business. It is worth noting that almost all countries that are leaders in the KOF Economic Globalization ranking are included in the list of leaders of the Corruption Perceptions Index, CPI [22]. The only exceptions are three countries: The UAE, Cyprus, and Malta, where the perception of corruption does not allow them to get into the Top 20.

Globalization has caused significant socio-economic changes around the world. The number of people living below the poverty line in developing countries has decreased from 42% of the total population in 1993 to 17% in 2011 [23]. As a result of the liberalization of the global market, Asian companies are actively conquering it and competing with the G7 countries (the Global North). According to the IMF report [24], in 2023, the top five countries with the highest GDP include the USA ($26,855), China ($19,374), Japan ($4,410), Germany ($4,409), and India ($3,737). In other words, three out of five are Asian countries. China holds the first position in the world in terms of exports. There are also three other Asian countries in the Top Ten: Japan, Korea, and Hong Kong [25].

Almost all Asian countries have risen in the GDP per capita (PPP) ranking. The most successful growth trends are demonstrated in Indonesia, Vietnam, the Philippines, and Bangladesh. The latter country was considered hopelessly underdeveloped 20 years ago. These countries are characterized by GDP growth rates ranging from 5 (Indonesia, Bangladesh) to 7% (Vietnam) per year. In 2005-2022, they significantly reduced their poverty rate: in Bangladesh from 40 to 18.7, in Indonesia from 16 to 9.5 [16]. Undoubtedly, these positive changes are the result of globalization. It has opened up opportunities for integration into the world economy, provided access to the latest technologies, and created conditions for communication that facilitate the development of business ties [26].

Consequently, analysts predict that in the near future, the total economic potential of Asian countries will exceed that of the rest of the world. As a result, by 2040, half of the world’s GDP will be generated in Asia [27]. Therefore, Asian countries (especially China) are active supporters of globalization.

On the other hand, globalization intensifies the processes of social differentiation due to uneven income growth in both developing and developed countries. Thus, during 1998-2014, Gini indices grew by 29% in the United States, 17% in Germany, 14% in Germany, 14% in the United Kingdom, 11% in Japan, and 9% in Canada and Italy [28], [29]. This trend refutes the classical theory by Kuznets (1971) that inequality is common in low-income countries but decreases in high-income countries. Milanovic [5] shows that the largest growth occurred between the 20th and 70th percentiles. However, the population around the 80th percentile experienced a decline or stagnation in income growth (Figure 4). The latter refers to the working class cohort in developed countries.

According to Stiglitz [29], from 1980 to 2014, the wealth-
iest 1% of people in the United States increased their income by 169%, and their share of national income increased from 10% to 21%. Consequently, the middle class in the country became more and more blurred. The number of people earning between 50 and 150% of the national median income decreased from 58% to 47% between 2000 and 2014, with 3.25% of this category moving to a lower-income class [30]. This fact allows some analysts to assume that American society is becoming an oligarchy [31]. Such negative trends pose a certain threat to developed countries, given that most of them are democracies with a middle class as the foundation of their society.

IV. Discussion
One of the main controversial issues raised by globalization is the ratio of its positive and negative impact on the economic development of countries. Thus, representatives of anti-globalization research areas emphasize the negative trends or problems that globalization has brought to certain countries. This is especially true regarding the consequences of the financial crisis in 2008-2009, which caused severe issues for several countries due to financial globalization. At the same time, global instruments and institutions helped to overcome the consequences of this crisis. In addition, countries with a higher level of globalization coped with the crisis more quickly than others.

In the contemporary scientific discourse, there are still theses that globalization is a certain manifestation of Western capitalist policy that benefits the global North. However, as recent trends show, globalization has allowed Asian countries to make an economic leap and successfully compete with developed countries. Currently, 4 of the world’s top 10 exporters are Asian countries, and China has displaced the United States from the first place [25]. Consequently, globalization creates opportunities for economic development, although it is up to national governments to take advantage of these opportunities. A serious problem remains the growing social differentiation in the world, which is typical for both developed and developing countries. Despite the absence of a direct link between the KOF Globalization Index and the Global Inequality Index [17], we can determine that high levels of social inequality are most common in countries in the second part of the globalization ranking (with GI scores of 50-60). The only exceptions are several countries in Latin America due to the exhaustion of development models [32], [33]. In addition, Hong Kong and Singapore are leaders in economic globalization despite facing problems with their social aspects.

V. Conclusion
Globalization and the economic development of modern countries are inextricably linked due to a number of its key features. Trade liberalization opens up markets for countries, and their enterprises gain access to a broader range of resources at lower costs. As a result, they improve production efficiency and competitiveness. By opening branches in different countries, TNCs create networks that facilitate the development of ties between countries, regions, and continents. Globalization opens up opportunities for widespread investment, which contributes to economic growth. Developing countries represent a significant share of investment in the modern world. While total investment in developed countries decreased by 37% in 2022, developing countries, on the contrary, experienced a 4% increase [34]. An essential aspect of globalization is the reduction of corruption. As a rule, the top countries in the globalization ranking have the lowest levels of corruption since investors ignore countries with high corruption risks [35]. Therefore, globalization contributes to the economic development of countries, although it also poses particular challenges. As a result, states need to formulate balanced strategies that take into account both the opportunities and risks related to increased interconnection. Another key strategy involves investing in infrastructure and technology, which will allow countries to open new markets and increase productivity. The second important strategy should be aimed at developing social aspects: investing in education and training a skilled workforce that will be able to stimulate innovation and adapt to globalization challenges. These measures will help solve the issues of rising global inequality, and reduce unemployment, along with the development of entrepreneurship. As a result, a comprehensive approach will allow states to maximize the benefits of globalization while mitigating its negative consequences.

References


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**References:**


