Globalization and its Effect on the National Economy: The Albanian Case

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Abstract

Globalization is a widely discussed phenomenon that involves the free flow of goods, services, capital, and people across the world. It is mainly focused on economic and cultural aspects, among others. Globalization can be considered as a trend towards increasing of the interdependence and integration among the countries and regions of the globe. Globalization affects us all and leads a radical change in the human’s lives all over the planet, in the relations between them as well as in culture and other aspects related to institutions. So globalization increases incomes but simultaneously increases social inequalities, leaving some countries and groups of people behind. To put it simply, globalization can rapidly enrich a small group of capable individuals while impoverishing the larger population. This ultimately leads to a decline in living standards across the world. Globalization has both positive and negative sides, globalization also produces winners and losers, both between countries and within them, so there are losses and the lost, but the supporters of globalization do not accept this fact. In conditions when the economies are converging and that this phenomenon is generally acceptable, national governments should look forward to pay attention to the growth of domestic capital the pursuit of international financial reforms with the aim of making it possible to find solutions to help losses and the lost. National governments should have social protection policies on the top of their agenda as well as programs that will help as much as possible in the correcting of the unequal distribution, to help different groups in need. Labor migration is a negative phenomenon that caused by the globalization and damages the economy of small countries in transition as people capable of working move to developed countries for a better life than what they leave in their country of origin. The main indicators of the globalization of the national economy are producing for world markets, being part of the global financial markets, as well as foreign direct investments. Globalization is inevitable, under these conditions the duty of the national governments is to face of the pressure that leads to the subordination of the local economy to the global one. Globalization facilitates the connection of different parts of the world, reducing borders and allowing national economies to cater to global tastes. The decreased transportation costs also contribute to the intermingling of the global and local aspects, ultimately leading to the unification of regions. About globalism, there are currents for and against, while the opponents of globalism as well as those who call globalization the cause of poverty and inequality have not drawn up any alternative model for economic growth and development throughout the globe. Small countries like Albania require large international corporations or companies to invest in them to achieve comprehensive economic development, reduce unemployment, and increase well-being. Financial institutions like the World Bank and the International Monetary Fund also play a crucial role in this process.

Keywords: Globalization, Glocalization, National Economy, Free Market, Market Economy, Polarization
1. Introduction

Globalization is a phenomenon propelled by technology and the flow of ideas, people, and goods. Globalism is an ideology that prioritizes the neoliberal global order over national interests. No one can disown that we are living in a globalized world. But whether all our policies should be "globalist" is highly debatable. Globalization can be considered as a trend towards increasing interdependence and integration among the countries and regions of the globe. Globalization affects us all and leads to a radical change in the human's lives all over the planet, in the relations between them as well as in culture and other aspects related to institutions.

Developing countries need to approach global economic integration with caution. While it can lead to short-term increases in income for all, it can also deepen the gap between the rich and the poor and exacerbate the divide between developed and developing countries.

Globalization and economic integration will not bring benefits to no one unless state guarantee the security of property rights and the rule of law.

The more successful a national economies in transition in carrying out reforms and finding the right strategies for sustainable development, the easier it is for them to cope with the global economy. To preserve authenticity and create unique regions, the global opening of national economies must be accompanied by the interweaving of the local and the global. Societies and economies around the world are becoming more integrated. Integration is the result of reduced costs of transport, lower trade barriers, faster communication of ideas, rising capital flows, and intensifying pressure for migration. Integration—or "globalization"—has generated anxieties about rising inequality, shifting power, and cultural uniformity. Global integration is already a powerful force for poverty reduction, but it could be even more effective. Some, but not all, of the anxieties are well-founded. Both global opportunities and global risks have outpaced global policy.

Globalization is a highly intricate phenomenon, but it can be simplified to three main aspects: the economic, cultural, and political. The economic aspect is the outcome of recent technological, informational, trade, foreign investment, and international business revolutions, as well as the democratization of these processes, particularly after the fall of the Berlin Wall. The primary actors in this revolution are numerous, including companies, investors, banks, and private industries, mainly from the West, but not limited to them; states also have economic policies that play a role.

In today's, the concept of a future with fewer borders and restrictions, especially in the cultural dimension, dominates among the new generations. Globalization was supposed to bring advantages to poor countries to reduce the gap that separates them from countries with developed economies. The development of technology after the 90s had an important role to make globalization accessible. Access to numerous means of information, satellite information, optical fibers, are making possible the integration of individuals and enterprises. The fast advancement of the technology has made it possible for nations or national economies to interact more and more. This business is becoming ever faster and more effective, and national economies are moving into a new phase of the global economy. A better global allocation of resources and the exploitation of comparative advantages have increased the productivity and thus incomes, so in many countries large groups of people have been lifted out of poverty.

2. Research Methodology, Purpose, Objectives and Research Questions

The methodology of this research consists of the use of the secondary data method, referring to the scientific literature of different authors, statistics of state institutions, foreign organizations located in Albania as well as non-profit organizations. The most relevant cornerstone scientific literature related to the subject was, Theodore Levi, George Ritzer, Anthony Giddens and Elhanan Helpman. The other important sources of secondary data for realization of this paper are datasets from the World Bank, KOF (Swiss Economic Institute).

The aim of the paper is to examine the positive and negative effects of the globalization of national economies, especially for Albanian economy. The paper has three main objectives: 1) To provide a rationale for the argument that globalization refers to the increasing interdependence and integration of all national economies. 2) To present relevant facts related to the growing impact of globalization on national economies. 3) To highlight the effect of the effect that globalization has on the polarization of society.

The research questions of this paper which find answers through this research are as follow:

1Klaus Schwab article Pamphlet 2048 Note Klaus Schwab, is the founder and executive chairman of the World Economic Forum
3Fatos Lubonja Paper. The Effort magazine Nr.17
4FAO April 5/2022 Article *Globalization will increase extreme poverty in Albania 10-fold by 2050
(a) Does globalization affect the improvement or deterioration of national economies? (b) Does globalization affect the "destruction" of national products as a result of international competition? (c) Are non-globalized countries poorer? (d) Does globalization damage the role of the nation state? (d) Is Albania part of globalism?

Globalization is a wide-ranging phenomenon with an impact on the economy, technology, and science, so making the world like a "small village" requires a high level of development in terms of national cultures and the growth of human capital. The data for the Economic Globalization Index for Albania were calculated by KOF (Swiss Economic Institute), but for the period 1970 to 2020. Before and after this period, there is no data regarding the globalization index for our country. During the years 2021 and 2022 referring to KOF, there has been a decline across the globe in terms of the economic globalization index, and this is mainly due to COVID-19, as well as the conflicts or wars that have occurred.

3. Literature Review

In the written literature or even in various debates, there are many opinions regarding the phenomenon of globalization, the opinions begin by considering it as a development opportunity and end by considering it as a loss of national products and authenticity due to international competition. Supporters of the globalization see it as a historic opportunity for the development, while those who are not on the side of the globalization see it as "the destruction of cultures and products in the many majority of countries in the world as a result of international competition and the dominance of a few countries above the others".

Ronald Robertson recognized globalization "as a concept that refers both to the compression of the world and the intensification of consciousness of the world as a whole" (Robertson, 1992). In Ritzer’s work, "globalization is the worldwide diffusion of practices, expansion of relations across continents, the organizations of social life on a global scale, and the growth of a shared global consciousness". Globalization describes the process of creating networks of connections among actors at intra- or multi-continental distances, mediated through a variety of flows including people, information and ideas, capital, and goods. Globalization describes the process of creating networks of connections among factors at intra- or multi-continental distances, mediated through a variety of flows including people, information and ideas, capital, and goods. Globalization is a process that erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence.

After the Second World War, the United States initiated the long march to restore the liberal global order (globalization). This process had three key goals: first, the promotion of economic growth and the raising of living standards; second, an extension of prosperity in the world in order to check communist expansionism and third, the adoption of a liberal democratic institutional framework.

Globalization, which refers to the integration of economies and societies across the world, has played a crucial role in the development of the global economy. One of its key features is the spread of specialization and the division of labor across national borders. During the 1990s, globalization accelerated with the globalization of the capital markets, which led to a decrease in the cost of financing and an increase in the availability of real capital worldwide. As a result, many investors who previously invested only within their own countries began to seek better investment opportunities in other countries.

Although various authors have held different perspectives on globalization, they have shared the notion of an increasingly important role of globalization in the time and space in which they acted.

One of the thinkers who connects the process of globalization with modernism is Anthony Giddens (Giddens, 1998, p.166). According to Giddens, "globalization as a consequence of modernism is the process of spreading the western institutions and making new forms of interdependence in the world".

There is an ongoing global debate about whether globalization has improved or worsened economic growth in developed and developing countries. While not all non-globalized countries are necessarily the poorest in the world,

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5Roland Robertson, 1992, Book Globalization: Social Theory and Global Culture
9Monitor Magazine "Globalization and economic diplomacy with facts and evidence" https / www.monitor.al
10Marija D Rukolovska Cukalevska Anica Dragovic . Paper, June 20 , 2018
11Robertson's and Ritzer's Paper "Conceptions of Globalization"
many of them are. This means that the disparity in per capita income and living standards between non-globalized countries and rich, globalized countries has become more noticeable\(^\text{12}\).

Globalization is not the main cause of rising inequality. It may come as a surprise, but inequality within nations has been increasing steadily in recent decades, at a time when countries around the world have eased restrictions on the flow of goods, capital, and labor\(^\text{13}\).

Wolf on his books “Why Globalization Works” says that we will only have more and better globalization if we have better states\(^\text{14}\). Giddens defines globalization as the intensification of worldwide social relations linking distant localities in such a way that local happenings are shaped by events occurring many thousands of miles away and vice versa. Although every attempt at classifying the processes of globalization necessarily results in oversimplification and a reduction of complexity, Giddens defines four dimensions of globalization.

Globalization, as described by Giddens, is a process that is more than just economics, globalization is the increasing dependence and integration of different economies around the globe. Giddens defines globalization as the intensification of worldwide social relations linking distant localities in such a way that local happenings are shaped by events occurring many thousands of miles away and vice versa. Giddens argues that globalization is a natural consequence of modernism and will lead to the reconstruction of modern institutions\(^\text{15}\).

The literature survey about of this topic, we can say that the globalization not only works but it is needed if national economies are to aspire to extend prosperity and freedom to the whole planet.

Globalization refers to all those processes by which the peoples of the world are incorporated into a single world society, global society\(^\text{16}\). Globalization and a neo-liberal world order are impacting the global urban system, resulting in massive transformation of cities across the world\(^\text{17}\). Globalization is perceived as both an opportunity and a threat for states by various researchers. Globalization combines different dimensions that interact with each other. According to Dreher (2006), who, based on Nye and Keohane (2000), distinguishes between three different dimensions of globalization, Economic, social and political dimension. Economic globalization characterizes long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges. Social globalization expresses the spread of ideas, information, images and people. Political globalization characterizes the diffusion of government policies.

The economic dimension is a significant driving force behind globalization in other areas.

An important place is also occupied by other dimensions, such as the social dimension, where the world has become a “global village\(^\text{18}\). Glocalization is the practice of introducing a product or service using both local and global consider actions with the assumption being that in a global marketplace success is more likely when it is customized for the local culture\(^\text{19}\). Glocalization can be defined as the interpenetration of the global and the local resulting in unique outcomes in different geographic areas\(^\text{20}\).

4. The Impact of Globalization on the Albanian Economy

The effect of globalism on small countries transitioning, like Albania, is significant. Small countries require large international corporations or companies to invest in them to achieve comprehensive economic development, reduce unemployment, and increase well-being. Financial institutions like the World Bank and the International Monetary Fund also play a crucial role in this process. The process of transitioning in small countries is difficult, long, and consequential, with its ups and downs. The main challenge lies in adapting to the reality of the outside world. For socialist block countries like Albania which has had a centralized economy for a long time, the transition cannot be considered a straight and easy line to cross.

Thus is because, these countries face a change in the system, the relinquishment of the centralized economy, and

\(^{12}\)A Civici Economic policies against globalization.
\(^{13}\)Elhanan Helpman, Book, Globalization and Inequality
\(^{15}\)Anthony Giddens 2002 Cambridge, UK. Runaway World. How globalization is reshaping our lives
\(^{16}\)Martin Albrow & Elizabeth King, Book, Globalization, Knowledge and Society (first published 1991)
\(^{17}\)Roland Robertson’s Book “Globalization: Social Theory and Global Culture”
\(^{18}\)Jona Borova Aprilie, 14, 2014, Paper The world in our hands. Globalization
\(^{19}\)Roland Robertson, 1992 Book Globalization: Social theory and Global Culture mlpp.presbooks.pub/globaleducation/chapter/section-1-
globalization.
\(^{20}\)George Ritzer January 2007 “The Globalization of Nothig” Article in SAIS Review of International Affairs ·
accept the market economy, and the acceptance of the capitalist system.

Small countries in transition should focus on developing a suitable strategy for sustainable growth of internal capital, implementing economic reforms quickly and successfully, establishing legal rules in every aspect, especially in property matters, and utilizing their advantages to find the right market segment in the global economy.

The more successful a national economy in transition in carrying out reforms and finding the right strategies for sustainable development, the easier it is for them to cope with the global economy. To preserve authenticity and create unique regions, the global opening of national economies must be accompanied by the interweaving of the local and the global.

Meanwhile globalization is inevitable, some national economies choose to limit exposure to the global world. However, isolation can lead to impoverishment, whereas globalization, apart from the positive sides, also brings phenomena such as the global economic crisis, global warming (caused by global industrialization and global pollution), as well as the recent COVID-19 crisis.

Developing countries need to approach global economic integration with caution. While it can lead to short-term increases in income for all, it can also deepen the gap between the rich and the poor and exacerbate the divide between developed and developing countries.

Therefore, it is important for developing countries to carefully consider the potential long-term impacts of global economic opening before fully embracing it. Globalization and economic integration will not bring benefits to no one unless state guarantee the security of property rights and the rule of law.

Globalization is the process of connecting different parts of the world, which reduces borders and enables national economies to produce goods and services that appeal to global markets. As a result, transportation costs decrease, and there is an interpenetration of local and global influences, leading to the unification of regions.

The process of transition in small countries is a challenging and consequential one that has its ups and downs. The primary difficulty lies in adapting to the reality of the outside world. For socialist bloc countries like Albania, which have had a centralized economy for a long time, the transition cannot be considered a straightforward and easy line to cross. These countries face a significant change in the system, giving up on the centralized economy and accepting the market economy, i.e., the acceptance of the capitalist system.

Albania is no longer an isolated entity but is now an integral part of the global economy, which means that our economy is impacted the different phenomena that occur in the global economy.

Currently, there is a global debate surrounding the impact of globalization on national economies and the standard of living of people in each country. This debate includes various opinions and attitudes21.

What constitutes globalization, in our way of thinking, is interaction that changes things rather than leaving them the same. Successful firms and the managers who run them rarely leave the world the way they found it22.

According to Food and Agriculture Organization (FAO), the increase in foreign trade reduces income especially in rural areas, as it reduces the use of land, for this reason, the percentage of families living in absolute poverty will reach over 7.8% in 2050 from 0.8% in 2011. Food and Agriculture Organization (FAO) calls for private and public actors in developing countries to make far-reaching decisions, such as how domestic sectors, including agriculture, should be promoted (protected from external competition).

Globalization has had a positive impact on national economies across the world. However, it has also led to negative consequences such as the loss of authenticity in cultural and social aspects. In the case of Albania, globalization has brought with it various problems, including the polarization of society and the fading of national autonomy. Elhanan Helpman suggests that in order to both curb inequality and protect what is beneficial in an interconnected world, we must have a clear understanding of globalization's effects and limitations23.

Globalization is a phenomenon that has been discussed long time ago. The first wave of modern globalization took place from 1870 to 1914. Advances in transportation and negotiated reductions of barriers opened up the possibility for some countries to use their abundant land more productively. Flows of goods, capital, and labor all increased dramatically24.

In Albania, the phenomenon of globalization was discussed after the 90s, despite there being some indications of

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23Elhanan Helpman Bokk Globalization and Inequality
agreements made before and during the communist era. The 1939 agreement with Yugoslavia provided a significant boost to our economy, contributing money and infrastructure such as roads and factories. The first treaty between the two countries was signed in Belgrade on February 20, 1945, focusing on economic cooperation, and marked the beginning of a more organized and closer collaboration between the two nations.

This treaty aims to eliminate customs borders and facilitate the exchange of goods between the two countries, with both governments committed to promoting commerce.

After the 90s, even though globalization included the economy of our country at a low rate, the country joined the World Trade Organization (WTO) and signed free trade agreements with various countries, especially with neighboring countries. As a result of trade agreements, the movement of goods and services between different countries became easier.

So our economy shifted from a centralized economy to a market economy, so the confrontation with the global economy was done immediately and not gradually. The lack of information, combined with the culture inherited from the totalitarian system, has made the phenomenon of globalization misunderstood, particularly by the third age. Consequently, we were not prepared to take advantage of the opportunities that were available to us. However, the mindset towards global openness has changed, and Albanians now see it as an opportunity to explore every corner of the globe, which was entirely impossible before the 90s. Close trade, remittance, and banking sector ties with Greece and Italy make Albania vulnerable to spillover effects of debt crises and weak growth in the euro zone25.

The Albanian economy is affected by global events like financial crises, conflicts, epidemics, and more. Being part of the global economy makes it easier for people, goods, capital, and technology to flow, which in turn lowers the costs of transportation, communication, and other related expenses.

Globalization is expected to promote economic growth for manifold reasons26 (e.g. Grossman and Helpman 2015). First, international knowledge spillovers will certainly help to increase economic growth. They occur when knowledge acquired in one country may also be used in another country. Citizen’s exchange knowledge across borders. Actual (de facto) exchange of knowledge and information flows promote economic growth rather than institutions that facilitate information flows27 (de jure).

To assess the influence of globalization on our national economy, experts rely on the globalization index. In our country, this index has been calculated by the Swiss Economic Institute (KOF), covering the time period from 1970 to 2020. However, there is no available data before or after this time frame. The Swiss Economic Institute KOF, calculated the economic globalization index, politic globalization index and the social globalization index. The value of this index ranges from 0 to 100. The average value for Albania during that period was 39.79 points with a minimum of 22.75 points in 1986 and a maximum of 69.92 points in 2017. The latest value from 2020 is 64 points. For comparison, the world average in 2020 based on 184 countries is 57.42 points. Below is a graphical representation of the Albanian Economic Globalization Index for the past eight years.

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27 The KOF Globalisation Index – revisited Savina Gygli1 & Florian Haelg2 & Niklas Potrafke3,4 & Jan-Egbert Sturm2,5 Published online: 28 January 2019
Based on the KOF data, as illustrated in Graph 1, the globalization index for the Albanian economy has steadily risen from 61.43 points in 2013 to 68.62 points in 2019, but dropped by 4.62 points in 2020. The KOF Economic Globalization Index comprises two sub-dimensions – trade globalization and financial globalization.

According to data from the World Bank, Graph No. 2 displays the percentage growth of GDP over time.

Based on the data provided, the Gross Domestic Product has experienced fluctuations year after year. Notably, in 2021, the GDP recorded the highest percentage of growth, primarily due to the construction sector.

The global opening of the Albanian economy has brought positive effects, effects which would be many times greater if the government would implement long-term strategies for the sustainable development of domestic capital. National governments remain the main actors in shaping the globalization process and nations continue to be the...
reference points for most people today\textsuperscript{28}. Empirical studies suggest that globalization promote economic growth. The first study using the 2002 version of the KOF Globalization Index to measure globalization was Dreher (2006). His sample includes 123 countries over the period 1970–2000. The results suggest that overall globalization was quite strongly and positively correlated with economic growth. Disentangling the aspects of globalization suggests that especially actual economic flows, restrictions in developing countries and information flows increase growth. Other previous studies suggest that rather developing instead of industrialized countries enjoy economic growth during globalization\textsuperscript{29}.

5. Conclusions

The history of globalization is early since the year 1492, it was mostly used as a term in the years 1944 and beyond, where nowadays it is commonly used to refer to global markets, threats, communication, and more, etc. Globalization can be considered as a trend towards increasing interdependence and integration between countries and regions of the globe. It has a profound impact on people's lives, their relationships, cultures, and institutions. As economies continue to converge, it is essential for national governments to prioritize the growth of domestic capital while also adhering to international financial reforms. This will facilitate the development of solutions to help those who have been negatively affected by globalization. Globalization is a process that is fueled by technology, the flow of ideas, people and goods across the world. The effect of globalism on small countries transitioning, like Albania, is significant. Small countries require large international corporations or companies to invest in them to achieve comprehensive economic development, reduce unemployment, and increase well-being. Globalization does not necessarily diminish the significance of the national state. If the government can effectively plan and execute long-term strategies to promote sustainable local development, and establish the required infrastructure to attract foreign investments, then the benefits of participating in the global economy will be substantial and sustained. Globalization and economic integration will not bring benefits to no one unless state guarantee the security of property rights and the rule of law. The market economy requires not only good economic policies, an open market, and fair competition, but also reliable, transparent good governance and a reliable institutional framework at any time and in any activity or initiative.

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