

## THE GLOBALIZED ECONOMY AS A RESULT OF DIVERGENT ECONOMIC MODELS

Alexandra UNGUREANU, PhD. student  
*Stefan cel Mare University of Suceava, Romania*

**Abstract:** There are many types of economic systems around the world. Although they all share basic features, each has its own distinctive elements, operating on the basis of a unique set of conditions and assumptions, formulated in response to the implementation or adoption of economic development models. Thus, the understanding of the concepts underpinning, the economic model relates to the specific context of the social, political, economic, and cultural fields. Without a knowledge of these foundations, it would be difficult to discuss economic systems. Moreover, the meaning of this concept is evolving in line with the changes of the international ecosystem and the ideology of cultural values and patterns. Lately, the economy has sought to meet the challenges of globalization, and in particular, the changes that it imposes on the economic and social systems of our societies, in the context of competitiveness that must be taken into account in order to support growth and sustainable development. For a better understanding of the phenomenon, I used a research method based on overlaying data from different sources of research, comparing, eventually, the degree of similarity. The purpose of this paper was to analyze the main features of the most relevant global economic development models: the European socio-economic model, the East Asian model, and the American capitalist economic model, highlighting how the mentioned models vary on the three continents, as well as the adjustments they have caused overtime in the dynamics of economic development. The findings are explained in the conclusion section.

**Keywords:** economic models, globalization, evolution, economic development

**JEL classification:** F63, N00, O10, P00

### Introduction

Globalization has led to the consciousness of the existence of strong economies and weak economies, and it is in our nature to aspire to the association with the strong economies, being therefore inclined to adopt their economic models. However, the protracted evolution of economic development has revealed that for granted the economic model of another nation or country and implement it, does not represent a shortcut to development because of the economic, social, political, and cultural differences. For example, the Americans proclaim a model based on capitalism, in total contradiction with the old Soviet-planned European economy, a context in which the lack of success is predictable.

My research examines three different global economic models, highlighting the impact and influence it had in the process of the economy as we know it in the present. These models of economic and social development are The European model, the American model, and the Asian model, the one that is currently globally imposed.

### The Asian model of economic development

It should be noted that the strategy of comparative advantage in economic policies can be applied not only to industrial production strategy but also to distinct social models that can be used to set up specific organizational strategies. The Eastern Asian economies have historically incorporated behavioral habits based on the value and traditions of generations which, to a large extent, have invented traditional economic organization practices in a way that made sense for their citizens, reflecting the local social context and attributing economic success to their own social and cultural repertoire, being exploited following the potential of people by integrating economic policies into their value system.

In order to understand the distinct thinking models of East Asian societies, we should understand the Confucian culture [1], as the product of extensive historical development. At the heart of Confucianism is the notion that the social order depends on hierarchy, values, and norms.

The neoclassical approach can sufficiently cover the functioning of Western markets but is limited when it comes to explaining market practices in the countries of East Asia, due to the usefulness of the settings in which its institutional assumptions are in place [2]. These assumptions institutionalize competitive individualism in many ways in its market structure and concern economic activity in the form of an antisocial concept.

The economic actor in the East Asian economies is not usually the individual, but rather the network in which he is individually incorporated, the East Asian economies being rooted in institutions that encourage and maintain connections, organized through networks of economic actors believed to be normal and appropriate to economic development [3]. The relational model of these economies denies the neoclassical assumption not only in the perception of actors as isolated units but also in terms of the expectation that price is the critical factor in a purchasing decision.

In East Asian network economies, with value-based business culture, buyers favor the suppliers with whom they have established relationships rather than the least cost providers. This violates the principle of an individualistic competitive approach because the market is conditioned by different social constructions and different value preferences. The neoclassical approach describes these practices as unfair and market imperfections that distort their internal economies.

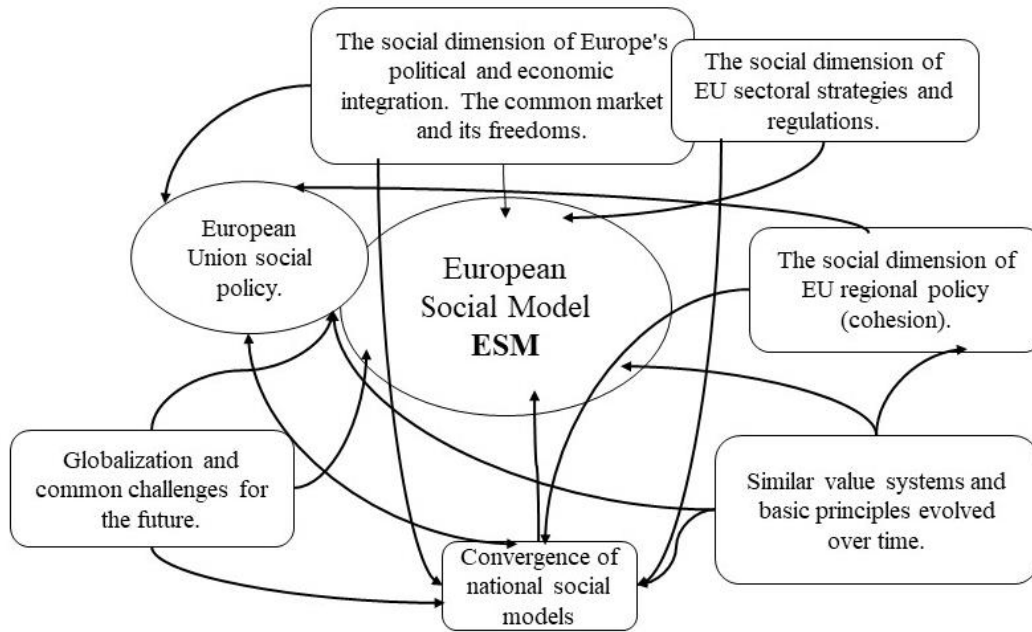
### **The European Economic Development model**

The European Social Model (ESM) remains controversial and it was agreed that there is no single European model for social policy solutions. Indeed, several models have been identified in Europe, but at the same time, European states share many core social values, thus avoiding a similarity in social policies that distinguishes them from other developed regions of the world.

Whereas there is no general Community competence in the field of social policy, as this field remains within the competence of the Member States, the Community has extended considerably from the initial six to the present 27 States, a context in which the diversity of solutions and thus of social policy models has developed over the 50 years of European integration [4].

The differences between the social policy solutions of the six original Member States of the European Economic Community (EEC), Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, all belonging to the conservative social protection regime, were relatively small. Each subsequent enlargement of the Community (1973, 1981, 1986, and 1995) increased diversity by introducing new traditions and regimes into the Community: liberal, social democratic, and models specific to southern Europe. The recent enlargements of 2004 and 2007 have further increased this diversity by the accession of countries that differ from the old ones not only in terms of lower living standards but also in terms of social policy traditions [5]. For example, the Baltic States belonged to the Soviet sphere of influence, some were inside the Soviet Union itself, all developing a distinct socialist version of the social state.

However, from a social point of view, Europe as a whole is distinct from the USA and other parts of the world. Looking at it from a broader perspective and comparing Europe with the rest of the world, the differences between countries seem less important and the similarities become more visible. For example, we can see that in Europe, socio-economic inequalities are lower and social rights and state support for social protection are wider. In this context, we can say that those mentioned above define the European social model and the key factors that contribute to this process are [6]: shaping a common market designed to achieve the desired results in sectoral policy; regional policy, focused on achieving greater cohesion between regions in EU countries; a European system of values, unanimously accepted, contrary to the discussions on the different roots of these values; convergence of national models for the welfare state, determined both by the search for national solutions and by the impact of European programs; the effort of EU Member States to jointly implement social strategies defined under the Open Method of Coordination (OMC); carrying out joint activities in response to the contemporary challenges emerging before an enlarged Europe, as well as globally; pursuing an explicit European social policy, the main objective of which is to gradually increase.



**Figure 1. European Social Model**

Source: Diversity and Commonality in European Social Policies: The Forging of a European Social Model, 2009, pag. 14, own processing

Perceived in this way, the ESM is not the traditional model for the social policy of the Old European countries, often attacked for impeding dynamic economic development in an era of globalization. At the same time, is not a model for reducing social policy on the basis of certain reforms of the new Member States, being considered a concept for a future in which the European core values and approaches will be preserved.

Following the analysis of figure 1, we can identify a number of features of the European social model, such as simultaneous economic, social, and proportional development; active employment policy; decent and equal living standards; common values: equality, solidarity, subsidiarity; social dialogue and social participation; social inclusion.

The idea of the European social model has not been defined so far, despite the fact that it is frequently analyzed in the increasingly extensive literature on the European Union. Given that the socio-cultural regimes differ from one country to another among European countries, a discussion of a common European social model could be misleading [7].

**The American model of economic growth**

The United States is often seen as having a political, economic, and social system with a market economy that is largely based on a democratic political system. The three pillars of democratic capitalism include economic incentives through free markets, fiscal responsibility, and a liberal mono-cultural system that encourages pluralism.

Although economic growth under capitalism has led to democratization in the past, it may not do so in the future, for example, authoritarian regimes which have managed economic growth without making concessions for greater political freedom. In the capitalist system, indications of economic freedom are strongly correlated with higher incomes, high standards, and life expectancy, and capitalist democracies are rarely in the antithesis, with little internal conflict, specific to the nature of the American economy.

The capitalist economic model has contributed to significant gains in economic growth and prosperity throughout its history, leading us to believe that the evolution of American capitalism is not contemporary, because undeniably, capitalism has evolved in line with the changing nature of the economy itself, including the role of capital and labor, trade and monetary policy, as well as changing

ideas about political economy.

The current American neoliberal model of capitalism, but also attendant in a small ratio in several Western economies, was modeled in the 1960s and 1970s. A defining moment for this change was the article published in 1970 in *The New York Times* by the economist Milton Friedman (1912 - 2006), in which he argued that "the social responsibility of business is to increase its profits [8]." This in itself was a detachment from the Keynesian economy, which emerged as a standard model in advanced economies after the Great Recession of the 1930s, as well as a remark about the role of entrepreneurship.

The capitalist model has created economic growth and well-being. GDP per capita has more than doubled in the last 50 years [8], while personal consumption expenditure per capita has almost tripled. Although growth slowed in the first 20 years of the 21st century, America's capital model continued to lead into the global economy. While real US GDP growth exceeded 2%, it also surpassed the other six advanced G-7 economies [9].

The benefits of the American model have not only accumulated in the American economy, but have spread around the world through competition, trade, investment, and the proliferation of globally relevant innovations in areas such as technology, medicine, financial and capital markets, and in managerial innovations and business models. The rapid economic growth in the emerging economies of the last 30 years has contributed to overcoming the poverty line of over one billion people. This increase in the level of well-being is largely due to the effects of trade and participation in a global economy in which the American model, with the support of its institutions and related ecosystems, has played a central role.

### **Conclusions**

Globalization and economic integration were the two fundamental socio-economic phenomena that have characterized the global economy in recent years, present in the three models of economic development analyzed in this paper. The most visible indicator of the globalization process is the increase in global competition, perceived as an economic encounter between countries or companies on a global scale. Although competition and globalization will not be equated by treating them as synonyms, there is still plenty of indisputable evidence that globalization is the one in question factor that directly increases and intensifies competition, and competitiveness helps us to identify viable solutions to the challenges of globalization.

The economic order of each country is governed by its specific nature. Thus, in practice, understanding the concepts underpinning the economic model relates to the specific social, political, economic, and cultural context. Without a knowledge of these foundations, it is difficult to discuss capitalist economic systems. Moreover, the meaning of this concept is evolving in line with changes in the international ecosystem, in the system of cultural values and patterns.

The aim of the research was to analyze the main characteristics of the most relevant models of globally economic development: the European socio-economic model, the East Asian model, and the American capitalist economic model, highlighting how they vary on the three continents, as well as the changes they have caused overtime in the dynamics of economic development.

The differences in performance, as well as the reforms that have taken place, have allowed defining the elements of the models that support the defining characteristics of societies. The principles that make up the complete development framework of an economy are economic growth, political freedom, and social cohesion. The analysis of the three models has helped us to conclude what are the defining elements of each model. But it is important to specify that although there are reasonably visible differences, we cannot name a single model as successful.

The Asian model is characterized by a reduction of political freedom, but incorporates economic growth and social cohesion. This association, along with the Confucianism mindset, behavioral patterns, and social structures that have manifested themselves in organizational ways specific to their economies, different from the Western mindset, has stimulated the development of the East Asian economy.

The American model is based on economic growth and political freedom, excluding social

cohesion, focused on economic incentives through free markets, fiscal responsibility and a liberal moral-cultural system that encourages pluralism. Although economic growth under capitalism has led to democratization in the past, it may not do so in the future, as exemplified by the authoritarian regimes that have managed to control economic growth without making concessions to greater political freedom.

The solely model that includes the three elements is the social-European one. However, there is no single European social model in terms of social policy solutions or design between European countries. The social protection systems of the Member States are characterized by diversity and the recent enlargements of 2004 and 2007 have further increased this diversity by the accession of countries that differ from the old ones, not only in terms of lower living standards but also in terms of the traditions of social policy.

We notice that two out of the three models are characterized by exclusion, the American and the Asian one, the European model remaining plainly one of an inclusive nature, the exclusive models being antagonistic, characterized by an ideological resonance. The American model, for example, is neoliberal, emphasizing the properties of the market, and the Asian model is socialist, valuing the control of decisions, resources, and political freedoms. History has shown us that exclusive models have greater dynamics of results, the inclusive model being the model of the third way, the alternative to exclusive models.

Europeans are following and analyzing dynamic economic growth in East Asian countries, while the Asian countries aspire to the high standard of living prevailing in Europe and especially in the United States. Understanding the economic models that dominate the three continents is distinguishing that Europeans, Americans, and Asians have different ways of reasoning and have different approaches to the notion of the competitiveness of their economies.

While Europe measures the competitiveness of its economy through a high level of employment, sustainable development, social coherence, and a lack of social exclusion, the competitiveness of Asian countries is conditioned by the work efficiency of their citizens, based on high productivity, which departs from the vision of the welfare status. This strategy has been very successful in the past, but there is no certainty that it will perform in the future.

Globalization and economic growth have stimulated the demand for democracy and social equality. Therefore, it is possible that in the future, the economic system of Asian tigers will move in the direction of the European and American model, more society-oriented models.

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