

# Small States and Globalization: the Issue of Clusters and Indexing

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## ABSTRACT

The fact that there is a myriad of definitions of the term globalization indicates the importance of this process. Globalization takes place in different cultural environments, which are often a conglomerate of different cultures and traditions. The world is becoming increasingly small and the global competition bigger. It is to be expected that in the future, the opposition to the globalization will grow, and new alternatives to it will emerge. Although it is often emphasized that large states reap the fruits of the globalization, research results indicate that small states also have an opportunity to prosper in the globalization process. Clusters enable better positioning of small countries and enhance global competitiveness.

Measurement of globalization calls for availability of balanced data on various indicators in order to create a realistic picture of the studied issue. Quantitative measurements of the globalization and the quest for new measurement models and indexes are complemented by qualitative analysis. The globalization indexes indicate that small countries can also be successful and that some of them are among the most globalized countries in the world.

**KEYWORDS:** globalization, globalization indexes, clusters, strategic alliances, global competitiveness, small states

## POVZETEK

Dejstvo, da obstaja nešteto definicij globalizacije, kaže na pomen tega procesa. Globalizacija poteka v različnih kulturnih okoljih, ki so pogosto konglomerat različnih kultur in tradicij. Svet postaja vse manjši, svetovna konkurenca pa večja. Pričakovati je, da bo v prihodnosti nasprotovanje globalizaciji naraščalo, pojavile pa se bodo nove alternative tega procesa. Čeprav je pogosto poudarjeno, da velike države žanjejo sadove globalizacije, rezultati raziskav kažejo, da imajo tudi majhne države priložnost, da napredujejo v procesu globalizacije. Grozdi omogočajo boljše pozicioniranje majhnih držav in povečujejo globalno konkurenčnost.

Merjenje globalizacije zahteva razpoložljivost uravnoteženih podatkov o različnih kazalnikih, da bi se ustvarila realna slika preučenegega. Kvantitativne meritve globalizacije in iskanje novih merilnih modelov in indeksov dopolnjujejo kvalitativne analize. Indeksi globalizacije kažejo, da so lahko uspešne tudi majhne države in da so nekatere izmed njih najbolj globalizirane države na svetu.

**KLJUČNE BESEDE:** globalizacija, indeksi globalizacije, grozdi, strateška zaveznitva, globalna konkurenčnost, majhne države

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## INTRODUCTION

We encounter globalization in every single segment of our modern way of life and doing business. Change management is the key factor of modern economy and business. As factors of influence on the modern business operations, respective areas of globalization develop with the assistance of interdisciplinary research and studies, which are based on application of theory, concepts and models from different scientific disciplines.

Although the prevailing opinion is that the biggest and richest countries benefit the most from the globalization, this is not necessarily always true because various globalization indexes show that small states can definitely prosper in the era of globalization.

Majority of literature on globalization connect the globalization process with liberal capitalism values. Specifically, the three key factors of globalization: technological development, level of maturity of political relations and level of theoretical knowledge and practical economic skills. Majority of companies correspond to the globalization with the following business activities: direct new investments, mergers, takeovers and strategic alliances.

Globalization takes places in different cultural environments, which are often a conglomerate of various cultures and traditions and require recognition of the intercultural aspect.

There are also reactions to the ubiquitous globalization. Specifically, deglobalization<sup>2</sup> and glocalization<sup>3</sup> process. Globalization causes conflicts between politicians and management. Politicians increasingly use protectionism measures to protect their national economies, while on the other side the internationally operating companies modify the standard business practice on domestic markets and operate globally, which is why for them any protectionism is perceived as an impediment or obstacle. In the modern times, this is reflected through confrontation of the so-called sovereignists and globalists. The

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2 Svetličić (2004) believes that "we can realistically expect that globalization will increase and will not be stopped in the near future, that is during our generation. That can happen in case of a great global crisis or world war. However, despite all their shortcomings the available global mechanisms and international organizations offer mechanisms for preventive diplomacy that are more successful than those in the past."

3 Glocalization is a term derived from merging the words globalization and localization, and means integration and interaction of global and local considerations in different parts of the world.

clusters<sup>4</sup> or geographically concentrated and interconnected companies are a phenomenon which on the figurative or virtual level has attributes of the respective nation, region, state, and even metropolis. Their prevalence reveals important insights into the micro-economy of competition and the role of location in the competitive advantage.

Postglobalism<sup>5</sup> is largely determined by regional blocks. In this context, this area has long been defined by the sphere of influence of the conventional triad (US, Japan and Europe). However, due to its extraordinary economic achievements, a possibility of adding a fourth member could be considered. Namely, Southeast Asia could be included at least as another actor in addition to Japan, in the global balance of power in the world. In this respect, the most interesting aspect is the development of the Asia-Pacific trade block, whose future activities will depend on Japan-US relations, as well as joining of new members. Time will show in what way the intercontinental blocks in the world will develop over time, primarily because of the numerous inherent conflicts. (Turčinović, Vrcelj, 2010, p.182).

The globalization processes have become a constant in the economy and modern business processes, because they represent the increasingly close interconnection of actors from all over the world in different areas of operation. Globalization is present in various segments such as economy, culture, communication, ethics, etc. The term globalization is omnipresent and encompasses various categories starting from the westernization of the world to the establishment of supremacy of capitalism. However, on the other side, some authors believe that globalization actually increases homogenization and closure of societies. Others see globalization through the prism of diversity and creation of phenomenon of hybridization of cultures. There is globalization of global trade, financial operations, as well as globalization of production.

The globalization results in constantly increasing interdependence

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4 Clusters have long been part of the economic landscape, with geographic concentrations of trades and companies in particular industries dating back for centuries. The intellectual antecedents of clusters date back at least to Marshall (1890/1920), who included a chapter on the externalities of specialized industrial locations in his *Principles of Economics*.

5 Postglobalism is, actually, a manifestation of growing interdependence of states in the world, which begun with the increase of international trade and continued with internationalization of financial flows. It should imply participation of all countries in the world in these flows. However, the process of postglobalism tends to concentrate on several countries in the world, which implies inequality in the geographic distribution of its benefits. This is the main reason why developing countries, in majority of cases, have remained marginalized in this process. Nevertheless, it needs to be acknowledged that the marginalization is partly also a result of structural shortcomings of the economies of developing countries (Turčinović, Vrcelj, 2010, p.181)

and interconnectedness among economies of different countries and regions in the world. Regardless whether you are “pro” or “anti” globalization, the economic globalization is a reality, which has growing effect on national economies. At the same time, the globalization also offers a certain level of individual freedoms and human rights that no national state is able to provide on its own. The development of global competition led to creation of new business-entrepreneurial capabilities and accelerated progress in technological innovations. While economic borders disappear, cultural borders get erected. The world is rapidly changing. For example, in 2006 the global economy recorded the most prosperous five-year period ever since 1945 with an average growth of gross domestic product of approximately 4%. The growth of export in international trade is two times larger than the growth of global gross domestic product over the past ten years, while the global inflation is at a level of almost 3%. Such intensive development and growth would not be feasible without globalization.

### **SMALL STATES AND GLOBALIZATION**

An inevitable question in this context is whether small states<sup>6</sup> can prosper in the era of globalization. While the world is becoming smaller and smaller, the global competition is becoming bigger and bigger. The global competitiveness represents the capacity of an individual or a team to parachute to the ground of another country and be able to successfully do business there, respecting the cultural forms of the respective state all the time.

Measuring various effects, dimensions and aspects of globalization requires availability of balanced and reliable variety of indicators in order to create a real image of this phenomenon. An appropriate combination of qualitative analysis and quantitative measurement can serve as a combined model that will respond to the challenges related to the measuring of the occurrence that is constantly changing and appearing in new forms. Nevertheless, the measurements are still not able to fully track such an occurrence because of the constant emergence of new variables and uncertainties, which cannot be easily quantified, let alone managed. In fact, it is through the measurements of globalization and the associated different indexes that we establish to what extent the small states are globalized.

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<sup>6</sup> For definitions of small states see Jazbec, 2001:36-46.

Clusters, as a form of grouping and networking of companies, instigate in a flexible fashion development of small and medium size companies and in such a way assist small states to be more successful and prosperous in the globalization process. This also propels development of local communities, regions, and states<sup>7</sup> as well as increases their competitive advantage. Clusters connect similarities and complementarities. In other words they connect the global and the local.

Virtual teams are another option for doing global business. Virtual teams operate in an asynchronous way and have to work without the mechanisms that assist coordination of activities and crisis management, which synchronous teams have at their disposal. Studies have shown that the manner in which virtual teams deal with internal conflicts is of essential importance for their success, while coordination of time has an important role of a moderator.

Strategic alliances also increase the competitive advantage of companies. These alliances are a form of cooperation of two or more independent companies with the aim of achieving the agreed strategic goals. This facilitates realization of tasks and provides for best possible management (company's competence), which leads to bigger success, as well as cost and risk reduction.

## **CHALLENGES OF GLOBALIZATION**

Globalization is one of the most frequently used and criticized economic terms, which triggers different reactions. Some see globalization as a useful development, while others express opposition to it or challenge it, because they believe that globalization brings an array of negative effects (e.g. increased stratification of states, detrimental effects on the social development) and is in function of multinational companies and rich global elites. There is a widespread opinion that globalization is primarily detrimental for the small states and beneficial for the big ones. This can be seen through the two opposing political concepts – the sovereignists and the globalists.

Strengthening of cooperation between different countries does not mean that the cultural differences diminish or disappear. Modern models of doing business recognize the reality of globalization, but at the same time demonstrate readiness to adjust to time and space in which

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7 For characteristics of small states see Jazbec, 2001:46-56.

the operations take place. Therefore, these models take into account the social context as well.

While in the 19<sup>th</sup> century the economic influence of Europe was spread around the world, primarily through expansion of trade, aggressive conquests and exploitation of colonies, at the end of the 20<sup>th</sup> century the process of globalization includes all spheres of capitalist economy (Križan, 2008, p.93). Will we have rich states with poor population, as Stiglitz (2002) believes, or will a society of equal opportunities for all be created, and will smaller and economically underdeveloped countries have an opportunity to experience, within the framework of globalization, emancipation in a range of areas.

It is to be expected that the future will see an increase in opposition and challenging of the globalization, as well as in emergence of new alternatives to it. One of the alternatives is the “easternization”, first of all, due to the future strengthening of China, particularly in the context of global trends. China has become the second largest economy in the world, which causes new global turbulences and trends.

The globalization enables everything that, may have always been latently valuable in capitalism, but had remained hidden in the phase of its social-state-democratic restraint. Namely, companies, especially those operating at the global level, play the key role in creating not only the economy, but the society in general—as they retain country’s material resources (e.g. capital, taxes, jobs). Globally operating companies undermine the foundations of national economy and national states. This has triggered the process of subpolitization of completely new dimensions and with unforeseeable consequences (Beck, 2003, p.14).

Even the most powerful countries do not have a joint opinion on globalization, because each of them has its unique experiences and interprets it in its own way.

Natural environment, social system and culture are the segments that most frequently appear as obstacles to globalization.

Global competence is directly linked to globalization, which facilitates affirmation of globally competent companies and managers. The globalization process continuously prompts individuals and companies to invest more efforts in order to enhance success.

An international panel of experts agreed on the following working definition of the term *global competence*: “Having an open mind while actively seeking to understand cultural norms and expectations of others, and leveraging this gained knowledge to interact, communicate and work effectively outside one’s environment” (Hunter et al., 2009, p.270).

Globalization will continue to be a controversial issue and a subject of many debates, which advocate or dispute globalization depending on the participants in the process.

### **A QUEST FOR PROSPERITY**

It is believed that the globalization is an irreversible process, which is simply unavoidable regardless of the efforts invested against it. The global economic crisis was a new blow to the globalization, because it has transpired that financial markets are insufficiently regulated and that state interventions were needed once again. One cannot have a positive or negative view of the globalization process, but can only speak about positive or negative tendencies of the development of the globalization process.

Regardless of the fact that globalization generates many positive things, there are also opinions that the transnational companies and affluent elites have benefited the most from the free market principles, which have been dominant over the past decades in the world, and that the population of underdeveloped countries is increasingly discontent with the globalization. The capitalism of today is at a crossroads and it has to provide answers to questions posed by the economic and social crisis, primarily the issue of a more equal distribution of globalization effects<sup>8</sup>.

Global markets are related to the fact that the world itself is one potential market. Organizations on the global market face global competition, which should not be viewed negatively. On the contrary, one of the most efficient strategies for achieving competitive advantage is the strategy of connecting with business partners around the world. Diversity, ethic values and social responsibility are the challenges of the modern world, which modern organizations need to incorporate in their organizational culture. The growing diversity of manpower

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8 Referring to capitalism with a human face, something similar to what Bernie Sanders propagates in the US.

brings forth new challenges, including preservation of strong organizational structure, while simultaneously supporting diversity, balanced working hours, and overcoming of conflicts between different organizational cultures (Dimovski et al., 2005, p.302).

While the modern world is coming closer together on one side, on the other side it is growing apart because of the new differences that are being created.

Currently we are faced with a plethora of challenges, because the international global order has changed dramatically. Nowadays, the political agenda is informed not just by the states, but also by international organizations, non-state actors and in some cases even individuals.<sup>9</sup> Some contradictory tendencies have created the situation that we have today in the world, which on one side is becoming increasingly interconnected because of the development of communication technologies and the growing interdependence, while on the other side there are clear aspirations related to segmentation and regionalization, as well as protection of nation states from the external influences of globalization. Modern political actors are in a search for different ways to gain maximum possible power, which is measured not just in the context of its “hard” aspects (military power, economic power, geopolitical positioning), but also in the context of its soft aspects (power of appeal, ideology, culture, etc.) (Bajrektarević, 2015, p.141).

In such a way the globalization warns of one of the key contradictions of the modern times. Specifically, the fact that while “social contracts” apply in nation states, the rules of the “state of nature” apply to the processes and developments in the international arena. That is why it is required to use rational arguments to entice theorists and political activists who believe that the time has come to establish some kind of a *modus vivendi* between the principles of “nationalized”<sup>10</sup> democracy on one side, and “globalized”<sup>11</sup> democracy on the other. At this point it would be difficult to forecast what path and deliberative democratic models will be devised, although the theorists in this area do not lack ideas. This opens also the issue of requirement for global regulation and a new global concept.

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9 Soros, Gates, Kissinger, Rockefeller et al.

10 The example of the Visegrad Group (Hungary, Poland, the Czech Republic, and Slovakia).

11 There is a crisis of multilateralism, which was furthered with the election of Donald Trump as the US President.

As globalization expands over territoriality, the people increasingly feel the need to identify with something that is close to them and closer to their world of emotions in general. The data on the growth in the number of nation states<sup>12</sup> in the world, and the fact that in the era of globalization their number has increased, is a testimony of that. According to the forecasts, a significant number of almost 800 active ethnic-nationalist movements in the world would like to see, potentially, a new state in the future. Numerous experts dealing with globalization warn of its paradox: while on one side the globalization process limits the relative strength of nation states, it increases the number of nation states in the world on the other. It is not irrelevant that through their contacts with other peoples, which the globalization processes have only intensified, the peoples have developed additional safeguards for development and preservation of their respective identity.

It is understandable that active participation in the globalization processes brings more opportunities for prevention or at least mitigation of its negative consequences. This is particularly true for the small states and nations. Taking an active role in the globalization processes is the only possible way to resist the attack of cultural homogenization, which ultimately threatens to turn impotent ethnic groups into “touristic folklore”.

Globalization gives an opportunity to all the actors in the process to (re)position themselves, which means that it also gives small countries an opportunity to achieve enviable results. Clusters are an opportunity for the countries to increase or improve their competitive advantage.

### **CLUSTERS AND GLOBAL COMPETITIVENESS**

The globalization often brings into question the “think global, act local” slogan. Are there global and national companies? Modern approaches make no references of the kind and distinguish only between successful and unsuccessful companies. The global and the local can definitely be connected. The clusters provide an example of that.

In the globalized world we will not be able to envisage social practices and preferences on the basis of geographic locality. People will be able to establish long distance relations, as well as short distance ones. This, however, does not take into account the fact that each locality includes unique characteristics, on the basis of which the re-

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12 At the time of the inception of the UN there were 50 states, and now there are 193.

actions will most probably occur, or recognition of their importance as well as potential benefits in the context of a global society, which largely provides for multifunctional integrations of “nesting” and “grouping” (Mlinar, 2012).

Strategic alliances do not exist only in politics. They are becoming an increasingly present form of pursuit of strategies that companies use in response to intensified competition. Alliances are an arrangement made by two or more companies in order to overcome the issue of lacking resources by combining internal and external resources. Hence, in a strategic alliance, a company pools its best resources with the best resources of other companies that are parties to the alliance hoping to achieve a competitive advantage. Strategic alliances also include sharing of knowledge and expertise among member companies, which is an additional motivation for entering into an alliance.

Clusters have long been a part of the economic landscape with geographic concentrations of trades and companies in particular industries dating back for centuries. Intellectual antecedents of cluster theory date back at least to Marshall (1890-1920) who included a chapter on externalities of specialized industrial locations in his *Principles of Economics*. Cluster is a geographically proximate group of interconnected companies and associated institutions in a certain area of work, which are connected by specific similarities and complementarities. The geographic scope of cluster ranges from a region, a state or even a single city nearby or neighboring countries (e.g. North Italy or the automobile industry cluster in Slovenia). The operational area of a cluster is determined by the overall surface area in which informational, transactional, incentives and other activities take place. Clusters encompass a significant number of associated industries (not just one) and other entities relevant in the context of competition. For example, clusters can include suppliers of specialized accessories, parts of machines, services, suppliers of specialized infrastructure. Clusters often expand from the top to the bottom, down towards the buyers and later towards manufacturers of complementary products or related companies (by capabilities, technologies or similar inputs). Many clusters include governmental or other institutions (universities, standards-setting agencies, trade organizations, etc.) to facilitate specialized training, education, professional development, information and technical support. Furthermore, many clusters include trade associations and other bodies that include cluster members. Finally, foreign companies also can be and are cluster

members, but only if they are significantly present at the local level and continuously make investments.

Development of clusters is a relatively complex process, which requires simultaneous cooperation among representatives of the government, companies, local authorities, financial institutions, trade unions, educational institutions and various other organizations<sup>13</sup>. Due to the geographic proximity, through their business activities cluster members generate a catalogue of different forms of positive effects, such as simpler access to suppliers and clients, specialized labor market, and much easier access to business information and new knowledge. Through mutual interaction with their specialized buyers and suppliers, cluster members continuously implement learning processes, as well as processes of exchange of knowledge and information (Porter, 1990).

The geographic scope of the cluster can vary from a local community, to a country, region and can even evolve to include interregional and interstate cooperation. Its structure depends on the economic sector in which cluster members do business and the number of members interested in development of a joint strategy.

One of the significant problems in the context of cross-cultural research is the identification of not just the differences but also the similarities among specific cultures. In other words, establishment of cultural clusters of the countries which, on the basis of a number of historical, religious, geographic and other reasons, can be expected to have proportionally similar values and views of the world and doing business, specifically, in which similar social and business conduct can be anticipated. In this context, lately special attention has been put on Europe, the model of European management, as well as research of similarities and differences within it. Different approaches and styles of management prevail in European countries, starting from the hierarchical, autocratic style in France, to a fully democratic, consensual style of management in Sweden. The listed countries are typical examples of European cultural clusters and there are significant cultural differences between them. Cultural clusters in Europe are based on Hofstede's<sup>14</sup> research results (Bahtijarević, Šiber et al., 2008, p.417).

<sup>13</sup> For more on small states and international organizations see Jazbec, 2001:56-59.

<sup>14</sup> The relation between culture, society and organizational culture, as well as diversity of organizational cultures within a society, was best explained by Hofstede, who asserted that the culture of a society is based on values, while the culture of an organization is based on practice.

Economic geography in an era of global competition involves a paradox. It is widely recognized that changes in technology and competition have diminished many of the traditional roles of location. Resources, capital, technology, and other inputs can be efficiently sourced in global markets. Firms can access immobile inputs via corporate networks. It is no longer necessary to locate businesses near large markets to serve them. Governments are widely seen as losing their influence over competition to global forces. It is easy to conclude, then, that location is diminishing in importance. This perspective, although widespread, is hard to reconcile with competitive reality. In *The Competitive Advantage of Nations* (Porter, 1990), Porter puts forward a microeconomics-based theory of national, state, and local competitiveness in the global economy. In this theory, clusters have a prominent role. Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (like universities, standard agencies, trade associations) in a particular field that compete but also cooperate. Clusters or critical masses of unusual competitive success in particular business areas are a striking feature of virtually every national, region, state, and even metropolitan economy, especially in advanced nations (Porter, 2000, p.15).

Many believe that the globalization is developing in a wrong direction and criticize the wrong policies of the World Bank (WB), International Monetary Fund (IMF), World Trade Organization (WTO) and credit agencies. At the same time they emphasize that economy and ethics are increasingly drifting apart. Although all the listed institutions were founded with intent to provide stability and development of global economy, they had not managed to prevent global crises. In general, instead of implementing its main mission the IMF dealt more with assisting the countries affected by a crisis, provided that they had agreed to its restrictive policy. The current situation<sup>15</sup> requires a reform of international financial institutions, because they have not provided adequate responses to the crises, whereas the control of financial institutions, primarily the banks, was particularly poor. Experts warn that a solution to the phenomenon of globalization could be to increase the role of the state and international organizations that would oppose “market fundamentalism”<sup>16</sup>.

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15 The WB, IMF and WTO were established as a result of World War II and in many aspects do not suit the current global requirements and challenges.

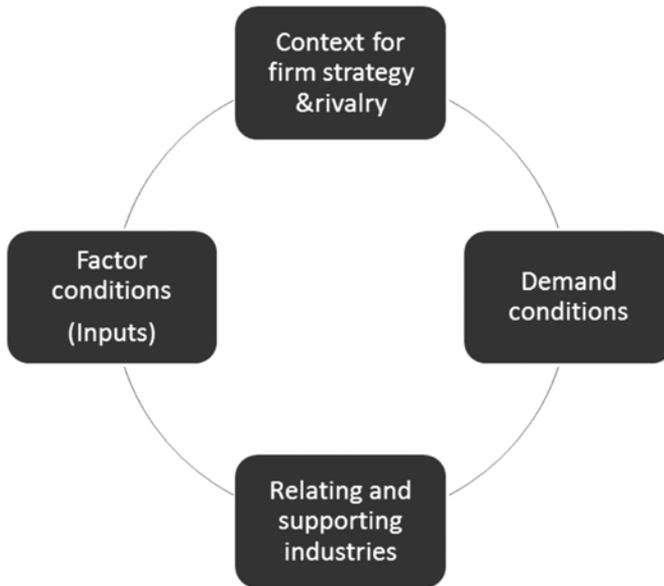
16 The crises have shown a requirement for state interventionism.

Porter (2000) warns of the emergence of clusters and their dominance in modern macroeconomics, while the prevalence of clusters reveals important insights about the microeconomics of competition and the role of location in competitive advantage. Even as old reasons for clustering have diminished in importance with globalization, new influences of clusters on competition have taken on growing importance in an increasingly complex, knowledge-and-information based and dynamic economy. Clusters represent a new way of thinking about national, state, and local economies, and they necessitate new roles for companies, for various levels of government, and for other institutions in enhancing competitiveness. For companies, thinking about competition and strategy has been usually determined by what goes on inside the competitor organizations. Clusters suggest that a good deal of competitive advantage lies *outside* companies and even outside their industries, residing instead in the locations at which their business units are based. This creates important new agendas for management that are rarely recognized. For example, clusters represent a new unit of competitive analysis along with the firm and industry. Cluster thinking suggests that companies have a tangible and important stake in the business environments where they are located, in ways that go far beyond taxes, electricity costs, and wage rates. The health of the cluster is important to the health of the company. Companies might actually benefit from having more local competitors. Trade associations can be competitive assets, not merely lobbying and social organizations (Porter, 2000, p.16).

An inevitable question is how can the globalization, with all its advantages and weaknesses, be improved and made more acceptable. The current crisis has also shown opposition to globalization in the most developed countries. Actors admit that the world will have to live with it for many years to come.

Capturing the business environment in a location is challenging given the myriad of locational influences on productivity and productivity growth. *The Competitive Advantage of Nations* (Porter, 1990) refers to a model of the effect of location on competition. The effect includes four interrelated influences graphically depicted in a diamond. The diamond metaphor, which has become common in referring to the theory, is presented below.

**Figure 1: Sources of Locational Competitive Advantage** (Porter, 2000, p.20).



Center of the diamond: local context that encourages appropriate forms of investments and sustained upgrading Vigorous competition among locally based rivals

Left: Factor (input) quantity and cost

- Natural resources
- Human resources
- Capital resources
- Physical infrastructure
- Administrative infrastructure
- Information structure
- Scientific and technological infrastructure



Factor Quality

Factor Specialization

Below: Presence of capable, locally based suppliers

Presence of related and competitive industries

Right: sophisticated and demanding clients

Customers' needs that anticipate those elsewhere. Unusual local demands in specialized segments that can be served globally.

Scholars have sought a way to define and explain concentrations of firms in terms of economies of “agglomeration.” These normally emerged at either the industry level or in diversified urban economies. Many treatments of agglomeration economies rest on cost minimization due to proximity to inputs or proximity to markets. These explanations, however, have been undercut by the phenomenon of globalization of markets, technology, and supply sources, easier mobility, and lower transportation and communication costs. Today, the nature of economies of agglomeration has shifted toward the cluster level and away from either narrower industries or urban areas *per se*.

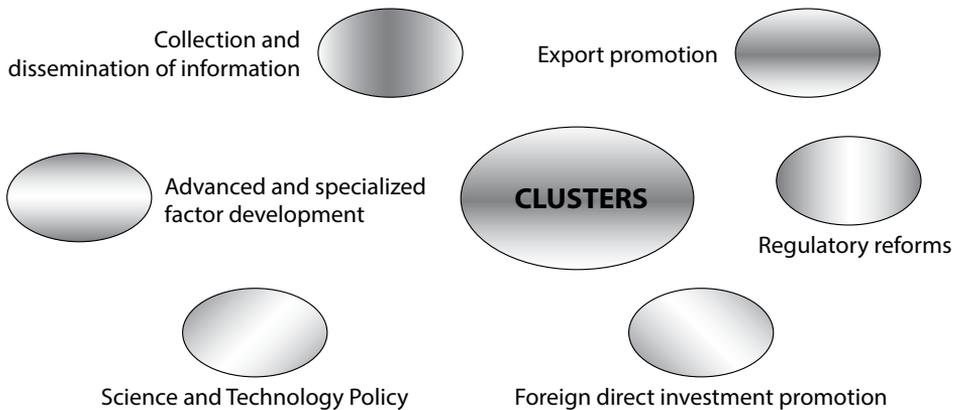
Clusters provide a way of organizing thinking about many spheres of policy that goes beyond the common needs of the entire economy, as shown in Figure 1. Cluster-based thinking can help focus on priorities and guide policies in science and technology, education and training, export and foreign investment promotion, and a wide variety of other areas. A location’s best chance for attracting foreign investments and promoting export lays, for example, in the existence and emerging of new clusters. A cluster orientation highlights the fact that more parts of government have an influence on competitiveness than usually recognized, especially within government itself. The cluster theory makes the impact of policies on the competitive position much clearer and more operational. Effective solutions often require collaboration of different parts of the government. Finally, cluster thinking not only complements the political attention on the economy, but also highlights the important roles the government has at *several geographic levels*.

The traditional focus of economic policy has been at the national level, and many aspects of the general business are best addressed there. Recently, globalization has focused attention on worldwide multilateral institutions. However, state, metropolitan region, and local governments also have an important influence on the general business environment in a location. At the cluster level, these influences often are rather dominant, and clusters should represent an important component of state and local economic policy. A good example is the city of York in the United Kingdom. As a result of a recent government reorganization, York City became a regional administrative center with responsibility for the entire region. Since then, it has set up an aggressive industrial development policy and has been working closely with members of the region’s bioscience cluster. The Cluster theory also suggests new roles for companies, which have been covered in earlier works (Porter, 1998).

The private sector has a role to play in cluster upgrading in all parts of the diamond. The most obvious areas are related to improving factor conditions including the supply of appropriately trained personnel, the quality and appropriateness of local research activities at universities, the creation of physical infrastructure that meets the needs of the cluster needs, and the supply of cluster-specific information. Ongoing company relationships with government bodies and local institutions such as utilities, schools, and research groups are necessary in order to attain these benefits, as is investment by cluster participants to establish common specialized infrastructure such as port or handling facilities, satellite communication links and testing laboratories. Cutting across all these areas is the need for cluster participants to collect the relevant information and provide it to government so that it can address the constraints or weaknesses under its control. Individual companies can independently influence cluster development, but the importance of externalities and public goods means that informal networks and formal trade associations, consortia, as well as other collective bodies are also often necessary and appropriate. Trade associations representing all or most cluster participants can command greater attention and have greater influence than an individual member, while an association or a collective body (e.g., joint research center, testing laboratory) creates a vehicle for cost sharing.

The following graph illustrates some of the dynamics and relations discussed.

**Figure 2: Clusters and economic policy** (Porter, 2000, p.29).



A cluster approach to economic development encourages behavior that is pro-competitive.

Globalization and the ease of transportation and communication have led to a massive relocation of businesses to locations where manufacturing costs are lower. However, these same forces have created the *location paradox*. Anything that can be efficiently sourced from a distance has essentially been *nullified* as a competitive advantage in advanced economies. Nowadays, the information shared by means of modern methods of communication is available to all. Globalization has opened new opportunities with respect to sourcing and while it mitigates disadvantages, it does not create advantages. Moreover, distant sourcing normally is not the best solution (but is a second-best solution) if compared to accessing a local cluster in terms of productivity and innovation. Paradoxically, the most resilient and enduring competitive advantages seem to be local.

There still is much to learn about clusters and their implications for the theory and practice of economic development. We need an integrated approach that frames clusters generally. Cluster theory can inform, and be informed by, a range of literatures in economics and management. All those dealing with clusters should take a positive stance on global competition and locational competitiveness and couple it with their ability to catalyze constructive actions that encompass all parts of clusters.

### **GLOBALIZATION INDEXES**

In order to get quality and representative measurements of the globalization it is necessary to take into account other indicators as well. That is why, in addition to the economic indexes, the social and political indexes of globalization are most frequently taken into account as well.

The essence of the globalization poses the basic conceptual question regarding the appropriateness of statistics. The existing statistical systems are based on tracking of everything that happens within the borders of a state - that is the economic territory of a state. However, today a large part of activities take place globally. If we would want to track the activities of companies on the basis of in specific countries, we would have to include the associated companies abroad and exclude the companies with foreign ownership in the respective country. This would be a completely different concept in which national statistics would be faced with numerous problems with respect to calculation of data.

Reliable measuring of globalization requires balanced data for various indicators in order to create a realistic picture of the studied phenomenon. A combination of qualitative analysis and quantitative measuring can be a suitable model that would correspond to the challenges of measuring of the respective phenomenon, which constantly evolves and appears in new forms. However, there is no ideal model, because any model is subject to change and upgrading.

### **QUALITATIVE ANALYSIS**

Globalization is a qualitative change in the world, which affects the economic, political, cultural, ideological, military and other levels. There is a myriad of conflict areas that influence the current and inform future processes of globalization. The main mechanisms of globalization are derived from the capitalist system, which generates different processes and informs their intensity.

Globalization causes numerous problems in theoretical and applied statistics. Studying of its scope, intensity and influence is a complex undertaking.

In the world of multinational companies monitoring of commercial activities of national companies is becoming increasingly difficult, because we are not able to have insight into a multinational company as a whole with respect to the aspect of productivity. Certain companies within multinational companies jointly use the “intellectual capital”, i.e. research and development, software, financial, organizational and other specific knowledge. While this influences their productivity, according to the rules it does not get recorded as an investment in the country in which the results are essentially dependent on these advantages. As per the basic aggregation rules, the statistics cover only the data on activities of economic subjects that are registered in the studied state. That is why the interpretation and reinterpretation of the obtained data and the qualitative assessment are of particular importance.

The international division of production has influence on the input/output statistics and the added value in specific sectors. The reality of data is rendered additionally difficult by transfer prices used within groups of connected companies. These prices are not based on real market prices. Transfer prices affect the value of production, average

spending, added values and business surplus of studied units. Use of transfer prices among units in different countries also affects the value of international exchanges and basic aggregates for the respective states.

In global economy, identification of statistical units, that is companies and their activities, can be challenging. In economy, a statistical unit is a business subject/entity- a company or its parts, which are separated on the basis of their activity and/or location. A statistical system is restricted to activities within a state, due to what the units were never identified at the international level. However, although so far they had not been recognized as such in the statistics because of the heterogeneous character of their activities, for specific purposes multinational companies or groups of connected companies can be characterized as appropriate statistical units. The data on activities of their branches (branch offices) abroad, which is under the control of domestic companies, is obtainable only through the respective parent companies and can be disputable. Practical problems emerge also with respect to the demography of companies (establishment of a new company within a multinational company in the studied state is registered as the birth of a new company). In the past decade intensive activities were undertaken in the area of harmonization of statistics.

Regardless of the plethora of statistics, which in many aspects is not sufficiently comprehensive for measuring of globalization, the qualitative analysis of globalization still has a particularly important role. It is also important for the (re)interpretation of data obtained through quantitative measurement of globalization. In simple words, qualitative analysis of globalization requires comprehensive knowledge of the phenomenon because there are numerous new indicators that can have significant bearing on the globalization trends.

### **QUANTATIVE MEASUREMENT**

Measurement of globalization and its effects is a statistical challenge. Drucker stated long time ago that what gets measured gets managed (Bahtijarević, Šiber et al., 2008, p. 399).

Several indexes are used in practice for quantitative measurement of globalization:

KOF globalization index (economic, social and political elements),

A.T. Kearney globalization index (economic integration, personal contact, technological connectivity, political engagement), Commitment to Development Index (CDI), and Human Development Index (HDI).

The KOF index<sup>17</sup> measures three main dimensions of globalization:

- economic,
- social, and
- political.

Table 1 shows to a certain extent that new European Union members are becoming increasingly globalized.

*Table 1: KOF Globalization Index by country (2012, 2013 and 2019)*

Country	2019	2013	2012
Ireland	17	1	2
Belgium	3	2	1
Netherlands	2	3	3
Austria	6	4	4
Singapore	20	5	5
Denmark	8	6	7
Sweden	4	7	6
Portugal	15	8	9
Hungary	14	9	8
Finland	9	16	17
Switzerland	1	10	10
Canada	16	13	15
Cyprus	35	11	11
Spain	12	17	16
Luxemburg	21	14	12
Czech Republic	13	15	13
Great Britain	15	12	14
Slovakia	19	19	19
Australia	25	21	21
Norway	11	20	20

If we focus just on the economic level of globalization, we will realize that the obstacles are the smallest when it comes to movement of goods, which both the developed and the underdeveloped countries

<sup>17</sup> Source: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html> <https://www.statista.com/statistics/268168/globalization-index-by-country/>.

are trying to control. An insight into the negotiations within the framework of WTO clearly indicates that the most difficult part was to achieve free movement of industrial products and raw materials, while opening of the markets of agriculture products, knowledge, services and capital was also very difficult. It is not unusual that Central and East European countries had globalized most rapidly in the following areas: drugs, crime, nationalism and racism. The financial system has also been opened to a minor extent. Significant difficulties still remain in the area of universalization of services, while the biggest difficulties are in the area of free movement of labor.

In line with the results achieved in the three years, changes occurred at the top of the table. Namely, while in 2012 and 2013 there were no major changes in the list of the twenty best ranking countries, significant changes did occur in 2019. The most globalized are the small countries to which openness provides access to goods, services and capital, which are not available on the domestic market. This supports the stance of globalization supporters that small countries can organize themselves and benefit from the globalization process.

One of the most comprehensive approaches is the globalization index developed by experts at the *A. T. Kearney* consulting firm and the *Foreign Policy* magazine. The globalization index distills changes in key elements of the globalization process at the political and economic level, as well as in the area of movement of people, ideas and information across national borders. The level of economic integration is measured by indicators of international exchange, foreign direct investments and the portfolio of financial transactions, remittances between countries.

International personal contacts are measured by the level of international travel and tourism, telephone traffic and money transfers. The index encompasses also the technological connectivity and the number of internet users, internet servers and internet visits for business purposes. International political integration is tracked through membership in international organizations, involvement in United Nations missions and the number of foreign representative offices. The index was calculated for the first time in 2001 for 50 developed countries and key emerging markets around the world.

In 2009<sup>18</sup>, the sample was expanded to 64 states, amounting to 82%

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18 <https://foreignpolicy.com/2009/10/29/measuring-globalization-rankings/>

of global population. Table 2 shows the 20 most globalized countries in 2006, 2005, 2004 and 2003. Globalization cannot be measured directly but indirectly through developments on the markets of goods, services and capital, as well as other non-economic indicators. The A.T. Kearney globalization index<sup>19</sup> incorporates new EU member countries from Central Europe, which rank rather high on the list.

**Table 2: A. T. Kearney/ Foreign Policy globalization index– by years**

<b>Year</b>	<b>2009</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Singapore</b>	2	1	2	4
<b>Switzerland</b>	3	3	3	2
<b>USA</b>	7	4	7	11
<b>Ireland</b>	1	2	1	1
<b>Denmark</b>	10	7	10	6
<b>Canada</b>	6	6	6	7
<b>Netherlands</b>	4	5	4	5
<b>Australia</b>	13	13	13	21
<b>Austria</b>	9	9	9	8
<b>Sweden</b>	11	8	11	3
<b>New Zealand</b>	8	11	8	16
<b>Great Britain</b>	12	13	12	9
<b>Finland</b>	5	10	5	10
<b>Norway</b>	17	14	17	13
<b>Israel</b>	22	17	22	19
<b>Czech Republic</b>	14	15	14	15
<b>Slovenia</b>	19	20	19	25
<b>Germany</b>	18	21	18	17
<b>Malaysia</b>	20	19	20	18
<b>Hungary</b>	26	23	26	23
<b>Panama</b>	27	24	27	30
<b>Croatia</b>	23	16	23	22
<b>France</b>	15	18	15	12

Foreign direct investments are one of the most important indicators in the index. They are divided into economic, personal, technological and political. Globalization as a process is often viewed too narrowly, predominantly through the movement of goods and capital.

Almost all countries have come under the umbrella of globalization. Globalization becomes a topical issue when the economic growth of a country slows down and it becomes necessary for the country to find

<sup>19</sup> A.T. Kearney/Foreign Policy, 2006, 2009.

new markets for expansion of capital, as well as new markets for products and services. Globalism offers a myriad of opportunities. When political changes begun in Central and East European states after 1989, the position of the states in international economy significantly changed. Simultaneously with these changes, China begun to open, the status of Hong Kong changed and South Korea was finalizing its development cycle.

However, there are major differences between the countries that had recently become EU members and other countries in the region, which had just initiated the membership talks or are getting ready to begin them. This still does not mean that the new EU member countries are more globalized than their neighboring non-EU countries (Blanchard, 2006).

Membership in the EU is not the same thing as globalization, although regional integrations are one of the possible paths recognized also by the WTO. While new members got integrated into Europe, Europe as a whole globalizes and opens very slowly. The perception of globalization among former real-socialism countries is very diverse. One of the reasons for this is the ideological differences (Crockett, 2000).

In addition to the already existing data, it is necessary to provide new data prepared through appropriate methodology, in order to get reliable measurements of the following:

- scope and intensity of globalization;
- influence of globalization on economic activities and decision-making;
- influence that national and supranational policies have on the globalization process.

The first group of indicators is basic and constitutes the basis for development of the other two groups of indicators, which are more complex and require more analytical and econometric work.

The second group of indicators is aimed to explain the influence of globalization on main macroeconomic aggregates (economic growth, employment level, research and development, export) and the connections between different forms of globalization, as well as facilitate assessment of costs and benefits of a specific form of globalization.

The third group of indicators is related to national and supranational economic policies, which can significantly determine the scope in which individual countries can participate in globalization trends in the world. Hence, in the context of the third group the interest is focused on the influence of particular policies, such as those related to liberalization of trade in services, opening of specific sectors for international competition (i.e. telecommunication and energy sectors), labor, tax and social reforms, which affect the globalization process.

The Commitment to Development Index (CDI)<sup>20</sup>, which is published annually by the Center for Global Development, provides a ranking of the world's richest countries with respect to their dedication to policies that benefit the five billion people living in poorer countries. Rich and poor countries are linked in a number of ways. As a result, the Index looks beyond standard comparisons of foreign aid flows and measures "development-friendliness" of a long list of twenty seven world's richest countries, all member nations of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). The CDI assesses national efforts in seven policy areas: aid, trade, investment, migration, environment, security, and technology. It is believed that the indicator is numerically targeted at eight Millennium Development Goals. The index shows that aid is about more than quantity. It shows that quality also matters and that development policy is about more than just aid. The Index also penalizes countries that give on one side, in example through aid or investment, but take away on another other, i.e. through trade barriers or pollution.

In 2018, CDI ranked Sweden number one in the world. It was followed by Denmark, Finland, Germany, Luxemburg, Netherlands, France, Great Britain, Portugal, Belgium, Austria, Norway, New Zealand, Australia, Italy, Spain, Canada, Ireland, Czech Republic, Slovakia, Switzerland, Hungary, USA, Japan, Poland, Greece, and South Korea. Germany ranked 3<sup>rd</sup> and became the first G7 country that made it to the top three positions on the CDI list, France ranked 7<sup>th</sup>, while Japan (24<sup>th</sup>) and South Korea (27<sup>th</sup>) ended at the bottom of the list, partly due to high trade barriers and low rating in the foreign aid component.

Human Development Index<sup>21</sup> (HDI) is a comparative criteria for cou-

20 Source: <https://www.cgdev.org/commitment-development-index-2018>

21 The Index was developed by Nobel prize winner Amartya Sen and influential Pakistani economist Mahbub ul Haq, with the assistance of Gustav Ranis of the Yale University and Lord Meghnad Desai of the London School of Economy, and has been used since by the United National Development Program in its Human Development Report.

ntries calculated on the basis of life expectancy, literacy level, education level and standard of living. The purpose of the HDI is to assess and compare poverty levels with respect to broader criteria than just income.

The HDI index has been calculated since 1990. On the 2018 HDI<sup>22</sup> Report, Norway topped the list and was followed by Switzerland, Ireland, Germany, Hong-Kong (China SAR), Australia, Island, Sweden, Singapore, Netherlands, Denmark, Finland, Canada, New Zealand, Great Britain, USA. The HDI is a composite index of human development. It measures average achievements of a country with respect to three basic dimensions of human development (Human Development Report, 2009):

- Long and healthy life, measured with respect to life expectancy at birth;
- Knowledge, measured with respect to adult literacy (with two thirds weighting) and the combined primary, secondary, and tertiary gross enrollment ratio ( one third weighting);
- Decent standard of living, measured with respect to the GDP per capita in purchasing power parity terms in **US dollars**.

In the catalogue of categorizations and definitions of globalization it is also important to mention the division between vertical and horizontal globalization.

Furthermore, it is important to differentiate between different forms of globalization. Globalization provides for consolidation of different characteristics and relations, which are becoming increasingly important at the planetary level.

In this context, it is necessary to be aware of the difference between “unionization” and globalization. Namely, we cannot speak about globalization of new Central Europe members in the full meaning of the word, because Europe is a tightly “closed” region with numerous protectionist measures, which is slowly opening towards non-European economies. Agreements with other regions in the world are very selective. New member states are globalized to the extent allowed by the European framework. As a result, some member countries have made a step backward from the globalization process in specific areas. Proponents of globalization, because of their size and adjustability, are pri-

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22 Source: <http://hdr.undp.org/sites/default/files/hdr2019.pdf>.

marily the multinational companies. Their goal is exploitation of natural assets, strategic raw materials and inexpensive labor. Furthermore, they most easily use the system of incentives and subsidies (Sjekloča, 2006). In the meantime, some changes have occurred. For example, while Slovakia has significantly progressed, Slovenia has regressed.

There are still many challenges related to measuring of globalization. The key problem is primarily the issue of which data to encompass and how to ensure their relevance. Specifically, how to record factual economic trends, economic barriers, flow of information, data on personal contacts, data on cultural proximity and distance and various “invisible” data. Measuring of globalization will continue to constitute a challenge in the future as well, because the globalization process shall become even more complex and the existing indexes and models will become outdated.

## **CONCLUSION**

The answer to the key question of whether small states can prosper in the era of globalization can be found in the globalization indexes, that is quantitative data, which confirm that small states are also strongly involved in globalization and some even at the top of the ranking lists. This corroborates the thesis that small states can prosper in the era of globalization.

The most globalized are the small states to which openness provides access to goods, services and capital, which are not available on the domestic market. This supports the stance of globalization supporters and serves as proof that small states can organized themselves, which is also confirmed by the high globalization index of Denmark, Ireland, Belgium, Singapore and other small states.

This means that globalization is a far more complex and insufficiently researched phenomenon that cannot be observed through the black-and-white prism. Globalization takes place in different cultural environments, which are often a conglomerate of various cultures and traditions. The increasingly present globalization has triggered reactions. Specifically the processes of deglobalization and glocalization. Postglobalism is determined to a large extent by regional blocks.

Currently, China is strongly positioning itself as the second largest global economy. The world is becoming increasingly small, while the global competition is becoming bigger and bigger. It is to be expected that in the future the opposition and disputing of globalization will grow, and different alternatives to it will be offered.

Strategic alliances do not exist only in politics. They are becoming an increasingly present strategy model that companies use to deal with intensified competition. Alliances are created by two or more companies who pool their resources in order to supplement their internal resources with access to the needed resources from outside players. Hence, the companies bring into strategic alliances their best resources and combine them with the best resources of other companies in the alliance with the aim of achieving a competitive advantage. In a strategic alliance, companies share and acquire knowledge, which can also be a motivation for joining an alliance.

Clusters have long been a part of the economic landscape with geographic concentrations of trades and companies in particular industries dating back for centuries. The emergence of contemporary clusters and their dominance provide insights in the microeconomics of competition and the role of location in competitive advantage.

Measuring of globalization and its effects is a statistical challenge and there are still many challenges related to it. The key problem is primarily the issue of which data to encompass and how to ensure data relevance. Specifically, how to record factual economic trends, economic barriers, flow of information, data on personal contacts, data on cultural proximity and distance and various “invisible” data.

Regardless of the quantitative measurements of the globalization process and the search for new measurement models and indexes, the quality analysis still has an important place. Rapid changes in the world create new challenges with respect to measuring of globalization as well.

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