GLOBALISATION EFFECTS UPON THE ECONOMY IN TERMS OF RISK AND INCERTITUDE

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Abstract. Globalisation effects upon the economy in terms of risk and incertitude. Globalization represents the process of mutual integration among the worldwide countries which leads, on one hand, to significant cost reducing of transport and communications and, on the other hand, it generates artificial barriers which can block the circulation of goods, services, capital, knowledge and in a smaller measures people. However, under the circumstance of risk and incertitude a substantiate decision requires strong knowledge and in due time of two ways, internal and external, where the trade agents carry out their activity as well as the rationalization of actions and human decisions which consist not only of prevention and avoiding the risks and their consequences but also the reducing the uncertainty and the misjudgment at the acceptable levels in the given situations.

Key words: globalization, risk, incertitude, decision factors, economy

Globalization of the worldwide economy can be defined as the process particularly dynamic of increasing interdependencies among the countries, as a result of extension and deepening of transnational connections to more and various economic, political, social, and cultural domains having as direct results the fact that the generated issues become rather global than national and require, in their turn, a rather global than national way solving.

A direct consequence of the economic globalization phenomenon could be the improvement of the relationships among the investors within the same industries, located in different places of the world, the so called globalization of an industry. However, it is doubtless that the consequences of the globalization are both positive and negative. For example the globalization lead to improving the relationships among investors within same industries, developed in different parts of the world. We speak here about the globalization of an industry. The same globalization also has lead to eroding of the national sovereign over the economic sector.

The transition to the market economy within the countries which used to have an excessively centralized economy, such as the former communist countries, represented a complex process which resulted in structural modifications of the way of operation of the trade agents’ activity which were forced to adapt continuously the dimension, the structure and even the efficiency of their activities to the conditions and circumstances of the new market economy.

The increase of the complexity of the of the structural relationships together with the disturbance of the entire social-economical system, to which the evolution of the science and technology added, generated significant mutations in the way of approaching the theoretical and practical issues of the risk and incertitude aspects.

Both the economical, social-political environments where presently people live, act and evolve, is full or incertitude, by its nature.

Nowadays, it is generally admitted that a

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system working to achieve a certain future result operates, by definition, in an incertitude environment even though the specific situations are characterized by different levels of risk, uncertainty or even indeterminacy. However, risk and uncertainty are not optional situations. On the contrary they are part of the human condition.

Nevertheless, the incertitude pushes the trade agents to make their own assessments based on economical principles, depending on their expectations, which means that the incertitude force them to asses, first of all, the level of probability in terms of achievement the targets and objectives had in view.

The forecast offers an image of the future. The question is whose future as the planner carries up several types of future, i.e.: a desired future, a necessary future and a possible future. Each of these forms of future has its own determinations and non-determinations. Thus, the economic strategy, economic policy and economic planning, properly substantiated, appear as efficient tools which help to complete the global process of operation and evolution of the economic system, with a mechanism which would contribute to integrate of the future in present as well as to closeness of the above mentioned three forms of future. Should these three forms of future be overlapped, until identical to one another, one could speak about an ideal form of future which would reduce to minimum any risk or incertitude, which for the time being this is impossible to achieve.

The environment where people act and live contains a wide variety of risks. One can say that life, by its nature, is inherently linked to risk, as life itself is a risk, and for this reason the only option is to accept this condition with a certain degree of awareness in terms of implications. Life constantly creates uncertainty and risk. Therefore, a rational management of the human actions and decisions consists in the control of risks and their consequences as well as in reducing, as much as possible, the uncertainty and indeterminacy at acceptable levels in the given circumstances rather than avoiding risks and incertitude.

In order to cope with any kind of risks and to be able to control them, in one way or another, as well as be able to counter-balance and reduce their negative consequences people invented the planning process. This instrument responds to the needs and allows people to anticipate the most important aiming points of the future activity, accomplish the key correlations among the production factors and the related combination percents and their substitution at the microeconomic level. The same planning process helps people to forecast the basic priorities of the national economy and to allocate important parts of material, financial and labor force resources as well as to orient the economic activity.

The planning also contributes to extend the certitude area to reduce incertitude level within a given economic area and time horizon. Knowing the risk and uncertainty, the trade agents shall be able to improve their behavior and to improve their knowledge and consequently they will be able to work more efficiently.

At present people are much more aware than in the past that economy and the society need professionals of high theoretical and practical competence rather certitudes sellers. Awareness of risks and incertitude induces human being to a certain level of responsibility.

The terms risk and incertitude are often used to express the same thing. However, specialty reference clearly differentiates them. Thus, the incertitude occurs when is not possible to predict what will happen in the future whereas the risk represents the degree of the incertitude. The higher the incertitude is the deeper the risk and vice versa. Most of the human actions include a certain level of incertitude and risk which occur, on one hand, due to the one who acts and, on the other hand due to some environmental factors. Incertitude represents, therefore, the lack of certitude, namely uncertainty, doubtless, hesitation. The incertitude leads to the possibility of reaching a certain hazard with possible damage which means a confront risk. To risk means, in fact, the conscious exposure to a higher or a smaller hazard. Therefore the risk represents the possibility of occurrence of a loss as a result of
producing some unpredictable events and phenomena. The term of risk was and still is used mainly in the insurance domain and lately it has begun to be used in several fields of human activity each trying to achieve the best performances by its correct management.

Considering the variety of these definitions one could express the opinion, fully justified, that the risk includes several accepted characteristics to which several senses could be added, i.e.: a wide range of incertitude, a paying off of the invested capital, an incapacity of the company to adapt to the environmental conditions, the probability of occurrence of an unwished event, variability of the result under the environment pressure.

Consequently the risk involves: (a) the strategy to be adopted - selecting an option out of several data; and (b) the state of nature - minimum conditions on which depends the adoption of strategies; (c) result of the action - gain or loss; assessment in monetary units; (d) the cash in matrix - the results of the action associated to possible combinations between the strategy to be adopted and the state of nature.

It is essential the fact that together with evolution of the economical system, the increase of its complexity, the incertitude multiplies and consequently it becomes more and more vulnerable. Therefore risk is part of the economic and social life in the form of trade risks form (the risk of generalize the products, competitive risk, the price risk, etc), social and production risks.

Under the circumstances of real existence of risk and incertitude the substantiation of the decision will require a deep knowledge, in due time, of the two environments, external and internal, where the trade agents carry out their activity. It is overall accepted that man lives permanently with risks and the consequences grew and amplified along with the progress of the society from inferior levels to superior levels of evolution.

Variation of risk

The diversity of risks to which people are constantly exposed any type of owning and human activities require systematization. Having an anticipative character the assessment of risk cases should include a part of the forecast studies combined with the economics mathematics studies, management and marketing studies, etc. there are several criteria to classify the risks of which the most important are:

a) After their nature: pure risks and speculative risks.

Pure risks - represents the class of risks whose occurrence shall cause only loss and never win as they are the consequence of incidental and/or unexpected events. This accidental or unexpected event has a certain probability of occurrence and is difficult to determine the periods of occurrence and the intensity of phenomena.

Speculative risks - are also known as entrepreneurial risks because their occurrence can generate both loss and gain. These risks occur in time and are due to activity of trade agents;

b) In terms of implications there are: basic risks and particular risks.

Basic risks are the risks whose occurrence affects a large part of the population or world and implies the nature of disaster.

Particular risks are the risks whose consequences are relatively reduced in terms of the scale of effects;

c) In terms of risk management theory there are: static risks and dynamic risks.

Static risks - are the risks whose occurrence can generate only loss or maintaining the same status.

Dynamic risks - are the subject of typical trade risks whose occurrence can produce both profits and losses;

d) In terms of insurance there are: insurable and uninsurable risks.

Insurable risks are risks which the insurers accept to take within insurance and for which they provide protection, as this is their object of activity. Such risks are subdivided into general risks (fire, thunder stroke, explosion, earthquake, etc.), and special risks (burglary, scratch, theft etc).

Uninsurable risks are those risks for which insurers do not provide protection. In this
category are included events whose occurrence are predictable or almost, or those produced by the insured.

**Risk assessment and measurement**

Assessment of the risk size, including its effects, can be carried provided the probability and period of the effects of occurrence and the related dynamics are known.

Criteria for the classification and assessment of the effects are grouped, according to some authors, depending on three dimensions: size (complexity, number of variables), relevance (time factor) and probability (level of incertitude).

To determine a real size of the risk, mainly in terms of comparison, requires the conversion based on some equivalents of the quality aspects into quantity aspects, using specific aggregation methods, such as using of specific scale of +, 0, -, for positive large influences, null influences and large negative influences.

However, scientists consider that the size and the way of risk measuring are given by the attitude on the risk, the way that the decision factor determines considers a risk.

There is no certitude when assessing a risk and the reason of assessment is often determined by the size of the time period when the decision can be taken having as probable result that fact that a risk situation and the attitude of the decisional factor can have several options:

(a) **Comparability** which, by its nature, requires the existence of two risk occurrence probabilities, i.e. A and B. The decision factor shall prefer either the situation of A versus B (A > B), or the situation B versus A (B > A), or is indifferent in front of both (A = B);

(b) **Transitivity** which requires the existence of some relations of preference, indifference or transitivity, namely if we have A > B and B > C results that A > C. Similarly if B > A and C > B results C > A;

(c) **Continuity** which requires that in case of existence of three probabilities where A > B and B > C, results a probability D = (p; A, B, C) where we have D = B;

(d) **Independency** which requires that if an individual is indifferent to two events (A, B), and if one of these events is a gain of a compound probability (C), it can be replaced by another one (D) without changing the preference for the compound probability of the event’s occurrence so that when A = B, and C = D we have (p, A, C) = (p; B, D);

(e) **Flatness** refers to the situation when two probabilities occur based on the same results. In this case the decisional factor shall prefer the result having a higher probability of occurrence even the other probability is preferred.

The difference between risk and incertitude is given by the fact that in case of risk the probabilities of each possible alternative are possible whereas the situations of incertitude the probabilities of alternatives are unknown. The meaning of the difference between the risk and incertitude was, however, considerably diminished by introducing of the subjective probabilities which come out from the impossibility of a complete knowledge of the phenomena in counterweight with the objective probabilities where the observations are real and based on statistic data gathered from observations within a certain period of time. Thus, any situation of incertitude can be transformed into a risk situation by its association to some subjective probabilities of the possible alternatives.

In the process of decision-making, the concepts of incertitude (risk) and certitude (risk elimination), cannot be opposed. A scale can be carried out based on the quality of the information affecting the quality of the economic decisions.

Some studies on this subject revealed that the decisions aspects depend not only on the nature, size and time period when the risk situations occur but also on the existential environment. These existential environments can be: **determinant, uncertain, random or hostile**.

The determinant environment represents the specific environment where the decisions are taken considering that all the data of a situation are known and when the decisions are almost close to the reality and the errors are relatively reduced.
The uncertain environment represents a number of situations or decisions which lead to possibility of finding some known ways to get out from the state of instability without knowing objectively the probabilities of occurrence the identified phenomena or the probability of the decision’s accuracy under the given circumstances. To set up the best decision several criteria are used, such as:

Laplace criterion or criterion "equal chances" represents the situation where the theoretical probability of risk occurrence can be considered equal, i.e. 1/3, 1/3, 1/3; the scope and the probability of influence are in theory the same.

Wald criterion or maxi-min criterion is the pessimistic criterion which determines that the best decision is the one which maximizes the minimal gains. Application of this criterion limits consciously the achievement of better results, considering the target to obtain the result of the chosen variant.

Hurwicz criterion is a criterion applicable both to optimistic and pessimistic decision makers, or those situated in the middle. This situation is quantified by use of an index whose value depends on the decision maker towards the risk, therefore considered a subjective criterion.

Savage criterion is based on the phenomenon of the cost of opportunity, using as calculation formula the difference between the result which corresponds to any random decision and the best possible result can be obtained in the case that event had not occurred.

The criterion maxi-max is an optimistic criterion that regardless the occurred event, the decision maker will act in such a way that he will get the best result. Decision maker will choose maximum value of the outcome of each alternative and then the maximum of these maximum values. This criterion of decision is risky mainly on long term.

Random environment expresses a set of situations having a statistical stability which allow the application of patterns of probability depending on the behavior of the random variables. The best decision can be determined using the following models:

Model of statistical stability according to which variables’ or events’ behavior can be modeled in the form of certain laws of probability, having the basic law, the law on large numbers.

Hope model - variation which has as function a variable which is characterized by the variation average. As a result of calculating of hope and the deviations from the average the decisions can be compared and selected.

Hostile environment is that existential environment where the risks existence is certain and the probability of occurrence is very high.

Conclusion

Analyzing these aspects in terms of globalization we can conclude that the world we are living in, considered as a whole, is a closed world in permanent change whereas regarded from closely it is obvious that it is very different in terms of areas, countries, civilization, historical periods etc. On the other hand, regarded from the perspective of social connections, created and developed by people, we see that the globalization is a process through which social relationships become closer and closer to one another, exceeding the national borders so that the life is more and more acknowledged as a whole where distances among the places on the globe seem to dilute with effects on time perception.

Nevertheless globalization has benefic and non-benefic effects over the society and civilization, in general, and over the individual in particular. The main thing is that people should be able to manage all the effect of globalization, either good or bad, and to cope with the current risks and incertitude.

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