Preface

In the conditions of globalization the effectiveness of national economy and sustainability of economic development are increasingly influenced by foreign economic and trade relations. However, the character of such an influence is different for developed and developing countries. Most of the economies in transition have their special way of development. Those countries have come a long way in opening up their economies, and are deeply integrated into global market now. They are highly dependent on foreign trade, particularly in natural resources and primary products. Most of the economies in transition are not very much diversified, they are not able to spread risks of lower global demand in particular industries on the entire domestic economy.

Economies in transition are the countries of Central and Eastern Europe and the Former Soviet Union (now Commonwealth of Independent States (CIS)). In this book, however, economies in transition are considered in a wider context. There are Asian countries with heavy-regulated economy, Latin American countries emerging towards a market-based economy, and even African countries, which attempt to change underdeveloped economies towards market-style fundamentals. All those countries followed various pathways to economic growth, and had both common features and differences. Countries of Central and Eastern Europe progressed into well-functioning market economies and have become members of the EU. Asian economies (China, Vietnam, Laos, etc.) adopted a gradual transition mode. For most of the CIS countries, including Russia, process of market reforms is still incomplete.

Effective integration of economies of transition into the global market requires substantial economic background. Foreign partners have to be interested in integration with domestic producers. In order to gain such an interest, economies in transition should develop trade and industrial sectors, and adopt a broader policy agenda which goes beyond trade liberalization and should include strengthening of market institutions and improvement of infrastructure.

Current uncertain political and economic relations in the macro-region of the CIS and Russia, trade and economic tensions with involvement of Russia, future of economic and trade relations between EurAsEC, EU, and BRICS transform market patterns and affect interregional trade and economic development. Trade restrictions are especially dangerous for economies in transition not only because of their direct effects (market volatilities, destruction of trade linkages, etc.), but to a greater extent because of the hidden effects (distortion of natural economic order, establishment of artificial market environment, overprotection, etc.). The heavier such distortions are, the more difficult the transition process will be.

The book addresses those distortions, analyses how one system transforms into another through trade, and discusses what institutions are needed to become effective and sustainable market economies. Special emphasis is laid on revision of existing approaches to collaboration with arising economic powers, including China, Russia, Latin America and other economies in transition.
Preface

The book seeks to explain similarities and differences between economies in transition and other developing countries in different regions of the world, and deepen understanding of their development pathways. Objective of the book is investigation of conceptual approaches to effective and sustainable development of economies in transition through trade and integration on national and international levels. The book provides relevant tools and policies of such development in the conditions of dynamic international environment and growing level of liberalization of trade.

The target audience of this book is composed of professionals and researchers working in the spheres of globalization, international economics, and trade. The book is appropriate for government officials, policy makers, and businesses of most of the economies in transition. Adaptation of research outcomes to the conditions of different regions (Central and Eastern Europe, Asia, Latin America, and Africa) increases the omni of the publication and elaborates new practices and solution, applicable in the rapidly changing international environment.

The book is structured in 17 main chapters, which address specific roles of economies in transition on the global market; retrospective of economic and trade policies in Central and Eastern Europe, Asia, Latin America, and Africa; inward and outward investment in transition economies; sustainable trade and investing on falling markets; regional trade integration as a response to threats of globalization; and expectations of the new global order with growing involvement of economies in transition (particularly BRICS countries, other countries of Latin America, Central and South-East Asia, and Africa).

The authors of these chapters include scholars from 14 countries of Europe, Middle East and Asia, representing 18 respected research institutions, universities and organizations. This variety of talent, expertise and experience and the wide scope of topics make this book a unique collection of information and analysis, and a valuable resource for anyone studying economies in transition and their roles on the international market.

Chapter 1 entitled “Rising Economic Powers among Economies in Transition: Is There Enough Space on the Global Market?” is written by Vasily Erokhin. It covers contemporary global developments, particularly international trade and economic integration, with involvement of the economies in transition, BRICS countries, and new rising powers of Latin America and Asia. The issues, addressed in the chapter, are related to the concept of globalization in general; specific challenges of globalization for the economies in transition, and application of those general challenges in selected countries (China, Russia, Brazil, etc.). Chapter is concluded with investigations of regional trade integration as a response to threats of globalization and expectations of a new global order with growing involvement of economies in transition (particularly, BRICS, the CIS, the EAEU, and other countries of Latin America and Asia).

Chapter 2 covers ranges and effects of globalization on economies in transition, as well as possibilities and limits in raising their competitiveness. It is written by Drago Cvijanovic and Branko Mihailovic and entitled “Effects of Globalization on Economies in Transition”. Authors argue that international business has increased its size in the 20th century, mostly owing to trade liberalization and investments and partly owing to a fact that doing the international businesses has generally become easier and simpler. At the same time, capital mobility was liberalized by most of the countries, especially with development of electronic money transfer. Besides, introduction of Euro as a European monetary unit in 2002 has influenced the international business. Authors conclude that with regard to the international business, two main forces are important: technological progress, which made global communications and transport relatively fast and comfortable, and economies in transition, which brought about opening new markets.
Entitled “Trade and Economic Integration in BRICS: Towards Multi-Polarity” Chapter 3, written by Akhilesh Chandra Prabhakar, examines the existing pattern in the areas of trade and economic integration among the BRICS countries. His results confirm that foreign direct investment, trade and economic growth indicate the presence of long-run sustainable equilibrium relationship between them. It is thus important that policymakers have to remove obstacles to FDI inflows and improve the respective absorptive capacity in order to reap maximize positive growth effects. The chapter also discusses how China performed well through attracting FDI inflows and maintained trade balance.

Chapter 4 by Khatai Aliyev entitled “Integration to the WTO and Economic Transition in the South Caucasus Economies” discusses the economic transition processes in the region of South Caucasus. In his research Khatai Aliyev attempts to discover the relationship between economic transition performance and integration to the WTO in the contexts of before-and-after WTO membership and before-and-after the end of concession period defined for a new member to implement all obligations. Author employs bivariate de-trended regression analysis estimated by using ordinary least squares (OLS), individually for Armenia and Georgia, and within a panel analysis covering all three countries of the region. Research findings of Khatai Aliyev provide strong evidence of significant positive or acceleratory effect of integration to the WTO on economic transition in the South Caucasus. He also discovered insignificant impact over competition policy index, which is supposed to be affected by integration.

Transition economies of Central and Eastern Europe are studied from a point of view of their external debt in Chapter 5, written by Marko Jeločnik, Jovan Zubović, and Mihajlo Đukić. In their chapter entitled “Implications of Globalization on Growing External Debt in Eight Transition Economies” the authors explain that external debt accumulation is a common feature of transition economies during the process of economic transformation. According to them, insufficient domestic resources and low savings as typical problems in these countries have to be fulfilled through some form of external capital. Authors analyze determinants and trends of external borrowing in Bulgaria, Croatia, Czech Republic, Hungary, Romania, Slovakia, Slovenia, and Serbia, in the period 1991-2014. It is shown that despite a positive correlation between external debt and economic growth in the initial phases of transition, its further accumulation is associated to higher risks in terms of macroeconomic stability. This has also been proved during the recent economic crisis when external debt in most of countries recorded sharp rise. Marko Jeločnik, Jovan Zubović, and Mihajlo Đukić conclude that if further trends of rising external debt accumulation continue, observed economies might face serious economic problems related to debt repayment and lower growth perspectives.

Elena Horska, Serhiy Moroz, and Jana Galova study economies in transition from a different angle: political decisions and political crisis that can affect local economies and international trade significantly. In their chapter entitled “The EU-Ukraine–Russia Crisis Triangle: Evidence of Local and Global Consequences for International Trade” the authors focus on political circumstances between Russia and Ukraine in 2014. They state that national economics and trade of several countries and regions of the world have been suffering from this political crisis. At the same time with trade sanctions and trade decrease among traditional trading partners (EU-Russia, USA-Russia), the effort to ensure a sufficient market supply in Russia and strengthen links among Russia and customs union countries has been observed. A side effect, higher economic and political risk in doing business with Ukraine, caused the trade decrease with Ukraine, too. The Chapter 6 by Elena Horska, Serhiy Moroz, and Jana Galova analyses selected trade indicators related to international trade of Ukraine and Russia for period 2010-2014 and identifies possible opportunities and threats following from political crisis and affecting international trade of selected trading partners.
Preface

The theme of Ukraine’s transition processes is continued by Tetiana Tsiupko and Margaret Loseby. In their chapter entitled “Trade Relations with and between Economies in Transition: Lessons from the Case of Ukraine” they analyse the transition process from a centrally planned towards a free market economy, with particular reference to countries that constituted the Former Soviet Union. Noting that the varied strategies applied in individual countries have led to differing degrees of success, the chapter aims to identify the factors restraining economic growth in Ukraine. It describes the way in which the pattern of trade existing formerly with the USSR had shaped the structure of the Ukraine economy. Authors argue that at present, Ukraine’s strategy for freer trade with the rest of the world and in particular, with the European Union is conditioned by this former situation. It has contributed strongly to Ukraine’s current geo-political dilemma. The need for the country to find equilibrium in its trade strategies with countries of the Former Soviet Union, with Europe and the rest of the world is emphasized, and the difficulties involved are explained.

Two chapters in the book are related to Turkey, an emerging economy which is now developing towards a market-based economy and aspiring to closer economic and trade relations with other countries of the world. Ahu Coşkun Özcer in her chapter entitled “Turkey’s Foreign Trade and New Markets for Turkey” examines existing challenges and opportunities of Turkey on the way to the international markets. She states that new markets will potentially offer an opportunity to overcome both account and trade deficits. In her chapter Ahu Coşkun Özcer defines new export markets for Turkey, namely the USA and Germany. She also considers Russia among the most potential exports markets for Turkey in the years to come. However, the chapter was completed before the political conflicts between Russia and Turkey emerged in the end of 2015.

Turkey’s aspiration to closer economic ties with EU countries is discussed in chapter 9. Yontem Sonmez in her research entitled “Latest Developments on the Way to EU Accession: Turkish Case” investigates the recent developments in Turkey-EU relations and evaluates the recent performance of Turkey on the way to EU accession by focusing on economic and mainly trade implications of a Turkish EU accession. Yontem Sonmez states that irrespective of whether the EU accepts Turkey as a member or not, Turkey will be better off as a result of this process which has already dramatically upgraded its economic credentials, increasing the stability of the Turkish economy. However, she highlights large structural current account and fiscal deficits of Turkey, relatively high unemployment, existing political issues with Cyprus, and growing political tensions with Russia and Syria, which altogether decrease economic and trade performance of Turkey and postpone its accession to the EU.

Current uncertain political and economic relations in the macro-region of the Commonwealth of Independent States (CIS), Eastern and Western Europe, international tensions around Russia-Ukraine and Russia-Turkey problems, bilateral economic and trade sanctions between Russia and such global economic powers as the USA and the EU transform market patterns and affect interregional trade. One of the most affected markets is the international market of food and agricultural products, since Russia banned most of the food deliveries from the USA, Canada, the EU, Norway, and Australia in retaliation for Western trade and economic sanctions. The similar ban was introduced against Turkey starting from January 2016. In his chapter “Adaptation of the Russian Food Market to the Contemporary Geopolitical Challenges: Bans vs Liberalization” Ivan Ivolga attempts to discover the expected influences of such trade restrictions on trade in agricultural commodities, to assess the degree of distortion and return effects on domestic food markets. Chapter specifically addresses possible effects of trade restrictions between the EU, the USA, and other countries from one side, and Russia from the other, particularly imposed ban on agricultural trade. It is concluded with the overview of the expected influences of trade tensions on Russia’s domestic food market.
Chapter 11 is written by Ishita Ghosh and Sukalpa Chakrabarti. Entitled “Inward and Outward Foreign Investments of the Asian Economies in Transition and India: Determinants of FDI and India’s Prospects in CLMV”, the chapter covers five economies of South and South-East Asia, namely India, Cambodia, Lao PDR, Myanmar, and Vietnam. In their research Ishita Ghosh and Sukalpa Chakrabarti examine panel data evidence concerning empirical significance of the determinants of Foreign Direct Investment (FDI) in CLMV countries and explore the trade and FDI situation in CLMV through secondary data. They conclude that India’s expertise, knowledge-sharing and investment in many sectors that need upgrading and expansion in the CLMV countries, are bound to enhance bilateral ties and increase socio-economic prosperity that is mutually advantageous for both, India and the CLMV.

Issues of foreign direct investments in the economies of transitions are also discussed in Chapter 12, however, in the context of other part of the world. In their study entitled “Outward Foreign Direct Investments: Experience of Polish Companies” Anetta Kuna-Marszalek and Agnieszka Klysiak-Uryszek discuss the most important stimuli, which impact competitive potential of Polish companies and increase their interest in foreign activity. Moreover, theoretical background of company’s internationalisation is presented, as well as the scale and structure of Polish OFDI and incentives provided by Polish institutions. Authors state that dynamic changes that have taken place on Polish, European and global markets for the last two decades shifted significantly the conditions in which companies operate. Globalization, liberalization of capital flows, and participation in the European Union not only increased competition on Polish market, but radically boosted the competitive potential of Polish firms. This, in turn results in growing interest in expanding the activity on international scale in the form of outward foreign direct investments.

As long as agricultural production is a systemically important sector for most of the economies in transition, and one of the most sensitive to negative issues of transition processes, the book pays much attention to such issues as sustainable development of agricultural production, trade in food and agricultural products, and rural development. Anna Ivolga in her chapter entitled “Sustainable Rural Development in the Conditions of Trade Integration: From Challenges to Opportunities” describes the main approaches to agricultural policies in developed and developing countries and investigate perspective ways for ensurance of sustainable rural development in the conditions of liberalization of trade in agricultural commodities and food. She considers the issues of sustainable rural development and main influences of trade liberalization in the light of food security, alternative income opportunities in rural areas, and support of local identities. Anna Ivolga analyses economic potential of rural areas using the following indicators: natural conditions; assets; general characteristics of labor resources; living conditions in rural areas; demographic situation; rural social, cultural and leisure infrastructure; access of rural people to modern services of communication, transport, education, medicine, consumer services and other benefits, accustomed for urban citizens.

József Káposzta, Krisztián Ritter, and Henrietta Nagy in their chapter entitled “Local Economic Development in Transition Economies: A Tool for Sustainable Development of Rural Areas” emphasise significant inequalities in development both within and over the borders of countries, and between urban and rural areas. According to them, the reason for the occurrence of spatial discrepancies is that the economic and social processes are always restructured in space and time and such processes are even accelerated by the globalization. In order to get precise and realistic picture about territorial processes, it is worth to learn the spatial processes that have already happened as well as their impacts on the spatial structure, since these may enable the regions to break out from the disadvantaged situation. In such a multivariable system, the development strategies need to be built on the endogenous potentials and own strengths of the regions. In Chapter 14 József Káposzta, Krisztián Ritter, and Henrietta Nagy highlight the
importance of local values and local conditions in the sustainable rural development, thus emphasizing the importance of localization in long-term progress. The chapter puts emphasis on the characteristics and features of transition countries.

Changes in agricultural production and the economic situation of agriculture since the accession to the EU are reviewed by Erika Quendler, Christina Mayer, and Karl Michael Ortner in the context of Austria. In Chapter 15 entitled “Economic Transformation of Austrian Agriculture since EU Accession” the authors analyse macro-economic data from the Economic Accounts for Agriculture (EAA) over the period between 1995 and 2014, identify the developments applicable for Austria – also in comparison to other EU countries and groups of countries as well as to Switzerland, and present expectations and forecasts regarding the consequences of integration.

Another specific sphere of international economic relations, where economies in transition and developing countries have certain competitive advantages, is international tourism. In his chapter entitled “International Tourism: A Linkage of Developing and Developed Economies” Filipe Peças Correia discusses how international tourism can actually be a development source, or at least a link for development for economies in transition. He faces tourism as an exported item, linking it to the international trade theory, showing how a country might benefit from it. He also focuses on international tourism as an investment both for governments and companies in the sector, with the special feature of international diversification, taking into account that foreign tourists bring foreign currency with them.

The book is concluded with Chapter 17, entitled “Sustainable Tourism Development of Rural Areas in Serbia as a Precondition to Competitiveness: Chances on the International Tourism Market”, written by Predrag Vukovic and Jonel Subic. Using the case of the Republic of Serbia, the authors investigate the resources available in Serbia and show the possible directions in the rural tourism development, mainly based on the principle of sustainable development, as a precondition for the competitiveness of the economies in transition on the tourism market.

As this book develops, political, economic and even military conflicts are unfolding in the region of the Former Soviet Union, the CIS, and the Middle East, which increase the volatility of many economies in transition, especially of Russia and Ukraine. As the chapters in this book were completed in the course of the political and trade tensions with involvement of Russia, Ukraine, the EU, the USA, and later Turkey, most of them did not anticipate the possible impacts of these developments on trade between these countries, their economic performances, as well as new challenges they faced on their way towards development of effective and sustainable market-oriented economies. Expanding political and economic conflicts increase the need for a deeper understanding of the economies in transition, their role on the international market and in the global balance of power.

This book attempts to develop a long-term outlook of transition processes which go on and will persist in the years to come. Unlike the past two-three decades of transition, coming years will manifest new factors: increasing competition between alliances, not countries themselves; intensifying role of trade regulations (unification in the WTO framework and protectionism of particular domestic markets); growing tensions between major global powers as to shape a new multi-polar world order. Economies in transition will depend on effective structural reforms, diversification and technical modernization of domestic production and exports, utilization of existing comparative advantages, and benefiting from integration: trade, economic, financial, and cultural.

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