Preface

Globalization and regionalization have been expanding over the past few decades, reshaping the politico-economic landscape and business dynamics. Technological advances in transportation and communications, improvements in the freedom of information, trends in political economic liberalization, emergence of international institutions, non-governmental organizations, and business enterprises across the world facilitate cross-cultural learning, exchanges, travel, commerce, and investment flows. Along with opportunities, these developments and trends also cause interdependencies, complexities, and competition for limited resources under social-economic and environmental constraints, as well as political and cultural differences. Along with the global developments taking place under the umbrella of the UN, the WTO, or the IMF and other post WWII institutions, there are numerous cooperative and competitive processes occurring in the geo-regional framework. Increasingly, the global triad—Japan, W. Europe and N. America—dominating the world's political economic power in the first decades after WWII is morphing into plurality of the global political-economic entities such as G2, G7, G20, or BRIC(S), geo-regional groups like the newly industrialized countries ("tigers") of Asia, political-economic alliances like the EU, EU11, EU15 (EU11 Regular Economic Report, 2013), or Visegrad in the European region.

The demise of communism, the fall of the Berlin Wall, the abolition of the Soviet bloc that culminated in the finale of the U.S.S.R. in the early 1990s, and accession of the former Eastern European satellites of the U.S.S.R. and some of the Soviet republics to the EU have led to re-emergence of the Central and Eastern Europe (CEE) and the Baltic countries as geo-regional clusters. While Russia and some of the former Soviet republics at the moment stay outside these Europe-gravitating entities, they remain politically and economically intertwined in this strategic framework. Both groups engage in geo-regional cooperation and competition in trade, investment, manufacturing, and marketing activities. Sometimes, as we can see in the unfolding Russian-Ukrainian confrontation in 2014, this competition crosses over into the military domain. These dynamics in the European region create a captivating academic subject, a high priority policy-making arena, and an important field for international business strategic decision makers.

The CEE region comprises 14 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, and Turkey. This group in IMF publications sometimes is also categorized as "emerging Europe." In a broader European regional scope, Estonia, Finland, Slovak Republic, and Slovenia are categorized by the IMF as advanced economies (World Economic Outlook, 2013).

In comparison, in 2012, the CEE's collective share of the world's population was 2.6%, its share in the world GDP was 3.4%, and its share of world exports of goods and services was 3.4%. In the same year, Russia's share in the world total was 2.0% in population, 3.0% in GDP, and 2.6% in exports of goods and services. Emerging Europe experienced a sharp growth slowdown in 2012, reflecting spillovers from global recession, Euro area crisis, and domestic policy tightening in the largest economies. Only a moderate recovery is expected on the short-term horizon. The intensification of the Euro area crisis took a toll on business activity in emerging Europe: exports decelerated, confidence suffered, and western European banks, the leading actors in the regional banking sector, decreased funding for their subsidiaries, thus eroding financial fundamentals of economic growth. Several economies in southeastern Europe that had yet to fully emerge from the 2008–2009 crisis have fallen back into recession (World Economic Outlook, 2013).

Retrospectively, during the decade of 1995-2004, regional real GDP in the CEE has been growing at an average rate of 4.1% per year. In 2012, the growth rate declined to 1.6% and is projected to increase on an annual basis to 2.2% in 2013, 2.8% in 2014, and 3.8% in 2018. In contrast, Russia's growth rate between 1995 and 2004 was 2.8%. In 2012, its annual average GDP grew to 3.4% and is expected to reach 3.4% in 2013, 3.8% in 2014, and 3.6% in 2018. From this standpoint CEE and Russia's economic growth rates look stronger compared to the advanced European economies (the collective Euro area average real GDP growth rate in 2013 was negative at -0.1%). Meanwhile, in the competing Asian region, China's real GDP growth rates for 2013, 2014, and 2018 are projected respectively at 8.0%, 8.2%, and 8.5%; India's growth will reach 5.7% in 2013, 6.2% in 2014, and 7.0% in 2018 (World Economic Outlook, 2013) boosting Asia's global competitive edge.

In 2012, the EU11 economies outperformed the ones in the rest of the EU. The modest growth in the EU11 was supported by a number of factors. First, the ability of the EU11 to diversify markets and increase the share of exports to non-EU markets helped spur favorable trade results. Second, net Foreign Direct Investment (FDI) flows remained stable, keeping the EU11 attractive for FDI. Third, the EU11 governments succeeded in their effort of fiscal consolidation; despite macroeconomic concerns and tight budget constraints, most EU11 governments delivered their ambitious public investment programs in support of economic growth. Fourth, monetary policies throughout the EU11 remained accommodative. Fifth, EU11 financial sector confidence has started to show gains, supported by the continuous efforts of EU11 domestic regulators to safeguard the stability of the financial system. However, the overall recession or tepid economic growth in the Euro area continues to dampen the EU11 economic performance (EU11 Regular Economic Report, 2013).

Over the last several decades, advancements in science and technology, coupled with other social and economic improvements, have brought about unprecedented increases in life expectancy for populations around the globe. The aging phenomenon has not been confined to developed countries with high national incomes: both developing and middle-income countries are experiencing similar rises in life expectancies. On average, life expectancy between the periods of 1950-1955 and 2005-2010 rose by 26 years in developing countries and 19 years in the least developed countries. While this demographic change is expected to increase the overall economic burden in every country with an aging society, this impact is expected to be particularly acute in less-developed countries, which often lack the economic means to adequately address these challenges. That expands the competitive arena from macro-economics and policy on national and regional levels into a much broader social framework.

Among the countries expected to face increasing economic pressure as a result of their aging societies are those in the EU11. Aging societies throughout Europe face decreases in the share of working-age population in total population and increases in the costs for providing and caring for a growing elderly population – a particularly challenging situation for the countries comprising the EU11. Paramount among those challenges is a decline in the size of the labor force: in less than 40 years, more than 1/3 of Europe's population will be above the age of 60 and 1/4 will be older than 65. This ongoing shift in demographics will have widespread repercussions across the whole of Europe, but will be particularly difficult for EU11 countries. Most countries in the region have low fertility rates ranging from 1.32 in Poland to 1.49 in Albania to 1.6 in Russia (World Factbook, 2014). Correspondingly, aggregate labor force participation rates in those countries already lag behind Europe as a whole; low fertility along with drastic declines in the size of the labor force are expected to occur over the next 40 years, further hampering economies in this region. This decline—projected to be more than 35% by 2050 if current levels of participation prevail—means that fewer workers in the region will be responsible in the future for supporting an increasing demand for long-term care services, including an increase in the required number of caregivers. These burdens could produce potentially insurmountable difficulties unless the region experiences drastic increases in participation rates and/or aggregate productivity and innovation. The main competitive driver for the declining labor participation rates across the region remains the lack of participation of women without tertiary education – a problem that has plagued the region for decades. The participation rate of women without tertiary education fell by almost 5.3 percentage points between 2000 and 2011 in EU11, compared with 2.6 percentage points among men. Further, the participation rates of women in the labor force dropped in every country in the EU between 1990 and 2004, with decline rates as high as 10.3% in the Czech Republic and 12.7% in Latvia (EU11 Regular Economic Report, 2013).

Meantime, with the downward trend in economic activity, EU11 labor markets as of late have remained slack. Unemployment rates hovered around those recorded in the midst of the global financial crisis, with sluggish employment growth and long-term unemployment on the rise. The near-term labor market outlook remains unfavorable with unemployment decelerating only in the medium term. The bottom 40 percent in the EU11 economies tends to be concentrated in low skilled, young or older unemployed, and minority groups (EU11 Regular Economic Report, 2013). That brings the issues of national and regional demographic policies, innovations, and competitiveness to the forefront as robust economic growth under the ageing and limited labor force cannot be sustained on extensive platforms.

Trade gains in non-EU markets will likely be sustained, even though EU11 export flows in the EU will remain subdued as the Euro area remained in recession in 2013. Net FDI flows to EU11 will likely accelerate and the EU11 region should remain an attractive FDI destination provided that progress in improving the business environment and maintaining competitive investment climate continues. Deliberate exchange rate flexibility and accommodative monetary policies in some EU11 countries will likely continue to help the economies respond to volatility in the Euro area. The EU11 governments are planning to pursue gradual fiscal consolidation in the near term. In 2014, economic growth across the EU11 is expected to continue to increase and to become more balanced, with rising domestic demand. Increasing global interest rates coupled with volatile capital markets can slow the Euro area recovery, thus hampering domestic demand, particularly investment, in EU11 (EU11 Regular Economic Report, 2013).

Advances in computing, information technologies, and globalization have facilitated a wide array of global surveys and rankings. Not only do these methodologies expand the scope and depth of scholarly inquiry but they also serve as powerful tools in governance and transparency attracting attention and practical effort of policy makers, non-government organizations, and corporate strategists. Two well-recognized comprehensive annual publications in international competitiveness are the Global Competitiveness Report (GCR, 2013) by the World Economic Forum and World Competitiveness Yearbook (WCY) report (2013) by the International Institute for Management Development, both are Swiss-based. The latest (2013-2014) GCR measures national competitiveness among 148 economies, each of them across over 100 indicators grouped into 12 sections ("pillars" of competitiveness). Another well-recognized annual global competitiveness ranking is the World

Competitiveness Yearbook (WCY) that has been in existence since 1989. The 2012 WCY survey covers 60 countries worldwide and divides the national competitive environment into four main factors: economic performance, government efficiency, business efficiency, and infrastructure. In turn, each of these factors is divided into 5 sub-factors that highlight every facet of the areas analyzed. Altogether, the WCY features 20 such sub-factors comprising more than 300 metrics. Another effective and relatively recent tool extensively used by the authors is the annual "Doing Business" survey the World Bank that provides rich comparative information on the cost of doing business across 189 economies and 11 parameters/variables since 2004. These and other analytical tools are well represented and referenced in the chapters of the book.

Globalization affects people, organizations, nations, and regions in different ways. It exerts strong effects on the driving forces and business landscape creating and changing strategic opportunities and pressures for economic development, growth, employment, and social and environmental sustainability. CEE, the Baltics, and Russia play important role in the European region as emerging markets, competitive players in manufacturing, and political-economic actors. Compared to Western European nations and business entities, those in the CEE, the Baltics, and Russia receive more limited and sporadic coverage in business literature, although the latter attracts greater political coverage in the social-political literature and the media. The changing dynamics in the European region and beyond, the unfolding political-economic challenges across the European Union, as well as the rising geo-regional clout of emerging economic powers such as Brazil, China, India, and Russia require knowledge, skills, and methodologies that facilitate strategies and operations in the new and ever-changing business landscape. In turn, that facilitates the need for strategic competitive analysis on national, regional, and company levels. The book strives to contribute to the body of knowledge by addressing and connecting these issues in a comparative regional analytical context.

ORGANIZATION OF THE BOOK

The geography of the book authorship expands from Australia and the U.S.A. across the ocean to Russia, Finland, and Denmark at North, Italy in the South, to Austria and Poland in the heart of the CEE region. Thematically, the book begins with a chapter exploring institutional reform and international competitiveness in the region. Further discussion addresses: innovation systems and competitiveness of manufacturing firms and manufacturing reshoring; business risks from government corruption across the region; regional implications of the economic crisis; regional competitiveness and the maritime sector in the eastern Baltic Sea region;

competitive strategies of successful local companies in the CEE; and a comparison of the investment attractiveness of the Visegrad group countries. The last three chapters, presenting the national and regional perspectives, examine Poland's socio-economic development and competitiveness, Russia's global competitiveness, and socio-economic development and competitiveness of the North-West Federal Region of Russia.

The book is organized into 12 chapters. A brief description of each of the chapters follows:

Chapter 1 explores institutional reform and international competitiveness of the CEE economies. Gaining independence in 1989, a group of 10 CEEs has initiated major institutional reforms facilitating their integration into the regional and global economy with significant effects and implications for export competitiveness. The chapter analyzes selected meso- and macro-institutional reforms, including price liberalization, competition policy, trade and foreign exchange, privatization, and corporate governance. Rapid and generally successful institutional reforms in the CEE countries have led to their membership in the EU and the WTO, improved efficiency, and growth in trade. Further improvements are needed in competition policy and corporate governance, both of which are still lagging behind advanced countries.

Chapter 2 concentrates on national innovation system dynamics in CEE, the Baltics, and Russia. It strives to provide a comprehensive picture of the past and current performance in contrast to the countries' competiveness and innovative capabilities, highlighting the importance of political and economic freedom, science, and education for innovation. The best-performing CEE and Baltic countries, in terms of their national innovation systems, have developed rapidly after the disintegration of the Soviet bloc and enjoy superior global rankings in innovative capabilities and competitiveness in contrast to their counterparts in Latin America and South-East Asia. Countries that are members of the EU are found to have enjoyed stronger positions compared to non-EU member countries. Most of the CEE and Baltic countries have been able to catch up with global leaders between 1992 and 2008. Russia is still lagging.

Chapter 3 analyzes innovation and international competitiveness of manufacturing firms in CEE countries in the cross-country analytical context, specifically emphasizing the relationship between innovation and exports on a company level in selected new EU member states from the CEE region. The study involves large samples and uses logistic regression models to identify the relationship between each type of innovation and firms' export sales, testing direct and reverse causality. A strong correlation between the introduction of product innovation and export sales in foreign target markets was found on a corporate level in all CEE countries. The effects of other types of innovation on export sales were also positive, though weaker, for most of the countries included in the survey. The influence of international sales on company innovation in all surveyed countries was weaker than the reverse impact of innovation on export.

Chapter 4 evaluates a phenomenon of reshoring in manufacturing, related strategies, and positive and negative implications of reshoring for CEE countries. More specifically, two different forms of reshoring are examined in depth: the case of repatriation of manufacturing activities in the firm's home market vs. the one in a country located at a shorter distance from the headquarters. The authors argue that, depending on specific conditions, such phenomena may represent a "threat" or an "opportunity" for the CEE and Baltic economies. The chapter draws implications for policy and strategies.

Chapter 5 addresses the issue of business risk from governmental corruption in the CEE countries, Baltics, and Russia in a comparative framework. One common denominator of this geographic region is that all the countries have been transitioning from a monopoly-party rule and typically Soviet economic and political domination. Globalization is drawing the region into global economic integration with an increasing role of FDI. Corruption increases business risk for multinational and domestic enterprises, deters inward FDI, undermines corporate integrity, and reduces national and regional competitiveness. The analysis covers 21 political entities where corruption ranges from reasonably low to endemic levels and discusses possible solutions, recommendations, and future research directions.

Chapter 6 examines the recent global economic crisis and its effects on the competitiveness of the Baltic countries in a national and regional context. The Baltic countries have experienced significant GDP contractions during the latest global crisis, so identifying and assessing changes in the relative competitiveness as a consequence of the economic downturn becomes a top priority. Generally, a short-term crisis, even a severe one, does not have negative long-term effects on international competitiveness as long as an effective anti-crisis policy is in place. The Baltics, with similarities in structure, institutions, and performance, experienced an erosion of competitiveness across the board during the crisis. This has created similarities in crisis management approaches, with fiscal policy tightening as a key tool.

Chapter 7 scrutinizes regional competitiveness and the maritime sector in the Eastern Baltic Sea region. It analyses the preconditions for increasing cross-border inter-cluster cooperation in the maritime and energy sectors in the region including Estonia, Finland, Latvia, Lithuania, and North-West Russia. Based on their analysis of recent developments and cooperative connections in both sectors, the authors point out to a potential for increased cooperation, with a particular potential in "green" solutions. Differences in cross-country interests and policy priorities are found to be major constraints for both sectors. Political support appears to be of great importance in increasing the inter-cluster cooperation, which can result in innovative discoveries, new business networks, and increased competitiveness to the region's key industries.

Chapter 8 explores competitive strategies of successful local companies in the CEE against Western competitors that often enjoy superior resources and capabilities. The study, including 16 companies from Czech Republic, Poland, Romania, and Russia, has found that despite variations in strategic positioning among those companies, strategies based on good quality at a lower price ("good-value-for-money") are most common and effective. While internationalization of the company is an important competitive factor, a high share of foreign sales is not automatically a profit driver. Companies active in the commodities, pharmaceutical, and software sectors are found to outperform the ones in consumer and industrial markets. Still-existing negative country-of-origin effects, low government support of R&D and internationalization efforts, and weak enforcement of laws and international standards are restraining a faster development of these companies.

Chapter 9 provides a comparative analysis of investment attractiveness of the Visegrad group countries. The analysis includes evaluation of the main determinants affecting the FDI inflow into selected CEE countries and examination of the volume, dynamics, and structure of FDI inflow into these countries. This analysis involves four countries—Poland, the Czech Republic, Hungary, and Slovakia—because of their geographic proximity, political, economic, and cultural similarities, as well as their shared experiences of economic transformation and affiliation with the EU, NATO, OECD, and WTO. Since 1991, these countries also gained membership of the Visegrad Group (V4). This chapter focuses on matters pertaining to FDI, characteristics of the dynamics and structure of FDI inflow into the V4 countries. The final section of the chapter analyzes FDI attractiveness, incentives, and barriers facing investors in the V4 countries.

Chapter 10 examines Poland's socio-economic development and competitiveness. It looks at Poland's key strengths and weaknesses and its competitiveness in a comparative strategic context. The chapter reviews Poland's socio-economic development that integrates the macroeconomic situation, international stability and safety, global competitiveness, infrastructure, and demographic trends. This review culminates in a discussion of the key sectors in the national economy and trends in foreign trade and FDI. The analysis of the Polish competitiveness is summarized in a SWOT format followed by policy implications, best corporate and institutional practices, and lessons in competitiveness.

Chapter 11 analyzes Russia's geo-regional competitiveness in a retrospective and current context. As Russia recasts itself as a major political-economic actor in the Eurasian geo-region, its resurgence has been largely propelled by oil and gas exports supported by high global energy prices. Russia's political-economic ambitions, strategic posturing, and recent improvements in global ratings are found in contrast with its mediocre social and environmental performance. The study explores Russia's strategic strengths, costs, and risks of doing business in contrast to its "peer" and "aspirational" comparators. Russia trails its aspirational comparators (Germany and the U.S.A.) in critical global rankings and also lags behind China, a major "peer" comparator, in multiple dimensions of competitiveness. With the likely continuation of high global energy prices, Russia appears capable of maintaining a certain degree of global competitiveness and innovation. This is tempered, however, by its expanding politico-economic strategic ambitions. The study makes a case for Russia's reforms and strategic improvements in developing human capital and innovations toward sustainable growth and global competitiveness.

Chapter 12 presents a comparative, competitive geo-regional cross-country analysis of the North-West Federal District of Russia (NWFD) and draws implications for socio-economic development and perspectives for international economic relations in the Baltic Sea region. Based on key trends in the socio-economic development of the region and its future growth, the chapter analyzes main strategies for regional economic cooperation with the EU as well as the outlook for competitiveness of the NWFD in an international context. Special consideration is given to significant infrastructure development in the territory. The conditions for realizing strategic socio-economic projects are further elaborated in light of the government's strategy of the socio-economic development for the NWFD for the period to 2020.

Anatoly Zhuplev
Loyola Marymount University, USA

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