

Anna Zorska

Globalization and the ‘New Economy’: Exogenous Conditions for Economic Links between the Countries of Central and Eastern Europe

At the present stage of globalisation, certain changes are taking place in this process which have been formed to a large extent under the influence of the development of the “new economy”. The intensive creation and application of the new generations of information and telecommunications technology (ITT) and the related development of the “new economy” are influencing the course of globalisation (its factors, mechanism and entities) as well as the conditions for international economic activities and also for its evolution in the individual countries. The changes in this area will play a significant role in determining the rate and characteristics of the integration of the countries of Central and Eastern Europe (CEE) within the framework of the global economy that is forming.

The economic ties between the CEE countries in the day of transformation and globalisation have been subject to significant changes both under the influence of external and internal conditions. More importantly, the need to develop new technologies and the “new economy” is emerging in their adjustment and interactions. The ideas in this lecture will aim towards defining the significance and nature of these interactions.

1. The modern “wave” of globalisation

Among the many definitions of the process of globalisation in the area of economics at present, the most common appears to be the group exhibiting the significance of the strengthening of economic flows and ties, the integration of activities on an international scale and the creation of dependencies in the world economy.¹ The author’s definition of the process being described, which is the starting point for further thought, falls into this wave.

¹ This type of approach to the globalisation process is presented in the definitions of many researchers, which include P.Dicken, D.Levy, J.H.Dunning, K.Ohmae, and recently J. E. Stiglitz, as well as S.Storm, D.Baker, A. Prakash, J.A. Hart. In Polish literature, such an approach is followed by G.W. Kołodko, B. Liberska, W. Anioł and A. Zorska

Globalisation is based on the long term integration of activities at the level of economies, industries / sectors and companies beyond the borders of countries, as a result of expansion, deepening and intensification of various types of ties (commercial, investment, subcontracting or information), which leads to the creation of a mutually dependent economic system on a world-wide scale, i.e. the global economy [Zorska, 1998, 2002a, pg. 20]. The description of globalisation should be emphasised to be a long term process of internationalisation of economic activities at three interrelated levels, the evolving forms of commitment of enterprises and the ties of economies with other countries the integrating actions of these ties, the growing interdependence that extend beyond national borders and their systemic and all-round nature.

The analysis of the changes in the international ties and flows at the time of modern globalisation extends beyond the framework of this lecture, but the fundamental trends can be indicated on the basis of the publications of various author, such as: R. Gilpin [2001, pgs. 5 and later], D. Baker, G. Epstein, R. Pollin [1998, pages 5 onwards], S. Storm and C. W. M. Naasteppad [2001, pg. 2 onwards], B. Liberska ed. [2002, various chapters]. From the point of view of further consideration, it is necessary to define the following trends which have continued since the middle of the 1980s: the faster rate of growth of exports and foreign direct investment (FDI) flows the world GDP, the faster growth in FDI flows than the export of goods, the increasing value of product sales by international branch offices which is 2.5 times greater than the value of global exports, the significantly faster growth in FDI, the overall gross investments in fixed assets and the recent rapid growth in employment in foreign branches. The current data on this subject is presented in table 1.² Furthermore, the trend in world trade is continuing with a relatively high rate of growth of exports of high technology products, as well as a concentration of these exports in highly developed and newly industrialised nations. The benefits of international trade are gained primarily by the highly developed nations, triads and their companies – mainly transnational corporations (TNC).

From the point of view of countries participating in the global economic activities, its characteristics are of an external (international) nature and internal (domestic or local) nature.

² The growth indices of GDP, foreign trade, investments and other flows in the world declined significantly in 2001, and the reasons for this are considered to be the weakening of the state of the climate and security rather than permanent changes in the fundamental trends.

Their significance, relationships and interactions may be subject to change (under the influence of various factors or activities of entities), but they can also differ in the individual countries or groups of countries. Of increasing significance among the external factors are those related to the factors, mechanism and entities of globalisation.

In the long term, the following **factors** have a fundamental influence on the progress of globalisation:

- Scientific and technical progress,
- International competition,
- The economic policy of the state.

Currently, the effect of technical progress in the area of the so-called new technologies that applies to products, production processes and the infrastructure is of key importance. In recent years, the greatest progress was made not so much in the area of production, but rather in infrastructure, in particular telecommunications. Increasingly more modern and differentiated information and telecommunications technologies (ITT) have become the most important innovations at the threshold of the 21st Century. The technical progress on their basis features extraordinary acceleration in the development and implementation of solutions, their major significance to competitiveness and effectiveness of enterprises, the capability of generating new needs of purchasers and the benefits to them [Waller, 2001, pgs. 13 - 14]. In the wider context, ITT also represent the base for the effective gathering, processing, transmission and commercialisation of information, i.e. for the development of the “new economy” (this will be discussed later).

Changes are also emerging in international competition under the influence of the new technologies – as well as other factors³ - which are based on its intensification, its all-round nature, innovativeness and specialisation. The opportunities to compete and the resulting benefits for the most competitive companies on the global market are increasing under conditions of progressing international liberalisation of economic activities. International competition has become all-encompassing (this is happening on domestic and international markets), increasingly fierce (requires many, increasingly stronger and more refined

³ The most important include the emerging changes in demand of an economic nature (e.g. income and its distribution, as well as the evolution of needs), as well as sociological nature (models of life and consumption, differences in generations, education and social environment) and cultural nature (tradition, religion etc.).

strengths) and damaging (eliminates the weakest rivals). As a result, this leads to a domination of the strongest rivals, which are usually TNCs, the emergence of oligopolies on the sales market and monopsonies in procurement (e.g. of semi-finished products) with their participation, the concentration on production and sales in the highly developed Triad countries.

The achievement of success in international competition necessitates companies to have the ability to innovate, based on unique competence, abilities and resources (particularly intangible resources) in connection with the ability to use the advanced resources of the economies and opportunities on the global market [Fahy, 2002, pg. 74]. Simultaneously, concentration on the application of the unique abilities of companies leads to the expansion of their specialisations in operating on a large scale. International competition is evolving from offering products (finished goods and semi-processed products) to offering specialised capabilities in value added tasks (functions), which are provided most effectively⁴, based on key competence, i.e. unique knowledge [Reich, 1996, pg. 112 onwards]. This provides major opportunities to small, but really innovative companies in the “niches” of the global market. Generally speaking, the advanced and specialised knowledge is therefore becoming a key strength of companies and economies in global competition.

The centre of gravity in the policy of the nation is moving from activities aimed at liberalising international economic activities towards developing macro- and microeconomic competitiveness. Nations are forced to create increasingly better economic conditions and to support the international competitiveness of companies and under conditions of liberalisation; this refers to domestic and foreign enterprises. The rivalry of the economies to attract FDI is becoming increasingly fierce; the requirements of foreign investors regarding infrastructure, quality and the prices of resources, investment incentives, tax benefits, stability of legislation etc. are increasing. The improvement of the international competitiveness of economies requires both investment and new institutional solutions with a high degree of commitment from the state. One of the institutional solutions that must help adjust the economies and companies to participate actively and beneficially in the process of globalisation has become the political integration of regional groups.

⁴ This can be described as a move from horizontal or vertical specialisation to functional specialisation, which is related to the increasing separation of chains that create added value, relocation of specialised functions (tasks), as well as their externalisation and integration, coordination etc.

The **mechanism of integration**, which is essentially based on the geographical combination (merging) of distributed activities that create value, is of major significance in the course of the globalisation process. They can be combined in various ways, and hence spontaneous (market), corporate (within TNC) and institutional (within integrating groups) integration has been distinguished. The types of integration mentioned can be partially overlapping and supportive and furthermore, institutional integration can respond as a stimulant to other types of integration.

The mechanism of integration is becoming intense, as its three types are strengthened. Privatisation, deregulation and the opening up of the economies makes the market function more efficiently, which strengthens the spontaneous integration of independent companies. The activity of integrating groups (e.g. their expansion, extension and the creation of new areas of integration) is becoming more pronounced, while institutional integration is progressing, and not only in Europe. However, the significance of corporate integration has been increasing most rapidly in recent years [Panić, 1998, pg. 249]. This is related to the progressing internationalisation (globalisation) of the creation of added value by TNCs, which is leading to growth in intra-firm trade, which is an increasingly important component of general international trade [Prakash, Hart, 2002, pg. 264].

In the process of globalisation of the activities of TNCs⁵, added value is created in a geographically distributed (in many countries on various continents) and specialised manner, but which is functionally integrated and coordinated beyond national borders (mainly within the framework of global and transnational strategies). TNC investments (their FDI) are related to this having the purpose of locating (“implanting”) corporate branches and joint ventures in advantageous conditions abroad. Integration (and coordination) of the activities of these units implies flows of goods and factors of production, as well as information between them (and the host countries). Intra-firm trade is usually supported by external corporate ties of the TNC entities with independent subcontractors and also customers in other countries.

⁵ The transnationalisation index of the activities of TNC (of the 100 most internationalised corporations) increased on average in the years 1999 – 2000 from 52.3% to 55.7% [WIR, 2002, pg. 89, tab. IV. 2].

Entities committed to international economic activities play an important role in the process of globalisation. These include: states (national), transnational corporations (TNC), international organisations and non-government organisations. The development of the global market, the strengthening of the economic power of TNCs and other factors have resulted in the relative weakening of the position and effectiveness of the national economic policy as well as reducing its competence and sovereignty, a change in the social and economic functions fulfilled, as well as an evolution in the methods of attaining the national interest.

Importantly, states are moving away from operational functions (interference or direct participation in economic activities) towards the system function, which under the present conditions encompasses the achievement of more long term, globally-oriented and strategic economic and social tasks. Apart from the traditional activities (legislative, stabilisation, etc.), the state is also committing to the implementation of the strategy or programmes aimed at increasing the level of competitiveness of the national economy, easing the progress and costs of adapting to global competitiveness, introducing new institutional solutions, promoting the development of the “new economy” and the information society.

TNCs have a very strong position in the current system of entities forming the process of globalisation, while their interests and activities that extend beyond borders represent the driving force behind the process in question [Dicken, 1992, pg. 7]. Approximately 65,000 TNCs are currently operating worldwide, as well as approximately 850,000 of their foreign branches, and these are jointly responsible for approximately 25% of the world’s GDP, as well as approximately 80% of international trade, FDI flows and technology transfer. TNCs have a significant influence on the functioning and the development of the world economy. This is taking place through the transfer of resources and production capabilities (within the framework of FDI transfers), the stimulation of economic growth and efficiency, the influence on the restructuring of sectors and companies, the intensification of competition and the motivation of entrepreneurship, the diffusion of improved management methods, the strengthening of economic ties etc. [Zorska, 2003a, pgs. 34 - 35]. Large and important transformations are currently taking place in corporations under the influence of the “new economy” and the recession, which are aiming towards the modernisation and reorganisation of their activities, while simultaneously increasing competitiveness and profitability. The use of ITT is taking on increasing significance by influencing the methods of activity of TNCs on

the global market, which, in consequence, exerts a certain influence on the current course of globalisation.

2. The influence of the “new economy” on globalisation

Before defining the main directions of influence of the use of ITT and the development of the “new economy” on the process of globalisation, attention should be drawn to a certain sequence and interactive nature of the reactions of both processes.⁶

At the beginning of the 1990s, the creation and application of ITT intensified gradually under such influences as the progressing process of globalisation, which established the need for new technologies that were to be used to increase the competitiveness of enterprises on the global market. This need referred to information on changes in global competition, but also – and perhaps primarily – this referred to knowledge to a greater extent and the specific, intangible resource, which could become the basis for the permanent competitive advantage of companies [Kozmiński, 2002, pgs. 155 onwards]. The knowledge-based economy developed as a result of the growing commitment of companies to activities based on knowledge – as well as the development of the area of R&D and education by the State. It is becoming increasingly significant to the general economic development (micro and macro), as well as global competitiveness. It is an important aspect of the changes taking place at the present time.

In the second half of the 1990s, the development of ITT became more intensive and significant, while the activities based on it – which gradually created the “new economy” – became an important thrust in the processes of growth and globalisation of economic activity, increasingly strongly influencing its general progress. For several years, it has been possible to confirm the “feedback” reaction of the “new economy” on globalisation. Together with the continuing “need” for information, knowledge and ITT by its participants, it is not difficult to notice that the relationships of the two processes exist not only in their sequential nature, but in their interactivity.

⁶ The development of the “new economy” is essentially a process of change (stimulated by ITT), which are taking place at the micro, mezzo and macroeconomic level, in various areas of economic activity (sectors), as well as at different scales (mainly global). A more detailed description of the formation of the “new economy” and the implications of this process was the subject of research, many presentations and publications of earlier conferences of the Centrum “TIGER”, and hence have been left aside in this lecture.

In the economic area, it is possible to define the complex influence of the “new economy” on the process of globalisation. Taking account of the significance of ITT, this influence can have the nature of being:

- Direct, related to the functioning of the information sector and the newly developed companies that globally commercialise information;
- Indirect, relating to the influence of the use of ITT on activities in the so-called “traditional” industries and services by the existing enterprises.

Although in practice it is difficult to define (e.g. statistically) the relationships between the two types of influence, the dominant opinion is that currently the economic significance of the indirect influence related to the use of ITT in “traditional” companies and industries or services is greater [Porter, 2001, pg. 64]. In “traditional” activities, there are major opportunities to use information and ITT to modernise products, production processes and the infrastructure of companies and to optimise their value chains, to internationalise business ties, reduce transaction costs, improve efficiency etc.⁷ This increases the multi-faceted productivity and rate of growth of the economy in the aggregated form of the various increasing effects in companies, both as a result of the information sector and in “traditional” branches using ITT.

The development of the “new economy” and the related increase in the rate of growth of productivity and economic growth takes place in a geographically, corporately and sectorally differentiated manner, which exerts an indirect influence on the course of the process of globalisation. The following phenomena are primarily of significance:

- The appearance of technological and economic variances between the Triad countries due to the differences in the intensity of the ITT trends and the trends of the “new economy” in the countries of North America and the European Union [McGuckin, van Ark, 2001, pg. 12];
- The enlargement of the “digital abyss” between the countries of the North and South – not having the resources and capabilities of applying ITT – which will increase the technological and economic divide between the above countries [Hammond, 2001, pg. 97];

- The consolidation of the disproportion in the level of use of ITT in the Central and Eastern Europe candidate states for the European Union and some of the states of this group that are rapidly developing the “new economy”, such as. Ireland, Sweden and Finland [Bucar, 2001, pgs. 12-14];
- The increase in the division in the “traditional” sectors of the economy into activities using ITT and those without these technologies (“doubly traditional”?), as well as similarly those companies that follow progress and this that are “left behind”;
- The creation and increase in the division in the geographical structure of countries into regions that are equipped – or not equipped – with a modern infrastructure and human capital, which are as a result capable of attracting commercial activities using ITT;
- The growing dualisation of economic activities – in the form of modern (modernised) and other - at the level of the entity (institutions, companies, staff), sector, region and competitive capacity, as well as in international commitment;
- The strengthening of the so-called “convergence clubs” in the world (mainly within the framework of the Triad), i.e. the groups of highly developed countries (economically and informationally) with strong links, which leads to the integration of “club” economies and consistency in their economic development in comparison with other countries [Zorska, 2002, pg. 125].

The fundamental directions of the long term reaction to the diffusing ITT applications and the development of the “new economy” on international trade and ties encompasses the whole of the complex of gradual changes in the rate, structure and conditions of international trade. Attention should be drawn primarily to the activation of international trade by development of ITT hardware and information service sales, the acceleration and simplification of the process of making business contacts and concluding transactions with foreign partners, the reduction of costs and the risk of international expansion, the use of cheaper sources of supply and improved sales opportunities (reaching new segments of the

⁷ It is emphasised that ITT creates new areas and methods of managing business, as well as improving their efficiency and effectiveness, but it does not create new economic principles [Waller, 2001, pg. 112].

market) abroad etc.⁸ Even so, the development of new competitive advantages and beneficial export specialisations (including of a functional nature) is important in connection with the major opportunities of various ITT applications (which, importantly, are continuing to develop!). The increasing significance of the free flow of fast and cheap information in communications between entities (companies, institutions or private individuals) is important in these transformations in the creation of ties that extend beyond borders. The significance of business networks integrating specialist activities and the entities achieving them (subsidiaries and independent companies) is increasing in the international flow of goods more within the framework of specialist and partnership relationships than ordinary subcontractors.

Global capital flows are taking place even more intensively than the exchange of goods, for reasons that include the introduction of new financial instruments (based on the use of ITT). In particular, the strong growth in FDI flows should be emphasised, which are stimulated through trans-national mergers and acquisitions (under the influence of competition, simplification of communications and the management of large organisations, transparency of the control market, pressure for financial results etc.). The modern telecommunications infrastructure and human resource capital (mainly with IT qualifications) as a high quality of attributes of the location of the economies and regions (countries) and their attractiveness for making direct investments by TNCs and smaller companies gained a clear growth in importance in connection with the acceleration of capital flows (particularly FDI). Foreign investors are becoming increasingly interested in having very modern and highly effective production capacities (factories), which implies a concentration of FDI on the acquisition of local companies of such a nature and the establishment of new, large, technologically advanced and globally oriented buildings (for a fast return on large investment outlays). This increases the importance of the quality of the attributes of the location of economies that can host large investors, as well as the benefits that can be obtained from the host countries.

The further directions of reaction of ITT and the “new economy” on the globalisation process can be determined by analysing its influence on the factors, mechanism and entities of this process.

⁸ In 2000, the value of world trade increased very sharply, by as much as 12%, but declined in 2001 (from its unusually high level) by 1.5%. It is believed that there were three reasons for this decline: the general slump, the burst of the “internet bubble” and the effects of the terrorist attack [*Measuring.*”, 2003, pg. 63].

Within the range of **factors** forming the globalisation and the participation of countries in this process, an additional very important role to be played is the creation and use of ITT, and also other new technologies (ITT usually are of major significance to their creation and use). The influence of ITT is currently becoming even more important in the development of competitive products, the implementation of all activities that create value, reaching markets and communicating with purchasers, with the possibilities of rapidly implementing increasingly refined and effective strategies, coordination of activities, cooperating, arbitrating etc. In the globalising sectors, competition based on new technologies is playing a key role in increasing sales and its concentration by the leading companies. This does not need to mean the elimination of suppliers on “niche” markets, but often gives them little opportunity to develop (the less ITT, the less opportunity). It appears that large domestic companies directly threatened by the “head-on” clash with the TNCs are in the most difficult positions, while the smaller companies are able to better adapt to competition from the “global players” (e.g. by infiltrating their systems of creating value as subcontractors).

A further sharpening of international competition takes place as a result of having faster, better and cheaper information, greater transparency of the markets, strengthening of the bargaining power of purchasers, acceleration of the response time to signals from the market (including imitations), making trans-national coordination and changes in configuration more effective, improving management methods, etc. [Porter, 2001, pgs. 66-68]. It is not difficult to agree with the opinion that currently in the global competition, the companies with the greatest chances of success are those that make all-round use of ITT and other advanced abilities and resources, which skilfully combine the proven and innovative instruments of strategy. This not only is about sales opportunities, but also more advantageous (e.g. cheaper) supplies to production.

Additionally, decidedly better and longer term signals appear for national economies that are well equipped with advanced factors of production (technologies and qualifications), a modern infrastructure, high technological capacities of domestic enterprises, to increase their global competitiveness. The globalisation factors, therefore, act to the advantage of countries increasing their technological capabilities and qualifications, as well as those that are inviting to multiple batch, international production of foreign companies, including TNCs. Other countries are “avoided” by foreign companies and their “investment packages” (although they

can be markets for the sale of corporate products), while domestic enterprises cannot stand the competition on the domestic and international market.

Under the present conditions of technological and economic change, the main **entities** of globalisation - TNCs are subject to the greatest degree of adaptation (while simultaneously jointly creating the global trends). It is they that noticed and as “traditional” companies used ITT increasingly better (making large outlays on the implementation of IT), achieving huge benefits from this.⁹ This, however, does not mean that every case of implementing IT into the activities of TNCs brings about a huge success.

The changes in the functioning of TNCs under the influence of these technologies are expressed by complex transformations of their value creation chains, organisations and strategies. The reconstruction of the functions creating value in TNCs is evolutionary and is implemented in conjunction with the changes that make the management of the organisation and its relationships with other entities more effective and optimal (in real time). The effect of the reconstruction of the value chains is the expansion or substitution of traditional (physical) functions/activities through IT implementation activities (those that use ITT and generating information) [Czerniawska, Potter, 1998, pg. 68]. This leads to a “dualisation” (a combination of traditional functions and those based on ITT) or to the “shrinkage” of company value chains. These trends are expressed in the form of the transfer of some activities (e.g. procurement and/or sales) outside and the rapid development of the so-called “digital markets” known also as B2B, B2C, C2C, E2E and other platforms. Global networks of “specialists” with unique skills develop through them (or without them) for the needs of the TNCs, rather than networks of traditional subcontractors. Network organisations develop, which will presumably evolve in the direction of virtual business networks.

It is possible to notice an improvement in efficiency and effectiveness rather than radical innovative changes in the changes taking place to date in the implementation of TNC strategies with the participation of ITT. In the competitive strategies, the extensive use of ITT allows for the strengthening of cost leadership, as well as - although this requires greater effort - quality leadership, as well as a frequent combination of the two in an integrated

⁹ These benefits have so far primarily been based on cost savings (e.g. for procurement, external services, salaries, interest on loans etc.). In 2001, the cost savings made by General Electric through the use of ITT were approximately USD 1.6 bn, whereas they should increase to USD 10 bn per annum by 2006.

strategy. It is significant that in all types of competitive strategy, it is possible to take advantage of non-traditional sources (information and knowledge, time and acceleration of activities, global configuration and coordination), that increase and consolidate competitive advantage. In expansion strategies, the influence of ITT has a generally simplifying and stimulating nature. The skilful use of ITT can accelerate and support global expansion of enterprises - particularly in its early phase - as a result of greater ease, speed and effectiveness of penetrating foreign markets. In order to take full advantage of the potential sales opportunities, it is, however, necessary to move to direct commitment and frequently to concentrate on the best markets. In the case of the trans-national strategies, they can be improved through ITT (e.g. by changing the configuration) or by moving to a higher level of integration and/or better adaptation (e.g. mass individualisation of products sold).

The changes in the functioning and operations of TNCs that ensue under the influence of ITT make them more entities that are efficient and effective in their operations, while simultaneously increasingly better places in the “new economy” and globalisation. Simultaneously, the increasing pressure of global competition, the level of outlay, risk of activities and recently the declining profitability create severe threats to TNCs. The changes in the corporations that have been presented are also of significance to many other companies (which are their partners, subcontractors or competitors) and for the host economies (their foreign investments, branches and joint ventures). The influence of the changes presented in TNCs on other entities (companies, institutions, economies) will be increasing, while the implications can be beneficial primarily to those entities, which manage to adjust to the evolution of the TNCs and their needs, and more widely speaking - to the development of ITT and the “new economy”, under conditions of intensive competition and cooperation of a global nature.

Due to the attributes of ITT and the “new economy” the **mechanism** of global integration may act increasingly intensively and selectively, mainly consolidating the activities that satisfy the requirements of the so-called technological parity, based on ITT. Since these are technologies of a network nature, it is primarily the participants of a given business network that are integrated. This means that in the market (spontaneous) integration and corporate integration, it is the entities that use the global information network (ITT) and other advanced technologies for implementing the tasks for other network participants that have the greatest opportunities.

Institutional integration has best proved itself so far and is bringing greater results in developed countries (EU, NAFTA, partly ASEAN), and its functionally expanding nature has been defined as the new regionalisation. Changes of this type are significantly oriented towards cooperation in adapting to global competition, including technological competition. In response to the successes and benefits of the USA based on ITT, a new area of integrative policy has arisen in the countries of the EU to promote the development of ITT, the “new economy” and the information society (the so-called Lisbon strategy, e-Europe programmes etc.), which has recently been encompassing the EU candidate countries.

In summary, the influence of the development of ITT and the “new economy” on the course of the process of globalisation is presumably leading to its acceleration, stronger foundations based on the development of information and knowledge, geographical and sectoral concentration, as well as concentration of entities, growth in the significance of TNCs as entities of global economic activities, to increasing the significance of the widely understood concept of integration (and simultaneously the threat of disintegration). In general, this is leading to the gradual, but all-round change in external conditions of the active participation of countries in the process under discussion.

3. Economic ties between the countries of Central and Eastern Europe: assessment, evolution, conditions

The assessment of the external economic ties between the countries of Central and Eastern Europe (CEE) under conditions of globalisation refer to a large extent to the participation itself and the position of these countries in the process in question. International rankings of the shares of countries in globalisation are based on various sets of indicators, including foreign trade, capital and technology flows, as well as tourism and travel, communication, the use of the Internet, political commitment of the states etc. Depending on the set of indicators used by the institutions, the country most committed to the process of globalisation is Hungary or the Czech Republic. According to the latest conclusions by A.T.Kearney and the magazine “*Foreign Policy*”, of the 62 countries included in the research, individual CEE countries took the following positions: Czech Republic 15 (in 2000 - 21), Croatia 22, Hungary 23 (previously 17), Slovenia 25, Slovakia 27, Poland 32 (previously 24), Romania 40, Ukraine 42, Russia 43 [“*Measuring ...*”, 2003, pg. 65]. It is worth adding that

ahead of the Czech Republic come the following countries, starting from position 1: Ireland, Switzerland, Sweden, Singapore, Netherlands, Denmark, Canada, Austria, Great Britain, Finland, United States, France, Norway and Portugal (previously Singapore was at the top of the list).

The specific indicators show that at the end of 2001, with the exception of Slovenia and Romania, all the other CEE countries included in the ranking took positions in the classification of using the Internet which were lower than the general positions (presented above).¹⁰ The surveys of the institutions mentioned allowed for the conclusion to be drawn that one of the factors slowing down the globalisation process is the “digital abyss” in the world. It exists not only between the North and the South, but also between the North and the “emerging markets” (mainly the CEE countries) [*Measuring Globalization*”, 2001, pg. 60]. It appears that this “abyss” has not been reduced dramatically, since in 2001 only 9.1% of people in the world had access to the Internet. China and the emerging market have made significant progress in the diffusion of the Internet [*Measuring...*”, 2003, pg. 64].

Changes in the process of integrating the CEE countries with the global economy that is forming and its strategic “core” of the Triad can be presented by analysing the changes in foreign trade and FDI flows of the countries in question in the 1990s. The major evolution in the forms of economic ties of the CEE with the external environment should be emphasised, as this is based on strong growth in significance of FDI in relation to foreign trade. The value of the stream of FDI flows increased by a factor of 43 in the years 1991 - 2000, while imports increased approximately 4 times (to USD 186 bn in 2000). The relationship of the value of the stream of FD inflow to the stream of imports of goods increased from below 1% to 15%. The CEE markets are being supplied by rapidly increasing international production from TNC branches “implanted” in the CEE at the cost of the rate of growth of imports of goods. Another change is the relatively lower significance of value added trading (contractual cooperation between companies) relative to inter-firm trade (based on TNC investments). Simultaneously, major changes took place in the direction of external ties of the CEE towards the EU (at the expense of other regions), and smaller changes in the industrial structure of exports (mainly of the CEE countries).

¹⁰ The higher result of the individual CEE countries in the ranking in question was influenced by the relatively better position in the classification of trade, FDI, travelling and tourism, participation in international organisations and peace missions and others.

In the first half of this period, the economic crisis, difficulties with transformation and stabilisation of the economies and the breakdown of earlier commercial ties made it difficult to activate and restructure exports. However, the second half of the 1990s featured an increased rate of growth in exports and acceleration in the changes to the structure. In the years 1996 - 2000 the share of CEE countries¹¹ in world trade increased by approximately ¼ of a percentage point, reaching respectively 2.25% and 3.05% in exports and imports [“*Economic Survey...*”, 2002, pg. 138]. Importantly, an even greater improvement took place in trade with the EU. The share of countries in imports to the EU from outside this grouping increased to 9.95% (growth of 1 percentage point), and in EU exports from outside this grouping to 13.3% (growth of 2 points) in 2000. To the CEE countries, the significance of the EU as a trading partner is much greater and increasing. The EU’s share of exports to the countries in question reached approximately 67%, while the share of imports reached 59% in 2000 (for some countries these indices are even higher).

The clear growth in the share of CEE countries in world trade is a beneficial phenomenon, however, its “dark side” remains the low share in exports of high technology goods. In 2000, the CEE countries had just 1.3% of the value of world exports of technologically advanced products (high-tech manufactures). This is almost half their share of total exports. However, the share of CEE in exports of raw material goods was 5.2%, and raw materials 3.6% [WIR, 2002, pg. 148, tab. VI.1]. It is worth adding that in the case of Hungary, the share of high-tech manufactures increased rapidly in recent years and reached more than 25% of the total value of exports in 2000, and the main groups of products are combustion engines and data processing devices, as well as their components [*op. cit.*, pg. 169]. Hungary was the only CEE country to find itself (in the last position) among the 17 main exporters of information and telecommunications hardware (IT goods), achieving in 1999 a value of exports of USD 7 bn (the lowest in the whole group) and a rate of growth of 59.3% (the highest in the group) in the years 1996 - 99 [“*Digital Economy...*”, 2002, pg. 56, tab. 6.4].

The ensuing changes in foreign trade, competitive advantage and specialisation are important to define the direction and nature of the evolution of the commercial ties of CEE.

¹¹ The surveys of the European Economic Commission encompassed 15 countries of CEE.

More detailed information is presented in table 2. The data presented prove that intermediate (industrial) goods are the main product group exported for all the countries surveyed – from 45.3% to 59.5% - on average 52% of total trade with the world and 55% in trade with the EU [“*Economic Survey...*”, 2002, pg. 142]. Although growth in the significance of exports of investment goods is progressing, mainly at the expense of consumer goods, then even so, the export of the latter is of greater significance and forms a surplus in the balance of trade of the CEE countries. The growth in exports of industrial goods is associated with strongly growing imports of intermediate goods (industrial goods, mainly for the needs of foreign branches), as well as investment goods.

Although for the four countries – Czech Republic, Hungary, Slovakia and recently Estonia – a comparative advantage is appearing in the export of capital goods, this region of CEE as a whole has a negative advantage in investment goods. Apart from the Baltic States and Romania, automotive exports have a positive influence on the balancing of total trade with the Central European countries, but it does not create a comparative advantage for them [*op. cit.*, pgs. 143-5]. The growth and the high level of inter-sector trade should be noted in the trading between CEE and the EU, which amounts to approximately 55 - 65%, mainly as a result of automotive trade. An analysis of the factors stimulating the presented changes in the structure of CEE trade indicate that they are mainly related to the inflow of FDI to our region, as well as with the activities of TNCs.

The system transformation and association with the EU incited a large inflow of FDI streams to the CEE countries, growth in the resources of these investments and their growing significance on a world scale. More detailed information is presented in table 3. The strong decline in the FDI streams in 2001 bypassed the CEE countries, which is positive evidence of the investment climate in this region. The majority of FDI resources were concentrated around four countries – Poland, Czech Republic, Slovakia and Hungary – which are responsible for 62% of these resources in the region. More than 70% of the value of FDI investments comes from the EU countries, even though investments from the USA are of major significance, e.g. in Poland. In the structure of sectors of FDI resources, services have been dominant in recent years, and the share of manufacturing is approximately 30%, of which the automotive industry is most frequently 10 - 14%. With the exception of Hungary, the inflow of FDI to high technology industries is very minimal, although in recent years this type of investment is increasing, e.g. in Poland, Czech Republic and Estonia.

If international production in a given sector, which is increasingly oriented towards foreign markets, is financed by FDI and produced by foreign branches, then the share of this sector / branch in exports of a given country increases (if the rate of growth of exports by domestic companies is not increasing). This process of the growing share of corporate branches and joint ventures has taken place in the CEE countries, which has resulted in a high share of the branches in exports, particularly of Hungary, Estonia, Poland, and the Czech Republic. This share is unique in comparison with the conditions in other countries, which is proven by the data in table 4.

To a large extent, TNCs have facilitated the activation, reorientation (geographical), restructuring (sectoral) of the exports of the CEE countries. However, this has not resulted in a greater technological advance in production and exports in the countries in question, with the exception of Hungary. TNCs were not the only reason that social expectations have not been met in the CEE countries that after the change in the political and economic regime the modernness and affluence will change.

In assessing the evolution and the present state of external economic ties of the CEE countries, it should be concluded that in general these ties are changing according to world trends, which is proven by the growing share of the countries in question in global trade and the inflow of FDI, the strengthening of ties with the EU (one of the pillars of the Triad), the inclusion of the economies and companies in the CEE into the trans-national networks of production and sales ties with the participation of TNCs. According to the accepted criteria, a large proportion of the CEE countries holds a relatively beneficial, “middle position” in the rankings of participants in the globalisation process.

However, the in-depth analysis of various aspects of external ties (commercial and investment) of the CEE indicates that serious shortcomings are emerging simultaneously: a very weak position in world exports of technologically advanced products, their low share in the exports of the individual countries (with the exception of Hungary), the lack of specialisation in the export of goods other than intermediate goods, lower “contribution” of domestic supply to growing exports of goods (particularly investment and consumer goods) than potential capabilities and the very large share of corporate branches in the total exports of goods from the CEE countries.

There are reasons to claim that the activities of TNC have resulted to a large extent in the changes mentioned above in the external economic relations of the CEE countries in the 1990s (as well as domestic economic transformations¹²). However, in reality, the influence of the activities of TNCs was based on the use of existing comparative advantages of the opening up CEE economies, and not on the creation of new, technologically advanced advantages and export specialisations. For this reason, there is a lack of major qualitative changes in external economic ties (particularly in exports) of the CEE countries. It is worth noting that the FDI host countries use advanced resources and capabilities (attributes of the location) than they create them¹³, and the outlay on these must be incurred mainly by the national economies and societies.

This leads to the conclusion that to a large extent, the internal technological, economic and social conditions in the individual countries determine the external ties of the CEE economies. One of the important internal conditions of in the CEE is the relatively low level of development of the national technological capabilities, which are developed all round through R&D work, education, the infrastructure, the manufacturing base, the structure of the sectors etc. On the one hand, this is the “inheritance” of the centrally planned economy, and on the other – a consequence of the weakness of the mechanisms and institutions supporting the national technological capabilities in the period of transformation of the CEE economies in the 1990s. The discussion of the reasons, state and effects of these detrimental phenomena exceeds the framework of this lecture.

The situation is becoming increasingly difficult for the CEE countries, since an acceleration and other important changes are taking place in the factors, mechanism and entities shaping the progress of the globalisation process under the influence of the development of ITT and the “new economy”, which simultaneously determine the external conditions for change and development of the CEE economies and their economic ties with the global environment.

¹² These issues were researched on the example of Poland. It can be stated that TNCs helped in the transformation of the Polish economy, although they took a strong position on an emerging market [Zorska, 2003b, pgs. 63 onwards]

¹³ As a consequence of the activities of the TNC, particularly in the less developed host nations, because of FDI, there is usually an increase in the quality of resources and manufacturing capabilities. However, in order to attract FDI and to commit TNC to technologically advanced sectors, there must be favourable economic

Currently, the ensuing changes in the process of globalisation are forming the external conditions for development and the internationalisation of the economies / countries, which potentially can be supportive and advantageous or not. Large opportunities and benefits are arising for those economies and companies that want to and are able to adjust to the current economic trends, primarily technological trends. However, threats of being “left behind” and of marginalisation are arising for those who do not achieve this.

There is a great deal of evidence that the “strategic core” of those conditions that are related to the globalisation process to a large extent encompasses the use of ITT and the development of the “new economy”. Efforts and changes in countries – including CEE – must be made to increase the participation and benefits obtained in the globalisation process, and because of this, for the economies to advance and improve the affluence of the societies.

A modification of the world-wide institutional conditions for the progress of globalisation is necessary in order to increase the chances of countries having such aims and determination to achieve this. However, even more necessary are their own, effective efforts to improve their affluence through institutional reforms, investments and modernisation and development of the economies [Stiglitz, 2002, pg. 251]. The commencement of the development and modernisation processes – in the direction of the “new economy” – enables the current and future external advantages related to the globalisation process to be taken advantage of, i.e. its factors, mechanism and activities of the entities, in particular TNC. It appears that presumably for some CEE countries it is still not too late.

conditions for this in the form of the infrastructure, staff qualifications, national R&D base, investment incentives etc.

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Table 1.

Selected indicators of FDI flows and international production compared with GDP indices worldwide, in the years 1986 - 2000.

Item	Value in current prices (USD bn)		Annual rate of growth (in %)		
	1990	2001	1986-1990	1991-1995	1996-2000
FDI inflow	203	735	23.6	20.0	40.1
FDI outflow	233	621	24.3	15.8	36.7
FDI inflow resources	1874	6846	15.6	9.1	17.9
FDI outflow resources	1721	6528	19.8	10.4	17.8
Transnational mergers/acquisitions	151	601	26.4	23.3	49.8
Sales by foreign branches	5479	18517	16.9	10.5	14.5
Gross prod. by foreign branches	1423	3495	18.8	6.7	12.9
Exports by foreign branches	1169	2600	14.9	7.4	9.7
Employment by for. branches ('000)	23858	53581	6.8	5.1	11.7
Memorandum					
World GDP (n current prices)	21672	31900	11.5	6.7	1.2
Gross investment in fixed assets	4841	6680	13.9	5.0	1.3
Export of goods and services (without rewarding the factors)	4375	7430	15.8	8.7	4.2

Source: "World Investment Report 2002. Transnational Corporations and Export Competitiveness", UN-UNCTAD, New York – Geneva, 2002,

pg. 4, tab. I.1.

Table 2.

Structure of exports of the Central and Eastern European countries by degree of processing and nature of the goods, 1996 - 2000

(share in %, changes in structure in percentage points)

Group of countries	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia
WORLD									
<u>Structure in 2000</u>									
Raw materials	3.7	11.3	3.7	13.1	7.9	6.0	6.3	3.3	1.7
Semi-finished	59.5	45.3	51.4	57.0	55.2	49.3	46.5	55.3	51.5
Investment goods	21.9	24.0	25.2	5.4	9.0	15.9	8.0	23.8	19.6
<i>Including: motor vehicles</i>	8.5	1.8	5.2	0.1	2.7	4.6	0.4	13.9	8.6
Consumer goods	14.9	19.4	19.8	24.4	28.0	28.8	39.2	17.6	27.2
<u>Changes in the years</u>									
<u>1996 - 2000</u>									
Raw materials	-2.3	1.1	-4.3	5.3	0.3	-3.0	0.3	-0.2	0.1
Semi-finished	0.7	-4.9	3.2	8.5	2.5	5.1	-3.3	-7.3	3.5
Investment goods	5.4	15.3	17.1	-4.0	-1.3	1.8	1.1	9.2	0.1
<i>Including: motor vehicles</i>	4.2	-1.1	4.7	-0.1	-2.0	1.4	-0.3	10.2	-0.9
Consumer goods	-3.7	-11.5	-16.1	-9.9	-1.5	-4.0	1.9	-1.7	-3.7
EUROPEAN UNION									
<u>Structure in 2000</u>									
Raw materials	3.3	10.6	2.9	18.1	9.2	6.0	4.5	2.5	1.6
Semi-finished	61.2	41.1	54.0	55.4	46.5	50.7	32.4	47.9	54.4
Investment goods	22.1	29.7	24.7	2.7	6.6	15.2	8.2	32.1	22.5
<i>Including: motor vehicles</i>	9.5	0.6	6.4	-	0.7	5.8	-	21.3	11.7
Consumer goods	13.4	18.6	18.4	23.8	37.7	28.1	54.9	17.4	21.4
<u>Changes in the years</u>									
<u>1996 - 2000</u>									
Raw materials	-3.4	-3.5	-5.4	4.4	-1.3	-2.7	2.2	-0.7	0.1
Semi-finished	-0.9	-8.5	4.3	-	-7.1	5.8	-3.5	-13.4	7.7
Investment goods	7.2	23.7	17.6	-1.3	2.7	1.2	3.2	15.3	-1.9

<i>Including: motor vehicles</i>	5.0	-1.0	6.4	-	0.6	0.9	-0.3	14.5	-3.0
Consumer goods	-2.9	-11.6	-16.5	-3.1	5.7	-4.3	-1.9	-1.1	-5.9
CEFTA-7									
<u>Structure in 2000</u>									
Raw materials	6.8	5.2	8.5	6.1	16.8	8.1	8.4	4.5	0.4
<i>Semi-finished products</i>	60.7	55.7	56.8	77.2	68.4	54.1	70.7	70.2	49.0
Investment goods	14.3	22.0	8.3	6.7	4.9	10.1	4.7	7.3	13.2
<i>Including: motor vehicles</i>	5.6	0.1	0.7	0.1	0.2	5.0	1.5	0.8	7.9
Consumer goods	18.2	17.1	26.3	10.0	10.0	27.7	16.1	18.0	37.4
<u>Changes in the years</u>									
<u>1996 - 2000</u>									
Raw materials	-1.5	1.1	-1.3	-0.5	-5.6	-11.5	-8.7	0.4	-0.4
<i>Semi-finished products</i>	1.5	-12.6	4.8	11.7	4.4	1.4	12.3	2.6	0.2
Investment goods	-0.4	19.5	1.3	-4.4	0.6	2.4	-9.5	-2.3	5.9
<i>Including: motor vehicles</i>	1.8	-	0.3	-	-0.2	4.7	-5.5	0.6	7.9
Consumer goods	0.4	-7.9	-4.8	-6.8	0.5	7.6	5.9	-0.7	-5.7

Source: "Economic Survey for Europe", ECE, Geneva, 2002, no. 1, pg. 143, tab. 3.5.6.

Table 3.

Inflow resources of foreign direct investments (FDI) total

In the countries of Central and Eastern Europe (CEE) in the years 1990 – 2001 (USD million).

	1990	1995	2000	2001
Albania	..	211	578	759
Belarus	..	50	1 243	1,412
Bosnia and Herzegovina	..	21	355	519
Bulgaria	108	445	3,162	3,850
Croatia	..	473	5,155	6,597
Czech Republic	1,363	7,350	21,644	26,764
Estonia	..	674	2 645	3,155
Hungary	569	11,919	19,804	23,562
Latvia	..	615	2,081	2,216
Lithuania	..	352	2,334	2,665
Moldova	..	93	459	609
Poland	109	7,843	33,603	42,433
Romania	766	1,150	6,517	7,636
Russia	..	5,465	19,255	21,795
Slovakia	81	810	4,634	6,109
Slovenia	665	1,763	2,809	3,250
Macedonia	..	33	389	919
Ukraine	..	910	3,843	4,615
Yugoslavia	..	329	1,319	1,484
TOTAL CEE	3,661	40,508	131,829	160,352
Share of the world's inflow resources (%)	0.20	1.39	2.11	2.34

Source: as in table 1, pgs. 310 and 313, tab. B.3. and own calculations.

Table 4.

Share of foreign branches in exports (E of selected FDI host countries),
in the years mentioned (% %).

COUNTRIES	Year	Total exports	Industrial E	COUNTRIES	Years year	Total exports	Industrial E
<i>Central and Eastern Europe</i>				Portugal	1996	23	21
Czech Republic	1993	...	15		1999	17	21
	1998	...	47	Sweden	1990	21	21
Estonia	1995	...	26		1999	39	36
	2000	60	35	USA	1985	19	6
Hungary	1995	58	52		1999	15	14
	1998	80	86	Brazil	1995	18	...
Poland	1998	48	35		2000	21	...
	2000	56	52	Chile	1995	16	...
Romania	2000	21	...		2000	28	...
Slovenia	1994	...	21	China	1991	17	16
	1999	26	33		2001	50	44
<i>Other countries</i>				Malaysia	1985	26	18
Austria	1993	23	14		1995	45	49
	1999	26	15	Mexico	1995	15	...
Finland	1995	8	10		2000	31	...
	1999	26	31	Peru	1995	25	...
France	1996	22	27		2000	24	...
	1998	21	26	South Korea	1999	...	15
Ireland	1991	...	74	Singapore	1994	...	35
	1999	...	90		1999	...	38
Holland	1996	44	22	Taiwan	1985	17	18
					1994	16	17

Source: as in table 1, pg. 154, tab. IV. 3.