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Emerging Market Economies: Globalization and Development

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Undeniably, the process of globalisation has brought tremendous changes to economies and politics world-wide and not everybody has been able to reap its benefits. A detailed analysis is required in order to measure which aspects of globalisation are conducive to prosperity for all, and which aspects have an adversely effect. Turning globalisation to our advantage is not an easy task. This is particularly the case with the transition and developing countries, which are undergoing dramatic changes and adjustments in their economic and political arrangements, while being, at the same time, confronted with the challenges of globalisation.

The present volume tries to provide an insight into various aspects of the political and economic impacts of globalisation, focusing mainly on transition and developing economies. The book is an outcome of a research project of TIGER International Research Institute, headed by Grzegorz W. Kolodko, who is also the editor of the volume. The list of contributors features renowned scholars and researchers from 10 countries, most of whom are members of the Board of the aforementioned institute.

The introduction promises that the book will enlarge the scope of economic theory with the aim of producing novel answers to questions relating to the impact of globalisation on output growth and socio-economic change. Hence the body of the book has been divided into four parts, each of which focuses on different issues; at the same time, they share the theme of globalisation, growth and development.

The first piece by Kolodko is a methodological and theoretical introduction to the phenomenon of globalisation (pp. 3-46). Having pointed out the omni-present problem of the ever-widening gap between the rich and the poor, Kolodko analyses the circumstances that contributed to development in countries in the post-industrial world, and those playing a similar role now, in the age of global economy. He is optimistic about the prospects of less globalised countries for catching up with those more globalised, but conditions it by three variables: "fast", "sustained" and "endogenous" (p. 19). He further builds upon the idea of fast growth in extending it by six factors that underline and enable it to take place. However, these factors should not be taken at face value; what is essential are the opportunities and threats stemming from them.

Csaba critically overviews the literature on transitology and development economics, pointing out decisive factors that determine the development process of transition economies. He analyses the importance of institutions in the transformation process. The main contribution of this article is that it shows the applicability of the findings of transitology from the perspective of development economics, the new paradigm which focuses on human resources, and the need for effective market regulation by the state, which is embodied in institutional restructuring. The author also draws attention to steps he suggests transition economies need to make in order to tackle the threats and opportunities of globalisation in the framework of EU accession.

The thought-provoking idea of the world as one single market is introduced by Nuti, who identifies the factors standing in the way to creating such a global market (pp. 75-95). His argument takes into account the institutional reasons behind the still incomplete phase of globalisation. According to him, the problem lies in the fact that the institutions at present entrusted with global financial intermediation were originally not designed to fulfil such a role. In addition, he states that the real issue to be tackled is protectionism, which is still

common practice among developed and developing countries.

In Part I, titled "Globalisation, Transformation and Growth", the contributors set forth the background to the topic and issues pertinent to it. The reader is provided with an explanation of the key terminology relevant to the phenomenon of globalisation together with the theoretical framework and discourse one should be aware of when examining the historical development of the process of globalisation, transition and development. Interestingly enough, all three authors identify the role and argue for the importance of functioning institutions, if the globalisation process is to be governed and regulated properly.

Part II, titled "Economic Growth in the More and Less Globalised Economies", includes three case studies - on Sub-Saharan Africa, the CIS and Chile - applying the concepts and testing the suggestions of the introductory, theoretical first part.

In his study, Lipumba looks into the disastrous economic performance of Sub-Saharan Africa and searches for remedies (pp. 99-142). He argues that the domestic financial and social problems, such as low capital inflow and FDI, call for investment-oriented policies and the establishment of a strong macroeconomic environment supported by democratic governance. All of this should take place within the right institutional framework. The small size of African markets cancels out the possibility of a closed economy and stresses the importance of regional policy-making, which could be embodied in the establishment of regional trading blocks. Lipumba believes that standard economic policies that have proved fruitful elsewhere should be implemented in Sub-Saharan Africa, too. Further, he claims that the endogenous character of sustainable growth and an increase in foreign aid are vital and that foreign capital can support but never replace the domestic one (pp. 19, 31-34).

The next case study written by Keith Crane and Zbyszko Tabernacki focuses on the CIS countries (pp. 121-142). The authors undertook the complex task of characterising these countries and assessing the extent to which they have been integrated into the global market, the driving forces and the growth-related impact of this financial integration. Since the CIS is an organisation of 12 countries, it is difficult to generalise about them. Empirical evidence about the CIS reveals a two-faced globalisation process in the making, i.e. some indicators reflect a deeper integration of the CIS into the world markets, while others are showing signs of a large gap. All in all, the characterisation of the CIS largely fits the group into which the literature on transition usually puts them, namely the third group of transition economies where "crisis management is the name of the game" (Csaba, p. 54).

Rodrigo Vergara's part, "Reform, Growth and Slowdown: Lessons from Chile", is a summary of the history of reforms implemented in the country since the mid-1970s (pp. 143-165). Chile's economic background was in fact very similar to that of many post-communist countries, relying on import-substitution and heavy state-intervention. Its experience shows that the implementation of the SLIP agenda does bring about lasting reforms and 2nd or 3rd wave reforms also provide a solid foundation for the country's sustained growth. On the other hand, if the reforms are not reinforced continuously in response to the global requirements, the previously high growth rates can easily diminish. Vergara agrees with Csaba in emphasising the importance of the regulation of financial institutions, the lack of which caused the 1982-83 banking crisis in Chile. Another notable insight of his is the identification of a direct correlation between Total Factor Productivity, politics and institutions.

Part II is of importance for a number of reasons. It proves, through the examples of more and less successful transition paths, the viability of the growth-related suggestions and conclusions drawn from the theoretical conclusions in Part I. The comparative advantage of

the three articles is the fact that the claims of the authors are strongly backed up by empirical evidence presented transparently by means of charts, tables and graphs. What is more, despite the current negative trends, which are more adverse in Sub-Sahara and the majority of CIS than that in Chile, all the authors share the belief that globalisation will eventually bring prosperity to these countries.

While Part II would seem to suggest that catching up is possible and similar reforms can be implemented across the globe, Part III ("One World, Different Paths of Development") challenges this idea to a certain extent, presenting various transformational processes and their differing impacts on the economy.

"The Dual-Transformation of China: Past 20 Years and 50 Years Ahead" by Gang Fan, examines the reform process in China and the progress that has occurred in the last two decades. It draws conclusions as to whether these reforms are sufficient enough to ensure the further gradual integration of the country into the international markets (pp. 169-185). The reason for the double-track type of transformation, already hinted at in the title, is the fact that China needs to make two types of changes simultaneously: to develop its economy and to transform it from a centrally-planned to a market-guided one. Fan challenges the views that China may be facing a financial crisis or economic collapse by examining the seven contested areas, which, taking everything into account, are highly unlikely to cause harm to the economy in the future. In China, privatisation and institution-building will remain a protracted process until the non-state sector is seen as capable of absorbing most of the lay-off from the state sector and migrants from the rural areas.

In the second article of this chapter Daianu addresses an issue that has already been outlined in the introductory piece by Kolodko: "Is Catching-up Possible in Europe?" (pp. 187-204). Daianu cautions that this process is not as straightforward as it might seem and that no one should accept any ready-made recipe at face value.

Convergence is a complex phenomenon and very difficult to achieve. In fact, the only country that has ever been able to surpass the economic performance of all the other member states (MSs) in the EU is Ireland. This proves that being a member of a free trade area does not in itself ensure massive economic growth. Daianu suspects that differences among the growth rates of transition countries correlate with differences among the development levels of their institutions. He identifies moderate but sustainable growth rates coupled with solid macroeconomic financing attracting FDI as key aspects to growth, which should be considered by CEEs.

Tadeusz Kowalik expands on Daianu's idea that there is a continuous gap prevalent among EU MSs (pp. 205-220). Kowalik challenges the unitary effect of globalisation, arguing that "the higher the level of social development, the stronger the tendency towards variety and differentiation" (p. 206). Despite the fact that he sets out to investigate the "systemic differences between the national economies of the world" (p. 205), he is satisfied with the elaboration of only two capitalist models, even though there are more models of market economies, not to mention those just emerging. His methodology does not reflect his purpose, since having analysed the Anglo-Saxon and German-Japanese systems he only seems concerned with the likely future development of the German side of the German-Japanese model and uses political rhetoric to elaborate on the German welfare state's prospects.

Part III maintains that different tracks of development, "transitions" or even "globalisations" are possible. Systemic differences among transition or stable economies have to be addressed on a case-by-case basis. However, Part III, especially the last two articles, does not live up to

the previous analyses in terms of convincing arguments and empirical facts.

Part IV ("Catching-up and External Factors of Development") examines three external factors that have been and are still playing a role in the globalisation process of developing and transition economies. This concluding chapter tries to shed light on relatively new developments in this respect.

Taguchi discusses a somewhat contested, diplomacy-related question: Does Japan unilaterally support the global democratisation process and if yes, what means does it use in order to achieve it? (pp. 223-235). Clearly, having benefited from the advantages of democracy on a large scale, Japan does openly support the democratisation process. The reason why this is often questioned is because Japan has adopted a different approach to reach this goal. As opposed to the American sanctuary approach, which punishes a country if it has seriously fallen back in the democratisation process, Japan maintains the belief that democracies should be rewarded for having performed successfully and behaved democratically.

Keren and Ofer investigate the rather complex issue of the transformation of the banking sector and the role that foreign banks have played in this process (pp. 237-265). The article also tries to find out the reasons for the belated foreign bank involvement in transition economies and combines a historical, empirical and mathematical approach to reach conclusions. He underlines that the role of foreign banks in a transition period is not trivial. Their appearance in the new market creates a spill-over effect, since they impose a more market-oriented behaviour on SMEs, other domestic banks, and the banks they take over. Furthermore, they can push governments to adopt a strict financial regulatory framework which will provide for them as well in the foreign market.

The concluding part by Vojta (pp. 267-271) focuses on the managers and businessmen concerned with foreign direct investment. Vojta argues that when assessing the risks associated with investment in a foreign country, company managers should examine the host country's compliance with those key policy areas that the international community has compiled in order to help countries tackle global challenges and improve their financial systems. The author implies that the private financial sector should be responsible for a safe global economic environment, something even major global financial institutions are not capable of ensuring. According to him, the new agents we should be looking for in replacing the now ineffective global institutions do not yet occupy a place in the international political arena but are to be found at the grassroots of globalisation.

The book provides engaging and thought-provoking reading for those who possess the necessary knowledge of political economics. Therefore, it may be read with profit by scholars, students or policy-makers active in this field. It is distinguished by the wide variety of "case-studies" and the inclusion of the external factors in the last part which distinguish it from other, less interdisciplinary works. Overall, the book occupies a special place in contemporary political economy literature. It enlarges the existing body of knowledge in a number of discourses on political economy - globalisation, transition, development, policy-making, etc. - and through the combination of all of these discourses contributes with new insights into and enlarges the scope of the applicability of mainstream economics. Through the logical ordering of the four parts and 12 articles it keeps its focus on the interplay of globalisation, transition and development. However, the volume achieves even more than it promises. It provides an analytical framework and offers pieces of policy advice in the introduction which are then tested and re-tested in the case studies.

Csilla Varga