PUBLISHED IN:
"Europe-Asia Studies"
Former "Soviet Studies"
Vol. 57, Number 3
May 2005, pp. 511-12

Book Review
Emerging Market Economies
Globalization and Development
Edited by Grzegorz W. Kolodko
Aldershot/UK and Brookfield/USA: Ashgate Publishing House, 2003, 281p.
ISBN 0754637069

Review written by Dejan Dragojevic

The book "Emerging Market Economies" consists of the proceedings of the Fourth International Conference on Globalization and Catching-up in Emerging Market Economies held in Warsaw in May 2002. The twelve texts are divided into four Parts: Globalization, Transformation and Growth (Part I), Economic Growth in the More and the Less Globalized Economies (Part II), One World, Different Paths of Development (Part III) and Catching-up and External Factors of Development (Part IV).

In the opening text, "Globalization and Catching-up in Emerging Market Economies" (Chapter I), Grzegory W. Kolodko deals with the theoretical and practical aspects of the catching-up process in the emerging market economies. Emerging markets are understood in negative terms: they are *not* highly developed market economies and they are *not* the countries that have not even started market reforms. Therefore, whether a country should be classified as an emerging economy or not depends upon the maturity of its institutions (p. 14). The most important insight of the article is that the catching-up is possible if two sets of conditions are satisfied: the first being favorable circumstances in terms of current phase of globalization, the post-socialist transformation and the modern scientific and technological revolution; and the second being fast, sustained and endogenous growth.

The last part of the article, therefore, focuses on the determinants of the fast growth, which are, according to Kolodko human capital, financial and real capital, mature institutions, magnitude of the markets, policy quality and geopolitical location. Only those countries that take care of these factors can achieve to close the gap with the rich countries. Furthermore, this catching-up should not be understood mainly in global context, but rather in regional one.

"Transition as Development" (Chaper II) is written by Laszlo Csaba. The first part of the article evaluates the development and the present state of the 'transitology'. The early transitology is divided into two broad categories: policy oriented and theoretical. Major topic that dominated the field was privatization. Since mid-1990 two new topics became most debated. These are the transformational recession and the probability of societal regression. Increasing divergence among the observed countries, Csaba argues, is producing two more research programs: European studies and New Political Economy of Development.

The author draws sharp distinction between the original paradigm of development economics and the new paradigm. The former emerged in the opposition to western market-oriented concepts and policies and held that the state planning would overcome dependency. The latter acknowledges the importance of market-led growth and accepts proven findings of the standard economics.

In the last part of the article, author identifies five major challenges for the transition countries: (1) further disinflation; (2) decrease of public spending; (3) redefinition of the role of the state in the provision of welfare; (4) solid financial intermediation and (5) future role of the farming. In order to find solutions for these problems, economic analysis must be combined with insights from social sciences, stresses Csaba.

The third article of the Part I, “Governing Incomplete Globalization” (Chapter III), was written by Mario Nuti. The article gives evaluation of the process of globalization defined as “increasing world economic integration” with emphasis on the present state. The main features of globalization process identified by Nuti are decrease of communication costs and fall in trade barriers. The effect of these changes is reduction of trade costs. Since these changes take place with unprecedented speed, the stage of globalization process is termed “fast” globalization.

The main problem that evaluation of any process faces is how to establish criteria against the process is to be assessed. Dealing with the very same problem Nuti proposes concept of *absolute globalization* as a benchmark for the assessment of the present state of the globalization process. Absolute globalization assumes fully globalized world with single world market and all the standard state institutions: (Global) Government, (Global) Ministry of finance, (Global) Central Bank, etc. Comparing absolute globalization to the present stage of globalization Nuti makes two conclusions:

- Existing international institutions such as World Bank, International Monetary Fund, World Trade Organization etc, are inadequate and therefore, an obstacle to further globalization.
- Trade barriers, especially in the form of regional trade blocks are still persistent and pose a threat to economic integration.

The two phenomena are interrelated and can be explained, according to Nuti, by the lack of global governance institutions. Since existing international institutions are not keeping up the pace with the globalization process, regional governing institutions are filling the institutional vacuum.

The last part of the text is assessing the costs and benefits of the globalization process. The benefits arise from international division of labor and capital flow and associated effects such as new technologies, new management etc. On the other hand risks incorporate the possibility of short-term capital flight and especially division among winners and losers. This division and that is one of the most important conclusion of the text can not be avoided without global governance institutions.

“Globalization and Economic Development: Can Sub-Saharan Africa Avoid Marginalization?” (Chapter IV) by Nguyuru H. I. Lipumba is the first text of the Part II. Unlike the first three texts, this article deals with specific regional challenges imposed by the globalization. After presenting his short account of globalization and the present situation in Sub-Saharan Africa, Lipumba poses two questions. Is marginalization of SAA result of bad policies or unfair globalization and can globalization be used for changing the present state?

Marginalization of SAA is measured as decrease of SAA participation in global economy in terms of the share of global trade and the share of FDI. Weak world demand for primary products had tremendous effect on SAA economies since 70% of labor is working in the agriculture. Since export is necessary for financing import and overall growth, Lipumba postulates that one of the most urgent needs of SAA countries is to maintain the share of agricultural goods while significantly increasing the export of manufactured goods. The expansion of FDI in OECD countries, but also in developing countries bypassed SAA. Lipumba finds the most important reasons for low share of FDI in six factors: low economic growth, small markets, bad policy environment, high risk, weak institutions and debt overhang.

In the last part of the article, Lipumba proposes set of measures needed to overcome the present situation and embark on the path of growth after three decades of average growth of 0.2% in terms GDP per capita (1966-1999). These measures include macroeconomic stability, open regional integration, rule of law and supporting institutions, and significant help from international community.

“Globalization and Growth in the CIS” (Chapter V), written by Keith Crane and Zbyszko Tabernacki represents another specific area study. The main question that authors address is whether integration into global economy can promote economic growth in CIS. The article also assesses main characteristics of CIS economies and gives prospect for the following several years.

Huge differences in size of the population, the level of GDP, rates of growth, etc, among CIS countries makes more difficult to give general economic assessments. However, Crane and Tabernacki argue that while CIS countries have become much more integrated in the world economy since 1991 in terms of export to GDP ratios, other indicators are not that well. Foreign direct investments in most of the countries are still low, some countries have significant debt problems and the region in whole is subject to large external balances.

In order to appropriately address differences among countries Crane and Tabernacki have divided countries into 3 groups:

1) large countries: Russia, Ukraine and Kazakhstan
2) slow reformers: Belarus, Turkmenistan and Uzbekistan
3) smaller economies

These three groups of countries face different problems. All three countries in the first group had high growth rates in three years period (1999-2002) and in all three cases export was an important source of growth. However, underdeveloped financial sector in these countries presents a constraint on further growth. The second group faces difficult prospects in the following years because of the inability to reform.

Although smaller economies have solid growth rates they all face problems with current accounts. Crane and Tabernacki argue that the key solution to this problem is an increase in exports of goods and services while maintaining access to multilateral funding.

In article “Reform, Growth and Slowdown: Lessons from Chile”, Rodrigo Vergara (Chapter VI) presents the analysis of Chilean transition. The paper focuses on the reform of public sector, privatization, tax reform, trade liberalization, financial sector reform, pension reform and the reform of the central bank. The main conclusions of the analysis can be summarized as follows:

1. Public sector reforms – the reforms resulted in rationalization of public spending. Clear responsibilities in the administration for the budget have been established, as well as the absolute ceiling for the public spending.
2. Privatization – result of the three stages of the privatization is considerable decrease of the share of the public enterprises from initial 39% to 9% in1998.
3. Tax reform – two major tax reforms took place in 1975 when value added tax was introduced and in 1984 when corporate income tax was drastically reduced.
4. Trade liberalization – unilateral trade liberalization reducing average tariff to 5% resulted in the increase and diversification of export.
5. Financial sector reforms – in the first stage of the reforms all banks (except one) were privatized, reserve requirements lowered and interest rates liberalized. However, supervision of the banks was low. New banking act in 1986 strengthened supervision of the banks.
6. Pension reforms – individual capitalization pension system was introduced and soon private pension funds became the key players of the financial sector contributing largely to the development of the long-term market. Supervision restrictions on the composition of the portfolios were also introduced.
7. Central Bank – became fully independent in 1989 and since 2000 inflation is targeted in the range from 2 to 4 per cent.

All these measures were widely recognized as successful especially since they resulted in continuous high rates of growth. However, since 1997 growth was less than 3%. Explanation for this slowdown Vergara finds out in total factor productivity. He argues that much of the economic growth in previous years can be attributed to TFP and since this has been exhausted, new economic policies that will improve economic efficiency are needed. Vergara identifies space for improvement in education, technological adoption, increasing government efficiency and making more investments in research and development.

Opening article of the Part III, “The Dual-Transformation of China: Past 20 Years and 50 Years Ahead” (Chapter VII), was written by Gang Fan, the Director of the National Institute of Economic Research in Beijing. In the introduction, Fan asks two questions: where is China heading to and will it collapse. After the analysis of the official formulation of reform objectives, Fan concludes that the gradual evolution of the objectives since 1978 towards market economy can be observed and that there is no doubt that these objectives will keep changing in the same direction. To answer the second question one must assess the complexities of the transformation process in

China. Fan finds possible sources of collapse in 6 areas: financial sector, unemployment, income disparities, rural poverty, globalization and corruption.

The article also gives a comparison between state-owned and private sectors. The former has never really been subjected to reforms and is by large inefficient. The latter consists of private companies, self-employed persons, joint ventures with foreign investments, share-holding corporations, etc. This sector is highly active and contributes to 74% of the output and 62,2% of GDP. Fan argues that dynamic private sector can provide the safety net needed for the reform of states-owned enterprises.

Article “Is Catching-up Possible in Europe” (Chapter VIII) by Daniel Daianu examines the prospects for economic convergence within Europe. The author rejects common belief that if conditions set by Brussels were met rapid and sustained growth would follow. Daianu argues that the case of Ireland can not be automatically applied to accession countries given the special circumstances that are not likely to be replicated elsewhere.

The calculations made by Daianu show that in order to catch-up with EU average per capita income (in PPP terms) accessing countries will need from 13 years (Slovenia) up to 50 years (Bulgaria). The calculations are based on the assumption that CEEC grow on average per capita long-term rate of 5%, while EU grows at 2% rate.

Daianu underlines that while the EU accession can be seen as the “Big push” necessary for economic development, adopting acquis communautaire can not substitute domestic policy capabilities. This is why public administration reforms in accession countries are critical for the development.

The article “Systemic Variety under the Conditions of Globalization and Integration” (Chapter IX), written by Tadusz Kowalik, is the closing chapter of the Part III. While most of the studies of the globalization focus on the standardization, this paper gives the account of the systemic differences among national economies. The emphasis is given especially to the differences between Anglo-Saxon capitalism on the one side and German and Japanese capitalism on the other.

The first article of the Part IV, written by Masahiro Taguchi, named “Japanese Approach to the Transition Economies” (Chapter X) treats the economic policy of Japanese government towards the developing countries and transition economies. The author assesses this policy in the light of ambivalent stands of Japan during 90’s, characterized both by general pro-globalization approach in domestic economic policy and sharp criticism of assistance policies of international financial institutions. Taguchi claims that the Asian currency crisis in 1997 has undermined the confidence in the recommendations offered by Washington Consensus, and has therefore strengthened a special approach which was already at sight in 1992, as expressed in “Japan’s Official Development Assistance Charter”. Taguchi asserts that although there are important varieties of approaches, values and directions, general trend of Japan’s policy differs more or less from the Washington Consensus in areas such as: the role of government, transnational implementation of a global system, limitation of the range of conditionally, good governance, structural reconstruction to name but a few.

The author emphasizes that although the ultimate philosophical stand taken by United States and Japan regarding the interdependence of democratization and economic development, Japan has often drawn different actions from it. Generally, being more sensitive towards the peculiarities of Asian nations, Japans is ready to support development of transitional economies without overstressing the need for democratization. Being more sensitive and less uniformed in approach, Japan is quicker to react in sense of taking initiative, as it was seen during the formation of “Asian Monetary Fund plan” (1997), “New Miyazawa Initiative” (1998), “Chiang Mai Initiative” (2000) and Asian Currency Basket Plan (2001). Taguchi concludes that, although Japanese government does not always neglect democracy for the sake of the development, it is much quicker to react without preconditions.

The second article, “Globalization and the Role of Foreign Banks in Economies in Transition” (Chapter XI) by Michael Keren and Gur Ofer, deals with the consequences of the operations of foreign banks in transition economies. Authors conclude that the legacy of the socialist epoch reflected greatly on the introduction of a liberal banking system. Having in mind that the transition coincided with the taking-off of globalized financial services, the entire banking sectors of many transitional states (Baltic states, Czech republic Croatia, Hungary, Poland…) have been taken over by foreign banks. In spite of the liberalization, new domestic banking sector proved unsuccessful in providing services to the production sector and sector of small and medium sized enterprises. However, it succeeded to form a link with industrial clients and political elite, thus creating a lobby directed against the foreign banking.

Keren and Ofer conclude that these obstacles create setbacks in transition, since foreign banks could greatly contribute to the stability of markets in transitional economies by offering sets of services needed for reconstruction. Furthermore, foreign banks could promote trust and reputation necessary for the take-off. By advocating the role of foreign banks, authors claim that, although the penetration of foreign banks at expense of state-owned banks is a recent phenomenon, it has already proven to be beneficial to the economies opened to this process.

Keren and Ofer detect the lack of legal and law-enforcing environment as the greatest obstacle towards larger entrance of foreign banks into the transitional markets. This situation leads to the certain circulus viciosus: in order to create an atmosphere for reconstruction of the legal infrastructure, the greater penetration of foreign banks is needed, but this penetration is not happening as long as the legal environment remains unchanged.

The last article, “Implementing Global Best Practice Standards: The Fiduciary Role of the Private Sector” (Chapter XII) by George Vojta, is concerned with the possibilities of the introduction of global standards which could improve risk, transparency and crisis prevention processes. It focuses on the importance of the deeper involvement of the private sector in promoting global standards, which have up until now being promoted mainly by the initiatives of G7, and G20 afterwards.

Vojta outlines several basic reasons that prove that the private sector has a fiduciary duty to embrace and promote standards compliance. The author claims that the introduction of global standards would improve prospects of sustained global development, and reverse the current dangerous trend. Vojta adds that the inefficiency of World Bank and International Monetary Fund implies that both countries and global lenders and investors must embrace the idea of global best practice standards.

Analysis

The book "Emerging Markets Economies: Globalization and Development" consists of twelve complementary articles written by well established authors. The main strength of this comprehensive study is that it combines various but compatible in-depth analyses of the fundamental issues concerning globalization and its consequences on emerging markets and development.

The articles can be divided into three broad categories: (1) papers dealing primarily with theoretical question of globalization, development and catching-up (Chapters I, II, III); (2) area or country studies (Chapters IV through 10) and (3) specific problem issues (Chapters XI and XII). All studies approach globalization as an economic phenomenon as defined by Kolodko in the opening article "[g]lobalization is the historical process of liberalization and integration of goods, capital and lobar markets, which have hitherto functioned largely in separation, into a single world marketplace" (p. 9). This gives coherence to the book, but on the other hand presents a shortcoming since globalization is not just an economic exercise.

Some of the authors have been fully aware of this problem, which surmount this study and goes deep into the philosophy of sciences. The problem is how can separated social sciences explain complex problem such as globalization? Therefore it is not surprising that Laszlo Csaba calls for closer cooperation of economics and social sciences (p. 67). The message is clear: complex, multi-faceted phenomena must be analyzed multidisciplinary. Therefore, cooperation of social sciences is indispensable.

Some of the authors touched upon the social issues but they mainly remained within the question of winners and losers of the transformation and globalization. Gang Fan analyzed the problem of social and regional disparities within Chine, while Mario Nuti examined social consequences of the winner/losers division within the global context and argued that global governing institutions can help overcome this division. These problems are even becoming more important in the light of Kolodko's warning that "[the possibility that the attained progress of globalization will be reversed cannot be ruled out.]" (p. 12).

Although most of the studies present a mixture of theoretical arguments and policy advice, the former is considerably valuably than the latter. Some policy advice are too general that can be implemented and some are just wishful thinking such as Lipumba's conclusion that "[poor] countries should receive 100 per cent debt cancellation and new development assistance to deserving countries should be in the form of grants." (p. 113). Nevertheless, these minor shortcomings do not endanger overall value of the book.

The comparison of the articles shows that the authors agree on several issues and the similar conclusions drawn from the analyses of almost incomparable countries and areas such as China, Latin America, Commonwealth of the Independent States and Europe represent the most valuable contribution of the book. They show that at the present stage of the globalization different countries face similar problems which is a true sign of the world integration. I have singled out three major insights of the book (although one can rightly argue that there are many more):

(1) Economic transformation and integration in the world economy do not have a viable alternative. All countries that failed to reform and integrate suffered greatly in the terms of the slow or even negative growth and staying behind. Lipumba illustrates this point on the case of Sub-Saharan Africa, Crane and Tabernacki on the case of some CIS countries.
(2) Present stage of globalization pose new challenges. One of the most important is the modernization of public administration. Both Rodrigo Vergara (Chapter VI) and Daniel Daianu (Chapter VIII) present compelling arguments that efficient public administration is indispensable for further growth of specific economies (Chile and CEEC respectively). Mario Nuti shows how inappropriate international institutions slower further global integration.
(3) Several articles stress the importance financial sector and bank supervision for the growth. The reform of the financial sector is crucial for emerging markets economies (Crane and Tabernacki, Fan Gang, Keren and Ofer).

Having all this said, the overall assessment of the book is that it gives balanced perspective on the issues such as globalization and development. This primarily economic account of the present stage of the globalization process comprehensively examines new challenges posed to emerging markets. It will certainly be valuable reading for all those interested in complexities of globalization and economic transformation.