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IMPACT OF GLOBALIZATION PROCESSES ON ECONOMIC SITUATION IN THE EAST- AND CENTRAL EUROPEAN COUNTRIES

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Abstract. Globalization is influencing practically every field of today's modern life. However, the most significant impact of the globalization process is felt in economics. East- and Central European countries, although accomplishing the process of transition for more than twenty years, can not compare to the Western countries in terms of economic, social, political development. That explains why globalization is affecting East- and Central European countries economic environment in a particular way and oftentimes causes unpredicted effects and problems. Although there is a vast amount of literature on globalization, its effects on East- and Central European countries are still insufficiently covered. That dictates the main scientific problem of this paper: how the unstoppable and unavoidable process of globalization is affecting still vulnerable economic environments in East- and Central European countries. In order to answer the scientific problem, the core purpose of the article is to present an analysis on the most critical aspects of economic globalization on East- and Central European countries' economics. Those include: effects of boosted levels of international trade, increased foreign direct investment and capital market flows, intensified competition and productivity and expanded diversity of economic choice. The authors of this article have made the following findings: East- and Central European countries belong to the group of beneficiaries of globalization, as opening their economies to the process resulted in markedly increased exports and levels of international trade. Furthermore, globalization brought a heavy influx of FDI into East- and Central European countries, but, on the other hand, intensified competition; raised productivity of local producers and let East- and Central European consumers enjoy a broader diversity of economic choice.

Keywords: globalization, economic integration, East- and Central European countries, transition, foreign direct investment, economic environment.

Jel classification: F15, F21, F23, P29, D24, D92

1. Introduction

Globalization has become one of the most popular *buzzwords* in modern academic and popular literature. However, the concept has no clear definition or concept until now. Various authors in numerous sources of literature analyze globalization from extremely different points of view, and as a result mass of globalization forms and effects analysis emerge. However, although there is a vast amount of literature on globalization, its effects on East- and Central European countries are still insufficiently covered. That forms the main scientific problem of this paper: how the unstoppable and unavoidable process of globalization is affecting still vulnerable economic environments in East- and Central European countries. The main purpose of this paper is to present an analysis on the most critical aspects of economic globalization on East- and Central European countries' economic environments. The core purpose of the article could be split into the following tasks: to present an analysis on effects of boosted levels of international trade; increased foreign direct investment (FDI) and capital market flows, to examine the effects of intensified competition and productivity and expanded diversity of economic choice in East- and Central European countries. Conducting the analysis of main aspects of economic globalization on East- and Central European countries' economic environments the method of comparative analysis and systematization of scientific literature were employed.

2. The concept of globalization and its prolematic

Globalization is subject to academic debates for already more than thirty years now. As it is noted in the (World Bank Report on Globalization 2010), "Amazingly for so widely used term, there does not appear to be any precise, widely-agreed definition. Indeed the breadth of meanings attached to it seems to be increasing rather than narrowing over time, taking on cultural, political and other connotations in addition to the economic." Therefore, politicians, scholars, and business society encounter problems on debating on a concept that, in fact, has no clear meaning.

As Putko (2006) emphasizes, the lack of a consensus upon and precise meaning of globalization is not because no one has ever "defined" globalization, for there are numerous definitions presented in literature. Sachs (1998) has determined there are five distinct meanings of globalization presented in current literature. The term can be used to represent:

– internationalization;
– liberalization;
– universalization;
– westernization or modernization;
– deterritorialization.

As Bauman (1998), Bhagwati (2004), Osterhammel (2005), Palmer (2004) emphasize in their works, the wide spread of meanings of globalization makes it a hard task to truly understand the essence of the phenomenon, which in time has become very broad and imprecise.

In the current scientific literature many different definitions of globalisation can be found, but most of them emphasize the greater movement of people, goods, capital and ideas due to increased economic integration which in turn is accelerated by increased trade and investment. Here are some most cited examples of globalization definition:

Globalization – the export and import of goods and services, international capital mobility, labour mobility, and technical knowledge across national borders – connects economies and influences the economic well-being of workers worldwide (Freeman 2008); globalization is an acceleration and intensification of economic interaction among the people, companies, and governments of different nations (Zedillo 2008); the act, process, or policy of making something worldwide in scope or application (Wolf 2002); globalization is the increased speed, frequency, and magnitude of access to national markets by non-national competitors (Held *et al*. 2002); globalization is the intensification of worldwide social relation in such a way that local happenings are shaped by events occurring many miles away (Giddens 1990); globalization is the growing economic interdependence of countries worldwide through the increasing volume of cross-border transactions in goods and services, international capital flows, and also through more rapid and widespread diffusion of technology (International Monetary Fund 2000); globalization is not a phenomenon. It is not just some passing trend. Today it is the overarching international system shaping the domestic politics and foreign relations of virtually every country, and we need to understand it as such (Friedman 2009).

As the variety of definitions above demonstrate an enormously wide spectrum of globalization meanings, the authors of this paper decided to carry out an analysis in order to identify different forms of globalization met in modern academic literature. As a result of the analysis 16 forms of globalization have been identified: economic, cultural, demographical, political, technological, globalization of English language, social, religious, globalization of competition, legal, environmental or ecological, informational, industrial, financial, scientific and military globalization. It is important to mention, that at the vast speed of acceleration of this process, the number of globalization forms can rise sharply in a comparatively short period of time.

However, the lion's share of globalization effects is felt in economics. It is practically impossible to grasp all the economic effects of it as the phenomenon is constantly changing, taking new forms and scopes of influence, state scholars (Podobnik 2008; Rosenau 2003; Rotherberg 2003). Most acknowledged source of globalization influences, grounded by mathematical and statistical calculations is the OECD Handbook on Economic Globalization Indicators. The authors of this article singled out the most relevant effects of globalization in East- and Central European countries out of the above mentioned publication:

– Close linkages between trade and direct investment.

– Compression of time and distance in international transactions and reduction of transaction costs.

– Evolving multilateral frameworks for trade and investment.

– Foreign direct investment is becoming a crucial factor in the process of industrial restructuring and the development.

– Internationalization of production: multinational origin of product components, services and capital often characterized by co-operation or subcontracting agreements amongst firms.

– Location strategies for activities of multinational firms are strongly influenced by the comparative advantages of countries and regions.

– Multinational firms constitute one of the main vectors of economic internationalization.

– Multiplication of regional free-trade organizations.

– Reduction of trade barriers.

– Simultaneous competition in markets between numerous new competitors from all over the world, places acquired positions at risk, necessitating extremely rapid structural adjustments in numerous areas.

– Substantial interdependence of the various dimensions of globalization (trade, direct investment flows, technology transfers, capital movements, etc.).

– High degree of integration of national economies, but also significant risks of contagion following economic and financial shocks in certain regions, which may spread to other regions not necessarily involved.

– The high integration of financial markets is increasingly impacting on the conduct and performance of the industrial sector. A significant proportion of world trade has become intra-firm.

– Accelerating international dissemination of technology and simultaneous shortening of the cycle of production and technological innovation.

As it is visible from the list above, the process of globalization brings both – opportunities and benefits, but at the same time risks and oftentimes losses, especially if a country, industry or economic subject is not substantially prepared for it.

3. The peculiarities of East- and Central European countries' economic environments

Although independent and living under free market conditions for more than twenty years now, most of East- and Central European countries in modern scientific literature are still considered as transition economies. As indicated in numerous sources of periodics, a transition economy (transitional economy or economy in transition) is a country that is undergoing a process of transition from a centrally planned system to a free market economy. Despite the fact that the term „transition economy" is usually associated with East- and Central European and former members of the Soviet Union, this term can have a much broader context. Some of the social-type, former centrally planned economies, such as, for example, Peoples Republic China, are also considered as transition economies, despite the fact that its economic capacity and potential exceeds all the rest transition economies together. At the moment, basing on IMF and EBRD European transition countries are the following (Table 1).

Table 1. East- and Central European countries considered to be transition economies (Source: (EBRD 2010))

Albania, Belarus, Bulgaria, Croatia, Czech Republic, Estonia,	FYR Macedonia, Hungary, Latvia, Lithuania, Moldova,	Poland, Romania, Russia, Slovak Republic, Slovenia, Ukraine.

In 1991 at the dawn of the transition process in many post-Soviet countries the International Monetary Fund economists summarized that the action plan of transition to a market economy was to be achieved through efforts in the following areas:

– Liberalization – the process of allowing most prices to be determined in free markets and lowering trade barriers that had shut off contact with the price structure of the world's market economies.

– Macroeconomic stabilization – bringing inflation under control and lowering it over time, after the initial burst of high inflation that follows from liberalization and the release of pent-up demand. This process requires discipline over the government budget and the growth of money and credit (that is, discipline in fiscal and monetary policy) and progress toward a sustainable balance of payments.

– Restructuring and privatization – the creation of a viable financial sector and reforming the enterprises in these economies to render them be capable of producing goods that could be sold in free markets and of transferring their ownership into private hands.

– Legal and institutional reforms – redefining the role of the state in these economies, establish the rule of law, and introduce appropriate competition policies.

According to the four transition steps above, liberalization and macroeconomic stabilization had to be implemented as soon as possible. Privatization of small-scale state owned enterprises was to be completed in a few years. Efforts on privatization of large-scale state owned enterprises, creation of complicated legal and institutional reforms had to take off shortly. Many economists of that time presumed that completing the transition steps would take a long period of time and they were right.

However the above described strategy did not bring the expected results. (Dawson 2003) describes three main problems of completion of the transition process in East- and Central European countries:

First, the sequencing of reforms was said to be wrong. Legal and institutional reforms should have come first, according to this view. Existing institutions, and existing economic and social norms of production, should have been abandoned only as these new institutions were taking hold.

Second, privatization, in practice, quite often turned into "asset-stripping". It was pushed through in the absence of legal and institutional safeguards such as coherent laws, impartial courts and an honest civil service. In practice, therefore, privatization was often just a way of further enriching the privileged via corruption.

Third, there is the well-known criticism of speedy liberalization and stabilization: the "*shock therapy"* was "too much shock, too little therapy". According to the critics, it led to a massive decline in output and worsening social indicators. It dissipated the organizational and social capital that had existed under communism.

According to (EBRD 2010; Bitzenis 2005), one of the major problems in the business environment in East- and Central European countries is corruption and shadow economy. These issues are also relevant in the West, but the magnitude of the problems occurring in those countries is significantly lower. According to (Startienė *et al.* 2009), shadow economy in the United States ranged from 0 % to 10 %. In the United Kingdom, New Zealand, and Norway – 10–20 %, While in Slovenia and Hungary it accounted for 20–30 %, Lithuania, Latvia in Estonia – 30–40 % of national GDP. According to Transparency International's Corruption Perceptions Index, 2010 data East- and Central European countries ranged from 26 to 62 positions (In the Baltic States: Lithuania – 46, Latvia – 59, and least corrupted Estonia – 26). Cypriot scientist, the Nobel laureate, (Pissarides 1999) identifies one more essential problem in East- and Central European countries: lack of experience in banking credits to the private sector and lack of organizational capacity to finance the business.

4. The analysis of globalization influence on East- and Central European countries' economic environment

The last twenty years have witnessed a continuous globalisation of economic activity in East- and Central European countries which has totally changed the outlook of the region. A growing number of economic subjects, industries, countries and entire regions take part in today's global economy and all of them have become increasingly interdependent. There are numerous forms of globalization influence on East- and Central European countries' economic environments. In recent years, there has been a lot of dispute amongst scholars over the field and scope of globalization influence on the considerably vulnerable East- and Central European economies. In this chapter the following forms of globalization influence shall be analyzed: effects of boosted levels of international trade; increased foreign direct investment and capital market flows; intensified competition and productivity and expanded diversity of economic choice.

Boosted levels of international trade: One of the most important accelerators of globalization process mentioned in modern scientific literature is international trade. As Aristovnik (2006), Feige (2001), Deacon (2000) indicate, although the majority of the national gross domestic product is created and remains in the domestic markets, international trade and other international economic, financial flows grow and intensify at an enormous speed.

A growing share of spending on goods and services is devoted to imports from other countries has recently been observed in East- and Central European countries. The same trend applies to a share of East- and Central European countries production export. The table below illustrates the rise in share of exports of GDP in East- and Central European countries.

Table 2. Exports of goods as percent of GDP in East- and Central European countries (Source of data: (Eurostat 2011))

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Czech Rep.	:	16,1	15,44	15,38	7,66	8,63	9,15	8,71	8,29	7,64	9,06
Estonia	:	:	15,27	8,29	9,78	12,55	14,98	11,83	12,9	10,55	15,19
Latvia	7,18	7,78	7,84	7,36	7,79	8,41	8,09	6,98	8,02	8,45	11,07
Lithuania	11,66	13,25	13,49	14,52	13,57	15,67	17	15,34	19,65	15,83	22,31
Hungary	:	:	:	:	12	13,13	16,66	13,98	14,14	12,5	15,19
Poland	4,09	4,31	4,52	5,4	6,29	6,79	7,24	7,18	7,37	6,68	:
Romania	:	:	:	:	:	:	:	6,64	7,08	6,34	:
Slovenia	12,74	13,86	14,14	14,01	15,05	15,41	16,26	16,8	16,63	13,83	14,68
Slovakia	24,77	24,9	24,05	26,4	12,92	9,21	10,11	10,4	11	9,07	11,57

In the ten year period from the year 2000 there has been a significant rise in exports of goods as percent of GDP in all East- and Central European countries except for the Czech Republic. The year 2009 stands out with sharply dropped numbers as a result of a global financial and economic crisis and perfectly illustrate the rate of interconnectedness among separate economies.

Increased foreign direct investment (FDI) and capital market flows: Over the past two decades, foreign firms have increasingly invested to establish and run business operations in East- and Central European countries. In this period of time, as financial openness has flourished across the entire world, global flows of foreign direct investment have more than doubled in East- and Central European countries. However, recently the levels of investment largely fluctuated depending on the prevailing turbulent economic and political climate. The all encompassing economic slowdown has reduced financial flows to East- and Central European countries in the past couple of years. However FDI still remains the largest form of capital influx to East- and Central European countries. Although FDI, as mentioned above, is the largest facilitator of funds in East- and Central European countries, as proved by the recent global crisis of 2008, introduces a possibility of volatility. As Alan Greenspan (former chairman of Federal Reserve of the United States) indicates, "With the new more sophisticated financial markets punishing errant government policy behaviour far more expeditiously than in the past, vicious cycles are evidently emerging more often. Once they are triggered, damage control is difficult. Once the web of confidence, which supports the financial system, is breached, it is difficult to restore quickly. The loss of confidence can trigger rapid and disruptive changes in the patterns of finance, which, in turn, feeds back on exchange rates and asset prices. Moreover, investor concerns that weaknesses revealed in one economy may be present in others that are similarly situated means that the loss of confidence can quickly spread to other countries". Mr. Greenspans citation perfectly illustrates the East- and Central European countries situation. Although FDI enhanced relatively fast growth in the past, its rapid withdraw caused turbulence and crisis in one region, than due to high interconnectedness spread to other countries. A web of confidence, that supported financial markets was breached and at the moment is yet not restored. In order to avoid it, governments of East- and Central European countries should develop transparent and fundamentally sound financial systems a long time the crisis unfolds.

In recent years, in many East- and Central European countries, local savers have increasingly diversified their financial portfolios to include foreign financial assets (foreign bonds, equities and loans), while private and corporate borrowers increasingly turn to foreign sources of funds (outside East- and Central European countries), along with local ones.

Intensified competition and productivity: One of the most mentioned positive effects of globalization in modern scientific literature is increased competition and rise in productivity. Certainly, the above mentioned impacts are more favourable to consumers. Firstly, consumers can enjoy a more expansive choice of products, and increased quality. The vast number of companies in the international market makes the competition increasingly tense. Thus producers are under pressure to make innovations or risk to be out of business. This situation has already been described in 1848 by Carl Marx in *the Communist Manifesto.* Then the situation was called the *creative destruction* and has been employed to depict the situation, when consumers can expect that old products will be swept away and replaced with "new and improved" versions through a process of continual improvement. Such situation is favourable to consumers and innovating companies. Many producers of East- and Central European countries face problems, or are deemed to failure, as not all of them are able to adapt new technologies and successfully enter the competition for a new consumer. Another aspect, increased level of competition puts a hard pressure on prices. Most companies can only survive by creating new products and finding better (less expensive) ways to produce. Producers of East- and Central European countries face a double pressure, as they have to compete with more experienced, better financed foreign companies, which in addition usually benefit on the economies of scale. Thus, managements of local companies have to redouble their efforts to use their resources wisely. There are numerous examples, that local producers in East- and Central European countries are unable to survive in the tens global competition and are sold to their global rivals, and, after new technologies are employed, produce for them.

Even a casual observer would notice that the whole world's productivity started growing rapidly. A rise in productivity spurs economic growth and product accessibility to more consumers. Another trend, encouraged by globalization is the gradual convergence of consumer tastes, needs, and wants, and as many scholars (Ritzer 2010; Stiglitz 2002;

Ohmae 2000, Ohmae 1999) notice individual consumers are becoming "global consumers". As Czinkota *et al*. (2011), Awuah (2009) notice, the forces of globalization and trade liberalization have enabled countries, firms, and private individuals to have a greater access to products and services, and technologies and practices, which may be modern, effective, and superior to some existing ones.

Expanded diversity of economic choice: As scholar (Wells 2001) indicates, one of the most fundamental accomplishments of globalization is an expanding range of economic choice. Expanded trade ties, increased productivity, competition allows consumers to enjoy an increased availability of new and diverse products. The difference brought by the process of globalization is extremely noticeable in East- and Central European countries as previously command economics system could not offer any choice at all. The only choice was between locally produced goods and foreign products, which were sold unofficially in markets at prices that many times exceeded those of local products. The opening to new markets and globalization process brought vast changes to East- and Central European countries producers as well. Now globalizing, being accepted to international trading networks, producers of East- and Central European countries have a wider spread of potential customers, and business buyers of raw materials, they have access to a wider choice of suppliers. In addition, being a part of globalized trading networks producers of East- and Central European countries are subject to a rapid dispersion of technology. Companies are not only capable to purchase raw materials from a diversity of suppliers; they also possess a possibility to obtain state-of-the-art methods of production, management practices, accounting practices and others.

5. Conclusions

Despite the fact that globalization is subject to scientific discussions for more than three decades, surprisingly there is no precise and widely acknowledged definition of it, as the concept until now has no clear meaning. Most scholars in their publications on globalization problematics emphasize the greater movement of people, goods, capital and ideas due to increased economic integration which in turn is accelerated by increased trade and investment as the core traits of the phenomenon. It is practically impossible to grasp all the economic effects of it as the phenomenon is constantly changing, taking new forms and scopes of influence. At the moment economic, cultural, demographical, political, technological, globalization of English language, social, religious, globalization of competition, legal, environmental or ecological, informational, industrial, financial, scientific and military forms of globalization can be found in economic literature.

At the moment there are 17 countries in East- and Central Europe which are considered as transition economies or having traits of transition. Those include Albania, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, and Ukraine. Although the above mentioned countries are in the transition process for more than twenty years now, they are still far behind the Western countries in terms of economic, social, legal, political and other development. High levels of corruption, shadow economy, inefficient bureaucracy, and lack of experience in making reforms are emphasized in modern academic literature as core problems of East- and Central European countries.

The core findings of the paper could be listed as following: East- and Central European countries gain more benefits from the process of globalization than losses, as opening their economic systems to the process resulted in heavily increased exports and levels of international trade, which in turn augmented general economic growth. Furthermore, globalization brought influx of FDI into East- and Central European countries, but, on the other hand, intensified competition as local markets were entered by foreign better specialized and cheaper producers. This highly raised efficiency and productivity of local producers and allowed consumers of East- and Central Europe have better economic choice and stronger purchasing power.

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