REVIEW ARTICLE

Koyama, Yoji (2008), Transition, European Integration and Foreign Direct Investment in Central and Eastern European Countries, Niigata University Press, Niigata

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Introduction: Geopolitical positioning in Central and Eastern Europe on a Historical Continuum

This book is based on a collection of papers published by Professor Yoji Koyama, a Japanese political and economic analyst, between 2004 and 2008, and comprises case studies on foreign direct investments in Central European and Baltic countries (CEB), and South Eastern European countries (SEECs). These papers analyze the historical heritage, political, geopolitical, cultural, structural and developmental factors which, after 2000, affected the dynamics of transition to a market economy in this region, from a comparative perspective. As an expert in the domain of Comparative Economic Systems and Russian economy, Koyama has closely and meticulously monitored and studied this region for more than 30 years. Out of all of the countries, the author focuses particularly on the examples of Poland, Slovenia, Bulgaria, Romania and Serbia, but also gives interesting observations about Croatia, and dedicates a special analysis to the investments by Japanese companies in Central and Eastern Europe.

From a methodological perspective, the particular value of this book is reflected in two aspects. Firstly, it clearly and very convincingly interprets the reasons why international economic relations cannot be treated as purely technical subject matters, as the matters at hand are cruel and unscrupulous geopolitical power games in which small states become victims of collateral damage of the big players. Secondly, the author turns his attention to the significance
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of the case studies in terms of exploring contemporary economic and political phenomena, and as such, this book is indispensable reading for students, young researchers, journalists and everyone aiming to disseminate their research results in society. In this book, the reader will find valuable instructions for using case studies as analytical tools for understanding complexity and interdependences in the globalization process.

Starting with the thesis that inward foreign direct investment (FDI) is one of the decisive factors behind the differences in economic performance between Central European and Baltic countries on the one hand, and South Eastern European countries on the other, and the dynamics of EU accession of these countries, in studying post-socialist countries, the author adopted the methodological approach of focusing on the investment climate in individual regions. According to the definition provided by the World Investment Report (the WIR) in 2003, the factors which constitute an investment climate are: political stability, strong macroeconomic framework, positive attitude toward foreign investment, adequate knowledge, low transaction costs and a good infrastructure (Koyama, 2008: 79).

The basic problem regarding investigating FDI trends in transition countries so far results from a stereotypical approach to the subject of the investigation. Foreign researchers mostly study the correlations between the extent of progress in economic reforms and the amount of FDI inflows, while researchers in transition countries focus primarily on inward foreign direct investment, neglecting outward foreign direct investment. The innovativeness and operational possibilities of Koyama’s approach are reflected in the fact that he introduces a viewpoint of developmental stages into the exploration of FDI trends in transition countries, drawing upon the work of two economists, Jože Mencinger (2003) and Fabienne Bourdier-Bensebaa (2005).

The book is divided into three coherently interconnected topic areas, and the dynamics and vivacity of the text are enhanced by the many comments by local authors from the countries which were the focus of this research, with whom the world traveler Koyama had inspiring conversations. There were also numerous secondary sources of information, namely, economic and political statistics from leading world organizations, which he fairly cites at the end of each of the 10 chapters in the form of references, and which surely provide significant incentives for new research. In the first part of the book, entitled
“Transition and European Integration”, Koyama searches for reasons why socialism failed in Eastern Europe. He analyzes the normative and political framework which is the prerequisite of the transition to a market economy, as well as the background of the European Union’s directives. The change from a socialist to a capitalist system is a shift from an economy limited by supply to an economy limited by demand, in which this turn is the principal cause of “transformational recession”, which all these countries went through. Koyama studies the process of EU expansion, which took place at the same time as the NATO expansion process, and he also brings attention to the differences between the approaches adopted by individual states regarding the pace of transition to a market economy, ranging from “shock therapy” implemented by Poland, to the gradualist approach implemented by Hungary and Slovenia.

In the former socialist countries, the 1980s are often remembered with nostalgia, but in reality, this was a time of crises, stagnation, poor organization and excessive debt for the countries in the region. Let us go back in time for a moment. The implementation of socialism in this part of the world was carried out by way of secret agreements between great powers, the “Yalta regime”, the Soviet Union’s military power and the Cold War struggles. We should keep in mind that the Soviet Union suffered the greatest human loss in World War II; historians say that because of burnt villages and inadequate records, it is still impossible to establish whether the number of casualties was 20 million or 23 million. No other European country suffered the same type of destruction of life that Russia did as the price for Europe’s freedom in the defense of the region against the invasion by Nazi Germany.

The term “Eastern Europe” is not a geographical concept, but rather more of a political concept, which was defined after World War II and can be interpreted through several events: initially, in March 1947, first the Truman Doctrine and then the Marshall Plan aimed to prevent the expansion of communism to the Western European countries devastated by war; secondly, in September 1947, COMINFORM (the Information Bureau of the Communist Parties and Labor Parties) was established as the Soviet response to the Anglo-American project of westernization of modern post-war societies; thirdly, at the 2nd congress of COMINFORM in Bucharest, the decision to expel Yugoslavia from this organization was adopted.

From that time, “Soviet-type socialism” was uniformly implemented in all
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Eastern European countries except Yugoslavia, which chose the path of self-management regarding the aspect of internal policy, and joined the Non-Aligned Movement regarding foreign policy. Former American president Nixon would probably, in his famous cynical manner, have said that it ultimately did align. In contrast to the NEP (New Economic Policy) phase during the 1920s, when a mixed economy, which recognized market mechanisms within a socialist framework, existed in Russia, this form of socialism was based on war communism from the 1930s. Its principal features – administrative governance system and planned economy guided by the state – were introduced to all the Soviet Bloc countries, regardless of their development level, starting with the most underdeveloped, Albania, to Czechoslovakia, which before the war was the 10th most industrialized country. In time, attempts to carry out economic and political reforms in individual countries and to re-introduce the market model generally failed.

The big reform initiated by Gorbachev after coming to power in 1985 in the Soviet Union was named Perestroika (or radical restructuring) and gave impetus to political reforms in Eastern European countries, which were necessary for the transition to a market economy.

National movements in the Baltic republics and Ukraine in 1989 marked the start of the disintegration of the Soviet Union, and after international recognition of these states, the Transcaucasian republics also opted for independence. The change in regime had a domino effect and spread from one state to another. The Eastern European revolution also had repercussions for the former Yugoslavia, which led to the breakdown of the federation in 1991. In December of the same year, the Soviet Union collapsed. Later, Russian analysts, but also American experts on the situation in Russia, often used the term Katastroika instead of Perestroika.

**EU expansion: Economic or political choice?**

In early 1989, all Eastern European countries had huge debts to western banks. The financial system collapsed like a house of cards. The fall of the Berlin Wall on 9 November 1989 was more of a ceremonious act of victory. In the second part of the book, entitled “Foreign Direct Investment”, the author analyzes and interprets the significance of FDI on the increase in competitiveness of countries
in Central Europe and Baltic countries, and identifies the factors which have the potential to motivate foreign investors to invest in their economies.

Central European and Baltic countries (EU-8) joined the EU in May 2004, while South European countries had much more difficulty in the transition to a market economy. Obstacles had fatal consequences for the South Eastern European region, which paid for the fact that it lagged behind the more developed transitional economies during the 1990s by harsh deindustrialization processes, which further weakened their industries. It is interesting that in the period 1993-2006, the EU-8 attracted ten times more foreign direct investment amounts per capita than South Eastern European countries, which Koyama, an expert on this region, attributes to differences in the investment climate.

Global inflows of inward FDI have grown since 2000 to 1,469.2 billion USD, which reflects the increase in the number of mergers and acquisitions of companies around the world. If we look at individual regions, we see that global FDIs were focused on the EU as the principal region. Although cost and benefit analyses since the EU accession favor the new member countries, payments from regional funds in the future will depend on the ability of the recipient countries to absorb and use them efficiently. Developing countries, including the new EU member countries, often lack this ability, Koyama warns. Data indicate that, in contrast to the initial fears of Eurosceptics, after accession to the EU-15 (old member countries) exports grew in all Central European and Baltic countries, with the exception of Slovenia. Behind the growing exports were the Foreign Investment Enterprises (FIES), in which the EU-15 countries appeared as the main investors in the region. In terms of the labor market, analyses show that the influx of foreign workers into the EU added to a deficiency in domestic labor, rather than replacing it, which allowed local wages to remain stable, despite trade unions' fears. However, the huge costs of transformation, reflected in decreased life expectancies, high unemployment rates, general pauperization and vast social differences, support the thesis that social policy must be enhanced to reduce "public expenditure".

The paradigm on the development path of investments indicates the dynamics and trends of their movement in CEECs. According to the categorization made by Bourdier-Bensebaa (2005), the CEECs region consists, in addition to the Central and South Eastern European countries, of all the countries which are successors of the former USSR, and which can be further grouped according to
the level of progress in terms of economic stabilization and structural reforms. The higher the level of inward FDI per capita, the more attractive a country is for FDI. Regarding the FDI trends in CEECs, Koyama brings attention to bear on the fact that during the 1990s, FDI inflows were intense in Central European and Baltic countries, as a reflection of their transition to a market economy and the active policies of their governments to attract foreign investment. After 2000, FDI inflows swiftly grew in SEECS, which was a consequence of the privatization processes in these countries and the stabilization of the region. However, in 2003, FDI inflows in Central European and Baltic countries suffered a sharp decline, only to grow again swiftly, after their accession to the EU. In time, there was a saturation of FDI in Central Europe, and as economies develop and labor costs in Central European and Baltic countries grow, production chains shift from this region to South Eastern Europe, where labor costs are lower.

Considering that all EU-8 countries, except Poland, are small countries, their experience could be of benefit to Croatia, but also to other countries in the region. The GDP growth rate in three Central European countries in the period 2004-2006 was around 4% (4.3% in Hungary, 4.3% in Poland and 4% in Slovenia), which was more than twice as fast as the average growth rate in EU-15, which was only 2% in these countries in 2004 and 2005. During the same period, the three Baltic countries, as well as the Czech Republic and Slovakia, had an even higher growth rate (8.1% in Estonia, 8.7% in Lithuania, 6% in Latvia, 5.4% in the Czech Republic and 5.8% in Slovakia) (Source: EBRD, 2006). In the 2006 World Bank report, factors contributing to the economic development of these countries are analyzed and it is stated that the accumulation of capital and technological progress after the transition to a market economy played an important role in the prosperity of the new member countries. The World Bank’s 2005 prognostic studies predicted that the EU-8 would need 12.6 years on average to reach 75% of the average economic level of the EU-15 countries, and 22.5 years on average to reach the average income level of the EU-15 countries. Among the EU-8 countries, Slovenia received the best prognosis, and was expected to need only 3 years to achieve 75% of the average EU-15 level and 17 years to achieve the EU-15 income level. Slovenia is the only one of the EU-8 countries which met the criteria of the Maastricht Treaty.

In this period, after the republics of the former Yugoslavia gained independence, they started the transition processes which significantly differed, depend-
ing on the structural features of their individual economies.

In Slovenia, when privatizing state-owned enterprises, priority was given to insiders – employees and managers; and generally speaking, Slovenia was not enthusiastic about attracting foreign direct investment. This can be attributed to the relatively strong competitiveness of its export products on international markets, which allowed it to have an export-oriented economy.

The example of Croatia illustrates how politics determines financial information. Croatia had better economic performance indicators than many countries which were already admitted to the EU, and yet negotiations with Croatia are still in progress. During 2002 and 2003, Croatia started extensive privatization projects. After the Hungarian oil company MOL bought 25% of INA’s stocks, FDI inflows grew swiftly. In the period 1989-2003, FDI inflows to Croatia were similar to Slovakia’s trends. In 2004, of the Western Balkan countries, more than half of direct foreign investments were made in Croatia. Croatia is the wealthiest among the Western Balkan countries, with a GDP per capita of 8,426 USD in 2005, which exceeds that of both Bulgaria and Romania, countries which joined the EU in 2007. Even Croatia’s regional grouping is politically motivated. If economic stabilization and structural reforms are used as criteria, Croatia is much closer to the Central European and Baltic countries. However, for political reasons, Croatia was first placed in South Eastern Europe, and then among the Western Balkan states, and since 2002, the European Bank for Reconstruction and Development, in its publication Transition Report, places it in Central Europe.

Like the other transition countries, Serbia also underwent a transformational recession when changing the regime. However, the combination of many factors – political circumstances in the region, structural features of the Serbian economy and the economy’s large debt – pushed Serbia about a decade behind with respect to other post-socialist countries. Of course, the solution lies only in investment, not in incurring more debts. Unlike Slovenia, which could afford to keep a distance from foreign direct investment, Serbia must go in the opposite direction and turn to foreign investors. In order to make this possible, it must first gain their trust by creating a favorable investment climate.

Development paths of small and big countries meet, intersect and interweave in economic shifts. Big players set the rules of the game, but they cannot function without the small ones. This could be good news, assuming that small
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countries accept the fact that they must act proactively, take the initiative, and cannot expect others, big or small, to solve their problems. Citizens must be aware that they will not be handed a better life, whatever that means, on a silver platter or in the mail, and that the copy/paste system obviously does not work either. Every person must assume a part of the responsibility for his or her life, and therefore civil initiatives are of extreme importance.

Should we be afraid of giants even when they are bearing gifts?

In the third part of the book, entitled “South Eastern Europe”, the author deals with the phenomenon of the disintegration of regions in the age of globalization. He also deals with their reintegration, which are more often an indicator of the balance of powers on the global scene rather than being guided by economic criteria. Compared with Central European and Baltic countries, the countries of South Eastern Europe are poorer, and the vulnerability of the region was intensified during the 1990s due to numerous conflicts and UN sanctions, raging inflation, high unemployment rates, high public expenditure, a large deficit in the general government balance and a large deficit in the trade balance.

The general “falling behind” pattern of the economies of South Eastern Europe during the 1990s with respect to more developed transition economies was further marked by low labor productivity and a low qualification structure of labor. Koyama believes that weak states in the region are a contributing factor to its inferiority, in which he defines a weak state as “a state which fails to protect the rights of its citizens – human rights and property rights” (Koyama, 2008: 149-150).

In addition to the structural weaknesses of the South Eastern European economies, the unfavorable investment climate is also attributed to the weak connections between the countries in the region. As some analysts emphasize, the Balkan region is economically more integrated with the EU than within itself. For this reason, it is of vital importance to create a free trade zone in South Eastern Europe, as this will form a market of more than 57 million consumers, which will increase the region’s attractiveness in the eyes of foreign investors. Integrations in South Eastern Europe would have positive effects on reducing political risks in the region and would consequently contribute to improving the investment climate. In order to encourage the regional integration of South
Eastern Europe from outside of the region, the EU invented a process which combines regional integrations with EU integrations.

Based on the entire analysis and deep knowledge of the problems, Koyama draws the conclusion that the key to the development of the countries in South Eastern Europe lies in an increase in exports. In order to make this possible, it is of the utmost importance to increase investments in industry and to enhance its international competitiveness. For the countries of the region, FDIs are of extreme importance, not only as supplements to domestic savings, but also as an important instrument to cover the large payment balance deficit in these countries. However, to make this possible, political stabilization in the region is necessary, which leads us back to the asymmetry of power and political conditioning of economic decisions. The example of Serbia is illustrative of this claim.

There is no doubt that a good part of the reason why Serbia lags behind the other countries in the region results from the problems with Kosovo’s independence. Considering the fact that NATO, the USA and particularly the UK actively supported Albanians in Kosovo, Koyama (2009), in a paper written after this book, asks the logical question: why? Indeed, why was this poor and economically uninteresting area so important to the great powers? “Humanitarian intervention” through which, by bombing Serbia, the Kosovo war was ended in 1999, ensured American influence in the Western Balkans, which in the future will be a part of the expanded EU. A month after the bombing of FR Yugoslavia had started, the “New Concept of NATO’s Military Strategy” was published. Owing to conflicts in Yugoslavia, NATO was able to implement its institutional reorganization, which allowed the dispatch of troops outside the territory of member countries. Also, the guiding principle of the operation was changed. There was a shift from emphasizing defense to emphasizing a pre-emptive attack, or in the case of the violation of rights of ethnic minorities in a country, NATO could intervene even if the UN Security Council did not approve of the action. In other words, the case of Kosovo will appear in textbooks as the example of how, at the end of the 20th century, on the pretext of “humanitarianism”, sovereign powers of national states were limited. However, regardless of political and organizational structure, on the path from being Serbia’s autonomous province to a territory under UN protectorate from June 1999, to the unilateral declaration of independence, Kosovo is still spoken of
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as a transit area between Russia and Western Europe, where smuggling, human trafficking and other criminogenic activities thrive.

Norbert Mappes-Niedick (2004), who was a correspondent for South Eastern Europe in 1992, and in 1994/1995 was the advisor to the Special UN Envoy for the former Yugoslavia, Yasushi Akashi, approaches this phenomenon in a similar way. Based on years of monitoring the situation in the region, he claims that, under the guise of ethnic conflict, mafia struggles for domains of influence actually took place, and that Western countries “exported” their criminals to Yugoslavia, infiltrating them into the structures of government, which made its breakdown easier. Mafia networks are described by this author as a modern phenomenon with historical roots, rather than a structural feature of the Balkans which, as Goldsworthy (1998) points out, is a trap into which Western authors have been falling for centuries. I believe that this “inventing of Rutitania” represents mental blocks in the heads of the diplomats who often hinder positive initiatives in political negotiations.

Koyama warns that Kosovo’s economy, which always needed external assistance, could become too great an economic burden for developed countries in the future. On the other hand, Kosovo needs the Serbian market, and Serbian entrepreneurs are interested in investing in Kosovo. Consequently, the EU’s policy in this part of the world will be more constructive if it moves in the direction of encouraging the normalization of relations and establishing a partnership between Serbia and Kosovo.

Conclusions

Globalization processes, aided by information and communication technologies, not only changed the way in which power is manifested and exercised, but also significantly affected the manner in which scientific research is conducted, as well as the form of scientific discourse. In the globalization era, the most intriguing part of scientific work is surely the investigation of similarities on which, via large international organizations, subjugation institutionalization is implemented in certain regions. The increased mobility of researchers allows new and interesting advances, and the fact that researchers from one region conduct longitudinal studies on remote parts of the world not only enhances the objectivity of the research approach and applicability of the results obtained,
but also contributes to the universal mission of science as the conscience of mankind. Professor Koyama's work confirms this with great passion, diligence and, above all, dignity and credibility.

Further reading
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