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## **Transition economies facing challenges of globalization**

### **Introduction and aim of the research**

During the years of independence in order to solve the social and economic contradictions of development, CIS<sup>1</sup> countries actively use the external economic relations. Nowadays an increasing economic crisis demonstrates the fact that globalization is characterized by the new quality of international relations embracing all stages of reproduction process: production, distribution and consumption. But when the leading countries of the world have shown the obvious signs of financial crisis, the majority of CIS economists and politics was not raising the alarm and calling for development and implementation of anti-crisis arrangements. The relative indifference was explained rather simply: economies of young independent countries are weakly integrated into the international capital market, therefore the negative influence of the global processes should be insignificant. Moreover, the existing realities show imperfection of the global economic management, that confirms truth of the popular belief, which has appeared a couple of time ago, about the long-felt need to improve efficiency of the regulative function of actually existing international institutions. Certain aspects of development of external economic relations of countries with transition economy in conditions of economical globalization have been analyzed in works of E. Azroyanets, U. Bek, O. Belorus, O. Bogomolov, Z. Bzhezinskiy, I.A. Veber, I. Vulf, F. Jeymson, M. Delyagin, M. Dudchenko, A. Elyanov, M.P. Zhak, V. Inozemtsev, R. Kardl, G. Kolodko, N. Kosolapov, V. Novitskiy, F. Sashvald, G. Soros, R. Stalker, G. Faminskiy, A. Filipenko, T. Fridman, M. Cheshkov, Y. Shyshkov, O. Shnyrkov etc.

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<sup>1</sup>Commonwealth of Independent States includes: Azerbaijan, Armenia, Georgia, Belarus, Kazakhstan, Kirgizia, Moldova, Russia, Tadjikistan, Turkmenistan, Uzbekistan, Ukraine.

Regardless of polygonality and depth of research of globalization scientists, economic situation in the world economy changes very rapidly, that is why it is very important for the economic theory and practice to study and evaluate these changes in order to prevent the negative consequences of influence of globalization process onto the national economies. In the article the authors put the aim to find out factors of influence of external economic relations onto development and conflict resolution, which are called up by inclusion of the transitive countries, and namely Ukraine, into the process of economic globalization. Among the main dangers for economic growth of CIS countries such problems as disproportion in trade balance, dependence on foreign energy suppliers, insufficient investment and credit policies are mentioned. To conduct the research careful study of various literary sources concerning the issue of international relations was conducted. Statistical figures used in the article come from periodicals, scientific publications and National Bureaus of Statistics of CIS countries as well as the European Union official documents and reports.

## **Results of the Research**

### **Social component as the factor of international competitiveness**

The serious lesson for the world economic community should be the fact that in all times every economy contains an internal contradiction between the social and economic aspects of reproduction process. This contradiction is illustrated by the fact that each one percent of the national income, directed to the social needs in the current period, represents a deduction from the fund of productive accumulation and by no means leads to development of the main productive force of society in the future, increase of production and work efficiency.

Realizing the need to ensure enough standard of living, in the recent time the economic theory and practice of the transitive countries concentrate on the social component of competitive ability of their economies. As a rule, living standards of citizens of a certain country are determined by quantity and quality characteristics of production. But it is senselessly to pretend for big pieces of the public pie if the same is negligibly small and the biggest part of the same is already divided between the selected representatives of the nation. Nevertheless, during period of independence Ukraine has made the substantial steps in direction of increasing wellbeing of its citizens. The poverty level has been twice decreased – from more that 47.2% in 2003 to 24.5% in 2006 (if the poverty line is recognized as USD 5 per a day by the purchasing-power parity). The state spends 2.5% of GDP for the social support,

which corresponds to the level of OECD countries, 70% of this support is delivered to the most assailable groups of citizens, which shows efficiency of the Social Care Program [1, page 6]. The vice-president of World Bank (Europe and Middle Asia Region) Shigeo Katsu points that this Program could be more successful in case of appropriate financing and growth of the number of addresses [1]. Despite of this in 2005–2006 the gap in the salaries of Ukrainian and new EU member states citizens' increased. Currently Ukraine stands on the last but one place by living standard of its citizens just before Moldova.

### **Foreign trade prospect for CIS countries in conditions of globalization**

Depth of internationalization of national economy is evaluated not only by the degree of participation in the world's capital flow. Other forms of international economic relations such as foreign trade, its structure, level of regional diversification as well as an involvement of country's population into the world migration process should be considered.

At the present time structure of foreign trade of CIS countries is non-optimal, which influences quality of consumption and efficiency of production. For example, in Ukraine import exceeds export starting from 2006. Volume of import of Ukrainian goods and services within January-September 2008 has made 72 690.0 million USD, exceeding export for 10 284.1 million USD. In comparison with appropriate period of the previous year, an import has been increased for 58.7%. The credit balance of foreign trade of goods has made 14283.1 million USD [2, page 6]. According to the data from the State Statistics Committee of Ukraine, the credit balance of the foreign trade have been shown by three groups of goods: energetic materials, motor vehicles and mechanical equipment [18].

In Russia more favorable structure of export in trade relations with CIS countries is noted. Here they have much bigger part of machine building than the same in trade with far-abroad countries. But possibilities to increase supplies of the finished goods to CIS countries are limited due to switch of demand of this countries onto suppliers from far-abroad countries. The reason of this is more high quality of production and advanced technologies. In this light Russian specialists list the following reasons for increase of fuel and raw characteristics of Russian export: decrease of production and investment potentials of the country; low technical level of machinery building industry; hurried liberalization of foreign economic activity. The external reasons of the same should include break of cooperation relations between republics of former Soviet Union; absence or low degree of industrial procession of natural raw materials.

In Belarus to ensure the positive balance of foreign trade and in order to improve structure of export there was introduced a project of the National Program for Development of Export in 2006–2010, where they have the estimated annual increase of export of goods and services at the level of 9–10%. It is oriented onto innovative nature of exported services: banking, finance, mass media, etc. Annual increase of the same makes 10–12%. Opinion of Belarusian economists is that in order to ensure the competitive ability of production and realization of export potential of the country, the radical modernization of industry is required as well as the modern management system and guarantees of rights of the private property [10, page 28].

Dependence from sales of one or of a limited quantity of goods on the international markets is also inherent to external trade of Asian countries. Thus, part of oil and other mineral products in export of Azerbaijan to the far-abroad countries makes 93% [17].

In CIS countries the import is used to decrease inflation in conditions of insufficient supply of certain goods. The indicated tendency is conditioned by significant growth of consumer demand as a result of increase of the real income, reconstruction and modernization of a number of companies, requiring import machinery and equipment. This shows orientation of import onto antiinflationary and investment needs. Simultaneously the similar practice represents a menace for domestic business as far as it limits competitive ability of CIS, and namely Ukrainian, goods. Decrease of demand leads to reduction of production with all the ensuing social consequences. In this light an import of strategic goods, that can be produced by domestic manufacturers should be gradually cut down. During that time it is required to create conditions for import substituting type of economic growth.

The principally new procedural and institutional environment for operation was created for Ukraine by rules and regulations of WTO, leading to controversial social and economical consequences in the transitive countries. WTO ensures the equal and favorable conditions for commercial activity in foreign states in exchange for opening of their markets for international competition. And how this competition will influence, first of all, trade balance of Ukraine? As concerning the import, participation in the World Trade Organization and creation of a free trade zone may lead to serious problems in electronic, automobile, aviation, light, shipbuilding, agribusiness industry and a number of other branches of economy. Position of banks, transportation, insurance and investment companies may be worsened.

As an example, participation in WTO has already led to the dangerous situation in domestic production of agricultural machinery in Ukraine. In conditions of a big openness of customs and trade boundaries import of such production was

significantly increased. If in year 2004 Ukrainian agricultural companies have purchased the foreign agricultural machinery for 459 million USD, in year 2007 this equaled 1.275 billion USD, and 1.956 billion USD only during eight months of year 2008. Foreign agricultural machinery still has better quality and it is the brands, commonly used in the world [8, page 8].

Such practice does not add optimism to manufacturers of domestic agricultural machinery and demands not only increase of quality of the produced machinery, but also creation of appropriate marketing environment of the goods, fitting the world's best patterns. Yet, even having reached the high technical standards it would be impossible to hope for growth of demand from side of domestic and foreign consumers without any adequate economic and political measures. Additionally a number of projects forming the appropriate image of the national companies should be implemented.

### **Diversification of energy supplies as a source of economic sovereignty**

In the total volume of Ukrainian consumption of crude energy over 60% fall on oil and gas, 40–45% of which takes gas. Having own oil and gas condensate extraction in the volume, which does not cover 20% of the minimal needs, Ukraine imports 74.5% of oil and gas. This situation leads to menace to the energy safety of the state. World experience shows that at import of more then 30% of energy resources the independence in implementation of economical policy of the state is endangered [3, pages 11–12].

The danger of losing the sovereignty is significant in conditions of absence of resource supplies' diversification from abroad. Suppliers of energy resources do realize that availability of strategically important resources gives them a possibility to influence significantly the world economy and external policy. Thus, according to the official energy strategy of Russian Federation, the “powerful energy sector – is a tool for implementation of its internal and external policy” and “role of the state on the world energy markets is significantly determined by its geopolitical influence” [4, page 8].

In order to decrease dependence from supplies of foreign energy resources Ukraine aims to decrease import of energy resources by 12% till year 2030 by means of development of domestic coal mining industry. In order to do so it is provided to implement the new model of funding the industry. It includes granting of state guarantees for attraction of credit resources with payment of interests from the state budget as well as significant increase of state and private investments into the coal mining industry [7, pages 4–5].

Realizing the danger for its economic interests, European countries, that are significantly or fully dependent on supplies of Russian gas, search for ways of diversification by increasing use of the energy resources of Caucasus and Central Asia in the future. More so, on January 10, 2007 the European Commission has submitted “Energy Policy for Europe” document to the European Council. The document concentrates attention on the “external insecurity” of the progressing concentration of carbohydrate deposits in a couple of hands, “discrimination and abusing from the side of monopolists, the dominant dependence of several member states from a single supplier”. There was made a conclusion about inadmissibility of further retention of such situation [5].

In March 2007, the European Council has adopted the Action Plan, which includes more recommendations for the European Commission and adds more strict methods of regulation. Among them are – the need of the counteractions as concerning influence of the vertically integrated energy companies from the third countries onto the internal markets and approval of principles of reciprocal benefits in trading relations [6]. The European Commission measures for demonopolization of companies, that include a plan of capital investments into European Union infrastructure. Under constraint of these requirements Gazprom will have to change the structure in order to avoid the blockage of its capital investing into the energy infrastructure of EU.

### **Evolution of credit and investment policy**

Significant increase of Ukrainian import during the last years was facilitated also by credit policy of banking system: 80% of consumer credits are directed to purchase of imported goods [9, page 22]. This shows situation, which is rather dangerous for Ukrainian economy. Credit resources are used not for development of innovation and investment process, but are oriented to crediting of consumption of imported goods. In other words by means of crediting foreign economies Ukraine slows down the development of domestic infrastructure. The said danger is increased by the fact that significant funds were borrowed by Ukrainian banks from abroad. One third part of the foreign debt of Ukraine makes the banking debt. Comparison these credits with loans to natural persons gives almost equal indices. Thus, one of the most important factors for ensuring the positive economical dynamics – the banking credit, which was formed mostly from external sources, is used for stimulation of consumer demand for the imported goods instead of investing to import substituting national productions. Increase of consumers credits would be logical and feasible only if banking assets were directed to innovative projects such as development of alternative

sources of energy, energy saving technologies, generation of new technologies, modernization of equipment.

Disproportion between big volumes of foreign trade and low indices of attraction of foreign capital negatively influences social and economic development of transitive countries. Such disproportion forms contradiction between the accelerated temps of moving to the openness of foreign trade of CIS countries and much more slow temps of reconstruction of economy, based on implementation of up-to-date achievements of science and technology. Interdependence of export and structure of the economy significantly influences results of foreign trade activity of the said region. It stays non-optimum with a significant part of goods of low degree of processing and raw materials.

In conditions of the limited internal sources of accumulation, functions of the reconstruction are successfully performed by foreign investments. It is well-known that namely foreign capital stimulates economic growth of industrially developed countries as well as of the new industrial states. It ensured creation of competitive export and development knowledge-intensive industries. Starting from the second half of XX century, export of capital is continuously increased with huge speeds, exceeding the tempo of foreign trade growth.

Significant part of trans-border investments are made by private multinational corporations. At the present time multinational corporations control almost one half of the world industrial production, more than 50% of international trade, about 80% of the world bank of patents and licenses for the new machinery and know-how. Thus, almost whole volume of expenses for R&D (Research and Advanced Development) of private business in USA fall on 700 largest companies. Therewith about 40% of these assets fall only on 15 largest multinationals [11, pages 80–84].

Ukraine is extremely opened for the world as concerning export of raw materials and half-made products and half closed on the way of world flows of capital – which is the accelerator of structural reconstruction of economy in direction of its innovative transformation. Regardless that during the last years volumes of foreign investments into the country have been increased significantly and have reached 36.5 billion USD, we have 812.1 USD per capita, which is 17–18 times lower than the same in Czech Republic or Hungary and 7 times lower than the same in Lithuania. Correlation of accumulated foreign investments to GDP in Ukraine makes 5%, the same ration in Czech Republic and Hungary – about 50%, in Lithuania – 35% [12, page 7].

Direct foreign investments (DFI) into Ukrainian economy, have inefficient structure because the most part of these funds is invested into development of industrial branches with short capital circulation period, when the country needs the long-term investments into knowledge-intensive and capital intensive pro-

ductions. Inefficient structure of direct foreign investments is also a characteristic of Russian economy. In the recent time positions of domestic manufacturers on the internal market have been weakened. A growth in production of national processing industry was much slower than the increase in gross internal demand.

Such situation as a natural result has strengthened positions of import of ready-made products on the internal market, including sectors with possibilities of import substitution. Thus the physical volume of purchase of machinery, equipment and motor vehicles during years 2001–2006 was increased for 5.4 times, the same of textiles, textile products and shoes – for 4.4 times, the same of food products and agricultural raw materials – for 1.9 times [13, page 15]. Director of the Institute of Economics and Forecasting of the National Academy of Science of Ukraine academician V. Geets expresses disturbance as concerning escalation of the problem of illegal export of the national capital abroad, which decreases investments, and, accordingly, tempo of economical growth. If as on 01.07.2007 “escape” of the capital has made 263.1 million USD, on the same date of year 2008 this value has made 6198.1 million USD [14, page 8].

Practice of illegal export of capital is well-used in all world. As the rule the same is inherent to those countries, which pass through social and economical disturbances. The capital is illegally moved abroad mainly because its owners try to escape the excessive economical and political risks, which arise at investment or accumulation of assets in own country. Even the strongest arrangements for improvement of exchange control in order to stop illegal export of capital, unfortunately, nowhere in the world were giving the expected results. That is why macroeconomic and political stabilization in Ukraine, formation of a favorable investment climate may simultaneously solve not only the problem of capital outflow, but also the problem of repatriation of already taken-out currency resources [15, page 7].

## Conclusions

In the regard to stated above special attention should be paid to Polish experience, which deserves for imitation, when the country has created a powerful infrastructure for attraction of foreign investors. Thus in 2003, the State Agency of Foreign Investments together with Polish Information Agency have proclaimed the aim – formation of a positive image of the country and driving the country within ten years into the number of “Branded countries”. In order to stimulate the foreign investors Poland has developed special strategy and tactics, which allow formation of a positive economical, political and cultural image of the country, recognized by international community [16, page 6].

In order to overcome the recession CIS countries and namely Ukraine require to implement the stimulative arrangements for attraction of foreign investments and direct such investments, first of all, for innovative development of top-priority branches of industry: electronic, aerospace industry, agribusiness industry. Therewith activation of innovative projects may be successful in the event if state will participate in the world scientific universe.

In conditions of world economical crisis the world's well-known practice of creation of territories of innovation breakthrough, innovative economical groups, such as technological parks can be implemented. Considering the strategic interests, the top-priority direction of external-economic doctrine of transitive countries should be orientation of their economic policies onto development of innovative productions on the base of scientific and technological cooperation with European countries.

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## **Gospodarki w okresie transformacji wobec wyzwań globalizacji**

### **Streszczenie**

W artykule przedstawiono kierunki i tendencje rozwoju gospodarek Ukrainy oraz Wspólnoty Niepodległych Państw w warunkach globalizacji. Wśród największych zagrożeń wzrostu gospodarczego Ukrainy i WNP wymieniono dysproporcję w bilansie handlowym, uzależnienie od zagranicznych dostawców surowców energetycznych, nieefektywną politykę inwestycyjną i kredytową. W celu zwalczania recesji gospodarczej na Ukrainie i innych państwach WNP należałoby wprowadzić politykę stymulowania bezpośrednich inwestycji zagranicznych w priorytetowych gałęziach gospodarki: przemyśle elektromaszynowym, lotniczym oraz spożywczym. W warunkach kryzysu szczególnie ważne byłoby wykorzystanie międzynarodowego doświadczenia w tworzeniu stref postępu technicznego, innowacyjnych grup gospodarczych, m.in. parków technologicznych.