

*Denis Redžepagić**

Koyama, Yoji:

***TRANSITION, EUROPEAN INTEGRATION AND FOREIGN
DIRECT INVESTMENT IN CENTRAL AND EASTERN
EUROPEAN COUNTRIES***

**Graduate School of Modern Society and Culture
Niigata University Scholar, series Vol. 9, Shinkousoku:
Niigata, 2008., number of pages: 236.**

When one reviews a historical record of any kind, a certain type of stereotype is unavoidable, and that is the local bias. Despite our best efforts, even the most liberal minded among us will, at some point succumb to the temptation to question the validity of the claims or the arguments put forward based on the notion that the sense of belonging entitles the reviewer to a “higher plane” of understanding, one which the “outsider” is meant to reach, thus surely flaws are forthcoming and it is a matter of time before they are found. On the other hand, this superficial attitude is more often disproven in practice based on the novelty in the approach and what is more important, the fresh analytic approach brought to the subject. This book is a clear example.

As a recognised Japanese expert on Eastern Europe, Koyama is aware of the potential would-be critics from the onset. As stated in the preface, this book is actually a collection of papers on related topics, brought together under the title of transition, European integration and foreign direct investments (FDI). Yoji Koyama himself is no novice on the subject, having investigated the region for the better part of the past thirty years and having published more than a hundred papers on the topic of development in Eastern Europe. By no means an exception, this book is a continuation of the rising levels of cooperation between the

* D. Redžepagić, MEB, The Institute of Economics, Zagreb (e-mail: dredzepagic@eizg.hr)

Japanese and the scientific community from Eastern Europe¹. The book is separated into ten chapters, conceptually broken down in three main parts. Over 236 pages Koyama presents a series of interesting and relevant sources of information, particularly on FDI levels in the analysed countries, with particular interest in Slovenia, Poland, Bulgaria and Romania. The footnotes are a particularly intriguing aspect of the book as Koyama manages to summarise some relevant research and expands on some themes which may be of interest, but are not directly connected to the theme².

The first part, titled *Transition and European Integration* is essentially the historical and factual overview of the regional political and economic situation since the collapse of the communist regimes in Central and Eastern Europe (CEEC). Considering the challenge in providing a brief historical and political context, Koyama touches briefly upon the period post WWII, in order to introduce the reader to the complexity of the region following Yalta conference. The first chapter provides a summary of the different approaches to socialism applied in the region, with an emphasis on former Yugoslavia and a brief overview of the political and economic developments after the European Union initiated the expansion into the region. The second chapter provides the reader with an empirical analysis of the effects of EU entry of the Central European and Baltic countries, with an emphasis on Poland. Importantly, the analysis allows an insight into some of the initial costs and benefits of EU accession. Apart from the contributions to the EU budget, the section analyses the effects on foreign trade, agriculture, foreign investment, SME sector, labour markets using detailed research results, coupled with a brief analysis of the future challenges resulting from the economic transformation in the region, namely the performance of the EU-8 (new entrants into the EU at the time) in comparison with the Maastricht Convergence Criteria. Despite the fact that EMU entry is finalised in the region, this is an interesting historical record nevertheless, one which will benefit researchers in EU candidate countries.

Foreign Direct Investment is the theme and the title of the second part of the book, in which Koyama really manages to provide an excellent factual and empirical analysis of the levels of FDI in the region, and the main investors relating to these rising levels of investments. Following a structural analysis of the changes affected in the Central European and Baltic Countries and South Eastern Europe following EU entry, Koyama uses case study examples of FDI and the investor countries to emphasise the point³, finishing with an interesting interpreta-

¹ For a very interesting analysis, see Franičević and Kimura (eds.), 2003.

² An example is the „flying geese theory“ (Ozawa, 1992) and Transformational recession concept (Kornai, 1995).

³ For more on the nature and effect of FDI in the region, see Bačić, Račić, and Ahec-Šonje, (2004); Lovrinčević, Mikulić, and Marić (2004, 2005).

tion based on the Investment development path paradigm. The remainder of this part is devoted to a detailed analysis of two countries which are indicative of the changes in the region following EU entry, particularly in terms of FDI levels – Poland and Slovenia. The analysis of the Polish economy is a particular insight, since it provides the reader with some examples of which have enabled the Polish economy to achieve high average levels of GDP growth in the period 1993 - 2007. The analysis of special economic zones (SEZ) is particularly noteworthy. The analysis of Slovenia as a relatively smaller economy in the region is particularly interesting, since Koyama seems eager to explain the reasons for the success of this economy in overcoming the transformational recession and emerging a stable, competitive, export oriented economy. Finally, an analysis is provided on the nature and structure of Japanese FDI in the region. The term “localized torrential rain” is used to explain the growing momentum of Japanese FDI, from a relatively modest start, to active and targeted investments by Japanese companies in South Eastern Europe (particularly Bulgaria and Romania) effectively creating a “vertical division of labour among Japanese multinational enterprises ... in the whole Europe” (pp. 128).

In the final part, titled *South Eastern Europe*, Koyama analyses the South Eastern European countries in more detail. A section is dedicated to an overview of each specific economy and the political developments following the transition from socialism to a market economy in the nineties, with a particular emphasis on the structural weaknesses of the region⁴. A particular emphasis is given to the analysis of Bulgaria and Romania, both members of the EU now, but also both economies which needed to overcome significant economic obstacles in order to restructure their economies prior to EU entry, which was even delayed due to the structural problems present at the time. This is followed by an overview of the Serbian economy, as an example of the importance of political stability in attracting FDI and in a broader sense, in gaining entry into the European Union. Considering the lag between South Eastern Europe (namely the Balkans) and Central Eastern Europe in the transition to a market economy, the EU can be seen as an “external anchor” (pp. 201) to the region. Thus, the final chapter of the book discusses the weak economic connections and structural issues in, and between countries in the region, but also the SAP (Stabilization and Association Process) as the operative extension of the “anchor” as the progress made in that respect. Clearly, there are a number of challenges ahead for the region, and as the book concludes, these include a significant political dimension which, coupled with continuing economic reforms, will undoubtedly shape the speed and extent of the European enlargement in the region.

⁴ A paper by Cvijanović and Kušić (2002) are perhaps an additional, if not country specific insight into this topic as an extension.

In this book, Koyama has managed to provide a delightful summary of the many economic and political changes which have taken place in the CEEC region following the end of socialism. Drawing on a number of relevant and interesting sources, Koyama manages to provide the reader with detailed data representing the economic progress made since early nineties. Coupled with an overview of the political developments in the same period, Koyama demonstrates the ability to provide relevant and interesting economic analysis, while incorporating the significant elements of the political sphere which are often overlooked in similar attempts. Considering that this is effectively a collection of the previous work on the region, it is certainly a valuable source of information, and an update of the data and the subject would benefit researchers in this field and make the content even more relevant. Perhaps a more knowledgeable researcher might be left with a feeling that some questions in the book are left unanswered – such as the nature and more detail on the structural problems in the region, the consequences of the political developments, particularly in former Yugoslavia, and the importance of the privatization model applied in explaining the consequent development⁵ we can refer to the first paragraph and conclude that the book fulfils its purpose in being an excellent historical economic analysis of the region, of particular interest to the Japanese scientific and research community, but also CEEC researchers. Finally, potential investors in the region would benefit from this work since it manages to briefly analyse the main aspects of investments into the region, and effectively circumvent some of the misconceptions of the region present.

Despite some stated contextual additions, one cannot but hope that books such as this will continue to be published, as transition in Eastern Europe rightly deserves such a treatment. Herein lies the greatest benefit of the book, most notably the spirit of the term “*kyoshei*”, as explained in the preface, which is left to the readers to investigate. And it is for precisely that reason and the fact that many local researchers stand to gain greatly by learning from such an approach that one can look forward to subsequent work by Yoji Koyama.

LITERATURE

Bačić, Katarina; Račić, Domagoj and Ahc-Šonje, Amina (2004) The Effects of FDI on Recipient Countries in Central and Eastern Europe, *Privredna kre-tanja i ekonomska politika*, 14(100).

⁵ Particularly in the Slovenian example, since Koyama states that „internal“ ownership seems to be a factor of consequent economic development.

- Cvijanović, Vladimir and Kušić, Siniša (2002) Izravna strana ulaganja kao izvori financiranja investicija: Usporedna analiza tranzicijskih ekonomija s primjerom Republike Hrvatske, *Financijska teorija i praksa*, 26(4).
- Franicevic, V. and H. Kimura (eds.) (2003) *Globalization, Democratization and Development: European and Japanese Views of Change in South East Europe*, Zagreb and Vienna: Masmedia and WIIW
- Lovrinčević, Željko; Mikulić, Davor and Marić, Zdravko (2004) Investment Efficiency and FDI - Old Story, New Circumstances, *Ekonomski pregleđ*, 55(1-2).
- Lovrinčević, Željko; Mikulić, Davor and Marić, Zdravko (2005) Foreign Capital Inflow - the Effects on National Savings, Domestic Investments and Balance of Payments of Countries in Transition in Central and Eastern Europe, *Ekonomski pregleđ*, 56(3-4).

Distribution of Foreign Direct Investment among Transition Economies in Central and Eastern Europe. *Post-Soviet Geography and Economics*, Vol. 42, Issue. 2, p. 142. Carstensen, Kai and Toubal, Farid 2004. Foreign direct investment in Central and Eastern European countries: a dynamic panel analysis. *Journal of Comparative Economics*, Vol. 32, Issue. 1, p. 3. Regional integration efforts generally lead to increased FDI by opening sectors to investment and aligning policies for the treatment of investors. Abbreviations: COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; SADC, Southern African Development Community; SAARC, South Asian Association for Regional Cooperation; GCC, Gulf Cooperation Council; MERCOSUR, Southern Common Market; CEFTA, Central European Free Trade Agreement; APEC, Asia-Pacific Economic Cooperation. Changes in Central and Eastern Europe, the fall of the Berlin Wall and the unification of German states (3 October 1990), forced major reforms within the European Communities. The Treaty of Maastricht on European Union (TEU), which entered into force on 1 November 1993 became a breakthrough document. It was to constitute a transition stage towards full economic, political and monetary integration of western European countries. According to the provisions of the Treaty on European Union the following objectives were set for the Union