

Global Challenges and Policies  
of the European Union  
– Consequences for the “New Member States”



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Global Challenges and Policies  
of the European Union  
– Consequences for the “New Member States”

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## Introduction

Wrocław University of Economics and the Faculty of Economics of Vilnius University have organized the second joint International Conference, this time in Wrocław (Poland), 25-26.09.2009. The first International Conference took place in Vilnius in September 2008 and specifically addressed problems of economic transformation in Central and Eastern Europe. A wide range of problems presented and discussed in Vilnius helped to define the main theme for the second joint meeting, namely “Global Challenges and Policies of the European Union – Consequences for the ‘New Member States’”.

The papers presented at the first Conference concentrated on changes in national structures brought about by the transition from centrally planned to market economies. Transition processes, as presented in the Conference reports, concentrated on the adaptation of existing institutions or the setting up of new institutions capable of promoting – and at the same time controlling – development of the private sector.

The dates of the Vilnius Conference coincided with the World Bank’s publication of the “Unleashing Prosperity” report. The authors of the Bank’s report, which was thoroughly backed by statistics, showed huge productivity gains accomplished in all Central and Eastern European countries since the beginning of the 1990s. Practically, the report declared that the transition process had been completed. The tone of discussions at the Vilnius Conference, with some exceptions, was less optimistic. Authors of the presented papers cautiously looked at potential new threats and challenges stemming from global imbalances and from the necessity of meeting several standards adopted previously by the European Communities and made obligatory to the new EU member states. The last requirement in particular does not allow to consider the transition process to be completed. In this framework transition is determined and timed by obligations imposed by the accession treaty signed individually by each of the EU member countries with the Union. It was within this context that the main theme of the Wrocław Conference was selected.

Coincidentally, the Vilnius Conference was held only a few days after the first signs of the financial crash in the United States, when all the dimensions of the crisis and its full implication for the world economy could not even be foreseen. Although many economists had warned against the threats of the growing financial and real estate bubbles, the bubbles finally burst, first in the USA. Very soon it became clear that the financial sectors of other industrialized economies were affected and a global recession followed. Countries of Central and Eastern Europe were not spared in the process. To some extent, the factors which contributed to the success of CEE countries in terms of economic growth also became a reason for the setback, when the market situation in the main partner countries deteriorated.

Consistently high growth records registered in all the countries of CEE during transformation were to a large extent due to a wide opening of the region to foreign exchanges. Import substitution led growth under central planning has been replaced by growth based on exports and inflow of FDI. New national productive structures were shaped by FDI. Foreign investors – within their overall corporate strategies – selected CEE mainly for lower costs of resources. Modern technologies and economies of scale determined the size of the newly built production facilities. The production capacities installed by FDI largely exceeded local demand in most countries, often 100% of the production was exported (mostly components). A strong dependence on exports was the outcome. Consequently, the beginning of the recession meant a substantive reduction of demand for products manufactured in particular in smaller countries with narrow local markets.

The recession exposed the immediate dangers related to export led growth, unknown until now, or at least not admitted officially, in most countries of the region. They stem from the close integration with global markets, which was one of the transition objectives. Transition processes dismantled a number of protection tools that would have been used to lessen the effects of recession under the old system, but it would also be ineffective as far as the demand for country's exports is concerned. Although the financial crisis had different impacts across region, the present recession came here rather through trade and to a lesser extent through financial links.

The present recession, its causes and the scale of consequences will, no doubt, be studied in detail for the decades to come. However, now it is our obligation as economists to attempt to give advice to the decision makers at the policy level in each country, as well as in international bodies working on the codification of international exchanges (goods, services and resources). Advice should be based on economic theory and accumulated experience.

Our Conference and the papers presented in this volume provide a good opportunity to discuss issues related to the consequences of globalization and integration within the EU for new member states. Lessons learnt from the ways in which individual countries are handling the recession should be used in the future to avoid such catastrophes at the global level, but in particular to formulate policy recommendations on how to handle such situations in smaller countries, which are not global players. The newest members of the EU are mostly smaller economies, with the exception of Poland which is considered a medium-sized country. Such countries can individually only brace themselves for outside shocks by adopting adequate economic policies to deal with the present and expected environment, as well as possible current and future constraints. Some important questions need to be answered:

- how to close the gap between the standard of living in the “old” and “new” EU members while staying within the EU adopted equilibrium parameters;
- how to handle accumulated debt without jeopardizing present consumption;

- how to provide public sector services, in particular during the recession, when budget revenues shrink;
- would an early (possibly premature) introduction of the euro shield the countries against external shocks.

It is rather obvious that the answers to some of the questions depend on economists' beliefs and their trust in the theories that they profess. The answers would also depend on time and spatial (global vs. national) perspectives. In spite of all the methodological problems, the reports presented in this volume as well as the discussions during the forthcoming Conference should improve the understanding of problems faced by economies of CEE and help in formulating policy advice for their solution.

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