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Please find attached a presentation made by Mr. Alan Rousso, Senior Counsellor, Office of the Chief Economist, EBRD at the OSCE Conference on Globalization, Vienna, 3 – 4 July 2003.

Globalisation and Transition

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What is Globalisation?

- Increasing transborder flows of goods, capital and labour
- Process of institutional convergence
- Creation of transnational ‘goods’ as well as ‘bads’
- Reduction and specialisation in the role of the state

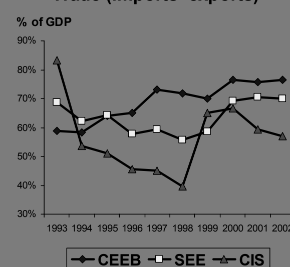
Globalisation and Transition

- **Globalisation and transition go together**
  - Both require participation in international markets of goods, services, capital and labour
  - Reform of legal and regulatory systems, financial sector reform, and enterprise sector reform essential
  - Successful transition countries participate in world economy and international political system
- **However, transition countries face challenges adapting to demands of globalisation**
  - Large state bureaucracies that have to be dismantled
  - Weak states that are unable to manage capital, trade and labour flows while maintaining social protections

Evidence of Globalisation in Transition Countries: Trade

- Most evident signs of globalisation in CEEB
  - Steady increase in trade as % of GDP
- SEE trade recovering rapidly in post-conflict period
- In CIS, trade as % of GDP picked up only after 1998 financial crisis and is falling again

Trade (imports+exports)



Evidence of Globalisation in Transition Countries: International Institutions

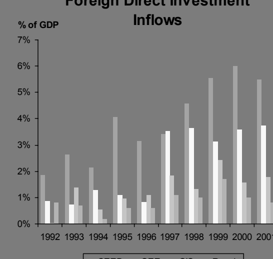
Transition Countries’ WTO Membership

	Members	Not members
CEEB	Croatia Czech Republic Estonia Hungary Latvia Lithuania Poland Slovak Rep Slovenia	
SEE	Albania Bulgaria FYR Macedonia Romania	Bosnia & Herzegovina Serbia & Montenegro
CIS	Armenia Georgia Kyrgyz Republic Moldova	Azerbaijan Belarus Kazakhstan Russia Tajikistan Turkmenistan Ukraine Uzbekistan

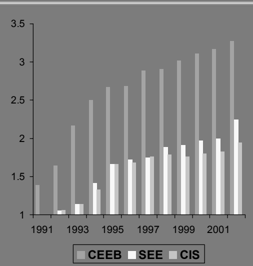
Evidence of Globalisation in Transition Countries: Capital Flows

- CEEB and, to a lesser extent, SEE are increasingly attractive to foreign investors
- In the CIS, despite large natural resource FDI inflows, total FDI receipts remain low
- Russian FDI is even lower than the CIS average

Foreign Direct Investment Inflows



Financial Sector Reform

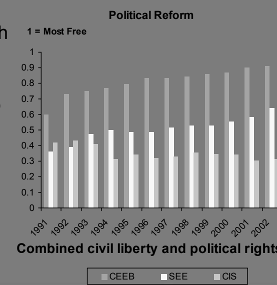


Source: EBRD, average of Transition scores for banking and interest rate liberalisation and non-bank financial institutions

- A well functioning financial sector is essential to intermediate between domestic and foreign economic actors
- Progress in establishing and developing the financial sector has varied across transition countries

Evidence of Globalisation in Transition Countries: Political Institutions

- Freedom House data show CEEB rapidly converging with established democracies
- After 7 years of stagnation, SEE is beginning to catch up rapidly
- However, strong and increasing divergence between CEEB and SEE, on the one hand, and CIS

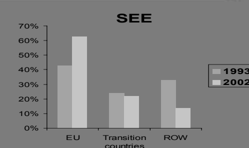


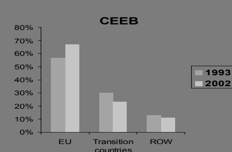
Globalisation vs. Regionalisation

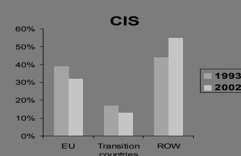
- While **globalisation** involves increases in multilateral trade, capital and labour flows without bias…
- …**Regionalisation** involves liberalisation in these arenas, but focused on certain regional partners
- Regionalisation has in fact been the **dominant economic trend** over past 30 years: EU, MERCOSUR, ASEAN, NAFTA, EEC, etc.
- Regionalisation also has **substantial political and institutional components**, and is often tied to regional security issues as well as other political matters, e.g., human rights, environmental protection

Regionalisation in Transition Countries

- Exports from CEEB and SEE have been increasingly diverted to EU, while CIS exports to EU and intra-CIS trade have declined







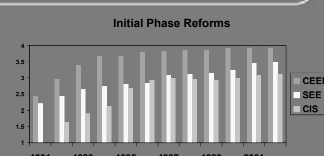
EU Enlargement

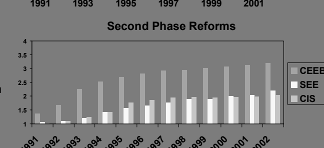
- *Acquis communautaire* have provided strong external 'anchor' to reform efforts in Central and Eastern Europe
- Modernisation of state administration and establishment of EU standards across sectors have opened doors for trade, foreign investment
- However, impact of CEEB countries' accession on 'outsiders' is unclear – could be trade/capital diverting or trade/capital creating (providing outsiders improve their business environments)

Globalisation and Governance in Transition: Weak States

- Effective state is critical to mediate between international economic and financial actors (MNCs, trading partners) and domestic economy
- In transition countries, institutional development has lagged behind economic liberalisation

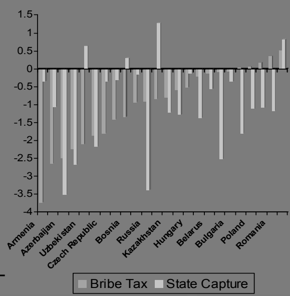
Initial phase: price, forex and trade liberalisation, small-scale privatisation
Second phase: large-scale privatisation, governance and enterprise restructuring, competition policy, banking and interest rate liberalisation, non-bank FIs





Globalisation and Governance in Transition: Corruption

- EBRD's Business Environment and Business Performance Survey shows marked improvements in corruption in most transition countries
- This reflects increasing rule of law and state strength in most countries
- External anchors – particularly EU's *acquis* – also play crucial role



Challenges of Globalisation in the Transition Countries

- **Expanding trade – globally and regionally**
  - Removing tariff and non-tariff barriers
  - Accession to WTO
  - Formation of regional trade blocs
- **Attracting increased capital flows**
  - Improving investment climate
  - Eliminating administrative barriers to capital
  - Strengthening rule of law, esp. contracting environment
- **Strengthening institutions**
  - All evidence shows that institutional convergence is an essential component of deepening integration, regionally and globally