Geo-Regional Competitiveness in Central and Eastern Europe, the Baltic Countries, and Russia

Anatoly Zhuplev and Kari Liuhto
Geo-Regional Competitiveness in Central and Eastern Europe, the Baltic Countries, and Russia

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Loyola Marymount University, USA

Kari Liuhto
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Doren Chadee, Deakin University, Australia
Alex Kouznetsov, Deakin University, Australia
Banjo Roxas, Deakin University, Australia

Following their political and economic independence in 1989, a group of ten Central and Eastern European countries (CEEs) embarked on major institutional reforms to modernise their economies in order to become an integral part of the global economy. This chapter provides an overview of the main institutional reforms undertaken in the CEEs and their effects on export competitiveness. The chapter focuses on selected meso and macro institutional reforms, namely price liberalisation, competition policy, trade and foreign exchange, privatisation, and corporate governance. The results show that institutional reforms in the CEEs were rapid and generally successful. All CEEs became members of the European Union (EU) and the World Trade Organization (WTO). Institutional reforms contributed significantly to improved efficiency and growth in the export sector. The results also suggest that further reforms are needed to improve competition policy and corporate governance, both of which are still below the standards found in Western industrialised countries.

Chapter 2
National Innovation System Dynamics in East Central Europe, the Baltic Countries, and Russia ....................................................................................................................... 32

Teemu Makkonen, University of Southern Denmark, Denmark & University of Turku, Finland

In this chapter, the structure and dynamics of national innovation systems are explored to produce a comprehensive picture of the current, as well as the past, performance of the countries of East Central Europe, the Baltic countries, and Russia vis-à-vis their
competitiveness and innovative capabilities. The results highlight the importance of political and economic freedom, science, and education for promoting innovation. According to the principal component analyses, the best performing countries of the East Central Europe and the Baltic countries, in terms of their national innovation systems, have developed rapidly after the disintegration of the Soviet bloc and compare well in global rankings of innovative capabilities and competitiveness with standings above the countries of Latin America and South-East Asia. The countries under closer examination here that are members of the EU seem to be in a better position compared to the non-EU member countries. Thus, most of the countries in East Central Europe and the Baltic countries have been able to catch up with the global leaders during the analysed time period (1992–2008). However, this kind of development is yet to manifest in Russia.

Chapter 3
Innovation and International Competitiveness of Manufacturing Firms:
Evidence from Bulgaria, Czech Republic, Hungary, Poland, and Romania

Małgorzata Stefania Lewandowska, Warsaw School of Economics, Poland
Tomasz Golebiowski, Warsaw School of Economics, Poland

Numerous firm-level studies indicate a positive relationship between innovation and exports, being an important indicator of international competitiveness. The aim of this chapter is to present a cross-country analysis of the relationship between innovation and exports of firms in selected new EU Member States from the CEE region. All types of innovation (i.e. product, process, organizational, and marketing innovation) are analyzed and their relationship with international sales is assessed in this chapter. The analysis is based on Community Innovation Survey (CIS) micro data of 10,903 innovative manufacturing firms from Bulgaria, Czech Republic, Hungary, Poland, and Romania for the 2006 – 2008 period. The logistic regression models are constructed to identify the relationship between each type of innovation and firms’ export sales. The reverse causality (i.e. the effect of international sales on firm innovation) is also investigated. The strongest relationship between the introduction of product innovation and export sales on all foreign target markets was revealed for firms in all CEE countries. The influence of other types of innovation on export sales was also proved positive, though weaker, in most of these countries. The influence of international sales on firm’s innovation in all surveyed countries was weaker than the impact of innovation on export.
Chapter 4
Manufacturing Reshoring: Threat and Opportunity for East Central Europe and Baltic Countries

Luciano Fratocchi, University of L'Aquila, Italy
Lelio Iapadre, University of L'Aquila, Italy
Alessandro Ancarani, University of Catania, Italy
Carmela Di Mauro, University of Catania, Italy
Andrea Zanoni, University of Bologna, Italy
Paolo Barbieri, University of Bologna, Italy

This chapter focuses on "reshoring" strategies, conceptualized as the relocation of production earlier off-shored independently of its governance mode (out-sourcing vs. in-sourcing). More specifically, the authors investigate two different forms of this phenomenon: the repatriation of manufacturing activities in the firm's home market or in a country located at a shorter distance from the headquarters. They suggest that such phenomena may represent a significant "threat" or an "opportunity" for the economies of East Central Europe and Baltic Countries. Based on a wide-ranging literature review and findings derived from an extensive data collection, suggestions for policy makers and managers are provided.

Chapter 5
Business Risk from Governmental Corruption in East Central Europe, the Baltic Countries, and Russia

Duane Windsor, Rice University, USA

This chapter places in a comparative, cross-country framework analysis of selected secondary information about business risk from governmental corruption in the region comprised of East Central Europe (including the Balkans), the Baltic Countries, and Russia. The region is an important setting for understanding corruption and anticorruption reform. What defines this geographic region is that all the countries are transitioning from monopoly-party rule and typically Soviet economic and political domination. Globalization is drawing the region into world economic integration through increasing Foreign Direct Investment (FDI). Key information from several sources provides an analytically consistent picture. Corruption increases business risk for multinational and domestic enterprises. Corruption deters inward FDI, undermines corporate integrity, and reduces country and regional competitiveness. The chapter provides information and examples about corruption in 21 political entities. These entities range from reasonably clean to endemic corruption, with varying patterns of corruption and anticorruption reform effectiveness. The chapter discusses possible solutions and recommendations and proposes future research directions.
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Anna Matysek-Jędrzych, Poznan University of Economics, Poland

The chapter focuses on the relation between the economic crisis and competitiveness
on a national and regional dimension. The Baltic countries (Estonia, Latvia, and
Lithuania) have experienced one of the biggest GDP contractions during the Global
Crisis so far. Hence, identifying and assessing changes in the relative competitiveness
as a consequence of the economic downturn has sparked many interests. The
international competitiveness and economic crisis intermingle with one another.
The international cases selected for the purpose of this research (Estonia, Latvia,
and Lithuania) were to demonstrate clear and unquestionable evidence that crisis
affects the international competitiveness of countries. One may believe that such
a deep and painful financial and economic crisis as the current one—in the case
of the Baltics—has to leave some permanent and explicit traces on a country’s
competitiveness. Thus, the results of this research may surprise a little. It may be
generally concluded that a short-term crisis, even if severe, does not have a negative
long-term influence on the international competitiveness as long as a proper anti-crisis
policy is implemented. Sharing a number of structural, institutional, and performance
features caused the crisis to undermine the competitiveness of the Baltic States in
a similar manner (through macroeconomic stability channel). This in turn caused
the applying of an analogue crisis management policy with the fundamental tool of
fiscal policy tightening by an increased downward flexibility of wages and prices.

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Hanna Mäkinen, University of Turku, Finland
Eini Laaksonen, University of Turku, Finland
Kari Liuhto, University of Turku, Finland

This chapter analyses the preconditions for increasing cross-border inter-cluster
cooperaation in the maritime and energy sectors in the Eastern Baltic Sea region (i.e.
Estonia, Finland, Latvia, Lithuania, and North-West Russia). The chapter describes
the recent developments and cooperative connections in both sectors, after which it is
concluded that room for increased cooperation exists, particularly in terms of green
solutions. Such international cooperation still remains modest due to detrimental
factors, national state interests being the most evident in both the sectors. Therefore,
political support is of great importance in increasing inter-cluster cooperation,
which can result in innovative discoveries, new business networks, and increased
competitiveness to the region’s key industries.
Chapter 8
Competitive Strategies of Successful Local Firms in Central and Eastern Europe
Arnold Schuh, Vienna University of Economics and Business, Austria

Local companies in Central and Eastern Europe (CEE) have to find the right competitive positioning to survive against Western competitors with superior resources and capabilities. In this explorative study, the authors study competitive strategies of successful firms from CEE. Sixteen firms from Czech Republic, Poland, Romania, and Russia are analyzed. The findings show that there exists a variety in strategic positionings among those firms. However, strategies based on a good quality at a lower price ("good-value-for-money") are most common and effective. While internationalization is important, a high share of foreign sales is not automatically a profit driver. Industry has a major influence on financial performance: Firms active in the commodities, pharmaceutical, and software sector are outperforming the ones in consumer and industrial markets. Still existing negative country-of-origin effects, low government support of R&D and internationalization efforts, and weak enforcement of laws and international standards are restraining a faster development of these firms.

Chapter 9
Investment Attractiveness of Visegrad Group Countries: Comparative Analysis
Tomasz Dorożyński, University of Lodz, Poland
Anetta Kuna-Marszalek, University of Lodz, Poland

The aims of this chapter are to evaluate the main determinants of the inflow of FDI into selected countries of CEE and to examine the volume, dynamics, and structure of FDI inflow into these countries. Due to certain similarities, the authors focus the analysis on four countries: Poland, the Czech Republic, Hungary, and Slovakia. The reasons are geographic proximity, political, economic, and cultural similarities, as well as shared experiences of economic transformation. This chapter focuses on matters pertaining to foreign direct investment, mostly on the reasons motivating FDI inflow in light of selected studies and theories. The authors also provide characteristics of the dynamics and structure of FDI inflow into the V4 countries. The final part of the chapter compares investment attractiveness, the system of incentives, and identifies barriers facing investors in the analyzed countries.
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Aleksandra Wąsowska, University of Warsaw, Poland
Krzysztof Wąsowski, Warsaw School of Economics, Poland

The objective of this chapter is to present Poland’s key strategic strengths and weaknesses, providing insights into the actual state of the country’s competitiveness in a comparative strategic context. The chapter findings are based on the most recent and reliable data, including international and reputable domestic sources. The authors present a general country profile, discussing the position of Poland in key business rankings. Then an overview of the socio-economic development of Poland, including the macroeconomic situation, international stability and safety, global competitiveness, infrastructure, and demographic trends is provided. The authors also discuss key economic sectors and trends in foreign trade and Foreign Direct Investment (FDI). The discussion on Polish competitiveness is summarized in a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis. Finally, the authors present best corporate and institutional practices and lessons in competitiveness, and provide a list of sources of information on doing business in Poland.

Chapter 11
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Anatoly Zhuplev, Loyola Marymount University, USA

After the dissolution of the U.S.S.R., Russia is repositioning itself as a major political-economic actor in the Eurasian geo-region. These aspirations are commensurable with Russian history, geography, and rich mineral resource base, specifically energy. To a large extent, Russia’s resurgence has been propelled by extraordinary reliance on oil and gas buttressed by high global energy prices. Russia’s political-economic ambitions, posturing, and recent improvements are found in stark contrast with its mediocre ratings in social and environmental performance. The study explores strategic attractiveness, cost, and risk of doing business, and reveals that Russia trails Germany and U.S.A., key aspirational comparators, in critical global competitiveness rankings. It also lags behind China, a major comparator. Under high energy prices, Russia appears capable of maintaining a certain degree of global competitiveness and improvements, although tempered by growing politic-economic strategic ambitions. The study calls for reforms and strategic improvements in developing human capital and innovations toward sustainable global competitiveness.
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Ksenia D. Shelest, St. Petersburg State University, Russia

This chapter presents a comparative, competitive geo-regional cross-country analysis of the North-West Federal District of Russia (NWFD) with implications for socio-economic development and perspectives for international economic relations in the Baltic sea region. Based on the analysis of the key trends of socio-economic development of the region and its perspective evaluation, the main strategies for the regional economic co-operation with EU and perspectives for competitiveness of the NWFD in the international context is analysed. Special attention is directed to the significant infrastructure development of the territory. The conditions for strategic socio-economic projects realization are further elaborated in the light of the official strategy of the socio-economic development for the NWFD for the period to 2020.

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Preface

Globalization and regionalization have been expanding over the past few decades, reshaping the politico-economic landscape and business dynamics. Technological advances in transportation and communications, improvements in the freedom of information, trends in political economic liberalization, emergence of international institutions, non-governmental organizations, and business enterprises across the world facilitate cross-cultural learning, exchanges, travel, commerce, and investment flows. Along with opportunities, these developments and trends also cause interdependencies, complexities, and competition for limited resources under social-economic and environmental constraints, as well as political and cultural differences. Along with the global developments taking place under the umbrella of the UN, the WTO, or the IMF and other post WWII institutions, there are numerous cooperative and competitive processes occurring in the geo-regional framework. Increasingly, the global triad—Japan, W. Europe and N. America—dominating the world’s political economic power in the first decades after WWII is morphing into plurality of the global political-economic entities such as G2, G7, G20, or BRIC(S), geo-regional groups like the newly industrialized countries (“tigers”) of Asia, political-economic alliances like the EU, EU11, EU15 (EU11 Regular Economic Report, 2013), or Visegrad in the European region.

The demise of communism, the fall of the Berlin Wall, the abolition of the Soviet bloc that culminated in the finale of the U.S.S.R. in the early 1990s, and accession of the former Eastern European satellites of the U.S.S.R. and some of the Soviet republics to the EU have led to re-emergence of the Central and Eastern Europe (CEE) and the Baltic countries as geo-regional clusters. While Russia and some of the former Soviet republics at the moment stay outside these Europe-gravitating entities, they remain politically and economically intertwined in this strategic framework. Both groups engage in geo-regional cooperation and competition in trade, investment, manufacturing, and marketing activities. Sometimes, as we can see in the unfolding Russian-Ukrainian confrontation in 2014, this competition crosses over into the military domain. These dynamics in the European region create a captivating academic subject, a high priority policy-making arena, and an important field for international business strategic decision makers.
The CEE region comprises 14 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, and Turkey. This group in IMF publications sometimes is also categorized as "emerging Europe." In a broader European regional scope, Estonia, Finland, Slovak Republic, and Slovenia are categorized by the IMF as advanced economies (World Economic Outlook, 2013).

In comparison, in 2012, the CEE’s collective share of the world’s population was 2.6%, its share in the world GDP was 3.4%, and its share of world exports of goods and services was 3.4%. In the same year, Russia’s share in the world total was 2.0% in population, 3.0% in GDP, and 2.6% in exports of goods and services. Emerging Europe experienced a sharp growth slowdown in 2012, reflecting spillovers from global recession, Euro area crisis, and domestic policy tightening in the largest economies. Only a moderate recovery is expected on the short-term horizon. The intensification of the Euro area crisis took a toll on business activity in emerging Europe: exports decelerated, confidence suffered, and western European banks, the leading actors in the regional banking sector, decreased funding for their subsidiar- ies, thus eroding financial fundamentals of economic growth. Several economies in southeastern Europe that had yet to fully emerge from the 2008–2009 crisis have fallen back into recession (World Economic Outlook, 2013).

Retrospectively, during the decade of 1995-2004, regional real GDP in the CEE has been growing at an average rate of 4.1% per year. In 2012, the growth rate declined to 1.6% and is projected to increase on an annual basis to 2.2% in 2013, 2.8% in 2014, and 3.8% in 2018. In contrast, Russia’s growth rate between 1995 and 2004 was 2.8%. In 2012, its annual average GDP grew to 3.4% and is expected to reach 3.4% in 2013, 3.8% in 2014, and 3.6% in 2018. From this standpoint CEE and Russia’s economic growth rates look stronger compared to the advanced European economies (the collective Euro area average real GDP growth rate in 2013 was negative at -0.1%). Meanwhile, in the competing Asian region, China’s real GDP growth rates for 2013, 2014, and 2018 are projected respectively at 8.0%, 8.2%, and 8.5%; India’s growth will reach 5.7% in 2013, 6.2% in 2014, and 7.0% in 2018 (World Economic Outlook, 2013) boosting Asia’s global competitive edge.

In 2012, the EU11 economies outperformed the ones in the rest of the EU. The modest growth in the EU11 was supported by a number of factors. First, the ability of the EU11 to diversify markets and increase the share of exports to non-EU markets helped spur favorable trade results. Second, net Foreign Direct Investment (FDI) flows remained stable, keeping the EU11 attractive for FDI. Third, the EU11 governments succeeded in their effort of fiscal consolidation; despite macroeconomic concerns and tight budget constraints, most EU11 governments delivered their ambitious public investment programs in support of economic growth. Fourth, monetary policies throughout the EU11 remained accommodative. Fifth, EU11 financial sector
confidence has started to show gains, supported by the continuous efforts of EU11 domestic regulators to safeguard the stability of the financial system. However, the overall recession or tepid economic growth in the Euro area continues to dampen the EU11 economic performance (EU11 Regular Economic Report, 2013).

Over the last several decades, advancements in science and technology, coupled with other social and economic improvements, have brought about unprecedented increases in life expectancy for populations around the globe. The aging phenomenon has not been confined to developed countries with high national incomes: both developing and middle-income countries are experiencing similar rises in life expectancies. On average, life expectancy between the periods of 1950-1955 and 2005-2010 rose by 26 years in developing countries and 19 years in the least developed countries. While this demographic change is expected to increase the overall economic burden in every country with an aging society, this impact is expected to be particularly acute in less-developed countries, which often lack the economic means to adequately address these challenges. That expands the competitive arena from macro-economics and policy on national and regional levels into a much broader social framework.

Among the countries expected to face increasing economic pressure as a result of their aging societies are those in the EU11. Aging societies throughout Europe face decreases in the share of working-age population in total population and increases in the costs for providing and caring for a growing elderly population— a particularly challenging situation for the countries comprising the EU11. Paramount among those challenges is a decline in the size of the labor force: in less than 40 years, more than 1/3 of Europe’s population will be above the age of 60 and 1/4 will be older than 65. This ongoing shift in demographics will have widespread repercussions across the whole of Europe, but will be particularly difficult for EU11 countries. Most countries in the region have low fertility rates ranging from 1.32 in Poland to 1.49 in Albania to 1.6 in Russia (World Factbook, 2014). Correspondingly, aggregate labor force participation rates in those countries already lag behind Europe as a whole; low fertility along with drastic declines in the size of the labor force are expected to occur over the next 40 years, further hampering economies in this region. This decline— projected to be more than 35% by 2050 if current levels of participation prevail— means that fewer workers in the region will be responsible in the future for supporting an increasing demand for long-term care services, including an increase in the required number of caregivers. These burdens could produce potentially insurmountable difficulties unless the region experiences drastic increases in participation rates and/or aggregate productivity and innovation. The main competitive driver for the declining labor participation rates across the region remains the lack of participation of women without tertiary education— a problem that has plagued the region for decades. The participation rate of women without
tertiary education fell by almost 5.3 percentage points between 2000 and 2011 in EU11, compared with 2.6 percentage points among men. Further, the participation rates of women in the labor force dropped in every country in the EU between 1990 and 2004, with decline rates as high as 10.3% in the Czech Republic and 12.7% in Latvia (EU11 Regular Economic Report, 2013).

Meantime, with the downward trend in economic activity, EU11 labor markets as of late have remained slack. Unemployment rates hovered around those recorded in the midst of the global financial crisis, with sluggish employment growth and long-term unemployment on the rise. The near-term labor market outlook remains unfavorable with unemployment decelerating only in the medium term. The bottom 40 percent in the EU11 economies tends to be concentrated in low skilled, young or older unemployed, and minority groups (EU11 Regular Economic Report, 2013). That brings the issues of national and regional demographic policies, innovations, and competitiveness to the forefront as robust economic growth under the ageing and limited labor force cannot be sustained on extensive platforms.

Trade gains in non-EU markets will likely be sustained, even though EU11 export flows in the EU will remain subdued as the Euro area remained in recession in 2013. Net FDI flows to EU11 will likely accelerate and the EU11 region should remain an attractive FDI destination provided that progress in improving the business environment and maintaining competitive investment climate continues. Deliberate exchange rate flexibility and accommodative monetary policies in some EU11 countries will likely continue to help the economies respond to volatility in the Euro area. The EU11 governments are planning to pursue gradual fiscal consolidation in the near term. In 2014, economic growth across the EU11 is expected to continue to increase and to become more balanced, with rising domestic demand. Increasing global interest rates coupled with volatile capital markets can slow the Euro area recovery, thus hampering domestic demand, particularly investment, in EU11 (EU11 Regular Economic Report, 2013).

Advances in computing, information technologies, and globalization have facilitated a wide array of global surveys and rankings. Not only do these methodologies expand the scope and depth of scholarly inquiry but they also serve as powerful tools in governance and transparency attracting attention and practical effort of policy makers, non-government organizations, and corporate strategists. Two well-recognized comprehensive annual publications in international competitiveness are the Global Competitiveness Report (GCR, 2013) by the World Economic Forum and World Competitiveness Yearbook (WCY) report (2013) by the International Institute for Management Development, both are Swiss-based. The latest (2013-2014) GCR measures national competitiveness among 148 economies, each of them across over 100 indicators grouped into 12 sections ("pillars" of competitiveness). Another well-recognized annual global competitiveness ranking is the World
Competitiveness Yearbook (WCY) that has been in existence since 1989. The 2012 WCY survey covers 60 countries worldwide and divides the national competitive environment into four main factors: economic performance, government efficiency, business efficiency, and infrastructure. In turn, each of these factors is divided into 5 sub-factors that highlight every facet of the areas analyzed. Altogether, the WCY features 20 such sub-factors comprising more than 300 metrics. Another effective and relatively recent tool extensively used by the authors is the annual “Doing Business” survey the World Bank that provides rich comparative information on the cost of doing business across 189 economies and 11 parameters/variables since 2004. These and other analytical tools are well represented and referenced in the chapters of the book.

Globalization affects people, organizations, nations, and regions in different ways. It exerts strong effects on the driving forces and business landscape creating and changing strategic opportunities and pressures for economic development, growth, employment, and social and environmental sustainability. CEE, the Baltics, and Russia play important role in the European region as emerging markets, competitive players in manufacturing, and political-economic actors. Compared to Western European nations and business entities, those in the CEE, the Baltics, and Russia receive more limited and sporadic coverage in business literature, although the latter attracts greater political coverage in the social-political literature and the media. The changing dynamics in the European region and beyond, the unfolding political-economic challenges across the European Union, as well as the rising geo-regional clout of emerging economic powers such as Brazil, China, India, and Russia require knowledge, skills, and methodologies that facilitate strategies and operations in the new and ever-changing business landscape. In turn, that facilitates the need for strategic competitive analysis on national, regional, and company levels. The book strives to contribute to the body of knowledge by addressing and connecting these issues in a comparative regional analytical context.

ORGANIZATION OF THE BOOK

The geography of the book authorship expands from Australia and the U.S.A. across the ocean to Russia, Finland, and Denmark at North, Italy in the South, to Austria and Poland in the heart of the CEE region. Thematically, the book begins with a chapter exploring institutional reform and international competitiveness in the region. Further discussion addresses: innovation systems and competitiveness of manufacturing firms and manufacturing reshoring; business risks from government corruption across the region; regional implications of the economic crisis; regional competitiveness and the maritime sector in the eastern Baltic Sea region;
competitive strategies of successful local companies in the CEE; and a comparison of the investment attractiveness of the Visegrad group countries. The last three chapters, presenting the national and regional perspectives, examine Poland's socio-economic development and competitiveness, Russia's global competitiveness, and socio-economic development and competitiveness of the North-West Federal Region of Russia.

The book is organized into 12 chapters. A brief description of each of the chapters follows:

Chapter 1 explores institutional reform and international competitiveness of the CEE economies. Gaining independence in 1989, a group of 10 CEEs has initiated major institutional reforms facilitating their integration into the regional and global economy with significant effects and implications for export competitiveness. The chapter analyzes selected meso- and macro-institutional reforms, including price liberalization, competition policy, trade and foreign exchange, privatization, and corporate governance. Rapid and generally successful institutional reforms in the CEE countries have led to their membership in the EU and the WTO, improved efficiency, and growth in trade. Further improvements are needed in competition policy and corporate governance, both of which are still lagging behind advanced countries.

Chapter 2 concentrates on national innovation system dynamics in CEE, the Baltics, and Russia. It strives to provide a comprehensive picture of the past and current performance in contrast to the countries' competitiveness and innovative capabilities, highlighting the importance of political and economic freedom, science, and education for innovation. The best-performing CEE and Baltic countries, in terms of their national innovation systems, have developed rapidly after the disintegration of the Soviet bloc and enjoy superior global rankings in innovative capabilities and competitiveness in contrast to their counterparts in Latin America and South-East Asia. Countries that are members of the EU are found to have enjoyed stronger positions compared to non-EU member countries. Most of the CEE and Baltic countries have been able to catch up with global leaders between 1992 and 2008. Russia is still lagging.

Chapter 3 analyzes innovation and international competitiveness of manufacturing firms in CEE countries in the cross-country analytical context, specifically emphasizing the relationship between innovation and exports on a company level in selected new EU member states from the CEE region. The study involves large samples and uses logistic regression models to identify the relationship between each type of innovation and firms' export sales, testing direct and reverse causality. A strong correlation between the introduction of product innovation and export sales in foreign target markets was found on a corporate level in all CEE countries. The effects of other types of innovation on export sales were also positive, though weaker, for most of the countries included in the survey. The influence of interna-
tional sales on company innovation in all surveyed countries was weaker than the reverse impact of innovation on export.

Chapter 4 evaluates a phenomenon of reshoring in manufacturing, related strategies, and positive and negative implications of reshoring for CEE countries. More specifically, two different forms of reshoring are examined in depth: the case of repatriation of manufacturing activities in the firm’s home market vs. the one in a country located at a shorter distance from the headquarters. The authors argue that, depending on specific conditions, such phenomena may represent a “threat” or an “opportunity” for the CEE and Baltic economies. The chapter draws implications for policy and strategies.

Chapter 5 addresses the issue of business risk from governmental corruption in the CEE countries, Baltics, and Russia in a comparative framework. One common denominator of this geographic region is that all the countries have been transitioning from a monopoly-party rule and typically Soviet economic and political domination. Globalization is drawing the region into global economic integration with an increasing role of FDI. Corruption increases business risk for multinational and domestic enterprises, deters inward FDI, undermines corporate integrity, and reduces national and regional competitiveness. The analysis covers 21 political entities where corruption ranges from reasonably low to endemic levels and discusses possible solutions, recommendations, and future research directions.

Chapter 6 examines the recent global economic crisis and its effects on the competitiveness of the Baltic countries in a national and regional context. The Baltic countries have experienced significant GDP contractions during the latest global crisis, so identifying and assessing changes in the relative competitiveness as a consequence of the economic downturn becomes a top priority. Generally, a short-term crisis, even a severe one, does not have negative long-term effects on international competitiveness as long as an effective anti-crisis policy is in place. The Baltics, with similarities in structure, institutions, and performance, experienced an erosion of competitiveness across the board during the crisis. This has created similarities in crisis management approaches, with fiscal policy tightening as a key tool.

Chapter 7 scrutinizes regional competitiveness and the maritime sector in the Eastern Baltic Sea region. It analyses the preconditions for increasing cross-border inter-cluster cooperation in the maritime and energy sectors in the region including Estonia, Finland, Latvia, Lithuania, and North-West Russia. Based on their analysis of recent developments and cooperative connections in both sectors, the authors point out to a potential for increased cooperation, with a particular potential in “green” solutions. Differences in cross-country interests and policy priorities are found to be major constraints for both sectors. Political support appears to be of great importance in increasing the inter-cluster cooperation, which can result in innovative discoveries, new business networks, and increased competitiveness to the region’s key industries.
Chapter 8 explores competitive strategies of successful local companies in the CEE against Western competitors that often enjoy superior resources and capabilities. The study, including 16 companies from Czech Republic, Poland, Romania, and Russia, has found that despite variations in strategic positioning among those companies, strategies based on good quality at a lower price ("good-value-for-money") are most common and effective. While internationalization of the company is an important competitive factor, a high share of foreign sales is not automatically a profit driver. Companies active in the commodities, pharmaceutical, and software sectors are found to outperform the ones in consumer and industrial markets. Still-existing negative country-of-origin effects, low government support of R&D and internationalization efforts, and weak enforcement of laws and international standards are restraining a faster development of these companies.

Chapter 9 provides a comparative analysis of investment attractiveness of the Visegrad group countries. The analysis includes evaluation of the main determinants affecting the FDI inflow into selected CEE countries and examination of the volume, dynamics, and structure of FDI inflow into these countries. This analysis involves four countries—Poland, the Czech Republic, Hungary, and Slovakia—because of their geographic proximity, political, economic, and cultural similarities, as well as their shared experiences of economic transformation and affiliation with the EU, NATO, OECD, and WTO. Since 1991, these countries also gained membership of the Visegrad Group (V4). This chapter focuses on matters pertaining to FDI, characteristics of the dynamics and structure of FDI inflow into the V4 countries. The final section of the chapter analyzes FDI attractiveness, incentives, and barriers facing investors in the V4 countries.

Chapter 10 examines Poland’s socio-economic development and competitiveness. It looks at Poland’s key strengths and weaknesses and its competitiveness in a comparative strategic context. The chapter reviews Poland’s socio-economic development that integrates the macroeconomic situation, international stability and safety, global competitiveness, infrastructure, and demographic trends. This review culminates in a discussion of the key sectors in the national economy and trends in foreign trade and FDI. The analysis of the Polish competitiveness is summarized in a SWOT format followed by policy implications, best corporate and institutional practices, and lessons in competitiveness.

Chapter 11 analyzes Russia’s geo-regional competitiveness in a retrospective and current context. As Russia recasts itself as a major political-economic actor in the Eurasian geo-region, its resurgence has been largely propelled by oil and gas exports supported by high global energy prices. Russia’s political-economic ambitions, strategic posturing, and recent improvements in global ratings are found in contrast with its mediocre social and environmental performance. The study explores Russia's strategic strengths, costs, and risks of doing business in contrast to
its "peer" and "aspirational" comparators. Russia trails its aspirational comparators (Germany and the U.S.A.) in critical global rankings and also lags behind China, a major "peer" comparator, in multiple dimensions of competitiveness. With the likely continuation of high global energy prices, Russia appears capable of maintaining a certain degree of global competitiveness and innovation. This is tempered, however, by its expanding politico-economic strategic ambitions. The study makes a case for Russia's reforms and strategic improvements in developing human capital and innovations toward sustainable growth and global competitiveness.

Chapter 12 presents a comparative, competitive geo-regional cross-country analysis of the North-West Federal District of Russia (NWFD) and draws implications for socio-economic development and perspectives for international economic relations in the Baltic Sea region. Based on key trends in the socio-economic development of the region and its future growth, the chapter analyzes main strategies for regional economic cooperation with the EU as well as the outlook for competitiveness of the NWFD in an international context. Special consideration is given to significant infrastructure development in the territory. The conditions for realizing strategic socio-economic projects are further elaborated in light of the government's strategy of the socio-economic development for the NWFD for the period to 2020.

Anatoly Zhuplev  
Loyola Marymount University, USA

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