Introduction

John Marangos

Department of Economics
Colorado State University
1771 Campus Delivery
Fort Collins, Colorado 80523–1771, USA
Fax: (970) 491–2925
E-mail: John.Marangos@colostate.edu

Biographical notes: Dr. John Marangos is Associate Professor at the Department of Economics at Colorado State University. His main research interests are transition economics and political economy. He has published with forthcoming articles in *Journal of Post Keynesian Economics*, *Journal of Institutional and Theoretical Economics*, *Journal of International Development*, *The American Journal of Economics and Sociology*, *Development*, *Journal of Economic Issues*, *Global Business and Economics Review*, *Eastern Economic Journal, Review of Social Economy*, *Journal of Socio-Economics*, *Journal of Economic Surveys*, *International Journal of Social Economics* and *Oxford Development Studies*. John is member of the editorial board of the *Global Business and Economics Review* and *Journal of Economic Issues*. His latest book titled *Alternative Economic Models of Transition* is published by Ashgate.

There has been more than a decade of 'transition' experience. The transition process has been associated with unemployment, inflation, inequality of income and wealth and a reduction in the standards of living for the average citizen in Russia, Eastern Europe, the former Soviet Union Republics, and Asia. The advice from international financial institutions (IMF and World Bank) and mature market economies to privatise state enterprises, minimise government intervention and liberalise international trade was essential, based on their view, to stabilise the transition economies and create an environment conducive to 'creative destruction'. The emphasis during transition on economic variables ignoring politics, institutions, ideology, culture and generally the initial conditions is a reflection of the dominance around the world of the neo-liberal conceptualisation of economic theory. For most commentators the transition process has been completed.

Against this dominant trend, it is with great pleasure, as the Guest Editor, to present the special issue of the *Global Business and Economic Review* with the theme 'The Political Economy of Transition'. The *GBER*, a publication of the Business & Economics Society International (B&ESI), devoted this issue to the theme with papers that explicitly deal with issues from a political economy perspective during transition that have been ignored by traditional economic theory. The special issue is a collection of papers that examine the prevailing consensus on transition and as such illustrate alternative processes to the ongoing transformation of these societies. The transition was, and is, a holistic, historical, dynamic, and comparative process in nature. Political economy stresses that making economic sense and understanding economic relationships is not feasible without explicit awareness of power, institutions, and values. As Commons (1970/1950,p.118) affirmed "I have never been able to think of the various social sciences as separate fields of history, political science, law, economics, ethics, and administration", a statement that is quite consistent with the transition process.

The special issue surveys and analyses the process and outcomes of transition using both theoretical and empirical approaches. The papers employ a broader method of analysis, scrutinising issues such as gender, institutions, history, ideology and the initial conditions. They also utilise a political economy approach which is interdisciplinary, evolutionary and systemic in nature. The eight papers in this issue explore the transition process relative to economic performance, institutional structure, unsolved problems, and policy concerns. The issue is implicitly divided into five thematic categories: gender, institutions, Foreign Direct Investment (FDI), theoretical conceptualisation of transition and a graduate student paper.

The first paper of the issue and in the implicit thematic category, 'Gender aspects of economic transition: attitude towards female labour participation in the new member states of the European Union', by Nathalie Homlong and Elisabeth Springler argues that gender aspects of economic integration are rarely the focus of transition literature. Their analysis demonstrates that according to the level of development and the kind of transformation process conduced, the New Member States of the Eastern Europe are divided into four subgroups. Employment gap, wage gap and recognition gap serve as indicators for the quality and quantity of female labour participation. The attitude towards female labour participation has undoubtedly changed in Eastern European economies during the transition period. Changes in the wage differentials, developments in education (especially in higher education), differences in economic development or the speed of transformation cannot serve as explanations for changes in female labour participation. Geographical factors, as the proximity of transition economies to Western European countries seems to be of much higher explanatory value: the closer transition economies are to Western European countries, the more similar their attitudes towards female labour participation. In conclusion, cultural interaction rather than economic factors seem to determine attitudes towards female labour participation in the transition economies examined.

The second paper titled 'Learning in time: new institutionalism and the Central and Eastern European economic reform experience', by Paul Dragos Aligica is part of the implicit institutional thematic category. It highlights the contradiction between policy prescriptions inspired by mainstream economics and the very concrete reform experience during transition. The article investigates how the limits of the mainstream approaches to reform policies invited a challenge from new perspectives and theories, as the author employs the new institutional framework as viable alternative to the traditional approaches. The traditional approaches were unable to capture with rigour and clarity the complexity and dynamics of transition. New institutionalism offers a viable solution to the transition problems by using a theoretical structure based on a broader vision of social reality by undermining the rigid consequences of the intellectual division of labour and over specialisation in social sciences. From the new institutionalist approach some challenging lessons and themes emerged from the transition process: the profound complexity of social change, an increased awareness of the limits to our understanding of social change and the limited power of controlling social change, the importance of time and history, the role of learning and learning in time, belief systems and mental models, and the possibility of error. These are some of the most important lessons emerging from the reform experience of transition economies and they pose a significant challenge to the fundamental perspectives of mainstream economic theory.

The third paper and the second one in the institutional thematic category, 'Chinese *guanxi* as network building: the emergence of the new institutional environment in China', by Rick Molz and Xiaoyun Wang studies the role of *guanxi* in the emerging Chinese institutional and business environment. In China the institutional structure and resulting business environment are rapidly unfolding. Under these circumstances, *guanxi* is important to management in enacting successful exchanges in the face of uncertainty and unpredictability. The authors argue that the traditional Chinese network of relationships, *guanxi*, is instrumental in formulating the unfolding institutional environment and structure. *Guanxi* is defined as the existence of direct particularistic ties between individuals. It is based on traditional Chinese culture that promotes shared social experiences between and among individuals. By using institutional theory and negotiated order theory, the authors conclude that the use of *guanxi* will improve enterprise performance and influence the emerging institutional environment and resulting business environment. This will occur not through a formal rational-legal process, but rather through a *guanxi*-based (informal institutional-based) developing negotiated order.

The fourth paper and the first one in the FDI thematic category, 'Explaining different FDI inflows in Eastern European countries with reference to economic history', by Ioannis-Dionysios Salavrakos provides an alternative explanation for the successful/unsuccessful transition processes. The role of history, ignored by traditional transition literature, provides a rationalisation that the current situation in transition economies is a reflection of the past. The author distinguishes between four groups of transition economies. The first group includes the countries with successful transition outcomes, Hungary, Poland, Czech Republic which have historically close economic ties with the developed capitalist economies and were able to reestablish them. The second group consists of Slovakia and Romania (in particular the region of Greater Romania including Transylvania) while they had weaker economic links with the West than the first group, they were able to maintain some ties during the central planning period and were able to reestablish them during the transition process. The third group which is the less successful economies consists of Russia, Ukraine, Bulgaria, Albania, FYROM and Romania (in particular the regions of the Black Sea costal areas and the provinces of Walachia and Moldova) which never had extensive economic ties with the West, as these countries had and re-formed extensive ties with Greece. The fourth group, which includes less successful economies as well, the Central Asia republics of the former Soviet Union had and reestablished ties with Turkey. These links determined the flows of FDI in transition economies, which was a major factor in determining the success of the transition process.

The following paper, the second in the thematic category of FDI in transition economies, 'Decisive FDI barriers that affect multinationals' business in a transition country' by Aristidis Bitzenis, analyses the barriers that Multinational Enterprises (MNEs) faced in Bulgaria. The author identifies Bulgaria's unstable legal framework, corruption, briberies, and its problematic bureaucratic procedures as detrimental factors in discouraging MNEs to enter. The research data used are from the author's questionnaire response, which was conducted in Bulgaria from the period of mid-1998 until the end of 1999. The questionnaire survey concluded that MNEs perceived the bureaucratic or administrative issues and the regulatory environment together with corruption, political, and macroeconomic instability as the most decisive barriers in their decision to undertake FDI projects in Bulgaria. The author determined that the unstable legal framework, lack of adequate and efficient laws, constant changes in the legal framework, insufficient enforcement of laws and bureaucracy leave space for corruption and briberies, and thus discourage foreign investors to participate in such an 'unhealthy' business environment.

The sixth paper and the second in the implicit thematic category, 'The role and influence of foreign direct investment on the development process: the case of the software industry in Romania, China, India and the Philippines', by David Floyd and John McManus embarks to explain the main reasons why the software market is proving attractive for foreign direct investment in Romania by examining theories of internationalisation and drawing on key FDI data. Contrasts are also made with other important markets as well as transition economies including China, India, and the Philippines. The authors consider some alternative historical and cultural factors that may also have a role in explaining the success of this particular industry, the location and assess to markets. These have included a developed cluster of low-cost skilled labour in this sector partly supported by government incentives in the case of India though there has been poorly administered government support in the case of Romania. Catch up and a refocus of government support is needed for the industry in Romania. In addition, the collective nature of Indian business culture and the willingness to network and to pass on skills gained from abroad. There have also been good links with industry in the UK and USA due to the colonial past. These factors have often included good English language skills, which have aided the process of technology transfer compared with other emerging markets such as China and Romania. However, further benefits of foreign direct investment in this sector will very much depend on whether India can move further up the value chain, as more low cost production becomes focused on other markets such as China and the Philippines. Further success for Romania will depend very much on progression towards European Union membership and how quickly catch up can take place. An assessment is made whether governments should continue to support this industry as part of the development process.

The following paper in the implicit thematic category conceptualisation of transition 'Was there an optimum model of transition?' by John Marangos, develops and compares alternative models of transition using a political economy approach. It was demonstrated that a political economy approach to the transition process gives rise to alternative models of transition. As a result five alternative models of transition are developed: the Shock Therapy, the Neoclassical Gradualist, the Post Keynesian, the Pluralistic Market Socialist and the Non-pluralistic Market Socialist models of transition. An attempt is made to identify whether, from the models developed, an optimal model of transition existed. The cost of transition consisted of the economic cost, political cost, and international cost. International cost consisted of international financial aid cost and foreign direct investment cost. By assuming that each element of the cost of transition has equal weight, each transition model can be ranked from the highest to the lowest cost on the basis of each element of the cost of transition. The ranking can be interpreted as a cost index for each element of the cost of transition. The optimality criterion tilts towards the neoclassical gradualist model. It can be argued that the neoclassical gradualist model maximised social welfare under the given internal and external constraints.

The last paper, the graduate student entry 'Banking socialism in transition: the experience of the Czech Republic' by Eva Kreuzbergova, focuses on specific interference by government in the banking and corporate sectors during transition in the Czech Republic. The paper argues that the influence of the government in the Czech economy was higher than the government officially conceded during the 1990s. The transitional design, originally conceived to disassociate the economy from state control, resulted in banking socialism. Banking socialism, as it is defined by the author, is a type of privatisation that results in the indirect control of privatised companies by banks, banks which are controlled by the government. The author explains the origins of banking socialism in the Czech Republic and addresses the consequences of such links between the state, banks, and enterprises. The trilateral relationship among the government, banks, and enterprises produced significant flaws: incentives for moral hazard, internal conflicts of interest coupled with a deficient institutional framework. The transition costs as a result of banking socialism could have been averted only by a significant revision of the standpoint towards economic reforms.

All papers passed a double-blind referee process supervised by the Guest Editor subject to the final approval of the GBER Editor. In the tradition established by Business & Economics Society International (B&ESI) in giving opportunities to young researchers, the special issue included a graduate student research paper. The editor of the special issue invited graduate students to submit research papers. Proof of graduate student status was provided with the submission. While the students' papers were assessed through the regular review process and were held to the same standards for acceptance as other submissions, the panel of reviewers served a mentoring role to advice the student to strengthen the paper. The best student paper was published.

I would like to thank the Editor-in-Chief, Managing Editor and the editorial board of the *Global Business and Economic Review*, the publication of the Business & Economics Society International (B&ESI) for giving me this exciting opportunity, the numerous reviewers while maintaining their anonymity out of respect of their difficult decisions and lastly the authors of the published papers in considering the special issue as an outlet of their high quality research.

May your reading be pleasurable, informative and challenging.

Reference

Commons, J.R. (1970/1950) *The Economics of Collective Action*, New York: MacMillan.