Book review by Klaus Meyer
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Padma, Desai, Ed., ***Going Global: Transition from Plan to Market in the World Economy*****. Cambridge, MA: The MIT Press, 1997.**

For forty years, the Communist leaders in Europe and the Soviet Union aimed at creating an alternative to the capitalism reigning across most of the rest of the world. They brought their countries not only in economic ruin, but isolated them from the increasingly integrated global economy. The transition of the 1990's thus has to accomplish not only a change of the domestic economic system, but the reintegration into the international economy.

Padma Desai presents the first major research project analyzing the interrelationship between the two processes: economic transition and international opening. The study has been conducted under the auspices of the World Institute of Development Economic Research at the United Nations University (UNU/WIDER) in Helsinki, Finland. It is based on individual countries studies, which are brought together and related by a comprehensive discussion of the issues in Desai's introduction.

A common framework for the research lays out the themes that the authors were to explore for the respective countries. Motivation is the fact that the internationalization of transition economies has profound implications for the advance of systemic transition and development. The key elements of internationalization are identified as exchange rates, foreign trade and foreign direct investment. The issues are addressed primarily on a macroeconomic level.

The country studies cover a representative selection of transition economies, and two surprises: the Czech Republic, Hungary, East Germany, Poland, the Baltics, Finland, Russia, Kazakhstan, Uzbekistan, China, Vietnam and India. Notably the studies on the Czech Republic (by Josef Brada and Ali Kutan) and on East Germany (by Jürgen von Hagen) provide excellent reviews of the macroeconomic developments and international opening. Most other studies focus on issues of particular concern to the country, or to the author, within the general framework of internationalization. The authors are mostly very knowledgeable about their respective country, though some studies could have made better use of the contemporary literature on economic transition.

This review next summarizes individual studies before pointing to some general features. Josef C. Brada and Ali M. Kutan review the Czech experience and present an econometric model of Czech trade. András Blahó and Péter Gál focus on the inflow of foreign investment in Hungary. Jürgen von Hagen reviews macroeconomic trends, monetary policy and the political economy of German unification. Stanislaw Wellisz offers an analysis of Polish macroeconomic and exchange rate policy. Kalev Kukk provides a detailed and knowledgeable account of monetary policy and the creation of currency boards in the Baltic states. Urpo Kivikari reviews the Finish-Soviet barter trade arrangements from the 1950's to the 1990's, outlining the implications of a regime that had to accommodate both market and central planning interests.

Padma Desai introduces the complex convertibility and foreign exchange and trade regulations in Russia 1992-94. She interprets the development of exchange rates and foreign trade noting difficulties in the data. Based on these facts, she estimates equations for the real exchange rate, exports, imports and the trade balance. Heiner Flassbeck and co-authors give a very comprehensive description of macroeconomic policy and trends in Kazakhstan. They criticize the IMF supported use of exchange rates as nominal anchor because it postpones necessary adjustments as the instant reduction of the inflation is not feasible. Michael Connolly focuses on Uzbekistan's international trade regime and outlines the negative welfare effects of a still very regulated regime, notably for key exports goods like cotton.

The studies of East and South Asian countries provides an interesting benchmark for scholars of European transition. Their macroeconomic performance does not show an output drop, while their opening to the international economy has been much more selective. Probably there is no causal relation between the two. These studies by

Richard Eckaus on China, David Dollar and Börje Ljunggren on Vietnam and Manmohan Agarwal on India also have a macroeconomic focus.

In her introduction, Padma Desai aims at drawing some lessons emerging across the country studies. She offers rankings of the countries by a speed of reform and variety of external policy and performance criteria. Her alternative criteria of internalization are positively correlated with the exception for the relation between investment climate and trade regime. She finds that speedy reform appears to promote both higher growth and faster inflation control and increasing globalization. Yet, she points out, this is often achieved via an adverse impact on employment.

Going Global presents a major contribution to the study of the international dimension of macroeconomics of transition. By bringing together independent studies (independent also from IMF and World Bank who sponsored most major contemporary macroeconomic studies) *Going Global* illustrates the variety of experiences in transition economies, while pointing to some commonalties. The lack of data that are consistent across countries so far inhibits more systematic cross-country analysis. Yet the book raises many issues worth further exploration.

This contribution not withstanding, the *Going Global* also leaves some expectations disappointed. The macroeconomic level of analysis leads the authors to overlook microeconomic aspects of transition. This is not uncommon, but unfortunate. After all, systemic transformation is about introduction of a different coordination mechanism - 'from plan to market' as the sub-title says. Yet this is an essentially microeconomic and institutional task. How does the international dimension contribute to these tasks? Would infant-industry tariffs have helped smoothing the adjustment shock? How do foreign investors interact with local businesses - and thus facilitate or impede enterprise transformation? Such questions are not addressed.

The study takes it for granted that internationalization is good, probably rightly so, but one would have liked to see a critical reflection. Not all aspects of internationalization

- as defined in the book - are unconditionally beneficial for development. Especially the Asian countries point to contrary evidence worth exploring.

The treatment of foreign direct investment (FDI) is cursory throughout, and in fact missing in about half the studies. Only the Hungarian contribution - predictably - focuses of FDI, yet offers only a discussion of patterns, motives and obstacles. Apart from recent data, it adds little to the discussion on FDI. For scholars interested in FDI, like this reviewer, only the introduction by Padma Desai herself provides an interesting analysis showing positive association of FDI with other measures of transition.

These shortcomings not withstanding, this study is a must-read for scholars focusing on the international dimension of economic transition. It provides a wealth of information on not only the frequently discussed cases, but also some countries often missed by academic analysts. The individual studies raise many interesting issues that call for more cross-country analysis. A lot of works remains to be done - both for bringing different country experiences together, and to understand the microfoundations of the macroeconomic developments.

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