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Wiesbaden Rüsselsheim

The Impact Of Different Transition Patterns And Approaches On Economic Development In EU-CEE11, Russia And Ukraine

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01

Transition: Patterns and Approaches

PATTERNS AND APPROACHES (1)



1. Economic Transformation: Washington Consensus (1989)

Strategies:

Shock Therapy vs. Gradualism

Augmented Washington Consensus (2000)

| The Original Washington Consensus | The Augmented Washington Consensus |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Fiscal discipline• Reorientation of public expenditures• Tax reform• Financial liberalization• Unified and competitive exchange rates• Trade liberalization• Openness to DFI• Privatization• Deregulation• Secure property rights | <p>The original list plus:</p> <ul style="list-style-type: none">• Legal/ political reform• Regulatory institutions• Anti-corruption• Labor market flexibility• WTO agreements• Financial codes and standards• „Prudent“ capital-account opening• Non-intermediate exchange rates regimes• Social safety nets• Poverty reduction |

PATTERNS AND APPROACHES (2)



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2. Institutional Transformation (North, 1990)

- Institutions as “a set of social rules that structure social interactions” (Knight, 1992)
- Formal (legally enforced) vs informal institutions (self-enforcing and reinforcing)
- Path dependence
- Institutional discrepancy as a cause of unintended, inefficient, ineffective and/or time-lagged outcomes
- Institutional complementarities (Aoki, 2001)

PATTERNS AND APPROACHES (3)



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3. Concept: Varieties of Capitalism (VoC) (Hall/Soskice, 2001)

Hypothesis: Comparative Advantage Through Coherence / three types:

- Liberal market economies (LME)
- Coordinated market economies (CME)
- Dependent market economies (DME)

Emergence of a New Approach:

Growth Diagnostics (Rodrik/Hausman/Velasco, 2005)

Binding constraints



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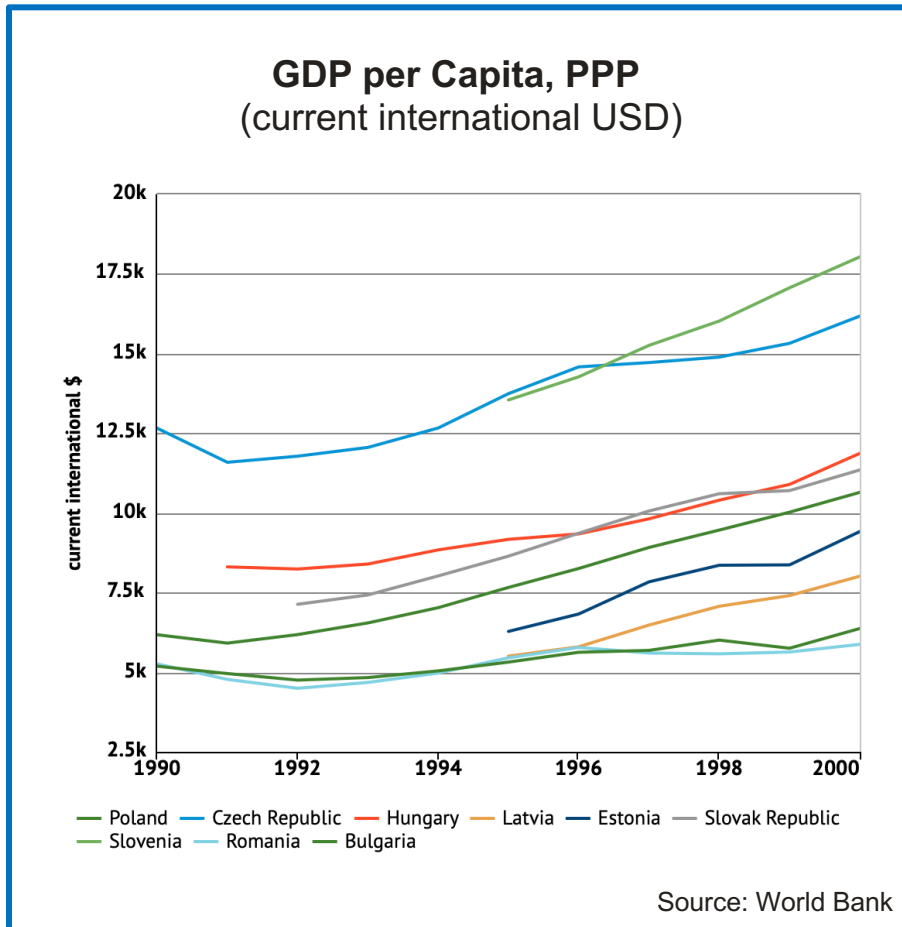
02

Transition - Patterns and Approaches: EU-CEE11

ECONOMIC TRANSITION (1)



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Shock therapy (Washington Consensus)

- Liberalization (trade, finance)
- Privatization (state owned enterprises)
- Deregulation (market, price)

Initial effects

- Output decline
- High unemployment
- Inflation

Later

- Steady economic recovery
- Support from the EU

Monitoring: EBRD Transition Index

ECONOMIC TRANSITION (2)

Timeline Accession to the EU



| | EU membership application | Association agreement | Opening of accession negotiations | Accession |
|-----------------------|---------------------------|-----------------------|-----------------------------------|-----------|
| Bulgaria | 1995 | 1995 | 2000 | 2007 |
| Czech Republic | 1996 | 1995 | 1998 | 2004 |
| Estonia | 1995 | 1998 | 1998 | 2004 |
| Hungary | 1994 | 1994 | 1998 | 2004 |
| Lithuania | 1995 | 1998 | 1999 | 2004 |
| Latvia | 1995 | 1998 | 2000 | 2004 |
| Poland | 1994 | 1994 | 1998 | 2004 |
| Romania | 1995 | 1995 | 2000 | 2007 |
| Slovenia | 1996 | 1999 | 1998 | 2004 |
| Slovakia | 1995 | 1995 | 2000 | 2004 |
| Croatia | 2003 | 2004 | 2005 | 2013 |

Source: Gruševaja/Pusch (2015)

ECONOMIC TRANSITION (3)

Progress Towards Market Economy

(EBRD transition indicators in cluster analysis)



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| | LS priv | SmS priv. | Ent. Restr. | Price lib. | Trade & Banking Forex reform | Securities markets | Competition Policy | |
|----------------------------------------------------|---------|-----------|-------------|------------|------------------------------|--------------------|--------------------|-----|
| 2007-2010, mean | 3.5 | 4 | 2.7 | 4.2 | 4.2 | 3.3 | 2.7 | 2.7 |
| Cluster 1 (HU, PL, EO, LT, LV, SK) | 3.8 | 4.3 | 3.4 | 4.3 | 4.3 | 3.8 | 3.4 | 3.4 |
| Cluster 2 (BG, RO, SI, HR, RU, UA)) | 3.5 | 4.1 | 2.8 | 4.2 | 4.3 | 3.6 | 2.9 | 2.8 |
| Cluster 3 | 3.6 | 4.0 | 2.4 | 4.3 | 4.3 | 2.8 | 2.0 | 2.2 |
| Cluster 4 | 3.0 | 3.7 | 2.1 | 4.0 | 4.0 | 3.0 | 2.0 | 2.1 |
| 2004-2006, mean | 3.4 | 4 | 2.7 | 4.2 | 4.2 | 3.2 | 2.5 | 2.4 |
| Cluster 1 (CZ, HU, PL, EO, LT, LV, SK) | 3.8 | 4.3 | 3.4 | 4.3 | 4.3 | 3.8 | 3.3 | 3.2 |
| Cluster 2 (BG, RO, SI, HR) | 3.5 | 4.0 | 2.8 | 4.2 | 4.3 | 3.5 | 2.6 | 2.5 |
| Cluster 3 (RU, UA) | 3.2 | 3.9 | 2.2 | 4.2 | 4.2 | 2.7 | 2.0 | 2.1 |
| Cluster 4 | 2.6 | 3.2 | 2.1 | 4.0 | 3.4 | 2.6 | 1.8 | 1.2 |
| 1999-2003, mean | 3.1 | 3.8 | 2.4 | 4.1 | 4 | 2.8 | 2.3 | 2.2 |
| Cluster 1 (CZ, HU, PL, EO, LT, LV, SK, SI, HR, BG) | 3.5 | 4.3 | 3.0 | 4.2 | 4.3 | 3.4 | 2.9 | 2.7 |
| Cluster 2 (RO) | 3.0 | 3.8 | 2.0 | 4.1 | 4.0 | 2.4 | 1.8 | 2.0 |
| Cluster 3 (RU, UA) | 2.2 | 2.6 | 1.7 | 4.0 | 3.1 | 2.3 | 1.3 | 1.0 |
| Cluster 4 | 1.5 | 3.0 | 1.4 | 3.3 | 2.1 | 1.5 | 1.3 | 1.0 |
| 1995-1998 | 2.7 | 3.6 | 2.2 | 3.8 | 3.5 | 2.4 | 2.0 | 1.9 |
| Cluster 1 (CZ, HU, PL, EO, LT, LV, SK, SI, HR) | 3.4 | 4.2 | 2.8 | 4.1 | 4.1 | 3.0 | 2.6 | 2.4 |
| Cluster 2 (RO, BG, RU, UA) | 2.6 | 3.4 | 2.0 | 3.8 | 3.7 | 2.3 | 1.6 | 1.7 |
| Cluster 3 | 1.1 | 2.5 | 1.1 | 2.7 | 1.5 | 1.2 | 1.0 | 1.0 |
| 1991-1994, mean | 1.6 | 2.6 | 1.6 | 3.4 | 2.7 | 1.7 | 1.3 | 1.5 |
| Cluster 1 (HU, PL, CZ, SK) | 2.4 | 3.4 | 2.6 | 4.1 | 3.8 | 2.6 | 1.8 | 2.3 |
| Cluster 2 (SI, LV, LT, EO, BG, HR) | 1.7 | 2.8 | 1.6 | 3.8 | 3.0 | 1.8 | 1.3 | 1.5 |
| Cluster 3 (RO, RU, UA) | 1.2 | 2.0 | 1.1 | 2.7 | 1.9 | 1.1 | 1.1 | 1.2 |

INSTITUTIONAL TRANSITION EU-CEE8

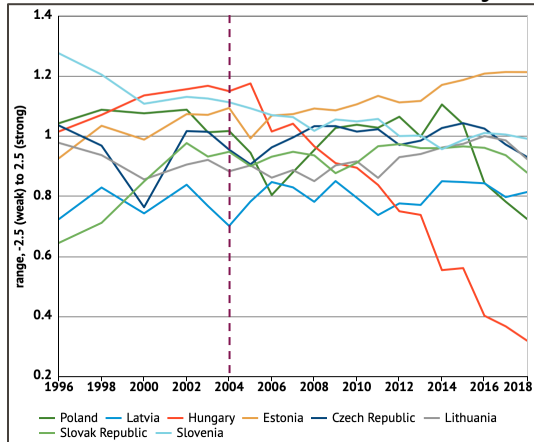
2004 EU Accession

World Bank Governance Indicators

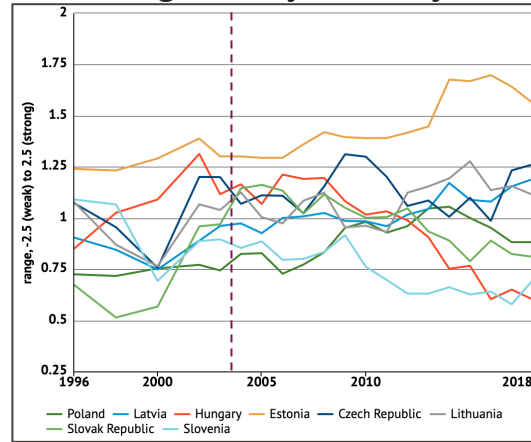


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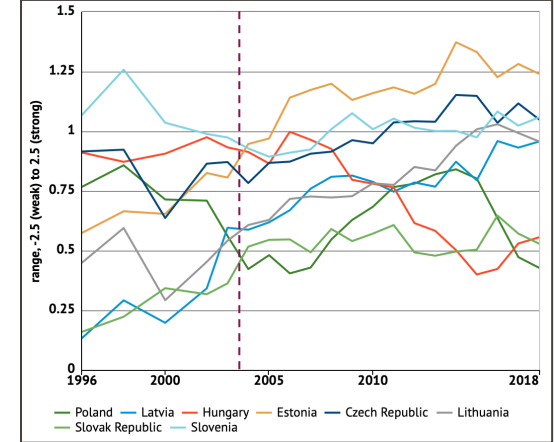
Voice and Accountability



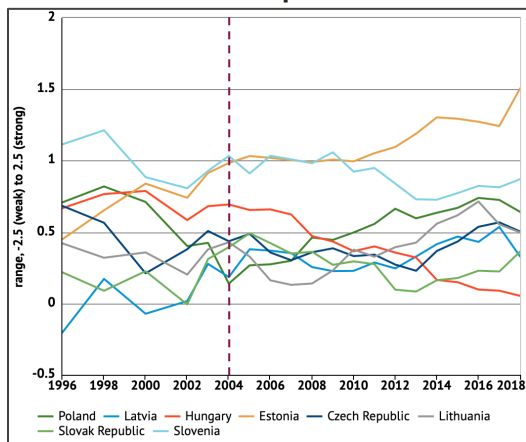
Regulatory Quality



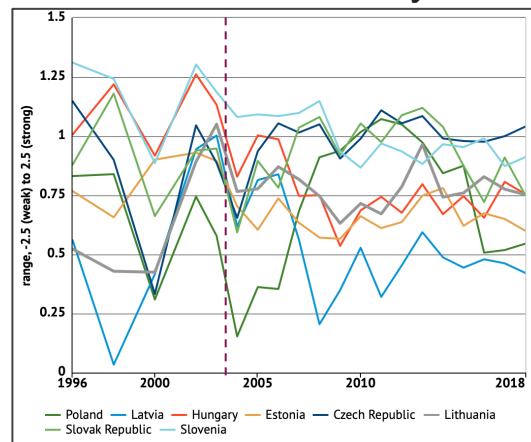
Rule of Law



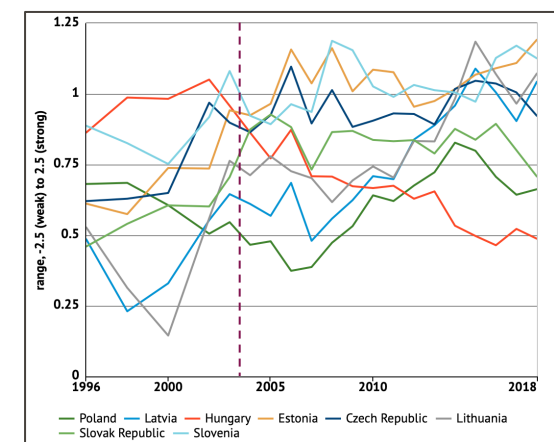
Corruption



Political Stability



Government Effectiveness



INSTITUTIONAL TRANSITION EU-CEE3

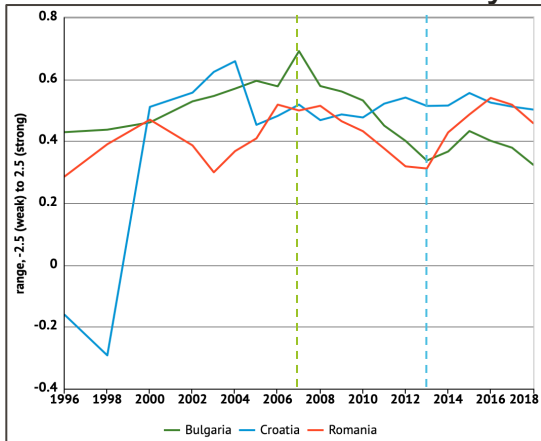
2007-13 EU Accession

World Bank Governance Indicators

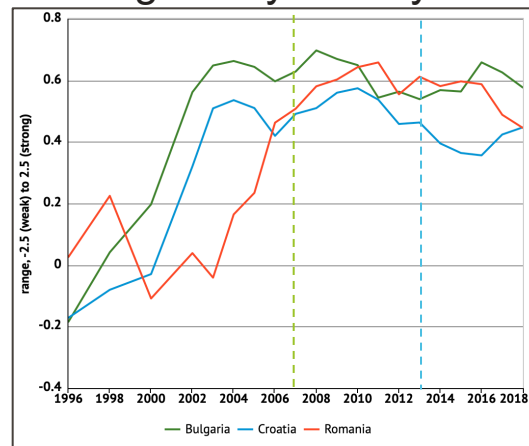


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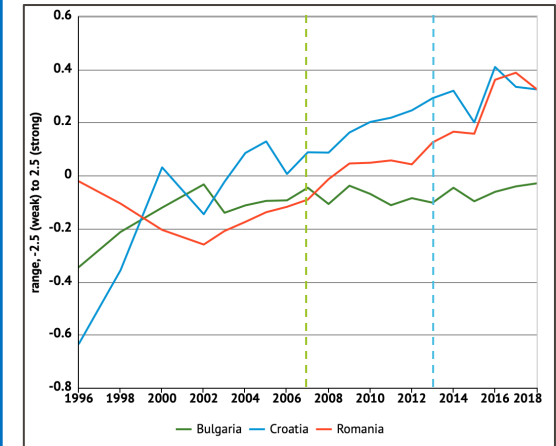
Voice and Accountability



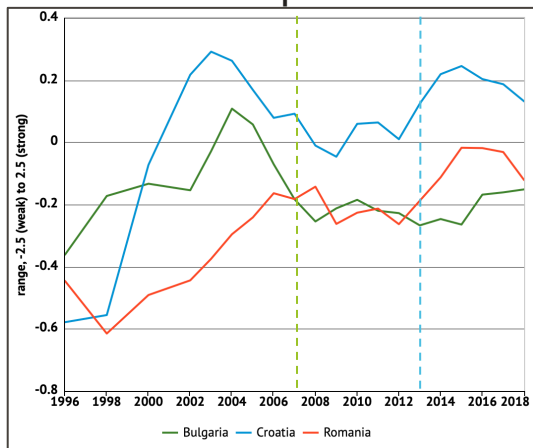
Regulatory Quality



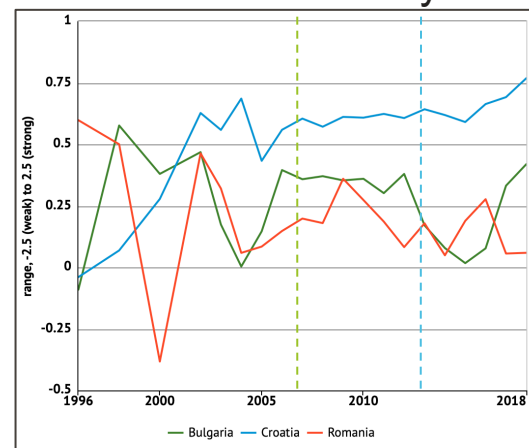
Rule of Law



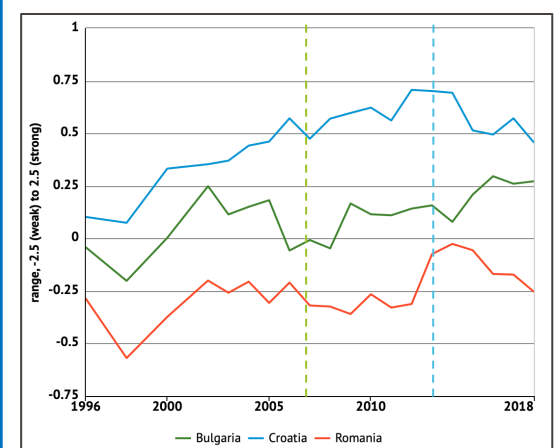
Corruption



Political Stability



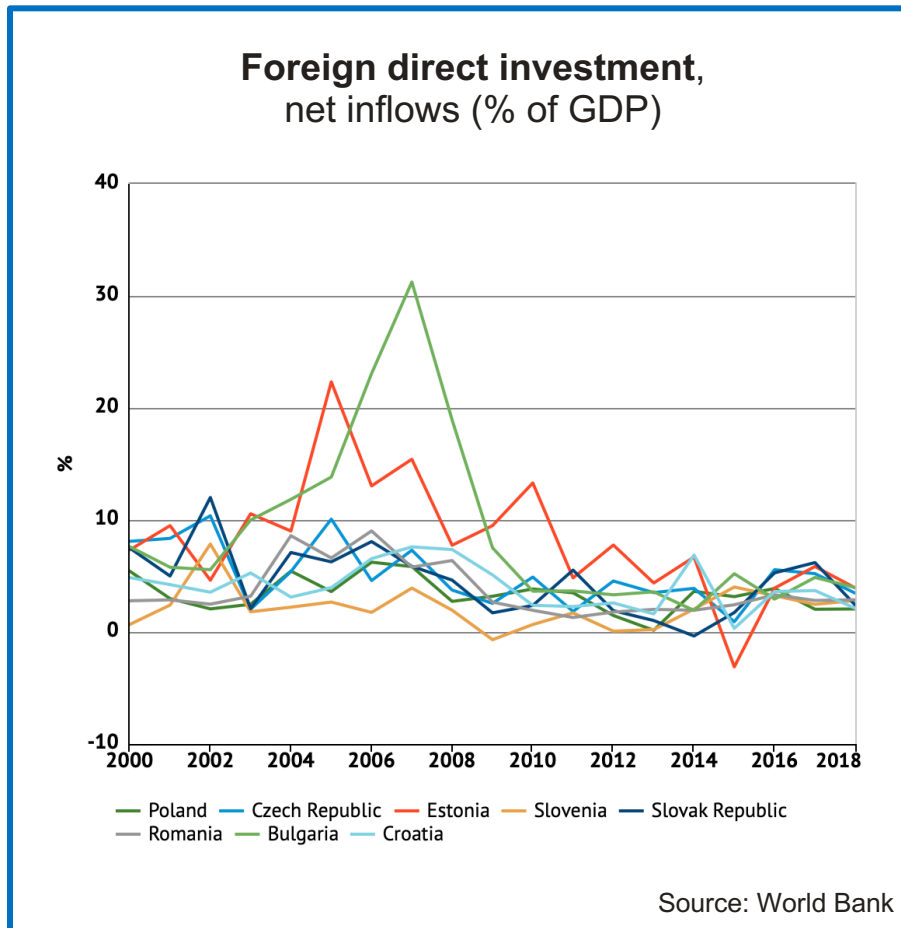
Government Effectiveness



VARIETIES OF CAPITALISM (1)



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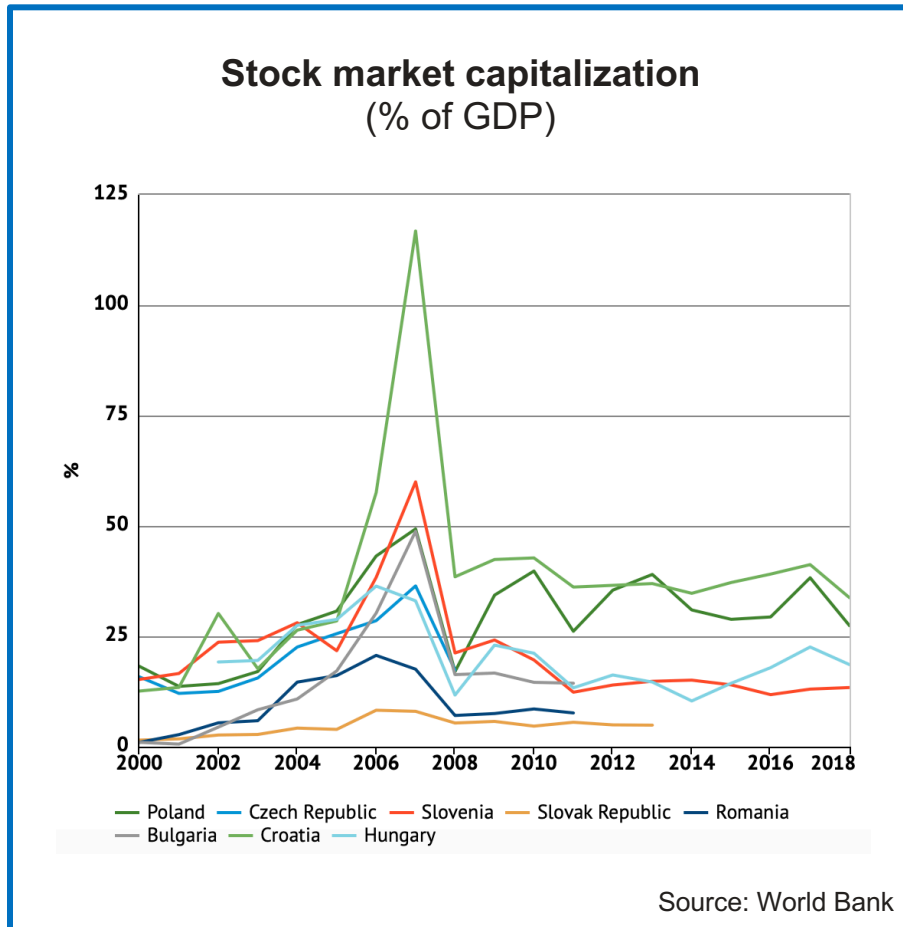


- Strong dependence from foreign direct investments (FDI)
- Increase of FDI net inflow till 2008-2010
- Lower net inflow in the last 2 years
- Still high reliance on FDI

VARIETIES OF CAPITALISM (2)



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- Higher stock market capitalization only in Poland and Croatia
- Temporary increase in 2007 (before the global financial crisis)
- Still high reliance in corporate finance on banking investments, debt capital and public funds instead of equity



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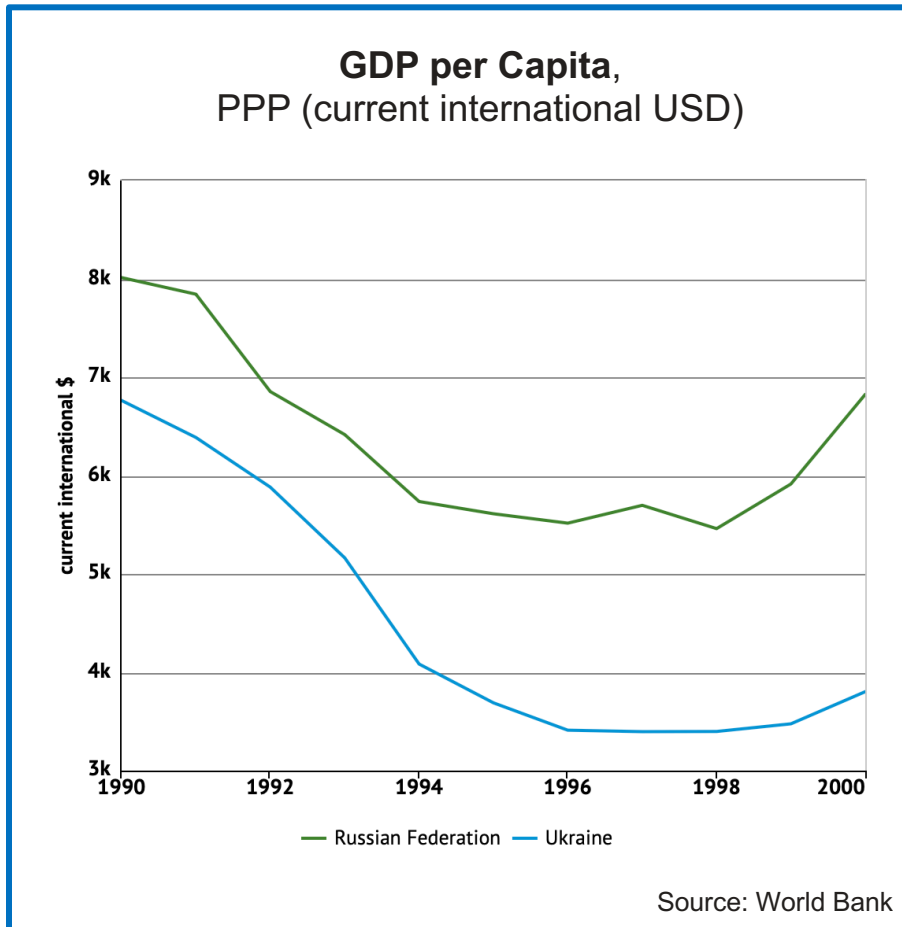
Transition - Patterns and Approaches: Russia and Ukraine

ECONOMIC TRANSITION (1)

Similarities with EU-CEE11



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Shock therapy (Washington Consensus)

- Liberalization
(trade and corporate finance)
- Privatization
(state owned enterprises)
- Deregulation
(markets, prices)

Effects

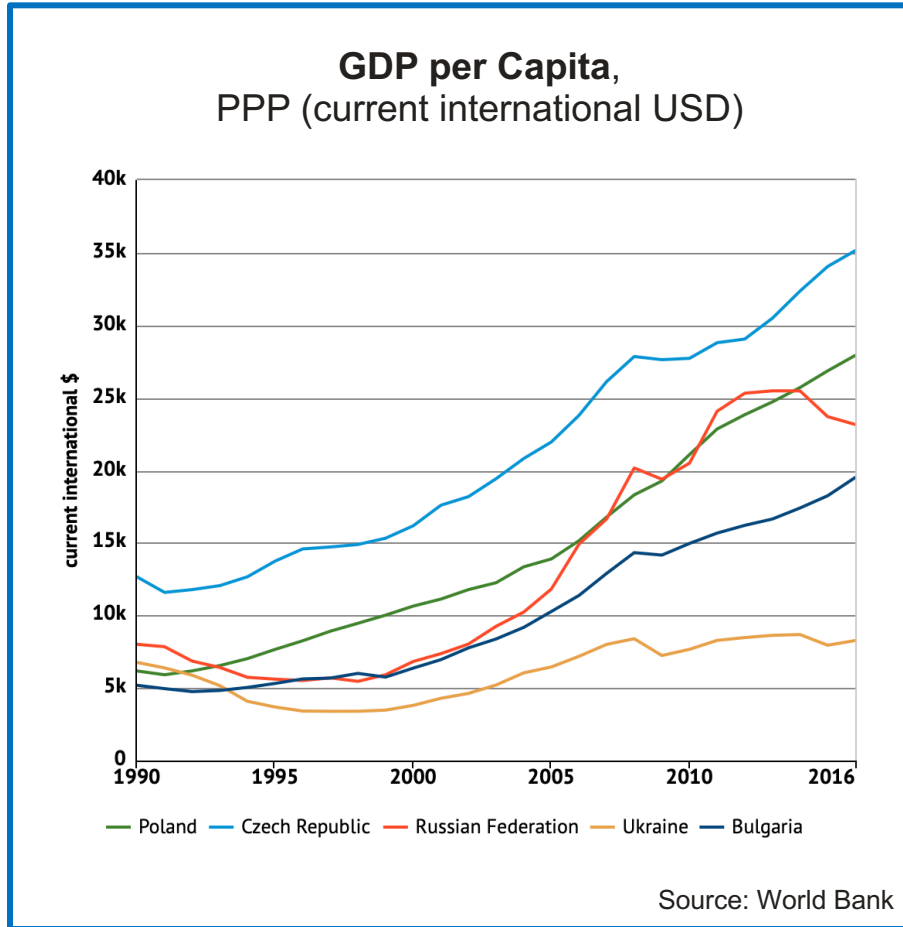
- Output decline
- High unemployment
- Inflation

ECONOMIC TRANSITION (2)

Dissimilarities with EU-CEE11



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From shock therapy to gradualism:

- Oligarchs ownership / slow privatization
- Inefficient banking system / pocket banks
- Reliance on raw material and natural resources
- Increasing disparities in income distribution
- Russia: strong institutional and political path dependence
- Ukraine: institutional and political instability

INSTITUTIONAL TRANSITION

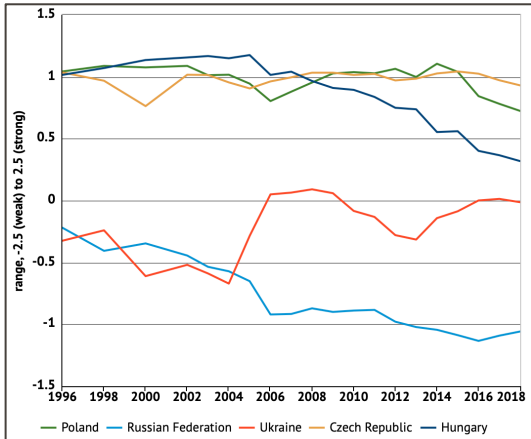
Poland, Russia, Ukraine

World Bank Governance Indicators

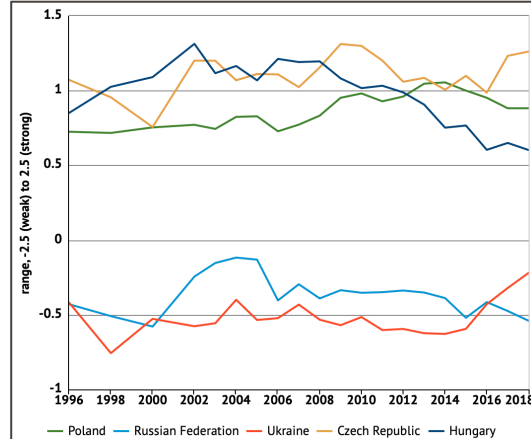


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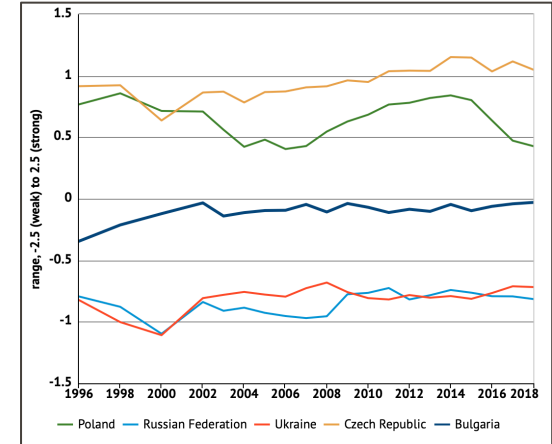
Voice and Accountability



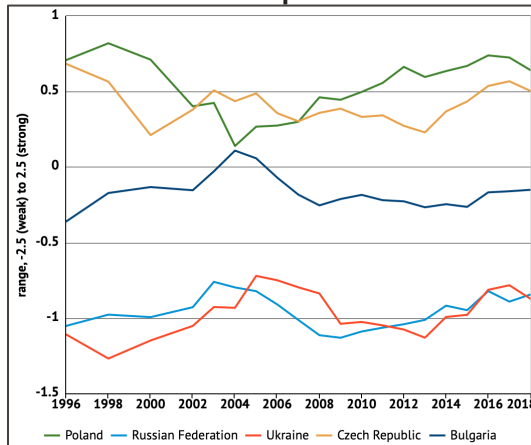
Regulatory Quality



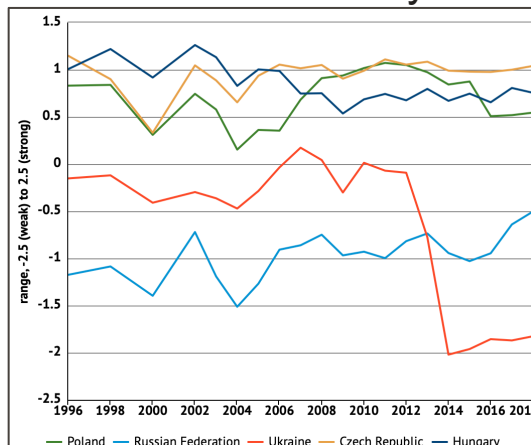
Rule of Law



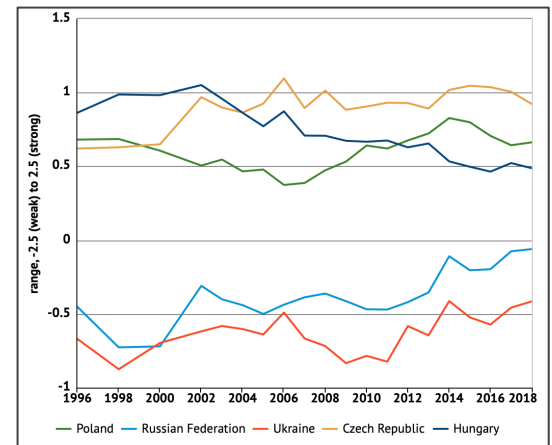
Corruption



Political Stability



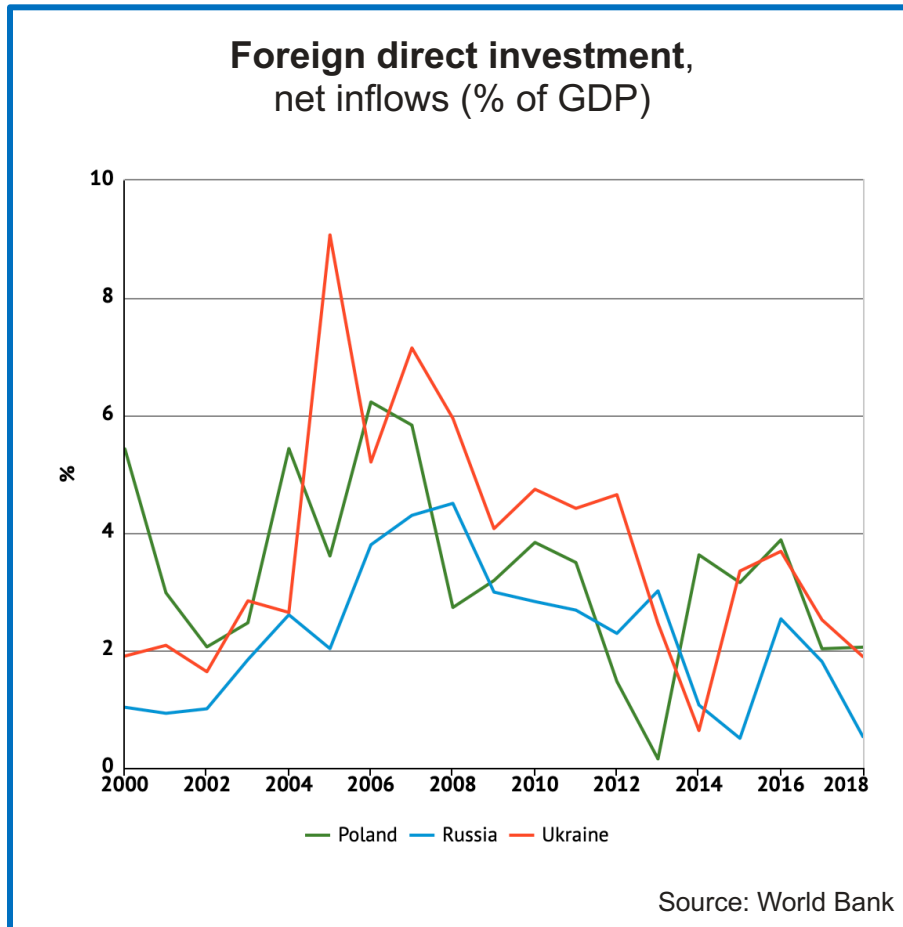
Government Effectiveness



VARIETIES OF CAPITALISM (1)



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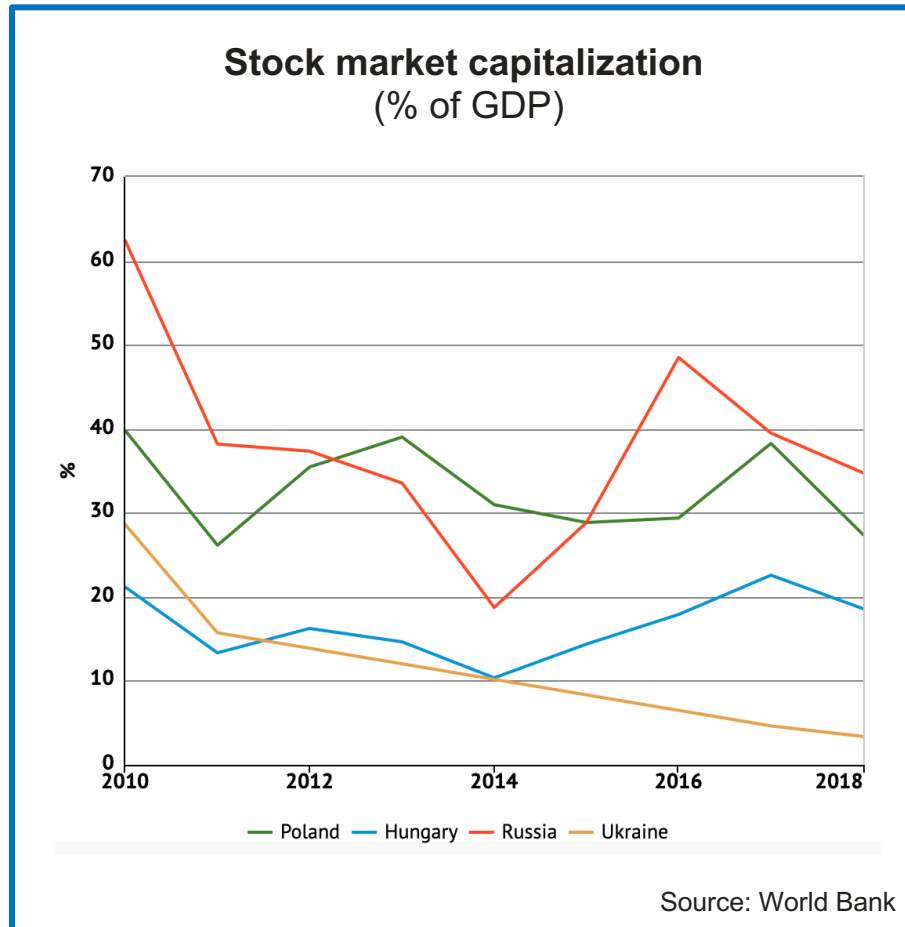
- Rapid decrease of foreign direct investments starting from 2006/2007
- Political issues and geopolitical tensions are main factors affecting FDI
- Strong dependence from FDI
- Similar trend also in Poland

VARIETIES OF CAPITALISM (2)

Stock Market Capitalization



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- Very low stock market capitalization in Russia and Ukraine
- Declining trend
- Still high reliance in corporate finance on banking investments, debt capital and public funds instead of equity



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04 Conclusions

CONCLUSIONS



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- Transition from planned to market economy was successful: all countries have become wealthier, with higher living standards.
- Market economies and related institutions are established.
- EU accession process at the early stage of transition was an important **reform anchor** for EU-CEE11 and is expected to have a positive impact on Ukraine.
- **Low/declining quality of institutions**, geopolitical tensions with Russia, **decrease in FDI inflow** and moderate to low capacities for investments are among the most important challenges.
- Economic growth model as **dependent market economy** (VoC) bears considerable risks for the future economic development.

CONCLUSIONS



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| | 2018 | 2019 | 2020 | 2021 |
|-----------------------|------|------|------|------|
| Bulgaria | 3,1 | 3,5 | 2,7 | 2,4 |
| Czech Republic | 3 | 2,5 | 2,4 | 2,6 |
| Estonia | 4,8 | 3,3 | 2,6 | 2,4 |
| Croatia | 2,6 | 2,9 | 2,7 | 2,7 |
| Hungary | 5,1 | 4,3 | 3,1 | 2,6 |
| Lithuania | 3,6 | 3,6 | 2,4 | 2,6 |
| Latvia | 4,6 | 2,8 | 2,2 | 2,4 |
| Poland | 5,1 | 4,4 | 3,5 | 3,3 |
| Romania | 4 | 4,2 | 3,3 | 3 |
| Slovenia | 4,1 | 2,9 | 2,8 | 2,8 |
| Slovakia | 4 | 2,3 | 2,2 | 2,6 |
| | | | | |
| Russia | 2,3 | 1,1 | 1,7 | 1,9 |
| Ukraine | 3,3 | 3,3 | 3,1 | 3,3 |



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Thank you for your attention!

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