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

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Transition: Patterns and Approaches

**Strategies:**
Shock Therapy vs. Gradualism

Augmented Washington Consensus (2000)

<table>
<thead>
<tr>
<th>The Original Washington Consensus</th>
<th>The Augmented Washington Consensus</th>
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<tr>
<td><strong>The original list plus:</strong></td>
<td></td>
</tr>
<tr>
<td>• Fiscal discipline</td>
<td>• Legal/ political reform</td>
</tr>
<tr>
<td>• Reorientation of public expenditures</td>
<td>• Regulatory institutions</td>
</tr>
<tr>
<td>• Tax reform</td>
<td>• Anti-corruption</td>
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<tr>
<td>• Financial liberalization</td>
<td>• Labor market flexibility</td>
</tr>
<tr>
<td>• Unified and competitive exchange rates</td>
<td>• WTO agreements</td>
</tr>
<tr>
<td>• Trade liberalization</td>
<td>• Financial codes and standards</td>
</tr>
<tr>
<td>• Openness to DFI</td>
<td>• „Prudent“ capital-account opening</td>
</tr>
<tr>
<td>• Privatization</td>
<td>• Non-intermediate exchange rates regimes</td>
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<tr>
<td>• Deregulation</td>
<td>• Social safety nets</td>
</tr>
<tr>
<td>• Secure property rights</td>
<td>• Poverty reduction</td>
</tr>
</tbody>
</table>

Source: Rodrik (2002)
PATTERNS AND APPROACHES (2)

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)
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
02
Transition - Patterns and Approaches: EU-CEE11
**ECONOMIC TRANSITION (1)**

**GDP per Capita, PPP**
(current international USD)

- **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

Source: World Bank
## ECONOMIC TRANSITION (2)

### Timeline Accession to the EU

<table>
<thead>
<tr>
<th>Country</th>
<th>EU membership application</th>
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<th>Opening of accession negotiations</th>
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Source: Gruševaja/Pusch (2015)
## ECONOMIC TRANSITION (3)

### Progress Towards Market Economy

(EBRD transition indicators in cluster analysis)

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<th>Year</th>
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<th>Ent. Restr.</th>
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</table>

Source: Gruševaja/Pusch (2015)
INSTITUTIONAL TRANSITION EU-CEE8
2004 EU Accession
World Bank Governance Indicators

- Voice and Accountability
- Regulatory Quality
- Rule of Law
- Corruption
- Political Stability
- Government Effectiveness

Graphs showing time series data for various countries, including:
- Poland
- Latvia
- Hungary
- Estonia
- Czech Republic
- Lithuania
- Slovak Republic
- Slovenia

Indicators include:
- Corruption
- Voice and Accountability
- Rule of Law
- Political Stability
- Government Effectiveness
INSTITUTIONAL TRANSITION EU-CEE3
2007-13 EU Accession
World Bank Governance Indicators

Voice and Accountability

Regulatory Quality

Rule of Law

Corruption

Political Stability

Government Effectiveness
VARIETIES OF CAPITALISM (1)

- 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

Source: World Bank
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

Source: World Bank
03
Transition - Patterns and Approaches: Russia and Ukraine
ECONOMIC TRANSITION (1)
Similarities with EU-CEE11

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

Effects
- Output decline
- High unemployment
- Inflation

Source: World Bank
ECONOMIC TRANSITION (2)
Dissimilarities with EU-CEE11

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

GDP per Capita, PPP (current international USD)

Source: World Bank
INSTITUTIONAL TRANSITION
Poland, Russia, Ukraine
World Bank Governance Indicators

Voice and Accountability

Regulatory Quality

Rule of Law

Corruption

Political Stability

Government Effectiveness
VARIETIES OF CAPITALISM (1)

- 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

Source: World Bank
VARIETIES OF CAPITALISM (2)
Stock Market Capitalization

- 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

Source: World Bank
04
Conclusions
CONCLUSIONS

- Transition from planned to market economy was successful: all countries have became 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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<tr>
<th>Country</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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Thank you for your attention!

Prof. Dr. Marina Gruševaja
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References (1)


References (2)


