COMPARATIVE TRANSITION STUDIES: PAST, PRESENT, FUTURE[1]

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ABSTRACT: This paper is an attempt to present the broad picture of three decades of studying systemic change of Central and Eastern Europe in a comparative perspective. Relying on broader economic theory and development economics, in particular the political economy of policy reforms, some preliminary conclusions are drawn which might be relevant from the angle of east Asian countries. Finally some general insights are offered to substantiate the claim on why the comparative approach in general and transition studies in particular will remain relevant both for theory and policy for the decades to come.

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Nearly three decades have elapsed since the erosion of the Soviet Empire and the decay of its command economy has come to the fore with the round table talks in Poland culminating in the first peaceful handover of power by any Communist party as an outcome in April 1989. The process triggered an unexpected domino effect leading to the downfall of the externally imposed dictatorships in the satellite countries in the same year, but also with a spillover to the internal empire, climaxing in the dissolution of the Soviet Union by the Novo-Ogarevo agreements signed on 22 December 1991 by the three major constituent Slavic Republics of Russia, Belarus and Ukraine.

Ever since that period a burgeoning and controversial analytical literature emerged covering both country experiences and functional themes/Turley-Hare, eds, 2013; Kolodko,ed, 2014/. Despite the richness of the source material and the ongoing production of output in academic journals, some of the fundamental issues remain open.

First, large-scale systemic transformation covering all subfields of systemic totality, i.e politics, economics and social structure, is not a unique

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[1] Chapter for the book '*Conflict and Integration as Conditions and Processes in Transition Societies in Eastern Europe and East Asia',* forthcoming by Seoul National University Press, 2018. Useful comments of Byung-Yeon Kim and Hakjae Kim are appreciated, with the usual caveats.

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phenomenon, but something that has been experienced and studied in various periods in history and various country groups/most extensively in Kollmorgen et al, eds, 2018/. These broad overviews highlight the historic uniqueness of post-communist change in all the three subsystems. The ex post analyses underscore a factor poorly understood by contemporaries/including the present author/, namely that the reversal of the legacies of Communist system is much more difficult, time consuming and also costly in social and economic terms, than any of the post-war reconstructions or any of the post-crisis financial stabilizations. Knowledge of both were available at the onset of transitions, however these insights were partial, fragmentary and not integrated in a single analytical framework. Attempts to apply the contemporary IMF wisdom, the so-called Washington Consensus have yielded limited results, not least owing to the cognitive insights/Winiecki,1993/ and also to the partial applications by policies/Marangos,2007/, exacerbated by features of state capture and marked limitations on state capacity, experienced primarily but not exclusively in the post-Soviet and post-Yugoslav spaces.

Let us note: at the time of launching transformation the general expectation no more and no less than a replication of the post-war *Wirtschaftswunder,* i.e of fast reconstruction and steep recovery of living standards not only to the previously achieved levels, but way beyond them, leading to sustaining welfare and its trickle down to all major segments of society, including the weakest. True, rebuilding of war-torn economies proved fast both following the First World War – by the '*roaring twenties'* – and even more so by the post Second World war decades. In the latter expansion of the various forms of universal welfare state has contributed to the expansion of mass consumption and also to the steady improvement of all human development indicators. However the 'golden years' of 1950-1973 were built on a series of unique factors, well covered by the literature on economic history/Berend, T.I., 2006/. Namely the combination of favorable global conditions, the regulated international financial system coupled with very incremental trade liberalization, de-militarization, policies of full employment and the favorable/Keynesian/effect of the growth of mass consumption on both output and employment together constituted a unique and non-replicable constellation of favorable conditions, not witnessed ever before or after. What sound by today a platitude for the economic

historian was in fact a cold shower to east European societies expecting in vain the plain repetition of the postwar improvement. Let us add: nowhere, not even in the homeland of the economic miracle, Germany could one observe the carbon copy of postwar recovery in the 1990-2015 period, especially if we focus on the new provinces of the former east German communist state. In the latter case real convergence has come by and large to a halt in 1996-97, and the outflow of population since then far exceeded the flight of people in 1949-61 period, when the one party dictatorship seemed to be a transitory arrangement/with re-unification explicitly figured in the East German constitution and the country's anthem alike/. Unemployment rate is typically twice as big in the new as in the old *Laendern*, and very few top players are found either among research universities or in the Bundesliga.

First order explanations: policy blunders

If we are to explain the lack of progress and lack of catching up along the lines postulated by neoclassical growth theory and neo-functionalist integration theories, the first and most popular set of explanations are references to policy blunders. For simplicity's sake our rod of measure is not a set of new speculations about the 'new normal' of the post-crisis period, but we stick to the practices of the 1992-2007 period of Great Moderation, when an eclectic set of policies ensured high growth and reasonable financial equilibrium – both external and internal – in the OECD area. Let us note, that this period seemed particularly favorable for countries at lower level of development for their catching up. External markets were opening up, financial markets were accessible, financial deepening allowed for countries to tap savings of others, and not least low or sometimes even negative real rates of interest, stemming from the Greenspan policies of ultra-lax monetary policies and non-intervention/even de-regulation[3]/ in financial markets together favored the financially less solid players.

In the post-communist region the slap in the face was threefold. First: nobody expected – although it could have been – *that the collapse of Communism will trigger a deep recession first before recovery may start*/Csaba,1993;

[3] The most visible sign of this was the abolition of the Glass-Steagall Act in 1999 by the Clinton Administration allowing for a surge in nontraditional forms of finance and investment.

Kornai,1993; Winiecki, 2002/. This had to do with features inherent in post-communist change, namely that 'no gain without pain' implied that good polices were bound to trigger bad results first/as any surgery usually does/. The good policies included the closure of inefficient firms, opening up markets, introducing market clearing prices and bankruptcy procedures, introducing proper accounting both at the corporate and national levels, balancing the budget and making the central bank independent. Re-orienting foreign trade from administratively over-protected eastern/Comecon markets to the global economy was bound to be painful and contractionary, as known from developing country experiences with trade liberalization. While most contemporary observers considered these steps to be blunders, they were in reality not, as these constituted the base for lasting recovery.

The second slap in the face came from the fact, that *recovery of output and living standards/not however of employment/ started late* – in 4-5 years in central Europe and the Baltics and more than a decade after the onset of transition in the rest of the countries. Pre-crisis levels were attained in 1999 in central Europe and the Baltics and as late as 2004 in the rest/with some exceptions, as Moldova, Kosovo, Macedonia, Georgia, Armenia faring even worse/. Fifteen years is a long time, especially if one compares to the post WW-I and post-WW II experience of 4-5 years for the same. In more theoretical lenses: one may observe the move from one type of disequilibrium turned into another, rather than the abolition of disequilibria as the theory of stabilization and the ensuing 'elimination of the monetary overhang' would have implied.

The third slap in the face came with the evening out of growth rates in the post-2007 period. Much of the transition economies no longer grow faster than the EU core countries, although their level of development – and neoclassical growth theory – would allow for a much faster catch-up. It is often claimed that the EU is not a sufficiently dynamic external environment, which is bad news along the lines of new economic geography. Furthermore, it is often claimed that EU arrangements are not sufficiently growth promoting and are thus in need of revamping/a claim which falls outside the scope of the current paper/.

In the following we shall try to sum up the most important explanations for why the miracle has not materialized despite intensive interchange with western

advisors, academics and despite institutional integration in both the global – WTO,IMF – and regional- EU – framework.

The standard policy package – by now – is clearly *the SLIP agenda.* The English pun is a shorthand for the package of stabilization, liberalization, institution building and privatization. No serious analyst questions the validity of this agenda any longer, not even the sequence as figured in the order of letters/if we think normatively/, although it did not used to be the case in the contemporary literature.

In terms of *stabilization* we have to refer to the notoriously weak position of governments. This is the fundamental explanation for the delays in stabilization in all cases except for Croatia, Czecho-Slovakia, Slovenia and Estonia. Delayed stabilization is shown to be the immediate case for slow and delayed recovery of output/Roaff et al, 2014/.

In terms of *liberalization* the case is more complex. Empirical and comparative studies/Winters,L.A.ed.,1995/ have shown, that as in any pluralist society, interest groups are diverse and adopt different policy agendas. Therefore trade liberalization, and even more the broader factor market liberalization and creation of contestable markets is much more burdensome, in both theory and policy terms, than the textbook view would have it. In the transition countries two types of experience prevailed. In those acceding to the EU unilateral liberalization monitored by an international agency was implemented, for the benefit of the local consumers, i.e of the vast majority. By contrast, in the non-EU countries and most particularly in the NIS and on the Balkans, old-fashioned protectionism based on pork-barrel policies survived. As we have argued earlier/Csaba, 2007/ trade and investment liberalization had been a crucial factor explaining the success of transformation both in terms of growth and in terms of integration in the global value chains.

***Institution building* has proven to be more complex than originally conceived. This is due, not least, owing to the inherent limitations of transplanting well functioning regulations even within a single transnational regulatory field/Bruszt and McDermott,eds, 2014/. Transplants do not flourish in most of the cases. Thus even if the EU mandated and controlled the adoption of a series of macro-regulatory arrangements, implementation on the ground remained**

perfunctory, formal and often openly negligent. Therefore basing assessments on formal criteria, such as the EBRD transition indicators, may prove – and has proven – entirely misleading if compared to experiences on the ground.

Finally *privatization* was bound to be contentious, as it is the case in any economy and society. Changing the balance of power, changing the beneficiaries, changing the dependent and independent variables is a prime issue of political competition and power structure in any country. Therefore, while it tended to be seen as axiomatic, we should in reality not be surprised to see the process reversed in the current decade/Szanyi, 2016; Voszka,2015/.

Privatization tended to be *even more controversial than in western societies,* because it covered 50 to 80 per cent of national wealth in a short period of 4-5 years, as opposed to 10-12 years and 3-4pc of national wealth in the United Kingdom under the Thatcher years. Furthermore in central Europe the process has created a predominantly foreign ownership in many key sectors, as banking and energy and transport, where strategic decisions are often made abroad. This creates a potential conflict of interest situation for activist local governments.

In the alternative path taken by the New Independent States governmental/political leveraging has become pre-eminent/Kosals, 2007; Yakovlev, 2006/. This implied that many business tycoons often play a formative role in power plays, and in converse, the government is frequently the real arbitrator in economic beauty contests. Creating or preserving monopoly positions, as eg for *Sberbank* and the infamous *Aeroflot* count just as tip of the iceberg/in both cases retaining old monopoly positions from the Soviet period well into the current decade, in exchange for subservient attitudes as policy instruments for the Russian state domestically and abroad alike/.

Second order explanations: cognitive constraints

It would be ahistoric to assess 1989-95 projects and visions on the ground of current knowledge of what is often termed the "new normal"/Blanchard et al, eds, 2016/. Transition planning – and implementation – can only be judged against contemporary standards, also in terms of academic knowledge.

We have extensive volumes by now/Wagener,ed.,1998; Kaase et al, eds, 2002/ documenting: economic knowledge in the east European countries tended to be highly specific, tailored to the needs of the command economy. Reform thinking had largely been constrained by the implicit and explicit assumption of an ever-lasting Soviet Empire with the ensuring dominant role of the Communist Party and Marxian orthodoxy. Nobody, including the present author, envisioned that Soviets would leave without a single shot of a rifle, and Communist rulers would give way via negotiated revolutions, in a predominantly peaceful and top-down, organized manner handing over the commanding highs to their adversaries.

This state explains why most of the local output, even the bulk of the radical reformist thinking, revolved around improving, rather than replacing, the basic structures of a command economy. Adding some market to the plan, allowing for mathematically constructed pricing, or even market clearing prices in some sector, liberalizing the small business sector was the most to be attained. Even if an when measures transcending the traditional boundaries, as establishing a two tier banking system in Hungary in 1987,with independent commercial banks run on the profit principle, or introducing the stock exchange in 1988, have all been made under tight Party supervision. As it is common knowledge by now, largely owing to the Chinese experience, none of these measures leads automatically to weakening of Communist controls. On the contrary, letting the steam out may stabilize an aging system which is strained like an overheated pot from the steam that was generated in it.

Therefore an interesting dualism has emerged. Some people, mostly of the established academic and political elite, banked on radicalizing their existing arrangement and knowledge and were involved in building on the status quo, both in political and economic terms. They were the ‘gradualists’ mostly of social democratic leanings or Christian-Socialist references. By contrast, those who wanted a radical discontinuation of the past, mostly of libertarian or neoconservative persuasions, tended to bank on importing first class, first-hand knowledge, primarily from top US universities and the Washington Twins. They became the “shock therapists” who favored to conduct ‘as many good policies as possible at the same instant’.

It is quite correct to remind the later readers/Haiduk, K., 2016, p.250/ that there is a substantial distance between even the best of economic theories, which are abstract, and the concrete policy settings of any country, but particularly any post-Communist nation as of 1990 or 1995. By the same token, as the Belorussian economist Kiryl Haiduk elaborates lucidly, much of the substance in terms of substance and even more in terms of implementation had to be home grown rather than simply adopted. Showing the Russian example he illustrates this often neglected point in great detail.

What is remarkable about this insight is that it explains a large degree of otherwise quite implausible *naiveté*, utopianism and obvious day-dreaming, that is extreme forms of social constructivism on the side of those, who otherwise relied on Hayek and Friedman, and considered themselves absolutely as 'practical men', as Keynes would call them mockingly, like Václáv Klaus, the later Czech President, or Anatoly Chubais, still running the Russian electricity monopoly.

It would be cheap to ridicule many of the contemporary ideas about fast and painless privatization, about instant recovery and fast, seamless integration in the European and global institutional structures. What we find important is to remind the reader: the western profession also had little useful to offer in the first 15 years of transition. All in all, it may be legitimate to claim tha*t lack of human capital* may count, even with the benefit of hindsight, among the most relevant and binding constraints on successful transition.[4]

This had to do with several, interrelated factors. Number one is the rule of neoclassical orthodoxy at the top universities, which had become uncontested by the early 1990s. Mainstream economics is known to disregard history and institutions, two factors which play an important role in policy-making. By contrast, in contemporary macroeconomics the Lucas school prevailed, where modelling is everything, where coherence rules, mathematics is the theory, and real world issues are second rank or irrelevant at all, as a recent overview of the field formulates/de Vroey, 2016, pp 143-148/. The competing view could have been old school institutionalism, which is concerned with the centrality of

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[4] This issue has been elaborated in great detail in the excellent chapter by two eminent Israeli economists/Keren, M – Ofer, G. 207/, highlighting the common and different features across developing and post-socialist economies.

institutions and with markets as social constructions in a variety of ways/Chavance, 2009/. However this school was not very influential in academic terms, whereas it tended to be politically instrumentalized by those who, at the end of the day, opposed anything more than cosmetic incremental changes of the *status quo,* as it happened in Belarus, Ukraine or Kazakhstan. Thus, institutionalism was often portrayed as a thinly veiled form of surviving Marxism, a theoretical non-starter.

Second, adopting the mainstream view of overspecializing and compartmentalizing economic analyses and disapproving holistic approaches in particular. For this very reason, most if not all issues of transition tended to be treated separately, in isolation from one another. We had relatively insightful studies of arresting inflation, of balancing the budget, or of privatization in terms of industrial organization. But that was a purely technocratic approach/Bornstein, 1992/ excluding the discussion of the most contested issues of redistribution and power, laying at the heart of the contextual interpretation. Little wonder, that in real world situations political constraints acted as a feedback, constraining the imagination and also the room for action for those designing the new economic system. Little wonder that the broad coalitions which started transition and especially ones that launched privatization were soon to disintegrate and lost power, or – as in Russia – gave up substantive elements of their policies in order to stay in power.

Third, there was neither desire nor ability to integrate – especially not in a policy-relevant applicable fashion – scattered, though by and large available professional knowledge. Theorists, especially economists, have had a particularly low opinion about holistic approaches as against excellence in petty detail. Policy-makers mostly had no formal training, and even those who had, have been involved in fire-fighting, in crisis management. Last but not least, 'normal politics' with its heavy dose of infotainment elements and pork-barrel politics, have been gradually taking over the new democracies. This new set of co-ordinates does not favor grand designs or 'rule by persuasion', based on substantive and professional argumentation. Former Finance Minister of Hungary, Lajos Bokros has been turned into a true enemy of the people for decades for his outspoken advocacy of the long needed austerity package of March, 1995, despite his mere 13 months in office. The same holds for Yegor

Gaidar, acting Premier of Russia, or Leszek Balcerowicz, architect of the 1990-92 shock therapy in Poland.

Third order explanations: path dependency and path creation

The farther we get from transition as a subject of immediate policy interest, and the more we adopt the long view, the more philosophical the explanation for the lack of success in most and the limited success in the fewer cases is bound to become. Interestingly, both in the policy and theory, and similarly both in the economic and historical literature two opposing narratives emerged. One is the 'policy is everything' view, and its alternative is the 'institutions are everything' discourse.

The first narrative is cultivated by policy entrepreneurs, by those who have been involved in the decision-making process and also by those who work in international financial institutions, both governmental and private. Also those analysts trained in neoclassical tradition and following mainstream views in theory tend to associate themselves with this line of thought.

It would be hard to disagree with this position, insofar as we adopt a pragmatist view. In all countries, from japan to Italy, policy-making has played a formative role in shaping outcomes. Likewise in highly successful cases, from Singapore to Switzerland, various forms of governmental action – including restraint or lack of corruption – have been formative in bringing about the outcomes. In fact, no theorist has ever seriously advocated the proverbial hands off policies. When in government, economic liberals like Edward Lazear, Martin Feldstein or Gregory Mankiw have never suggested that their respective government should stay idle. Indeed, de-regulation as well as regulation, market protection as well as opening up are all activist forms of governmental presence in the allegedly self-regulating economy.

As shown above, the SLIP agenda, as well as EU accession, let alone war and peace- as in the New Independent States or in the successor states of Yugoslavia – policies in general and policies on economic matters have been shaping the outcomes to a large extent, a point nobody would dispute. Thus, indeed, policies matter. In managing the crisis of 2007-2009, or in adjusting to the fundamental innovations of the 2014 Fiscal and Banking Union of the EU policies are important.

As a consequence, these policies, following value judgements and ideologies, externally set objectives other than mere survival, have been capable of moving some countries out of their historically determined levels of development and *modus operandi* in broad terms. South Korea is a case in point, and so is Israel, Hong Kong. From among the transition economies, Estonia used to be the periphery of the Russian and Soviet Empires, currently Estonia registered 17 574 USD/purchasing power parity, 2011 international dollars/ in per capita GDP at market prices according to the World Bank, while that of Russia was only 8 748, broadly the half in the same metric.[5] This is what we call in economic theory and history *path creation:* moving out of what seems to have been predetermined by history, geography and fate.

By contrast, in most of the cases, which cover less successful countries, which predominate both globally and among the transition countries, a reverse reasoning may be due. Namely that history matters and geography matters. If one is to evaluate the lackluster performance of the central Asian and Caucasian countries, it would be hard to deny the important role of adverse geographical location. Being land-locked and situated at great distances from the major trading routes certainly influences what, even under the best of circumstances, any policy and policy-maker may attain. Georgia, for one, has embarked on ambitious reforms during the 2000s. However, owing to a military conflict with Russia in 2008 and the ongoing subversion of formal state structures by informal structures and various discontent groups, these measures could yield only very limited results.

But it is not only and not even primarily about geographical location. Technically speaking Singapore is in the middle of nowhere, while Sub-Saharan Africa enjoys long and warm seashores, which British and Dutch analysts tend to associate with prosperity and thriving finances. Economic location thus, it seems, is not primarily a geographic category.

Therefore when we may talk about *path dependence* we may rather think of traditions and other informal institutions which evolve in the long run and tend to change only very slowly over time. Many observers have noted that membership in the Hanseatic League may have contributed customs, laws and

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[5] Updated on 17 Oct, 2017, www.worldbank.org/indicators/NY.GDP.PCAP.CD last accessed on: 28 Oct.,2017.

traditions that helped the Baltics over mainland Russia. Likewise centuries old democratic traditions in Poland have counter-acted centralizing tendencies both under Communism and in the post-2015 period of the illiberal turn. The 19-20th century tradition of running a bank-based financial system could not be modified by the most radical projects of capital market development in any of the transition countries, perhaps owing to the long term path dependence.

Historians, ever since Frenand Braudel/1969/1980/, tend to stress: path dependence and path creation always co-exist, the real question is their actual mix. Economists, especially in the tradition of Douglass North/2005/, but also following the narrative of Acemoglu and Robinson/2012/ tend to place more emphasis on the long term influence of inherited institutions, colonial past and the heritage left by the Spanish versus the British core states. This second line of thought, supported by the still living institutionalist tradition, is more accommodating if the replication of old mistakes, or the reproduction of historic patterns is being observed, as in most of the less successful cases.

Given that philosophical differences can – and should – not be settled via recourse to a limited number of cases, with the inevitable coincidences in each, we may only observe, that transition theory has re-invented and re-produced those broader disagreements, which reign in both global economics and in global historiography. What we may add as a participant observer is that individual cases may and should not be assessed with reference to theories that apply to two or three levels higher in terms of abstraction than any concrete country case may illustrate. The experience of the split countries or areas which used to constitute a single unity, as former parts of the Ottoman Empire from Iraq to Israel may warn against too fast over-generalizations. Still, it would be hard to deny that 'history matters' if one thinks of any of the concrete cases. Take Germany: the horrific experience with Nazism did prompt a fundamental rethinking and reorientation in the western part, as an item of the historic turn taken by Konrad Adenauer. Still, with the east of the country left out of these processes the new *Laendern* continue to be different even three decades after re-unification, despite cultural, political and economic integration and a change of a generation. Three generations missed out *Vergangenheitsbewaeltigung,* or facing the past in sincere and critical terms, which has been formative of the new post-war West German identity, making room for co-existence of national

and European identities. By contrast in the East xenophobia is still normal, though hardly any migrants or Muslim people can be seen on the streets of East Germany. Still, radical left and right wing parties, AfD and Linke command about three times as many votes as in the old Germany during the September 2017 elections to the federal legislation.

Some lessons for east Asia

Given that our level of abstraction is intentionally much higher – owing to our subject matter – to some of the other papers in this conference, the suggestions we may formulate must be quite modest, in line with the broader insights just presented above.

1. **Re-unifying split countries and formerly single regions is much taller an order than the theory of economic integration would have it. Not only do we have few cases of real convergence materializing, but we also see sustaining differences in what looks like unitary states with longish existence. In the case of Spain/Costa-i-Font, 2014/ regional differences have survived various periods of formal centralization, and subnational autonomy/identity shows no sign of subsiding. To a smaller degree the October 2017 referenda on more autonomy for Lombardy and Veneto express similar trends in Italy. The split of the Belgian state is a process which is observable for two decades and the talk of the "Disunited Kingdom" is more than yet another example of English humor. As mentioned above, differences in Germany are also observable after three decades of serious and expensive efforts.**
2. **The heritage of Communism is perhaps under-estimated by official statistics, but also by the formal re-calculation by western experts, relying on quantitative indicators only. The destruction of the social capital and social intangibles in society, extinction of the commercial spirit but also of classical moral foundations and the spread of disillusionment and cynicism are highly unfavorable conditions for a free, open society and a robust economy built upon these. The disregard for quality, for environment, for human conditions and "development as freedom"/Sen, 2003/ constitute an extremely difficult heritage for any new government.**

3. The longer the communist period lasted and the more it could rely on communitarian spirit, the more difficult it is going to bring about the spirit of entrepreneurship, the feeling of individual responsibility, and the bigger the demand for lastingly large state redistribution is going to be. This is by no means confined to welfare issues, as making individual/istic/ decisions always runs a certain risk. While the American society is known to be risk-friendly, most Asian societies are not quite.
4. Contrary to the preaching of some academics, there is no cookbook to go by. Each case is different, and as indicated at the intro, even in central European countries, with relatively long historic memories and shorter discontinuity from their historic developmental and cultural paths, basically 'everything' needed to be re-invented. Western academe has limited if any directly applicable insights for cases as a potentially re-unified North Korea constitutes. Post-communism leaves a demonstrably worse legacy to recreate a vibrant economy than post-war reconstruction had faced, and not primarily owing to the Marshall Plan usually invoked. In reality the EU has poured much more than the Marshall Plan to countries like Greece, Portugal or Bulgaria without triggering the same outcome.
5. Context-specific knowledge is simply irreplaceable and so is tacit knowledge. In the case of North Korea one fears that so few persons may be versed with this type of tacit knowledge, that the feeling of being over-run – particularly strong among east Germans, the Scots, southern Italians, Catalans and Basques – may develop into a serious problem. Given that the Kohl administration did go out of its way to sweeten the consequences of the superfast and militaristic/top-down/ *de facto* and *de iure* take-over of an independent state with developing independent identity, and basically failed in the psychological sense. I do not pretend to have an answer, since history supported the decision on fast and irreversible re-unification, however the costs are undeniable to anyone familiar with East German realities.
6. Bringing about social consensus, explaining a population entirely bled out the need for things to become worse before they may – but must not – become better, is going to be even more of a gargantuan task, than it had been for the first *kamikaze* governments in central and eastern Europe.

Governing coalitions that have managed transition in the first decade invariably disintegrated, should they have come from left or right.

7. **The international dimension. As discussed above and in the literature cited therein for eastern European countries one of the fundamental challenges had been the change in their international embeddedness. Politically speaking they had been subjugated to the Soviet Empire and Belgrade respectively, while economically they had been integrated in a protected and administratively managed environment, CMEA/Comecon[6] and the Yugoslav market. In both cases the protection offered sizable benefits in the short and medium run allowing for the sustaining of obviously non-competitive and value subtracting activities. The price for that was to be paid in the long run. Those who have not managed their re-orientation from protected to regional markets, from Russia to Croatia, have had to pay a heavy price in terms of competitiveness, growth and broader innovation potential in general.**

   By contrast, North Korea is not part of an imperial economic and political structure, thus one of the more costly and economically most difficult challenges are unlikely to emerge. Likewise as east Asian countries do not form any regional integration grouping that could be meaningfully compared to the European Union with its complex structures and largely closed economy and single currency. Therefore managing transition is likely to be much easier from the structural and institutional points of view.

8. **State capacity seem to be a crucial component in explaining transition outcomes in both the short and long run. The stronger is the state and the better is the quality of governance/as against the predatory states in the NIS/, the smoother and shorter is the path to prosperity. Given that the south Korean state counts among the models of successful modernization and sustaining growth/even after having come quite close to the one-**

[6] The official name of the trading bloc was Council for Mutual Economic assistance/CMEA, but in the western literature it was commonly referenced as Comecon/shorthand for Communist economic bloc and in parallel to Cominform, the one time umbrella organitation of pro-Soviet Communist parties, but not Yugoslavia, China, and Vietnam.At the time of its establishment in 1949 both organization co-existed, with respective headquarters situated of course in Moscow.

time colonial master Japan in terms of per capita GDP[7]/ this gives ground for hope for a less thorny path to recovery than that of eastern and central European countries.
True, the developmental state has undergone fundamental changes in the past decade/Williams,M.ed,2014/, thus any idea to replicate the south Korean experience may be out of touch with contemporary realities. However the experience and the ensuing tacit knowledge and institutional capacity is there. Contrary to the German experience, global strategic considerations do not push for a *blitz* solution once the Communist régime is overcome. This allows for a much more patient and considerate management of societal and socio-psychological issues than it has been the case in Germany.

9. **A special challenge which is likely to predetermine much of the economics and politics of the future of North Korea including the specificities of transition is the nuclear issue. First and foremost the nuke may cherish illusions of stability and invincibility to the Communist regime. Second, as seen in Russia, Ukraine and Belarus, even if transition were to be peaceful, the hydrocephaly of the oversize military industry and the decades-long militarization of the North Korean economy and society is likely to create structural inertia, in which the move from one disequilibrium to the another is likely to be replicated. The widespread presence of the irregular economy and of shuttle trade and corruption, neatly documented in/Kim,B-Y.,2017/ should not be seen as forward bastion of market relations. On the contrary, rule evasion, disrespect for privacy and property, degeneration of state capacity may all be warning signs and foreplays for lasting stagnation after stabilization.**
10. **It would be wrong to paint an entirely bleak picture on the prospects of a potential North Korean transition to market and democracy. If lessons of Central Europe are indicative of anything many of the seemingly binding constraints might be alleviated. For instance integration to a robust neighbor and to the global economy, China included, may help. Human capital, the most pressing bottleneck in managing change, may be improved by training and also by allowing for the importation of**

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[7] South Korea: 34 986 USD, Japan: 38 240 USD in 2016, according to Wold Bank: op.cit,reflecting 2011 constant prices and purchasing power parity, retrieved on 28 Oct.,2017.

specialists from all around the globe, in management, in schooling, in finance and all walks of life. Extraordinary politics, as the intellectual father of the first phase of Polish transition, Leszek Balcerowicz/1995/ termed it, is a period when enthusiasm for change for the better still prevails in broad segments of society, thus allowing to introduce some of the more painful changes needed to get the house in order. Last but not least the state capacity of the successfully transformed developmental state of South Korea should not be compared to those of Ukraine, Moldova or Tajikistan, each saddled with the hardly manageable task of keeping the respective countries together in face of secessionist drift. These factors allow for more optimism in terms of time and quality of transition, if peaceful change can be orchestrated, perhaps via involvement of China and the United States.

Conclusion: the way ahead

As illustrated by our fragmentary and somewhat over-broad presentation of selected novel insights, *the study of transition is not a narrowly confined subject in east European area studies,* which may have some value for its socio-anthropological peculiarity, but one whose relevance is secularly withering away linearly with the time passing since the *annus mirabilis.*

Re-designing macro-economic and social systems is an open ended process, not confined to customary issues of the political economy of policy reform, as management of external debt or bringing about a workable and efficient tax system. Important all these may be on their own right, these issues do not add up to meeting the challenges posed by the ever growing globalization, by the fourth industrial revolution and by the emergence of the information society/some call it the post-truth society/.

Few would doubt that European welfare states are challenged by such secular factors as aging, re-location of industries, robotization and the spread of non-traditional forms of employment, where people can no

longer be automatically taxed for their contribution to social services. Few would doubt that the United States has entered a crossroad in making choices. In one alternative it would go more in the socially responsible state direction/as the Obama administration attempted/. By contrast, it could rather launch a second Thatcherite revolution, as the Trump administration preaches/but is unable to practice as yet/. The latter would include entering the road of financial de-regulation, tax cuts and economic protectionism *cum* foreign policy unilateralism. In both cases basics of the US model as we taught in comparative economic systems are to be modified in fundamental ways. Finally the growth of the middle classes in Asia, from India via China to Iran, do pose challenges, political and economic, to the existing models of rule. The basic insight, elaborated with great erudition in the last book of the leading Polish economist, Jan Winiecki/2016/ on the indispensable role of political and civic liberties in making the headway to a modern knowledge based economy, seems to hold stronger than ever.

Unless we completely misread the global situation, the challenges are going to confront all three major actors of the global economy. In Latin America and Africa more traditional concerns of state building and conventional economic consolidation may be on the agenda. Furthermore in several failed states creating the minimum of civilized life is yet to take decades – let us only refer to Somalia and Afghanistan, where central government is next to nonexistent for over four decades by now. But most interestingly – from an analytical perspective - *all the three poles of global economic development do face deep going challenges to their existing arrangements*. Transition to what and how thus is going to remain a fundamental issue, both for theory and policy for several decades to come.

Perhaps one of the most intriguing questions for further research is the issue, first theorized by Anders Aslund/2007/ in the context of Russia: why is it that economic transition has been robust while political transition has not, despite the emergence of the formal institutional arrangements of checks and balances? This question has gained new relevance with the illiberal turns in Poland and Hungary, and similarly illiberal attempts by the Trump Administration to re-draw conventional checks and balances in favor of the executive. Here perhaps

we may speculate of the multi-factor explanations where the three different order explanations have been interacting. Furthermore growing or even just sustaining inequalities and the reaction enabled by the social media, along with culturalist explanations/as reference to the reaction to the emancipatory-liberal trends of the 1980s/ could be invoked. But this could be the subject of a different analysis.

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