GESELLSCHAFTEN UND STAATEN IM EPOCHENWANDEL

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Vorwort

Gut ein Jahrzehnt ist vergangen, seit durch das Minsker Abkommen die Auflösung der Sowjetunion beschlossen und im Dezember 1991 die Gründung der Gemeinschaft Unabhängiger Staaten initiiert wurde. Auf die epochale Bedeutung des grundlegenden Wandels in Osteuropa, der seinerzeit mit dem Umbau (*perestrojka*) von Gesellschaft und Staat schon zu verzeichnen oder zu erwarten war, hatte René Ahlberg im ersten Band dieser Reihe hingewiesen.

Inzwischen wurde die von ihm beschriebene Selbstaufklärung der Gesellschaft durch einen postsozialistischen Transformationsprozeß überlagert, bei dem es um die Implementierung von Marktwirtschaft, Demokratie und nationaler Identität geht. Wie sich die Glasnost'-Prognosen und Erwartungen an diesen europäischen Angleichungsprozeß nach einer Dekade der Globalisierung retrospektiv darbieten und wie man die weitere Entwicklung einzuschätzen hat, ist Thema des vorliegenden Bandes. Seine bilanzierenden Beiträge gehen auf eine erhellende Ringvorlesung am Osteuropa-Institut der Freien Universität Berlin zurück, konzipiert und geleitet von Krisztina Mänicke-Gyöngyösi.

Die Bewertungen der Autoren über die Reformwege sind so verschieden wie die Pfadabhängigkeiten der Transitionsländer selbst. Sie reichen vom Erfüllungsbefund der Mitgliedschaftskriterien internationaler Organisationen (OECD, EU, NATO) und einer Infragestellung regionaler Besonderheiten bis zum gegenteiligen Nachweis kulturraumbezogener Identitäten - eines historischen Erbes der Regionen, das sich oft in Nationalismus und Konservatismus ausdrückt.

Als generelles Problem erweisen sich die Konstitution institutioneller Ordnungen und die Wertorientierung der Eliten. Denn wo der Staat den Rückzug aus der Gesellschaft organisierte, ohne die Aufgaben der Politik neu zu formulieren, überwiegen Stagnation oder Plutokratie. Dem Erosionsprozeß entsprechen eine negative Wahrnehmung der Reformperiode in der Öffentlichkeit und - bei verschlechternden Lebensbedingungen - die individuellen Reaktionen zwischen Verweigerung und Protest. Marktwirtschaft kann also mit Volkswohlstand und Zivilgesellschaft nicht unbedingt gleichgesetzt werden.

Wenn sich auch der Systemwechsel nicht immer eindeutig als Erfolg oder Mißerfolg präsentiert, so sind konkrete Fortschritte einzelner Länder nicht von der Hand zu weisen. Man kann daher kaum fehlgehen in der Annahme, daß die Integration Europas die zentrale Aufgabe des 21. Jahrhunderts bleiben wird.

Dittmar Schorkowitz

Convergence and Divergence in Economic Transformation and Integration

László Csaba

Ten years is a time span long enough to allow for some theoretical generalisations. On this pages we'll try to prove the following thesis. While empirical evidence in countries undergoing systemic change is divergent enough to refute the relevance / applicability of any thesis on 'the east European brand of capitalism', progress among the frontrunner countries is similar enough allowing us to talk about convergence towards OECD standards and EU maturity. In other words, transformation of economic systems, where it transcended declarations of intent, have not led to uncharted waters. It has not resulted in previously unknown brands of socio-economic systems, but has, by and large, reproduced the European brand of social market economy. Therefore transformation should be described generally not as a major failure.[1] Since its inner processes deserve particular close scrutiny we will offer an overall view of changes instead and attempt to make some forecasts.

1. Macroperformance

The table below gives some quite interesting insights. First, looking at the pre-1989 data, in the majority of cases GDP figures do not reflect the crisis of the *ancien régime*. Even in cases when we do register a drop from 1988 to 1989, as in Bulgaria, Croatia, Romania or Slovenia, they are hardly comparable to the steep fall of output, that followed transformation. Only in very special cases, as in Azerbaijan, Tajikistan and Turkmenistan do we find drops comparable to the post-1989 period. This is a warning sign, i.e. cautioning against the widespread practice of research institutes and rating agencies of interpreting transition phenomena in purely quantitative terms. Quite clearly, GDP figures alone tell us precious little about the true nature and the causes of the collapse.

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[1] Van Brabant 1998, pp. 459-498.

Tab. 5: Real GDP / NMP in transition economies, 1980-1998 (Indices, 1989=100)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Eastern Europe	88.7	94.8	97.8	99.4	100.8	100.0	93.2	82.9	78.9	78.7	81.9	86.7	90.0	92.0	93.4
Albania	79.4	88.2	93.1	92.4	91.0	100.0	90.0	64.8	60.1	65.9	71.4	80.9	88.2	82.0	88.6
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bulgaria	76.2	89.9	93.6	99.3	101.9	100.0	90.9	83.3	77.2	76.1	77.5	79.7	71.6	66.6	69.0
Crotia	99.0	99.8	102.6	102.5	101.6	100.0	92.9	73.3	64.7	59.5	63.0	67.3	71.4	76.0	78.1
Czech Republic	..	91.3	93.2	93.7	95.7	100.0	98.8	87.4	84.6	85.0	87.8	93.4	97.0	98.0	95.3
Hungary	86.3	94.1	95.5	99.4	99.3	100.0	96.5	85.0	82.4	81.9	84.4	85.6	86.8	90.7	95.3
Poland	91.1	90.3	94.1	95.9	99.8	100.0	88.4	82.2	84.4	87.6	92.1	98.6	104.5	111.7	117.1
Romania	88.5	103.4	105.8	106.7	106.2	100.0	94.4	82.2	75.0	76.2	79.2	84.8	88.2	82.1	761
Slovakia	..	91.0	94.8	97.1	99,0	100.0	97.5	83.3	77.9	75.1	78.7	84.2	89.7	95.6	99.8
Slovenia	989	100.9	104.1	103.5	100.5	100.0	91.9	83.7	79.1	81.4	85.7	89.3	92.4	96.6	1004
The former Yugoslav Republic of Macedonia	93.3	96.0	102.7	101.4	98.1	100.0	89.8	83.5	76.8	69.9	68.6	67.8	68.3	69.3	71.4
Yugoslavia	95.7	98.7	101.4	100.2	98.8	100.0	92.1	81.4	58.7	40.6	41.7	44.2	46.8	50.3	56
Baltic States	678	81.4	85.6	89.0	96.0	100.0	97.8	89.9	67.9	58.2	55.2	56.4	58.8	63.7	665
Estonia	74.5	85.7	88.2	89.2	93.4	100.0	91.9	82.7	71.0	65.0	63.7	66.4	69.0	76.3	79.4
Latvia	68.5	81.3	85.1	89.0	93.6	100.0	102.9	92.2	60.1	51.1	51.5	51.0	52.7	57.3	59.3
Lithuania	67.4	79.8	84.9	88.9	98.4	100.0	96.7	91.2	71.8	60.2	54.3	56.1	58.7	63.0	66.2
CIS	77.5	90.4	92.4	93.9	98.1	100.0	96.8	90.9	78.0	70.4	60.3	59.9	55.0	55.5	54.0
Armenia	73.5	95.9	97.7	94.5	92.2	100.0	94.5	83.4	48.6	44.3	46.7	49.9	52.8	54.5	58.4
Azerbaijan	79.6	98.8	100.6	105.1	109.7	100.0	88.3	87.7	67.9	52.2	41.9	37.0	37.4	39.6	43.6
Belarus	65.7	85.2	88.9	91.3	92.4	100.0	98.0	96.8	87.5	80.8	70.6	63.3	65.1	72.5	78.5
Georgia	79.4	100.0	98.8	96.8	103.6	100.0	84.9	67.0	36.9	26.1	23.4	24.0	26.6	29.6	30.5
Kazakhstan	87.0	90.8	92.3	92.1	100.1	100.0	99.0	88.1	83.4	75.8	66.2	60.8	61.1	62.1	60.6
Kyrgyzstan	69.1	82.9	83.6	84.7	95.6	100.0	104.8	96.5	83.2	70.3	56.2	53.1	56.9	62.5	63.7
Republic of Moldova	72.1	82.6	89.2	90.3	91.9	100.0	97.6	80.5	57.2	56.5	39.0	38.3	35.3	35.9	32.8
Russian Federation	78.1	90.7	92.9	94.2	98.4	100.0	97.0	92.2	78.8	71.9	62.8	60.2	58.1	58.6	55.9
Tajikistan	80.8	91.8	95.0	93.9	106.9	100.0	100.2	91.7	62.1	52.0	40.9	35.8	29.8	30.3	32.0
Turkmenistan	80.7	89.5	93.4	97.1	107.5	100.0	101.8	97.0	82.5	83.7	69.2	64.2	68.5	60.7	63.8
Ukraine	75.0	88.7	90.0	93.4	95.2	100.0	96.4	88.0	79.2	68.0	52.4	46.0	41.4	40,.1	39.4
Uzbekistan	76.0	88.1	88.0	88.4	97.0	100.0	99.2	98.7	87.7	85.7	81.2	80.5	81.9	86.1	89.9
Total above	80.3	91.4	93.7	95.2	98.7	100.0	95.9	88.8	78.0	72.3	65.9	64.7	64.2	65.3	64.5

Memorandum Items:

CETE -5	88.6	92.2	95.1	97.3	99.6	100.0	93.3	84.1	83.2	84.6	88.2	93.3	97.7	102.6	105.8
SETE-7	88.8	99.3	102.4	103.1	102.9	100.0	93.1	80.7	71.4	86.4	70.8	75.2	76.6	73.6	71.7
Czechoslovakia	84.9	92.7	95.1	97.0	99.3	100.0	98.5	84.4	78.80	..	..	..	..	..	..
Yugoslavia (SFR)	97.7	99.5	103.0	101.0	99.4	100.0	..	..	..	..	..	..	..	..	..
Former Soviet Union	77.3	90.1	92.2	93.8	98.0	100.0	96.8	90.8	77.7	70.1	60.2	56.9	55.1	55.8	54.3
Former GDR	..	..	..	..	..	100.0	84.5	86.3	73.6	80.4	88.2	92.0	95.0	96.6	98.5

Source: ECE (1999), p. 65.

Similarly GDP figures of the 1990s do not tell everything. What they do tell is a mixed picture. First, even among the frontrunner countries of Central Europe 1997 is the first year when regional average GDP regained the pre-crisis level. If we exempt Poland, the growth champion of the period in the region, we find that Slovenia and Slovakia recovered only in 1998, while Hungary and the new German provinces in 1999. This is indicative of a much more protracted recovery, than has been postulated by economic theorists and politicians alike. And if it is a good thing, from the point of view of macroeconomics, that the pattern of this GDP is quite different from the one in 1989, from the social point of view it is an indication of growing strains. With a major rearrangement of employment patterns and with the growth of the income differentials, more people have been losers than winners. Moreover in the same period West Europe continued to grow, if even at a slow pace of 1.5 - 2.0 per cent on average. In other words, the distance between east and west has not diminished, it even grew - which was just the opposite of what everybody expected from political changes.

If we stick to the group of non-Soviet states, we can observe quite divergent development patterns. At one extreme we find Poland, where transformational recession[2] was already over by 1992, on par with the former GDR, and growth has been sustaining ever since. At the other end of the spectrum, exempting for a moment war-torn Serbia-Montenegro, we find Latvia and Lithuania. In both Baltic States contraction of economic activity was on par with overall post-Soviet standards, cutting the total output in half. Recovery started in Lithuania in 1995 and in Latvia in 1996, though its robustness is anything but convincing. Activity levels are still around two-thirds of the Soviet heritage, and the adjustment recession, triggered by the Asian-Russian crisis of 1998, was further setting back this low level of activity, recovering only by 2000.

Another group of countries is built of Romania, Bulgaria and the Czech Republic. Their recovery started in 1993 already, but it has not proven sustainable, as it was not based on external markets and improved competitiveness. Growth is recovering in Slovenia, Slovakia, Hungary, Albania and Estonia. However, in the case of the two latter, activity levels are still considerably below of those a decade ago. The activity levels of Croatia

[2] Kornai 1994.

and Macedonia are still very much below the respective Yugoslav levels, making progress in terms of stabilisation very relative indeed.

A completely different picture emerges for the Commonwealth of Independent States (CIS), where the average performance is by and large equal to a halving of the total output. Among the best performers we find Uzbekistan, a monocultural gas exporting economy and Belarus, where reliability of official statistics is questioned by external analysts. Furthermore, solvency of Belarus has been sustained by non-payments of the Russian energy bill, compensated for by the 1999 union treaty with the Russian Federation. At the lowest end we find civil war-torn Georgia and the Republic of Moldova, much in the same position. Tajikistan's poor performance is also intimately related to the ongoing strife, partly fuelled by the spillover of the Afghani civil war. But also the Ukraine stagnating about 40 per cent of the Soviet activity levels is among the bottom cases.

Among the better-than-average group we find countries which managed to avoid civil war or armed conflicts with their neighbours. If there is anything common among the truly diverse stories, it is the lack of market institutions, lack of implemented market-oriented reform measures (against declarations of intent) and lack of market-oriented policies in the standard terms of stabilisation, liberalisation, privatisation and financial sector reform.[3]

To draw the bottom line, a common thread of changes in the 1990s has been the much slower pace of change and the resultant much slower recovery of activities. This can be explained in terms of inflated expectations, partly fuelled by the conventional vision of neoclassical economics, abstracting away from frictions and institutions. Thus most analysts thought only of the welfare and efficiency gains of overcoming deformations, but neglected the time needed for the emergence and smooth functioning of new institutions.

Also, destruction costs tended to be underestimated, which had to do with the conventional moving away from the heavily militarised nature of the Soviet economic structure, as well as from the consequences of having evolved under non-market environment for several decades. The drift between expectations and reality does explain, to a considerable degree, the bad name market economy has in the region, as well as the trend

[3] Olcott-Aslund-Garret 1999; Kolodko 2000.

towards statist policies, both at the left and right, as a reaction to the much preached, though not so diligently practised, virtues of economic liberalism.

Also noteworthy is the fact that those countries which have fared relatively better, especially Poland, Hungary, the Czech Republic or Estonia and Slovenia, have all practised fairly liberal policies. Meanwhile attempts to slow down the pace of change, or attempts to reflate before structural changes were over, have all led to renewed stabilisatory operations and the resultant repeated loss of output and jobs. The myth of softer landing has not proved itself a viable alternative in the region.

2. Consumption versus investment

Data in the table below show an embarrassing picture. Accordingly, consumption in the region generally has not fallen as sharply as circumstantial evidence of visitors would have suggested. This has to do with the fact that in poorer countries normally governments are also weaker. Therefore they are less able to withstand pressures to sustain achieved levels of consumption, a trend equally strongly observable in mature democracies. Moreover in new democracies the institutionalisation of interest representation has been a new phenomenon. Governments were often ill-prepared for confrontation against vested interests. The numbers in Romania and in Slovenia, but also in Estonia and Lithuania, clearly illustrate this point.

The truly striking numbers are those of the Republic of Moldova and of the Russian Federation, where the trends show clearly the respective governments' notorious inability to control spending. Closer scrutiny of the Polish figures highlights the focal role of domestic markets in the growth miracle of the 1990s, raising serious doubts about the sustainability of these high rates, which seems to be one of the few consensus points of external and domestic analysts alike. The close to stagnation performance of 2001 proves this point retrospectively.

Tab. 6: Real total consumption expenditure in transition economies, 1980-1998 (Indices, 1989=100 or earliest year availbl thereafter)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	..	..	..	..	..	100.0	100.6	92.3	89.4	86.2	82.3	80.7	75.3	64.0	..
Croatia	..	..	..	..	..	..	..	100.2	87.2	85.3	92.0	106.6	109.2	..	..
Czech Republic	..	..	..	91.3	93.1	100.0	104.9	81.0	88.2	90.4	92.6	96.5	102.5	103.2	101.7
Hungary	92.2	99.2	101.5	104.9	102.0	100.0	97.3	92.2	92.8	97.9	95.6	89.3	86.6	88.6	..
Poland	108.0	105.1	109.3	111.8	114.7	100.0	88.3	94.9	98.2	103.0	106.9	110.4	118.4	125.6	..
Romania	83.9	85.4	85.8	88.7	90.6	100.0	108.9	96.0	90.7	91.8	95.3	105.5	112.9	108.0	104.1
Slovakia	..	81.8	85.4	89.2	92.1	100.0	103.3	76.9	75.6	74.3	71.6	73.9	82.0	85.5	88.5
Slovenia	..	..	..	..	..	..	100.0	91.6	88.8	99.1	102.6	110.2	113.1	117.2	..
Estonia	..	..	..	..	..	..	..	..	..	100.1	101.2	110.4	116.5	124.4	131.9
Latvia	..	..	..	..	..	..	100.0	76.7	49.2	46.5	47.4	47.0	50.8	52.7	..
Lithuania	..	..	..	..	..	..	..	..	..	..	..	100.0	102.6	112.3	..
Armenia	..	..	..	..	..	..	100.0	97.4	84.9	66.4	68.9	74.5	76.8	81.5	..
Azerbaijan	..	..	..	..	..	..	..	..	..	100.0	80.3	78.0	84.3	93.2	..
Belarus	..	..	..	..	..	..	100.0	93.4	84.0	82.1	72.1	65.3	67.4	73.8	..
Georgia	..	..	..	..	..	..	100.0	79.2	77.1	45.4	42.4	46.1	..	..	..
Kazakhstan	..	..	..	..	..	..	100.0	96.8	96.1	84.9	67.7	55.1	51.2	51.8	..
Kyrgyzstan	..	..	..	..	..	..	..	100.0	87.2	77.1	62.0	52.0	55.3	50.8	50.4
Republic of Moldova	..	..	..	..	..	..	..	..	..	100.0	82.6	90.3	99.8	111.6	105.3
Russian Federation	..	..	..	..	..	..	100.0	93.9	89.0	88.1	85.4	83.1	81.3	82.7	80.6
Ukraine	..	..	..	..	..	..	100.0	94.3	88.6	72.0	65.0	62.6	57.4	59.3	..

Source: ECE (1999), p.66.

Similar problems have been surfacing in Croatia and earlier in the Czech Republic, leading to new adjustment measures in both countries. By contrast, Slovakia and Hungary stand out for their prudent policies of keeping consumption below the growth of total activity. The contrary attempt in Bulgaria in 1991-92, and Romania in 1994-97, necessitated new restrictions and further drops in living standards. From the consumption perspective Latvia, Kyrgistan and Kazakhstan are the bottom cases, followed by Ukraine and Bulgaria. These are all clear cases where soft or weak reform policies required more, not less, social sacrifices in cumulative terms. Interestingly, the Russian consumption figures do not look half as bad as GDP statistics and circumstancial or anecdotal evidence would have suggested.

The truly interesting picture emerges when we look at table 7, which should be seen to some extent as the mirror case for the consumption story. While economic theory is divided on the precise role and mechanics of the growth-investment nexus, nobody doubts that such a nexus must exist, and all the more so in relatively backward countries. Thus the more we might be concerned about the slow pace of recovery, the more we have to focus on the fate of investments in overall economic activity. True, the Solow growth model, and neoclassical theory in general, cautions against one-sided emphasis on physical capital formation as the only source of growth. It is obvious, however, that structural rearrangements do require capital investment, and, furthermore, that extremely low investment rates may indicate an overreaction to a previous period of one-sided cultivation of investments in the socialist period.

Also in terms of investments, Poland, Estonia and Slovenia have taken the lead, followed up by Slovakia and Hungary. This means that recovery in the above listed countries has been investment-led, i.e. can be sustainable if investments are market determined. This is not necessarily the case, as the numbers of the Czech Republic indicate. Here the investment recovery of 1995-96 could not be sustained, since the adjustment measures of 1997 cooled down the activities, with 1998 and 1999 seeing 4 per cent drops each. This is in sharp contrast to the Polish, Slovenian and Hungarian cases, where investment booms could be sustained.

In Bulgaria and in Romania investments are cut in half, in Latvia they shrunk to one third of their pre-crisis levels, rendering the optimistic assessments by the EU Commission less than fully credible in a longer term economic perspective. The real investment collapse can be observed in the post-Soviet states, with the exception of Azerbaijan. Here we can see that a small backward economy can produce miraculous numbers if foreign direct investment - in this case exlusively in the oil industry - create a boom, partly due to the depressed levels of the rate of exchange.

Russian, Ukrainian, Kazakh and Armenian figures are foreshadowing a longer term catastrophe in terms of economic development, should major injections of foreign capital not be forthcoming. To put it another way, the only rescue operation these countries could theoretically undertake would be a resort to full-scale open door policies. This is a line which neither the policies nor the actual regulatory practices in any of the listed countries seem to render probable in the forseeable future. The transitory recovery in 1994-2001 triggered basically by one-shot elements, as devaluation and the oil price hike, does not change the longer term perspective.[4]

The crucial weak point in the economies mentioned above is the overall business unfriendly atmosphere[5], not the lack of one-sided preferences granted to foreigners. On the contrary, domestic capital accumulation and a healthy domestic system of financial intermediation are known to be the clue to lasting economic progress - an insight strongly underscored by the lessons of the east Asian crisis of 1997-98. The more we see these institutional causes as the root of the problems in post-Soviet states, the deeper we might be concerned about their future. This adds to the already frightening numbers, to the short term policy options faced by the changing governments of Kuchma[6] and Putin[7]. It is absolutely clear, without having to discuss intricacies, on the basis of predictive powers of economics as a scientific discipline, that statist policies can create neither the savings nor the incentives to invest. Thus isolationalist policies advocated by many representatives of the political class of the respective countries lead to nowhere.

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[4] C.f. more in Bugajski 2002.

[5] Peterhoff 1999, attributes it, to a large extent, to culturally and historically conditioned differences in the role of private contracts and legislation.

[6] Thiessen 2000.

[7] Götz 2000.

Tab. 7: Real gross capital formation in transition economies, 1980-1998 (Indices, 1989=100 or earliest year availat thereafter)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	..	..	..	..	..	100.0	100.0	80.0	74.1	61.2	61.9	71.8	56.6	44.1	..
Croatia	..	..	..	..	..	..	..	100.0	88.5	94.5	93.6	108.2	..	..	..
Czech Republic	..	..	..	93.4	99.4	100.0	97.9	80.5	87.7	81.0	95.0	114.9	124.9	118.8	114.4
Hungary	114.7	94.6	100.8	110.7	100.6	100.0	92.9	83.1	81.0	82.6	92.9	88.9	94.8	103.6	115.4
Poland	124.6	111.4	116.4	116.5	126.5	100.0	75.2	71.9	73.6	75.7	82.6	96.2	115.2	140.1	..
Romania	163.7	161.5	163.3	161.0	157.6	100.0	64.4	44.0	48.9	52.9	63.9	68.3	72.2	70.1	57.4
Slovakia	..	..	..	..	..	..	100.0	74.8	71.5	68.5	64.7	64.6	90.3	103.3	114.7
Slovenia	..	..	..	..	..	..	100.0	88.5	77.1	85.4	97.4	113.8	124.2	138.3	..
Estonia	..	..	..	..	..	..	..	..	..	100.0	106.2	110.5	123.1	144.6	156.3
Latvia	..	..	..	..	..	..	100.0	36.1	25.7	21.6	21.8	23.7	29.0	32.2	..
Lithuania	..	..	..	..	..	..	..	..	..	..	..	100.0	110.9	137.0	..
Armenia	..	..	..	..	..	..	100.0	67.0	8.6	7.9	11.5	9.5	10.5	11.7	..
Azerbaijan	..	..	..	..	..	..	..	..	100.0	61.0	115.3	94.5	199.8	333.7	..
Belarus	..	..	..	..	..	..	100.0	105.3	85.6	79.1	68.3	48.1	46.6	57.4	..
Georgia	..	..	..	..	..	..	100.0	86.3	49.2	18.5	133.4	219.9	..	..	..
Kazakhstan	..	..	..	..	..	..	100.0	74.2	61.9	44.2	39.2	24.3	18.5	19.1	..
Kyrgyzstan	..	..	..	..	..	..	..	100.0	70.7	55.3	39.3	63.2	54.9	38.7	33.1
Republic of Moldova	..	..	..	..	..	..	..	..	..	100.0	56.5	54.5	68.1	64.9	64.8
Russian Federation	..	..	..	..	..	..	100.0	84.5	49.4	36.7	27.1	25.1	20.9	19.9	18.5
Ukraine	..	..	..	..	..	..	100.0	81.6	69.3	48.2	28.4	19.7	15.2	14.2	..

Source: ECE (1999), p.66.

3. Unemployment as an indicator of social costs

As we can see from the following table, unemployment has become even more serious a problem for the transforming countries than it had been for the EU members. If we abstract from the extreme numbers produced by the calamities of the three Balkan wars in Bosnia, Macedonia, Croatia and Serbia-Montenegro, we see a variety of trajectories. In Hungary, Slovakia, Poland, Slovenia and in the eastern German provinces (not figuring in the table) structural changes immediately implied the closing down of old inefficient firms, massive layoffs, making previously hidden unemployment open. These countries also have had different follow-up stories. While some of them, most notably Hungary and more recently Slovenia, managed to create new jobs through more activity, this has not happened in Slovakia, Croatia and in the new German provinces.

Poland seems quite embarrassing with double digit unemployment figures after nearly a decade of economic growth, the latter significantly above the 2 per cent range, accustomed in western Europe.[8] The insider-outsider problem is compounded by the fact that close to half of new jobs were created in farming, one of the least productive sectors of the Polish economy. This feature and the 1999 jump could truly be a warning sign, that may develop into a stumbling block to Poland's smooth entry in the EU, both for fiscal and labour market reasons.

The other trajectory, typical of transformation, are the Czech, Ukrainian, Romanian and Russian ways, obviously duplicated in all the three of the Baltic countries. In these cases government policies were either positively aiming at, or at least tolerant of, sustaining soft budget constraints of public firms. The idea was simple: why not retain people on public sector payrolls while the new private sector becomes strong enough to provide new and better paid employment? The answer turned out to be truly disenchanting; not only because citizens accustomed to low levels of unemployment have to cope with ever growing unemployment rates, but also delayed structural adjustment seems to have created economies which do not generate employment.

[8] The latest available Polish unemployment figures of April, 2002 were 18 per cent, against 10 per cent in the eurozone.

Tab. 8: Registered unemployment in transition economies, 1990-2000 (Thousands and per cent of labour force, end period)

	Thousands						Per cent of labour force							
	1990	1994	1995	1996	1997	1998	1990	1994	1995	1996	1997	1998	1999	2000
Eastern Europe	2 773	7 190	6 583	6 300	6 196	..	..	13.6	12.5	11.7	11.9	12.6	..	..
Albania	150	262	171	158	194	235	9.5	18.0	12.9	12.3	14.9	17.6	..	..
Bosnia and Herzegovina	..	..	..	185	222	257	..	..	..	..	39	38	40	..
Bulgaria	72	488	424	478	524	465	1.8	12.8	11.1	12.5	13.7	12.2	15.9	16.0
Croatia	196	248	249	269	287	303	..	17.3	17.6	15.9	17.6	18.6	19.0	18.0
Czech Republic	39	167	153	186	269	387	0.7	3.2	2.9	3.5	5.2	7.5	9.0	10.5
Hungary	101	520	496	479	464	404	1.7	10.9	10.4	10.5	10.4	9.1	7.0	6.5
Poland	1 126	2 838	2 629	2 360	1 826	1 831	6.5	16.0	14.9	13.2	10.3	10.4	12.0	10.1
Romania	150	1 224	998	658	881	1 025	1.3	10.9	9.5	6.6	8.8	10.3	11.3	13.5
Slovakia	40	372	330	330	438	427	1.6	14.8	13.1	12.8	12.5	15.6	17.3	16.5
Slovenia	55	124	127	125	129	127	..	14.2	14.5	14.4	14.8	14.6	13.6	12.5
The former Yugoslavia Republic of Macedonia	156	196	229	245	258	..	..	33.2	37.2	39.8	42	..		
Yugoslavia	688	751	777	827	794	849	..	23.9	24.7	26.1	25.6	27.2	..	..
Baltic States	..	197	245	237	236	269	..	5.3	6.6	6.4	6.3	7.3	..	..
Estonia	..	37	34	37	31	35	..	5.1	5.0	5.6	4.6	5.1	11.5	11.0
Latvia	..	84	83	91	85	111	..	6.5	6.6	7.2	6.7	9.2	9.0	10.0
Lithuania	..	78	128	109	120	123		4.5	7.3	6.2	6.7	6.9	9.0	8.1
CIS	..	6 011	7 185	8 519	9 673	11579	..	4.4	5.8	6.6	7.6	9.0	..	..
Armenia	..	92	132	159	174	134	..	6.0	8.1	9.7	11.0	8.9	..	..
Azerbaijan	..	24	28	32	38	42	..	0.9	1.1	1.1	1.3	1.4	..	..
Belarus	..	101	131	183	126	106	..	2.1	2.7	4	2.8	2.3	..	..
Georgia	..	76	61	58	143	99	..	3.8	3.4	3.2	8.0	4.2	..	..
Kazakhstan	..	70	140	282	259	252	..	1.0	2.1	4.1	3.9	3.7	..	..
Kyrgyzstan	..	13	50	77	55	56	..	0.8	3.0	4.5	3.1	3.1	..	..
Republic of Moldova	..	21	25	23	28	32	..	1.0	1.4	1.5	1.7	1.9	..	..
Russian Federation	..	5 478	6 431	7 280	8 133	9 728	..	7.5	8.9	10.0	11.2	13.3	12.4	11.9
Tajikistan	..	32	35	46	51	54	..	1.8	1.8	2.4	2.8	2.9	..	..
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ukraine	..	82	127	351	637	1 003	..	0.3	0.6	1.5	2.8	4.3	8.0	10.0
Uzbekistan	..	22	25	28	29	33	..	0.3	0.3	0.3	0.3	0.4	..	..
Total above	..	13398	14013	15056	16105	..	..	..	..	..	..	..	..	..
Memorandum items:														
CETE-5	1 361	4 021	3 735	3 480	3 036	3 176	..	12.9	12.0	11.2	9.8	10.2	..	..
SETE-7	1 412	3 169	2 848	2 635	2 936	..	..	14.6	13.7	12.5	14.3	15.4	..	..
Russian Federation	..	1 637	2 327	2	506	1 999	1 929	2.1	3.2	3.4	2.8	2.7		

Note: forecast (2000), preliminary (1999)
Source: ECE (1999). p.69., updated by CA(99 / 2000), pp.4-5.

In the Russian and Ukrainian cases low investment levels explain much of the story. In the Czech and Bulgarian cases delaying the operation has proven to be positively more costly in terms of employment than relatively radical action. In case of the Baltic States what we witness is basically reactive restructuring, where activity levels have not become robust enough to create new jobs. This is fairly trivial for Romania and Bulgaria, as well as for Albania and Croatia. In case of Russia and the Ukraine delayed stabilisation is lagged into the unemployment numbers, reflecting insufficient structural change.

Once we accept the feeble ability of the transforming economies to generate jobs as a major shortcoming, it is hard to resist the calls for liberalising labour markets, rather than emulating highly regulated practices of some EU countries. In the case of Hungary the strong employment generation ability of the economy is intimately related to the spontaneous deregulation of industrial relations and the spread of both multinationals and the small business sector, neither of which adopt collective bargaining techniques. By contrast, the lastingly unresolved economic consequences of Dayton are becoming manifest across the board in the high levels of joblessness, except for Slovenia. Generating new jobs is a *conditio sine qua non* for any market economy to flourish and for any democracy to be sustainable. This is what Greskovits (1998) terms as a lack of an alternative to the neoliberal strategy in the region, in part due to the weakness of social actors / partners, in part due to economic exigencies. This holds way above the role played by the international financial organisations, which actually had a subordinate overall role in funding the entire process. This insight is supported by our next chapter.

4. There is no way to escape stabilisation.

This may sound trivial from today's perspective, still, it is hard to forget that much of the original transition controversy had focussed upon the ways, means and sequence of stabilisation.[9] It is important to realise that even the weakest governments (such as the Romanian, the Russian and the Ukrainian) have been convinced by the exigiencies that there is no other way but to keep prices down. This should not be done through fixing and other administrative means, as prices then loose their relevance as scarcity signals and as incentives for adjustment. It is truly telling that by the turn of the millennium only disintegrating Serbia-Montenegro had to resort to inflationary policies, and even there Montenegrins escaped the emissionary drain from Belgrade by introducing the Crnagorac Marka, fully pegged to the Deutschmark, in the last months of 1999.

[9] Csaba (ed.) 1991.

It is not just the theoretical change which is impressive. It is the performance of the Russian governments, headed by Messrs Primakov, Stepashin, Putin and Kasjanov in a row, that have not allowed for a fully erosive hyperinflationary pressure, that many analysts foretold at the time of the August currency crisis of 1998. The longer term picture, reflected in the next table, clearly refutes the earlier dominant structuralist view, having questioned the possibility of lasting disinflation on grounds of structural rigidity, misaligned incentives and lacking institutions.

How to stabilise? Also in this area we find diverging answers. One group of countries, notably Bosnia, Bulgaria, Macedonia and Georgia adopted rigid exchange rate régimes, mostly currency boards, and extinguished inflation. Another group of countries, notably the Baltic States, also preached tough policies, but introduced these only gradually. Yet another group, notably the Czech Republic, Slovenia, Albania, Slovakia and Croatia adopted conservative monetary and fiscal policies, including some controls, to keep inflation low. Yet another group of countries disinflated gradually, primarily Hungary, Poland, Russia, Kyrgistan and Serbia.

The interesting finding is that while no growth is possible without bringing prices down at least to the level of moderate inflation (of 10 - 35 per cent per annum), this is by no means a sufficient condition for growth to resume, as both post-Soviet and post-Yugoslav experience indicates. Changes in property rights and the resultant changes in the combination of factors of production and thus in output create the conditions for growth. Irregularities in the above sketched chain of operation often are to blame for sluggish pace of recovery.

Tab. 9: Consumer prices in transition economies, 1989-2000 (Annual avarge, percentage change over preceding year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	..	..	35.5	193.1	85.0	21.5	8.0	12.7	33.1	20.3	..	..
Bosnia and Herzegovina	36.8	594.0	116.2	64218.3	38825.1	553.5	-12.1	-21.2	11.8	4.9	..	..
Bulgaria	6.4	23.8	338.5	91.3	72.9	96.2	62.1	1223.1	1082.6	22.2	6.2	2.8
Croatia	1200	609.5	123.0	663.6	1516.6	97.5	2.0	3.6	3.7	5.9	4.2	3.5
Czech Republic	1.4	9.9	56.7	11.1	20.8	10.0	9.1	8.9	8.4	10.6	2.7	4.0
Hungary	17	28.9	35.0	23.0	22.6	19.1	28.5	23.6	18.4	14.2	10.0	8.8
Poland	264.3	586	70.3	45.3	36.9	33.2	28.1	19.8	15.1	11.7	9.5	6.8
Romania	1.1	5.1	170.2	210.7	256.2	137.1	32.2	38.8	154.9	59.3	55.5	30.0
Slovakia	1.3	10.4	61.2	10.2	23.1	13.4	10.0	6.0	6.2	6.7	10.6	8.5
Slovenia	1285.3	552	115	207.3	31.7	21.0	13.5	9.9	8.4	7.9	6.2	6.2
The former Yugoslavia	1246,0	608.4	114.9	1505.5	353.1	121.0	16.9	4.1	3.6	1.0	..	..
Republic of Macedonia	1265.0	580.0	122.0	8926	2.2E+14	7.9E+10	71.8	90.5	23.2	30.4	150	300
Yugoslavia												
Estonia	4.0	18.0	202.0	1078.2	89.6	47.9	28.9	23.1	11.1	10.6	3.3	5.0
Latvia	5.2	10.9	172.2	951.2	109.1	35.7	25.0	17.7	8.5	4.7	3.5	3.0
Lithuania	2.1	9.1	216.4	1020.5	410.1	72.0	39.5	24.7	8.8	5.1	2.3	5.5
Armenia	0.8	6.9	174.1	728.7	3731.8	4964.0	175.5	18.7	13.8	8.7	..	..
Azerbaijan	0.5	6.1	106.6	912.6	1129.7	1663.9	411.5	19.8	3.6	-0.8	..	..
Belarus	1.7	5.5	98.6	971.2	1190.9	2219.6	709.3	52.7	63.9	73.2	..	..
Georgia	0.9	4.2	78.7	1176.9	4084.9	22470.6	177.6	39.4	6.9	3.6	..	..
Kazakhstan	1.8	5.6	114.5	1504.3	1662.7	1879.5	175.9	39.1	17.4	7.3	..	..
Kyrgyxstan	1.6	5.5	113.9	854.6	1208.7	278.1	42.9	30.3	25.5	12.1	..	..
Republic of Moldova	1.1	5.7	114.4	1308.0	1751.0	486.4	29.9	23.5	11.8	7.7	..	..
Russian Federation	2.5	5.3	100.3	1528.7	875.0	309.0	197.4	47.8	14.7	27.8	86.0	24.1
Tajikistan	1.7	5.9	112.9	822	2884.8	350.3	682.1	422.4	85.4	43.1	..	..
Turkmenistan	2.5	5.7	8.5	483.2	3128.4	2562.1	1105.3	714.0	83.7	16.8	..	..
Ukraine	2.0	5.4	94.0	1209.6	4734.9	891.2	376.7	80.2	15.9	10.6	15.0	12.0
Uzbekistan	0.7	5.8	97.3	414.5	1231.8	1550.0	315.5	56.3	73.2	..		

Source: ECE (1999). p.69., updated by CA(99 / 2000), pp.4-5.

It is also interesting to see from more recent data, that the earlier postulated inverse nexus between growth and disinflation has empirically been refuted by the transition experience. Countries from Hungary via Poland to Bulgaria can sustainingly grow if they disinflate, not vice versa. By contrast, in all cases when more growth generates, or allows for, more inflation, as the Czech or the Estonian cases seem to indicate, these are reflections of structural weaknesses rather than that of earlier postulated normality. This is good news, since it means that striving for EU-maturity is positively growth enhancing, not growth retarding, as some old fashioned theories would suggest. If stabilisation is not growth-promoting, this is an immediate sign of unfinished transformation or insufficient changes, as in the Ukraine, in Latvia or in Romania. These findings actually complement the transition indicators of EBRD, coming to, by and large, similar conclusions for the countries mentioned as examples in this paragraph.

5. Sustainability of growth depends on financability, which in turn is a function of exports

This is the small open economy syndrome, previously somewhat downplayed in the emotional debates over proper ways of transition, fully neglecting the severe limits this state of affairs puts on the freedom of choice by any 'system designer' or policymaker.

This is not the place to recapitulate the intricacies of foreign trade development of transition economies, regularly presented by the UN Economic Commission for Europe at a high level of professionalism. Drawing on their calculations the only question we address now is to what extent systemtic changes have improved export performance in the respective transition economies? In a way this can also serve as a synthetic indicator of success. We can take it for granted that modernisation of fixed assets, and of microstructures at large, will inevitably enhance the import intensity of new, more competitive economic structures. These, in turn, will prove sustainable only if the revenues generated from foreign sales grow accordingly, and thus allow for a solid and lasting financing of this type of development. The experiences of outward oriented industrialisation in east Asia in the 70s and 80s, in Latin America in the 1990s and in southern Europe in the last quarter of a century are all examples of how this can be done.

The somewhat fragmentary figures of table 10 tell an instructive story. While eastern Europe doubled its exports from 1992-98, the resource-rich CIS countries increased their sales by 50 per cent only. By contrast, sales of the Baltic States grew fourfold (!), which is remarkable given the common Soviet heritage.

If we look at the country by country experience, stagnation of Albanian sales indicate how short-lived and relative stabilisatory successes proved to be. Bulgaria was heavily hit both by the Russian crisis and by the Kosovo war, still significantly lagging behind the 1995 peak of export revenues. As Czech exports have increased threefold (!) in the 1992-98 period, it is all the more striking that in the adjustment period of 1998-2000 a virtual stagnation occurred. This directly reinforces the validity of criticism by the EU on the sluggish pace of structural changes in the Czech Republic in the period of grand coalition government. A similar story holds for the Slovak Republic for the period of the Dzurinda government.

Hungarian total exports virtually stagnated in the 1988-94 period. Following the 1995 adjustment programme sales abroad doubled (!) between 1995 and 1999, i.e. just at the time competitors struggled with shrinking markets and eroding intakes.

Polish exports surpassed the 'pre-crisis levels' only in 1995, replicating the Hungarian performance. Likewise foreign sales continued to grow, irrespective of the international economic disturbances. If we take 1994 as a starting year, Polish exports doubled by 2000, whereas Hungarian exports tripled in the same period. This is an indication that, a) Polish growth is more reliant on domestic markets, and b) that structural changes in Hungary, both at the macro and micro level, have been stronger than in Poland. In other words, the Polish miracle of the 1990s was, to a large extent, due to the lower starting level, i.e. to the well-known latecomers' advantage, as well as to the one-time benefical effects of radical therapies. In turn, it is anything but trivial that with both special factors gone, the previous rates of growth can indeed be sustained for yet another decade or so.

Tab. 10: Merchandise exports of transition economies, 1980-2000 (Billion dollar)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
Eastern Europe	56.387	60.117	63.550	65.020	63.850	61.733	57.241	59.333	62.675	72.937	94.777	100.208	107.362	119.269			
Albania	0.320	0.230	0.230	0.230	0.302	0.251	0.101	0.072	0.123	0.139	0.202	0.213	0.141	0.207			
Bulgaria	7.180	7.590	7.841	7.554	8.651	5.232	3.433	3.992	3.769	3.935	5.345	4.880	4.939	4.293	3.8	4.6	
Czechoslovakia	10.475	12.160	12.355	12.831	11.988	10.728	11.319	..	..	..	..	..	..	..	..	..	
Czech Republic	..	..	..	..	..	..	..	8.767	14.463	15.882	21.273	22.180	22.779	26.358	25.7	27.1	
Slovakia	..	..	..	..	..	..	..	3.500	5.458	6.714	8.585	8.622	9.639	10.667	10.0	10.9	
Hungary	8.609	9.170	9.584	9.999	9.873	9.731	10.266	10.681	8.921	10.701	12.867	15.704	19.106	23.005	25.5	28.5	
Poland	13.071	13.130	14.095	14.573	14.665	18.291	14.912	13.187	14.202	17.240	22.887	24.440	25.756	28.229	32.0	34.8	
Romania	9.217	8.159	8.580	8.971	8.078	4.570	4.266	4.363	4.892	6.151	7.910	8.085	8.431	8.300	7.9	9.3	
Yugoslavia (SFR)	7.514	9.669	10.866	11.311	12.496	12.950	12.984	14.772	..	..	..	..	..	..			
Bosnia and Herzegovina	..	..	..	1.550	2.100	1.850	..	..	..	..	0.024	0.058	0.198	0.452	..	..	
Croatia	..	..	..	2.300	2.800	4.020	3.310	4.353	3.709	4.260	4.633	4.512	4.171	4.541	4.4	4.7	
Slovenia	1.836	2.567	2.757	3.278	3.408	4.118	3.874	6.681	6.083	6.828	8.316	8.310	8.369	9.050	9.0	9.8	
The former Yugoslavia Republic of Macedonia	..	..	..	..	0.654	1.113	1.095	1.189	1.055	1.086	1.204	1.147	1.18	1.31	..	..	
Yugoslavia	..	3.874	4.063	4.298	4.461	4.851	4.704	2.539	..	..	1.531	1.846	2.677	2.858	..	..	
Baltic States	..	..	..	..	..	..	..	2.139	4.197	4.324	5.844	6.877	8.461	8.738	..	..	
Estonia	..	..	..	..	..	..	..	0.444	0.902	1.305	1.838	2.079	2.929	3.214	2.5	2.7	
Latvia	..	..	..	..	..	..	..	0.843	1.401	0.988	1.304	1.443	1.672	1.812	1.77	1.95	
Lithuania	..	..	..	..	..	..	..	0.852	1.994	2.031	2.705	3.355	3.860	3.712	3.70	4.10	
CIS	..	..	..	..	..	..	..	51.110	52.516	62.854	80.007	87.839	89.177	75.146	..	..	
Armenia	..	..	..	..	..	..	..	0.026	0.030	0.058	0.101	0.157	0.138	0.142	..	..	
Azerbaijan	..	..	..	..	..	..	..	0.754	0.351	0.378	0.352	0.341	0.403	0.320	..	..	
Belarus	..	..	..	..	..	..	1.860	1.061	0.756	1.032	1.776	1.888	1.922	1.800	..	..	
Georgia	..	..	..	..	..	..	..	0.088	0.069	0.039	0.057	0.070	0.102	0.089	..	..	
Kazakhstan	..	..	..	..	..	..	..	1.398	1.501	1.357	2.367	2.738	3.515	3.200	..	..	
Kyrgyzstan	..	..	..	..	..	..	..	0.077	0.112	0.117	0.140	0.112	0.285	0.288	..	..	
Republic of Moldova	..	..	..	..	..	..	..	0.167	0.178	0.16	0.279	0.252	0.267	0.19	..	..	

Russian Federation	..	..	..	..	..	..	..	..	..	..	..	..	47.266	42.376	44.297	53.001	65.607	70.975	69.954	57.7					
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	..	..	0.108	0.227	0.399	0.497	0.439	0.473	0.394					
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..	..	..	0.908	1.049	0.494	0.951	0.551	0.300	0.202					
Ukraine	..	..	..	..	..	..	..	..	..	..	..	..	..	3.397	3.223	4.653	6.168	6.995	8.843	8.200					
Uzbekistan	..	..	..	..	..	..	..	..	..	..	..	..	..	0.869	0.712	0.986	1.712	3.321	3.175	2.521					
Former Soviet Union	57942	60.043	83.408	62.016	62.285	59.058	46.66	53.733	58.713	66.978	85.851	94.716	97.638	83.884											
Total	114.31	120.161	126.957	127.035	126.136	120.788	103.901	113.066	119.389	139.915	180.628	194.922	205.020	203.153											

Source: ECE (1999), p.89., updated by CA(99 / 2000), pp.4-5.

In the case of Romania the growth of exports in 2000 was merely to regain the 1980 (sic) levels, i.e. the historic heights. True, the latter was attained by extreme sufferings, at the cost of draining out the domestic market, still this finding puts the gains of the 1990s in perspective. The numbers, and especially the stagnation observed in the 1996-99 period under reformist governments of President Constantinescu seem to lend support to the somewhat structuralist interpretation[10] seeing room for improvements to be very limited, if and when only the redistribution of disequilibria takes place between the domestic and external balances. If this holds, this is the severest criticism of the degree of actual changes in the economic institutions, that redistribute factors of production. In plain language: despite good intentions, the mechanism of generating welfare, and combining factors of production, could not be changed in a substantial manner. And this condition is not dependent upon the EU Commission's categorization of candidate countries in two, or in one single, grouping.

Similarly, the virtual stagnation of Croatian exports in the 1992-99 period is an indication that immobility was not at all constrained to authoritarian ways of wielding power in the Tudjman period, but it was a deeply rooted feature of the entire economic system. This stands in sharp contrast to the robust trend in Slovenian exports, which has manifested itself ever since the mid-eighties, despite the similar institutional heritage of the Yugoslav period.

The fragility of the progress made by the Baltic States is clearly illustrated by the evolution of Estonian exports, which were unable to recover the 1997 (!) levels even in 2000. This slow pace of improvement sets limits to the further expansion of economic activity, which is still below the Soviet era levels, and even contracted in 1999 by 0.7 per cent. Latvia regained its 1993 export levels by 1996, then saw a stagnant performance following a transitory growth to 1998. This is a severe constraint for an economy where activity levels are as low as the lowest in the post-Soviet area as a whole. Stagnant exports also characterize Lithuanian performance. Let us add: all three countries face very severe external disequilibria, with fast growing external debt, as a consequence of the adoption of a rigid exchange rate régime coupled with insufficient active restructuring in line with world market demand.

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[10] Dainau 1994.

All what has been said puts the Baltic success story in perspective: i.e. as a plus against CIS average, but not so much of a plus in comparison to Central Europe. The drop of Russian and Ukrainian exports for the post-1997 period (for which no comparable data for the most recent years exist), speaks for itself as an indicator of insufficient restructuring at the microlevel that would go over and above the rolling back of oversize defence industries in a negative / reactive restructuring of the early periods. What we observe in both cases is how vulnerable both large countries are to the twists and turns of raw material and energy prices in the world economy. This stands in sharp contrast to the resistance shown by OECD economies to the most recent oil price hike of the 1999-2000 period.

To sum up, even without going into structural analysis of the trade pattern, export performance has proven to be a reasonable success indicator to the advancement of systemic changes. The picture that emerges here is fully in line with what other points of analysis have highlighted, and the group building may also follow the same line. The truly divergent patterns of Central Europe, the Baltic States, South-East Europe and the CIS, represented here by two cases, the average performer Russia and the bottom line case of the Ukraine, add up to a fundamentally different trajectory of change. This is not based on qualitative assessments only, but is supported by quantitative evidence, based on growth potentials as constrained, or conversely, promoted by export performance of the respective transition countries.

6. Foreign direct investment as success indicator

This proposition sets out from the premise that investors vouch warranty for their opinions. Especially in the case of working capital, advancement of money and physical capital, often of management and market access, implies a degree of pre-committment to the country. Should this decision prove unfounded, as was the case in Russia in 1998, those taking the decisions may well lose their jobs, as many brokers and bankers could experience. Therefore this voting, by money, is not comparable to the filthy talk of laymen or tourists. Fashions and preferences in the beauty contest among transition countries obviously change. But the net inflows, recorded in table 11, do show an interesting overall assessment.

Tab. 11: Foreign direct investment in transition economies, 1989-1999 (net inflows recorded in the balance of payments)

	(In millions of US dollars)											In mn US$	(in US dollars)			(% of GDP)	
	1989	1990	1991	1992	1993	1994	1995	1996	1997 revised	1998 esti-mate	1999 projec-tion	Cumulative FDI-inflows 1989-98	Cumula-tive FDI-inflows 1989-98 per capita	FDI-inflows per capita 1997	1998	FDI-inflows as a % of GDP 1997	1998
Albania			8	32	45	65	89	97	42	45	94	423	132	13	14	1.9	1.5
Bulgaria			56	42	40	105	82	100	497	364	1.000	1.286	155	60	44	4.8	2.8
Croatia				13	77	95	83	509	196	600	500	1.572	349	41	133	1.0	2.9
Czech Republic				983	552	749	2.526	1.388	1.275	2.500	2.000	9.973	968	124	243	2.5	4.5
Estonia					156	212	199	111	130	565	350	1.373	947	90	390	2.8	10.4
FYR Macedonia						24	13	12	30	115	100	194	97	14	58	0.9	3.7
Hungary	187	311	1.459	1.471	2.339	1.146	4.453	1.987	1.653	1.700	1.800	16.706	1.652	163	168	3.7	3.6
Latvia				43	51	155	244	376	515	200	300	1.584	634	206	80	9.3	3.2
Lithuania					30	31	72	152	328	950	500	1.563	422	89	257	3.4	9.2
Poland			117	284	580	542	1.134	2.768	3.041	6.600	6.500	15.066	389	79	171	2.2	4.5
Romania		18	37	73	97	341	417	263	1.224	2.040	1.400	4.510	200	54	90	3.5	4.7
Slovakia		24	82	100	107	236	194	199	84	250	400	1.275	236	15	46	0.4	1.2
Slovenia		-2	41	113	111	131	170	178	295	154	300	1.191	596	148	77	1.6	0.8
Central and East. Europe and the Baltic States	187	351	1.800	3.154	4.185	3.833	9.675	8.140	9.309	16083	15244	56.717	366	60	104	1.8	3.0
Armenia						3	19	22	51	140	100	235	63	14	38	3.1	7.6
Azerbaijan					20	22	282	661	1.093	1.077	1.300	3.155	415	144	142	28.4	26.2
Belarus					18	11	7	70	190	108	70	402	39	19	11	1.4	0.7
Georgia						8	6	54	189	219	116	477	89	35	41	3.6	4.3
Kazakhstan					473	635	964	1.137	1.320	1.300	1.000	5.829	383	84	86	5.9	5.9
Kyrgyzstan					10	45	96	46	83	52	64	332	72	18	11	4.9	3.1
Moldova				17	14	18	73	56	64	100	170	342	79	15	23	2.9	5.8
Russia						539	1.710	1.700	3.752	1.100	1.000	8.801	60	25	7	0.8	0.3

Tajikistan			9	12	17	20	30	12	26		100		17	5	2	2.7								
Turkmenistan		na	79	103	233	129	108	110	100		762		157	23	23	5.9								
Ukraine		na	200	100	400	526	600	700	600		2.726		54	12	14	1.2								
Uzbekistan			9	48	73	-24	90	167	170	180		533		23	7	7	1.2							
CIS			226	871	1.568	3.783	4,511	7.647	5.088	4.726		23.694		84	27	18	1.3							
Total		187	351	1.800	3.380	5.056	6.425	13471	12663	16986	21286	20070		80.605		184	39	39	1.6					

Source: EBRD (1999), p. 14.

If we look at the first indicator, cumulative inflows of FDI, we see Hungary still leading, but Poland catching up with giant steps. It is in this perspective that we truly comprehend how low the level of foreign involvement in the CIS countries has been all across the 1990s, despite many declarations of intent. It is interesting to see that the Ukraine was faring relatively well, measured against Russia and Kazakhstan, the star performers in the CIS. We also have to take account of the major advancements the Czech Republic and Romania have been making in the late 90s.

If we turn to the more relevant per capita numbers, we correct the figures for country size. It is here where the true dynamics of both the Czech and the Estonian catch-up comes to the fore. We also must note how far Poland still is from her potential, despite the improvements in recent years. Among the CIS countries we must see Azerbaijan overtaking everybody else due to the giant investments into its oil industry. From the investors' point of view Kazakhstan is equally valued as Poland, and Lithuania like Azerbaijan, some comparisons an average analyst quite rarely would make. The laggard status of both Slovakia and Bulgaria, two countries recently having received very high marks from the Commission of the EU, comes to the fore with extreme brutality. In short, the different categories of transition countries do not seem to have lost their relevance for any practical and empirically based assessment.

Not less interesting are the per capita FDI numbers for the recent years. They show Hungary lagging behind the recovering Baltic States, which indicates that the Hungarian edge is not at all due to the efforts of the 1997-99 period. On the contrary, at the end of the 1990s a clear tendency of lagging behind emerged as governments tended to be more concerned with equity and social considerations, and large-scale reforms were slowed down.

The U-turn of investors from Russia is manifest, whereas Croatia and Slovakia have already indicated, before the changing of the guard, their potential to catch up, i.e. normalise their position as investment spots. If we turn to the very last columns of the table, we immediately perceive the overwhelming importance of country size. Investments into Azerbaijan account for 28 resp. 26 per cent of GDP, obviously more than total national savings and investments taken together. Similarly, single deals may change the entire positioning of individual Baltic countries, with the follow-up being totally unpredictable.

7. Perspectives for the 21th century

This is not the place to speculate about the very long run. What we have found in our statistical analysis is a reassuring congruity between empirical and qualitative policy assessments. Successes and failures could be reasonably interpreted by staying within the boundaries of the established policy analysis framework.

What is our value added to previously available knowledge? In a way this short paper may be a contribution to the longstanding controversy between two schools of thought on transition. One is the line of the international agencies, stressing the universal validity of economic laws. They assert that good policies do work everywhere, if implemented with due circumspection. The other school is that of path dependency, traditionally represented most forcefully by the Economic Commission for Europe. This view holds that good policies are implemented only in places where history has already laid the groundwork, where institutions, formal and informal ones, allow for good policies to become operational.

Our small contribution cautions against misusing the path dependency argument as a general excuse for misguided policies[11] that should have been averted anyway. If we remain only with the Baltic and by the post-Yugoslav states, we can be fairly sure that the respective institutional legacy of the Soviet and the Yugoslav period have been equally most significant for each of the successor states. Still, we do find manifest differences in all the areas we have investigated. The Estonian and the Latvian cases seem to have differed as much as the Croatian and Slovene cases. The Russian-Ukrainian comparison looks equally instructive. It is also hard not to see that in purely economic terms (in terms of activity indicators) Latvia and Lithuania still resemble other post-Soviet states more so than they do Central Europe ones. This should be not surprising, provided that we do not instrumentalise the path dependency idea for policy purposes.

If we focus on the frontrunner group, it is truly surprising to consider how little originality, in terms of economic policy mix and institution building, has remained from the fervour of the early transition debates. Privatisation seem to have gone basically via a variety of standard methods. Fiscal and monetary policy sooner or later have been converted to the

[11] For example Poznanski 1999.

Maastricht orthodoxy. Unconventional propositions, be that on system design or on policy options, seem to have receded into the museum of queer ideas.

Looking from this perspective the future of transforming countries seem to be crucially dependent on their successful mastering of some standard economic policy issues, like keeping their external balances right. This is not a transition-specific issue, still, it may become a major issue for the Baltic States and Poland. Creating a business-friendly atmosphere does not require innovations and Nobel-winning insights into economic sciences. Still, these good practices are easier said than done. The problem with Russia is thus not so much the lack of a peculiar economic model tailored to the Russian soul, as the inability to implement the basics of the standard economic strategy that has produced recovery elsewhere, including Central Europe.[12]

From this perspective, it is reassuring that latecomers also seem to stand a chance. Bulgarian reforms, this time not interrupted in the middle, seem to have worked and produced price stability and growth. Slovakia and Croatia are addressing their longstanding problems with a new impetus. Azerbaijan may see the sometimes ambiguous, though positive, spillover of FDI-led growth. On the other hand, arrangements built on foreign assistance, most notably in Bosnia-Herzegovina, Kosovo and Macedonia, but in a different way also in Ukraine, show no sign of developing into self-sustaining development stories. The convergence of growth and productivity trends of the new German provinces also has occurred much earlier than an overall catch-up process would have justified.

From this perspective we re-learn the old idea that assistance can never substitute endogenous growth. Therefore policies should be orientated towards bringing about its conditions, towards creating the institutions of financial intermediation that promote savings and turn them into investment uses. This justifies the idea of converning European transitions[13], seeing the parallel to southern European developments both in terms of institution building and in terms of international integration for the frontrunner countries.

[12] Hanson 1999, p. 1162.

[13] Braga de Macedo 1999.

From the theoretical perspective the experience of the frontrunner countries has contributed to the rebirth of political economy, i.e. an approach which combines quantitative economics with institutional and policy-related aspects of implementation. In this new line of investigation, having already made inroads in the leading academic journals of the United States, Britain and continental Europe, systemic change has been a unique opportunity to test competing theories, i.e. it has been serving as a laboratory for social sciences.

In this capacity, central European experience has been particularly instructive to help modelling and interpreting how to manage such wide scale rearrangements as pension reforms, often resisted by traditional vested interest politics in mature democracies. How can these be planned and implemented, without resorting to dictatorial methods?[14] Considerable follow-up potential is there on the political economy of privatisation and fiscal reform, just to mention a few areas for further research. These analyses may well highlight the limits to transplantations and the boundaries set by autochtonous development. Sustainability and credibility-oriented policy research can gain from, and the applications of these lines would positively add to, our understanding of the region.

Regretfully, empirical considerations do not allow for forecasting the demise of the discipline of transitology. It is hard to oversee that there are at least two major trajectories of transition[15], the second one covering much more people than the successful mainstream described above. This is the road to demonetarisation, to predatory states, rampant corruption and ongoing misery, self-reproducing conditions of a pre-reform third world country. The Balkan wars, but also the second war in Chechnya and the unprecedented destruction there has already made most of us aware of this danger. Therefore we shall also see a manifest divergence among transition economies.

Analysing such diverse country experiences can fruitfully contribute to new insights in neo-institutionalist and endogenous growth theory alike. Obviously we shall be able to learn quite a bit about the mechanics of generating growth and the contribution of international integration to the formation of different perceptions and expectations of economic actors in countries with shared origins, but with very different prospects.

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[14] Müller 1999, pp. 179-181.

[15] Samson 1999.

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