



Managing Economic Transition in Eastern Europe: Emerging Research Issues

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European Union Enlargement and the Future of Sub-Regional Co-operation in CEFTA

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Abstract

CEFTA has been in force since 1993. Its main objective has been to support the participating states' integration with the European Union through the development of the sub-regional free trade area. To date, the success of CEFTA has been apparent in a variety of ways, including: (a) fostering economic reintegration within central and eastern Europe; (b) contributions to 'soft' security in the sub-region;

(c) various indirect contributions to the EU pre-accession process; (d) its attractiveness to various other central and east European states (Croatia, FYR Macedonia, Ukraine, Moldova). The aims of this paper are firstly to discuss whether there is scope for further intensification of cooperation in CEFTA during the run-in to the first wave of EU enlargement and secondly to consider the maybe more important question of whether CEFTA itself can undergo further expansion and thereby make a contribution to anchoring some of the as yet more peripheral central and east European countries into the 'new' European economy.

Foreign Direct Investment Practices: the Case of Greek Companies in the Balkans

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Abstract

In the past years a very limited number of Greek enterprises had invested abroad (foreign direct investment-FDI) and the cost of investment was rather immaterial. This situation changed radically during the current decade with the trend of economic co-operation and investment activity in the Balkan States. Many big and medium size Greek enterprises invested in the Balkans and continue to do so. Since investing abroad is rather something new or unknown for the vast majority of Greek industrial firms or banks, the investment practice, similarities and differences between FDI and domestic investment activities are really important and interesting to be examined. The proposed research aims to examine the Capital Budgeting practices and the role of Management Accounting Systems in the appraisal of Capital Investment projects undertaken by Greek companies, abroad. Specifically, the investment activity of Greek enterprises in the Balkan countries will be examined.

Comparing Currency Crises in Emerging Markets: Lessons from the Asian Crisis 1997-98 for the Russian Crisis 1998

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Abstract

In the paper I compare the developments in the currency and financial markets of the Asian countries in 1997-98 with the Russian experiences in 1998. The questions of the prerequisites for a sound financial system and for effective currency markets are vital issues for example as to what the economic transformation of the former socialist countries and their future accession to the European Union are concerned. The paper represents the introductory chapter of my PhD thesis, and acts as a justification for the theoretical approach I am going to choose later in my research.

The underdeveloped state of the banking sector, the liquidity crisis prevailing in the banking sector, and the consequent incentive of banks to intermediate foreign money are important features underlying the currency crises as well in Asia as also in Russia. Illiquidity is a necessary and sufficient condition for financial and currency crises. It is especially interesting in the context of investigating whether liberalization of the capital markets has been too fast in Russia, since illiquidity and liberalization are linked. Moral hazard problem in the financial sector, resulting as a consequence of government guarantees for loans, is an important factor in the Asian crisis. It also plays a role in Russia as well, but it is not as extensive. The Asian crisis also seemed to be more contagious than the Russian crisis.

Cumulative effects of macroeconomic imbalances and microeconomic distortions were the main causes underlying the crises in both cases. However, political instability and

uncertainty arising from the lack of commitment to economic reforms the made the crises worse. The most needed structural reform in Russia is to get the public budget deficit under control. This differs from the Asian case. Furthermore, the weakness that the public finances represent in the economy is exacerbated by the fact that Russia is not a contracting state. Thus, the Russian financial and currency crises are structurally more persistent than those in Asia.

The dynamics of the interest rates is one key issue in learning to understand the development and functioning of the Russian financial and currency markets. This issue is complex. Efficiency of financial intermediation would require for the interest rates to come down nearer to international levels. However, for internal reasons, high real interest rates would be needed to attract badly needed investments in a transition economy.

In order to avoid future currency crises in Russia, the banking system and the working of the domestic capital market have to be improved. The Asian crisis showed clearly the importance of a sound banking system. This is even more important in Russia, since the Russian economy is not growing, as did the Asian countries before the crisis.

Institutional Collapse in Transitional Russia: Consequences for Managerial and Entrepreneurial Culture

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Abstract

Modern Russia has been going through one of those rare historical stages in which both the cultural and economic foundations of the nation endure radical change simultaneously. This puts particular pressure on the formation of the national pattern of entrepreneurial and business behaviour. Three major influences affecting entrepreneurial culture are identified in this contribution and their effects are evaluated. It is argued that the diffusion of new cultural patterns in business relations is going to be slow and idiosyncrasies will persist. As a result, a noticeable variance between national and international entrepreneurial culture is to remain a challenge to foreign firms doing business in Russia and a deterrent to the process of Russian marketisation in general.

Economic and Political Costs of Delayed Accession

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Abstract

The paper examines the process of accession of Central and Eastern European Countries (CEECs) to the European Union (EU) by using economic models. In particular the paper focuses on the position of governments of the CEECs in those countries furthest removed from eventual membership. These countries face economic problems, which can be classified as political feasibility, time inconsistency and uncertainty. The paper demonstrates that these problems are present in the accession process and have to be taken into account. The results of the analysis indicate that those countries furthest removed from the accession process face sizeable constraints in their pursuit of accession. They require more substantial, and unconditional, transfers by the EU and for these countries the delay of some of the reforms is optimal. The paper then goes on to demonstrate that in the recent past these constraints have manifested themselves in a number of countries, most notably Bulgaria and Romania. The paper acknowledges that these recent problems are only indicative but nevertheless asserts that these problems will become more prevalent in the coming years. It then concludes that the economic problems caused by this particular form of the accession process will delay full membership of the Union and might even cause the abortion of accession aspirations in these countries.



Managing Economic Transition in Eastern Europe

Inequality, Restructuring and Growth in Transitional Economies

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Abstract

Blanchard and Aghion (1994) analyse the impact of unemployment on the restructuring process in transitional economies and conclude that there is a maximum speed of transition. If the initial rise in unemployment is high, it is not possible to cut down employment in the state sector very quickly. Otherwise the job creation possibilities of the new private sector will deteriorate, because the effect of unemployment on job creation through taxes will more than offset the positive wage effect.

This paper extends the model of Blanchard and Aghion by adding the negative effect of inequality on production (Aghion and Howitt 1996) to the analysis of labour markets and restructuring. Regarding production in the private sector as a distribution function dependent on initial endowments instead of a fixed y the conclusions from the original Blanchard - Aghion model can be broadened to see the impact of inequality.

There are two cases in the paper. The first case describes two different exogenously determined ownership structures with identical aggregate endowments. The conclusion is that in the more unegalitarian economy restructuring will take place with higher equilibrium unemployment but with same speed. In the second case restructuring is endogenous and determined by the utilities of workers in the state versus private sector. There is asymmetric information between the workers and enterprise owners in the private sector. If inequality is taken into the model the equilibrium unemployment during restructuring will be higher in the more egalitarian economy, but inequality will slow down the whole restructuring process. This means that more productive workers prefer fast restructuring with higher possibilities of unemployment, while less productive workers tend to delay restructuring rather than increase their possibilities of becoming unemployed.

Insiders, Outsiders, and Ownership Change: An Institutional Model and Survey Evidence from Estonia

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Abstract

This paper discusses models of ownership change in employee owned firms, with special focus on transition economies. Two types of models are identified: Models with external market for shares, which discuss the change from employee ownership to outsider ownership (e.g. Aghion and Blanchard 1998), and models with internal market for shares, which discuss changes in the distribution of shares among insiders. Of the latter type of models, most prominent are degeneration models (e.g. Ben-Ner 1984; Miyazaki 1984). Another important distinction is between individual and collusive modes of share trade.

The paper proposes an institutionalist view to share trade. The focus is shifted from analysing games with given rules, to situations where insiders are able to influence the rules of the game (institutions). By adopting and developing formal and informal rules of trade, the initiators of privatisation are able to differentiate between potential buyers of shares. It is proposed that this view may improve our understanding on situations where there are both external and internal markets for shares, and incorporate more fully the role of the managers to the model. The implications of the model are discussed by analysing survey evidence from 62 Estonian firms with some degree of employee ownership.

Keywords: employee ownership, transition economies, Estonia, ownership change

Trade Flows and Spatial Effects: The Gravity Model Revisited

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Abstract

The paper revisits the popular gravity model of trade in the light of the increasingly acknowledged findings of spatial econometrics and interprets the results in view of some recent theoretical developments from the economic literature that contribute to its foundation. When the inherent spatial effects are explicitly taken into account, the magnitude of the estimated parameters changes considerably and, with it, the measures on the predicted trade flows. This result is illustrated on the case of predicted trade flows between the EU and some of its potential members.

Real exchange rate appreciation and loss of competitiveness. Case of Latvia

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Abstract

This study explores the phenomena of Latvian real exchange rate appreciation during transition in order to assess if repeatedly heard assertions of overvalued lats and its harming effect on country's competitiveness are empirically validated. To this end real effective exchange rate of ten major trade partners, including both advanced and transition economies at different stages of their restructuring, has been examined to find out if its dynamics can be explained by fundamentals. Theoretically approach is a synthesis of similar literature on advanced, developing and transition economies. Empirically it is assumed that actual real exchange rates converge to their equilibrium level, following an error correction mechanism. For estimations data of monthly frequency has been used.

The research finds that real effective exchange rate appreciation is an equilibrium phenomenon and can be well explained by institutional and structural adjustment, and gains in economic efficiency in general. In spite of a rather short sample, it has been possible to establish a cointegration vector, which indicates that the implied relationship is stable over the examined transition period. The level of fundamentals' driven real exchange rate shows continuous and rather sizeable overvaluation and thus supplies some justification for nominal devaluation.

Fiscal Policy and Structural Reforms in Transition Economies: An Empirical Analysis

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Abstract

This paper makes an empirical examination of the relationship between fiscal balance and structural reforms using panel data from 25 transition economies. The results indicate that price liberalisation has a positive impact on fiscal performance, while privatisation and restructuring, via unemployment, affect the fiscal balance negatively. These findings are somewhat in contrast with earlier empirical work and theoretical transition economics that maintain fiscal pressures are most severe in fast-reforming countries. The analysis further suggests that countries with better fiscal positions may have benefited from favourable initial conditions.

Key words: fiscal policy, structural reforms, transition economies

IMF Policy Towards Ukraine, IMF assistance: for what purpose?

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Abstract

The International Monetary Fund (IMF) has had some success in guiding Ukraine to healthier government finances. However, the IMF allowed Ukraine to accumulate an unsustainable debt burden. It also provided loans in exchange for promises to reform. The IMF did not take its own conditions very seriously. Ukrainian government liberalised as far as it did not hamper the consolidation of a rent-seeking economy. IMF lending policy was also in function of geo-political interests of major Western donors, primarily the USA. The IMF was ill equipped to provide advice that goes beyond macro-financial policies. IMF policy contributed to short-termism in policy making and diverted attention from strategic policy making. It seems that without power interest groups in favour of reform within Ukraine, the IMF does not have the leverage to impose market-oriented reform.



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WHATEVER HAPPENED TO VOUCHER PRIVATISATION?

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Abstract

Czech voucher privatisation, implemented over the 1992-4 period, was highly controversial from the start. It was justified around corporate governance theory, but the distribution of shares took place within a lax legal and institutional framework in the hope that weak regulation would make possible a rapid concentration of ownership. A minority of shares were exchanged for vouchers with much of the rest left temporarily under state ownership and sold gradually over the following years. This process was closely linked to the funding of political parties. Firms privatised predominantly by vouchers saw ownership pass largely to large investment funds which proved incapable of asserting their authority over incumbent managers. Fund strategies soon emphasised share trading and selling for quick returns, often at the expense of their own shareholders. The so-called 'third wave' saw rapid concentration of ownership with large profits to some new entrants who soon sold up. Tighter legal controls on share dealing were gradually introduced, but power was left with Czech industrial and financial groups that had often financed their purchases by building up substantial debts. They had neither the financial resources nor the managerial expertise to run their firms effectively.

Curriculum development in Industrial Management: A case study

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Abstract

This paper is abridged from notes describing a project funded by the British Know-How Fund (KHF). The project was involved with the process of restructuring degree courses at the Technical University of Sofia (TUS) and in particular to update the Industrial Management degree courses.

A partnership was developed between the staff of the TUS and the University of Nottingham over a period of three years. The achievements included the development of new curricula, the modularization of courses, the introduction of a TQA system and the development of a system for staff training and mentoring. Information describing the new degree structure and content was submitted to the IEE in the UK for accreditation. Additionally, a study was made of research possibilities and funding that would be appropriate for the staff of the TUS in the new environment in which they would be working.

The emphasis of the paper is on the curriculum development for the new Industrial Management course within the context of the changing economic and educational environment in Bulgaria

Implications of WTO membership for countries in transition

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Abstract

Taking the Republic of Belarus as a case study, the PhD explores sources and implications of systemic incompatibility between substantive provisions of the World Trade Organisation (WTO) and internal politico-economic structures of post-socialist countries. The sources of this incompatibility are twofold: first, the initial politico-economic structures of the central planning, alien, to those, assumed by GATT/WTO, and, second, the characteristics of the transitional process itself, i.e. non-linearity and quickness of time, the lack of internal systemic integrity, volatility of structures. Taken together, these characteristics objectively cause the emergence of a very liberal regime in domestic structures in former central-planning countries, especially at early stages of systemic transformation. The danger for the prospective politico-economic development for these countries emerges, when, joining the WTO at the stage of systemic transformation, the extreme neo-liberal regime is being bound, according to WTO regulations, which means that the transitional countries will be deprived of the possibility to change their policies to a less liberal direction in the future.