

Shahid Sadruddin Nanavati

Response #4

Discussion Questions: Does there seem to be an Asian style of transition versus European style? Or is there some more appropriate way to categorize transitions? What is accounting for the differences?

Taking the middle question first, of how to categorize transitions?:

The experiences of the Central and the Eastern European countries show that the costs of transition from a planned to a market economy can be substantial. Most countries undergoing such a transition suffered a sharp drop in output and employment and increased social and political instability in the early phase of their transition (Siebert, 1991: 14-16). Some countries like the former Soviet Union and Czechoslovakia even disintegrated politically under the reform pressures. In contrast, the Chinese transition appears to be relatively smooth. With the exception of the Tiananmen Square tragedy in 1989 China has so far not incurred any serious political or social upheaval. Economically it not only experienced no drop in output and employment during the transition but actually saw an increase in output at an annual average rate of over 9 per cent over the last 15 years. Thus the Chinese reform model is very often considered superior to other transition models and extolled as the model for other socialist countries. (Chai 1)

Brezis and Schnytzer say that: there has been a marked difference in the transition dynamics which have taken place over the past decade between Eastern Europe on one hand, and China and Vietnam on the other. The latter countries have introduced successful market-oriented privatizing reforms in the presence of communist dictatorships which show no signs of weakening. In Eastern Europe, however, the collapse of communism went hand in hand with economic reforms.

As per Woo Thye and Richard Philips, China began its privatization policy by introducing a market economy, that is, by creating a non-state sector consisting of non-state enterprises, where privatization refers merely to the introduction of some private enterprise into the economy. For example, enacting a law which allows an artisan to become self employed is a form of privatization. This type of privatization is considered to be rather primitive: This meaning of privatization was relevant to developments in Eastern Europe less than three to five years ago. Now ... for the most part Eastern European economies have moved far beyond these initial stages. Thus, in the context of Eastern Europe, privatization means the transfer of state-owned enterprises to private ownership.... For example, in Czechoslovakia, Poland and Hungary, the term privatization is generally used to refer to a specific program for the wholesale divestment of state enterprises. However, in other states, which have not progressed as far towards a Western style economy (for example Romania and Albania), privatization may merely refer to the efforts of individual state-owned enterprises to introduce an element of private ownership or to create a joint venture with private firms.

Shahid Sadruddin Nanavati

Response #4

Whether privatization is to involve merely the introduction of some elements of a market economy or the actual privatization of state enterprises, privatization, in the environment of the transitional economies, is not a simple transfer of ownership from state to private individuals. It is rather a process by which the very institution of property is introduced to economy. These economies require not only the restructuring of the economy but also the creation of private property and the institutions of a market economy, while ensuring a maximization of economic growth and a minimization of social, economic, and political disorder.

China, by contrast, has pursued the exact opposite strategy. Chinese reformers deferred state-sector privatization and focused on establishing the fundamentals of a market-oriented economy - in other words, a working market--in the newly created non-state sector (as per Jun Qian – seminar notes). However, in the Chinese context, a market-oriented economy that functions on commercial rather than politicized terms has been established, unfortunately, only in the non-state sector - hence the rapid growth and increased productivity of non-state enterprises. The Chinese state sector, on the other hand, continues to languish despite state-sector privatization because of the absence of key institutional mechanisms necessary to make privatization work.

Political and ideological considerations were among the factors that prompted Russia and many Eastern European countries to engage in speedy and mass privatization of state-owned enterprises and China to favour insulation of the state sector from private economic encroachments and preservation of social ownership.

ECONOMIST, Sept. 18, 1999, at 81 says that China took a politically induced path that allowed it to avoid many of the economic problems associated with Russian privatization. As the World Bank's chief economist has noted recently in his controversial critique of the IMF's role in Russian privatization "those who put privatization above all else were clearly wrong [They] thought that you had to pursue privatization, and infrastructural change would follow. They thought that the new owners of private property would demand that this happen. But instead they took their money out."

References:

- Richard M. Phillips & Marian G. Dent, *Privatizing Eastern Europe: A Challenge for the Nineties*, Handbook 1999.
- ECONOMIST, Sept. 18, 1999, page 81.
- Jeffrey Sachs & Wing Thye Woo, *Understanding the Reform Experiences of China, Eastern Europe and Russia*, in *From reform to growth: China and other countries in transition in Asia and central and eastern Europe* 31-33 (Chung H. Lee & Helmut Reisen eds., 1994).
- Roman Frydman & Andrzej Rapaczynski, *privatization in Eastern Europe: is the state withering away* 10(1994).
- C. H. Chai; *China: Transition to a Market Economy*, Oxford University Press, 1998
- Stiglitz J. E., "Incentive and Risk Sharing in Sharecropping", *Review of Economic Studies*, April: 219-56.

Plus the suggested readings