6 Institutional Change and Economic Development in East-Central Europe and China: Contrasts in the Light of the ‘East Asian Model’

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The contrast in institutional transformation between Central and Eastern Europe (CEE) and the former Soviet Union (FSU) on the one hand, and China on the other, is often characterized as one of shock therapy versus gradualism, although recently Sachs and Woo (1994) have argued that ‘structural’ differences make comparisons between the two cases problematic. This is part of a more general debate among economists concerning the pace and irreversibility of change towards a ‘market economy’. But at the same time, the predominant neoclassical approach of most economic analysts allows the divergent experience of the CEE/FSU and China to support a common standpoint on the desirability in particular of ownership change. In this view, the continuing poor macro-economic performance of the CEE/FSU is at least in part due to the failure to carry through the shock therapy logic fully, for example in allowing the continuation of soft budget constraints for large state-owned enterprises (SOEs) and ex-SOE; while the good performance of the Chinese economy is partly because despite the continued existence of a soft-budgeted state sector, the private and local-state firms (township and village enterprises – TVEs) have been ‘free’ to respond to market forces.

The response of ‘evolutionary’ writers is to argue that the CEE/FSU experience demonstrates that such deep-rooted change is unavoidably gradual, so that ‘muddling through’ must continue with the further clarification of ownership rights and improvements in state policies for structural change; the Chinese experience, on the other hand, is seen as supporting the need for continuity in central direction while the balance between state and market gradually shifts.
Our view is that both schools of thought are wrongly fixated on the simple dichotomy of state (or plan) versus market. Without going into the theoretical critique of the conventional schools, suffice it to say that the ‘developmental state’ or ‘East Asian model’, and the practical experience of the region’s main exemplars, notably Japan, Taiwan and South Korea, offer a very different framework for analysing the political economy of firms, markets and states (we do not here go into the very real differences among these exemplars). In this chapter we are concerned in particular with the enterprise as such: its ownership, its control or ‘governance’, its relations with the market, and with the state. Our initial standpoint is that for developmental purposes, a capacity for technological development and structural change is essential; that at the level of the enterprise this requires institutional arrangements which encompass both conscious coordination and the ‘invisible hand’ of the market; and that the state has an irreplaceable role in the promotion of development and change. Furthermore, such arrangements do not emerge naturally from a sort of meta-market of competition between alternatives; rather, they are socially constructed.

In this chapter we try to undertake an initial phase of clarifying the recent experience of transformation in the SOE in the CEE/FSU and in China, ‘in the light of’ the East Asian model. The second and third sections deal with each case in turn, essentially in terms of existing debate, but looking towards the ‘developmental’ concerns indicated above; since the debates in the two cases have had rather different concerns, these sections are not presented ‘in parallel’. The fourth section elaborates a bit more on some key aspects of the enterprise system in the East Asian model, while the final section links together the previous ones more explicitly and suggests an agenda for further work.

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Whatever the apparent pace of transformation in the early years, all of the countries of CEE, including the FSU, find themselves enmeshed in a long-drawn-out process of institutional construction, when it comes to the privatization of the dominant large state enterprises. The discussion in this section will draw in particular on the experience of the Visegrad group (the Czech Republic, Hungary, Poland, Slovakia) but will be organized around issues which are more widely relevant in the region.