# Central and Eastern Europe: A review of macroeconomic, privatisation and foreign trade situation during the early years of the transition process

by

**Dr. Shaukat Ali**

Lecturer
Graduate School of Business
Assumption University

***Abstract***

*The collapse of communism in the late 1989s, undoubtedly stands out as one of the most important global political phenomena since World War II. Economically, the transition from a centralised system to a market economy on such a vast scale-covering the entire Central and Eastern European region-constituted a unique and unprecedented phenomenon.*

*However, the euphoria which gripped the West following this dramatic turn of events soon gave way to a more sombre assessment of business prospects in the region. Problems in the region were familiar: most sectors of the economy were characterised by heavy overmanning and starved of investment for over 40 years, a continuos shortage economy resulted in growing, unsatisfied needs for a wide range of consumer and industrial goods. Having to deal with these problems was difficult enough; on top of this, the countries of the region were going through the political traumas associated with the jettisoning of the Communist system and the move to Western style democracies.*

*The progress being made by some, if not many, of the region's countries has been encouraging. While some countries such as Hungary, Poland and the Czech Republic are moving forward to become the `motor economies' of the region, most of the other countries have established the basic framework of commercial law necessary to a market economy, including bankruptcy legislation to stiffen the financial discipline of both state and private sectors. High priority has been given to re-creating a market based banking system and most countries have liberalised foreign trade and achieved current account convertibility of their national currencies.*

*This paper presents an overview of the political and economic events leading up to, and including, the fall of communism and the road to a market economy in the former iron curtain countries. It begins by presenting overall characteristics of a number of countries. This is followed by a macroeconomic overview of the region; the privatisation process, in all its manifestations is examined next, followed by foreign trade and its prospects for the CEE economies.*

## Introduction

*"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness".*

Dickens, A Tale of Two Cities

The changes that have occurred in Central and Eastern Europe since 1989 have been largely presented in a political context: the abandonment of the leading role of the party, multi-party elections, the introduction of western-style democracy and the removal of Soviet troops from Eastern Europe. However the major motivating force behind all this has been economic (Brown, 1990; Sword, 1991).

Economic and political reform began essentially with ***Glasnost***[1] (openness) and ***Perestroika***[2], a recognition that new economic thought and changes in foreign policy orientation were essential to the survival of the former Soviet Union. This was a fundamental policy shift away from the Brezhnev Doctrine which had given the right to the socialist countries, de facto the Soviet Union, to interfere in another's affairs to ensure that they followed the correct path to socialism. This was the post-event rationalisation of the Warsaw Pact invasion of Czechoslovakia in 1968. This action put an end to the various economic reforms of the 1960's and is widely accepted as the period when the majority of socialist states embarked upon the stagnation of the Brezhnev years. The fact that it took over 21 years for the Brezhnev Doctrine to be refuted is a testament to the bureaucracy and the insecurity that the system bred (Brown, 1990; Sword, 1991).

Originally, in the economic sphere, *Perestoika* was conceived as involving 'intensive development' concentrating on automation and improved labour efficiency. It evolved to attend increasingly to market indicators and incentives ('market socialism') and the gradual dismantling of the Stalinist central-planning system, with decision-taking being devolved to self-financing enterprises (Hutchinson, 1993).

Evidence as to the viability of reform had always been visible in Hungary and, to a certain extent, Poland.

[1] Russian for openness, Gorbachev's policy of liberalising various aspects of soviet life, such as introducing greater freedom of expression and information and opening up relations with Western countries.

[2] Russian for restructuring, the wide-ranging economic and political reforms initiated from 1985 by Mikhail Gobachev, finally leading to the demise of the Soviet Union.

Although Poland was the first country to elect a non-communist regime this was more a reflection of the dire economic and social circumstances that Poland found itself in. However, despite the advances made by these two countries, real headlining changes were those in the GDR, Bulgaria, Czechoslovakia and Romania. The rapid, dramatic and, in some instances, violent way in which these countries were transformed increased people's awareness and interest in Eastern Europe as "*our other half*". It took these events for people to realise that there was something to be gained from relations with Eastern Europe, be it investment, trade or socio-cultural agreements (Brown, 1990; Sword, 1991).

The pattern of trade between East and West Europe grew in the period following normalisation. In the 1970's and 80's, despite attempts to balance trade, most of the countries of Central and Eastern Europe tended to run up negative trade balances. The worst country effected by the growing debt problem was Poland, largely having embarked on a disastrous import-substitution programme based on foreign technology. This led to the halting of western credits to Poland and a more or less continual restructuring of its debt problem. However, although Poland was hit worse by the tightening up of the international financial markets, the country in the most dire position was Hungary, with the highest per capita debt which was further exacerbated by a slowing down in economic performance in the 1980's (Brown, 1990; Johnson and Loveman; 1995; CBI, 1994).

Following the initial euphoria, the economic performance and opportunities for Central and Eastern Europe began to be assessed in a very sombre light. After excessive optimism in the winter of 1989-90, the reform of Europe's command economies into western-style market economies has proved much more difficult in practice (Portes, 1991). The "big-bang" approach, by which the planning system was expected to be abolished overnight and capitalist prosperity fall like a manna from heaven proved to be an illusion. As so often, the sobering, hard message of economic reality brought an end to numerous theoretical speculations and many political dreams.

From the end of 1989 until fairly recently, the region was dominated by a distinct recession which intensified during 1990 and 1991. The drop in industrial production by approximately 30 to 40 percent somewhat exaggerates the seriousness of the situation, as this core, macroeconomic indicator happens to be based on the performance of the large industrial conglomerates which characterised the socialist economies. The drop in industrial output masked developments in, for example, the agrarian sector or small- and medium-sized enterprises and the service sector, all of which witnessed significant growth. So economic recession has been less pronounced than that suggested by the index numbers for industrial production, nevertheless it has been severe (Hughes and Hare, 1991).

Whilst the overall macroeconomic

picture has been the same for all countries of Central Europe, the cause of economic misery differs from country to country. In Poland, recession was mainly due to the macroeconomic shock therapy of the hyper-inflation which characterised the first phase of the reform. In Czechoslovakia and Hungary, negative developments were partly due to the uncertainty as to the direction and speed reform should take. In other countries, such as the former Soviet Union, the cause was the de facto collapse of the planning system without another system emerging (Hughes and Hare, 1991). All countries suffered from the aftermath of the negative external shocks of the collapse of trade within the former Council of Mutual Economic Assistance (CMEA), the loss of a major outlet (the former GDR), the Gulf crises and the collapse of energy supplies from the former Soviet Union.

By 1989-90 the countries of Eastern Europe all had a history of debts to Western banks and governments represented respectively by the London and Paris Clubs. They had nearly all borrowed heavily in the preceding years in a vain attempt to boost growth while maintaining consumption. The countries were, however, in very different positions; Romania had restricted domestic consumption at significant cost to its society and succeeded in paying all its debts; Czechoslovakia started with very little debt and has maintained an extraordinary disciplined approach to its finances both internal and external; Poland had large arrears to the Paris Club because it had retaliated against official sanctions imposed in response to the imposition by General Jaruzelski of martial law by suspending service of official loans and was now unable to service the accumulated debt. Hungary was equally heavily indebted but had maintained throughout its own lengthy and gradual reforms process, and under IMF tutelage, a position of being current on all its debts. Bulgaria, which was already over-extended and the Soviet Union which had maintained a good record but was borrowing quite rapidly at a time when its hard-currency exports-particularly oil-were already falling.

All countries of Central and Eastern Europe have devalued sharply against western hard currencies, a necessary step towards convertibility for trading purposes. When viewed in terms of purchasing power, the CEE countries are heavily undervalued (by approximately 40 per cent in Hungary and Poland's cases, and by some 60 per cent in the Czech Republic or Bulgaria[3]. These exchange rate policies have markedly improved price competitiveness. Wages are extremely low in comparison to international standards, thus acting as a potential magnet to investors (Dauderstädt, 1994). Most of the countries of the region have enticed foreign investors (or more appropriately the search for joint venture partners) with tax holidays and other privileges which are of dubious merit.

Whilst progress has been steady, it is widely believed that the countries of East and Central Europe have reached only the second and much tougher part of

[3] The Economist, 20 June, 1992

the transition to competitive market economies. This stage, it is suggested, is a question of deepening the legal, financial, and administrative institutional framework assembled in the early years of reform. Furthermore, it is a question of finally resolving through restructuring, rejuvenating, "entrepreneurialising", and privatising the deep-seated problems of the large and often highly concentrated state-owned industrial sectors and firms[4].

The necessary restructuring of the production apparatus has needed to be extensive. An estimated one-fifth of the capital stock is obsolete, and closing down outdated production facilities is one of the factors that forces the decline in industrial production in Central Europe. In the medium term, however, the fruits of opening up and restructuring are substantial. Hare and Hughes (1991) estimated that industrial production could increase to 30 percent above the level that was abandoned in 1989 if the production factors freed as a result are used in sectors which are profitable at world market standards.

Before proceeding with an overview of the macroeconomic situation, it is important to place the countries of Central and Eastern in context vis-à-vis their economic-political development. Until fairly recently, Westerners viewed the countries of Eastern Europe and the former Soviet republics as a homogeneous economic entity. This perception was widespread for many reasons: common Socialist ideology, the "us and them" mentality, typified by NATO/Warsaw Pact, EC/COMECON and the wide disparity in economic prosperity (Kraljic, 1990).

From a global business perspective, it is important to recognise the differences that distinguished the economies of former Eastern Bloc nations. Two approaches to understanding such differences have been suggested, by Samli and Jermankowicz (1983), Samli (1986) and more recently by Kraljic (1990).

Samli and Jermankowicz (1983) developed a conceptual framework for classifying the macro economic systems of different countries of Central and Eastern Europe based on the extent to which a given system is a centralised, authorative, economy (dominated by vertical linkages), or a Laissez-faire, market economy (dominated by horizontal linkages). Between these two extremes are three systems which according to them, distinguish former Socialist countries. The first system is *directive*, where the economy operates with direct planning based on strict central authority. Czechoslovakia, the Soviet Union, Bulgaria and East Germany were designated as directive economies. The second is a *mixed-middle* system, where a planned economy operates with central "indirect levers" and is tied closely to national economic development. Poland, Hungary and Yugoslavia were classified as "mixed middle" in nature-essentially planned economies but operating with central indirect layers, within which markets function in the context of differentiated rules. The third and least restrictive

[4] The Banker, April 1995

system Samli and Jermankowitz (1983) referred to as *integrative* (Ettenson, 1993). Here, enterprises and co-operatives operate independently within a market constrained only by national economic development plans.

Samli and Jermankowitz' classification has been reproduced and modified with due regard to subsequent development since 1989, which have increased the scope of market based economic sectors of all three countries (figure 1). Hungary has been the most aggressive in the reform process, followed by Czechoslovakia and Poland.

Smith and Rebne (1992, p.194) argue that:

> ***"....such characterizations offer heuristic value as indicators of FDI-related institutional developments. Contemporary discussions of FDI-related developments in Eastern and Central Europe have important descriptive value (Eichmann, 1990) but their typically a historical nature contributes to the underdevelopment of the institutional components of FDI theory.***

Kraljic's (1990) framework focuses on each country's "chances of success" in the post-Communist era. According to Kraljic, two factors distinguish former East European countries. The first is *economic development potential*, which includes factors such as industry structure, infrastructure, workforce skills, and resources. The second factor, *readiness and ability to accept change*, considers each country's experience with, and scope of, reforms as well as commitments to change by the people and the leadership. According to Kraljic, Hungary and Russia each have considerable economic development potential (Hungary because of its infrastructure, Russia because of its resources), while Poland falls somewhat below average on this factor. On the other hand, Hungary and Poland are considered superior to Russia in their readiness and ability to institute economic and political reforms (Ettenson, 1993). The Samli and Kraljic frameworks suggest that important differences did exist among former Eastern Bloc economies, a view echoed by Shama, (1992). The significant issue is that these differences persist and continue to influence the scope and pace of reforms in each country (Ettenson, 1993).

**Macroeconomic overview**

The programme of transition towards a market-type economy usually consists of stabilisation, economic liberalisation and restructuring packages of reforms (Portes, 1990; Hughes and Hare, 1992; Estrin, 1995). Stabilisation aims at reducing inflation and restoring the macroeconomic equilibrium. Economics liberalisation involves ending price control, leading to the establishment of reasonable relative prices. Restructuring seeks to create the institutions and infrastructure of a market economy (Portes, 1990 and 1992, Hughes and Hare, 1991 and 1992, Estrin, 1995).

Reform, both with respect to price liberalisation and macroeconomic stability was typically introduced in a single package (the 'big bang') in all countries except Hungary, where a more gradualist path has been followed since the late 1980s. Poland was first to introduce its reform programme of 1 January 1990, followed by Czechoslovakia on 1 January 1991, and the Russian federation on 2 January 1992. With the effective collapse of trade within CMEA on January 1991, soon followed by the disintegration of the Soviet Union, regional trade was severely dislocated (Estrin, 1995).

All the countries in the region- beginning with Hungary and Poland, followed by Czechoslovakia, then Russia and the Balkan states- suffered severe declines in output. The cumulative declines in output have been considerable: more than 15 per cent of GDP in Poland, Hungary and Czechoslovakia, around 30 per cent in Russia and even higher in other former Soviet republics and Albania. Industrial production declined even more severely, with cumulative declines of 40 per cent since 1989 in Poland, Hungary and Czechoslovakia, over 50 per cent in Russia and even more in countries such as Bulgaria and Latvia (Estrin, 1995). Four main reasons have been identified (Estrin, 1995) to explain this decline in output.

- *Demand shock associated with macroeconomic stabilisation plans, often entailing a deflation of around 15 per cent of GDP or more, to eradicate the budget deficit. Real wages fell by around 30 per cent as the release of the monetary overhang drove up prices while wage controls held down incomes.*
- *Restrictive money policy associated with macroeconomic stabilisation and establishing convertibility, with high real interest rates and tight credit limits.*
- *The abolition of CMEA and the former Soviet Union (rouble zone), with the more open economies, integrated into the socialist trading system, such as Bulgaria or the Baltic states, especially exposed.*
- *Much of the production in the planned economies was entirely wasteful and would be rapidly eradicated once markets were established. In as much as 20 per cent of industry, value added calculated at world prices was actually negative, i.e. the value of output if sold at world prices was less than the cost of the raw materials used to produce it, even before labour or capital costs were taken into account. (see Hughes and Hare [1992 ] for a more detailed study).*

Economic performance of the countries of Central and Eastern has been at various levels. In Hungary, Poland and Czechoslovakia, progress after the initial shocks has been rapid and sustained. Thus, despite very high rates of inflation initially (in 1989 Polish inflation exceeded 1200 per cent per annum), Poland has managed to reduce it to

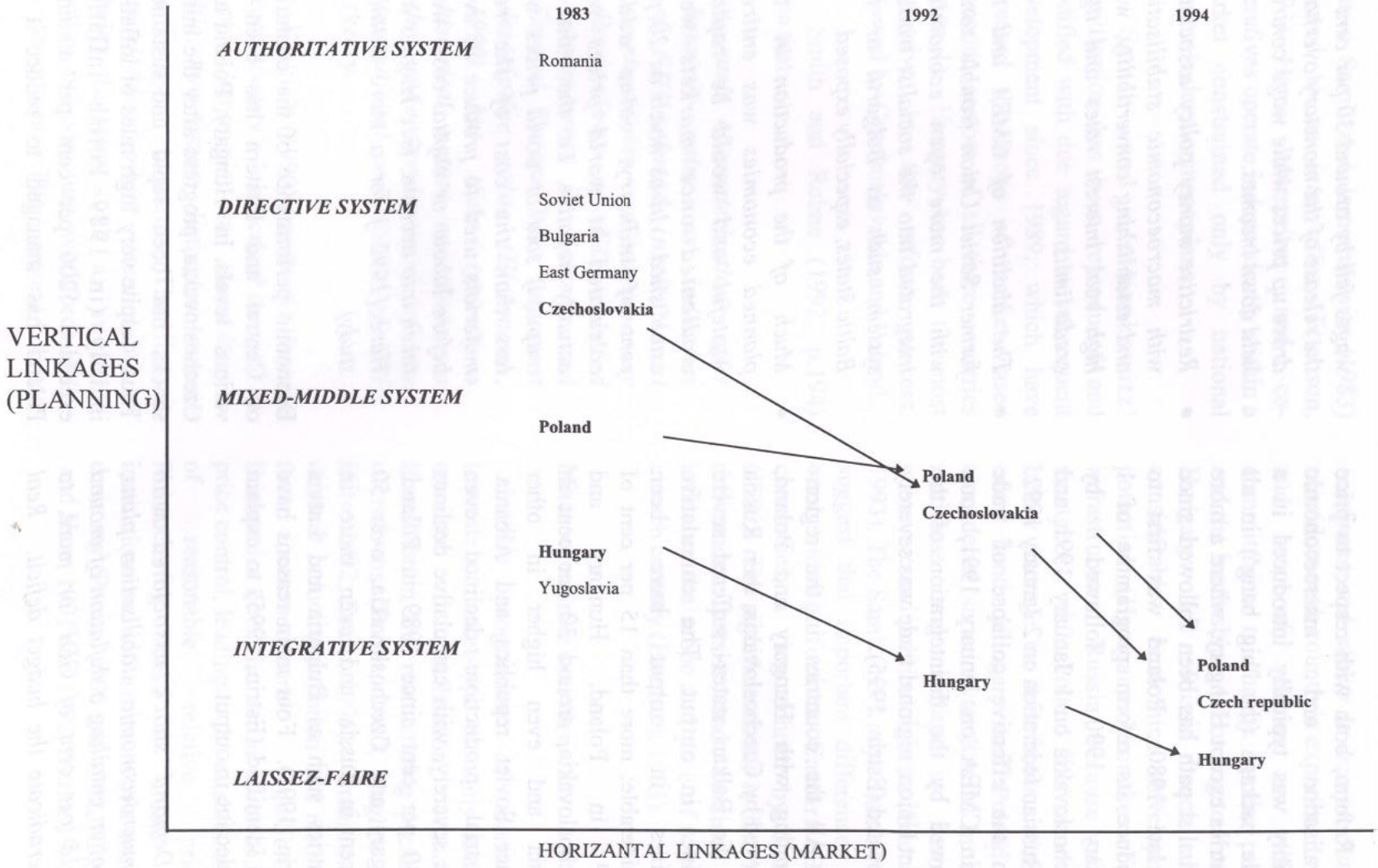



Figure 1 Schematic of Eastern European macroeconomic systems (modified from Samli & Jermakowitz) (1983)

manageable levels and the rate continues to fall, while economic growth has finally re-established itself. Poland led the former socialist countries into reform, and is now leading the way of out of recession. It began doing so as early as mid-1992. Poland's gross domestic product rose that year by 2 per cent, followed by increases of 4 per cent in 1993 and 5 per cent in 1994[5]. The Czech Republic and to a lesser degree Slovakia, are in a similar position. The macroeconomic situation started better and was not allowed to deteriorate, therefore inflation failed to take hold and is now the lowest in the region, with growth beginning to increase. During 1993 and 1994 the GDP for the Czech Republic went from zero to 3 per cent, whilst in the same period, GDP for Albania, former East Germany, Romania and Slovenia rose from 11 per cent, 6 per cent, 1 per cent, 1 per cent, to 7, 9, 2, and 5 per cent, respectively[6].

In 1994, Hungary and Slovakia, where recovery was slow to start, were joined by the Balkan and the Baltic countries where implementing reform and privatisation has been less effective, and which have experienced a larger output decline than the Central European countries. For example, even after the reform packages, inflation was still around 120 per cent in Bulgaria in 1992 and more than 200 per cent in Romania. In 1994 the GDP growth for Hungary, Slovakia, Estonia, Latvia and Lithuania was 3 per cent, 4 per cent, 4 per cent, 3 per cent and 4 per cent respectively[7].

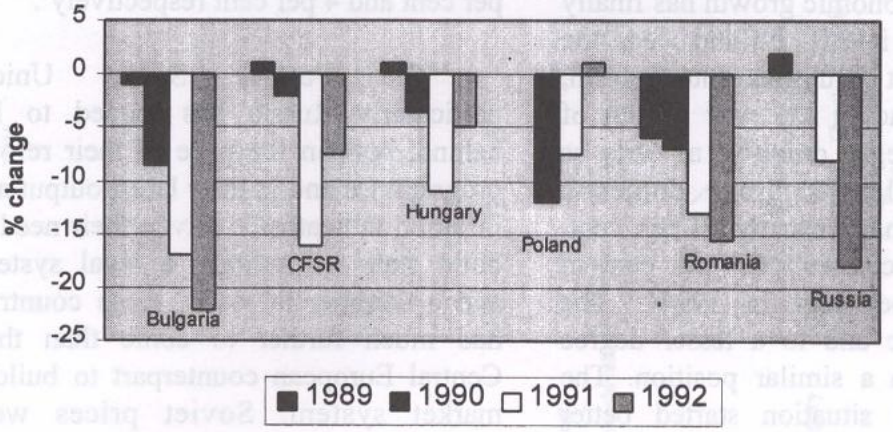
The Former Soviet Union, particularly Russia has tended to lag behind, both in the pace of their reform programmes and in their latest output and inflation indicators. Given their need to build state institutions, a legal system, and a commercial code, these countries had much further to come than their Central European counterpart to build a market system. Soviet prices were probably also much further from free market prices than, for example, those of Poland or Hungary. Though there have been many improvements, some fundamentals still have not been put in place. Thus, neither in Russia nor in Ukraine has the stabilisation policy yet been completely effective. Inflation rates are therefore more usefully measured on a monthly than an annual basis, and in Russia have exceeded 10 per cent per month for most of the period since price liberalisation, though they fell below 5 per cent in 1994. The situation is much worse in the Ukraine, where prices rose in 1992 by 4200 per cent. Reported unemployment has hardly increased despite the output (implying either huge subsidies for enterprises or a large backlog of unpaid wages) and in the Ukraine the government deficit remains huge; perhaps 18 per cent of GDP (Estrin, 1995). The fall in GDP and industrial production in a range of countries is shown in charts 1 and 2 respectively.

[5] The Banker, April 1995

[6] The Banker, April 1995

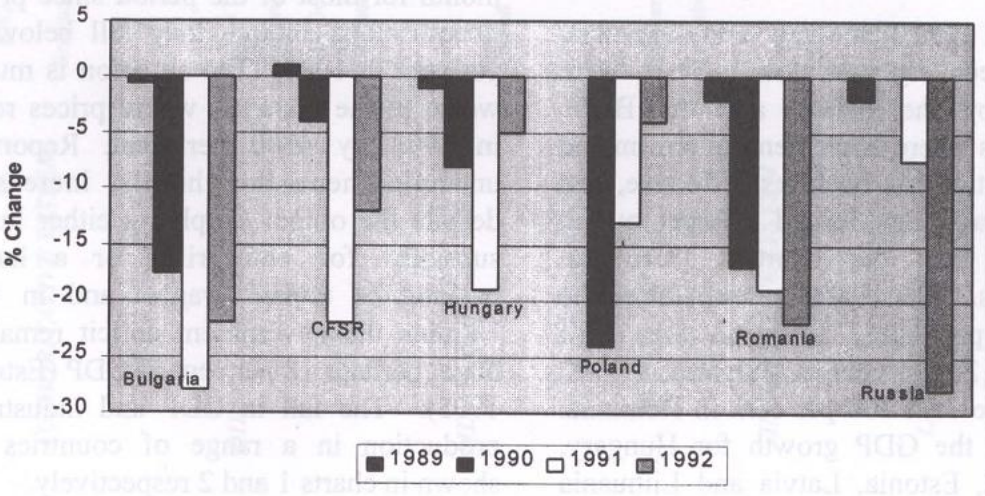
[7] The Banker, April 1995

**Chart 4.1 GDP at constant prices**




Source (both charts 1 and 2): OECD Employment outlook, July 1992; Employment Observatory 4, UN, May 1993; Goskomstat (Various issues)

**Chart 4.2 Industrial production**



The significant aspect of the above trends is the general correlation between economic recovery and progress in introducing market-based reforms. The countries which have been quickest to climb out of the region's post-1989 slump have tended to be those which were firmest in pursuing tough macro-economic stabilisation and economic reform programmes, which were quickest to drop price controls, liberalise foreign trade, withdraw subsidies, maintain balanced budgets or small deficits, and bear down on inflationary tendencies, and which were more determined to encourage new private businesses, to re-create a suitable legal, financial and institutional framework for a market-based economy, and to launch privatisation programmes[8].

Table 1 shows an overview of the transition progress in the former socialist countries at the end of 1994. The general pattern is that the further east one looks, the worse the economic situation. In Central Europe (other than the above mentioned countries) Croatia has been extraordinarily impressive in controlling inflation.

A truce in 1992 left a third of the country occupied by Serbs, but a tough economic macro-economic stabilisation programme since 1993 has brought inflation down from an annual rate of around 2,000 per cent to a negative 3 per cent at the end of 1994 (an accomplishment unmatched in other countries, east or west, north or south). Sanctions against the Serbian Republic and Macedonia (Greek blockade) have badly hampered progress. Spiralling inflation and falling output are endemic in many of the former Soviet Republics, especially in the Caucasus and Central Asia.

**Privatisation**

The sale of state enterprises has been at the centre of the transformation process in Central and Eastern Europe. The rationale for privatisation has been that, if done well, it would free companies from the restricting grip of the state and stimulate competition, drawing capital from the West to the region (Estrin, 1995; Hughes and Hare, 1992; Schaffer, 1992).

Whilst it is not the purpose of this paper to provide a comprehensive review of the privatisation process in Hungary, Poland and the Czech Republic, this section does briefly outline the context in which privatisation has been occurring, noting that the differences in design of each country's programmes are dependent on the power relationship between the state, former party officials, and enterprise insiders (managers and workers).

Different countries have pursued different policies. The Hungarian, Russian and Ukrainian schemes all give many preferences and incentives to the enterprise insiders- a function of the relative weakness of the state in these countries. In these countries, the state has largely functioned only as the creator of a framework within which bargaining

[8] The Banker, April 1995

among individual actors has taken place. For example in Hungary, as Urban (1993) states, the revenue from privatisation is likely to be consumed by politically-motivated grants to enterprise insiders, local governments and previous owners.

On the other hand, with a strong open market orientation and a clear intent to prevent insiders dominating the process, the strong Czechoslovakian government pursued a centralised privatisation scheme in the form of almost free distribution of vouchers (Mladek, 1993). The Romanian programme, not surprisingly, given its previous ultra-centralisation of control, has also tended to be centralised, with the advantage of avoiding problems associated with property rights, as in Hungary and Poland for example (Earle and Sapatoru, 1993). The problem with this centralised approach is delays in privatisation due to the excessive entanglement of the state in the process.

In Poland, the reform process in general and privatisation in particular, has been labour -dominated, requiring the approval of a majority of employee representatives, resulting in few privatisations occurring. Instead, de facto privatisation by " liquidation" had been taking place, which is very advantageous to insiders, and the law makes it difficult for the state to oppose it- a consequence of the worker's influence over the drafting of the privatisation procedures.

The exact blend of privatisation and the degree of success in moving from public to private sector has varied within countries. The alternative approaches to privatisation, their strengths and weaknesses and the countries where each alternative has been attempted have been summarised by Estrin, (1995) as shown in table 2.

An indication of the extent to which the various approaches to privatisation have been successful can be seen from table 3. As Estrin (1995) remarks, probably the most successful countries to date are the Czech and Slovak Federal Republics. A courageous and brave mass privatisation scheme based on the sale of privatisation vouchers to the population attracted more than 8 million participants and succeeded in privatising around one third of industry, with the result that more than half the employment in the two countries is now in the private sector (Estrin, 1995). In the two great waves of voucher privatisation the Czech republic has given away some 350 billion Czech crowns ($13 billion), with the result that its stock market capitalisation as a percentage of GDP is now bigger than Germany's[9].

Russia has also pursued a vigorous mass privatisation policy, based essentially on the free distribution of shares to managers and workers. Poland, despite avoiding mass privatisation policies, has experienced extraordinary growth in new (privately owned) firms, with more than half the labour force already employed in the private sector (Estrin, 1995).

[9] The Economist, May 20, 1995

**Table 1 Economic performance of CEE countries at the end of 1994**

| Country | Pop m | Private Sector % GDP | Real GDP Growth % | Inflation % | Unemploy-ment % | Foreign Investment $m | %* |
|---|---|---|---|---|---|---|---|
| **C & E Europe** | | | | | | | |
| Albania | 3.4 | 50 | +7 | 18 | 17 | 39 | 0 |
| Bulgaria | 9.0 | 40 | -2 | 120 | 13 | 164 | 1 |
| Croatia | 4.8 | 40 | -2 | -3 | 20 | 46 | 0 |
| Czech republic | 10.3 | 65 | +3 | 9 | 3 | 2,600 | 21 |
| Slovakia | 5.3 | 55 | +4 | 12 | 15 | | |
| Hungary | 10.3 | 55 | +3 | 21 | 11 | 5,441 | 44 |
| Macedonia | 2.2 | 5 | -7 | 54 | 29 | na | na |
| Poland | 38.5 | 55 | +5 | 31 | 16 | 839 | 7 |
| Romania | 22.7 | 35 | +1 | 62 | 11 | 140 | 1 |
| Slovenia | 2.0 | 30 | +5 | 18 | 14 | 275 | 2 |
| **Former USSR** | | | | | | | |
| Estonia | 1.6 | 55 | +4 | 42 | 3 | 180 | 1 |
| Latvia | 2.7 | 55 | +3 | 26 | 5 | 103 | 0 |
| Lithuania | 3.8 | 50 | +4 | 44 | 1 | 45 | 0 |
| Armenia | 3.7 | 40 | 0 | 1,100 | 6 | na | na |
| Azerbaijan | 7.3 | 20 | -15 | 1,900 | na | na | na |
| Belarus | 10.4 | 15 | -26 | 1,775 | 2 | na | na |
| Georgia | 5.4 | 20 | -35 | 7,300 | 5 | na | na |
| Kazakhstan | 17.3 | 20 | -25 | 1,000 | 11 | 400 | 3 |
| Kyrgyztan | 4.4 | 30 | -10 | 90 | na | na | na |
| Moldova | 4.3 | 20 | -20 | 120 | na | na | na |
| Russian Fed. | 148.3 | 50 | -14 | 216 | 2 | 2,000 | 16 |
| Tajikistan | 5.6 | 15 | -15 | na | na | na | na |
| Turkmenistan | 3.9 | 15 | -10 | 1,500 | na | na | na |
| Ukraine | 52.1 | 30 | -23 | 275 | na | na | na |
| Uzbekistan | 22.5 | 20 | -3 | 368 | na | na | na |

Source: The Banker, April 1995 * of CEE total

**Table 2 Privatisation strategies of various countries**

| METHOD | COUNTRY USED IN | STRENGTH | WEAKNESSES |
|---|---|---|---|
| Spontaneous | Hungary (1980s)<br>USSR (early 1990s) | Fast<br>Pragmatic | 'Unfair' ripoff |
| Sales | Germany, Hungary<br>Most other countries<br>for "plum" firms | 'Real' owners<br>Fiscal revenues | Slow |
| Free distribution to the population | Czechoslovakia, Poland,<br>Mongolia | Fast<br>'Equitable' | Untried, No revenues<br>'Token' owners |
| Free dist. to managers/workers | Russia | Fast<br>Feasible | Inequitable, No revenues,<br>fails to encourage restructuring |
| Reprivatisation (smaller assets) | Germany, Czechoslovakia,<br>Poland, Bul. Romania | Recreates middle class<br>'Fair' | Legal congestion, Delays<br>Loses revenues |

Source: Estrin, 1995,

**Table 3 Growth in the private sector**

| SHARE OF GDP (OUTPUT) | 1989 (%) | 1990 (%) | 1991 (%) | 1992 (%) |
|---|---|---|---|---|
| Czechoslovakia | 4.1 | 5.3 | 8.1 | |
| Poland (includes co-operatives) | 28.6 | 30.9 | 42.1 | |
| Hungary | | 19.0 | 28.0 | 33.0 |
| Romania | 13.0 | 16.4 | 21.0 | 25.6 |
| Bulgaria | 7.2 | 9.5 | 11.9 | 15.6 |
| Russia | 5.3 | 6.0 | 10.0 | |
| **SHARE OF TOTAL EMPLOY.** | **1989 (%)** | **1990 (%)** | **1991 (%)** | **1992 (%)** |
| Czechoslovakia | 1.2 | 6.4 | 16.4 | 35.0 |
| Poland (includes co-operatives) | 44.3 | 45.8 | 51.1 | 57.0 |
| Hungary | | 56.7 | | |
| Romania | 5.9 | 8.2 | 21.5 | |
| Bulgaria | | 5.9 | 10.0 | 14.1 |
| Russia | 1.6 | 2.6 | 4.8 | |

Source : Estrin, 1995

Despite the apparent success of the privatisation process, a large number of enterprises have not yet been privatised at all. By the end of 1994 Hungary had sold off about 40 per cent of state owned enterprises by book value. Poland, which had 8,400 state owned enterprises in 1990, still has about 5,400, of which 1,700 are in some form of bankruptcy proceedings. Even in the Czech republic, where the government has rid itself of most state assets, the National Property Fund (NPF) has held on to stakes of more than 20 per cent in 400 companies.

**Foreign Trade**

For many decades Central and Eastern Europe had practically no link with world markets and consequently never played an important part in world trade . Trade was only undertaken according to plan, which meant, for example, that in order to obtain hard currency, unprofitable international transactions were regular occurrences. To obtain hard currency, the socialist countries were prepared to sell with heavy losses if necessary. Subsidies on consumer goods and housing and for loss-making industries distorted prices too and, in consequence, economic conduit. Major differences between their domestic price structure and relative world prices yielded a specialisation pattern, which although fairly efficient within the closed eastern bloc, following the collapse of socialism, proved completely useless in international relationships. A second consequence was that accounts based on domestic prices gave hardly any information on either the profitability or losses of industries in the region. Von Dewall et al. (1990) considered, for example, the food processing industry as one of the "crown jewels" of both Czechoslovakia and Hungary, with excellent prospects. When valued against world prices, however, these proved to be highly unprofitable industries.

Furthermore, their trading potential, despite Comecon agreements, was never fully exploited, with typical CEE trade always much lower than typical Western trade. In Europe, political contrasts distorted intra-regional trade between East and West for almost half a century. This not only occurred due to politically inspired economic warfare but also on the fact that sectoral interests could very well be served under the pretext of political assumptions (Lanjouw and van Leeuwen, 1991; van Bergeijk, 1992; and van Ham, 1992). As an illustration, Eastern Europe, at the outset of the political revolutions, was confronted by some 5,600 non-tariff import restrictions within the Organisation for Economic Co-operation and Development (OECD) while the EC's anti-dumping measures of the last decade were disproportionately directed at the Eastern bloc counties.

Up to 1990, the "Eastern Bloc" countries conducted most of their trade with one another, where more than two-thirds of the goods exported by CMEA members to other CMEA countries was absorbed by the Soviet Union as shown in table 4. The Collapse of the CMEA inflicted a severe shock on all member countries, including the former Soviet Union. The sudden switch from the soft

transferable rouble to the hard currency settlement mechanism accompanied by the fall in Soviet oil output, changed dramatically the external position of the former CMEA economies. Sectors that had been developed to serve the intra-CMEA division of labour faced major contractions in demand for their products. These sectors, together with those established for political rather than economic reasons, accounted for a considerable portion of the industrial output of the former CMEA region (Dauderstädt, 1994).

The structure of Central Europe's intra-trade was very different from its trade with the OECD Member States as, in the years prior to the revolutions in 1989, the transfer of technology from the West to these countries was greatly limited by the Co-ordinating committee on Multilateral Export Controls (CoCom) regime. The manufactured goods' sector (particularly capital goods) was seriously hit. As a result intra-Central European trade focused on manufactures and capital goods while exports to Western markets increasingly consisted of primary products, especially raw materials and energy. Importantly, the Central European countries despite their considerably high standard of education, were unable to avoid the consequences of the CoCom embargo on technology by initiating their own fundamental research (Estrin, 1995; Hughes and Hare, 1992, Schaffer, 1993).

**Table 4 Trade among CMEA Countries in 1990**

| Country | CMEA trade in % of total foreign trade | The USSR's share in CMEA exports in % |
|---|---|---|
| Bulgaria | 75.3 | 78.5 |
| Romania | 45 | 73.9 |
| Hungary | 44.5 | 70.2 |
| Czechoslovakia | 74.1 | 67.5 |
| Poland | 70.2 | 68.5 |
| USSR | 61.2 | - |
| GDR | 65.7 | - |

Source: Dauderstädt, 1994

During the period 1989-1992, trade declined drastically and rapidly in the region. As table 5 shows, between 1989 and 1991, exports declined between 40 per cent and 75 per cent depending on the country, comparable to the drop in world trade during the Great Depression of 1929-1933 (Winkler, 1992; Dauderstädt, 1994). This collapse in trade had a drastic, exacerbating effect on the falls in output, incomes and employment triggered by the reform process itself. The IMF attributed more than 50 per cent of the loss in output to the collapse in trading relations. Rodrik (1992) estimated the cost of the collapse to be $2.2 billion for Poland, $2 billion for Hungary and $3.4 billion for the former Czechoslovakia, which translates as 7-8 per cent of GNP for Hungary and Czechoslovakia and 3 per cent for Poland.

The introduction of world prices and the switch to payment in convertible currencies brought about a fundamental change in the pattern of costs and earnings from trading and production. Raw material prices increased whereas those of manufactured goods fell. Thus a considerable proportion of manufacturing activity turned out to be value-subtracting, i.e. the end-product was worth less on the market than the total cost of its inputs. The CEE manufacturing countries could no longer afford to barter their finished goods to obtain raw materials, while the same exchanges were unprofitable for the raw material producers in the CIS. East Germany's trade was additionally hit bythe major revaluation of the "Ostmark" implicit in reunified Germany's monetary union (Estrin, 1995).

**Table 5 Decline in exports to the former CMEA Zone 1989-1992 (%)**

| Country | Exports to the ex CMEA as % of foreign trade | Exports to ex-ex-USSR |
|---|---|---|
| Bulgaria | -81.6 | -84.0 |
| Romania | -64.9 | -62.2 |
| Hungary | -50.7 | -54.8 |
| Czech. | +1.9 | -7.8 |
| Poland | -26.2 | -14.2 |
| USSR | -43.9 | - |

Source: Dauderstädt, 1994

The size of the export sector in overall economic activity has increased significantly in only the three most reformed countries of Hungary, Poland and the Czech republic. Whilst trade has been redirected from the CMEA to the OECD, the sustainability of the change is unsure, particularly in the long-term. In the longer run, a sustained export performance and integration with the world economy will depend on many factors including macroeconomic policies, exchange rate policy, foreign direct investment flows and domestic savings, as well as on the development of an institutional environment enhancing microeconomic efficiency.

Since 1990, the main focus of the economic policy debate was on the dire consequences of the collapse in trade. Whilst the consensus has been to revitalise trade, obstacles and difficulties have been inhibiting factors. Dauderstädt (1994) summarised these as follows.

- **Monetary constraints**

  *Convertibility, high and differing inflation rates, underdeveloped foreign exchange markets, system of export credits and insurance.*

- **Protectionism**

  *OECD/EU trade restrictions and non-tariff barriers*

- **Lack of demand**

  *Aggregate, macroeconomic restraints, microeconomic slumps in many products*

- **Structural bottlenecks**

  *Poor transport and communications infrastructure interfere with attempts to re-orient the regional patterns of trade flows.*

In the liberalisation and integration of its economy into the world market, the countries of Central and Eastern Europe have done much themselves, but an export-oriented growth strategy can only be viable if the West modifies its trade policy. At present a curious phenomenon is to be observed: Western Europe prefers to aid and investment rather than reap the benefits of free trade. The association agreements which the EC signed on 16 December 1991 with Hungary, Poland and Czechoslovakia, provided for the immediate abolition of import duties and ceilings, but at the same time created exceptions for the textile sector (ceilings remain until 1998 at least) and for the coal sector, whereby Germany and Spain enforce import restrictions until 1996. The export opportunities for Central Europe's agrarian sector, too, were sacrificed on the alter of Europe's agricultural policy. Import duties for all these sensitive sectors remain until 1997. Apparently the EC expects more from capital transfers than from the liberalisation of trade relations (Hughes and Hare, 1992).

Moreover, trade liberalisation can be considerably more effective than large capital injections, which-while helpful in the short-term-run counter to the reform process because they reduce the incentives to reform and tend to be allocated in a less efficient way (Hare and

Hughes, 1991; Diwan and Saldanha, 1991). Consequently, for Central and Eastern Europe, access to the West's product markets is just as important as the liberalisation and dismantling of the old command system and will-certainly in the long term-be more helpful than financial injections. Financial flows can make up for the lack of access to Western markets to a very limited extent only (van Bergeijk and Lensink, 1991). This, it is suggested means that Western aid needs to consist primarily of knowledge-related transfers, thereby improving management and quality control, enabling Central and Eastern Europe to hold onto its share of the world market and ultimately to increase it (Dyker, 1993).

Central European countries have little problem with OECD import duties. Non-tariff barriers (NTBs) such as technical and quality requirements, however appear to be serious bottlenecks as CPEs were unable to get around NTBs by improving the quality of their products. Drabek and Olechowski's (1989) comparison of prices of Central European products on the EC market with average world market prices and products from Third World countries demonstrates that the prices Central European products are, on average, one-third lower; with exceptions such as chemicals and transport equipment. The combination of low prices and inferior export performance indicates inferior quality. Third World countries and Central European countries will soon be competing with each other on the same goods markets; the former CPEs are losing the competitive battle with the Third World and in particular with the newly industrialised economies (NIEs) of south-east Asia.

The impact of trade barriers to the economies in transition is significant, to the extent that restrictions stop these countries benefiting from their comparative advantage and create obstacles to entry onto a "normal" economic development path. The East Asian "tigers", for example, began their march toward prosperity in textiles and steel, exploiting an abundance of cheap, reasonably well-trained labour. Then as their work forces began to enjoy the benefits of economic development and labour became more expensive, they began to switch to more capital and technology intensive sectors of production. By preventing East European countries from getting on the bottom rung of this development ladder, Western governments could be blocking their chances of ever making it to the top, or even to the middle (Dyker, 1993).

Important differences exist within Central Europe. Table 6 shows the development of exports to OECD countries both for individual countries and for Central Europe as a whole. All counties experienced the disadvantage of an unfavourable export package as well as an unfavourable regional distribution of their exports, which negatively affected their export growth. Hungary and Poland, however, succeeded to some extent in compensating for these disadvantages and improved their competitive position, possibly due to the fact that these countries have been restructuring their economies for some time now. In the agricultural sector,

particularly, their competitive position is improving. In addition, due to the industrial structure and trade flows which existed in the past amongst the Central European countries, Hungary is steadily improving its performance in the capital goods sector and Poland in semi-manufactures.

Table 7 compares the technology intensity of Central European exports to the OECD before the revolution, with the Federal Republic of Germany (FRG) exports. Central European exports would seem neither capital-nor R & D-intensive. The emphasis on technological research for military use only offers part of the explanation. Spin-offs from the military to the civil sector did not occur due, amongst other reasons, to exaggerated secrecy requirements (Schaffer, 1992).

Technological inferiority partly explains the collapse in the trade in capital goods between the reforming economies in 1989-90. Since then, however, prospects for Central European capital goods seem to have improved. Not so much because Central European products have been dramatically upgraded, but because price in relation to quality has become more realistic.

Opening up Central European markets to international trade has been necessarily drastic. The liberalisation of foreign trade adopted in one blow the international relative price structure. The step, however, was unavoidable as privatisation of the Central European economies would have failed without the guidance of world market prices. Those industries which according to then

**Table 6 % of Central Europe's market share of the OECD market (1987-1989)**

| | Hungary | Poland | Czechoslovakia | Central Europe |
|---|---|---|---|---|
| Export growth | 21.5 | 23.5 | 19.5 | 14.5 |
| OECD market | 22.5 | 22.5 | 22.5 | 22.5 |

Source: Van Bergeijk, et al.(1990)

**Table 7: Comparison of technology-intensity of Central European exports to OECD countries vis-à-vis the FRG (1989, % of total exports)**

| | Hungary | Poland | Czech. | FRG |
|---|---|---|---|---|
| Raw material intensive | 40 | 45 | 27 | 9 |
| Labour intensive | 21 | 18 | 17 | 21 |
| Capital-intensive | 14 | 18 | 20 | 28 |
| Basic technology | 12 | 8 | 12 | 15 |
| High technology | 11 | 10 | 12 | 27 |

Source: OECD Working Paper (1991)

(distorted) domestic prices showed a profit, may actually yield a loss at world market prices, necessitating closure or restructuring. On the other hand a number of industries showing heavy losses at domestic prices could very well compete on the world market.

Table 8 summarises studies undertaken by Hare and Hughes (1992) which provide a useful indication of both the strong and weak points and also of the consequences of the necessary restructuring in the countries. These studies take as a point of departure the input/output structure which, in a command economy , must by definition be known in detail. This means that reasonably precise information can be given for a certain branch about the requirements for raw materials, intermediate inputs, labour and capital. Valuing both input (capital, labour, raw materials, intermediate inputs) and sales at world prices yield a reliable indication of the viability of sectors. In the case of many Central European products, Hare and Hughes found negative value added, i.e. the value of the final product (e.g. a Skoda car.) on the world market was less than the costs of the raw material and intermediate inputs used for its production on the same world market.

Significantly, table 8 shows that differences existing between the countries are more important than one would a priori expect given that self-sufficiency has been the target of forty years of command economy. Fortunately the strong industrial sectors in Central Europe demonstrate economic diversity; not a single sector is strong in more than one country. International specialisation within the region is therefore a realistic option: the countries involved will not get in each other's way if they concentrate on their strong points.

Generally speaking, strong sectors are not just labour-intensive but knowledge-intensive as well. The situation for weak sectors is quite different. Artificially low food prices in the past generated the weak position of the food processing industry in all countries, mainly by rendering investment unprofitable. For the same reason energy-intensive branches are not competitive: the low energy prices that until recently were charged by the Soviet Union kept inefficient energy-intensive production technologies alive, and actually stimulated large-scale wastage.

Not surprisingly, the CEE countries' expectations are greatest with regard to the European world markets. For foreign policy reasons in themselves, the West took an accommodating stance toward Central and Eastern Europe. The reforming economies were allowed market access by application of the "most favoured nation" clause and the Generalised System of Preferences, while the COCOM list of restrictions was also relaxed.The various European agreements concluded all contained major relaxation in trade policy, though they often still left protectionist escape routes open, particularly in sensitive sectors such as agriculture, steel, cement etc. (Dauderstädt ,1994).

**Table 8. Threats/opportunities of Central Europe integration in the world economy**

| Strong Sectors | | Weak Sectors |
|---|---|---|
| | **CZECH.** | |
| Non-ferrous metals | | Meat, fish and dairy products |
| Machinery | | Fruit and vegetable products |
| Plastic products | | Oils and fats |
| Pottery and chinaware | | Cereal products |
| Glass and glassware | | Tobacco products |
| | | Leather products |
| | **HUNGARY** | |
| Footwear | | Meat, fish and dairy products |
| Leather products | | Fruit and vegetable products |
| Cement | | Oils and fats |
| Wood products | | Iron and steel |
| | **POLAND** | |
| Cereal products and other foodstuffs | | Meat, fish and dairy products |
| Tobacco products | | Fruit and vegetable products |
| Printing | | Oils and fats |
| Instruments, etc. | | Basic chemicals |
| | | Non-ferrous metals |
| | | Cement |

Source: Hughes and Hare (1991), Table 2 and 4. (Note: Weak sectors show negative value added at world market prices. Strong sectors are those whose results are at present most negatively affected by the distortion of the relative price structure.)

The relative opening of Western markets, the devaluation of CEE currencies, low labour costs, and the availability of productive capacity all facilitated a substantial growth in exports to the West between 1989 and 1992 as shown in table 9.

Imports from western countries also increased significantly, though more or less keeping pace with exports. Whilst there has not been dramatic deficits in western trade EC recorded a growing surplus of ECU 1.4 billion in 1991 and ECU 2.5 billion in 1992 (Dauderstädt, 1994).

Direct investment and solid economic policy environment ease the process of modernising (export-orientated) production. Most of the countries have been liberal in opening up entry to foreign investors, with the countries of central Europe more liberal than the CIS countries. By 1993, the flow of funds had reached a total of

approximately $9 billion, half of it going to Hungary alone (Alter and Wehlé, 1993).

**Table 9 Increase in exports to the West from CEE Countries, 1989-92**

| Country | To OECD (%) | To the EC (%) |
|---|---|---|
| Bulgaria | 58.1 | 72.4 |
| Romania | -56.5 | -47.9 |
| Hungary | 56.0 | 87.0 |
| Czechoslovakia | 40.6 | 62.0 |
| Poland | 55.7 | 86.1 |
| USSR | 19.0 | |

Source: Dauderstädt, 1994

A further development that has been occurring since 1990 is the emergence of new approaches towards regional co-operation, with significant potential implications for trade in the region. Several large groupings have emerged, some more viable than others. The Visegrád Group, consisting of Poland, Hungary, the Czech republic and Slovakia formed the Central Europe Free Trade Association (CEFTA), the former Soviet Union, following its demise, formed the Commonwealth of Independent States (CIS), other groupings, such as the Black Sea group, the "Hexogonale" Central European Initiative, and the Baltic countries are co-operating regionally on a less ambitious basis (Dauderstädt, 1994).

CEFTA was set up in December 1992 with the aim of turning itself into a free-trade zone by 2000 (or 2002 in the case of Poland). Problems emerged early on, with CEFTA meaning different things to different members. Some members see it as a free-trade zone and nothing else, whilst others are keen to use it as a vehicle to drive into other European clubs, e.g. the EU[10]. Whilst new members have successfully applied to join CEFTA (Slovenia from December 1995, Bulgaria and Romania from 1996, the Baltic States probably in 1997/98), potentially constituting a market of 100 million people, the implications for regional trade are unclear. One of the major reasons is that intra-CEFTA trade constitutes a small portion of these countries' total foreign trade (less than 10 per cent according to some estimates)[11], in contrast, the EU accounts for half of each CEFTA members trade.

Given that intra-CEFTA trade is now transacted in hard currency, with members showing no enthusiasm for establishing a regional payments union, revitalising regional trade would not appear to be a high priority, as highlighted by the imposition of tariffs.

[10] The Economist, September 16, 1995
[11] The Economist, September 16, 1995

Poland imposed a 26 per cent tariff on Czech built tractors, Hungary's 8 per cent import tax on pharmaceuticals, Slovakia's 10 per cent duty of all imports etc.[12]. Figure 2 shows the extent of intra-CEFTA trade flows in 1994.

In terms of future problems and prospects, clearly foreign trade will continue to play a key role in the transformation process. Whilst the CEE countries need imports, especially from the West, in order to modernise their economies, they also need exporting opportunities in order to safeguard output levels and incomes, and to finance those imports (Dauderstädt, 1994).

**Discussion and conclusion**

Since the fall of communism and the breakdown of the command economy, the countries of Central and Eastern Europe have faced unprecedented challenges in transforming themselves in order to make the transition to a market economy. Some of the challenges the countries are facing have included privatisation, eliminating vertically integrated monopolies, removing the vestiges of central planning, deregulating prices, introducing currency convertibility, and establishing a financial infrastructure.

This paper has attempted to present a broad overview of major developments in Central & Eastern Europe. Given the enormity of the task, the need for brevity, three main areas have been examined, namely the macroeconomic situation, privatisation and foreign trade. These sections, along with the introduction, describe some of the challenges mentioned above.

Beginning with an overview of the macroeconomic situation during the early part of the transition process, it has shown that once the move towards democracy had been initiated, all countries in the transition process embarked upon economic stabilisation, liberalisation of the economy and restructuring of enterprises. The effective collapse of trade within CMEA had severe consequences for all countries, particularly so for Russia. Fundamental changes in Central and Eastern Europe began in the mid 1980s, with Gorbachev's Glasnost and Perestroika, these economic inspired reforms led to the fall of the Berlin Wall and collapse of Communism throughout the region.

The initial euphoria promised instant economic results and endless opportunities for everyone. However, the reality proved much more sombre, with all countries in the region experiencing a severe disruption in trade, hyper-inflation, drop in GDP and levels of unemployment not seen since the war. While countries faced similar problem, the causes differed from country to country. In the case of Poland, it was the shock therapy, for Hungary and the Czech Republic it was uncertainty with regard to the direction and speed of reform, for Russia it was the collapse of the planning system without an alternative one emerging.

[12] The Economist, September 16, 1995

**Central European Union CEFTA trade flows, 1994**

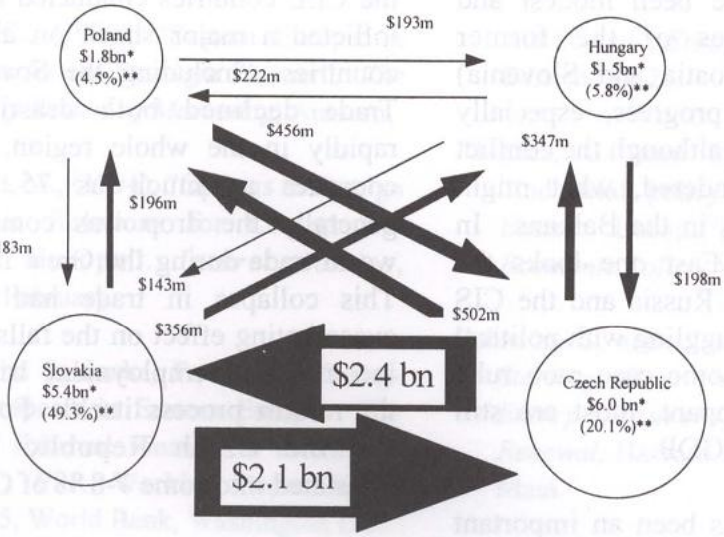



Figure 2 Source: The Economist, Sept.1995 *CEFTA imports plus exports **% of total imports plus exports

How these countries have responded to the challenges, and achieved a measure of success, is, to some extent, influenced by their different historical developments, some of which were explored in the early part of this paper. Once the move towards democracy had been initiated, all countries in the transition process embarked upon economic stabilisation, liberalisation of the economy and restructuring of enterprises. The effective collapse of trade within CMEA had severe consequences for all countries, particularly so for Russia. Success in the region has been most notably in the Visegrád countries of Hungary, Poland and the Czech Republic, all of which have managed to reduce inflation to manageable levels, and have seen severe drops in GDP turn to modest growths in the last two years or so. In general, the most successful countries have been those that pursued tough macro-economic stabilisation and economic reforms programmes vis-à-vis abolition of price controls, liberalisation of foreign trade, withdrawal of state subsidies, privatisation, legal and financial reforms etc.

Successes, apart from the Visegrád economies, for most countries of Central Eastern Europe have been modest and patchy. The states of the former Yugoslavia (e.g. Croatia and Slovenia) have shown some progress, especially controlling inflation, although the conflict with Serbia has hindered, what might have been, a success in the Balkans. In general the further East one looks the bleaker the picture. Russia and the CIS countries are still struggling with political uncertainty and in some case mob rule. Inflation is still rampant, most are still experiencing falls in GDP.

Privatisation has been an important instrument in attracting foreign direct investment and restructuring enterprises. This paper has briefly outlined the context in which privatisation has been occurring, concluding that the differences in design of each country's programmes are dependent on the power relationship between the state, former party officials, and enterprise insiders (managers and workers). The Czech and Slovak Republics are thought to have been the most successful in the privatisation programmes, with an estimated $13 billion given away in vouchers. In Poland, half the workforce is thought to be employed in the private sector. Despite the success, many enterprises, especially in Hungary and Poland, remain in state control, as debate on policy implications for the nation continues.

The final section underlined the nature of foreign trade under the old socialist system, its collapse following the fall of Communism, its stabilisation, its re-direction towards the EU and the OECD countries and it's future prospects. The collapse of CMEA, through which the CEE countries conducted their trade, inflicted a major shock on all member countries , including the Soviet Union. Trade declined both drastically and rapidly in the whole region, for some countries as much as 75 per cent, generally the drop was comparable in world trade during the Great Depression. This collapse in trade had a drastic, exacerbating effect on the falls in output, incomes and employment triggered by the reform process itself. For Hungary and the Czech Republic this drop translated into some 7-8 % of GNP.

Following Association Agreements with the EU, exports for Hungary, Poland and the Czech Republic have improved, although many barriers to trade remain, particularly non-tariff barriers. Prospects for the more reformed economies suggest that industrial sectors are favourable, while agriculture and energy sectors are thought to be weak prospects for trade in the foreseeable future. Attempts at re-establishing intra-regional trade has led to the emergence of various groups, such as CEFTA, the Visegrád group and CIS, however, trade within such groups remains small. Foreign trade will continue to have importance for the CEE economies, not only because they need imports, especially from the West, in order to modernise their economies, they also need exporting opportunities in order to safeguard output levels and incomes, and to finance those imports.

## References


Brown, A.C., (1990), "Eastern Europe: A Dilemma for the Strategic Planner", *The Quarterly Review of Marketing*, Autumn.

Dauderstädt, M., (1994), "Options in Foreign Economic Relations for Central and Eastern Europe". *Intereconomics*, January/February.

Diwan, I and Saldanha, F., (1991), "Long-term Prospects in Eastern Europe. The Role of External Finance in an Era of Change", PPR Working Paper Series WPS 695, World Bank, Washington DC.

Dyker, D., (1993), "Russia and Eastern Europe: Technology, Trade and Transformation". Discussion Paper, Science Policy Research Unit, Sussex University.

Estrin, S., Hare, P.G. and Surányi, M., (1992), "Banking in transition: Development and current problems in Hungary", *Soviet Studies*, Vol. 44 (5).

Estrin, S., (1995). "Economic Transformation in Central and Eastern Europe". *The Economic Review*, February.

Ettenson, R., (1993), "Brand Name and Country of Origin Effects in the Emerging Market Economies of Russia, Poland and Hungary". *International Marketing Review*, Vol. 10, No. 5.

Hughes, G. and Hare, P.G., (1991), "Competitiveness and industrial restructuring in Czechoslovakia, Hungary and Poland", *European Economy*, Special Edition No. 2.

Hughes, G. and Hare, P.G., (1992), "Industrial policy and restructuring in Eastern Europe", *Oxford Review of Economic Policy*, Vol. 8:1.

Johnson, S. and Loveman, G.W., (1995), *Starting Over in Eastern Europe: Entrepreneurship and Economic Renewal,* Harvard Business School Press. Mass.

Kraljic, P., (1990), "The Economic Gap Separating East and West", *Columbia Journal of World Business*, 25:4.

Mladek, B., (1993), "Voucher Privatisation: A First Assessment of the Results. Paper presented at OECD conference on Privatisation, Paris, March.

Portes, R., (1990), "Introduction to economic transformation of Hungary and Poland", *European Economy*, Vol. 43.

Schaffer, M. E., (1992), "The Enterprise Sector and the Emergence of the Polish Fiscal Crisis-1990-91". Centre for Economic Performance Working Paper No. 28, August.

Schaffer, M. E., (1993), "Polish Economic Transformation: From Recession to Recovery and the Challenge ahead", *Business Strategy Review*, Vol. 4, No. 3.

Shama, A. And Gellenthien, S., (1992), "Comparing the Soviet Union and Eastern

Europe", in A. Shama, (ed.) *Perestroika: A Comparative Perspective*. New York, Praeger.

Shama, A., (1995) "Entry Strategies of US Firms to the Newly Independent States, Baltic States, and the Eastern European Countries", *California Management Review*, Vol. 37, No. 3, Spring.

Smith, N. And Rebne, D., (1992), "Foreign direct Investment in Poland, The Czech and Slovak Republics and Hungary: The Centrality of the Joint Venture Entry Mode". *The Mid-Atlantic Journal of Business*, Vol. 28, No 3.

Sword, K., (1991), *The Times Guides to Eastern Europe*. Times Books, London.