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## Development of the countries with a transition economy

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### Abstract

This article presents a research in developing countries with a transition economy, which presents the part of position of the world economy today. It contains analyses a number of indexes (such as gross product per capita, purchasing power of the population, etc.) and aspects of a country's economical, political and social life. It is assumed that privatization promotes production growth, assists in scientific and technological progress, complies with actual tendencies in social equity. However, privatization did not shape a real proprietor, the one who was interested in an effective long-term exploitation of property.

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Here with, special aspects of a country's historical, economical, political and social development had a significant influence on the process and the results of economic reforms. The complex transition from a planned economy to a market one was a rather hard process. The objectives of privatization in this group of countries were:

1. To perform system changes by means of new agreements for proprietary rights
2. To ensure social equity privatization were to even the distribution of wealth in population
3. To achieve economical efficiency, enterprises and management efficiency
4. To pump up the budget, since the disposal of state-owned assets should allow to finance social programs, transform pension system and lessen fiscal deficit

### 1. Method

There are standard and non-standard privatization methods. The standard privatization methods for large state-owned enterprises are: direct assets sales to strategic external investors, holding of a tender to sell corporate securities, IPO of new stock companies. In general these methods allow implementing an effective corporate management in the companies subject to privatization, with major resolutions to be adopted by a single owner or tight "core" of strategic investors institutional or foreign ones, which have an interest in assets efficiency rising. In most of the countries with transition economy privatization

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was conducted by non-standard methods, and according to principal-agent model resulted in the establishment of ineffective corporate management structures in the enterprises owned by insiders. The three following methods of non-standard privatization were used more often than the others: restitution, reacquisition of shares by employees and managers and mass privatization.[1] The restitution means that either physical assets are returned to their former owners (Czech), or compensation is paid as certificates to be converted to shares (Hungary). While shares are reacquired by the employees and managers of state-owned enterprise being under privatization, they buy its shares or assets back and establish a new company later on. A number and total value of shares to be acquired by individual persons with their own or credit funds are limited as a rule. Furthermore, the shares proposed to the managers and employees (insiders) are undervalued (for instance, the discount in Poland amounted to 50%).

Mass privatization means non-reciprocal transfer of state assets to citizens. It assumes equal possibilities to receive a share of state property by all citizens; however this process does not imply that all or even major state assets will be involved. Assets disposal was used in Bulgaria, Estonia, Hungary and Poland most of all. [2] As corporate management concerns, the major disadvantage of non-standard privatization methods is an extensive control from insiders' part for the latter are discouraged to perform strategic restructuring. In virtually all of the transition economies the companies acquired by insiders are ineffective nowadays due to a weak corporate management structure interfering with strategic restructuring. Assets sales could help to avoid such problems apparently. However, it should be performed by means of a stock market; otherwise the transactions to change property structure out of market result in a whole range of distortions as Russian history confirms. All countries encountered some contradictions in privatization process. While each of them differs there are common features attributed to all. It was suggested that in Russia denationalization of property shall involve: the establishment of private sector, transformation of state sector itself and conversion of personnel and citizens into the owners of producer goods by means of voucher privatization.

According to some economists Russian resources are rather inexpensive and attractive for investors. However, on the opposite side they are of a high risk for projects implementation, that is Russian resources only seem to be inexpensive and are not such with regard to the risks involved in income generation in Russian economy. There are three variants of privatization:

1. Property transfer to personnel (collectivistic or self-managing, Yugoslavia)
2. Property distribution among population of a country (vouchers, democratic or liberal, Russia)
3. Establishment of state holdings and cross-shareholding (Hungary)

In CEE privatization could be divided into three types: large, small and voucher. Large privatization involved large enterprises and organizations, small - small and medium ones, voucher privatization was effected by vouchers distributed for a small fee among population with subsequent exchange thereof for the shares of enterprises and other economy subjects. Until 1989, when "velvet revolutions" began in CEE countries, the economy growth rates in these countries have been constantly declining for 15 - 20 years, production base deteriorating and competition ability decreasing relative to Western countries. The absence of innovations and motivation to dedicated work were characteristic features of socialism as a system. There was gathering a system crisis, which required the transformation and modernization of society and economy to form the social system able to provide high living standards and effective production, as well as contacts with Eastern world.

The political economy of system transformation advanced the objectives not only to abolish single parted and undemocratic regimen, but to exchange state property for private one, centrally planned economy - for market. [3] The whole process of system transformation and the establishment of market economy could be divided into three stages. The first stage is primary restructuring, the process of gradual abolishment of orthodox socialistic economy model. In this period enterprises start economic accounting, i.e. self-financing, with rights delegated to the director thereof to adopt resolutions independently. Commerce relations are forming between enterprises, enterprises and state. The policy of state setting the prices cease to function, commerce banks and cooperatives are formed. The private sector expands in retail and agriculture, small business which was illegal formerly establishes in industry and construction.

The second stage is privatization, when a strata of individual proprietors forms on a legal basis as investors and actual owner of an enterprise and a great number of shareholders. Market infrastructure is established, that is markets of capital, labor, land, goods, services and intellectual products. Competition mechanism emerges, as well as mechanism of government economy regulation and antimonopoly policy. [4]

And the third stage of the further economy restructuring on the basis of privatization performed, which involves already not only the production of goods and services, but requires stabilization of bank system, as well as the establishment of new social security system and new function mechanisms for such fields as science, education and culture with business funds employed. Herewith, living standards of country's citizens begin rapidly improve. All three stages of system transformation are based on the base forming, strengthening and expanding constantly, on an active application of

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