



POLICY NOTE OF THE WORKING PAPER 5/14

SIMILARITIES AND DIFFERENCES OF INSTITUTIONAL CHANGE BETWEEN ENP COUNTRIES AND OTHER CATCH-UP COUNTRIES

January 2013

OBJECTIVE OF RESEARCH

This working paper addresses the issues of institutional transformation in ENP countries, specifically post-Soviet states and the MENA regions countries, and catch-up countries, namely East-Asian economies. Furthermore, the working paper focuses on the importance of institutions for economic growth and development. An overview of the theoretical concepts of the impact institutional transition on the catch-up of high performing Asian economies opens an urge to investigate what were the reasons for ENP states not catching up as fast and how institutional frameworks of East Asia could possibly be replicated within the reality of other transition ENP countries. This will help to better understand the effectiveness and future potential of ENP countries integration into the world economic frontier, specifically with regard to institutional capabilities of the ENP states.

SCIENTIFIC METHODS

The working paper is a literature overview of the existing theoretical concepts on the role of institutions for catch-up and institutional change in transition economies. The working paper starts with the discussion of the Washington Consensus versus BeST consensus, describing the role of the government and institutional environment for the East-Asian Miracle. Institutional transition of ENP states is assessed from the perspective of transition economics relevant for post-Soviet states. Transition as a process of economic transformation is also explained through the framework of institutional adaptability of the MENA region. Available data of the World Bank and World Economic Forum is also analyzed with a detailed investigation of the

institutional indicators. Consequently, the data confirms that low scoring on the institutional parameters leads to low scoring on the overall ease of doing business and competitiveness rankings, which proves the importance of institutions for the economic growth of states.

POLICY VALUE-ADDED

The key findings of the working paper address the issues of what post-Soviet states, which are also now a part of ENP, lacked in their institutional frameworks to succeed as efficient and fast as the East-Asian countries did. The main outcome of the research is that in principle East-Asian miracle could be replicated, if there was a provision of macroeconomic and political stability; broad investment in education; government policies could adept to the changing circumstances and environments and focus on encouraging direct investments; governments were efficient in creating market institutions; governments would aim at government-business cooperation, meaning introduction of such programs by the governments that could serve corresponding needs of the business community.

Another important issue addressed is that for the success of economic catch-up there should be a fit between formal and informal institutions, so that the institutional transformation is consistent. In order to ensure such a consistency there should be a social equilibrium between the state (formal institutions) and economic agents and their actions (informal institutions). Such an equilibrium aims at reaching the point when the governments plays a supportive role and does not intend to exclude the market and the market in own turn accepts the government intervention and does not reject it. This leads to institutions becoming “social glue” in the economic system, which leads to institutions getting more embedded in the society.

Although the key messages of the working paper are very important and broad in terms of upgrading of the institutional environments of the ENP states, a range of issues are still not covered in this working paper. Specifically, institutions versus policies, institutional path-dependency and building up of informal institutions as the recipients of the outcomes of the formal institutions need further research, which will be partly covered within the framework of the enterprise survey introduced within the SEARCH project.