Does there seem to be an Asian Style of transition versus European style? Or is there some more appropriate way to categorize transition? What is accounting for the difference?

Wing Thye Woo, addresses this issue by questioning the notion that gradualism is better than the “big bang” as some have argued as the main characteristic that differentiates China’s successful transition from the poor results we see in Eastern European countries and Russia. He argues that gradual reform in China was not an economic strategy as such but rather a result of disagreement between proponents of the market economy and those still holding strong to Stalinist dogma. Woo contends forcefully that the lack of progress in Economic transition in Eastern European countries is not the result of applying the “big bang” (or rapid) as opposed to China’s gradualism. He cites the case of Vietnam, that implemented “gradual policies” similar to China’s but failed to achieve Chinese-styled results. He also argues the reform process in Russia was by no means a “big bang”, yet it has not produced the necessary results.

Woo attributes the differences in economic performance between China and the Eastern European countries to the structure of existing economies in these countries. For example, he draws attention to the fact that the reform problem in China is a classic case of moving surplus agricultural labor into industries while those of Eastern European countries and Russia is a classic adjustment problem of moving employed labor from uncompetitive industries to newly emerging efficient industries. Simply put, China started with agricultural reforms because the sector employed most of it labor while Eastern European countries choose industrial reforms due precisely to the same reason.

Woo further argues against the notion of optimal sequencing, i.e. that economic reforms should be preceded by institutional reforms. According to Woo, China’s experience contradicts this claim, pointing out that the absence of institutions that reliably secure a broad range of contracts and property rights has not necessarily impeded China’s transition. But Dani Rodrik would respond that there were indeed institutional reforms but not as they are prescribed by western countries. For example, private firms can set their own prices above excess goods beyond state quotas and foreign investors can repatriate profits and own land in costal china. Yet still Woo might also point out other sequencing recipes that have been contradicted. For example, the well-known recipe of liberalizing the goods markets first, second the domestic financial system, and third the capital accounts transactions have
been contradicted by Indonesia, which implemented reforms in the reverse sequence and yet has performed very well.

Woo once again would argue that reforms depends on structure of the economy and the political and economic direction the country is seeking. For example, reform policies implemented by Poland can be explained by the desire to join the European Union, which apparently accounts for why it is doing well as compared to Russia for example.

Roberts and Zhou agree that there can be no universal consensus on policy dos and don’ts. They agree with Woo that reforms depends on the context or the configuration of conditions to which reforms contributes. But they suggest that economic growth and the rule of law will enhance new Enterprise Development.

For his part Svejnar thinks that geography-related initial conditions have been important in the transition process, particularly the initial recession faced by most countries made it difficult for most transitional countries to do well. Svejnar suggests that Transition countries further east have on average performed worse than their more western counterparts. However, Svejnar points out the fact that the western-most transition economy, the Czech Republic, has performed worse than others since the mid-1990s indicates that geography does not provide a complete explanation and that policies do matter”.

Svejnar agree with Roberts and Zhou on the question of the rule of law and argues that the reform of greatest importance seems to be that countries that placed emphasis on the development of legal framework and corporate governance like Hungary, Poland and Slovenia, have performed better than those that did not, like the Czech Republic, Russia and Ukraine. Frye and Shleifer also agree that it is the ability of the Polish government to enforce law and regulations despite similar economic conditions that accounts for Poland success over Russia.

Woo and Svejnar seem to have opposing views but I believe that there does appear to be reconciliation between the two. For one thing, Woo points out that China has performed the most in areas where reforms were most radical. And Svejnar would point out that Poland and Hungary are both two examples of countries that implemented radical reforms (due to the imperative of wanting to join the EU), which explains their progress. When one considers this point in light of Dani Rodrik’s view that reforms have taken place in China (although not in the form suggested by western economist) and David Woodruff’s explanation on better corporate governance as a reason for Poland’s better performance over Russia, one tend to reach the conclusion that institutional reforms of some sort based on the structure of the economy and the political and legal structures that sustain them is a good precondition to good reform.