

CROSSING BORDERS GRANT PROPOSAL:
INSTITUTIONAL ADJUSTMENT TO GLOBALIZATION
IN POST-SOCIALIST ECONOMIES

1. Background

A major economic and social change has taken place in former socialist countries on our planet. Most socialist countries, with the exception of North Korea and Cuba, have undergone a process of transition towards a market economy. This fundamental and large-scale institutional change will have an important influence on economic events in the twenty-first century. It is also taking place at a time of globalization of the world economy that is creating special challenges for those countries.

Geographically, post-socialist economies cover three important areas:

- 1) Asia with Chinese and Vietnamese economies;
- 2) Eastern Europe with countries of the former Soviet Union;
- 3) Central Europe with countries facing the prospect of accession to the European Union.

These economies face both similar and different challenges in terms of institutional adjustment to globalization in such areas as law, financial market, and corporate governance, in addition to structural adjustment as commonly studied such as sectoral reallocation.

Similar challenges arise from the common problems of transition from centrally planned to market economies. Even though the initial conditions are different (differences in the level of economic development, the legacy of communism, the cultural

background, etc.), many of the main tasks (development of a new private sector, privatization and restructuring of state-owned enterprises, development of the financial sector, reform of the legal system and of the system of public finances, development of enterprises and sectors that are able to compete successfully in the world economy) are fundamentally the same. Confronting the experience of these different countries yields very important lessons from a comparative perspective. This comparative perspective has considerably enriched the knowledge gained by scholars working on the economics of transition.

There are also distinct challenges faced in the different geographical areas in which transition economies are located.

- 1) Central European countries face the prospect of accession to the European Union. Their reforms are all oriented toward the goal of being admitted as a new member country of the EU. This means introducing the *acquis communautaire* and getting prepared to participate in the major EU institutions. Entry of those countries is also posing major challenges to the European Union itself since it is commonly admitted that it has to reform its institutions to be able to absorb the flow of new entrants. The recent introduction of market reforms in those countries and possible institutional instabilities may have spillover effects on countries of the European Union and affect the quality of institutions inside Europe itself (tax institutions, law enforcement institutions, financial institutions).

- 2) China is set to enter the World Trade Organization (WTO) soon. This is likely to have very important effects on the Chinese economy. Indeed, membership of WTO implies introduction of international legal practices with respect to protection of property rights and the rule of law. While China has been extremely successful in its process of economic transition so far, it still has a long way to go before it establishes the rule of law. Entry of WTO is seen as the most important lever to gradually introduce the rule of law in China.
- 3) Russia and the other former Soviet Union republics are in a very different situation from their Central European neighbors. At the present time, they cannot count on the institutional anchorage provided by the perspective of entry to the European Union. Not surprisingly, institutional developments have been less successful so far in that region. In 1998, Russia suffered a major financial crisis following the default of the GKO bonds. But recently, discussions about the possibility of accession to WTO started to surface in the press.

Given the specificities of those three big regions where transition to markets takes place, research on the integration of post-socialist economies to the world economy tend to take place separately. Not only are there very few studies comparing the developments in those three regions but there are also few academic channels and gatherings (with the exception of the activities of the William Davidson Institute at the University of Michigan and the annual transition conferences of the Center for Economic Policy Research) encouraging scholars specializing either in the study of China, Former Soviet

Union or Central Europe to engage in the much needed comparative analysis and dialogue on the commonalities and specificities of the challenges faced in those three regions.

2. Proposed Activities

To fill that gap, we want to organize a series of seminars and workshops on the Berkeley campus with invited speakers working on the challenges of globalization for respectively, China, the Former Soviet Union, and Central Europe. The focus will be mainly on the institutional aspects of adjustment in those countries understood in a broad sense, including legal, social and political developments and their interaction with economic developments. Examples of the topics are:

- (1) Legal institution development. An important ingredient of globalization through either WTO or EU is the acceptance of the common international rule of the game, which is the rule of law. This requires substantial changes of the domestic legal codes and enforcement mechanisms. These changes not only affect foreign trade and investment, but also domestic economic activities because the rules should be uniform. Previous scholarship has insisted more on code adoption and adaptation. Current research takes a broader view (including, cultural norms, organization of government, etc.,,) looking at conditions for successful enforcement.
- (2) Financial market development. As financial markets become more integrated, new institutions and rules need to be put into place to

ensure capital flow in the global market. But this is not enough, we have learned from the past decade that the probability of financial instability and crisis increases with financial globalization. This is a particular challenge to transition economies because all of them have had very weak financial institutions, for historical reasons.

- (3) Political development. Economic globalization has certainly critical implications for political development, as information flows more quickly, the rule of law becomes the new norm, and the economic development benefits from globalization or sometimes backlash may occur.

The series will be open to faculty and students. We want to do this in coordination with three institutes: the Institute of Slavic, East European, and Eurasian Studies (ISEES), the Institute for European Studies (IES), and the Institute for East Asian Studies (IEAS). Each of these institutes has a broad interest in one of those three regions: ISEES in Former Soviet Union, IES in Central Europe and the IEAS in China and Vietnam. Note that while previously Central European countries were the focus of Soviet studies, the dramatic changes of the last few years and the prospect of accession to the European Union have made accession one of the major themes in European studies. The purpose is to cross the borders of those three regions and regroup all people interested in the adjustment processes of post-socialist countries from those three regions.

3. Participating Faculty

The core participating faculty will be:

- Yingyi Qian, professor in the economics department and associated to the Center for Chinese Studies under the Institute of East Asian Studies;
- Gérard Roland, professor in the economics department and associated to the Institute of Slavic, East European, and Eurasian Studies. He also collaborates with the Institute for European Studies.

Both have recently been hired by the Berkeley economics department and have studied intensively and collaborated a lot in joint research to understand the process of transition in these three regions of the world. Gérard Roland is also co-director of the Transition Economics Program of the Center for Economic Policy Research, an international network regrouping economists working on transition issues.

Our objective is to build on campus a community of scholars and students interested in the transition processes in those three regions and to bridge tendencies toward regional segmentation of research on transition. We hope the lessons from the research interactions we will organize will have broader implications than those of the transition process and will also be relevant for developing countries seeking to adjust their institutions to the global economy. Some of the joint seminars will for that purpose be jointly organized with the economic development seminar.

If this activity proves successful, we want to build on its success to organize in the summer of 2003 a workshop for young Ph.D students from those regions to present their

thesis research so as to strengthen the community of young scholars working on issues of economic transition.