

# Imitation and Transition: Transition Report Commentary

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1. There is no denying that countries seeking accession to the European Union strive to model themselves after EU economies in the level and structure of GDP. Obviously, as the gap narrows, benefits from economic, technological, scientific and cultural cooperation grow. Imitation is consequently justified, as it is necessary for these countries to make up for their economic and technological arrears.

Various imitation models come in handy in the adaptation process. However, two facts should be noted in this context:

**First**, imitation models are characterized by internally coherent and logical systems of links between politics, economics and the social sphere. Usually, changes in one area stimulate transition in other areas, although the opposite scenario is also possible. Especially important is the proper order of transition projects, coupled with the time factor.

**Second**, there are at least three models of imitation: 1) full imitation, 2) partial imitation, and 3) marginal imitation.

2. Theoretically, EU candidate countries should adopt the imitation model guaranteeing the fastest possible completion of the transition process and institutional and legal adaptation to EU requirements.

From a purely theoretical point of view, full imitation seems to be the simplest model, offering ready-made procedures and institutions. However, the eastern German example shows that this model involves three major disadvantages: i) exorbitant costs, ii) insufficient economic progress, as indicated by the slow rate of gross domestic product growth and a relatively low level of technological innovativeness, and iii) limited public approval.

For political and economic reasons, EU candidate countries should steer clear of full imitation. Partial imitation should be the preferred model. Still, two questions must be asked in this context: first, what should actually be imitated and in what order; second: what should be the scope of imitation and what should be the scope of autonomy in transition and adaptation to EU requirements.

3. Space and time constraints rule out a detailed analysis of this process. I will limit myself to making several points concerned with the economic aspect of the issue. Two general remarks to begin with.

First, the EU candidate countries form a highly diverse group in terms of economic development, technological advancement and the degree of openness. Consequently, the best option for them is to follow more than just one model.

Second, the level of continuity, as demonstrated by these economies' ties with the past, varies, both institutionally and in terms of external economic ties, behavior models and production structure.

To an extent, the imitation theory reduces the importance of continuity. It also underestimates the role of what are called hard areas in transition, in favor of soft areas, which can be quickly changed by political decisions and the market.

What does the convergence theory mean for the economy? That some general development trends are universal in character. And that less developed economies seeking to catch up with their highly developed counterparts must adapt their structures and develop the necessary institutional and legal systems as soon as possible.

Yet these assumptions are only correct in theory. Practice proves them false, largely because large-scale imitation limits and sometimes even rules out innovativeness. Imitation produces the desired results at early stages of development and in relatively short periods. **In the long term, a combination of imitation and innovativeness is necessary if development is to be efficient and effective.** The actual proportion of imitation and innovativeness depends on the size of the country, its population, economy, the role of science, the character of the scientific community, the structure of industry and government policies.

At any rate, maintaining a high level of growth without indigenous and innovative sources of growth is practically impossible. Moreover, the New Economy based on know-how is becoming increasingly important. Its further growth requires an extensive, independent system based on innovativeness.

Now I would like to highlight several problems which are not just a theoretical possibility, but have become fact in many countries.

**Problem one:** From a general theoretical perspective, GDP growth is the key measure of a country's development. Usually, less attention is paid to the actual structure of GDP growth, even though transition, especially in its initial stage, leads to a change in the GDP structure. This process is initiated at an early stage of transition when the economy slows down as a result of a transition crisis. The slowdown is primarily due to the maladjustment of the old structure of supply to the new structure of demand, coupled with the severance of traditional, external economic ties. The transition crisis is accompanied by the institutionalization of the market economy, which leads to a faster increase in the role of services in GDP. These two factors contribute to modifications in the GDP structure, bringing it in line with EU standards. This process is much faster than work to overcome the transition crisis, not to mention efforts to bridge the gap separating the candidate countries from EU

economies. Average per capita GDP in the candidate countries accounts for about 36–38 percent of the EU level, but in the case of the GDP structure, the figure is 70-odd percent. Consequently, candidate countries are almost twice as advanced in GDP structure as in per capita GDP.

The question is whether these fast modifications in the GDP structure are favorable from the perspective of economic development? A clearly positive answer to this question is impossible. The change in the GDP structure is advantageous when the process is accompanied by an increase in per capita GDP. A major increase in the share of the service sector produces favorable results only when per capita GDP is in the \$12,000–15,000 range in terms of purchasing power parity. When GDP is below this level, its “hard” component—including food, housing, clothing and other goods manufactured to satisfy people’s basic needs—is insufficient. Among Central and Eastern European countries, Slovenia and the Czech Republic are already in the \$12,000–15,000 range, practically speaking, while Estonia, Hungary and Slovakia are likely to follow suit several years from now. In Poland, hard goods account for about \$3,200, and services for \$5,300 in purchasing power parity terms. Considering the high level of income disparity, this process of convergence is not necessarily advantageous.

**Problem two:** Foreign direct investment has undeniably had a positive effect on transition and candidate countries’ adaptation to EU standards. This is due to, first, the inflow of capital; second, new technology; third, new management techniques; fourth, increased exports; and fifth, inclusion in globalization processes. However, FDI may also be counterproductive, which seems especially true of Poland. Admittedly, Poland is a special example among the candidate countries. It has a large domestic market—in fact as large as all the remaining Central and Eastern European countries, with the possible exception of Romania, put together. Foreign direct investors are chiefly interested in the domestic market, and their involvement produces far-reaching consequences in this area. Sadly, the Polish experience reveals four key disadvantages of FDI. **First**, even though foreign direct investors have contributed to the efficiency of privatization, many industries and businesses based on modern technology have been either liquidated or their role has been reduced substantially. Privatization has contributed to developments such as the elimination of competition, both on the domestic and foreign markets. **Second**, the share of high-tech products in Poland’s exports is almost 55–60 percent smaller than in the case of Hungary. **Third**, due to FDI, among other factors, the past decade has seen a major drop in innovativeness measured with the number of new patents. In the total number of newly registered patents in Poland, foreign patents outnumber local patents by 2 to 1. **Fourth**, multinational corporations practically do not pay taxes, adding to the malaise in public finances, which may not be an exclusively Polish headache. Admittedly, this situation is largely due to the inadequate policies of

the government, which has paid insufficient attention to arranging proper relations with multinationals.

**The third problem involves the relationship between small and medium-sized businesses and unemployment.** For all transition economies, unemployment is a dramatic problem. In many countries, it has grown for two basic reasons. First, many businesses undergo restructuring processes, leading to the swelling ranks of the unemployed. Second, economies are likely to grow at a slow rate in the coming years, producing an insufficient absorption of labor.

It seems that small and medium-sized enterprises should be the main source of new jobs. However, SMEs cannot create new jobs due to the shortage of capital and limited possibilities for raising funds through bank loans. In a situation in which a large section of the banking sector is in the hands of foreign capital, and the government does not offer the necessary guarantees, small and medium-sized businesses face limited opportunities for growth. A relatively high level of state interventionism is needed in this area, even though the dominant economic doctrine in transition economies calls for limitations in the state's role.

Finally, **problem four** involves the development of the science sector as a source of innovativeness. One of the characteristic trends in transition economies is decreased expenditure on science and the outflow of research personnel—especially young and dynamic researchers—to countries in which science is supported by both the government and the corporate sector. In countries under transition, as the Polish experience shows, government outlays on research and development have decreased for decades, while multinational corporations and other large businesses have been hesitant to contribute. Multinationals operating in Poland have their own research centers and institutes abroad. Transition economies usually import new technology, which is positive in the short term, but in the long term the absence of an independent R & D sector and specialized research centers hurts these countries and leads to their growing dependence on Western technology.

To sum up, imitation does not always produce the desired results in transition economies. Excessive imitation expected to accelerate adaptation can easily prove counterproductive.