Chapter 65
Institutional Reform and Export Competitiveness of Central and Eastern European Economies

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ABSTRACT

Following their political and economic independence in 1989, a group of ten Central and Eastern European countries (CEEs) embarked on major institutional reforms to modernise their economies in order to become an integral part of the global economy. This chapter provides an overview of the main institutional reforms undertaken in the CEEs and their effects on export competitiveness. The chapter focuses on selected meso and macro institutional reforms, namely price liberalisation, competition policy, trade and foreign exchange, privatisation, and corporate governance. The results show that institutional reforms in the CEEs were rapid and generally successful. All CEEs became members of the European Union (EU) and the World Trade Organization (WTO). Institutional reforms contributed significantly to improved efficiency and growth in the export sector. The results also suggest that further reforms are needed to improve competition policy and corporate governance, both of which are still below the standards found in Western industrialised countries.

INTRODUCTION

The collapse of the Soviet Union in 1991 and the enlargement of the EU are two historical landmarks that have reshaped the European business, political and geographic landscapes of the twenty-first century. Of major significance is the admission of ten former socialist-based, centrally planned economies of the CEE to the EU. The CEEs comprise Bulgaria, the Czech Republic,

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Table 1. Stylised facts from CEE countries

Country	Year of independence	Year of EU entry	Total land area (1000 km²)	Population (million 2012)	Per capita GDP 2012 (current USD)	Total GDP (USD billion)	Currency (July 2013)	Global Ranking (2006/ 2012–13)
Bulgaria	1990	2007	111	7.7	7,201	53	Lev	74/62
Czech Republic	1989	2004	78	10.9	20,443	215	Czech Coruna	31/39
Estonia	1991	2004	45	1.4	16,583	22	Euro	26/34
Hungary	1989	2004	93	10.3	14,050	140	Forint	38/60
Latvia	1991	2004	65	2.3	12,671	28	Lats	44/55
Lithuania	1990	2004	65	3.4	13,075	42	Litas	39/45
Poland	1989	2004	312	39.6	13,539	513	Zloty	45/41
Romania	1989	2007	237	22.1	8,862	189	Leu	73/78
Slovak Republic	1989	2004	48	5.6	17,643	96	Euro	36/71
Slovenia	1991	2004	20	2.122	24,533	49	Euro	40/56

Sources: EU (2013); World Economic Forum (2013); Mundi Index (2013); Central Intelligence Agency (2013).

Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. Since gaining independence (see the dates in Table 1), the CEEs have embarked on comprehensive economic restructuring and institutional reforms, in order to modernise their economies and improve the standards of living of their citizens. Some CEEs have approached these reforms in a gradual manner, while others have pursued a ‘big bang’ strategy (Bjørnskov & Potrafke, 2011). The different approaches to economic restructuring and institutional reforms can be explained largely by the physical, demographic and socioeconomic diversity of the CEE economies. The information in Table 1 shows that some of the CEEs are large economies (e.g., Poland, which has 40 million people) while others are very small (e.g., Estonia, which has only 1.4 million people). Similarly, the rate of economic growth varies significantly in the CEEs while their geographic size, in terms of land mass, also varies substantially. In terms of income, the CEEs can be broadly categorised into three distinct groups: low income (Bulgaria and Romania); middle income (Estonia, Hungary, Latvia, Lithuania, Poland) and high income (the Czech Republic, the Slovak Republic and Slovenia). Despite being members of the EU, only three countries (Estonia, the Slovak Republic and Slovenia) have adopted the euro as of July 2013. Finally, the CEEs also vary substantially in terms of their overall international competitiveness rankings. According to the World Economic Forum’s global competitiveness ranking of 144 countries in 2012–13 (see Table 1), Estonia (34th) was the most highly ranked CEE country, while Romania was ranked as the least competitive CEE country (78th). It is also interesting to note that between 2006 and 2012 only two CEEs (Bulgaria and Poland) improved their world competitiveness rankings. Hence, given the diversity of the CEEs, the challenges they face in modernising their economies following their independence are uniquely different and require different approaches (Bjørnskov & Potrafke, 2011).

Institutional reforms in the CEEs have attracted the attention of scholars from diverse research fields. Early research was generally concerned with socioeconomic conditions, historical institutional