

.Discussion Questions: Discuss the challenges of privatizing state-owned enterprises in the transition countries – what extra challenges might they face compared to other countries?

Answering the latter part of the question first:

Before the collapse of communism many countries dismantled their authoritarian regimes and relaxed their administrative grip over economic activity. Under the weight of the debt crisis crippling their economies in the 1980s, many Latin American countries introduced democratic reforms, made leaders accountable to their constituents, and liberalized their economic regimes (Richard M. Phillips, 1999). In fact, most of the world's economies have, at different times, paces, and with varying degrees of success, removed administrative controls over prices, liberalized access to their markets, and privatized state-owned enterprises.

Now, the question is: what is unique about the new transition countries?

What clearly distinguishes the transition of previously communist regimes is its institutional point of departure. While communist ideologues were different, communism was a distinct system - its institutional design, predicated on the aspiration of the state to control totally both society and the economy, explicitly rejected the relative autonomy of society, state, and economy. There was no room for law, democracy, or competitive markets. These concepts were dysfunctional under communism (Blinder A., 1990).

The challenge that stood in-front of the newly independent states (except Russia) had to build their states from scratch and establish their economic sovereignty, including domestic currencies, border controls, etc. Then the weak institutional capacities of the state negatively impact prospects for a quick and smooth transition. Establishing market-supporting institutions and stabilizing the economy was not an easy task. Weak institutional capacity creates an environment conducive to corruption and both organized and unorganized crime (Richard M. Phillips 1999).

Another difficulty is the lack of a transportation network that could link the new economies with international markets. The problem is less serious for European newly independent states, but it is especially grave for landlocked Asian newly independent states (Richard M. Phillips 1999).

Also military conflicts in Azerbaijan, Armenia, Georgia, and Tajikistan are added challenges to the economies and their neighboring economies too (Balcerowicz L. 1995).

Now discussing the challenges of privatizing state-owned enterprises in the transition countries

A central feature of successful market economies is a well-functioning financial system (Keane and Prasad 2002, Steve Jones, et.al., 1999). In almost all countries in transition,

however, financial systems suffer from deep-seated weaknesses. Although privatizations is primarily an economic issue, but at the same time it is a highly political act. Privatization represents an ideological and symbolic break with a history of state control over a country's productive assets. It mainly involves societal shifts from a planned economy and state monopoly to a market economy and private ownership (Steve Jones, et.al., 1999). In developed capitalist countries, however, it primarily involves the substitution of alternative management structures for public ones whose aim is to improve the delivery of targeted public services (public utilities, corrections, education, social welfare, schools, or health care). Privatization in transit countries is crucial to balance public and private ownership (Keane, et.al. 2002). So far, however, the methods of mass privatization have not promoted fair and just distributions of income, wealth, power; better standard of living etc. as seen in the last few discussions. For privatization, extensive restructuring efforts are required and the same are not done because they could cause a major shift of power from the government to non-government spheres (June Gary Hopps, 1998).

This maybe a repeated argument/ statement from the previous response, but it is important to note that, whether privatization is to involve merely the introduction of some elements of a market economy or the actual privatization of state enterprises, privatization, in the environment of the transitional economies, is not a simple transfer of ownership from state to private individuals. It is rather a process by which the very institution of property is introduced to economy These economies require not only the restructuring of the economy but also the creation of private property and the institutions of a market economy, while ensuring a maximization of economic growth and a minimization of social, economic, and political disorder (per Woo Thye and Richard Philips).

Thus the challenges of privatizing state-owned enterprises in the transition countries are manifold.

References

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- Blinder A.. Paying for Productivity Washington, DC: Brookings Institution. (1990)
- June Gary Hopps, Demetrius S. Iatridis. *Privatization in Central and Eastern Europe: Perspectives and Approaches*. Praeger Publishers, 1998
- Balcerowicz L. (1995). *Transition Problems Are Not the Monopoly of Transition Economies: An Interview with Prof. Leszek Balcerowicz, the Chief Architect of Poland's Radical Postcommunist Transformation Strategy*. Journal of East-West Business, No. 5.
- Steve Jones, William Megginson, Jeff Netter, and Rob Nash (Journal of Financial Economics, August 1999).
- And the suggested Readings