

Economic Commission for Europe
Geneva

ECONOMIC SURVEY OF EUROPE

2000 No. 2/3

Prepared by the
SECRETARIAT OF THE
ECONOMIC COMMISSION FOR EUROPE
GENEVA



UNITED NATIONS
New York and Geneva, 2000

NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

UNITED NATIONS PUBLICATION

Sales No. E.00.II.E.28

ISBN 92-1-116767-1
ISSN 0070-8712

Copyright © United Nations, 2000
All rights reserved

Printed at United Nations, Geneva (Switzerland)

CONTENTS

	<i>Page</i>
<i>Explanatory notes</i>	viii
<i>Abbreviations</i>	ix
<i>About the main contributors to the Seminar</i>	xi
<i>Preface</i>	xii

Part One

CURRENT ECONOMIC DEVELOPMENTS AND OUTLOOK

<i>Chapter 1</i>	THE ECE ECONOMIES IN AUTUMN 2000	3
	1.1 The global context and the situation in western Europe	3
	(i) The global context	3
	(ii) Western Europe	7
	(iii) The short-term outlook	11
	1.2 Transition economies	13
	(i) Introduction	13
	(ii) Output and demand	15
	(iii) Costs and prices	23
	(iv) Labour markets	25
	(v) International trade	28
	(vi) Current accounts and external financing	32
	(vii) Short-term outlook	35

Part Two

FROM PLAN TO MARKET: THE TRANSITION PROCESS AFTER 10 YEARS

Papers from the ECE Spring Seminar, May 2000

	<i>INTRODUCTION AND SUMMARY OF DISCUSSION</i> by the Economic Analysis Division, UN/ECE	41
<i>Chapter 2</i>	FROM REGIME CHANGE TO SUSTAINED GROWTH IN CENTRAL AND EASTERN EUROPE	
	<i>Ivan T. Berend</i>	47
	2.1 Transformational crisis versus peripheral structural crisis	47
	2.2 Adjustment and recovery	52
	2.3 Transnationalization – its pros and cons	54
	<i>Discussion of chapter 2</i>	
	2.A Erik Berglöf	60
	2.B Jan Svejnar	61
	2.C Paul J.J. Welfens	63
<i>Chapter 3</i>	MACROECONOMIC POLICIES AND ACHIEVEMENTS IN TRANSITION ECONOMIES, 1989-1999	
	<i>Stanislaw Gomulka</i>	69
	3.1 Introduction	69
	3.2 An overview of reforms and policies	69
	(i) Reform strategy	69
	(ii) Was the output collapse inevitable?	73
	(iii) Money has been the key nominal anchor	74

(iv) The exchange rate policy	76
	<i>Page</i>
3.3 A detailed discussion of specific issues	76
(i) The macroeconomic framework: what progress?	76
(ii) What distinguishes the more successful from the less successful countries?	77
(iii) How far have weak or missing institutions hampered effectual policy-making?	79
(iv) Have policy dilemmas been intensified by weak institutions?	79
(v) Has too much emphasis been placed on lowering inflation – or reducing it too rapidly – at the expense of economic growth?	80
(vi) What lessons can be drawn for those transition economies still struggling to achieve macroeconomic stability and economic growth?	81
(vii) What are the long-term growth prospects for transition economies?	82
(viii) Concluding remarks	83

Discussion of chapter 3

3.A George Kopits	84
3.B Silvana Malle	86
3.C Joze Mencinger	89
3.D Leonid Grigoriev	93

Chapter 4 **STRUCTURAL CHANGE IN THE TRANSITION ECONOMIES, 1989-1999**

<i>Michael Landesmann</i>	95
4.1 Introduction	95
4.2 Broad patterns of structural change	96
(i) De- and re-agrarianization	96
(ii) Deindustrialization	97
(iii) Tertiarization	97
4.3 Employment, participation rates and unemployment	98
4.4 Patterns of industrial restructuring	99
4.5 Convergence in structures?	104
4.6 Trade specialization	104
(i) Patterns of trade specialization with the EU: interindustry specialization	104
(ii) Patterns of trade specialization with the EU: vertical product differentiation and product quality catching up	107
4.7 Some conjectures on the dynamics of comparative advantage	108
(i) Productivity and wage catching up	109
(ii) Product quality catching up by CEE producers in EU markets	110
4.8 FDI involvement by branch	111
4.9 Structural change in central and eastern Europe, EU accession and the further course of east-west European integration: concluding remarks	113
Appendix: factor intensities used in trade structure analysis	116

Discussion of chapter 4

4.A Paul Hare	118
4.B Andras Nagy	120

Chapter 5 **THE SOCIAL COSTS AND CONSEQUENCES OF THE TRANSFORMATION PROCESS**

<i>Michael Ellman</i>	125
5.1 Introduction	125
5.2 What were the costs?	125
(i) Impoverishment	125
(ii) Decline in employment	127
(iii) Growth of unemployment	127
(iv) Increased inequality	128

(v)	Deterioration of public services and polarization of their provision	128
(vi)	Spread of disease	130
		<i>Page</i>
(vii)	Decline in fertility	131
(viii)	Increase in mortality	132
(ix)	Depopulation	133
(x)	Criminalization	134
(xi)	Growth of corruption	134
(xii)	Armed conflicts	135
5.3	Who has borne the costs?	135
(i)	Industrial workers	135
(ii)	Budget sector employees	135
(iii)	Rural population	135
(iv)	Children	135
(v)	Refugees and displaced persons	135
(vi)	Women	136
(vii)	Men	136
(viii)	Roma	137
(ix)	Russians	137
(x)	Savers	137
5.4	Why has there been so little political protest?	138
5.5	How does the present system change compare with the previous one?	139
(i)	The collapse of the Russian empire and the transition to socialism: Russia, 1917-1922.....	139
(ii)	The expansion of the Soviet empire and the transition to socialism: eastern Europe, 1945-1949.....	139
5.6	Conclusions	139
	<i>Discussion of chapter 5</i>	
5.A	Alexandru Athanasiu	141
5.B	Martina Lubyova	142
5.C	Alena Nesporova	143

Part Three

STATISTICAL APPENDIX

STATISTICAL APPENDIX	147
-----------------------------------	------------

LIST OF TABLES

<i>Table</i>	<i>Page</i>	
1.1.1	Quarterly changes in real GDP, 1999 QIII-2000 QIII	6
1.1.2	Real GDP in ECE market economies, 1999-2001	13
1.2.1	Basic economic indicators for the ECE transition economies, 1998-2001	14
1.2.2	International trade and external balances of the ECE transition economies, 1998-2000	16
1.2.3	GDP and industrial output in the ECE transition economies, 1999-2000	18
1.2.4	Retail trade in selected transition economies, 1999-2000	19
1.2.5	Consumer prices, industrial producer prices and labour costs in industry, 1999-2000	24
1.2.6	Total employment and registered unemployment in the transition economies, 1998-2000	26
1.2.7	Foreign trade of the ECE transition economies by direction, 1998-2000	29
1.2.8	Changes in the volume of foreign trade in selected transition economies, 1996-2000	30
1.2.9	CIS countries' trade with CIS and non-CIS countries, 1999-2000	32
1.2.10	Current account balances of the ECE transition economies, 1999-2000	33
1.2.11	Trade in goods and services in the ECE transition economies, 1999-2000	33
1.2.12	Net capital flows into the ECE transition economies, 1999-2000	34
1.2.13	International bond issues by the ECE transition economies, 1999-2000	35
1.2.14	Foreign direct investment in the ECE transition economies, 1997-2000	36
2.1.1	Per capita GDP in central and eastern Europe, 1870-1989	49
2.2.1	GDP in selected central and east European countries, 1990-1999	53
2.3.1	Foreign direct investment in central and eastern Europe, 1989-1999	56
3.2.1	Population and GDP data for 25 transition economies of central Europe, the Baltic states and the CIS, 1994 and 1998	70
3.2.2	Key macroeconomic indicators for the central European and Baltic economies, 1991-1998	75
3.2.3	Key macroeconomic indicators for CIS economies, 1991-1998	75
3.3.1	GDP growth and reforms in the central European, Baltic and CIS economies	78
3.3.2	GDP growth and relative GDP per capita for selected transition economies	83
3.A.1	Unemployment and employment by activity in Hungary, 1992-1995	85
3.C.1	Macroeconomic performances of Slovenia, 1992-1999	92
4.3.1	GDP and employment growth in the CEECs, 1990-1999	98
4.3.2	Unemployment and employment rates in the CEECs, 1996 and 1998	99
4.4.1	Average initial gaps and growth rates for industry groups, 1991-1997	104
4.5.1	Comparison of individual CEECs' industrial (output) structures with two groups of west European economies, 1989-1998	105
4.5.2	Total manufacturing in the CEECs, 1993, 1996 and 1998	106
4.6.1	RCA values in trade with the EU-12 of the 30 most x-factor-intensive industries	107
4.7.1	Cross-country regression of the growth of productivity and wages per head on initial gaps in manufacturing industry	110
4.7.2	Results of cross-country, catching-up regressions for selected industries	110
4.7.3	Linear regression results for catching up in product quality (export unit values)	111
4.8.1	The share of foreign investment enterprises (FIEs) in key variables of manufacturing industry, 1996 and 1997	113
4.8.2	The most significant FIE industries, ranked by output/sales ratio, 1996	113
4.B.1	Trade intensity indicators, 1980-1999	123
5.2.1	Poverty during the transition in selected transition economies, 1987-1995	126
5.2.2	Total formal sector employment in the transition economies, 1990-1999	128
5.2.3	Registered unemployment in selected transition economies, 1990-1999	129
5.2.4	Inequality during the transition in selected transition economies, 1987-1995	129
5.2.5	Basic education enrolments in selected transition economies, 1989, 1996 and 1997	130
A.1	Real GDP in western Europe and North America, 1985-1999	149
A.2	Real private consumption expenditure in western Europe and North America, 1985-1999	150
A.3	Real general government consumption expenditure in western Europe and North America, 1985-1999	151
A.4	Real gross domestic fixed capital formation in western Europe and North America, 1985-1999	152
A.5	Real total domestic demand in western Europe and North America, 1985-1999	153
A.6	Real exports of goods and services in western Europe and North America, 1985-1999	154
A.7	Real imports of goods and services in western Europe and North America, 1985-1999	155
A.8	Industrial output in western Europe and North America, 1985-1999	156
A.9	Total employment in western Europe and North America, 1985-1999	157
A.10	Standardized unemployment rates in western Europe and North America, 1985-1999	158

A.11	Consumer prices in western Europe and North America, 1985-1999	159
------	--	-----

<i>Table</i>	<i>Page</i>
B.1 Real GDP/NMP in the ECE transition economies, 1980, 1986-1999	160
B.2 Real total consumption expenditure in the ECE transition economies, 1980, 1986-1999	161
B.3 Real gross fixed capital formation in the ECE transition economies, 1980, 1986-1999	161
B.4 Real gross industrial output in the ECE transition economies, 1980, 1986-1999	162
B.5 Total employment in the ECE transition economies, 1980, 1986-1999	163
B.6 Employment in industry in the ECE transition economies, 1989-1999	164
B.7 Registered unemployment in the ECE transition economies, 1990-1999	165
B.8 Consumer prices in the ECE transition economies, 1990-1999	166
B.9 Producer price indices in the ECE transition economies, 1990-1999	167
B.10 Nominal gross wages in industry in the ECE transition economies, 1990-1999	168
B.11 Merchandise exports of the ECE transition economies, 1980, 1987-1999	169
B.12 Merchandise imports of the ECE transition economies, 1980, 1987-1999	170
B.13 Balance of merchandise trade of the ECE transition economies, 1980, 1987-1999	171
B.14 Merchandise trade of the ECE transition economies by direction, 1980, 1987-1999	172
B.15 Exchange rates of the ECE transition economies, 1980, 1987-1999	173
B.16 Current account balances of the ECE transition economies, 1990-1999	174
B.17 Inflows of foreign direct investment in ECE transition economies, 1990-1999	175

LIST OF CHARTS

<i>Chart</i>	<i>Page</i>
1.1.1 World commodity prices, January 1995-October 2000	4
1.1.2 Business and consumer surveys in the European Union and the United States, January 1996-September 2000	7
1.1.3 Consumer and producer price indices for the United States and the euro area, January 1999-September 2000	9
1.1.4 Unemployment rates in western Europe and the United States, January 1995-August 2000	10
1.1.5 Exchange rates of the euro against the dollar and yen, January 2000-October 2000	11
1.1.6 Short- and long-term interest rates in the euro area and the United States, January 1996-September 2000	12
2.C.1 Requirements for catching up	66
3.C.1 What after transition, 1990-1999	91
3.C.2 Sustainability of growth, 1993-1999	91
4.2.1 Comparison of CEECs' employment structures in 1989, 1993 and 1998 with those in the EU	96
4.2.2 Value added structures in the CEECs, 1989, 1993 and 1998	97
4.3.1 Employment trends in the CEECs, 1989-1999	98
4.4.1 Industrial production, employees, productivity, investment and exports, 1990-1992 and 1993-1998	100
4.4.2 Wages (in ECUs), productivity (at PPPs) and unit labour costs (in ECUs) in manufacturing industry, 1991-1999	101
4.4.3 Changes in wages, productivity and unit labour costs in the CEECs, 1991-1998	102
4.6.1 The price-quality gap for engineering exports to the EU, 1988-1996	108
4.8.1 FDI stock as a percentage of gross domestic product, 1997 and 1999	112
4.B.1 Export share of eastern Europe, 1980-1997	122
4.B.2 Export share of CIS, 1980-1997	122

EXPLANATORY NOTES

The following symbols have been used throughout this *Survey*:

- .. = not available or not pertinent
- = nil or negligible
- * = estimate by the secretariat of the Economic Commission for Europe
- | = break in series

In referring to a combination of years, the use of an oblique stroke (e.g. 1998/99) signifies a 12-month period (say, from 1 July 1998 to 30 June 1999). The use of a hyphen (e.g. 1997-1999) normally signifies either an average of, or a total for, the full period of calendar years covered (including the end-years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of “billion” used throughout is a thousand million. The definition of “trillion” used throughout is a thousand billion. Minor discrepancies in totals and percentages are due to rounding.

References to dollars (\$) are to United States dollars unless otherwise specified.

The membership of the United Nations Economic Commission for Europe (UN/ECE) consists of all the states of western Europe, eastern Europe and the territory of the former Soviet Union, North America and Israel.

The term *transition economies*, as used in the text and tables of this publication, refers to the formerly centrally planned economies of the ECE regions. *Eastern Europe* refers to the economies of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia and Yugoslavia. The *Baltic states* refers to Estonia, Latvia and Lithuania and the *CIS countries* refers to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

ABBREVIATIONS

AIDS	acquired immune deficiency syndrome
CEECs	central and east European countries
CETE	central European transition economies
c.i.f.	cost, insurance and freight
CIS	Commonwealth of Independent States
CMEA	(former) Council for Mutual Economic Assistance
COCOM	Coordinating Committee for Multilateral Export Controls
CPI	consumer price index
DE	domestically-owned enterprise
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECU	European currency unit
EIU	Economist Intelligence Unit
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM-2	exchange rate mechanism 2 (replaces the EMS)
ESA	European System of Integrated Economic Accounts
EU	European Union
FDI	foreign direct investment
FIE	foreign investment enterprise
FOMC	Federal Open Market Committee (of the Federal Reserve Board)
G-7	Group of Seven
GDP	gross domestic product
GDR	(former) German Democratic Republic
HICP	Harmonized Index of Consumer Prices
HIV	human immunodeficiency virus
HWWA	Hamburg Institute for Economic Research
IFI	international financial institution
IIF	Institute of International Finance, Inc.
ILO	International Labour Office
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
IT	information technology
NACE	Nomenclature générale des activités économiques dans les Communautés européennes (General Industrial Classification of Economic Activities within the European Communities)
NATO	North Atlantic Treaty Organization
NBER	National Bureau of Economic Research, Inc.
n.e.c.	not elsewhere classified

NIC	newly industrialized country
NMP	net material product
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
OPEC	Organization of the Petroleum Exporting Countries
OPT	outward processing trade
PPI	producer price index
PPP	purchasing power parity
PSBR	public sector borrowing requirement
RCA	revealed comparative advantage
R&D	research and development
RPIX	retail price index excluding mortgage interest payments
SDR	special drawing right
SETE	south-east European transition economies
SITC	Standard International Trade Classification
SNA	System of National Accounts
SOEs	state owned enterprises
TACIS	Technical Assistance for the Commonwealth of Independent States
UNDP	United Nations Development Programme
UN/ECE	United Nations Economic Commission for Europe
UNICEF	United Nations Children's Fund
UNIDO	United Nations Organization for Industrial Development
USSR	Union of Soviet Socialist Republics
VAT	value added tax

ABOUT THE MAIN CONTRIBUTORS TO THE SEMINAR

- *Alexandru Athanasiu*, Professor, University of Bucharest; Minister of Labour, 1997-1999; Prime Minister *ad interim*, December 1999
- *Ivan Berend*, Hungarian Academy of Sciences and UCLA, Los Angeles
- *Erik Berglöf*, Director, Stockholm Institute of Transition Economics and East European Economies (SITE), Stockholm School of Economics
- *Michael Ellman*, Professor, Faculty of Economics and Econometrics, University of Amsterdam
- *Stanislaw Gomulka*, London School of Economics and Adviser to Minister of Finance, Poland
- *Leonid Grigoriev*, Director General, Bureau of Economic Analysis, Moscow
- *Paul Hare*, Professor, Heriot-Watt University, Edinburgh
- *George Kopits*, Assistant Director, Fiscal Policy Department, International Monetary Fund, Washington
- *Michael Landesmann*, University of Linz and Research Director, WIIW, Vienna
- *Martina Lubyova*, Institute for Forecasting, Bratislava
- *Sylvana Malle*, Director, Non-member Economies Division, OECD, Paris
- *Jose Mencinger*, Professor, Ekonomski Institut Pravne Fakultete, Ljubljana
- *Andras Nagy*, Professor, Institute of Economics, Hungarian Academy of Sciences, Budapest
- *Alena Nesporova*, Senior Specialist, Employment Strategy Department, International Labour Office, Geneva
- *Jan Svejnar*, Executive Director, William Davidson Institute and Professor, University of Michigan Business School
- *Paul Welfens*, Jean Monnet Chair in European Economic Integration, University of Potsdam

P R E F A C E

The present *Survey* is the fifty-third in a series of annual reports prepared by the secretariat of the United Nations Economic Commission for Europe to serve the needs of the Commission and of the United Nations in reporting on and analysing world economic conditions.

Until 1997 the *Economic Survey of Europe* was issued once a year as was the *Economic Bulletin for Europe*, the secretariat's second publication which focused on trade and payments issues. At its 52nd Session, in April 1997, the Commission decided to replace these two publications with an annual *Survey* of several issues. In 1998 and 1999 there were three issues a year but starting in 2000 this was reduced to two, to be published in May and December, respectively.

The Survey continues to be published on the sole responsibility of the Executive Secretary of ECE and the views expressed in it should not be attributed to the Commission or to its participating governments.

The analysis in this issue is based on data and information available to the secretariat in late October 2000.

Economic Analysis Division
United Nations Economic Commission for Europe
Geneva