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DEVELOPING COUNTRIES. TRANSITION ECONOMIES

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Abstract

According to the modern theories of economic development – the take-off, backwardness, convergence and balanced growth hypothesis - the new industrialized states from Asia seem to have noticed the advantages of backwardness from which low income countries benefited, namely the possibility to take advantage of the latest technological discoveries of advanced countries, thus achieving a faster growth than the latter which operated closer to the technological border. The assimilation of appropriate technologies, however, required the efficient mobilization and allocation of resources and the improvement of human and physical capital.

While the Western countries were confronted with crises generated by inflationary shocks and movements of speculative capital, the relative isolation of countries whose economy was planned by the world economy sheltered them until 1990, unemployment being practically non-existent.

Asia's exceptional economic success is not only due to borrowing Western practices, but also to the fact that Asian societies maintained certain traditional features of their own culture - such as a strong work ethic - and integrated them in the modern business environment.

The surprise in the evolution of global economy came from the *new industrialized countries from Southeast Asia* – among them, the Asian “tigers”, i.e. Taiwan, South Korea, Singapore and Hong Kong, the “little dragons”, represented by Thailand, Malaysia, the Philippines and Indonesia and the “great dragon”, i.e. China - economies that accommodate over half of the world's population and contribute one third in the global GDP, successfully asserting themselves. Their success, similar to Japan’s from 1950-1973, is largely due to the massive attraction of investments in national economies, the significant progress made in employment, as a result of rising education levels, reducing birth rates and increasing the number of working age population and, perhaps most importantly, the dedication to work. Unlike Japan, which was the advocate of an autarchy policy in international trade relations, these countries opted for opening their markets to the exterior, through exports and attracting foreign investments - especially direct ones, including the Japanese - for the purpose of assimilating state-of-the-art technologies, carriers of technical progress, within national economies. As a result, the increasing GDP per capita in the period from 1973 and 1998 was almost twice as high as in Japan. All these factors led to a 1.6 times higher GDP per capita increase in the period after 1973 than in the postwar period, being the only ones to register increases in GDP (Bathia, 2000).

Moreover, as regards the rapid economic growth, a phenomenon that occurred, this time, closer to our times (beginning of the 8th decade), *China* is at the fore-front. This is not only due to the level of the performances obtained, but mainly to the fact that they belong to a country that opted for two systems that coexist in the same space: socialism for the continental zone and capitalism for the islands of Hong Kong and Macao.

In the postwar period, China practiced central planning, yet after the defeat of the Cultural Revolution, a series of measures were taken that proved to be the premise for further development: the decentralization of economic power (but not the political one), the creation of free zones - true economic growth poles -, the liberalization of forms of property, political and social stability, the adoption of a legislation favorable to business development, thus succeeding in becoming an important destination for foreign investment (Rivoire, 1991).

In this context, in the 1990s, China was among the biggest beneficiaries of foreign direct investments. This flow represented 5% of GDP in 1995. Commanding a huge labor force, paying low wages, having a typically Asian work ethic, thus generating a high productivity, "the great dragon" shocked the world by increasing exports in the period from 1976-1990 - from 5 to approximately 62 billion dollars, by increasing the annual average rate of gross domestic product growth by 8% between 1987 and 1992, the latter reaching its peak of 14% in 1993 and 12% in 1995 (Postelnicu et al, 2000).

Nonetheless, China fought hard to break away from the gray platoon of underdevelopment, income levels remaining very low and capital being insufficient. It continued to be a relatively closed economy if we consider the coexistence of centralized leadership and capitalism. There are still many restrictions on imports, the exchange rate is still controlled, the public sector dominates the economy and the farmlands are collectively-owned. It remains to be seen whether the forecasts of several economists and politicians according to which this country will soon become one of the major economic powers of the world will come true.

According to the modern theories of economic development presented by P. A. Samuelson and W. D. Nordhaus in the memorable “Economics” (Samuelson et al. 2009) – the take-off, backwardness, convergence and balanced growth hypothesis - the new industrialized states from Asia seem to have noticed the advantages brought about by backwardness, from which the low income countries benefited, namely the possibility to take advantage of the latest technological discoveries of advanced countries, achieving a faster growth than the latter, which operate closer to the technological border.

The assimilation of appropriate technologies, however, requires the efficient mobilization and allocation of resources and the improvement of human and physical capital. By observing the results, the newly industrialized Asia could be said to have taken these requirements into account, in the same way that Japan had done decades before. In analyzing Asia's outstanding economic success, Francis Fukuyama claims that “it is not only due to lending Western practices, but also to the fact that Asian societies maintained certain traditional features of their own culture - such as a strong work ethic - and integrated them in the modern business environment” (Fukuyama, 1992).

An obstacle was encountered in 1997-1999 in the almost explosive development of Asian countries, materialized in a major financial crisis, which demonstrated that the Asian economic development model had its shortcomings. In this regard, the philanthropist and businessman George Soros identified the following deficits: the structural flaws in the banking system, the fact that businesses were mostly family-owned, a business - politics binomial based on family relationships, the lack of transparency in the financial sector and the absence of political freedom (Soros, 1999).

In spite of the difficulties encountered at the end of the 20th century, we subscribe to the opinion that Asian economies have every chance of continuing on the upward path of development, but not at the same pace as in the last decades, given the fact that they have caught up with the advanced countries and the backwardness opportunities on which they based their previous growth have now become exhausted. Consequently, their "speed" of development will be closer to that of the countries that it "caught up" with.

The newly industrialized countries from East and Southeast Asia are a part of the very large group of developing countries that also comprises a diversity of economies from Latin America, Asia and Africa. Due to the lack of responses to the oil shocks of the '70s, the *Latin American countries* found themselves, in the following decade, in full foreign debt crisis, having destabilizing effects on economic growth.

The attempts to surmount the difficulties created have materialized in various experiments of economic policy, from central planning to market and exterior-oriented neoliberal policies. They thus succeeded in attracting a significant capital in the financial and banking sector that favored the start of a process of real economic growth, especially in Brazil, Argentina and Chile (Korten, 1997). The economy reviving process from the beginning of the 90s was interrupted by the Mexican crisis from 1994 and the Russian financial crisis from 1998. Thus, the Latin American countries recorded a GDP per capita growth of only 0.99%, in the period from 1973 until 1998, in comparison with the 2.52% that characterized the first postwar decades.

Apart from Japan, China and the newly industrialized countries from Asia, a series of economies in this area have the status of developing countries, the positive economic growth of which, from the fifth and sixth decades, i.e. 4.09%, was interrupted by a dramatic downturn, to only 0.54%, annually, after 1973. For many of these countries, the reason of economic decline is the penetration in the Soviet sphere of influence and the adoption of communist regimes.

The oil-producing countries from Western Asia benefited from the explosion in oil prices, but failed to start a real, long-lasting economic growth, also due to the armed conflicts that have characterized this region over the past years. The economic growth achieved by *India* on account of its domestic-orientation and prudent policies in terms of foreign debt, as well as its impressive potential, led many analysts to consider this country as a future world-class economic power.

Africa is the poorest region of the world which accommodates nearly 13% of the world population - an extremely high figure that is still growing - and only 3% of the world GDP. The per capita income is the lowest, the education and health levels are at the lower global limit and political stability and armed conflicts are major impediments in the path to economic growth. The efforts made by these peoples, as well as the development assistance offered by the industrialized states are not enough to allow them to escape the vicious circle of poverty. For this reason, the African states will not succeed in improving their level of development, thereby increasing the gap and dependence on other states.

This category of states includes those states that until recently adopted a planned economy and are currently in various stages of transition to a market economy: the former USSR and the Central and Eastern European countries.

By 1991, when the USSR collapsed and the East-European states were freed from under its influence, the economic growth of this group of countries had already entered a downward phase. The data analyzed show a per capita GDP growth of 3.49% in the first two postwar decades and a major decline of 1.10% in the period from 1973 and 1998. At the beginning of the 90s, Russia's per capita income - the second largest power in the world after the war – amounted to less than a quarter of that of the United States of America. In 1998, the transition economies contributed only 5.4% to global GDP.

Even though the beginning of the 1990s was characterized by an overall global recession manifested mainly in the European states, the causes of this economic decline were different from those of Western Europe. While the Western states were confronted with crises generated by inflationary shocks and movements of speculative capital, the relative isolation of countries whose economy was planned by the world economy sheltered them from these countries until 1990, unemployment being practically non-existent.

On the other hand, phenomena such as the lack of efficiency in resource allocation at the micro-economic level bordering on waste, increased military expenses (especially in the USSR) and the depletion or destruction of the advantages of natural resources were fully manifested in these countries and led to the stagnating or decline of their economic growth after the war.

Moreover, the foreign trade conducted mainly within Comecon (The Council for Mutual Economic Assistance) - in 1975, the weight of relations with Comecon states, reported to the total foreign trade exchanges was 76% with Bulgaria, 70% with Czechoslovakia and Hungary and almost 60% with Romania, while the trade relations with developed countries were relatively low: 17% with Bulgaria, 22% with Czechoslovakia, 24.4% and 36.7% for Hungary and Romania, respectively - apart from a series of advantages, circumscribed by the context of that period, also brought many disadvantages. The latter are particularly severe if we consider the fact that they still represent weaknesses in the transaction economies (Comecon, 1976; Deutsch, 1968; Drucker, 1999):
- difficult access to the scientific and technological achievements of the developed countries;
- lack of training of Romanian companies to be able to face external competition, in terms of the quality of products and the adoption of modern management and marketing techniques;
- specialization of production in inefficient forms and sectors, which led to the dependence on Comecon raw materials and markets;
- lack of international means of payment, following the non-convertibility of their national currency;
- difficult access to the outlet markets of developed countries to technical and scientific information and knowledge, etc.

The lack of competitiveness of products from Eastern Europe and the former USSR was one of the reasons that led to these states' increase in external debt from 56 billion dollars in 1980 to 171 billion in 1990, only to exceed, around 1998, the value of 383 billion dollars.

After 1990, the countries above-mentioned applied reform policies in order to make the transition to market economy and capitalism. The successes achieved differed from one country to another, as did and politics they adopted. In this regard, two courses of action were confronted, i.e. shock therapy and the gradual transition to market economy. Both ways generally target price liberalization, trade openness to Western Europe, privatization, elimination of state monopoly, convertibility of the national currency, modernization of the banking system and the creation of a capital market, but the pace taken to achieve these objectives differs considerably.

The transition process is estimated to have been less traumatic in Eastern Europe than in the former USSR, with the exception of Romania and Bulgaria, the best performances being noticed in Poland, the Czech Republic and Hungary. The slow pace of reforms in the former USSR countries and in the two countries above-mentioned caused a sharp drop in the population's income and in the standard of living (Clark, 1989; Papp, 1991; Maddison, 2001).

Apart from the dramatic drop in production and income, the transition countries, started to be confronted with practically new phenomena once with the beginning of market and price liberalization, such as unemployment and inflation, whose levels have equaled and even exceeded those from developed countries. The decline in production was caused, in general terms, by the dislocation of the socialist economic system represented by Comecon, by the wrong manner of conducting privatization processes, the reduction of state subsidies, incompetent management and, last but not least, the discontinuation of energy and raw material supply by the Soviet Union below international market prices. All these difficulties, most acutely manifested in the industrial sector, have rapidly expanded to economies in the aggregate (Lawrence,1996; Clipa, 2008).

The desideratum to enlarge the European Union to include 27 countries, by inviting 12 Central and Eastern Europe states to accession negotiations was a challenge for them. After the Gothenburg European Council of 2001, 10 of the 12 candidate countries participated in accession negotiations and made efforts to comply with the conditions for economic performance requested by the European Union.

The measures taken at international level in order to eradicate underdevelopment - development aid, financial assistance, generalized system of preferences in favor of developing countries, structural adjustment programs - did not have the expected results. However, they proved to be favorable to the economic growth of those countries that were more strongly and more efficiently integrated into the world economy, such as Southeast Asian states (Irimia *et al.*, 2002; Luca *et al.*, 2014).

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