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## GLOBALIZATION AND DEVELOPMENT PERSPECTIVES IN THE FORMER COMMUNIST COUNTRIES



Last January 22, Grzegorz W. Kolodko, Vice- Prime Minister and Minister of Finance of Poland, visited FRIDE to present his book *Globalización y perspectivas de desarrollo en los antiguos países comunistas*, published by Siddharth Mehta Ediciones. Diego Hidalgo, President of FRIDE, and Hermann Tertsch, Editorialist and Columnist of *El País*, accompanied the author in the event.

In his book, Grzegorz W. Kolodko offers an overview of the transition in former Communist countries over the last decade, and the challenges, threats and future prospects for the economies that have gone through the journey toward a market system.

### Participants

**Grzegorz W. Kolodko**

Vice-Prime Minister and Minister of Finance of Poland

**Diego Hidalgo**

President of FRIDE

**Hermann Tertsch**

Editorialist and Columnist of *El País*

BESIDES HIS ACTIVITIES AT THE Ministry of Finance of Poland, a position he had held previously between 1994 and 1997, Grzegorz W. Kolodko is the director of the TIGER Center of Economic Research of Warsaw, and has been a professor in several US Universities. The current Vice-Primer Minister of Poland was also one of the experts who participated in the Conference on Democratic Transition and Consolidation organized jointly by FRIDE and the Gorbachev Foundation of North America in October 2001. Diego Hidalgo, President of FRIDE, stressed the political and academic relevance of Grzegorz Kolodko and his very competent implementation of economic practices which proved to be adequate for Poland's economic development.

#### A complex transition

The overhaul of Socialist economies to be replaced by a market economy system and the parallel process of a complex political transition, demanded an unre-

cedented effort from Central and East European countries. According to Hermann Tertsch, this transition has probably been one of the most extraordinary historical events in the second half of the XX century.

In the opinion of Tertsch, Editorialist and Columnist in *El País*, the unexpected collapse of the Communist block, together with the lack of previous valid examples and the absence of an adequate institutional network, complicated further a process already afflicted by false expectations and inappropriate policies, in which only the most pragmatic options were proven right.

Grzegorz Kolodko admitted that these unrealistic expectations on the possibilities of development in former Communist countries were responsible for an even greater disappointment of society when the harsh reality of recession hit Hungarian society.

However, the members of the panel agreed that one decade after the fall of the Berlin Wall, joining the European Union

represents a certificate of having successfully consolidated their democracies and improved the competitiveness of their economies.

#### Transformations versus reforms

According to Grzegorz Kolodko, Central and East European countries would have been unable to continue on the track started one decade ago, if the reformers of the Socialist system had prevailed over those who, like himself, were in favor of a complete overhaul of their economies and political systems.

Socialist economies had proven their inability to adapt to new international economic conditions, as painful shown by the technological take-off of the Western countries - and a partial reform would not have been enough. However, Kolodko argues that the more important factor was the people, frustrated and angry by the rocketing prices and the wasted effort of their work



Grzegorz W. Kolodko and Diego Hidalgo

and skills due to the inefficiency of state companies, and eager to have their voice heard. The result was a growing support to changes, and to leave behind the political and economic model that had failed to meet their expectations. Mr. Kolodko emphasized the peaceful way transition took place in Poland, thanks to the consensus achieved, compared to more traumatic experiences like that of Romania.

#### Post-communist transitions and globalization

Is there a link between economic transition processes in the former Communist countries and globalization? Is it possible to comprehend the two processes if considered individually? Who will be the winners? And the losers? Grzegorz Kolodko is convinced that transformation and international integration of Central and East European economies has been one of the distinctive traits of globalization. In his opinion, it would not be possible to refer to globalization as we do today had it not been for the transformations that started in 1989.

to the Polish Finance Minister, globalization as a historical process of liberalization, integration and creation of a global market for products, capital and workers is an issue beyond discussion. It is an irreversible process to which all countries must adapt, especially former Communist countries, unless they want to be relegated to a peripheral position, with dire perspectives for development.

In Mr. Kolodko's view, globalization offers Central and East European countries, as well as the rest of the world, more opportunities than threats, more benefits than costs. The question is how to tip the scale toward the positive side. Irrespective of exogenous, mainly geopolitical factors - for or against which there is very little a country can do - the author of *Globalización y perspectivas de desarrollo en los antiguos países comunistas* believes it is essential to design and implement the appropriate economic policies: liberalization of the economy, opening the economy to the world, creation of a stable banking system, design of a suitable monetary policy, etc. - but it

Reciprocally, the pace and nature of changes in the former communist countries would not have been the same without the conditions provided by globalization.

According

is no less necessary to create the right institutional infrastructure. Only the countries that can successfully combine well-designed economic policies with efficient institutions will be able to reap the opportunities of globalization. A new economic system compliant with the principles contained in the Washington Consensus are not sufficient in Mr. Kolodko's view, to make the economy operate as it should. At least it has not been enough for Latin America, or for Russia, and it would have certainly been also the case in Central and East Europe. Grzegorz Kolodko maintains that the basic mistake of economists like Jeffrey Sachs, mentioned by Diego Hidalgo, is their ignorance about the realities of Communist economies and their blind belief in the IMF's views as the only ones deserving consideration. In Kolodko's



Hermann Tertsch

opinion, the question is not the content of the Washington Consensus - with whose principles he agreed with, however - but what it does not contain: the construction of a robust and efficient institutional infrastructure.

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