



## **PRESS RELEASE OF THE WORKING PAPER 5/14**

### **SIMILARITIES AND DIFFERENCES OF INSTITUTIONAL CHANGE BETWEEN ENP COUNTRIES AND OTHER CATCH-UP COUNTRIES**

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#### **OBJECTIVE**

The objective of the working paper is to compare the institutional change of the ENP countries with the successful East-Asian economies and to determine the role of institutions for the catch-up process. The goal of identification of the impact of institutions on the economic growth and development is to provide ENP countries with a theoretical perspective, based on the experience of catch-up states, describing possible ways to grow economic potential through provision of high quality institutional environments. So far ENP countries are still lagging behind in their economic outreach. This press release will give an overview of the most important conclusions and results of the working paper 5/12 of the SEARCH project. Since the goal of this working paper is only to provide an overview of the existing theoretical concepts and the data available in order to inform the SEARCH project, policy implications of this working paper are not further explored.

#### **MAIN RESULTS**

The working paper summarizes the main theoretical perspectives towards the role of institutions for economic growth and development. Analysis of an institutional change in East-Asian countries brought institutions as one of the key determinants of their catch-up success. The main institutional factors impacting high performing Asian economies turned out to be: industries targeting, leading sectors upgrading and firms capabilities building, broad base education building, setting government-business relations, supporting of SMEs, both domestic firms and companies with foreign ownership, ensuring easy knowledge access by economic agents through effective

market institutions. Comparing institutional performance of East Asia to that of the post-Soviet states and the MENA region countries, a range of contrasting institutional factors emerge. Post-communist states show that economic transition depends on the quality of institutional transformation. Institutional change of post-socialist states took place within the perspective of institutional path-dependency and persistence of institutions from the past. This means that the character of the government's intervention in the economy has not changed dramatically after the collapse of the Soviet Union. Therefore, transition economies had to face centralized institutions, which led to institutional thickness and lock in. Furthermore, an overview of institutional transformation identified an importance of fit between formal and informal institutions with respect to acceptance of new formal institutions by path-dependent historically framed informal ones.

A review of existing data of the World Bank and the World Economic Forum provides an evidence of high performing economies scoring well within institutional parameters, whereas those lagging behind also have very low indicators of institutional quality. This proves that institutional frameworks do impact economic growth and development. Based on the data a range of institutional determinants for domestic firms and foreign owned enterprises is identified. Although, rankings of the World Bank and the World Economic Forum turn out to be quite contradicting to each other whilst some of the ENP states are scoring tremendously well in the Global Competitiveness Index by the World Economic Forum, but at the same time their positions are quite low in the Ease of Doing Business Index by the World Bank. This means that available data does not fully evaluate the state of institutional environment in the sample economies, providing assessment of general competitiveness or economic development levels of the states and then linking it to institutional indicators, whereas a further study of institutions as determinants of economic progress on the first place should take place.

The working paper introduces with a conceptual framework, focusing on the possible replication of the institutional mechanisms used by the East Asian countries while catching up. A range of aspects favoring such replications have been identified: support of business by the government, introduction of market-friendly institutions and building up of informal institutional environment in order to ensure acceptance of

new formal institutions. By and large, this working paper provides a framework for the future empirical research in the field of institutional transformation of ENP states.