Paper analysis on terms of Estonia’s economy going through transition, joining the EU and the Eurozone

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Introduction

Estonia went through the transition process in an exceptional manner. The basis of this analysis is the paper of Ketels, Porter and Sölvell, in which they give a walkthrough of the Estonian economy's transition, as well as its current goals and challenges (Ketels, Porter & Sölvell, 2013). There are (and were) many key fields and peculiarities that helped that happen, if we would like to point out some of those based on the paper, Estonia's geopolitical status, its small size in population, or its politics (Ketels et al., 2013). In the following, we would like to give an overview of the paper, mentioning similarities with the Hungarian economy, that went through the transition process at the same time, and joined the EU at the same time. Although there are some staggering differences that made Estonia being able to join the Eurozone, as well as overall have a more stable economy.

Analysis with attention to similarities and differences with Hungary

The paper of Ketels et al. (2013) helps the reader quickly read through chronologically on the transition process of Estonia. Let us talk a bit about some of the key peculiarities that Estonia had, that helped them having a special status among transitioning countries and economies. Its border with Russia, as we read can be taken as both a blessing and a curse – a blessing in a more economic sense, that such a large market is right "next door", meaning that if (or when) Estonia had a product that fit the Russian market, it had not necessarily had to fit other markets. However, a curse being geologically close to the state that held the collar for decades as the Soviet Union's base – which status, as the paper mentions, had its effect several times on the market and the country's politics. On the other hand – and on the other sides – having the Northern European neighbors (Scandinavia and Finland), the Baltic Sea and Western Europe in reach did give greater chances to Estonia to go through the transition as they ended up doing it. Also, as Ketels et al. (2013) mention, the openness of the market immediately turned out to be a winning tactics, as well as the idea of joining the "tech-train" running from Sweden and Finland. What makes Estonia special in that sense is that they renewed themselves several times economically, while keeping mainly on the same tracks, in the same sectors. If we would like to draw similarities with Hungary, the "e-factor" of Hungary seems to be the automobile industry, although in a smaller scale. In the latter case, we can not talk about something reaching through political leadership-changes, more like the last 12 years' flagship. Seeing the country's common goal by the political leaders economically is something that was (and is) key. The fact that different leaders still saw (well) that Estonia's way is to join the EU and the NATO as soon as possible, to peg its currency to the Euro even if it seems unfavorable short-term, to join the Eurozone and to overcome the lagging behind communist industrial features with progression in sight were all incredibly important in shaping the country's future. At Šiljak (2022) we can read how efficient institutions are key to a successful economy and transition, it draws spotlight on the cuts that Estonia made in order to minimize the state after giving a start to some parts of the economy (such as telecommunications, as Ketels et al. (2013) mentions). It is just one of the good examples of state and economy that Estonia showed us.

The immediate openness of the market – and having well-functioning market economies in proximity also seems to be a key feature of Estonia (Ketels et al., 2013). In the case of Hungary though, Kornai (1996) mentions that thanks to the long years of reform-communism before the system change in 1989, the country did not have such a sudden jump towards a market economy, and both its institutions and property rights went through a slower, less intense change. This phase might have caused that even though Hungary joined the EU the same time as Estonia, it still tackles high index of corruption, a large state (bureaucracy) and although more efficient institutions than Western Balkan countries (as Šiljak, 2022 mentions), but lacks behind EU average. Kornai (1996) also shows that Foreign Direct Investment between 1990 and 1994 was among the highest in Hungary (USD 6740 million versus 811 million of the Baltic states in 1994). This suggests that even the above mentioned (and criticized) slower change did not prevent Hungary from FDI inflow in the first years after 1989. However, the mistakes during the privatization era and the 1994 election of the ex-leading communist (now socialist) party made the difference. Kornai (1996) also mentions that only in 1996 did the government made the Hungarian Forint convertible, still leaving some restrictions alive, compared to Estonia's 1992 without restrictions (Ketels et al., 2013). This, pointing out that Hungary even started the process earlier, seems troubling retrospectively on the still not reached goal of joining the Eurozone – although a weak Forint seems to be the driver of the relatively cheap educated workforce that made Hungary a target to the German (and other) auto industry.

It is also important to point out how Estonia tackled the financial crisis relatively well, and could over and over renew its economy. In comparison, Hungary many times used the governing parties' political views as a basis for its economic decisions. Although that is not something unheard of, but helped greatly the "voters' revolution" of 2010, to continue on a different path both economically and politically.

The characteristic that Kornai (1996) mentions in the case of Hungary (i.e., longer reform period, thus less sudden change) might have caused that the spontaneous privatization turned out to be the immediate floor for criminal leaders, foreign secret agencies, or to say the least, the ex-communist leaders, and other unwanted elements to catch a slice of the new economy. Also, as it can be seen in Kornai (1996)'s work, even years after the regime change, in 1994-95, still just roughly half of the state-sector have been privatized. To see on the contrary how Estonia privatized, reduced the governmental sector and still managed to prosper (Ketels et al., 2013), unveils what seems to have been the better way of the two. The global financial crisis also could have been better adverted in Hungary if it had "a larger domestic market with a euro umbrella" (Magas, 2019).

Conclusion

Although the miracle that happened with Estonia, meaning that it went through the transitioning process successfully, had found its "economic calling" and could renew, as Ketels et al. (2013) writes, is not overly unique, or something that could not have happened with a country with different characteristics, it still would be hard to imagine what differences would have been needed in the case of Hungary to be able to complete somewhat the same. As usual, we can place Hungary at a lower shelf than the core economies of the EU, and even than some that went through transition as well, and higher than the Western Balkan economies, many of those still have not completed transition. Still, there are some key takeaways that seem to have been worked well for Estonia – having a calling overarching different political leaderships, somewhat political stability in that sense, as well as the instant openness of the market, while reducing the state, and as we could see at the example of the ETC (Ketels et al, 2013), having operating rules to new industries. This way, the state helped giving a basis of the new economy, a new infrastructure, but then revoked monopoly and opened that market as well. Steps and policies like this helped them prosper and be the kind of leaders of the Baltic states.

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