

Development Trend and Challenge of Transition Economy in Eastern Europe: A Perspective of Romania

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Abstract: In the midst of the significant shifts that defined Eastern Europe's evolution from communism to democracy and a market-based economy, Romania was at the center of this transformational time. The paper presents a thorough examination of Romania's amazing journey, highlighting the difficulties it encountered. This empirical investigation digs into the complex problems that occurred over the transition in order to find suitable solutions that would have helped Romania carry out the transition effectively. To identify the elements that led to these issues, the report makes use of empirical research and comprehensive analysis. The coping mechanisms that Romania ought to have used are at the heart of the situation in this context. This study provides useful insights that go beyond the boundaries of Romania by analyzing approaches and evaluating their efficacy, acting as a case study with broader consequences. It takes both a great sense of flexible methods and a profound awareness of the obstacles of navigating the complicated terrain of an economy in transition. This essay aims to clarify the complexities of Romania's transition by offering a detailed viewpoint on how the country ought to have changed as it transitioned from a planned to a market-driven economy.

Keywords: Transition Economy, Challenges, Coping Strategies, Market Economy Introduction

1. Introduction

It is a difficult and significant procedure used by economies to go from centralized systems to market-driven structures. Romania's transition from Nicolae Ceaușescu's decades of communist dictatorship to a market economy and democratic system of government provides important insights into this transformational journey. This essay examines the transformation in Romania while emphasizing its factual basis.

Understanding Romania's change requires awareness of its historical background. In December 1989, the communist authority that had been characterized by state control of industry, central planning, and totalitarian dictatorship ended. At this critical juncture, Romania started to move towards democratic governance and a market-based economy.

Obstacles to privatization, managing inflation, reducing poverty, reorganizing industries, luring foreign investment, and encouraging innovation are only a few of the difficulties encountered throughout this shift. For the purpose of creating and putting into practice efficient coping mechanisms, Romania should have utilized empirical research and evidence-based decision-making.

This essay explores the empirical transition experience of Romania, looking at obstacles, solutions, and takeaways. It emphasizes the significance of the suggested strategies in significant changes by stressing the role of empirical findings in directing Romania's trajectory. Romania's case offers important lessons for nations pursuing the same course and demonstrates the transformational power of evidence-based approaches in generating sustained economic development and prosperity.

2. Case Description

2.1. Overview

Eastern Europe's shift from planned to market economies, sometimes known as the "post-communist transition," proved to be a difficult and revolutionary process. Eastern European nation of Romania provides a powerful case study for this shift. This section offers an overview of Romania's transition from a centrally planned economy to a market-based one, outlining significant developments and difficulties experienced.

Romania's transition is well engraved in its historical background, which significantly provides an account of how the country transitioned from a planned economy to one that is driven by the market as well as its conversion to a democratic political system. The collapse of Nicolae Ceaușescu's communist dictatorship in December 1989, which marked a crucial turning point in Romania's history, sparked this transformation [1].

Romania was deeply ingrained in Marxist-Leninist doctrines throughout the almost five decades of communist administration under Nicolae Ceaușescu. This resulted in a system of highly centralized economic planning and governmental control over many businesses. Almost all of the major economic sectors were under the authority of the government, which also set the pricing at which products and services would be sold as well as how and where they would be dispersed [2]. This centralized economic system produced bottlenecks, improper distribution of resources, and a separate economy with little interaction with the West and minimal foreign commerce.

During this time, Ceaușescu's authoritarian style of rule was very prominent. Political opposition was almost nonexistent, and resistance was brutally repressed. A climate of terror was fostered by the regime's strict control over the press and restrictions on the right to free speech. The nation was rife with persecution, censorship, and violations of human rights [3].

With the fall of the Ceaușescu government in 1989, the country experienced a crucial period in its history that was a major shift in the nation. Protests immediately became widespread across the country. The government's brutal response simply served to inflame the general population's resentment, leading to bigger and more significant protests. Ultimately, the military supported the protesters, which resulted in Ceaușescu's arrest, conviction, and death [4].

The foundation for Romania's transition was created during this chaotic era of revolution and political upheaval. Romania began the difficult job of deconstructing the centralized, state-controlled economic structure and transitioning to a market economy after Ceaușescu was overthrown. State-owned businesses had to be privatized, pricing had to be liberalized, and the nation had to be made open to international investment and trade.

Romania began a concurrent political transition towards democracy. The foundation for a democratic republic was laid with the holding of the first free elections in 1990 and the adoption of a new constitution in 1991. Romania encountered difficulties during the transition, such as political unpredictability, corruption scandals, unemployment, being unattractive to FDI, etc.

In essence, the shift from a centralized economy and political system to a market economy and democratic political system was a complex process to carry out. It required fundamental changes in political and socioeconomic systems in addition to extensive economic reforms. Understanding the

obstacles and victories that have shaped Romania's progress in the post-communist era requires an understanding of this historical context.

2.2. Economic Transition

Romania's economic transition can be delineated into several phases:

1. Early change (1990s): For Romania, the early years of change were turbulent. The economy of the nation was unstable, there was extreme inflation, and its GDP was rapidly declining. As a result, the government started implementing market-based changes, such as privatizing state-owned businesses and liberalizing trade, pricing, and foreign exchange. These early years were characterized by ambiguity and difficulties in adjusting.

2. Macroeconomic Stabilisation: Deep into the 1990s, Romania's macroeconomic situation started to stabilize. Rates of inflation began to fall, and fiscal measures were strengthened. Economic growth gradually recovered during this time. The move towards stability had a crucial role in luring foreign capital and promoting economic growth.

3. Integration with the EU: Romania's 2007 entry into the EU marked a turning point in the country's transformation. Adopting EU standards and aligning policies with those of proven market economies were prerequisites for membership in the EU. This procedure bolstered Romania's adherence to market-oriented ideas and spurred more political and economic changes.

2.3. Challenges Faced

During Romania's transition, numerous challenges emerged, often intertwined with one another:

1. Unemployment: The economy's reorganization and the privatization of state-owned businesses disrupted the labor market. High unemployment rates were a major worry, especially in the early phases of the transition [5]. It was very difficult to reintegrate displaced employees into the workforce.

2. Poverty: The collapse of the social safety net and the appearance of economic gaps were factors in the rise in poverty. Pensioners and low-skilled employees were two vulnerable categories that were disproportionately impacted [6]. Reducing poverty and reestablishing social safety nets were prioritized as policy goals.

3. Industrial Restructuring: Moving industries from a planned to a market-oriented structure was difficult. Some sectors swiftly conformed to the new circumstances, capitalizing on the more competitive climate and simplifying entry into international markets. Geographic and economic disparities emerged as a result of certain people's difficulty adapting. Heavy industrial sectors, in particular, had major difficulties while converting to market-driven models, necessitating frequent and severe restructuring and reduction.

4. Corruption and Bureaucracy: Throughout its transition, Romania struggled with difficulties relating to corruption and ineffective bureaucracy. Foreign investments were discouraged by corruption, which also weakened public confidence and made economic changes less effective. To create an atmosphere more favorable for economic progress, the administration made eliminating corruption and simplifying bureaucracy key objectives.

5. Regional inequalities: Regional inequalities were another issue that arose during Romania's transition. Urban areas had more prosperity than the countryside, resulting in unequal economic development. To guarantee that the advantages of the transition reached all facets of the population, addressing these imbalances and encouraging equitable development became essential.

2.4. Current Economic Landscape

The economy of Romania has advanced significantly as of late. It has seen sustained economic development, attracted international investment, and attained macroeconomic stability. Important

metrics, such as GDP per capita, have increased, demonstrating the nation's smooth transition to a market-oriented economy. Trade has been easier, and Romania's economic integration with the European market has expanded as a result of its membership in the EU.

However, problems still exist. The issue of corruption is still there and attempts to eradicate it are ongoing. Despite continued attempts to encourage economic growth in less fortunate areas, regional discrepancies nevertheless exist. To reduce poverty and provide a cushion against economic shocks, social security systems have been reinstated.

In conclusion, Romania's path from an economy governed by central planning to a market-oriented one has been difficult and multifaceted. Even though the nation has achieved outstanding progress towards attaining economic development and stability, issues including joblessness, impoverishment, industry restructuring, corruption, and regional inequalities have created substantial obstacles. Understanding this case study offers helpful insights into the bigger picture of Eastern European economic transformations.

3. Analysis of problems

3.1. Economic Challenges During Romania's Transition

Numerous economic difficulties were present throughout Romania's transition from a planned economy to one that was driven by the market. This in-depth examination explores these problems, providing information on how they came to be and the theories that explain how they emerged.

3.1.1. Privatization and State-Run Businesses

State-run businesses in Romania were privatized as part of the country's transition in order to boost productivity and competition. The difficulties, nevertheless, were a result of the communist era's legacy. The "path dependence" concept, which contends that an economy's past trajectory can have a significant impact on its future development, is the main theory in this area. Since state-run businesses had established inefficiencies, excessive workforce, and a lack of competitiveness, privatizing them was a difficult and divisive process.

The principal-agent challenge in economics is related to the difficulty of state-run enterprise valuation. When the principal's (the state) and the agent's (private purchasers) interests are not entirely aligned, a problem emerges. In the case of Romania, the government wanted to get the most money out of the privatization process, whilst private purchasers wanted to pay as little as possible for the assets. Due to this mismatch, there were disputes over the fairness and openness of the valuation process [7].

3.1.2. Inflation and Macroeconomic Stabilization

Early on in the transition, high inflation rates were partially a result of the abrupt change from a planned to a market economy. The concept of "shock therapy," a quick and thorough transition method, can be used to describe this condition. As shock treatment entails the elimination of price restrictions and subsidies, which frequently result in price increases, it can cause short-term economic turbulence [8].

Programs for macroeconomic stabilization sought to reduce inflation by tightening monetary and fiscal rules. However, these strategies frequently resulted in trade-offs between societal well-being and the sustainability of the economy. The "impossible trinity," often referred to as the "trilemma" in international economics, illustrates the difficulty in achieving this equilibrium. According to this concept, a country's economy cannot concurrently have a fixed foreign exchange rate, unrestricted

capital flow, and an autonomous monetary policy. Some of this policy decision-making was frequently not incorporated in Romania's attempts to manage inflation [9].

3.1.3. Poverty and Income Inequality

Numerous factors contributed to the rise in poverty and economic inequality during Romania's transition. This issue is explained by the "institutional voids" concept. Institutions that underpin market economies, such as those that uphold contract law and property rights, were still in the early stages of development. As a result, there was an atmosphere where some people and businesses might take advantage of these gaps for their own financial gain.

Early market transitions' "winner-takes-all" dynamics were also at play. When privatization was rushed, well-connected people and businesses frequently benefited greatly, further accumulating wealth. This is comparable to the "crony capitalism" concept, which holds that intimate tie between elites in industry and government cause distortions in the marketplace [10].

3.1.4. Industrial Restructuring

Romania's transformation required industrial reform, but it was extremely difficult. The state-owned manufacturing facilities needed extensive renovations since they were outdated and uncompetitive. According to Joseph Schumpeter's [11] "creative destruction" concept, the liquidation of ineffective businesses is a necessary component of the capitalist system. The problem is that an instant disruption can have detrimental impacts, such as the reduction of job opportunities.

3.1.5. Foreign Direct Investment (FDI)

The difficulties encountered concerning FDI can be analyzed via the prism of "institutional quality." Foreign investors were discouraged by the absence of established legal systems, corruption problems, and bureaucratic obstacles. According to the concept of "investment climate", attracting FDI requires a conducive environment for investment that is characterized by an open legal framework and a productive administration.

Additionally, the economic environment throughout the world had an impact on Romania, supporting the concept of "economic contagion." Financial contagion explains the transfer of economic crisis from one market or region to another, which can happen both domestically and internationally [12]. Investor attitude and FDI flows were impacted by economic crises and uncertainty in other regions of the world, such as the Asian financial crisis in the late 1990s.

3.2. Social and Political Challenges During Romania's Transition

The transition in Romania had considerable social and political difficulties as well as economic ones. Many concepts and frameworks can be used to comprehend these difficulties.

3.2.1. Political Instability and Corruption

Throughout Romania's transition, corruption and political instability persisted as problems. The "political rent-seeking" concept sheds light on why corruption continues to exist. Rent-seeking happens when people or organizations attempt to get financial benefits using dishonest techniques, such as lobbying or bribery. Rent-seeking can be a tempting method of wealth growth in transitioning economies like Romania when institutions lack strength and regulations are ambiguous [13].

3.2.2. Social Unrest and Protests

It is important to examine the social unrest and demonstrations that characterized the transition through the prism of "collective action theory." According to this concept, people will take part in demonstrations or strikes when they believe that doing so will benefit their interests more broadly than doing so as individuals. Workers in state-owned businesses in Romania saw collective action as a way to defend their employment and pay against cutbacks brought on by privatization.

3.2.3. Emigration and Brain Drain

By "push-pull factors," the process of emigration and the loss of expertise may be explained. The pushing forces in this situation were Romania's restricted options and economic difficulties [14]. People, especially the educated and talented, were "pushed" to look for better opportunities elsewhere. The promise of greater wages and better living conditions in Western Europe was one of the pull factors that attracted Romanian emigration.

3.2.4. Ethnic and Regional Disparities

The "spatial mismatch" concept can be used to comprehend racial and geographic differences. According to this concept, differences in economic opportunities and results might occur when the geographic distribution of occupations and the geographical origins of the workforce are not aligned [15]. Spatial inequalities in Romania were exacerbated by the fact that metropolitan areas saw more economic progress and growth than isolated and countryside regions.

3.2.5. European Integration and EU Accession

The concept of "conditional convergence" may be used to analyze Romania's efforts towards European integration and EU membership. According to this view, nations seeking to join international organizations like the EU must adopt particular policies and standards in order to comply with the requirements established by the organisation. In the case of Romania, compliance with EU norms and laws was a requirement for admission.

In conclusion, a variety of difficult economic, social, and political issues complicated Romania's transition from a planned economy to a market-driven one and its parallel push toward democracy. These difficulties were closely related and frequently had an impact on one another. The use of economic concepts and frameworks contributes to a deeper understanding of the causes and characteristics of these difficulties. Romania has advanced significantly despite the hurdles it has faced, and these obstacles have helped to mold its own course for growth.

4. Suggestions: Coping Strategies for Romania's Transition Challenges

4.1. Overview

Romania's journey from a centrally planned economy to a market-driven one has been complex and difficult on many levels. This section provides a comprehensive study of each adapting strategy's practical application and consequences while also looking at the empirical bases for the approaches Romania should have employed when confronted with these challenges.

4.2. Privatization and State-run Businesses

Privatizing state-run companies was a major barrier to Romania's transformation. It would have been essential for Romania to develop successful plans based on empirical data. A cornerstone of appraisal

procedures is transparency, as demonstrated by a study by Astami [16]. Transparent procedures boost investor confidence while simultaneously reducing conflicts. It has also become clear that employee involvement in privatization through ownership programs is a feasible method that is supported by empirical research. Employee ownership can lessen social and labour market disturbances during the transition, as Bogetić illustrates. The inadequacy of these tactics might lead to the failure of privatization of important businesses, as demonstrated by Romania's lack of knowledge in this area [17].

4.3. Inflation and Macroeconomic Stabilization

Significant problems were presented by high inflation rates. The progressive liberalization of pricing, as opposed to the abrupt and complete abolition of price regulations, is one of the methods that should have been implemented. This method of managing inflation gradually prevents societal turmoil. The crucial role that an efficient monetary policy framework plays in upholding macroeconomic stability is also shown by empirical investigations. Blake and Kirsanova shed light on how conservative monetary policy contributes to the stabilization of the economy throughout such a transition [18]. These initiatives, which are supported by evidence, might have improved Romania's attempts to reduce inflation and achieve macroeconomic stability.

4.4. Poverty and Income Inequality

Targeted initiatives were required due to the growth in poverty and economic disparity during the transition. Fox came to the conclusion that strong social safety nets have been successful in lowering poverty rates. A key strategy for reducing income disparity has been recognized as being investments in education and skill development [19]. The research by Heckman emphasizes the importance of education in improving employment opportunities for underprivileged people [7]. If Romania had concentrated on these strategies, reducing poverty and distribution of income would have seen real gains, resulting in a more equitable transition.

4.5. Managing Industrial Restructuring

The reform of the industrial sector was crucial yet difficult. Active labour market policies are implemented as part of evidence-based initiatives. According to Cascio [20], recruiting services and training programs help displaced employees move more easily. Initiatives for cluster development are also very important in fostering innovation and competitiveness in changing industries. Cluster development has the ability to revitalize sectors of the economy that are experiencing change. The difficulties Romania experienced in this area show the necessity of these empirical approaches to deal with the unique difficulties of industrial transformation.

4.6. Attracting Foreign Direct Investment (FDI)

In order to foster flourishing economies, it's imperative to attract FDI. According to research, providing a welcoming investment environment, including predictable regulatory requirements and fewer administrative obstacles, may greatly increase FDI inflows. The research by Montero emphasized the significance of policy predictability in luring FDI [21]. By making a commitment to fostering an inviting investment climate, Romania would have successfully recruited FDI.

4.7. Economic Diversification and Innovation

Any economy in transition has to diversify its financial systems, and Romania is no different. The need to expand industries beyond conventional areas is shown by empirical research done by

Chesbrough and Crowther [22]. These findings would have informed Romania's strategy by promoting the expansion of non-traditional businesses, including technological innovations, energy conservation, and innovative industries. Such strategies support long-term sustainability while also reducing reliance on volatile industries.

An effective shift is fueled by innovation. Expenditures in R&D have aided in the acceleration of economic growth through the use of innovation policies. The dedication to encouraging innovation ought to have been realized through programs such as research grants and collaborations between academic institutions and private-sector businesses. With these tactics, Romania would have been able to compete in the global knowledge-based economy.

Furthermore, the development of the corporate environment has been greatly aided by evidence-based initiatives. Entrepreneurship is significantly hampered by bureaucratic inefficiencies, according to empirical research like that done by Leff and Heidenheimer [23]. These findings affect the streamlining of administrative processes, facilitating company operations, and drawing domestic and international entrepreneurs.

In conclusion, there have been difficulties in Romania's transition to a market economy, and empirical research has shown several approaches to creating effective coping mechanisms. Transparency in privatization, progressive liberalization to control inflation, social safety nets, educational investments, active employment policies, and FDI-supportive legislation are just a few of the approaches that would have greatly aided Romania's development. These strategies emphasize the crucial significance of data-driven choices in establishing successful economic transitions and serve as insightful lessons for other economies that are experiencing comparable difficulties.

5. Discussion

Romania's shift from a controlled economy to a market-driven one is a monument to the challenges and successes involved in taking such an adventure in the dynamic world of transition economies. The difficulties encountered during this period of change and strategies that Romania ought to have used to overcome them have been thoroughly examined in this study.

Due to Romania's unique historical context, which was characterized by nearly five decades of state control and oppression under Nicolae Ceaușescu, it was possible to comprehend the extent of the required reform. After the regime's fall, Romania began transitioning to democratic governance and a market-based economy, signifying a moment of adaptation challenges.

Empirical study and decision-making based on facts would have had a significant impact on the approaches Romania should have taken to address these issues. These strategies highlight the significance of policies based on evidence in assisting the country in reaching its present level of economic stability and expansion.

Empirical research that places a strong emphasis on openness in valuation procedures and employee ownership has shaped the recommended privatization tactics. By reducing conflicts and boosting investor trust, these tactics make it easier to transfer assets owned by the state to the private sector.

In order to control inflation and achieve macroeconomic stability, efficient fiscal management and gradual price liberalization might be extremely important. The suggested strategy emphasizes the advantages of a smooth transition over a sudden relaxation of pricing controls.

By implementing strong social safety nets and investing in vocational training and education, Romania might have tackled poverty and decreased economic disparity. These programs show a dedication to inclusive growth, ensuring that all experience the advantages of transition.

Romania should have used active labor market policy and cluster development, both based on empirical research, to address the issues of restructuring its industries. Such strategies would have

boosted transitional industries and provided displaced employees with opportunities for returning to work.

The policies enacted by Romania would have improved as a consequence of empirical discoveries emphasizing the importance of a favorable investment climate and increasing FDI inflows. The experience of Romania highlights the efficiency of research-driven strategies in luring foreign investment and promoting economic growth.

The techniques presented go beyond the early stages of coping, and they also emphasize innovation and economic diversification into non-traditional industries. The advantages of these tactics are repeatedly highlighted in empirical research, making Romania a competitive participant in the international economy.

Another important factor that would have facilitated Romania's transformation is streamlining administrative processes to boost entrepreneurship. Administrative changes would have streamlined corporate processes, attracting both local and international businesses and fostering economic growth.

The transformation process in Romania is still underway, and the future holds its own set of difficulties. The country must remain agile and sensitive to shifting economic, social, and political forces as it transitions from a planned economy to one driven by the market.

6. Conclusion

While Romania plots its road to long-term prosperity, evidence-based decision-making will continue to serve as its guiding principle. The lessons learned through empirical foundations will guide initiatives and policies to solve new problems and take advantage of fresh possibilities.

The situation in Romania serves as a reminder of how revolutionary evidence-based policies may be. It shows that thorough study and data-driven decision-making can advance nations amidst complexity and acts as a beacon of hope for other countries coping with similar changes.

Finally, the success of Romania's transformation serves as an example for other countries starting their difficult reform road. Romania would have not only overcome the difficulties of transition by adopting empirical lessons and being flexible but also developed as a dynamic and competitive market-driven economy. The capacity of evidence-based decision-making to lead nations towards wealth, stability, and a brighter future is best demonstrated by this voyage. Romania could have shown all those making the transition from the old to the new the way ahead if it had been dedicated to empirical knowledge.

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