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## BUSINESS LIBERALIZATION AND ECONOMIC GROWTH (XXI CENTURY EVIDENCES)

*The research assesses the liberal reforms' economic efficiency in the XXI century and evaluates liberalization prospects as an instrument of national economy modernization, practically proving the role of national economy liberalization as a tool for its adaptation to trends and interests of, first and foremost, the global market. Conclusions outlines the prospects of liberalization as an instrument of economic reforms in the XXI century as well as the directions of the state presence theorization in terms of business liberalization multidirectional economic effect.*

*Keywords: economic liberalization; government regulation; modernization; global economy.  
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## ЛІБЕРАЛІЗАЦІЯ БІЗНЕСУ ТА ЕКОНОМІЧНЕ ЗРОСТАННЯ (ФАКТОЛОГІЯ XXI СТОРІЧЧЯ)

*У статті зроблено спробу оцінити економічну ефективність ліберальних реформ у XXI ст., а також перспективи лібералізації як інструменту модернізації національного господарства. Практично доведено роль лібералізації національної економіки як інструменту її адаптації до трендів та інтересів, насамперед, глобального ринку. Запропоновано теоретичні висновки відносно перспектив лібералізації як інструменту економічних реформ у XXI ст., а також ключові напрямки теоретизації державної присутності на ринку в умовах мультивекторного економічного ефекту лібералізації бізнесу.*

*Ключові слова: економічна лібералізація; державне регулювання; модернізація; глобальна економіка.*

*Рис. 1. Табл. 5. Літ. 10.*

Денис С. Ушаков

## ЛИБЕРАЛИЗАЦИЯ БИЗНЕСА И ЭКОНОМИЧЕСКИЙ РОСТ (ФАКТОЛОГИЯ XXI ВЕКА)

*В статье сделана попытка оценить экономическую эффективность либеральных реформ в XXI в., а также перспективы либерализации как инструмента модернизации национального хозяйства. Практически доказана роль либерализации национальной экономики как инструмента ее адаптации к трендам и интересам, прежде всего, глобального рынка. Предложены теоретические выводы относительно перспектив либерализации как инструмента экономических реформ в XXI в., а также ключевые направления теоретизации государственного присутствия на рынке в условиях мультивекторного экономического эффекта либерализации бизнеса.*

*Ключевые слова: экономическая либерализация; государственное регулирование; модернизация; глобальная экономика.*

**Introduction.** Diversity of the world economy and countries positioning in the global division of labor leads to ambiguity effects in government regulation reformations. These consequences are distributing onto a wide range of aftereffects from rapid economic growth, competitive advantages' global accumulation, increased level of local population welfare up to economic sovereignty loss and a whole range of various social problems.

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However, even a cursory analysis of most recent liberal reforms' results shows there are certain patterns, extrapolation of which can improve the quality of macro-economic forecasting.

This generally determines the relevance of our research problem – to determine the relationships between the results of economic progress and the dynamics of state regulation liberal reforms, forming the basis for forecasts and economic development plans for individual countries or their groups.

**The purpose of this study** is to demonstrate countries' economic achievements (primarily in terms of welfare and integration into the world economy) related to efficiency of liberal reforms implementation during 2000–2014.

**The research objectives:**

- To determine liberalization as a global trend in state economic regulation; to characterize its key structural and functional manifestations.
- On the basis of macroeconomic indicators and "Doing Business" indicators to analyze economic liberalization dynamics in the countries of the world, as well as the results of these reforms in the analyzed countries.
- To identify the patterns of economic systems' reaction to liberalization and to evaluate the synchronicity of this reaction by groups of countries (countries grouped by geography and by the level of their material well-being).
- To provide conclusions on the feasibility and factors of liberal reforms' economic efficiency.

**Liberalization as a global trend in state regulation.** The limited ability of markets for self-regulation (Fligstein, 1996; Hsueh, 2015) proved the existence of mixed economy, based on both market and government regulation.

Economies in most countries worldwide are mixed, although some of them tend more to administrative mechanisms, while the other mainly relies on the market ones.

This is quite reasonable, considering that most of today's researchers already came to a consensus on the question of the ratio between the market and the state, recognizing both ideas of M. Friedman (1968) (sustainable monetary policy), and J.M. Keynes (1936) (state active participation for more stable development).

Persistence of the objectives of state regulation (business cycles' alignment, enhancing the development of production relations, national wealth, elimination of negative consequences of monopolization, differentiation of the received income between different public groups etc.) in different historical periods was provided by using fundamentally different instruments.

Initially, they were limitations to international trade, which formed the basis for protectionist policy. Over the years, the role of government in economy has been reduced to the functions of "night watchman" (Stigler, 1971), that provides an effective environment for production, domestic and foreign trade (creation of business environment, adequate to the level of market self-organization and efficiency).

However, market and entrepreneurial talent have quickly demonstrated its inability to progress. Thus, it requires a revision of government economic policy.

The Keynesians identified demand as the main object in state economic regulation; the monetarists saw the way to achieve economic prosperity through money supply regulation, affecting quantity and quality of productive factors (especially investment) and potential demand (prices) (French-Davis, 2014).

Finally, more modern theories (for example, the theory of market failures) limit the scope of state economical duties only to competitive environment maintenance and the matters which private enterprises are not interested to solve (due to the absence of commercial interest) (Lewa, 2006).

Thus, the analysis of state economic regulation evolution shows, firstly, the growing role of government functions' concretization, and secondly, gradual movement of state regulation objects from the final phases of production process to its beginning.

For the theoretical study of liberalization trends in the capitalist economy we need to clearly identify its two necessary manifestations – structural and functional.

From the structural point of view, economic regimes' liberalization can be understood as a manageable process of giving greater abilities for market self-organization, when the state institutionally and infrastructurally justifies the range of regulated issues and regulation tools.

Functionally, economic liberalization is defined as a measured value of state competences in government regulation of particular aspects of business practice (Dinopoulos and Lane, 1992).

It should be also noted that if functional characteristics of liberalization traditionally have short period of implementation in terms of economic growth, structural liberal transformations are mostly focused on the longer term.

Structural liberal reforms are usually carried out in crisis periods (Mickiewicz, 2009), with strategic objectives focused on economy modernization, aimed at creation or consolidation of globally competitive national industries and types of commercial activity. Functional liberalization is usually practiced to stimulate economic development, aimed at reaching fast economic results. As part of global liberalization trend phases of structural and functional manifestations are alternating, and that is broadly related with the methodology of dialectical transformation of quantity into quality.

Thus, historic analysis of approaches to state's role in the world economy, assessment of current trends in the field of public relations indicates a trend of economical liberalization (both structural and functional), specification the state presence in economy, transformation of state regulation from the administration role to partnership, from pyramid hierarchal regulation to network relationships.

**Economic liberalization results in today's world.** To conduct this study we used the results of the annual World Bank evaluations "Doing Business" (DB), which for the past 20 years have been annually monitoring the conditions of doing business in more than 130 countries worldwide the rating of countries is presented partially in Tables 1–2.

Further in this study DB indices are used as the indicators of business liberalization in the world, and dynamics of DB rankings changes is considered as dynamics of business environment liberalization.

As the indicator of business environment modernization, macroeconomic indicators are combined into 3 groups:

- Static indicators of countries' material well-being (current level of GDP, GDP per capita and official unemployment rate).
- Dynamic indicators of countries' material well-being (annual growth of GDP and GDP per capita rates).

- Trade performance of countries (absolute value of national imports and exports, ratio of exports and imports to national GDP).

**Table 1. "Doing Business" data, 2015**

Rank	Country	Rating	Rank	Country	Rating
1	New Zealand	86.79	127	Guinea	45.54
2	Denmark	84.4	128	Cameroon	44.11
3	Korea, R.	83.88	129	Nigeria	44.03
4	USA	83.13	130	Bangladesh	43.4
5	United Kingdom	82.46	131	Congo	41.88
6	Sweden	81.72	132	Liberia	40.1
7	Norway	81.61	133	Angola	39.64
8	Finland	81.05	134	Chad	38.22
9	Canada	80.9	135	Congo ZA	38.14
10	Australia	80.08	136	Eritreya	27.61

**Table 2. DB ratings' changes in recent years,  
compiled by the author "Doing Business" data**

Rank	Countries-leaders on DB increase for the		Rank	Countries-outsiders on DB increase for the	
	last 10 years	last 5 years		last 10 years	last 5 years
1	Ukraine	Ukraine	127	Namibia	Tanzania
2	Uzbekistan	Uzbekistan	128	Sudan	Saudi Arabia
3	Burundi	Russia	129	Ghana	Pakistan
4	Belarus	Tajikistan	130	Saudi Arabia	Gabon
5	Tajikistan	Chad	131	Maldives	Lebanon
6	Chad	Guinea	132	Pakistan	Ghana
7	Russia	Costa Rica	133	Lebanon	Algeria
8	Kazakhstan	Togo	134	Algeria	Liberia
9	Togo	Moldova	135	Bangladesh	Maldives
10	Niger	Romania	136	Eritreya	Eritreya

All macroeconomic indicators were taken from the World Bank database for 136 countries in 2000–2015.

To determine the liberalization impact on business dynamics in the world's advanced countries the corresponding data sets correlation is analyzed.

The study was conducted in two stages.

At the first stage the correlation between business dynamics liberalization and economic achievements of the world in the 21st century was held on 6 groups of countries classified by their GDP per capita (Table 3).

Figure 1 shows the impact of liberal reforms on economic achievements by groups of countries in the world.

As shown in Figure 1, the greatest influence (mostly positive) business regulation reforms have in the countries with average and low incomes. It generally follows the effect of diminishing utility in economic systems.

At the second phase of our study we analyzed the effects of economy liberalization in 11 geographical regions (Africa – 36 countries, Latin America – 18 countries, Middle East – 14 countries, Asia-Pacific region – 13 countries, South Asia – 6 countries, former Soviet Union – 11 countries, Eastern Europe – 14 countries, Southern

Europe – 6 countries, Western Europe – 8 countries, Northern Europe – 6 countries, North America – 2 countries).

Table 3. Groups of countries, author's

No	Group	GDP per capita, USD	Number of countries
1	With high income	> 40000	17
2	With high average income	20000–40000	14
3	With average income	10000–20000	17
4	With low average income	5000–10000	24
5	With low income	1000–5000	42
6	With very low income	< 1000	22

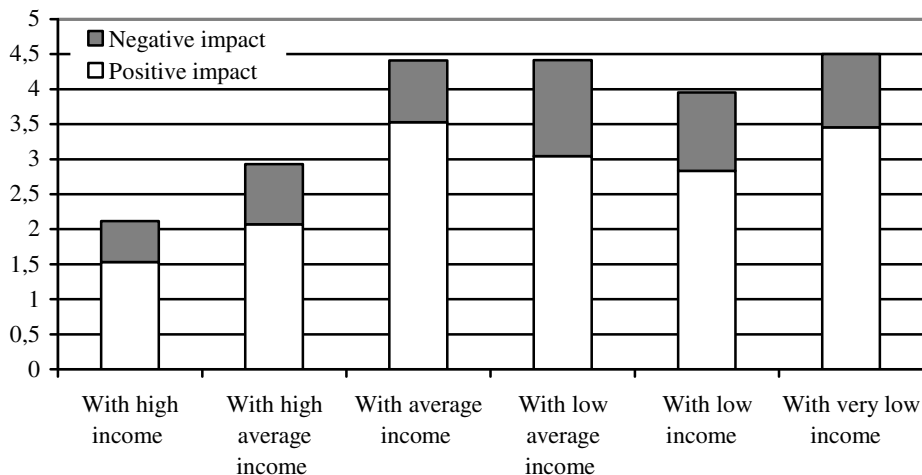


Figure 1. The impact of liberalization reforms on the countries' economic performance, author's

Table 4. Correlation between liberalization dynamics and key macroeconomic indicators by country groups, author's

	Static indicators of countries' material well-being			Dynamic indicators of countries' material well-being		Trade performance of countries			
	GDP	GDP per capita	Unemployment	GDP growth	GDP per capita growth	Import	Import dynamics	Export	Export dynamics
With high income									
With high average income									
With average income							0.59	0.65	
With low average income	0.54							0.5	
With low income								0.5	
With very low income	0.63	0.54					0.64	0.68	

Comparing the indices of correlation between economic development and commercial activities liberalization in 11 groups of countries we can identify that the maximum economic impact (both positive and negative) business environment liberalization had in 2010–2016 in Southern and Eastern Europe, the minimum one – in the US and Canada, as well as in other developed countries (North, Central and Western Europe). It is also worth noting that the most positive economic impact of business environment liberalization had in Eastern Europe and in Asia Pacific region. The greatest negative impact of liberalization in 2010–2016 was typical for Southern Europe and South and Central Asia.

Comparing the liberal reforms' effectiveness by groups of countries it may be noted that in general, deepening liberalization in the world has been largely demonstrating positive macroeconomic effects (the exceptions are South Asia and Southern Europe), mostly defined as economic progress in Eastern Europe, Asia-Pacific and Latin America (Table 5).

We can test the effect of business environment liberalization on the dynamics of main macroeconomic indicators in countries' groups, 2010–2016. The highest positive impact of economic liberalization was observed in 2010–2016 on countries' export opportunities and national imports. Also, liberalization had a positive impact on employment (inverse correlation with unemployment rate).

Exports and imports' analysis demonstrates very high level of positive correlation with the dynamics of liberalization in Africa and Eastern Europe and simultaneously, absence of both positive and negative impacts on the structure and dynamics of exports for the US and Canada. Noticeable positive impact on GDP economic reforms had in Asia Pacific, Latin America and Africa, and high negative correlation is typical only for Southern Europe. Economic growth's dynamics as a result of business liberalization has accelerated significantly in the CIS and in Eastern Europe.

The highest growth of personal income as the result of business liberalization was observed in 2010–2016 in Asia-Pacific region, Africa, Latin America and the Middle East.

Finally, it is worth noting that in most groups of countries (except CIS, South, Central and Western Europe) there was low, negative correlation between the dynamics of liberal reforms and the unemployment rates. Therefore, business environment liberalization in most countries is promoting more active employment.

African countries had a maximum positive correlation between "Doing Business" conditions and national exports/imports. Similarly, Latin America and the Middle East had high degree of correlation between business freedom and countries' trade achievements, as well as the magnitude of the GDP, both in absolute and in per capita terms.

It is interesting to highlight that in the CIS and South Asian countries a significant direct correlation between business development and local population employment was found (which, for example, for Europe or the Middle East countries is not observed). Countries of Asia-Pacific region and CIS also demonstrate stable export and import growth's dependence on internal business regimes.

If to consider business liberalization impact on macroeconomic indicators European region is heterogeneous. For example, Eastern Europe is much more responsive to business environment simplification (in terms of countries participation

Table 5. Correlation between business liberalization and macroeconomic indices in 11 geographical groups of countries, 2010–2016, author's

No	Macroeconomic indices	Africa		Latin America		Middle East		Asia-Pacific		South Asia		Former USSR		Eastern Europe		South Europe		Western Europe		Northern Europe		North America	
		36	18	14	13	6	11	14	6	8	6	14	6	8	6	8	6	6	2				
1	GDP	0.52	0.03	0.55	0.11	0.35	0.07	0.7	0	0.17	0.17	0.17	0.17	0.13	0.15	0.17	0.84	0.12	0.12	0.2	0.2	0	0
	GDP per capita	0.53	0	0.5	0.11	0.5	0	0.77	0	0.17	0.17	0.09	0.22	0.22	0.22	0	1	0	0.12	0.2	0.2	0	0
	Unemployment	0	0.41	0.11	0.44	0	0.14	0.16	0.3	0.16	0.5	0	1	0.29	0.21	0.67	0.17	0.25	0.13	0.2	0.2	0	0
2	GDP growth	0.3	0.13	0.22	0.05	0.07	0.21	0.15	0.07	0	0.5	0.67	0	0.65	0	0.33	0	0.12	0.38	0	0	0	0
	GDP per capita growth	0.21	0.14	0.33	0.05	0.14	0.14	0.15	0.08	0	0	0	0.17	0.65	0	0.5	0	0	0	0	0	0	0
3	Import	0.16	0.11	0.22	0	0.28	0.14	0.23	0	0.33	0	0.09	0.16	0.21	0	0.16	0	0.125	0	0.4	0	0.5	0.5
	Import, %	0.86	0	0.5	0.05	0.43	0.07	0.7	0.07	0.17	0.33	0.67	0	0.85	0	0.16	0.16	0.375	0	0.4	0	0	0
	Export	0.11	0.3	0.05	0	0.14	0.14	0.3	0.07	0	0	0.5	0	0.42	0	0.33	0.17	0	0	0.4	0	0.5	0.5
	Export, %	0.59	0.03	0.56	0.11	0.43	0.07	0.62	0	0.17	0.17	0	0	0.58	0	0.17	0.17	0.13	0	0.2	0	0	0

in world trade, as well as national welfare). In economically more developed countries of Central Europe business environment simplifying significantly enhances only their export potential. Finally, in the countries of Southern Europe liberalization is the leading factor of national welfare growth.

Assessing the impact of countries' business environment on national GDP growth, we can determine that the regions where business environment liberalization highly stimulated GDP growth (Africa, Latin America, Asia-Pacific) the smallest positive correlation of DB index change with GDP dynamics in absolute terms was observed (!). At the same time, the CIS and Eastern Europe countries, where business liberalization determines the maximum GDP growth in absolute terms, are outsiders in the correlation between DB index and national product growth dynamics. Similar situation is with the analysis of correlation between DB dynamics and GDP per capita. Business liberalization determines the maximum growth of GDP per capita in Africa, Latin America, the Middle East and the Asia-Pacific region, but the maximum absolute values of GDP per capita – in Eastern and Southern Europe.

To substantiate this trend for GDP and GDP per capita analysis we can by higher rates of population growth in the countries where business liberalization maximally stimulates economic growth, and by low starting rates of economic development at the time of statistical data collection (2010). On the one hand, to ensure rapid economic growth from a low start (especially under low level of welfare) is much easier. However, high levels of economic growth dynamics do not find its manifestation in the highest absolute numbers of both GDP and GDP per capita due to population growth of the latter. In some countries, such as Angola or Kenya, the dynamics of population growth exceeds the dynamics of national economic growth. For example, economic growth of 1.5–2.0% will ensure the growth of GDP per capita in real terms in Germany, the US or Russia, but not, for example, in Kenya, with its a population growing at 2.1% year, or in Niger with the natural population growth of almost at 3.4% a year (CIA World Factbook, 2015).

Liberal reforms have maximum impact on employment growth in the CIS and South Asia, while in more economically developed countries of Europe this effect is practically absent.

**Conclusions.** Considering the impact of business liberalization on macroeconomic indicators (Table 4), we can highlight that:

- Business liberalization almost does not impact on the share (as % of GDP) of export and import, while in absolute trade indices a positive correlation was observed, but only in poor and very poor countries.
- GDP growth in absolute terms was typical, once again, for poor and very poor countries.

Business regulation reforms in the countries participating in the world trading system have multidirectional impact. First of all, we can highlight that there is logic inherent to GDP performance: countries where liberal business reforms highly impact the export/import dynamics are not the same time countries where economy liberalization has defined exports/imports growth in absolute terms (the exception is only Eastern Europe).

The second obvious feature – business liberalization does not affect import/export growth in Europe (except its Eastern part) and in the United States.



The third feature – reform in public business regulation system have determined a significant increase in exports (only exports) in the Middle East and imports (import only) in the CIS.

This confirms our assumption that market-based instruments of free internal market will facilitate national market adequatization to not local but rather global landmarks and priorities.

The mechanisms of global markets, transnational production and distribution represent a closed communication system with high internal efficiency establishing the conditions for national economic systems strive for universalization, adaptation to global trends as the only possible alternative for national competitiveness development. National economic system is closely associated with global financial, information, labor and other markets, and today it begins to more strongly react to the factors of global order.

Therefore, in the coordinates of the 21st century world economy business liberalization has acquired not only a possibility for multidirectional impact on the main indicators of economic progress, but it has also become an instrument of national economic systems integration in the structure of global production and distribution. This mechanism starting with government economic presence reducing (down to a certain critical level) adjusts the economic system of a country to world's economic priorities; and thus, effectively resonates with economic factors of the global order.

This theoretical assumption has practical importance since it allows asserting that:

1. If before this new century liberalization was an effective tool for local businesses' competitiveness improvement, in the 21st century, the required level of liberalization would be a prerequisite for local business admission to global markets, but not its competitive advantage.

2. If previously liberalizing its economic system, the government could increase the power of own impact on some industries, in the 21st century liberalization is the tool to activate only those sectors and only those activities, the functioning of which is in the global economic system's interests (for example, in case when only exports of natural resources, but not high-tech products can develop due to international trade liberalization in a country).

3. If previously governments could consider liberalization as a strategic plan for national income growth (for example, through tax payment's growth or job creation), in the 21st century economic results of national economic system's liberalization can be easily globalized, "taken away" from the economic jurisdiction of a country to the world level, or even nationalized by other states.

4. If in the 20th century government support of business (e.g., of national exporters, innovative companies) has been a relatively effective tool often implemented in practice, in the 21st the century attempts of state economic incentives (through investment, subsidies, benefits) of individual companies or industries are completely inappropriate since there is a possibility of national public resources' withdrawal to world markets.

These theoretical findings prove the need for radical revision of the state's market role in the 21st century, which is not only a tool for preservation of government efficiency as an economic object, but also its survival in the era of transnational pro-

duction and global distribution systems development. A new vision of the government market role must be based on the project and networking principles, which will combine the mobility of connecting active members and controlled objects, resources and regulatory tools, alternate macroeconomic and microeconomic guidelines, as well as traditional liberal and administrative reforming tools that in the new environment may become additional resources for national progress and competitiveness growth.

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