## INNOVATION, INCLUSION AND INTEGRATION

## From Transition to Convergence in Eastern Europe and the Former Soviet Union

Pradeep Mitra

Europe and Central Asia Region



## Contents

Fo	reword	xi
Acknowledgments		xv
Abbreviations and Glossary		xvii
Ov	erview	1
	Innovation	2
	Inclusion	10
	Integration	16
	The Demographic Transition	22
1	The Elements of Economic Growth	29
PART I: INNOVATION		35
2	Labor Productivity	37
	Manufacturing	38
	Competition and Net Entry	45
	Agriculture	47
	Services	51
3	The Business Environment	53
	Competition and Market Structure	54
•	Finance and the Structure of Lending	59
	Restructuring in Firms	65
	What Determined Restructuring?	67

۷

P	ART II: INCLUSION	71
4	The Evolution of Employment	73
	Entry, Exit, and Employment	74
	Labor Market Outcomes: Converging?	77
	Shortages of Skills	85
5	Poverty	87
	Profile of the Poor	88
	Wages, Employment, and Distribution	89
	Public Transfers	93
	Caveats	95
	Well-Being in Transition	96
P	ART III: INTEGRATION	99
6	International Trade	101
	Direction of Trade	102
	Factor Composition of Trade	105
	Buyer-Driven and Producer-Driven Networks	106
	Transition Countries: "Normally" Integrated?	109
	Patent Citations, International Co-Invention and	
	Multinational Sponsorship of Local Invention	110
7	International Migration	113
	Determinants of Migration	115
	Migration Agreements	116
P/	ART IV: THE THIRD TRANSITION	119
8	Demographic Change	1 <b>21</b>
•	Productivity	123
	Participation	123
	Savings	125
	Pensions	125
	Health	126
	A Policy Package	126
	The Role of Migration	127
A	opendix: Decomposing Productivity Growth	131

• .

Reference	S		133
Index	,	135	
Box			
1.1	Country Groups		31

## Figures

1	Firm Entry and Exit Contribute More to	
	Productivity Growth in Transition Economies	_
•	than in Industrial and Developing Economies	3
2	The Structure of Finance for Fixed Investment	
	Is Maturing but Has Not Converged to That in Developed Economies	7
3、	The Structure of Finance for Fixed Investment	/
) 、	in Private Firms in Transition Economies Differs	
	from Developed Market Economies, 2005	8
4	The Difference in Structures of Finance	0
<b>.</b>	between Private Firms in Transition	
	Economies and Market Economies Is Due	
	to Autonomous Factors	8
5	The Structure of Finance for Fixed Investment	0
)	Is Similar in Privatized and De Novo Firms, 2005	9
6	Structure of Finance for De Novo Firms,	7
0	1999 and 2005	9
7	De Novo Firms Have Been a Strong Force	,
1	for Job Creation	11
8	The Majority of the Poor Are Working Adults	11
0	and Children	14
9	Foreign Direct Investment Helps EU New	
	Member States Take Part in Producer-Driven	
	Global Networks	17
10	Migration in Southern Europe Evolved in a	
	"Hump"Pattern	22
11	Populations in Many Transition Countries	
	Are Shrinking	23
12	Some Net Senders of Migrants Will Become	
	Net Receivers	25
1.1	Average Annual Growth Rate in GDP per	
	Capita and Its Components, 1998–2006	30
1.2	Employment Rates: Early Transition, 1998	
	and 2006	32
2.1	Sectoral Shares of Total Value Added	38

vii