

Natalja von Westernhagen

Systemic Transformation, Trade and Economic Growth

Developments, Theoretical Analysis
and Empirical Results

With 22 Figures and 40 Tables

Physica-Verlag

A Springer-Verlag Company

Contents

1	Introduction.....	1
1.1	Description of the Problem.....	1
1.2	Goals and Structure of the Work.....	6
2	The Challenges of Transition. Analysis for Selected CIS and More Advanced CEECs.....	9
2.1	Macroeconomic Performance of Countries During the Period of Transition.....	10
2.2	Output Decline.....	14
2.2.1	Factors of Output Decline Inherited from the Centrally Planned System.....	15
2.2.2	Transition Relevant Factors of Output Decline.....	17
2.2.3	Output Decline and Determinants of Future Growth.....	21
2.3	Progress in Transition.....	22
2.3.1	Shock Therapy versus Gradualism.....	23
• 2.3.2	Progress in Reforms.....	24
2.4	Tentative Conclusions.....	30
2.5	Appendix.....	32
3	Economic Growth in Selected CIS and More Advanced CEECs: Aspects of Future Growth Strategy.....	35
3.1	Extensive Growth in the Former USSR.....	36
3.2	Science and Innovation in the Former USSR.....	45
3.3	Neoclassical versus New Growth Theory.....	58
3.4	Empirical Evidence on Growth Theory.....	64
3.5	Reflections on Modern Growth Theory Applied to CIS and CEECs.....	66
3.6	Catching Up.....	69
3.6.1	The Theory of Technological Gap.....	69
3.6.2	New Growth Theory and Technological Catching Up.....	78
3.7	The Role of Human Capital for Economic Growth.....	82
3.8	The Problem of the Dutch Disease.....	87

3.9	The Importance of Foreign Trade and Foreign Direct Investment for Technological Catching Up.....	92
3.10	Tentative Conclusions.....	94
3.11	Appendix.....	95
3.11.1	Appendix A: Neoclassical Growth Theory.....	95
3.11.2	Appendix B: Immiserizing Growth.....	106
4	Openness of Foreign Trade and Economic Developments in CIS and More Advanced CEECs.....	1109
4.1	Openness of Foreign Trade - An Impulse of Growth and Structural Adjustment.....	110
4.1.1	Theoretical Approach to Openness and Economic Growth.....	110
4.1.2	Empirical Evidence on Openness and Economic Growth.....	119
4.1.3	Economies of Scale and Intra-Industry Trade in Structural Adjustment.....;	122
4.2	Progress in the Liberalization of Foreign Trade in Selected CIS and CEECs.....	124
4.2.1	Foreign Trade Dynamics in Selected CIS and CEECs.....	125
4.2.2	Geographical Distribution of Exports of Selected CIS and CEECs.....	131
4.2.3	Patterns of Trade Specialization with the EU.....	136
4.3	The Gravity Model of Foreign Trade for Selected CIS and CEECs.....	146
4.3.1	The Gravity Model Approach to Foreign Trade.....	147
4.3.2	Specification of the Gravity Model for Selected CIS and CEECs.....	155
4.3.3	Gravity Model Results for Selected CIS and CEECs.....	160
4.4	Tentative Conclusions.....	182
4.5	Appendix.....	185
5	The Role of FDI in the Transition Process of Selected CIS and CEECs.....	188
5.1	FDI and Growth Perspectives of Transition Economies.....	189
5.1.1	The Role of FDI in the Catching up Process of Transition Economies.....	189
5.1.2	FDI and the OLI-Behaviour of MNCs.....	191
5.1.3	Theoretical Considerations of the Impact of FDI on Economic Growth in Transition Economies.....	192
5.1.4	The Impact of FDI on the Balance of Payments.....	199
5.1.5	The Relationship between FDI and Trade: Growth Spiral.....	200
5.2	FDI in Selected CIS and CEECs.....	206

5.2.1 The Impact of the Russian Financial Crisis on FDI in Investigated Economies.....	206
5.2.2 Comparison of Country's FDI.....	207
5.2.3 Privatization and FDI.....	214
5.2.4 Sectoral Aspects.....	215
5.3 Empirical Investigation of the FDI Potential.....	219
5.3.1 Specification of the Gravity Model for FDI.....	219
5.3.2 Gravity Model Results.....	223
5.3.3 FDI and Capital Formation.....	226
5.4 Tentative Conclusions.....	231
5.5 Appendix.....	233
6 Lessons and Policy Options for CIS and CEECs.....	237
6.1 Transition - Lessons and Policy Options.....	237
6.2 Economic Growth - Lessons and Policy Options.....	240
6.3 Openness - Lessons and Policy Options.....	247
6.4 FDI - Lessons and Policy Options.....	252
List of Abbreviations.....	259
List of Tables.....	265
List of Figures.....	267
References.....	269