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Economic development and growth in transition countries

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tinbergen *institute**Economic development and growth in transition countries*

Desislava Rusinova

The countries of Central and Eastern Europe and the former Soviet Union, commonly referred to as “transition countries”, have undergone transformations unparalleled in recent economic history. This book concentrates on three aspects of the transition process: the factors driving growth, the effect of foreign capital and the interplay between the profound institutional reform and economic performance in transition countries. The growth factors are different in the initial phase, when overcoming the initial inefficiencies from the old system play the major role, and the later phase, when growth determinants resemble those of the established market economies. Opening to international trade and foreign direct investment exercises a long-run positive effect on labour productivity through transfer of superior technology and more general knowledge, thereby helping transition countries to bridge their technological gap. The effect is particularly strong if foreign capital stems from technologically leading economies and is targeted to the manufacturing sector. Another important factor is the process of institutional reform through its complex link to economic performance: not only are institutions important for the economic outcomes, but there might exist a feedback loop from capital and output to the institutions, where countries performing better economically might end up locked in a state with poor institutions, high levels of corruption and inequality.