



## UvA-DARE (Digital Academic Repository)

### Economic development and growth in transition countries

Rusinova, D.T.

**Publication date**  
2010

[Link to publication](#)

#### **Citation for published version (APA):**

Rusinova, D. T. (2010). *Economic development and growth in transition countries*. Thela Thesis.

#### **General rights**

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

#### **Disclaimer/Complaints regulations**

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.

# CONTENTS

|                                                                                                                              |    |
|------------------------------------------------------------------------------------------------------------------------------|----|
| LIST OF TABLES                                                                                                               | x  |
| LIST OF FIGURES                                                                                                              | xi |
| 1 INTRODUCTION                                                                                                               | 1  |
| 1.1 Is transition just a historical concept? . . . . .                                                                       | 1  |
| 1.2 What drives economic growth? . . . . .                                                                                   | 2  |
| 1.3 Have trade and FDI helped transition countries? . . . . .                                                                | 4  |
| 1.4 The key to the difference: institutions . . . . .                                                                        | 6  |
| 2 GROWTH IN TRANSITION: RE-EXAMINING THE ROLE OF FACTOR IN-<br>PUTS AND GEOGRAPHY                                            | 9  |
| 2.1 Summary . . . . .                                                                                                        | 9  |
| 2.2 Introduction . . . . .                                                                                                   | 9  |
| 2.3 Literature review . . . . .                                                                                              | 11 |
| 2.4 The need for spatial economic models . . . . .                                                                           | 11 |
| 2.5 Data . . . . .                                                                                                           | 13 |
| 2.6 Estimation strategy . . . . .                                                                                            | 16 |
| 2.7 Results . . . . .                                                                                                        | 18 |
| 2.8 Discussion . . . . .                                                                                                     | 23 |
| 3 TECHNOLOGY TRANSFERS THROUGH FDI AND IMPORTS AND LABOUR<br>PRODUCTIVITY IN THE CENTRAL AND EASTERN EUROPEAN COUN-<br>TRIES | 26 |
| 3.1 Introduction . . . . .                                                                                                   | 26 |
| 3.2 Literature review . . . . .                                                                                              | 27 |
| 3.3 Choice of the theoretical model . . . . .                                                                                | 29 |
| 3.3.1 Solow-type model . . . . .                                                                                             | 29 |
| 3.3.2 Endogenous growth model . . . . .                                                                                      | 30 |
| 3.3.3 Bilaterally-weighted model (Coe and Helpman type model) . . . . .                                                      | 31 |
| 3.4 Long-run vs. short-run relationships . . . . .                                                                           | 33 |
| 3.5 Estimation and data . . . . .                                                                                            | 34 |
| 3.5.1 Econometric methodology . . . . .                                                                                      | 34 |
| 3.6 Data . . . . .                                                                                                           | 35 |
| 3.7 Results . . . . .                                                                                                        | 36 |
| 3.8 Discussion and conclusions . . . . .                                                                                     | 41 |
| 4 RENT-SEEKING, STATE CAPTURE AND INSTITUTIONAL REFORM IN TRAN-<br>SITION COUNTRIES                                          | 44 |
| 4.1 Summary . . . . .                                                                                                        | 44 |
| 4.2 Introduction . . . . .                                                                                                   | 44 |
| 4.3 Rent-seeking and state capture in transition . . . . .                                                                   | 45 |
| 4.3.1 General considerations . . . . .                                                                                       | 45 |
| 4.3.2 The case of Bulgaria . . . . .                                                                                         | 46 |

|            |                                                                              |    |
|------------|------------------------------------------------------------------------------|----|
| 4.4        | Related literature and modeling considerations . . . . .                     | 48 |
| 4.4.1      | Political influence and lobbying . . . . .                                   | 48 |
| 4.4.2      | Administrative corruption, lobbying and state capture . . . . .              | 50 |
| 4.4.3      | Agent heterogeneity . . . . .                                                | 51 |
| 4.4.4      | Rent-seeking as a separate economic sector . . . . .                         | 51 |
| 4.5        | Stylized facts . . . . .                                                     | 52 |
| 4.5.1      | State capture index and Hellman's stylized facts . . . . .                   | 52 |
| 4.5.2      | Stylized facts with institutional measures . . . . .                         | 53 |
| 4.5.3      | Inequality . . . . .                                                         | 54 |
| 4.6        | The model setup . . . . .                                                    | 56 |
| 4.6.1      | The firms . . . . .                                                          | 56 |
| 4.6.2      | The households . . . . .                                                     | 58 |
| 4.6.2.1    | Workers . . . . .                                                            | 58 |
| 4.6.2.2    | Rent-seekers . . . . .                                                       | 59 |
| 4.6.2.3    | Double rent-seeking . . . . .                                                | 60 |
| 4.6.2.4    | Double work . . . . .                                                        | 60 |
| 4.6.2.5    | Rent-see first, work afterwards . . . . .                                    | 60 |
| 4.6.3      | The equilibrium . . . . .                                                    | 61 |
| 4.6.3.1    | Arbitrage conditions . . . . .                                               | 61 |
| 4.6.3.2    | Capital market . . . . .                                                     | 61 |
| 4.6.3.3    | Labor market . . . . .                                                       | 62 |
| 4.6.3.4    | Prices . . . . .                                                             | 62 |
| 4.7        | Endogenizing institutions . . . . .                                          | 64 |
| 4.8        | Parameterization . . . . .                                                   | 66 |
| 4.9        | Comparative statics . . . . .                                                | 68 |
| 4.9.1      | Initial institutional level . . . . .                                        | 69 |
| 4.9.2      | Initial capital . . . . .                                                    | 70 |
| 4.9.3      | Total factor productivity . . . . .                                          | 71 |
| 4.9.4      | Costs of political influence . . . . .                                       | 73 |
| 4.9.5      | Reform step . . . . .                                                        | 74 |
| 4.9.6      | Explanation of the stylized facts . . . . .                                  | 75 |
| 4.9.7      | Rent-seeking ability $S$ and the measure of potential rent-seekers . . . . . | 76 |
| 4.10       | Conclusions and discussion . . . . .                                         | 76 |
| 5          | SUMMARY OF THE FINDINGS . . . . .                                            | 78 |
| 5.1        | On growth determinants... . . . .                                            | 78 |
| 5.2        | ...On international economic linkages... . . . .                             | 78 |
| 5.3        | ...and the role of institutions . . . . .                                    | 79 |
| 5.3.1      | What is left unexplained? . . . . .                                          | 80 |
| APPENDICES |                                                                              |    |
| A.         | A short review of the cross-sectional spatial econometric models . . . . .   | 82 |
| A.1.       | Basic spatial dependence models . . . . .                                    | 82 |
| A.2.       | Estimation methods . . . . .                                                 | 83 |

|                                                                   |     |
|-------------------------------------------------------------------|-----|
| A.3. Spatial dependence tests . . . . .                           | 83  |
| A.4. Spatial heterogeneity models . . . . .                       | 84  |
| A.5. Spatial weighting matrices . . . . .                         | 85  |
| B. Extreme bounds analysis . . . . .                              | 86  |
| C. Data appendix . . . . .                                        | 86  |
| D. GMM estimation . . . . .                                       | 89  |
| E. Proofs of propositions. . . . .                                | 90  |
| F. Derivations for variables of interest in simulations . . . . . | 98  |
| Income difference . . . . .                                       | 98  |
| Total output . . . . .                                            | 99  |
| Total productive investment . . . . .                             | 99  |
| Total rent-seeking investment . . . . .                           | 100 |
| G. Samenvatting . . . . .                                         | 112 |
| H. Index . . . . .                                                | 115 |