

World Bank Working Papers

<http://econ.worldbank.org>

Vojislav Maksimovic, Asli Demircuc-Kunt, Meghana Ayyagari

Firm Innovation in Emerging Markets: The Roles of Governance and Finance

March 2007, WPS 4157

The authors investigate the determinants of firm innovation in over 19,000 firms across 47 developing economies. They define the innovation process as including not only core innovation such as the introduction of new products and new technologies, but also other types of activities that promote knowledge transfers and adapt production processes. The authors find that more innovative firms are large exporting firms with private owners, highly educated managers with mid-level managerial experience, and access to external finance. In contrast, firms that do not innovate much are typically state-owned firms without foreign competitors. The identity of the controlling shareholder seems to be particularly important for core innovation, with private firms, whose controlling shareholder is a financial institution, being the least innovative. While the use of external finance is associated with greater innovation by all private firms, it does not make state-owned firms more innovative. Financing from foreign banks is associated with higher levels of innovation compared with financing from domestic banks.

Mona Haddad

Trade Integration in East Asia: the Role of China and Production Networks

March 2007, WPS4160

Production networks have been at the heart of the recent growth in trade among East Asian countries. Fragmentation trade, reflected mainly in the trade in parts and components, is expanding more rapidly than the conventional trade in final products. This is mainly due to the relatively more favorable policy setting for international production, agglomeration benefits arising from the early entry into this new form of specialization, considerable intercountry wage differentials in the region, lower trade and transport costs, and specialization in products exhibiting increasing returns to scale. The economic integration of China has deepened production fragmentation in East Asia, countering fears of crowding out other countries for international specialization. International production fragmentation in East Asia has intensified intraregional trade but has depended heavily on extraregional trade in final goods. While production networks centered on China have contributed significantly to growth in East Asia, they also breed vulnerabilities. They have not automatically led to technology spillovers but resulted in an extreme interdependence across East Asian countries.

Dragana Radevic, Irina Klytchnikova, and Patricia Silva

Poverty and Environmental Impacts of Electricity Price Reforms in Montenegro

February 2007, WPS 4127

The Government of Montenegro is preparing an electricity tariff reform due to recent developments in the national and

regional electricity markets. Electricity tariffs for residential consumers in Montenegro are likely to gradually increase by 40% to over 100%. This significant price rise will impose a heavy burden on poor households and it may adversely affect the environment. In an ex-ante investigation of the welfare impact of this price increase on households in Montenegro, the authors show that the anticipated price increase will result in a significant increase in households' energy expenditures. A simulation of alternative policy measures analyzes the impact of different tariff levels and structures on the poor and vulnerable households in particular. Higher electricity prices could also significantly increase the proportion of households using fuel wood for heating.

Clifford Zinnes, Laura Bouriaud, Ioan Abrudan, Vally Marochko, Jeffrey R. Vincent, Jean-Daniel Saphores

Detecting Collusion in Timber Auctions: the Case of Romania

December 2006, WPS4105

Romania was one of the first transition countries in Europe to introduce auctions for allocating standing timber in public forests. In comparison with the former system of administrative allocation at set prices timber auctions offer several potential advantages: greater revenue generation for the government, a higher probability that tracts will be allocated to the firms that value them most highly, and stronger incentives for technological change within industry and efficiency gains in the public sector. Competition is the key to realizing these advantages. Unfortunately, collusion among bidders often limits competition in timber auctions. The result is that tracts sell below their fair market value, which undermines the advantages of auctions. The paper confirms that data from Romanian timber auctions can be used to determine the likelihood of collusion, and it suggests that collusion reduced winning bids in Suceava forest directorate in 2002 and perhaps also in Neamt forest directorate. The paper concludes with a discussion of actions that the government can take to reduce the incidence of collusion and minimize its impact on auction outcomes.

CASE

<http://www.case.com.pl>

Maria Cernobrovciuc, Joanna Konieczna, Mariana Puntea, Marcin Sowa, Alexandru Stratulat

Prospects for EU-Moldova Economic Relations

CASE Reports No. 67

In recent years, external links with the Republic of Moldova have been determined by the influence of two geopolitical blocks, the CIS and the EU. Despite the strong ties with the CIS, Moldova's relations with the EU are becoming increasingly important particularly with regard to the economic situation in the country. The report presents recent economic trends in Moldova, analyzes the effects of recently proposed and implemented macroeconomic policies, and discusses some of the structural changes that have taken place during the last five years. It also provides a background of EU-Moldova relations and describes the prospects of future economic relations.

Finally, it reports on the current attitudes towards integration with the EU, based on an expert opinion poll, and concludes with a set of recommendations for Moldovan policy-makers.

Malgorzata Jakubiak, Maryla Maliszewska, Irina Orlova, Vitaly Vavrishchuk, .

Non-Tariff Barriers in Ukrainian Export to the EU
CASE Reports No. 68

Overall EU tariffs for Ukrainian products are rather low and traditional protection measures apply only to selective sectors. Moreover, the latter are expected to disappear within the next few years, following Ukraine's WTO entry and the establishment of the EU-Ukraine free trade area in manufacturing goods. However, the EU often resorts to non-tariff barriers to trade, such as certification of origin, customs procedures and technical standards, to protect its own market, which may prove prohibitive for Ukraine. The report explores whether and to what extent the non-tariff barriers impede Ukrainian exports to the EU. It reviews the Ukrainian trade policy and the evolution of bilateral trade flows with the EU, and discusses the experience of Central and Eastern European countries in relation to overcoming non-tariff barriers and the extent to which this can be applicable to Ukraine. Finally, the report presents the results of the survey on non-tariff barriers to trade faced by Ukrainian exporters and concludes with policy recommendations.

CEFIR

<http://www.cefir.ru>

Irina Denisova

Entry to and Exit from Poverty in Russia: Evidence from Longitudinal Data

March 2007, CEFIR/NES Working Paper 98

More than 25 million Russians have incomes that are lower than the subsistence level. The study investigates how entry to and exit from poverty are shaped using survival analysis and utilizing the Russian Longitudinal Monitoring Survey (RLMS) panel for 1994-2004. The study shows, among other things, that the presence of children increases the chances of moving into poverty and decreases the chances of leaving it, while a high share of adults with university degrees in the household and the urban residence have the opposite effect. Interestingly, economic upturns and downturns have an asymmetrical impact on poverty: economic growth lowers the chances of slipping into poverty but also reduces hazards from poverty. This implies that poor households during economic upturn are those with serious problems and are to be paid special attention to.

Ariane Lambert-Mogiliansky, Konstantin Sonin, Ekaterina Zhuravskaya

Are Russian Commercial Courts Biased? Evidence from a Bankruptcy Law Transplant

March 2007, CEFIR/NES Working Paper 99

The authors study the nature of judicial bias in bankruptcy proceedings following the enactment of the 1998 bankruptcy law in Russia. The two main findings are as follows. First,

regional political characteristics affected judicial decisions about the number and types of bankruptcy proceedings initiated after the law took effect. Controlling for indicators of firms' insolvency and the quality of the regional judiciary, re-organization procedures were significantly more frequent in regions with politically popular governors and governors who had hostile relations with the federal center. Poor judicial quality was also associated with a higher incidence of re-organizations. Second, the quality of the regional judiciary affected the performance of firms under the re-organization procedure: in regions with low quality judges, firms that were re-organized according to the 1998 law had significantly lower growth in sales, labor productivity, and product variety compared to firms not subject to bankruptcy proceedings. In contrast, in regions with high quality judges, firms in re-organization outperformed firms not in bankruptcy proceedings. This effect of judicial quality on the performance of re-organized firms was stronger when governors were politically popular. These findings are consistent with the view that politically strong governors subverted the enforcement of the 1998 bankruptcy law.

Other Publications

Andrei V. Vernikov

Russia's Banking Sector Transition: Where to?

BOFIT Discussion Paper 5/ 2007

http://www.bof.fi/bofit_en/

This paper applies an analytical paradigm of institutional economics to the transition of the Russian banking sector, focusing on the interplay between ownership change and institutional change. It finds that the state's withdrawal from commercial banking has been inconsistent and limited in scope. To this day, core banks have yet to be privatized and the state has made a comeback as owner of the dominant market participants. The paper also looks at the new institutions imported into Russia to regulate banking and finance, including rule of law, competition, deposit insurance, bankruptcy, and corporate governance. The unfortunate combination of this new institutional overlay and traditional local norms of behavior have brought Russia to an impasse — the banking sector's ownership structure hinders further advancement of market institutions. Indeed, one may now be witnessing a retreat from the original market-based goals of transition.

Barry Bosworth, Susan M. Collins

Accounting for Growth: Comparing China and India

February 2007, NBER Working Paper 12943

<http://www.nber.org/papers/w12943>

The authors compare the recent economic performances of China and India using a simple growth accounting framework that produces estimates of the contribution of labor, capital, education, and total factor productivity (TFP) for the three sectors of agriculture, industry, and services as well as for the aggregate economy. The growth accounts show a roughly equal division in each country between the contributions of capital accumulation and TFP to growth in output per worker over the period 1978-2004, and an acceleration of growth when the period is divided at 1993. However, the magnitude of output

growth in China is roughly double that of India at the aggregate level, and also higher in each of the three sectors in both sub-periods. In China the post-1993 acceleration was concentrated mostly in industry, which contributed nearly 60% of China's aggregate productivity growth. In contrast, 45% of the growth in India in the second sub-period came in services. Reallocation of workers from agriculture to industry and services has contributed 1.2 percentage points to productivity growth in each country.

Guido Friebel, Elena Panova

Insider Privatization and Careers — A Study of a Russian Firm in Transition

March 2007, NBER Working Paper 12998

<http://www.nber.org/papers/w12998>

The paper studies how transition has affected human resources policies of a Russian heavy industry firm. The data set contains personnel files of 1,538 white-collar workers over 17 years: from 1984 to 2000. The authors find that until 1991, still in Soviet times, the firm featured stable patterns of upward mobility that looked quite similar to career paths in western firms. From 1992 when liberalization reforms began, to 2000, no similar career paths were observed. The reason is that in all tiers of the firm's hierarchy except for the lowest one, more managers were hired from the outside, and fewer managers left the firm. As a result, the firm became "toploaded", and promotions were blocked. A possible reason is extremely weak outsider property rights enforcement in Russia.

Celine Allard

Inflation in Poland: How Much Can Globalization Explain?

IMF Working Paper WP/07/41

February 2007, IMF Working Paper 07/41

The paper analyzes how globalization has affected inflation in the EU's New Members States and Poland in particular since 1995. It finds prices have become less sensitive to domestic economic conditions as trade integration rose, possibly because monetary policy incentives increasingly shifted toward meeting price stability objectives. Quantitatively, globalization appears to have lowered Polish prices by 0.5-1 percentage point annually since 1995, substantially more than in advanced economies. However, future inflation-dampening effects in the NMS are likely to be smaller as the pace of increases in trade openness moderates.

Pasquale Tridico

Regional Human Development in Transition Economics: The Role of Institutions

Universite degli Studi Roma Tre, Working Paper 70

<http://host.uniroma3.it/dipartimentileconomia/pdf/wp70.pdf>

The aim of this paper is to analyze regional difference in human development in Poland. The author constructs Human Development Regional Indexes for 16 Polish regions and describes the income and non-income dimensions of human life. During transition, western Polish regions experienced higher growth of GDP per capita than eastern regions. Yet, this has not produced a higher level of non-income dimension indicators — education and life expectancy. On the contrary, east-

ern regions, although they have a lower level of GDP per capita, have a higher level of non-income indicators. The author finds that in the east, social norms and group preferences are more oriented towards social policies and public services, while in the west the norms and preferences are more oriented towards a market economy.

Markku Kotilainen

Free Trade between the EU and Russia — Sectoral Effects and Impacts on Northwest Russia

Working Paper No. 1087

The Research Institute of the Finnish Economy,
<http://www.etla.fi/eng/julkaisuhaku.php>

The paper analyzes the implications of free trade between the EU-25 and Russia using a computable general equilibrium model, with a focus on the regions in Northwest Russia. Free trade on its own would have a negative terms-of-trade effect in Russia and cause a small decline in welfare. If coupled with an increase in productivity, welfare would increase. This emphasizes the importance of reforms in the Russian economy. Ferrous and non-ferrous metallurgy, machine-building and metal working, and wood and paper are the principal losers due to free trade. At the same time, production in capital goods, fuel industry, and services increases. Due to its production structure, the Northwest seems to benefit slightly less than Russia on average in terms of the volume of GDP.

Alexandra Ferreira Lopes

The Costs of EMU for Transition Countries

REPEC: <http://repec.org/immf2006/hp.7815.1140017467.pdf>

Should the Czech Republic, Hungary and Poland — the biggest economies that joined the EU in 2004 — adopt the euro? The author constructs a model to evaluate the economic costs of the loss of autonomy of the monetary policy as a result of joining the EMU. The findings suggest that EMU membership can be a costly decision to these countries. The decision of entering the EMU is more costly when technological shocks are stronger, when correlation of the monetary policy shocks is weaker, when consumers are more risk averse and when the import share between the countries studied and the EMU is lower.

Floro Ernesto Caroleo, Francesco Pastore

A New Regional Geography of Europe? The Labor Market Impact of the EU Enlargements

IZA Discussion Paper No. 2620

Available at SSRN: <http://ssrn.com/abstract=969620>

The aim of this paper is to summarize research ideas and outcomes on how the changing political and economic map of Europe affects labor markets in both the old and new EU member states. The specific focus of the discussion is on the micro-economic foundations of structural change and its spatially asymmetric impact on local labor markets. The issues discussed include: regional job and worker turnover; the impact of migration on regional unemployment differences; a regional dimension of gender differences; human capital as a factor of regional convergence; the impact of trade and FDI on regional labor markets; hidden economy and hidden employment; national and EU regional policy.

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