

# Contents

---

<i>List of figures</i>	page xi
<i>List of tables</i>	xiii
<i>List of contributors</i>	xix
<i>Preface</i>	xxi
<b>1 Introduction</b>	<b>1</b>
<i>Michael Landesmann and István Székely</i>	
The overall state of economic transformation, industrial restructuring and the macroeconomic environment	2
Factors hindering industrial restructuring	6
Similarities and differences in the nature of industrial restructuring among CEE countries	10
Finance, institutional change and industrial restructuring	14
Reorientation of trade and trade performance	15
Enterprise behaviour during the transition	16
A role for industrial policy in the transition?	18
<b>Part One INDUSTRIAL STRUCTURAL CHANGE AND EAST-WEST TRADE INTEGRATION</b>	<b>23</b>
<b>2 Industrial structural change in Central and Eastern European economies</b>	<b>25</b>
<i>Michael Landesmann and István Székely</i>	
Introduction	25
Experience with structural change and starting positions	27
Industrial structural change during economic transformation	33
	vii

Conclusions on structural change	37
Foreign trade specialisation and trade reorientation, 1989–92	40
Conclusions on export and import structures	67
Technical appendix	68

<b>3 Projecting East-West trade integration</b>	76
<i>Michael Landesmann</i>	
Introduction	76
Long-term projections	77
Short-term projections	90
Medium-term projections and the pattern of catching-up	102
Import projections	103
Summary of results	107
Concluding remarks: confronting the methodology with actual results	116

**Part Two COUNTRY STUDIES** 125

<b>4 Deindustrialisation or reindustrialisation? On the future of the eastern German economy</b>	127
<i>Klaus-Dieter Schmidt and Petra Naujoks</i>	
Introduction: how do you merge a socialist and a capitalist economy?	127
The heritage of the past: what can be kept?	129
The recent trends: between collapse and revival	135
The prospects: some benchmarks for a projection	140
Policy conclusions: what are the lessons for other former socialist economies?	146
<b>5 Stabilisation, crisis and structural change in Hungary</b>	149
<i>András Blahó and László Halpern</i>	
Economic crisis and restructuring	149
Foreign trade and structural change in Hungary	156
Perspectives and conclusion	175
<b>6 Industrial restructuring in Czechoslovakia after 1989</b>	181
<i>Alena Nešporová</i>	
The initial conditions of economic transformation in Czechoslovakia	181
Reform steps after 1989	183

<b>Contents</b>	ix
Economic structure in 1989	189
Structural developments since 1989	192
Conclusion	199
Appendix: enterprise sector behaviour and performance	202
<i>Alena Buchtíková, Jiří Křovák and Eva Macourková</i>	
<b>7 Economic transition and industrial restructuring in Bulgaria</b>	213
<i>Rumen Dobrinsky, Nikolay Markov, Boyko Nikolov and Dimiter Yalnazov</i>	
The background of the economic transition in Bulgaria	213
Economic policies and performance in the transition period	215
Industrial restructuring and reorientation of trade	229
Conclusion	238
Appendix: methodological note and time schedule of Bulgarian trade reforms	239
<b>8 Economic reforms and structural change in Poland</b>	242
<i>Lucja Tomaszewicz and Witold Orłowski</i>	
Introduction	242
Towards economic stability: the Polish economy, 1990–3	243
Changes in industrial structure and foreign trade, 1989–92	249
Concluding remarks	255
Appendix: economic policy scenarios and economic transformation, 1991–2000 – simulations with a multisectoral model	259
<b>Part Three ENTERPRISE ANALYSIS AND POLICY ISSUES</b>	275
<b>9 Microeconomic factors of trade reorientation in Hungary, 1981–90</b>	277
<i>László Halpern</i>	
Introduction	277
Trade orientation of the corporate sector	278
Performance of regular exporters	282
Performance by asset size, profitability and branch	284

## Contents

Econometric estimations	293
Summary and conclusion	297
<b>10 Hardening of the budget constraint for Polish manufacturing enterprises, 1991–3</b>	<b>301</b>
<i>Marek Belka and Stefan Krajewski</i>	
Introduction	301
Banks and the hardening of the micro-budget constraint	302
Interenterprise credit	305
Tax arrears	309
Concluding remarks	310
<b>11 Industrial policy in the transition</b>	<b>313</b>
<i>Michael Landesmann and István Ábel</i>	
Introduction	313
The setting for industrial policies in the transition	314
The fundamental 'stock-flow' problem in the transition	315
Macroeconomic policies boycotting industrial restructuring	318
Methods of industrial policy for the transition	321
Industrial policy as a means to changing state-administrative behaviour	323
The budgetary predicament and the reorganisation of large state-owned enterprises	324
Export orientation as a means to recapturing the domestic market	327
Areas of industrial policy	328
Conclusion	331
<b>12 Financial intermediation and industrial restructuring in Central and Eastern Europe</b>	<b>337</b>
<i>István Ábel and István Székely</i>	
Introduction	337
Financing industrial restructuring in Central and Eastern Europe	338
Corporate governance, industrial restructuring and financial institutions	346
Bad loans and industrial restructuring	347
The competitiveness of the financial system: market structures, privatisation and foreign participation	351
Conclusion	355
<i>Index</i>	<b>363</b>

# Figures

---

2.1	Year-to-year structural change coefficients for real gross output, 1964–91	<i>page 29</i>
2.2	Year-to-year structural change coefficients for employment, 1964–90	29
2.3	Hungary, year-to-year structural change coefficients, 1964–91	30
2.4	Poland, year-to-year structural change coefficients, 1964–91	30
2.5	Czechoslovakia, year-to-year structural change coefficients, 1964–91	31
2.6	Changes in the structure of manufacturing and real gross output, 1988–91	34
2.7	Structure of real output in Czechoslovakia, 1988–91	35
2.8	Structure of real output in Hungary, 1988–91	36
2.9	Structure of real output in Poland, 1988–91	37
2.10	Changes in the structure of manufacturing in Czechoslovakia, 1988–90	38
2.11	Changes in the structure of manufacturing in Hungary, 1988–90	39
2.12	Changes in the structure of manufacturing in Poland, 1988–90	39
2.13	Export and import structure to/from the EC compared with the EC's total export and import structure, 1989–92	56
3.1	Market share increases of other (non-Eastern European) trading groups, 1977–2010	89
3.2	Determinants of export reorientation to the West	100
3.3	Further modification of calculated conversion rates	100
3.4	Quality gap and new export capacities	101
3.5	Time profile of the catching-up process	102

3.6	Changes in EEFSU shares in total EC imports, total manufacturing, 1987–2010	109
3.7	Changes in EEFSU shares in total EC imports, 1987–2010, of industries with highest market share growth	114
3.8	Changes in EEFSU shares in total EC imports, 1987–2010, of industries with lowest market share growth	115
3.9	Czechoslovakia, annual growth of exports to EC markets, 1987–95	117
3.10	Hungary, annual growth of exports to EC markets, 1987–95	118
3.11	Poland, annual growth of exports to EC markets, 1987–95	119
4.1	Employment in eastern German manufacturing, 1990–2	128
4.2	Cost structure in eastern and western German manufacturing, 1990 and 1992	141
4.3	Return on sales of Treuhand companies in selected branches, 1991 and 1992	142
10.1	Bank credit, manufacturing industry, 1992–3	303
10.2	Interenterprise credit, manufacturing industry, 1991–3	306
11.1	Composition of public spending on economic restructuring, 1989–1995/7	325
12.1	Real long-term lending rates in Hungary, 1989–92	343

# Tables

---

2.1	Structural change coefficients, 1966–90	<i>page</i> 28
2.2	Structural similarities among Western and Eastern European economies, 1966–90	32
2.3	Geographical distribution of exports and imports, 1980–91	41
2.4	Structure of exports and imports, and export growth to EC, 1989–92	44
2.5	Quality indicators of Eastern European exports to EC markets, 1977 and 1987	48
2.6	Quality (price) gaps and market shares for engineering industries, 1988–91	50
2.7	Factor intensity analysis of Czechoslovakia's trading structure with the EC	51
2.8	Czechoslovakia's export structure and the EC's export and import structures	52
2.9	Export specialisation analysed by factor intensities	53
2.10	Distance measures of CEE countries' export (import) structures to/from the EC relative to overall EC import (export) structures	59
2.11	Regression results: growth of Czechoslovak exports to the EC, 1989–91, and previous export orientation towards the CMEA and the USSR and price (quality) gap	61
2.12	EC protection against Czechoslovak exports, 1991	63
2.13	EC protection and factor intensities, by branch	65
2.A1	List of selected ISIC industries	70
3.1	Distance coefficients and market share	79
3.2	Market shares projections	81
3.3	Quality measures	85
3.4	Calculations of export capacity, 1987	87

3.5	Global adjustment factors	89
3.6	Shares in EC markets	89
3.7	Market shares in EC markets	90
3.8	Market shares projections	93
3.9	Short-run projections: capacity conversion and export growth	96
3.10	Projections for exports and export growth	104
3.11	Distance from total EC inport structure, manufacturing	106
3.12	Relationship between distance in import structure from total EC exports and level of development	106
3.13	Weights for target import structures	108
3.14	Imports from EC, 1987-91	110
4.1	Production and employment structures, eastern and western Germany, 1989 and 1992	130
4.2	Comparison of employment structures, manufacturing, GDR and FRG, 1989	131
4.3	Sectoral structure of intra-German trade, 1989	132
4.4	Price ratios in intra-German trade, 1980 and 1989	133
4.5	Domestic resource costs in eastern German industry in trade with Western and Eastern countries, 1989	133
4.6	Trade with Western countries of the GDR and FRG in classes of goods, 1987	134
4.7	Production structure of eastern German manufacturing, by branches, 1990-2	136
4.8	Sales structure of eastern German manufacturing, 1991 and 1992	138
4.9	Turnover per employee, selected branches of eastern and western German manufacturing, 1991 and 1992	139
4.10	Producer price indices of eastern and western German manufacturing, 1991 and 1992	140
4.11	State of privatisation of eastern German manufacturing, by branches, February 1993	143
5.1	Macroeconomic indicators, 1989-92	150
5.2	Structure of industrial production, 1980-91	151
5.3	Industrial production, 1988-91	152
5.4	Industrial labour productivity, 1988-91	152
5.5	Unemployment, 1990-2	153
5.6	Changes in the number of economic organisations, 1988-92	154
5.7	Foreign trade indicators for Hungary, 1988-92	157
5.8	Hungary: value and structure of foreign trade, 1988-93	158



5.9	Commodity pattern of Hungarian exports and imports by groups of countries, 1989–91	164
5.10	Total industrial exports and imports of Hungary, 1989–92	168
5.11	Non-rouble and rouble industrial exports of Hungary, 1988–90	170
5.12	Balance of payments of Hungary in convertible currencies, 1990–2	172
6.1	Macroeconomic indicators of the CSFR, 1990 and 1991	184
6.2	Branch structure of the Czechoslovak economy, 1989	190
6.3	Branch structure of Czechoslovak industry, 1989	190
6.4	Share of exports in manufacturing production in Czechoslovakia, 1988	192
6.5	Czechoslovak foreign trade, 1989	193
6.6	Structural change in the Czechoslovak economy, 1989–92	194
6.7	Structural shifts in Czechoslovak industry, 1989–91	197
6.8	Industrial indicators, 1992	198
6.9	Czechoslovak foreign trade, 1989–92	200
6.A1	Matrix of correlations of selected indicators	203
6.A2	Average ranking of selected branches	205
6.A3	Economic indicators of the enterprise sector, 1990–2, monthly data	209
6.A4	Economic indicators of the enterprise sector, 1990–2, quarterly data	210
6.A5	Codes used in the classification of branches	210
7.1	Bulgaria, selected indicators of economic performance, 1989–93	217
7.2	Breakdown of the Bulgarian state budget, 1989–93	225
7.3	Balance of payments in convertible currencies, 1988–92	227
7.4	Gross output, by industrial sectors, 1988–92	231
7.5	Exports and imports, by industrial sectors, 1988–91	233
7.6	Structure of exports and imports, by commodity groups, 1988–92	234
7.7	Structure of exports and imports, by countries and groups of countries, 1988–92	237
8.1	Key macroeconomic indicators for Poland, 1989–92	247
8.2	Dynamics of gross output and employment, 1990–2	250
8.3	Branch structure of Polish industry, 1989–92	252
8.4	Structure of Polish exports, 1989–91	254

8.5	Structure of Polish imports, 1989–91	256
8.6	Activities of state-owned and private sectors, 1991–3	258
8.A1	Simulation experiments, results	268
8.A2	Change in output structure from 1990 to 2000	271
8.A3	Measures of distance of output structures in experiments	272
9.1	Structure of sales of Hungarian enterprises, and annual increase in gross output, 1981–90	279
9.2	Profit-to-sales ratios for Hungarian firms, 1981–90	280
9.3	Subsidy-to-sales ratios for Hungarian enterprises, 1981–90	281
9.4	Price increases according to directions of sales, 1981–90	282
9.5	Weight of regularly exporting firms as compared to the whole corporate sector, 1981–90	283
9.6	Structure of sales of firms in the sample, 1981–90	283
9.7	Profit rate of firms in the sample, 1981–90	284
9.8	Subsidy-to-sales ratios of firms in the sample, 1981–90	284
9.9	Export shares, by asset size, in the sample, 1981–90	285
9.10	Sales shares of firms, by asset size, in the sample, 1981–90	285
9.11	Profit rate of sales, by asset size, in the sample, 1981–90	286
9.12	Subsidy-to-sales ratios for firms, by asset size, in the sample, 1981–90	287
9.13	Export shares, by sectors, in the sample, 1981–90	288
9.14	Sales shares of firms, by sectors, in the sample, 1981–90	289
9.15	Profit rate of sales for firms, by sectors, in the sample, 1981–90	290
9.16	Subsidy-to-sales ratios for firms, by sectors, in the sample, 1981–90	291
9.17	Export shares for firms, by profitability, in the sample, 1981–90	292
9.18	Sales shares of firms, by profitability, in the sample, 1981–90	292
9.19	Profit rate of sales for firms, by profitability, in the sample, 1981–90	293
9.20	Subsidy-to-sales ratios for firms, by profitability, in the sample, 1981–90	294
10.1	Ratio of bank credit to nominal monthly sales, Polish manufacturing industry, 1991–3	304

**List of tables**

xvii

10.2	Structure of interenterprise debt, late 1993	307
10.3	Ratio of net interenterprise lending to monthly sales, 1990:3–1992:6	308
10.4	Ratio of tax arrears to taxes due, 1990–2	309
10.5	‘Time structure’ of tax arrears, 1993	310
11.1	Eastern Europe and the USSR, industrial output, gross fixed investment and unemployment, 1989–92	319
12.1	Supply and demand of loanable funds, 1990–3	340
12.2	Allocation of domestic credit in Hungary, 1989–93	342