

# Small Countries in a Global Economy

*Also by Dominick Salvatore*

INTERNATIONAL ECONOMICS (*seventh edition*)

MANAGERIAL ECONOMICS IN A GLOBAL ECONOMY (*fourth edition*)

*Also by Jože P. Damijan*

SMALL COUNTRIES IN WORLD TRADE

# Small Countries in a Global Economy

## New Challenges and Opportunities

Edited by

**Dominick Salvatore**

*Professor of Economics and Department Chair*

*Fordham University*

*New York*

*USA*

**Marjan Svetličič**

*Professor of International Economics*

*University of Ljubljana*

*Slovenia*

and

**Jože P. Damijan**

*Assistant Professor*

*Faculty of Economics*

*University of Ljubljana*

*Slovenia*



Editorial matter, selection and Introduction © Dominick Salvatore,  
Marjan Svetličič and Jože P. Damijan 2001  
Chapter 2 © Dominick Salvatore 2001  
Chapter 3 © Jože P. Damijan 2001  
Chapter 7 © John D. Daniels and Marjan Svetličič 2001  
Chapters 1, 4–6, 8, 9 © Palgrave Publishers Ltd 2001  
Softcover reprint of the hardcover 1st edition 2001 978-0-333-78984-1

All rights reserved. No reproduction, copy or transmission of  
this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or  
transmitted save with written permission or in accordance with  
the provisions of the Copyright, Designs and Patents Act 1988,  
or under the terms of any licence permitting limited copying  
issued by the Copyright Licensing Agency, 90 Tottenham Court  
Road, London W1T 4LP.

Any person who does any unauthorised act in relation to this  
publication may be liable to criminal prosecution and civil  
claims for damages.

The authors have asserted their rights to be identified  
as the authors of this work in accordance with the  
Copyright, Designs and Patents Act 1988.

Published by  
PALGRAVE MACMILLAN  
Houndmills, Basingstoke, Hampshire RG21 6XS and  
175 Fifth Avenue, New York, N. Y. 10010  
Companies and representatives throughout the world

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave  
Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd.  
Macmillan® is a registered trademark in the United States, United Kingdom  
and other countries. Palgrave is a registered trademark in the European  
Union and other countries.

ISBN 978-1-349-41864-0 ISBN 978-0-230-51319-8 (eBook)  
DOI 10.1057/9780230513198

This book is printed on paper suitable for recycling and  
made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Catalog Card Number: 00–067098

# CONTENTS

<i>List of Tables</i>	ix
<i>List of Figures</i>	xi

<i>Introduction:</i>	1
<b><i>Small Countries in a Globalised World: Their Honeymoon or Twilight?</i></b>	
Marjan Svetličič, Dominick Salvatore, Jože P. Damijan	

## PART I

THE EMERGENCE AND PERFORMANCE OF SMALL COUNTRIES	23
---	----

<i>Chapter 1:</i>	25
<b><i>Nations, Conglomerates and Empires: Trade-off Between Income and Sovereignty</i></b>	
Branko Milanović	

1. Introduction	26
2. Equilibrium of a Single Country	28
3. Forming Conglomerates	44
4. When will Conglomerates Become Unstable?	54
5. Conclusions	56

<i>Chapter 2:</i>	71
<b><i>The Economic Performance of Small Versus Large Nations</i></b>	
Dominick Salvatore	

1. Introduction	71
2. Classification of Small and Large Countries	71
3. The Per Capita Income of Small and Large Countries	73

	page
4. The Growth of Per Capita Income of Small and Large Countries	77
5. Openness of Small and Large Countries	80
6. Level of Investments in Small and Large Countries	83
7. Policy Implications and Considerations	86
8. Summary and Conclusions	87
 <i>Chapter 3:</i>	 91
<b><i>Main Economic Characteristics of Small Countries: Some Empirical Evidence</i></b>	
Jože P. Damijan	
1. Introduction	91
2. Measure of Country Size	92
3. Economic Characteristics of Small Countries	96
4. Summary	126
 PART II	
TRANSITION OF SMALL CENTRAL EUROPEAN COUNTRIES	 131
 <i>Chapter 4:</i>	 133
<b><i>History of Czech Economic and Political Alignments Viewed as a Transition</i></b>	
Vladimír Benáček	
1. Introduction	133
2. Historical Analysis of Czech External Alignments in 1848 - 1998	 136
3. Summary	148
 <i>Chapter 5:</i>	 155
<b><i>From Monetary Integration via Monetary Independence to a New Integration? (The Case of Slovenia)</i></b>	
Ivan Ribnikar	
1. Introduction	155

	page
2. Experiences with Previous Monetary Integration	156
3. Available Monetary Arrangements for Slovenia as a Newly Emerging Country and a Country in Transition	159
4. Why Have One's Own Money at all?	163
5. Monetary System and Monetary Policy	165
6. Exchange Rate, International Capital Flows and Sterilisation	169
7. Banks, Liberalisation of International Capital Flows, Interest Rates, Macroeconomic Savings	175
8. Should a Transition Economy like Slovenia Strive to Join the European Single Currency Area?	176
 <i>Chapter 6:</i>	 181
<b><i>Enterprise Sector Restructuring in a Small Economy: The case of Slovenia</i></b>	
Marko Simoneti, Matija Rojec, Marko Rems	
1. Introduction	181
2. Ownership Structure and Performance in the Enterprise Sector (1995)	185
3. Performance of Companies in the 1994-96 Period	190
4. Exit of Companies	196
5. Investments in the Enterprise Sector	199
6. Conclusions	201
 PART III	
PROSPECTS OF SMALL COUNTRIES IN A GLOBALISING WORLD	209
 <i>Chapter 7:</i>	 211
<b><i>Competitiveness of Small Countries</i></b>	
John D. Daniels, Marjan Svetličič	
1. Introduction	211
2. Concepts and Definitions of Competitiveness and Small Countries	212
3. Factors Affecting Small Countries' Competitiveness	215
4. Some Alternatives for Strengthening the Competitiveness of Small Countries	221

<i>Chapter 8:</i>	231
<b><i>Experiences of a Small Country's Short Stay in the EU: The Case of Austria</i></b>	
Fritz Breuss	
1. Introduction	231
2. Expectations of EU Membership	232
3. Real Life as a Small Country in the EU	236
4. New Challenges ahead - EMU and Eastern European Enlargement	254
 <i>Chapter 9:</i>	 259
<b><i>The Contribution of (Large, 'Western') Multinationals to the Catching-up of (Small, 'Eastern') Countries</i></b>	
Christian Bellak	
1. Introduction	259
2. Framework for Analysis	261
3. The Characteristics of Small States	264
4. The Characteristics of Large Multinationals	269
5. Summary and Conclusions	280
 <i>Index</i>	 289
<i>About the Authors</i>	297
<i>Abstracts</i>	297



# LIST OF TABLES

## *Chapter 1*

Table 1.1.	Summary Statistics	41
Table 1.2.	Estimation results (Dependent variable: ratio of binding membership in international organizations to GDP per capita)	43
Table 1.3.	Estimation results (Dependent variable: membership in a free trade association)	53
Table A3.	International organizations and agreements used in calculation of constrained economic policy sovereignty	61

## *Chapter 2*

Table 2.1.	Difference in PPP Per Capita Incomes Among Very Small, Small, and Large Countries in 1997	75
Table 2.2.	Growth of PPP Per Capita Income in Very Small, Small, and Large Countries Between 1985 and 1997	79
Table 2.3.	Degree of Openness among Very Small, Small, and Large Countries in 1997	82
Table 2.4.	Difference in Levels of Investments Among Very Small, Small, and Large Countries in 1997	85

## *Chapter 3*

Table 3.1.	Classification of countries according to size (mean, median, maximum and minimum values), data for 1990	95
Table 3.2.	Significance of domestic and foreign demand patterns for economies of scale (1990)	104
Table 3.3.	Foreign trade openness (DEX) and country size in 1990	111

#### *Chapter 4*

Table 4.1.	Review of Historical Events in Czechia Considered as a Transition	149
Table 4.2.	International Comparison of GDP Per Capita	150

#### *Chapter 6*

Table 6.1.	Ownership structure of Slovenian enterprise sector in 1995	186
Table 6.2.	Comparison of selected performance indicators by ownership categories of companies in 1995	189
Table 6.3.	Net profit/loss of all active companies in various ownership categories in the 1994-96 period	193
Table 6.4.	Trends in major performance indicators by company ownership categories in 1994-1996; for 1,902 companies active in the entire period	195
Table 6.5.	The proportion of 'exiting' companies in total companies in 1995	198
Table 6.6.	Investment and ownership categories in 1995 and 1996	201

#### *Chapter 8*

Table 8.1.	Political and economic power in the EU	237
Table 8.2.	Regional pattern of Austria's foreign trade and FDIs	241
Table 8.3.	Economic Performance of Selected EU Countries 1992-1998	245

#### *Chapter 9*

Table 9.1.	Restructuring of MNCs	272
Table 9.2.	Some determinants of the locational mobility	277
Table 9.3.	Location-bound and Footloose Elements by Type of Mobility	279
Table 9.4.	Interests of small CEECs and MNCs compared (by asset type)	281

# LIST OF FIGURES

## *Chapter 1*

Figure 1.1. Changes in the value of capital as function of sovereignty	31
Figure 1.2. Income and sovereignty: trade-off and indifference curves	31
Figure 1.3. Trade-off curves for large and small countries	33
Figure 1.4. Trade-off curve as endowments increase	34
Figure 1.5. Equilibria of individual members and the conglomerate	47
Figure 1.6. Conglomerate's stable equilibrium	49
Figure 1.1A. Trade-off curve for empires	59

## *Chapter 3*

Figure 3.1. Level of development (GDPpc) and country size (ASC) in 1990	98
Figure 3.2. Foreign trade openness (DEX) and country size (ASC) in developing countries in 1990	110
Figure 3.3. Foreign trade openness (DEX) and country size (ASC) in advanced countries in 1990	110
Figure 3.4. Level of development and ratio of public expenditure to GDP in 1990	118
Figure 3.5. Ratio of net current account to GDP by groups of countries in the period 1967-1992	121

## *Chapter 5*

Figure 5.1.	Available monetary arrangements	162
Figure 5.2.	All assets and foreign assets (FA) in the balance sheet of the BoS (in billions of tolar) (left scale) and the percentage of foreign assets (right scale) from 1992 to the end of the second quarter of 1997	167
Figure 5.3.	Volume of transactions leading to increasing and decreasing base money, relative to the average quantity of base money from 1994 to the second quarter of 1997	168
Figure 5.4.	Three parts (I, IIA and IIB) of the simplified balance sheet of the Bank of Slovenia (at the end of February 1997) delineating its three functions	171