

# ECONOMIC GROWTH IN THE LARGE AND SMALL-SCALE ECONOMIES AND THE ROLE OF RESOURCES IN THE CONVERSION OF ENERGY-ORIENTED TO INNOVATION-DRIVEN ECONOMY

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**Abstract.** *The article deals with the economic growth in different scale economies, namely, resource-abundant and resource-driven countries and chances for the conversion of the latter into the knowledge-based mode of development. The paper deals with two problems 1) economic growth in different groups of the small-scale countries of the world economy through the estimate of the historical context; 2) dynamics of the assessment in small and large transit economies.*

*The goal of the article is to promote the idea of the resource-rich economies which find themselves at different stages of overcoming transitivity from the curse to the blessing type of economic growth. The hypothesis of the article is that sustainable economic development and continuous economic growth in transit economies could be achieved by means of the formation of the rent capitalism model in the large resource-rich countries. The methods used in the article are analysis-synthesis, historical and logical methods of investigation, methods of international comparisons. The main conclusion of the article is that due to the formation of rent capitalism model growing gigantic countries play a predominant role in the world economy and in the global financial markets gaining the role of the savior during the expansion of the global financial crisis.*

**Key words:** *economic growth (extensive and intensive), large-scale (resource –driven) and small-scale (resource-abundant) transit economies, rent capitalism model*

## Introduction

The economic theory of the leading academic schools and the world analytical centers were not able to predict either the crash of the USSR and the countries of the

socialist camp, or the chain of financial crises, beginning with the Asian crisis of 1997–1999. Economists discuss these phenomena for a long time but did not come to a more or less uniform opinion and modern global financial crisis confirms the in-

capability of the neo-classical economists to understand these processes – failure, which would discredit any other scientific discipline. Even more rigid estimation has been formulated in Jaque Sapir's statement. The director of the French center of social research (EHESS) at the Euro Finance Week Forum (November, 2008) has compared the modern science of economics with the pseudo science<sup>1</sup>. Jaque Sapir stated that the science of economics is in a chaotic condition of identity crisis, and the international success of one of most critically adjusted scientific directions – Post-Autistic Economics Movement – PAEcon<sup>2</sup> testifies to it. In the situation of the modern crisis there is a set of complicated questions concerning the nature of crisis and the consequences, efficiency of the anti-recession measures and the future devices for the survival of the world economy, the driving forces of the economic growth in a resource-driven and resource-abundant economies (first of all the influence the possession of mineral resources), features of the economic growth of the small- and large-scale economies, which find themselves at different stages of transitivity, etc. Since the crash of communism in 1989 the economic growth in different regions of the former socialist camp as well as the emerging market economies showed a completely different dynamics and a different mechanism of the transition to the market economy. Dramatic slowing down characteristic of the late eighties and the

early nineties was replaced by the fast economic growth in the Central and East European countries already in 1992–1994, small-scale Baltic States as well as some small countries of Central Asia and Caucasus (Armenia, Georgia, Kyrgyzstan) joined this group of fast growing economies in 1995. Only at the end of the decade after a long recession and stagnation economic growth and structural shifts were renewed in the large-scale countries of the former Soviet Union republics (Russia, the Ukraine and Kazakhstan) presumably due to the influence of the 1998 financial crisis. Since 1999 the economic growth of the former socialist block transit economies showed the opposite dynamics<sup>3</sup>.

The paper deals with two problems 1) economic growth in different groups of the small-scale countries of the world economy through the estimation of the historical context; 2) assessment of the dynamics in small and large transit economies in terms of the resource-driven or resource-abundant model of development.

### **Economic growth of the small countries: the comparative historical-economic vision**

It is argued, that there is an intensification of the special model of economic growth and economic development for the small-scale and large-scale countries according to a number of parameters. In the given context we go beyond the classification carried out in the earlier papers<sup>4</sup> and we mean the peculiar features of the

<sup>1</sup> See Jaque Sapir .Imperialism of an economic science. Reflections about a modern condition of economic thought and its interaction with social studies /info euro-financeweek.com/

<sup>2</sup> Electronic magazine "Post-autisticEconomicsReview" /www.paecon.net./

<sup>3</sup> Indicators of development of the World Bank for 2005 *UNECE* Online Statistics

<sup>4</sup> Kuznetsova N.P. Economic growth and an intensification of the capitalist reproduction. Leningrad., 1989.

economic dynamics process in the economies of different scale that depend on the «maturity of the territorial structure of economy», «intensity of the use of the economic space» and population density<sup>5</sup>. Research of the relationship between the size of economy and the levels and rates of the economic development was carried out by J.Simon. According to his concept in a long-term historical prospective the increase of population means cumulative growth of technology and a rise of living standard; high population density assumes a high rate of economic growth<sup>6</sup>. From our point of view, there are some doubts about the implementation of this theory for all countries and regions of the world economy. For example, any country of the so-called «immigration capitalism» (the USA, Canada, New Zealand, Australia) in XVIII-XIX showed high rates of economic growth owing not to the population growth, but due to its scarcity accompanied by the need of the accelerated introduction of machines and technical equipment which, in turn, caused the dynamics of labor intensive growth.

Some options of the economic development of small countries depend upon various combinations of the territory and population. The position of a small state in the world economy and regional integration complexes is determined by the selected variant of the development.

<sup>5</sup> This concept was developed by Russian geographers See, for example: Mashbitz J.G. Less developed countries: the main problems of economic and social geography. M., 1983; Odesser S.V. Territorial structure of an economy in typologies of capitalist countries // News of the USSR Academy of Sciences. 1986. N 2

<sup>6</sup> Simon J.L. Theory of Population and Economic Growth. Basil Blackwell, 1986. P.63–64.

One of the subgroups of the small developed countries, capable to expand the economic potential due to the use of their own industrial resources, has an opportunity to begin an extensive economic growth (Spain, Australia). The prototype of this line of development was demonstrated by the said «immigration capitalist» countries, which managed to master the territory not only due to a high natural population increase, but also due to the large immigration of capable, active and initiative labor, and due to the formation of the regional integration complexes. The similar model of transition into the category of the large states was shown by Canada in the seventies of the XX century. This country used a model of the economic and production integration with the US large-scale economy after the conclusion of the Autopact Treaty (1965), which served as the locomotive of the growth of the Canadian economy<sup>7</sup>.

In the countries, which have an absolute shortage of both raw-materials and human resources, i.e. extensive factors of growth, the model of the effective development is dictated by the opportunities of high population density and a presence of «a raw-material niche» – extraction of natural or artificial resources and their processing. A precondition of the given type of development is integration and intensification of reproduction. We consider the West European old capitalist states to be such type of the small-scale economies. They possess a relatively small territory, traditionally high population density and small, sometimes negative population growth rate. Interna-

<sup>7</sup> Kuznetsova N.P. Problems of economic growth of the advanced countries (the example of Canada). The Thesis. Degree of PhD in Economics. . Leningrad., 1977

tional comparison of small and large countries shows a big inequality concerning the level of the scientific and technical development as well as a more essential gap between the most and the least advanced small countries than in the large countries. At the end of industrialization these economies slowed down their economic and population growth rates. S.B.Saul's marked in one of his historical papers that there was a certain limit of the population growth in the small countries determined by their density, natural, climatic and historical conditions. The author puts forward this idea by the analysis of the concrete economic-historic data related to the West-European small countries in the period of 1870–1914<sup>8</sup>. The analysis of the long-term dynamics<sup>9</sup> shows, that industrialization in the small West-European countries was much faster and more rational, than in the large-scale Western economies. One of the important reasons of such industrialization model lies in the relative simplicity of the agrarian reforms (XVIII–XIX centuries) in these small states. Besides, it is necessary to mention the constant inflow of the qualified and cheap labor from the large European countries involved into the dramatical feudal wars. Handicraftsmen – immigrants were the center of the specialized niche of the small countries since the Middle Ages forming an initial human basis of usurious trade, and subsequently the industrial capital accumulation. Swit-

zerland was a centre of watch manufacture and gobelin tapestries, Denmark and Netherlands – shipbuilding, Netherlands – diamond processing, Belgium – glass manufacture. The textile industry was developing in all small countries alongside with the service sector: insurance, banking, transit trade, which ensured the functioning of the colonial transcontinental trade. The West-European small-scale economies got rich during the medieval period and managed to provide not only the industrialization process of their own, but to a large extent financed the industrial revolutions of the large states, and frequently promoted saturation of the economy of those countries by the production means. For example, Belgium played the role of the supplier of steel, hire, machine tools and equipment to France and Germany and import of raw materials: coal, pig iron, coke. In the period of the industrial revolution Switzerland exported locomotives, electromotors, diesel engines, sea turbines. The Netherlands as well as Sweden, being natural resource-abundant countries and having educated and qualified labour, began to export finished goods of secondary oil refining: chemical and pharmaceutical products, pulp and paper etc. In 1913 the share of finished goods in the export was 79 % in Switzerland, 76 – in France and the Great Britain, 63 – in Germany, 57 – in Sweden, 46 % – in Belgium<sup>10</sup>. West European small countries, which started industrialization only at the end of the 19<sup>th</sup> century, implemented the so-called export orientation of

<sup>8</sup> Saul S.B. The Economic Development of Small Nations: the Experience of North-West Europe in the XIX Century // *Economics in the Long View* / Ed.by Ch. P. Kinleberger, Guido di Tella. New York; London, 1982. Vol.2. P.111.

<sup>9</sup> Kuznetsova N.P. Economic growth. History and contemporary vision. SPb., 2001. Appendices. P. 103–104

<sup>10</sup> SAUL S.B. The Economic Development of Small Nations: the Experience of North-West Europe in the XIX Century // *Economics in the Long View*/Ed.by Ch. P. Kinleberger, Guido di Tella. New York; London, 1982. Vol.2. P.119.

the international specialization, which can be defined as mono specialization directed to a special kind of manufacturing of the raw goods. Fritz Hodne – the expert on the Norwegian economic history pointed out, that the world market can give a chance to a small-scale economy to use its comparative advantages and specialize in those spheres of production in which the small country is highly competitive<sup>11</sup>. The role of the external factor in the economic growth (especially that of small European countries) was also emphasized by many other western academics – historians and economists<sup>12</sup>. This was the reason why small countries showed a higher rate of the growth of labour productivity than the large states. But at the same time Belgium, Netherlands and Switzerland inherited the economic power of the Middle Ages, the wealth of trade, a high level of labor productivity and welfare having lower tempo parameters, than the small countries of Northern Europe.

Nowadays we observe the same type of the small-scale economy in the «new industrialized countries» of Southeast Asia, which, contrary to their West-European analogues, possess a high natural increase of the population and its growing density. Following the development pattern of Japan, these countries showed intensive industrialization and the reduc-

tion of the period of technological revolutions. High rates of extensive growth coincided with “shrinking or compression” of the stages of growth accompanied by the implementation of the innovative technological pattern. The chosen strategy of growth included the borrowing of foreign technologies and techniques, a high speed of the formation of the international technological specialization, fast improvement of quality characteristics of cheap labor. The new industrialized economies of the Southeast Asia passed three stages of industrialization 1) creation of import-substitution branches, 2) formation of the basic industries and an export potential, 3) implementation of the advanced high tech sector<sup>13</sup>, and have shown rather fast rate of economic and labor productivity growth. According to some forecasts other Southeast Asian countries having a relatively small economic space could go through the same way of unique dynamics and structural shifts (Table 1). Such model of the development of the small “Asiatic Dragons” can be the result of the combination of high density of quantitatively and qualitatively growing active population prepared for the modern information-communication stage of development.

<sup>11</sup> Hodne F. *An Economic History of Norway 1815–1970*. Bergen, 1975. P.6.

<sup>12</sup> Lewis A. *The Theory of Economic Growth*. London, 1955; North D.C. *Ocean Freight Rates and Economic Development 1750–1913* // *Journal of Economic History* X III. 1958. Dec.; Kuznets S. *Modern Economic Growth: Rate, Structure and Spread*. New Haven; London, 1966; Rostow W.W. *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge, 1960; Gould J.D. *Economic Growth in History. Survey and Analysis*. London, 1972.

<sup>13</sup> Andrianov V.D. *The New industrial countries “in a world capitalist economy*. M., 1989, c. 19. The author names Brazil, Mexico, Argentina new industrial economy and not defining their size. V.L. Shejnis, carries out classification of less developed countries and their position in the world economy according to a level of economic development, economic and branch structure, to natural resource and economic potential, and titles the Latin American countries the large developing states (Shejnis V.L. *Less developed countries in the modern world. Unity and variety*. M., 1983; Shejnis V.L., Zuzina I.N. *Brazil and Argentina in the modern world* // *ME&MO*. 1987. N.8. c. 68).

*Table 1. Rates of growth of the gross domestic product in the Asian countries (annual percentage change)\**

The countries and regions	2006	2007	2007	2008	2008	2009
			Estimates in October, 2007.		Estimates in October, 2008.	
<b>Industrially advanced countries of Asia</b>	2.4	2.3	2.3	2.0	1.7	1.7
Japan	2.4	2.1	2.0	1.7	1.4	1.5
Australia	2.6	4.1	4.4	3.8	3.2	3.1
New Zealand	1.5	3.1	2.8	2.3	2.0	2.1
<b>Less developed countries of Asia</b>	9.0	9.2	9.0	8.2	7.6	7.9
<b>NIC Asia</b>	5.6	5.6	5.0	4.5	4.0	4.4
Hong Kong	7.0	6.3	5.7	4.7	4.3	4.8
Korea	5.1	5.0	4.8	4.6	4.2	4.4
Singapore	8.2	7.7	7.5	5.8	4.0	4.5
Taiwan	4.9	5.7	4.1	3.8	3.4	4.1
China	11.1	11.4	11.5	10.0	9.3	9.5
India	9.8	9.2	8.9	8.4	7.9	8.0
<b>The Asian five</b>	5.7	6.3	5.9	5.8	5.8	6.0
Indonesia	5.5	6.3	6.2	6.1	6.1	6.3
Malaysia	5.9	6.3	5.8	5.6	5.0	5.2
Philippines	5.4	7.3	6.3	5.8	5.8	5.8
Thailand	5.1	4.8	4.0	4.5	5.3	5.6
Vietnam	8.2	8.5	8.3	8.2	7.3	7.3
<b>Less developed countries of Asia excl. China</b>	7.2	7.2	6.8	6.4	6.1	6.3
<b>Less developed countries of Asia excl. China and India</b>	5.6	5.9	5.4	5.1	4.9	5.2
<b>Asia</b>	7.2	7.4	7.3	6.6	6.2	6.4

*Sources:* CEIC Data Company Ltd; and IMF, WEO database.

The data of Table 1 illustrate, that in 2008 the Asian countries showed rather high rates of economic growth in comparison with the advanced countries of the world (especially the USA and the EU), despite the slowing down by the global financial crisis and the influence of inflationary tendencies. The large countries of Asia (India and China) and the transit CIS states (first of all large economies of Kazakhstan and Russia) have contributed largely to the significant continental economic growth<sup>14</sup>.

General tendencies characterizing the development of the newly industrialized countries are as follows:

1. Intensive growth path due to the optimal interaction of the economic, resource, human, scientific potential with the external investments
2. Active integration with the developed countries, embracing big economic regions;
3. High international competitiveness of the products of the newly industrialized countries due to effective implementation of high-tech, R&D and modern production management methods.

<sup>14</sup> World Economic and Financial Surveys .Regional Economic Outlook:Asia and Pacific April 2008



The high level of economic development is directly associated with the level and quality of life, standard of welfare and the results increasing the equality of income distribution. Laws related to the stages of growth shifts are identical in the economies of different scale. But the characteristics of income distribution in small-scale advanced countries reflect a higher degree of social and economic justice compared to the indicator of large countries. For small economic space, with its uniformity and social homogeneity, distribution of goods, based on the principle of comprehensive freedom, instead of distributive validity, the minimal differentiation of income of the active population can be observed. Social justice has one more aspect that reflects small scale economic space with the growing production and consumption: – a survival of each person and a society as a whole<sup>15</sup>. For the small states the problem of survival stands more sharply than in the large economy and is achievable within the framework of the society as a whole, caused by high level and intensity of territory use, vulnerability of economy in the face of the global problems of mankind: ecological, national security, demographical, etc. Basic parameters of welfare in small developed

countries include not quantitative – qualitative characteristics of the expensive, prestigious goods, but the quality of work and leisure, habitation, education and training, environment, public health services, family values and attitudes, high-grade emotions, culture, etc.<sup>16</sup>. Efficiency of the developed small state social policy defines a higher level of public welfare and more uniform distribution of income between various strata of the population, than in the large advanced countries.

The character of the economic growth of a small scale country could be illustrated by the development of Japan – a country that could be referred to as small according to the size of territory, small economic space and the extraction of natural resources as well as to the high density of population and intensity of the use of the economic space, but large from the point of view of population quantity, output and economic potential. In terms of these factors Japan demonstrates a specific model of the economic growth of the small-scale economy and a unique example of the social justice, equality and uniformity of income distribution – Jini index in 2002 reached 38.1, gross national product per capita in 2008 has reached \$35,300 in spite of «the down-swing decade» (1992–2002) stagnation. These parameters were the result of the export growth and the revival of the invest-

<sup>15</sup> For the first time a relationship between the population, resources and an environment has been designated in the classical political economy. It sounded especially dramatically in the theoretical caution about the excessive population density of Malthus who, certainly, could predict neither roles of the scientific and technical progress, nor the influence of the process of the internationalization of an economic life on the prospects of the economic development (see: Wrigley E.A. *The Limits of Growth. Malthus and the Classical Economists* // *Population and Development Issues*. Suppl. Vol.14. 1988; *Population and Resources in Western Intellectual Traditions* / Ed.by M.S. Teitelbaum, J.M. Winter. New York, 1988).

<sup>16</sup> See more in detail: Marlier and B. Nolan, *Social Indicators: the EU and Social Inclusion*, Oxford University Press, Oxford, 2002; <http://www.marshall.usc.edu>; <http://club.fom.ru>; <http://www.stata.com> *World Handbook of Social and Political Indicators*. 2d ed.; <http://www.stata.com/products/stb/journals/stb15.pdf> *HANBOOK of Social Indicators: Studies in Methods*. Ser. F. No. 49. New York, 1989. P.15; *SPECIAL Congress Issue: The Nordic Welfare States*/Ed.by J. P. Roos // *Acta Sociologica*. Vol. 21. Oslo, 1978. P.130,131, 172.

ment activity as well as by the adequate stimulation of the state policy of supply and demand. Hence in 2008 GDP purchasing power parity of GDP reached \$4.487 trillion<sup>17</sup>. In 2002 Japan was the 5-th among the large countries of the world according to the GDP and only the 19-th – among the advanced capitalist states<sup>18</sup>. Estimates of the economic growth in 2008–2009 will reach 1,5–2 %, due to the compression of the labor market and the inflation decrease<sup>19</sup>.

In super-large economy the USA shows the highest level of economic development accompanied by the traditional social and economic inequality explained by the peculiarities of the American model of capitalist development, by the adherence to freedom of market forces, traditionally weak intervention of the state in the process of the alignment of income and steady orientation of mass consciousness to «the equality of opportunities»<sup>20</sup>. The inequality of income plays an important economic role in the stimulation of the economic devel-

opment, in a competition push and creates a political and legal basis for the «unique dynamics of a standard of living», marked by A.Maddison<sup>21</sup>. Thus, high level of the economic development and the quality of life, appearing to be important factors of the uniformity of the income distribution increase cause the social, instead of distributive validity, achievement in small economies and prove that the scale of economy and economic activities of a certain state represent a model of the industrial and social alternative to the large-scale countries with uneven and unequal distribution and the social and economic injustice. It is necessary to note, that after a short-term celebration of the quasi-single-pole world architecture the beginning of a new century has evidently shown, that the USA passed the apogee of its power, and «the collective West» according to a number of economic parameters could not maintain competition with the growing countries – giants (GCG), which have an objective concurrence of the basic economic and political interests where collective actions are capable to strengthen the individual chances of an ascension and the individual opportunities to influence the course of the world development in liaison with the socially-oriented small advanced and transition economies<sup>22</sup>.

<sup>17</sup> <http://www.oecdobserver.org/news/categoryfront.php?id/84/Japan.html>

<sup>18</sup> [http://www.oecd.org/statisticsdata/0,3381,en\\_33873108\\_33873539\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/statisticsdata/0,3381,en_33873108_33873539_1_1_1_1,00.html)

<sup>19</sup> The capitalist small countries earlier, than the large, showed «a comprehension of uselessness of fights between labor and capital that made a history of two hundred years of economic growth» (Holoviyak St., Sipkoff S.S. *Managing Human Productivity. People are Your Best Investment*. New York, London, 1987. P.29). D.Friedman wrote, that the reason of dynamism of the Japanese model of economic development, alongside with its social orientation crushing of the mass markets on the small, specialized segments that allows to change continuously old «and to invent the new goods» (Friedman D. *The Misunderstood Miracle. Industrial Development and Political Change in Japan*. Ithaca, 1988. P.2.).

<sup>20</sup> Zajtchenko A.S. *Income and consumption. The USA: economics, politics, ideology*. 1988. N.8. с 33. *Качество нашей жизни – Интернет-газета “Протестант”* GazetaProtestant.ru Zajtchenko A.S. *Quality of our life*. October, 8, 2008.

<sup>21</sup> Bornschier V. *Legitimacy and Comparative Economic Success at the Core of the World System: an Exploratory Study* // *European Sociological Review*. 1989. Vol.5. N.3. dec. P.215–216.; [esr.oxfordjournals.org/cgi/content/abstract/5/3/215](http://esr.oxfordjournals.org/cgi/content/abstract/5/3/215); V. Bornschier and B. Trezzini. *Social Stratification and Mobility in the World System: Different Approaches and Recent Research*. *International Sociology*, December 1, 1997; 12 (4) : 429 – 455.

<sup>22</sup> Kuznetsova N.P. «BRIC – break in global economy of XXI century» – to results of the international conference. The bulletin of St.Petersburg State University a Series 5 Vol 4.2008;<http://en.wikipedia.org/wiki/Citigroup>



## Dynamics of the assessment of small and large transitive economies

Our classification of the small and big countries could be filled up with the group of the small-and big-scale economies that appeared on the ruins of the USSR and have various models of the economic growth and scripts of the economic development according to their resources, indicators of rates and factors of the economic growth. Since the disintegration of socialism in 1989 the economic growth in different regions of the former socialist camp showed completely different dynamics and different mechanisms. According to official statistics, cumulative fall of the GDP in the late eighties and early nineties was 19 % in the Central Europe and 29 % in the Southeast Europe. In the former Soviet Union the collapse was truly catastrophic: the production of the Baltic states production fell by 44 %, and in the countries of the Commonwealth of Independent States (CIS) — by 53 %<sup>23</sup>.

Poland – the first country, which consistently pursued the policy of the World Bank oriented on democratization, liberalization, privatization, macroeconomic stabilization, structural shifts, became the pioneer of the sustainable economic growth in 1992. By 1994 the positive economic growth was registered in all other states of the Central and Southeast Europe. The three of the most vigorous reformers – small countries of the former USSR – joined this group: Armenia, Lithuania and Latvia. In 1995 they were followed by other adherents of reforms, namely Estonia, Georgia and Kyrgyzstan. However, some former Soviet

Republics have gone through a long recession and the subsequent stagnation, namely large economies of Russia, Ukraine and Kazakhstan. Economic growth and structural shifts in these countries were renewed only at the end of the decade basically after 1998 financial crisis, which was caused by the collapse of the state bonds pyramid, spasmodic devaluation of national currencies, flying away of “hot” money – foreign portfolio investments and consequently the revival of the real sector of the economy.

In 1999–2004 eleven CIS countries grew at the annual average rate – 7,8 %, whereas Central European countries (Czechia, Slovakia, Hungary and Poland) –3,6 %. Three Baltic States were closer to the first group – 7,1 %, Romania and Bulgaria – 5,4 %<sup>24</sup>.

The question arises – how should this paradox of growth be explained? Why did the pioneers of market reforms go so quickly into the category of laggard economies?

The recent concept of the resource-abundant and resource-driven economies<sup>25</sup> can be used to characterize the economic growth of small countries and for the anal-

<sup>24</sup> Indicators of development of the World Bank for 2005 UNECEF Online Statistics

<sup>25</sup> Since the 1960s the economies of the resource-poor nations have grown much faster than those of the resource-abundant nations. Some authors explain the disappointing performance of resource-abundant nations by extending the growth Jairo A. Arboleda. Resource Abundance And Economic Development (WIDER Studies in Development Economics). New York.2004; Rjazanov V.T. has put forward the idea that mineral and especially power resources are the key factors of the development of industrial economy and classified the countries of the world economy into the resource-poor and resource-rich in which the rent model of capitalism is formed. See: Rjazanov V.T. « Rent model of economy in conditions of globalization » Materials of the international scientific – practical conference “BRIC – break in global economy of XXI century” on May, 23–23, 2008. St. Petersburg, Smolnij)

<sup>23</sup> Anders Oslund. Paradox of the Euro-Asian growth “Russia in a global politics”. № 6, November December 2006

ysis of the development of the small and large transitive economies. The curse of natural resources refers to the paradox that resource rich countries show slower rates of growth than resource poor countries. Some papers help to explain this contradictory evidence and clarify the existence of the resource curse. One approach is reflected in the overshooting theory, which argues that resource rich economies have higher levels of per capita income but lower rates of growth than resource-poor economies due to the overshooting<sup>26</sup>.

Transitive resource-driven economy shows the special market economy mechanism of transition and uses the opportunities of the conversion of the resource-oriented economic growth type into the energy-innovation-oriented type. Recent research of eight countries of Caucasus and the Central Asia<sup>27</sup>, which seceded from the Soviet Union in 1991 and are still in a condition of transitivity to market economy, has shown, that there are at least two factors influencing the difficulty of such transition: 1) long and organic development of the Asian pattern of production and patriarchal – clan relations following the model of command economy<sup>28</sup>; 2) historical and territorial isolation of these countries from the advanced market economies<sup>29</sup>. However, there is one

more important factor of transition – those countries, which are natural resource-rich economies acquire the characteristics of the mineral-resource-driven economic growth<sup>30</sup> and they follow the policy of the the Russian Central Bank of the accumulation of gold and currency reserves due to the obligatory sale of export resource income. For a long time the influence of this factor was not taken into account in the theory of transitive economies since the academics were basically focused on the Central and the East European states, for which the abundance of natural resources or their presence did not play (at least, until recently) a significant role. For low and medium-developed countries of Caucasus and Central Asia (CCA) the contribution of the production of the primary sector in the GDP remains rather significant. Four of eight states in question (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan) have 2/3 of the population of the whole group of the countries, and they produce extraordinarily high share of primary resources in the GDP (first and foremost, mineral-energy resources). This natural advantage can help them to overcome the difficulties of the transition to market economy as well as the consequences of the global financial crisis of the late 20<sup>th</sup> and the early 21<sup>st</sup> centuries – providing a high level of investments and the import of final goods

<sup>26</sup> [http://www.nes.ru/english/research/pdf/2006/Zhukova\\_eng.pdf](http://www.nes.ru/english/research/pdf/2006/Zhukova_eng.pdf) – 1.04 M6

<sup>27</sup> *Energy, Wealth and Governance in the Caucasus and Central Asia/Lessons not Learned*. Ed. by Richard M. Auty and Indra de Soysa/Routledge. London, New York, 2006

<sup>28</sup> De Melo, M., Denizer, C., Gelb, A. and Tenev, S. (2001) *Circumstance and choice: i The role of initial conditions and policies in transition economies*, World Bank; *Economic Review*, 151-31.

<sup>29</sup> Kopstein, J.S and Reilly, D.A. (2000) *Geographic diffusion and the transformation of the post-communist world*, *World Politics* 53, 1–37.

<sup>30</sup> Auty, R.M. and Gelb, A.H. (2001) *Political economy of resource-abundant states*, in: i Auty, R.M. (ed.) *Resource Abundance and Economic Development*, Oxford: Oxford; University Press, 126–144; Ross, M. (2001) *Does oil hinder democracy?* *World Politics* 53 (3), 325–361. Sachs, J.D. and Warner, A.M. (1995) *Economic reform and the process of global integration*, *Brookings Papers on Economic Activity* \, 1–118. Sachs, J.D. and Warner, A.M. (1997) *Natural resource abundance and economic growth*, mimeo, Cambridge MA: HIID.

for the acceleration of structural shifts and provision of social security softening the tension of high unemployment. However, this factor, despite the significant economic growth in seven of the eight examined states, fails to accelerate the reformation of the economy as well as the process of democratization and is still accompanied by the strengthening of the authoritarian regulatory tendencies. These states are known for strong traditions of authoritarianism and significant state intervention and consequently they failed to follow the ideology of the financial liberalism, which dominates in the advanced countries for decades and hence they are not that deeply involved into the world financial crisis.

A question arises whether the CCA countries can reach long-term continuous economic growth and sustainable development in the conditions of the absence of the economic and social freedom as well as the weak development of democratic institutions, with the political elites focused on their own wealth and the accumulation of the mineral resource export profits. The other question is whether these countries can apprehend the successful experience of the dynamic of the economic resource-driven growth of small oil-producing countries of Arab Middle East region (Saudi Arabia, Kuwait, United Arab Emirates) or the model of the resource-abundant growth of the Central and East European states. Experience of the latter countries shows, that the achievement of a high per capita parameters is related to the political predictability and democracy. This trajectory of development reflects directly the proportional dependence between the growth of per capita income and

the implementation of the socially-oriented public management accompanied with the transparency of financial flows, predictability of tax codes and the sources of the state budget formation directed to the covering of social needs and to the stimulation of the investments into the real sector meaning increase of the social capital and a civil society role. Simultaneously private undertakings raise their requirements related to the protection of the property rights demanding the improvement of the functioning of the state institutions based on the rule of law. However, such reforms were slowed down in the majority of the CCA countries. Political elites of these countries have no valid opposition, hoping for the inexhaustible income from the sale of raw materials, and consequently on the rent which replaces former Soviet grants. Table 2 illustrates the dependence of oil-producing countries on the export of mineral raw materials as well as the revenues, which resource-rich countries of the former USSR and Russia receive from the sale of mineral resources.

Events of the last decade and the expansion of the global financial crisis have shown the increase of the role of the large-scale resource-rich economies receiving the rent from the export of resources and developing rent capitalism model. This model implies that mineral and especially energy resources are becoming the key factors of the contemporary development of the post-industrial economy. Enormous profits gained from the sharp increase of oil prices after 1970 crisis acquired the form of rent as a result of monopolistic economy and management. The development of the rent-gaining national econo-

mies that was based on the rent relationship between the centers and the periphery of the world economy are seen as rent economies. Functioning of the rent capitalism model is related to two specific features: 1) the rent income could not be restricted by the borders of domestic economy; 2) financial resources accumulated in resource-rich but market-narrow countries faced the problem of inside profitable investment and consequently were directed to the developed countries due to the high level of the world financial liberalization. Hence oil-exporting and capital-superfluous countries got a chance to penetrate into the most privileged part of the global economy not through the traditional high-tech final products and specialization of services but through the entrance into the international financial net, which controls the international economic relations.

In this context the creation of the new architecture of the world financial system by the efforts and unification of the largest resource-driven countries and the subsequent joining of the latter to the advanced countries harmonized policy can be observed. The G20 economic summit in Washington (November 16 2008) BRIC, ShOC groups in Yekaterinburg (Summer 2009) became the steps toward the establishment of a new global financial system and proved the rising role of the developing and emerging large-scale markets of the world economy. In their final communiqué the participants of the G20 summit vowed to restore the global growth. They also agreed to increase the transparency of the international cooperation and to reform the international financial organizations. G20 exists since 1999 uniting 19 of 25 largest economies of the world, including the

*Table 2. Parameters of dependence of some countries on oil export (%)*

	<i>Azerbaijan</i>	<i>Kazakhstan</i>	<i>Russia</i>	<i>Turkmenistan</i>	<i>Uzbekistan</i>	<i>Venezuela</i>	<i>Mexico</i>	<i>Iran</i>	<i>Norway</i>
Oil-and-gas export (% from aggregate export)	85.2 (78.2)	46.8 (34.1)	50.4 (60.2)	81 (62.6)	12.3 (13.3)	69.8	9.8 (7.3)	69.4	0.35
Oil-and-gas export (% from GDP)	30.5 (17.6)	24.7 (12.1)	21.5 (16.3)	68.7 (31.6)	4.3 (3.6)	25.4	0.7 (0.5)	14.7	0.14
Oil-and-gas revenues (% from aggregate state revenues)	36.2 (22.1)	27.5 (5.0)	30.1 (24.2)	42.0	14.8 (15.4)	42.5	24.1 (29.8)	45.9	0.16
FDI in oil-and-gas sector (% from aggregate FDI)	80.5 (71.0)	69.7 (83.3)	10.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Production of oil (mt) 2000	14.02	35.00	312.70	7.25	7.60	153.88	168.78	188.63	148.9
Production of gas (bcm) 2000	6.00	11.50	551.00	46.00	54.88	28.00	36.40	53.20	20.00

*Source:* Energy, Wealth and Governance in the Caucasus and Central Asia/Lessons not Learned. Ed.by Richard M.Auty and Indra de Soysa/Routledge. London, New York, 2006

European Community. The G20 produces 90 % of the world GDP, 80 % of world trade and encompasses almost 70 % of the population of the Earth. The depth of the global financial and economic crisis has forced organizers to reconsider the format of international meetings. The countries of financial “seven” have agreed, that they could not resist the crisis without the participation of the less developed countries and emerging market economies, despite the political contradictions. G-7 invited Australia, Argentina, Brazil, India, Indonesia, China, Mexico, Russia, Saudi Arabia, Turkey, the Republic of South Africa and South Korea (the European Community acted as an independent participant). Format G20 has reflected the obvious fact that the structure of the world economy has changed. The advanced countries are going through the de-industrialization due to the tertiary sector and the informational economy prior development. Nowadays less developed countries already dominate over the industrial economies in many branches of industrial production. For example, China, India, Republic of Korea and Indonesia became leading suppliers of mass consumption products — from electronics and textiles up to automobiles and ships. Brazil and Argentine act as the major exporters of agrarian produce Saudi Arabia and Russia supervise almost a quarter of the world oil extraction. Besides, less developed countries became exporters of the capital, which finances the balance of payments deficit the USA and other advanced countries. Expansion of the circle of the significant states to twenty actually erases the distinctions between the advanced and less developed countries and changes an

estimation of the role of GCG in the global economy. This process underlines the fact that the opportunity of transition from the resource-driven to innovational-driven type of economic growth has appeared and that some countries of the world economy including Russia show this conversion<sup>31</sup>.

## Conclusions

1. Different types of the small-scale and large-scale countries of the world economy and the types of the economic growth in these countries in the historical context are differentiated according to specific criteria.
2. Analysis of the assessment of the dynamics in small and large transitive economies shows that they differ according to the resource-abundant and resource-driven growth pattern that could accelerate or slow down the rates of the economic growth and the rates of growth of labor productivity.
3. Whatever the resource acquirement in large-scale (resource-driven) and small-scale (resource-abundant) economies is the economic growth is moving cyclically and overcoming up-swings and down-swings.
4. Events of the last decade, the increase of the price of mineral-resources and the expansion of the global financial crisis have shown the increase of the role of the large-scaled resource-rich economies that receive the rent from the export of resources and develop the rent capitalism model.

<sup>31</sup> Kuznetsova Natalia. Perspectives of the conversion of power-oriented economic growth (with special reference to Russia). *Ekonomika*. 2006, Vol. 73, Research Paper. Vilnius University press

5. Due to the formation of the rent capitalism model the growing countries-giants acquire the essential significance in the world economy and in the global

financial markets assuming the role of saviors during the expansion of the global financial crisis.

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